

Financial Statements of

**ONTARIO COLLEGE OF ART &  
DESIGN UNIVERSITY**

Year ended May 31, 2016



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## INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the  
Ontario College of Art & Design University

We have audited the accompanying financial statements of the Ontario College of Art & Design University, which comprise the balance sheet as at May 31, 2016, the statements of operations and unrestricted net assets, 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

### *Auditors' Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Ontario College of Art & Design University as at May 31, 2016, and its results of operations and unrestricted net assets, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

October 5, 2016  
Vaughan, Canada

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

## Balance Sheet

May 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 3)	\$ 9,086,883	\$ 8,229,826
Restricted cash (note 3)	—	13,887,090
Short-term investments (notes 3 and 4)	6,007,081	2,970,897
Accounts receivable (allowance for doubtful accounts of \$1,293,306 (2015 - \$1,019,077))	5,328,560	4,459,016
Other	1,553,927	1,342,323
	<u>21,976,451</u>	<u>30,889,152</u>
Investment in joint venture (note 5)	19,609,367	18,596,332
Investments (note 4)	15,981,944	15,730,148
Capital assets (note 6)	73,015,007	69,410,337
	<u>\$ 130,582,769</u>	<u>\$ 134,625,969</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 10,391,207	\$ 10,349,083
Deferred revenue	5,029,491	4,989,643
Other deferred contributions (note 8)	10,683,875	11,184,930
Operating loan (note 10)	4,480,564	3,379,000
Current portion of long-term debt (note 10)	743,902	689,062
	<u>31,329,039</u>	<u>30,591,718</u>
Deferred capital contributions (note 9)	47,367,297	46,484,093
Long-term debt (note 10)	30,741,459	31,485,361
Net assets:		
Unrestricted	(224,408)	1,067,065
Internally restricted (note 11)	7,407,972	11,279,501
Endowments (notes 12 and 13)	13,961,410	13,718,231
	<u>21,144,974</u>	<u>26,064,797</u>
Contingencies and commitments (note 16)		
	<u>\$ 130,582,769</u>	<u>\$ 134,625,969</u>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

## Statement of Operations and Unrestricted Net Assets

Year ended May 31, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Provincial grants	\$ 25,217,925	\$ 26,161,940
Student fees	35,217,505	34,106,695
Research contributions	3,824,363	3,553,062
Class fees and supply sales	879,577	903,274
Investment	237,010	359,058
General donations	1,869,275	1,292,521
Bursary and scholarship donations (note 13)	1,152,545	588,900
Amortization of deferred capital contributions (note 9)	2,089,527	5,403,037
Rental	139,912	1,569,278
Other	2,650,429	2,595,348
	<u>73,278,068</u>	<u>76,533,113</u>
Expenses:		
Academic:		
Salaries and benefits (note 14)	40,512,336	37,864,020
Support	7,504,654	6,836,103
	<u>48,016,990</u>	<u>44,700,123</u>
Non-academic	14,823,811	14,238,788
Bursaries and scholarships	2,411,237	1,799,385
Facility management and operating	7,524,638	9,075,736
Amortization of capital assets	3,661,203	3,385,592
Interest (note 10)	2,003,191	1,981,494
	<u>78,441,070</u>	<u>75,181,118</u>
Excess (deficiency) of revenue over expenses	(5,163,002)	1,351,995
Net change in internally restricted net assets (note 11)	3,871,529	(2,970,898)
Change in unrestricted net assets	(1,291,473)	(1,618,903)
Unrestricted net assets, beginning of year	1,067,065	2,685,968
Unrestricted net assets, end of year	<u>\$ (224,408)</u>	<u>\$ 1,067,065</u>

See accompanying notes to financial statements.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

