

Financial Statements of

# **BROCK UNIVERSITY**

Year ended April 30, 2011

# BROCK UNIVERSITY

## Financial Statements

Year ended April 30, 2011

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**STATEMENT OF ADMINISTRATIVE RESPONSIBILITY**

brocku.ca

The Administration of Brock University is responsible for the preparation of the financial statements, the notes and all other financial information contained in this annual report.

The Administration has prepared the financial statements in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. The Administration believes that financial statements present fairly the University's financial position as at April 30, 2011 and the results of its operations for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the Administration has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements.

The Board of Trustees is responsible for ensuring that the Administration fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Trustees carries out its responsibility for review of the financial statements principally through the Audit Committee. The members of the Audit Committee are not officers or employees of the University. The Audit Committee meets with the Administration, as well as the external auditors, to discuss the results of audit examinations and financial reporting matters and to satisfy itself that each party is properly discharging its responsibilities. The auditors have full access to the Audit Committee with and without the presence of the Administration.

The financial statements for the year ended April 30, 2011 have been reported on by KPMG LLP, Chartered Accountants, the auditors appointed by the Board of Trustees. The auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.



**Jack Lightstone**  
President and Vice-Chancellor



**Steven Pillar**  
Vice-President, Finance and  
Administration



**KPMG LLP**

**Chartered Accountants**

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## INDEPENDENT AUDITORS' REPORT

The Trustees of Brock University

We have audited the accompanying financial statements of Brock University, which comprise the statement of financial position as at April 30, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Brock University as at April 30, 2011 and its results of operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the text, there is a long, horizontal, slightly wavy line that extends to the right, serving as a flourish or underline.

Chartered Accountants, Licensed Public Accountants  
October 6, 2011  
St. Catharines, Canada

# BROCK UNIVERSITY

## Statement of Financial Position

Year ended April 30, 2011, with comparative figures for 2010  
(in thousands of dollars)

	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 36,182	\$ 30,664
Accounts receivable	15,603	10,369
Government grants receivable	3,283	3,266
Prepaid expenses and other assets	769	927
Inventories	2,883	2,485
	58,720	47,711
Restricted investments (note 3)	83,644	83,830
Capital assets (note 4)	270,627	215,760
	\$ 412,991	\$ 347,301
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 40,216	\$ 19,868
Deferred revenue	12,246	11,028
Deferred contributions (note 5)	8,693	8,973
Current portion of long-term debt (note 6)	720	671
	61,875	40,540
Long-term debt (note 6)	31,288	22,008
Interest rate swap (note 16)	321	-
Debenture payable (note 7)	89,968	89,936
Deferred capital contributions (note 8)	156,440	125,700
Employee future benefits obligation (note 9)	12,774	11,096
Net assets:		
Endowment (note 10)	49,968	41,577
Invested in capital assets (note 11)	15,872	18,687
Internally restricted (note 12)	25,419	19,439
Unrestricted	(30,934)	(21,682)
	60,325	58,021
Commitments (note 13)		
Contingencies (note 15)		
	\$ 412,991	\$ 347,301

The accompanying notes are an integral part of these financial statements.

On behalf of the Board:

 Trustee

 Trustee

# BROCK UNIVERSITY

## Statement of Operations

Year ended April 30, 2011, with comparative figures for 2010  
(in thousands of dollars)

	2011	2010
Revenues:		
Student fees	\$ 105,859	\$ 96,576
Government grants for general operations	86,574	84,418
Ancillary operations	29,306	28,702
Grants and other revenues for restricted purposes	1,048	1,252
Investment income	809	2,459
Other	10,775	13,833
Research grants for restricted purposes	17,330	12,995
Amortization of deferred capital contributions (note 8)	5,881	4,992
	257,582	245,227
Expenses:		
Salaries and benefits	165,407	157,985
Scholarships, fellowships and bursaries	12,503	12,815
Supplies and expenses	13,461	13,108
Materials and expendable equipment	3,824	5,398
Repairs, maintenance and rent	6,043	5,653
Utilities and taxes	7,706	7,332
Interest on long-term debt	6,203	6,694
Cost of sales	8,450	8,203
Other	8,921	8,939
Research, including fellowships	17,330	12,995
Amortization of capital assets	13,500	13,741
	263,348	252,863
Excess of expenses over revenues	\$ (5,766)	\$ (7,636)

The accompanying notes and Schedule I are an integral part of these financial statements.

# BROCK UNIVERSITY

## Statement of Changes in Net Assets

Year ended April 30, 2011, with comparative figures for 2010  
(in thousands of dollars)

	Endowments	Invested in capital assets	Internally restricted	Unrestricted	2011 Total	2010 Total
	(note 10)	(note 11)	(note 12)			
Net assets, beginning of year	\$ 41,577	\$ 18,687	\$ 19,439	\$ (21,682)	\$ 58,021	\$ 57,299
Excess of revenues over expenses (expenses over revenues)	-	(7,619)	-	1,853	(5,766)	(7,636)
Change in internally restricted net assets	-	-	5,980	(5,980)	-	-
Net change in investment in capital assets (note 11 (b))	-	4,804	-	(4,804)	-	-
Change in fair value of interest rate swap (note 16)	-	-	-	(321)	(321)	-
Change in endowment net assets (note 10(a))	8,391	-	-	-	8,391	8,358
Net assets, end of year	\$ 49,968	\$ 15,872	\$ 25,419	\$ (30,934)	\$ 60,325	\$ 58,021

The accompanying notes are an integral part of these financial statements.

