

Consolidated Financial Statements of

# **CARLETON UNIVERSITY**

Year ended April 30, 2016

# CARLETON UNIVERSITY

## Consolidated Financial Statements

Year ended April 30, 2016

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## INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Carleton University

We have audited the accompanying consolidated financial statements of Carleton University, which comprise the consolidated statement of financial position as at April 30, 2016, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes and schedule, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 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 consolidated 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 consolidated financial statements and schedule present fairly, in all material respects, the financial position of Carleton University as at April 30, 2016, and its consolidated results of operations, consolidated changes in net assets and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

September 27, 2016

Ottawa, Canada

# CARLETON UNIVERSITY

## Consolidated Statement of Financial Position

April 30, 2016, with comparative information for 2015  
(in thousands of dollars)

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 333,416	\$ 361,739
Marketable securities	76,194	–
Accounts receivable (note 3)	24,174	26,570
Prepaid expenses	5,045	5,688
Current portion of net investment in lease (note 5)	674	631
	<u>439,503</u>	<u>394,628</u>
Investments (note 4)	224,282	208,524
Net investment in lease (note 5)	9,859	10,532
Tangible capital and intangible assets (notes 6 and 8)	595,840	597,657
	<u>\$ 1,269,484</u>	<u>\$ 1,211,341</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 35,629	\$ 34,922
Deferred revenue (note 9)	68,259	55,276
Accrued leave	11,160	10,335
Current portion of long-term debt (note 10)	3,424	3,273
	<u>118,472</u>	<u>103,806</u>
Long-term debt (note 10)	74,698	78,177
Deferred capital contributions (note 11)	175,370	183,024
Employee future benefits liability (note 12(a))	96,554	126,072
Net assets:		
Unrestricted	(90,265)	(124,455)
Internally restricted (note 13)	358,673	335,478
Investment in tangible capital and intangible assets (note 14)	304,834	291,642
Endowments (note 15)	231,148	217,597
	<u>804,390</u>	<u>720,262</u>
Contingent liabilities and commitments (notes 16 and 17)	<u>\$ 1,269,484</u>	<u>\$ 1,211,341</u>

See accompanying notes to consolidated financial statements.

# CARLETON UNIVERSITY

## Consolidated Statement of Operations

Year ended April 30, 2016, with comparative information for 2015  
(in thousands of dollars)

	2016	2015
Revenue:		
Government grants for general operations	\$ 168,368	\$ 166,359
Fees	283,972	260,923
Research grants and contracts	48,930	47,195
Sales and services	24,324	23,641
Donations	9,525	9,687
Investment income	13,179	14,246
Amortization of deferred capital contributions (note 11)	12,597	12,938
Other revenue (note 18)	17,093	20,416
	<u>577,988</u>	<u>555,405</u>
Expenses:		
Salaries	264,812	254,531
Benefits	31,864	29,108
Employee future benefits (note 12(b))	21,735	21,505
Supplies	9,707	8,333
Minor equipment and furnishings	9,287	8,120
Externally contracted services and fees	20,366	19,430
Scholarships and bursaries	39,551	38,748
Utilities	12,975	13,113
Travel	10,757	10,619
Renovations	14,215	12,207
Interest	3,909	3,956
Amortization of tangible capital and intangible assets	32,746	31,396
Other expenses (note 19)	32,517	32,066
	<u>504,441</u>	<u>483,132</u>
Excess of revenue over expenses	<u>\$ 73,547</u>	<u>\$ 72,273</u>

See accompanying notes to consolidated financial statements.

# CARLETON UNIVERSITY

## Consolidated Statement of Changes in Net Assets

Year ended April 30, 2016, with comparative information for 2015  
(in thousands of dollars)

	Unrestricted	Internally restricted (note 13)	Investment in tangible capital and intangible assets (note 14)	Endow- ments (note 15)	2016	2015
Net assets, beginning of year	\$ (124,455)	\$ 335,478	\$ 291,642	\$ 217,597	\$ 720,262	\$ 656,625
Excess of revenue over expenses	73,547	—	—	—	73,547	72,273
Employee future benefit re-measurements and other items (note 12(c))	(3,095)	—	—	—	(3,095)	(32,541)
Internally imposed restrictions	(23,125)	23,195	—	(70)	—	—
Net change in investment in tangible capital and intangible assets (note 14)	(13,137)	—	13,137	—	—	—
Contributions to art collection (note 8)	—	—	55	—	55	60
Endowment contributions and investment income (note 15)	—	—	—	5,416	5,416	10,189
Unrealized gains on endowment investments (note 15)	—	—	—	8,205	8,205	13,656
Net assets, end of year	\$ (90,265)	\$ 358,673	\$ 304,834	\$ 231,148	\$ 804,390	\$ 720,262

