

Financial Statements of

**UNIVERSITY OF KING'S
COLLEGE**

Year ended March 31, 2020



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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of the University of King's College (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian Accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants
Halifax, Canada
June 18, 2020

UNIVERSITY OF KING'S COLLEGE

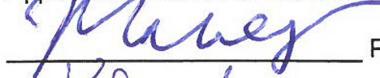

Statement of Financial Position

March 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Current assets:		
Cash	\$ 1,779,244	\$ 1,643,579
Accounts receivable (note 4)	300,276	220,636
Prepaid expenses	115,701	131,386
	<u>2,195,221</u>	<u>1,995,601</u>
Investments (note 5)	39,958,664	42,804,694
Capital assets (note 6)	18,734,352	19,042,393
	<u>\$ 60,888,237</u>	<u>\$ 63,842,688</u>
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 3,980,712	\$ 3,293,191
Deferred revenue	421,986	669,984
Current portion of long-term debt (note 8)	128,000	567,000
	<u>4,530,698</u>	<u>4,530,175</u>
Long-term debt (note 8)	10,853,000	10,981,000
Deferred capital contributions (note 9)	7,823,679	7,610,170
Net assets:		
Capital fund	11,247,138	11,760,687
Endowment fund (note 10)	27,376,681	30,123,835
Operating fund - internally restricted	9,445,252	10,974,938
Operating fund - unrestricted	(10,388,211)	(12,138,117)
	<u>37,680,860</u>	<u>40,721,343</u>
Commitments and contingent liability (note 13)		
Subsequent events (note 16)		
	<u>\$ 60,888,237</u>	<u>\$ 63,842,688</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:


 _____ President

 _____ Treasurer

UNIVERSITY OF KING'S COLLEGE

Statement of Operations

Year ended March 31, 2020, with comparative information for 2019

	Capital Fund	Externally Restricted	Operating Fund		2020 Total	2019 Total
			Internally Restricted	Unrestricted		
Revenue:						
Provincial government grant	\$ -	\$ -	\$ -	\$ 8,270,000	\$ 8,270,000	\$ 8,188,391
Student academic fees	-	-	-	7,466,839	7,466,839	7,221,503
Student residence fees	-	-	-	1,786,272	1,786,272	1,719,751
Student ancillary fees	-	-	-	1,012,768	1,012,768	1,087,094
Investment income (note 11)	-	82,355	-	1,943,047	2,025,402	2,016,065
Sale of goods and services	-	101,870	-	622,268	724,138	761,115
Gifts (note 3)	-	142,564	-	589,386	731,950	478,213
Other government grants	-	61,737	-	99,719	161,456	180,792
Amortization of deferred capital contributions	336,965	-	-	-	336,965	334,147
	336,965	388,526	-	21,790,299	22,515,790	21,987,071
Expenses:						
Academic	-	121,404	-	6,265,895	6,387,299	6,268,398
Allotment to Dalhousie University (note 12)	-	-	-	3,943,371	3,943,371	4,099,256
Facility operations including conference services	-	-	-	2,032,303	2,032,303	2,268,786
Residence and other student services	-	-	-	507,117	507,117	530,792
Scholarships, awards and bursaries	-	9,225	-	1,676,108	1,685,333	1,438,036
Utilities, taxes and insurance	-	-	-	471,395	471,395	469,733
Amortization of capital assets	933,577	-	-	-	933,577	941,751
Advancement	-	39,881	-	979,428	1,019,309	816,070
Athletics	-	33,661	-	564,392	598,053	585,235
Bursar's office	-	-	-	604,567	604,567	554,484
Divinity, chapel and music	-	125,136	-	364,306	489,442	525,846
General college administration and other	-	-	-	443,073	443,073	447,500
Library	-	3,960	-	357,050	361,010	370,065
President's office	-	6,637	-	450,492	457,129	531,465
Vice President's office	-	-	-	165,854	165,854	153,814
Sexualized Violence Awareness, Prevention & Response Office	-	-	-	52,352	52,352	-
Registrar's office and recruitment	-	-	-	891,965	891,965	868,584
Investment management fees	-	24,648	-	184,392	209,040	179,297
Interest and service charges	-	-	-	402,244	402,244	426,843
	933,577	364,552	-	20,356,304	21,654,433	21,475,955
Excess of revenue over expenses before adjustments	(596,612)	23,974	-	1,433,995	861,357	511,116
Decrease in fair value of non-endowment investments	-	-	(1,165,046)	-	(1,165,046)	(241,900)
(Deficiency) excess of revenue over expenses	\$ (596,612)	\$ 23,974	\$ (1,165,046)	\$ 1,433,995	\$ (303,689)	\$ 269,216

See accompanying notes to financial statements.

