

Financial Statements of

ACADIA DIVINITY COLLEGE

Year ended March 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Acadia Divinity College

We have audited the accompanying financial statements of Acadia Divinity College, which comprise the statement of financial position as at March 31, 2017, the statements of operations, changes in net assets, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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 financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Acadia Divinity College as at March 31, 2017, 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.

Chartered Professional Accountants, Licensed Public Accountants

September 19, 2017

Halifax, Canada

ACADIA DIVINITY COLLEGE

Financial Statements

Year ended March 31, 2017

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ACADIA DIVINITY COLLEGE

Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current:		
Cash (note 3)	\$ 204,324	\$ 437,661
Accounts receivable (note 2)	85,180	204,091
Prepaid expenses	20,995	32,663
	<u>310,499</u>	<u>674,415</u>
Investments (note 3)	17,918,653	15,994,865
Bonds, Baptist Foundation	52,421	52,350
Cash surrender value of life insurance policies	112,752	170,760
	<u>18,083,826</u>	<u>16,217,975</u>
Capital assets (note 4)	268,220	283,744
	<u>\$18,662,545</u>	<u>\$ 17,176,134</u>

Liabilities, Deferred Contributions and Net Assets

Current:		
Accounts payable and accrued liabilities	\$ 380,480	\$ 478,454
Deferred contributions:		
Expenses of future periods (note 5)	1,329,630	1,306,351
Capital assets (note 6)	42,145	46,538
	<u>1,371,775</u>	<u>1,352,889</u>
Net assets (note 7):		
Invested in capital assets	226,075	237,206
Restricted for endowments	16,198,621	14,701,354
Internally restricted	112,752	170,760
Unrestricted	372,842	235,471
	<u>16,910,290</u>	<u>15,344,791</u>
Contingent liability (note 10)		
	<u>\$ 18,662,545</u>	<u>\$ 17,176,134</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Chair
 President

ACADIA DIVINITY COLLEGE

Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Acadia University grant (note 8)	\$ 674,883	\$ 590,568
Donations:		
Annual fund	288,134	335,214
Student aid	48,168	7,090
Other	116,172	48,644
Annuities	300	300
Investment income (note 9)	765,984	707,314
Student academic fees	781,721	754,767
Convention of Atlantic Baptist Churches	49,583	66,266
Miscellaneous income	3,003	3,003
Increase in cash surrender value and gain on settlement of life insurance policies	42,844	7,808
Other non-government grants	63,026	16,676
	<u>2,833,818</u>	<u>2,537,650</u>
Expenditures:		
Academic	932,009	810,259
Administration	1,288,584	1,337,293
Scholarships, bursaries and prizes	145,546	172,975
Library	74,200	72,412
Plant services	68,091	68,804
Student aid awards	73,780	49,249
Student services	24,836	22,392
Amortization of capital assets, net of deferred capital contributions (note 7)	57,388	49,715
Annuities	300	300
	<u>2,664,734</u>	<u>2,583,399</u>
Excess of revenue over expenditures (expenditures over revenue)	<u>\$ 169,084</u>	<u>\$ (45,749)</u>

See accompanying notes to financial statements.

ACADIA DIVINITY COLLEGE

Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016

	Invested in capital assets	Restricted for endowments	Internally restricted	Unrestricted	2017	2016
Balance, beginning of year	\$237,206	\$14,701,354	\$170,760	\$235,471	\$15,344,791	\$15,008,232
Excess (deficiency) of revenue over expenditures	(57,388)	-	42,844	183,628	169,084	(45,749)
Endowment contributions	-	614,955	-	-	614,955	1,142,206
Investment income, including change in market value of investments	-	1,511,060	-	-	1,511,060	(73,899)
Internal transfer to endowments from internally restricted	-	100,852	(100,852)	-	-	-
Amount recognized in income	-	(729,600)	-	-	(729,600)	(685,999)
Investment in capital assets (note 7)	46,257	-	-	(46,257)	-	-
Balance, end of year	\$226,075	\$16,198,621	\$112,752	\$372,842	\$16,910,290	\$15,344,791

See accompanying notes to financial statements.

