

Consolidated Financial Statements of

**UNIVERSITY OF ONTARIO
INSTITUTE OF TECHNOLOGY**
(operating as: Ontario Tech University)

For the year ended March 31, 2019

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
(operating as: Ontario Tech University)
Consolidated Financial Statements
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For the year ended March 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of University of
Ontario Institute of Technology
(operating as Ontario Tech University)

Opinion

We have audited the consolidated financial statements of the University of Ontario Institute of Technology (operating as Ontario Tech University) (the Entity), which comprise:

- the consolidated statement of financial position as at March 31, 2019
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 26, 2019

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
(operating as: Ontario Tech University)
Consolidated Statement of Financial Position
As at March 31, 2019

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
ASSETS		
CURRENT		
Cash and cash equivalents (Note 2)	\$ 45,236,989	\$ 35,569,460
Short-term investments (Note 3)	16,924,256	16,625,200
Grant receivable	8,669,628	7,547,294
Other accounts receivable (allowance for doubtful accounts - \$196,860; 2018 - \$364,977)	7,231,096	8,157,805
Prepaid expenses and deposits	2,166,750	1,619,047
Inventories	133,344	241,633
	80,362,063	69,760,439
INVESTMENTS (Note 4)	26,809,201	25,681,555
CAPITAL ASSETS (Note 5)	392,097,220	399,587,698
TOTAL ASSETS	\$ 499,268,484	\$ 495,029,692
LIABILITIES		
CURRENT AND LONG-TERM LIABILITIES		
Accounts payable and accrued liabilities (Notes 6 and 13)	\$ 29,614,038	\$ 25,821,233
Deferred revenue (Note 7)	20,299,865	19,579,647
Current portion of other long-term debt (Note 8)	124,140	132,672
Current portion of obligations under capital lease (Note 9)	642,338	571,000
Current portion of long-term debenture debt (Note 10)	6,164,545	5,790,925
	56,844,926	51,895,477
OTHER LONG-TERM DEBT (Note 8)	425,923	550,064
LONG-TERM OBLIGATIONS UNDER CAPITAL LEASES (Note 9)	36,954,011	37,596,349
LONG-TERM DEBENTURE DEBT (Note 10)	158,105,762	164,270,307
DEFERRED CAPITAL CONTRIBUTIONS (Note 11)	161,099,203	162,548,903
	413,429,825	416,861,100
NET ASSETS		
UNRESTRICTED	3,264,048	(1,296,442)
INVESTED IN CAPITAL ASSETS (Note 14)	28,945,688	28,613,331
INTERNALLY RESTRICTED (Note 15)	31,785,635	29,811,275
ENDOWMENTS (Note 16)	21,843,288	21,040,428
	85,838,659	78,168,592
Contingencies and Contractual Commitments (Note 18)		
TOTAL LIABILITIES AND NET ASSETS	\$ 499,268,484	\$ 495,029,692

See accompanying notes to the consolidated financial statements

Approved by: 

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
(operating as: Ontario Tech University)
Consolidated Statement of Operations
For the year ended March 31, 2019

	<u>2019</u>	<u>2018</u>
REVENUE		
Grants - operating and research (Note 12)	\$ 74,211,269	\$ 72,253,326
Grants - debenture (Note 10)	13,500,000	13,500,000
Donations	1,573,007	1,933,629
Student tuition fees	80,152,124	78,265,879
Student ancillary fees	12,545,649	13,466,274
Revenues from purchased services (Note 13)	3,733,661	3,600,331
Other income	14,393,649	18,640,579
Amortization of deferred capital contributions	9,238,378	9,035,624
Interest revenue	1,519,946	1,165,813
Unrealized gain on investments	585,167	286,873
Gain on disposal of assets	157,306	179,371
	211,610,156	212,327,699
EXPENSES		
Salaries and benefits	106,246,121	97,530,222
Student aid, financial assistance and awards	12,478,785	11,477,943
Supplies and expenses	31,080,802	31,607,929
Purchased services (Note 13)	15,614,695	14,914,760
Interest expense - debt obligations	13,734,615	14,179,648
Interest expense - other	127,880	137,630
Amortization of capital assets	23,676,465	23,729,724
Professional fees	1,783,586	3,353,472
	204,742,949	196,931,328
Excess of revenue over expenses	\$ 6,867,207	\$ 15,396,371

See accompanying notes to the consolidated financial statements

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
(operating as Ontario Tech University)
Consolidated Statement of Changes in Net Assets
As at March 31, 2019