# BROCK UNIVERSITY

## Statement of Cash Flows

Year ended April 30, 2011, with comparative figures for 2010  
(in thousands of dollars)

	2011	2010
Cash provided by (used in):		
Operating activities:		
Excess of expenses over revenues	\$ (5,766)	\$ (7,636)
Add (deduct) non-cash items:		
Amortization of capital assets	13,500	13,741
Amortization of deferred capital contributions	(5,881)	(4,992)
Amortization of deferred charges	32	30
	1,885	1,143
Net change in non-cash working capital balances related to operations:		
Increase in accounts receivable	(5,234)	(6,344)
(Increase) decrease in government grants receivable	(17)	1,930
Decrease (increase) in prepaid expenses and other assets	158	(591)
(Increase) decrease in inventories	(398)	74
Increase in accounts payable and accrued liabilities	4,334	2,943
Increase in deferred revenue	1,218	3,952
(Decrease) increase in deferred contributions	(280)	2,809
Net change in employee future benefits obligations	1,678	2,136
Cash provided by operating activities	3,344	8,052
Financing activities:		
Contributions restricted for capital purchases	36,621	19,537
Increase in long-term debt	10,000	-
Repayment of long-term debt	(671)	(8,889)
Cash provided in financing activities	45,950	10,648
Investing activities:		
Purchase of investments, net	186	(1,468)
Purchase of capital assets	(52,353)	(45,177)
Change in endowment net assets	8,391	8,358
Cash used in investing activities	(43,776)	(38,287)
Increase (decrease) in cash	5,518	(19,587)
Cash and cash equivalents, beginning of year	30,664	50,251
Cash and cash equivalents, end of year	\$ 36,182	\$ 30,664

The accompanying notes are an integral part of these financial statements.

# BROCK UNIVERSITY

## Notes to Financial Statements

Year ended April 30, 2011

Incorporated in 1964, Brock University has continually developed rigorous undergraduate, graduate and doctoral programs, including experiential learning opportunities and one of Canada's largest co-op programs. Our cross-disciplinary and interdisciplinary programs offer multi-faceted degrees that help students build careers and get jobs. Our culture allows students to develop intellectually and build the kind of social maturity and personal character that today's economy and employers demand.

These financial statements reflect the assets, liabilities, net assets, revenue, expenses and other transactions of all of the operations controlled by the University. Accordingly, these financial statements include the academic, administrative and other operating expenditures funded by fees, grants and other general revenue; restricted purpose funds, including endowment, research and trust; and the ancillary operations, such as residence and parking

The University is a charitable organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

### 1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are summarized below:

#### (a) Cash and cash equivalents:

Cash equivalents are held for the purpose of meeting short-term cash commitments, are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value. Cash equivalents include money market funds and investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents are valued at market value.

#### (b) Inventories:

Inventories are stated at the lower of cost (weighted average cost) and net realizable value.

#### (c) Investments:

Investments are recorded at market value.

#### (d) Capital assets:

Purchased capital assets are recorded at cost less accumulated amortization. Contributions of capital assets are capitalized at fair market value at the date of contribution. Capital assets are amortized on a straight-line basis using the following annual rates:

Asset	Rate
Buildings	2.5% to 10%
Furnishings and equipment	10% to 33 1/3%
Library books	20%

# BROCK UNIVERSITY

## Notes to Financial Statements (continued)

Year ended April 30, 2011

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### 1. Significant accounting policies (continued):

#### (d) Capital assets (continued):

Construction costs are capitalized as work progresses and amortization commences as work is substantially completed.

#### (e) Works of Art:

Contributed works of art are recorded as revenue and expense, at fair market value, at the date of contribution. If the fair market value is not determinable, the contribution is recorded at a nominal amount. Artwork purchases are expensed as acquired.

#### (f) Endowments:

Contributions restricted for endowments consist of restricted donations received by the University and donations internally designated by the Board of Trustees, in the exercise of its discretion. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by donors or the Board of Trustees. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

Investment income on endowments that is available for spending at the discretion of the University or is available for spending as the conditions established by the donor have been met has been recorded in the statement of operations and changes in net assets. University policy has been established with the objective of protecting the real value of the endowments by having an overall investment objective for endowments to earn, over time, a rate of return at least equal to the total of inflation plus spending and the costs of administering the funds. Underlying the investment objective is a spending rate that limits allocations to an estimated long-term rate of investment return. The spending rate is reviewed annually based on a moving three year average of the investment pool period. Investment income in excess of administration costs and spending allocations will be added to capital, up to the rate of inflation. Any additional excess will be set aside in a stabilization reserve that can be drawn upon in years when income is less than the spending allocated. In the case of new endowments where the pro-rata annual investment return less administrative costs is lower than the spending allocation, the spending on these endowments may be temporarily suspended in order to preserve donor capital.

#### (g) Internally imposed restrictions on net assets:

The University internally restricts the use of portions of its externally unrestricted net assets for specific future uses. When incurred, expenses are charged to operations and the balance of internally restricted net assets is reduced accordingly.

# BROCK UNIVERSITY

## Notes to Financial Statements (continued)

Year ended April 30, 2011

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### 1. Significant accounting policies (continued):

#### (h) Revenue recognition:

The University follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted donations are recognized on a cash basis since pledges are not legally enforceable claims. Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Student fees are recognized as revenue when courses and seminars are held. Sales and services revenue is recognized at the point of sale or when the service has been provided.