# CARLETON UNIVERSITY

Consolidated Statement of Changes in Net Assets (continued)

Year ended April 30, 2016, with comparative information for 2015  
(in thousands of dollars)

	Unrestricted	Internally restricted	Investment in tangible capital and intangible assets	Endow- ments	2016	2015
		(note 13)	(note 14)	(note 15)		
Details of year-end balance:						
Operating (note 13(a))	\$ 498	\$ -	\$ -	\$ -	\$ 498	\$ 498
Plant	3,920	-	-	-	3,920	(516)
Ancillary	1,871	-	-	-	1,871	1,635
Provision for employee future benefits	(96,554)	-	-	-	(96,554)	(126,072)
Appropriations	-	327,461	-	-	327,461	307,511
Research	-	24,384	-	-	24,384	21,781
Entrepreneurial initiatives	-	4,769	-	-	4,769	4,077
Scholarships	-	16	-	-	16	18
Professional development	-	2,043	-	-	2,043	2,091
Tangible capital and intangible assets	-	-	304,834	-	304,834	291,642
Endowment	-	-	-	231,148	231,148	217,597
	\$ (90,265)	\$ 358,673	\$ 304,834	\$ 231,148	\$ 804,390	\$ 720,262

See accompanying notes to consolidated financial statements.



# CARLETON UNIVERSITY

## Consolidated Statement of Cash Flows

Year ended April 30, 2016, with comparative information for 2015  
(in thousands of dollars)

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 73,547	\$ 72,273
Add (deduct) non-cash items:		
Amortization of tangible capital and intangible assets	32,746	31,396
Amortization of deferred capital contributions	(12,597)	(12,938)
Net change in other non-cash operating working capital (note 20)	17,554	5,374
Changes relating to employee future benefits:		
Employee future benefits re-measurements and other items	(3,095)	(32,541)
Employee future benefits liability	(29,518)	30,717
Net cash provided by operating activities	78,637	94,281
Financing activities:		
Decrease in mortgages payable (note 10(a))	(209)	(197)
Decrease in loans payable (note 10(a))	(3,119)	(2,892)
Capital contributions received (note 11)	4,943	4,216
Contributions to art collection (note 8)	55	60
Endowment contributions and investment income	5,416	10,189
Net cash used in financing activities	7,086	11,376
Investing activities:		
Net withdrawals (purchases) of investments	(83,747)	726
Decrease in net investment in lease	630	591
Tangible capital and intangible assets additions	(30,929)	(34,360)
Net cash used in investing activities	(114,046)	(33,043)
Increase (decrease) in cash and cash equivalents	(28,323)	72,614
Cash and cash equivalents, beginning of year	361,739	289,125
Cash and cash equivalents, end of year	\$ 333,416	\$ 361,739
Consisting of:		
Cash on deposit	\$ 2,317	\$ 1,152
Outstanding cheques	(2,830)	(2,723)
Money market fund	88,234	363,310
Short term bond and mortgage fund	245,695	-
	\$ 333,416	\$ 361,739
Interest paid	\$ 3,909	\$ 3,956

See accompanying notes to consolidated financial statements.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 1. Description:

Carleton University was incorporated as a university in 1943 under the laws of the Province of Ontario. The University is dedicated to providing post-secondary and graduate education and to conducting research.

The University is a registered charity and therefore is, under section 149(1)(f) of the Income Tax Act (Canada), exempt from payment of income tax.

The consolidated financial statements reflect the assets, liabilities, net assets, revenue, expenses and other transactions of all of the operations and organizations controlled by the University. Accordingly, these consolidated financial statements include the academic, administrative and other operating expenditures funded by fees, grants and other general revenue; restricted purpose endowment funds and ancillary operations. These consolidated statements also include the assets, liabilities, deficit and operations of the University's subsidiary and joint ventures as follows:

Sudbury Neutrino Observatory Institute is a joint venture of the University and three other Canadian universities, which performs research in sub-atomic physics. The University's proportionate share of the Institute's operations has been included in these consolidated financial statements.

TRIUMF is a joint venture of the University and 10 other Canadian universities, which performs research in particle and nuclear physics. The University's proportionate share of TRIUMF's operations has been included in these consolidated financial statements.

Carleton University Foundation (U.S.) was incorporated without share capital on February 12, 1996 under the District of Columbia Non-Profit Corporation Act. The Foundation is not included in these consolidated financial statements. The objects of the Foundation, as established by the Internal Revenue Code of 1986, are to accept, receive, manage and distribute money and other property to support education and research at the University. The Foundation had minimal activity in the year.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 2. Summary of significant accounting policies:

The consolidated financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations, and include the following significant accounting policies.

