

Consolidated Financial Statements of

**UNIVERSITY OF ONTARIO
INSTITUTE OF TECHNOLOGY**

For the year ended March 31, 2017

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Financial Statements
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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, 2017, 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, 2017, and its consolidated results of operations, its consolidated changes in net assets and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 29, 2017
Vaughan, Canada

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Financial Position
As at March 31, 2017

	<u>Mar 31, 2017</u>	<u>Mar 31, 2016</u>
ASSETS		
CURRENT		
Cash and cash equivalents (Note 2)	\$ 56,795,539	\$ 32,308,994
Short-term investments (Note 2)	-	10,170,000
Grant receivable	6,152,287	5,312,979
Other accounts receivable (allowance for doubtful accounts - \$304,895; 2016 - \$308,202)	7,624,344	7,581,038
Prepaid expenses and deposits	1,689,870	1,701,678
Inventories	172,514	154,262
	72,434,554	57,228,951
INVESTMENTS (Note 3)	29,632,811	30,967,585
CAPITAL ASSETS (Note 4)	399,939,626	397,511,225
TOTAL ASSETS	\$ 502,006,991	\$ 485,707,761
LIABILITIES		
CURRENT AND LONG-TERM LIABILITIES		
Accounts payable and accrued liabilities (Notes 5 and 12)	\$ 34,633,948	\$ 24,194,540
Deferred revenue (Note 6)	20,878,720	20,358,279
Current portion of other long-term debt (Note 7)	5,707,308	5,477,658
Current portion of obligations under capital lease (Note 8)	505,413	417,565
Current portion of long-term debenture debt (Note 9)	5,439,949	5,110,244
	67,165,338	55,558,286
OTHER LONG-TERM DEBT (Note 7)	682,735	6,390,043
LONG-TERM OBLIGATIONS UNDER CAPITAL LEASES (Note 8)	38,167,349	38,672,761
LONG-TERM DEBENTURE DEBT (Note 9)	170,061,232	175,501,181
DEFERRED CAPITAL CONTRIBUTIONS (Note 10)	164,581,824	162,285,684
	440,658,478	438,407,955
NET ASSETS / (DEFICIT)		
UNRESTRICTED	(10,744,227)	(22,160,664)
INVESTED IN CAPITAL ASSETS (Note 13)	20,902,313	14,996,292
INTERNALLY RESTRICTED (Note 14)	31,573,707	36,292,518
ENDOWMENTS (Note 15)	19,616,720	18,171,660
	61,348,513	47,299,806
Contingencies and Contractual Commitments (Note 17)		
Subsequent Event (Note 18)		
TOTAL LIABILITIES AND NET ASSETS	\$ 502,006,991	\$ 485,707,761

See accompanying notes to the consolidated financial statements

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Consolidated Statement of Operations
For the year ended March 31, 2017

	<u>2017</u>	<u>2016</u>
REVENUE		
Grants - operating and research (Note 11)	\$ 69,790,551	\$ 68,364,211
Grants - debenture	13,500,000	13,500,000
Donations	1,089,859	701,761
Student tuition fees	74,817,528	69,729,577
Student ancillary fees	13,773,580	14,557,870
Revenues from purchased services (Note 12)	3,993,307	3,724,803
Other income	13,654,306	12,288,186
Amortization of deferred capital contributions	8,796,000	8,705,492
Interest revenue	865,352	1,025,880
Realized/unrealized gain/(loss) on investments	1,702,360	(1,385,256)
Gain on disposal of capital assets	434,126	421,476
	202,416,969	191,634,000
EXPENSES		
Salaries and benefits	96,518,715	94,207,476
Supplies and expenses	36,580,910	36,021,630
Purchased services (Note 12)	16,084,422	15,685,113
Interest expense - Debt obligations	14,715,745	15,197,546
Interest expense - Other	107,202	87,854
Amortization of capital assets	24,859,401	26,190,578
Professional fees	946,927	936,269
	189,813,322	188,326,466
Excess of revenue over expenses	\$ 12,603,647	\$ 3,307,534