	<u>Unrestricted</u>	<u>Invested in Capital Assets</u> (Note 14)	<u>Internally Restricted</u> (Note 15)	<u>Endowments</u> (Note 16)	<u>Total 2019</u>	<u>Total 2018</u>
Balance - Beginning of Year	\$ (1,296,442)	\$ 28,613,331	\$ 29,811,275	\$ 21,040,428	\$ 78,168,592	\$ 61,348,513
Excess / (deficiency)						
Revenue over Expenses	21,305,294	(14,438,087)	-	-	6,867,207	15,396,371
Interfund Transfer	(1,974,360)	-	1,974,360	-	-	-
Investment in Capital Assets	(14,770,444)	14,770,444	-	-	-	-
Endowment Contributions	-	-	-	802,860	802,860	1,423,708
Net changes during the year	4,560,490	332,357	1,974,360	802,860	7,670,067	16,820,079
Balance - End of Year	\$ 3,264,048	\$ 28,945,688	\$ 31,785,635	\$ 21,843,288	\$ 85,838,659	\$ 78,168,592

See accompanying notes to the consolidated financial statements

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
(operating as: Ontario Tech University)
Consolidated Statement of Cash Flows
As at March 31, 2019

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Excess of revenue over expenses	\$ 6,867,207	\$ 15,396,371
Items not affecting cash:		
Amortization of capital assets	23,676,465	23,729,724
Amortization of deferred capital contributions	(9,238,378)	(9,035,624)
Unrealized gain on investments	(585,167)	(286,873)
Gain on disposal of assets	(157,306)	(179,371)
	20,562,821	29,624,227
Working capital:		
Grant and other accounts receivable	(195,625)	(1,928,468)
Prepaid expenses and deposits	(547,703)	70,823
Inventories	108,289	(69,119)
Accounts payable and accrued liabilities	3,792,805	(8,812,716)
Deferred revenue	720,218	(1,299,072)
	24,440,805	17,585,675
INVESTING		
Purchase of capital assets	(16,350,967)	(25,138,745)
Proceeds on disposal of capital assets	322,286	1,940,320
Investments	(841,535)	(12,387,071)
	(16,870,216)	(35,585,496)
FINANCING		
Repayment of long-term debt	(5,923,598)	(11,147,256)
Endowment contributions	802,860	1,423,708
Repayment of obligations under capital leases	(571,000)	(505,413)
Deferred capital contributions	7,788,678	7,002,703
	2,096,940	(3,226,258)
NET CASH INFLOW / (OUTFLOW)	9,667,529	(21,226,079)
CASH & CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR	35,569,460	56,795,539
CASH & CASH EQUIVALENTS BALANCE, END OF YEAR	\$ 45,236,989	\$ 35,569,460
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 13,903,748	\$ 14,424,308

See accompanying notes to the consolidated financial statements

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
(operating as: Ontario Tech University)
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

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 March 27, 2019, the University launched its brand name “Ontario Tech University”.

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, 2019 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, 2019 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.

1. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

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
(operating as: Ontario Tech University)
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

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 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
(operating as: Ontario Tech University)
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

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>2019</u>	<u>2018</u>
Bank of Montreal, cash balances	\$ 36,920,330	\$ 33,696,648
BMO Nesbitt Burns GICs	8,000,000	1,161,624
IBM, credit facility drawn	(10,000)	(10,000)
Royal Bank of Canada, cash balances	37,288	33,908
Harris Bank, cash balances	(36,524)	471,717
Other, balances	325,895	215,563
	<u>\$ 45,236,989</u>	<u>\$ 35,569,460</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, 2019, the University utilized, on a cash consolidated basis, nil (2018 - 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, 2019, the University utilized \$10,000 (2018 - \$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 \$8,000,000 of annual GICs (2018 - \$1,161,624) which mature on April 25, 2019.

3. SHORT-TERM INVESTMENTS

Short-term investments consist of \$16,924,256 (2018 – \$16,625,200) 30-day cashable annual Guaranteed Investment Certificates with maturity dates ranging from September 30, 2019 to October 11, 2019 (2018 – September 21, 2018).

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
(operating as: Ontario Tech University)
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

4. INVESTMENTS

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Equities	\$ 15,634,889	\$ 17,315,009	\$ 15,455,938	\$ 16,385,244
Fixed income	8,992,229	9,084,206	8,482,767	8,433,366
Money Market/Cash	409,987	409,986	862,945	862,945
	\$ 25,037,105	\$ 26,809,201	\$ 24,801,650	\$ 25,681,555

(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 24.4% (2018 – 0.0% to 18.2%) and have maturity dates ranging from April 1, 2019 to December 31, 2099 (2018 - April 1, 2018 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 2018.

