

Brescia University College

Financial statements

April 30, 2019



Independent auditor's report

To the Board of Trustees of
Brescia University College

Opinion

We have audited the accompanying financial statements of **Brescia University College** ["Brescia"], which comprise the statement of financial position as at April 30, 2019, and the statement of operations, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Brescia as at April 30, 2019, 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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of Brescia 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 Brescia'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 Brescia or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 these 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 Brescia'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 Brescia's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause Brescia 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.

We 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.

London, Canada
June 26, 2019

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Brescia University College

Statement of financial position

As at April 30

| | 2019 | 2018 |
|-----------------------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Current | | |
| Cash and cash equivalents | 7,346,899 | 5,309,888 |
| Short-term investments <i>[note 3]</i> | 179,312 | 1,517,219 |
| Accounts receivable | 721,270 | 207,012 |
| Prepaid expenses and inventory | 253,116 | 194,723 |
| Total current assets | 8,500,597 | 7,228,842 |
| Investments <i>[note 3]</i> | 8,453,689 | 11,817,922 |
| Capital assets, net <i>[note 4]</i> | 60,155,282 | 55,671,452 |
| | 77,109,568 | 74,718,216 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | 3,474,847 | 1,880,729 |
| Deferred revenue | 1,180,037 | 500,991 |
| Current portion of mortgage payable <i>[note 9]</i> | 200,000 | 200,000 |
| Current portion of bank debt <i>[note 10]</i> | 577,286 | 547,059 |
| Total current liabilities | 5,432,170 | 3,128,779 |
| Deferred contributions <i>[note 6]</i> | 953,595 | 1,088,294 |
| Deferred capital contributions <i>[note 7]</i> | 8,791,755 | 8,964,330 |
| Pension benefit obligation <i>[note 8]</i> | 837,054 | 829,095 |
| Mortgage payable <i>[note 9]</i> | 1,400,000 | 1,600,000 |
| Bank debt <i>[note 10]</i> | 27,992,745 | 28,570,032 |
| Total liabilities | 45,407,319 | 44,180,530 |
| Net assets | | |
| Unrestricted | 23,841,717 | 17,683,574 |
| Internally restricted <i>[note 5]</i> | 2,313,807 | 7,499,436 |
| Endowments | 5,546,725 | 5,354,676 |
| Total net assets | 31,702,249 | 30,537,686 |
| | 77,109,568 | 74,718,216 |

Commitments and contingencies *[notes 8, 10, 14 and 15]*

See accompanying notes

Approved by the Board of Trustees

Trustee

Trustee

Brescia University College

Statement of operations

Year ended April 30

| | 2019 | 2018 |
|------------------------------------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Revenue | | |
| Tuition and other student fees | 14,667,341 | 12,951,978 |
| Provincial government grants | 8,380,452 | 8,398,378 |
| Research and other grant revenue | 82,309 | 144,066 |
| Investment income <i>[note 3]</i> | 504,694 | 461,036 |
| Tuition revenue set aside for distribution as bursaries | 492,663 | 477,239 |
| Amortization of deferred capital contributions <i>[note 7]</i> | 1,044,644 | 1,535,359 |
| Donations | 195,737 | 325,412 |
| Miscellaneous | 121,868 | 84,797 |
| Ancillary revenue <i>[note 13]</i> | 5,391,928 | 5,053,080 |
| | 30,881,636 | 29,431,345 |
| Expenses | | |
| Faculty salaries and benefits | 8,069,194 | 7,713,281 |
| Staff salaries and benefits | 7,612,466 | 7,127,811 |
| Service fee to Western University | 2,559,389 | 2,445,369 |
| Academic and student services | 1,043,635 | 1,139,326 |
| Marketing and external relations | 1,099,728 | 1,120,014 |
| Facilities | 922,388 | 1,012,102 |
| General administration | 758,912 | 664,281 |
| Scholarships and bursaries | 2,012,070 | 1,866,406 |
| Amortization of capital assets | 2,710,933 | 3,370,973 |
| Ancillary expenses <i>[note 13]</i> | 1,502,311 | 1,562,607 |
| Interest on long-term debt <i>[note 10]</i> | 1,560,059 | 1,591,876 |
| | 29,851,085 | 29,614,046 |
| Excess (deficiency) of revenue over expenses for the year | 1,030,551 | (182,701) |

