ACADIA UNIVERSITY

MARCH 31

2017

Annual Financial Statements

Independent auditor's report

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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, 2017, the statements of operations, changes in net assets and cash flows for the year then ended, and 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 accounting standards for not-for-profit organizations 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.

Auditor's 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 audits 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 the auditor's 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, the auditor considers internal control relevant to the University'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 University'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, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other matters

Our audit was conducted for the purpose of forming an opinion on the financial statements of Acadia University taken as a whole. The supplementary information included in the Schedule A and B 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.

Grant Thornton LLP

Halifax, Canada
October 13, 2017

Chartered Professional Accountants
Licensed Public Accountants

ACADIA UNIVERSITY
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2017

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ACADIA UNIVERSITY
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2017
WITH COMPARATIVE FIGURES FOR MARCH 31, 2016
(thousands of dollars)

ASSETS	**2017**	**2016** Restated (Note 20)
Currents assets:		
Cash	$16,843	$6,251
Accounts receivable (Note 3)	7,654	6,846
Prepaid expenses	1,519	1,422
	26,016	14,519
Investments	81,636	74,509
Other assets (Note 4)	200	200
Capital assets (Note 5)	115,910	118,397
Intangible assets (Note 5)	197	144
Total assets	$223,959	$207,769

LIABILITIES, DEFERRED CONTRIBUTIONS AND NET ASSETS

Current liabilities:		
Demand loans payable (Note 7a)	$652	$679
Accounts payable and accrued liabilities	10,156	9,975
Amounts due to governments	103	111
Retirement incentives	254	343
Deferred revenue	6,595	6,309
Current portion of mortgages payable (Note 6)	101	92
Current portion of loans payable (Note 7b)	10,750	4,408
Current portion of obligations under capital lease (Note 8)	24	23
	28,635	21,940
Retirement incentives	497	718
Employee future benefits (Note 15)	3,113	3,306
Deferred capital and other contributions (Note 9)	74,443	64,334
Long term debt:		
Loans payable (Note 7b)	49,720	59,543
Mortgages payable (Note 6)	278	380
Obligations under capital lease (Note 8)	39	63
Mark-to-market liability (Note 7c)	7,080	8,623
	57,117	68,609
Net assets: (Note 10)		
Accumulated operating deficit (Note 20)	(40,411)	(43,013)
Internally restricted	6,596	5,331
Restricted for endowments	81,600	74,448
Equity in capital assets	12,369	12,096
	60,154	48,862
Total liabilities, deferred contributions and net assets	$223,959	$207,769

Commitments (Note 12)
Contingent liabilities (Note 13)
Subsequent event (Note 21)

Approved by the Board of Governors

John Rogers
Chair of the Board

President and Vice Chancellor

See accompanying notes to the financial statements

ACADIA UNIVERSITY
STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2017
WITH COMPARATIVE FIGURES FOR 2016
(thousands of dollars)

	2017	2016 Restated (Note 20)
Revenues:		
Student academic fees	$38,134	$36,434
Government grants	30,979	30,417
Other grants	4,782	6,358
Ancillary sales and services	12,565	11,370
Donations and gifts	242	2,257
Investment income	4,819	4,354
General	3,290	3,060
Amortization of deferred capital contributions	3,329	3,134
Total revenues	98,140	97,384
Expenses:		
Salaries and wages	44,771	45,335
Fringe benefits	7,408	7,686
Pension special payments (Note 15)	237	976
Supplies and materials	7,147	6,876
Externally contracted services	7,242	7,896
Amortization of capital and intangible assets	8,355	8,099
Ancillary cost of goods sold	1,009	778
Utilities	4,682	4,595
Long term debt interest	3,738	3,928
Travel	2,199	2,241
Scholarships and bursaries	4,918	4,742
Deferred maintenance and renovations	940	816
Library acquisitions	975	977
Professional fees	1,000	661
Other	920	933
Interest	1	41
Total expenses	95,542	96,580
Excess of revenues over expenses (expenses over revenues) before the undernoted	2,598	804
Unrealized gain (loss) on swap transactions (Note 7c)	1,542	(175)
Excess of revenues over expenses (expenses over revenues)	$4,140	$629

