

Financial Statements of

**ONTARIO COLLEGE OF ART &  
DESIGN UNIVERSITY**

Year ended May 31, 2017



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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, 2017, 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, 2017, and its results of operations 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 2, 2017  
Vaughan, Canada

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

## Balance Sheet

May 31, 2017, with comparative information for 2016

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13,675,051	\$ 9,086,883
Short-term investments (notes 2 and 3)	–	6,007,081
Accounts receivable (net of allowance for doubtful accounts of \$1,293,307 (2016 - \$1,293,306))	5,040,570	5,328,560
Deposits and other	2,136,508	1,553,927
	<u>20,852,129</u>	<u>21,976,451</u>
Investment in joint venture (note 4)	20,257,230	19,609,367
Investments (note 3)	17,084,557	15,981,944
Capital assets (note 5)	81,644,085	73,015,007
	<u>\$ 139,838,001</u>	<u>\$ 130,582,769</u>

## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 9,179,532	\$ 10,391,207
Deferred revenue	5,251,151	5,029,491
Other deferred contributions (note 7)	12,247,862	10,683,875
Operating loan (note 9)	9,842,005	4,480,564
Current portion of long-term debt (note 9)	781,104	743,902
	<u>37,301,654</u>	<u>31,329,039</u>
Deferred capital contributions (note 8)	54,509,985	47,367,297
Long-term debt (note 9)	30,000,355	30,741,459
Net assets:		
Unrestricted	(1,407,738)	(224,408)
Internally restricted (note 10)	3,855,210	7,407,972
Endowments (notes 11 and 12)	15,578,535	13,961,410
	<u>18,026,007</u>	<u>21,144,974</u>
Contingencies and commitments (note 15)		
Subsequent event (note 9(a)(i))		
	<u>\$ 139,838,001</u>	<u>\$ 130,582,769</u>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Governor

\_\_\_\_\_ Governor

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

## Statement of Operations and Unrestricted Net Assets

Year ended May 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Provincial grants	\$ 24,778,838	\$ 25,217,925
Student fees	36,958,725	35,217,505
Research contributions	3,424,147	3,824,363
Class fees and supply sales	891,191	879,577
Investment	87,429	237,010
General donations	1,827,802	1,869,275
Bursary and scholarship donations (note 12)	942,146	1,152,545
Amortization of deferred capital contributions (note 8)	1,960,007	2,089,527
Other	4,934,802	2,790,341
	<u>75,805,087</u>	<u>73,278,068</u>
Expenses:		
Academic:		
Salaries and benefits (note 13)	42,384,139	40,512,336
Support	7,537,274	7,504,654
	<u>49,921,413</u>	<u>48,016,990</u>
Non-academic	13,934,813	14,823,811
Bursaries and scholarships	2,324,683	2,411,237
Facility management and operating	8,931,723	7,524,638
Amortization of capital assets	3,587,921	3,661,203
Interest (note 9(c))	1,840,626	2,003,191
	<u>80,541,179</u>	<u>78,441,070</u>
Deficiency of revenue over expenses	(4,736,092)	(5,163,002)
Net change in internally restricted net assets (note 10)	3,552,762	3,871,529
Change in unrestricted net assets	(1,183,330)	(1,291,473)
Unrestricted net assets, beginning of year	(224,408)	1,067,065
Unrestricted net assets, end of year	<u>\$ (1,407,738)</u>	<u>\$ (224,408)</u>

See accompanying notes to financial statements.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

## Statement of Changes in Net Assets

Year ended May 31, 2017, with comparative information for 2016

				2017	2016
	Unrestricted	Internally restricted	Endowments (note 11)	Total	Total
Net assets, beginning of year	\$ (224,408)	\$ 7,407,972	\$ 13,961,410	\$ 21,144,974	\$ 26,064,797
Deficiency of revenue over expenses	(4,736,092)	–	–	(4,736,092)	(5,163,002)
Endowment contributions	–	–	303,265	303,265	693,423
Net changes in endowment fund activities (note 11(b))	–	–	1,313,860	1,313,860	(450,244)
Board-approved interfund transfer	3,552,762	(3,552,762)	–	–	–
<b>Net assets, end of year</b>	<b>\$ (1,407,738)</b>	<b>\$ 3,855,210</b>	<b>\$ 15,578,535</b>	<b>\$ 18,026,007</b>	<b>\$ 21,144,974</b>