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, 2017

	<u>Unrestricted</u>	<u>Invested in Capital Assets</u> (Note 13)	<u>Internally Restricted</u> (Note 14)	<u>Endowments</u> (Note 15)	<u>Total 2017</u>	<u>Total 2016</u>
Balance - Beginning of Year	\$ (22,160,664)	\$ 14,996,292	\$ 36,292,518	\$ 18,171,660	\$ 47,299,806	\$ 42,871,951
Excess / (deficiency)						
Revenue over Expenses	28,667,048	(16,063,401)	-	-	12,603,647	3,307,534
Interfund Transfer	4,718,811	-	(4,718,811)	-	-	-
Investment in Capital Assets	(21,969,422)	21,969,422	-	-	-	-
Endowment Contributions	-	-	-	1,445,060	1,445,060	1,120,321
Net changes during the year	11,416,437	5,906,021	(4,718,811)	1,445,060	14,048,707	4,427,855
Balance - End of Year	\$ (10,744,227)	\$ 20,902,313	\$ 31,573,707	\$ 19,616,720	\$ 61,348,513	\$ 47,299,806

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, 2017

	<u>Mar 31, 2017</u>	<u>Mar 31, 2016</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Excess of revenue over expenses	\$ 12,603,647	\$ 3,307,534
Items not affecting cash:		
Amortization of capital assets	24,859,401	26,190,578
Amortization of deferred capital contributions	(8,796,000)	(8,705,492)
Gain on disposal of capital assets	(434,126)	(421,476)
Realized/unrealized (gain)/loss on investments	(1,702,360)	1,385,256
	26,530,562	21,756,400
Working capital:		
Grant and other accounts receivable	(882,614)	1,072,942
Prepaid expenses and deposits	11,808	(111,313)
Inventories	(18,252)	136,222
Accounts payable and accrued liabilities	10,439,408	(1,263,972)
Deferred revenue	520,441	(419,140)
	36,601,353	21,171,139
INVESTING		
Purchase of capital assets	(28,175,619)	(9,349,915)
Proceeds on disposal of capital assets	1,321,943	856,075
Investments	13,207,134	3,911,846
	(13,646,542)	(4,581,994)
FINANCING		
Repayment of long-term debt	(10,587,902)	(9,954,499)
Endowment contributions	1,445,060	1,120,321
Repayment of obligations under capital leases	(417,564)	(27,746)
Deferred capital contributions	11,092,140	898,331
	1,531,734	(7,963,593)
NET CASH INFLOW	24,486,545	8,625,552
CASH & CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR	32,308,994	23,683,442
CASH & CASH EQUIVALENTS BALANCE, END OF YEAR	\$ 56,795,539	\$ 32,308,994
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 14,930,533	\$ 15,399,645

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, 2017

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, 2017 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, 2017 are included in the Consolidated Financial Statements of the University.

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

(b) Revenue recognition

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

Student fees are recognized as revenue when courses are provided.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

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

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

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

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

(c) Cash and cash equivalents

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

(d) Financial instruments

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the University determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the University expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2017

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, 2017

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>2017</u>	<u>2016</u>
Bank of Montreal, cash balances	\$ 38,836,123	\$ 24,790,828
BMO Nesbitt Burns & RBC GICs	17,593,407	7,169,483
IBM, credit facility drawn	(10,000)	(10,000)
Royal Bank of Canada, cash balances	57,035	153,327
Harris Bank, cash balances	46,625	4,745
Other, balances	272,349	200,611
	<u>\$ 56,795,539</u>	<u>\$ 32,308,994</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, 2017, the University utilized, on a cash consolidated basis, nil (2016 - 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, 2017, the University utilized \$10,000 (2016 - \$10,000) of the operating line of credit.

