

Non-consolidated Financial Statements of

CAPE BRETON UNIVERSITY

Year ended March 31, 2018

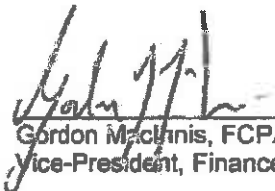
Management's Responsibility for the Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements of Cape Breton University (the "University") are the responsibility of the University's management and have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. These standards are included in the CPA Canada Handbook - Part III, and accounting standards for private enterprises included Part II is used for items are not addressed in Part III. A summary of the significant accounting policies are described in Note 1 to the non-consolidated financial statements. The preparation of non-consolidated financial statements necessarily involves the use of estimates based on management's judgment. Estimates and judgements have been determined on a reasonable and consistent basis to ensure that the non-consolidated financial statements are presented fairly, in all material respects.

The University's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and reliable financial information is available on a timely basis for preparation of non-consolidated financial statements. These systems are regularly monitored and evaluated by management.

The audit committee meets with management and the external auditors to review the non-consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the non-consolidated financial statements.

The non-consolidated financial statements have been audited by MGM & Associates, Chartered Professional Accountants, independent external auditors appointed by the University. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the University's non-consolidated financial statements.



Gordon MacInnis, FCPA, FCA
Vice-President, Finance and Administration

CAPE BRETON UNIVERSITY

Non-consolidated Financial Statements

Year ended March 31, 2018

	Page
Independent Auditors' Report.....	1
Non-consolidated Statement of Financial Position.....	2
Non-consolidated Statement of Operations	3
Non-consolidated Statement of Changes in Fund Balances.....	4
Non-consolidated Statement of Cash Flows	5
Notes to Non-consolidated Financial Statements	6



MGM & Associates
Chartered Professional Accountants
Commerce Tower
15 Dorchester Street Suite 500
PO Box 1
Sydney NS B1P 6G9

Telephone (902) 539-3900
Fax (902) 564-6062
Internet www.mgm.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
Cape Breton University

We have audited the accompanying non-consolidated financial statements of Cape Breton University which comprise the non-consolidated statement of financial position as at March 31, 2018 and the non-consolidated statements of operations, changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of 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 non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of Cape Breton University as at March 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants
Licensed Public Accountants

Sydney, Canada
June 22, 2018

CAPE BRETON UNIVERSITY

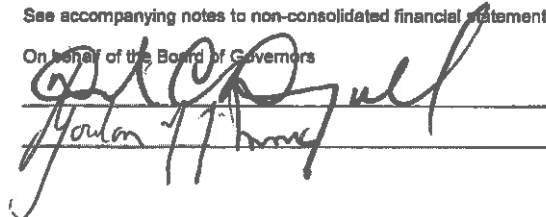
Non-consolidated Statement of Financial Position

March 31, 2018, with comparative figures for 2017

					2018	2017
	Operating Fund	Special Purpose and Research Fund	Capital Fund	Endowment Fund	Total	Total
ASSETS						
Current assets						
Cash	\$ 23,290,370	\$ -	\$ -	\$ -	\$ 23,290,370	\$ 17,974,199
Accounts receivable (note 2)	3,725,356	-	-	-	3,725,356	3,279,494
Inventories (note 3)	19,162	-	-	-	19,162	50,604
Prepaid expenses	293,667	-	-	-	293,667	186,354
	27,328,555	-	-	-	27,328,555	21,490,651
Investments						
Investments held for scholarship and special purposes (note 4)	-	10,037,180	-	26,834,831	36,872,011	34,055,453
Investment in CBU Developments Inc. (note 5)	-	100	-	-	100	100
Interfund balances						
	(9,060,983)	13,762,797	(4,007,213)	(694,601)	-	-
Capital assets (note 6)						
	-	-	60,100,897	-	60,100,897	63,483,783
Work in progress (note 7)						
	-	-	54,699	-	54,699	-
Due from LearnCorp International Inc. and CBU Foundation (note 8)						
	43,325	-	-	-	43,325	40,867
	\$ 18,310,897	\$ 23,800,077	\$ 56,148,373	\$ 26,140,230	\$ 124,399,577	\$ 119,070,654
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	\$ 11,758,660	\$ -	\$ -	\$ -	\$ 11,758,660	\$ 7,255,188
Current portion of accrued service awards and vacation entitlements (note 9)	3,372,337	-	-	-	3,372,337	3,087,479
Current portion of accrued retirement incentive costs (note 10)	886,928	-	-	-	886,928	858,770
Deferred revenue	3,309,943	-	-	-	3,309,943	3,331,189
Deferred special purpose and research funds (note 11)	-	8,538,419	-	-	8,538,419	8,816,074
Current portion of long-term debt (note 12)	-	-	746,000	-	746,000	715,000
Current portion of obligations under capital lease (note 14)	-	-	66,991	-	66,991	63,402
	19,427,868	8,538,419	812,991	-	28,779,278	24,135,102
Long-term liabilities						
Accrued service awards and vacation entitlements (note 9)	136,182	-	-	-	136,182	2,131,713
Accrued retirement incentive costs (note 10)	1,811,382	-	-	-	1,811,382	2,746,913
Long-term debt (note 12)	-	-	9,993,000	-	9,993,000	10,739,000
Obligations under capital lease (note 14)	-	-	-	-	-	66,991
Deferred capital contributions (note 15)	-	-	28,228,109	-	28,228,109	30,412,753
	1,947,564	-	38,221,109	-	40,168,673	46,097,370
	21,375,432	8,538,419	39,034,100	-	68,947,951	70,232,472
FUND BALANCES						
Fund balances	(3,064,535)	15,261,658	17,114,273	26,140,230	55,451,626	48,838,182
Commitments and contingencies (note 22)						
	\$ 18,310,897	\$ 23,800,077	\$ 56,148,373	\$ 26,140,230	\$ 124,399,577	\$ 119,070,654

