

**Lakehead University**  
**Financial Statements**  
For the year ended April 30, 2012

**Contents**

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## Independent Auditor's Report

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### 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, 2012, and the statements of revenue and expenses, 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 generally accepted accounting principles, 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.

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## Independent Auditor's Report (Cont'd)

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### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

Thunder Bay, Ontario  
September 28, 2012

## Lakehead University Balance Sheet

April 30	2012	2011
	(in thousands of dollars)	
<b>Assets</b>		
Current		
Cash	\$ 39,146	\$ 37,486
Accounts receivable (Note 3)	7,937	10,346
Inventories and prepaid expenses	900	1,021
	47,983	48,853
Long-term investments (Note 4)	73,697	69,222
Capital assets (Note 5)	157,950	150,282
	\$ 279,630	\$ 268,357

### Liabilities and Net Assets

#### Liabilities

##### Current

Accounts payable and accrued charges (Note 6)	\$ 14,535	\$ 16,196
Deferred revenue (Note 7)	16,795	14,931
Current portion of long-term debt (Note 9)	1,628	1,325

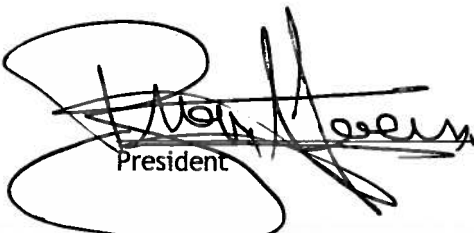
	32,958	32,452
Deferred capital contributions (Note 8)	48,219	50,530
Long-term debt (Note 9)	115,118	100,740
Interest rate swaps (Note 9.6)	5,135	2,623
Pension benefit obligation (Note 10)	-	218
	201,430	186,563

#### Net assets

Internally restricted (Note 11)	44,023	46,365
Endowments (Note 12)	37,899	37,000
Unrestricted	(3,722)	(1,571)
	78,200	81,794
	\$ 279,630	\$ 268,357

On behalf of the Board of Governors:

  
 \_\_\_\_\_  
 Chair

  
 \_\_\_\_\_  
 President

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

## Lakehead University Statement of Revenue and Expenses

For the year ended April 30	2012	2011
	(in thousands of dollars)	
<b>Revenue</b>		
Government grants for general operations	\$ 64,492	\$ 64,261
Government and other grants for restricted purposes	15,509	24,657
Student fees	50,359	46,763
Sales of goods and services	17,010	15,784
Investment income (Note 4)	1,823	4,690
Donations	2,088	844
Contract research	1,027	1,116
Sundry	2,090	6,553
Amortization of deferred capital contributions (Note 8)	3,372	3,704
	<u>157,770</u>	<u>168,372</u>
<b>Expenses</b>		
Salaries and benefits	96,693	92,669
Operational supplies and expenses	6,463	5,316
Cost of sales and services	7,604	6,395
Amortization of capital assets	13,053	11,799
Amortization of debenture issuance costs	117	117
Building and equipment maintenance	7,602	14,673
Municipal taxes	582	550
Scholarships, bursaries and awards	9,425	8,891
Utilities	4,303	4,041
Travel	3,146	3,063
Other	4,819	4,211
Interest on long term debt	8,399	7,246
	<u>162,206</u>	<u>158,971</u>
<b>Excess of (expenses over revenue)</b>		
revenue over expenses for the year	\$ (4,436)	\$ 9,401

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

**Lakehead University**  
**Statement of Changes in Net Assets**

For the year ended April 30

2012

2011

(in thousands of dollars)

	Internally Restricted	Endowments	Unrestricted	Total	Total
	(Note 11)	(Note 12)			
Balance, beginning of year	\$ 46,365	\$ 37,000	\$ (1,571)	\$ 81,794	\$ 69,396
Excess of (expenses over revenue) revenue over expenses for the year	-	-	(4,436)	(4,436)	9,401
Change in internally restricted net assets	(2,342)	-	2,342	-	-
Transfer to endowments	-	57	(57)	-	
Endowment contributions	-	801	-	801	1,996
Capitalization of investment income in endowments	-	41	-	41	1,001
<b>Balance, end of year</b>	<b>\$ 44,023</b>	<b>\$ 37,899</b>	<b>\$ (3,722)</b>	<b>\$ 78,200</b>	<b>\$ 81,794</b>

