

*Consolidated Financial Statements of*

**UNIVERSITY OF ONTARIO  
INSTITUTE OF TECHNOLOGY**

*March 31, 2012*

**UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY**  
**Consolidated Financial Statements**  
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**March 31, 2012**

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**KPMG LLP**  
**Chartered Accountants**  
Yonge Corporate Centre  
4100 Yonge Street Suite 200  
Toronto ON M2P 2H3  
Canada

Telephone (416) 228-7000  
Fax (416) 228-7123  
Internet www.kpmg.ca

## 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, 2012, 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, 2012, 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 20, 2012  
Toronto, Canada

**UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY**  
**Consolidated Statement of Financial Position**  
**March 31, 2012**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
CURRENT		
Cash (Note 5)	\$ 10,415,252	-
Grant receivable	7,047,919	12,732,986
Other accounts receivable	7,052,778	8,228,119
Inventories	175,446	292,584
Prepaid expenses and deposits	701,631	491,379
	<b>25,393,026</b>	<b>21,745,068</b>
INVESTMENTS (Note 2)	42,257,715	13,320,203
CAPITAL ASSETS (Note 3)	437,223,475	437,538,308
OTHER ASSETS (Note 4)	6,831,815	6,831,815
<b>TOTAL ASSETS</b>	<b>\$ 511,706,031</b>	<b>\$ 479,435,394</b>
<b>LIABILITIES</b>		
CURRENT		
Bank indebtedness (Note 5)	\$ -	\$ 6,399,001
Accounts payable and accrued liabilities	24,566,247	33,820,172
Deferred revenue (Note 6)	16,040,612	12,407,991
Current portion of other long-term debt (Note 7)	5,960,930	232,292
Current portion of obligations under capital leases (Note 8)	198,756	186,281
Current portion of long-term debenture debt (Note 9)	3,979,504	3,738,314
	<b>50,746,049</b>	<b>56,784,051</b>
OTHER LONG-TERM DEBT (Note 7)	27,581,266	1,663,251
LONG TERM OBLIGATIONS UNDER CAPITAL LEASES (Note 8)	38,558,413	38,414,979
LONG-TERM DEBENTURE DEBT (Note 9)	194,157,775	198,137,279
DEFERRED CAPITAL CONTRIBUTIONS (Note 10)	194,698,151	182,866,270
	<b>505,741,654</b>	<b>477,865,830</b>
<b>Net Assets / (deficit)</b>		
UNRESTRICTED	(16,035,074)	(28,522,732)
ENDOWMENTS (Note 14)	14,130,162	12,482,659
INVESTED IN CAPITAL ASSETS (Note 12)	1,440,589	13,014,772
INTERNALLY RESTRICTED (Note 13)	6,428,700	4,594,865
	<b>5,964,377</b>	<b>1,569,564</b>
Contingencies and Contractual Commitments (Note 19)		
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 511,706,031</b>	<b>\$ 479,435,394</b>

*See accompanying notes to the consolidated financial statements*

**APPROVED ON BEHALF OF THE BOARD OF GOVERNORS**

\_\_\_\_\_  
**Chair**

\_\_\_\_\_  
**President**

**UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY**  
**Consolidated Statement of Operations**  
**For the year ended March 31, 2012**

	<u>2012</u>	<u>2011</u>
<b>REVENUE</b>		
Grants	\$ 74,094,637	\$ 78,303,278
Donations	2,390,409	3,196,361
Student tuition fees	47,339,897	40,208,041
Student ancillary fees	13,880,730	15,151,417
Other income	6,347,978	6,509,096
Amortization of deferred capital contributions	6,231,748	2,924,104
Interest revenue	73,247	75,014
Unrealized gain on investments	189,228	913,111
	<b>150,547,874</b>	<b>147,280,422</b>
<b>EXPENSES</b>		
Salaries and benefits	64,193,728	57,948,567
Supplies and expenses	35,426,262	29,140,204
Purchased Services	10,990,410	13,156,780
Professional fees	815,319	795,141
Interest expense	16,112,787	14,852,827
Amortization of capital assets	20,608,998	16,197,377
Gain on disposal of assets	(346,940)	(241,181)
	<b>147,800,564</b>	<b>131,849,715</b>
<b>Excess of revenue over expenses</b>	<b>\$ 2,747,310</b>	<b>\$ 15,430,707</b>