See accompanying notes to non-consolidated financial statements.

On behalf of the Board of Governors



CAPE BRETON UNIVERSITY

Non-consolidated Statement of Operations

Year ended March 31, 2018, with comparative figures for 2017

					2018	2017
	Operating Fund	Special Purpose and Research Fund	Capital Fund	Endowment Fund	Total	Total
REVENUES						
Government grants and contracts	\$ 23,440,929	\$ -	\$ -	\$ -	\$ 23,440,929	\$ 22,214,612
Tuition and related fees	28,141,063	-	-	-	28,141,063	24,466,784
Scholarship revenue	720,000	-	-	-	720,000	740,155
Sale of services	216,436	-	-	-	216,436	186,078
Investment income	72,212	580,438	-	-	652,650	1,256,548
Other income	2,643,499	-	-	-	2,643,499	2,073,064
Ancillary enterprises	2,795,270	199,851	-	-	2,995,121	2,757,065
Special purpose and research revenue (note 11)	-	7,090,846	-	-	7,090,846	7,954,043
Amortization of deferred capital contributions (note 15)	-	-	3,234,590	-	3,234,590	3,056,162
	58,029,409	7,871,135	3,234,590	-	69,135,134	64,704,511
EXPENSES						
Instruction and non-sponsored research	28,004,100	-	-	-	28,004,100	27,476,717
Library	1,826,699	-	-	-	1,826,699	1,792,588
Student services	4,877,164	-	-	-	4,877,164	4,621,330
Administration and general	3,554,924	-	-	-	3,554,924	3,591,751
Development and recruiting	4,321,258	-	-	-	4,321,258	3,304,180
Facilities management	5,621,777	-	-	-	5,621,777	5,761,406
Computing	1,892,693	-	-	-	1,892,693	1,339,685
Ancillary enterprises	2,161,728	967	-	-	2,162,695	2,395,881
Special purpose and research expenses (note 11)	-	7,090,846	-	-	7,090,846	7,954,043
Amortization of capital assets	-	-	5,689,055	-	5,689,055	5,422,088
Transition and renewal costs	36,117	-	-	-	36,117	65,817
Voluntary retirement incentive costs	53,475	-	-	-	53,475	1,808,663
Service awards, net periodic benefit cost recognized (note 16)	175,969	-	-	-	175,969	320,768
Net change in vacation accrual	7,529	-	-	-	7,529	(118,614)
	52,533,433	7,091,813	5,689,055	-	65,314,301	65,736,313
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES						
	\$ 5,495,976	\$ 779,322	\$ (2,454,465)	\$ -	\$ 3,820,833	\$ (1,031,802)

See accompanying notes to non-consolidated financial statements.

CAPE BRETON UNIVERSITY

Non-consolidated Statement of Changes in Fund Balances

Year ended March 31, 2018, with comparative figures for 2017

					2018	2017
	Operating Fund	Special Purpose and Research Fund	Capital Fund	Endowment Fund	Total	Total
BALANCE, BEGINNING OF YEAR	\$ (3,173,104)	\$ 11,106,878	\$ 15,722,452	\$ 25,181,958	\$ 48,838,182	\$ 48,838,667
Transactions during the year						
Excess (deficiency) of revenues over expenses	5,495,976	779,322	(2,454,465)	-	3,820,833	(1,031,802)
Service awards remeasurement (note 18)	120,270	-	-	-	120,270	(402,929)
Contributions	-	1,450,000	-	464,024	1,914,024	149,775
Investment income on scholarship endowments in excess of scholarships awarded	-	-	-	1,108,591	1,108,591	1,382,963
Change in fair value of investments	-	(193,096)	-	(612,343)	(805,439)	501,508
Net change in investment in capital assets (note 17)	(1,890,430)	(198,884)	2,089,314	-	-	-
Capital assets funded from future operations						
Residences	(1,200,000)	-	1,200,000	-	-	-
Roads and parking	(491,338)	-	491,338	-	-	-
Capital assets temporarily financed by operations	(65,634)	-	65,634	-	-	-
Transfer to deferred research fund	-	457,185	-	-	457,185	(400,000)
Interfund transfers (note 19)	(1,860,275)	1,860,275	-	-	-	-
	108,569	4,154,782	1,391,821	958,272	6,613,444	199,515
BALANCE, END OF YEAR	\$ (3,064,535)	\$ 15,261,658	\$ 17,114,273	\$ 26,140,230	\$ 55,451,626	\$ 48,838,182
Fund balances are comprised of						
Investment in capital assets (note 17)	\$ -	\$ -	\$ 17,114,273	\$ -	\$ 17,114,273	\$ 15,722,452
Investment in CBU Developments Inc.	-	-	-	-	-	-
Internally restricted funds (note 20)	-	5,224,378	-	-	5,224,378	2,908,938
Endowment funds	-	10,037,180	-	26,140,230	36,177,410	33,381,796
Equity in CBU Developments Inc.	-	100	-	-	100	100
Unrestricted	(3,064,535)	-	-	-	(3,064,535)	(3,173,104)
	\$ (3,064,535)	\$ 15,261,658	\$ 17,114,273	\$ 26,140,230	\$ 55,451,626	\$ 48,838,182