### (a) Basis of presentation:

The University uses the deferral method of accounting for contributions for not-for-profit organizations.

These consolidated financial statements do not reflect the assets, liabilities and results of operations of the various student organizations at the University, or the Carleton University Foundation (U.S.).

### (b) Cash and cash equivalents:

Cash and cash equivalents include deposits with financial institutions that can be withdrawn without prior notice or penalty and short-term deposits with an original maturity of ninety days or less.

### (c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The University has elected to carry its marketable securities and investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the University determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the University expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 2. Summary of significant accounting policies (continued):

### (c) Financial instruments (continued):

The University is party to certain derivative financial instruments, principally interest rate swaps.

The University accounts for interest rate swaps as hedges. The University uses the accrual basis of accounting for hedges. At the inception of the hedging relationship, the University designated that hedge accounting would be applied and formally documented the hedging relationship between the swap and the loan. At inception and throughout the loan period, the critical terms of the swap and the loan are the same.

Gains or losses realized on settlement are deferred until the settlement of the swap. Payments and receipts under the interest rate swaps are recognized as adjustments to interest expense on long-term debt. The fair value of the swap is not recorded on the consolidated statement of financial position, but is disclosed in note 10(c).

### (d) Tangible capital and intangible assets:

Purchased tangible capital and intangible assets are recorded at cost. Donated tangible capital and intangible assets are recorded at an appraised value established by independent appraisal in the period received by the University. Land acquired prior to May 1, 2011 are recorded at deemed cost, being its fair value at May 1, 2011, the transition date to Canadian accounting standards for not-for-profit organizations. All subsequent purchases are recorded at cost.

Amortization is provided on a straight-line basis over the estimated useful lives as follows:

Asset	Useful life
Tangible capital assets:	
Buildings	40 years
Building improvements	20 years
Equipment and furniture	10 years
Computer equipment	4 years
Automobiles	5 years
Library holdings	10 years
Intangible assets:	
Software	4 years

Construction costs are capitalized as work progresses and amortization commences in the period that the asset is available for use.

When a tangible capital or intangible asset no longer contributes to the University's ability to provide services, its carrying amount is written down to its residual value.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 2. Summary of significant accounting policies (continued):

(e) Deferred capital contributions:

Contributions received for tangible capital and intangible assets are deferred in the accounts and amortized over the same term and on the same basis as the related capital asset.

(f) Art collection:

Purchases of items to be included in the collection are expensed. Donations of items to be included in the collection are recorded as direct increases in net assets at an appraised value established by independent appraisal in the period received by the University.

(g) Recognition of revenue and other contributions:

(i) 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.

(ii) Contributions and investment income externally restricted for purposes other than endowment are deferred and recognized as revenue in the period in which the related expenses are recognized.

(iii) Endowment contributions and restricted investment revenue earned for re-endowment are recognized as direct increases in net assets in the period in which they are received or earned.

(iv) Student fees are recognized as revenue in the period that the courses and seminars are held. Sales revenue is recognized at point of sale.

(v) Contract revenue is recognized as the service is provided.

(h) Internally imposed restrictions on net assets:

The University internally restricts the use of portions of its externally unrestricted net assets for specific future uses. When incurred, expenses are charged to operations, and the balance of internally restricted assets is reduced accordingly.

(i) Contributed services:

Volunteers, as well as members of the staff and faculty of the University, contribute an indeterminate number of hours per year to assist the University in carrying out its service delivery activities. Because of the difficulty of determining their fair value, contributed services are not recognized in these consolidated financial statements.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 2. Summary of significant accounting policies (continued):

### (j) Employee benefit plans:

The University has a defined contribution pension plan, which has a defined benefit component that provides a minimum level of pension benefits. The University also provides other employee future benefits, such as medical, dental and life insurance to eligible active and retired employees.

The University accrues its obligations and related costs for funded employee future benefit plans as the employees render the service necessary to earn the pension and other retirement benefits, based on the latest going concern funding valuation. The actuarial determination of the accrued benefit obligations for pensions and other employee future benefits uses the projected method on service (which incorporates management's assumptions used for funding purposes, other cost escalation, retirement ages of employees and other actuarial factors). The actuarial valuation is performed at least every three years. In the years between valuations, pension plan results are prepared based on extrapolations of the latest available funding valuation results. The University has elected to accrue its obligations and related costs for unfunded plans on a basis consistent with funded plans. Assets of the employee future benefit plans are valued using fair values at the date of the consolidated financial statements.

