# The University of St. Michael's College

**Financial statements**
**April 30, 2019**

Building a better working world

# Independent auditor's report

To the Collegium of
**The University of St. Michael's College**

## Opinion

We have audited the financial statements of **The University of St. Michael's College** [the "Organization"], which comprise the statement of financial position as at April 30, 2019, and the statement of revenue and expenses, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at April 30, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
September 25, 2019

The University of St. Michael's College

# Balance sheet

[in thousands of dollars]

As at April 30

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| **Current** | | |
| Cash | **635** | 574 |
| Accounts receivable *[notes 11 and 16]* | **943** | 626 |
| Prepaid expenses | **169** | 179 |
| **Total current assets** | **1,747** | 1,379 |
| Investments, fair value *[note 3[a]]* | **118,204** | 118,854 |
| Post-employment benefit asset *[note 10]* | **3,479** | 1,539 |
| Capital assets, net *[note 4]* | **35,047** | 30,923 |
| | **158,477** | 152,695 |
| **Liabilities and net assets** | | |
| **Current** | | |
| Bank indebtedness *[note 13]* | **5,918** | 6,112 |
| Accounts payable and accrued liabilities *[note 15]* | **3,185** | 3,887 |
| Deferred revenue | **249** | 213 |
| Residence demand loans *[note 14[a]]* | **6,413** | 6,626 |
| Capital expenditure loan *[note 14[b]]* | **3,592** | 3,818 |
| Interest rate swap *[notes 14[a] and [b]]* | **(17)** | (407) |
| **Total current liabilities** | **19,340** | 20,249 |
| Post-employment benefit liability *[note 10]* | **5,812** | 5,595 |
| Deferred contributions *[note 7]* | **23,135** | 21,774 |
| Deferred capital contributions *[note 8]* | **12,342** | 11,517 |
| **Total liabilities** | **60,629** | 59,135 |
| Commitments and contingencies *[note 17]* | | |
| **Net assets** | | |
| Deficit | **(6,901)** | (6,958) |
| Internally restricted *[note 5]* | **16,968** | 13,953 |
| Endowments *[note 9]* | **87,781** | 86,565 |
| **Total net assets** | **97,848** | 93,560 |
| | **158,477** | 152,695 |

*See accompanying notes*

The University of St. Michael's College

## Statement of revenue and expenses

[in thousands of dollars]

Year ended April 30

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Revenue** | | |
| Student fees | **9,507** | 9,250 |
| Grants and donations *[note 7]* | **5,443** | 5,304 |
| Block grant from the University of Toronto *[note 6]* | **6,241** | 6,077 |
| Sales and services | **2,548** | 2,620 |
| Investment income *[note 3[b]]* | **1,786** | 1,064 |
| Amortization of deferred capital contributions *[note 8]* | **947** | 927 |
| Formula grants from the Toronto School of Theology | **183** | 235 |
| Sundry income | **883** | 468 |
| | **27,538** | 25,945 |
| **Expenses** | | |
| Salaries and benefits | **11,783** | 10,585 |
| Materials and supplies | **4,119** | 3,814 |
| Cost of sales | **3,124** | 3,086 |
| Amortization of capital assets | **2,641** | 2,530 |
| Repairs and maintenance | **622** | 740 |
| Student awards | **1,280** | 842 |
| Utilities | **1,181** | 1,139 |
| Post-employment benefits *[note 10]* | **1,106** | 1,273 |
| Interest *[notes 13 and 14]* | **248** | 240 |
| Other | **216** | 374 |
| | **26,320** | 24,623 |
| Net revenue before the following | **1,218** | 1,322 |
| Change in fair value of interest rate swap *[notes 14[a] and [b]]* | **(390)** | 408 |
| **Excecss of revenue over expenses for the year** | **828** | 1,730 |

*See accompanying notes*

The University of St. Michael's College

## Statement of changes in net assets

[in thousands of dollars]