#### (i) Contributed services and materials:

Volunteers contribute an indeterminable number of hours per year. Because of the difficulty of determining their fair value, contributed services and materials are not recognized in these financial statements.

#### (j) Employee future benefits:

##### (i) Pension benefit plan:

The University provides pension benefits to employees primarily through a hybrid pension plan. Under this arrangement, the University and employees are required to make contributions based on a specified percentage of the employee's earnings. The amount of pension benefits provided to employees is based upon the accumulation of contributions and investment earnings thereon, when the employee retires, subject to a guaranteed minimum benefit amount. The University records the cost of providing this benefit equal to its requirement to make contributions on an annual basis. Certain faculty are members of the Teachers' Superannuation Fund, a multi-employer defined benefit plan. Contributions to this plan are expensed when due.

Assets of the pension plan are valued using market values at April 30, 2011. The excess of the cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees.

##### (ii) Other benefit plans:

The University also has a number of defined benefit programs that provide employees with benefits upon retirement or cessation of active service.

# BROCK UNIVERSITY

## Notes to Financial Statements (continued)

Year ended April 30, 2011

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### 1. Significant accounting policies (continued):

#### (j) Employee future benefits (continued):

##### (ii) Other benefit plans (continued):

The cost of these programs is determined on an actuarial basis using the projected benefit method prorated on services and management's best estimates regarding assumptions about a number of future conditions including salary changes, withdrawals, mortality rates and expected health care costs. The discount rate used to determine service cost and liabilities is based on the prevailing market interest rates on long-term fixed income securities with maturities that match the expected maturities of the obligations. The excess of the cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees.

#### (k) Derivative financial instrument and hedge accounting:

The University is party to interest rate swap agreements used to manage the exposure to market risks from changing interest rates. The University's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The University accounts for interest rate swaps as hedges. The University formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. This process includes linking the interest rate swaps to specific long-term debt on the statement of financial position. The University also formally assesses, both at the hedge's inception and on an on-going basis, whether the interest rate swaps that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

The effective portion of any unrealized gain or loss on the interest rate swaps is recorded as a direct increase or decrease to net assets, as the case may be. Payments and receipts under the interest rate swaps are recognized as adjustments to interest expense on long-term debt.

#### (l) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period reported. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances for receivables, valuation of derivative financial instruments, and assets and obligations related to employee future benefits. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

# BROCK UNIVERSITY

## Notes to Financial Statements (continued)

Year ended April 30, 2011

### 1. Significant accounting policies (continued):

#### (m) Pledges:

Pledges are recorded as revenue on a cash basis and accordingly are not set up as assets in the financial statements. The total amount of pledges outstanding is approximately \$21,346,380 at April 30, 2011 (2010 - \$22,330,666) and is expected to be received as follows:

(000's)	2011	2010
2011	\$ -	\$ 9,868
2012	4,472	3,343
2013	6,203	2,570
2014	3,044	2,500
2015	2,856	2,342
2016	2,587	495
Thereafter	2,184	1,213
	<b>\$ 21,346</b>	<b>\$ 22,331</b>

#### (n) Financial instruments:

All financial instruments are initially recorded on the statement of financial position at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", "available-for-sale", or "loans and receivables" and financial liabilities are classified as either "held-for trading" or "other liabilities". Financial assets and liabilities classified as held-for-trading are measured at fair value with the change in fair value recorded in the statement of operations or in the endowment fund for externally restricted investments. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized costs using the effective interest method. Available-for-sale financial assets that have a quoted price in an active market are measured at fair value with the change in fair value recorded in net assets. Such gains or losses are reclassified to the statement of operations when the related financial asset is disposed of or when the decline in value is considered to be other-than-temporary.

The University has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivable
Government grants receivable	Loans and receivable
Investments	Held-for-trading
Accounts payable and accrued liabilities	Other liabilities
Current and long-term debt	Other liabilities

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 1. Significant accounting policies (continued):

(n) Financial instruments (continued):

The University has continued to disclose and present financial instruments under Handbook Section 3861, "Financial Instruments - Disclosure and Presentation" for the year end April 30, 2011.

## 2. Cash and cash equivalents:

The market values of the cash and cash equivalents are as follows:

(000's)	2011	2010
Cash and cash equivalents	\$ 26,182	\$ 30,664
Held for future capital projects Cash and cash equivalents	10,000	-
	<u>\$ 36,182</u>	<u>\$ 30,664</u>

## 3. Restricted investments:

The market values of investments are as follows:

(000's)	2011	2010
Invested for endowments		
Cash and cash equivalents	\$ (573)	\$ 4,461
McLean Budden		
Equity Growth Fund	11,263	10,946
Fixed Income Pooled Fund	19,799	11,354
Walter Scott & Partners Global Fund	19,479	14,816
	<u>49,968</u>	<u>41,577</u>
Invested for unspent capital projects		
Cash and cash equivalents	30,892	8,075
Money market pooled fund	-	5,410
Fixed income	-	26,653
	<u>30,892</u>	<u>40,138</u>
Invested for future loan repayments		
McLean Budden long-term fixed income fund	2,784	2,115
	<u>2,784</u>	<u>2,115</u>
	<u>\$ 83,644</u>	<u>\$ 83,830</u>

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 4. Capital assets:

(000's)	2011			2010		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	\$ 2,415	\$ -	\$ 2,415	\$ 2,415	\$ -	\$ 2,415
Buildings	389,533	129,321	260,212	324,702	119,186	205,516
Furnishings and equipment	65,412	58,816	6,596	62,404	56,019	6,385
Library books	39,187	37,783	1,404	38,659	37,215	1,444
	<u>\$ 496,547</u>	<u>\$ 225,920</u>	<u>\$ 270,627</u>	<u>\$ 428,180</u>	<u>\$ 212,420</u>	<u>\$ 215,760</u>

Included in buildings is \$75,352,681 (2010 - \$30,123,825) of construction in progress that was not amortized during the year.