UNIVERSITY OF KING'S COLLEGE

Statement of Changes in Net Assets

Year ended March 31, 2020, with comparative information for 2019

	Capital Fund	Endowment Fund	Externally Restricted	Operating Fund		2020 Total	2019 Total
				Internally Restricted	Unrestricted		
Balance, beginning of year	\$ 11,760,687	\$ 30,123,835	\$ -	\$ 10,974,938	\$ (12,138,117)	\$ 40,721,343	\$ 39,325,780
(Deficiency) excess of revenues over expenses	(596,612)	-	23,974	(1,165,046)	1,433,995	(303,689)	269,216
Endowment contributions (note 3)	-	618,521	-	-	-	618,521	1,360,497
Income net of transfers	-	120,634	-	10,360	-	130,994	237,511
Fair value adjustment of investments	-	(3,486,309)	-	-	-	(3,486,309)	(471,661)
Investment in capital assets	78,683	-	-	-	(78,683)	-	-
Transfer	4,380	-	(23,974)	(375,000)	394,594	-	-
Balance, end of year	\$ 11,247,138	\$ 27,376,681	\$ -	\$ 9,445,252	\$ (10,388,211)	\$ 37,680,860	\$ 40,721,343

See accompanying notes to financial statements.

UNIVERSITY OF KING'S COLLEGE

Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used for):		
Operating activities:		
(Deficiency) excess of revenue over expenses	\$ (303,689)	\$ 269,216
Items not affecting cash:		
Amortization of capital assets	933,577	941,751
Amortization of deferred capital contributions	(336,965)	(334,147)
Decrease in fair value of non-endowment investments	1,165,046	241,900
Gain on disposal of capital assets	(4,380)	-
Decrease (increase) in non-cash working capital	375,568	(59,340)
	1,829,157	1,059,380
Investing activities:		
Proceeds from sale of investments	7,258,318	3,714,511
Purchase of investments	(9,063,643)	(4,555,845)
Proceeds from disposal of capital assets	8,000	-
Purchase of capital assets	(629,156)	(404,794)
	(2,426,481)	(1,246,128)
Financing activities:		
Contributions relating to endowments deferred during the year	618,521	1,360,497
Endowment expenditure of capital for specified purposes	130,994	237,511
Contributions related to capital assets deferred during the year	550,474	202,274
Principal payments on long-term debt	(567,000)	(434,000)
	732,989	1,366,282
Net increase in cash	135,665	1,179,534
Cash, beginning of year	1,643,579	464,045
Cash, end of year	\$ 1,779,244	\$ 1,643,579

See accompanying notes to financial statements.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements

Year ended March 31, 2020

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 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:

Basis of accounting:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the *CPA Canada Handbook* which sets out generally accepted accounting principles for not-for-profit organizations in Canada ("GAAP") and includes the significant accounting policies summarized below:

(a) Fund accounting:

The University maintains its accounts in accordance with the fund accounting method in order to ensure observance of restrictions, if any, placed on the resources made available to it. Resources are classified for accounting and reporting purposes into funds in accordance with specified activities or objectives.

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

- i) The Operating Fund accounts for the University's program delivery, service and administrative activities. The fund is further divided into the Unrestricted Operating Fund and the Internally Restricted Operating Fund.

The Unrestricted Operating 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 service.

The Internally Restricted Operating Fund accounts for money internally designated for specific projects and/or purposes.

- ii) The Capital Fund accounts for the acquisition of and major renovations or improvements to capital assets.
- iii) The Endowment Fund accounts for resources received with the stipulation that the original contribution not be spent. The fund also consists of a portion of the investment income earned on these funds that is required by donors and the Board of Governors to be added to the fund to offset the eroding effect of inflation.
- iv) The Externally Restricted Fund accounts for money externally designated for specific projects and/or purposes.