ACADIA DIVINITY COLLEGE

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used for):		
Operating activities:		
Excess of revenue over expenditures (expenditures over revenue)	\$ 169,084	\$ (45,749)
Items not involving cash:		
Amortization of capital assets	61,781	54,108
Amortization of deferred contributions for capital assets	(4,393)	(4,393)
Increase in cash surrender value and gain on settlement of life insurance policies	(42,844)	(7,808)
Change in non-cash working capital balances	32,605	308,690
	<u>216,233</u>	<u>304,848</u>
Financing and investing activities:		
Endowment gifts	614,955	1,142,206
Increase (decrease) in fair value of investments	1,511,060	(73,899)
Endowment income recognized in income	(729,600)	(685,999)
Proceeds from life insurance policy	100,852	-
(Decrease) increase in deferred contributions, expenses of future periods	23,279	402,481
Purchase of capital assets	(46,257)	(41,361)
Increase in investments	(1,923,859)	(1,088,772)
	<u>(449,570)</u>	<u>(16,177)</u>
(Decrease) increase in cash position	(233,337)	288,671
Cash beginning of year	437,661	148,990
Cash end of year	<u>\$ 204,324</u>	<u>\$ 437,661</u>

See accompanying notes to financial statements.

ACADIA DIVINITY COLLEGE

Notes to Financial Statements

Year ended March 31, 2017

Acadia Divinity College (the "College") is a graduate-level school of theology. The purpose of the College shall be to train ministers, missionaries and other religious leaders of the Christian faith, particularly of the Baptist denomination. The College is a not-for-profit entity governed by a Board of Trustees (the "Board"), the majority of whom are appointed by the Convention of Atlantic Baptist Churches. The College is a registered charity under the Income Tax Act (Canada) and, accordingly, is exempt from paying income taxes, provided certain requirements of the Income Tax Act are met.

1. Significant accounting policies:

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 and include the following significant accounting policies:

(a) Revenue recognition:

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

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

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

Endowment contributions are recognized as direct increases in endowment net assets.

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

(b) Contributed services:

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

(c) Cash

Cash includes petty cash, cash on deposit and deposits in money market instruments with maturities of less than three months.

ACADIA DIVINITY COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The College has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the College determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the College expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(e) Capital assets:

Purchased capital assets are recorded at cost. Donated capital assets, other than works of art, are recorded at fair value at the date of acquisition. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the College's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized using the following methods and annual rates:

Asset	Basis	Rate
Building	Straight line	50 years
Building additions	Straight line	25 years
Furniture	Straight line	8 years
Equipment	Straight line	5 years
Computer hardware and software	Straight line	3 years
Paving	Declining balance	8%

ACADIA DIVINITY COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(f) Library:

The library facilities are administered and maintained by Acadia University. All purchases for library books and periodicals are charged to operating expenditures.

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the year. Actual results could differ from those estimates.

2. Accounts receivable:

	2017	2016
Acadia University	\$ 53,890	\$ 137,658
Other	39,290	74,433
	93,180	212,091
Allowance for doubtful accounts	8,000	8,000
	\$ 85,180	\$ 204,091

3. Investments:

The investment portfolio is structured to operate as a balanced fund and at year-end the composition of underlying assets was as follows: equities 57.01% (2016 – 62.74%), bonds 33.20% (2016 – 32.46%), and cash 9.79% (2016 – 4.79%). The fund manager operates within an asset mix guideline developed and monitored by the Investment Committee of the Board. Included in cash is \$nil (2016 – \$250,000) related to a restricted donation received during the year.

ACADIA DIVINITY COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2017

4. Capital assets:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Building and additions	\$ 755,874	\$ 572,414	\$ 183,460	\$ 203,551
Furniture	148,072	134,774	13,298	17,184
Equipment	359,939	356,650	3,289	6,444
Computer hardware	266,882	208,752	58,130	50,715
Computer software	50,701	44,072	6,629	2,139
Paving	7,967	4,553	3,414	3,711
	\$ 1,589,435	\$ 1,321,215	\$ 268,220	\$ 283,744

5. Deferred contributions - expenses of future periods:

	Student and other aid	Annuities	Operating grants	Building Fund	2017 Total	2016 Total
Balance, beginning of year	\$ 859,256	\$ 1,805	\$ 116,123	\$ 329,167	\$ 1,306,351	\$ 574,703
Add: amounts received during the year	22,832	—	123,083	62,519	208,434	815,704
Less: amounts recognized as revenue during the year	(48,366)	(300)	(110,841)	—	(159,507)	(82,971)
Less: amounts paid to outside source	—	—	(25,648)	—	(25,648)	(1,085)
Balance, end of year	\$ 833,722	\$ 1,505	\$ 102,717	\$ 391,686	\$ 1,329,630	\$ 1,306,351

Deferred contributions related to expenses of future periods represent unspent restricted grants, donations and investment income for student aid, scholarships, bursaries, prizes, and specific operating expenses.