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

## Lakehead University Statement of Cash Flows

For the year ended April 30	2012	2011
	(in thousands of dollars)	
<b>Cash flows from operating activities</b>		
Excess of (expenses over revenue)		
revenue over expenses for the year	\$ (4,436)	\$ 9,401
Items not involving cash		
Amortization of capital assets	13,053	11,799
Amortization of debenture issuance costs	117	117
Amortization of deferred capital contributions	(3,372)	(3,704)
Interest rate swap	2,512	1,980
Change in pension benefit obligation	(218)	218
	<b>7,656</b>	<b>19,811</b>
Net change in non-cash working capital balances related to operations (Note 17)	<b>2,733</b>	<b>(7,752)</b>
Cash provided by operating activities	<b>10,389</b>	<b>12,059</b>
<b>Financing activities</b>		
Demand loan	-	(13,000)
Long term debt principal repayments	(1,536)	(1,140)
Long-term debt proceeds	16,100	7,400
Deferred capital contributions received	1,061	8,244
	<b>15,625</b>	<b>1,504</b>
<b>Investing activities</b>		
Endowment contributions	801	1,996
Capitalization of investment income in endowments	41	1,001
Purchase of capital assets	(20,721)	(37,572)
Change in long term investments, net	(4,475)	16,193
	<b>(24,354)</b>	<b>(18,382)</b>
Increase (decrease) in cash for the year	<b>1,660</b>	<b>(4,819)</b>
Cash, beginning of year	<b>37,486</b>	<b>42,305</b>
Cash, end of year	<b>\$ 39,146</b>	<b>\$ 37,486</b>

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

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## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

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### 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 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 an economic beneficial interest in the Lakehead University pension plan, the activities of which are not consolidated into these financial statements (Note 10). 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).

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### 2. Summary of Significant Accounting Policies

The financial statements of the University have been prepared in accordance with accounting principles generally accepted in Canada within the framework of the accounting policies summarized below:

#### a) Investments

Investments are carried at fair value. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values. Changes in fair values from one year to the next are reflected in the statement of operations in investment income or in endowments.

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.



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## Lakehead University Notes to Financial Statements

**April 30, 2012 (in thousands of dollars)**

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### 2. Summary of Significant Accounting Policies (cont'd)

#### a) Investments (cont'd)

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.

#### 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.

#### 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.

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## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

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### 2. Summary of Significant Accounting Policies (cont'd)

#### 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 pension benefit obligation

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

#### g) Financial Instruments

As permitted under the CICA Handbook, the University has chosen to apply CICA 3861: Financial Instruments - Disclosure and Presentation in place of CICA 3862: Financial Instruments - Disclosures and CICA 3863: Financial Instruments - Presentation.

Under Section 3855: Financial Instruments - Recognition and Measurement, financial assets and liabilities are initially recognized and subsequently measured based on their classification. The University has designated its cash and long term investments as held-for-trading and, as such, these financial assets are measured at fair value and changes in fair value are recognized in the statement of revenue and expenses as investment income. Accounts receivable have been classified as loans and receivables, accounts payable have been classified as other liabilities, and long term debt and specific coupon bonds have been classified as held-to-maturity, all of which are measured at amortized cost using the effective interest rate method.

#### h) 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 Revenue and Expenses.

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## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

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### 2. Summary of Significant Accounting Policies (cont'd)

#### i) 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. For the defined benefit component of the pension plan for professional staff, the cost of post employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and administration's best estimates and assumptions. The most recent actuarial valuation of the pension plan for funding purposes has been conducted as of December 31, 2009, and the next required valuation will be as of December 31, 2012.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10% of the greater of the accrued defined benefit obligation and the fair value of related plan assets is amortized over the average remaining life expectancy of participating members.

#### j) Future Accounting Policy Changes:

In November 2010, the Accounting Standards Board of the CICA issued Part III of the CICA Handbook that sets out the accounting standards for not-for-profit organizations that are effective for fiscal years beginning on or after January 1, 2012. The University will adopt these standards effective for its fiscal year ended April 30, 2013. The University is currently evaluating the impact of these standards.

