

Consolidated Financial Statements of

CARLETON UNIVERSITY

Year ended April 30, 2019

CARLETON UNIVERSITY

Consolidated Financial Statements

Year ended April 30, 2019

Independent Auditors Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Carleton University

Opinion

We have audited the consolidated financial statements of Carleton University (the "Entity"), which comprise:

- the consolidated statement of financial position as at April 30, 2019
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of the Entity as at April 30, 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian Accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

September 30, 2019

CARLETON UNIVERSITY

Consolidated Statement of Financial Position

April 30, 2019, with comparative information for 2018
(in thousands of dollars)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 488,453	\$ 452,824
Marketable securities	111,347	99,715
Accounts receivable (note 3)	32,315	32,969
Prepaid expenses	13,366	19,826
Current portion of net investment in lease (note 5)	820	768
	<u>646,301</u>	<u>606,102</u>
Investments (note 4)	297,232	269,751
Net investment in lease (note 5)	7,552	8,372
Tangible capital and intangible assets (notes 6)	684,928	644,850
	<u>\$ 1,636,013</u>	<u>\$ 1,529,075</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 45,136	\$ 50,790
Deferred revenue (note 8)	96,363	102,533
Accrued leave	13,012	11,939
Current portion of long-term debt (note 9)	3,966	3,798
	<u>158,477</u>	<u>169,060</u>
Long-term debt (note 9)	63,386	67,352
Deferred capital contributions (note 10)	200,485	196,056
Employee future benefits liability (note 11(a))	110,647	106,539
Net assets:		
Unrestricted	(109,832)	(105,847)
Internally restricted (note 12(b))	506,986	447,592
Investment in tangible capital and intangible assets (note 13)	410,454	378,937
Endowments (note 14)	295,410	269,386
	<u>1,103,018</u>	<u>990,068</u>
Contingent liabilities and commitments (notes 15 and 16)		
	<u>\$ 1,636,013</u>	<u>\$ 1,529,075</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Operations

April 30, 2019, with comparative information for 2018
(in thousands of dollars)

	2019	2018
Revenue:		
Government grants for general operations	\$ 180,416	\$ 179,123
Fees	348,511	329,362
Research grants and contracts	63,165	58,417
Sales and services	24,244	23,278
Donations	20,066	12,924
Investment income	32,295	20,131
Amortization of deferred capital contributions (note 10)	13,186	12,379
Other revenue (note 17)	21,119	20,205
	<u>703,002</u>	<u>655,819</u>
Expenses:		
Salaries	314,235	293,677
Benefits	35,682	32,461
Employee future benefits (note 11(b))	25,413	26,405
Supplies	12,960	11,431
Minor equipment and furnishings	12,369	10,448
Externally contracted services and fees	24,664	22,745
Scholarships and bursaries	45,507	43,371
Utilities	10,129	10,539
Travel	13,118	11,747
Renovations	21,031	28,455
Interest	3,348	3,597
Amortization of tangible capital and intangible assets	34,709	32,576
Other expenses (note 18)	47,095	39,010
	<u>600,260</u>	<u>566,462</u>
Excess of revenue over expenses	<u>\$ 102,742</u>	<u>\$ 89,357</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2019, with comparative information for 2018
(in thousands of dollars)

	Unrestricted	Internally restricted (note 12(b))	Investment in tangible capital and intangible assets (note 13)	Endow- ments (note 14)	2019	2018
Net assets, beginning of year	\$ (105,847)	\$ 447,592	\$ 378,937	\$ 269,386	\$ 990,068	\$ 887,181
Excess of revenue over expenses	102,742	–	–	–	102,742	89,357
Employee future benefit re-measurements and other items (note 11(c))	(12,040)	–	–	–	(12,040)	26,134
Internally imposed restrictions	(62,547)	59,394	–	3,153	–	–
Internally endowed amounts	(641)	–	–	641	–	–
Net change in investment in tangible capital and intangible assets (note 13)	(31,499)	–	31,517	–	18	116
Endowment contributions and investment income (note 14)	–	–	–	15,225	15,225	(2,833)
Unrealized (loss) gains on endowment investments (note 14)	–	–	–	7,005	7,005	(9,887)
Net assets, end of year	\$ (109,832)	\$ 506,986	\$ 410,454	\$ 295,410	\$ 1,103,018	\$ 990,068