Guaranteed Investment Certificates (“GICs”) mature within 90 days of fiscal year-end and are accounted for as cash and cash equivalents. These include \$16,450,780 of 30-day cashable GICs (2016 - \$7,169,483) and \$1,142,627 of annual GICs (2016 - \$10,170,000) which mature June 12, 2017.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2017

3. INVESTMENTS

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Equities	\$ 13,228,753	\$ 15,336,164	\$ 13,141,002	\$ 13,582,832
Fixed income	7,728,900	7,770,990	6,208,685	6,332,557
Money Market/Cash	1,029,620	1,033,616	467,432	467,432
Held in Trust	5,192,106	5,492,041	9,969,718	10,584,764
	\$ 27,179,379	\$ 29,632,811	\$ 29,786,837	\$ 30,967,585

Investments held in trust represent the principal on the remaining proceeds of a loan of \$5,492,041 (2016 - \$10,584,764) that the University received from the Ontario Financing Authority in February 2012 (Note 7), and which the University then applied for the purpose of paying BNY Trust Company of Canada (“BNY”). These funds are held by BNY pursuant to Section 6.01(h) of the Supplemental Trust Indenture, pursuant to which the University’s Series A Debentures were issued. The funds held in trust comprise of both fixed income and money market investments.

(a) Credit, interest rate and maturity risk

The value of fixed income securities will and generally rise if interest rates fall and decrease if interest rates rise. Changes in interest rates may also affect the value of equity securities. The fixed income investments consist of various Canadian government and corporate bonds and individual mortgage holdings. The fixed income investments bear coupon rates ranging from 0.0% to 18.2% (2016 – 0.0% to 16.2%) and have maturity dates ranging from April 1, 2017 to December 31, 2099 (2016 - April 1, 2016 to December 31, 2099).

(b) Foreign currency risk

The University is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. The University, through its investment management company, hedges against foreign exchange risks. There has been no change in the University’s hedging policy from 2016.

(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, 2017

4. CAPITAL ASSETS

Capital assets consist of:

	2017			2016
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 8,456,815	\$ -	\$ 8,456,815	\$ 8,456,815
Buildings	391,635,686	99,892,925	291,742,761	301,392,709
Building renovations	23,736,562	14,036,922	9,699,640	10,667,447
Leasehold improvements	3,384,669	1,175,838	2,208,831	2,447,881
Parking	981,955	24,549	957,406	-
Furniture and fixtures	15,773,902	14,653,785	1,120,117	1,548,679
Laptops	17,806,821	13,914,354	3,892,467	4,846,414
Computer equipment	15,502,947	13,529,506	1,973,441	2,462,042
Vehicles	263,669	147,729	115,940	23,104
Major equipment	67,482,124	39,924,751	27,557,373	31,133,538
Construction-in-progress	18,615,268	-	18,615,268	257,702
	<u>\$ 563,640,418</u>	<u>\$ 197,300,359</u>	<u>\$ 366,340,059</u>	<u>\$ 363,236,331</u>
Assets under capital leases:				
Land	2,300,000	-	2,300,000	2,300,000
Buildings	35,689,192	4,389,625	31,299,567	31,974,894
Total	<u>\$ 601,629,610</u>	<u>\$ 201,689,984</u>	<u>\$ 399,939,626</u>	<u>\$ 397,511,225</u>

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

Amortization of assets under capital leases for the current year totaled \$675,327 (2016 - \$675,327).

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities are government remittances payable of \$2,170,589 (2016 – \$197,054), relating to payroll related taxes.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2017

6. DEFERRED REVENUE

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

	<u>2017</u>	<u>2016</u>
Tuition	\$ 7,974,934	\$ 7,571,838
Research	5,419,572	5,089,911
Donations	3,310,874	3,498,594
Ancillary	2,601,233	3,011,325
Other	1,572,107	1,186,611
	<u>\$ 20,878,720</u>	<u>\$ 20,358,279</u>

7. OTHER LONG-TERM DEBT

The University has incurred debts in the amount of \$6,390,043 through third parties related to the financing of the debenture (offset by amounts held in trust, as disclosed in Note 3 and Note 9), lab equipment and leasehold improvements in our downtown locations. Other long-term debt comprised the following:

	<u>2017</u>	<u>2016</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	\$ 10,611,425
Other unsecured loans, payable monthly / quarterly over a period of 3 months to 24 years and at interest rates ranging from 0% to 9.3%	888,862	1,256,276
	<u>\$ 6,390,043</u>	<u>\$ 11,867,701</u>

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

2018	\$ 5,707,308
2019	132,672
2020	124,139
2021	124,398
2022	124,683
Thereafter, through 2041	176,843
	<u>6,390,043</u>
Less: current portion	5,707,308
	<u>\$ 682,735</u>

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Notes to the Consolidated Financial Statements
For the year ended March 31, 2017

7. OTHER LONG-TERM DEBT (continued)

The fair value of the other long-term debt is approximately \$6,499,000 (2016 - \$12,198,000). 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.

