

Consolidated Financial Statements of

**UNIVERSITY OF ONTARIO
INSTITUTE OF TECHNOLOGY**

For the year ended March 31, 2016

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Financial Statements
Table of Contents
For the year ended March 31, 2016

	<u>Page</u>
Independent Auditors' Report	
Consolidated Statement of Financial Position	1
Consolidated Statement of Operations	2
Consolidated Statement of Changes in Net Assets	3
Consolidated Statement of Cash Flows	4
Notes to the Consolidated Financial Statements	5-19



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
University of Ontario Institute of Technology

We have audited the accompanying consolidated financial statements of University of Ontario Institute of Technology, which comprise the consolidated statement of financial position as at March 31, 2016, the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated 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 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 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 consolidated financial statements.

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



Page 2

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of University of Ontario Institute of Technology as at March 31, 2016, and its consolidated results of operations, its consolidated changes in net assets and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP


Chartered Professional Accountants, Licensed Public Accountants

June 29, 2016
Toronto, Canada

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Financial Position
As at March 31, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	\$ 32,308,994	\$ 23,683,442
Short-term investments (Note 5)	10,170,000	10,000,000
Grant receivable	5,312,979	6,209,269
Other accounts receivable (allowance for doubtful accounts - \$308,202; 2015 - \$295,217)	7,327,038	7,562,296
Inventories	154,262	290,484
Prepaid expenses and deposits	1,701,678	1,590,365
	56,974,951	49,335,856
INVESTMENTS (Note 2)	30,967,585	36,434,687
CAPITAL ASSETS (Note 3)	397,511,225	414,786,487
TOTAL ASSETS	\$ 485,453,761	\$ 500,557,030
LIABILITIES		
CURRENT AND LONG-TERM LIABILITIES		
Accounts payable and accrued liabilities (Notes 6 and 13)	\$ 23,940,540	\$ 25,263,118
Deferred revenue (Note 7)	20,358,279	20,777,419
Current portion of other long-term debt (Note 8)	5,477,658	5,153,978
Current portion of obligations under capital lease (Note 9)	417,565	296,208
Current portion of long-term debenture debt (Note 10)	5,110,244	4,800,522
	55,304,286	56,291,245
OTHER LONG-TERM DEBT (Note 8)	6,390,043	11,867,700
LONG-TERM OBLIGATIONS UNDER CAPITAL LEASES (Note 9)	38,672,761	38,821,864
LONG-TERM DEBENTURE DEBT (Note 10)	175,501,181	180,611,425
DEFERRED CAPITAL CONTRIBUTIONS (Note 11)	162,285,684	170,092,845
	438,153,955	457,685,079
NET ASSETS / (DEFICIT)		
UNRESTRICTED	(22,160,664)	(22,571,545)
INVESTED IN CAPITAL ASSETS (Note 14)	14,996,292	19,404,133
INTERNALLY RESTRICTED (Note 15)	36,292,518	29,812,857
ENDOWMENTS (Note 16)	18,171,660	16,226,506
	47,299,806	42,871,951
Contingencies and Contractual Commitments (Note 20)		
TOTAL LIABILITIES AND NET ASSETS	\$ 485,453,761	\$ 500,557,030

See accompanying notes to the consolidated financial statements



 Approved by:

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Operations
For the year ended March 31, 2016