CARLETON UNIVERSITY

Consolidated Statement of Changes in Net Assets (continued)

Year ended April 30, 2019, with comparative information for 2018
(in thousands of dollars)

	Unrestricted	Internally restricted (note 12(b))	Investment in tangible capital and intangible assets (note 13)	Endow- ments (note 14)	2019	2018
Details of year-end balance:						
Operating (note 12)	\$ 498	\$ —	\$ —	\$ —	\$ 498	\$ 498
Plant	(427)	—	—	—	(427)	(1,501)
Ancillary	744	—	—	—	744	1,695
Provision for employee future benefits (note 11(a))	(110,647)	—	—	—	(110,647)	(106,539)
Appropriations - Operating	—	419,383	—	—	419,383	369,203
Appropriations - Ancillary	—	38,180	—	—	38,180	32,517
Research	—	42,260	—	—	42,260	39,371
Entrepreneurial initiatives	—	4,734	—	—	4,734	4,384
Professional development	—	2,415	—	—	2,415	2,105
Scholarships	—	14	—	—	14	12
Tangible capital and intangible assets	—	—	410,454	—	410,454	378,937
Endowment	—	—	—	295,410	295,410	269,386
	\$ (109,832)	\$ 506,986	\$ 410,454	\$ 295,410	\$ 1,103,018	\$ 990,068

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Cash Flows

Year ended April 30, 2019, with comparative information for 2018
(in thousands of dollars)

	2019	2018
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 102,742	\$ 89,357
Add (deduct) non-cash items:		
Amortization of tangible capital and intangible assets	34,709	32,576
Amortization of deferred capital contributions	(13,186)	(12,379)
Net change in other non-cash operating working capital (note 19)	(3,637)	20,324
Changes relating to employee future benefits:		
Employee future benefits re-measurements and other items	(12,040)	26,134
Employee future benefits liability	4,108	(30,046)
Net cash provided by operating activities	112,696	125,966
Financing activities:		
Decrease in mortgages payable (note 9(a))	(163)	(153)
Decrease in loans payable (note 9(a))	(3,635)	(3,431)
Capital contributions received (note 10)	17,615	25,520
Contributions to art collection	18	116
Endowment contributions and investment income	15,225	(2,833)
Net cash used in financing activities	29,060	19,219
Investing activities:		
Net disposals (purchases) of investments	(32,108)	7,069
Decrease in net investment in lease	768	719
Tangible capital and intangible assets additions	(74,787)	(61,295)
Net cash used in investing activities	(106,127)	(53,507)
Increase in cash and cash equivalents	35,629	91,678
Cash and cash equivalents, beginning of year	452,824	361,146
Cash and cash equivalents, end of year	<u>\$ 488,453</u>	<u>\$ 452,824</u>
Consisting of:		
Cash on deposit	\$ 175,124	\$ 146,704
Outstanding cheques	(3,110)	(6,472)
Money market fund	52,681	71,682
Short-term bond and mortgage fund	263,758	240,910
	<u>\$ 488,453</u>	<u>\$ 452,824</u>
Interest paid	<u>\$ 3,348</u>	<u>\$ 3,597</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements

Year ended April 30, 2019
(in thousands of dollars)

1. Description:

Carleton University (the "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 13 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, 2019
(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, 2019
(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, 2019
(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 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.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(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, 2019
(in thousands of dollars)

3. Accounts receivable:

	2019	2018
Research	\$ 9,159	\$ 8,178
Student	9,270	11,251
Government	664	1,323
Other	14,730	13,555
	<u>33,823</u>	<u>34,307</u>
Less allowance for doubtful accounts	(1,508)	(1,338)
	<u>\$ 32,315</u>	<u>\$ 32,969</u>

4. Investments:

(a) Carrying value, cost and fair values:

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

	2019		2018	
	Fair value	Cost	Fair value	Cost
Marketable securities	<u>\$ 297,232</u>	<u>\$ 266,599</u>	<u>\$ 269,751</u>	<u>\$ 246,612</u>

The carrying value of marketable securities is fair value.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(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:

	2019	2018
	Carrying value	Carrying value
Endowments	\$ 293,912	\$ 266,732
Parker loans for students	871	1,207
National Wildlife Research Centre Capital renewal	1,265	799
Sprott Student Investment Fund	1,184	1,013
	<u>\$ 297,232</u>	<u>\$ 269,751</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:

	2019	2018
Minimum lease payments receivable	\$ 10,400	\$ 11,700
Unearned financing revenue	(2,028)	(2,560)
	<u>8,372</u>	<u>9,140</u>
Less current portion of net investment in lease	(820)	(768)
Net investment in lease	<u>\$ 7,552</u>	<u>\$ 8,372</u>

At April 30, 2019, future minimum lease payments receivable under the direct financing lease are as follows:

2019-20	\$ 1,300
2020-21	1,300
2021-22	1,300
2022-23	1,300
2023-24	1,300
Thereafter	3,900
	<u>\$ 10,400</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(in thousands of dollars)

6. Tangible capital and intangible assets:

Tangible capital and intangible assets consist of the following:

	2019		2018	
	Cost	Accumulated amortization	Net book value	Net book value
Tangible capital assets:				
Land	\$ 93,300	\$ —	\$ 93,300	\$ 89,000
Buildings	622,610	224,652	397,958	371,952
Building improvements	171,084	55,181	115,903	109,629
Equipment and furniture	99,113	58,662	40,451	40,336
Computer equipment	5,590	3,441	2,149	1,409
Automobiles	259	105	154	131
Art collection	24,568	—	24,568	24,550
Library holdings	23,000	12,746	10,254	7,531
Intangible assets:				
Software	855	664	191	312
	<u>\$ 1,040,379</u>	<u>\$ 355,451</u>	<u>\$ 684,928</u>	<u>\$ 644,850</u>

Cost and accumulated amortization at April 30, 2018 amounted to \$979,395 and \$334,545, respectively. In the year, \$13,803 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 \$33,509 (2018 - \$40,542) 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 \$4,424 (2018 - \$4,070) 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, 2019
(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:

	2019	2018
Research	\$ 38,498	\$ 31,451
Grants	3,259	10,513
Student aid	5,703	5,128
Student fees	12,771	12,693
Donations	17,514	22,878
Other	18,618	19,870
	<u>\$ 96,363</u>	<u>\$ 102,533</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, 2019
(in thousands of dollars)

9. Long-term debt:

As at April 30, 2019, the University has principal outstanding of \$67,352 (2018 - \$71,150) under long-term mortgages and loans.

(a) Details of long-term debt:

	Maturity	Interest rate	Annual payment	2019 Principal outstanding	2018 Principal outstanding
Mortgages payable:					
Glengarry Residence	2020	6.375%	\$ 176	\$ 114	\$ 277
Loans payable:					
Leeds Residence	2027	6.724%	1,607	9,279	10,226
Prescott Residence	2029	6.299%	1,520	10,773	11,586
Frontenac Residence	2039	4.930%	928	12,180	12,499
Lennox & Addington Residence	2042	2.930%	1,583	26,636	27,428
NWRC loan	2028	6.460%	1,332	8,370	9,134
				67,238	70,873
				67,352	71,150
Less current portion of long-term debt				(3,966)	(3,798)
				\$ 63,386	\$ 67,352

Annual payment amounts include principal and interest.