(b) Cash:

Cash includes cash on hand with financial institutions.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2019

2. Significant accounting policies (continued):

(c) 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.

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
Energy efficiency hardware	15 years
Library books	10 years

Capital assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(d) Employee benefit plans:

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

(e) Derivatives:

The University enters into interest rate swaps with a chartered bank to reduce interest rate exposure associated with the impact of fluctuating interest rates on its long-term debt. The swaps have the effect of converting the floating rate of interest on the debt to a fixed rate. It is the University's policy not to use derivative financial instruments for trading or speculative purposes.

The University designates its interest rate swaps as cash flow hedges of specifically identified debt instruments. The swap agreements are effective hedges, both at maturity and over the term of the agreements, since the term to maturity, the notional principal amount and the interest rate of the swap agreements all match the terms of the debt instrument being hedged. The swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based. The payments are recorded as an adjustment of the interest expense on the hedged debt instrument.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2019

2. Significant accounting policies (continued):

In the event that the interest rate swap agreement is terminated or ceases to be effective in part or in whole prior to maturity, any associated realized or unrealized gain or loss would be recognized in the period in which the underlying hedged transaction is recognized. In the event the designated hedged debt instrument is extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss is recognized in income.

(f) Revenue recognition:

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 it relates. The capital portion of grants is recorded as a deferred contribution and is amortized into revenue at a rate corresponding with the amortization rate of the related capital 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.

The University follows the deferral method of accounting for contributions, which includes:

- Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized.
- Endowment contributions and the proportion of income earned on externally restricted endowments which is recapitalized are recognized as a direct increase in endowment net assets.
- Revenue from student academic fees, student residence fees, athletic, application and course fees and sales of goods and services are recognized when the services are provided or the goods are sold.

(g) 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.

(h) Collections:

The University Library contains a rare books collection made up of printed books, and medieval and renaissance manuscripts which was accumulated through donation between 1872 and 1985. During the year, the University adopted *Section 4441 Collections held by not-for-profit organizations*, however, since the fair value was not assessed at the time of donation, the Collection is recorded at a nominal cost.

(i) Investments:

Investments reported at fair value consist of equity instruments that are quoted in an active market, as well as any investments in debt or equity securities that the University designated to be measured at fair value. Such designation must be made when the investment is initially recognized. This designation is irrevocable. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred. The University holds investments in a pooled balanced fund, equities, and pooled alternative funds ("alternatives") and records these at fair value. The change in fair value year-over-year is reflected in the Statement of Operations for restricted investments and an adjustment to endowed investments in the Statement of Changes in Net Assets.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2019

2. Significant accounting policies (continued):

The value of private investments ("alternatives"), which comprise private externally managed co-mingled funds with underlying investments in commercial mortgages, real estate assets and infrastructure assets, are determined based on the valuations provided by the external investment managers of the fund. The University believes that the carrying amount of these financial instruments is a reasonable estimate of fair value. Because private investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

(j) 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 the useful life of capital assets. Actual results could differ from those estimates.

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 in 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.

Pledges of donations to be received in future years are not recorded in the financial statements. The total amount pledged in the year ended March 31, 2020 but not yet received was \$1,330,572.

During the year \$1,350,471 (2019 - \$1,838,710) was reported as follows:

	2020	2019
Statement of operations:		
Revenue: Gifts	\$ 731,950	\$ 478,213
Statement of changes in net assets:		
Endowment contributions	618,521	1,360,497
Total gifts	\$ 1,350,471	\$ 1,838,710

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2020

4. Accounts receivable:

	2020	2019
Dalhousie University	\$ -	\$ 61,170
Harmonized sales taxes	54,754	34,235
Nova Scotia Bursary Receivable	58,772	74,407
Other receivables	186,750	50,824
Total accounts receivable	\$ 300,276	\$ 220,636

Students have the option of paying their fees at either King's or Dalhousie University.