	<u>2016</u>	<u>2015</u>
REVENUE		
Grants - operating and research (Note 12)	\$ 68,364,211	\$ 68,254,617
Grants - debenture	13,500,000	13,500,000
Donations	701,761	1,471,688
Student tuition fees	69,729,577	66,978,284
Student ancillary fees	14,557,870	15,642,591
Revenues from purchased services (Note 13)	3,724,803	3,800,069
Other income	12,288,186	11,780,529
Amortization of deferred capital contributions	8,705,492	8,818,013
Interest revenue	1,025,880	677,813
Gain on disposal of capital assets	421,476	534,242
	193,019,256	191,457,846
EXPENSES		
Salaries and benefits	94,207,476	88,796,164
Supplies and expenses	36,021,630	35,536,995
Purchased services (Note 13)	15,685,113	16,346,646
Interest expense	15,285,400	15,767,077
Amortization of capital assets	26,190,578	26,744,598
Professional fees	936,269	802,221
Realized/unrealized loss/(gain) on investments	1,385,256	(1,269,611)
	189,711,722	182,724,090
Excess of revenue over expenses	\$ 3,307,534	\$ 8,733,756

See accompanying notes to the consolidated financial statements

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Changes in Net Assets
For the year ended March 31, 2016

	<u>Unrestricted</u>	<u>Invested in Capital Assets</u> (Note 14)	<u>Internally Restricted</u> (Note 15)	<u>Endowments</u> (Note 16)	<u>Total 2016</u>	<u>Total 2015</u>
Balance - Beginning of Year	\$ (22,571,545)	\$ 19,404,133	\$ 29,812,857	\$ 16,226,506	\$ 42,871,951	\$ 32,994,569
Excess / (deficiency)						
Revenue over Expenses	20,792,620	(17,485,086)	-	-	3,307,534	8,733,757
Interfund Transfer	(6,479,661)	-	6,479,661	-	-	-
Investment in Capital Assets	(13,077,245)	13,077,245	-	-	-	-
Endowment Contributions	(824,833)	-	-	1,945,154	1,120,321	1,143,625
Net changes during the year	410,881	(4,407,841)	6,479,661	1,945,154	4,427,855	9,877,382
Balance - End of Year	\$ (22,160,664)	\$ 14,996,292	\$ 36,292,518	\$ 18,171,660	\$ 47,299,806	\$ 42,871,951

See accompanying notes to the consolidated financial statements

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Cash Flows
For the year ended March 31, 2016

	<u>2016</u>	<u>2015</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Excess of revenue over expenses	\$ 3,307,534	\$ 8,733,756
Items not affecting cash:		
Amortization of capital assets	26,190,578	26,744,598
Amortization of deferred capital contributions	(8,705,492)	(8,818,013)
Gain on disposal of capital assets	(421,476)	(534,242)
Realized/unrealized loss/(gain) on investments	1,385,256	(1,269,611)
Net Surplus	21,756,400	24,856,489
Working capital:		
Grant and other accounts receivable	1,131,548	800,747
Prepaid expenses and deposits	(111,313)	(160,005)
Inventories	136,222	25,650
Accounts payable and accrued liabilities	(1,322,578)	(4,102,312)
Deferred revenue	(419,140)	(45,781)
	21,171,139	21,374,788
INVESTING		
Purchase of capital assets	(9,349,915)	(13,500,641)
Proceeds on disposal of assets	856,075	534,242
Investments	3,911,846	(6,483,992)
	(4,581,994)	(19,450,391)
FINANCING		
Repayment of long-term debt	(9,954,499)	(9,365,925)
Endowment contributions	1,120,321	1,143,625
Repayment of obligations under capital leases	(27,746)	136,615
Deferred capital contributions	898,331	842,179
	(7,963,593)	(7,243,506)
NET CASH INFLOW / (OUTFLOW)	8,625,552	(5,319,109)
CASH & CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR	23,683,442	29,002,551
CASH & CASH EQUIVALENTS BALANCE, END OF YEAR	\$ 32,308,994	\$ 23,683,442
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 15,399,645	\$ 15,865,630

See accompanying notes to the consolidated financial statements

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

University of Ontario Institute of Technology (the “University”) was incorporated without share capital under the University of Ontario Institute of Technology Act which received Royal assent on June 27, 2002. The objectives of the University, as well as the powers of the Board of Governors and the Academic Council, are defined in the Act.

