

Consolidated Financial Statements of

**UNIVERSITY OF ONTARIO
INSTITUTE OF TECHNOLOGY**

March 31, 2011

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Financial Statements
Table of Contents
March 31, 2011

	<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	5-20



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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, 2011, 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 generally accepted accounting principles, 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.

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, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

June 16, 2011
Toronto, Canada

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Financial Position
March 31, 2011

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT		
Cash (Note 5)	\$ -	\$ 2,069,790
Grant receivable	12,732,986	6,742,602
Other accounts receivable	8,228,119	7,075,758
Inventories	292,584	293,470
Prepaid expenses and deposits	491,379	537,736
	21,745,068	16,719,356
INVESTMENTS (Note 2)	13,320,203	11,227,413
CAPITAL ASSETS (Note 3)	437,538,308	348,928,803
OTHER ASSETS (Note 4)	6,831,815	6,831,815
TOTAL ASSETS	\$ 479,435,394	\$ 383,707,387
LIABILITIES		
CURRENT		
Bank indebtedness (Note 5)	\$ 6,399,001	\$ -
Accounts payable and accrued liabilities	34,535,302	27,599,096
Deferred revenue (Note 6)	12,407,991	11,323,793
Current portion of other long term debt (Note 7)	232,292	5,978,047
Current portion of obligations under capital lease (Note 8)	186,281	-
Current portion of long term debenture debt (Note 9)	3,738,314	3,511,742
	57,499,181	48,412,678
OTHER LONG TERM DEBT (Note 7)	1,663,251	1,383,340
LONG TERM OBLIGATIONS UNDER CAPITAL LEASE (Note 8)	37,699,849	-
LONG TERM DEBENTURE DEBT (Note 9)	198,137,279	201,875,594
DEFERRED CAPITAL CONTRIBUTIONS (Note 10)	182,866,270	147,035,946
	477,865,830	398,707,558
NET ASSETS / (DEFICIT)		
UNRESTRICTED		
ENDOWMENTS (Note 14)	(28,522,732)	(21,695,267)
INVESTED IN CAPITAL ASSETS (Note 12)	12,482,659	11,229,931
INTERNALLY RESTRICTED (Note 13)	13,014,772	(10,855,866)
	4,594,865	6,321,031
Contingencies and Contractual Commitments (Note 19)	1,569,564	(15,000,171)
Guarantees (Note 20)		
TOTAL LIABILITIES AND NET ASSETS	\$ 479,435,394	\$ 383,707,387

See accompanying notes to the consolidated financial statements

APPROVED ON BEHALF OF THE BOARD OF GOVERNORS

Director

President

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Operations
For the year ended March 31, 2011

	<u>2011</u>	<u>2010</u>
REVENUE		
Grants	\$ 78,303,278	\$ 53,532,470
Donations	3,196,361	3,976,889
Student tuition fees	40,208,041	32,810,949
Student ancillary fees	15,151,417	16,742,539
Other income	6,509,096	4,885,812
Amortization of deferred capital contributions	2,924,104	2,591,571
Interest revenue	75,014	54,954
Unrealized gain on investments	913,111	-
	<u>147,280,422</u>	<u>114,595,184</u>
EXPENSES		
Salaries and benefits	57,948,567	48,772,914
Supplies and expenses	29,140,204	24,554,006
Purchased Services	13,156,780	13,712,572
Professional fees	795,141	776,653
Interest expense	14,852,827	14,291,396
Amortization of capital assets	16,197,377	14,536,429
Gain/Loss on disposal of assets	(241,181)	(346,750)
Unrealized loss on investments	-	26,450
	<u>131,849,715</u>	<u>116,323,670</u>
Excess / (deficiency) of revenue over expenses	\$ 15,430,707	\$ (1,728,486)

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, 2011

	<u>Unrestricted</u>	<u>Invested in Capital Assets (Note 12)</u>	<u>Internally Restricted (Note 13)</u>	<u>Endowments (Note 14)</u>	<u>Total 2011</u>	<u>Total 2010</u>
Balance - Beginning of Year	\$ (21,695,267)	\$ (10,855,866)	\$ 6,321,031	\$ 11,229,931	\$ (15,000,171)	\$ (14,664,798)
Excess / (deficiency) of Revenue over Expenses	28,703,980	(13,273,273)	-	-	15,430,707	(1,728,486)
Interfund Transfer	1,612,466	-	(1,726,166)	113,700	-	-
Investment in Capital Assets (Note 12)	(37,143,911)	37,143,911	-	-	-	-
Endowment Contributions (Note 14)	-	-	-	1,139,028	1,139,028	1,093,113
Donation of Land	-	-	-	-	-	300,000
Net changes during the year	(6,827,465)	23,870,638	(1,726,166)	1,252,728	16,569,735	(335,373)
Balance - End of Year	\$ (28,522,732)	\$ 13,014,772	\$ 4,594,865	\$ 12,482,659	\$ 1,569,564	\$ (15,000,171)