See accompanying notes

Brescia University College

Statement of changes in net assets

Year ended April 30

| | Unrestricted | Internally restricted | Endowments | 2019 | 2018 |
|-----------------------------------------------------------|-------------------|--------------------------|------------------|-------------------|------------|
| | \$ | \$ | \$ | \$ | \$ |
| Net assets, beginning of year | 17,683,574 | 7,499,436 | 5,354,676 | 30,537,686 | 29,730,399 |
| Excess (deficiency) of revenue over expenses for the year | 1,030,551 | — | — | 1,030,551 | (182,701) |
| Endowment contributions | — | — | 64,193 | 64,193 | 1,158,045 |
| Increase in accumulated investment income on endowments | — | — | 127,856 | 127,856 | 29,987 |
| Transfer of funds to deferred contributions | — | — | — | — | (186,449) |
| Remeasurements of pension obligation <i>[note 8]</i> | (58,037) | — | — | (58,037) | (11,595) |
| Interfund transfers | 5,185,629 | (5,185,629) | — | — | — |
| Balance, end of year | 23,841,717 | 2,313,807 | 5,546,725 | 31,702,249 | 30,537,686 |

See accompanying notes

Brescia University College

Statement of cash flows

Year ended April 30

| | 2019 | 2018 |
|-----------------------------------------------------------------------------|--------------------|--------------------|
| | \$ | \$ |
| Operating activities | | |
| Excess (deficiency) of revenue over expenses for the year | 1,030,551 | (182,701) |
| Add (deduct) non cash items | | |
| Amortization of capital assets | 2,710,933 | 3,370,973 |
| Amortization of deferred capital contributions | (1,044,644) | (1,535,359) |
| Unrealized investment (income) loss | (87,194) | 303,161 |
| Net change in non-cash balances | | |
| (Increase) decrease in accounts receivable | (514,258) | 49,999 |
| (Increase) decrease in prepaid expenses and inventory | (58,393) | 55,806 |
| Increase in accounts payable and accrued liabilities | 383,049 | 163,858 |
| (Decrease) increase in deferred contributions | (134,699) | 98,462 |
| Increase in deferred revenue | 679,046 | 61,846 |
| Cash provided by operating activities | 2,964,391 | 2,386,045 |
| Financing activities | | |
| Endowments contributions | 64,193 | 1,158,045 |
| Deferred capital contributions received | 872,069 | 285,092 |
| Repayment of mortgage payable | (200,000) | (200,000) |
| Repayment of bank debt | (547,060) | (518,416) |
| Cash (used in) provided by financing activities | 189,202 | 724,721 |
| Investing activities | | |
| Purchases of capital assets | (6,033,772) | (1,990,427) |
| Net sales (purchases) of investments | 4,917,190 | (2,093,581) |
| Cash used in investing activities | (1,116,582) | (4,084,008) |
| Net increase (decrease) in cash and cash equivalents during the year | 2,037,011 | (973,242) |
| Cash and cash equivalents, beginning of year | 5,309,888 | 6,283,130 |
| Cash and cash equivalents, end of year | 7,346,899 | 5,309,888 |

See accompanying notes

Notes to financial statements

April 30, 2019

1. Purpose of Brescia

Brescia University College ["Brescia"] is a Catholic university college for women, affiliated with Western University. Brescia offers undergraduate students a full range of liberal arts academic programming as well as specialist graduate and undergraduate programs in Food and Nutritional Sciences.

