

Consolidated Financial Statements of

**UNIVERSITY OF ONTARIO
INSTITUTE OF TECHNOLOGY**

For the year ended March 31, 2018

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Financial Statements
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For the year ended March 31, 2018

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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, 2018, 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.



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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, 2018, 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 27, 2018
Vaughan, Canada

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Financial Position
As at March 31, 2018

	<u>Mar 31, 2018</u>	<u>Mar 31, 2017</u>
ASSETS		
CURRENT		
Cash and cash equivalents (Note 2)	\$ 35,569,460	\$ 56,795,539
Short-term investments (Note 3)	16,625,200	-
Grant receivable	7,547,294	6,152,287
Other accounts receivable (allowance for doubtful accounts - \$364,977; 2017 - \$290,377)	8,157,805	7,624,344
Prepaid expenses and deposits	1,619,047	1,689,870
Inventories	241,633	172,514
	69,760,439	72,434,554
INVESTMENTS (Note 4)	25,681,555	29,632,811
CAPITAL ASSETS (Note 5)	399,587,698	399,939,626
TOTAL ASSETS	\$ 495,029,692	\$ 502,006,991
LIABILITIES		
CURRENT AND LONG-TERM LIABILITIES		
Accounts payable and accrued liabilities (Notes 6 and 13)	\$ 25,821,233	\$ 34,633,948
Deferred revenue (Note 7)	19,579,647	20,878,720
Current portion of other long-term debt (Note 8)	132,672	5,707,308
Current portion of obligations under capital leases (Note 9)	571,000	505,413
Current portion of long-term debenture debt (Note 10)	5,790,925	5,439,949
	51,895,477	67,165,338
OTHER LONG-TERM DEBT (Note 8)	550,064	682,735
LONG-TERM OBLIGATIONS UNDER CAPITAL LEASES (Note 9)	37,596,349	38,167,349
LONG-TERM DEBENTURE DEBT (Note 10)	164,270,307	170,061,232
DEFERRED CAPITAL CONTRIBUTIONS (Note 11)	162,548,903	164,581,824
	416,861,100	440,658,478
NET ASSETS		
UNRESTRICTED	(1,296,442)	(10,744,227)
INVESTED IN CAPITAL ASSETS (Note 14)	28,613,331	20,902,313
INTERNALLY RESTRICTED (Note 15)	29,811,275	31,573,707
ENDOWMENTS (Note 16)	21,040,428	19,616,720
	78,168,592	61,348,513
Contingencies and Contractual Commitments (Note 18)		
TOTAL LIABILITIES AND NET ASSETS	\$ 495,029,692	\$ 502,006,991

See accompanying notes to the consolidated financial statements

Approved by: _____

J. Allington

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Operations
For the year ended March 31, 2018

	<u>2018</u>	<u>2017</u>
REVENUE		
Grants - operating and research (Note 12)	\$ 72,253,326	\$ 69,790,551
Grants - debenture	13,500,000	13,500,000
Donations	1,933,629	1,089,859
Student tuition fees	78,265,879	74,817,528
Student ancillary fees	13,466,274	13,773,580
Revenues from purchased services (Note 13)	3,600,331	3,993,307
Other income	18,640,579	13,654,306
Amortization of deferred capital contributions	9,035,624	8,796,000
Interest revenue	1,165,813	865,352
Realized/unrealized gain on investments	286,873	1,702,360
Gain on disposal of assets	179,371	434,126
	212,327,699	202,416,969
EXPENSES		
Salaries and benefits	100,764,246	96,518,715
Supplies and expenses	39,851,848	36,580,910
Purchased services (Note 13)	14,914,760	16,084,422
Interest expense - debt obligations	14,179,648	14,715,745
Interest expense - other	137,630	107,202
Amortization of capital assets	23,729,724	24,859,401
Professional fees	3,353,472	946,927
	196,931,328	189,813,322
Excess of revenue over expenses	\$ 15,396,371	\$ 12,603,647