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, 2011

	<u>2011</u>	<u>2010</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Excess / (deficiency) of revenue over expenses	\$ 15,430,707	\$ (1,728,486)
Items not affecting cash:		
Amortization of capital assets	16,197,377	14,536,429
Amortization of deferred capital contributions	(2,924,104)	(2,591,571)
Gain on disposal of assets	(241,181)	(346,750)
Unrealized (gain)/loss on investments	(913,111)	26,450
	<u>27,549,688</u>	<u>9,896,072</u>
Working Capital		
Grant and other accounts receivable	(7,142,745)	3,688,608
Prepaid expenses and deposits	46,357	212,187
Inventories	886	(75,828)
Accounts payable and accrued liabilities	6,936,206	3,364,156
Deferred revenue	1,084,198	(1,360,815)
	<u>28,474,590</u>	<u>15,724,380</u>
INVESTING		
Purchase of capital assets	(66,817,690)	(59,901,126)
Proceeds on disposal of assets	241,181	346,750
Investments	(1,179,679)	(2,410,572)
Endowment contributions	1,139,028	1,093,113
Donation of Land	-	300,000
	<u>(66,617,160)</u>	<u>(60,571,835)</u>
FINANCING		
Proceeds from long term debt	513,250	8,626,394
Repayment of long term debt	(9,490,837)	(11,136,404)
Repayment of obligations under capital leases	(103,062)	-
Deferred capital contributions	38,754,428	32,189,290
	<u>29,673,779</u>	<u>29,679,280</u>
NET CASH OUTFLOW	(8,468,791)	(15,168,175)
CASH BALANCE, BEGINNING OF YEAR	2,069,790	17,237,965
(BANK INDEBTEDNESS) / CASH BALANCE, END OF YEAR	\$ (6,399,001)	\$ 2,069,790
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 14,491,302	\$ 13,832,942
Acquisition of assets under capital leases	\$ 37,989,192	\$ -
Donation of Building	\$ -	\$ 1,550,000

See accompanying notes to the consolidated financial statements

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Notes to the Consolidated Financial Statements

March 31, 2011

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.

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, 2011 are included in the Consolidated Financial Statements of the University.

The University issued Series A Debentures in the aggregate principal amount of \$220,000,000 in October 2004, the proceeds of which were used to finance the construction of University buildings and related infrastructure. As consistent with prior years, the University has a level of reliance on the Ministry of Training, Colleges and Universities to assist in meeting the obligations of the debentures.

1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

a) *Basis of presentation*

The Financial Statements of the University have been prepared by management in accordance with Canadian generally accepted accounting standards, published by the Canadian Institute of Chartered Accountants ("CICA"). These financial statements reflect the assets, liabilities, net assets, revenue and expenses of all the operations 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 period to which they relate. Grants earned but not received at the end of an accounting period are accrued. When a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

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

Student fees are recognized as revenue when courses are provided.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2011

1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

b) Revenue recognition (continued)

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 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.

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) Investments

The University has designated all of its investments as Held for Trading and as such they are recorded at fair value. Transaction costs related to the purchase and sale of investments are expensed in the year incurred. Changes in unrealized gains and losses are treated as an increase or decrease in the statement of operations.

The University does not enter into derivative financial instruments for trading or speculative purposes.

e) Other assets

The University has designated its long-term loan receivable, categorized as other assets, owing from Durham College of Applied Arts and Technology as Loans and Receivables and carries it at amortized cost.

f) Long-term debt

The University has designated its long-term debt as Other Liabilities and carries them at amortized cost.

g) Inventories

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

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2011

1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

h) 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	40 years
Building renovations/upgrades	10 years
Major equipment	10 years
Furniture and Fixtures	5 years
Computer equipment	3 years
Laptops	3 years
Leasehold improvements	over lease term
Capital leases	over economic life of asset

Capital assets acquired during the financial year are amortized at half of the applicable rate.

i) 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 asset.

j) Student organizations

These financial statements do not reflect the assets, liabilities, and results of operations of the various student organizations.

k) Sabbaticals and other leaves

The cost of sabbaticals and leaves are recorded when paid.

l) Use of estimates

The preparation of 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 financial statements, and the reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
 March 31, 2011

2. INVESTMENTS

	2011		2010	
	Cost	Fair	Cost	Fair
Equities	\$ 7,392,929	\$ 8,456,044	\$ 174,801	\$ 146,471
Fixed income	4,679,129	4,529,125	43,049	44,928
Money Market	335,034	335,034	11,036,013	11,036,014
	\$ 12,407,092	\$ 13,320,203	\$ 11,253,863	\$ 11,227,413

(a) Credit, interest rate and maturity risk:

The value of fixed income securities will 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 bonds bear interest rates ranging from 3% to 9.98% (2010 –5.15%) and have maturity dates ranging from April 13, 2011 to December 16, 2049 (2010 – June 6, 2013).

