

Financial Statements of

**UNIVERSITY OF ONTARIO
INSTITUTE OF TECHNOLOGY**

March 31, 2005

Auditors' Report

To the Board of Governors
University of Ontario Institute of Technology

We have audited the statement of financial position of University of Ontario Institute of Technology as at March 31, 2005 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
May 20, 2005 (except for Note 13 which is dated June 8, 2005)

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

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UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Statement of Financial Position
March 31, 2005

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT		
Cash and short term investments	\$ 44,794,217	\$ 2,638,533
Restricted cash and short-term investments (Note 7)	7,500,000	-
Grant receivable	4,745,044	-
Other accounts receivable (Note 3)	1,386,334	2,416,653
Prepaid expenses	26,620	31,817
	58,452,215	5,087,003
CAPITAL ASSETS (Note 4)	243,077,177	164,708,782
OTHER ASSETS (Note 5)	4,071,389	-
	\$ 305,600,781	\$ 169,795,785
LIABILITIES		
CURRENT		
Demand loan (Note 6)	\$ -	\$ 76,259,980
Accounts payable and accrued liabilities	14,963,760	25,423,729
Deferred revenue (Note 8)	2,136,238	472,827
Current portion of long term debt (Note 7)	2,568,957	-
	19,668,955	102,156,536
LONG TERM DEBT (Note 7)	217,431,043	-
DEFERRED CONTRIBUTIONS (Note 9)	-	6,265,069
DEFERRED CAPITAL CONTRIBUTIONS (Note 10)	63,383,267	58,609,646
	300,483,265	167,031,251
NET ASSETS		
Unrestricted	3,287,215	(27,445,534)
Invested in capital assets (Note 11)	(2,388,528)	29,839,156
Internally restricted (Note 13)	2,224,582	-
Endowments (Note 14)	1,994,247	370,912
	5,117,516	2,764,534
	\$ 305,600,781	\$ 169,795,785

APPROVED ON BEHALF OF THE BOARD OF GOVERNORS

..... Chair

..... President

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Statement of Operations

Year ended March 31, 2005

	<u>2005</u>	<u>2004</u>
REVENUE		
Grants	\$ 30,228,778	\$ 15,122,601
Donations	185,626	60,371
Student tuition fees	7,150,028	3,719,047
Interest revenue	624,702	28,393
Student ancillary fees	4,248,052	1,599,555
Other income	727,713	491,676
Amortization of deferred capital contributions	3,026,379	1,988,805
	<u>46,191,278</u>	<u>23,010,448</u>
EXPENSES		
Salaries and benefits	18,960,874	11,679,946
Supplies and expenses	11,581,635	5,535,958
Professional fees	944,085	676,290
Interest expense	8,498,264	735,827
Amortization of capital assets	5,414,907	1,988,805
Amortization of deferred financing costs	61,866	-
	<u>45,461,631</u>	<u>20,616,826</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 729,647</u>	<u>\$ 2,393,622</u>

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY
Statement of Changes in Net Assets
Year ended March 31, 2005

	Total				2004
	Unrestricted	Invested in Capital Assets (Note 11)	Internally Restricted (Note 13)	Endowments	
BALANCE, BEGINNING OF YEAR	\$ (27,445,534)	\$ 29,839,156	\$ -	\$ 370,912	\$ 2,764,534
EXCESS OF REVENUE OVER EXPENSES	3,118,175	(2,388,528)	-	-	729,647
INTERFUND TRANSFER	(2,224,582)	-	2,224,582	-	-
INVESTMENT IN CAPITAL ASSETS	29,839,156	(29,839,156)	-	-	-
ENDOWMENT CONTRIBUTIONS	-	-	-	1,623,335	1,623,335
NET CHANGES DURING THE YEAR	30,732,749	(32,227,684)	2,224,582	1,623,335	2,352,982
BALANCE, END OF YEAR	\$ 3,287,215	\$ (2,388,528)	\$ 2,224,582	\$ 1,994,247	\$ 5,117,516
					\$ 2,764,534