See accompanying notes to the financial statements

ACADIA UNIVERSITY
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2017
(thousands of dollars)

	Accumulated Operating Deficit	Internally Restricted	Restricted for Endowments	Equity in Capital Assets	2017 Total	2016 Restated (Note 20) Total
Balance, March 31, 2016	$(43,013)	$5,331	$74,448	$12,096	$48,862	$31,128
Excess of revenue over expenses (expenses over revenue)	8,842	324	-	(5,026)	4,140	629
Remeasurement and other adjustments	-	-	-	-	-	21,127
Gifts of endowment principal	-	-	3,488	-	3,488	2,814
Increase in value of investments	-	-	8,031	-	8,031	(3,130)
Transfer to operating fund and internally restricted fund	-	-	(4,367)	-	(4,367)	(3,706)
Interfund transfers in (out)	(6,240)	941	-	5,299	-	-
Balance, March 31, 2017	$(40,411)	$6,596	$81,600	$12,369	$60,154	$48,862

See accompanying notes to the financial statements

ACADIA UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2017
WITH COMPARATIVE FIGURES FOR 2016
(thousands of dollars)

	2017	**2016**
Cash provided by (used for):		Restated (Note 20)
Operating activities:		
Excess of revenues over expenses (expenses over revenues)	$4,140	$629
Items not involving cash:		
Unrealized (gain) loss on swap transactions	(1,542)	175
Amortization of capital assets and intangibles	8,355	8,099
Amortization of deferred capital contributions	(3,329)	(3,134)
Retirement incentive	(221)	(139)
Employee future benefits	(193)	(3,302)
Gain on disposal of capital assets	-	(272)
Change in non-cash working capital	(561)	(1,659)
	6,649	397
Investing activities:		
Deferred capital and other contributions	13,437	1,656
Proceeds on disposals	-	271
Purchase of capital assets	(5,921)	(4,062)
Net purchase of investments	(3,463)	(3,290)
	4,053	(5,425)
Financing activities:		
Endowment contributions	3,488	2,814
Repayment of obligations under capital lease	(23)	(8)
Principal payments on long term debt	(3,575)	(3,423)
	(110)	(617)
Net change in cash	10,592	(5,645)
Cash, beginning of year	6,251	11,896
Cash, end of year	$16,843	$6,251

Supplemental cash flow information (Note 17)

See accompanying notes to the financial statements

1. Authority and purpose and financial condition

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) Basis of accounting:
These financial statements have been prepared in accordance with Canadian generally accepted accounting principles using Canadian accounting standards for not-for-profit organizations in Part III of the CPA Handbook.

b) Fund accounting:
The University maintains its accounting records using fund accounting. Under this method, resources are classified for accounting and reporting purposes into funds in accordance with specific activities or objectives. Restricted funds carry restrictions on the use of the resources for particular defined purposes.

The University has classified accounts with similar characteristics into major funds as follows:

The Operating/Ancillary Operations Fund, an unrestricted fund, accounts for the University's primary function of instruction, including academic, support services, administrative services, facilities management and other operating activities. It also accounts for ancillary operations that provide goods and services to the University community, which are supplementary to the functions of instruction, research and services.

The University's restricted funds, consisting of the Capital Fund, Research Fund, Endowment Fund and Special Reserve Fund, account for resources made available to the University by third parties, by way of grants, service contracts or gifts. These resources are restricted as to their use by third parties or the Board of Governors.

The Capital Fund, a restricted fund, accounts for the acquisition of capital assets, the amortization of capital assets and the amortization of any externally restricted contributions received to fund these assets.

The Research Fund, a restricted fund, accounts for the activities that support research.

The Endowment Fund accounts for investment income earned on the endowment principal and related expenditures (such as investment management fees).

