

Lakehead University
Financial Statements
For the year ended April 30, 2017

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Independent Auditor's Report

To the Chair and Members of the Board of Governors of Lakehead University

We have audited the accompanying financial statements of Lakehead University, which comprise the balance sheet as at April 30, 2017, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Thunder Bay, Ontario
September 28, 2017

Lakehead University Balance Sheet

April 30	2017	2016
(in thousands of dollars)		
Assets		
Current		
Cash	\$ 32,205	\$ 29,286
Accounts receivable (Note 3)	10,445	10,930
Inventories and prepaid expenses	1,248	935
	43,898	41,151
Long-term investments (Note 4)	119,366	106,024
Capital assets (Note 5)	143,315	142,845
	\$ 306,579	\$ 290,020
Liabilities and Net Assets		
Liabilities		
Current		
Accounts payable and accrued charges (Note 6)	\$ 17,432	\$ 13,864
Deferred revenue (Note 7)	22,574	19,269
Current portion of long-term debt (Note 10)	2,145	2,032
	42,151	35,165
Faculty early retirement program costs (Note 8)	1,968	—
Accrued pension liability (Note 9)	488	5,850
Long-term debt (Note 10)	105,478	107,623
Interest rate swaps (Note 10.5)	5,718	6,386
Deferred capital contributions (Note 11)	46,865	44,810
	202,668	199,834
Net Assets		
Internally restricted (Note 12)	61,616	50,672
Endowments (Note 13)	56,176	51,322
Unrestricted	(13,881)	(11,808)
	103,911	90,186
	\$ 306,579	\$ 290,020

Contingent Liabilities (Note 16)

On behalf of the Board of Governors:

Chair

President

Lakehead University Statement of Operations

For the year ended April 30

2017

2016

(in thousands of dollars)

Revenue

Government grants for general operations	\$ 63,945	\$ 63,514
Government and other grants for restricted purposes	14,799	16,622
Student fees	70,059	61,041
Sales of goods and services	17,529	16,371
Investment income (loss) (Note 4)	11,124	(197)
Donations	2,858	2,065
Contract research	1,371	1,063
Sundry	1,618	1,594
Amortization of deferred capital contributions (Note 11)	1,520	1,535
	184,823	163,608

Expenses

Salaries and benefits	114,332	106,365
Operational supplies and expenses	5,877	7,440
Cost of sales and services	6,031	5,454
Amortization of capital assets	8,857	9,602
Amortization of debenture issuance costs	117	117
Building and equipment maintenance	7,729	9,596
Scholarships, bursaries and awards	11,775	10,899
Utilities	6,259	5,809
Travel	3,615	3,317
Other	8,030	6,455
Interest on long term debt	5,896	6,003
	178,518	171,057

Excess (deficit) of revenue over expenses before the undernoted

6,305 (7,449)

Unrealized recovery (loss) on interest rate swap

668 (658)

Excess (deficit) of revenue over expenses for the year

\$ 6,973 \$ (8,107)

Lakehead University
Statement of Changes in Net Assets

For the year ended April 30	2017		2016	
	Internally Restricted	Endowments	Unrestricted	Total
	(Note 12)	(Note 13)		Total
	\$	\$	\$	\$
Balance, beginning of year	50,672	51,322	(11,808)	90,186
Excess (deficit) of revenue over expenses for the year	—	—	6,973	6,973
Post-employment benefit recovery - remeasurement	4,582	—	—	4,582
Change in internally restricted net assets	9,046	—	(9,046)	—
Transfer to endowments	(2,684)	2,684	—	—
Endowment contributions	—	1,303	—	1,303
Capitalization of investment income in endowments	—	867	—	867
Balance, end of year	\$ 61,616	\$ 56,176	\$ (13,881)	\$ 103,911
				\$ 90,186

(in thousands of dollars)

The accompanying notes are an integral part of these financial statements.