See accompanying notes to non-consolidated financial statements.

CAPE BRETON UNIVERSITY

Non-consolidated Statement of Cash Flows

Year ended March 31, 2018, with comparative figures for 2017

	2018	2017
CASH FLOWS FROM OPERATIONS		
Excess (deficiency) of revenues over expenses	\$ 3,820,833	\$ (1,031,802)
Items not involving cash		
Amortization of capital assets	5,689,055	5,422,088
Amortization of deferred capital contributions	(3,234,590)	(3,056,162)
Increase (decrease) in accrued retirement incentive costs	(805,373)	1,181,993
Decrease in accrued service awards and vacation entitlements	(1,600,403)	(297,545)
Change in non-cash working capital (note 21)	4,140,003	5,893,334
	<u>8,009,525</u>	<u>8,111,906</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments	(3,621,997)	(1,236,104)
Acquisition of capital assets and work in progress	(2,360,858)	(3,099,578)
Endowment contributions	464,024	149,775
Special purpose contributions, net of drawdowns	1,450,000	—
Investment income on scholarship endowments in excess of scholarships awarded	1,106,591	1,382,963
	<u>(2,962,240)</u>	<u>(2,802,944)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in due from Gardiner Mines Wind Farm Limited Partnership	—	539,501
Decrease in due from CBU 2015 Business Trust	—	165,000
Decrease (increase) in due from LearnCorp International Inc. and CBU Foundation	(2,658)	103,846
Contributions received for capital assets	1,049,946	2,232,129
Repayment of long-term debt	(715,000)	(684,000)
Repayment of capital lease obligations	(63,402)	(266,535)
	<u>268,886</u>	<u>2,089,941</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<u>5,316,171</u>	<u>7,398,903</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>17,974,199</u>	<u>10,575,296</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 23,290,370</u>	<u>\$ 17,974,199</u>

See accompanying notes to non-consolidated financial statements.

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements

Year ended March 31, 2018

The College of Cape Breton was established on June 28, 1974, combining the Sydney Campus of Saint Francis Xavier University and the Nova Scotia Eastern Institute of Technology into a single post-secondary institution under an autonomous Board of Governors by an Act of the Nova Scotia legislature. In June, 1982, the College was granted university status by an amendment to the College of Cape Breton Act.

The Cape Breton University is a registered charity under the Income Tax Act and is therefore, exempt from payment of income taxes.

1. ACCOUNTING POLICIES

These non-consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations:

a) Basis of presentation

The University follows the deferral method using fund accounting. The following is a description of the nature and purpose of each of the funds.

Endowment fund

The Endowment Fund reports the net assets available for scholarship purposes. The University regards scholarship funds as being of an endowment nature.

Contributions to the fund are accounted for as a direct increase in the endowment fund balance. Pledges to the endowment fund are recognized when the pledged assets are received. Investment income earned on endowment funds is:

- recognized as scholarship revenue in the operating fund to the extent utilized to pay scholarships included in student services, and
- the remaining balance of investment income is added directly to the endowment fund balance.

Capital fund

The capital fund reports the assets, liabilities, revenues and expenses related to the University's capital assets.

Special purpose and research fund

The special purpose and research fund principally reports the revenues and expenses related to sponsored research and special projects along with the ancillary operation of the parking lot.

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

1. ACCOUNTING POLICIES (CONTINUED)

a) Basis of presentation (continued)

In addition, the fund reports the continuity of endowment funds (other than scholarships) and other special funds which have been established by internal restrictions to meet designated priorities of the University.

Operating fund

The operating fund reports all the remaining residual activities of the University and consists principally of the assets, liabilities, revenues and expenses associated with the core operations of the University.

b) Revenue recognition

Revenues, including government grants and contributions, are recorded using the deferral method of accounting. Major revenues, including tuition fees, residence fees and sales are recognized when the services are provided or the goods are sold.

Operating grants are recorded as revenue in the period to which it relates. Capital grants are recorded as deferred capital contributions and are amortized to revenue at a rate corresponding with the amortization of the related capital asset.

Unrestricted contributions are recognized as revenue when the amount can be reasonably estimated and collections are reasonably assured.

Externally restricted contributions are recognized as revenue in the same accounting period as the related expense.

c) Investments

Investments in pooled funds, equities and long-term bonds are recorded at fair value. Changes in fair market value of investments held for endowments are recorded directly to the fund balance.