The Special Reserves Fund accounts for the expenditure of externally restricted contributions which are not research, endowment, capital or operating in nature. Expenditures within this fund are typically project related

c) Revenue recognition:
The University follows the deferral method of accounting for contributions. The University receives grants and donations from a number of different sources to cover operating, research, capital and other special purpose expenditures. Using this method, restricted grants and contributions are deferred to future periods with the related expenses regardless of when the funds are received. Restricted contributions are recognized as revenue in the same accounting period as the related expense. Restricted contributions for which the related expenses have not been incurred are reported in deferred capital and other contributions.

Revenue from tuition fees, residence fees, other academic fees, and sales are recognized in the operating fund when services are provided and goods are sold. Operating grants are recorded as revenue in the operating fund in the period to which they relate. Revenues from the sources above, including operating grants, received during the period related to future periods is included in deferred revenues. Unrestricted contributions are recognized as revenue in the operating fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

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 in the capital fund. These are restricted contributions as they relate directly to the acquisition of capital assets.

Externally restricted contributions, related to research and special projects, are recorded as deferred contributions and are recognized as revenue in the applicable fund in the year in which the related expenses are recognized.

Endowment contributions are recognized as a direct increase in endowment net assets in the year the contribution is received. Investment income earned on restricted funds is recorded as revenue within the appropriate restricted fund and must be spent on the restricted activities. Other investment income is recognized as revenue in the operating fund when earned.

d) 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.

e) Contributed assets:
Contributed assets held for sale, including property and land, are recorded at the date of sale when an estimation of the fair value is uncertain.

f) Cash:
Cash includes petty cash, cash on deposit and bank indebtedness with financial institutions.

g) Financial instruments:
The University considers any contract creating a financial asset or liability as a financial instrument. Financial instruments consist of cash, investments, accounts receivables, accounts payable and accrued liabilities, amounts due to governments, short and long-term debt, capital lease obligations and mark to market liabilities.

The University initially measures its financial assets and liabilities at fair value. Cash is measured and reported at fair value. The University has chosen to measure and report investments at fair value using quoted market values based on actively traded markets. The University records the change in fair value as income from investments. All other financial assets are recorded at amortized cost. Financial transaction costs are expensed as incurred. Financial liabilities are recorded at amortized cost.

The University removes financial liabilities, or a portion thereof, when the obligation is discharged, cancelled or expires. A financial asset (or group of similar financial assets) measured at cost or amortized cost are tested for impairment when there are indicators of impairment. Impairment losses are recognized in the statement of operations. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in the statement of operations.

h) Interest rate swap agreements and hedge accounting:

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.

The University designates each interest rate swap agreement as a cash flow hedge of a specifically identified debt instrument. Swap agreements that are effective hedges, both at maturity and over the term of the agreement, since the term to maturity, the notional principal amount, and the interest rate of the swap agreements all match the terms of the debt instruments being hedged. The swap agreements involve periodic exchange of payments and are recorded as an adjustment of the interest expense on the hedged debt instrument. The fair value of derivative instruments eligible and qualifying for hedge accounting is not recognized in the Statement of Financial Position.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity are recognized in income in the period in which the underlying hedged transaction is terminated. 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 does have one component of long term debt that is not hedged from an accounting perspective. 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 fair value of derivative instruments not eligible for hedge accounting are recognized in the Statement of Financial Position as Mark-to-market assets (liabilities).

(thousands of dollars)

i) Investments and other assets:
Investments are composed of units in specific pooled funds and accordingly they are stated at fair value. The cost of the investments held at year end is $69,705 (2016 - $68,435). These funds are focused on specific asset types and at year-end the composition of the underlying assets was as follows: domestic equities 31.32% (2016 – 29.93%), international equities 45.62% (2016 – 38.46%), bonds / managed cash funds 23.11% (2016 – 31.61%), cash 0.00% (2016 – 0.00%). An asset mix guideline is monitored by the Investment Committee of the Board of Governors. 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.

