

Lakehead University
Financial Statements
For the year ended April 30, 2018

Contents

| | |
|-------------------------------------|----------|
| Independent Auditor's Report | 2 |
| Financial Statements | |
| Balance Sheet | 3 |
| Statement of Operations | 4 |
| Statement of Changes in Net Assets | 5 |
| Statement of Cash Flows | 6 |
| Notes to Financial Statements | 7 |



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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, 2018, 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 Lakehead University as at April 30, 2018 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 27, 2018

Lakehead University Balance Sheet

| April 30 | 2018 | 2017 |
|---|------------|------------|
| (in thousands of dollars) | | |
| Assets | | |
| Current | | |
| Cash | \$ 32,297 | \$ 32,205 |
| Accounts receivable (Note 3) | 11,554 | 10,445 |
| Inventories and prepaid expenses | 1,300 | 1,248 |
| | 45,151 | 43,898 |
| Long-term investments (Note 4) | 119,204 | 119,366 |
| Capital assets (Note 5) | 153,924 | 143,315 |
| | \$ 318,279 | \$ 306,579 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued charges (Note 6) | \$ 22,590 | \$ 17,432 |
| Deferred revenue (Note 7) | 24,249 | 22,574 |
| Current portion of long-term debt (Note 10) | 2,262 | 2,145 |
| | 49,101 | 42,151 |
| Faculty early retirement program costs (Note 8) | 1,449 | 1,968 |
| Accrued pension liability (Note 9) | 83 | 488 |
| Long-term debt (Note 10) | 103,216 | 105,478 |
| Interest rate swaps (Note 10.5) | 3,735 | 5,718 |
| Deferred capital contributions (Note 11) | 54,436 | 46,865 |
| | 212,020 | 202,668 |
| Net Assets | | |
| Internally restricted (Note 12) | 60,435 | 61,616 |
| Endowments (Note 13) | 57,391 | 56,176 |
| Unrestricted | (11,567) | (13,881) |
| | 106,259 | 103,911 |
| | \$ 318,279 | \$ 306,579 |

Contingent Liabilities (Note 16)

On behalf of the Board of Governors:

Chair

President

Lakehead University Statement of Operations

For the year ended April 30

2018

2017

(in thousands of dollars)

Revenue

| | | |
|--|-----------|-----------|
| Government grants for general operations | \$ 64,715 | \$ 63,945 |
| Government and other grants for restricted purposes | 15,726 | 14,799 |
| Student fees | 77,400 | 70,059 |
| Sales of goods and services | 18,299 | 17,529 |
| Investment income (Note 4) | 1,885 | 11,124 |
| Donations | 3,206 | 2,858 |
| Contract research | 1,144 | 1,371 |
| Sundry | 1,853 | 1,618 |
| Amortization of deferred capital contributions (Note 11) | 1,466 | 1,520 |

185,694

184,823

Expenses

| | | |
|--|---------|---------|
| Salaries and benefits | 118,505 | 114,332 |
| Operational supplies and expenses | 6,670 | 5,877 |
| Cost of sales and services | 6,985 | 6,031 |
| Amortization of capital assets | 8,711 | 8,857 |
| Amortization of debenture issuance costs | 117 | 117 |
| Building and equipment maintenance | 9,082 | 7,729 |
| Scholarships, bursaries and awards | 12,611 | 11,775 |
| Utilities | 4,683 | 6,259 |
| Travel | 4,345 | 3,615 |
| Other | 8,197 | 8,030 |
| Interest on long term debt | 5,787 | 5,896 |

185,693

178,518

Excess of revenue over expenses before the undernoted

1

6,305

Unrealized recovery on interest rate swap

1,983

668

Excess of revenue over expenses for the year

\$ 1,984

\$ 6,973

Lakehead University
Statement of Changes in Net Assets

For the year ended April 30

2018 2017

(in thousands of dollars)

| | Internally Restricted | Endowments | Unrestricted | Total | Total |
|---|--------------------------|------------------|--------------------|-------------------|-------------------|
| | (Note 12) | (Note 13) | | | |
| Balance, beginning of year | \$ 61,616 | \$ 56,176 | \$ (13,881) | \$ 103,911 | \$ 90,186 |
| Excess of revenue over expenses for the year | — | — | 1,984 | 1,984 | 6,973 |
| Post-employment benefit recovery - remeasurement | (844) | — | — | (844) | 4,582 |
| Change in internally restricted net assets | (330) | — | 330 | — | — |
| Transfer to endowments | (7) | 7 | — | — | — |
| Endowment contributions | — | 1,207 | — | 1,207 | 1,303 |
| Capitalization of investment income in endowments | — | 1 | — | 1 | 867 |
| Balance, end of year | \$ 60,435 | \$ 57,391 | \$ (11,567) | \$ 106,259 | \$ 103,911 |