Brescia is incorporated without share capital under the *Corporations Act* (Ontario) and is a registered charity under the *Income Tax Act* (Canada). As a not-for-profit registered charity, Brescia is exempt from tax under the *Income Tax Act* pursuant to Section 149[1] [h.1] of the Act.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada ["GAAP"] and includes the significant accounting policies summarized below.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Significant areas requiring the use of estimates include the valuation of donated land and buildings, the useful lives of capital assets and the pension benefit obligation. Actual results could differ from those estimates.

Revenue recognition

Brescia accounts for contributions, which includes government grants and donations, in accordance with the deferral method.

Externally restricted contributions received for:

- Purposes other than endowment or the acquisition of capital assets are initially recorded as deferred contributions and recognized as revenue in the year in which the related expenses are incurred.
- The acquisitions of capital assets having limited life are initially recorded as deferred contributions in the period in which they are received and recognized as revenue over the useful life of the related capital assets.
- The acquisition of unlimited life assets such as land and collections are recorded as direct increases in net assets in the period in which they are received.

Endowment contributions and related investment income allocated to endowment capital preservation and growth are recorded as direct increases or decreases in net assets in the period in which they are received or earned.

Unrestricted contributions are recognized as revenue when received.

Revenue received for the provision of goods and services are recognized in the period in which the goods or services are provided by Brescia. Revenue received for a future period are deferred until the goods or services are provided.

Notes to financial statements

April 30, 2019

Tuition and other academic fees are recorded as revenue on the accrual basis of accounting. All fees that relate to an academic term occurring within the fiscal year are included as revenue. Fees collected that relate to academic terms commencing after the end of the fiscal year are included in deferred revenue.

Cash and cash equivalents

Cash equivalents consist of highly liquid investments with original maturities of less than 90 days from the date of purchase.

Employee future benefits

Brescia recognizes the amount of the accrued benefit obligation net of the fair value of the assets of its defined pension plan [the "Plan"], adjusted for any valuation allowance, in the statement of financial position. Actuarial gains and losses and past service costs are recognized as a direct increase or decrease in net assets. The accrued benefit obligation is determined based on an actuarial valuation report prepared for funding purposes. This report is required to be prepared at least on a triennial basis by the applicable pension regulations. In the year where an actuarial valuation for funding purposes is not prepared, Brescia estimates the obligation.

Brescia has a defined contribution pension plan covering substantially all of its employees. Brescia's contribution to the pension plan are expensed as incurred.

Investments and investment income

All investments are recorded at fair value. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Short-term investments are readily convertible to cash and are recorded at cost plus accrued income, which approximates fair value. Pooled funds are valued based on reported unit values.

Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Investment income, comprised of interest, dividends, realized and unrealized gains (losses), is recorded as revenue in the statement of operations, except for investment income earned on endowments, for which only the amount made available for spending is recorded as revenue. Investment income earned in excess of the amount made available for spending is recorded as a direct increase in endowments. In years where the investment income earned is below the amount made available for spending, the shortfall is recorded as a direct decrease in endowments.

Derivative financial instruments

Brescia follows hedge accounting for its interest rate swap to manage the cash flow risk associated with its long-term debt obligation. In order for a derivative to qualify for hedge accounting, the hedge relationship must be identified, designated and formally documented at its inception. Change in the cash flows on the interest rate swaps must be highly effective in offsetting changes in the amount of cash flows on the hedged long-term debt. Interest rate swaps in qualifying hedging relationships are not recognized until their maturity.

Other financial instruments

Other financial instruments, including accounts receivable, accounts payable and accrued liabilities, mortgage payable and bank debt are recorded at amortized cost.

Brescia University College

Notes to financial statements

April 30, 2019

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method at the following rates:

| | |
|--------------------------------|----------|
| Buildings | 20 years |
| Buildings – newly constructed | 30 years |
| Furniture and equipment | 10 years |
| Parking lots | 10 years |
| Computer hardware and software | 3 years |
| Automotive | 3 years |

Construction in progress is not amortized until the asset is complete.