Interest and dividends earned on investments is reported as investment income. 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 2017, $4,367 (2016 - $3,706) was transferred from endowment principal to meet spending requirements.

The University has an investment in the Valley Community Fibre Network and this investment has been recorded at cost within other assets.

j) Capital assets:
Purchased capital assets are recorded at cost. Interest on financing during construction is added to the capitalized costs. 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. Management reviews estimates of useful lives of capital assets and adjusts the estimates as required. Management regularly reviews assets for impairment and adjusts as required.

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. The range of estimated useful lives for each of the capital asset categories is shown below and expressed in number of years.

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

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

k) Intangible assets:

Intangible assets are an identifiable non-monetary asset without physical substance. The University has a number of computer software programs that meet the definition of an intangible asset.

Intangible assets are recorded at cost. Intangible assets are amortized on a straight-line basis over the useful life of 5 years. One half year's amortization is taken in the year of acquisition. Management reviews estimates of useful lives of intangible assets and adjusts the estimates as required. Management regularly reviews assets for impairment and adjusts as required.

l) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The amount of impairment loss is determined as the excess of the carrying value of the asset over its fair value, determined as the undiscounted cash flow expected from use or eventual disposition.

m) Employee benefit plans:

Employees of the University participate in the Public Service Superannuation Plan ("PSSP"), a contributory pension plan administered by the Pension Services Superannuation Plan Trustee Incorporated, which provides pension benefits based on length of service and earnings. The University is not obligated for any unfunded liability, nor is the University entitled to any surplus that may arise in the PSSP. Employer contributions are recognized as an expense in the period.

n) Retirement incentive:

The University accrues the full cost of the early retirement obligations in the year in which the event that creates the obligation occurs. The University has determined the outstanding retirement incentive based on each retiree. As the incentive is paid to retirees over a number of years, the obligation is amortized into income based on the payment schedule. The outstanding obligation has been recorded at its present value.

o) 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. Estimates are involved in the calculation of the collectible amount of accounts receivable, deferred revenue, the useful lives of capital and intangible assets and their amortization, accrued liabilities for payroll and employee future benefits, the fair value of investments and financial instruments. Actual results could differ from those estimates. Estimates are regularly reviewed by management and adjusted as required.

(thousands of dollars)

3. Accounts receivable

	2017	2016
Student accounts	$1,153	$1,075
Less: allowance for doubtful accounts	(149)	(248)
	1,004	827
Special accounts	195	705
Special grants	5,444	5,124
Other	1,011	190
Total	$7,654	$6,846

4. Other assets

	2017	2016
Investment in Valley Community Fibre Network, at cost	$200	$200
Total	$200	$200

(thousands of dollars)

5. Capital assets and Intangible assets

Capital assets	2017			2016		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Buildings	$ 191,736	$ 104,543	$ 87,193	$ 191,736	$ 100,042	$ 91,694
Equipment	27,494	25,823	1,671	26,738	25,193	1,545
Library holdings	5,432	5,318	114	5,432	5,223	209
Land	952	-	952	952	-	952
Land improvements	19,559	13,682	5,877	19,473	12,706	6,767
Facility improvements	26,323	8,309	18,014	23,105	6,661	16,444
Roadways	294	253	41	259	246	13
Computer equipment	5,248	4,689	559	4,896	4,289	607
Vehicles	563	531	32	539	515	24
Equipment – capital lease	1,408	1,361	47	1,408	1,330	78
Construction in progress	1,410	-	1,410	64	-	64
Total	$ 280,419	$ 164,509	$ 115,910	$ 274,602	$ 156,205	$ 118,397

Intangible assets	2017			2016		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Software	$ 1,428	$ 1,231	$ 197	$ 1,324	$ 1,180	$ 144

(thousands of dollars)

6. Mortgages payable

	2017	2016
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	$379	$472
	379	472
Current portion	101	92
Total	$278	$380

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:

2018	$101
2019	106
2020	113
2021	59
2022	-

(thousands of dollars)