Lakehead University Statement of Cash Flows

For the year ended April 30	2017	2016
	(in thousands of dollars)	
Cash Flows from Operating Activities		
Excess (deficit) of revenue over expenses for the year	\$ 6,973	\$ (8,107)
Items not involving cash		
Amortization of capital assets	8,857	9,602
Amortization of debenture issuance costs	117	117
Amortization of deferred capital contributions	(1,520)	(1,535)
Net change in accrued pension liability	(780)	(1,506)
Interest rate swap	(668)	658
Faculty early retirement program	1,968	—
Net change in non-cash working capital balances related to operations (Note 18)	7,045	(1,020)
Cash (used) provided by operating activities	<u>21,992</u>	<u>(1,791)</u>
Financing Activities		
Long term debt principal repayments	(2,149)	(2,042)
Deferred capital contributions received	3,575	54
	<u>1,426</u>	<u>(1,988)</u>
Investing Activities		
Endowment contributions	1,303	828
Capitalization of investment income in endowments	867	—
Purchase of capital assets	(9,327)	(4,429)
Change in long term investments, net	(13,342)	624
	<u>(20,499)</u>	<u>(2,977)</u>
Increase (decrease) in cash for the year	2,919	(6,756)
Cash, beginning of year	<u>29,286</u>	<u>36,042</u>
Cash, end of year	<u>\$ 32,205</u>	<u>\$ 29,286</u>

The accompanying notes are an integral part of these financial statements.

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

1. Authority and Purpose

Lakehead University was incorporated as a university when the Lakehead University Act was given Royal Assent by the Lieutenant Governor of Ontario in 1965. Lakehead University serves a dual role in that it provides Northwestern Ontario and Simcoe County with regional access to higher education while being committed to academic excellence on the provincial, national and international scenes.

These financial statements reflect the assets, liabilities, net assets, revenue, expenses and other transactions of all of the operations controlled by the University. Accordingly, these financial statements include the academic, administrative and other operating expenditures funded by fees, grants and other general revenue, restricted purpose endowment funds, and the ancillary operations, such as residences, food services, bookstore and parking.

The University also has a beneficial economic interest in the Lakehead University pension plan, the activities of which are not consolidated into these financial statements (Note 9). The Lakehead University Pension Investment Fund is audited separately.

The Northern Ontario School of Medicine ("School") is incorporated under the Ontario Business Corporations Act and is a not-for-profit organization. The School was created in order to provide medical education in Northern Ontario. The University, along with Laurentian University, the only voting members of the School, has significant relationships with the School, but the University has no claim to the net operating assets of the School and the University is not liable for any direct or contingent liabilities of the School. Accordingly, the operations of the School are not included in these financial statements.

The University is a not-for-profit organization and registered charity, and as such, is exempt from income taxes under the Income Tax Act (Canada).

2. Summary of Significant Accounting Policies

Financial statements of the University have been prepared in accordance with Part III of the Chartered Professional Accountants of Canada ("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.

a. Financial Instruments

Financial instruments are recorded at fair value when acquired or issued, in subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any unrealized gains and losses reported in operations, other than financial instruments related to endowment funds. In addition, all bonds have been designated to be in the fair value category, with gains and losses reported in operations, other than financial instruments related to endowment funds. Changes in fair value of financial instruments related to endowment funds are recorded directly in net assets. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired.

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

a. Financial Instruments (continued)

Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items re-measured at fair value at each statement of financial position date and charged to the financial instruments for those measured at amortized cost.

The value of investments recorded in the financial statements is determined as follows:

- 1) Investments in pooled funds are valued at their reported net asset value per unit.
- 2) Publicly traded bonds are determined based on the latest bid prices.
- 3) Private investment interests, which consist of common shares in a Canadian Controlled Private Company, life insurance policies and other shares, are valued at cost. The university believes the carrying value of these financial instruments is a reasonable estimate of fair value.
- 4) Freestanding derivative instruments that are not in a qualifying hedging relationship that are quoted in an active market are subsequently measured at fair value.

b. Inventories

Inventories, which consist of goods held for resale, are recorded at the lower of cost and net realizable value. Cost is generally determined on a first in, first out basis.

c. Capital Assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis over their estimated useful lives, which are:

Site development	—	10 years
Buildings	—	20 and 40 years
Furniture and equipment	—	5 years
Leasehold improvements	—	3 years
Library books	—	5 years

Interest incurred on funds borrowed during construction is capitalized as a cost of the project.