## Statement of Changes in Net Assets

Year ended May 31, 2016, with comparative information for 2015

				2016	2015
	Unrestricted	Internally restricted	Endowments (note 12)	Total	Total
Net assets, beginning of year	\$ 1,067,065	\$ 11,279,501	\$ 13,718,231	\$ 26,064,797	\$ 22,859,950
Excess (deficiency) of revenue over expenses	(5,163,002)	–	–	(5,163,002)	1,351,995
Endowment contributions	–	–	693,423	693,423	663,654
Net changes in endowment fund activities (note 12(b))	–	–	(450,244)	(450,244)	1,189,198
Board-approved interfund transfer	3,871,529	(3,871,529)	–	–	–
<b>Net assets, end of year</b>	<b>\$ (224,408)</b>	<b>\$ 7,407,972</b>	<b>\$ 13,961,410</b>	<b>\$ 21,144,974</b>	<b>\$ 26,064,797</b>

See accompanying notes to financial statements.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

## Statement of Cash Flows

Year ended May 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (5,163,002)	\$ 1,351,995
Items not involving cash:		
Amortization of capital assets	3,661,203	3,385,592
Amortization of deferred capital contributions	(2,089,527)	(5,403,037)
Deferred capital contributions recognized as revenue related to expenses recorded in statement of operations	(1,460,274)	(934,729)
Realized gain on sale of capital asset	–	(647,808)
Unrealized and realized gain on investments	(229,513)	(1,432,066)
	(5,281,113)	(3,680,053)
Net change in non-cash working capital balances related to operations	(1,500,231)	1,591,958
	(6,781,344)	(2,088,095)
Financing activities:		
Due from OCAD University Foundation	–	12,500,161
Endowment contributions	693,423	663,654
Capitalization of investment income in endowments	267,544	1,881,094
Endowment disbursements	(717,788)	(691,896)
Restricted contributions received for capital purposes	3,133,005	2,386,082
Receipt of operating loan	4,480,564	–
Repayment of long-term debt	(689,062)	(641,864)
Repayments of operating loan	(3,379,000)	(304,000)
	3,788,686	15,793,231
Investing activities:		
Changes in investment in joint venture	(1,013,035)	(1,096,332)
Proceeds from disposal of capital asset	–	16,500,000
Purchase of capital assets	(5,965,873)	(3,638,792)
Restricted cash	13,887,090	(13,887,090)
Net change in investments	(3,058,467)	(10,749,436)
	3,849,715	(12,871,650)
Increase in cash and cash equivalents	857,057	833,486
Cash and cash equivalents, beginning of year	8,229,826	7,396,340
Cash and cash equivalents, end of year	\$ 9,086,883	\$ 8,229,826
Supplemental disclosure of non-cash transactions:		
Contributions to joint venture	\$ –	\$ 17,500,000
Non-cash restricted contributions received for capital purposes	1,300,000	189,198
Non-cash capital assets additions	1,300,000	11,102

See accompanying notes to financial statements.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2016

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## 1. Purpose of the Organization:

Ontario College of Art & Design University commenced operations in 1876 and was continued under the Ontario College of Art & Design Act in 2002. Bill 43, enacted June 8, 2010, the Post-secondary Educational Statute Law Amendment Act, included provisions to change the name of the Ontario College of Art & Design to Ontario College of Art & Design University (the "University"). The University is dedicated to providing post-secondary education to artists and designers.

The University is a charitable organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

## 2. Significant accounting policies:

These financial statements are prepared in accordance with Part III of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook - Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below:

### (a) Revenue recognition:

The University follows the deferral method of accounting for contributions, which include grants and donations. Grants and bequests are recognized in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received as pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially received. Externally restricted contributions, except endowment contributions, are deferred and recognized as revenue in the year in which the related expenses are recognized. Externally restricted endowment contributions are recognized as direct increases in net assets.

Fees are recognized when the services have been provided.

Investment income, which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, is recorded in the statement of operations and unrestricted net assets, except to the extent it is externally restricted; in which case, it is deferred and recognized as revenue in the year when the restriction is met.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

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## 2. Significant accounting policies (continued):

### (b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and short-term investments with maturities of less than 90 days at the date of purchase. Cash and cash equivalents exclude amounts that are managed for returns rather than being held for liquidity.