The benefit plan expense for the year consists of the current service and finance costs. Re-measurements and other items are recorded directly on the consolidated statement of changes in net assets.

### (k) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the consolidated financial statements in the period in which they become known.

Significant management estimates include assumptions used in determining the employee future benefits liability.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

### 3. Accounts receivable:

	2016	2015
Research	\$ 5,107	\$ 7,219
Student	10,883	10,570
Government	1,344	1,239
Other	8,365	9,171
	<u>25,699</u>	<u>28,199</u>
Less allowance for doubtful accounts	(1,525)	(1,629)
	<u>\$ 24,174</u>	<u>\$ 26,570</u>

### 4. Investments:

#### (a) Carrying value, cost and fair values:

The cost and fair value of the investments are as follows:

	2016		2015	
	Fair value	Cost	Fair value	Cost
Marketable securities	\$ 224,282	\$ 211,467	\$ 208,524	\$ 203,697

The carrying value of marketable securities is fair value.

#### (b) Purpose:

Investments held by the University include funds, which are permanently endowed or restricted in use as follows:

	2016	2015
	Carrying value	Carrying value
Endowments	\$ 221,689	\$ 205,839
Parker loans for students	1,123	1,167
National Wildlife Research Centre Capital renewal	690	690
Sprott Student Investment Fund	780	828
	<u>\$ 224,282</u>	<u>\$ 208,524</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2015

(Tabular amounts in thousands of dollars)

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## 5. Net investment in lease:

Carleton University has entered into an agreement with Environment Canada under which Carleton University built the National Wildlife Research Centre (NWRC) on its property and leased the building to Environment Canada. The lease term is for 99 years starting May 1, 2002.

Carleton University's net investment in the direct financing lease consists of:

	<u>2016</u>	<u>2015</u>
Minimum lease payments receivable	\$ 14,300	\$ 15,600
Unearned financing revenue	(3,767)	(4,437)
	<u>10,533</u>	<u>11,163</u>
Less current portion of net investment in lease	(674)	(631)
Net investment in lease	<u>\$ 9,859</u>	<u>\$ 10,532</u>

At April 30, 2016, future minimum lease payments receivable under the direct financing lease are as follows:

2016-17	\$ 1,300
2017-18	1,300
2018-19	1,300
2019-20	1,300
2020-21	1,300
Thereafter	7,800
	<u>\$ 14,300</u>



# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

## 6. Tangible capital and intangible assets:

Tangible capital and intangible assets consist of the following:

	2016		2015	
	Cost	Accumulated amortization	Net book value	Net book value
Tangible capital assets:				
Land	\$ 89,000	\$ –	\$ 89,000	\$ 89,000
Buildings	511,756	190,776	320,980	322,069
Building improvements	140,112	32,145	107,967	104,925
Equipment and furniture	104,167	62,833	41,334	43,973
Computer equipment	7,764	5,191	2,573	2,721
Automobiles	216	182	34	69
Art collection (note 8)	24,434	–	24,434	24,379
Library holdings	25,469	16,399	9,070	9,906
Intangible assets:				
Software	1,375	927	448	615
	<u>\$ 904,293</u>	<u>\$ 308,453</u>	<u>\$ 595,840</u>	<u>\$ 597,657</u>

Cost and accumulated amortization at April 30, 2015 amounted to \$888,237,000 and \$290,580,000, respectively. In the year, \$14,873,000 of cost and accumulated amortization was removed from the respective balances for assets that had been fully amortized and no longer in use.

Included in buildings is \$10,642,000 (2015 - \$7,152,000) of construction in progress. As construction in progress is not yet in use, these assets are not amortized.

## 7. Accounts payable and accrued liabilities:

As at year end, the University had \$3,919,000 (2015 - \$3,786,000) payable for government remittances, including harmonized sales tax/goods and services tax and payroll remittances.

## 8. Art collection:

The University has an art collection comprising approximately 29,600 pieces of art. In 2016, there were additions of donated pieces of art at an appraised value of \$55,000 (2015 - \$60,000).

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 9. Deferred revenue:

Deferred revenue includes deposits, prepayments on contracts and deferred contributions received by the University. Deferred contributions are unspent externally restricted grants and donations received in the current and prior years for expenditures in a future year.

Details of the year-end balances are as follows:

	2016	2015
Research	\$ 25,193	\$ 23,594
Grants	6,697	4,550
Student aid	4,319	4,093
Student fees	7,769	501
Donations	4,164	4,002
Other	20,117	18,536
	<u>\$ 68,259</u>	<u>\$ 55,276</u>

Research includes the unexpended portion of restricted research grants and prepayments on research contracts.