Works of Art

Contributions of collection items are recorded as revenue and expensed, at fair market value, at the date of contribution.

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

d. Revenue Recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted donations are recorded on a cash basis since pledges are not legally enforceable claims. Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Student fees are recognized as revenue when courses and seminars are held. Sales and services revenue is recognized at point of sale or when the service has been provided.

e. Contributed Materials and Services

Volunteers contribute an indeterminable number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

f. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The principal estimates used in preparation of these financial statements are the estimated useful life of property, plant and equipment, valuation of accounts receivable and doubtful accounts and assumption regarding the accrued pension liability.

Actual results could differ from management's best estimates as additional information becomes available in the future.

g. Derivative Financial Instruments

Derivative financial instruments related to interest rate swaps on a term loan are used by the University in the management of its exposure to changes in interest rates. The University does not enter into derivative financial instrument transactions for trading or speculative purposes. The University records financial instruments related to swaps on the balance sheet at fair value with subsequent changes in fair value recognized in the statement of operations. The fair value of the derivative financial instruments reflects the daily quoted market amount of those investments; thereby taking into account the current unrealized gains and losses. Quotes from financial institutions are available for all the University's derivative financial instruments.

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

h. Employee Future Benefits

The University accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension and other retirement benefits.

The University accounts for the defined benefit component of the Pension Plan for Professional Staff using the immediate recognition approach. The University recognizes the amount of the accrued benefit obligation, net of the fair value of the plan assets measured at year-end, adjusted for any valuation allowance, in the balance sheets. Actuarial gains and losses are included in the cost of the plans for the year. The accrued benefit obligation for the pension plan is determined based on an actuarial valuation using funding assumptions. The most recent actuarial valuation of the pension plan for funding purposes has been conducted as of December 31, 2015, and the next required valuation will be as of December 31, 2018. In 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.

3. Accounts Receivable

Accounts receivable consists of the following:

	2017		2016
Tuition and residence fees	\$ 2,304	\$	2,296
Interest and sundry accounts	4,703		5,353
Sponsored research monies	4,109		3,900
Allowance for doubtful accounts	(671)		(619)
	<u>\$ 10,445</u>	<u>\$</u>	<u>10,930</u>

4. Long-Term Investments and Investment Income

Long-term investments consist of the following:

	2017		2016
Pooled funds	\$ 115,440	\$	102,058
Marketable securities carried at fair value	3,926		3,966
	<u>\$ 119,366</u>	<u>\$</u>	<u>106,024</u>

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

4. Long-Term Investments and Investment Income (continued)

The pooled funds consist of units held in balanced funds in trust and managed by professional external fund managers. The market value of the University's investment in these funds as at April 30, 2017 was \$115,440 (2016 – \$102,058). The increase in the investment during the fiscal year of \$13,382 includes receipts of \$2,409, withdrawal of \$560 and investment gains of \$11,533. Included in the pooled funds are internally restricted amounts created from excess borrowings of the Series A unsecured debenture described in Note 10.4; the market value as at April 30, 2017 is \$18,448. Also included in the pooled funds is \$20,447 (2016 - \$19,112) of a debt repayment sinking fund for project loans being amortized over their initial terms.

Marketable securities carried at fair value consist of investments in government and corporate bonds of \$3,896 (2016 – \$3,938), life insurance policies of \$29 (2016 – \$27), and shares of \$1 (2016 – \$1). The market value of the marketable securities as at April 30, 2017 was \$3,926 (2016 – \$3,966). The bonds mature between 2022 and 2035 with annual yields ranging from 5.4% to 8.9%.