The investment in CBU Developments Inc. is accounted for using the equity method. Under the equity method, the original cost of the shares is adjusted for the University's share of post-acquisition earnings or losses less dividends.

d) Inventories

Inventories are recorded at the lower of cost and net realizable value.

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

1. ACCOUNTING POLICIES (CONTINUED)

e) Capital assets

Capital assets are reported in the statement of financial position at cost net of accumulated amortization. They are amortized on a straight-line basis over their estimated useful lives at the following rates:

Asset	Basis	Rate
Buildings	Straight-line	40 years
Capital improvements	Straight-line	15 years
Computer and information systems Equipment	Straight-line	5 years
Computers and peripherals	Straight-line	3 years
Other equipment	Straight-line	5 years
Library collection	Straight-line	10 years
Vehicles	Straight-line	3 years
Equipment under capital lease	Straight-line	3-5 years

A full year's amortization is taken in the year of acquisition and no amortization in the year of disposal. Equipment under capital lease is amortized over the term of the lease.

Capital assets acquired through external funding are not capitalized until project completion.

Work in progress is reported in the statement of financial position at cost.

f) Deferred revenue and deferred special purpose and research funds

Deferrals within these categories relate to funds received for goods or services to be provided subsequent to the statement of financial position date and unspent grants and contributions for which there is a specified use.

g) Interfund transfers

The University follows a policy of appropriating funds on a discretionary basis for special items including debt repayment and capital asset replacement. Interfund transfers are recorded to maintain the fund balances at their designated levels.

h) Contributed services

Various organizations and individuals make voluntary contributions of goods and services to Cape Breton University in carrying out its service delivery activities. Because of the difficulty of determining their value, contributed goods and services are not recognized in the financial statements.

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

1. ACCOUNTING POLICIES (CONTINUED)

i) Artwork and collections

Cape Breton University has been entrusted with the care and preservation of certain collections of art, rare books and manuscripts and historical artifacts. The University's stewardship policies include proper security measures, insurance coverage and qualified caretakers. Certain acquisitions may require a cash outlay by Cape Breton University.

As at March 31, 2018, the estimated fair market value of the artwork and collections was \$6,892,727. The fair market value is not reflected in the financial statements.

j) Service awards

The University pays a service award to permanent full-time employees who accumulate a minimum of ten years service with the University and is employed by the University immediately prior to retirement. The amount of the award is based on years of service up to a maximum payment equal to four months salary.

The projected benefit method prorated on services is used to determine the accrued benefit obligation and current service cost.

Actuarial gains and losses are immediately recognized in the statement of changes in fund balances.

k) Derivative financial instruments

Derivative financial instruments are utilized to reduce interest rate risk on the University's debt. The University enters into interest rate swaps to reduce the impact of fluctuating interest rates on its long-term debt. The University designates its interest rate swap agreement as a hedge of the underlying debt. The University does not enter into financial instruments for trading or speculative purposes.

The University formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various interest rate hedge transactions. This process includes linking the derivative to specific assets and liabilities on the statement of financial position or to specific firm commitments or anticipated transactions. The University also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

1. ACCOUNTING POLICIES (CONTINUED)

l) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include valuation of accounts receivable, inventory, accrued service awards with related net period benefit cost, carrying amount of capital assets and assessments of legal liabilities. Actual results could differ from those estimates.

m) Financial instruments

Measurement of financial instruments

The University initially measures its financial assets and financial liabilities at fair value and subsequently measures its financial assets and financial liabilities as follows:

Financial instrument	Measurement basis
Cash	Fair value
Accounts receivable	Amortized cost
Investments	Fair value
Accounts payable	Amortized cost
Accrued liabilities	Amortized cost
Long-term debt	Amortized cost

Transaction costs related to financial assets are expensed as incurred. Financing fees related to financial liabilities are deferred and amortized over the period of the related liability.

Impairment

Financial assets measured at cost or amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in income. A previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in income.

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

2. ACCOUNTS RECEIVABLE

	2018	2017
Student accounts	\$ 3,047,625	\$ 2,442,484
Less allowance for doubtful student accounts	(1,140,319)	(886,902)
	1,907,306	1,555,582
Government allotments and grants	968,982	795,804
Other	854,456	1,088,991
Less allowance for doubtful other accounts	(5,388)	(160,883)
	\$ 3,725,356	\$ 3,279,494

3. INVENTORIES

	2018	2017
CBU Press	\$ 16,362	\$ 50,604
Other	2,800	-
	\$ 19,162	\$ 50,604

4. INVESTMENTS HELD FOR SCHOLARSHIP AND SPECIAL PURPOSES

	2018		2017	
	Cost	Fair Market Value	Cost	Fair Market Value
Special Purpose and Research Fund				
Special purpose	\$ 3,555,029	\$ 3,737,379	\$ 2,184,797	\$ 2,377,813
Victor Harriss				
Endowment	5,992,428	6,299,801	5,544,222	6,034,025
	9,547,457	10,037,180	7,729,019	8,411,838
Endowment Fund	24,496,815	26,834,831	22,693,256	25,643,615
	\$ 34,044,272	\$ 36,872,011	\$ 30,422,275	\$ 34,055,453

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

5. INVESTMENT IN CBU DEVELOPMENTS INC.

The University is the sole shareholder of CBU Developments Inc. ("Developments"), a company that acts as the corporate trustee of CBU 2015 Business Trust (the "Trust"). In its role as corporate trustee, Developments is responsible for the execution of the trust indenture. It is expected there will be few transactions within Developments and no significant equity accumulated, with exception of the initial share capital issued.