*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, 2012

	<u>Unrestricted</u>	<u>Invested in Capital Assets (Note 12)</u>	<u>Internally Restricted (Note 13)</u>	<u>Endowments (Note 14)</u>	<u>Total 2012</u>	<u>Total 2011</u>
<b>Balance - Beginning of Year</b>	\$ (28,522,732)	\$ 13,014,772	\$ 4,594,865	\$ 12,482,659	\$ 1,569,564	\$ (15,000,171)
Excess / (deficiency)						
Revenue over Expenses	17,124,560	(14,377,250)	-	-	2,747,310	15,430,707
Interfund Transfer	(1,833,835)	-	1,833,835			-
Investment in Capital Assets (Note 12)	(2,803,067)	2,803,067			-	-
Endowment Contributions (Note 14)	-		-	1,647,503	1,647,503	1,139,028
<b>Net changes during the year</b>	<b>12,487,658</b>	<b>(11,574,183)</b>	<b>1,833,835</b>	<b>1,647,503</b>	<b>4,394,813</b>	<b>16,569,735</b>
<b>Balance - End of Year</b>	<b>\$ (16,035,074)</b>	<b>\$ 1,440,589</b>	<b>\$ 6,428,700</b>	<b>\$ 14,130,162</b>	<b>\$ 5,964,377</b>	<b>\$ 1,569,564</b>

*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, 2012

	<u>2012</u>	<u>2011</u>
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>OPERATING</b>		
Excess of revenue over expenses	\$ 2,747,310	\$ 15,430,707
Items not affecting cash:		
Amortization of capital assets	20,608,998	16,197,377
Amortization of deferred capital contributions	(6,231,748)	(2,924,104)
Net gain on disposal of assets	(346,940)	(241,181)
Unrealized gain on investments	(189,228)	(913,111)
	<u>16,588,392</u>	<u>27,549,688</u>
Working Capital		
Grant and other accounts receivable	6,860,408	(7,142,745)
Prepaid expenses and deposits	(210,252)	46,357
Inventories	117,138	886
Accounts payable and accrued liabilities	(9,253,925)	6,936,206
Deferred revenue	3,632,621	1,084,198
	<u>17,734,382</u>	<u>28,474,590</u>
<b>INVESTING</b>		
Purchase of capital assets	(20,298,279)	(66,817,690)
Proceeds on disposal of assets	351,052	241,181
Investments	(28,748,284)	(1,179,679)
Endowment contributions	1,647,503	1,139,028
	<u>(47,048,008)</u>	<u>(66,617,160)</u>
<b>FINANCING</b>		
Proceeds from long-term debt	31,878,947	513,250
Repayment of long-term debt	(3,970,606)	(9,490,837)
Repayment of obligations under capital leases	155,909	(103,062)
Deferred capital contributions	18,063,629	38,754,428
	<u>46,127,879</u>	<u>29,673,779</u>
<b>NET CASH INFLOW / (OUTFLOW)</b>	<b>16,814,253</b>	<b>(8,468,791)</b>
<b>CASH BALANCE, BEGINNING OF YEAR</b>	<b>(6,399,001)</b>	<b>2,069,790</b>
<b>(BANK INDEBTEDNESS) / CASH BALANCE, END OF YEAR</b>	<b>\$ 10,415,252</b>	<b>\$ (6,399,001)</b>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Interest paid	\$ 16,282,989	\$ 14,491,302
Acquisition of assets under capital leases	\$ -	\$ 37,989,192

See accompanying notes to the consolidated financial statements

# UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

## Notes to the Consolidated Financial Statements

March 31, 2012

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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, 2012 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. On August 12, 2011, an agreement was signed between the University and the Ministry of Training, Colleges and Universities 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.

### 1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

#### a) *Basis of presentation*

The Consolidated Financial Statements of the University have been prepared by management in accordance with Canadian generally accepted accounting principles, published by the Canadian Institute of Chartered Accountants (“CICA”). These consolidated 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, 2012**

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**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 ("Durham College") for the purchase of certain lands and premises from Windfield Farms, as Loans and Receivables and carries it at amortized cost. See Note 4.

*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, 2012

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### 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	20 - 40 years
Building renovations/upgrades	10 years
Major equipment	10 years
Furniture and Fixtures	5 years
Computer equipment	3 years
Vehicles	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. Construction-in-progress represents assets not yet available for use, therefore amortization commences when the project is complete.

