

Consolidated Financial Statements of

CARLETON UNIVERSITY

Year ended April 30, 2017

CARLETON UNIVERSITY

Consolidated Financial Statements

Year ended April 30, 2017

Consolidated Statement of Financial Position	3
Consolidated Statement of Operations	4
Consolidated Statement of Changes in Net Assets	5
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8
Schedule 1 - Consolidated Schedule of Changes in Ancillary Net Assets	28



KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

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, 2017, 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 present fairly, in all material respects, the financial position of Carleton University as at April 30, 2017, 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

Chartered Professional Accountants, Licensed Public Accountants

October 13, 2017

Ottawa, Canada

CARLETON UNIVERSITY

Consolidated Statement of Financial Position

April 30, 2017, with comparative information for 2016
(in thousands of dollars)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 361,146	\$ 333,416
Marketable securities	121,779	76,194
Accounts receivable (note 3)	27,252	24,174
Prepaid expenses	4,302	5,045
Current portion of net investment in lease (note 5)	719	674
	<u>515,198</u>	<u>439,503</u>
Investments (note 4)	264,643	224,282
Net investment in lease (note 5)	9,140	9,859
Tangible capital and intangible assets (notes 6 and 8)	616,131	595,840
	<u>\$ 1,405,112</u>	<u>\$ 1,269,484</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 43,396	\$ 35,629
Deferred revenue (note 9)	68,663	68,259
Accrued leave	11,638	11,160
Current portion of long-term debt (note 10)	3,584	3,424
	<u>127,281</u>	<u>118,472</u>
Long-term debt (note 10)	71,150	74,698
Deferred capital contributions (note 11)	182,915	175,370
Employee future benefits liability (note 12)	136,585	96,554
Net assets:		
Unrestricted	(135,057)	(90,265)
Internally restricted (note 13)	443,228	358,673
Investment in tangible capital and intangible assets (note 14)	317,266	304,834
Endowments (note 15)	261,744	231,148
	<u>887,181</u>	<u>804,390</u>
Contingent liabilities and commitments (notes 16 and 17)		
	<u>\$ 1,405,112</u>	<u>\$ 1,269,484</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Operations

April 30, 2017, with comparative information for 2016
(in thousands of dollars)

	2017	2016
Revenue:		
Government grants for general operations	\$ 173,344	\$ 168,368
Fees	306,355	283,972
Research grants and contracts	51,000	48,930
Sales and services	23,303	24,324
Donations	8,136	9,525
Investment income	33,529	14,193
Amortization of deferred capital contributions (note 11)	12,502	12,597
Other revenue (note 18)	21,334	19,993
	<u>629,503</u>	<u>581,902</u>
Expenses:		
Salaries	279,351	264,812
Benefits	31,112	31,864
Employee future benefits	21,437	21,735
Supplies	10,540	9,707
Minor equipment and furnishings	9,997	9,287
Externally contracted services and fees	21,447	20,366
Scholarships and bursaries	41,246	39,551
Utilities	13,619	12,975
Travel	10,624	10,757
Renovations	22,231	14,215
Interest	3,738	3,909
Amortization of tangible capital and intangible assets	31,321	32,746
Other expenses (note 19)	31,927	32,517
	<u>528,590</u>	<u>504,441</u>
Excess of revenue over expenses	<u>\$ 100,913</u>	<u>\$ 77,461</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2017, with comparative information for 2016
(in thousands of dollars)