The Trust was created to invest in Gardiner Mines Wind Farm Limited Partnership whose principal business activity is the construction and operation of three wind turbines in Sydney, Nova Scotia. The Trust owns 89% of the partnership units of the Limited Partnership and has incurred the debt financing for the construction of the wind turbines. This debt has been guaranteed by the University.

It is expected the partnership income earned by the Trust will be distributed, in accordance with the trust indenture, to the named beneficiaries, Cape Breton University and Cape Breton University Foundation and no significant equity will be accumulated by the Trust.

The summary of the audited financial statements of CBU 2015 Business Trust for the year ending December 31, 2017 is as follows:

BALANCE SHEET

Assets	\$16,503,132
Liabilities	17,508,543
Capital	(1,005,411)

STATEMENT OF OPERATIONS

Revenues	\$ 1,001,423
Expenses	956,214
Net earnings	45,209

STATEMENT OF CASH FLOWS

Operations	\$ (379,192)
Financing	(666,000)
Investing	1,005,420

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

5. INVESTMENT IN CBU DEVELOPMENTS INC. (CONTINUED)

The summary of the audited financial statements of Gardiner Mines Wind Farm Limited Partnership for the year ending March 31, 2018 follows:

BALANCE SHEET

Assets	\$16,587,520
Liabilities	814,053
Partners' Capital	15,773,467

STATEMENT OF EARNINGS

Revenues	2,430,591
Expenses	1,226,940
Net earnings	1,203,651

STATEMENT OF CASH FLOWS

Operating	1,955,547
Financing	(1,878,000)
Investing	(443)

6. CAPITAL ASSETS

	2018		
	Cost	Accumulated amortization	Net book value
Land	\$ 251,570	\$ -	\$ 251,570
Buildings	89,689,247	44,590,000	45,099,247
Capital improvements	27,608,298	16,436,375	11,171,923
Computer and information systems	2,019,668	1,473,055	546,613
Equipment	10,205,411	7,350,293	2,855,118
Library collection	2,359,345	2,283,700	75,645
Vehicles	384,024	346,848	37,176
Equipment acquired under capital lease	2,048,150	1,984,555	63,595
	\$ 134,565,713	\$ 74,464,826	\$ 60,100,887

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

6. CAPITAL ASSETS (CONTINUED)

	2017		
	Cost	Accumulated amortization	Net book value
Land	\$ 251,570	\$ -	\$ 251,570
Buildings	89,689,247	42,347,822	47,341,425
Capital improvements	26,797,538	14,857,011	11,940,527
Computer and information systems	1,443,022	1,180,445	262,577
Equipment	9,342,421	5,912,728	3,429,693
Library collection	2,359,345	2,254,691	104,654
Vehicles	328,260	302,113	26,147
Equipment acquired under capital lease	2,360,119	2,232,929	127,190
	<u>\$ 132,571,522</u>	<u>\$ 69,087,739</u>	<u>\$ 63,483,783</u>

7. WORK IN PROGRESS

	2018	2017
Tim Horton's Coffee Shop	\$ 54,699	\$ -

8. DUE FROM CBU FOUNDATION AND ITS SUBSIDIARIES

During the year, the University provided administrative and processing support to the CBU Foundation and certain of its subsidiaries.

At March 31, 2018, LearnCorp International Inc., a subsidiary of the CBU Foundation owed the University \$29,577 (2017 - \$29,438) for amounts paid on its behalf.

At March 31, 2018, the CBU Foundation owed the University \$13,748 (2017 - \$11,229) for amounts paid on its behalf.

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

9. ACCRUED SERVICE AWARDS AND VACATION ENTITLEMENTS

	2018	2017
Service awards, accrued benefit liability (note 16)	\$ 2,164,812	\$ 3,893,015
Vacation entitlements	1,343,707	1,336,177
	3,508,519	5,229,192
Current portion		
Service awards benefits	2,028,630	1,761,302
Vacation entitlements	1,343,707	1,336,177
	3,372,337	3,097,479
	\$ 136,182	\$ 2,131,713

Effective April 1, 2017 three employee groups of the University have elected to participate in the Public Service Superannuation Plan ("PSSP"), a defined benefit pension plan administered by the Pension Services Superannuation Plan Trustee Incorporated. Participation in this plan was contingent on employees agreeing to termination of the University service award benefit. Accrued service award benefits for these employees to March 31, 2017 were paid out during the 2017/18 fiscal year.

Effective April 1, 2018 a fourth employee group of the University has elected to participate in the PSSP. Participation in this plan was contingent on employees agreeing to termination of the University service award benefit. Accrued service award benefits for these employees to March 31, 2018 will be paid out during the 2018/19 fiscal year, and have been disclosed as a current liability.

