

Financial Statements of

**UNIVERSITY OF KING'S
COLLEGE**

Year ended March 31, 2012



KPMG LLP
Chartered Accountants
Suite 1500 Purdy's Wharf Tower I
1959 Upper Water Street
Halifax NS B3J 3N2
Canada

Telephone (902) 492-6000
Fax (902) 492-1307
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of University of King's College

We have audited the accompanying financial statements of University of King's College which comprise the statement of financial position as at March 31, 2012 and the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Chartered Accountants

June 21, 2012
Halifax, Canada

UNIVERSITY OF KING'S COLLEGE

Statement of Financial Position

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash and short term investments	\$ 74,600	\$ 20,227
Accounts receivable	655,784	616,494
Accrued benefit asset (note 13)	251,288	—
Prepaid expenses	12,322	16,438
	<u>993,994</u>	<u>653,159</u>
Investments (note 4)	34,002,968	34,818,524
Capital assets (note 5)	14,710,222	13,837,276
	<u>\$ 49,707,184</u>	<u>\$ 49,308,959</u>

Liabilities, Deferred Contributions and Net Assets

Current liabilities:		
Accounts payable	\$ 2,444,208	\$ 2,635,931
Deferred revenue	587,510	438,815
Accrued benefit liability (note 13)	—	178,916
Current portion of long-term debt	1,991,322	224,436
	<u>5,023,040</u>	<u>3,478,098</u>
Long-term debt (note 6)	2,240,567	3,264,826
Deferred contributions (note 7)	7,210,807	6,870,707
Net assets (note 8):		
Invested in capital assets	7,485,061	6,914,990
Restricted for endowments	29,497,570	30,467,520
Internally restricted for specified purposes	716,861	1,080,346
Unrestricted operating	(2,446,722)	(2,767,528)
	<u>35,232,770</u>	<u>35,695,328</u>
Contingency (note 11)		
	<u>\$ 49,707,184</u>	<u>\$ 49,308,959</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

_____ Vice-President

_____ Treasurer

UNIVERSITY OF KING'S COLLEGE

Statement of Operations

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Provincial government grant	\$ 6,077,520	\$ 6,322,844
Student academic fees	7,744,984	7,196,049
Student residence fees	2,475,095	2,452,276
Investment income (note 9)	1,289,284	1,202,286
Athletic, application and course fees	845,761	707,992
Facility rental and expense recoveries	454,694	353,802
Gifts (note 3)	391,828	241,754
Other government grants	130,331	120,517
Amortization of deferred capital contributions	284,900	264,900
	<u>19,694,397</u>	<u>18,862,420</u>
Expenses:		
Academic	5,837,389	5,537,051
Allotment to Dalhousie University (note 10)	3,782,224	3,211,406
Facilities maintenance	1,339,388	1,344,176
Residence and other student services	1,339,283	1,273,145
Scholarships, awards and bursaries	1,032,012	803,571
Utilities, taxes and insurance	557,622	565,714
Amortization of capital assets	831,214	736,636
Advancement	407,012	348,691
Athletics	536,767	482,389
Bursar's office	362,770	375,528
General college administration	299,453	215,285
General college maintenance	577,127	585,597
Library	486,045	526,952
President's office	490,535	495,722
Registrar's office and recruitment	557,364	512,021
Investment management fees	164,328	166,012
Interest and service charges	194,862	147,898
Library Divinity, music and chapel	363,775	331,295
	<u>19,159,170</u>	<u>17,659,089</u>
Excess of revenue over expenses before adjustments	535,227	1,203,331
Increase (reduction) in fair value of non-endowment investments	(73,809)	137,042
Excess of revenue over expenses	<u>\$ 461,418</u>	<u>\$ 1,340,373</u>

See accompanying notes to financial statements.

UNIVERSITY OF KING'S COLLEGE

Statement of Changes in Net Assets

Year ended March 31, 2012, with comparative figures for 2011

					2012	2011
	Invested in capital assets	Restricted for endowments	Internally restricted for specified purposes	Unrestricted operating	Total	Total
Net assets, beginning of year	\$6,914,990	\$30,467,520	\$1,080,346	\$(2,767,528)	\$35,695,328	\$32,071,138
Excess of revenue over expenses (expenses over revenue)	(509,090)	—	(73,809)	1,044,317	461,418	1,340,373
Gifts of endowment principal (note 3)	—	278,679	—	—	278,679	789,541
Capitalization of investment income	—	—	51,453	—	51,453	56,390
Income net of transfers	—	171,819	(5,479)	—	166,340	(932,226)
Adjustment to fair value at end of year	—	(1,420,448)	—	—	(1,420,448)	2,370,112
Additions and investments in capital assets	1,079,161	—	—	(1,079,161)	—	—
Transfer	—	—	(335,650)	335,650	—	—
Net assets, end of year	\$7,485,061	\$29,497,570	\$ 716,861	\$(2,466,722)	\$35,232,770	\$35,695,328

See accompanying notes to financial statements.

