

Consolidated Financial Statements of

CARLETON UNIVERSITY

Year ended April 30, 2018

CARLETON UNIVERSITY

Consolidated Financial Statements

Year ended April 30, 2018

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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, 2018, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, 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, 2018, 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

Ottawa, Canada

September 25, 2018

CARLETON UNIVERSITY

Consolidated Statement of Financial Position

April 30, 2018, with comparative information for 2017
(in thousands of dollars)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 452,824	\$ 361,146
Marketable securities	99,715	121,779
Accounts receivable (note 3)	32,969	27,252
Prepaid expenses	19,826	4,302
Current portion of net investment in lease (note 5)	768	719
	<u>606,102</u>	<u>515,198</u>
Investments (note 4)	269,751	264,643
Net investment in lease (note 5)	8,372	9,140
Tangible capital and intangible assets (notes 6)	644,850	616,131
	<u>\$ 1,529,075</u>	<u>\$ 1,405,112</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 50,790	\$ 43,396
Deferred revenue (note 8)	102,533	68,663
Accrued leave	11,939	11,638
Current portion of long-term debt (note 9)	3,798	3,584
	<u>169,060</u>	<u>127,281</u>
Long-term debt (note 9)	67,352	71,150
Deferred capital contributions (note 10)	196,056	182,915
Employee future benefits liability (note 11(a))	106,539	136,585
Net assets:		
Unrestricted	(105,847)	(135,057)
Internally restricted (note 12)	447,592	443,228
Investment in tangible capital and intangible assets (note 13)	378,937	317,266
Endowments (note 14)	269,386	261,744
	<u>990,068</u>	<u>887,181</u>
Contingent liabilities and commitments (notes 15 and 16)	<u>\$ 1,529,075</u>	<u>\$ 1,405,112</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Operations

April 30, 2018, with comparative information for 2017
(in thousands of dollars)

	2018	2017
Revenue:		
Government grants for general operations	\$ 179,123	\$ 173,344
Fees	329,362	306,355
Research grants and contracts	58,417	51,000
Sales and services	23,278	23,303
Donations	12,924	8,136
Investment income	20,131	33,529
Amortization of deferred capital contributions (note 10)	12,379	12,502
Other revenue (note 17)	20,205	21,334
	<u>655,819</u>	<u>629,503</u>
Expenses:		
Salaries	293,677	279,351
Benefits	32,461	31,112
Employee future benefits (note 11(b))	26,405	21,437
Supplies	11,431	10,540
Minor equipment and furnishings	10,448	9,997
Externally contracted services and fees	22,745	21,447
Scholarships and bursaries	43,371	41,246
Utilities	10,539	13,619
Travel	11,747	10,624
Renovations	28,455	22,231
Interest	3,597	3,738
Amortization of tangible capital and intangible assets	32,576	31,321
Other expenses (note 18)	39,010	31,927
	<u>566,462</u>	<u>528,590</u>
Excess of revenue over expenses	<u>\$ 89,357</u>	<u>\$ 100,913</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2018, with comparative information for 2017
(in thousands of dollars)

	Unrestricted	Internally restricted (note 12)	Investment in tangible capital and intangible assets (note 13)	Endow- ments (note 14)	2018	2017
Net assets, beginning of year	\$ (135,057)	\$ 443,228	\$ 317,266	\$ 261,744	\$ 887,181	\$ 804,390
Excess of revenue over expenses	89,357	–	–	–	89,357	100,913
Employee future benefit re-measurements and other items (note 12)	26,134	–	–	–	26,134	(45,779)
Internally imposed restrictions	(19,720)	4,364	–	15,356	–	–
Internally endowed amounts	(5,006)	–	–	5,006	–	–
Net change in investment in tangible capital and intangible assets (note 13)	(61,555)	–	61,671	–	116	–
Endowment contributions and investment income (note 14)	–	–	–	(2,833)	(2,833)	15,053
Unrealized (loss) gains on endowment investments (note 14)	–	–	–	(9,887)	(9,887)	12,604
Net assets, end of year	\$(105,847)	\$ 447,592	\$ 378,937	\$ 269,386	\$ 990,068	\$ 887,181