Inventories

Inventories are valued at the lower of cost and net realizable value on a first in first out basis.

Endowments

Endowed investments consist of donations with externally imposed restrictions stipulating that the principal be maintained intact in perpetuity. The use of investment income earned from endowments is restricted to provide for scholarships for academic achievement and bursaries for financial need, or other awards to further Brescia's mission, as stipulated by the donor. Brescia's endowment management policies follow the general principle of maintaining the purchasing power of all endowments funds by limiting the amount made available for spending and reinvesting an amount commensurate with inflation into the principal portion of the endowment each year. Brescia ensures that all funds received for restricted purposes are expended for those purposes for which they were provided.

3. Investments

[i] Total investments at fair value consist of the following:

| | 2019 | 2018 |
|-------------------------------|------------------|------------|
| | \$ | \$ |
| Short-term income fund | 179,312 | 1,517,219 |
| Long-term Investments | | |
| Equity pooled funds | 4,893,292 | 6,212,101 |
| Fixed income pooled funds | 3,560,397 | 5,605,821 |
| | 8,453,689 | 11,817,922 |

Notes to financial statements

April 30, 2019

[ii] Investment income consists of the following:

| | 2019 | | | 2018 |
|---------------------------------------------------------|----------------|----------------|----------------|-----------|
| | Operations | Endowment | Total | Total |
| | \$ | \$ | \$ | \$ |
| Net realized investment income | 334,258 | 226,162 | 560,420 | 768,813 |
| Net increase (decrease) in unrealized investment income | 15,449 | 56,681 | 72,130 | (277,790) |
| | 349,707 | 282,843 | 632,550 | 491,023 |
| Investment income made available for spending | 154,987 | (154,987) | — | — |
| Increase in accumulated investment income on endowments | — | (127,856) | (127,856) | (29,987) |
| | 504,694 | — | 504,694 | 461,036 |

4. Capital assets

| | 2019 | | |
|--------------------------------|-------------------|--------------------------|-------------------|
| | Cost | Accumulated amortization | Net |
| | \$ | \$ | \$ |
| Land | 15,042,167 | — | 15,042,167 |
| Buildings | 56,262,381 | 20,332,142 | 35,930,239 |
| Furniture and equipment | 3,206,320 | 1,831,659 | 1,374,661 |
| Computer hardware and software | 921,383 | 720,694 | 200,689 |
| Automotive | 23,366 | 19,472 | 3,894 |
| Parking lots | 552,371 | 236,789 | 315,582 |
| Construction in progress | 7,288,050 | — | 7,288,050 |
| | 83,296,038 | 23,140,756 | 60,155,282 |

Brescia University College

Notes to financial statements

April 30, 2019

| | 2018 | | |
|--------------------------------|-------------------|-------------------------------------|-------------------|
| | Cost | Accumulated amortization | Net |
| | \$ | \$ | \$ |
| Land | 15,042,167 | — | 15,042,167 |
| Buildings | 57,390,203 | 19,346,158 | 38,044,045 |
| Furniture and equipment | 3,116,532 | 1,554,216 | 1,562,316 |
| Computer hardware and software | 772,817 | 645,747 | 127,070 |
| Automotive | 23,366 | 11,683 | 11,683 |
| Parking lots | 552,372 | 181,552 | 370,820 |
| Construction in progress | 513,351 | — | 513,351 |
| | 77,410,808 | 21,739,356 | 55,671,452 |

5. Internally restricted net assets

Brescia's Board of Trustees maintains restrictions on net assets for purposes of future capital projects. This restricted amount of \$2,313,807 [2018 – \$7,499,436] is not available for other purposes without approval of the Board of Trustees.