The University is a market-oriented University integrating inquiry, discovery and application through excellence in teaching, learning and value-added research. The University is a degree granting and research organization offering graduate and undergraduate education. The University is a registered charity under Section 149 of the Income Tax Act and is, therefore, exempt from income taxes.

1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

(a) Basis of presentation

The University follows Canadian Accounting Standards for Not-for-Profit Organizations (“ASNPO”) in Part III of the Chartered Professional Accountants of Canada (“CPA”) Handbook. These consolidated financial statements reflect the assets, liabilities, net assets, revenue and expenses of all the operations controlled by the University.

On November 1, 2009, the Campus Childcare Centre Inc. (“CCC”) was incorporated as a separate legal entity with a fiscal year ended April 30. Its purpose is to provide daycare facilities to the children of faculty, staff and students of the University and Durham College, as its first priority, and community families. CCC is controlled by the University and its financial results to March 31, 2016 are included in the Consolidated Financial Statements of the University.

On February 1, 2012, the Automotive Center of Excellence (“ACE”) commenced its operations as a test facility for General Motors of Canada and other commercial customers who are seeking to create, test and validate paradigm-shifting innovations with a focus on bringing them to market as rapidly as possible. ACE is a wholly owned department of the University and its financial results to March 31, 2016 are included in the Consolidated Financial Statements of the University.

These consolidated financial statements do not reflect the assets, liabilities, and results of operations of the various student organizations as they are not controlled by the University.

(b) Revenue recognition

The University follows the deferral method of accounting for contributions, which includes donations and government grants.

Operating grants are recorded as revenue in the year to which they relate. Grants earned but not received at the end of an accounting year are accrued. When a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

Student tuition fees are deferred to the extent that related courses extend beyond the fiscal year of the University.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

Student fees are recognized as revenue when courses are provided.

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.

Externally restricted contributions for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are incurred. Pledged donations are not recorded until received due to the uncertainty involved in their collection.

Endowment contributions are reported as direct increases in net assets when received.

Other operating revenues are deferred to the extent that related services provided, or goods sold, are rendered/delivered subsequent to the end of the University's fiscal year.

Investment income related to restricted spending is deferred. Investment income without restrictions is recognized when earned.

(c) Cash and cash equivalents

Cash equivalents consist of highly liquid investments having terms to maturity on acquisition of three months or less, and are readily convertible to cash on short notice and are recorded at market value.

(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.

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 University 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 University 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.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

(e) Long-term debt

The University carries long-term debt at amortized cost.

(f) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(g) Capital assets

Purchased capital assets are recorded at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution when fair value is reasonably determinable. Otherwise, contributed assets are recorded at a nominal amount. Betterments, which extend the estimated useful life of an asset, are capitalized. When a capital asset no longer contributes to the University's ability to provide services, its carrying amount is written down to its residual value. Capital assets are amortized on a straight-line basis over their average useful lives, which have been estimated to be as follows:

Buildings	15 – 40 years
Building renovations	10 years
Leasehold improvements	over lease term
Furniture and fixtures	5 years
Laptops	2 – 3 years
Computer equipment	3 years
Vehicles	3 years
Major equipment	10 years
Capital leases	over economic life of assets

Capital assets acquired during the financial year are amortized at half of the applicable rate. Construction-in-progress represents assets not yet available for use, therefore amortization commences when the project is complete.

(h) Deferred capital contributions

Contributions received for capital assets are deferred and amortized over the same term and on the same basis as the related capital assets.

(i) Contributed services

The University receives a number of contributed services from individuals, corporations and community partners. Because of the difficulty in determining the fair value, contributed services are not recognized in the Consolidated Financial Statements.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

(j) Use of estimates

The preparation of Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenue and expenses during the year. Significant estimates includes the carrying value of capital assets. Actual results could differ from these estimates.