The increase in net book value of capital assets is due to the following:

(000's)	2011	2010
Balance, beginning of year	\$ 215,760	\$ 184,324
Purchase of capital assets funded by deferred capital contributions	45,863	21,359
Purchase of capital assets internally financed	1,623	12,245
Purchase of capital assets financed by proceeds of debenture	-	6,706
Purchase of capital assets financed by accounts payable	20,881	4,867
Amortization of capital assets	(13,500)	(13,741)
Balance, end of year	<u>\$ 270,627</u>	<u>\$ 215,760</u>

## 5. Deferred contributions:

Deferred contributions represent unspent externally restricted grants and donations for research and other restricted purposes. The changes in the deferred contributions balance are as follows:

(000's)	2011	2010
Balance, beginning of year	\$ 8,973	\$ 6,164
Grants, donations and other expendable funds	17,050	15,804
Amounts recorded as revenue during the year	(17,330)	(12,995)
Balance, end of year	<u>\$ 8,693</u>	<u>\$ 8,973</u>

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 6. Long-term debt:

(000's)	2011	2010
Fixed rate instruments:		
Earp student residence:		
7.2% loan with certain residences and investments pledged as security, with monthly blended payments of principal and interest of \$90,570, due October 1, 2028	\$ 10,797	\$ 11,094
Lowenberger student residence:		
7.2% loan with certain residences and investments pledged as security, with monthly blended payments of principal and interest of \$71,873, due October 1, 2028	8,568	8,805
460 St. David's Road:		
6.27% mortgage loan with monthly blended payments of principal and interest of \$25,459, due September 1, 2013	2,643	2,780
	22,008	22,679
Variable rate instrument:		
Cairns Family Health and Bioscience Research Complex:		
Prime rate mortgage loan with monthly payments commencing one month past June 29, 2012, due June 29, 2022	10,000	-
	32,008	22,679
Less current portion	720	671
	\$ 31,288	\$ 22,008

### (a) Debt maturities:

The following are the future minimum annual debt principal repayments due over the next five fiscal years and thereafter:

(000's)	
2012	\$ 720
2013	951
2014	3,228
2015	946
2016	1,010
Thereafter	25,153
	\$ 32,008

# BROCK UNIVERSITY

## Notes to Financial Statements (continued)

Year ended April 30, 2011

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### 6. Long-term debt (continued):

#### (b) Bank credit facility:

The University has available operating lines of credit of \$10,000,000 and \$5,000,000 which were not utilized at April 30, 2011. The interest rate on the operating line of credits, when drawn, are the Bank's Prime lending rate from time to time minus 0.55% and the Bank's Prime lending rate from time to time, respectively (the prime rate at April 30, 2010 was 3.00%). Amounts are due on demand.

The University has available a committed overdraft loan totaling \$15,000,000 which was not utilized at April 30, 2011. The loan is to provide an interim bridge facility to assist in the construction of the Cairns Family Health and Bioscience Research Complex and the Marilyn I. Walker School of Fine and Performing Arts. The interest rate on the committed overdraft loan, when drawn, is the Bank's Prime lending rate from time to time (the prime rate at April 30, 2011 was 3.00%) and has a maturity date of 3 years from financial close.

The University has available a committed non-revolving, reducing term loan totaling \$33,000,000, of which \$10,000,000 has been drawn at April 30, 2011. The loan is for the financing of the construction of the Cairns Family Health and Bioscience Research Complex. The interest rate on the committed non-revolving, reducing term loan is the rate for Canadian Dollar Banker's Acceptances ("BA") plus 1.10% (the BA rate at April 30, 2011 was 1.12%) or monthly fixed rate operating loans available at CDOR Rate plus 1.10% per annum. The University has entered into interest rate swap agreements to manage the volatility of these interest rates on \$28,000,000 of the loan. Amounts are due 10 years from June 29, 2012.

#### (c) Fair value:

The approximate fair value of the fixed rate instruments included in long-term debt is \$24,890,000 (2010 - \$19,512,000).

# BROCK UNIVERSITY

## Notes to Financial Statements (continued)

Year ended April 30, 2011

### 7. Debenture payable:

(000's)	2011	2010
Debenture payable, bearing interest at 4.967%, \$2,309,000 payable interest only semi-annually, due December 14, 2045	\$ 93,000	\$ 93,000
Deferred refinancing expenses	(3,032)	(3,064)
	\$ 89,968	\$ 89,936

The University has established an internal sinking fund and purchased McLean Budden long-term fixed income funds with a market value of \$2,783,975 (2010 - \$2,115,281). It is the University's policy to continue to make annual contributions so that the ultimate proceeds of the investments will be applied against the debenture payable, due December 14, 2045 (see note 3). The annual contributions are currently set at \$475,000 until 2028 at which time will increase to \$2,424,000 until 2045.

The approximate fair value of the debenture payable is \$97,357,000 (2010 - \$84,140,000).