	Unrestricted	Internally restricted (note 13)	Investment in tangible capital and intangible assets (note 14)	Endow- ments (note 15)	2017	2016
Net assets, beginning of year	\$ (90,265)	\$ 358,673	\$ 304,834	\$ 231,148	\$ 804,390	\$ 720,262
Excess of revenue over expenses	100,913	—	—	—	100,913	77,461
Employee future benefit re-measurements and other items (note 12)	(45,779)	—	—	—	(45,779)	(3,095)
Internally imposed restrictions	(84,741)	84,555	—	186	—	—
Internally endowed amounts	(2,753)	—	—	2,753	—	—
Net change in investment in tangible capital and intangible assets (note 14)	(12,432)	—	12,432	—	—	—
Contributions to art collection (note 8)	—	—	—	—	—	55
Endowment contributions and investment income (note 15)	—	—	—	15,053	15,053	1,502
Unrealized gains on endowment investments (note 15)	—	—	—	12,604	12,604	8,205
Net assets, end of year	\$(135,057)	\$ 443,228	\$ 317,266	\$ 261,744	\$ 887,181	\$ 804,390

CARLETON UNIVERSITY

Consolidated Statement of Changes in Net Assets (continued)

Year ended April 30, 2017, with comparative information for 2016
(in thousands of dollars)

	Unrestricted	Internally restricted (note 13)	Investment in tangible capital and intangible assets (note 14)	Endow- ments (note 15)	2017	2016
Details of year-end balance:						
Operating (note 13(a))	\$ 498	\$ -	\$ -	\$ -	\$ 498	\$ 498
Plant	(683)	-	-	-	(683)	3,920
Ancillary	1,713	-	-	-	1,713	1,871
Provision for employee future benefits	(136,585)	-	-	-	(136,585)	(96,554)
Appropriations - Operating	-	385,774	-	-	385,774	307,693
Appropriations - Ancillary	-	24,750	-	-	24,750	19,768
Research	-	26,605	-	-	26,605	24,384
Entrepreneurial initiatives	-	4,102	-	-	4,102	4,769
Professional development	-	1,973	-	-	1,973	2,043
Scholarships	-	24	-	-	24	16
Tangible capital and intangible assets	-	-	317,266	-	317,266	304,834
Endowment	-	-	-	261,744	261,744	231,148
	\$ (135,057)	\$ 443,228	\$ 317,266	\$ 261,744	\$ 887,181	\$ 804,390

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Cash Flows

Year ended April 30, 2017, with comparative information for 2016
(in thousands of dollars)

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 100,913	\$ 77,461
Add (deduct) non-cash items:		
Amortization of tangible capital and intangible assets	31,321	32,746
Amortization of deferred capital contributions	(12,502)	(12,597)
Net change in other non-cash operating working capital (note 20)	6,314	17,554
Changes relating to employee future benefits:		
Employee future benefits re-measurements and other items	(45,779)	(3,095)
Employee future benefits liability	40,031	(29,518)
Net cash provided by operating activities	120,298	82,551
Financing activities:		
Decrease in mortgages payable (note 10(a))	(183)	(209)
Decrease in loans payable (note 10(a))	(3,205)	(3,119)
Capital contributions received (note 11)	20,047	4,943
Contributions to art collection	-	55
Endowment contributions and investment income	15,053	1,502
Net cash used in financing activities	31,712	3,172
Investing activities:		
Net purchases of investments	(73,342)	(83,747)
Decrease in net investment in lease	674	630
Tangible capital and intangible assets additions	(51,612)	(30,929)
Net cash used in investing activities	(124,280)	(114,046)
Increase (decrease) in cash and cash equivalents	27,730	(28,323)
Cash and cash equivalents, beginning of year	333,416	361,739
Cash and cash equivalents, end of year	\$ 361,146	\$ 333,416
Consisting of:		
Cash on deposit	\$ 6,780	\$ 2,317
Outstanding cheques	(5,603)	(2,830)
Money market fund	133,953	88,234
Short-term bond and mortgage fund	226,016	245,695
	\$ 361,146	\$ 333,416
Interest paid	\$ 3,738	\$ 3,909

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

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, 2017

(Tabular amounts in thousands of dollars)

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 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, 2017

(Tabular amounts in thousands of dollars)

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.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

2. Summary of significant accounting policies (continued):

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

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.