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:

2018	\$ 3,719,641
2019	3,746,878
2020	3,774,388
2021	3,861,463
2022	3,931,876
Thereafter, through 2041	69,438,743
Total minimum lease payments	88,472,989
Less: amount representing interest at rates ranging from 6.50% to 9.30%	49,800,227
Present value of net minimum capital lease payments	38,672,762
Less: current portion of principal obligations	505,413
	\$ 38,167,349

Interest of \$3,247,346 (2016 - \$3,257,541) relating to capital lease obligations has been included in interest expense. The total amount of assets under capital leases is \$37,989,192 (2016 - \$37,989,192) with related accumulated amortization of \$4,389,625 (2016 - \$3,714,298).

The fair value of the capital leases is approximately \$42,125,000 (2016 - \$42,689,000). 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, 2017

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

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

Total principal and interest paid on the debenture to March 31, 2017 is \$198,012,070 (2016 - \$181,511,064), \$155,987,712 funded by MTCU and \$42,024,358 funded by the University.

The University has deposited a minimum of \$50,000,000, less the aggregate principal repaid to-date of \$44,498,819. The fair value of funds amounting to \$5,492,041 are held in trust on behalf of the University (Note 3).

As at March 31, 2017, \$217,431,043 (2016 - \$217,431,043) had been used to finance capital assets.

2018	\$ 5,439,949
2019	5,790,925
2020	6,164,546
2021	6,562,273
2022	6,985,660
Thereafter, through 2034	144,557,828
Total minimum payments	175,501,181
Less: current portion	5,439,949
	<u>\$ 170,061,232</u>

The fair value of the long-term debenture debt is approximately \$213,200,000 (2016 - \$225,834,000). 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, 2017

10. 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>2017</u>	<u>2016</u>
Balance - beginning of year	\$ 162,285,684	\$ 170,092,845
Contributions	11,092,140	898,331
Recognized as revenue during the year	(8,796,000)	(8,705,492)
Balance - end of year	\$ 164,581,824	\$ 162,285,684

11. GRANT REVENUES – OPERATING AND RESEARCH

Grant revenues consist of the following:

	<u>2017</u>	<u>2016</u>
Operating	\$ 60,150,163	\$ 59,191,734
Externally funded research	9,640,388	9,172,477
Total grant revenues	\$ 69,790,551	\$ 68,364,211

12. 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.

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12. PURCHASED SERVICE COSTS (continued)

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

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

13. INVESTED IN CAPITAL ASSETS

Investment in capital assets represents the following:

	<u>2017</u>	<u>2016</u>
Capital assets - net book value	\$ 399,939,626	\$ 397,511,225
Less amount financed by deferred capital contributions	(164,581,824)	(162,285,684)
Less amount financed by long-term debt (Notes 7, 8 and 9)	(214,455,489)	(220,229,249)
Total investment in capital assets	\$ 20,902,313	\$ 14,996,292

	<u>2017</u>	<u>2016</u>
Net change in investment in capital assets:		
Purchases of capital assets	\$ 28,175,619	\$ 9,349,915
Amounts funded by:		
Deferred capital contributions	(11,092,140)	(898,331)
Long-term debt	-	(268,462)
Repayment of long-term debt	4,885,943	4,894,123
	\$ 21,969,422	\$ 13,077,245

	<u>2017</u>	<u>2016</u>
Amortization of deferred capital contributions related to capital assets	\$ 8,796,000	\$ 8,705,492
Less amortization of capital assets	(24,859,401)	(26,190,578)
	\$ (16,063,401)	\$ (17,485,086)
Net change during the year	\$ 5,906,021	\$ (4,407,841)