6. Deferred contributions

Deferred contributions represent unspent externally restricted grants [including research grants], donations and other contributions. The balance consists of the following:

| | 2019 | 2018 |
|------------------------------------------|------------------|-------------|
| | \$ | \$ |
| Balance, beginning of year | 1,088,294 | 803,382 |
| Contributions received during the year | 96,053 | 523,550 |
| Contributions recognized during the year | (263,064) | (429,594) |
| Add net investment income | 32,312 | 4,507 |
| Transfers from other funds | — | 186,449 |
| | 953,595 | 1,088,294 |

Of the \$263,064 [2018 – \$429,594] in contributions recognized in revenue during the year, \$95,733 [2018 – \$151,846] related to research grants.

Notes to financial statements

April 30, 2019

7. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The changes in the deferred capital contributions are as follows:

| | 2019 \$ | 2018 \$ |
|------------------------------------------------------|--------------------|-------------|
| Balance, beginning of year | 8,964,330 | 10,214,597 |
| Add contributions received and spent during the year | 872,069 | 285,092 |
| Less amounts amortized to revenue | (1,044,644) | (1,535,359) |
| | 8,791,755 | 8,964,330 |

Balance end of year includes nil [2018 – \$150,587] in contributions received in prior years and unspent.

8. Pension benefit obligation

As at January 1, 1994, Brescia changed from a defined benefit pension plan [the “DB plan”] to a defined contribution plan [the “DC plan”]. For all employees who were under the DB plan, Brescia has provided a guarantee that the value of their defined contribution plan at retirement will not be less than it would have been under the previous DB plan.

Brescia measures its accrued benefit obligation for the DB plan as at April 30 each year for accounting purposes.

The DB plan has no assets. Cash contributions are made upon benefits becoming payable.

| | 2019 \$ | 2018 \$ |
|---------------------------------------------|-----------------|------------|
| Change in accrued benefit obligation | | |
| Accrued benefit obligation – May 1 | 829,095 | 817,500 |
| Net benefit cost | 58,037 | 11,595 |
| Employer contributions | (50,078) | — |
| Accrued benefit obligation – April 30 | 837,054 | 829,095 |

Brescia’s net benefit plan cost includes the following components:

| | 2019 \$ | 2018 \$ |
|-----------------------------|---------------|------------|
| Current service cost | 19,940 | 29,155 |
| Interest cost | 24,308 | 18,626 |
| Actuarial cost (gain) | 13,789 | (36,186) |
| Net pension cost recognized | 58,037 | 11,595 |

Notes to financial statements

April 30, 2019

The significant assumptions used for the benefit obligation are as follows:

| | 2019 % | 2018 % |
|-------------------|-----------|-----------|
| Discount rate | 2.50 | 2.95 |
| Salary escalation | 3.00 | 3.00 |

9. Mortgage payable

During 2007, Brescia entered into an agreement of purchase and sale with the Ursuline Religious of the Diocese of London in Ontario to purchase certain land and buildings at a negotiated exchange amount. Pursuant to the Agreement, Brescia has agreed to pay the vendor take-back mortgage in equal annual installments commencing on the first anniversary of the closing date and on each anniversary thereafter until paid in full. The mortgage has an interest rate of nil. The purchase agreement was completed February 15, 2008.

The principal payments required over the next five years and thereafter are as follows:

| | \$ |
|------------|------------------|
| 2020 | 200,000 |
| 2021 | 200,000 |
| 2022 | 200,000 |
| 2023 | 200,000 |
| 2024 | 200,000 |
| Thereafter | 600,000 |
| | <u>1,600,000</u> |

10. Bank debt

Bank debt consists of the following:

- [i] A \$2,000,000 operating line of credit to finance general operating requirements. Repayable upon demand, bearing interest payable monthly at prime minus 0.5% per annum. As at April 30, 2019, \$1,880,000 [2018 – \$1,880,000] of the facility was available to Brescia as \$120,000 [2018 - \$120,000] has been set aside in a Letter of Credit in favour of the City of London [the “City”] to support Brescia’s responsibilities under its Development Agreement with the City in connection with construction of a new Academic Pavilion.

