

ACADIA UNIVERSITY



MARCH 31

2014

Annual
Financial
Statements

Independent auditor's report

To the Board of Governors of
Acadia University

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We have audited the accompanying financial statements of Acadia University which comprise the statement of financial position as at March 31, 2014, 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 audits. We conducted our audits 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, 2014, 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 audits were 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 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.

Halifax, Canada
June 19, 2014

Grant Thornton LLP

Chartered Accountants

**ACADIA UNIVERSITY
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014**

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ACADIA UNIVERSITY
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2014
WITH COMPARATIVE FIGURES FOR MARCH 31, 2013
(thousands of dollars)

ASSETS	2014	2013
Currents assets:		
Cash	\$8,357	\$35,743
Accounts receivable (Note 3)	4,122	3,594
Inventories (Note 4)	331	282
Prepaid expenses	1,160	1,198
	<u>13,970</u>	<u>40,817</u>
Investments	72,041	61,451
Other assets (Note 5)	200	207
Capital assets (Note 6)	126,284	130,034
Intangible assets (Note 6)	79	16
	<u>79</u>	<u>16</u>
Total assets	\$212,574	\$232,525

LIABILITIES, DEFERRED CONTRIBUTIONS AND NET ASSETS

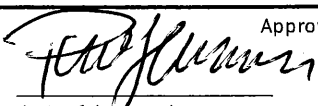
Current liabilities:		
Demand loans payable (Note 8a)	\$727	\$754
Accounts payable and accrued liabilities	6,920	7,016
Amounts due to governments	352	39
Retirement incentives	334	290
Deferred revenue	5,391	33,161
Current portion of mortgages payable (Note 7)	150	141
Current portion of loans payable (Note 8b)	3,146	2,993
	<u>17,020</u>	<u>44,394</u>
Retirement incentives	1,212	631
Employee future benefits (Note 14)	11,584	5,991
Deferred capital and other contributions (Note 9)	63,583	62,616
Long term debt:		
Loans payable (Note 8b)	67,268	70,426
Mortgages payable (Note 7)	584	734
Mark-to-market liability (Note 8c)	6,349	8,181
	<u>74,201</u>	<u>79,341</u>
Net assets: (Note 10)		
Accumulated operating deficit	(38,473)	(36,316)
Internally restricted	4,162	3,920
Restricted for endowments	70,714	61,451
Equity in capital assets	8,571	10,497
	<u>44,974</u>	<u>39,552</u>

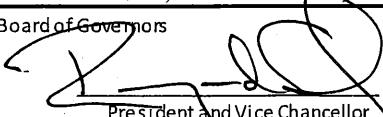
Total liabilities, deferred contributions and net assets	\$212,574	\$232,525
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Commitments (Note 11);

Contingent liabilities (Note 12)

Approved by the Board of Governors


Chair of the Board


President and Vice Chancellor

ACADIA UNIVERSITY
STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2014
WITH COMPARATIVE FIGURES FOR 2013
(thousands of dollars)

	2014	2013
Revenues:		
Student academic fees	\$36,020	\$34,239
Government grants	31,479	29,365
Other grants	6,363	6,174
Ancillary sales and services	12,580	11,592
Donations and gifts	24	2,345
Investment income	3,488	1,438
General	2,544	2,819
Amortization of deferred capital contributions	2,848	2,913
<hr/>		
Total revenues	95,346	90,885
<hr/>		
Expenses:		
Salaries and wages	44,546	41,824
Fringe benefits	6,505	6,057
Accrued pension benefit adjustment (Note 14)	5,593	4,252
Pension special payments	1,539	1,539
Supplies and materials	6,272	5,412
Externally contracted services	7,517	7,279
Amortization of capital and intangible assets	7,764	7,728
Ancillary cost of goods sold	808	556
Utilities	5,172	4,796
Long term debt interest	4,306	4,715
Travel	2,332	2,119
Scholarships and bursaries	4,245	3,804
Deferred maintenance and renovations	2,128	1,373
Library acquisitions	858	800
Professional fees	635	484
Other	794	733
Interest	6	24
<hr/>		
Total expenses	101,020	93,495
<hr/>		
Excess of expenses over revenues before the undemoted	(5,674)	(2,610)
<hr/>		
Unrealized gain (loss) on swap transactions (Note 8c)	1,833	(191)
<hr/>		
Excess of expenses over revenues	\$(3,841)	\$(2,801)
<hr/>		

