

Algoma University
Consolidated Financial Statements
For the year ended April 30, 2018

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Independent Auditor's Report

To the Board of Governors of Algoma University

We have audited the accompanying consolidated financial statements of Algoma University, which comprise the statement of consolidated statement of financial position as at April 30, 2018, and the consolidated statements of operations and unrestricted net assets, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Algoma University as at April 30, 2018 and the consolidated results of its operations and net assets, consolidated changes in its net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other Matters Paragraph

We have not audited, reviewed or otherwise attempted to verify the accuracy of completeness of the schedules on pages 14 and 15 of the University's Financial Statements.

Chartered Professional Accountants, Licensed Public Accountants
Sault Ste. Marie, Ontario
October 25, 2018

Algoma University
Consolidated Statement of Financial Position

April 30 **2018** **2017**

Assets

Current

Cash	\$ 6,100,466	\$ 8,428,907
Accounts receivable - fees (Note 11)	502,890	503,314
Accounts receivable - other (Note 11)	1,147,502	495,173
Prepaid expenses and inventory	624,662	495,692

8,375,520 9,923,086

Investments (Note 2) **5,606,204** **5,424,110**

Capital assets (Note 3) **43,741,778** **42,973,306**

\$ 57,723,502 **\$ 58,320,502**

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities	\$ 1,789,268	\$ 1,498,386
Fees received in advance	600,721	633,951
Deferred government grants, program and campaign revenue	4,514,933	4,978,310
Current portion of long term debt (Note 6)	755,035	766,500

7,659,957 7,877,147

Long term debt (Note 6) **13,127,953** **13,883,776**

Accrued pension obligation (Note 10) **2,160,000** **1,364,000**

Deferred contributions related to capital assets (Note 9) **27,456,665** **27,488,259**

50,404,575 50,613,182

Net assets


Unrestricted	461,464	1,952,235
Internally restricted (Note 4)	1,910,720	664,568
Endowments	4,946,743	5,090,517

7,318,927 7,707,320

\$ 57,723,502 **\$ 58,320,502**

On behalf of the Board:

 _____ Chair

 _____ Vice-Chair

The accompanying notes are an integral part of these financial statements.

Algoma University
Consolidated Statement of Changes in Net Assets

For the year ended April 30	Unrestricted	Internally Restricted	Endowments	Total 2018	Total 2017
Balance, beginning of year	\$ 1,952,235	\$ 664,568	\$ 5,090,517	\$ 7,707,320	\$ 4,028,942
Excess of revenue over expenses	270,023	-	1,957,573	2,227,596	920,648
Post-employment benefit recovery - remeasurement	(209,000)	(796,000)	-	(1,005,000)	2,198,000
Contribution to endowment fund	-	-	45,137	45,137	66,471
Investment income on externally restricted endowment funds less amounts made available for spending	-	490,358	(2,146,484)	(1,656,126)	493,259
Internal restrictions (Note 4)					
Transfer to internal restrictions	(1,551,794)	1,551,794	-	-	-
Balance, end of year	\$ 461,464	\$ 1,910,720	\$ 4,946,743	\$ 7,318,927	\$ 7,707,320

The accompanying notes are an integral part of these financial statements.

Algoma University

Consolidated Statement of Operations and Unrestricted Net Assets

For the year ended April 30	2018	2017
Revenue		
Student fees	\$ 9,219,057	\$ 10,204,935
Government grants	15,108,754	14,272,232
Library	21,560	30,120
Miscellaneous programs	917,280	915,493
Extension operations	918,401	889,578
Ancillary operations	2,220,643	2,164,910
Non-credit operations	2,166,406	2,034,294
Foundation revenues	47,687	425,260
Amortization of deferred capital contributions	1,190,540	1,233,944
	<u>31,810,328</u>	<u>32,170,766</u>
Expenses		
Salaries and benefits		
Academic	9,602,249	9,540,900
Non-academic	7,513,593	7,214,493
Library	354,270	717,202
Administration	2,199,594	2,027,270
Academic departments	129,849	267,842
Advertising and communications	1,204,484	883,000
Utilities	652,919	664,011
Repairs and maintenance	600,994	1,053,410
Student services	490,416	323,626
Municipal taxes	74,850	81,075
Insurance	78,003	72,855
Faculty recruitment	52,711	58,074
Extension operations	1,291,059	1,181,194
Ancillary operations	2,449,721	2,282,238
Non-credit operations	2,016,195	2,158,441
Foundation expenses	743,889	762,707
Amortization of tangible capital assets	1,846,587	1,961,780
	<u>31,301,383</u>	<u>31,250,118</u>
Excess of revenue over expenses from operations	508,945	920,648
Gain (loss) on sale of marketable securities related to endowment funds	1,718,651	-
Excess of revenue over expenses	2,227,596	920,648
Post-employment benefit recovery - remeasurement	(1,005,000)	2,198,000
Transfer to internally restricted net assets and endowment funds	(2,713,367)	(3,022,755)
Change in unrestricted net assets for the year	(1,490,771)	95,893
Unrestricted net assets, beginning of year	1,952,235	1,856,342
Unrestricted net assets, end of year	\$ 461,464	\$ 1,952,235