Notes to financial statements

April 30, 2019

- [ii] A \$31,100,000 long-term non-revolving loan to finance the Clare Hall residence, bearing interest at 1-month bankers' acceptances plus fee of 1%, fully drawn down on October 29, 2013, repayable in 89 monthly blended installments of principal and interest, with the balance of principal and interest due in the 90th month, amortized over 30 years. As at April 30, 2019, \$28,570,031 [2018 – \$29,117,091] was outstanding.

The principal payments required over the next five years are as follows:

| | \$ |
|------------|-------------------|
| 2020 | 577,286 |
| 2021 | 609,182 |
| 2022 | 642,839 |
| 2023 | 678,358 |
| 2024 | 715,838 |
| Thereafter | 25,346,528 |
| | <u>28,570,031</u> |

- [iii] A \$8,500,000 non-revolving construction loan to assist in financing construction of a new Academic Pavilion, bearing interest payable monthly at Prime minus 0.5% per annum or 1-month bankers' acceptances plus fee of 0.7% per annum. As at April 30, 2019, \$nil of the facility had been drawn. Initial drawdown is to occur by May 31, 2019. This construction loan will be replaced upon the earlier of construction completion and August 31, 2019 with the following:

A \$4,000,000 non-revolving loan to partially repay the construction loan noted above, bearing interest payable monthly at Prime minus 0.5% per annum or 1-month Bankers' Acceptances plus Fee of 0.7% per annum, repayable in 60 equal monthly blended installments of principal and interest, amortized over 25 years.

A \$4,500,000 non-revolving loan to partially repay the construction loan noted above, bearing interest payable monthly at Prime minus 0.5% per annum or 1-month Bankers' Acceptances plus Fee of 0.7% per annum, repayable in full on or before 60 months from drawdown.

11. Financial instruments and risk management

Credit risk

Credit risk is the risk of potential loss to Brescia if a counterparty to a financial instrument fails to meet its contractual obligations. Brescia's credit risk is primarily attributable to its cash and cash equivalents, investments and accounts receivable.

Brescia has assessed its exposure to credit risk and has determined that such risk is minimal. The majority of Brescia's cash and cash equivalents and investments are held with major financial institutions.

Notes to financial statements

April 30, 2019

Currency risk

Foreign currency risk is the risk that the fair value of, or future cash flows from Brescia's financial instruments will fluctuate because of the changes in foreign exchange rates.

Brescia's investments are denominated in Canadian dollars. Certain investments such as United States and other international equities include investments in foreign jurisdictions and are therefore subject to foreign currency fluctuations. Brescia mitigates the currency risk exposure of its foreign securities through diversification of its investments.

Market risk

Market risk is the risk that the value of an investment will decrease due to changes in market factors.

Equity and fixed income securities are held within pooled funds. Risk and volatility of investment returns are mitigated through diversification of investments in different countries, business sectors and corporation sizes.

Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on Brescia's financial instruments.

To manage the exposure to fluctuating prime interest rates on its variable interest rate debt, Brescia has entered into interest rate swap contracts, the terms of which are as follows:

| | Swap Contract 1 | Swap Contract 2 |
|-------------------|-------------------------------------|-----------------------------------|
| Term of agreement | October 29, 2013 – October 29, 2043 | October 1, 2019 – October 1, 2044 |
| Notional amount | \$29,117,091 | \$4,000,000 |
| Interest rate | 4.41% | 2.87% |

All-in interest rate for both swap contracts includes a 1% stamping fee in addition to the interest rates noted above.

Swap Contract 1: Hedge accounting has been applied to the Swap 1 derivative financial instrument. As such, the change in the fair value has not been recognized in the statement of operations or on the statement of financial position. As at April 30, 2019, the unrealized loss related to this swap agreement was \$7,268,428 [2018 – \$6,097,746].

