

Consolidated Financial Statements of

UNIVERSITY OF OTTAWA

Year ended April 30, 2016

UNIVERSITY OF OTTAWA

Consolidated Financial Statements

Year ended April 30, 2016

Statement of Administrative Responsibility

Independent Auditors' Report

Consolidated Financial Statements

Consolidated Statement of Financial Position	1
Consolidated Statement of Operations	2
Consolidated Statement of Changes in Net Assets	3
Consolidated Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5
Schedule 1 - Statement of Operations by fund	

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

September 26, 2016

Management of the University is responsible for the preparation of the consolidated financial statements, the notes and all other financial information contained in this financial report.

Management has prepared the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations. In order to achieve the objective of fair presentation in all material respects, reasonable estimates and professional judgements were used. Management believes the consolidated financial statements present fairly the University's financial position as at April 30, 2016, the consolidated statements of operations, changes in net assets and cash flows for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of the consolidated financial statements. The system of internal controls is monitored by the University's internal audit service.

The Board of Governors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Governors carries out its responsibility for review of the consolidated financial statements principally through the Audit Committee. All members of the Audit Committee are not officers or employees of the University. The Audit Committee meets with management, the external auditors as well as the internal auditors, to discuss the results of audit examinations and financial reporting matters and to satisfy itself that each party is properly discharging its responsibilities. The external and internal auditors have full access to the Audit Committee with or without the presence of management.

The consolidated financial statements as at and for the year ended April 30, 2016 have been audited by KPMG LLP, Chartered Professional Accountants, Licensed Public Accountants, the auditors appointed by the Board of Governors. The independent auditors' report outlines the scope of their audit and their opinion on the preparation of the information included in the consolidated financial statements.

(signed)
Jacques Frémont, President

(signed)
P. Marc Joyal, CPA, CA
Vice-President, Resources



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the University of Ottawa

We have audited the accompanying consolidated financial statements of the University of Ottawa, which comprise the consolidated statement of financial position as at April 30, 2016, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, notes and schedule, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University of Ottawa as at April 30, 2016 and its consolidated results of operations, consolidated changes in net assets and consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

September 26, 2016

Ottawa, Canada

UNIVERSITY OF OTTAWA

Consolidated Statement of Financial Position

April 30, 2016, with comparative information for 2015
(in thousands of dollars)

	2016	2015
Assets		
Current assets:		
Cash and short-term investments (note 3)	\$ 148,605	\$ 131,219
Accounts receivable (note 4)	91,468	79,481
Inventories and other	13,734	12,369
	<u>253,807</u>	<u>223,069</u>
Long-term investments (note 5)	639,873	693,274
Employee future benefits (note 6)	57,395	146,468
Capital assets (note 7)	1,715,783	1,666,491
	<u>\$ 2,666,858</u>	<u>\$ 2,729,302</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 88,247	\$ 89,095
Deferred revenue (note 9)	278,045	233,448
Current portion of long-term debt (note 11)	1,324	1,246
	<u>367,616</u>	<u>323,789</u>
Deferred contributions related to capital assets (note 10)	364,500	341,692
Long-term debt (note 11)	168,149	169,473
	<u>900,265</u>	<u>834,954</u>
Net assets:		
Unrestricted	1,815	3,795
Internally restricted - employee future benefits	57,395	146,468
Internally restricted - other (note 12)	241,496	291,265
Sinking fund (note 11)	34,412	36,239
Endowments (note 13)	241,944	254,780
Invested in capital assets (note 14)	1,189,531	1,161,801
	<u>1,766,593</u>	<u>1,894,348</u>
Commitments and contingent liabilities (note 19)		
	<u>\$ 2,666,858</u>	<u>\$ 2,729,302</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed)
Governor

(signed)
Governor

UNIVERSITY OF OTTAWA

Consolidated Statement of Operations

Year ended April 30, 2016, with comparative information for 2015
(in thousands of dollars)

	2016	2015
	(Schedule 1)	
Revenue:		
Operating grants	\$ 382,762	\$ 384,649
Tuition and other fees	361,184	346,911
Research grants and contracts (note 15)	117,007	150,991
Student housing	24,836	21,961
Sale of services	21,155	19,143
Donations	19,318	11,057
Investment income (note 5)	12,382	50,571
Capital grants (note 10)	8,303	8,166
Other	26,663	21,138
	<u>973,610</u>	<u>1,014,587</u>
Expenses:		
Salaries	519,075	497,010
Employee benefits (note 16)	87,967	90,639
Supplies and other contractual services	106,202	95,896
Scholarships, bursaries and financial aid	97,060	94,640
Fees (note 17)	42,924	38,044
Inter-institutional research and other agreements (note 18)	22,716	27,286
Travel	18,378	17,597
Interest and bank fees	12,315	12,125
Amortization of capital assets	57,117	55,117
Other	23,089	23,391
	<u>986,843</u>	<u>951,745</u>
Excess (deficiency) of revenue over expenses	\$ (13,233)	\$ 62,842

See accompanying notes to consolidated financial statements.