The accompanying notes are an integral part of these financial statements.

Algoma University
Consolidated Statement of Cash Flows

For the year ended April 30

2018

2017

Cash flows from operating activities

Excess of revenues over expenses	\$ 2,227,596	\$ 920,648
Items not involving cash		
Amortization of tangible capital assets	1,846,587	1,961,780
Gain on sale of marketable securities	(1,718,651)	-
Change in unrealized gains on investments	(1,999,511)	493,259
Amortization of deferred contributions	(1,190,540)	(1,233,944)
	<u>(834,519)</u>	<u>2,141,743</u>

Changes in non-cash working capital balances

Accounts receivable - fees	424	31,523
Accounts receivable - other	(652,329)	11,700
Prepaid expenses and inventory	(128,970)	220,627
Accrued pension obligation (net of change in measurement)	(209,000)	(47,000)
Accounts payable and accrued liabilities	290,882	(179,550)
Fees received in advance	(33,230)	28,500
Deferred government grants and program revenue	(463,377)	1,917,581
	<u>(2,030,119)</u>	<u>4,125,124</u>

Cash flows from investing activities

Purchase of tangible capital assets	(2,615,058)	(123,145)
Purchase (sale) of investments	1,879,941	(705,211)
Endowment contributions	45,137	66,471
	<u>(689,980)</u>	<u>(761,885)</u>

Cash flows from financing activities

Repayment of long term debt	(767,288)	(741,917)
Deferred capital contributions	1,158,946	1,213
	<u>391,658</u>	<u>(740,704)</u>

Increase (decrease) in cash and equivalents

(2,328,441) 2,622,535

Cash and cash equivalents, beginning of year

8,428,907 5,806,372

Cash and cash equivalents, end of year

\$ 6,100,466 \$ 8,428,907

Algoma University

Notes to Consolidated Financial Statements

April 30, 2018

1. Summary of significant accounting policies

Nature of Operations	Algoma University is a provincially funded university offering educational programs and upgrading to the accessing communities. The University is a registered charity and under the provisions of Section 149 of the Income Tax Act (Canada) is exempt from income taxes.
Basis of Accounting	The consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.
Basis of Consolidation	These consolidated financial statements reflect the assets, liabilities and the results of the Northern Ontario Research, Development, Ideas and Knowledge Institute (Nordik Research Institute).
Inventories	Inventories are valued at the lower of cost or net realizable value, with cost being determined on a first-in, first-out basis.
Revenue Recognition	<p>The university follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.</p> <p>Endowment contributions are allocated directly to net assets in the year received. Income generated from endowment funds are recognized in the statement of operations.</p> <p>Tuition fees for courses which are offered substantially after the fiscal year end are deferred. Sales and services revenue is recognized at point of sale or when services have been provided.</p>
Endowment Funds	Net assets restricted for endowment purposes are subject to externally imposed restrictions stipulating that the resources be maintained permanently. Net investment income earned is available for distribution according to the terms of the endowment.
Use of Estimates	The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. Specifically, estimates related to rate of return on assets used in valuing the future pension benefit obligation are affected by the uncertainty of predictions concerning future events. Should the underlying assumptions change, the estimated pension benefit obligation disclosed in notes to the consolidated financial statements may change by a material amount.