7. Loans payable

a) Demand loans:
Bank of Montreal – non-revolving and unsecured demand loans bearing interest at bank prime plus 0.75%.

b) Loans payable:

	2017	2016
Residence Advantage – Whitman/Eaton/Christofor (i)	$6,866	$7,359
Residence Advantage – Chase Court (ii)	7,231	7,635
Residence Advantage – Dennis/Chipman (iii)	6,264	6,645
Residence Advantage – Jodrey Hall (iv)	4,807	5,089
Wheelock Renovation (v)	927	1,240
Cutten Renovation (vi)	1,574	1,641
Sustainability Initiative (vii)	5,697	6,033
Biology Building (viii)	20,057	20,711
Cutten Renovation 2012 (ix)	47	598
Operating Loan (x)	7,000	7,000
	60,470	63,951
Current portion	10,750	4,408
Total	$49,720	$59,543

i) Residence Advantage - Whitman/Eaton/Christofor - Bank of Montreal term facility at a fixed rate of 6.15% plus a 50 basis point credit spread payment. The interest rate of 6.15% is fixed for a period of 25 years to January 1, 2027. The credit spread payment of 50 basis points is effective for the life of the loan. The facility is being amortized over a period of 25 years with blended monthly payments of principal and interest of approximately $83.

ii) Residence Advantage - Chase Court - Bank of Montreal term facility at a fixed rate of 6.01% plus a 50 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 50 basis points is effective for the life of the loan. The facility is being amortized over a period of 25 years with blended monthly payments of principal and interest of approximately $77.

iii) Residence Advantage - Dennis/Chipman - Bank of Montreal term facility at a fixed rate of 6.25% plus a 50 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 50 basis points is effective for the life of the loan. The facility is being amortized over a period of 25 years with blended monthly payments of principal and interest of approximately $70.

iv) Residence Advantage - Jodrey Hall - Bank of Montreal term facility at a fixed rate of 5.99% plus a 50 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 50 basis points is effective for the life of the loan. The facility is being amortized over a period of 25 years with blended monthly payments of principal and interest of approximately $52.

v) Wheelock Renovation - Royal Bank, 1.85% term loan maturing January 10, 2018 at which time the University will renegotiate for another term. The loan is being amortized over 7 years and is repayable in blended monthly payments of principal and interest of approximately $28.

vi) Cutten Renovation - Bank of Montreal, prime plus 0.75% term loan, amortized over 25 years, maturing March 31, 2029. The loan is repayable in blended monthly payments of principal and interest of $10.

vii) Sustainability Initiative - Bank of Montreal, term financing bearing interest at 5.62% plus a 50 basis point credit spread payment. The interest rate of 5.62% is fixed for a period of 20 years to November 1, 2028. The credit spread payment of 50 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.

viii) Biology Building - Bank of Montreal term financing bearing interest at 6.02% plus a 50 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.

ix) Cutten Renovation 2012 – Province of Nova Scotia, 2.61% loan amortized over 5 years, maturing April 1, 2017. Repayable in blended monthly payments of principal and interest of approximately $47.

x) Long Term Operating Loan – Nova Scotia Opportunity Fund Incorporated, 5 year loan, maturing 2017. Interest is fixed at 3.25% payable annually with principal due at maturity. This loan was due March 31, 2017 however was subsequently extended to June 30, 2017.

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.

c) 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.

i) The University designates certain of its interest rate swap 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 $30,865, at March 31, 2017 (2016 - $32,761). Although the University has no intention of settling these instruments at March 31, 2017, if the University had settled the interest rate swaps described, it would have been required to pay $7,929 (2016 - $10,133).

ii) 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 $20,057 at March 31, 2017 (2016 - $20,711). The fair value of the swap is $7,081 at March 31, 2017 (2016 - $8,623).

(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 loans payable would be shown as a current liability in its entirety. The University was compliant with debt requirements at yearend.