See accompanying notes to the consolidated financial statements

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Changes in Net Assets
As at March 31, 2018

	<u>Unrestricted</u>	<u>Invested in Capital Assets</u> (Note 14)	<u>Internally Restricted</u> (Note 15)	<u>Endowments</u> (Note 16)	<u>Total 2018</u>	<u>Total 2017</u>
Balance - Beginning of Year	\$ (10,744,227)	\$ 20,902,313	\$ 31,573,707	\$ 19,616,720	\$ 61,348,513	\$ 47,299,806
Excess / (deficiency) Revenue over Expenses	30,090,471	(14,694,100)	-	-	15,396,371	12,603,647
Interfund Transfer	1,762,432	-	(1,762,432)	-	-	-
Investment in Capital Assets	(22,405,118)	22,405,118	-	-	-	-
Endowment Contributions	-	-	-	1,423,708	1,423,708	1,445,060
Net changes during the year	9,447,785	7,711,018	(1,762,432)	1,423,708	16,820,079	14,048,707
Balance - End of Year	\$ (1,296,442)	\$ 28,613,331	\$ 29,811,275	\$ 21,040,428	\$ 78,168,592	\$ 61,348,513

See accompanying notes to the consolidated financial statements

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Cash Flows
As at March 31, 2018

	<u>Mar 2018</u>	<u>Mar 2017</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Excess of revenue over expenses	\$ 15,396,371	\$ 12,603,647
Items not affecting cash:		
Amortization of capital assets	23,729,724	24,859,401
Amortization of deferred capital contributions	(9,035,624)	(8,796,000)
Gain on disposal of assets	(179,371)	(434,126)
Realized/unrealized gain on investments	(286,873)	(1,702,360)
	<u>29,624,227</u>	<u>26,530,562</u>
Working capital:		
Grant and other accounts receivable	(1,928,468)	(882,614)
Prepaid expenses and deposits	70,823	11,808
Inventories	(69,119)	(18,252)
Accounts payable and accrued liabilities	(8,812,716)	10,439,408
Deferred revenue	(1,299,072)	520,441
	<u>17,585,675</u>	<u>36,601,353</u>
INVESTING		
Purchase of capital assets	(25,138,745)	(28,175,619)
Proceeds on disposal of capital assets	1,940,320	1,321,943
Investments	(12,387,071)	13,207,134
	<u>(35,585,496)</u>	<u>(13,646,542)</u>
FINANCING		
Repayment of long-term debt	(11,147,256)	(10,587,902)
Endowment contributions	1,423,708	1,445,060
Repayment of obligations under capital leases	(505,413)	(417,564)
Deferred capital contributions	7,002,703	11,092,140
	<u>(3,226,258)</u>	<u>1,531,734</u>
NET CASH (OUTFLOW)/INFLOW	(21,226,079)	24,486,545
CASH & CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR	56,795,539	32,308,994
CASH & CASH EQUIVALENTS BALANCE, END OF YEAR	\$ 35,569,460	\$ 56,795,539
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 14,424,308	\$ 14,930,533

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, 2018

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, 2018 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, 2018 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 fees are recognized as revenue when courses are provided.

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

1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (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 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, 2018

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 and major equipment	10 years
Leasehold improvements	over lease term
Parking	20 years
Furniture and fixtures	5 years
Laptops	2 – 3 years
Computer equipment and vehicles	3 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, 2018

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. CASH AND CASH EQUIVALENTS

	<u>2018</u>	<u>2017</u>
Bank of Montreal, cash balances	\$ 33,696,648	\$ 38,836,123
RBC Wealth Management GICs	1,161,624	17,593,407
IBM, credit facility drawn	(10,000)	(10,000)
Royal Bank of Canada, cash balances	33,908	57,035
Harris Bank, cash balances	471,717	46,625
Other, balances	215,563	272,349
	<u>\$ 35,569,460</u>	<u>\$ 56,795,539</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, 2018, the University utilized, on a cash consolidated basis, nil (2017 - 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, 2018, the University utilized \$10,000 (2017 - \$10,000) of the operating line of credit.