### (c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. 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, unless management has elected to carry the instruments at fair value. The University has elected to carry fixed income investments at fair value based on quoted bid prices.

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.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

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## 2. Significant accounting policies (continued):

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes to notional contract amounts. When these instruments have been designated as effective hedges, they are not recorded in the accounts. Hedges are documented at inception, detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. Derivative transactions that do not qualify for hedge accounting are carried at fair value, with changes in value during the year recorded as revenue or expense.

### (d) Capital assets:

Land is carried at cost. Purchased capital assets are recorded at acquisition cost. Donated capital assets are capitalized at fair market value at the date of contribution. Capital assets are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

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#### Tangible

Buildings and building improvements	40 years
Equipment and furnishings	8 years
Computer equipment	5 years
Leasehold improvements	Term of lease

#### Intangible

Enterprise Resource Planning ("ERP") Solution	20 years
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### (e) Employee future benefits:

Contributions to a defined contribution pension plan are expensed on an accrual basis.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

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## 2. Significant accounting policies (continued):

(f) Contributed materials and services:

Donors contribute an indeterminable amount of materials and services each year. Because of the difficulty of determining their fair value, contributed materials and services are not recognized in these financial statements.

(g) Allocation of costs:

Academic and non-academic expenses and facility management and operating costs presented in the statement of operations and unrestricted net assets include the costs of personnel and other expenses that are directly related to the function. General support and other costs are not allocated.

(h) Investment in joint venture:

The University elected to account for the investment in joint venture (note 5) by using the equity method, whereby the investment is carried in the financial statements at cost plus post-acquisition changes in the University's share of the net assets of the investment.

(i) Related party transactions:

The University is related to a joint venture (note 5) of which the University has 50% interest. Related party transactions between two organizations are recorded at exchange amount, which is the consideration established and agreed upon by the related parties.

(j) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure or contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates include allowance for doubtful accounts, certain accounts receivable and accrued liabilities, and carrying values of investment in joint venture and capital assets. Actual results could differ from those estimates.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

### 3. Cash and cash equivalents and short-term investments:

In fiscal 2015, a portion of proceeds from conveyance of 50% interest in 230/240 Richmond Street (the "Property") has been set aside as restricted cash and designated by the lender to be applied against scheduled principal payments for the term reducing facility.

During fiscal year 2016, the Board of Governors internally restricted \$13,634,028 of the cash and cash equivalents and short-term investments for future debt repayments (note 10(a)(ii)) of the facility used to finance a portion of the acquisition of 230/240 Richmond Street.

### 4. Investments:

(a) Investments consist of the following:

	2016		2015	
	Fair value	Cost	Fair value	Cost
Canadian equities	\$ 5,367,054	\$ 3,622,919	\$ 5,710,357	\$ 3,709,856
Non-Canadian	4,320,098	2,635,540	4,571,594	2,322,843
Fixed income	11,258,265	11,060,152	8,403,485	8,176,076
Money market	1,043,608	1,043,050	15,609	15,609
	<u>\$ 21,989,025</u>	<u>\$ 18,361,661</u>	<u>\$ 18,701,045</u>	<u>\$ 14,224,384</u>

(b) Investments classified as non-current primarily represents the total of unspent deferred capital contributions (note 9) and fair value of the investments held for endowments (note 12). To the extent that the total investments exceeds this total, the difference is recorded as short-term investments.

(c) As at May 31, 2016, fixed income securities have a weighted average yield of 2.08% (2015 - 1.88%) and a weighted average term to maturity of 4.15 years (2015 - 3.83 years).