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

Lakehead University Statement of Cash Flows

For the year ended April 30

2018

2017

(in thousands of dollars)

Cash flows from operating activities

| | | |
|---|----------|----------|
| Excess of revenue over expenses for the year | \$ 1,984 | \$ 6,973 |
| Items not involving cash | | |
| Amortization of capital assets | 8,711 | 8,857 |
| Amortization of debenture issuance costs | 117 | 117 |
| Amortization of deferred capital contributions | (1,466) | (1,520) |
| Net change in accrued pension liability | (1,249) | (780) |
| Interest rate swap | (1,983) | (668) |
| Net change in non-cash working capital balances related to operations (Note 18) | 5,153 | 9,013 |

Cash provided by operating activities

11,267 21,992

Financing activities

| | | |
|---|---------|---------|
| Long term debt principal repayments | (2,262) | (2,149) |
| Deferred capital contributions received | 9,037 | 3,575 |

6,775 1,426

Investing activities

| | | |
|---|----------|----------|
| Endowment contributions | 1,207 | 1,303 |
| Capitalization of investment income in endowments | 1 | 867 |
| Purchase of capital assets | (19,320) | (9,327) |
| Change in long term investments, net | 162 | (13,342) |

(17,950) (20,499)

Increase in cash for the year

92 2,919

Cash, beginning of year

32,205 29,286

Cash, end of year

\$ 32,297 \$ 32,205

Lakehead University Notes to Financial Statements

April 30, 2018 (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, 2018 (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, 2018 (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. Restricted contributions for the purchase of property, plant and equipment that will be amortized are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired asset.

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, 2018 (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:

| | 2018 | 2017 |
|---------------------------------|------------------|------------------|
| Tuition and residence fees | \$ 2,053 | \$ 2,304 |
| Interest and sundry accounts | 7,793 | 5,026 |
| Sponsored research monies | 2,484 | 3,786 |
| Allowance for doubtful accounts | (776) | (671) |
| | <u>\$ 11,554</u> | <u>\$ 10,445</u> |

4. Long-Term Investments and Investment Income

Long-term investments consist of the following:

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Pooled funds | \$ 115,476 | \$ 115,440 |
| Marketable securities carried at fair value | 3,728 | 3,926 |
| | <u>\$ 119,204</u> | <u>\$ 119,366</u> |

Lakehead University Notes to Financial Statements

April 30, 2018 (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, 2018 was \$115,476 (2017 – \$115,440). The increase in the investment during the fiscal year of \$36 includes receipts of \$1,723, withdrawals of \$3,063 and investment gains of \$1,376. 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, 2018 is \$15,975. Also included in the pooled funds is \$20,531 (2017 - \$20,447) 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 \$3,698 (2017 – \$3,896), life insurance policies of \$29 (2017 – \$29), and shares of \$1 (2017 – \$1). The market value of the marketable securities as at April 30, 2018 was \$3,728 (2017 – \$3,926). 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:

| | 2018 | 2017 |
|---|-----------------|------------------|
| Net investment income | \$ 1,886 | \$ 11,991 |
| Amount attributed to endowment capital preservation | (1) | (867) |
| | \$ 1,885 | \$ 11,124 |

5. Capital Assets

| | 2018 | | | 2017 | | |
|--------------------------|------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Land | \$ 14,129 | \$ — | \$14,129 | \$ 13,829 | \$ — | \$ 13,829 |
| Site development | 8,182 | 8,104 | 78 | 8,182 | 8,082 | 100 |
| Buildings | 235,895 | 121,245 | 114,650 | 233,731 | 116,448 | 117,283 |
| Furniture and equipment | 133,761 | 130,679 | 3,082 | 132,338 | 128,622 | 3,716 |
| Leasehold improvements | 1,655 | 1,655 | — | 1,655 | 1,655 | — |
| Library books | 54,198 | 50,408 | 3,790 | 52,258 | 48,572 | 3,686 |
| Construction in progress | 18,195 | — | 18,195 | 4,701 | — | 4,701 |
| | \$466,015 | \$312,091 | \$153,924 | \$ 446,694 | \$ 303,379 | \$ 143,315 |

Lakehead University Notes to Financial Statements

April 30, 2018 (in thousands of dollars)

6. Accounts Payable and Accrued Charges

The accounts payable and accrued charges consist of the following:

| | 2018 | 2017 |
|---|------------------|------------------|
| Trade accounts | \$ 11,635 | \$ 10,676 |
| Payroll liabilities | 4,458 | 4,130 |
| Vacation pay liability | 1,908 | 2,003 |
| Current portion faculty early retirement (Note 8) | 366 | 189 |
| Capital projects | 4,223 | 434 |
| | <u>\$ 22,590</u> | <u>\$ 17,432</u> |

As at April 30, 2018 accounts payable and accrued charges include government remittances payable of \$1,701 (2017 – \$1,464).