Year ended April 30

| | Deficit | Internally restricted | Endowments | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Net assets, April 30, 2017** | (6,144) | 11,827 | 86,557 | 92,240 |
| Excess of revenue over expenses for the year | 1,730 | — | — | 1,730 |
| Remeasurements related to post-employment benefits | 47 | — | — | 47 |
| Endowment contributions | — | — | 403 | 403 |
| Allocation of investment loss *[note 3[b]]* | — | — | (860) | (860) |
| Internally restricted, net *[note 5]* | (2,126) | 2,126 | — | — |
| Transfers to internally restricted endowments, net *[note 9[a]]* | (465) | — | 465 | — |
| **Net assets, April 30, 2018** | **(6,958)** | **13,953** | **86,565** | **93,560** |
| Excess of revenue over expenses for the year | **828** | — | — | **828** |
| Remeasurements related to post-employment benefits | **743** | — | — | **743** |
| Endowment contributions | — | — | **2,309** | **2,309** |
| Allocation of investment income *[note 3[b]]* | — | — | **408** | **408** |
| Internally restricted, net *[note 5]* | **(1,404)** | **1,404** | — | — |
| Transfers to (from) internally restricted endowments, net *[note 9[a]]* | **(110)** | **1,611** | **(1,501)** | — |
| **Net assets, April 30, 2019** | **(6,901)** | **16,968** | **87,781** | **97,848** |

*See accompanying notes*

The University of St. Michael's College

# Statement of cash flows

[in thousands of dollars]

Year ended April 30

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Excess of revenue over expenses for the year | **828** | 1,730 |
| Add (deduct) items not affecting cash: | | |
| Donated investments | **(237)** | (195) |
| Amortization of deferred capital contributions | **(947)** | (927) |
| Amortization of capital assets | **2,641** | 2,530 |
| Change in fair value of interest rate swap | **390** | (408) |
| | **2,675** | 2,730 |
| Employee benefits expense related to post-employment benefit liability | **1,193** | 1,273 |
| Net change in non-cash balances related to operations *[note 12]* | **388** | 1,976 |
| **Cash provided by operating activities** | **4,256** | 5,979 |
| **Investing activities** | | |
| Net change in investments | **1,295** | (4,992) |
| Additions to capital assets | **(6,765)** | (3,827) |
| **Cash used in investing activities** | **(5,470)** | (8,819) |
| **Financing activities** | | |
| Increase in bank indebtedness | **(194)** | (1,162) |
| Contributions restricted for capital purposes | **1,772** | 784 |
| Repayment of residence demand loans | **(213)** | (210) |
| Repayment of capital expenditure loan | **(226)** | 3,818 |
| Employer contributions related to post-employment benefit liability | **(2,173)** | (2,054) |
| Endowment contributions | **2,309** | 403 |
| **Cash provided by financing activities** | **1,275** | 1,579 |
| **Net increase (decrease) in cash during the year** | **61** | (1,261) |
| Cash, beginning of year | **574** | 1,835 |
| **Cash, end of year** | **635** | 574 |

*See accompanying notes*

# Notes to financial statements

[in thousands of dollars]

April 30, 2019

## 1. Description of the organization

The University of St. Michael's College [the "University"] is a Catholic post-secondary educational and research institution federated with the University of Toronto. The University offers undergraduate courses in the arts and sciences through its Arts and Science Division, theological education of an academic and professional nature through its Faculty of Theology, and part-time special interest courses through its Continuing Education Division. Scholarships and bursaries are made available to qualifying students in order to promote academic excellence and to assist those students in financial need. A full residence programme is also offered to students in co-operation with Loretto College. The University is incorporated by an Act of the Ontario Legislature and is a registered charity under the *Income Tax Act* (Canada).

These financial statements do not include the accounts of St. Michael's College Foundation [the "Foundation"], which is a separate legal entity formed to encourage and promote education at the University *[note 11]*.

## 2. Summary of significant accounting policies

These financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

### Revenue recognition

The University follows the deferral method of accounting for contributions, which include government grants, bequests and other donations. Grants and bequests are recorded as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received, since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are initially deferred when recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for amortizable capital assets are deferred and amortized over the useful lives of the assets to which they relate. Externally restricted endowment contributions are recognized as direct increases in net assets in the year in which they are received.