Investment income included in the statement of operations is calculated as follows:

	2017	2016
Net investment income (loss)	\$ 11,991	\$ (197)
Amount attributed to endowment capital preservation	(867)	—
	\$ 11,124	\$ (197)

5. Capital Assets

	2017			2016		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 13,829	\$ —	\$ 13,829	\$ 13,829	\$ —	\$ 13,829
Site development	8,182	8,082	100	8,182	8,017	165
Buildings	233,731	116,448	117,283	232,364	111,705	120,659
Furniture and equipment	132,338	128,622	3,716	130,748	126,349	4,399
Leasehold improvements	1,655	1,655	—	1,655	1,655	—
Library books	52,258	48,572	3,686	50,389	46,796	3,593
Construction in progress	4,701	—	4,701	200	—	200
	\$ 446,694	\$ 303,379	\$ 143,315	\$ 437,367	\$ 294,522	\$ 142,845

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

6. Accounts Payable and Accrued Charges

The accounts payable and accrued charges consist of the following:

	2017	2016
Trade accounts	\$ 10,676	\$ 10,066
Payroll liabilities	4,130	1,972
Vacation pay liability	2,003	1,775
Current portion faculty early retirement (Note 8)	189	—
Capital projects	434	51
	<u>\$ 17,432</u>	<u>\$ 13,864</u>

As at April 30, 2017 accounts payable and accrued charges include government remittances payable of \$1,464 (2016 – \$101).

7. Deferred Revenue

Deferred revenue represents unspent externally restricted monies received in the current and prior years for services to be provided in a future year as follows:

	2017	2016
Research	\$ 10,988	\$ 10,887
Other restricted purposes	11,586	8,382
	<u>\$ 22,574</u>	<u>\$ 19,269</u>

8. Faculty Early Retirement Program Costs

The University offered a voluntary early retirement program to qualifying University faculty. The estimated accrued liability represents the costs of contractual payments owed to participating faculty members. These retirement costs will be paid out approximately as:

	2017	2016
2018	\$ 189	\$ —
2019	421	—
2020	431	—
2021	431	—
2022 and beyond	685	—
Subtotal	2,157	—
Current portion (Note 6)	189	—
Total	<u>\$ 1,968</u>	<u>\$ —</u>

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

9. Accrued Pension Liability

The University has two separate pension plans.

a. Pension Plan for Professional Staff

The Pension Plan for Professional Staff is a contributory defined contribution pension plan. Faculty members and librarians contribute 6.5% of their earnings through payroll deductions, while the University contributes 8.05% on their behalf. Non-faculty members contribute 8.05%, and the University matches these contributions.

The Plan provides for a defined benefit guarantee for service prior to January 1, 1997 and removes the minimum pension based on a formula for future pensions commencing in 1997. The most recent actuarial valuation for funding purposes for the pension plan was performed as at December 31, 2015.

Information about the University's pension plan is as follows:

	2017	2016
Accrued benefit obligation	\$ (91,901)	\$ (94,672)
Fair value of plan assets	91,413	88,822
Plan deficit	\$ (488)	\$ (5,850)

The significant actuarial assumptions in calculating the University's liability accrued as at April 30, 2017, were a discount rate of 5.00% (2016 – 5.35%), a general salary increase assumption of 5.00% (2016 - 5.00%) per annum and the CPM2014 Public Sector mortality table. See Note 16 (c) for the description of a contingency relating to this Plan.

b. Lakehead University Employee Pension Plan

The Lakehead University Employee Pension Plan is a contributory defined contribution pension plan. Under the Plan, employees contribute in a range from 7.15% to 7.90% of their earnings. The University matches the regular pension contributions made by members of the Plan.

University Pension Plan contributions, together with investment income earned on the contributions, are applied on retirement to provide pension benefits as defined in the Plan. In addition to their regular contributions, members may voluntarily contribute additional contributions to provide increased benefits. Both employee and employer contributions are paid into the integrated Canada Pension and University Pension Plans.

The employee benefits expense for the year includes pension expense of \$4,858 (2016 – \$3,751).

