# ACADIA UNIVERSITY

MARCH 31

# 2012

# Annual Financial Statements

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# INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Acadia University

We have audited the accompanying financial statements of Acadia University, which comprise the statement of financial position as at March 31, 2012, the 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Acadia University as at March 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Other Matters*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the University taken as a whole. The supplementary information included in the Schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

Chartered Accountants
June 22, 2012
Halifax, Canada

**ACADIA UNIVERSITY**
**ANNUAL FINANCIAL STATEMENTS**
**YEAR ENDED MARCH 31, 2012**

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**ACADIA UNIVERSITY**
**STATEMENT OF FINANCIAL POSITION**
**AS AT MARCH 31, 2012**
**WITH COMPARATIVE FIGURES FOR 2011**
(thousands of dollars)

| **ASSETS** | **2012** | **2011** |
|---|---|---|
| Currents assets: | | |
| Cash | $27,169 | $17,477 |
| Accounts receivable (Note 3) | 3,269 | 3,465 |
| Inventories (Note 4) | 318 | 293 |
| Prepaid expenses | 1,025 | 945 |
| | 31,781 | 22,180 |
| Investments | 57,412 | 59,889 |
| Other assets (Note 5) | 739 | 1,259 |
| Capital assets (Note 6) | 137,752 | 140,208 |
| Total assets | $227,684 | 223,536 |

**LIABILITIES, DEFERRED CAPITAL CONTRIBUTIONS AND NET ASSETS**

| | | |
|---|---|---|
| Current liabilities: | | |
| Demand loans payable (Note 8a) | $772 | $788 |
| Accounts payable and accrued liabilities | 6,318 | 5,472 |
| Retirement incentives | 307 | 404 |
| Employee future benefits (Note 13) | 1,605 | 208 |
| Deferred revenue | 32,286 | 32,653 |
| Current portion of mortgages payable (Note 7) | 132 | 125 |
| Current portion of loans payable (Note 8b) | 4,978 | 2,218 |
| Expenses of future periods (Note 9a) | 10,841 | 9,971 |
| | 57,239 | 51,839 |
| Retirement incentives | 849 | 692 |
| Long term debt: | | |
| Loans payable (Note 8b) | 71,245 | 66,573 |
| Mortgages payable (Note 7) | 876 | 1,010 |
| Mark-to-market liability (Note 8c) | 7,991 | 4,992 |
| | 80,112 | 72,575 |
| Deferred capital contributions (Note 9b) | 50,433 | 51,599 |
| Net assets: (Note 10) | | |
| Accumulated operating deficit | (30,493) | (22,018) |
| Internally restricted | 3,872 | 3,326 |
| Restricted for endowments | 57,412 | 59,889 |
| Equity in capital assets | 8,260 | 5,634 |
| | 39,051 | 46,831 |
| Total liabilities, deferred capital contributions and net assets | $227,684 | $223,536 |

Contingent liabilities (Note 11)

**ACADIA UNIVERSITY**
**STATEMENT OF OPERATIONS**
**YEAR ENDED MARCH 31, 2012**
**WITH COMPARATIVE FIGURES FOR 2011**
(thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| **Revenues:** | | |
| Student academic fees | $32,436 | $29,187 |
| Government grants | 28,094 | 29,561 |
| Ancillary sales and services | 10,430 | 10,222 |
| Donations and gifts | 7,024 | 6,676 |
| Investment income | 2,713 | 1,787 |
| General | 2,595 | 2,458 |
| Amortization of deferred capital contributions | 3,061 | 2,972 |
| Total revenues | 86,353 | 82,863 |
| **Expenses:** | | |
| Salaries and wages | 41,352 | 42,617 |
| Fringe benefits | 6,171 | 5,465 |
| Accrued pension benefit adjustment (Note 13) | 1,397 | 1,427 |
| Pension special payments | 1,939 | 1,446 |
| Supplies and materials | 4,806 | 4,481 |
| Externally contracted services | 6,254 | 5,893 |
| Amortization of capital assets | 7,754 | 7,975 |
| Amortization of capital campaign costs | 494 | 494 |
| Ancillary cost of goods sold | 656 | 578 |
| Utilities | 4,685 | 4,056 |
| Long term debt interest | 4,521 | 4,650 |
| Travel | 2,051 | 1,690 |
| Scholarships and bursaries | 3,583 | 3,058 |
| Deferred maintenance and renovations | 508 | 548 |
| Library acquisitions | 864 | 694 |
| Professional fees | 602 | 525 |
| Other | 867 | 1,001 |
| Interest | 153 | 169 |
| Total expenses | 88,657 | 86,767 |
| Excess of expenses over revenues before the undernoted | (2,304) | (3,904) |
| Unrealized gain (loss) on swap transactions (Note 8c) | (2,999) | 43 |
| Excess of expenses over revenues | $(5,303) | $(3,861) |