(b) Foreign currency risk:

The value of securities denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to the value of the currency in which the security is denominated.

(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.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2011

3. CAPITAL ASSETS

Capital assets consist of:

	2011					2010
	Cost		Balance, End of Year	Accumulated Amortization	Net Book Value	Net Book Value
	Balance, Beginning of Year	Additions /Transfers / Disposals				
Land	\$ 300,000	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ 300,000
Buildings	271,677,475	-	271,677,475	42,112,353	229,565,122	236,166,624
Building Renovations / Upgrades	11,075,765	3,003,052	14,078,817	4,188,743	9,890,074	8,144,752
Leasehold Improvements	-	2,652,875	2,652,875	49,638	2,603,237	-
Furniture and Fixtures	10,299,592	1,454,768	11,754,360	9,572,326	2,182,034	1,863,601
Laptops	13,221,946	3,925,754	17,147,700	11,862,737	5,284,963	4,861,024
Computer equipment	6,311,238	843,715	7,154,953	6,266,397	888,556	404,653
Major Equipment	15,539,738	3,024,789	18,564,527	7,474,263	11,090,264	9,770,688
Construction-in- progress	87,417,461	50,665,068	138,082,529	-	138,082,529	87,417,461
	\$ 415,843,215	\$ 65,570,021	\$ 481,413,236	\$ 81,526,457	\$ 399,886,779	\$ 348,928,803
Assets under Capital leases:						
Land	-	2,300,000	2,300,000	-	2,300,000	-
Buildings	-	35,689,192	35,689,192	337,663	35,351,529	-
Total	\$ 415,843,215	\$ 103,559,213	\$ 519,402,428	\$ 81,864,120	\$ 437,538,308	\$ 348,928,803

Included in Land and Buildings is a specific asset donated to the University in 2010 (Land \$300,000 and Building \$1,550,000).

Amortization on assets under capital leases totaled \$337,663 (2010 – nil).

Interest capitalized for the current year totaled \$137,014 (2010 - \$127,778).

Construction-In-Progress (“CIP”) relates to on-going construction at the University, of which \$98,077,231 pertains to the Automotive Center of Excellence (2010 - \$78,755,213) and \$40,039,593 (2010 - \$7,091,435) to the new Energy Research Center. These projects will be completed in the next fiscal year, and amortization will commence in June 2011 and September 2011, respectively.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
 March 31, 2011

4. OTHER ASSETS

On September 4, 2003, Durham College purchased the Windfields Farms property for \$7,831,815, consisting of \$1,000,000 of cash and \$6,831,815 of debt, for the purposes of expansion including development of the University. The ownership of the land currently resides with Durham College.

Throughout 2005-2007, the University provided yearly payments from the debenture proceeds to Durham College of Applied Arts and Technology for the mortgage payment on the Windfields Farms land. Included in other assets is \$6,831,815 (2010 - \$6,831,815) due from Durham College of Applied Arts and Technology relating to the 2005, 2006 and 2007 payments made by the University.

5. (BANK INDEBTEDNESS) / CASH BALANCES

	<u>2011</u>	<u>2010</u>
Bank of Montreal, credit facility (drawn)	\$ (8,297,587)	\$ 3,667,454
Bank of Montreal, cash balances	6,407,108	3,061,186
IBM, credit facility drawn	(5,000,000)	(5,000,000)
Royal Bank of Canada, cash balances	18,681	118,127
Harris Bank, cash balances	169,366	(161,249)
Other, balances	303,431	384,272
	<u>\$ (6,399,001)</u>	<u>\$ 2,069,790</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, 2011 the University utilized on a cash consolidated basis nil (2010 - nil) of the operating line of credit.