Algoma University
Notes to Consolidated Financial Statements

April 30, 2018

1. Summary of significant accounting policies (continued)

Tangible Capital Assets Tangible capital assets are recorded at cost. Amortization, based on the estimated useful life of the asset, is provided by the straight line basis over the following periods:

Buildings	- 40 years
Furniture and equipment	- 5 years
Library books	- 5 years
Parking lot	- 15 years
Computer software system	- 5 years

Construction in progress is capitalized as work is completed. Upon completion of the projects, capitalized construction in progress costs are transferred to the various categories of tangible capital assets and will be amortized on a basis consistent with similar assets. Contributed rare books and other collections are expensed in the year received at fair value.

Employee Future Benefits

The University maintains a defined benefit plan covering the faculty and management staff employed by the University up to 2006. Contributions to the pension plan are made in accordance with the Pension Commission of Ontario actuarial requirements.

The University accounts for its employee benefit plans using the immediate recognition approach. The University recognizes the amount of the accrued benefit obligations, net of the fair value of plan assets at year end, adjusted for any valuation allowances. Current service and finance costs are expensed during the year. Remeasurements and other items related to actuarial gains and losses and differences between actual and expected returns on plan assets and past service costs are recognized as direct increase or decrease in net asset. The accrued benefit obligations for employee benefit plans are determined based on actuarial valuation reports prepared for funding purposes. These reports are required to be prepared at least on a triennial basis. In years where actuarial valuations are not prepared, the University uses a roll-forward technique to estimate the accrued liability using assumptions from the most recent actuarial valuation reports.

Subsequent to 2006, faculty, management and staff are eligible to participate in a group retirement savings plan.

Cost Allocation

Only costs which can be identified with departments are allocated. Unidentifiable costs are included with general and administrative expenditures.

Algoma University
Notes to Consolidated Financial Statements

April 30, 2018

1. Summary of significant accounting policies (continued)

Financial Instruments Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market are reported at fair value, with any unrealized gains and losses reported in operations. In addition, all balanced funds, and guaranteed investment certificates have been designated to be in the fair value category, with gains and losses reported in operations. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each consolidated statement of financial position date and charged to the financial instrument for those measured at amortized cost.

2. Investments

	<u>2018</u>	<u>2017</u>
Marketable securities at cost	<u>\$ 7,345,786</u>	<u>\$ 5,525,306</u>
Marketable securities at market	<u>\$ 5,606,204</u>	<u>\$ 5,424,110</u>

3. Tangible capital assets

	<u>2018</u>		<u>2017</u>	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 371,816	\$ -	\$ 371,816	\$ -
Library books	645,303	645,303	645,303	645,303
Buildings	60,169,601	17,941,527	57,764,474	16,526,313
Furniture and equipment	8,149,580	7,702,397	7,939,648	7,413,891
Parking lot	2,129,431	1,469,030	2,129,431	1,360,467
Computer software system	250,616	216,312	250,616	182,008
	<u>\$ 71,716,347</u>	<u>\$ 27,974,569</u>	<u>\$ 69,101,288</u>	<u>\$ 26,127,982</u>
Net book value		<u>\$ 43,741,778</u>		<u>\$ 42,973,306</u>

Algoma University
Notes to Consolidated Financial Statements

April 30, 2018

4. Net assets internally restricted

The following balances represent net assets set aside by the Board of Governors for the specific purpose of:

	<u>2018</u>	<u>2017</u>
Operating	\$ 722,128	\$ 261,804
Future capital projects	3,428,549	2,459,280
Defined benefit pension plan	(2,160,000)	(1,364,000)
Foundation	(202,775)	(691,133)
Nordik Institute	109,043	(15,158)
HII	862	862
ISRI	(149)	(149)
CAPT	13,062	13,062
	<u>\$ 1,910,720</u>	<u>\$ 664,568</u>

5. Line of credit

The University has an operating line of credit due on demand in the amount of \$2,000,000. The facility bears interest at the bank's prime lending rate minus 0.5% with advances made in multiples of \$25,000. As at April 30, 2018, the entire facility was available to the University.