Grants are unexpended restricted grants to be spent on specific items in future years.

Student aid is the unexpended donations and interest to be spent on student aid and other special purposes.

Student fees are tuition and related amounts received for courses beginning after April 30.

Donations are the unexpended portion of donor restricted gifts to be spent on specific items in future years.

Other deferred revenue includes deposits and prepayments on contracts.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

## 10. Long-term debt:

As at April 30, 2016, the University has principal outstanding of \$78,122,000 (2015 - \$81,450,000) under long-term mortgages and loans.

(a) Details of long-term debt:

	Maturity	Interest rate	Annual payment	2016 Principal outstanding	2015 Principal outstanding
Mortgages payable:					
Grenville and Russell Residences	2017	5.375%	\$ 79	\$ 39	\$ 113
Glengarry Residence	2020	6.375%	176	574	709
				613	822
Loans payable:					
Leeds Residence	2027	6.724%	1,607	11,951	12,724
Prescott Residence	2029	6.299%	1,520	13,066	13,740
Frontenac Residence	2039	4.660%	869	13,080	13,345
Lennox & Addington Residence	2042	2.930%	1,582	28,944	29,666
NWRC loan	2028	6.460%	1,386	10,468	11,153
				77,509	80,628
				78,122	81,450
Less current portion of long-term debt				3,424	3,273
				\$ 74,698	\$ 78,177

Annual payment amounts include principal and interest.

(b) Long-term debt repayments:

Principal repayments under the mortgage and loan agreements are as follows:

2016-17	\$ 3,424
2017-18	3,584
2018-19	3,798
2019-20	3,966
2020-21	4,074
Thereafter	59,276
	<u>\$ 78,122</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 10. Long-term debt (continued):

### (c) Interest rate swaps:

The University has entered into interest rate swap agreements to manage the volatility of interest rates. The University converted a net notional \$101,758,000 of floating rate debt for fixed rate debt ranging from 2.930% to 6.724%. The related derivative agreements are in place until the maturity of the debts in 2023, 2018, 2022 and 2028.

These interest rate swaps qualify, and have been designated by the University, as cash flow hedging items against the floating rate long-term debt. The University has assessed the hedging relationship as effective. The fair value of the interest rate swaps at April 30, 2015 is estimated to be \$16,879,000 (2015 - \$15,688,000) which represents the amount the University would have to pay if the swap agreements were terminated on that date. The University is current with respect to the required payments under the loan and swap agreements.

## 11. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of tangible capital and intangible assets. The amortization of the deferred capital contributions is recorded as revenue in the consolidated statement of operations. The changes in the deferred capital contributions balance are as follows:

	2016	2015
Balance, beginning of year	\$ 183,024	\$ 191,746
Less amortization of deferred capital contributions	(12,597)	(12,938)
Add capital contributions received:		
Grants for equipment and buildings	4,505	3,907
Donated assets	438	309
	4,943	4,216
Balance, end of year	\$ 175,370	\$ 183,024

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

## 12. Employee future benefits:

(a) Employee future benefits liability:

	<u>2016</u>	<u>2015</u>
Post-employment and post-retirement benefit plans	\$ 110,531	\$ 109,186
Pension plan liability (asset)	(13,977)	16,886
	<u>\$ 96,554</u>	<u>\$ 126,072</u>

(b) Employee future benefits expense:

	<u>Current service cost</u>	<u>Carrying cost</u>	<u>2016</u>	<u>2015</u>
Post-employment and post-retirement benefit plans	\$ 4,168	\$ 6,879	\$ 11,047	\$ 11,129
Pension plan	9,624	1,064	10,688	10,376
	<u>\$ 13,792</u>	<u>\$ 7,943</u>	<u>\$ 21,735</u>	<u>\$ 21,505</u>

During the year, the University made cash contributions included in the total above of \$3,765,000 (2015 - \$3,808,000) and \$50,583,000 (2015 - \$19,521,000), respectively.

(c) Re-measurements and other items:

	<u>2016</u>	<u>2015</u>
Post-employment and post-retirement benefit plans	\$ (5,937)	\$ (7,376)
Pension plan	9,032	39,917
	<u>\$ 3,095</u>	<u>\$ 32,541</u>

(d) Post-employment and post-retirement benefit plans:

The University has defined post-retirement benefit plans (other than pensions) and defined post-employment benefit plans covering substantially all of its employees. These plans provide health, dental and severance benefits to eligible employees. The most recent actuarial valuation of employee future benefits was completed as at April 30, 2015.