Student fees are recorded as revenue when courses and seminars are held. Sales and services revenue is recorded at the point of sale, when goods are shipped and title passes, or when services are provided.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded as revenue in the statement of revenue and expenses, except to the extent it is externally restricted, in which case it is added to or deducted from endowment net assets or other restricted balances.

### Cash and cash equivalents

Cash and cash equivalents represent cash on deposit and short-term investments with a short term to maturity of approximately three months or less from the date of purchase unless they are held for investment purposes rather than for liquidity purposes, in which case they are classified as long-term investments.

# Notes to financial statements

[in thousands of dollars]

April 30, 2019

**Financial instruments**

Investments are recorded at fair value based on the latest closing prices for equity investments and reported net asset value per unit for pooled funds. Short-term investments are recorded at cost plus accrued income, which approximates fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Alternative investments comprise investments in private equity pooled funds and are valued at the net asset value per unit reported by the fund manager, which represents fair value.

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes to notional contract amounts, and are used to manage interest volatility on residence financing. Derivative contracts are recorded at fair value as an asset or liability based on quoted market prices or dealer quotes, with changes in fair value of the contract during the year being recorded in the statement of revenue and expenses.

Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value and are subsequently measured at cost, net of any provision for impairment.

**Capital assets**

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at their fair value at the date of contribution. Donations and grants for the acquisition of capital assets are recorded as deferred capital contributions on the balance sheet.

Financing costs relating to property undergoing major renovations are not capitalized until substantial completion of the renovations.

Amortization is calculated using the straight-line method with rates based on the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings and major renovations | 15 to 40 years |
| Furniture and equipment | 5 to 10 years |
| Library books | 5 years |
| Computer equipment | 3 years |

Contributed rare books, artwork and other collections are expensed in the year received.

# Notes to financial statements

[in thousands of dollars]

April 30, 2019

### Post-employment benefits

The University maintains defined benefit plans providing pension and post-employment health benefits for most of its employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the accrued obligation net of the fair value of plan assets in the balance sheet. Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets. The accrued liability for pension plans is determined based on an actuarial valuation report for funding purposes. This report is required to be prepared at least on a triennial basis by the applicable regulations. The pension plan's assets are measured at fair value as at the date of the balance sheet. The accrued liability for post-employment health benefits is prepared on a basis consistent with the funded pension plan. In those years where an actuarial valuation is not prepared, the University uses a roll-forward technique to estimate the accrued liability using assumptions from the most recent actuarial valuation report.

### Contributed materials and services

Contributed materials and services are recorded at fair market value where such value can be reasonably estimated, and they are used in the normal course of operations and would otherwise have been purchased.

### Foreign currency translation

Investments denominated in foreign currencies are translated into Canadian dollars at the closing rate prevailing as at the balance sheet date. Purchases and sales of investments, revenue and expenses are recorded at the rate of exchange prevailing on the date of the transaction.

Gains or losses arising from these translations are included in net revenue except to the extent that they relate to investments, in which case they are recognized in the same manner as investment income (loss).

### Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenue and expenses and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates include the assumptions used in the determination of the valuation of pension and post-employment health benefits and the recording of contingencies. Actual results could differ from those estimates.

# Notes to financial statements

[in thousands of dollars]

April 30, 2019

## 3. Investments

The University's investment portfolio consists of cash and cash equivalents and Canadian and global pooled equity funds. These investments are held for endowments and deferred contributions.

[a] Investments consist of the following:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Cash and cash equivalents | **2,831** | 219 |
| Short-term investments | **22,424** | — |
| Pool funds units | | |
| Balanced | **92,949** | 85,518 |
| Tactical asset allocation and absolute return | **—** | 33,117 |
| | **118,204** | 118,854 |

Short-term investments consist of two guaranteed investment certificates of $22,243,000 and $181,000, bearing interest at 2.5% and 2.1%, respectively, and maturing December 2019 and March 2020, respectively.