**ACADIA UNIVERSITY**
**STATEMENT OF CHANGES IN NET ASSETS**
**YEAR ENDED MARCH 31, 2012**
**WITH COMPARATIVE FIGURES FOR 2011**
(thousands of dollars)

| | Accumulated Operating Deficit | Internally Restricted | Restricted for Endowments | Equity in Capital Assets | 2012 Total | 2011 Total |
|---|---|---|---|---|---|---|
| Balance, beginning of year | $(22,018) | $3,326 | $59,889 | $5,634 | $46,831 | $44,468 |
| Excess of revenue over expenses (expenses over revenue) | (745) | 135 | - | (4,693) | (5,303) | (3,861) |
| Gifts of endowment principal | - | - | 1,719 | - | 1,719 | 2,375 |
| Increase (decrease) in value of investments | - | - | (1,584) | - | (1,584) | 6,447 |
| Transfer to operating fund and internally restricted fund | - | - | (2,612) | - | (2,612) | (2,598) |
| Interfund transfers in (out) | (7,730) | 411 | - | 7,319 | - | - |
| Balance, end of year | $(30,493) | $3,872 | $57,412 | $8,260 | $39,051 | $46,831 |

**ACADIA UNIVERSITY**
**STATEMENT OF CASH FLOWS**
**YEAR ENDED MARCH 31, 2012**
**WITH COMPARATIVE FIGURES FOR 2011**
(thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| Cash provided by (used for): | | |
| Operating activities: | | |
| Excess of expenses over revenues | $(5,303) | $(3,861) |
| Items not involving cash: | | |
| Unrealized loss (gain) on swap transactions | 2,999 | (43) |
| Amortization of capital assets | 7,754 | 7,975 |
| Amortization of deferred capital contributions | (3,061) | (2,972) |
| Retirement Incentive | 157 | 692 |
| Change in non-cash working capital | 2,724 | (1,602) |
| | 5,270 | 189 |
| Investing activities: | | |
| Deferred capital contributions | 1,895 | 1,431 |
| Purchase of capital assets | (5,298) | (3,526) |
| Investment in other assets | 520 | 1,643 |
| Increase in investments | (1,719) | (2,375) |
| | (4,602) | (2,827) |
| Financing activities: | | |
| Endowment contributions | 1,719 | 2,375 |
| Issuance of long term debt | 9,625 | |
| Principal payments on long term debt | (2,320) | (3,293) |
| | 9,024 | (918) |
| Net increase (decrease) in cash | 9,692 | (3,556) |
| Cash, beginning of year | 17,477 | 21,033 |
| Cash, end of year | $27,169 | $17,477 |

Supplemental cash flow information (Note 15)

## 1. Authority and Purpose

Acadia University operates under the authority of *An Act Respecting Acadia University*, passed May 19, 1891. It is primarily an undergraduate, liberal arts institution providing a range of undergraduate, graduate and continuing education programs. The academic governance of the University is vested in the Senate. The University is a not-for-profit entity, governed by a Board of Governors, whose members are appointed from a variety of backgrounds, including business, alumni, government and the Convention of Atlantic Baptist Churches. The University is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

## 2. Significant Accounting Policies

a) Revenue recognition:
The University follows the deferral method of accounting for contributions, which includes donations and government grants. The University receives grants and donations from a number of different sources to cover operating, research and capital expenditures. The operating portion of the grants are recorded as revenue in the period to which they relate. The capital portion of grants are recorded as deferred contributions and amortized into revenue at a rate corresponding with the amortization rate of the related assets.

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.

Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized.

Endowment contributions are recognized as a direct increase in endowment net assets.

Revenue from tuition fees, residence fees, contracts and sales are recognized when the services are provided or the goods are sold.

b) Contributed services:
A substantial number of volunteers contribute a significant amount of their time each year. Due to the difficulty in determining its fair value, contributed services are not recognized in these financial statements.

c) Cash:
Cash includes petty cash, cash on deposit and short-term bank indebtedness with financial institutions.

d) Inventories:
Inventory on hand available for maintenance purposes is valued at the lower of cost, determined on a first in, first out basis, and net realizable value.

e) Financial instruments:

The University enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on portions of its long-term debt. It is not the University's policy to utilize derivative financial instruments for trading or speculative purposes. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

The University documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific portions of long term debt on the statement of financial position. The University also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity that were deferred under other current, or non-current, assets or liabilities on the statement of financial position, would be recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

The University has elected to use the exemption provided by the Canadian Institute of Chartered Accountants ("CICA") permitting not for profit organizations not to apply the following Sections of the CICA Handbook: Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, which would otherwise have applied to the financial statements of the University for the year ended March 31, 2012. The University applies the requirements of Section 3861, Financial Instruments - Disclosure and Presentation.

f) Capital campaign expenses:

Capital campaign expenses were deferred until the capital campaign was complete. These expenses are being amortized over five years.