#### *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 assets.

#### *j) Student organizations*

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

#### *k) 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 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, 2012**

**2. INVESTMENTS**

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Equities	\$ 8,240,322	\$ 8,373,233	\$ 7,392,929	\$ 8,456,044
Fixed income	4,895,450	4,951,768	4,679,129	4,529,125
Money Market	795,436	795,435	335,034	335,034
Held in Trust	28,137,279	28,137,279	-	-
	<b>\$ 42,068,487</b>	<b>\$ 42,257,715</b>	<b>\$ 12,407,092</b>	<b>\$ 13,320,203</b>

Investments held in trust relate to the proceeds of a loan of \$28,137,279 that the University received from the Ontario Financing Authority in February 2012, and which the University then applied for the purpose of paying BNY Trust Company of Canada. 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 bonds bear interest rates ranging from 1.1% to 7.4% (2011 – 3% to 9.98%) and have maturity dates ranging from April 30, 2012 to December 16, 2049 (2011 – April 13, 2011 to December 16, 2049).

*(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. The University invested in equity and fixed income investments that are traded in active quote market.

**UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2012**

**3. CAPITAL ASSETS**

Capital assets consist of:

	2012					2011
	Balance, Beginning of Year	Cost Additions /Transfers / Disposals	Balance, End of Year	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 300,000	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ 300,000
Buildings	271,677,475	116,395,916	388,073,391	50,448,317	337,625,074	229,565,122
Building Renovations / Upgrades	14,078,817	1,185,258	15,264,075	5,655,887	9,608,188	9,890,074
Leasehold Improvements	2,652,875	-	2,652,875	148,914	2,503,961	2,603,237
Furniture and Fixtures	11,754,360	699,392	12,453,752	10,478,193	1,975,559	2,182,034
Laptops	17,147,700	(524,385)	16,623,315	12,583,649	4,039,666	5,284,963
Computer equipment	7,154,953	1,084,516	8,239,469	6,852,028	1,387,441	888,556
Vehicles	-	75,440	75,440	12,573	62,867	-
Major Equipment	18,564,527	35,274,427	53,838,954	11,094,437	42,744,517	11,090,264
Construction-in- progress	138,082,529	(138,082,529)	-	-	-	138,082,529
	<b>\$ 481,413,236</b>	<b>\$ 16,108,035</b>	<b>\$ 497,521,271</b>	<b>\$ 97,273,998</b>	<b>\$ 400,247,273</b>	<b>\$ 399,886,779</b>
Assets under Capital leases:						
Land	2,300,000	-	2,300,000	-	2,300,000	2,300,000
Buildings	35,689,192	-	35,689,192	1,012,990	34,676,202	35,351,529
Total	<b>\$ 519,402,428</b>	<b>\$ 16,108,035</b>	<b>\$ 535,510,463</b>	<b>\$ 98,286,988</b>	<b>\$ 437,223,475</b>	<b>\$ 437,538,308</b>

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

Amortization on assets under capital leases totaled \$675,327 (2011 – 337,663).

Interest capitalized for the current year totaled \$165,208 (2011 - \$137,014).

Construction on the Automotive Center of Excellence and the Energy Research Center were completed in the current year, and all construction-in-progress relating to these two buildings are capitalized and amortized accordingly.

# UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

## Notes to the Consolidated Financial Statements

March 31, 2012

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### 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 for the mortgage payment on the Windfields Farms land. Included in other assets is \$6,831,815 (2011 - \$6,831,815) due from Durham College relating to the 2005, 2006 and 2007 payments made by the University.

On March 28, 2012, the University signed with Durham College an agreement to continue the process of completing the transfer of the Windfields Farm lands to the University, including an agreement that a final cash transfer of \$1,000,000 to Durham College will take place on April 1, 2013. At that time, the amount due from Durham College will be extinguished. The transfer is subject to terms that are being negotiated.

The fair value of the receivable approximates carrying value due to the short maturity of the transfer of the asset to the University.

### 5. CASH BALANCES / (BANK INDEBTEDNESS)

	<u>2012</u>	<u>2011</u>
Bank of Montreal, credit facility (drawn)	\$ 9,090,214	\$ (8,297,587)
Bank of Montreal, cash balances	6,044,905	6,407,108
IBM, credit facility drawn	(5,000,000)	(5,000,000)
Royal Bank of Canada, cash balances	14,270	18,681
Harris Bank, cash balances	(142,920)	169,366
Other, balances	408,783	303,431
	<u>\$ 10,415,252</u>	<u>\$ (6,399,001)</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, 2012, the University utilized on a cash consolidated basis nil (2011 - 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, 2012, the University utilized \$5,000,000 (2011 - \$5,000,000) of the operating line of credit.

# UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

## Notes to the Consolidated Financial Statements

March 31, 2012

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### 6. DEFERRED REVENUE

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

	<u>2012</u>	<u>2011</u>
Research	\$ 6,823,501	\$ 5,678,802
Donations	1,702,289	771,459
Tuition	5,991,365	4,372,385
Other	1,523,457	1,585,345
	<u>\$ 16,040,612</u>	<u>\$ 12,407,991</u>

### 7. OTHER LONG-TERM DEBT

The University has incurred debts in the amount of \$33,542,196 through third parties related to the financing of the debenture (offset by amounts held in trust, as disclosed in Note 2 and Note 9), laptops, lab equipment and leasehold improvements in our downtown locations. Other long-term debt comprised the following:

	<u>2012</u>	<u>2011</u>
Unsecured loan, bearing fixed interest rate at 2.77% per annum, repayable semi-annually, with final instalment due October 15, 2017	\$ 28,137,279	\$ -
Unsecured loan, bearing fixed interest rate at 1.66% per annum, repayable semi-annually, with final instalment due August 16, 2013	2,493,811	-
Other unsecured loans, payable monthly / quarterly over a period of 4 to 30 years and at interest rates that range from 0% to 9.3%	2,911,106	1,895,543
	<u>\$ 33,542,196</u>	<u>\$ 1,895,543</u>

**UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2012**

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**7. OTHER LONG-TERM DEBT (continued)**

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

2013	\$	5,960,930
2014		5,414,343
2015		4,865,047
2016		5,162,921
2017		5,487,810
Thereafter, through 2041		6,651,145
		<u>33,542,196</u>
Less: current portion		5,960,930
	\$	<u>27,581,266</u>

The fair value of the other long-term debt is \$33,691,074 (2011 - \$1,948,122). 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.

**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:

2013	\$	3,107,682
2014		3,107,682
2015		3,107,682
2016		3,285,287
2017		3,664,911
Thereafter, through 2041		88,472,989
Total minimum lease payments		<u>104,746,233</u>
Less: amount representing interest at rates ranging from 6.50 to 9.30%		65,989,064
Present value of net minimum capital lease payments		38,757,169
Less: current portion of obligations		198,756
	\$	<u>38,558,413</u>

**8. OBLIGATIONS UNDER CAPITAL LEASES (continued)**

# UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

## Notes to the Consolidated Financial Statements

March 31, 2012

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Interest of \$3,081,619 (2011 - \$1,150,916) relating to capital lease obligations has been included in interest expense. The total amount of assets under capital leases is \$37,989,192 (2011 - \$37,989,192) with related accumulated amortization of \$1,012,990 (2011 - \$337,663).

The fair value of the capital leases was \$42,869,198 (2011 - \$37,886,130). 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, 2012 is \$115,507,041 (2011 - \$99,006,035), \$88,487,712 funded by the Ministry of Training, Colleges and Universities and \$27,019,329 funded by the University.

The University has deposited a minimum of \$50,000,000, less the aggregate principal repaid to-date of \$21,862,721. The funds amounting to \$28,137,279 are held in trust on behalf of the University.

As at March 31, 2012, \$217,431,043 (2011 - \$217,431,043) had been used to finance capital assets.

2013	\$	3,979,504
2014		4,236,255
2015		4,509,572
2016		4,800,522
2017		5,110,244
Thereafter, through 2034		175,501,182
Total minimum lease payments		198,137,279
Less: current portion		3,979,504
	\$	194,157,775

The fair value of the long-term debenture debt is \$285,997,257 (2011 - \$237,764,163). 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



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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 consolidated 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>2012</u>	<u>2011</u>
Balance - beginning of year	\$ 182,866,270	\$ 147,035,946
Contributions	18,063,629	38,754,428
Recognized as revenue during the year	(6,231,748)	(2,924,104)
Balance - end of year	<u>\$ 194,698,151</u>	<u>\$ 182,866,270</u>

### 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 consolidated financial statements and net contributions from ancillary operations are recorded as revenues.

In fiscal year 2011, 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 consolidated 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.

On March 21, 2012, a "Memorandum of Agreement in Principle" between the University and Durham College was signed by the two institutions, whereby both agree to continue the shared service relationship in the areas of Information Technology, Facilities Management, and Services & Ancillaries.