See accompanying notes to financial statements.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

## Statement of Cash Flows

Year ended May 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (4,736,092)	\$ (5,163,002)
Items not involving cash:		
Amortization of capital assets	3,587,921	3,661,203
Amortization of deferred capital contributions	(1,960,007)	(2,089,527)
Deferred capital contributions recognized as revenue related to expenses recorded in statement of operations	(756,769)	(1,460,274)
Unrealized and realized gain on investments	(87,429)	(229,513)
	(3,952,376)	(5,281,113)
Net change in non-cash working capital balances related to operations	279,381	(1,500,231)
	(3,672,995)	(6,781,344)
Financing activities:		
Endowment contributions	303,265	693,423
Capitalization of investment income in endowments	2,109,267	267,544
Endowment disbursements	(795,407)	(717,788)
Restricted contributions received for capital purposes	9,859,464	3,133,005
Receipt of operating loan	5,361,441	4,480,564
Repayment of long-term debt	(703,902)	(689,062)
Repayments of operating loan	–	(3,379,000)
	16,134,128	3,788,686
Investing activities:		
Changes in investment in joint venture	(647,863)	(1,013,035)
Purchase of capital assets	(12,216,999)	(5,965,873)
Restricted cash	–	13,887,090
Net change in investments	4,991,897	(3,058,467)
	(7,872,965)	3,849,715
Increase in cash and cash equivalents	4,588,168	857,057
Cash and cash equivalents, beginning of year	9,086,883	8,229,826
Cash and cash equivalents, end of year	\$ 13,675,051	\$ 9,086,883
Supplemental disclosure of non-cash transactions:		
Non-cash restricted contributions received for capital purposes	\$ 4,795,266	\$ 1,300,000
Non-cash capital assets additions	4,795,266	1,300,000

See accompanying notes to financial statements.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2017

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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, 2017

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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, 2017

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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, 2017

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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 4) 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 4) of which the University has a 50% interest. Related party transactions between the two organizations are recorded at the 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 of 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, 2017

### 3. Investments:

(a) Investments consist of the following:

	2017		2016	
	Fair value	Cost	Fair value	Cost
Canadian equities	\$ 6,209,838	\$ 3,759,280	\$ 5,367,054	\$ 3,622,919
Non-Canadian	4,671,127	2,062,137	4,320,098	2,635,540
Fixed income	4,857,941	4,768,410	11,258,265	11,060,152
Money market	1,345,651	1,344,149	1,043,608	1,043,050
	<u>\$ 17,084,557</u>	<u>\$ 11,933,976</u>	<u>\$ 21,989,025</u>	<u>\$ 18,361,661</u>

(b) To the extent that total investments exceeds the total of unspent deferred capital contributions (note 8) and fair value of the investments held for endowments (note 11), the difference is recorded as short-term investments. Investments classified as non-current primarily represents this amount.

(c) As at May 31, 2017, fixed income securities have a weighted average yield of 1.57% (2016 - 2.08%) and a weighted average term to maturity of 4.73 years (2016 - 4.15 years).

### 4. 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 Canadian accounting standards for private enterprises of the CPA Canada Handbook.

As at and for the year ended May 31, 2017, the University's interest in the joint venture is summarized as follows:

	2017	2016
Total assets	\$ 29,888,168	\$ 28,568,069
Total liabilities	9,630,938	8,958,702
Total shareholders' equity	20,257,230	19,609,367
Revenue	3,237,078	1,365,163
Expenses	1,558,523	1,382,835

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2017

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

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 7) 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 15(b).

Included in facility management and operating expense is \$1,864,067 of rent paid to the joint venture in fiscal year 2017 (2016 - \$1,230,803).