[b] Investment income (loss) recorded in the statement of revenue and expenses is calculated as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Interest, dividends and pooled fund distributions | **2,375** | 2,469 |
| Gain realized on sale of investments | **7,440** | 4,637 |
| Change in unrealized gain on investments | **(3,781)** | (3,398) |
| | **6,034** | 3,708 |
| Less income (shortfall) allocated to | | |
| Deferred contributions *[note 7]* | **3,840** | 3,504 |
| Endowments *[note 9[a]]* | **408** | (860) |
| | **1,786** | 1,064 |

[in thousands of dollars]

## 4. Capital assets

Capital assets consist of the following:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Cost | Accumulated amortization |
| | $ | $ | $ | $ |
| Land | **642** | **—** | 642 | — |
| Buildings and major renovations | **61,613** | **28,925** | 55,587 | 27,039 |
| Furniture and equipment | **3,973** | **2,930** | 4,249 | 3,206 |
| Library books | **1,322** | **764** | 1,272 | 722 |
| Computer equipment | **373** | **257** | 390 | 250 |
| | **67,923** | **32,876** | 62,140 | 31,217 |
| Less accumulated amortization | **32,876** | | 31,217 | |
| **Net book value** | **35,047** | | 30,923 | |

Included in buildings and major renovations is work in progress of $295,000 [2018 – $526,000], which has not been amortized.

Fully amortized assets of $982,000 [2018 – $1,318,000] have been removed from cost and accumulated amortization as they are no longer in use.

## 5. Internally restricted net assets

Internally restricted net assets represent the amount of capital assets internally funded as follows:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Capital assets, net | **35,047** | 30,923 |
| Less amounts financed by | | |
| Deferred capital contributions *[note 8]* | **11,666** | 10,344 |
| Residence demand loans *[note 14]* | **6,413** | 6,626 |
| | **16,968** | 13,953 |

# Notes to financial statements
[in thousands of dollars]

April 30, 2019

## 6. Agreement with the University of Toronto

Under an agreement with the University of Toronto, dated July 1, 2008, the tuition fees for students in the Faculty of Arts and Science are paid to the University of Toronto. In turn, the University of Toronto reimburses the University for certain operating costs through a block grant. This agreement is effective beginning July 1, 2008 for a period of 10 years and is renewed automatically unless either party serves notice of intention not to renew at least three years before the next renewal date. The agreement was automatically renewed July 1, 2018.

In addition, the University has entered into a separate operating agreement with the University of Toronto that provides for certain financial and accountability arrangements. The agreement is effective for a period of five years that began in June 2008 and was renewed automatically for another five years as neither party served notice of intention not to renew before the next renewal date. The agreement's automatic renewal term expired June 30, 2018. The University has continued to operate under the existing agreement.

## 7. Deferred contributions

Deferred contributions consist of externally restricted grants, donations and related investment income for scholarships, bursaries and other purposes. The changes in the deferred contributions balance are as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Balance, beginning of year** | **21,774** | 19,906 |
| Contributions received during the year | **1,877** | 1,988 |
| Investment income *[note 3[b]]* | **3,840** | 3,504 |
| Amounts recognized as grants and donations | **(4,327)** | (3,624) |
| Transfer to deferred capital contributions *[note 8]* | **(800)** | — |
| Transfer from externally restricted endowments | **771** | — |
| **Balance, end of year** | **23,135** | 21,774 |

Grants and donations of $5,443,000 [2018 – $5,304,000] include revenue of $4,327,000 [2018 – $3,624,000] equal to related expenses incurred.

# Notes to financial statements

[in thousands of dollars]

April 30, 2019

## 8. Deferred capital contributions

The changes in the deferred capital contributions balance are as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Balance, beginning of year** | **11,517** | 11,660 |
| Contributions restricted for capital purposes | **972** | 784 |
| Amortization of deferred capital contributions | **(947)** | (927) |
| Transfer from deferred contributions *[note 7]* | **800** | — |
| **Balance, end of year** | **12,342** | 11,517 |
| **Consisting of** | | |
| Contributions for which expenditures have been made | **24,539** | 22,416 |
| Accumulated amortization | **(12,873)** | (12,072) |
| | **11,666** | 10,344 |
| Contributions for which expenditures have not been made | **676** | 1,173 |
| | **12,342** | 11,517 |

## 9. Endowments

Endowments include restricted donations received by the University and donations designated by the Collegium in the exercise of its discretion as endowments, rather than as a result of externally imposed restrictions. In such cases, the Collegium may decide to remove the designation.