### 5. Investment in joint venture:

Pursuant to a joint venture agreement dated May 28, 2015, the University conveyed its 50% interest in the Property to the joint venture. The joint venture has a December 31 year end and follows the Canadian accounting standards for private enterprises of the CPA Canada Handbook.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

## 5. Investment in joint venture (continued):

As at and for the year ended May 31, 2016, the University's interest in the joint venture is summarized as follows:

	2016	2015
Total assets	\$ 28,568,069	\$ 18,596,332
Total liabilities	8,958,702	–
Total shareholders' equity	19,609,367	18,596,332
Revenue	1,365,163	–
Expenses	1,382,835	–

Corresponding with the conveyance of the 50% interest of the Property, the University immediately entered into an agreement to lease a portion of the Property back from the joint venture for 20 years. The gain on disposal realized on this transaction is deferred (note 8) and is being recorded in the statement of operations and unrestricted net assets in proportion to the rental payments over the lease term of 20 years. The future lease commitments under the arrangement are disclosed in note 16(b).

Included in facility management and operating expense is \$1,230,803 of rent paid to the joint venture in fiscal year 2016 (2015 - nil).

## 6. Capital assets:

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
<b>Tangible</b>				
Land	\$ 4,993,375	\$ –	\$ 4,993,375	\$ 4,993,375
Buildings and building improvements	100,136,790	40,920,861	59,215,929	58,836,092
Equipment and furnishings	10,966,850	9,943,814	1,023,036	1,123,994
Computer equipment	9,904,686	8,294,490	1,610,196	1,922,756
Leasehold improvements	3,205,673	160,284	3,045,389	–
<b>Intangible</b>				
ERP Solution	3,493,109	366,027	3,127,082	2,534,120
	\$ 132,700,483	\$ 59,685,476	\$ 73,015,007	\$ 69,410,337

As at May 31, 2016, buildings and building improvements include construction in progress of \$757,792 (2015 - \$190,324), which is not being amortized.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

## 7. Government remittances payable:

As at May 31, 2016, accounts payable and accrued liabilities include government remittances payable of nil (2015 - \$665,623).

## 8. Deferred contributions:

Deferred contributions represent unspent resources externally restricted for program expenses in future years and a portion of the gain deferred on the sale leaseback transaction (note 5). Changes in the deferred contributions balance are as follows:

	2016	2015
Balance, beginning of year	\$ 11,184,930	\$ 3,157,815
Amounts received	6,897,611	11,402,166
Amounts recognized as revenue	(7,398,666)	(3,375,051)
Balance, end of year	\$ 10,683,875	\$ 11,184,930

## 9. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations and unrestricted net assets. The changes in the deferred capital contributions balance are as follows:

	2016	2015
Balance, beginning of year	\$ 46,484,093	\$ 50,246,579
Contributions restricted for capital purposes	4,433,005	2,575,280
Amortization of deferred capital contributions	(2,089,527)	(5,403,037)
Amount recognized as revenue-related expensed capital items	(1,460,274)	(934,729)
Balance, end of year	47,367,297	46,484,093
Less unspent capital contributions (note 4)	2,020,535	2,011,917
Contributions funding capital assets	\$ 45,346,762	\$ 44,472,176

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

## 10. Debt:

The University has the following outstanding debt:

2016	Current	Long-term	Total
Campus expansion:			
Loan facility (a)(i)	\$ 469,000	\$ 17,382,333	\$ 17,851,333
Loan facility (a)(ii)	274,902	13,359,126	13,634,028
	743,902	30,741,459	31,485,361
Operating loan (a)(iii)	1,980,564	–	1,980,564
Operating loan (a)(iv)	2,500,000	–	2,500,000
	4,480,564	–	4,480,564
	\$ 5,224,466	\$ 30,741,459	\$ 35,965,925

2015	Current	Long-term	Total
Campus expansion:			
Loan facility (a)(i)	\$ 436,000	\$ 17,851,333	\$ 18,287,333
Loan facility (a)(ii)	253,062	13,634,028	13,887,090
	689,062	31,485,361	32,174,423
Operating loan (a)(iii)	3,379,000	–	3,379,000
	\$ 4,068,062	\$ 31,485,361	\$ 35,553,423

(a) Campus expansion debt consists of:

- (i) The University has a term-reducing facility with interest payable at the banker's acceptance rate plus a fee of 0.25% (2015 - 0.25%) converted to an effective rate of 5.39%, repayable at \$120,000 per month principal and interest. The term of the unsecured loan is 10 years from the date of the drawdown of October 1, 2007 with a 30-year amortization period. The proceeds from the facility were used to finance the Superbuild expansion program and acquisition of 205 Richmond Street.
- (ii) The University has a term-reducing facility with interest payable at the banker's acceptance rate plus a fee of 1.50% (2015 - 1.50%) converted to an effective rate of 5.84%, repayable at \$88,000 per month principal and interest. The term of the unsecured loan is 10 years from the date of the drawdown of March 8, 2010 with a 30-year amortization period. The proceeds from the facility were used to finance a portion of the acquisition of 230/240 Richmond Street.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

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## 10. Debt (continued):

- (iii) During fiscal year 2016, the University entered into an unsecured operating facility available as: (a) loans by way of direct advances with a variable interest based on prime rate (2015 - prime rate plus 0.15%) or (b) 28 to 181 day banker's acceptances with rates calculated on the face amount multiplied by a fraction of which the numerator is equivalent to the term to maturity of such Bankers' acceptances expressed in days, and the denominator represents the number of days in each applicable year. Interest is paid monthly and the credit limit is not to exceed \$8,000,000. The proceeds from the facility are used for the purpose of financing the operating requirements of the University.
- (iv) During fiscal year 2016, the University entered into an unsecured operating facility available as: (a) loans by way of direct advances with a variable interest based on prime rate (2015 - prime rate plus 0.15%) or (b) 28 to 181 day banker's acceptances with rates calculated on the face amount multiplied by a fraction of which the numerator is equivalent to the term to maturity of such Bankers' acceptances expressed in days, and the denominator represents the number of days in each applicable year.. The maximum principal amount not to exceed \$10,000,000 is for the purpose of financing short-term capital projects at 230 Richmond Street, 199 Richmond Street and 115 McCaul Street (the "Capital Projects"). The outstanding principal prior to any demand by the lender shall be payable by way of equal monthly installments calculated on the basis of a straight-line method, determined on an amortization period of 20 years commencing on the earlier of (a) substantial completion of all of the Capital Projects and (b) the date which is 5 years subsequent to the date of this agreement.

The term-reducing facility and operating loan (a)(iii) and (iv) agreements require the University to comply with certain non-financial covenants and that the University cannot sell or dispose of any assets and create, incur or assume any debt, other than certain allowable transactions, without the lender's consent.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

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## 10. Debt (continued):

- (b) In order to manage interest rate exposure, the University has in place interest rate swap agreements (the "Agreements"), designated as hedges of the long-term debt (the "Campus Expansion Loans"), which will expire on February 1, 2037 and February 8, 2040. Under the terms of the Agreements, the University agrees with the counterparty to exchange, at specified intervals and for a specific period, its floating interest for fixed interest calculated on the notional principal amount of the Campus Expansion Loans. The use of the swaps effectively enables the University to convert the floating rate interest obligations of the Campus Expansion Loans into fixed rate obligations and thus, manage its exposure to interest rate cash flow risk. As at May 31, 2016, the Agreements qualified as effective hedge transactions. Having met the criteria to apply hedge accounting, the University has not recognized the fair value of the Agreements in these financial statements.

As at May 31, 2016, the total notional values of the Agreements are \$31,932,028 (2015 - \$32,621,090).

- (c) The following are the future annual debt principal repayments due over the next five fiscal years and thereafter for the campus expansion debt:

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2017	\$ 743,902
2018	781,104
2019	825,431
2020	867,779
2021	913,339
Thereafter	27,780,473
	<hr/> 31,912,028
Less unamortized financing costs	426,667
	<hr/> \$ 31,485,361

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The future annual debt repayments are based on the loan term being co-terminus with the swap amortization period.