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Statement of Cash Flows

Year ended March 31, 2005

	2005	2004
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Excess of revenue over expenses	\$ 729,647	\$ 2,393,622
Items not affecting cash		
Amortization of deferred financing costs	61,866	-
Amortization of capital assets	5,414,907	1,988,805
Amortization of deferred contributions	(15,917,341)	(735,827)
Amortization of deferred capital contributions	(3,026,379)	(1,988,805)
Net change in non-cash working capital	(12,737,300)	1,657,795
Balances relating to operations		
Grant and other accounts receivable	(3,714,725)	3,188,293
Accrued interest receivable	-	34,316
Prepaid expenses	5,197	(31,817)
Accounts payable and accrued liabilities	(10,459,969)	16,747,337
Deferred revenue	1,663,411	462,827
Deferred transitional grant	-	(2,475,137)
	(25,243,386)	19,583,614
INVESTING		
Purchase of capital assets	(83,783,302)	(143,055,292)
Endowment contributions	1,623,335	370,912
Restricted cash and short-term investments	(7,500,000)	-
	(89,659,967)	(142,684,380)
FINANCING		
Other assets	(4,133,255)	-
Demand loan	(76,259,980)	76,259,980
Long-term debt	220,000,000	-
Deferred contributions	9,652,272	7,000,896
Deferred capital contributions	7,800,000	1,000,000
	157,059,037	84,260,876
NET CASH INFLOW (OUTFLOW)	42,155,684	(38,839,890)
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	2,638,533	41,478,423
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	\$ 44,794,217	\$ 2,638,533
CASH AND SHORT-TERM INVESTMENTS IS COMPRISED OF:		
Cash	\$ 37,229,298	\$ 2,387,637
Short-term investments	7,564,919	250,896
	\$ 44,794,217	\$ 2,638,533
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 2,007,018	\$ 735,827

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Notes to the Financial Statements

March 31, 2005

1. DESCRIPTION

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 undergraduate education. The University is a registered charity under Section 149 of the Income Tax Act and is, therefore, exempt from income taxes, provided the specified disbursements quota is achieved.

2. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

(a) *Basis of presentation*

The Financial Statements of the University have been prepared by management in accordance with the accounting standards for not-for-profit organizations, published by the Canadian Institute Chartered Accountants (CICA). These financial statements reflect the assets, liabilities, net assets, revenue and expenses of all the operations controlled by the University.

(b) *Revenue recognition*

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

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

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

Student fees are recognized as revenue when courses are provided.

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

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

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

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

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Notes to the Financial Statements

March 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Short-term investments*

Short-term investments consist of highly liquid investments having terms to maturity on acquisition of between three months and one year. Short-term investments are recorded at the lower of cost or market value.

(d) *Deferred financing costs*

Deferred financing costs are amortized on a straight-line basis over the term of the long-term debt.

(e) *Capital assets*

Purchased capital assets are recorded at cost. 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. Repairs and maintenance costs are charged to expense. Betterments, which extend the estimated useful life of an asset, are capitalized. When a capital asset no longer contributes to the University's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis over their average useful lives, which have been estimated to be as follows:

Buildings	40 years
Furniture, fixtures and equipment	5 years
Computer equipment	3 years
Building renovations/upgrades	10 years
Major equipment	10 years

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

(f) *Deferred capital contributions*

Contributions received for capital assets are deferred in the accounts and amortized over the same term and on the same basis as the related capital asset.

(g) *Student organizations*

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

(h) *Employee future benefits*

The University recognizes employee future benefits (health, dental, life insurance and other retirement obligations) as they are earned during the employees' tenure of service.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Notes to the Financial Statements

March 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Sabbaticals and other leaves*

The cost of sabbaticals and leaves are recorded when paid.

(j) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

3. OTHER ACCOUNTS RECEIVABLE

Included in other accounts receivable is an amount of \$200,000 due from Durham College of Applied Arts and Technology relating to a donation intended for the University where the funds were inadvertently sent to Durham College of Applied Arts and Technology. These funds were transferred to the University subsequent to March 31, 2005.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2005				2004	
	Cost		Balance End of Year	Amortization	Net Book Value	Net Book Value
	Balance Beginning of Year	Additions/ Transfers				
Buildings	\$ 54,818,937	\$ 115,070,386	\$ 169,889,323	\$ 3,848,126	\$ 166,041,197	\$ 54,019,494
Building renovations	2,411,358	138,480	2,549,838	572,483	1,977,355	2,088,091
Furniture, fixtures and equipment	2,450,511	2,419,374	4,869,885	1,507,385	3,362,500	1,714,836
Computer equipment	2,285,411	996,150	3,281,561	1,364,244	1,917,317	1,877,318
Major equipment	825,833	5,255,391	6,081,224	513,023	5,568,201	701,958
Construction-in- progress	104,307,085	(40,096,478)	64,210,607	-	64,210,607	104,307,085
	\$ 167,099,135	\$ 83,783,303	\$ 250,882,438	\$ 7,805,261	\$ 243,077,177	\$ 164,708,782

Interest capitalized for the current year totaled \$2,946,124 (2004 - \$1,988,805).