2. INVESTMENTS

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Equities	\$ 13,141,002	\$ 13,582,832	\$ 10,192,953	\$ 12,665,330
Fixed income	6,208,685	6,332,557	6,400,486	6,750,911
Money Market/Cash	467,432	467,432	560,624	560,624
Held in Trust	9,969,718	10,584,764	15,649,875	16,457,822
	\$ 29,786,837	\$ 30,967,585	\$ 32,803,938	\$ 36,434,687

Investments held in trust represent the principal on the remaining proceeds of a loan of \$10,584,764 (2015 - \$16,457,822) that the University received from the Ontario Financing Authority in February 2012 (Note 8), and which the University then applied for the purpose of paying BNY Trust Company of Canada (“BNY”). These funds are held by BNY pursuant to Section 6.01(h) of the Supplemental Trust Indenture, pursuant to which the University’s Series A Debentures were issued. The funds held in trust comprise of both fixed income and money market investments.

(a) Credit, interest rate and maturity risk

The value of fixed income securities will and generally rise if interest rates fall and decrease if interest rates rise. Changes in interest rates may also affect the value of equity securities. The fixed income investments consist of various Canadian government and corporate bonds and individual mortgage holdings. The fixed income investments bear coupon rates ranging from 0.0% to 16.2% (2015 – 1.5% to 10.3%) and have maturity dates ranging from April 1, 2016 to December 31, 2099 (2015 - April 27, 2015 to December 31, 2099).

(b) Foreign currency risk

The University is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. The University, through its investment management company, hedges against foreign exchange risks. There has been no change in the University’s hedging policy from 2015.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

2. INVESTMENTS (continued)

(c) Market price risk

Market price risk arises as a result of trading fixed income securities and equities. The value of equity securities change with stock market conditions which are affected by general economic and market conditions. Changes in interest rates may also affect the value of equity securities. Fluctuation in the market exposes the University to a risk of loss.

(d) Liquidity risk

Money market investments represent instruments in highly liquid investments that are readily converted into known amounts of cash. The University invested in equity and fixed income investments that are traded in an active quote market.

3. CAPITAL ASSETS

Capital assets consist of:

	2016					2015
	Cost		Balance, End of Year	Accumulated Amortization	Net Book Value	Net Book Value
	Balance, Beginning of Year	Additions /Transfers / Disposals				
Land	\$ 8,456,815	\$ -	\$ 8,456,815	\$ -	\$ 8,456,815	\$ 8,456,815
Buildings	391,366,820	-	391,366,820	89,974,111	301,392,709	311,302,053
Building renovations	21,633,428	1,087,320	22,720,748	12,053,301	10,667,447	11,519,909
Leasehold improvements	3,375,262	-	3,375,262	927,381	2,447,881	2,691,634
Furniture and fixtures	15,323,902	342,771	15,666,673	14,117,994	1,548,679	2,099,570
Laptops	22,055,579	(1,374,886)	20,680,693	15,834,279	4,846,414	5,971,265
Computer equipment	13,707,734	954,413	14,662,147	12,200,105	2,462,042	3,062,634
Vehicles	164,497	10,236	174,733	151,629	23,104	37,176
Major equipment	63,008,826	2,224,929	65,233,755	34,100,217	31,133,538	34,695,210
Construction-in-progress	-	257,702	257,702	-	257,702	-
	<u>\$ 539,092,863</u>	<u>\$ 3,502,485</u>	<u>\$ 542,595,348</u>	<u>\$ 179,359,017</u>	<u>\$ 363,236,331</u>	<u>\$ 379,836,266</u>
Assets under capital leases:						
Land	2,300,000	-	2,300,000	-	2,300,000	2,300,000
Buildings	35,689,192	-	35,689,192	3,714,298	31,974,894	32,650,221
Total	<u>\$ 577,082,055</u>	<u>\$ 3,502,485</u>	<u>\$ 580,584,540</u>	<u>\$ 183,073,315</u>	<u>\$ 397,511,225</u>	<u>\$ 414,786,487</u>

Included in land and buildings are two specific assets donated to the University in 2009 and 2010 respectively (2009 – Dulemba Property: Land \$325,000; 2010 - Regent Theater: Land \$300,000 and Buildings \$1,550,000).