5. Investments:

Investments are comprised 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 asset mix guidelines developed and monitored by the Investment Committee of the Board of Governors. At March 31, 2020 the composition of underlying assets was as follows: Canadian equities 24% (2019 – 34%), foreign equities 29% (2018 – 31%), fixed income 32% (2019 – 32%), cash 2% (2019 – 2%), alternative investments 13% (2019 – 1%). Included in investments is \$27,376,681 (2019 - \$30,123,835) related to the endowment fund and \$9,445,252 (2019 - \$10,974,938) related to internally restricted operating funds. The remaining is investments of the operating fund.

6. Capital assets:

	2020	2019		
	Cost	Accumulated Amortization	Net Book value	Net Book value
Land	\$ 200,000	\$ -	\$ 200,000	\$ 200,000
Buildings	26,711,061	10,384,303	16,326,758	16,602,143
Computers and electronic equipment	535,908	469,314	66,594	65,640
Energy efficiency hardware	1,387,263	213,697	1,173,566	1,137,235
Furniture and equipment	3,454,278	2,710,908	743,370	802,497
Library books	1,893,432	1,669,368	224,064	234,878
	\$34,181,942	\$15,447,590	\$18,734,352	\$19,042,393

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2020

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$1,667 (2019 – \$2,180) which includes amounts payable for HST.

8. Long-term debt:

	2020	2019
Fixed term, unsecured bankers' acceptances, bearing interest at 3.09%, payable in monthly instalments of approximately \$29,100, including interest, due January, 2033	\$3,773,000	\$ 4,008,000
Fixed term, unsecured bankers' acceptances, bearing interest at 3.23%, payable in monthly instalments of approximately \$8,200, including interest, due November, 2035	1,251,000	1,311,000
Fixed term, unsecured bankers' acceptances, bearing interest at 2.63%, payable in monthly instalments of approximately \$9,200, including interest, due April, 2036	1,604,000	1,683,000
Fixed term, unsecured bankers' acceptances, bearing interest at 3.64%, payable in quarterly instalments of approximately \$27,700, including interest, due November, 2037	1,873,000	1,946,000
Fixed term, unsecured bankers' acceptances, bearing interest at 3.25%, interest only payable quarterly to November 2019, then quarterly instalments of approximately \$132,000, including interest, due November, 2024	2,480,000	2,600,000
	10,981,000	11,548,000
Current portion of long-term debt	128,000	567,000
	\$ 10,853,000	\$10,981,000

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

2021	128,000
2022	934,000
2023	987,000
2024	1,020,000
2025	1,053,000

The University uses interest rate swaps to manage interest rate risk. The interest rates stated above are the effective rates on the swap agreements related to the underlying debt.

The University has an operating line of credit of \$1,000,000 to assist with operations. Interest is payable at the bank's prime lending rate less 0.25%.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2020

9. Deferred capital contributions:

	2020	2019
Balance, beginning of year	\$ 7,610,170	\$ 7,742,043
Contributions received during the year	550,474	202,274
Amounts recognized as revenue in the year	(336,965)	(334,147)
	<u>\$ 7,823,679</u>	<u>\$ 7,610,170</u>

10. Endowment fund:

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.

11. Investment income:

During the year the University earned \$2,156,597 (2019 - \$2,254,321) of investment income, consisting of \$1,839,518 (2019 - \$2,028,696) of interest and dividends and \$317,079 (2019 - \$225,625) of net realized capital gains on disposal of investments. An amount of \$131,195 of accumulated earnings was retained in the endowment fund (2019 - (\$238,256)) for total investment income of \$2,025,402 (2019 - \$2,016,065).

12. 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.

The following balances are included in the financial statements at year-end:

	2020	2019
Accounts receivable	\$ -	\$ 61,170
Accounts payable and accrued liabilities	1,588,488	1,235,789

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2020

13. Commitments and contingent liability:

The University is 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, 2019, CURIE had total assets of \$170,940,779 (2019 - \$168,951,344) and an accumulated surplus of \$90,185,361 (2019 - \$79,338,231) of which the University’s pro-rata share is approximately 0.12% 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.

During the year, the University committed to the renovation of the Chapel Bay, Middle Bay, and Radical Bay (i.e., the Tri-Bays) Student Residences. This project began March 2, 2020, with an estimated completion of August 2020 and at a cost not to exceed \$5,000,000.