(thousands of dollars)

g) Investments:

Investments are composed of units in specific pooled funds and are held for trading, accordingly they are stated at fair value. These funds are focused on specific asset types and at year-end the composition of the underlying assets was as follows: domestic equities 37.20% (2011 – 41.63%), international equities 27.19% (2011 – 25.31%), bonds 35.06% (2011 – 31.00%), cash 0.55% (2011 – 2.06%). The fund administrators operate within an asset mix guideline developed and monitored by the Investment Committee of the Board of Governors. In determining fair value, adjustments have not been made for transaction costs as they are not considered to be significant. Fair value is defined as the unit values supplied by the fund administrators, which represents the University's proportionate share of underlying net assets at fair values.

Investment income on endowments, which is comprised of gains (net of any losses) realized on the disposition of units in the invested funds and unrealized appreciation (depreciation) in the market value of the units is recorded in the statement of operations and accumulated operating deficit when this income is available for spending. In any particular year, net investment income (loss) may be insufficient to fund the amount made available for spending. In this circumstance, current spending is funded by income accumulated from prior years where earnings exceeded the amount required for spending in those years. In 2012, $2,602 (2011 – $2,598) was transferred from endowment principal to meet spending requirements.

h) Capital assets:

Purchased capital assets are recorded at cost. Donated capital assets, other than donated works of art which are not capitalized, are recorded at fair value at the date of acquisition. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized.

Capital assets are amortized on a straight-line basis over the following useful lives of the respective assets. One half year's amortization is taken in the year of acquisition.

| | |
|---|---|
| Buildings | 40 |
| Land improvements | 20 |
| Facility improvements | 15 |
| Equipment and equipment under capital lease | 5 |
| Library holdings | 10 |
| Roadways | 15 |
| Software | 5 |
| Computer equipment | 3 |
| Vehicles | 3 |

Amortization of construction in progress, which consists of buildings, will commence upon occupancy.

i) Employee benefit plans:

The University maintains a defined benefit plan providing pension benefits which covers substantially all of its employees. Pension plan assets are valued at fair market value for purposes of calculating expected return on plan assets. The actuarial determination of the accrued benefit obligations for pension and other retirement benefits uses the projected benefit method pro-rated on services (which incorporates management's best estimates of investment performance, future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The measurement date of the plan assets and accrued benefit obligation coincides with the University's fiscal year. The most recent actuarial valuation of the pension plan for funding purposes was as of April 30, 2010.

The University will amortize actuarial gains or losses (such as changes in actuarial assumptions and experience gains and losses) over a certain minimum amount. The amortization is over the expected average years of future service of active employees. The average remaining service period of the active employees covered by the pension plan is 16 years (2011 -16 years). Past service costs arising from plan amendments are deferred and amortized on a straight line basis over the average remaining service period of employees active at the date of amendments. The transitional pension obligation that arose on adoption of CICA Handbook Section 3461 is being amortized on a straight line basis over 10 years.

j) Use of estimates:

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(thousands of dollars)

## 3. Accounts Receivable

| | 2012 | 2011 |
|---|---|---|
| Student accounts | $874 | $923 |
| Less: allowance for doubtful accounts | (375) | (374) |
| | 499 | 549 |
| Special accounts | 469 | 454 |
| Special grants* | 1,966 | 2,064 |
| Other | 335 | 398 |
| Total | $3,269 | $3,465 |

*The University has an outstanding receivable as at March 31, 2012 of $240,000 which represents funds held in trust by legal counsel. This amount is related to the loan from the Province of Nova Scotia for the renovation of Cutten House and essentially represents a holdback. Upon receipt of notification that the renovation is substantially complete, these funds will be released to the University.

## 4. Inventories

| | 2012 | 2011 |
|---|---|---|
| Maintenance supplies | $290 | $276 |
| Other | 28 | 17 |
| Total | $318 | $293 |

## 5. Other Assets

| | | 2012 | 2011 |
|---|---|---|---|
| Investment in Valley Community Fibre Network, at cost | | $200 | $200 |
| Deferred capital campaign expenses | $2,472 | | |
| Accumulated amortization | (1,977) | 495 | 989 |
| Long term contracts | | 44 | 70 |
| Total | | $739 | $1,259 |

(thousands of dollars)

