

Financial Statements of

**ONTARIO COLLEGE OF ART &
DESIGN UNIVERSITY**

Year ended May 31, 2015



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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, 2015, 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, 2015, 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.

Comparative Information

The financial statements of the Ontario College of Art & Design University as at and for the year ended May 31, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements dated October 6, 2014.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

October 5, 2015
Toronto, Canada

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

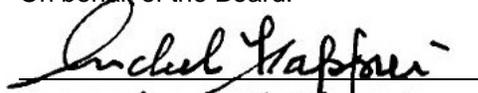
Balance Sheet

May 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,229,826	\$ 7,396,340
Restricted cash (note 4)	13,887,090	–
Short-term investments (note 5)	1,830,506	3,549,100
Accounts receivable (allowance for doubtful accounts of \$1,019,077 (2014 - \$866,644))	4,459,016	2,715,894
Other	1,342,323	893,689
Due from OCAD University Foundation (note 5)	–	601,980
	<u>29,748,761</u>	<u>15,157,003</u>
Investment in joint venture (note 6)	18,596,332	–
Due from OCAD University Foundation (note 5)	–	12,500,161
Investments (note 5)	16,870,539	1,781,245
Capital assets (note 7)	69,410,337	97,662,427
	<u>\$ 134,625,969</u>	<u>\$ 127,100,836</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 10,349,083	\$ 8,326,313
Deferred revenue	4,989,643	6,010,892
Other deferred contributions (note 9)	11,184,930	3,157,815
Operating loan (note 11)	3,379,000	3,683,000
Current portion of long-term debt (note 11)	689,062	661,864
	<u>30,591,718</u>	<u>21,839,884</u>
Deferred capital contributions (note 10)	46,484,093	50,246,579
Long-term debt (note 11)	31,485,361	32,154,423
Net assets:		
Unrestricted	1,067,065	2,685,968
Internally restricted (note 12)	11,279,501	8,308,603
Endowments (notes 13 and 14)	13,718,231	11,865,379
	<u>26,064,797</u>	<u>22,859,950</u>
Contingencies and commitments (note 17)		
	<u>\$ 134,625,969</u>	<u>\$ 127,100,836</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, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Provincial grants	\$ 26,161,940	\$ 27,081,599
Student fees	34,106,695	32,315,239
Research contributions	3,553,062	3,145,612
Class fees and supply sales	903,274	911,219
Investment income	359,058	233,342
General donations	1,292,521	1,176,638
Bursary and scholarship donations (note 14)	588,900	488,952
Amortization of deferred capital contributions (note 10)	5,403,037	2,335,502
Rental income	1,569,278	3,568,315
Other	2,595,348	2,442,368
	<u>76,533,113</u>	<u>73,698,786</u>
Expenses:		
Academic:		
Salaries and benefits (note 15)	37,864,020	36,496,626
Support	6,836,103	6,974,123
	<u>44,700,123</u>	<u>43,470,749</u>
Non-academic	14,238,788	13,269,516
Bursaries and scholarships	1,799,385	1,628,312
Facility management and operating costs	9,075,736	8,148,354
Amortization of capital assets	3,385,592	3,692,922
Interest (note 11)	1,981,494	2,001,009
	<u>75,181,118</u>	<u>72,210,862</u>
Excess of revenue over expenses	1,351,995	1,487,924
Net change in internally restricted net assets (note 12)	(2,970,898)	(33,841)
Change in unrestricted net assets	(1,618,903)	1,454,083
Unrestricted net assets, beginning of year	2,685,968	1,231,885
Unrestricted net assets, end of year	<u>\$ 1,067,065</u>	<u>\$ 2,685,968</u>

See accompanying notes to financial statements.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Statement of Changes in Net Assets

Year ended May 31, 2015, with comparative information for 2014

				2015	2014
	Unrestricted	Internally restricted	Endowments (note 13)	Total	Total
Net assets, beginning of year (note 3)	\$ 2,685,968	\$ 8,308,603	\$ 11,865,379	\$ 22,859,950	\$ 9,506,647
Excess of revenue over expenses	1,351,995	–	–	1,351,995	1,487,924
Endowment contributions	–	–	663,654	663,654	–
Capitalization of investment income in endowments	–	–	1,189,198	1,189,198	–
Endowments transferred from OCAD University Foundation	–	–	–	–	11,865,379
Board approved interfund transfer	(2,970,898)	2,970,898	–	–	–
Net assets, end of year	\$ 1,067,065	\$ 11,279,501	\$ 13,718,231	\$ 26,064,797	\$ 22,859,950