Amortization of assets under capital leases for the current year totaled \$675,327 (2015 - \$675,327).

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

4. CASH AND CASH EQUIVALENTS

	<u>2016</u>	<u>2015</u>
Bank of Montreal, credit facility	\$ 13,840,547	\$ 8,083,679
Bank of Montreal, cash balances	10,950,281	9,234,926
BMO Nesbitt Burns & RBC GICs	7,169,483	6,000,000
IBM, credit facility drawn	(10,000)	(10,000)
Royal Bank of Canada, cash balances	153,327	40,893
Harris Bank, cash balances	4,745	11,782
Other, balances	200,611	322,162
	<u>\$ 32,308,994</u>	<u>\$ 23,683,442</u>

The University has a credit facility agreement with a Canadian chartered bank, which provides for a revolving operating line of credit up to \$17,000,000, bearing interest at prime plus 0.25%. At March 31, 2016, the University utilized, on a cash consolidated basis, nil (2015 - nil) of the operating line of credit.

The University also had a credit facility agreement with IBM Global Financing, which provides for a revolving operating line of credit up to \$5,000,000 bearing interest at prime plus 0.25%. At March 31, 2016, the University utilized \$10,000 (2015 - \$10,000) of the operating line of credit.

In April 2015, the University transferred \$1,124,000 from the BNY portfolio and invested these in Guaranteed Investment Certificates (“GICs”) with a maturity date of one year. These GICs will mature in April and May 2016 and therefore disclosed as cash and cash equivalents.

In October 2015, the University transferred \$6,000,000 from the high interest savings account at BMO Nesbitt Burns into 30-day cashable annual GICs at the same investment company.

5. SHORT-TERM INVESTMENTS

In September 2014, the University invested \$10,000,000 of surplus operating cash in GICs with a maturity date of one year. These GICs will mature October 2016.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities are government remittances payable of \$197,054 (2015 – \$210,878), relating to payroll related taxes.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

7. DEFERRED REVENUE

Deferred revenue represents revenues related to expenses of future periods. The balance comprised the following:

	<u>2016</u>	<u>2015</u>
Tuition	\$ 7,571,838	\$ 7,370,175
Research	5,089,911	5,436,549
Donations	3,498,594	2,611,544
Ancillary	3,011,325	4,081,616
Other	1,186,611	1,277,535
	<u>\$ 20,358,279</u>	<u>\$ 20,777,419</u>

8. OTHER LONG-TERM DEBT

The University has incurred debts in the amount of \$11,867,701 through third parties related to the financing of the debenture (offset by amounts held in trust, as disclosed in Note 2 and Note 10), lab equipment and leasehold improvements in our downtown locations. Other long-term debt comprised the following:

	<u>2016</u>	<u>2015</u>
Unsecured loan, bearing fixed interest rate at 2.77% per annum, repayable semi-annually, with final instalment due October 15, 2017	\$ 10,611,425	\$ 15,411,947
Other unsecured loans, payable monthly / quarterly over a period of 6 to 30 years and at interest rates ranging from 0% to 9.3%	1,256,276	1,609,731
	<u>\$ 11,867,701</u>	<u>\$ 17,021,678</u>

Total principal repayments in each of the next five years and thereafter for other long-term debt are as follows:

2017	\$ 5,477,658
2018	5,707,308
2019	132,672
2020	124,139
2021	124,398
Thereafter, through 2041	301,526
	<u>11,867,701</u>
Less: current portion	5,477,658
	<u>\$ 6,390,043</u>

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

8. OTHER LONG-TERM DEBT (continued)

The fair value of the other long-term debt is \$12,198,556 (2015 - \$17,508,413). Fair value has been calculated using the future cash flows of the actual outstanding debt instrument, discounted at current market rates available to the University.