Guaranteed Investment Certificates (“GICs”) which mature within 90 days of fiscal year-end are accounted for as cash and cash equivalents. These include \$1,161,624 of annual GICs (2017 - \$17,593,407) which mature on June 18, 2018.

3. SHORT-TERM INVESTMENTS

Short-term investments consist of \$16,625,200 (2017 – nil) annual Guaranteed Investment Certificates with a maturity date of September 21, 2018.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2018

4. INVESTMENTS

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Equities	\$ 15,455,938	\$ 16,385,244	\$ 13,228,753	\$ 15,336,164
Fixed income	8,482,767	8,433,366	7,728,900	7,770,990
Money Market/Cash	862,945	862,945	1,029,620	1,033,616
Held in Trust	-	-	5,192,106	5,492,041
	\$ 24,801,650	\$ 25,681,555	\$ 27,179,379	\$ 29,632,811

Investments held in trust represent the principal on the remaining proceeds of a loan of nil (2017 - \$5,492,041) 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 were 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 in the prior year comprised of both fixed income and money market investments.

(a) Credit, interest rate and maturity risk

The value of fixed income securities will generally increase 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 18.2% (2017 – 0.0% to 18.2%) and have maturity dates ranging from April 1, 2018 to December 31, 2099 (2017 - April 1, 2017 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 advisors, hedges against foreign exchange risks. There has been no change in the University’s hedging policy from 2017.

(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.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2018

5. CAPITAL ASSETS

Capital assets consist of:

	2018			2017
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 8,131,815	\$ -	\$ 8,131,815	\$ 8,456,815
Buildings	419,146,729	110,164,237	308,982,492	291,742,761
Building renovations	25,304,975	16,129,652	9,175,323	9,699,640
Leasehold improvements	3,384,842	1,486,618	1,898,224	2,208,831
Parking	981,955	73,647	908,308	957,406
Furniture and fixtures	18,584,999	15,121,602	3,463,397	1,120,117
Laptops	14,163,816	11,983,908	2,179,908	3,892,467
Computer equipment	17,488,676	14,668,833	2,819,843	1,973,441
Vehicles	277,648	122,447	155,201	115,940
Major equipment	72,126,513	45,818,449	26,308,064	27,557,373
Construction-in-progress	2,640,884	-	2,640,884	18,615,268
	\$ 582,232,852	\$ 215,569,393	\$ 366,663,459	\$ 366,340,059
Assets under capital leases:				
Land	2,300,000	-	2,300,000	2,300,000
Buildings	35,689,192	5,064,953	30,624,239	31,299,567
Total	\$ 620,222,044	\$ 220,634,346	\$ 399,587,698	\$ 399,939,626

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

Amortization of assets under capital leases for the current year totaled \$675,328 (2017 - \$675,327).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities are government remittances payable of nil (2017 – \$2,170,589), relating to payroll related taxes.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2018

7. DEFERRED REVENUE

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

	<u>2018</u>	<u>2017</u>
Tuition	\$ 8,184,705	\$ 7,974,934
Research	5,446,327	5,419,572
Donations	2,729,219	3,310,874
Ancillary	1,285,891	2,601,233
Other	1,933,505	1,572,107
	<u>\$ 19,579,647</u>	<u>\$ 20,878,720</u>

8. OTHER LONG-TERM DEBT

The University has incurred debts in the amount of \$682,736 through third parties related to improvements in our downtown locations and the campus fieldhouse. Other long-term debt comprised the following:

	<u>2018</u>	<u>2017</u>
Unsecured loan, bearing fixed interest rate at 2.77% per annum, repayable semi-annually with final instalment due October 15, 2017	\$ -	\$ 5,501,181
Other unsecured loans, payable monthly / quarterly over a period of 5 months to 23 years and at interest rates ranging from 0% to 9.3%	682,736	888,862
	<u>\$ 682,736</u>	<u>\$ 6,390,043</u>