Swap Contract 2: The underlying loan related to this forward interest rate swap has yet to be drawn down. Start date for this derivative financial instrument is October 1, 2019. The change in the fair value has not been recognized in the statement of operations or on the statement of financial position. As at April 30, 2019, the unrealized loss related to this swap agreement was \$246,655 [2018 – \$38,486].

Notes to financial statements

April 30, 2019

12. Ontario Student Opportunity Trust Fund

The net assets for endowments include the Ontario Student Opportunity Trust Fund [OSOTF I, OSOTF II and OTSS]. The OSOTF program was established by the Government of Ontario whereby the Government of Ontario, on a dollar-for-dollar basis, matched all eligible donations made to the OSOTF. The Government completed its role in this program as of March 31, 2000 for OSOTF I and June 30, 2003 for OSOTF II. On April 1, 2006, the Government of Ontario introduced the Ontario Trust for Student Support [OTSS]. Investment income from the funds must be used to assist academically qualified individuals who for financial reasons would not otherwise be able to attend university. The Government completed the OTSS program effective March 31, 2012.

Brescia has recorded the following amounts under the OSOTF I program:

| | 2019 | 2018 |
|-------------------------------------------------|----------------|-------------|
| | \$ | \$ |
| Balance, beginning of year | 422,209 | 415,077 |
| Recapitalization of capital gains | — | 1,802 |
| Recapitalization of restricted expendable funds | — | 5,330 |
| Balance, end of year | 422,209 | 422,209 |

| | 2019 | 2018 |
|----------------------------------------------------------|-----------------|-------------|
| | \$ | \$ |
| Expendable funds available for awards, beginning of year | 22,419 | 28,542 |
| Investment income, net of management fees | 18,641 | 19,095 |
| Net capital (losses) gains | (135) | 112 |
| Recapitalization to capital portion | — | (5,330) |
| Bursaries | (20,000) | (20,000) |
| Expendable funds available for awards, end of year | 20,295 | 22,419 |

Brescia has recorded the following amounts under the OSOTF II program:

| | 2019 | 2018 |
|-------------------------------------------------|----------------|-------------|
| | \$ | \$ |
| Balance, beginning of year | 232,799 | 220,735 |
| Recapitalization of capital gains | — | 975 |
| Recapitalization of restricted expendable funds | 1,504 | 11,089 |
| Balance, end of year | 234,303 | 232,799 |

Brescia University College

Notes to financial statements

April 30, 2019

| | 2019 | 2018 |
|----------------------------------------------------------|----------------|-------------|
| | \$ | \$ |
| Expendable funds available for awards, beginning of year | 12,340 | 21,227 |
| Investment income, net of management fees | 10,279 | 10,624 |
| Net capital (losses) gains | (75) | 78 |
| Recapitalization to capital portion | (1,504) | (11,089) |
| Bursaries | (8,700) | (8,500) |
| Expendable funds available for awards, end of year | 12,340 | 12,340 |

OSOTF I and OSOTF II programs had approximate fair values of \$457,439 [2018 – \$454,818] and \$254,605 [2018 – \$250,758] respectively as at April 30, 2019.

Brescia has recorded the following amounts under the OTSS program:

| | 2019 | 2017 |
|-------------------------------------------------|------------------|-------------|
| | \$ | \$ |
| Balance, beginning of year | 1,547,411 | 1,442,220 |
| Recapitalization of capital gains | — | 6,425 |
| Recapitalization of restricted expendable funds | 15,912 | 98,766 |
| Balance, end of year | 1,563,323 | 1,547,411 |

| | 2019 | 2018 |
|----------------------------------------------------------|-----------------|-------------|
| | \$ | \$ |
| Expendable funds available for awards, beginning of year | 61,317 | 148,873 |
| Investment income, net of management fees | 67,342 | 70,056 |
| Net capital (losses) gains | (493) | 515 |
| Recapitalization to capital portion | (15,912) | (98,766) |
| Bursaries | (47,400) | (59,361) |
| Expendable funds available for awards, end of year | 64,854 | 61,317 |

Investments under the OTSS program had an approximate fair value of \$1,680,737 [2018 – \$1,645,602] as at April 30, 2019.