9. OBLIGATIONS UNDER CAPITAL LEASES

The University entered into capital leasing arrangements on two properties in downtown Oshawa to accommodate the growth in student population. Capital lease repayments are due as follows:

2017	\$	3,664,911
2018		3,719,641
2019		3,746,878
2020		3,774,388
2021		3,861,463
Thereafter, through 2041		<u>73,370,618</u>
Total minimum lease payments		92,137,899
Less: amount representing interest at rates ranging from 6.50% to 9.30%		<u>53,047,573</u>
Present value of net minimum capital lease payments		39,090,326
Less: current portion of principal obligations		<u>417,565</u>
	\$	<u><u>38,672,761</u></u>

Interest of \$3,257,541 (2015 - \$3,244,297) relating to capital lease obligations has been included in interest expense. The total amount of assets under capital leases is \$37,989,192 (2015 - \$37,989,192) with related accumulated amortization of \$3,714,298 (2015 - \$3,038,971).

The fair value of the capital leases is \$42,689,920 (2015 - \$44,471,419). Fair value has been calculated using the future cash flows of the actual outstanding debt instrument, discounted at current market rates available to the University.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

10. LONG-TERM DEBENTURE DEBT

On October 8, 2004, the University issued Series A Debentures in the aggregate principal amount of \$220,000,000. These debentures bear interest at 6.351%, payable semi-annually on April 15 and October 15, with the principal due in 2034. The proceeds of the issuance were used to finance capital projects including the construction of three Academic Buildings, a Library and related infrastructure. These debentures are secured by all assets of the University and are guaranteed by Durham College.

The debt is funded through special one-time grants from the Ministry of Training, Colleges and Universities (“MTCU”), and by the University’s operating funds.

On August 12, 2011, an agreement was signed between the University and MTCU whereby the Ministry shall pay the University \$13,500,000 each year in equal semi-annual payments of \$6,750,000 in April and October to fund the repayment of the debentures. The agreement took effect on April 1, 2011 and the grant will continue until the maturity of the debentures in October 2034.

Total principal and interest paid on the debenture to March 31, 2016 is \$181,511,064 (2015 - \$165,010,059), \$142,487,712 funded by MTCU and \$39,023,352 funded by the University.

The University has deposited a minimum of \$50,000,000, less the aggregate principal repaid to-date of \$39,388,575. The fair value of funds amounting to \$10,584,764 are held in trust on behalf of the University (Note 2).

As at March 31, 2016, \$217,431,043 (2015 - \$217,431,043) had been used to finance capital assets.

2017	\$	5,110,244
2018		5,439,949
2019		5,790,925
2020		6,164,546
2021		6,562,273
Thereafter, through 2034		151,543,488
Total minimum payments		180,611,425
Less: current portion		5,110,244
	\$	175,501,181

The fair value of the long-term debenture debt is \$225,834,255 (2015 - \$239,038,445). Fair value has been calculated using the future cash flows of the actual outstanding debt instrument, discounted at current market rates available to the University.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

11. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of grants and donations for the purchase of capital assets.

The changes in the balance consist of the following:

	<u>2016</u>	<u>2015</u>
Balance - beginning of year	\$ 170,092,845	\$ 178,068,679
Contributions	898,331	842,179
Recognized as revenue during the year	(8,705,492)	(8,818,013)
Balance - end of year	\$ 162,285,684	\$ 170,092,845

12. GRANT REVENUES

Grant revenues are split as follows:

	<u>2016</u>	<u>2015</u>
Operating	\$ 59,191,734	\$ 59,026,507
Externally funded research	9,172,477	9,228,110
Total grant revenues	\$ 68,364,211	\$ 68,254,617

13. PURCHASED SERVICE COSTS

Under a shared service agreement, the University purchases certain administrative services from Durham College. The cost of salaries, benefits and operating expenses purchased by the University are calculated based on a combination of individual percentage and actual cost by service area.