CARLETON UNIVERSITY

Consolidated Statement of Changes in Net Assets (continued)

Year ended April 30, 2018, with comparative information for 2017
(in thousands of dollars)

	Unrestricted	Internally restricted (note 12)	Investment in tangible capital and intangible assets (note 13)	Endow- ments (note 14)	2018	2017
Details of year-end balance:						
Operating (note 13(a))	\$ 498	\$ —	\$ —	\$ —	\$ 498	\$ 498
Plant	(1,501)	—	—	—	(1,501)	(683)
Ancillary	1,695	—	—	—	1,695	1,713
Provision for employee future benefits	(106,539)	—	—	—	(106,539)	(136,585)
Appropriations - Operating	—	369,203	—	—	369,203	385,774
Appropriations - Ancillary	—	32,517	—	—	32,517	24,750
Research	—	39,371	—	—	39,371	26,605
Entrepreneurial initiatives	—	4,384	—	—	4,384	4,102
Professional development	—	2,105	—	—	2,105	1,973
Scholarships	—	12	—	—	12	24
Tangible capital and intangible assets	—	—	378,937	—	378,937	317,266
Endowment	—	—	—	269,386	269,386	261,744
	\$ (105,847)	\$ 447,592	\$ 378,937	\$ 269,386	\$ 990,068	\$ 887,181

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Cash Flows

Year ended April 30, 2018, with comparative information for 2017
(in thousands of dollars)

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 89,357	\$ 100,913
Add (deduct) non-cash items:		
Amortization of tangible capital and intangible assets	32,576	31,321
Amortization of deferred capital contributions	(12,379)	(12,502)
Net change in other non-cash operating working capital (note 19)	20,324	6,314
Changes relating to employee future benefits:		
Employee future benefits re-measurements and other items	26,134	(45,779)
Employee future benefits liability	(30,046)	40,031
Net cash provided by operating activities	125,966	120,298
Financing activities:		
Decrease in mortgages payable (note 9(a))	(153)	(183)
Decrease in loans payable (note 9(a))	(3,431)	(3,205)
Capital contributions received (note 10)	25,520	20,047
Contributions to art collection	116	-
Endowment contributions and investment income	(2,833)	15,053
Net cash used in financing activities	19,219	31,712
Investing activities:		
Net disposals (purchases) of investments	7,069	(73,342)
Decrease in net investment in lease	719	674
Tangible capital and intangible assets additions	(61,295)	(51,612)
Net cash used in investing activities	(53,507)	(124,280)
Increase in cash and cash equivalents	91,678	27,730
Cash and cash equivalents, beginning of year	361,146	333,416
Cash and cash equivalents, end of year	\$ 452,824	\$ 361,146
Consisting of:		
Cash on deposit	\$ 146,704	\$ 6,780
Outstanding cheques	(6,472)	(5,603)
Money market fund	71,682	133,953
Short-term bond and mortgage fund	240,910	226,016
	\$ 452,824	\$ 361,146
Interest paid	\$ 3,597	\$ 3,738

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements

Year ended April 30, 2018

(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, 2018
(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, 2018

(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.

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, 2018

(Tabular amounts in thousands of dollars)

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, 2018

(Tabular amounts in thousands of dollars)

2. Summary of significant accounting policies (continued):

(j) Employee benefit plans:

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, 2018

(Tabular amounts in thousands of dollars)

2. Summary of significant accounting policies (continued):

(l) Cap and trade program:

The Ontario Cap and Trade Program, which came into effect on January 1, 2017 under the Climate Change Mitigation and Low-carbon Economy Act, 2016 sets out a framework for the reduction in greenhouse gas (“GHG”) emissions for the province of Ontario. The University has elected to be a voluntary participant in the program. The first compliance period for the Cap and Trade program is January 1, 2017 to December 31, 2020. The University has received free GHG emission allowances in 2017 and 2018, which are reasonably expected to exceed the University’s GHG emissions during each year. The University assessed the accounting implications of the emission allowances as at April 30, 2018 and determined that the impact to the financial statements was not significant. The provincial program was cancelled on July 3, 2018. The dismantling of the program is currently in progress however the federal implications of this decision have not yet been announced