14. Financial instruments and risk management activities:

Risk management relates to the understanding and active management of risks associated with all areas of the University’s activities and the associated operating environment. Investments are primarily exposed to interest rate, market, credit and liquidity risks while long-term debt is exposed to interest rate risk.

The University has formal policies and procedures that establish target asset mix for investments. The University’s investment policies also require diversification of investments within categories and set limits on exposure to individual investments and credit quality. Further, the University uses interest rate swaps to hedge interest rate risk on long-term debt.

On March 11, 2020, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, was classified as a global pandemic, which has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic is unknown currently, as is the efficacy of the government’s interventions.

In March 2020, the University vacated residences and moved to an online learning platform for the remainder of the 2019/20 academic year. Further, the University has implemented procedures including employee education, increased sanitization, as well as employees working remotely when possible. The duration of the outbreak and economic impacts are uncertain and there may be impacts in the future on the University’s operations, value of investments and cash flows. This increases the level of risk around financial instruments and the University is actively monitoring and managing the situation.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2020

14. Financial instruments and risk management activities (continued):

(a) Interest rate risk:

The University is exposed to interest rate risk on its fixed interest rate financial instruments. The value of fixed income securities will generally rise if interest rates fall and decrease if interest rates rise. Changes in interest rates may also affect the value of equity securities.

The University is exposed to interest rate risk on long-term debt, which it manages through the use of interest rate swap agreements. Interest rate swaps allow the University to raise long-term borrowing at floating rates and effectively swap them into fixed rates that are lower than those available to the University if fixed rate borrowings were made directly. Under the interest rate swaps, the University agrees with the counterparty to exchange, at specific intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to the notional amount.

Although the University has no intention of settling these instruments at March 31, 2020, the interest rate swap contracts have a fair value of \$1,024,735 less (2019 - \$364,626 less) than the recorded value.

At March 31, 2020, interest rate swaps outstanding have a notional value of \$10,981,000 (2019 - \$11,548,000) and are designated as hedges for accounting purposes, which results in interest expense related to the long-term debt to be recorded in the financial statements at the hedged rates rather than at the contractual interest rates.

The interest rate swap contracts result in the University securing long-term fixed interest rates in the range of 1.98% to 2.74% (2019 – 1.98% to 2.74%).

(b) Market risk:

The risks associated with the pooled funds are the risks associated with the securities in which the pooled funds are invested. The value of equity securities changes with stock market conditions, which are affected by general economic and market conditions. The value of securities will vary with developments within the specific companies or governments which issue the securities. The market risk of the University has increased over the prior year due to current global economic conditions. The University manages this risk through controls to monitor and limit concentration levels.

(c) Credit risk:

The University is exposed to credit risk on its fixed income investments as a default by the bond issuer would cause a financial loss for the University. The credit risk of the University has increased over the prior year due to current global economic conditions. The University mitigates this risk by restricting fixed income investments to instruments with high quality credit ratings assigned by a well-recognized credit agency, and by limiting exposure to individual investments.

UNIVERSITY OF KING'S COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2020

14. Financial instruments and risk management activities (continued):

(d) Liquidity risk:

Liquidity risk is the risk that the University will not be able to meet a demand for cash or fund its obligations as they come due. The liquidity risk of the University has increased over the prior year due to current global economic conditions. The University meets its liquidity requirements by preparing and monitoring forecasts of cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash.

15. Collections:

Permanent collections include that portion of library assets considered to have permanent value, such as 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.

16. Subsequent events:

Subsequent to year-end the University obtained a bridge financing facility to assist with cash flow for the renovation of the Chapel Bay, Middle Bay, and Radical Bay (i.e., the Tri-Bays) Student Residences while the major gifts campaign proceeds. This facility is available to a maximum amount of \$3,000,000 at an interest rate of prime less 0.25% and is repayable in full, five years from the final drawdown.

As discussed in note 14, the duration of the COVID-19 pandemic and economic impacts are uncertain. As a response to this, the University altered the current swap agreements to defer principal repayments on long-term debt. These swap agreements will continue to be an effective hedge against the long-term debt and will result in deferred payments of \$823,000 over the next six – 12 months. The University has also increased the operating line of credit limit to \$1,500,000 to further assist with cash flow.

17. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation of the current year.