Similar to many non-pension benefit plans in Canada, the University's plans are not pre-funded, resulting in plan deficits equal to the accrued benefit obligation.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 12. Employee future benefits (continued):

### (e) Pension plan and pension plan liability:

The University contributes to the Carleton University Retirement Plan which is a defined contribution pension plan with a defined benefit minimum guarantee, covering substantially all full-time employees of the University.

Upon retirement, plan members will receive payment out of their money purchase plan, which is supplemented from a minimum guarantee fund if the money purchase plan does not provide the minimum pension benefit.

An actuarial valuation of the Plan as of July 1, 2013 determined that the Plan had a \$87,343,000 unfunded going-concern liability and an unfunded \$159,168,000 solvency liability as at July 1, 2013. The going-concern liability is to be repaid over a period not to exceed 15 years as required under the Pension Benefits Act of Ontario. Generally the solvency liability is to be repaid over a period not to exceed 5 years. However, there have been a number of changes to the Ontario Pension Benefits Act and Regulations that have an impact on the funding of the Plan. Specifically, for approved plans, solvency payments may be deferred for the four years following July 1, 2013. Instead, an annual interest charge on the solvency deficiency must be contributed to the Plan. Carleton University applied for and was determined to be an approved plan. As such, the annual special payment required towards the combined going concern and solvency deficiencies is \$9,658,000. The next actuarial valuation for funding purposes is underway; that valuation will determine the minimum funding requirement commencing 12 months from the date of filing.

An actuarial valuation roll-forward for funding purposes was performed as at April 30, 2016, the measurement date for financial reporting purposes.

### (i) Accrued benefit liability:

The reconciliation of the funded status of the Plan to the amounts recorded in the consolidated financial statements is as follows:

	2016	2015
Accrued benefit obligation	\$ 1,076,259	\$ 1,101,199
Less: fair value of Plan assets	1,090,236	1,084,313
Accrued benefit liability (asset)	\$ (13,977)	\$ 16,886

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 13. Net assets:

### (a) Capital management:

The University's overall objective for its capital is to fund tangible capital and intangible assets, future projects and ongoing operations. The University manages its capital by appropriating amounts to internally restricted net assets for anticipated future projects, contingencies and other capital requirements. These allocations are disclosed in note 13(b).

The University also considers its endowments, as disclosed in notes 4(b) and 15, as part of its capital. The University's objective with regards to endowments is to grow the endowment principal such that it preserves the original capital investment and provides the prescribed distribution rate described in note 13(b).

Under the direction of its Board of Governors, the University is required to present a balanced budget each year.

The University is not subject to any other externally imposed capital requirements and its approach to capital management remains unchanged from the prior year.

### (b) Internally restricted net assets:

Internally restricted net assets are funds restricted by the University for future commitments and projects to improve and invest in the University's campus facilities, information systems, equipment, programs and student aid.

Internally restricted net assets have been designated for the following purposes:

	2016	2015
General appropriations	\$ 83,375	\$ 70,811
Specific reserves:		
Capital reserve	123,987	120,087
Pension liability reserve	91,741	90,841
Research initiatives	24,384	21,781
Ancillary reserve fund	19,768	18,670
Entrepreneurial initiatives	4,769	4,078
Student aid funds	243	139
Other projects and initiatives	10,406	9,071
	<u>\$ 358,673</u>	<u>\$ 335,478</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

## 14. Investment in tangible capital and intangible assets:

The investment in tangible capital and intangible assets consists of the following:

	2016	2015
Tangible capital and intangible assets	\$ 595,840	\$ 597,657
Less amounts financed by:		
Deferred capital contributions	(175,370)	(183,024)
Mortgages payable	(613)	(822)
Loans payable (Leeds, Prescott, Frontenac Lennox & Addington residences)	(67,041)	(69,475)
Other short-term financing	(47,982)	(52,694)
	<u>\$ 304,834</u>	<u>\$ 291,642</u>

The net change in investment in tangible capital and intangible assets is calculated as follows:

	2016	2015
Tangible capital and intangible assets additions:		
Total additions	\$ 30,929	\$ 34,360
Less:		
Contributions to art collection	(55)	(60)
Donated assets	(438)	(309)
Additions financed with grants	(4,505)	(3,907)
	<u>25,931</u>	<u>30,084</u>
Financing:		
Mortgages payable	209	197
Loans payable	2,434	2,302
Other short-term financing	4,712	4,050
	<u>7,355</u>	<u>6,549</u>
Amortization of deferred capital contributions	12,597	12,938
Amortization of tangible capital and intangible assets	(32,746)	(31,396)
	<u>(20,149)</u>	<u>(18,458)</u>
Net change in investment in tangible capital and intangible assets	<u>\$ 13,137</u>	<u>\$ 18,175</u>



# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

## 15. Endowments:

Contributions restricted for endowment consist of monies received primarily as benefactions and which either the donor or the Board of Governors has designated as endowment. The annual income earned from funds designated as endowment by the donor may be expended only for the purpose designated. If no purpose is designated by the donor then the income is expended at the direction of the Board. Monies designated as endowment by the Board are unrestricted and the principal and annual income may be expended at its direction.