3. Accounts receivable:

	2018	2017
Research	\$ 8,178	\$ 4,798
Student	11,251	11,594
Government	1,323	1,504
Other	13,555	10,635
	<u>34,307</u>	<u>28,531</u>
Less allowance for doubtful accounts	(1,338)	(1,279)
	<u>\$ 32,969</u>	<u>\$ 27,252</u>

4. Investments:

(a) Carrying value, cost and fair values:

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

	2018		2017	
	Fair value	Cost	Fair value	Cost
Marketable securities	<u>\$ 269,751</u>	<u>\$ 246,612</u>	<u>\$ 264,643</u>	<u>\$ 231,420</u>

The carrying value of marketable securities is fair value.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018

(Tabular amounts in thousands of dollars)

4. Investments (continued):

(b) Purpose:

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

	2018	2017
	Carrying value	Carrying value
Endowments	\$ 266,732	\$ 261,631
Parker loans for students	1,207	1,242
National Wildlife Research Centre Capital renewal	799	792
Sprott Student Investment Fund	1,013	978
	<u>\$ 269,751</u>	<u>\$ 264,643</u>

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:

	2018	2017
Minimum lease payments receivable	\$ 11,700	\$ 13,000
Unearned financing revenue	(2,560)	(3,141)
	9,140	9,859
Less current portion of net investment in lease	(768)	(719)
Net investment in lease	<u>\$ 8,372</u>	<u>\$ 9,140</u>

At April 30, 2018, future minimum lease payments receivable under the direct financing lease are as follows:

2018-19	\$ 1,300
2019-20	1,300
2020-21	1,300
2021-22	1,300
2022-23	1,300
Thereafter	5,200
	<u>\$ 11,700</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018

(Tabular amounts in thousands of dollars)

6. Tangible capital and intangible assets:

Tangible capital and intangible assets consist of the following:

	2018		2017	
	Cost	Accumulated amortization	Net book value	Net book value
Tangible capital assets:				
Land	\$ 89,000	\$ –	\$ 89,000	\$ 89,000
Buildings	583,377	211,425	371,952	341,410
Building improvements	156,438	46,809	109,629	110,234
Equipment and furniture	98,904	58,568	40,336	40,269
Computer equipment	5,042	3,633	1,409	1,862
Automobiles	225	94	131	74
Art collection (note 8)	24,550	–	24,550	24,434
Library holdings	20,633	13,102	7,531	8,228
Intangible assets:				
Software	1,226	914	312	620
	<u>\$ 979,395</u>	<u>\$ 334,545</u>	<u>\$ 644,850</u>	<u>\$ 616,131</u>

Cost and accumulated amortization at April 30, 2017 amounted to \$938,756,000 and \$322,625,000, respectively. In the year, \$20,656,000 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 \$40,542,000 (2017 - \$50,881,000) 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 \$4,070,000 (2017 - \$4,022,000) payable for government remittances, including harmonized sales tax/goods and services tax and payroll remittances.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018

(Tabular amounts in thousands of dollars)

8. 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:

	2018	2017
Research	\$ 31,451	\$ 23,530
Grants	10,513	4,699
Student aid	5,128	5,126
Student fees	12,693	12,045
Donations	22,878	4,935
Other	19,870	18,328
	<u>\$ 102,533</u>	<u>\$ 68,663</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, 2018

(Tabular amounts in thousands of dollars)

9. Long-term debt:

As at April 30, 2018, the University has principal outstanding of \$71,150,000 (2017 - \$74,734,000) under long-term mortgages and loans.