(b) Long-term debt repayments:

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

2019-20	\$ 3,966
2020-21	4,079
2021-22	4,323
2022-23	4,582
2023-24	4,858
Thereafter	45,544
	<u>\$ 67,352</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(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 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, 2019 is estimated to be \$9,231 (2018 - \$7,908) 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:

	2019	2018
Balance, beginning of year	\$ 196,056	\$ 182,915
Less amortization of deferred capital contributions	(13,186)	(12,379)
Add capital contributions received:		
Grants for equipment and buildings	13,289	25,318
Donated assets	4,308	86
Contributions to art collection	18	116
	<u>17,615</u>	<u>25,520</u>
Balance, end of year	<u>\$ 200,485</u>	<u>\$ 196,056</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(in thousands of dollars)

11. Employee future benefits:

(a) Employee future benefits liability:

	2019	2018
Post-employment and post-retirement benefit plans	\$ 139,406	\$ 132,113
Pension plan asset	(28,759)	(25,574)
	<u>\$ 110,647</u>	<u>\$ 106,539</u>

(b) Employee future benefits expense:

	Current service cost	Carrying cost	2019	2018
Post-employment and post-retirement benefit plans	\$ 5,108	\$ 8,059	\$ 13,167	\$ 12,381
Pension plan	13,806	(1,560)	12,246	14,024
	<u>\$ 18,914</u>	<u>\$ 6,499</u>	<u>\$ 25,413</u>	<u>\$ 26,405</u>

During the year, the University made cash contributions included in the total above of \$4,410 (2018 - \$3,871) and \$28,935 (2018 - \$26,446), respectively.

(c) Re-measurements and other items:

	2019	2018
Post-employment and post-retirement benefit plans	\$ (1,464)	\$ (4,367)
Pension plan	13,504	(21,767)
	<u>\$ 12,040</u>	<u>\$ (26,134)</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, 2019.

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, 2019
(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 unfunded going-concern liability and an unfunded \$223,736 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. 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, 2019, 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:

	2019	2018
Accrued benefit obligation	\$ 1,306,120	\$ 1,249,568
Less: fair value of Plan assets	1,334,879	1,275,142
Accrued benefit asset	<u>\$ (28,759)</u>	<u>\$ (25,574)</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 12(b).

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(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 14 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 14.

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:

	2019	2018
General appropriations	\$ 160,264	\$ 128,015
Pension liability reserve	128,941	128,941
Capital reserve	104,316	91,980
Student aid funds	3,499	4,623
Other projects and initiatives	22,363	15,644
Total operating appropriations	419,383	369,203
Research initiatives	42,260	39,371
Ancillary reserve fund	38,180	32,517
Entrepreneurial initiatives	4,734	4,384
Professional development funds	2,415	2,105
Scholarship funds	14	12
	\$ 506,986	\$ 447,592

(i) General appropriations relate to funds held centrally and within academic units to support long-term strategic initiatives as well as economic uncertainties.

(ii) Capital reserve funds relate to operating funds that have been allocated to capital improvements and additions, as well as for addressing the university's deferred maintenance.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(in thousands of dollars)

12. Net assets (continued):

(b) Internally restricted net assets (continued):

- (iii) Pension liability reserve represents funds set aside to cover future pension liabilities.
- (iv) Student aid funds relates to funds available to provide financial support to students.
- (v) Other projects and initiatives relates to funding set aside to support various initiatives, including improvements to campus facilities and infrastructure, as well as other initiatives aimed at improving the quality of the university's activities and programs.
- (vi) Ancillary reserve fund relates to funding available for improving ancillary programs and physical facilities.
- (vii) Research initiatives relates to funds that have been internally restricted for research activities.
- (viii) Entrepreneurial initiatives represents funds earmarked for the continuation of providing entrepreneurial activities at the university, including professional development services and seminars, non-credit course offerings, and contract services.
- (ix) Professional development funds are funds reserved for the professional development of faculty members.
- (x) Scholarship funds relates to funds that do not have donor placed restrictions on them, but have been internally earmarked for student support in future years.