The ancillary operations are managed by Durham College and a portion of the net contribution is allocated to the University based on agreed metrics.

Amounts invoiced from Durham College for purchased services expense, including expense from ancillary operations, are recorded as expenses under "Purchased Services" in the consolidated financial statements. Revenues from ancillary operations are recorded as revenues and are included under "Revenues from purchased services" in the consolidated financial statements.

On March 11, 2015, the University and Durham College signed a Service Level Agreement ("SLA") covering Facilities and Ancillary, Information Technology Services and Student Services. This SLA outlines the guiding principles, work description documents to be adopted by both institutions and the methodology to determine administrative overhead costs.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

13. PURCHASED SERVICE COSTS (continued)

On February 19, 2016, the University and Durham College amended the SLA signed on March 11, 2015 only to the extent of a change in the monthly payment schedule to Durham College.

The balance owing to Durham College for purchased services costs, included in accounts payable and accrued liabilities, is non-interest bearing with no fixed terms of repayment, and will be paid during the next fiscal year.

14. INVESTED IN CAPITAL ASSETS

	<u>2016</u>	<u>2015</u>
Capital assets - net book value	\$ 397,511,225	\$ 414,786,489
Less amount financed by deferred capital contributions	(162,285,684)	(170,092,845)
Less amount financed by long-term debt (Notes 8, 9 and 10)	(220,229,249)	(225,289,511)
Total investment in capital assets	\$ 14,996,292	\$ 19,404,133

	<u>2016</u>	<u>2015</u>
Net change in investment in capital assets:		
Purchases of capital assets	\$ 9,349,915	\$ 13,500,641
Amounts funded by:		
Deferred capital contributions	(898,331)	(842,179)
Long-term debt	(268,462)	(362,884)
Repayment of long-term debt	4,894,123	4,961,159
	\$ 13,077,245	\$ 17,256,737

	<u>2016</u>	<u>2015</u>
Amortization of deferred capital contributions related to capital assets	\$ 8,705,492	\$ 8,818,013
Less amortization of capital assets	(26,190,578)	(26,744,598)
	\$ (17,485,086)	\$ (17,926,585)

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

15. INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets are funds restricted by the University and approved by the Board for future commitments for the appropriation of internally-funded research and for projects to improve and invest in the University's campus facilities, working capital and student aid. Re-purposing or increasing such restrictions is subject to Board approval.

Details of the internally restricted net assets are as follows:

	<u>2016</u>	<u>2015</u>
Balance comprised of the following:		
Research related activities	\$ 4,790,319	\$ 4,960,180
Capital related activities	21,545,491	17,600,871
Student awards	625,065	822,000
Working capital	6,000,000	5,000,000
Faculty carry-forwards	1,723,000	-
Other	1,608,643	1,429,806
	<u>\$ 36,292,518</u>	<u>\$ 29,812,857</u>

16. ENDOWMENTS

Endowment funds are restricted donations received by the University where the endowment principal is required to be maintained intact. The investment income generated from these endowments must be used in accordance with the various purposes established by donors. 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 is deferred and recorded in the Consolidated Statement of Operations when the donors' conditions have been met and the related expenses are recognized.

Endowment funds include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund ("OSOTF") and the Ontario Trust for Student Support ("OTSS"). Under these programs, the government matches funds raised by the University. The purpose of these programs is to assist academically qualified individuals who, for financial reasons, would not otherwise be able to attend University. On January 5, 2012, the Minister of Education announced that the OTSS would be discontinued as of the end of Fiscal 2012 fundraising year. Consequently, there is no longer any matching for cash donations from the prior year or current year's pledges.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

16. ENDOWMENTS (continued)

The balance of endowments consists of the following:

	<u>2016</u>	<u>2015</u>
OSOTF (Note 17)	\$ 1,589,684	\$ 1,574,547
OTSS (Note 18)	12,874,662	12,352,945
Other	3,707,314	2,299,014
	<u>\$ 18,171,660</u>	<u>\$ 16,226,506</u>

17. ONTARIO STUDENT OPPORTUNITY TRUST FUNDS

The restricted endowment fund includes funds granted by the Government of Ontario for OSOTF. The investment revenue earned on those funds must be used for financial aid of Ontario students.