(a) Details of long-term debt:

	Maturity	Interest rate	Annual payment	2018 Principal outstanding	2017 Principal outstanding
Mortgages payable:					
Glengarry Residence	2020	6.375%	\$ 176	\$ 277	\$ 430
Loans payable:					
Leeds Residence	2027	6.724%	1,607	10,226	11,111
Prescott Residence	2029	6.299%	1,520	11,586	12,349
Frontenac Residence	2039	4.660%	888	12,499	12,798
Lennox & Addington Residence	2042	2.930%	1,581	27,428	28,195
NWRC loan	2028	6.460%	1,332	9,134	9,851
				70,873	74,304
				71,150	74,734
Less current portion of long-term debt				3,798	3,584
				\$ 67,352	\$ 71,150

Annual payment amounts include principal and interest.

(b) Long-term debt repayments:

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

2018-19	\$ 3,798
2019-20	3,965
2020-21	4,079
2021-22	4,323
2022-23	4,583
Thereafter	50,402
	<u>\$ 71,150</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018

(Tabular amounts in thousands of dollars)

9. 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, 2018 is estimated to be \$7,907,600 (2017 - \$14,513,000) 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.

10. 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:

	2018	2017
Balance, beginning of year	\$ 182,915	\$ 175,370
Less amortization of deferred capital contributions	(12,379)	(12,502)
Add capital contributions received:		
Grants for equipment and buildings	25,318	20,008
Donated assets	202	39
	<u>25,520</u>	<u>20,047</u>
Balance, end of year	<u>\$ 196,056</u>	<u>\$ 182,915</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018
(Tabular amounts in thousands of dollars)

11. Employee future benefits:

(a) Employee future benefits liability:

	2018	2017
Post-employment and post-retirement benefit plans	\$ 132,113	\$ 127,970
Pension plan liability (asset)	(25,574)	8,615
	<u>\$ 106,539</u>	<u>\$ 136,585</u>

(b) Employee future benefits expense:

	Current service cost	Carrying cost	2018	2017
Post-employment and post-retirement benefit plans	\$ 4,575	\$ 7,806	\$ 12,381	\$ 11,024
Pension plan	13,498	526	14,024	10,413
	<u>\$ 18,073</u>	<u>\$ 8,332</u>	<u>\$ 26,405</u>	<u>\$ 21,437</u>

During the year, the University made cash contributions included in the total above of \$3,871,000 (2017 - \$4,374,000) and \$26,446,000 (2017 - \$22,810,000), respectively.

(c) Re-measurements and other items:

	2018	2017
Post-employment and post-retirement benefit plans	\$ (4,367)	\$ 10,789
Pension plan	(21,767)	34,990
	<u>\$ (26,134)</u>	<u>\$ 45,779</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, 2018.

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, 2018
(Tabular amounts in thousands of dollars)

11. 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 an \$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, 2018, 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:

	2018	2017
Accrued benefit obligation	\$ 1,249,568	\$ 1,239,455
Less: fair value of Plan assets	1,275,142	1,230,840
Accrued benefit liability (asset)	<u>\$ (25,574)</u>	<u>\$ 8,615</u>

12. 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).

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018
(Tabular amounts in thousands of dollars)

12. Net assets (continued):

(a) Capital management (continued):

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:

	2018	2017
General appropriations	\$ 128,015	\$ 125,870
Capital reserve	91,980	121,115
Pension liability reserve	128,941	103,941
Student aid funds	4,623	10,913
Other projects and initiatives	15,644	23,935
Total operating appropriations	369,203	385,774
Ancillary reserve fund	32,517	24,750
Research initiatives	39,371	26,605
Entrepreneurial initiatives	4,384	4,102
Professional development funds	2,105	1,973
Scholarship funds	12	24
	<u>\$ 447,592</u>	<u>\$ 443,228</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018

(Tabular amounts in thousands of dollars)

13. Investment in tangible capital and intangible assets:

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

	2018	2017
Tangible capital and intangible assets	\$ 644,850	\$ 616,131
Less amounts financed by:		
Deferred capital contributions	(196,056)	(182,915)
Mortgages payable	(277)	(430)
Loans payable (Leeds, Prescott, Frontenac Lennox & Addington residences)	(61,739)	(64,453)
Other short-term financing	(7,841)	(51,067)
	<u>\$ 378,937</u>	<u>\$ 317,266</u>