13. Investment in tangible capital and intangible assets:

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

	2019	2018
Tangible capital and intangible assets	\$ 684,928	\$ 644,850
Less amounts financed by:		
Deferred capital contributions	(200,485)	(196,056)
Mortgages payable	(114)	(277)
Loans payable (Leeds, Prescott, Frontenac Lennox & Addington residences)	(58,868)	(61,739)
Other short-term financing	(15,007)	(7,841)
	<u>\$ 410,454</u>	<u>\$ 378,937</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(in thousands of dollars)

13. Investment in tangible capital and intangible assets (continued):

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

	2019	2018
Tangible capital and intangible assets additions:		
Total additions	\$ 74,787	\$ 61,295
Less:		
Contributions to art collection	(18)	(116)
Donated assets	(4,308)	(86)
Additions financed with grants	(13,289)	(25,318)
	<u>57,172</u>	<u>35,775</u>
Financing:		
Mortgages payable	163	153
Loans payable	2,871	2,714
Other short-term financing	(7,166)	43,226
	<u>(4,132)</u>	<u>46,093</u>
Amortization of deferred capital contributions	13,186	12,379
Amortization of tangible capital and intangible assets	(34,709)	(32,576)
	<u>(21,523)</u>	<u>(20,197)</u>
Net change in investment in tangible capital and intangible assets	<u>\$ 31,517</u>	<u>\$ 61,671</u>
Donated non-depreciable capital assets	\$ 18	\$ 116
Investment of unrestricted net assets	31,499	61,555
	<u>\$ 31,517</u>	<u>61,671</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(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% (2018 - 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 2019	Total 2018
Donations and bequests	\$ 11,027	\$ —	\$ 11,027	\$ 7,066
Internal contributions	3,153	—	3,153	20,356
Realized gains on sale of investment	11,304	367	11,671	8,332
Investment income	3,271	329	3,600	3,826
Distribution per donor agreement	—	—	—	(11,946)
Income distributions	(10,377)	(293)	(10,670)	(9,800)
	18,378	403	18,781	17,834
Unrealized gains (losses) on investments	7,005	238	7,243	(10,192)
Net change in year	25,383	641	26,024	7,642
Fund balance, beginning of year	262,294	7,092	269,386	261,744
Fund balance, end of year	\$ 287,677	\$ 7,733	\$ 295,410	\$ 269,386

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, 2019
(in thousands of dollars)

14. Endowments (continued):

The endowment balance consists of:

	2019	2018
Cumulative endowment principal	\$ 186,449	\$ 172,269
Cumulative undistributed investment income	86,257	81,656
Cumulative unrealized gains	22,704	15,461
Endowment balance on endowment investments	<u>\$ 295,410</u>	<u>\$ 269,386</u>

15. Contingent liabilities and commitments:

At April 30, 2019, commitments for future acquisitions, construction and renovations amounted to approximately \$64,215 (2018 - \$47,732).

Letters of credit totaling \$13,553 (2018 - \$13,954) were issued on behalf of the University at year-end.

A decommissioning plan has been approved by the members of the TRIUMF joint venture and the Canadian Nuclear Safety Commission (CNSC) that requires all members to be severally responsible for their share of the decommissioning costs as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions of decommissioning the facilities, TRIUMF has complied with federal legislation by putting a decommissioning plan in place for funding the cost of decommissioning that does not require any payments from the members of the joint venture.

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.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(in thousands of dollars)

17. Other revenue:

	2019	2018
Commissions and sponsorships	\$ 8,720	\$ 9,195
Medical insurance recoveries	1,696	1,487
Salary and benefit recoveries	1,601	1,263
Miscellaneous	9,102	8,260
	<u>\$ 21,119</u>	<u>\$ 20,205</u>

18. Other expenses:

	2019	2018
Licensing and membership fees	\$ 13,520	\$ 7,207
Support services	5,228	4,942
Equipment rental	4,995	4,834
Minor repair and upkeep	4,503	4,826
Advertising and promotion	4,369	3,746
Property taxes and insurance	3,247	3,010
Banking and bad debts	2,674	2,363
Communication	1,696	1,880
Miscellaneous	6,863	6,202
	<u>\$ 47,095</u>	<u>\$ 39,010</u>

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

	2019	2018
Decrease (increase) in accounts receivable	\$ 654	\$ (5,717)
Decrease (increase) in prepaid expenses	6,460	(15,524)
Increase (decrease) in accounts payable and accrued liabilities	(5,654)	7,394
Increase (decrease) in deferred revenue	(6,170)	33,870
Increase in accrued leave	1,073	301
	<u>\$ (3,637)</u>	<u>\$ 20,324</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(in thousands of dollars)

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 Statement of Investment Policies and Procedures 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 2019, \$1,508 (2018 - \$1,338) 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 2018.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2019
(in thousands of dollars)

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 consolidated financial statements, for the year ended March 31, 2019.