The University has recorded the following amounts under the program:

Schedule of Changes in Endowment Fund Balance

	<u>2016</u>	<u>2015</u>
Endowment fund balance, beginning of year	\$ 1,574,547	\$ 1,548,982
Preservation of capital	15,137	25,565
Endowment fund balance, end of year	<u>\$ 1,589,684</u>	<u>\$ 1,574,547</u>

Schedule of Changes in Expendable Funds Available for Awards

	<u>2016</u>	<u>2015</u>
Expendable balance, beginning of year	\$ 253,676	\$ 194,075
Realized investment income	101,525	100,166
Less: Preservation of capital	(15,137)	(25,565)
Bursaries awarded	(40,000)	(15,000)
Expendable balance, end of year	<u>\$ 300,064</u>	<u>\$ 253,676</u>

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

18. ONTARIO TRUST FOR STUDENT SUPPORT

The restricted endowment fund includes funds generated by the Government of Ontario for OTSS. The investment revenue earned on those funds must be used for financial aid of Ontario students.

The University has recorded the following amounts under the program:

	<u>2016</u>	<u>2015</u>
Unmatched cash donations	\$ 387,429	\$ 188,643
Total cash donations	<u>\$ 387,429</u>	<u>\$ 188,643</u>

Schedule of Changes in Endowment Fund Balance

	<u>2016</u>	<u>2015</u>
Endowment balance, beginning of year	\$ 12,352,945	\$ 11,895,778
Eligible cash donations	387,429	188,643
Preservation of capital	134,288	268,524
Endowment fund balance, end of year	<u>\$ 12,874,662</u>	<u>\$ 12,352,945</u>

**Schedule of Changes in Expendable Funds
Available for Awards**

	<u>2016</u>	<u>2015</u>
Expendable balance, beginning of year	\$ 827,652	\$ 517,326
Realized investment income	910,943	899,110
Less: Preservation of capital	(134,288)	(268,524)
Bursaries awarded	(316,840)	(320,260)
Expendable balance, end of year	<u>\$ 1,287,467</u>	<u>\$ 827,652</u>

In the current year, 226 bursaries valued at \$366,840 were disbursed from the total endowed funds (2015 – 224 bursaries valued at \$344,260).

19. PENSION PLAN

All employees of the University are members of a defined contribution pension plan. Employees must contribute a minimum of 3% of their earnings to this plan with the option at the employee's discretion, to increase these contributions to a total of 6% of contributory earnings. The University must contribute a minimum of 6% and may contribute a maximum of 8% of contributory earnings to this plan, depending on the employee's election of 2%. Contributions made by the University to the pension plan during the year were \$4,676,889 (2015 - \$4,337,461).

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2016

20. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

(a) Contingencies

The University has been named as the defendant in certain legal actions, in which damages have been sought. The outcome of these actions is not determinable as at March 31, 2016 and, accordingly, no provision has been made in these consolidated financial statements for any liability which may result.

(b) Contractual Commitments

Future minimum lease payments, exclusive of taxes and operating costs, for premises and equipment under operating leases at March 31, 2016 are as follows:

2017	\$	1,928,749
2018		1,715,992
2019		1,591,975
2020		1,591,975
2021		1,597,718
Thereafter		8,235,212
	\$	<u>16,661,621</u>

21. COMPARATIVE INFORMATION

Certain comparative information have been reclassified to conform to the presentation adopted in the current year.