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14. 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>2017</u>	<u>2016</u>
Balance comprised of the following:		
Research related activities	\$ 4,971,799	\$ 4,790,319
Capital related activities	14,665,688	21,545,491
Student awards	1,000,000	625,065
Working capital	6,000,000	6,000,000
Faculty carry-forwards	1,604,000	1,723,000
Fundraising campaign	1,505,000	-
Other	1,827,220	1,608,643
	<u>\$ 31,573,707</u>	<u>\$ 36,292,518</u>

15. 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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15. ENDOWMENTS (continued)

The balance of endowments consists of the following:

	<u>2017</u>	<u>2016</u>
OSOTF	\$ 1,916,037	\$ 1,889,749
OTSS	15,041,001	14,162,128
Other	2,659,682	2,119,783
	<u>\$ 19,616,720</u>	<u>\$ 18,171,660</u>

The change in the balance of endowments is as follows:

	<u>2017</u>	<u>2016</u>
Endowment fund balance, beginning of year	\$ 18,171,660	\$ 16,226,506
Donations	1,021,332	1,237,221
Realized gains	383,748	569,393
Realized investment income	503,190	505,380
Income distributions	(463,210)	(366,840)
Endowment fund balance, end of year	<u>\$ 19,616,720</u>	<u>\$ 18,171,660</u>

As per the Ministry of Advanced Education and Skills Development policies, the transactions related to OSOTF and OTTS should be presented in these financial statements, for the year ended March 31, 2017.

	<u>OSOTF</u>	<u>OTTS</u>	<u>Total 2017</u>	<u>Total 2016</u>
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Schedule of Changes in Endowment Fund Balance

Endowment balance, beginning of year	\$ 1,589,684	\$ 12,874,662	\$ 14,464,346	\$ 13,927,492
Eligible cash donations	-	534,671	\$ 534,671	387,429
Preservation of capital	22,500	207,408	\$ 229,908	149,425
Endowment fund balance, end of year	<u>\$ 1,612,184</u>	<u>\$ 13,616,741</u>	<u>\$ 15,228,925</u>	<u>\$ 14,464,346</u>

Schedule of Changes in Expendable Funds

Available for Awards	<u>OSOTF</u>	<u>OTTS</u>	<u>2017</u>	<u>2016</u>
Expendable balance, beginning of year	\$ 300,064	\$ 1,287,467	\$ 1,587,531	\$ 1,081,328
Realized investment income	74,289	700,412	\$ 774,701	1,012,468
Less: Preservation of capital	(22,500)	(207,408)	(229,908)	(149,425)
Bursaries awarded	(48,000)	(356,211)	(404,211)	(356,840)
Expendable balance, end of year	<u>\$ 303,853</u>	<u>\$ 1,424,260</u>	<u>\$ 1,728,113</u>	<u>\$ 1,587,531</u>

In the current year, 253 bursaries valued at \$463,210 were disbursed from the total endowed funds (2016 – 226 bursaries valued at \$366,840).

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16. PENSION PLAN

All employees of the University are members of a defined contribution pension plan. Employees must contribute a minimum of 3% of their earnings to this plan with the option at the employee's discretion, to increase these contributions to a total of 6% of contributory earnings. The University must contribute a minimum of 6% and may contribute a maximum of 8% of contributory earnings to this plan, depending on the employee's election of 2%. Contributions made by the University to the pension plan during the year were \$4,773,201 (2016 - \$4,676,889).

17. 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, 2017 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, 2017 are as follows:

2018	\$	1,715,992
2019		1,591,975
2020		1,591,975
2021		1,597,718
2022		1,601,820
Thereafter		6,633,392
	\$	<u>14,732,872</u>

18. SUBSEQUENT EVENT

On June 21, 2017, the University received notification from the Minister of Finance of a settlement of \$4,900,000 related to historical claims for retail sales tax rebates on construction costs for the period January 2003 to December 2005. As this contingent gain has been resolved prior to the approval of the financial statements by the Board of Directors, it is reported as a subsequent event. The funds, net of consultants' fees, will be recorded upon receipt in fiscal year 2017 – 18.

19. COMPARATIVE INFORMATION

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