(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 market.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
(operating as: Ontario Tech University)
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

5. CAPITAL ASSETS

Capital assets consist of:

	2019			2018
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 8,131,815	\$ -	\$ 8,131,815	\$ 8,131,815
Buildings	419,159,447	120,779,319	298,380,128	308,982,492
Building renovations	28,375,082	18,256,572	10,118,510	9,175,323
Leasehold improvements	3,541,889	1,607,216	1,934,673	1,898,224
Parking	982,495	122,771	859,724	908,308
Furniture and fixtures	19,267,278	15,996,649	3,270,629	3,463,397
Laptops	14,526,786	12,158,952	2,367,834	2,179,908
Computer equipment	18,730,007	15,896,134	2,833,873	2,819,843
Vehicles	249,648	157,203	92,445	155,201
Major equipment	75,182,961	51,890,415	23,292,546	26,308,064
Construction-in-progress	8,566,131	-	8,566,131	2,640,884
	\$ 596,713,539	\$ 236,865,231	\$ 359,848,308	\$ 366,663,459
Assets under capital leases:				
Land	2,300,000	-	2,300,000	2,300,000
Buildings	35,689,192	5,740,280	29,948,912	30,624,239
Total	\$ 634,702,731	\$ 242,605,511	\$ 392,097,220	\$ 399,587,698

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 \$675,327 (2018 - \$675,327).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities are government remittances payable of nil (2018 – nil).

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
(operating as: Ontario Tech University)
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

7. DEFERRED REVENUE

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

	<u>2019</u>	<u>2018</u>
Tuition	\$ 8,456,847	\$ 8,184,705
Research	5,959,593	5,446,327
Donations	2,672,006	2,729,219
Ancillary fees	1,312,546	1,285,891
Other	1,898,873	1,933,505
	<u>\$ 20,299,865</u>	<u>\$ 19,579,647</u>

8. OTHER LONG-TERM DEBT

The University has incurred debts in the amount of \$550,063 through third parties related to improvements in our downtown locations. Other long-term debt comprised the following:

	<u>2019</u>	<u>2018</u>
Unsecured loans, payable monthly/annually over a period of 3-22 years and at interest rates ranging from 0% to 9.3%	\$ 550,063	\$ 682,736
	<u>\$ 550,063</u>	<u>\$ 682,736</u>

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

2020	\$ 124,140
2021	124,398
2022	124,683
2023	3,535
2024	3,876
Thereafter, through 2042	169,431
	<u>550,063</u>
Less: current portion	124,140
	<u>\$ 425,923</u>

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
(operating as: Ontario Tech University)
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

8. OTHER LONG-TERM DEBT (continued)

The fair value of the other long-term debt is approximately \$680,000 (2018 - \$787,000). 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:

2020	\$ 3,774,388
2021	3,861,463
2022	3,931,876
2023	3,960,219
2024	3,988,846
Thereafter, through 2041	<u>61,489,678</u>
Total minimum lease payments	81,006,470
Less: amount representing interest at rates ranging from 6.50% to 9.30%	<u>43,410,121</u>
Present value of net minimum capital lease payments	37,596,349
Less: current portion of principal obligations	<u>642,338</u>
	<u>\$ 36,954,011</u>

Interest of \$3,175,878 (2018 - \$3,214,228) relating to capital lease obligations has been included in interest expense. The total cost of assets under capital leases is \$37,989,192 (2018 - \$37,989,192) with related accumulated amortization of \$5,740,280 (2018 - \$5,064,953).

The fair value of the capital leases is approximately \$39,437,000 (2018 - \$40,116,000). 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
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Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

10. LONG-TERM DEBENTURE DEBT

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

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

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

Total principal and interest paid on the debenture to March 31, 2019 is \$231,014,082 (2018 - \$214,513,076), \$182,987,712 funded by MTCU and \$48,026,370 funded by the University.

As at March 31, 2019, \$217,431,043 (2018 - \$217,431,043) had been used to finance capital assets.

Total principal repayments for debenture debt are as follows:

2020	\$ 6,164,545
2021	6,562,273
2022	6,985,660
2023	7,436,364
2024	7,916,146
Thereafter, through 2034	129,205,319
Total minimum payments	164,270,307
Less: current portion	6,164,545
	<u>\$ 158,105,762</u>

The fair value of the long-term debenture debt is approximately \$205,695,000 (2018 - \$200,746,000). 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.

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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>2019</u>	<u>2018</u>
Balance - beginning of year	\$ 162,548,903	\$ 164,581,824
Contributions	7,788,678	7,002,703
Recognized as revenue during the year	(9,238,378)	(9,035,624)
Balance - end of year	<u>\$ 161,099,203</u>	<u>\$ 162,548,903</u>

12. GRANT REVENUES – OPERATING AND RESEARCH

Grant revenues consist of the following:

	<u>2019</u>	<u>2018</u>
Operating	\$ 63,767,696	\$ 61,786,160
Externally funded research	10,443,573	10,467,166
Total grant revenues	<u>\$ 74,211,269</u>	<u>\$ 72,253,326</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.