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### 3. Accounts Receivable

Accounts receivable consist of the following:

	2012	2011
Tuition and residence fees	\$ 1,004	\$ 705
Interest and sundry accounts	3,070	3,897
Insurance claims	-	892
Sponsored research monies	3,863	3,384
Capital grants from government	-	1,468
	\$ 7,937	\$ 10,346

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## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

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#### 4. Long-Term Investments and Investment Income

Long-term investments consist of the following:

	2012	2011
Pooled funds	\$ 67,951	\$ 63,799
Marketable securities carried at fair value	5,746	5,423
	\$ 73,697	\$ 69,222

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, 2012 was \$67,951 (2011 - \$63,799). The increase in the investment during the fiscal year of \$4,152 includes receipts of \$3,336, and investment gains of \$816. Included in the pooled funds are internally restricted amounts created from excess borrowings of the Series A unsecured debenture described in Note 9.5; the market value as at April 30, 2012 is \$13,764. Also included in the pooled funds is \$10,453 (2011 - \$8,803) 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 \$5,590 (2011 - \$5,278), life insurance policies of \$65 (2011 - \$54), and shares of \$91 (2011 - \$91). The market value of the marketable securities as at April 30, 2012 was \$5,746 (2011 - \$5,423). The bonds mature between 2012 and 2035 with annual yields ranging from 4.2% to 8.5%.

Investment income included in the Statement of Revenue and Expenses is calculated as follows:

	2012	2011
Net investment income	\$ 1,864	\$ 5,691
Amount attributed to endowment capital preservations	(41)	(1,001)
Investment income recognized during the year	\$ 1,823	\$ 4,690

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**Lakehead University**  
**Notes to Financial Statements**

April 30, 2011 (in thousands of dollars)

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**5. Capital Assets**

	2012			2011														
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value												
Land	\$ 6,809	\$ -	\$ 6,809	\$ 6,809	\$ -	\$ 6,809												
Site development	8,091	6,827	1,264	8,091	6,535	1,556												
Buildings	228,050	92,179	135,871	203,237	85,774	117,463												
Furniture and equipment	120,972	110,317	10,655	116,428	105,702	10,726												
Leasehold improvements	1,655	1,543	112	1,487	1,487	-												
Library books	43,381	40,142	3,239	41,749	38,456	3,293												
Construction in progress	-	-	-	10,435	-	10,435												
	\$ 408,958			\$ 251,008			\$ 157,950			\$ 388,236			\$ 237,954			\$ 150,282		

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**6. Accounts Payable and Accrued Charges**

The accounts payable and accrued charges consist of the following:

	2012		2011	
Trade accounts	\$ 8,614	\$ 7,694		
Payroll liabilities	2,956	3,072		
Vacation pay liability	2,118	2,100		
Capital projects	847	3,330		
	\$ 14,535		\$ 16,196	

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## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

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### 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:

	2012	2011
Research	\$ 11,612	\$ 10,266
Other restricted purposes	5,183	4,665
	\$ 16,795	\$ 14,931

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### 8. 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 revenue and expenses 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:

	2012	2011
Balance, beginning of year	\$ 50,530	\$ 45,990
Add: contributions received for capital asset purchases	1,061	8,244
Less: amortization of deferred capital contributions	(3,372)	(3,704)
Balance, end of year	\$ 48,219	\$ 50,530

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**Lakehead University  
Notes to Financial Statements**

April 30, 2012 (in thousands of dollars)

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**9. Long-Term Debt**

	2012	2011
<b>9.1 Ontario Housing Corporation Long-Term Lease Obligation - 480 Bed Student Residence</b>		
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.	\$ 922	\$ 1,014
<b>9.2 Royal Bank of Canada Non-Revolving Term Facility - C J Saunders Renovations</b>		
Loan payable, unsecured, interest at 4.6%, monthly payments including interest of \$15, maturing March 2030.	2,147	2,224
<b>9.3 Royal Bank of Canada - Orillia Residence and Cafeteria</b>		
The University entered into a credit facility agreement on June 10, 2010 with the Royal Bank of Canada in the amount of \$23,500 for a term of 25 years with the initial drawdown in January 2011 and the final drawdown in November 2011. The loan was repayable interest only until December 2011, at which time monthly interest and principal repayments of \$140 commenced, with interest at an effective interest rate of 5.06% (note 9.6). The loan is unsecured and matures October 2036.	23,255	7,400
<b>9.4 Promissory Note - Northwestern Ontario Innovation Centre Inc.</b>	-	117
Carried forward	\$ 26,324	\$ 10,755

## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

### 9. Long Term Debt (cont'd)

	2012	2011
Brought forward	\$ 26,324	\$ 10,755
<b>9.5 Debenture Payable</b>		
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 \$10,453 (2011 - \$8,803) of a debt repayment sinking fund for project loans being amortized over their initial terms. The fair value of the debenture at April 30, 2012 was \$102,300 (2011 - \$89,671)	90,422	91,310
	116,746	102,065
Current portion	1,628	1,325
	\$ 115,118	\$ 100,740

9.6 The University has entered into interest rate derivative agreements to manage the volatility of interest rates on the loan described in Note 9.3. The University converted floating rate debt for fixed rate debt of 5.09%. The change in the fair value of the interest rate swap of \$2,512 (2011 - \$1,980) is recorded in the Statement of Revenue and Expenses as Interest on Long Term Debt. The Interest Rate Swap Agreement will expire on October 1, 2036.