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

2018	$10,750
2019	2,946
2020	3,127
2021	3,318
2022	3,522

8. Obligations under capital lease

a) Leases:

	2017	2016
Vehicle (i)	$38	$49
Equipment (ii)	25	37
	63	86
Current portion	24	23
Total	$39	$63

i) Vehicle – lease agreement ending August 22, 2020 at an interest rate of 4.99%.
ii) Equipment – lease agreement ending December 1, 2018 with an imputed interest rate of 7.74%.

b) The payments due within each of the next five years to meet repayment is approximately as follows:

2018	$24
2019	22
2020	12
2021	5
2022	-

(thousands of dollars)

9. Deferred capital and other 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.

Deferred other contributions related to research and special reserves represent externally restricted grants, restricted research donations, and other restricted gifts or donations that have been received in the current period or a prior period which have not been spent.

	Capital	Research	Special Reserves	2017 Total	2016 Total
Balance, beginning of year	$ 48,528	$ 3,279	$ 12,527	$ 64,334	$ 65,812
Contributions and grants received during the year	9,620	4,682	4,007	18,309	10,150
Amounts utilized during the year	-	(4,780)	(91)	(4,871)	(8,494)
Amounts amortized to revenue	(3,329)	-		(3,329)	(3,134)
Balance, end of year	$ 54,819	$ 3,181	$ 16,443	$ 74,443	$ 64,334

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.

Internally restricted
Internally restricted funds relate to research and special projects for 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.

To meet the foregoing requirements, the University has established an Investment Policy with the following goals:
- to protect the original donation to the university and its earning potential;
- to balance the current operational expenditure requirement with the expected future requirements; and
- to establish a framework that provides transparency related to the management and activities related to endowed funds.

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

(thousands of dollars)

11. Interfund transfers

	2017				2016			
	General	Restricted	Endowment	Capital	General	Restricted	Endowment	Capital
Interfund transfers in (out)								
Research	$287	$(287)	$ -	$ -	$244	$(244)	$ -	$ -
Program support	2,276	1,742	(4,018)	-	2,666	805	(3,471)	-
Purchase capital	(1,955)	258	-	1,697	(1,715)	(468)	-	2,183
Debt reduction	(3,589)	-	(13)	3,602	(3,089)	(249)	(13)	3,351
Total	$(2,981)	$1,713	$(4,031)	$5,299	$(1,894)	$(156)	$(3,484)	$5,534

Interfund transfers are the result of transferring funding or spending to the appropriate fund for matching purposes.

12. Commitments

As at March 31, 2017, the University had outstanding commitments to a third party's for physical plant services for approximately $6,884 (2016 - $6,781).

The University is in the process renovating and upgrading Elliott Hall and Huggins Hall as well as creating an Innovation Pavilion between the two buildings. The total cost of the project is estimated to be $22,250, of which $15,980 will be funded by the Government of Canada and the Province of Nova Scotia, and the remaining investment of $6,270 will be made from private donors. As of March 31, 2017, $1,309 in construction costs have been incurred. The project will be completed in 2018.

13. Contingent liabilities

a) The University participates in a reciprocal exchange of insurance risks in association with over 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, 2016, CURIE had a surplus of $84.9 million of which the University's prorata share is approximately 1.106% on an ongoing basis. In addition, CURIE has obtained $1,245 billion (2016 - $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) 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.

14. Pledges

As at March 31, 2017, the University had outstanding campaign pledges of approximately \$7,704 (2016 - \$6,139) which have not been recorded in the accounts.

15. Employee future benefits

On July 1, 2015, the University transitioned its pension plan to the Public Service Superannuation Plan ("PSSP"). Prior to this, the Acadia University Pension Plan was a defined benefit pension plan covering substantially all of its employees. Acadia University employees now participate in the PSSP, a contributory multi-employer defined benefit pension plan administered by the Pension Services Superannuation Plan Trustee Incorporated, which provides pension benefits based on length of service and earnings.