## 5. Capital assets:

			2017	2016
	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	109,845,174	43,084,902	66,760,272	59,215,929
Equipment and furnishings	11,240,486	10,259,985	980,501	1,023,036
Computer equipment	10,194,893	8,970,112	1,224,781	1,610,196
Leasehold improvements	4,047,877	362,525	3,685,352	3,045,389
<b>Intangible</b>				
ERP Solution	4,595,617	595,813	3,999,804	3,127,082
	<b>\$ 144,917,422</b>	<b>\$ 63,273,337</b>	<b>\$ 81,644,085</b>	<b>\$ 73,015,007</b>

As at May 31, 2017, buildings and building improvements include construction in progress of \$6,794,448 (2016 - \$757,792), which is not being amortized.

## 6. Government remittances payable:

As at May 31, 2017, accounts payable and accrued liabilities include government remittances payable of nil (2016 - nil).

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2017

## 7. 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 4). Changes in the deferred contributions balance are as follows:

	2017	2016
Balance, beginning of year	\$ 10,683,875	\$ 11,184,930
Amounts received	8,765,623	6,897,611
Amounts recognized as revenue	(7,201,636)	(7,398,666)
Balance, end of year	\$ 12,247,862	\$ 10,683,875

## 8. 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:

	2017	2016
Balance, beginning of year	\$ 47,367,297	\$ 46,484,093
Contributions restricted for capital purposes	9,859,464	4,433,005
Amortization of deferred capital contributions	(1,960,007)	(2,089,527)
Amount recognized as revenue-related expensed capital items	(756,769)	(1,460,274)
Balance, end of year	54,509,985	47,367,297
Less unspent capital contributions	2,545,729	2,020,535
Contributions funding capital assets	\$ 51,964,256	\$ 45,346,762

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2017

## 9. Debt:

The University has the following outstanding debt:

2017	Current	Long-term	Total
Campus expansion:			
Loan facility (a)(i)	\$ 492,000	\$ 16,930,333	\$ 17,422,333
Loan facility (a)(ii)	289,104	13,070,022	13,359,126
	781,104	30,000,355	30,781,459
Operating loan (a)(iii)	4,942,005	–	4,942,005
Operating loan (a)(iv)	4,900,000	–	4,900,000
	9,842,005	–	9,842,005
	\$ 10,623,109	\$ 30,000,355	\$ 40,623,464

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

(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% (2016 - 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.

Subsequent to year end, the University renewed this facility for 60 months from October 1, 2017 at a rate of prime less 0.90% and a stamping fee of 0.79% per year.

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2017

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## 9. Debt (continued):

- (ii) The University has a term-reducing facility with interest payable at the banker's acceptance rate plus a fee of 1.50% (2016 - 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.
- (iii) During fiscal year 2016, the University entered into an unsecured demand operating facility available as: (a) loans by way of direct advances with a variable interest based on prime rate or (b) 28 to 181 day bankers' 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 demand operating facility available as: (a) loans by way of direct advances with a variable interest based on prime rate or (b) 28 to 181 day bankers' 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, 2017

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## 9. 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 October 1, 2037 and March 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, 2017, 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, 2017, the total notional values of the Agreements are \$31,188,126 (2016 - \$31,932,028).

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

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2018	\$ 781,104
2019	825,431
2020	867,779
2021	913,339
2022	978,840
Thereafter	26,821,633
	<hr/> 31,188,126
Less unamortized financing costs	406,667
	<hr/> \$ 30,781,459 <hr/>

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

Total interest recognized on an accrual basis in the statement of operations and unrestricted net assets was \$1,840,626 (2016 - \$2,003,191), of which \$1,781,218 (2016 - \$1,835,907) 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, 2017

## 10. Internally restricted net assets:

Net assets have been internally restricted for the following purposes:

	2017	2016
Capital assets funded by operations	\$ 3,303,210	\$ 5,446,220
Joint venture start-up costs	–	1,094,695
Digital Futures Initiative	–	462,040
ERP project implementation	–	266,017
Professional gallery	139,000	139,000
IDRC	413,000	–
	<u>\$ 3,855,210</u>	<u>\$ 7,407,972</u>

In fiscal year 2017, the net change in the internally restricted net assets totalled \$3,552,762 (2016 - \$3,871,529).