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

	2018	2017
Tangible capital and intangible assets additions:		
Total additions	\$ 61,295	\$ 51,612
Less:		
Contributions to art collection	(116)	-
Donated assets	(86)	(39)
Additions financed with grants	(25,318)	(20,008)
	<u>35,775</u>	<u>31,565</u>
Financing:		
Mortgages payable	153	183
Loans payable	2,714	2,588
Other short-term financing	43,226	(3,085)
	<u>46,093</u>	<u>(314)</u>
Amortization of deferred capital contributions	12,379	12,502
Amortization of tangible capital and intangible assets	(32,576)	(31,321)
	<u>(20,197)</u>	<u>(18,819)</u>
Net change in investment in tangible capital and intangible assets	<u>\$ 61,671</u>	<u>\$ 12,432</u>
Donated non-depreciable capital assets	\$ 116	\$ -
Investment of unrestricted net assets	61,555	12,432
	<u>\$ 61,671</u>	<u>12,432</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018

(Tabular amounts in thousands of dollars)

14. 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% (2017 - 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.

	Externally endowed	Board designated	Total 2018	Total 2017
Donations and bequests	\$ 7,066	\$ —	\$ 7,066	\$ 7,015
Internal contributions	15,356	5,000	20,356	2,753
Realized gains on sale of investment	8,084	248	8,332	12,640
Investment income	3,636	190	3,826	4,667
Distribution per donor agreement	(11,946)	—	(11,946)	—
Income distributions	(9,673)	(127)	(9,800)	(9,083)
	12,523	5,311	17,834	17,992
Unrealized (losses) gains on investments	(9,887)	(305)	(10,192)	12,604
Net change in year	2,636	5,006	7,642	30,596
Fund balance, beginning of year	259,658	2,086	261,744	231,148
Fund balance, end of year	\$ 262,294	\$ 7,092	\$ 269,386	\$ 261,744

In 2015, a donation was received to fund physical infrastructure for a future building. The agreement stated that the funds were to be held as an endowment, and the income reinvested, until such time as construction began. Construction on the building began in 2018, and in accordance with the agreement, both principal and income on the balance were distributed to fund construction costs.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018
(Tabular amounts in thousands of dollars)

14. Endowments (continued):

The endowment balance consists of:

	2018	2017
Cumulative endowment principal	\$ 172,269	\$ 156,793
Cumulative undistributed investment income	81,656	79,298
Cumulative unrealized gains	15,461	25,653
Endowment balance on endowment investments	<u>\$ 269,386</u>	<u>\$ 261,744</u>

15. Contingent liabilities and commitments:

At April 30, 2018, commitments for future acquisitions, construction and renovations amounted to approximately \$47,732,000 (2017 - \$92,543,000).

Letters of credit totaling \$13,954,000 (2017 - \$15,964,000) were issued on behalf of the University at year-end.

16. 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.

17. Other revenue:

	2018	2017
Commissions and sponsorships	\$ 9,195	\$ 10,987
Medical insurance recoveries	1,487	1,553
Salary and benefit recoveries	1,263	1,202
Miscellaneous	8,260	7,592
	<u>\$ 20,205</u>	<u>\$ 21,334</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018

(Tabular amounts in thousands of dollars)

18. Other expenses:

	2018		2017
Licensing and membership fees	\$ 7,207	\$	3,015
Support services	4,942		3,504
Equipment rental	4,834		4,844
Minor repair and upkeep	4,826		5,171
Advertising and promotion	3,746		3,539
Property taxes and insurance	3,010		3,060
Banking and bad debts	2,363		2,221
Communication	1,880		1,694
Miscellaneous	6,202		4,879
	<u>\$ 39,010</u>	<u>\$</u>	<u>31,927</u>

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

	2018		2017
Increase in accounts receivable	\$ (5,717)	\$	(3,078)
Decrease (increase) in prepaid expenses	(15,524)		743
Increase in accounts payable and accrued liabilities	7,394		7,767
Increase in deferred revenue	33,870		404
Increase in accrued leave	301		478
	<u>\$ 20,324</u>	<u>\$</u>	<u>6,314</u>

20. 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.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018

(Tabular amounts in thousands of dollars)

20. Financial risks (continued):

(a) Credit risk (continued):

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 2018, \$1,338,000 (2017 - \$1,279,000) 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 9.