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

2019	\$ 132,672
2020	124,139
2021	124,398
2022	124,683
2023	3,535
Thereafter, through 2041	173,309
	<u>682,736</u>
Less: current portion	132,672
	<u>\$ 550,064</u>

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2018

8. OTHER LONG-TERM DEBT (continued)

The fair value of the other long-term debt is approximately \$787,000 (2017 - \$6,499,000). 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:

2019	\$ 3,746,878
2020	3,774,388
2021	3,861,463
2022	3,931,876
2023	3,960,219
Thereafter, through 2041	65,478,524
Total minimum lease payments	84,753,348
Less: amount representing interest at rates ranging from 6.50% to 9.30%	46,585,999
Present value of net minimum capital lease payments	38,167,349
Less: current portion of principal obligations	571,000
	\$ 37,596,349

Interest of \$3,214,228 (2017 - \$3,247,346) relating to capital lease obligations has been included in interest expense. The total amount of assets under capital leases is \$37,989,192 (2017 - \$37,989,192) with related accumulated amortization of \$5,064,953 (2017 - \$4,389,625).

The fair value of the capital leases is approximately \$40,116,000 (2017 - \$42,125,000). 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, 2018

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 Advanced Education and Skills Development (“MAESD”), and by the University’s operating funds.

On August 12, 2011, an agreement was signed between the University and MAESD 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, 2018 is \$214,513,076 (2017 - \$198,012,070), \$169,487,712 funded by MTCU and \$45,025,364 funded by the University.

The University has deposited a minimum of \$50,000,000, less the aggregate principal repaid to-date of \$50,000,000. The fair value of funds held in trust on behalf of the University is nil in the current year (Note 3).

As at March 31, 2018, \$217,431,043 (2017 - \$217,431,043) had been used to finance capital assets.

Total principal repayments for debenture debt are as follows:

2019	\$ 5,790,925
2020	6,164,546
2021	6,562,273
2022	6,985,660
2023	7,436,364
Thereafter, through 2034	137,121,464
Total minimum payments	170,061,232
Less: current portion	5,790,925
	<u>\$ 164,270,307</u>

The fair value of the long-term debenture debt is approximately \$200,746,000 (2017 - \$213,200,000). 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, 2018

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>2018</u>	<u>2017</u>
Balance - beginning of year	\$ 164,581,824	\$ 162,285,684
Contributions	7,002,703	11,092,140
Recognized as revenue during the year	<u>(9,035,624)</u>	<u>(8,796,000)</u>
Balance - end of year	<u>\$ 162,548,903</u>	<u>\$ 164,581,824</u>

12. GRANT REVENUES – OPERATING AND RESEARCH

Grant revenues consist of the following:

	<u>2018</u>	<u>2017</u>
Operating	\$ 61,786,160	\$ 60,150,163
Externally funded research	<u>10,467,166</u>	<u>9,640,388</u>
Total grant revenues	<u>\$ 72,253,326</u>	<u>\$ 69,790,551</u>

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.

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.

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13. PURCHASED SERVICE COSTS (continued)

The balance owing to Durham College for their share of the Collaborative Nursing program, included in accounts payable and accrued liabilities, is non-interest bearing, and will be paid at the end of the next fiscal year. The balance owing from Durham College for purchased services costs, have been paid to the University in April 2018.