### 8. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations and changes in net assets. The changes in the deferred capital contributions balance are as follows:

(000's)	2011	2010
Balance, beginning of year	\$ 125,700	\$ 111,155
Less amortization of deferred capital contributions	(5,881)	(4,992)
Add contributions restricted for capital purposes	36,621	19,537
Balance, end of year	\$ 156,440	\$ 125,700

The balance of unamortized capital contributions related to capital assets consists of the following:

(000's)	2011	2010
Unamortized capital contributions used to purchase assets	\$ 148,477	\$ 87,923
Unspent capital contributions	7,963	37,777
	\$ 156,440	\$ 125,700

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 9. Employee future benefits obligation:

### (a) Pension benefit plan:

The University sponsors a hybrid pension plan, which contains both a defined contribution component and a defined benefit component. The defined contribution component of the plan is funded by University and member contributions and provides a benefit to members based on their accumulated account balance. The defined benefit component of the plan is funded by University contributions and provides for a guaranteed minimum benefit. The latest actuarial funding valuation was performed as at July 1, 2008. The next required actuarial funding valuation will be July 1, 2011.

The University measured its accrued benefit obligation and fair value of plan assets for accounting purposes as at April 30, 2011. A summary of the financial status of the plan is as follows:

(000's)	2011	2010
Accrued benefit obligation	\$ 292,662	\$ 263,036
Fair value of plan assets	285,462	258,327
Plan deficit	(7,200)	(4,709)
Balance of unamortized actuarial loss	7,200	4,709
Accrued benefit liability	\$ -	\$ -

The principal actuarial assumptions adopted in measuring the University's employee future benefits obligation are as follows:

	2011	2010
Discount rate	5.75%	6.0%
Rate of compensation increases	3.5% to 4.5%	3.5% to 4.5%
Expected long-term rate of return on plan assets	6.25%	6.5%

The contribution and the amount expensed for the University's pension benefit plans is as follows:

(000's)	2011	2010
Pension benefit plan	\$ 10,578	\$ 10,032
Multi-employer teachers plan	99	114

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 9. Employee future benefits obligation (continued):

### (b) Other benefit plans:

The University has a number of non-pension future benefits that are available to most of its employees. These non-pension benefits include retiree medical and dental benefits until the age of 65, accumulating sick leave benefits and pre-retirement leave benefits and, for specific employees, a health care spending account. The latest actuarial funding valuation was performed as at April 30, 2011.

A summary of the financial status of the plans is as follows:

(000's)	2011	2010
Accrued benefit obligation	\$ 16,558	\$ 14,632
Fair value of plan assets	-	-
Plan deficit	(16,558)	(14,632)
Balance of unamortized past service costs	2,264	-
Balance of unamortized actuarial loss	1,520	3,536
Accrued benefit liability	\$ (12,774)	\$ (11,096)

The principal actuarial assumptions adopted in measuring the University's employee future benefits obligation are as follows:

	2011	2010
Discount rate	4.75% - 5.50%	5.25% - 6.00%
Health care costs	9.45% in 2010 decreasing over 20 years to 4.50%	
Other benefits costs	4.50%	4.50%

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

(000's)	2011	2010
Non-pension defined benefit plans	\$ 2,081	\$ 2,457
Non-pension benefit plans	403	321

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 10. Endowments:

(a) Change in endowment net assets:

The following were recorded directly to endowment net assets:

(000's)	2011	2010
Contributions restricted for endowments	\$ 5,361	\$ 4,636
Investment (loss) income	2,203	(1,042)
Internally allocated for scholarship spending	(804)	(889)
Unrealized gain	1,631	5,653
	<u>\$ 8,391</u>	<u>\$ 8,358</u>

(b) Contributions restricted for endowments consist of the following:

(000's)	2011	2010
Externally restricted	\$ 41,011	\$ 35,550
Internally restricted	8,957	6,027
	<u>\$ 49,968</u>	<u>\$ 41,577</u>

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 10. Endowments (continued):

### (c) Ontario Student Opportunity Trust Fund, Phase One:

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund ("OSOTF") matching program, Phase One to award student aid as a result of raising an equal amount of endowed donations.

Schedule of Changes in Expendable Funds Available for Awards:

(000's)	2011	2010
Expendable funds available for awards, beginning of year	\$ 176	\$ 176
Investment income eligible for expenditures	457	252
Bursaries awarded	(244)	(252)
Expendable funds available for awards, end of year	\$ 389	\$ 176
Total OSOTF, Phase One, end of year	\$ 8,678	\$ 8,249
Number of bursaries awarded	134	135

Schedule of Changes in Endowment Balance based on book and market value:

(000's)	2011		2010	
	Market	Book	Market	Book
Endowment balance, beginning of year	\$ 8,399	\$ 8,073	\$ 7,564	\$ 8,593
Unrealized gain for the year	272	-	1,355	-
Investment income (loss) less bursaries awarded	216	216	(520)	(520)
Endowment balance, end of year	\$ 8,887	\$ 8,289	\$ 8,399	\$ 8,073

# BROCK UNIVERSITY

## Notes to Financial Statements (continued)

Year ended April 30, 2011

### 10. Endowments (continued):

#### (d) Ontario Student Opportunity Trust Fund, Phase Two:

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund ("OSOTF") matching program, Phase Two to award student aid as a result of raising an equal amount of endowed donations.