## 6. Capital Assets

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| Buildings | $193,128 | $82,257 | $110,871 | $189,786 | $77,833 | $111,953 |
| Equipment | 24,308 | 22,142 | 2,166 | 23,620 | 21,136 | 2,484 |
| Library holdings | 5,414 | 4,585 | 829 | 5,406 | 4,349 | 1,057 |
| Land | 952 | - | 952 | 952 | - | 952 |
| Land improvements | 19,376 | 8,819 | 10,557 | 19,376 | 7,850 | 11,526 |
| Facility improvements | 10,694 | 2,358 | 8,336 | 10,296 | 1,658 | 8,638 |
| Roadways | 254 | 209 | 45 | 254 | 192 | 62 |
| Software | 1,122 | 1,092 | 30 | 1,122 | 1,065 | 57 |
| Computer equipment | 3,327 | 3,055 | 272 | 3,131 | 2,795 | 336 |
| Vehicles | 502 | 418 | 84 | 402 | 402 | - |
| Equipment – capital lease | 1,314 | 1,314 | - | 1,314 | 1,314 | - |
| Construction in progress | 3,610 | - | 3,610 | 3,143 | - | 3,143 |
| Total | $264,001 | $126,249 | $137,752 | $258,802 | $118,594 | $140,208 |

(thousands of dollars)

## 7. Mortgages Payable

| | 2012 | 2011 |
|---|---|---|
| Crowell Tower residence C.M.H.C. 6.875% mortgage, maturing August 1, 2020 Repayable in semi-annual payments of $62 including principal and interest | $787 | $854 |
| Eaton House residence and Wheelock Dining Hall C.M.H.C. 5.375% mortgage, maturing September 1, 2015 Repayable in semi-annual payments of $37 including principal and interest | 221 | 281 |
| | 1,008 | 1,135 |
| Current portion | 132 | 125 |
| Total | $876 | $1,010 |

The mortgages are secured by the residence buildings listed above. The principal due within each of the next five years on mortgages payable is approximately as follows:

| | |
|---|---|
| 2013 | $132 |
| 2014 | 141 |
| 2015 | 150 |
| 2016 | 122 |
| 2017 | 92 |

(thousands of dollars)

## 8. Loans Payable

a) Demand loans:
Bank of Montreal - demand loans bearing interest at bank prime plus 1.00%.

b) Long term debt:

| | 2012 | 2011 |
|---|---|---|
| Residence Advantage – Whitman/Eaton/Christofor | $9,056 | $9,419 |
| Residence Advantage – Chase Court | 9,027 | 9,326 |
| Residence Advantage – Dennis/Chipman | 7,950 | 8,228 |
| Residence Advantage – Jodrey Hall | 6,063 | 6,272 |
| Wheelock Renovation | 2,455 | 2,723 |
| Cutten Renovation | 1,878 | 1,915 |
| Sustainability Initiative | 7,205 | 7,460 |
| Biology Building | 22,964 | 23,448 |
| Cutten Renovation 2012 | 2,625 | - |
| Operating Loan | 7,000 | - |
| | 76,223 | 68,791 |
| Current portion | 4,978 | 2,218 |
| Total | $71,245 | $66,573 |

Residence Advantage - Whitman/Eaton/Christofor - Bank of Montreal term facility at a fixed rate of 6.15% plus a 75 basis point credit spread payment. The interest rate of 6.15% is fixed for a period of 25 years to January 15, 2027. The credit spread payment of 75 basis points is due for renewal on January 15, 2012. The facility is being amortized over a period of 25 years with blended monthly payments of principal and interest of approximately $83.

Residence Advantage - Chase Court - Bank of Montreal term facility at a fixed rate of 6.01% plus a 75 basis point credit spread payment. The interest rate of 6.01% is fixed for a period of 25 years to February 1, 2029. The credit spread payment of 75 basis points is due for renewal on February 1, 2014. The facility is being amortized over a period of 25 years with blended monthly payments of principal and interest of approximately $77.

Residence Advantage - Dennis/Chipman - Bank of Montreal term facility at a fixed rate of 6.25% plus a 75 basis point credit spread payment. The interest rate of 6.25% is fixed for a period of 25 years to April 1, 2028. The credit spread payment of 75 basis points is due for renewal on March 26, 2013. The facility is being amortized over a period of 25 years with blended monthly payments of principal and interest of approximately $70.

Residence Advantage - Jodrey Hall - Bank of Montreal term facility at a fixed rate of 5.99% plus a 75 basis point credit spread payment. The interest rate of 5.99% is fixed for a period of 25 years to September 1, 2028. The credit spread payment of 75 basis points is due for renewal on October 1, 2013. The facility is being amortized over a period of 25 years with blended monthly payments of principal and interest of approximately $52.

Wheelock Renovation - Royal Bank, 3.40% term loan maturing January 10, 2013 at which time the University will renegotiate for another term. The loan is being amortized over 10 years and is repayable in blended monthly payments of principal and interest of approximately $30.

Cutten Renovation - Bank of Montreal, prime plus 1.00% term loan, amortized over 25 years, maturing March 31, 2029. Repayable in blended monthly payments of principal and interest of $10.

Sustainability Initiative - Bank of Montreal, term financing bearing interest at 5.62% plus a 75 basis point credit spread payment. The interest rate of 5.62% is fixed for a period of 20 years to September 1, 2028. The credit spread payment of 75 basis points is effective for the life of the loan. The sustainability project is being amortized over a period of 20 years, maturing January 2028 with a maximum term of 10 years. Repayable in blended monthly payments of principal and interest of $60.