## 11. 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:

	2017	2016
Externally endowed funds with income to be used for donor-restricted purposes	\$ 14,961,092	\$ 13,407,948
Externally endowed funds with income unrestricted	258,308	231,610
Internally endowed restricted funds with income to be used for scholarships and bursaries	359,135	321,852
	<u>\$ 15,578,535</u>	<u>\$ 13,961,410</u>

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2017

## 11. Endowments (continued):

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

	2017	2016
Unrealized gain (loss) on investments	\$ 1,397,821	\$ (670,214)
Realized gain on investments	250,609	503,710
Capitalization of investment income	460,837	434,048
Management fees	(236,818)	(237,650)
Disbursements	(558,589)	(480,138)
	1,313,860	(450,244)
Endowment contributions	303,265	693,423
	\$ 1,617,125	\$ 243,179

## 12. 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"):

	2017	2016
Endowment balance, at cost, beginning and end of year	\$ 501,887	\$ 501,877
Endowment balance, at market, end of year	\$ 745,555	\$ 683,565

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2017

## 12. 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.

	2017	2016
Expendable funds available for awards, beginning of year	\$ 24,725	\$ 25,766
Amount available for spending	27,082	24,725
Bursaries awarded recorded as bursary and scholarship donations	(24,725)	(25,766)
Expendable funds available for awards, end of year	\$ 27,082	\$ 24,725
Number of bursaries awarded	12	25

- (c) The Government of Ontario requires separate reporting of balances as of May 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:

	2017	2016
Endowment balance, at cost, beginning and end of year	\$ 346,054	\$ 346,054
Endowment balance, at market, end of year	\$ 514,064	\$ 471,322

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2017

## 12. 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.

	2017	2016
Expendable funds available for awards, beginning of year	\$ 17,048	\$ 17,766
Amount available for spending	18,673	17,048
Bursaries awarded recorded as bursary and scholarship donations	(17,048)	(17,766)
Expendable funds available for awards, end of year	\$ 18,673	\$ 17,048
Number of bursaries awarded	7	9

- (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:

	2017	2016
Cash donations not eligible for matching	\$ 63,578	\$ 4,256

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2017

## 12. 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:

	2017	2016
Endowment balance, at cost, beginning of year	\$ 5,760,520	\$ 5,756,264
Cash donations received	63,578	4,256
<b>Endowment balance, at cost, end of year</b>	<b>\$ 5,824,098</b>	<b>\$ 5,760,520</b>
Endowment balance, at market, end of year	\$ 8,651,717	\$ 7,845,765

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.

	2017	2016
Expendable funds available for awards, beginning of year	\$ 283,786	\$ 293,885
Amount available for spending	314,271	283,786
Bursaries awarded recorded as bursary and scholarship donations	(283,786)	(293,885)
<b>Expendable funds available for awards, end of year</b>	<b>\$ 314,271</b>	<b>\$ 283,786</b>
Number of bursaries awarded	264	139

## 13. 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 2017, contributions made by the University to the Plan included in the statement of operations and unrestricted net assets totalled \$2,295,274 (2016 - \$2,083,274).

# ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2017

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## 14. Canadian Universities Reciprocal Insurance 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, 2016, CURIE was fully funded.

## 15. Contingencies and commitments:

- (a) From time to time, 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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2018	\$ 1,506,819
2019	1,559,818
2020	1,584,443
2021	1,593,918
2022	1,598,066
Thereafter	22,871,714
<b>Total</b>	<b>\$ 30,714,778</b>

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- (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, 2017

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## 16. Financial instruments:

The University is exposed to various financial risks through transactions in financial instruments. There has been no significant change to the risk exposure from 2016.

### (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 9). 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.

## 17. Comparative information:

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