### 12. INVESTED IN CAPITAL ASSETS

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	<u>2012</u>	<u>2011</u>
Capital assets - net book value	\$ 437,223,475	\$ 437,538,308
Less amount financed by deferred capital contributions	(194,698,151)	(182,866,270)
Less amount financed by long-term debt (Notes 7, 8 and 9)	(241,084,735)	(241,657,266)
<b>Investment in capital assets</b>	<b>\$ 1,440,589</b>	<b>\$ 13,014,772</b>

	<u>2012</u>	<u>2011</u>
Net change in investment in capital assets:		
Purchases of capital assets	\$ 20,298,279	\$ 104,806,882
Amounts funded by:		
Deferred capital contributions	(18,063,629)	(38,754,428)
Long-term debt	(3,398,076)	(38,399,380)
Repayment of long-term debt	3,966,493	9,490,837
	<b>\$ 2,803,067</b>	<b>\$ 37,143,911</b>

	<u>2012</u>	<u>2011</u>
Amortization of deferred contributions related to capital assets	\$ 6,231,748	\$ 2,924,104
Less amortization of capital assets	(20,608,998)	(16,197,377)
	<b>\$ (14,377,250)</b>	<b>\$ (13,273,273)</b>

### 13. INTERNALLY RESTRICTED NET ASSETS

Details of the internally restricted net assets are as follows:

Balance comprised the following:		
Research related activities	\$ 3,527,192	\$ 3,564,865
Capital related activities	901,508	1,030,000
Working capital	2,000,000	-
Balance - end of year	<b>\$ 6,428,700</b>	<b>\$ 4,594,865</b>

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### 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 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 Success ("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.

The balance of endowments consists of the following:

	<u>2012</u>	<u>2011</u>
OSOTF (Note 15)	\$ 1,519,877	\$ 1,488,053
OTSS (Note 16)	11,371,767	10,439,006
Other	1,238,518	555,600
	<u>\$ 14,130,162</u>	<u>\$ 12,482,659</u>

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**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>2012</u>	<u>2011</u>
Endowment fund balance at beginning of year	\$ 1,488,053	\$ 1,375,780
Preservation of capital	31,824	112,273
Endowment fund balance at end of year	<u>\$ 1,519,877</u>	<u>\$ 1,488,053</u>

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

	<u>2012</u>	<u>2011</u>
Expendable balance, beginning of year	\$ 138,393	\$ 199,759
Realized investment income	61,083	50,907
Less: Preservation of capital	(31,824)	(112,273)
Bursaries awarded	-	-
Expendable balance, end of year	<u>\$ 167,652</u>	<u>\$ 138,393</u>
Number of bursaries awarded	<u>-</u>	<u>-</u>

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**16. ONTARIO TRUST FOR STUDENT SUCCESS**

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>2012</u>	<u>2011</u>
Cash donations matched	\$ 155,448	\$ 89,220
Transferred from OSOTF	188,258	166,118
<b>Total cash donations</b>	<b>\$ 343,706</b>	<b>\$ 255,338</b>

**Schedule of Changes in Endowment Fund Balance**

	<u>2012</u>	<u>2011</u>
Endowment balance, beginning of year	\$ 10,439,006	\$ 9,215,072
Eligible cash donations	343,706	255,338
Matching funds received/receivable from MTCU	321,687	422,868
Preservation of capital	267,368	545,728
<b>Endowment fund balance at end of year</b>	<b>\$ 11,371,767</b>	<b>\$ 10,439,006</b>

**Schedule of Changes in Expendable Funds**

<b>Available for Awards</b>	<u>2012</u>	<u>2011</u>
Expendable balance, beginning of year	\$ -	\$ 183,471
Realized investment income	499,834	362,257
Less: Preservation of capital	(267,368)	(545,728)
Bursaries awarded	-	-
<b>Expendable balance, end of year</b>	<b>\$ 232,466</b>	<b>\$ -</b>

In the current year, 166 bursaries valued at \$251,400 were disbursed from operations (2011 – 166 bursaries valued at \$268,700 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 \$2,935,039 (2011 - \$2,640,681).

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**18. FINANCIAL INSTRUMENTS**

*Fair value*

The fair value of financial assets and liabilities, except for investments, other assets, long-term debenture debt, obligations under capital leases, and other long term debt, approximates their carrying value due to their short-term nature.

The fair value of investments are disclosed in Note 2, and other assets in Note 4.

The 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, 2012 and accordingly, no provision has been made in these consolidated 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, 2012 are as follows:

2013	\$	3,022,352
2014		1,790,530
2015		1,801,830
2016		1,841,218
2017		1,880,191
Thereafter		11,796,753
	\$	<u>22,132,874</u>

**20. COMPARATIVE FIGURES**

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