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:

| | 2018 | 2017 |
|---------------------------|------------------|------------------|
| Research | \$ 11,456 | \$ 10,988 |
| Other restricted purposes | 12,793 | 11,586 |
| | <u>\$ 24,249</u> | <u>\$ 22,574</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:

| | 2018 | 2017 |
|--------------------------|-----------------|-----------------|
| 2018 | \$ — | \$ 189 |
| 2019 | 366 | 421 |
| 2020 | 395 | 431 |
| 2021 | 395 | 431 |
| 2022 (2022 and beyond) | 395 | 685 |
| 2023 and beyond | 264 | — |
| Subtotal | <u>1,815</u> | <u>2,157</u> |
| Current portion (Note 6) | 366 | 189 |
| Total | <u>\$ 1,449</u> | <u>\$ 1,968</u> |

Lakehead University Notes to Financial Statements

April 30, 2018 (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:

| | 2018 | 2017 |
|----------------------------|-------------|-------------|
| Accrued benefit obligation | \$ (83,432) | \$ (91,901) |
| Fair value of plan assets | 83,349 | 91,413 |
| Plan deficit | \$ (83) | \$ (488) |

The significant actuarial assumptions in calculating the University's liability accrued as at April 30, 2018, were a discount rate of 5.00% (2017 – 5.00%), a general salary increase assumption of 5.00% (2017 - 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 \$5,224 (2017 – \$4,858).

Lakehead University Notes to Financial Statements

April 30, 2018 (in thousands of dollars)

10. Long-Term Debt

| | 2018 | 2017 |
|--|-------------------|-------------------|
| 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. | \$ 230 | \$ 364 |
| 10.2 Royal Bank of Canada Non-Revolving Term Facility - C.J. Saunders Renovations | | |
| Loan payable, unsecured, interest at 3.67%, monthly payments including interest of \$15, maturing March 2025. | 1,593 | 1,698 |
| 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. | 19,805 | 20,452 |
| 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 \$20,531 (2017 – \$20,447) of a debt repayment sinking fund for project loans being amortized over their initial terms. The fair value of the debenture at April 30, 2018 was \$103,764 (2017 – \$105,090). | 83,850 | 85,109 |
| | 105,478 | 107,623 |
| Current portion | 2,262 | 2,145 |
| | \$ 103,216 | \$ 105,478 |

Lakehead University Notes to Financial Statements

April 30, 2018 (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> |
|-------------|-------------------|
| 2019 | \$ 2,262 |
| 2020 | 2,323 |
| 2021 | 2,358 |
| 2022 | 2,485 |
| 2023 | 2,621 |
| Thereafter | <u>93,429</u> |
| | <u>\$ 105,478</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 \$1,983 (2017 - \$668) is recorded in the Statement of Operations as unrealized recovery 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 \$13,000, with interest at the bank's prime lending rate less 0.50% per annum (2.95% 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>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| Balance, beginning of year | \$ 46,865 | \$ 44,810 |
| Add: contributions received for capital asset purchases | 9,037 | 3,575 |
| Less: amortization of deferred capital contributions | (1,466) | (1,520) |
| Balance, end of year | <u>\$ 54,436</u> | <u>\$ 46,865</u> |

Lakehead University Notes to Financial Statements

April 30, 2018 (in thousands of dollars)

12. Internally Restricted Net Assets

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

| | 2018 | 2017 |
|---|------------------|------------------|
| Operating Fund | | |
| Repairs and replacements | \$ 2,532 | \$ 2,242 |
| Self-insurance | 250 | 250 |
| Unexpended budgets and departmental incomes | 8,414 | 7,888 |
| Future year's budget | 500 | 500 |
| Employee pension benefits | (83) | (488) |
| Ancillary Enterprises | 1,031 | 1,091 |
| Restricted Funds | | |
| Trust funds | 13,367 | 14,548 |
| Interest earned on investment from excess borrowing | 6,136 | 6,128 |
| Research funds | 1,402 | 1,220 |
| Bond Sinking Fund | 20,531 | 20,447 |
| Investment in Capital Assets | (665) | 770 |
| Land Appraisal Reserve | 7,020 | 7,020 |
| | \$ 60,435 | \$ 61,616 |

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 \$57,391 (2017 – \$56,176).