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>
2013	\$ 1,628
2014	1,720
2015	1,817
2016	1,919
2017	2,027
Thereafter	107,635
	\$ 116,746

The University has available an operating line of credit of \$3,000, with interest at the bank's prime lending rate less 0.50% per annum (2.50% per annum at year-end).



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## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

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### 10. Pension Benefit Obligation

The University has two separate pension plans.

#### 10.1 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. Information about the defined benefit guarantee portion of this pension plan at April 30, 2012 is as follows based on an interim valuation prepared on a going concern basis at April 30, 2012.

	<u>2012</u>	<u>2011</u>
Pension plan assets	\$ 102,198	\$ 115,560
Pension plan liabilities	<u>126,336</u>	<u>131,288</u>
Estimated pension plan shortfall	\$ (24,138)	\$ (15,728)
Balance of unamortized actuarial loss net of valuation allowance	<u>24,138</u>	<u>15,510</u>
Accrued pension asset (liability)	<u>\$ -</u>	<u>\$ (218)</u>

The significant actuarial assumptions in calculating the going concern liability at April 30, 2012, were a discount rate of 4.50% (2011 - 4.50%), a general salary increase assumption of 5.25% (2011 -3.5%) per annum and mortality tables equal to 85% of UP94@2020.

In the event that an actuarial valuation discloses a going concern unfunded liability or a solvency deficiency as defined by the Pension Benefits Act (1987), the University will be obligated to make additional contributions as required by the Act. The actuarial valuation of the Plan at December 31, 2009, reported that based on the current provisions, the Plan had a going concern deficit of \$14,486 and a solvency deficit of \$17,354. As a result, under current regulations special monthly payments were required as of June 2011, and are being paid with a total annual cost of \$1,519.

#### 10.2 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.

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## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

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### 10. Pension Benefit Obligation (cont'd)

University Pension Plan contributions, together with investment income earned on the contributions, are applied on retirement to provide pensions 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 \$4,755 (2011 - \$3,432).

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### 11. Internally Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Operating Fund		
Repairs and replacements	\$ 5,044	\$ 5,285
Self-insurance	250	250
Unexpended budgets and departmental incomes	6,080	6,012
Future year's budget	1,500	2,332
Ancillary Enterprises		
Retail operations	-	701
Food services	174	223
Residence operations	539	319
Residence reserves for repairs and replacements	264	256
Other ancillary	648	497
Restricted Funds		
University general trust fund	8,341	7,173
Interest earned on investment from excess borrowings	3,298	3,417
Research funds	1,260	1,254
Bond sinking fund	10,453	8,803
Investment in Capital Assets	<u>6,172</u>	<u>9,843</u>
	<u>\$ 44,023</u>	<u>\$ 46,365</u>

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### 12. 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 \$37,899 (2011 - \$37,000).

## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

### 13. Ontario Student Trust Funds

Externally restricted endowments of \$37,899 (2011 - \$37,000) 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)

	<u>2012</u>	<u>2011</u>
OSOTF endowment balance, beginning of year	\$ 6,963	\$ 6,963
Unrealized investment income	-	-
<b>OSOTF endowment balance, end of year</b>	<b>\$ 6,963</b>	<b>\$ 6,963</b>
Expendable funds, beginning of year	\$ 1,372	\$ 724
Unrealized investment income	521	765
Bursaries awarded	(128)	(117)
<b>Expendable funds, end of year</b>	<b>\$ 1,765</b>	<b>\$ 1,372</b>
<b>Number of bursaries awarded</b>	<b>392</b>	<b>367</b>
<b>Market Value of Endowment</b>	<b>\$ 8,728</b>	<b>\$ 8,335</b>