UNIVERSITY OF KING'S COLLEGE

Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used for):		
Operating activities:		
Excess of revenue over expenses	\$ 461,418	\$ 1,340,373
Items not affecting cash:		
Amortization of capital assets	831,214	736,636
Amortization of deferred contributions	(284,900)	(264,900)
Reduction (increase) in the fair value of investments	73,810	(137,042)
Decrease in non-cash working capital items	(508,406)	(6,478,270)
	573,136	(4,803,203)
Financing and investing activities:		
Endowment income capitalized	51,453	56,390
Endowment contributions	278,679	789,541
Endowment expenditure of capital specified purposes	166,340	(932,226)
Increase in deferred contributions	625,000	538,024
New long-term debt arranged during the year	1,000,000	1,500,000
Principal payments on long-term debt	(257,373)	(1,461,618)
Increase in investments	(678,700)	(1,039,066)
Proceeds on disposal of capital assets	–	24,897
Purchase of capital assets	(1,704,162)	(2,702,825)
	(518,763)	(3,226,883)
Net increase (decrease) in cash and short-term investments	54,373	(8,030,086)
Cash and short-term investments, beginning of year	20,227	8,050,313
Cash and short-term investments, end of year	\$ 74,600	\$ 20,227

See accompanying notes to financial statements.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements

Year ended March 31, 2012

1. Purpose of the organization:

University of King's College (the "University"), founded in 1789, was granted a Royal Charter in 1802 by King George III and continues to operate under the authority of the statutes of Nova Scotia.

The mission of the University is to remain a small undergraduate College, working in the Humanities, Social Sciences, Science and Journalism while maintaining the special character of the University, due in part to the concentration of scholarly interest in the western intellectual and cultural tradition, in part to the interdisciplinary approach involving team teaching, and in part to the counter-balancing presence in the University of its School of Journalism with its intensely practical mission of preparing students to work in contemporary print and broadcast media.

The University is a registered charity and therefore exempt from the payment of income tax under section 149 of the Income Tax Act.

2. Significant accounting policies:

General:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(a) Revenue recognition:

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

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

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

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

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

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2012

2. Significant accounting policies (continued):

(b) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty in determining the fair value, contributed services are not recognized in these financial statements.

(c) Investments:

Investments in pooled funds, equities and bonds, are classified as held for trading and stated at fair value which represents year-end quoted market prices. The change in fair value year over year is reflected in the statement of operations for internally restricted net assets and on the statement of changes in net assets for endowment investments.

The University has elected to use the exemption provided by the Canadian Institute of Chartered Accountants ("CICA") permitting not-for-profit organizations not to apply the following Sections of the CICA Handbook: Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. The University applies the requirements of Section 3861 of the CICA Handbook.

(d) Capital assets:

Capital assets are recorded at cost. Repairs and maintenance costs are charged to expense. Betterments, which extend the estimated life of an asset, are capitalized. When a capital asset no longer contributes to the University's ability to provide services, its carrying amount is written down to its residual value.

Amortization is recorded on a straight-line basis over the assets' estimated useful lives, which are as follows:

Asset	Rate
Buildings	40 years
Computers and electronic equipment	3 - 5 years
Furniture and equipment	5 - 25 years
Library books	10 years
Vehicles	3 years

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2012

2. Significant accounting policies (continued):

(e) Deferred revenue:

Deferred revenue represents journalism tuition, residence and dining hall fees related to the portion of the academic year which occurs in the subsequent fiscal year and grants received in the current year for expenditure in the following year.

(f) Employee benefit plans:

The University maintains a defined benefit plan providing pension benefits for a significant number 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 unit credit method, prorated on services (which incorporates management's best estimates of investment performance, future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The measurement date of the plan assets and accrued benefit obligation coincides with the University's fiscal year. The most recent actuarial valuation of the pension plan for funding purposes was as of March 31, 2011.

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 18 years (2011 – 18 years). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendments. The transitional pension obligation that arose on adoption of CICA Handbook Section 3461 is being amortized on a straight-line basis over 10 years.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant items subject to such estimates and assumptions include accrued benefit asset/liabilities and the useful life of capital assets. Actual results could differ from those estimates.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2012

3. Gifts:

Contributions received, other than endowment contributions, are recognized as revenue in the year in which the related expenses are recognized and are reported as gifts on the statement of operations.