The University also has 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, 2011, the University utilized \$5,000,000 (2010 - \$5,000,000) of the operating line of credit.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2011

6. DEFERRED REVENUE

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

	<u>2011</u>	<u>2010</u>
Research	\$ 5,678,802	\$ 5,151,211
Donations	771,459	796,712
Tuition	4,372,385	4,125,042
Other	1,585,345	1,250,828
	<u>\$ 12,407,991</u>	<u>\$ 11,323,793</u>

7. OTHER LONG-TERM DEBT

The University has incurred debts in the amount of \$1,895,543 through third parties related to the financing of equipment and leasehold improvements in our downtown locations. Payment terms on the various loans are monthly or quarterly over a period of 3 to 30 years and at interest rates that range from 2.80% to 9.30%.

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

2012	\$ 232,292
2013	194,290
2014	208,166
2015	224,009
2016	238,996
Thereafter	797,790
	<u>1,895,543</u>
Less current portion	232,292
	<u>\$ 1,663,251</u>

The fair value of the long-term debt is \$1,948,122 (2010 - \$7,401,882). 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
March 31, 2011

8. 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:

2012	\$	2,925,709
2013		3,107,682
2014		3,107,682
2015		3,107,682
2016		3,285,287
Thereafter, through 2041		<u>92,137,905</u>
Total minimum lease payments		107,671,947
Less: amount representing interest at rates ranging from 6.50 to 9.30%		<u>69,785,817</u>
Present value of net minimum capital lease payments		37,886,130
Less: current portion of obligations		<u>186,281</u>
	<u>\$</u>	<u>37,699,849</u>

Interest of \$1,150,916 (2010 – nil) relating to capital lease obligations has been included in interest expense. The total amount of assets under capital leases is \$37,989,192 (2010 – nil) with related accumulated amortization of \$337,663 (2010 – nil).

The fair value of the capital leases was \$37,886,130 (2010 - nil). 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. 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 has been funded through special one-time grants from the Ministry of Training, Colleges and Universities, and by the University through donations and the operating line of credit. Total principal and interest paid on the debenture to March 31, 2011 is \$99,006,035 (2010 -

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2011

9. LONG-TERM DEBENTURE DEBT (continued)

\$82,505,029), \$74,987,712 funded by the Ministry of Training, Colleges and Universities and \$24,018,323 funded by the University.

As at March 31, 2011, \$217,431,043 (2010 - \$217,431,043) had been used to finance capital assets.

Total principal payments in each of the next five years and thereafter for debenture repayment are as follows:

2012	\$	3,738,314
2013		3,979,504
2014		4,236,255
2015		4,509,572
2016		4,800,522
Thereafter, through 2041		180,611,426
Total minimum lease payments		201,875,593
Less: current portion		3,738,314
	\$	<u>198,137,279</u>

The fair value of the long-term debenture debt is \$237,764,163 (2010 - \$237,058,341). 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.

10. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of grants and donations for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations at the same rate as amortization is recorded on the related capital assets.

The changes in the balance consist of the following:

	<u>2011</u>	<u>2010</u>
Balance - beginning of year	\$ 147,035,946	\$ 115,888,227
Contributions	38,754,428	32,189,290
Donation of building	-	1,550,000
Recognized as revenue during the year	<u>(2,924,104)</u>	<u>(2,591,571)</u>
Balance - end of year	<u>\$ 182,866,270</u>	<u>\$ 147,035,946</u>

In fiscal 2012, the capital grant related to a major capital project will be finalized and a grant holdback amounting to \$11,137,879 will be received by the University and deferred as a capital contribution.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2011

11. 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 are recorded as a single line item on the financial statements and net contributions from ancillary operations are recorded as revenues.

In the current fiscal year, the University signed a number of service level agreements with Durham College, covering specifically Purchasing, Health and Safety, and Campus Safety. Amounts are invoiced on a monthly basis by Durham College and these are recorded as part of purchased services on the financial statements.

The balance owing to Durham College, 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.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
 March 31, 2011

12. INVESTED IN CAPITAL ASSETS

	<u>2011</u>	<u>2010</u>
Capital assets - net book value	\$ 437,538,308	\$ 348,628,803
Donation of land	-	300,000
Less amount financed by deferred capital contributions	(182,866,270)	(147,035,946)
Less amount financed by long-term debt (Notes 7, 8 and 9)	(241,657,266)	(212,748,723)
Investment in capital assets	\$ 13,014,772	\$ (10,855,866)

	<u>2011</u>	<u>2010</u>
Net change in investment in capital assets:		
Purchases of capital assets	\$ 104,806,882	\$ 61,151,126
Donation of land	-	300,000
Amounts funded by:		
Deferred capital contributions	(38,754,428)	(33,739,290)
Long-term debt	(38,399,380)	(8,626,394)
Repayment of long-term debt	9,490,837	11,136,404
	\$ 37,143,911	\$ 30,221,846