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Notes to the Financial Statements

March 31, 2005

5. OTHER ASSETS

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

During the year, the University provided \$2,277,272 from the debenture proceeds to Durham College of Applied Arts and Technology for the 2005 mortgage payment on the Windfields Farms land. Included in other assets is \$2,277,272 due from Durham College of Applied Arts and Technology relating to this payment.

Also included are deferred financing costs of \$1,794,117, incurred on the issuance of the \$220,000,000 Series A Debentures (Note 7).

6. DEMAND LOAN

In 2004, the University was approved for bridge loan financing for capital projects in the amount of \$100,000,000 at an interest rate of Bank of Canada Prime less 0.25%. During the current year, the balance of \$76,259,980 owing at March 31, 2004, was repaid in full from the proceeds of the \$220,000,000 Series A Debentures (Note 7).

7. LONG-TERM 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 are being 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 of Applied Arts and Technology.

As at March 31, 2005, \$182,082,438 (2004 - \$Nil) had been used to finance capital assets and construction in progress.

In accordance with the Debenture agreement, as at March 31, 2005, \$7,500,000 (2004 - \$Nil) of cash had been restricted for principal payments.

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

2006	\$ 2,568,957
2007	2,734,702
2008	2,911,140
2009	3,098,963
2010	3,298,903
Thereafter	205,387,335
	<hr/>
	\$ 220,000,000

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Notes to the Financial Statements

March 31, 2005

8. DEFERRED REVENUE

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

	<u>2005</u>	<u>2004</u>
Research	\$ 421,234	\$ 95,511
Grants	235,473	-
Ancillary fees	88,027	45,377
Donations	899,096	-
Bursaries	90,982	126,939
Tuition	317,072	205,000
Other	84,354	-
	<u>\$ 2,136,238</u>	<u>\$ 472,827</u>

9. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants and donations. The changes in the balance consist of the following:

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 6,265,069	\$ -
Contributions	9,652,272	7,000,896
Recognized as revenue during the year	(15,917,341)	(735,827)
Balance, end of year	<u>\$ -</u>	<u>\$ 6,265,069</u>

Balance is comprised of:

	<u>2005</u>	<u>2004</u>
Ministry of Training Colleges and Universities		
Grant - Capital debt repayment	\$ 15,917,341	\$ 6,750,000
Other donations for debt repayment	-	250,896
	<u>15,917,341</u>	<u>7,000,896</u>
Less recognized as revenue	<u>(15,917,341)</u>	<u>(735,827)</u>
	<u>\$ -</u>	<u>\$ 6,265,069</u>

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Notes to the Financial Statements

March 31, 2005

10. DEFERRED CAPITAL CONTRIBUTIONS

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

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 58,609,646	\$ 59,598,451
Contributions	7,800,000	1,000,000
Recognized as revenue during the year	<u>(3,026,379)</u>	<u>(1,988,805)</u>
Balance, end of year	<u>\$ 63,383,267</u>	<u>\$ 58,609,646</u>

11. INVESTED IN CAPITAL ASSETS

(a) Investment in capital assets represents the following:

	<u>2005</u>	<u>2004</u>
Capital assets	\$ 243,077,177	\$ 164,708,782
Less net book value of assets financed by:		
Demand loan (Note 6)	-	(76,259,980)
Long-term debt (Note 7)	(182,082,438)	-
Deferred capital contributions (Note 10)	<u>(63,383,267)</u>	<u>(58,609,646)</u>
Investment in capital assets	<u>\$ (2,388,528)</u>	<u>\$ 29,839,156</u>

(b) Change in investment in capital assets is calculated as follows:

	<u>2005</u>	<u>2004</u>
Amortization of deferred capital contributions	\$ 3,026,379	\$ 1,988,805
Less amortization of capital assets	<u>(5,414,907)</u>	<u>(1,988,805)</u>
	<u>\$ (2,388,528)</u>	<u>\$ -</u>

Net change in investment in capital assets:

Purchases of capital assets	\$ 83,783,302	\$ 143,055,292
Amounts funded by:		
Demand loan	-	(76,259,980)
Long-term debt	(105,822,458)	-
Deferred capital contributions	<u>(7,800,000)</u>	<u>(36,956,156)</u>
	<u>\$ (29,839,156)</u>	<u>\$ 29,839,156</u>

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Notes to the Financial Statements

March 31, 2005

12. SERVICE COSTS

As required under Bill 109, the University has entered into an agreement with Durham College of Applied Arts and Technology to share in the use of its administrative services. The service costs for salary and benefit expenses recorded in the University financial statements have been allocated using the percentage of time that each administrative function spent on University activities and an allocation for overhead expenses has been recorded based on College facilities used by the University based on square footage utilized.

13. INTERNALLY RESTRICTED NET ASSETS

On June 8, 2005, the Board of Governors approved the transfer of \$2,224,582 unrestricted funds to internally restricted funds for operating activities during the year ending March 31, 2006. Details of the internally restricted net assets are as follows:

	<u>2005</u>	<u>2004</u>
Academic and department carryforwards	\$ 835,493	\$ -
Research related activities	<u>1,389,089</u>	-
	<u>\$ 2,224,582</u>	-

The University's policy permits the carry forward of unspent budget allocations at the end of each year for expenditure in the following year.

14. ENDOWMENTS

Endowment funds are restricted donations received by the University where the endowment principal is required to be maintained intact. The investment income generated from these endowments must be used in accordance with the various purposes established by donors. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

Investment income on endowments is deferred and recorded in the statement of operations when the donors' conditions have been met and the related expenses are recognized.

Endowment funds include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund ("OSOTF"). Under this program, the government matches funds raised by the University. The purpose of the programs is to assist academically qualified individuals who, for financial reasons, would not otherwise be able to attend University.

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Notes to the Financial Statements

March 31, 2005

14. ENDOWMENTS (continued)

The balance of endowments at March 31, 2005 consists of the following:

	<u>2005</u>	<u>2004</u>
OSOTF (Note 15)	\$ 1,957,497	\$ 332,405
Other	36,750	38,507
	<u>\$ 1,994,247</u>	<u>\$ 370,912</u>

15. ONTARIO STUDENT OPPORTUNITY TRUST FUNDS

The restricted endowment fund includes funds granted by the Government of Ontario for the Ontario Student Opportunity Trust Funds. The investment revenue earned on those funds must be used for financial aid of Ontario students.

The University has recorded the following amounts under the program:

	<u>2005</u>	<u>2004</u>
Endowment balance, beginning of year	\$ 332,405	\$ -
Cash donations received	1,625,092	332,405
Transfer to expendable funds	-	-
Endowment balance, end of year	<u>\$ 1,957,497</u>	<u>\$ 332,405</u>

Expendable funds available for awards:

Expendable funds, beginning of year	\$ 2,909	\$ -
Investment income, net of direct investment related expenses	24,925	2,909
Transfer from endowment	-	-
Bursaries awarded (total number: 1)	(1,000)	-
Expendable funds, end of year	<u>\$ 26,834</u>	<u>\$ 2,909</u>

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 elections of 2%. Contributions made by the University to the pension plan during the period were \$618,610 (2004 - \$320,525).

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

Notes to the Financial Statements

March 31, 2005

17. CONTRACTUAL COMMITMENTS

During the year ended March 31, 2005, the University had signed contracts for the construction of new facilities totaling approximately \$14,591,502. As at March 31, 2005, \$188,501 had been incurred with respect to these contracts.

18. FINANCIAL INSTRUMENTS

Fair value

The fair value of financial assets and liabilities except for long-term debt approximates their carrying value due to their short-term nature. The estimated fair value of long-term debt is approximately \$231,000,000.

19. GUARANTEES

The University's primary guarantees are as follows:

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

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

20. COMPARATIVE FIGURES

Certain prior year figures presented for comparison purposes have been reclassified to conform to the current year's presentation.