#### Schedule of Changes in Expendable Funds Available for Awards:

(000's)	2011	2010
Expendable funds available for awards, beginning of year	\$ 209	\$ 231
Investment income eligible for expenditures	177	97
Bursaries awarded	(96)	(119)
Expendable funds available for awards, end of year	\$ 290	\$ 209
Total OSOTF, Phase Two, end of year	\$ 3,444	\$ 3,284
Number of bursaries awarded	33	35

#### Schedule of Changes in Endowment Balance based on book and market value:

(000's)	2011		2010	
	Market	Book	Market	Book
Endowment balance, beginning of year	\$ 3,208	\$ 3,075	\$ 2,899	\$ 3,280
Unrealized gain for the year	104	-	514	-
Investment income (loss) less bursaries awarded	79	79	(205)	(205)
Endowment balance, end of year	\$ 3,391	\$ 3,154	\$ 3,208	\$ 3,075

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 10. Endowments (continued):

### (e) Ontario Trust for Student Support

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Trust for Student Scholarship ("OTSS") matching program to award student aid as a result of raising an equal amount of endowment donations to an allocated ceiling.

Schedule of Changes in Expendable Funds Available for Awards:

(000's)	2011	2010
Expendable funds available for awards, beginning of year	\$ 126	\$ 167
Investment income eligible for expenditures	781	183
Bursaries awarded	(209)	(224)
Expendable funds available for awards, end of year	\$ 698	\$ 126
Total OTSS, end of year	\$ 14,828	\$ 13,181
Number of bursaries awarded	138	223

Schedule of Changes in Endowment Balance based on book and market value:

(000's)	2011		2010	
	Market	Book	Market	Book
Endowment balance, beginning of year	\$13,026	\$13,055	\$10,163	\$10,994
Cash donations received	796	796	751	751
Funds received from the Ministry	1,149	1,149	1,840	1,840
Unrealized gain in the current year	1,513	-	802	-
Investment income (loss) less bursaries awarded	451	451	(530)	(530)
Endowment balance, end of year	\$16,935	\$15,451	\$13,026	\$13,055

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 11. Net assets invested in capital assets:

(a) Net assets invested in capital assets consist of the following:

(000's)	2011	2010
Capital assets, net (note 4)	\$ 270,627	\$ 215,760
Less amounts financed by:		
Long-term debt (note 6)	(32,008)	(22,679)
Deferred capital contributions (note 8)	(148,477)	(87,923)
Debenture payable	(83,961)	(83,961)
Accounts payable	(309)	(2,510)
Cash and cash equivalents held for future capital projects	10,000	-
Balance, end of year	\$ 15,872	\$ 18,687

(b) The change in net assets invested in capital assets is calculated as follows:

(000's)	2011	2010
Repayment of long-term debt	\$ 671	\$ 8,889
Purchase of capital assets internally financed	1,623	12,245
Payment of accounts payable related to capital assets	2,510	-
Increase in invested in capital assets	4,804	21,134
Amortization expense	(13,500)	(13,741)
Less amortization of deferred capital contributions	5,881	4,992
Decrease in invested in capital assets	(7,619)	(8,749)
Net change in invested in capital assets	\$ (2,815)	\$ 12,385

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 12. Internally restricted net assets:

Internally restricted net assets carried forward for allocation and spending in subsequent years consist of the following:

(000's)	2011	2010
Operations:		
Faculty departments	\$ 6,688	\$ 5,040
An agreement exists that permit faculty departments to automatically carryforward cumulative unspent budgeted funds. These funds are typically committed for targeted expenditures.		
Other departments	7,618	5,683
Unspent budgeted funds for specific programs are automatically carried forward. In addition, other departments are permitted to make specific annual requests for targeted expenditures.		
Student support grants, bursaries and fellowships	1,790	756
Budgeted funds established for specific student initiatives are committed for their intended purpose.		
Library department and acquisitions	796	908
An agreement exists that permits the library department to automatically carryforward cumulative unspent budgeted funds.		
Capital and infrastructure projects and reserves	4,541	3,096
Department reserve funds and global budgets established for specific capital and infrastructure initiatives.		
Global Budget Initiatives	1,501	1,895
Unspent targeted global funds that are held centrally until departmental allocations are known.		
Operating Budget	1,769	1,613
One-time budgeted funds committed to the annual operating budget.		
	24,703	18,991
Accumulated interest on investments for specific purposes	423	230
These funds are recognized on investments that have been established for the repayment of the debentures payable.		
Research funds with no external obligations	293	218
These funds are recognized revenue from research contracts and have been restricted for use on research projects		
	\$ 25,419	\$ 19,439

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

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## 13. Commitments:

- a) As at April 30, 2011, the estimated costs to complete approved capital and renovation projects are approximately \$32,612,500 (2010 - \$81,969,591), which will be funded by government grants, donations, operations and long-term debt proceeds.
- b) The following are the future minimum annual operating lease payments due over the next five fiscal years and thereafter (in 000's):

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2012	\$ 1,095
2013	1,088
2014	1,070
2015	1,066
2016	1,087
Thereafter	8,561
	<hr/>
	\$ 13,967

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## 14. Canadian Universities Reciprocal Insurance Exchange:

The University is a member of the Canadian Universities Reciprocal Insurance Exchange ("CURIE"). CURIE is a pooling of the property damage and public liability insurance risks of its members. All members pay annual deposit premiums which are actuarially determined and are subject to further assessment in the event members' premiums are insufficient to cover losses and expenses. No assessment has been made for the year ended April 30, 2011.

## 15. Contingencies:

The nature of the University's activities are such that there may be litigation pending or in the prospect at any time. With respect to claims at April 30, 2011, administration believes that the University has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, administration believes that such claims are not expected to have a material effect on the University's financial position. No provision has been accrued in these financial statements in respect of the above litigation.