The endowment principal is required to be preserved. Investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Collegium. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

The University has adopted a policy on externally restricted endowments with the intent of providing more consistency of investment income made available to support donor-designated purposes, while continuing to protect the real value of the endowments. Investment income for the purposes of this policy includes interest, dividends and realized and unrealized gains and losses net of management fees. The amount of income currently made available for spending is based on the anticipated long-term real rate of return on investments of 4% of the sum of the opening market value of the endowment net assets plus one-half of new contributions during the year and is assessed periodically by the University. In addition, an amount is made available to cover the administrative expenses incurred by the University. In any particular year, if investment income exceeds the amount made available for spending, the excess will be recognized as a direct increase in endowment net assets and available for future use. In the event that net investment income is insufficient to fund the amount made available for spending, or the investment return is negative, the shortfall will be recognized as a direct decrease in endowment net assets.

# Notes to financial statements

[in thousands of dollars]

April 30, 2019

[a] Endowments consist of the following:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Externally restricted | **67,257** | 64,540 |
| Internally restricted | **20,524** | 22,025 |
| | **87,781** | 86,565 |

In 2019, $5,680,000 of net investment income was earned on endowment investments. Of the amounts made available for spending, $3,840,000 earned on externally restricted endowments was recorded in deferred contributions on the balance sheet and $1,195,000 earned on internally restricted endowments was recorded in the statement of revenue and expenses. An amount of $237,000 made available to cover administrative expenses and was recorded in investment income in the statement of revenue and expenses. The excess amount of $408,000 was recorded directly in endowment net assets.

In 2018, $3,445,000 of net investment income was earned on endowment investments. The amount made available for spending of $3,504,000 was recorded as deferred contributions and $801,000 earned on internally restricted endowments was recorded in the statement of revenue and expenses. The shortfall of investment income to the amounts made available for spending of $860,000 was recorded directly in endowment net assets.

During the year, the use of $218,000 [2018 – $265,000] from internally endowed funds, and internal restrictions of $328,000 [2018 – $806,000] was approved by the Collegium or made in accordance with the approved policies of the University. In addition, the Collegium approved to move $1,611,000 from internally restricted endowments to deferred capital contributions.

[b] Ontario Student Opportunity Trust Funds and Ontario Trust for Student Support

Included in externally restricted endowments are matching scholarship and bursary funds from the Government of Ontario and the University of Toronto related to the Ontario Student Opportunity Trust Funds ["OSOTF"] and the Ontario Trust for Student Support ["OTSS"]. The capital portion of the funds is externally restricted, and the income portion is used to support students in financial need. Expendable income earned is recorded in deferred contributions and recognized as revenue in the year in which related scholarship and bursary expenses are recognized.

# Notes to financial statements

[in thousands of dollars]

April 30, 2019

The following is a summary of the change in the cost of these endowment funds for the year:

| | 2019 | | | | 2018 |
|---|---|---|---|---|---|
| | OSOTF I | OSOTF II | OTSS | Total | Total |
| | $ | $ | $ | $ | $ |
| **Balance, beginning of year** | 8,328 | 1,271 | 4,548 | 14,147 | 13,929 |
| Contributions received | 214 | 113 | 10 | 337 | 11 |
| Investment income [capital preservation] | 140 | 21 | 77 | 238 | 207 |
| **Balance, end of year** | 8,682 | 1,405 | 4,635 | 14,722 | 14,147 |

Included in deferred contributions are funds available for student support. The change in the cost of these expendable funds for the year is calculated as follows:

| | 2019 | | | | 2018 |
|---|---|---|---|---|---|
| | OSOTF I | OSOTF II | OTSS | Total | Total |
| | $ | $ | $ | $ | $ |
| **Balance, beginning of year** | 2,730 | 384 | 1,377 | 4,491 | 3,638 |
| Contributions received | 17 | 15 | — | 32 | |
| Investment income | 816 | 124 | 438 | 1,378 | 1,208 |
| Bursaries awarded | (505) | (30) | (252) | (787) | (355) |
| **Balance, end of year** | 3,058 | 493 | 1,563 | 5,114 | 4,491 |

The fair value of the OSOTF Phase I endowment and expendable funds at year-end is $11,740,000 [2018 – $11,058,000]. For the year ended April 30, 2019, there were 230 [2018 – 30] OSOTF Phase I award recipients.