Lakehead University Notes to Financial Statements

April 30, 2018 (in thousands of dollars)

14. Ontario Student Trust Funds

Externally restricted endowments of \$57,391 (2017 – \$56,176) 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) | 2018 | 2017 |
|---|------------------|------------------|
| 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 | \$ 6,908 | \$ 5,506 |
| Unrealized Investment Income | (14) | 1,674 |
| Bursaries Awarded | (219) | (272) |
| Expendable Funds, end of year | \$ 6,675 | \$ 6,908 |
| Number of Bursaries Awarded | 234 | 256 |
| Market Value of Endowment | \$ 13,638 | \$ 13,871 |
| | 2018 | 2017 |
| OSOTF (Phase II) | | |
| OSOTF Endowment Balance, beginning of year | \$ 1,629 | \$ 1,629 |
| Donations | — | — |
| OSOTF Endowment Balance, end of year | \$ 1,629 | \$ 1,629 |
| Expendable Funds, beginning of year | \$ 1,213 | \$ 906 |
| Unrealized Investment Income | 16 | 370 |
| Bursaries Awarded | (58) | (63) |
| Expendable Funds, end of year | \$ 1,171 | \$ 1,213 |
| Number of Bursaries Awarded | 29 | 31 |
| Market Value of Endowment | \$ 2,800 | \$ 2,842 |

Lakehead University Notes to Financial Statements

April 30, 2018 (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, 2017 to March 31, 2018 (April 1, 2016 to March 31, 2017).

| | 2018 | 2017 |
|---|-------------|-------------|
| 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, 2017 to March 31, 2018 (April 1, 2016 to March 31, 2017).

| | 2018 | 2017 |
|---------------------------------------|-----------------|-----------------|
| 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, 2017 to March 31, 2018 (April 1, 2016 to March 31, 2017).

| | 2018 | 2017 |
|--------------------------------------|------------------|------------------|
| Expendable Funds, beginning of year | \$ 4,746 | \$ 3,837 |
| Unrealized Investment Income | 422 | 1,215 |
| Bursaries Awarded | (273) | (306) |
| Expendable Funds, end of year | \$ 4,895 | \$ 4,746 |
| Number of Bursaries Awarded | 120 | 115 |
| Market Value of Endowment | \$ 13,450 | \$ 13,301 |

Lakehead University Notes to Financial Statements

April 30, 2018 (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, 2018, 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 of December 31, 2016 as follows:

Lakehead University Notes to Financial Statements

April 30, 2018 (in thousands of dollars)

16. Contingent Liabilities (continued)

| | Liability for Pension Increases Since 2000 | Increases in Future Obligations for Pension Increases after 2016 |
|---|---|--|
| For all pensions commencing before February 25, 2000 | \$8.5 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. There has been subsequent communication between the University and FSCO. 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> |
|-------------|---------------|
| 2019 | \$ 339 |
| 2020 | 278 |
| 2021 | 278 |
| 2022 | 278 |
| 2023 | 278 |

18. Statement of Cash Flows

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

| | 2018 | 2017 |
|--------------------------------------|------------|----------|
| Accounts receivable | \$ (1,109) | \$ 485 |
| Inventories and prepaid expenses | (52) | (313) |
| Accounts payable and accrued charges | 5,158 | 3,568 |
| Deferred revenue | 1,675 | 3,305 |
| Faculty early retirement program | (519) | 1,968 |
| | \$ 5,153 | \$ 9,013 |

Lakehead University Notes to Financial Statements

April 30, 2018 (in thousands of dollars)

19. Related Party Transactions

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

| | 2018 | 2017 |
|---|----------|----------|
| Recoveries and charges for goods and services | \$ 2,029 | \$ 1,460 |

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, 2018 the University had \$183 (2017 – \$215) receivable from the School and had a payable of \$80 (2017 – \$64) 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, 2018 (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.

21. Subsequent Event - New Financing Agreement

The University entered into a new credit facility agreement on June 15, 2018 with the Royal Bank of Canada in the amount of \$11,000 for a term of 25 years with initial drawdown scheduled for September 2020. This loan will be used to finance the construction of an Athletic building on the Thunder Bay campus; the students agreed through referendum to a per term fee per student to cover the annual principal and interest on this loan.