6. Long term debt

	<u>2018</u>	<u>2017</u>
TD George Leach Centre loan, repayable \$12,641 monthly including interest at 2.02%, secured by property and general security agreement, maturing November 2020	\$ 2,243,285	\$ 2,348,506
Bank of Montreal parking lot loan, repayable \$8,600 monthly plus interest at 2.75%, maturing January 2021	554,400	657,600
Scotiabank interest rate swap loan, repayable \$30,267 monthly including interest at 2.026% plus floating rate, secured by property and general security agreement, maturing March 2021	4,109,041	4,386,624
Windsor Park Retirement Home Inc. loan, repayable \$7,749 monthly including interest at 2.23%, secured by general security agreement, maturing March 2022	1,042,772	1,111,737
Scotiabank Students' Residence loan, repayable \$32,816 monthly including interest at 3.0%, secured by property and general security agreement, maturing April 2020. Subsequent to year end this loan was renegotiated as an interest rate swap loan with variable payments including interest at 2.8%, maturing April 2023.	5,933,490	6,145,809
	<u>13,882,988</u>	<u>14,650,276</u>
Less current portion	755,035	766,500
	<u>\$ 13,127,953</u>	<u>\$ 13,883,776</u>

Algoma University

Notes to Consolidated Financial Statements

April 30, 2018

6. Long term debt (continued)

Interest on long term debt during the year amounted to \$350,151 (2017 - \$377,564).

Principal payments required on long term debt for the next five years and thereafter, assuming refinancing under similar terms, are as follows:

Year	Amount
2019	\$ 755,035
2020	789,320
2021	805,234
2022	824,331
2023	823,740
Thereafter	<u>9,885,328</u>
	<u>\$ 13,882,988</u>

7. Contingent liabilities

The University is a member of the Canadian Universities Reciprocal Insurance Exchange ("CURIE"). CURIE insures general liability, university property and errors and omissions. Annual premiums paid by the university are determined by the CURIE Board, on the advice of the actuary. There is a provision under the agreement for assessments to all member universities if these premiums are not sufficient to cover losses. As of December 31, 2017, the date of the latest financial statements available, CURIE had a surplus of \$81,200,000 (2016- \$84,908,000). Additional insurance for automobiles, artwork, miscellaneous property, and major construction projects is purchased through commercial insurers to provide coverage for losses not insured by CURIE.

The University is involved with pending litigation and claims which arise in the normal course of operations. In the opinion of the administration, a liability that may arise from such contingencies would not have a significant adverse effect on the financial statements of the university.

8. Government remittances

Included in accounts payable and accrued liabilities are the following government remittances:

	2018	2017
EHT payable	\$ 1,576	\$ 357
WSIB payable	-	53
	<u>\$ 1,576</u>	<u>\$ 410</u>

9. Deferred contributions related to tangible capital assets

Deferred contributions related to tangible capital assets relate to grants received for purchase or construction of tangible capital assets and are amortized over the life of the tangible capital assets. The changes in deferred contributions are as follows:

Algoma University
Notes to Consolidated Financial Statements

April 30, 2018

9. Deferred contributions related to tangible capital assets (continued)

	<u>2018</u>	<u>2017</u>
Balance , beginning of year	\$ 27,488,259	\$ 28,720,990
Contributions	1,158,946	1,213
Transfers to revenue	(1,190,540)	(1,233,944)
Balance , end of year	<u>\$ 27,456,665</u>	<u>\$ 27,488,259</u>

10. Pension plans

Defined benefit pension plan

The University maintains a defined benefit plan covering faculty hired prior to 2006. Actuarial reports, which were based on projections of employee's compensation levels to the time of retirement, indicate the net assets available to provide for benefits, and the present value of accrued pension benefits at April 30, are as follows:

	<u>2018</u>	<u>2017</u>
Asset, at market value	\$ 25,705,000	\$ 25,337,000
Pension benefit obligation	27,865,000	26,701,000
Plan surplus (deficit)	<u>\$ (2,160,000)</u>	<u>\$ (1,364,000)</u>

The most recent actuarial valuation for post-employment benefits was performed as at April 30, 2018.

The plan assets consist of the following asset categories:

	<u>2018</u>	<u>2017</u>
Canadian equities	36 %	38 %
Foreign equities	20 %	27 %
Fixed income	43 %	32 %
Cash and short term deposits	1 %	3 %
	<u>100 %</u>	<u>100 %</u>

The pension expense amounts totaled \$501,000 (2017 - \$694,000) and is included in salaries and benefits on the statement of operations. Employer contributions paid and payable during the year were \$710,000 (2017 - \$741,000).

The discount rate used is 4.50% (2017 - 4.75%), the estimated rate of salary increases used is 2.50% (2017 - 1.25%) and the estimated rate of return on assets used is 4.50% (2017 - 4.75%).

Group retirement savings plan

Employees hired subsequent to 2006 are eligible to participate in a group retirement savings plan. Employer contributions totaled \$733,280 for 2018 (2017 - \$727,914) and were fully expensed.