See accompanying notes to financial statements.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Statement of Cash Flows

Year ended May 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 1,351,995	\$ 1,487,924
Items not involving cash:		
Amortization of capital assets	3,385,592	3,692,922
Amortization of deferred capital contributions	(5,403,037)	(2,335,502)
Deferred capital contributions recognized as revenue related to expenses recorded in statement of operations	(934,729)	(1,372,802)
Realized gain on sale of capital asset	(647,808)	-
Unrealized and realized gain on investments	(1,432,066)	-
Net decrease (increase) in due from OCAD University		
Foundation classified as current assets	-	550,395
	(3,680,053)	2,022,937
Net change in non-cash working capital balances related to operations	1,591,958	1,236,541
Cash provided by (used in) operating activities	(2,088,095)	3,259,478
Financing activities:		
Due from OCAD University Foundation	12,500,161	-
Endowment contributions	663,654	-
Capitalization of investment income in endowments	1,189,198	-
Restricted contributions received for capital purposes	2,386,082	1,841,347
Repayment of long-term debt	(641,864)	(605,079)
Repayments of operating loan	(304,000)	(406,000)
Cash provided by financing activities	15,793,231	830,268
Investing activities:		
Investment in joint venture	(1,096,332)	-
Proceeds from disposal of capital asset	16,500,000	-
Purchase of capital assets	(3,638,792)	(4,356,575)
Restricted cash	(13,887,090)	-
Net change in investments	(10,749,436)	1,876,416
Cash used in investing activities	(12,871,650)	(2,480,159)
Increase in cash and cash equivalents	833,486	1,609,587
Cash and cash equivalents, beginning of year	7,396,340	5,786,753
Cash and cash equivalents, end of year	\$ 8,229,826	\$ 7,396,340
Supplemental disclosure of non-cash transactions:		
Capital accounts payable	\$ -	\$ 44,739
Transfer of investments from OCAD University Foundation	-	12,949,583
Contributions to joint venture	17,500,000	-
Non-cash restricted contributions received for capital purposes	189,198	-
Non-cash capital assets additions	11,102	-

See accompanying notes to financial statements.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements

Year ended May 31, 2015

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, 2015

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, 2015

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:

Tangible

Buildings and building improvements	40 years
Equipment and furnishings	8 years
Computer equipment	5 years

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, 2015

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, non-academic and administration 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 6) 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.

3. Change in accounting policy:

On June 1, 2014, management adopted a new accounting policy to report its fixed income investment at fair value (note 5). The policy change has been applied on a retrospective basis. In adopting the new accounting policy referred to above, management determined that the financial statements will provide more relevant information to the users. The impact of retrospective application of adopting the new accounting policy is inconsequential to these financial statements.

4. Restricted cash:

The restricted cash represents funds held by the lender as conditional collateral against the term reducing facility as at May 31, 2015 (note 11(a)(ii)). The funds are designated by the lender to be applied against scheduled principal payments for the term reducing facility. The University may use the funds to repay the above-noted loan facility in full at any time, subject to debt breakage fees, if applicable.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

5. Investments:

(a) Investments consist of the following:

	2015		2014	
	Fair value	Cost	Fair value	Cost
Canadian equities	\$ 5,710,357	\$ 3,709,856	\$ –	\$ –
Non-Canadian	4,571,594	2,322,843	–	–
Fixed income	8,403,485	8,176,076	5,330,345	5,250,000
Money market	15,609	15,609	–	–
	<u>\$ 18,701,045</u>	<u>\$ 14,224,384</u>	<u>\$ 5,330,345</u>	<u>\$ 5,250,000</u>

(b) Investments classified as non-current primarily represents the total of unspent deferred capital contributions (note 10) and fair value of the investments held for endowments (note 13). To the extent that the total investments exceeds this total, the difference is recorded as short-term investments.