(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.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

2. Summary of significant accounting policies (continued):

(i) Contributed services:

Volunteers, as well as members of the staff and faculty of the University, contribute an indeterminable 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.

(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, 2017

(Tabular amounts in thousands of dollars)

3. Accounts receivable:

	2017	2016
Research	\$ 4,798	\$ 5,107
Student	11,594	10,883
Government	1,504	1,344
Other	10,635	8,365
	<u>28,531</u>	<u>25,699</u>
Less allowance for doubtful accounts	(1,279)	(1,525)
	<u>\$ 27,252</u>	<u>\$ 24,174</u>

4. Investments:

(a) Carrying value, cost and fair values:

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

	2017		2016	
	Fair value	Cost	Fair value	Cost
Marketable securities	\$ 264,643	\$231,420	\$224,282	\$ 211,467

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:

	2017	2016
	Carrying value	Carrying value
Endowments	\$ 261,631	\$ 221,689
Parker loans for students	1,242	1,123
National Wildlife Research Centre Capital renewal	792	690
Sprott Student Investment Fund	978	780
	<u>\$ 264,643</u>	<u>\$ 224,282</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

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>2017</u>	<u>2016</u>
Minimum lease payments receivable	\$ 13,000	\$ 14,300
Unearned financing revenue	(3,141)	(3,767)
	<u>9,859</u>	<u>10,533</u>
Less current portion of net investment in lease	(719)	(674)
Net investment in lease	<u>\$ 9,140</u>	<u>\$ 9,859</u>

At April 30, 2017, future minimum lease payments receivable under the direct financing lease are as follows:

2017-18	\$ 1,300
2018-19	1,300
2019-20	1,300
2020-21	1,300
2021-22	1,300
Thereafter	6,500
	<u>\$ 13,000</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

6. Tangible capital and intangible assets:

Tangible capital and intangible assets consist of the following:

	2017		2016	
	Cost	Accumulated amortization	Net book value	Net book value
Tangible capital assets:				
Land	\$ 89,000	\$ –	\$ 89,000	\$ 89,000
Buildings	543,063	201,653	341,410	320,980
Building improvements	149,419	39,185	110,234	107,967
Equipment and furniture	104,741	64,472	40,269	41,334
Computer equipment	5,110	3,248	1,862	2,573
Automobiles	233	159	74	34
Art collection (note 8)	24,434	–	24,434	24,434
Library holdings	21,488	13,260	8,228	9,070
Intangible assets:				
Software	1,268	648	620	448
	<u>\$ 938,756</u>	<u>\$ 322,625</u>	<u>\$ 616,131</u>	<u>\$ 595,840</u>

Cost and accumulated amortization at April 30, 2016 amounted to \$904,293,000 and \$308,453,000, respectively. In the year, \$17,149,000 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 and building improvements is \$50,881,000 (2016 - \$11,561,000) 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 \$4,022,000 (2016 - \$3,999,000) 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 29,603 pieces of art. In 2017, there were no additions of donated pieces of art (2016 - \$55,000).

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

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:

	2017	2016
Research	\$ 23,530	\$ 25,193
Grants	4,699	6,697
Student aid	5,126	4,319
Student fees	12,045	7,769
Donations	4,935	4,164
Other	18,328	20,117
	<u>\$ 68,663</u>	<u>\$ 68,259</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, 2017

(Tabular amounts in thousands of dollars)

10. Long-term debt:

As at April 30, 2017, the University has principal outstanding of \$74,734,000 (2016 - \$78,122,000) under long-term mortgages and loans.