Biology Building - Bank of Montreal term financing bearing interest at 6.02% plus a 75 basis point credit spread payment. The interest rate of 6.02% is fixed for a period of 25 years to February 1, 2034. The credit spread payment of 75 basis points is effective for the life of the loan. The loan is being amortized over a period of 25 years with blended monthly payments of principal and interest of approximately $169.

Cutten Renovation 2012 – Province of Nova Scotia, 2.52% loan amortized over 5 years, maturing April 1, 2017. Repayable in blended monthly payments of principal and interest of approximately $47. The loan is secured by the land and building relating to the renovation.

Long Term Operating Loan – Nova Scotia Opportunity Fund Incorporated, 5 year loan, maturing December 31, 2016. Interest is fixed at 3.25% payable annually with principal due at maturity. The loan is secured by land and buildings with value not less than that of the loan.

The Bank of Montreal loans payable are unsecured, however, there is a restrictive covenant placed upon the ability of the University to pledge the assets as security for future indebtedness.

The University has entered into interest rate swap agreements with the Bank of Montreal in order to reduce the impact of fluctuating interest rates on certain of its long-term debt obligations. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The University designates certain of its interest rate hedge agreements as hedges of the underlying debt. In the hedges, swap payments are reflected as interest expense and accounted for on an accrual basis. The principal underlying the swap agreements, which have been designated as hedges, amounts to $39,301 at March 31, 2012 (2011 - $40,705).

c) The interest rate swap associated with the Biology Building long-term debt was entered into on February 19, 2009 with principal payments commencing February 19, 2010. Due to the timing difference of the interest rate swap and principal repayments, the hedge of the underlying debt is deemed ineffective and differences between the fixed and floating rate of interest will be assessed annually and recognized as an unrealized gain (loss). The principal underlying the Biology Building swap agreement amounts to $22,964 at March 31, 2012 (2011 - $23,448).

(thousands of dollars)

d) The Bank of Montreal banking agreement contains restrictive covenants related to earnings levels and debt coverage. The covenant, if in default, gives the bank the right to demand payment and as a result the Bank of Montreal long term debt would be shown as a current liability in its entirety.

e) The principal due within each of the next five years on loans payable is approximately as follows:

| | |
|---|---|
| 2013 | $4,978 |
| 2014 | 2,703 |
| 2015 | 2,850 |
| 2016 | 3,006 |
| 2017 | 10,171 |

## 9. Deferred Contributions

a) Expenses of future periods

Deferred contributions related to expenses of future periods represent unspent externally restricted grants, endowment income and donations for research.

| | Research | Special Reserves | 2012 Total | 2011 Total |
|---|---|---|---|---|
| Balance, beginning of year | $2,361 | $7,610 | $9,971 | $9,846 |
| Amounts received during the year | 6,169 | 1,724 | 7,893 | 6,801 |
| Amounts utilized during the year | (5,482) | (1,541) | (7,023) | (6,676) |
| Balance, end of year | $3,048 | $7,793 | $10,841 | $9,971 |

b) Deferred capital contributions

Deferred capital contributions related to capital assets represent the unamortized amount of grants and donations received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

| | 2012 | 2011 |
|---|---|---|
| Balance, beginning of year | $51,599 | $53,140 |
| Contributions received | 1,895 | 1,431 |
| Less amounts amortized to revenue | (3,061) | (2,972) |
| Balance, end of year | $50,433 | $51,599 |

## 10. Net Assets

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, such resources are classified for accounting purposes into funds according to the activities or objectives specified.

Accumulated Operating Deficit
The accumulated operating deficit accounts for the academic, administrative, and other operational costs, which are financed by fees, grants, and other general income. For expenditures other than regular salaries, the University follows a policy of appropriating unexpended budget balances in departments. Over expended budgets are carried over into the following fiscal year as a first charge against the appropriate budget account through inter-fund transfers.

Internally Restricted
Internally restricted funds represent amounts set aside by the University for specific, as well as unspent budget appropriations accumulated by academic and other budget units.

Restricted for Endowments
Endowment principal consists of restricted donations to the University, the original investment of which is required to be maintained in perpetuity. The investment income generated from endowments must be used in accordance with the various purposes established by the donor. Benefactors, as well as University policy stipulate that over time the economic value must be protected by limiting the amount of income that may be expensed into income.

To meet the foregoing requirements, the University has established an Endowment Management policy with the following goals:

- to balance present spending needs with expected future requirements
- to protect the purchasing power of the capital base of endowments while achieving stability in year-to-year spending, and
- to attain real increases in spending through capital appreciation from new gifts, capital investment gains, and the capitalization of income.

Equity in Capital Assets
Equity in Capital Assets represents the unamortized cost of capital assets acquired through the expenditure of unrestricted and operating resources.