At the date of transition, based on the actuarial methodology and assumptions of the PSSP, the University's plan had assets available to transfer of \$127,836, actuarial liabilities of \$130,410, and residual deficiency of \$2,574. The deficiency is required to be paid in monthly instalments of principal and interest from the date of transition and is amortized over a 10-year period.

The PSSP is accounted for as a defined contribution plan as the obligation to pay retirement obligations does not reside with the University. The funding surplus of the PSSP as at March 31, 2017 is \$238,734. Contributions to the Plan are required by both the employer, Acadia University, and its employees. Total employer contributions for 2017 were \$3,664 (2016 - \$3,339) and are recognized as an expense in the period.

Other employee future benefits include the present value of other long term employee benefits.

16. Financial instruments

a) Fair values

The fair value of investments is calculated as described in Note 2 (f). 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.

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. All student accounts are reviewed throughout the year. At the end of each year, all delinquent accounts are written off.

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.

d) Liquidity risk

Liquidity risk management serves to ensure that the University maintains sufficient cash flow and utilizes bank loans to meet the operating requirements of the University. The University maintains detailed budgets and cash flow forecasts. The University maintains a short-term line of credit that is designed to ensure that funds are available to meet current and forecasted financial requirements in the most cost effective manner.

e) Market risk

The University's investments are affected by market conditions. The University monitors its exposure and impact of changes to the market value.

17. Supplemental cash flow information

	2017	2016
Cash paid during the year for:		
Interest on long-term debt	$3,750	$3,947

(thousands of dollars)

18. 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 $1,730. The insured value is based on an entire collection valuation carried out in 1993, adjusted for new acquisitions and subsequent piece valuation.

19. Related entities

The Acadia Entrepreneurship Centre (ACE) (formerly Acadia Centre for Social and Business Entrepreneurship) is a society incorporated under the laws of the Province of Nova Scotia. ACE 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 ACE. At March 31, 2017, the ACE owed the University $25 (2016 –ACE owed University $17).

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, 2017, the Acadia Divinity College owed the university $436 (2016 –, the Acadia Divinity College owed the university $157).

20. Prior period restatement

During the year, the University identified a liability that was incurred in 2016 related to supplemental pension payments which will be made to its employees over eight years related to the transition to the PSSP. As a result, net assets and pension special payments were overstated and accrued liabilities was understated in 2016. Adjustments to the statement of financial position, statement of operations and statement of changes in net assets for the year ended March 31, 2016 are as follows:

	As originally reported	Increase (decrease)	Restated
Pension special payments	$1,382	($406)	$976
Accounts payable & accrued liabilities	$7,079	$2,896	$9,975
Remeasurement and other adjustments	$24,429	($3,302)	$21,127

21. Subsequent event

On June 21, 2017, Acadia University received formal notification from the Nova Scotia Strategic Opportunities Improvement Fund (SOFI) that the University is relieved of all obligations associated with the $7,000 loan due to SOFI on June 30, 2017 (Note 7b(x)).

On October 3, 2017, the University concluded a refinance of the loans and associated interest rate swaps outstanding with Bank of Montreal (refer to note 7). This resulted in a settlement of the existing swaps of $12,201 that will be included in the new consolidated loans with the Bank of Montreal of $61,564. The existing mark-to-market interest rate swap liability of $7,080 will be derecognized.

SCHEDULE A

ACADIA UNIVERSITY
SCHEDULE OF OPERATIONS BY FUND
YEAR ENDED MARCH 31, 2017
(thousands of dollars)