Total interest recognized on an accrual basis in the statement of operations and unrestricted net assets was \$2,003,191 (2015 - \$1,981,494), of which \$1,835,907 (2015 - \$1,886,890) is related to debt initially incurred for a term of more than one year.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

## 11. Internally restricted net assets:

Net assets have been internally restricted for the following purposes:

	2016	2015
Capital assets funded by operations	\$ 5,446,220	\$ 6,118,373
Joint venture startup costs	1,094,695	3,531,000
Digital Futures Initiative	462,040	462,040
ERP project implementation	266,017	607,088
Professional gallery	139,000	–
Capital renovations	–	561,000
	<u>\$ 7,407,972</u>	<u>\$ 11,279,501</u>

In fiscal year 2016, the net change in the internally restricted net assets totalled \$3,871,529 (2015 - \$2,970,898).

## 12. Endowments:

Endowment funds consist of externally or internally restricted contributions received by the University where the endowment principal is required by the donor or the Board of Governors to be maintained permanently. The investment income generated from assets held for endowment purposes must be used in accordance with the various purposes established by the donors or the Board of Governors.

(a) Endowment net assets consist of the following:

	2016	2015
Externally endowed funds with income to be used for donor-restricted purposes	\$ 13,407,948	\$ 13,147,782
Externally endowed funds with income unrestricted	231,610	239,470
Internally endowed restricted funds with income to be used for scholarships and bursaries	321,852	330,979
	<u>\$ 13,961,410</u>	<u>\$ 13,718,231</u>

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

## 12. Endowments (continued):

(b) The net changes in endowment activities are summarized as follows:

	2016	2015
Unrealized gain (loss) on investments	\$ (670,214)	\$ 1,026,459
Realized gain of investments	503,710	507,414
Capitalization of investment income	434,048	347,221
Management fees	(237,650)	(217,281)
Disbursements	(480,138)	(474,615)
	<u>\$ (450,244)</u>	<u>\$ 1,189,198</u>

## 13. Ontario government matching programs:

(a) The University receives and records in its financial statements donations eligible for matching under Government of Ontario matching programs that provide funding for bursaries.

(b) The following represents the cost and market values of the endowment balance in the first phase of the Ontario Student Opportunity Trust Fund ("OSOTF I"):

	2016	2015
Endowment balance, at cost, beginning and end of year	\$ 501,877	\$ 501,877
Endowment balance, at market, end of year	\$ 683,565	\$ 706,895

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

## 13. Ontario government matching programs (continued):

The following is the schedule of changes in expendable funds available for awards of OSOTF I for the year ended May 31. This balance is included in other deferred contributions on the balance sheet of the University.

	2016	2015
Expendable funds available for awards, beginning of year	\$ 25,766	\$ 20,307
Amount available for spending	24,725	25,766
Bursaries awarded recorded as bursary and scholarship donations	(25,766)	(20,307)
Expendable funds available for awards, end of year	\$ 24,725	\$ 25,766
Number of bursaries awarded	25	14

- (c) The Government of Ontario requires separate reporting of balances as of March 31 in connection with the second phase of the Ontario Student Opportunity Trust Fund ("OSOTF II"). The following represents the cost and market values of the endowment balance of OSOTF II for the year ended May 31:

	2016	2015
Endowment balance, at cost, beginning and end of year	\$ 346,054	\$ 346,054
Endowment balance, at market, end of year	\$ 471,322	\$ 487,408

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

## 13. Ontario government matching programs (continued):

The following is the schedule of changes in expendable funds available for awards of OSOTF II for the year ended May 31. This balance is included in other deferred contributions on the balance sheet of the University.

	2016	2015
Expendable funds available for awards, beginning of year	\$ 17,766	\$ 14,002
Amount available for spending	17,048	17,766
Bursaries awarded recorded as bursary and scholarship donations	(17,766)	(14,002)
Expendable funds available for awards, end of year	\$ 17,048	\$ 17,766
Number of bursaries awarded	9	5

- (d) The Government of Ontario requires separate reporting of balances as of May 31 and details of the changes in the balances for the year then ended in connection with the Ontario Trust for Student Support ("OTSS").