ACADIA UNIVERSITY
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

	Accumulated Operating Deficit	Internally Restricted	Restricted for Endowments	Equity in Capital Assets	2014 Total	2013 Total
Balance, March 31, 2013	\$(36,316)	\$3,920	\$61,451	\$10,497	\$39,552	\$38,314
Excess of revenue over expenses (expenses over revenue)	1,201	(126)	-	(4,916)	(3,841)	(2,801)
Gifts of endowment principal	-	-	1,683	-	1,683	1,714
Increase (decrease) in value of investments	-	-	10,361	-	10,361	4,752
Transfer to operating fund and internally restricted fund	-	-	(2,781)	-	(2,781)	(2,427)
Interfund transfers in (out)	(3,358)	368	-	2,990	-	-
Balance, March 31, 2014	\$(38,473)	\$4,162	\$70,714	\$8,571	\$44,974	\$39,552

ACADIA UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2014
WITH COMPARATIVE FIGURES FOR 2013
(thousands of dollars)

	2014	2013
Cash provided by (used for):		
Operating activities:		
Excess of expenses over revenues	\$(3,841)	\$(2,801)
Items not involving cash:		
Unrealized (gain) loss on swap transactions	(1,833)	191
Amortization of capital assets and intangibles	7,764	7,728
Amortization of deferred capital contributions	(2,848)	(2,913)
Retirement incentive	581	(218)
Employee future benefits	5,593	4,252
Gain on disposal of capital assets	(57)	(185)
Impairment of capital assets	-	572
Change in non-cash working capital	(28,073)	1,114
	(22,714)	7,740
Investing activities:		
Deferred capital contributions	3,815	4,147
Proceeds on disposals	230	1,056
Purchase of capital assets	(4,251)	(1,469)
Investment in other assets	7	37
Increase in investments	(1,683)	(1,714)
	(1,882)	2,057
Financing activities:		
Endowment contributions	357	1,714
Principal payments on long term debt	(3,147)	(2,937)
	(2,790)	(1,223)
Net change in cash	(27,386)	8,574
Cash, beginning of year	35,743	27,169
Cash, end of year	\$8,357	\$35,743
Supplemental cash flow information (Note 16)		

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

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) 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) Funding accounting:

Under fund accounting, 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 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, contains restricted and unrestricted funds, accounts for the expenditure of externally restricted contributions which are not research, endowment, capital or operating in nature.

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

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 and capital expenditures. The University follows the deferral method of accounting for contributions, which includes donations and government grants, to ensure that revenue is recognized in the appropriate periods.

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, other than endowment contributions, are recognized as revenue in the Operating 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) Cash:

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

f) 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.

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, and mark to market liabilities.

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

The University initially measures its financial assets and liabilities at fair value. Cash and short-term investments are measured and reported at fair value. The University has chosen to measure and report long-term investments at fair value using quoted market values based on actively traded markets. The University records the change in fair value as part of the 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. Financing fees related to financial liabilities are deferred and amortized over the period of the related liability. Management reviews financial instruments for impairment and adjusts as required.

h) Interest rate swap agreements:

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.

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 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).

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(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. These funds are focused on specific asset types and at year-end the composition of the underlying assets was as follows: domestic equities 38.10% (2013- 37.40%), international equities 34.89% (2013 – 28.82%), bonds / managed cash funds 27.01% (2013 – 33.74%), cash 0.00% (2013 – 0.05%). An asset mix guideline was developed and 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 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 2014, \$2,781 (2013 - \$2,427) 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.

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

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 following useful lives of the respective assets. 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.

One half year's amortization is taken in the year of acquisition. The estimated useful life for intangible assets is shown below and expressed in number of years.

Software	5
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l) 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 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 (2013 - 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.

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

m) 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.

n) 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, investments and the fair value of financial instruments. Actual results could differ from those estimates. Estimates are regularly reviewed by management and adjusted as required.