10. ACCRUED RETIREMENT INCENTIVE COSTS

	2018	2017
Accrued transition costs	\$ 49,754	\$ 87,927
Accrued faculty renewal costs	118,302	274,067
Accrued voluntary retirement incentive	2,630,254	3,241,689
	2,798,310	3,603,683
Current portion		
Accrued transition costs	28,998	38,970
Accrued faculty renewal costs	83,274	157,973
Accrued voluntary retirement incentive	874,656	659,827
	986,928	856,770
	\$ 1,811,382	\$ 2,746,913

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

11. DEFERRED SPECIAL PURPOSE AND RESEARCH FUNDS

The deferrals are comprised of net revenues received in advance for projects of an ongoing nature. The changes in deferred funding are as follows:

	2018	2017
Balance, beginning of year	\$ 8,816,074	\$ 4,942,222
Add external contributions		
Atlantic Canada Opportunities Agency	2,033,677	1,107,376
CFI and NSRIT	355,166	478,756
Federal Tri-Agency	704,234	1,004,327
Industrial research funding	805,971	1,416,756
Other federal government agencies	819,454	744,541
Other grants and revenue	646,549	2,650,074
Province of Nova Scotia	829,400	3,009,683
Public Works and Government Services Canada	196,808	306,183
Purdy Crawford Chair Funding		
Indigenous Services Canada	813,256	1,275,000
External fundraising	592,988	1,313,081
Less		
Transfers to capital fund	(984,312)	(1,477,882)
Amount recognized as revenue for the year	(7,090,846)	(7,954,043)
Balance, end of year	\$ 8,538,419	\$ 8,816,074

12. LONG-TERM DEBT

	2018	2017
Royal Bank of Canada, 4.8% due August 1, 2035, repayable in fluctuating blended instalments averaging \$42,000 per month	\$ 5,976,000	\$ 6,206,000
Royal Bank of Canada, 5.28% due December 20, 2029, repayable in fluctuating blended instalments averaging \$36,000 per month	3,775,000	4,001,000
Royal Bank of Canada, 4.48% due September 1, 2021, repayable in fluctuating blended instalments averaging \$20,833 per month	988,000	1,247,000
	10,739,000	11,454,000
Current portion of long-term debt	746,000	715,000
	\$ 9,993,000	\$ 10,739,000

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

12. LONG-TERM DEBT (CONTINUED)

Estimated principal repayments over the next five years are as follows:

2019	\$	746,000
2020		781,000
2021		815,000
2022		700,000
2023		577,000

Interest of \$554,522 (2017 - \$580,021) relating to long-term debt is reported as a component of ancillary enterprises expenses in the operating fund.

13. INTEREST RATE SWAP AGREEMENTS

The University has entered into interest rate swap agreements with the Royal Bank of Canada to manage interest rate exposure associated with certain long-term debt obligations. The notional underlying principal value of the interest rate swaps related to debt outstanding at March 31, 2018 was \$10,739,000 (2017 - \$11,454,000). The University has no plans to sell or terminate the interest rate swap agreements prior to maturity. If the University had terminated these swaps on March 31, 2018, it would have been obligated to pay the bank \$1,485,270 (2017 - \$2,199,508), which is the fair value of the swaps as calculated by the bank.

14. OBLIGATIONS UNDER CAPITAL LEASE

	2018	2017
MacQuarrie Equipment Finance Ltd., 5.51% due August 1, 2018, repayable in blended annual instalments of \$51,007	\$ 51,018	\$ 102,025
MacQuarrie Equipment Finance Ltd., 6.01% due August 1, 2018, repayable in blended annual instalments of \$19,760	19,757	39,518
	\$ 70,775	\$ 141,543

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

14. OBLIGATIONS UNDER CAPITAL LEASE (CONTINUED)

	2018	2017
Year ending March 31		
2018	\$ -	\$ 70,768
2019	70,775	70,775
Total minimum lease payments	70,775	141,543
Less amount representing interest	3,784	11,150
Present value of net minimum capital lease payments	66,991	130,393
Current portion of obligations under capital lease	66,991	63,402
	\$ Nil	\$ 66,991

Interest of \$5,300 (2017 - \$9,645) relating to obligations under capital lease is reported as a component of the computing expense in the operating fund.

15. DEFERRED CAPITAL CONTRIBUTIONS

	2018	2017
Balance, beginning of year	\$ 30,412,753	\$ 31,236,786
Additions		
ACOA	731,948	-
CFI and NSRIT	198,194	1,361,498
Province of Nova Scotia	-	154,468
Other	119,804	716,163
	1,049,946	2,232,129
Amortized to revenue	3,234,590	3,056,162
Balance, end of year	\$ 28,228,109	\$ 30,412,753