Investment income earned on endowed investments is distributed at a rate of 4% (2015 - 4.0%) of the moving average market value over four years of the endowment fund investments. Actual investment income earned in excess of the distributed amount is accumulated in the endowment fund for future distribution and to maintain capital.

	<u>Externally endowed</u>	<u>Board designated</u>	<u>Total 2016</u>	<u>Total 2015</u>
Donations and bequests	\$ 10,131	\$ –	\$ 10,131	\$ 17,228
Internal contributions	2,900	–	2,900	–
Realized losses on sale of investments	(1,968)	(29)	(1,997)	(3,808)
Investment income	2,803	76	2,879	4,528
Income distributions	(8,450)	(117)	(8,567)	(7,849)
	<u>5,416</u>	<u>(70)</u>	<u>5,346</u>	<u>10,099</u>
Unrealized gains on investments	8,117	88	8,205	13,656
Net change in year	<u>13,533</u>	<u>18</u>	<u>13,551</u>	<u>23,755</u>
Fund balance, beginning of year	215,885	1,712	217,597	193,842
Fund balance, end of year	<u>\$ 229,418</u>	<u>\$ 1,730</u>	<u>\$ 231,148</u>	<u>\$ 217,597</u>

The endowment balance consists of:

	<u>2016</u>	<u>2015</u>
Cumulative endowment principal	\$ 147,025	\$ 133,994
Cumulative undistributed investment income	71,074	78,759
Cumulative unrealized gains (losses)	13,049	4,844
Endowment balance on endowment investments	<u>\$ 231,148</u>	<u>\$ 217,597</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 16. Contingent liabilities and commitments:

At April 30, 2016, commitments for future acquisitions, construction and renovations amounted to approximately \$51,782,000 (2015 - \$15,888,000).

Letters of credit totaling \$16,090,000 (2015 - \$10,702,000) were issued on behalf of the University at year-end.

## 17. Canadian Universities Reciprocal Insurance Exchange:

The University is a member of the Canadian Universities Reciprocal Insurance Exchange (CURIE), a self-insurance co-operative comprised of Canadian universities and colleges. CURIE insures property damage, general liability and errors and omissions risks. If premiums collected are insufficient to cover expenses and claims, the University may be requested to pay additional amounts.

## 18. Other revenue:

	2016		2015
Commissions and sponsorships	\$ 8,747	\$	8,698
Medical insurance recoveries	1,690		1,675
Salary and benefit recoveries	903		1,115
Miscellaneous	5,753		8,928
	<u>\$ 17,093</u>	<u>\$</u>	<u>20,416</u>

## 19. Other expenses:

	2016		2015
Minor repair and upkeep	\$ 4,547	\$	4,095
Equipment rental	4,281		4,688
Advertising and promotion	3,762		3,994
Research support services	4,121		4,288
Licensing and membership fees	3,486		3,395
Property taxes and insurance	3,018		3,050
Banking and bad debts	1,985		2,050
Communication	1,691		1,911
Miscellaneous	5,626		4,595
	<u>\$ 32,517</u>	<u>\$</u>	<u>32,066</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

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## 20. Net change in non-cash operating working capital:

	2016	2015
Decrease (increase) in accounts receivable	\$ 2,396	\$ (3,267)
Decrease in prepaid expenses	643	943
Increase in accounts payable and accrued liabilities	707	4,534
Increase in deferred revenue	12,983	1,857
Increase in accrued leave	825	1,307
	<u>\$ 17,554</u>	<u>\$ 5,374</u>

## 21. Financial risks:

### (a) Credit risk:

The risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The University's SIPG, which is reviewed annually, defines permitted investments and provides guidelines and restrictions on acceptable investment categories which minimize credit risk.

The maximum credit exposure of the University is represented by the fair value of the investments and accounts receivable as presented in the consolidated statement of financial position.

Credit risk concentration exists where a significant portion of the portfolio is invested in securities which have similar characteristics or similar variations relating to economic, political or other conditions. The University monitors the financial health of its investments on an on-going basis with the assistance of its Finance Committee and its investment advisors.