Notes to financial statements

April 30, 2019

13. Ancillary operations

| | 2019 \$ | 2018 \$ |
|---------------------------------------------------------------|------------------|------------------|
| Ancillary revenue | | |
| Residence fees | 2,435,963 | 2,293,871 |
| Food services | 2,190,519 | 2,014,490 |
| Conference services | 293,614 | 227,932 |
| Parking | 212,934 | 202,949 |
| Other ancillary revenue | 258,898 | 313,838 |
| | <u>5,391,928</u> | <u>5,053,080</u> |
| Ancillary expenses | | |
| Residence expenses | 290,314 | 447,507 |
| Food services expenses | 1,024,495 | 915,551 |
| Conference services expenses | 56,192 | 49,006 |
| Other ancillary costs | 131,310 | 150,543 |
| | <u>1,502,311</u> | <u>1,562,607</u> |
| Other ancillary expenses included in statement of operations: | | |
| Direct ancillary salaries and benefits [i] | 1,622,397 | 1,575,356 |
| Interest on long-term bank debt [ii] | 1,560,059 | 1,591,876 |
| | <u>4,684,767</u> | <u>4,729,839</u> |
| Excess of ancillary revenue over expenses | <u>707,161</u> | <u>323,241</u> |

[i] Direct ancillary salaries and benefits are included in staff salaries and benefits expenses in the statement of operations.

[ii] Interest on long-term bank debt is presented as a separate line item in the statement of operations but relates to the Clare Hall residence.

Notes to financial statements

April 30, 2019

14. Commitments

[a] Operating lease commitments

The minimum lease payments required under operating leases over the next five years and thereafter are as follows:

| | \$ |
|------------|--------|
| 2020 | 10,066 |
| 2021 | 2,980 |
| 2022 | 2,980 |
| 2023 | 2,980 |
| Thereafter | — |
| | 19,006 |

[b] Canadian Universities Reciprocal Insurance Exchange

On May 1, 2013, Brescia entered into a membership with Canadian Universities Reciprocal Insurance Exchange. All members pay annual deposit premiums which are actuarially determined and may be subject to further assessment in the event members' premiums are insufficient to cover losses and expenses.

[c] Academic Pavilion

In May 2018, Brescia entered into a fixed price construction contract in the amount of \$10,597,700 excluding HST of which with a general contractor for the construction of a 30,000 square foot new Academic Pavilion, comprising food preparation and food science laboratories, lecture-halls and other academic instruction spaces, and research and student study spaces. As at April 30, 2019, Brescia had incurred \$6,139,472 of the total construction contract payable to the general contractor, leaving \$4,458,228 committed. The project involved demolition in summer, 2018 of an existing 10,000 square foot wing of a building as well as two portable buildings on Brescia's campus, all which were fully amortized as at April 30, 2018 and have been removed from capital assets as at April 30, 2019. The total project cost is estimated to be approximately \$14,000,000 and is being funded with a combination of internally restricted funds and new bank debt, see *note 10 [iii]*. As at April 30, 2019, Brescia had incurred \$7,288,050 of the total expected project costs.

15. Contingencies

Brescia is involved in, and potentially subject to, various claims by third parties arising from the normal course and conduct of its business. Management assesses such claims and where it is considered likely that the claim will result in a material loss and where the amount of the loss is quantifiable, provisions for losses are made based on management's assessment of the likely outcome. The Company does not provide for claims that are considered unlikely to result in significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable. Although such matters cannot be predicted with certainty, management currently considers the exposure to such claims and litigation not to be significant to these financial statements.

Notes to financial statements

April 30, 2019

16. Comparative figures

Certain prior year figures have been restated to conform to the current period's financial statement presentation.