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

10. Long-Term Debt

	2017	2016
10.1 Ontario Housing Corporation Long-Term Lease Obligation - 480 Bed Student Residence		
The University leases a residence under an agreement with the Ontario Student Housing Corporation. The University is responsible for managing, operating and maintaining the residence. Further, the University has agreed to reimburse the Corporation over a fifty-year period ending December 1, 2019, for principal and interest, through semi-annual installment payments of \$78 including interest at 6.40%. Upon satisfaction of this obligation, title to the building will vest in the University. Since this agreement is, in substance, a purchase of the building by the University, being financed by the Ontario Student Housing Corporation, the cost of the building is included in capital assets.	\$ 364	\$ 490
10.2 Royal Bank of Canada Non-Revolver Term Facility - C.J. Saunders Renovations		
Loan payable, unsecured, interest at 3.67%, monthly payments including interest of \$15, maturing March 2025.	1,698	1,799
10.3 Royal Bank of Canada - Orillia Residence and Cafeteria		
Loan payable, unsecured, interest at 4.69%, monthly payments including interest of \$140, maturing October 2036.	20,452	21,068
10.4 Debenture Payable		
On November 15, 2005, the University issued Series A unsecured debenture in the aggregated principal amount of \$100,000. The debenture bears interest at 5.301%. Principal and interest are payable semi-annually on May 15 and November 15 in installments of \$3,023 ending November 15, 2045. Included in the pooled funds (Note 4) is \$20,447 (2016 - \$19,112) of a debt repayment sinking fund for project loans being amortized over their initial terms. The fair value of the debenture at April 30, 2017 was \$105,090 (2016 - \$96,765).	85,109	86,298
	107,623	109,655
Current portion	2,145	2,032
	\$ 105,478	\$ 107,623

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

10. Long-Term Debt (continued)

Anticipated requirements to meet the principal portion of the long-term debt repayments over the next five years are as follows:

<u>Date</u>	<u>Amount</u>
2018	\$ 2,145
2019	2,263
2020	2,323
2021	2,358
2022	2,485
Thereafter	<u>96,049</u>
	<u>\$ 107,623</u>

10.5 Interest Rate Swaps

The University has entered into interest rate derivative agreements to manage the volatility of interest rates on the loan described in Note 10.3. The University converted floating rate debt for fixed rate debt of 4.69%. The change in the fair value of the interest rate swap of \$668 (2016 - (\$658)) is recorded in the Statement of Operations as unrealized recovery (loss) on interest rate swap. The interest rate swap agreement will expire on October 1, 2036.

10.6 The University's credit facilities include an available operating line of credit of \$3,000, with interest at the bank's prime lending rate less 0.50% per annum (2.20% per annum at year-end).

11. Deferred Capital Contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations and is calculated on the same basis as the amortization expense related to the acquired capital assets. The changes in the deferred capital contributions balance are as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 44,810	\$ 46,291
Add: contributions received for capital asset purchases	3,575	54
Less: amortization of deferred capital contributions	(1,520)	(1,535)
Balance, end of year	\$ 46,865	\$ 44,810

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

12. Internally Restricted Net Assets

Internally restricted net assets are funds committed for specific purposes as follows:

	2017	2016
Operating Fund		
Repairs and replacements	\$ 2,242	\$ 2,730
Self-insurance	250	250
Unexpended budgets and departmental incomes	7,888	6,029
Future year's budget	500	500
Employee pension benefits	(488)	(5,850)
Ancillary Enterprises	1,091	969
Restricted Funds		
Trust funds	14,548	11,736
Interest earned on investment from excess borrowing	6,128	5,768
Research funds	1,220	1,365
Bond Sinking Fund	20,447	19,111
Investment in Capital Assets	770	1,044
Land Appraisal Reserve	7,020	7,020
	<u>\$ 61,616</u>	<u>\$ 50,672</u>

13. Endowments

Endowments consist of externally restricted donations received by the University. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by donors. 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 value of the investment portfolio for endowed funds included in the total investments disclosed in Note 4 is equal to \$56,176 (2016 – \$51,322).