The University assesses on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. In 2016, \$1,525,000 (2015 - \$1,629,000) is recorded as allowance for doubtful accounts.

### (b) Interest rate risk:

The University is exposed to interest rate risk with respect to its interest-bearing investments, long-term debt and interest rate swaps as disclosed in the consolidated statement of cash flows and notes 4 and 10.

### (c) Currency risk:

The University believes that it is not exposed to significant foreign currency risks arising from its financial instruments.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2016

(Tabular amounts in thousands of dollars)

## 21. Financial risks (continued):

(d) Liquidity risk:

Liquidity risk is the risk that the University will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The University manages its liquidity risk by monitoring its operating requirements. The University prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There has been no change to the risk exposures from 2015.

## 22. Ontario Student Opportunity Trust Fund (Phase I and Phase II) and Ontario Trust for Student Support

The restricted endowment fund includes funds granted by the Government of Ontario for Phase I and Phase II of the Ontario Student Opportunity Trust Fund (OSOTF) and the Ontario Trust for Student Support (OTSS), as these programs provide for the matching by the Province of Ontario of the endowment contributions received by the University. The investment revenue earned on those funds must be used to provide financial aid to Ontario Students.

As per Ministry of Training, Colleges and Universities policies, the transactions related to the Ontario Student Opportunity Trust Fund and to the Ontario Trust for Student Support must be presented in these financial statements, for the year ended March 31, 2016.

(In thousands of dollars)	Ontario Student Opportunity Trust Funds		Ontario Trust for Student Support	Total	Total
	Phase I	Phase II		2016	2015
Endowment fund					
Fund balance, beginning of year	\$ 16,916	\$ 4,775	\$ 17,018	\$ 38,709	\$ 38,709

(In thousands of dollars)	Ontario Student Opportunity Trust Funds		Ontario Trust for Student Support	Total	Total
	Phase I	Phase II		2016	2015
Schedule of changes in expendable funds available for awards					
Balance, beginning of year	\$ (49)	\$ 550	\$ 395	\$ 896	\$ 912
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	1,323	247	733	2,303	2,331
Bursaries awarded	(1,200)	(149)	(789)	(2,138)	(2,347)
Balance, end of year	\$ 74	\$ 648	\$ 339	\$ 1,061	\$ 896
Number of recipients	958	119	507	1,584	1,789
Endowment total based on book value	\$ 16,990	\$ 5,423	\$ 17,357	\$ 39,770	\$ 39,605

# CARLETON UNIVERSITY

## Schedule - Consolidated Schedule of Changes in Ancillary Net Assets

Year ended April 30, 2016  
(in thousands of dollars)

Unrestricted	Athletics	Bookstore	The Print Shop	Health Services
Revenue	\$ 13,774	\$ 680	\$ 811	\$ 3,446
Expenses	13,230	886	912	3,566
Excess (deficiency) of revenue over expenses	544	(206)	(101)	(120)
Net assets, beginning of year	-	-	-	-
Transfer from (to) non-ancillary unrestricted net assets	1,146	-	(26)	255
Appropriated to internally restricted net assets	(1,690)	206	127	(135)
Unrestricted net assets, end of year	\$ -	\$ -	\$ -	\$ -
Internally restricted net assets				
Net assets, beginning of year	\$ 5,913	\$ 235	\$ 584	\$ 426
Appropriated from unrestricted net assets	1,690	-	-	135
Return of funds to unrestricted net assets	-	(206)	(127)	-
Net assets, end of year	\$ 7,603	\$ 29	\$ 457	\$ 561

	Ancillary Property Rentals	Parking	Residence and Food Services	University Centre	Ancillary Capital Fund	Total 2016	Total 2015
\$	2,131	\$ 5,221	\$ 31,845	\$ 610	\$ 595	\$ 59,113	\$ 56,935
	1,605	4,558	25,303	157	65	50,282	48,190
	526	663	6,542	453	530	8,831	8,745
	1,635	–	–	–	–	1,635	1,736
	–	(225)	(7,508)	–	(1,139)	(7,497)	(15,879)
	(290)	(438)	966	(453)	609	(1,098)	7,033
\$	1,871	\$ –	\$ –	\$ –	\$ –	\$ 1,871	\$ 1,635
\$	–	\$ 1,071	\$ 8,594	\$ 1,042	\$ 805	\$ 18,670	\$ 25,703
	290	438	–	453	–	3,006	2,848
	–	–	(966)	–	(609)	(1,908)	(9,881)
\$	290	\$ 1,509	\$ 7,628	\$ 1,495	\$ 196	\$ 19,768	\$ 18,670