## 11. Contingent Liabilities

a) The University participates in a reciprocal exchange of insurance risks in association with fifty Canadian universities. This self-insurance cooperative (CURIE) involves a contractual agreement to share the insurance property and liability risks of member universities for a term of not less than five years.

The projected cost of claims will be funded through members' premiums based on actuarial projections. As of December 31, 2011, CURIE had a surplus of $48.6 million of which the University's prorata share is approximately 1.04% on an ongoing basis. In addition, CURIE has obtained $995 million re-insurance with commercial insurers to cover major property claims in excess of $5 million per occurrence.

In respect of General Liability, the limit is $5 million per occurrence and on behalf of subscribers, an excess policy for $25 million above CURIE's $5 million limit is in place.

In respect of Errors and Omissions, the limit is $5 million per occurrence and on behalf of subscribers, an excess policy combined with General Liability for $25 million above CURIE's $5 million limit is in place.

In the event premiums are not sufficient to cover claim settlements, the member universities would be subject to an assessment in proportion to their participation.

b) The University is party to legal proceedings involving former employees. The claims are presently being defended by the University. It is not possible at this time to make an estimate of the amount of settlements, if any, that may result. Accordingly, no provision has been made in the financial statements.

c) From time to time, the University is involved in litigation or proceedings relating to claims arising out of its operations in the ordinary course of business. It is the opinion of management that the aggregate amount of any potential liability is not expected to have a material adverse effect on the University's financial position or results and any claims arising out of the ordinary course of business are adequately provided for.

## 12. Pledges

As at March 31, 2012, the University had outstanding campaign pledges of approximately $5,545 (2011 - $6,529) which have not been recorded in the accounts.

(thousands of dollars)

## 13. Employee Future Benefits

The University has a defined benefit pension plan covering substantially all of its employees. The University also has other benefit programs which include retirement enhancement benefits, sick time benefits and supplemental pension benefits paid to some former employees of the University. The defined pension benefits are based on length of service and final average earnings, and are indexed for inflation after retirement. The other benefits are not funded.

The most recent actuarial valuation of the plan for funding purposes reflected a going concern unfunded liability of $13,481 as of April 30, 2010. The next actuarial valuation of the plan for funding purposes will be conducted as at April 30, 2013. The Plan's actuary has extrapolated the results of the April 30, 2010 actuarial valuation of the plan for funding purposes to March 31, 2011 yielding the following information:

The reconciliation of the funded status of the defined benefit plan to the amounts recorded in the financial statements is as follows:

| | Pension and retirement enhancement plans 2012 | Other benefit programs 2012 | All plans 2012 | All plans 2011 |
|---|---|---|---|---|
| Accrued benefit obligation, beginning of year | $132,387 | $834 | $133,221 | $116,654 |
| Current service cost (employer portion) | 3,490 | 52 | 3,542 | 2,936 |
| Interest cost | 7,683 | 43 | 7,726 | 7,463 |
| Employees' contributions | 2,237 | - | 2,237 | 2,201 |
| Benefits paid | (8,571) | (41) | (8,612) | (7,371) |
| Actuarial loss (gain) | 13,568 | (92) | 13,476 | 9,012 |
| Plan amendments | - | - | - | 2,315 |
| Net transfer in (out) | - | - | - | 11 |
| Accrued benefit obligation, end of year | $150,794 | $796 | $151,590 | $133,221 |

The reconciliation of the funded status of the defined benefit plan to the accrued benefit liability is as follows:

| | 2012 | 2011 |
|---|---|---|
| Fair value of plan assets | $97,174 | $99,796 |
| Accrued benefit obligation | 151,590 | 133,221 |
| Deficiency at end of year | (54,416) | (33,425) |
| Unamortized transitional obligation | 134 | 145 |
| Unamortized past service cost | 4,716 | 5,912 |
| Unamortized net actuarial loss | 47,961 | 27,160 |
| Accrued benefit asset (liability) | $(1,605) | $(208) |

(thousands of dollars)

The percentage of the fair value of the plan assets by major category is as follows:

| | 2012 | 2011 |
|---|---|---|
| Equity securities | 61.1% | 63.4% |
| Debt securities | 38.4% | 35.9% |
| Cash and equivalents | 0.5% | 0.7% |

The significant assumptions used are as follows (weighted average):

| | Pension plan and retirement enhancements | | Other benefit programs | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Accrued benefit obligation as of March 31: | | | | |
| Discount rate for defined benefits | 1.60-5.15% | 2.25-5.84% | 2.60-4.80% | 3.50-5.45% |
| Rate of compensation increase | 4.00% | 4.00% | 4.00% | 4.00% |
| Benefit costs for years ended March 31: | | | | |
| Discount rate for defined benefits | 5.74% | 6.08% | 5.74% | 6.08% |
| Expected long term rate of return on plan assets | 6.75% | 7.00% | N/A | N/A |
| Rate of compensation increase | 4.00% | 4.00% | 4.00% | 4.00% |

Pension benefit costs recognized in the year are $6,727 (2011 - $5,598). The cash amount of employer contributions to the defined pension benefit plan were $5,000 (2011 - $3,994). The University made payments of $330 (2011 - $176) in respect of the other benefit programs.