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13. PURCHASED SERVICE COSTS (continued)

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

The balance owing to Durham College for 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.

14. INVESTED IN CAPITAL ASSETS

Investment in capital assets represents the following:

	<u>2019</u>	<u>2018</u>
Capital assets - net book value	\$ 392,097,220	\$ 399,587,698
Less amount financed by deferred capital contributions	(161,099,202)	(162,548,903)
Less amount financed by long-term debt (Notes 8, 9 and 10)	(202,052,330)	(208,425,464)
Total investment in capital assets	\$ 28,945,688	\$ 28,613,331
	<u>2019</u>	<u>2018</u>
Net change in investment in capital assets:		
Purchases of capital assets	\$ 16,350,967	\$ 25,138,745
Amounts funded by:		
Deferred capital contributions	(7,788,678)	(7,002,703)
Repayment of long-term debt	6,208,155	4,269,076
	\$ 14,770,444	\$ 22,405,118
	<u>2019</u>	<u>2018</u>
Amortization of deferred capital contributions related to capital assets	\$ 9,238,378	\$ 9,035,624
Less amortization of capital assets	(23,676,465)	(23,729,724)
	\$ (14,438,087)	\$ (14,694,100)
Net change during the year	\$ 332,357	\$ 7,711,018

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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>2019</u>	<u>2018</u>
Balance comprised of the following:		
Research related activities	\$ 5,205,581	\$ 4,986,682
Capital related activities	14,810,642	12,338,531
Student awards	1,000,000	1,000,000
Working capital	6,000,000	6,000,000
Faculty carry-forwards	1,154,500	1,708,000
Fundraising campaign	1,453,321	1,453,321
Other	2,161,591	2,324,741
	<u>\$ 31,785,635</u>	<u>\$ 29,811,275</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>2019</u>	<u>2018</u>
OSOTF	\$ 1,983,628	\$ 1,991,980
OTSS	16,929,645	16,243,355
Other	2,930,015	2,805,093
	<u>\$ 21,843,288</u>	<u>\$ 21,040,428</u>

The change in the balance of endowments is as follows:

	<u>2019</u>	<u>2018</u>
Endowment fund balance, beginning of year	\$ 21,040,428	\$ 19,616,720
Donations	739,279	366,458
Realized gains	278,298	999,930
Realized investment income	401,943	531,680
Income distributions	(616,660)	(474,360)
Endowment fund balance, end of year	<u>\$ 21,843,288</u>	<u>\$ 21,040,428</u>

As per the Ministry of Training, Colleges and Universities policies, the transactions related to OSOTF and OTTS should be presented in these financial statements, for the year ended March 31, 2019.

	<u>OSOTF</u>	<u>OTTS</u>	<u>Total 2019</u>	<u>Total 2018</u>
Schedule of Changes in Endowment Fund Balance				
Endowment balance, beginning of year	\$ 1,629,559	\$ 14,134,275	\$ 15,763,834	\$ 15,228,925
Eligible cash donations	-	617,708	617,708	349,937
Preservation of capital	17,664	175,326	192,990	184,972
Endowment fund balance, end of year	<u>\$ 1,647,223</u>	<u>\$ 14,927,309</u>	<u>\$ 16,574,532</u>	<u>\$ 15,763,834</u>

Schedule of Changes in Expendable Funds

Available for Awards	<u>OSOTF</u>	<u>OTTS</u>	<u>Total 2019</u>	<u>Total 2018</u>
Expendable balance, beginning of year	\$ 362,421	\$ 2,109,080	\$ 2,471,501	\$ 1,728,113
Realized investment income	54,148	546,842	600,990	1,352,220
Less: Preservation of capital	(17,664)	(175,326)	(192,990)	(184,972)
Bursaries awarded	(62,500)	(478,260)	(540,760)	(423,860)
Expendable balance, end of year	<u>\$ 336,405</u>	<u>\$ 2,002,336</u>	<u>\$ 2,338,741</u>	<u>\$ 2,471,501</u>
Total funds, end of year	<u>\$ 1,983,628</u>	<u>\$ 16,929,645</u>	<u>\$ 18,913,273</u>	<u>\$ 18,235,335</u>

In the current year, 309 bursaries valued at \$616,660 were disbursed from the total endowed funds (2018 – 261 bursaries valued at \$474,360).

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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 should the employee elect to contribute an additional 2% to this plan. Contributions made by the University to the pension plan during the year were \$5,407,509 (2017 - \$5,052,366).

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, 2019 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, 2019 are as follows:

2020	\$	1,718,561
2021		1,724,304
2022		1,728,406
2023		1,712,583
2024		1,226,820
Thereafter		3,804,752
	\$	<u>11,915,426</u>

19. COMPARATIVE INFORMATION

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.