Annuities represent funds provided to the College for which in return the College will pay an annuitant an agreed amount per year until the date of their or their beneficiary's death, at which time any unspent principal and income will become the property of the College. The College no longer enters into annuity agreements. The average age of the existing annuitants is 91 and the sum of the annual payments to the annuitants is \$300.

ACADIA DIVINITY COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2017

6. Deferred contributions - capital assets:

Deferred capital contributions related to capital assets represent the unamortized balance of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2017	2016
Balance, beginning of year	\$ 46,538	\$ 50,931
Less: amounts amortized to revenue	(4,393)	(4,393)
Balance, end of year	\$ 42,145	\$ 46,538

7. Net assets:

(a) Invested in capital assets is calculated as follows:

	2017	2016
Capital assets	\$ 268,220	\$ 283,744
Less: amounts financed by deferred contributions	(42,145)	(46,538)
	\$ 226,075	\$ 237,206

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

	2017	2016
Excess of revenue over expenses:		
Amortization of deferred contributions related to capital assets	\$ 4,393	\$ 4,393
Amortization of capital assets	(61,781)	(54,108)
	\$ (57,388)	\$ (49,715)
Net change in investment in capital assets:		
Purchase of capital assets	\$ 46,257	\$ 41,361

ACADIA DIVINITY COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2017

7. Net assets (continued):

(b) Restricted for endowments:

Endowment principal consists of restricted donations to the College, 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. Donors as well as the College policy stipulate that, over time, the economic value must be protected by limiting the amount of income that may be expended.

During the year the income from endowments totaled \$1,511,060 (2016 - \$(73,899)), and \$729,600 was recognized as income in the Statement of Operations (2016 - \$685,999). In any particular year, investment income may be insufficient to fund the amount made available for spending. In this circumstance, current spending is funded by income accumulated from prior years where earnings exceeded the amount required for spending in those years.

(c) Internally restricted:

Internally restricted funds represent the investment in the cash surrender value of life insurance policies. Upon settlement of these policies the College will make a decision on the utilization of these funds.

8. Acadia University grant:

The College, through an understanding with Acadia University, receives a portion of the University's annual grant from the Province of Nova Scotia.

9. Investment income:

Investment income recorded in the statement of operations is as follows:

	2017	2016
Income on unrestricted resources	\$ 36,384	\$ 21,315
Amount recognized in income from endowments	729,600	685,999
Investment income	\$ 765,984	\$ 707,314

ACADIA DIVINITY COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2017

10. Contingent liability:

The College participates in a reciprocal exchange of insurance risks in association with other Canadian universities and colleges through the Canadian Universities Reciprocal Insurance Exchange ("CURIE"). This self-insurance co-operative involves a contractual agreement to share the insurance property and liability risks of member institutions for a term of not less than five years.

The projected cost of claims will be funded through members' premiums based on actuarial projections. As of December 31, 2016, CURIE had a surplus of \$85 million of which the College's pro-rata share is approximately 0.05% on an ongoing basis. In addition, the reciprocal has obtained \$995 million of re-insurance with commercial insurers to cover major property claims in excess of \$5 million per occurrence. In respect of General Liability, the limit is \$5 million per occurrence. Re-insurance for general liability coverage in the amount of \$25 million in excess of \$5 million per occurrence is in place.

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.

11. Financial instruments:

(a) Fair values:

The fair value of investments is as described in note 1(c). The values of the other financial assets and liabilities, being cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments.

(b) Credit risk:

The College is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Credit exposure is minimized by dealing mostly with credit worthy counterparties such as highly rated financial institutions. To reduce credit risk with student accounts, the College places restrictions on the issuance of certain college privileges and the issuance of grades and degrees until payment on account is made, but does not generally require collateral.