(thousands of dollars)

## 14. Financial Instruments

a) Fair values

The fair value of investments is calculated as described in Note 2 (g). The fair value of the long-term debt approximates their carrying value because the calculated contractual rates of interest approximate the current market rate available to the University. The fair values of the other financial assets and liabilities, being cash, short-term investments, accounts receivable, demand loans payable and accounts payable and accrued liabilities approximate their carrying values due to the short term nature of these instruments.

Although the University has no intention of settling these instruments at March 31, 2012, if the University had settled the interest rate swaps described in Note 8 it would have been required to pay $19,387 (2011 - $12,764).

b) Credit risk

Financial instruments which potentially subject the University to credit risk consist primarily of cash, short term investments and accounts receivable. The University limits the amount of credit exposure with its cash and short term investment balances by only maintaining deposits with major financial institutions. Accounts receivable consist mainly of student accounts and amounts owing from agencies of the Federal Government of Canada and the Provincial Government of Nova Scotia. To reduce credit risk with student accounts, the University places restrictions on the issuance of certain university privileges and the issuance of grades and degrees until payment on account is made, but does not generally require collateral.

The University is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Credit exposure is minimized by dealing mostly with creditworthy counterparties such as highly rated financial institutions.

c) Interest rate risk

Interest rate risk is minimized as the majority of the University's long term debt is fixed by the use of interest rate swaps. The only fluctuating debt is related to the demand loans payable.

## 15. Supplemental cash flow information

| | 2012 | 2011 |
|---|---|---|
| Cash paid during the year for: | | |
| Interest on long-term debt | $4,527 | $4,656 |

## 16. Collections

The Art Gallery of Acadia University has a collection of donated paintings and other art works, which are not recorded in the financial statements, having an insured value of $1,684. The insured value is based on a valuation carried out in 1993, adjusted for subsequent acquisitions.

## 17. Related Entities

The Acadia Centre for Social and Business Entrepreneurship (ACSBE) is a society incorporated under the laws of the Province of Nova Scotia. ACSBE has been organized to study, promote, and assist the activities of small businesses and entrepreneurs through research, analysis, counselling, and distribution of educational information. The University appoints three members to the Board of Directors and acts as the banker for the transactions of ACSBE. At March 31, 2012, the University owed ACSBE $14 (2011 – ACSBE owed $62).

The Acadia Divinity College is a Christian theological seminary located on the campus of Acadia University. Academically, the Acadia Divinity College is considered a Faculty of the University. Financially, it is incorporated as a separate legal entity under the laws of the Province of Nova Scotia. Many administrative services are provided by the University to the college under a service contract with terms similar to those that would be offered to the general public. At March 31, 2012, the University owed the Acadia Divinity College $23 (2011 – Acadia Divinity College owed $15).

**SCHEDULE A**

**ACADIA UNIVERSITY**
**SCHEDULE OF OPERATIONS BY FUND**
**YEAR ENDED MARCH 31, 2012**
**WITH COMPARATIVE FIGURES FOR 2011**
(thousands of dollars)