## 10. Post-employment benefits

The University sponsors a number of defined benefit plans providing pension, other retirement and post-employment health benefits for most of its employees.

Pension benefit plans include the Retirement Plan of The University of St. Michael's College [the "Retirement Plan"], which is a contributory defined benefit pension plan, and a supplementary executive retirement plan. Substantially all employees of the University are members of the Retirement Plan. Employees who belong to a religious order are required to contribute 7.4% of their gross salary to the Retirement Plan. All other employees are required to contribute 5.9% of their gross salary up to the yearly maximum pensionable earnings plus 7.4% of their gross salary in excess of the yearly maximum pensionable earnings. The University is required to provide the balance of the funding, based on triennial actuarial valuations, necessary to ensure that benefits will be fully provided for at retirement.

# Notes to financial statements

[in thousands of dollars]

April 30, 2019

Health benefit plans represent the cost of certain medical benefits available to employees on retirement from the University. Contributions for post-employment health benefits are funded by the University and the retiree based on current premium rates.

The University measures its accrued benefit obligations and the fair value of plan assets as at April 30 of each year. The most recent actuarial valuations of the pension plans' and post-employment benefit plans were as at January 1, 2017 and May 1, 2016, respectively.

Information about the University's defined benefit plans is as follows:

| | 2019 | | |
|---|---|---|---|
| | **Pension plans** | **Health benefits** | **Total** |
| | **$** | **$** | **$** |
| Fair value of plan assets | **33,861** | **—** | **33,861** |
| Accrued benefit obligation | **(30,382)** | **(5,812)** | **(36,194)** |
| Funded status – plan surplus (deficit) | **3,479** | **(5,812)** | **(2,333)** |

| | 2018 | | |
|---|---|---|---|
| | **Pension plans** | **Health benefits** | **Total** |
| | **$** | **$** | **$** |
| Fair value of plan assets | 31,446 | — | 31,446 |
| Accrued benefit obligation | (29,907) | (5,595) | (35,502) |
| Funded status – plan surplus (deficit) | 1,539 | (5,595) | (4,056) |

## 11. St. Michael's College Foundation

The University has an economic interest in the Foundation. As at December 31, 2018, the unaudited net assets of the Foundation were approximately $1,974,000 [2017 – $1,977,000].

The University maintains an outstanding accounts receivable balance of $135,000 [2018 – $135,000] from the Foundation as at April 30.

# Notes to financial statements

[in thousands of dollars]

April 30, 2019

## 12. Statement of cash flows

The net change in non-cash balances related to operations consists of the following:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Sources (uses) of cash** | | |
| Accounts receivable | **(317)** | 122 |
| Prepaid expenses | **10** | 72 |
| Accounts payable and accrued liabilities | **(702)** | 315 |
| Deferred revenue | **36** | (401) |
| Deferred contributions | **1,361** | 1,868 |
| | **388** | 1,976 |

## 13. Bank indebtedness

The University has a revolving bank line of credit of $10,000,000 [2018 – $10,000,000]. As at April 30, 2019, $5,918,000 of the bank line of credit was utilized [2018 – $6,112,000]. The bank indebtedness is collateralized by a general security agreement. The University pays an interest rate of prime less 0.25% per annum. As at April 30, 2019, the effective rate on the University's line of credit was 3.7% [2018 – 3.2%].