(c) Currency risk:

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

(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 2017.

21. 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, 2018.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2018

(Tabular amounts in thousands of dollars)

21. Ontario Student Opportunity Trust Fund (Phase I and Phase II) and Ontario Trust for Student Support (continued):

Endowment Fund	Ontario Student Opportunity Trust Funds		Trust for Student Support	Total 2018	Total 2017
	Phase I	Phase II			
Fund balance, beginning of year	\$ 16,916	\$ 4,775	\$ 17,018	\$ 38,709	\$ 38,709
Schedule of changes in expendable funds available for awards:					
Balance, beginning of year	\$ (5)	\$ 725	\$ 294	\$ 1,014	\$ 1,061
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	1,407	259	770	2,436	2,382
Bursaries awarded	(1,368)	(198)	(759)	(2,325)	(2,428)
Balance, end of year	\$ 34	\$ 786	\$ 305	\$ 1,125	\$ 1,015
Number of recipients	778	129	528	1,435	1,683
Endowment total book value	\$ 16,950	\$ 5,561	\$ 17,323	\$ 39,834	\$ 39,724

22. Comparative information:

Certain 2017 comparative information has been reclassified to conform with the financial statement presentation adopted for 2018.

23. Subsequent events:

On May 10, 2018 the University entered into a Purchase and Sale agreement with a third party to acquire property located in downtown Ottawa, known as the Dominion Chalmers Church. Included in deferred revenue and accounts receivable at year-end is the amount of \$5,000,000 received from the Ministry of Advanced Education and Skills Development and held by a trustee pending the sale. The sale was concluded on June 25, 2018 in the amount of \$6,650,000.

CARLETON UNIVERSITY

Schedule 1 - Consolidated Schedule of Changes in Ancillary Net Assets

Year ended April 30, 2018
(in thousands of dollars)

Unrestricted	Athletics	Bookstore	The Print Shop	Health Services
Revenues	\$ 13,887	\$ 696	\$ 851	\$ 3,492
Expenses (recovery)	13,613	540	343	3,602
Excess (deficiency) of revenues over expenses	274	156	508	(110)
Net assets, beginning of year	–	–	–	–
Transfer from (to) non-ancillary unrestricted net assets	1,366	–	(70)	240
Appropriated to internally restricted net assets	(1,640)	(156)	(438)	(130)
Unrestricted net assets, end of year	\$ –	\$ –	\$ –	\$ –

Internally restricted	Athletics	Bookstore	The Print Shop	Health Services
Net assets, beginning of year	\$ 8,233	\$ 111	\$ 1,004	\$ 613
Appropriated from unrestricted net assets	1,640	156	438	130
Internally restricted net assets, end of year	\$ 9,873	\$ 267	\$ 1,442	\$ 743

Ancillary Property Rentals	Parking	Residence and Food Services	University Centre	Ancillary Capital Fund	Total 2018	Total 2017
\$ 1,294	\$ 5,358	\$ 33,588	\$ 652	\$ 744	\$ 60,562	\$ 61,400
556	4,268	31,525	56	(84)	54,419	56,488
738	1,090	2,063	596	828	6,143	4,912
1,713	–	–	–	–	1,713	1,871
–	(197)	(285)	–	552	1,606	(88)
(756)	(893)	(1,778)	(596)	(1,380)	(7,767)	(4,982)
\$ 1,695	\$ –	\$ –	\$ –	\$ –	\$ 1,695	\$ 1,713

Ancillary Property Rentals	Parking	Residence and Food Services	University Centre	Ancillary Capital Fund	Total 2018	Total 2017
\$ 690	\$ 1,951	\$ 7,923	\$ 1,895	\$ 2,330	\$ 24,750	\$ 19,768
756	893	1,778	596	1,380	7,767	4,982
\$ 1,446	\$ 2,844	\$ 9,701	\$ 2,491	\$ 3,710	\$ 32,517	\$ 24,750