(c) As at May 31, 2015, fixed income securities have a weighted average yield of 1.88% (2014 - 2.60%) and a weighted average term to maturity of 3.83 years (2014 - 1.73 years).

The OCAD University Foundation (the "Foundation"), an organization with an independent Board of Directors, is a registered charity under the Income Tax Act (Canada).

On May 31, 2014, the University was appointed as the successor trustee of the Foundation's trust funds. As at May 31, 2014, the amounts due from the Foundation to the University (current and long-term) represent short-term and long-term investments held by the Foundation as at year-end.

During fiscal year 2015, the investments of \$12,949,583 held by the Foundation were transferred to the University.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

6. Investment in joint venture:

Pursuant to a joint venture agreement dated May 28, 2015, the University conveyed its 50% interest in 230/240 Richmond Street facility (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.

As at and for the period from May 28, 2015 to May 31, 2015, the University's interest in the joint venture is summarized as follows:

Total assets	\$ 18,596,332
Total liabilities	–
Total shareholders' equity	18,596,332
Revenue	–
Expenses	–

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 9) 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 17(b).

7. Capital assets:

			2015	2014
	Cost	Accumulated amortization	Net book value	Net book value
Tangible				
Land	\$ 4,993,375	\$ –	\$ 4,993,375	\$ 15,783,783
Buildings and building improvements	97,710,794	38,874,702	58,836,092	77,819,457
Equipment and furnishings	10,758,275	9,634,281	1,123,994	1,219,080
Computer equipment	9,246,679	7,323,923	1,922,756	1,793,549
Intangible				
ERP Solution	2,725,487	191,367	2,534,120	1,046,558
	\$ 125,434,610	\$ 56,024,273	\$ 69,410,337	\$ 97,662,427

As at May 31, 2015, buildings and building improvements include construction in progress of \$190,324 (2014 - \$126,369) which is not being amortized.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

8. Government remittances payable:

As at May 31, 2015, accounts payable and accrued liabilities include government remittances payable of \$665,623 (2014 - \$596,782).

9. 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 6). Changes in the deferred contributions balance are as follows:

	2015	2014
Balance, beginning of year	\$ 3,157,815	\$ 2,683,208
Amounts received	11,402,166	5,640,401
Amounts recognized as revenue	(3,375,051)	(5,165,794)
Balance, end of year	\$ 11,184,930	\$ 3,157,815

10. 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:

	2015	2014
Balance, beginning of year	\$ 50,246,579	\$ 52,113,536
Contributions restricted for capital purposes	2,575,280	1,841,347
Amortization of deferred capital contributions	(5,403,037)	(2,335,502)
Amount recognized as revenue related expensed capital items	(934,729)	(1,372,802)
Balance, end of year	46,484,093	50,246,579
Less unspent capital contributions (note 5)	2,011,917	1,781,245
Contributions funding capital assets	\$ 44,472,176	\$ 48,465,334

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

11. Debt:

The University has the following outstanding debt:

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

2014	Current	Long-term	Total
Campus expansion:			
Loan facility (a)(i)	\$ 419,000	\$ 18,267,423	\$ 18,686,423
Loan facility (a)(ii)	242,864	13,887,000	14,129,864
	661,864	32,154,423	32,816,287
Operating loan (a)(iii)	3,683,000	–	3,683,000
	\$ 4,344,864	\$ 32,154,423	\$ 36,499,287

(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% (2014 - 1.51%) converted to an effective rate of 5.39% (b), 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.

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

11. 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% (2014 - 2.76%) converted to an effective rate of 5.84% (b), 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) The University has an operating loan with a variable interest rate at prime rate plus 0.15% (2014 - 0.15%) with interest paid monthly and credit limit not to exceed \$7,000,000. The unsecured loan is due on demand with all amounts outstanding repayable on or before December 31, 2015. The proceeds from the facility were used to finance a portion of the acquisition of 230/240 Richmond Street.

The term reducing facility and operating loan (a)(ii)(iii) agreements require the University to comply with certain non-financial covenants and that the University cannot sell or dispose of any assets, other than certain allowable transactions, without the lender's consent. Prior to entering into the joint venture agreement with the counterparty, the University obtained written consent from the lender approving the sale of 50% interest in 230/240 Richmond Street facility (note 6). As at May 31, 2015 \$13,887,090 of the cash balance is restricted to the lender designated for specific purposes (note 4).