3. Accounts receivable	<u>2014</u>	<u>2013</u>
Student accounts	\$1,345	\$1,351
Less: allowance for doubtful accounts	(332)	(363)
	<hr/>	<hr/>
	1,013	988
Special accounts	359	461
Special grants	2,656	2,020
Other	94	125
Total	<hr/> \$4,122 <hr/>	<hr/> \$3,594 <hr/>

4. Inventories	<u>2014</u>	<u>2013</u>
Maintenance supplies	\$290	\$259
Other	41	23
Total	<hr/> \$331 <hr/>	<hr/> \$282 <hr/>

5. Other assets	<u>2014</u>	<u>2013</u>
Investment in Valley Community Fibre Network, at cost	\$200	\$200
Long term contracts	-	7
Total	<hr/> \$200 <hr/>	<hr/> \$207 <hr/>

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

6. Capital assets and Intangible assets

Capital assets	2014			2013		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Buildings	\$ 191,821	\$ 91,048	\$ 100,773	\$ 192,046	\$ 86,577	\$ 105,469
Equipment	25,315	23,886	1,429	25,076	23,073	2,003
Library holdings	5,430	4,957	473	5,428	4,788	640
Land	952	-	952	952	-	952
Land improvements	19,472	10,760	8,712	19,376	9,788	9,588
Facility improvements	14,709	4,138	10,571	14,019	3,182	10,837
Roadways	254	232	22	254	223	31
Computer equipment	4,114	3,526	588	3,628	3,255	373
Vehicles	508	486	22	502	452	50
Equipment – capital lease	1,314	1,314	-	1,314	1,314	-
Construction in progress	2,742	-	2,742	91	-	91
Total	\$ 266,631	\$ 140,347	\$ 126,284	\$ 262,686	\$ 132,652	\$ 130,034

Intangible assets	2014			2013		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Software	\$ 1,212	\$ 1,133	\$ 79	\$ 1,131	\$ 1,115	\$ 16

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

7. Mortgages payable	<u>2014</u>	<u>2013</u>
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	\$641	\$716
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	93	159
	734	875
Current portion	150	141
Total	\$584	\$734

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:

2015	\$150
2016	122
2017	92
2018	99
2019	106

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

8. Loans payable

a) Demand loans:

Bank of Montreal – non-revolving and unsecured demand loans bearing interest at bank prime plus 1.00%.

b) Loans payable:

	<u>2014</u>	<u>2013</u>
Residence Advantage – Whitman/Eaton/Christofor (i)	\$8,259	\$8,670
Residence Advantage – Chase Court (ii)	8,373	8,709
Residence Advantage – Dennis/Chipman (iii)	7,338	7,653
Residence Advantage – Jodrey Hall (iv)	5,605	5,841
Wheelock Renovation (v)	1,858	2,159
Cutten Renovation (vi)	1,764	1,829
Sustainability Initiative (vii)	6,652	6,937
Biology Building (viii)	21,905	22,451
Cutten Renovation 2012 (ix)	1,660	2,170
Operating Loan (x)	7,000	7,000
	70,414	73,419
<u>Current portion</u>	<u>3,146</u>	<u>2,993</u>
Total	\$67,268	\$70,426

- 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 15, 2027. The credit spread payment of 75 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 75 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 75 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.

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

- 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 75 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, 2.06% term loan maturing January 10, 2016 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 1.00% 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 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.

- 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 December 31, 2016. Interest is fixed at 3.25% payable annually with principal due at maturity.

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 \$36,227 at March 31, 2014 (2013 - \$37,810). Although the University has no intention of settling these instruments at March 31, 2014, if the University had settled the interest rate swaps described, it would have been required to pay \$15,097 (2013 - \$19,433).

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

- 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 \$21,905 at March 31, 2014 (2013 - \$22,451). The fair value of the swap is \$6,349 at March 31, 2014 (2013 - \$8,181).
- 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.
- e) The principal due within each of the next five years on loans payable is approximately as follows:

2015	\$3,146
2016	4,546
2017	10,159
2018	2,806
2019	2,937

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
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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.

	<u>Capital</u>	<u>Research</u>	<u>Special Reserves</u>	2014 <u>Total</u>	2013 <u>Total</u>
Balance, beginning of year	\$ 51,453	\$ 3,506	\$ 7,657	\$ 62,616	\$ 61,382
Contributions and grants received during the year	1,795	6,339	2,057	10,191	12,626
Amounts utilized during the year	-	(6,352)	(24)	(6,376)	(8,479)
Amounts amortized to revenue	(2,848)	-	-	(2,848)	(2,913)
Balance, end of year	\$ 50,400	\$ 3,493	\$ 9,690	\$ 63,583	\$ 62,616

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

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 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.

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.

11. Commitments

As at March 31, 2014, the University had outstanding commitments to a third party for physical plant services for approximately \$6,396 (2013 - \$6,013).