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

16. SERVICE AWARDS, ACCRUED BENEFIT LIABILITY

	2018	2017
Components of Net Periodic Benefit Cost		
Current service cost	\$ 113,693	\$ 204,560
Interest cost	62,276	116,208
Net periodic benefit cost recognized	\$ 175,969	\$ 320,768
Remeasurements and other items		
Actuarial loss (gain) on obligation recognized in the statement of changes in fund balances	\$ (120,270)	\$ 402,929
<u>Weighted-Average Assumptions for Expense</u>		
Discount rate	3.30%	3.30%
Rate of compensation increase	1.00% - 2.00%	1.00% - 2.00%
<u>Weighted-Average Assumptions for Disclosure</u>		
Discount rate	2.90%	2.90%
Rate of compensation increase	1.00% - 2.00%	1.00% - 2.00%
<u>Change in Accrued Benefit Obligation</u>		
Accrued benefit obligation at end of prior year	\$ 3,893,015	\$ 3,669,016
Current service cost	113,693	204,560
Interest cost	62,276	116,208
Benefits paid	(1,783,902)	(499,698)
Actuarial loss (gain)	(120,270)	402,929
Accrued benefit obligation at end of year	\$ 2,164,812	\$ 3,893,015

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

17. INVESTMENT IN CAPITAL ASSETS

a) Investment in capital assets and work in progress are calculated as follows:

	2018	2017
Capital assets	\$ 60,100,887	\$ 63,483,783
Work in progress	54,699	—
Less		
Deferred capital contributions	(28,228,109)	(30,412,753)
Long-term debt	(10,739,000)	(11,454,000)
Obligation under capital lease	(66,991)	(130,393)
Capital assets to be funded from future operations		
Verschuren Centre	(3,914,603)	(3,914,603)
Residences	—	(1,200,000)
Roads and parking	—	(491,338)
Capital assets temporarily funded from future operations	(92,610)	(158,244)
	<u>\$ 17,114,273</u>	<u>\$ 15,722,452</u>

b) Change in net assets invested in capital assets is calculated as follows:

Deficiency of revenues over expenses		
Amortization of deferred capital contributions	\$ 3,234,590	\$ 3,056,162
Amortization of capital assets	(5,689,055)	(5,422,088)
	<u>\$ (2,454,465)</u>	<u>\$ (2,365,926)</u>
Net change in investment in capital assets		
Acquisition of capital assets	\$ 2,306,159	\$ 3,583,670
Less prior year work in progress	—	(484,092)
	<u>2,306,159</u>	<u>3,099,578</u>
Work in progress	54,699	—
Amount funded by deferred capital contributions	(1,049,946)	(2,232,129)
Repayment of long-term debt	715,000	684,000
Repayment of obligations under capital lease	63,402	266,535
	<u>\$ 2,089,314</u>	<u>\$ 1,817,984</u>

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

18. DONATION PLEDGES

During the year ended March 31, 2013, the University completed construction of the \$7.1 million Shannon School of Business, which was recorded as a capital asset at March 31, 2013. The University launched a capital fundraising campaign when the decision was made to proceed with construction. That campaign is nearing its targeted fundraising goal as of March 31, 2018 and the University has received contributions of \$7,008,981. The balance of \$92,610 has been temporarily funded from operations until donation pledges have been received as cash. These pledges are expected to be honored during the subsequent period and will be recorded as deferred capital contributions when received.

19. INTERFUND TRANSFERS

	Operating Fund	Special Purpose and Research Fund
General capital reserve	\$ (2,133,159)	\$ 2,133,159
Enrollment diversification reserve	(98,183)	98,183
IT/ERP reserve	371,067	(371,067)
	\$ (1,860,275)	\$ 1,860,275

20. INTERNALLY RESTRICTED FUNDS

From time to time, the University internally restricts fund balances including, in certain cases, the interest earned thereon for designated purposes. Internally restricted funds are reflected in the statement of financial position as a component of the special purpose and research fund balance.

A summary of internally restricted funds follows:

	2018	2017
General capital reserve	\$ 3,002,910	\$ 1,012,586
Enrollment diversification reserve	954,535	256,352
General operating reserve	1,138,000	1,138,000
IT/ERP reserve	128,933	500,000
	\$ 5,224,378	\$ 2,906,938

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

21. CHANGE IN NON-CASH WORKING CAPITAL

	2018	2017
Accounts receivable	\$ (445,862)	\$ 194,379
Inventories	31,442	12,081
Prepaid expenses	(107,313)	(8)
Accounts payable and accrued liabilities	4,503,472	2,610,383
Deferred revenue	(21,246)	(397,353)
Deferred special purpose and research funds	179,510	3,473,852
	<u>\$ 4,140,003</u>	<u>\$ 5,893,334</u>

22. COMMITMENTS AND CONTINGENCIES

a) Province of Nova Scotia

The University has leased from the Province of Nova Scotia the property known as the Cape Breton University for ninety-nine years, to expire in 2075, at an annual rental of \$1.

b) Early Retirement Program

The University has participated in several early retirement programs offered by the Province of Nova Scotia to employees previously employed at the Nova Scotia Institute of Technology, prior to its amalgamation.

As at March 31, 2018, management has not estimated its liability for its participation in this program. The amount of \$245,715 (\$256,034 - 2017) recorded as an early retirement expense, represents the actual cash payments to the Province of Nova Scotia for the current year.

c) Reciprocal exchange of insurance risks

The University is a member of The Canadian Universities Reciprocal Insurance Exchange (CURIE) with 61 other Canadian Universities. This self-insurance cooperative involves a contractual agreement to share the insurance property and liability risks of member universities for a term of not less than five years.