(a) Details of long-term debt:

	Maturity	Interest rate	Annual payment	2017 Principal outstanding	2016 Principal outstanding
Mortgages payable:					
Grenville and Russell Residences	2017	5.375%	\$ 40	\$ —	\$ 39
Glengarry Residence	2020	6.375%	176	430	574
				430	613
Loans payable:					
Leeds Residence	2027	6.724%	1,619	11,111	11,951
Prescott Residence	2029	6.299%	1,520	12,349	13,066
Frontenac Residence	2039	4.660%	885	12,798	13,080
Lennox & Addington Residence	2042	2.930%	1,593	28,195	28,944
NWRC loan	2028	6.460%	1,278	9,851	10,468
				74,304	77,509
				74,734	78,122
Less current portion of long-term debt				3,584	3,424
				\$ 71,150	\$ 74,698

Annual payment amounts include principal and interest.

(b) Long-term debt repayments:

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

2017-18	\$ 3,584
2018-19	3,798
2019-20	3,966
2020-21	4,079
2021-22	4,323
Thereafter	54,984
	<u>\$ 74,734</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

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 2027, 2029, 2039, 2042 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, 2017 is estimated to be \$14,513,000 (2016 - \$16,879,000) 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:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 175,370	\$ 183,024
Less amortization of deferred capital contributions	(12,502)	(12,597)
Add capital contributions received:		
Grants for equipment and buildings	20,008	4,505
Donated assets	39	438
	<u>20,047</u>	<u>4,943</u>
Balance, end of year	<u>\$ 182,915</u>	<u>\$ 175,370</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

12. Employee future benefits:

(a) Employee future benefits liability:

	<u>2017</u>	<u>2016</u>
Post-employment and post-retirement benefit plans	\$ 127,970	\$ 110,531
Pension plan liability (asset)	8,615	(13,977)
	<u>\$ 136,585</u>	<u>\$ 96,554</u>

(b) Employee future benefits expense:

	<u>Current service cost</u>	<u>Carrying cost</u>	<u>2017</u>	<u>2016</u>
Post-employment and post-retirement benefit plans	\$ 4,061	\$ 6,963	\$ 11,024	\$ 11,047
Pension plan	11,294	(881)	10,413	10,688
	<u>\$ 15,355</u>	<u>\$ 6,082</u>	<u>\$ 21,437</u>	<u>\$ 21,735</u>

During the year, the University made cash contributions included in the total above of \$4,374,000 (2016 - \$3,765,000) and \$22,810,000 (2016 - \$50,583,000), respectively.

(c) Re-measurements and other items:

	<u>2017</u>	<u>2016</u>
Post-employment and post-retirement benefit plans	\$ 10,789	\$ (5,937)
Pension plan	34,990	9,032
	<u>\$ 45,779</u>	<u>\$ 3,095</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 full 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, 2017

(Tabular amounts in thousands of dollars)

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.

An actuarial valuation of the Plan as of July 1, 2016 determined that the Plan had a \$80,101,000 unfunded going-concern liability and an unfunded \$223,736,000 solvency liability as at July 1, 2016. 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, the Province extended three rounds of temporary solvency funding relief to approved plans. Carleton University applied for and was determined to be an approved plan. The funding relief reduces the annual special payments that must be contributed to the fund. As such, effective July 1, 2017, the annual special payment required towards the combined going concern and solvency deficiencies is \$13,508,000. The next actuarial valuation for funding purposes is required July 1, 2019. That valuation will determine the minimum funding requirement commencing July 1, 2020.

An actuarial valuation roll-forward for funding purposes was performed as at April 30, 2017, the measurement date for financial reporting purposes.

Accrued benefit liability:

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

	2017	2016
Accrued benefit obligation	\$ 1,239,455	\$ 1,076,259
Less: fair value of Plan assets	1,230,840	1,090,236
Accrued benefit liability (asset)	\$ 8,615	\$ (13,977)

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

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:

	2017	2016
General appropriations	\$ 125,870	\$ 83,375
Capital reserve	121,115	123,987
Pension liability reserve	103,941	91,741
Student aid funds	10,913	227
Other projects and initiatives	23,935	8,363
Total operating appropriations	385,774	307,693
Ancillary reserve fund	24,750	19,768
Research initiatives	26,605	24,384
Entrepreneurial initiatives	4,102	4,769
Professional development funds	1,973	2,043
Scholarship funds	24	16
	<u>\$ 443,228</u>	<u>\$ 358,673</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(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:

	2017	2016
Tangible capital and intangible assets	\$ 616,131	\$ 595,840
Less amounts financed by:		
Deferred capital contributions	(182,915)	(175,370)
Mortgages payable	(430)	(613)
Loans payable (Leeds, Prescott, Frontenac Lennox & Addington residences)	(64,453)	(67,041)
Other short-term financing	(51,067)	(47,982)
	<u>\$ 317,266</u>	<u>\$ 304,834</u>

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

	2017	2016
Tangible capital and intangible assets additions:		
Total additions	\$ 51,612	\$ 30,929
Less:		
Contributions to art collection	-	(55)
Donated assets	(39)	(438)
Additions financed with grants	(20,008)	(4,505)
	<u>31,565</u>	<u>25,931</u>
Financing:		
Mortgages payable	183	209
Loans payable	2,588	2,434
Other short-term financing	(3,085)	4,712
	<u>(314)</u>	<u>7,355</u>
Amortization of deferred capital contributions	12,502	12,597
Amortization of tangible capital and intangible assets	(31,321)	(32,746)
	<u>(18,819)</u>	<u>(20,149)</u>
Net change in investment in tangible capital and intangible assets	<u>\$ 12,432</u>	<u>\$ 13,137</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(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% (2016 - 4%) 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 2017</u>	<u>Total 2016</u>
Donations and bequests	\$ 7,015	\$ —	\$ 7,015	\$ 10,131
Internal contributions	2,753	—	2,753	3,914
Realized gains (losses) on sale of investment	12,449	191	12,640	(1,997)
Investment income	4,552	115	4,667	1,865
Income distributions	(8,963)	(120)	(9,083)	(8,567)
	<u>17,806</u>	<u>186</u>	<u>17,992</u>	<u>5,346</u>
Unrealized gains on investments	12,434	170	12,604	8,205
Net change in year	<u>30,240</u>	<u>356</u>	<u>30,596</u>	<u>13,551</u>
Fund balance, beginning of year	229,418	1,730	231,148	217,597
Fund balance, end of year	<u>\$ 259,658</u>	<u>\$ 2,086</u>	<u>\$ 261,744</u>	<u>\$ 231,148</u>

The endowment balance consists of:

	<u>2017</u>	<u>2016</u>
Cumulative endowment principal	\$ 156,793	\$ 147,025
Cumulative undistributed investment income	79,298	71,074
Cumulative unrealized gains (losses)	25,653	13,049
Endowment balance on endowment investments	<u>\$ 261,744</u>	<u>\$ 231,148</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

16. Contingent liabilities and commitments:

At April 30, 2017, commitments for future acquisitions, construction and renovations amounted to approximately \$92,543,000 (2016 - \$51,782,000).

Letters of credit totaling \$15,964,000 (2016 - \$16,090,000) 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:

	2017	2016
Commissions and sponsorships	\$ 10,987	\$ 8,747
Medical insurance recoveries	1,553	1,690
Salary and benefit recoveries	1,202	903
Miscellaneous	7,592	8,653
	<u>\$ 21,334</u>	<u>\$ 19,993</u>

19. Other expenses:

	2017	2016
Minor repair and upkeep	\$ 5,171	\$ 4,547
Equipment rental	4,844	4,281
Advertising and promotion	3,539	3,762
Property taxes and insurance	3,060	3,018
Licensing and membership fees	3,015	3,486
Support services	3,504	4,121
Banking and bad debts	2,221	1,985
Communication	1,694	1,691
Miscellaneous	4,879	5,626
	<u>\$ 31,927</u>	<u>\$ 32,517</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

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

	<u>2017</u>	<u>2016</u>
Decrease (increase) in accounts receivable	\$ (3,078)	\$ 2,396
Decrease in prepaid expenses	743	643
Increase in accounts payable and accrued liabilities	7,767	707
Increase in deferred revenue	404	12,983
Increase in accrued leave	478	825
	<u>\$ 6,314</u>	<u>\$ 17,554</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 2017, \$1,279,000 (2016 - \$1,525,000) 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, 2017

(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 2016.