| | Operating/ Ancillary Operations | Special Reserves | Research | Endowment | Capital | 2012 Total | 2011 Total |
|---|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | | |
| Student academic fees | $32,436 | $ - | $ - | $ - | $ - | $32,436 | $29,187 |
| Government grants | 28,044 | 50 | - | - | - | 28,094 | 29,561 |
| Ancillary sales and services | 10,430 | - | - | - | - | 10,430 | 10,222 |
| Donations and gifts | - | 1,541 | 5,483 | - | - | 7,024 | 6,676 |
| Investment income | 108 | 354 | - | 2,251 | - | 2,713 | 1,787 |
| General | 1,931 | 568 | 96 | - | - | 2,595 | 2,458 |
| Amortization of deferred capital contribution | - | - | - | - | 3,061 | 3,061 | 2,972 |
| Total Revenue | 72,949 | 2,513 | 5,579 | 2,251 | 3,061 | 86,353 | 82,863 |
| **Expenses:** | | | | | | | |
| Wages - academic | 23,138 | - | 557 | - | - | 23,695 | 25,158 |
| Wages - academic other | 2,583 | 141 | 2,254 | - | - | 4,978 | 4,765 |
| Wages - other | 12,486 | 134 | 59 | - | - | 12,679 | 12,694 |
| Total wages | 38,207 | 275 | 2,870 | - | - | 41,352 | 42,617 |
| Fringe benefits | 5,899 | 28 | 244 | - | - | 6,171 | 5,465 |
| Accrued pension benefit adjustment (Note 13) | 1,397 | - | - | - | - | 1,397 | 1,427 |
| Pension special payments | 1,939 | - | - | - | - | 1,939 | 1,446 |
| Supplies and materials | 3,623 | 330 | 853 | - | - | 4,806 | 4,481 |
| Externally contracted services | 5,442 | 263 | 549 | - | - | 6,254 | 5,893 |
| Amortization of capital assets | - | - | - | - | 7,754 | 7,754 | 7,975 |
| Amortization of capital campaign costs | - | 494 | - | - | - | 494 | 494 |
| Ancillary cost of goods sold | 656 | - | - | - | - | 656 | 578 |
| Utilities | 4,684 | 1 | - | - | - | 4,685 | 4,056 |
| Long term debt interest | 4,521 | - | - | - | - | 4,521 | 4,650 |
| Travel | 1,251 | 86 | 714 | - | - | 2,051 | 1,690 |
| Scholarships and bursaries | 3,466 | 117 | - | - | - | 3,583 | 3,058 |
| Deferred maintenance and renovations | 508 | - | - | - | - | 508 | 548 |
| Library acquisitions | 731 | 133 | - | - | - | 864 | 694 |
| Professional fees | 321 | - | - | 281 | - | 602 | 525 |
| Other | 739 | - | 128 | - | - | 867 | 1,001 |
| Interest | 153 | - | - | - | - | 153 | 169 |
| Total expenses | 73,537 | 1,727 | 5,358 | 281 | 7,754 | 88,657 | 86,767 |
| Excess of revenues over expenses (expenses over revenues) before appropriations and unusual item | $(588) | $786 | $221 | $1,970 | $(4,693) | $(2,304) | $(3,904) |

**SCHEDULE B**

**ACADIA UNIVERSITY**
**STATEMENT OF EXPENSES BY FUNCTION - OPERATING AND ANCILLARIES**
**YEAR ENDED MARCH 31, 2012**
**WITH COMPARATIVE FIGURES FOR 2011**
(thousands of dollars)

| | Academic | Plant Maintenance | Admini-stration | Library | Student Services | Other | Ancillary Operations | 2012 Total | 2011 Total |
|---|---|---|---|---|---|---|---|---|---|
| Wages - academic | $23,058 | $- | $- | $19 | $61 | $- | $- | $23,138 | $24,687 |
| Wages - academic other | 2,347 | - | 77 | - | 159 | - | - | 2,583 | 2,545 |
| Wages - other | 3,751 | 471 | 3,284 | 1,620 | 2,129 | - | 1,231 | 12,486 | 12,294 |
| Total wages | 29,156 | 471 | 3,361 | 1,639 | 2,349 | - | 1,231 | 38,207 | 39,526 |
| Fringe benefits | 4,548 | 259 | 344 | 245 | 360 | - | 143 | 5,899 | 5,235 |
| Accrued pension benefit adjustment (Note 13) | 1,066 | 17 | 123 | 60 | 86 | - | 45 | 1,397 | 1,427 |
| Pension special payments | 1,480 | 24 | 171 | 83 | 119 | - | 62 | 1,939 | 1,446 |
| Supplies and materials | 1,238 | 289 | 702 | 5 | 971 | - | 418 | 3,623 | 3,385 |
| Externally contracted services | 78 | 5,149 | 106 | 53 | 5 | - | 51 | 5,442 | 5,296 |
| Ancillary cost of goods sold | - | - | 68 | - | - | - | 588 | 656 | 578 |
| Utilities | - | 4,684 | - | - | - | - | - | 4,684 | 4,055 |
| Long term debt interest | - | - | - | - | - | 2,031 | 2,490 | 4,521 | 4,650 |
| Travel | 663 | 11 | 285 | 17 | 274 | - | 1 | 1,251 | 990 |
| Scholarships and bursaries | - | - | - | - | - | 3,466 | - | 3,466 | 2,946 |
| Deferred maintenance and renovations | - | - | - | - | - | 503 | 5 | 508 | 548 |
| Library acquisitions | 5 | - | - | 726 | - | - | - | 731 | 633 |
| Professional fees | 114 | - | 207 | - | - | - | - | 321 | 259 |
| Other | 32 | 470 | 98 | 11 | 29 | 97 | 2 | 739 | 733 |
| Interest | - | - | - | - | - | 153 | - | 153 | 169 |
| Total gross expenditures | 38,380 | 11,374 | 5,465 | 2,839 | 4,193 | 6,250 | 5,036 | 73,537 | 71,876 |
| Transfer of physical plant expenditures | | | | | | | | | |
| Ancillary Operations | - | (3,350) | - | - | - | - | 3,350 | - | - |
| Total expenditures | $38,380 | $8,024 | $5,465 | $2,839 | $4,193 | $6,250 | $8,386 | $73,537 | $71,876 |