	Operating/ Ancillary Operations	Special Reserves	Research	Endowment	Capital	2017 Total	2016 Restated (Note 20) Total
Revenues:							
Student academic fees	$38,134	$ -	$ -	$ -	$ -	$38,134	$36,434
Government grants	30,979	-	-	-	-	30,979	30,417
Other grants	-	-	4,782	-	-	4,782	6,358
Ancillary sales and services	12,565	-	-	-	-	12,565	11,370
Donations and gifts	143	91	8	-	-	242	2,257
Investment income	177	211	1	4,430	-	4,819	4,354
General	2,186	1,087	17	-	-	3,290	3,060
Amortization of deferred capital contribution	-	-	-	-	3,329	3,329	3,134
Total Revenue	84,184	1,389	4,808	4,430	3,329	98,140	97,384
Expenses:							
Wages - academic	24,127	112	424	-	-	24,663	24,609
Wages - academic other	2,854	201	1,983	-	-	5,038	5,905
Wages - other	14,722	294	54	-	-	15,070	14,821
Total wages	41,703	607	2,461	-	-	44,771	45,335
Fringe benefits	6,962	81	365	-	-	7,408	7,686
Pension special payments	237	-	-	-	-	237	976
Supplies and materials	5,866	642	639	-	-	7,147	6,876
Externally contracted services	6,610	18	614	-	-	7,242	7,896
Amortization of capital assets	-	-	-	-	8,355	8,355	8,099
Ancillary cost of goods sold	1,009	-	-	-	-	1,009	778
Utilities	4,680	2	-	-	-	4,682	4,595
Long term debt interest	3,738	-	-	-	-	3,738	3,928
Travel	1,572	154	473	-	-	2,199	2,241
Scholarships and bursaries	3,976	942	-	-	-	4,918	4,742
Deferred maintenance and renovations	804	136	-	-	-	940	816
Library acquisitions	910	65	-	-	-	975	977
Professional fees	601	-	-	399	-	1,000	661
Other	762	-	158	-	-	920	933
Interest	1	-	-	-	-	1	41
Total expenses	79,431	2,647	4,710	399	8,355	95,542	96,580
Excess of revenues over expenses (expenses over revenues) before appropriations and unusual item	$4,753	$(1,258)	$98	$4,031	$(5,026)	$2,598	$804

SCHEDULE B

ACADIA UNIVERSITY
STATEMENT OF EXPENSES BY FUNCTION - OPERATING AND ANCILLARIES
YEAR ENDED MARCH 31, 2017
(thousands of dollars)

	Academic	Plant Maintenance	Administration	Library	Student Services	Other	Ancillary Operations	2017 Total	2016 Restated (Note 20) Total
Wages - academic	$24,014	$-	$-	$43	$70	$-	$-	$24,127	$24,062
Wages - academic other	2,694	-	30	-	130	-		2,854	2,923
Wages - other	4,623	559	3,833	1,614	2,554	-	1,539	14,722	14,450
Total wages	31,331	559	3,863	1,657	2,754	-	1,539	41,703	41,435
Fringe benefits	5,206	99	672	288	515	-	182	6,962	7,319
Pension special payments	185	2	21	11	12	-	6	237	976
Supplies and materials	1,884	235	1,222	19	1,368	-	1,138	5,866	5,313
Externally contracted services	187	6,277	21	60	8	-	57	6,610	6,854
Ancillary cost of goods sold	-	-	31	-	-	-	978	1,009	778
Utilities	-	4,680	-	-	-	-	-	4,680	4,590
Long term debt interest	-	-	-	-	-	1,908	1,830	3,738	3,928
Travel	514	8	510	18	520	-	2	1,572	1,435
Scholarships and bursaries	-	-	-	-	-	3,821	155	3,976	3,803
Deferred maintenance and renovations	-	-	-	-	-	798	6	804	816
Library acquisitions	17	-	-	893	-	-	-	910	893
Professional fees	66	-	526	-	9	-	-	601	289
Other	33	475	158	13	81	-	2	762	764
Interest	-	-	-	-	-	1	-	1	41
Total gross expenditures	39,423	12,335	7,024	2,959	5,267	6,528	5,895	79,431	79,234
Transfer of physical plant expenditures Ancillary Operations	-	(3,754)	-	-	-	-	3,754	-	-
Total expenditures	$39,423	$8,581	$7,024	$2,959	$5,267	$6,528	$9,649	$79,431	$79,234