The following is the schedule of donations received for the years ended May 31:

	2016	2015
Cash donations not eligible for matching	\$ 4,256	\$ 20,820

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

## 13. Ontario government matching programs (continued):

The following is the schedule of changes in the endowment balance of OTSS, at cost, for the year ended May 31:

	2016	2015
Endowment balance, at cost, beginning of year	\$ 5,756,264	\$ 5,735,444
Cash donations received	4,256	20,820
<b>Endowment balance, at cost, end of year</b>	<b>\$ 5,760,520</b>	<b>\$ 5,756,264</b>
Endowment balance, at market, end of year	\$ 7,845,765	\$ 8,107,381

The following is the schedule of changes in expendable funds available for awards of OTSS for the year ended May 31. The balance is included in other deferred contributions on the balance sheet of the University.

	2016	2015
Expendable funds available for awards, beginning of year	\$ 293,885	\$ 231,614
Amounts available for spending	283,786	293,885
Bursaries awarded recorded as bursary and scholarship donations	(293,885)	(231,614)
<b>Expendable funds available for awards, end of year</b>	<b>\$ 283,786</b>	<b>\$ 293,885</b>
Number of bursaries awarded	139	76

## 14. Pension Plan:

The Ontario College of Art & Design Pension Plan (the "Plan") is a defined contribution plan. The University matches contributions made by members of the Plan and also contributes any further amounts which may be required to defray the administrative and operating expenses of the Plan. In 2016, contributions made by the University to the Plan included in the statement of operations and unrestricted net assets totalled \$2,083,274 (2015 - \$1,942,795).

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

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## 15. Canadian Universities Reciprocal Exchange:

The University became a member of a reciprocal exchange of insurance risks in association with other Canadian universities on January 1, 2008. The Canadian Universities Reciprocal Insurance Exchange ("CURIE") is a self-insurance cooperative and involves a contractual agreement to share the insurable property and liability risks of member universities arising during the period of membership. As a consequence, the University will be eligible to receive its pro rata share of any potential future surplus distribution and will share in any deficits generated by claims arising during the University's period of membership in CURIE. As of December 31, 2015, CURIE was fully funded.

## 16. Contingencies and commitments:

- (a) The University is involved in litigation matters arising in the ordinary course of operations. In the opinion of management, the ultimate disposition of these matters will not have a material impact on the University's financial position or results of operations of the University.
- (b) The following are the future minimum annual operating lease payments due over the next five fiscal years and thereafter:

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2017	\$ 1,293,997
2018	1,326,090
2019	1,379,089
2020	1,403,715
2021	1,438,714
Thereafter	24,254,791
<hr/> Total	<hr/> \$ 31,096,396

- (c) Joint venture asset management fee is equal to the sum of (i) the greater of \$50,000 and one quarter of 2.5% of the net operating income of the Property for each year during the term; and (ii) 4% of the annual capital expenditures for the Property incurred in such year.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2016

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## 17. Financial instruments:

The University is exposed to various financial risks through transactions in financial instruments.

### (a) Market risk:

Market risk arises as a result of trading equities and fixed income securities. Fluctuations in the market expose the University to a risk of loss. The Investment Committee of the University monitors investments decisions and results.

### (b) Credit risk:

The University is exposed to credit risk in connection with its accounts receivable and its fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation.

### (c) Interest rate and currency risks:

The University is exposed to interest rate and currency risks with respect to its fixed rate debt and its investments in fixed income investments and foreign currency-denominated investments, because the fair value will fluctuate due to changes in market rates.

In addition, the University is exposed to interest rate risk with respect to its floating rate loans because cash flows will fluctuate because the interest rate is linked to the bank's prime rate, which changes from time to time. The University uses the Agreements to manage interest rate risk associated with its long-term variable rate debt (note 10). The University currently does not use any hedging strategies to mitigate the interest rate and currency risks exposure related to investments and operating loans.

### (d) Liquidity risk:

The University is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities.

## 18. Comparative information:

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