Endowment contributions received are recognized as a direct increase in endowment net assets and are reported as gifts on the statement of changes in net assets.

During the year \$670,507 (2011 - \$1,031,295) was reported as follows:

	2012	2011
Statement of operations:		
Revenue: Gifts	\$ 391,828	\$ 241,754
Statement of changes in net assets:		
Gifts of endowment principal	278,679	789,541
Total gifts	\$ 670,507	\$ 1,031,295

4. Investments:

Investments are composed of units in pooled funds and are stated at fair value. Fair value is defined as the unit values supplied by the pooled fund administrator, which represents the University's proportionate share of underlying net assets at fair value. The fund managers operate within an asset mix guideline developed and monitored by the Investment Committee of the Board of Governors. At March 31, 2012 the composition of underlying assets was as follows: Canadian equities 43% (2011 – 40%), foreign equities 19% (2011 – 23%), bonds 32% (2011 – 35%), cash 6% (2011 – 2%).

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2012

5. Capital assets:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 466,500	\$ –	\$ 466,500	\$ 466,500
Buildings	18,722,296	6,014,144	12,708,152	11,724,127
Computers and electronic equipment	1,148,126	982,110	166,016	97,450
Furniture and equipment	2,879,963	1,836,626	1,043,337	1,183,093
Library books	1,468,216	1,158,797	309,419	325,574
Vehicles and equipment	71,202	54,404	16,798	40,532
	\$24,756,303	\$10,046,081	\$14,710,222	\$13,837,276

6. Long-term debt:

	2012	2011
Mortgage payable, bearing interest at 5.375%, payable in semi-annual installments of \$20,240, including interest, due January 2013, secured by a building	\$ 39,251	\$ 76,476
Fixed term, unsecured operating loan, bearing interest at 3.6%, payable in monthly installments of \$15,116, including interest, due September 2012	1,823,783	1,936,916
Fixed term, unsecured operating loan, bearing interest at 4.19%, payable in monthly installments of \$11,239, including interest, due November 2015	1,401,425	1,475,870
Fixed term, unsecured operating loan, bearing interest at 4.10%, payable in monthly installments of \$7,450 including interest, due July 2016.	967,430	–
	4,231,889	3,489,262
Current portion of long-term debt	1,991,322	224,436
	\$ 2,240,567	\$ 3,264,826

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2012

6. Long-term debt (continued):

Principal due within each of the next five years is approximately as follows:

2013	\$ 1,991,322
2014	133,720
2015	139,380
2016	1,215,491
2017	751,976
	<hr/>
	\$ 4,231,889

The fair values of the long-term debt approximate their carrying value.

7. Deferred contributions:

	2012	2011
Balance, beginning of year	\$ 6,870,707	\$ 6,597,583
Grants received during the year	625,000	538,024
Amounts recognized as revenue in the year	(284,900)	(264,900)
	<hr/>	<hr/>
	\$ 7,210,807	\$ 6,870,707

Deferred contributions related to capital assets represent the unamortized balance of government grants received for the construction of the Library, contributions received for the construction of the new academic building, and for other specific assets. For the library, the original grant of \$3,990,546 has been deferred and \$99,764 (2011 - \$99,764) is being reported as revenue, on the same basis as the amortization of the Library Capital costs, on a straight-line basis over 40 years. For the new academic building, donations of \$4,506,182 have been deferred and \$112,655 (2011 - \$112,655) is being reported as revenue on the same basis as the amortization of the building on a straight-line basis over 40 years. For other assets, \$2,190,644 has been received and \$72,481 (2011 - \$52,481) is being reported as revenue on the same basis as the amortization of the assets.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2012

8. Net assets:

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. The University's income protection policy stipulates that, over time, the economic value of the endowment must be protected by limiting the amount of income that may be expended and reinvesting unexpended income. Application of this policy increases the endowment principal over time with some of the investment income set aside annually through the capitalization of investment income.

9. Investment income:

During the year the University earned \$1,535,454 (2011 - \$1,032,295) of investment income, consisting of \$1,202,491 (2011 - \$928,179) of interest and dividends and \$332,963 (2011 - \$104,116) of net capital gains realized on disposal of investments. An amount of \$194,717 was retained in the endowment fund (2011 - \$226,990 of accumulated earnings in the endowment fund was transferred to operations) for total investment income of \$1,340,737 (2011 - \$1,258,676) reported as follows:

	2012	2011
Statement of operations:		
Investment income	\$ 1,289,284	\$ 1,202,286
Statement of changes in net assets:		
Internally restricted fund	51,453	56,390
Total	\$ 1,340,737	\$ 1,258,676