#### OSOTF (Phase II)

	<u>2012</u>	<u>2011</u>
OSOTF endowment balance, beginning of year	\$ 1,625	\$ 1,625
Unrealized investment income	-	-
<b>OSOTF endowment balance, end of year</b>	<b>\$ 1,625</b>	<b>\$ 1,625</b>
Expendable funds (deficit), beginning of year	\$ 74	\$ (100)
Unrealized investment income	33	203
Bursaries awarded	(30)	(29)
<b>Expendable funds, end of year</b>	<b>\$ 77</b>	<b>\$ 74</b>
<b>Number of bursaries awarded</b>	<b>36</b>	<b>36</b>
<b>Market Value of Endowment</b>	<b>\$ 1,702</b>	<b>\$ 1,699</b>

## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

### 13. Ontario Student Trust Funds (cont'd)

#### 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, 2011 to March 31, 2012 (April 1, 2010 to March 31, 2011).

	<u>2012</u>	<u>2011</u>
Donations eligible for matching	\$ 407	\$ 430
Donations not yet eligible for matching	<u>141</u>	<u>256</u>
<b>Total cash donations</b>	<b><u>\$ 548</u></b>	<b><u>\$ 686</u></b>

The following is the schedule of changes in endowment fund balance for the period April 1, 2011 to March 31, 2012 (April 1, 2010 to March 31, 2011).

	<u>2012</u>	<u>2011</u>
Endowment balance, beginning of year	\$ 7,590	\$ 6,210
Cash donations received	548	686
Matching funds received / receivable	407	694
Unrealized investment income	<u>-</u>	<u>-</u>
<b>Endowment balance, end of year</b>	<b><u>\$ 8,545</u></b>	<b><u>\$ 7,590</u></b>

The following is the schedule of changes in expendable funds available for awards for the period April 1, 2011 to March 31, 2012 (April 1, 2010 to March 31, 2011).

	<u>2012</u>	<u>2011</u>
Expendable funds (deficit), beginning of year	\$ 9	\$ (331)
Unrealized investment income	388	455
Bursaries awarded	<u>(134)</u>	<u>(115)</u>
<b>Expendable funds, end of year</b>	<b><u>\$ 263</u></b>	<b><u>\$ 9</u></b>
<b>Number of bursaries awarded</b>	<b><u>124</u></b>	<b><u>115</u></b>
<b>Market Value of Endowment</b>	<b><u>\$ 8,808</u></b>	<b><u>\$ 7,599</u></b>

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## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

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### 14. 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 \$2,500 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.

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### 15. Contingent Liabilities

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, 2012, 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.

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### 16. Commitments

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

<u>Date</u>	<u>Amount</u>
2013	\$ 602
2014	326
2015	235
2016	230
2017	228

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## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

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### 17. Statement of Cash Flows

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

	2012	2011
Accounts receivable	\$ 2,409	\$ (1,710)
Inventories and prepaid expenses	121	25
Accounts payable and accrued charges	(1,661)	(2,725)
Deferred revenue	1,864	(3,342)
	\$ 2,733	\$ (7,752)

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### 18. Related Party Transactions

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

	2012	2011
Recoveries and charges for goods and services	\$ 1,583	\$ 1,387

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.

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### 19. Capital Management

In managing capital, the University focuses on liquid resources available for operations. The University's objective is to have sufficient liquid resources to continue operating even if adverse financial events were to occur. The University's mandate is to prepare an annual balanced budget and the levels of liquid resources are considered in the annual budget process. Cash flows are monitored on a daily basis and cash forecasts are produced monthly. The University attempts to minimize the use of its line of credit of \$3,000 (Note 9) which can be used in the event that sufficient cash flow is not available to cover operating and capital expenditures. The University manages its capital expenditures in accordance with its Capital Debt Policy. As at April 30, 2012, the University has met its objective of having sufficient liquid resources to meet its current obligations.

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## Lakehead University Notes to Financial Statements

April 30, 2012 (in thousands of dollars)

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### 20. Financial Instruments

The University's financial instruments consist of cash, accounts receivable, long-term investments, accounts payable and accrued charges, and 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.

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 4.2% and 8.5%. 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.

Interest rate, foreign currency and market volatility risk arise principally 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.

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### 21. First Generation Project

Included in the University's Statement of Revenues and Expenses for the period April 1, 2011 to March 31, 2012 are grants for restricted purposes in the amount of \$690,546 and expenditures in the amount of \$690,546 for the purpose of carrying out the First Generation Project. The objective of this project is to increase retention rates and postsecondary education graduation rates of First Nation students.

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**Lakehead University  
Notes to Financial Statements**

**April 30, 2012 (in thousands of dollars)**

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**22. Comparative Figures**

The comparative figures presented in the financial statements have been reclassified to conform to current year presentation.