## 16. Financial instruments:

For certain of the University's financial instruments, including cash, accounts receivable, government grants receivable and accounts payable and accrued liabilities, the carrying values approximate the fair values due to their short-term maturity. The fair value of marketable securities and investments, determined based on quoted market values, are disclosed in notes 2 and 3. The fair market value of long-term debt is disclosed in notes 6 and 7.

# BROCK UNIVERSITY

## Notes to Financial Statements (continued)

Year ended April 30, 2011

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### 16. Financial instruments (continued):

#### Interest rate swaps:

The University has entered into interest rate swap agreements to manage the volatility of interest rates. The University converted a net notional of \$10,000,000 of floating rate long-term debt relating to the Cairns Family Health and Bioscience Research Complex and Marilyn I. Walker School of Fine and Performing Arts. The fixed rates received under the interest rate swaps range from 2.85% to 4.69%. The maturity dates of the interest rate swaps are the same as the maturity dates of the associated long-term debt of June 29, 2022.

The fair value of the interest rate swaps at April 30, 2011 are in a net unfavourable position of \$321,299 (2010 - \$nil) which is recorded as a liability on the statement of financial position. The current year impact of the change in fair value of the interest rate swap is a decrease to net assets by \$321,299 (2010 - \$nil).

### 17. Brock Foundation:

As at April 30, 2011, the Brock Foundation (the "Foundation"), a Crown agent, had a balance of donations on hand of \$308,333 (2010 - \$308,433) which the University anticipates will be conveyed to them after year-end. The University acts as investment manager for the Foundation.

On May 17, 2011, the Board of Directors of the Brock University Foundation passed a motion to recommend to Brock University's Board of Trustees, through its Governance Committee, that the Foundation is wound up effective June 30, 2011 and that any remaining assets are transferred to the University. This recommendation was approved by the Brock University's Board of Trustees on June 23, 2011.

### 18. Capital management:

In managing capital, the University focuses on liquid resources available for operations. The University's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purpose. The need for sufficient liquid resources is considered in the preparation of the annual operating budget and capital projects, with actual results being compared to budget on a regular basis, and in the monitoring and forecasting of cash flows.

The University has available lines of credit of \$30.0 million that can be used when sufficient cash flow is not available from operations to cover operating and capital expenditures. This line of credit was not utilized during the current fiscal year.

As at April 30, 2011, the University has met its objective of having sufficient liquid resources to meet its current obligations.

### 19. Comparative financial statements:

The comparative financial statements have been reclassified to conform to the presentation of the 2011 financial statements. The prior year reclassification was an increase to accounts receivable, accounts payable and accrued liabilities and deferred revenue by \$3,951,000, \$966,000 and \$2,985,000 respectively.

# BROCK UNIVERSITY

Notes to Financial Statements (continued)

Year ended April 30, 2011

## 20. Other information:

The Statement of Operations consolidates all the revenue and expense activities of the university. Schedule I segments these activities of the university into the following funds: general and ancillary operations, externally restricted research and student awards, internally restricted, investments in capital and endowments. In addition the net assets for these segments are provided.

General operations include government operating grants, tuition fees and other income received to fund salaries, benefits, material and supplies, bursaries and general operating costs associated with instruction, academic, student and administrative support services and research other than sponsored or contract research. Ancillary operations include services provided which are supplementary to the university's primary function of instruction and research. They include the bookstore, parking, student residences and conferences services.

The format adopted for the operating budget enhances accountability and budgetary control of resources. The following schedule adjusts for those activities contained within the general and ancillary operations category to a basis consistent with the preparation and approval of the university's annual operating budget.

(000's)	2011	2010
General and Ancillary Operations –		
Excess of revenue over expenses (Schedule I)	\$ 1,853	\$ 1,113
Net adjustments to restate to an operating budget basis	(304)	(2,332)
Excess of revenues over expenses (expenses over revenue) on an operating budget basis	1,549	(1,219)
Opening unrestricted surplus from the operating budget	(2,805)	31
Transfers to internally restricted - operations (note 12)	(5,712)	(1,617)
Ending unrestricted deficit on an operating budget basis	\$ (6,968)	\$ (2,805)

Net adjustments relate to revenue and expenses that are treated differently in the financial statements, under generally accepted accounting principles from the treatment in the operating budget. Revenues that are not included in the operating budget such as donations and trust fund contributions, investment income for the internal sinking funds, and project funds designated for specific purposes such as internal research. Expenses not included in the operating budget include actuarially determined costs for employee future benefit costs, and student awards and bursaries paid through the trust fund. Expenses included only in the operating budget are principle repayments, sinking fund contributions and capital purchases for equipment, computers and library books.

# BROCK UNIVERSITY

## Schedule I – Statement of Operations by Fund Page 1 of 2

Year ended April 30, 2011  
(in thousands of dollars)