	<u>2011</u>	<u>2010</u>
Amortization of deferred contributions related to capital assets	\$ 2,924,104	\$ 2,591,571
Less amortization of capital assets	(16,197,377)	(14,536,429)
	\$ (13,273,273)	\$ (11,944,858)

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
 March 31, 2011

13. INTERNALLY RESTRICTED NET ASSETS

Details of the internally restricted net assets are as follows:

	<u>2011</u>	<u>2010</u>
Balance is comprised of:		
Research related activities	\$ 3,564,865	\$ 3,187,031
Capital related activities	1,030,000	3,134,000
Balance - end of year	<u>\$ 4,594,865</u>	<u>\$ 6,321,031</u>

14. 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 statement of operations when the donors' conditions have been met and the related expenses are recognized.

Restricted cash and cash equivalents related to endowments at March 31, 2011 is NIL (2010 - NIL).

Endowment funds include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund ("OSOTF") and the Ontario Trust for Student Success ("OTSS"). Under this program, 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.

The balance of endowments consists of the following:

	<u>2011</u>	<u>2010</u>
OSOTF (Note 15)	\$ 1,488,053	\$ 1,375,780
OTSS (Note 16)	10,439,006	9,215,072
Other	555,600	639,079
	<u>\$ 12,482,659</u>	<u>\$ 11,229,931</u>

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2011

15. 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:

	<u>2011</u>	<u>2010</u>
Endowment fund balance at beginning of year	\$ 1,375,780	\$ 1,375,780
Preservation of capital	112,273	-
Endowment fund balance at end of year	<u>\$ 1,488,053</u>	<u>\$ 1,375,780</u>

Schedule of Changes in Expendable Funds Available for Awards

	<u>2011</u>	<u>2010</u>
Expendable balance, beginning of year	\$ 199,759	\$ 185,117
Realized investment income	50,907	14,642
Less: Preservation of capital	(112,273)	-
Bursaries awarded	-	-
Expendable balance, end of year	<u>\$ 138,393</u>	<u>\$ 199,759</u>
Number of bursaries awarded	<u>-</u>	<u>-</u>

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
 March 31, 2011

16. ONTARIO TRUST FOR STUDENT SUCCESS

The restricted endowment fund includes funds granted 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>2011</u>	<u>2010</u>
Cash donations matched	\$ 255,338	\$ 697,124
Transferred from OSOTF	-	-
Total cash donations	\$ 255,338	\$ 697,124

Schedule of Changes in Endowment Fund Balance

	<u>2011</u>	<u>2010</u>
Endowment balance, beginning of year	\$ 9,215,072	\$ 8,050,949
Eligible cash donations	255,338	697,124
Matching funds received/receivable from MTCU	422,868	466,999
Preservation of capital	545,728	-
Endowment fund balance at end of year	\$ 10,439,006	\$ 9,215,072

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

	<u>2011</u>	<u>2010</u>
Expendable balance, beginning of year	\$ 183,471	\$ 145,199
Realized investment income	362,257	88,272
Less: Preservation of capital	(545,728)	-
Bursaries awarded	-	(50,000)
Expendable balance, end of year	\$ -	\$ 183,471
Number of bursaries awarded	<u>-</u>	<u>49</u>

In the current year, 166 bursaries valued at \$268,700 (2010 – 52 bursaries valued at \$98,800) were funded from operations.

17. 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 \$2,640,681 (2010 - \$2,166,863).

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2011

18. FINANCIAL INSTRUMENTS

Fair value

The fair value of financial assets and liabilities, except for long-term debenture debt, obligations under capital leases, and other long term debt, approximates their carrying value due to their short-term nature. Investments are recorded at fair value as described in Note 2.

Fair value of long-term debenture debt is as disclosed in Note 9, obligations under capital leases in Note 8 and other long-term debt in Note 7.

19. 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, 2011 and accordingly, no provision has been made in these financial statements for any liability which may result.

(b) Contractual Commitments:

Premises and equipment

Future minimum lease payments, exclusive of taxes and operating costs, for premises and equipment under operating leases at March 31, 2011 are as follows:

2012	\$	2,535,769
2013		2,278,352
2014		1,773,978
2015		1,801,830
2016		1,841,218
Thereafter		13,701,943
	\$	<u>23,933,090</u>

20. GUARANTEES

The University's primary guarantees are as follows:

- (a) Indemnity has been provided to all governors and/or officers of the University for various items including, but not limited to, all costs to settle suits or actions due to association with the University, subject to certain restrictions. The University has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the University. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) In the normal course of business, the University has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the University to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the University from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the University has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued with respect to these agreements.

21. COMPARATIVE FIGURES

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