ACADIA DIVINITY COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2017

12. Employee pension plan:

Eligible employees of the College are members of a pension plan. Effective July 1st 2015, Acadia University arranged to transfer its pension plan to the Nova Scotia Public Service Superannuation Plan ("NS PSSP"). Employees not participating in the NS PSSP participate in the Canadian Baptist Pension plan (collectively the "Plans"). The NS PSSP is a defined benefit pension plan, which provides pension benefits based on length of service and earnings. The Canadian Baptist Pension Plan is a defined contribution plan.

Contributions to the Plans are required by both the employees and the employer. The College's contributions range from 6%-10.9% (2016 - 6% - 10.9%) of an employee's salary. Total employer contributions for 2017 were \$119,932 (2016 - \$113,528) and are recognized in salaries and benefits expense in the financial statements.

The College is not responsible for any under-funded liability, nor does the College have access to any surplus that may arise in these Plans.

13. Related party transactions:

Acadia University, a related party, provides services to the College with regards to administration, student registration, library and payroll. The charge for these services during the current year amounted to \$10,190 per month (2016 - \$10,190 per month). Related party balances as at March 31, 2017 included in the financial statements are as follows:

- (i) accounts receivable of \$53,890 (2016 - \$137,658) from Acadia University related to student tuition, unspent library funds and special grants; and
- (ii) accounts payable and accrued liabilities of \$190,879 (2016 - \$326,227) for payroll and shared services amounts paid by Acadia University on behalf of the College.

The College pays the Canadian Baptists of Atlantic Canada for employees contracted to fulfill certain part time positions at the College. During the fiscal year ending March 31, 2017, total payments made to the Canadian Baptists of Atlantic Canada relating to these contracts was equal to \$7,240 (2016 - \$7,914).

The College received \$49,583 (2016 - \$66,266) from the Canadian Baptists of Atlantic Canada. Other expenses paid to the Canadian Baptists of Atlantic Canada total \$10,000 (2016 - \$8,055).

The College also leases the land at 38 Highland Avenue from Acadia University for a nominal charge per year under the terms of a lease agreement that expires in 2117.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

ACADIA DIVINITY COLLEGE

Notes to Financial Statements (continued)

Year ended March 31, 2017

14. Prior period adjustment:

During the year ended March 31, 2017, the College identified a misstatement related to the recording of certain donations received in fiscal 2016. The impact of the error was determined to be immaterial. The correction of the misstatement has been applied retrospectively and the corresponding financial information as at March 31, 2016 has been revised to reflect this correction as follows:

	Increase (Decrease)
Statement of financial position:	
Expenses of future periods	\$ 329,167
Restricted for endowments	(329,167)

ACADIA DIVINITY COLLEGE

Schedule of Operations by Fund

Year ended March 31, 2017, with comparative information for 2016

	Invested in in capital assets	Restricted for endowment	Internally restricted	Unrestricted	2017 Total	2016 Total
Revenue:						
Provincial grant	\$ -	\$ -	\$ -	\$ 674,883	\$ 674,883	\$ 590,568
Donations:						
Annual fund	-	-	-	288,134	288,134	335,214
Student aid	-	-	-	48,168	48,168	7,090
Other	-	-	-	116,172	116,172	48,644
Annuities	-	-	-	300	300	300
Investment income	-	729,600	-	36,384	765,984	707,314
Student academic fees	-	-	-	781,721	781,721	754,767
Convention of Atlantic Baptist Churches	-	-	-	49,583	49,583	66,266
Miscellaneous income	-	-	-	3,003	3,003	3,003
Increase in cash surrender value of life insurance	-	-	42,844	-	42,844	7,808
Other non-government grants	-	-	-	63,026	63,026	16,676
	-	729,600	42,844	2,061,374	2,833,818	2,537,650
Expenses:						
Academic	-	-	-	932,009	932,009	810,259
Administration	-	584,054	-	704,530	1,288,584	1,337,293
Scholarships, bursaries and prizes	-	145,546	-	-	145,546	172,975
Library	-	-	-	74,200	74,200	72,412
Plant services	-	-	-	68,091	68,091	68,804
Student aid awards	-	-	-	73,760	73,780	49,249
Student services	-	-	-	24,836	24,836	22,392
Amortization of capital assets (net)	57,388	-	-	-	57,388	49,715
Annuities	-	-	-	300	300	300
	57,388	729,600	-	1,877,746	2,664,734	2,583,399
Excess (deficiency) of revenue over expenses	\$ (57,388)	\$ -	\$ 42,844	\$ 183,628	\$ 169,084	\$ (45,749)