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

12. 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, 2013, CURIE had a surplus of \$71.3 million of which the University's prorata share is approximately 1.117% 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) 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.

13. Pledges

As at March 31, 2014, the University had outstanding campaign pledges of approximately \$8,241 (2013 - \$5,798) which have not been recorded in the accounts.

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

14. 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, 2013. The next actuarial valuation of the plan for funding purposes will be conducted as at April 30, 2014. The Plan's actuary has extrapolated the results of the April 30, 2013 actuarial valuation of the plan for funding purposes to March 31, 2014 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 2014	Other benefit programs 2014	All plans 2014	All plans 2013
Accrued benefit obligation, end of prior year	\$179,839	\$921	\$180,760	\$151,590
Current service cost (employer portion)	5,745	64	5,809	4,502
Interest cost	7,927	36	7,963	7,867
Employees' contributions	2,219	-	2,219	2,263
Benefits paid	(8,446)	(25)	(8,471)	(7,314)
Actuarial (gain)/loss	(3,524)	(84)	(3,608)	21,562
Net transfer in	-	-	-	290
Accrued benefit obligation, end of year	<u>\$183,760</u>	<u>\$912</u>	<u>\$184,672</u>	<u>\$180,760</u>

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

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

	2014	2013
Fair value of plan assets	\$120,059	\$104,166
Accrued benefit obligation	<u>184,672</u>	<u>180,760</u>
Funded deficiency	(64,613)	(76,594)
Unamortized past service cost	2,902	3,519
Unamortized net actuarial loss	50,127	67,084
Accrued benefit liability	\$(11,584)	\$(5,991)

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

	2014	2013
Equity securities	72.5%	63.0%
Debt securities	26.8%	36.2%
Cash and equivalents	0.7%	0.8%

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

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

	Pension plan and retirement enhancements	
	2014	2013
Accrued benefit obligation as of March 31:		
Discount rate for defined benefits	1.50-4.36%	1.50-4.36%
Rate of compensation increase	4.00%	4.00%
Benefit costs for years ended March 31:		
Discount rate for defined benefits	4.31%	5.08%
Expected long term rate of return on plan assets	6.75%	6.75%
Rate of compensation increase	4.00%	4.00%

	Other benefit programs	
	2014	2013
Accrued benefit obligation as of March 31:		
Discount rate for defined benefits	2.20-4.00%	2.20-4.00%
Rate of compensation increase	4.00%	4.00%
Benefit costs for years ended March 31:		
Discount rate for defined benefits	4.31%	5.08%
Expected long term rate of return on plan assets	N/A	N/A
Rate of compensation increase	4.00%	4.00%

Pension benefit costs recognized in the year are \$10,707 (2013 - \$9,206). The cash amount of employer contributions to the defined pension benefit plan were \$4,773 (2013 - \$4,612). The University made payments of \$340 (2013 - \$343) in respect of the other benefit programs.

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

15. 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.

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 cashflow and utilizes bank loans to meet the operating requirements of the University. The University maintains detailed budgets and 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.

16. Supplemental cash flow information

	<u>2014</u>	<u>2013</u>
Cash paid during the year for:		
Interest on long-term debt	\$4,337	\$4,656

ACADIA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS *(continued)*
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

17. 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 a valuation carried out in 1993, adjusted for subsequent acquisitions.

18. 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, 2014, the ACSBE owed the University \$74 (2013 –ACSBE owed University \$42).

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, 2014, the University owed Acadia Divinity College \$32 (2013 – University owed Acadia Divinity College \$29).