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

14. Ontario Student Trust Funds

Externally restricted endowments of \$56,176 (2016 – \$51,322) include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund (OSOTF) Phase I and Phase II and the Ontario Trust for Student Support (OTSS) matching programs to award student aid as a result of raising an equal amount of endowed donations.

OSOTF (Phase I)	2017	2016
OSOTF Endowment Balance, beginning of year	\$ 6,963	\$ 6,963
Unrealized Investment Income	—	—
OSOTF Endowment Balance, end of year	\$ 6,963	\$ 6,963
Expendable Funds, beginning of year	\$ 5,506	\$ 5,743
Unrealized Investment Income	1,674	(21)
Bursaries Awarded	(272)	(216)
Expendable Funds, end of year	\$ 6,908	\$ 5,506
Number of Bursaries Awarded	256	293
Market Value of Endowment	\$ 13,871	\$ 12,469
	2017	2016
OSOTF (Phase II)		
OSOTF Endowment Balance, beginning of year	\$ 1,629	\$ 1,625
Donations	—	4
OSOTF Endowment Balance, end of year	\$ 1,629	\$ 1,629
Expendable Funds, beginning of year	\$ 906	\$ 948
Unrealized Investment Income	370	7
Bursaries Awarded	(63)	(49)
Expendable Funds, end of year	\$ 1,213	\$ 906
Number of Bursaries Awarded	31	33
Market Value of Endowment	\$ 2,842	\$ 2,535

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

14. Ontario Student Trust Funds (continued)

OTSS

The Ontario Trust for Student Support (OTSS) program requires separate reporting of the balances as at March 31 and the details of the changes in the balances.

The following is the schedule of donations received for the period from April 1, 2016 to March 31, 2017 (April 1, 2015 to March 31, 2016).

	2017	2016
Donations eligible for matching	\$ —	\$ —
Donations not yet eligible for matching	—	—
Total cash donations	\$ —	\$ —

The following is the schedule of changes in endowment fund balance for the period from April 1, 2016 to March 31, 2017 (April 1, 2015 to March 31, 2016).

	2017	2016
Endowment Balance , beginning of year	\$ 8,555	\$ 8,555
Cash donations received	—	—
Matching funds received/receivable	—	—
Endowment Balance , end of year	\$ 8,555	\$ 8,555

The following is the schedule of changes in expendable funds available for awards for the period from April 1, 2016 to March 31, 2017 (April 1, 2015 to March 31, 2016).

	2017	2016
Expendable Funds , beginning of year	\$ 3,837	\$ 4,134
Unrealized Investment Income	1,215	(31)
Bursaries Awarded	(306)	(266)
Expendable Funds , end of year	\$ 4,746	\$ 3,837
Number of Bursaries Awarded	115	132
Market Value of Endowment	\$ 13,301	\$ 12,392

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

15. Property and Liability Insurance

The University participates in a reciprocal exchange of insurance risks in association with forty-five other Canadian universities. This self-insurance cooperative involves a contractual agreement to share the property insurance and liability risks of member universities.

The projected cost of settled claims will be funded through members' premiums based on actuarial projections. It is anticipated that a surplus will be created over time as a cushion against unexpected losses. In addition, the reciprocal has obtained substantial reinsurance with commercial insurers to cover major claims in excess of \$5,000 per occurrence for property losses and in excess of \$5,000 per occurrence for liability losses.

In the event that premiums are not sufficient to cover claim settlements, the member universities would be subject to an assessment in proportion to their participation.

16. Contingent Liabilities

- a) The nature of the University's activities is such that there is usually litigation pending or in prospect at any one time. With respect to claims at April 30, 2017, the University believes it has valid defenses and/or appropriate insurance coverage in place. In the unlikely event any claims are successful such claims are not expected to have a material effect on the University's financial position.
- b) The University has guaranteed a loan in the amount of \$2,500 for Nanabijou Childcare Centre (the "Centre") for the construction of a new facility. The Centre provides childcare services to children of staff and students of Lakehead University, and the public at large. The Centre is incorporated without share capital, by Letters Patent under the laws of Ontario and is governed by a Board of Directors. The University has leased land to the Centre for the construction of the facility; the lease is a 35-year lease; the Centre pays \$2.00 per year to the University.
- c) The Financial Services Commission of Ontario (FSCO) has raised an issue with the Plan amendments made to the Professional and Administrative Staff Plan in 2000. The amendment provided that pensioner increases would be granted only to the extent that the funds in the Retirement Account of the Plan are sufficient to support the increase. FSCO has indicated that the amendment may be considered void unless a court agrees the amendment is necessary to rectify the language of the Plan to reflect its original intent, or the Plan is further amended to comply with requirements of the Pension Benefits Act.