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 consolidated financial statements, for the year ended March 31, 2017.

(In thousands of dollars)	<u>Ontario Student Opportunity Trust Funds</u>		Ontario Trust for Student Support	Total 2017	Total 2016
Endowment fund	Phase I	Phase II	Support		
Fund balance, beginning of year	\$ 16,916	\$ 4,775	\$ 17,018	\$ 38,709	\$ 38,709

(In thousands of dollars)	<u>Ontario Student Opportunity Trust Funds</u>		Ontario Trust for Student Support	Total 2017	Total 2016
Schedule of changes in expendable funds available for awards	Phase I	Phase II	Support		
Balance, beginning of year	\$ 74	\$ 648	\$ 339	\$ 1,061	\$ 896
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	1,368	252	762	2,382	2,303
Bursaries awarded	(1,447)	(175)	(806)	(2,428)	(2,138)
Balance, end of year	\$ (5)	\$ 725	\$ 295	\$ 1,015	\$ 1,061
Number of recipients	949	115	619	1,683	1,584
Endowment total based on book value	\$ 16,911	\$ 5,500	\$ 17,313	\$ 39,724	\$ 39,770

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2017

(Tabular amounts in thousands of dollars)

23. Comparative information:

Certain 2016 comparative information has been reclassified to conform with the consolidated financial statement presentation adopted for 2017.

CARLETON UNIVERSITY

Schedule 1 - Consolidated Schedule of Changes in Ancillary Net Assets

Year ended April 30, 2017
(in thousands of dollars)

Unrestricted	Athletics	Bookstore	The Print Shop	Health Services
Revenues	\$ 13,911	\$ 717	\$ 750	\$ 3,373
Expenses	14,684	635	239	3,585
Excess (deficiency) of revenues over expenses	(773)	82	511	(212)
Net assets, beginning of year	—	—	—	—
Transfer from non-ancillary unrestricted net assets	1,403	—	36	264
Appropriated to internally restricted net assets	(630)	(82)	(547)	(52)
Unrestricted net assets, end of year	\$ —	\$ —	\$ —	\$ —
 Internally restricted net assets				
Net assets, beginning of year	\$ 7,603	\$ 29	\$ 457	\$ 561
Appropriated from unrestricted net assets	630	82	547	52
Return of funds to unrestricted net assets	—	—	—	—
Net assets, end of year	\$ 8,233	\$ 111	\$ 1,004	\$ 613

	Ancillary Property Rentals	Parking	Residence and Food Services	University Centre	Ancillary Capital Fund	Total 2017	Total 2016
\$	1,298	\$ 5,216	\$ 32,961	\$ 625	\$ 2,549	\$ 61,400	\$ 59,113
	1,056	4,549	31,286	225	229	56,488	50,282
	242	667	1,675	400	2,320	4,912	8,831
	1,871	—	—	—	—	1,871	1,635
	—	(225)	(1,380)	—	(186)	(88)	(7,497)
	(400)	(442)	(295)	(400)	(2,134)	(4,982)	(1,098)
\$	1,713	\$ —	\$ —	\$ —	\$ —	\$ 1,713	\$ 1,871
\$	290	\$ 1,509	\$ 7,628	\$ 1,495	\$ 196	\$ 19,768	\$ 18,670
	400	442	295	400	2,134	4,982	3,006
	—	—	—	—	—	—	(1,908)
\$	690	\$ 1,951	\$ 7,923	\$ 1,895	\$ 2,330	\$ 24,750	\$ 19,768