	General and ancillary operations	Research and student awards	Total unrestricted	Internally restricted	Invested in capital assets	Subtotal	Endowments	Total
<b>Revenues:</b>								
Student fees	\$ 105,859	\$ -	\$ 105,859	\$ -	\$ -	\$ 105,859	\$ -	\$ 105,859
Government grants for general operations	86,574	-	86,574	-	-	86,574	-	86,574
Ancillary operations	29,306	-	29,306	-	-	29,306	-	29,306
Grants and donations for restricted purposes	-	1,048	1,048	-	-	1,048	5,361	6,409
Investment income	809	-	809	-	-	809	3,834	4,643
Other	10,775	-	10,775	-	-	10,775	-	10,775
Research grants for restricted purposes	-	17,330	17,330	-	-	17,330	-	17,330
Amortization of deferred capital contributions	-	-	-	-	5,881	5,881	-	5,881
	233,323	18,378	251,701	-	5,881	257,582	9,195	266,777
<b>Expenses:</b>								
Salaries and benefits	165,407	-	165,407	-	-	165,407	-	165,407
Scholarships, fellowships and bursaries	11,455	1,048	12,503	-	-	12,503	804	13,307
Supplies and expenses	13,461	-	13,461	-	-	13,461	-	13,461
Materials and expendable equipment	3,824	-	3,824	-	-	3,824	-	3,824
Repairs, maintenance and rent	6,043	-	6,043	-	-	6,043	-	6,043
Utilities and taxes	7,706	-	7,706	-	-	7,706	-	7,706
Interest	6,203	-	6,203	-	-	6,203	-	6,203
Cost of sales	8,450	-	8,450	-	-	8,450	-	8,450
Other	8,921	-	8,921	-	-	8,921	-	8,921
Research	-	17,330	17,330	-	-	17,330	-	17,330
Amortization of capital assets	-	-	-	-	13,500	13,500	-	13,500
	231,470	18,378	249,848	-	13,500	263,348	804	264,152
Excess of revenues over expenses (expenses over revenues)	1,853	-	1,853	-	(7,619)	(5,766)	8,391	2,625
<b>Inter-fund transfers:</b>								
Change in investment in capital assets	(4,804)	-	(4,804)	-	4,804	-	-	-
Change in internally restricted net assets	(5,980)	-	(5,980)	5,980	-	-	-	-
Change in fair market value of interest rate swap	(321)	-	(321)	-	-	(321)	-	(321)
Changes in net assets	(9,252)	-	(9,252)	5,980	(2,815)	(6,087)	8,391	2,304
Net assets, beginning of year	(21,682)	-	(21,682)	19,439	18,687	16,444	41,577	58,021
Net assets, end of year	\$ (30,934)	\$ -	\$ (30,934)	\$ 25,419	\$ 15,872	\$ 10,357	\$ 49,968	\$ 60,325

# BROCK UNIVERSITY

## Schedule I – Statement of Operations by Fund Page 2 of 2

Year ended April 30, 2010  
(in thousands of dollars)

	General and ancillary operations	Research and student awards	Total unrestricted	Internally restricted	Invested in capital assets	Subtotal	Endowments	Total
<b>Revenues:</b>								
Student fees	\$ 96,576	\$ -	\$ 96,576	\$ -	\$ -	\$ 96,576	\$ -	\$ 96,576
Government grants for general operations	84,418	-	84,418	-	-	84,418	-	84,418
Ancillary operations	28,702	-	28,702	-	-	28,702	-	28,702
Grants and donations for restricted purposes	281	971	1,252	-	-	1,252	4,636	5,888
Investment income	2,459	-	2,459	-	-	2,459	4,611	7,070
Other	13,833	-	13,833	-	-	13,833	-	13,833
Research grants for restricted purposes	-	12,995	12,995	-	-	12,995	-	12,995
Amortization of deferred capital contributions	-	-	-	-	4,992	4,992	-	4,992
	226,269	13,966	240,235	-	4,992	245,227	9,247	254,474
<b>Expenses:</b>								
Salaries and benefits	157,985	-	157,985	-	-	157,985	-	157,985
Scholarships, fellowships and bursaries	11,844	971	12,815	-	-	12,815	889	13,704
Supplies and expenses	13,108	-	13,108	-	-	13,108	-	13,108
Materials and expendable equipment	5,398	-	5,398	-	-	5,398	-	5,398
Repairs, maintenance and rent	5,653	-	5,653	-	-	5,653	-	5,653
Utilities and taxes	7,332	-	7,332	-	-	7,332	-	7,332
Interest	6,694	-	6,694	-	-	6,694	-	6,694
Cost of sales	8,203	-	8,203	-	-	8,203	-	8,203
Other	8,939	-	8,939	-	-	8,939	-	8,939
Research	-	12,995	12,995	-	-	12,995	-	12,995
Amortization of capital assets	-	-	-	-	13,741	13,741	-	13,741
	225,156	13,966	239,122	-	13,741	252,863	889	253,752
<b>Excess of revenues over expenses (expenses over revenues)</b>	<b>1,113</b>	<b>-</b>	<b>1,113</b>	<b>-</b>	<b>(8,749)</b>	<b>(7,636)</b>	<b>8,358</b>	<b>722</b>
<b>Inter-fund transfers:</b>								
Change in investment in capital assets	(21,134)	-	(21,134)	-	21,134	-	-	-
Change in internally restricted net assets	1,612	-	1,612	(1,612)	-	-	-	-
<b>Changes in net assets</b>	<b>(18,409)</b>	<b>-</b>	<b>(18,409)</b>	<b>(1,612)</b>	<b>12,385</b>	<b>(7,636)</b>	<b>8,358</b>	<b>722</b>
<b>Net assets, beginning of year</b>	<b>(3,273)</b>	<b>-</b>	<b>(3,273)</b>	<b>21,051</b>	<b>6,302</b>	<b>24,080</b>	<b>33,219</b>	<b>57,299</b>
<b>Net assets, end of year</b>	<b>\$ (21,682)</b>	<b>\$ -</b>	<b>\$ (21,682)</b>	<b>\$ 19,439</b>	<b>\$ 18,687</b>	<b>\$ 16,444</b>	<b>\$ 41,577</b>	<b>\$ 58,021</b>