Algoma University

Notes to Consolidated Financial Statements

April 30, 2018

11. Accounts receivable

Included in accounts receivable:

	2018	2017
Accounts receivable - fees	\$ 1,297,878	\$ 1,552,089
Accounts receivable - other	1,147,502	495,173
Allowance for doubtful accounts	(794,988)	(1,048,775)
	<u>\$ 1,650,392</u>	<u>\$ 998,487</u>

12. Financial instruments

The University's management monitors, evaluates and manages the principal risks assumed with financial instruments on a daily basis. The risks that arise from transacting financial instruments include liquidity risk, credit and concentration of credit risk.

Liquidity risk

Liquidity risk arises from the University's management of accounts payable, long term debt and other current liabilities. It is the risk that the University will encounter difficulty in meeting its financial obligations as they fall due. The University's policy to minimize this risk is to ensure an adequate line of credit exists for the University.

Credit and concentration of credit risk

Credit risk arises principally from the University's cash and accounts receivable. The cash is held at a reputable institution. The University is also exposed to normal credit risk resulting from the possibility that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The majority of the University's receivables are from student fees and the University sends any overdue accounts more than two years old to the credit bureau for collection. In addition, students are not allowed to register for a future semester if their fees from previous semesters are not paid in full.

Interest rate risk

Interest rate risk arises principally from the University's credit facilities. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The credit facilities have variable interest rates. Changes in the bank's prime lending rate can cause fluctuations in interest payments and cash flows. The University uses derivative financial instruments to alter the effect of this risk through an interest rate swap.

Market Volatility risk

Market volatility risk arises from the University's investment portfolio, which contains various pooled funds and, fixed income and equity instrument. It is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of general economic and other market factors affecting equity prices.

Algoma University
Unaudited
Schedule of Ancillary Operations

For the year ended April 30, 2018	Downtown Residence	George Leach Centre	Varsity	Other Ancillary Services	Campus Residence	Parking Lot	Student Bar	Total
Revenue	\$ -	\$ 624,142	\$ 177,619	\$ 35,552	\$ 1,206,828	\$ 157,036	\$ 19,466	\$ 2,220,643
Expenses								
Cost of sales	-	-	-	-	-	-	8,131	8,131
Salaries and benefits	-	353,273	399,622	-	126,310	-	8,621	887,826
Utilities	-	81,035	-	-	233,575	-	-	314,610
Maintenance	-	70,047	-	-	98,440	11,073	-	179,560
Interest	-	46,469	-	-	205,533	15,613	-	267,615
Other operating expenses	-	100,422	556,389	-	43,299	86,390	5,479	791,979
	-	651,246	956,011	-	707,157	113,076	22,231	2,449,721
Excess (deficiency) of revenue over expenses	\$ -	\$ (27,104)	\$ (778,392)	\$ 35,552	\$ 499,671	\$ 43,960	\$ (2,765)	\$ (229,078)
For the year ended April 30, 2017								
Excess (deficiency) of revenue over expenses	\$ -	\$ 32,009	\$ (650,079)	\$ 40,221	\$ 423,954	\$ 40,753	\$ (4,186)	\$ (117,328)

Algoma University
Unaudited
Schedule of Non-credit Operations

For the year ended April 30, 2018	ISRI	NORDIK	CAPT	Health Informatics Institute	First Generation Project	Research	ESL	Shingwauk Residential School Project	Total
Revenue	\$ -	\$ 742,364	\$ -	\$ -	\$ 170,000	\$ 592,218	\$ 583,955	\$ 77,869	\$ 2,166,406
Expenses									
Salaries and benefits	-	94,216	-	-	17,803	-	399,523	54,764	566,306
Other operating expenses	-	559,066	-	-	21,190	592,218	193,284	84,131	1,449,889
	-	653,282	-	-	38,993	592,218	592,807	138,895	2,016,195
Excess (deficiency) of revenue over expenses	\$ -	\$ 89,082	\$ -	\$ -	\$ 131,007	\$ -	\$ (8,852)	\$ (61,026)	\$ 150,211
For the year ended April 30, 2017									
Excess (deficiency) of revenue over expenses	\$ 77	\$ (7,238)	\$ -	\$ (9,325)	\$ 79,530	\$ (102,722)	\$ 23,876	\$ (108,345)	\$ (124,147)