The University believes that the plan amendments have been properly applied and has retained legal counsel to assist with the matter. While the ultimate outcome of the matter is uncertain, it is possible that FSCO could consider some or all of the plan amendments void. In this case, the plan actuary has estimated the potential impact as follows:

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

16. Contingent Liabilities (continued)

	Liability for Pension Increases Since 2000	Increases in Future Obligations for Pension Increases after 2010
For all pensions commencing before February 25, 2000	\$7.3 million	\$5.4 million

On April 24, 2015 FSCO corresponded with the University. The correspondence was reviewed by the Actuary and by legal counsel; a response has been provided to FSCO and is being assessed by FSCO. At the time of the publishing of these statements, no course of action has been decided upon.

17. Commitments

The following are the future minimum annual operating lease payments due over the next five years:

<u>Date</u>	<u>Amount</u>
2018	\$ 425
2019	211
2020	—
2021	—
2022	—

18. Statement of Cash Flows

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

	2017	2016
Accounts receivable	\$ 485	\$ (2,894)
Inventories and prepaid expenses	(313)	257
Accounts payable and accrued charges	3,568	1,460
Deferred revenue	3,305	157
	\$ 7,045	\$ (1,020)

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

19. Related Party Transactions

During the year, the University undertook the following transactions with Northern Ontario School of Medicine ("School"):

	2017	2016
Recoveries and charges for goods and services	\$ 1,460	\$ 1,506

These transactions were in the normal course of operations and were measured at the exchange value, which is the amount of consideration established and agreed by the parties to the transaction.

At April 30, 2017 the University had \$215 (2016 — \$235) receivable from the School and had a payable of \$64 (2016 — \$318) to the School.

20. Financial Instruments

The University's financial instruments consist of cash, accounts receivable, long-term investments, accounts payable and accrued charges, long-term debt and interest rate swaps. Financial instruments are subject to a variety of risks.

Credit risk is the risk of financial loss to the University if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the University's accounts receivable and long-term investments. The University mitigates its potential credit risk from accounts receivable through credit evaluation, approval, and monitoring processes. Furthermore, it evaluates the collectability of accounts receivable and records an allowance for doubtful accounts, which reduces the receivables to the amount management reasonably believes will be collected. Credit risk with respect to long-term investments is managed through the University's investment policies.

The University maintains all of its bank accounts with one financial institution and therefore all deposits are not covered by the Canadian Deposit Insurance Corporation (CDIC). The University is subject to credit risk on the excess deposits over CDIC coverage.

Interest rate risk refers to the adverse consequences of interest rate changes. The University holds fixed rate bonds issued by the federal and certain provincial governments. The bonds have annual yields between 5.4% and 8.9%. The value of fixed rate instruments will generally rise if interest rates fall and fall if interest rates rise. The value of the instruments will vary with developments within the specific governments, which issue the instruments.

Foreign currency risk refers to the extent to which instruments denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to other currencies.

Market volatility risk arises from the University's investment portfolio, which contains various pooled funds and, fixed income, and equity instruments. It is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of general economic and other market factors affecting equity prices.

Lakehead University Notes to Financial Statements

April 30, 2017 (in thousands of dollars)

20. Financial Instruments (continued)

Interest rate, foreign currency and market volatility risk arise from the University's long-term investments, which the University manages through investment policies governing asset mixes, equity and fixed income allocations and diversification among fund managers.

The interest rate swap is subject to interest rate and foreign currency exchange risk in the determination of fair value.