Endowment Fund	Ontario Student Opportunity Trust Funds		Trust for Student Support	Total 2019	Total 2018
	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	\$ 34	\$ 786	\$ 305	\$ 1,125	\$ 1,014
Realized investment income net of direct investment- related expenses and preservation of capital contributions	1,433	255	775	2,463	2,436
Bursaries awarded	(1,481)	(194)	(836)	(2,511)	(2,325)
Balance, end of year	\$ (14)	\$ 847	\$ 244	\$ 1,077	\$ 1,125
<i>Number of recipients</i>	886	114	532	1,532	1,435
Endowment total book value	\$ 16,902	\$ 5,622	\$ 17,263	\$ 39,787	\$ 39,834

22. Related Party Transaction:

During the year, a party-connected to a former director of the Board received \$130 (2018 - \$262) in remuneration for the purchase of services. The services were provided through a competitive procurement process and related to building improvements and renovations.

CARLETON UNIVERSITY

Schedule 1 - Consolidated Schedule of Changes in Ancillary Net Assets

Year ended April 30, 2019
(in thousands of dollars)

Unrestricted	Housing, Conference & Dining	Physical Recreation & Athletics	Parking Services	Health & Counselling Services	The Print Shop
Revenues	\$ 32,823	\$ 14,428	\$ 5,306	\$ 3,752	\$ 817
Expenses	26,128	13,390	4,508	4,574	757
Excess (deficiency) of revenues over expenses	6,695	1,038	798	(822)	60
Net assets, beginning of year	–	–	–	–	–
Transfer from (to) non-ancillary unrestricted net assets	(4,315)	1,513	(225)	478	(41)
Appropriated to internally restricted net assets	(2,380)	(2,551)	(573)	–	(19)
Return of funds from internally restricted net assets	–	–	–	344	–
Unrestricted net assets, end of year	\$ –	\$ –	\$ –	\$ –	\$ –

Internally restricted	Housing, Conference & Dining	Physical Recreation & Athletics	Parking Services	Health & Counselling Services	The Print Shop
Net assets, beginning of year	\$ 9,701	\$ 9,873	\$ 2,844	\$ 743	\$ 1,442
Appropriated from unrestricted net assets	2,380	2,551	573	–	19
Return of funds to unrestricted net assets	–	–	–	(344)	–
Internally restricted net assets, end of year	\$ 12,081	\$ 12,424	\$ 3,417	\$ 399	\$ 1,461

Ancillary Property Rentals	University Centre	Carleton DC Centre	Bookstore	Ancillary Capital Fund	Total 2019	Total 2018
\$ 1,074	\$ 638	\$ 237	\$ 688	\$ 918	\$ 60,681	\$ 60,562
287	79	419	547	213	50,902	54,419
787	559	(182)	141	705	9,779	6,143
1,695	–	–	–	–	1,695	1,713
(3,184)	–	300	(110)	517	(5,067)	1,606
–	(559)	(118)	(31)	(1,222)	(7,453)	(7,767)
1,446	–	–	–	–	1,790	–
\$ 744	\$ –	\$ –	\$ –	\$ –	\$ 744	\$ 1,695

Ancillary Property Rentals	University Centre	Carleton DC Centre	Bookstore	Ancillary Capital Fund	Total 2019	Total 2018
\$ 1,446	\$ 2,491	\$ –	\$ 267	\$ 3,710	\$ 32,517	\$ 24,750
–	559	118	31	1,222	7,453	7,767
(1,446)	–	–	–	–	(1,790)	–
\$ –	\$ 3,050	\$ 118	\$ 298	\$ 4,932	\$ 38,180	\$ 32,517