14. INVESTED IN CAPITAL ASSETS

Investment in capital assets represents the following:

	<u>2018</u>	<u>2017</u>
Capital assets - net book value	\$ 399,587,698	\$ 399,939,626
Less amount financed by deferred capital contributions	(162,548,903)	(164,581,824)
Less amount financed by long-term debt (Notes 8, 9 and 10)	(208,425,464)	(214,455,489)
Total investment in capital assets	\$ 28,613,331	\$ 20,902,313

	<u>2018</u>	<u>2017</u>
Net change in investment in capital assets:		
Purchases of capital assets	\$ 25,138,745	\$ 28,175,619
Amounts funded by:		
Deferred capital contributions	(7,002,703)	(11,092,140)
Repayment of long-term debt	4,269,076	4,885,943
	\$ 22,405,118	\$ 21,969,422

	<u>2018</u>	<u>2017</u>
Amortization of deferred capital contributions related to capital assets	\$ 9,035,624	\$ 8,796,000
Less amortization of capital assets	(23,729,724)	(24,859,401)
	\$ (14,694,100)	\$ (16,063,401)
Net change during the year	\$ 7,711,018	\$ 5,906,021

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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>2018</u>	<u>2017</u>
Balance comprised of the following:		
Research related activities	\$ 4,986,682	\$ 4,971,799
Capital related activities	12,592,671	14,665,688
Student awards	1,000,000	1,000,000
Working capital	6,000,000	6,000,000
Faculty carry-forwards	1,708,000	1,604,000
Fundraising campaign	1,453,321	1,505,000
Other	2,070,601	1,827,220
	<u>\$ 29,811,275</u>	<u>\$ 31,573,707</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.

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16. ENDOWMENTS (continued)

The balance of endowments consists of the following:

	<u>2018</u>	<u>2017</u>
OSOTF	\$ 1,991,980	\$ 1,916,037
OTSS	16,243,355	15,041,001
Other	2,805,093	2,659,682
	<u>\$ 21,040,428</u>	<u>\$ 19,616,720</u>

The change in the balance of endowments is as follows:

	<u>2018</u>	<u>2017</u>
Endowment fund balance, beginning of year	\$ 19,616,720	\$ 18,171,660
Donations	366,458	1,021,332
Realized gains	999,930	383,748
Realized investment income	531,680	503,190
Income distributions	(474,360)	(463,210)
Endowment fund balance, end of year	<u>\$ 21,040,428</u>	<u>\$ 19,616,720</u>

As per the Ministry of Advanced Education and Skills Development policies, the transactions related to OSOTF and OTSS should be presented in these financial statements, for the year ended March 31, 2018.

	<u>OSOTF</u>	<u>OTTS</u>	<u>Total 2018</u>	<u>Total 2017</u>
Schedule of Changes in Endowment Fund Balance				
Endowment balance, beginning of year	\$ 1,612,184	\$ 13,616,741	\$ 15,228,925	\$ 14,464,346
Eligible cash donations	-	349,937	349,937	534,671
Preservation of capital	17,375	167,597	184,972	229,908
Endowment fund balance, end of year	<u>\$ 1,629,559</u>	<u>\$ 14,134,275</u>	<u>\$ 15,763,834</u>	<u>\$ 15,228,925</u>

Available for Awards	<u>OSOTF</u>	<u>OTTS</u>	<u>Total 2018</u>	<u>Total 2017</u>
Expendable balance, beginning of year	\$ 303,853	\$ 1,424,260	\$ 1,728,113	\$ 1,587,531
Realized investment income	125,943	1,226,277	1,352,220	774,701
Less: Preservation of capital	(17,375)	(167,597)	(184,972)	(229,908)
Bursaries awarded	(50,000)	(373,860)	(423,860)	(404,211)
Expendable balance, end of year	<u>\$ 362,421</u>	<u>\$ 2,109,080</u>	<u>\$ 2,471,501</u>	<u>\$ 1,728,113</u>

In the current year, 261 bursaries valued at \$474,360 were disbursed from the total endowed funds (2017 – 253 bursaries valued at \$463,210).

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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 \$5,052,366 (2017 - \$4,773,201).

18. 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, 2018 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, 2018 are as follows:

2019	\$	1,718,561
2020		1,718,561
2021		1,724,304
2022		1,728,406
2023		1,712,583
Thereafter		5,031,572
	\$	<u>13,633,987</u>