- (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, 2015 and 2014, 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, 2015, the total notional values of the Agreements are \$32,621,090 (2014 - \$33,282,954).

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

11. Debt (continued):

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

2015	\$	689,062
2016		743,902
2017		781,104
2018		825,431
2019		867,779
Thereafter		28,713,812
		32,621,090
Less unamortized financing costs		446,667
		\$ 32,174,423

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 \$1,981,494 (2014 - \$2,001,009), of which \$1,886,890 (2014 - \$1,894,679) is related to debt initially incurred for a term of more than one year.

12. Internally restricted net assets:

The funds recorded as internally restricted have been set aside as follows:

	2015	2014
Capital assets funded by operations	\$ 6,118,373	\$ 6,798,889
Joint venture startup costs	3,531,000	—
Capital renovations	561,000	—
Digital Futures Initiative	462,040	462,040
ERP project implementation	607,088	1,047,674
	\$ 11,279,501	\$ 8,308,603

In fiscal year 2015, the net change in the internally restricted net assets totalled \$2,970,898 (2014 - \$33,841).

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

13. 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.

Endowment net assets consist of the following:

	2015	2014
Externally endowed funds with income to be used for donor-restricted purposes	\$ 13,147,782	\$ 11,345,024
Externally endowed funds with income unrestricted	239,470	217,656
Internally endowed restricted funds with income to be used for scholarships and bursaries	330,979	302,699
	<u>\$ 13,718,231</u>	<u>\$ 11,865,379</u>

14. 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").

	2015	2014
Endowment balance, at cost, beginning and end of year	\$ 501,877	\$ 501,887
Endowment balance, at market, beginning and end of year	\$ 706,895	\$ 643,090

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

14. 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.

	2015	2014
Expendable funds available for awards, beginning of year	\$ 20,307	\$ 18,400
Amount available for spending	25,766	20,307
Bursaries awarded recorded as bursary and scholarship donations	(20,307)	(18,400)
Expendable funds available for awards, end of year	\$ 25,766	\$ 20,307
Number of bursaries awarded	14	7

- (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.

	2015	2014
Endowment balance, at cost, beginning and end of year	\$ 346,054	\$ 346,054
Endowment balance, at market, beginning and end of year	\$ 487,408	\$ 443,414

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

14. 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.

	2015	2014
Expendable funds available for awards, beginning of year	\$ 14,002	\$ 12,687
Amount available for spending	17,766	14,002
Bursaries awarded recorded as bursary and scholarship donations	(14,002)	(12,687)
Expendable funds available for awards, end of year	\$ 17,766	\$ 14,002
Number of bursaries awarded	5	4

- (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.

	2015	2014
Cash donations not eligible for matching	\$ 20,820	\$ 7,764

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

14. 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.

	2015	2014
Endowment balance, at cost, beginning of year	\$ 5,735,444	\$ 5,727,680
Cash donations received	20,820	7,764
Endowment balance, at cost, end of year	\$ 5,756,264	\$ 5,735,444
Endowment balance, at market, end of year	\$ 8,107,381	\$ 7,348,926

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.

	2015	2014
Expendable funds available for awards, beginning of year	\$ 231,614	\$ 209,868
Amounts available for spending	293,885	231,614
Bursaries awarded recorded as bursary and scholarship donations	(231,614)	(209,868)
Expendable funds available for awards, end of year	\$ 293,885	\$ 231,614
Number of bursaries awarded	76	110

15. 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 2015, contributions made by the University to the Plan included in the statement of operations and unrestricted net assets totalled \$1,942,795 (2014 - \$1,781,377).

ONTARIO COLLEGE OF ART & DESIGN UNIVERSITY

Notes to Financial Statements (continued)

Year ended May 31, 2015

16. 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 co-operative 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, 2014, CURIE was fully funded.

17. 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:

2016	\$	558,876
2017		1,265,526
2018		1,303,383
2019		1,356,382
2020		1,394,238
Thereafter		26,025,216
<hr/>		
Total	\$	31,903,621

- (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, 2015

18. 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 11). The University currently does not use any hedging strategies to mitigate the interest rate and currency risks exposure related to investments.

(d) Liquidity risk:

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

19. Comparative information:

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