SCHEDULE A

**ACADIA UNIVERSITY
SCHEDULE OF OPERATIONS BY FUND
YEAR ENDED MARCH 31, 2014
(thousands of dollars)**

	<u>Operating/ Ancillary Operations</u>	<u>Special Reserves</u>	<u>Research</u>	<u>Endowment</u>	<u>Capital</u>	2014 <u>Total</u>	2013 <u>Total</u>
Revenues:							
Student academic fees	\$36,020	\$ -	\$ -	\$ -	\$ -	\$36,020	\$34,239
Government grants	31,479	-	-	-	-	31,479	29,365
Other grants	-	-	6,363	-	-	6,363	6,174
Ancillary sales and services	12,580	-	-	-	-	12,580	11,592
Donations and gifts	-	24	-	-	-	24	2,345
Investment income	280	232	-	2,975	-	3,487	1,438
General	2,092	352	101	-	-	2,545	2,819
Amortization of deferred capital contribution	-	-	-	-	2,848	2,848	2,913
Total Revenue	82,451	608	6,464	2,975	2,848	95,346	90,885
Expenses:							
Wages - academic	24,070	76	408	-	-	24,554	23,174
Wages - academic other	2,742	247	2,924	-	-	5,913	5,450
Wages - other	13,733	288	58	-	-	14,079	13,200
Total wages	40,545	611	3,390	-	-	44,546	41,824
Fringe benefits	6,174	58	273	-	-	6,505	6,057
Accrued pension benefit adjustment (Note 14)	5,593	-	-	-	-	5,593	4,252
Pension special payments	1,539	-	-	-	-	1,539	1,539
Supplies and materials	4,299	1,213	760	-	-	6,272	5,412
Externally contracted services	6,319	35	1,163	-	-	7,517	7,279
Amortization of capital assets	-	-	-	-	7,764	7,764	7,728
Ancillary cost of goods sold	808	-	-	-	-	808	556
Utilities	5,168	4	-	-	-	5,172	4,796
Long term debt interest	4,306	-	-	-	-	4,306	4,715
Travel	1,490	161	681	-	-	2,332	2,119
Scholarships and bursaries	4,134	111	-	-	-	4,245	3,804
Deferred maintenance and renovations	2,115	13	-	-	-	2,128	1,373
Library acquisitions	788	70	-	-	-	858	800
Professional fees	270	-	2	363	-	635	484
Other	692	-	102	-	-	794	733
Interest	6	-	-	-	-	6	24
Total expenses	84,246	2,276	6,371	363	7,764	101,020	93,495
Excess of revenues over expenses (expenses over revenues) before appropriations and unusual item	\$(1,795)	\$(1,668)	\$93	\$2,612	\$(4,916)	\$(5,674)	\$(2,610)

SCHEDULE B

ACADIA UNIVERSITY
STATEMENT OF EXPENSES BY FUNCTION - OPERATING AND ANCILLARIES
YEAR ENDED MARCH 31, 2014
(thousands of dollars)

	<u>Academic</u>	<u>Plant Maintenance</u>	<u>Admini- stration</u>	<u>Library</u>	<u>Student Services</u>	<u>Other</u>	<u>Ancillary Operations</u>	<u>2014 Total</u>	<u>2013 Total</u>
Wages - academic	\$23,928	\$-	\$-	\$78	\$64	\$-	\$-	\$24,070	\$22,686
Wages - academic other	2,491	-	105	-	146	-	-	2,742	2,556
Wages - other	4,020	527	3,972	1,566	2,234	-	1,414	13,733	13,010
Total wages	30,439	527	4,077	1,644	2,444	-	1,414	40,545	38,252
Fringe benefits	4,682	129	630	239	332	-	162	6,174	5,737
Accrued pension benefit adjustment (Note 14)	4,202	73	561	226	336	-	195	5,593	4,252
Pension special payments	1,156	20	154	62	93	-	54	1,539	1,539
Supplies and materials	2,461	52	439	10	668	-	668	4,298	3,985
Externally contracted services	77	6,025	103	40	2	-	72	6,319	6,052
Ancillary cost of goods sold	-	-	51	-	-	-	757	808	556
Utilities	-	5,169	-	-	-	-	-	5,169	4,795
Long term debt interest	-	-	-	-	-	2,090	2,216	4,306	4,715
Travel	621	18	371	18	460	-	2	1,490	1,433
Scholarships and bursaries	-	-	-	-	-	4,134	-	4,134	3,680
Deferred maintenance and renovations	-	-	-	-	-	2,114	2	2,116	1,365
Library acquisitions	19	-	-	769	-	-	-	788	747
Professional fees	59	-	186	-	24	-	-	269	225
Other	37	489	115	-	48	-	3	692	646
Interest	-	-	-	-	-	6	-	6	24
Total gross expenditures	43,753	12,502	6,687	3,008	4,407	8,344	5,545	84,246	78,003
Transfer of physical plant expenditures									
Ancillary Operations	-	(3,782)	-	-	-	-	3,782	-	-
Total expenditures	\$43,753	\$8,720	\$6,687	\$3,008	\$4,407	\$8,344	\$9,327	\$84,246	\$78,003