10. Allotment to Dalhousie University under operating agreement:

As in prior years, the University of King's College has made payments to Dalhousie University under a signed operating agreement. The purpose of this agreement is to define fiscal transfers between Dalhousie University and the University of King's College with respect to instructional costs within the Joint College of Arts and Science. As per the terms of the Financial Transfer Agreement it is understood that this payment compensates Dalhousie for providing all indirect services for which King's students are eligible on the same basis as for Dalhousie students.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2012

11. Contingency:

Effective July 1, 1988, the University became a member of the "Canadian Universities Reciprocal Insurance Exchange" (CURIE) self insurance program. Accordingly, the University is subject to risk for a proportionate share of insurance losses experienced by CURIE members. Each CURIE member is required to participate for a minimum of five years. This long-term period creates an environment for CURIE where financial risk can be spread over time as well as among subscribers.

As at December 31, 2011, CURIE had total assets of \$130,167,806 (2010 - \$120,738,671) and an accumulated surplus of \$47,887,200 (2010 - \$40,939,908) of which the University's prorata share is approximately 0.13% on an ongoing basis.

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.

12. Financial instruments and risk management activities:

Capital:

The University's objective is to maintain a cost effective capital structure that supports its long-term strategy. The University has established a five year capital plan that is reviewed annually to ensure available funding is allocated to support these goals. Capital projects are generally financed with capital contributions.

The University's three non-revolving term credit facilities, two of which are unsecured, are subject to certain non-financial covenants. As at March 31, 2012, the University was in compliance with all of these covenants. For the year ended March 31, 2012 total debt increased by \$742,627 to \$4,231,889. The University also has a \$600,000 operating credit line with the bank which was not drawn on at March 31, 2012.

For the year ended March 31, 2012 net assets decreased by \$462,558 from \$35,695,328 to \$35,232,770.

In addition to debt and net assets, the University may use operating or capital leases as additional sources of financing.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2012

13. Pension plan:

The University has a contributory defined benefit pension plan for a significant number of its employees. Employees contribute at a rate of 10.5% of salary. The University funds the balance of the cost of benefits under the plan with regular contributions.

The most recent actuarial valuation of the plan for funding purposes reflected a plan surplus of \$2,722,857 as of March 31, 2011. The next actuarial valuation of the plan for funding purposes will be on March 31, 2014. The Plan's actuary has extrapolated the results of the March 31, 2011 actuarial valuation of the plan for funding purposes to March 31, 2012 yielding the following information:

	Pension Benefit Plan	
	2012	2011
Accrued benefit obligation	\$ 29,082,051	\$ 21,784,284
Fair value of plan assets	19,046,545	18,760,574
Funded status - (deficit)	\$ (10,035,506)	\$ (3,023,710)
Unamortized transitional asset	(200,929)	(226,045)
Unamortized net actuarial loss	10,487,723	3,070,839
Accrued benefit asset (liability)	\$ 251,288	\$ (178,916)

The surplus or deficit in the extrapolation for accounting purposes is not the same as the surplus or deficit determined for funding purposes because different methods and assumptions are used for the two valuations. The market value of net assets available for benefits noted above is based on the market value of the plan assets at March 31, 2012 whereas the assumptions adopted in measuring the Company's accrued benefit obligation were developed by reference to expected long-term market conditions. The significant actuarial assumptions used in the extrapolation are as follows:

	Pension Benefit Plan	
	2012	2011
Discount rate	4.25%	5.5%
Expected long-term rate of return on plan assets	6.25%	6.25%
Rate of compensation increase	4.5%	4.5%

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2012

13. Pension plan (continued):

The net expense for the University's benefit plans is as follows:

	Pension Benefit Plan	
	2012	2011
Net benefit plan expense	\$ 492,426	\$ 576,371

Other information about the University's defined benefit plans is as follows:

	Pension Benefit Plan	
	2012	2011
Employer contributions	\$ 922,630	\$ 648,052
Employee contributions	554,553	539,820
Benefits paid	538,469	584,603
Other benefit payments	365,797	268,682

14. Collections:

Permanent collections include that portion of library assets considered to have permanent value, museum specimens, archival materials, rare books and works of art. The collections include some 25,000 volumes of rare books including medieval and renaissance manuscripts, incunabula (fifteenth-century printed books) and thousands of sixteenth-, seventeenth- and especially eighteenth-century volumes, the University archives, which contain the official records of the University as well as documents from the early history of the Anglican Church in Canada, and manuscripts of literary figures associated with King's and the Weldon Collection of Loyalist China, brought to Nova Scotia and New Brunswick by the early settlers, and notably eighteenth-century Chinese Export porcelain. These collections, all of which have been donated, have not been recorded as assets.