## 14. Demand loans

[a] The University entered into a $12,000,000 banking facility in 2001 to finance construction of the St. Joseph Street residence building. The facility was fully drawn in 2002 and is now in the process of being repaid. In 2017, the University entered into a new $6,854,000 credit facility for this demand loan, which consists of a demand instalment loan that is collateralized by a general security agreement. The University has the option to utilize one or more interest rate swaps to effectively fix the underlying interest rate on all or a portion of the loan for up to 10 years following the initial draw. As at April 30, 2019, $6,413,000 [2018 – $6,626,000] is outstanding in connection with this facility.

In April 2017, to reduce the risk of interest rate volatility on the residence loan, the University entered into an interest rate swap agreement whereby, commencing on April 21, 2017, the interest rate on $6,854,000 of the outstanding residence demand loan on that date was effectively fixed at 2.27% for a period of 10 years. As at April 30, 2019, this floating rate of interest was 1.98% [2018 – 1.64%]. The University may repay the loan at any time; however, a settlement amount may be due from or receivable by the University. The interest rate swap does not qualify for hedge accounting. Accordingly, the change in the fair value of the interest rate swap, a loss of $ 269,000 [2018 – gain of $335,000], is recorded in the statement of revenue and expenses.

[b] On July 7, 2017, the University entered into a $4,000,000 demand instalment loan to finance capital projects, which is collateralized by a general security agreement. The University has the option to utilize one or more interest rate swaps to effectively fix the underlying interest rate on all or a portion of the loan for up to 10 years following the initial draw. As at April 30, 2019, $3,592,000 [2018 – $3,818,000] is outstanding in connection with this facility.

In July 2017, to reduce the risk of interest rate volatility on the loan, the University entered into an interest rate swap agreement whereby, commencing on July 10, 2017, the interest rate on $4,000,000 of the outstanding loan on that date was effectively fixed at 2.68% for a period of 10 years. As at April 30, 2019, this floating rate of interest was 1.98%. The University may repay the loan at any time; however, a settlement amount may be due from or receivable by the University. The interest rate swap does not qualify for hedge accounting. Accordingly, the change in the fair value of the interest rate swap, a loss of $121,000 [2018 – gain of $71,000], is recorded in the statement of revenue and expenses.

## 15. Government remittances payable

As at April 30, 2019, accounts payable and accrued liabilities include government remittances payable of $18 [2018 – $675].

## 16. Financial instruments

The University is subject to various financial risks through transactions in financial instruments.

### Credit risk

The University is exposed to credit risk in connection with its accounts receivable and its fixed-income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. Accounts receivable are recorded net of an allowance for doubtful accounts of $19,722 [2018 – $24,630].

### Currency risk

The University is exposed to currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

### Other price risk

The University is exposed to other price risk through changes in market prices [other than changes arising from interest rate risk or currency risk] in connection with its investments in pooled funds.

### Liquidity risk

The University is exposed to liquidity risk to the extent that it will encounter difficulty in meeting obligations associated with its financial instruments.

# Notes to financial statements

[in thousands of dollars]

April 30, 2019

## 17. Commitments and contingencies

The University is a member of a reciprocal exchange of insurance risks in association with 56 other Canadian universities. This self-insurance co-operative, the Canadian Universities Reciprocal Insurance Exchange ["CURIE"], involves a contractual agreement to share the insurable property and liability risks of member universities.

The projected cost of claims is funded through members' premiums based on actuarial projections. CURIE has obtained reinsurance from commercial insurers to cover claims in excess of $5,000,000 to a maximum of $0.25 billion per occurrence for property losses and claims in excess of $5,000,000 to a maximum of $50,000,000 per occurrence for liability and errors and omissions losses. In the event premiums are not sufficient to cover claims settlements, the member universities would be subject to assessments in proportion to their participation.

As a member of CURIE, the University will share in the claims and expenses incurred during the five-year underwriting period commencing July 1, 2018. As at December 31, 2018, the latest date that financial statements are available, CURIE had a surplus of $79.3 million for the current underwriting period, of which the University's pro rata share is approximately 0.25%.

## 18. Comparative financial statements

The comparative financial statements have been reclassified from financial statements previously presented to conform to the presentation of the 2019 financial statements.