The cost of claims is funded through members' premiums based on actuarial projections. In the event that premiums are not sufficient to cover claims, the member universities would be subject to an assessment in proportion to their participation.

During 2017 and 2016 CURIE wrote Property policies with a limit of \$5,000,000 per occurrence and placed on behalf of subscribers an excess policy for \$1,245,000,000 (\$1,245,000,000 - 2016) above CURIE's \$5,000,000 limit.

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

During 2017 CURIE wrote General Liability policies with a limit of \$5,000,000 per occurrence (\$5,000,000 – 2016) and placed on behalf of subscribers excess policies for \$Nil (\$10,150,000 – 2016).

In respect of Errors and Omissions Liability policies, CURIE's limit of liability per occurrence for the claim made coverage was \$5,000,000 in 2017 (\$5,000,000 – 2016). CURIE purchased excess policies on behalf of subscribers through a combined excess program with general liability in the amount of \$45,000,000 in 2017 (\$45,000,000 – 2016).

d) Legal matters

The University has been named a defendant in several grievances. The outcome of the matters is not determinable and settlement, if any, will be accounted for as a charge to operations in the period of settlement.

e) Loan guarantee

Cape Breton University has guaranteed a loan to the Cape Breton Health Recreation Complex Society. The guarantee is limited to \$1,500,000 plus interest thereon at a rate of 3% plus prime and represents financing for the Cape Breton Health Recreation Complex. As at March 31, 2018, the outstanding loan balance is \$859,963 (2017 - \$946,920).

Cape Breton University has guaranteed a loan to CBU Development Inc. in the amount of \$17,620,000. As at March 31, 2018, the outstanding loan balance is \$16,350,000 (2017 - \$17,186,000).

f) Capital projects

Cape Breton University is committed to the following capital projects at March 31, 2018:

	Estimated Cost	Progress Billings Including Accrued Holdbacks
Alarm Notification System	\$ 1,604,000	\$ 1,472,000
Tim Horton's Coffee Shop	475,000	54,700
Campus Centre Entrance	350,000	–

These capital projects will be funded through external contributions, operations and internally restricted reserves.

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

23. PENSIONS

The University contributes to a defined contribution pension plan for its employees. The defined contribution plan requires a partial matching of contributions by the University, the cost of which is allocated to appropriate department expenses. Contributions made by the University to the defined contribution plan were \$1,340,731 (2017 - \$2,402,471) for the year ended March 31, 2018.

On April 1, 2017, three employee groups of the University (non-union, management, CUPE) enrolled to participate in the Nova Scotia Public Service Superannuation Plan ("PSSP"), a defined benefit pension plan administered by the Public Service Superannuation Plan Trustee Incorporated, which provides pension benefits based on length of service and earnings. On April 1, 2018, the University faculty employee group (CBUFA) enrolled in the plan. The University is not obligated for any unfunded liability, nor is the University entitled to any surplus that may arise in the PSSP. The PSSP is accounted for as a defined contribution plan as the obligation to pay retirement obligations does not reside with the University. The PSSP requires a partial matching of contributions by the University, the cost of which is allocated to appropriate department expenses. Contributions made by the University to the PSSP were \$1,189,084 for the year ended March 31, 2018.

24. RELATED PARTY TRANSACTIONS

The University is related to the following entities:

CBU Developments Inc., a wholly-owned subsidiary,

CBU 2015 Business Trust, as a trust for which CBU Developments Inc. is corporate trustee,
and

Gardiner Mines Wind Farm Limited Partnership, an 89% partnership holding by CBU 2015
Business Trust

During the 2018 fiscal year, the University received a \$Nil (2017 - \$400,000) distribution of income from the CBU 2015 Business Trust. This was recorded in investment income on the statement of operations.

During the year, the University received \$Nil (\$23,191 – 2017) in interest on bridge financing from CBU 2015 Business Trust. The interest received is included in investment income on the statement of operations.

These transactions are in the normal course of operations and are measured at the exchange amount which approximates fair market value.

CAPE BRETON UNIVERSITY

Notes to Non-consolidated Financial Statements (continued)

Year ended March 31, 2018

25. FINANCIAL INSTRUMENTS

The University is exposed to various risks through its financial instruments and includes the following significant risks at March 31, 2018.

Credit risk

The University provides credit to its students in the normal course of operations. The University has established policies to limit registration only to students who have no outstanding balances. Further, the University may hold graduation certificates to students with an outstanding balance.

The University is also exposed to credit risk through its amounts owing from government agencies and other organizations. The amounts owing are based on funding agreements.

Interest rate risk

The University has entered into interest rate swap agreements on its Royal Bank debt to raise long-term borrowings at a floating rate and effectively swap to a fixed rate that was lower than those available if fixed rate borrowings were made directly.

Market risk

The University's investments are affected by market conditions. The University has an established investment committee and investment manager to mitigate its market risk.

26. COMPARATIVE FIGURES

Certain 2017 comparative figures have been reclassified to conform to the financial statement presentation adopted per the current year.