UNIVERSITY OF OTTAWA

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2016, with comparative information for 2015
(in thousands of dollars)

	Unrestricted	Internally restricted - employee future benefits	Internally restricted - other	Sinking fund	Endowments	Net assets invested in capital assets	2016 Total	2015 Total
Net assets balance, beginning of year	\$ 3,795	\$ 146,468	\$ 291,265	\$ 36,239	\$ 254,780	\$ 1,161,801	\$ 1,894,348	\$ 1,733,039
Excess (deficiency) of revenue over expenses	(13,233)	–	–	–	–	–	(13,233)	62,842
Net assets invested in capital assets (note 14)	(27,730)	–	–	–	–	27,730	–	–
Internally restricted - employee future benefits (note 6)	(17,245)	17,245	–	–	–	–	–	–
Sinking fund annual payment (note 11)	1,827	–	–	(1,827)	–	–	–	–
Internally restricted - other (note 12)	54,401	–	(49,769)	–	(4,632)	–	–	–
External contributions (note 13)	–	–	–	–	4,662	–	4,662	4,396
Investment income earned on endowments net of distribution (note 13)	–	–	–	–	(12,866)	–	(12,866)	12,948
Re-measurement of items related to employee future benefits (note 6)	–	(106,318)	–	–	–	–	(106,318)	81,123
Net assets balance, end of year	\$ 1,815	\$ 57,395	\$ 241,496	\$ 34,412	\$ 241,944	\$ 1,189,531	\$ 1,766,593	\$ 1,894,348

See accompanying notes to consolidated financial statements.

UNIVERSITY OF OTTAWA

Consolidated Statement of Cash Flows

Year ended April 30, 2016, with comparative information for 2015
(in thousands of dollars)

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (13,233)	\$ 62,842
Items which do not involve cash:		
Amortization of capital assets	57,117	55,117
Unrealized losses (gains) on investments (note 5)	29,523	(18,006)
Deferred contributions related to capital assets recognized as revenue (note 10)	(23,926)	(23,078)
Cash payments in excess of employee future benefit expenses	(17,245)	(5,278)
	<u>32,236</u>	<u>71,597</u>
Net change in non-cash working capital balances	<u>30,397</u>	<u>(2,107)</u>
	62,633	69,490
Investing activities:		
Acquisitions of capital assets (note 7)	(106,409)	(83,069)
Withdrawals (acquisitions) of long-term investments	23,878	(99,892)
	<u>(82,531)</u>	<u>(182,961)</u>
Financing activities:		
Increase of deferred contributions related to capital assets (note 10)	46,734	25,739
Repayment of long-term debt	(1,246)	(1,218)
Contributions and investment income earned on endowments, net of distribution (note 13)	(8,204)	17,344
	<u>37,284</u>	<u>41,865</u>
Increase (decrease) in cash and short-investments	<u>17,386</u>	<u>(71,606)</u>
Cash and short-term investments, beginning of year	131,219	202,825
Cash and short-term investments, end of year (note 3)	<u>\$ 148,605</u>	<u>\$ 131,219</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements

Year ended April 30, 2016
(in thousands of dollars)

1. Objectives and purpose:

The University of Ottawa is a bilingual research university offering undergraduate and graduate level education programs. The objectives of the University, as well as the powers of the Board of Governors and of the Senate, are defined in the "University of Ottawa Act, 1965". The University is a registered charity and is therefore exempt from income taxes under section 149(1) (f) of the Income Tax Act (Canada).

2. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Basis of presentation:

The University accounts for its investment in subsidiary using the equity method. Relevant financial information of its subsidiary is provided in note 22.

(b) Revenue recognition:

The University recognizes contributions in accordance with the deferral method of accounting for contributions for not-for-profit organizations.

Contributions and investment income externally restricted for purposes other than endowment are deferred and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for the purposes designated by external parties.

Unrestricted contributions are recognized as revenue when received or receivable if amounts can be reasonably estimated and collection is reasonably assured. Due to the uncertainty involved in collecting pledged donations, they are not recognized until received.

Endowment contributions and restricted investment income earned on endowments and not available for disbursements are recognized as direct increases in net assets in the period in which they are received or earned.

Externally restricted contributions received towards the acquisition of capital assets are deferred and amortized to revenue on the same basis as the related depreciable capital assets are amortized.

Tuition and other fees are recognized as revenue based on the academic period of the related courses or programs.

Other types of revenue are recognized in the period to which they relate.

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

2. Significant accounting policies (continued):

(c) Investments:

Short-term investments are cashable on demand and long-term investments consist of pooled and segregated funds.

Investments are either managed by external fund managers or maintained as working capital.

Investments denominated in foreign currencies are translated using rates of exchange in effect at the consolidated statement of financial position date.

(d) Inventories:

Inventories of merchandise held for resale are recorded at the lower of cost and replacement cost. Cost is determined using the average cost basis.

(e) Capital assets:

Purchased capital assets are recorded at cost, less accumulated amortization, except for land acquired prior to May 1, 2011 which is recorded at deemed cost, being fair value at May 1, 2011. Capital assets are recorded at fair value at the date of acquisition. Capital assets are amortized on a straight-line basis over their estimated useful lives, which are:

Buildings	40 years
Books	5 years
Equipment and furniture	10 years
Computer software and equipment	3 years
Construction in progress and Information Technology project in progress	Amortized once in service

(f) Employee future benefits:

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for eligible employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the accrued obligation net of the fair value of plan assets in the consolidated statement of financial position.

Current service and finance costs are expensed during the year, while re-measurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets.

The accrued liability for funded employee future benefit plans is determined using a roll-forward technique to estimate the accrued liability using funding assumptions from the most recent actuarial valuation report prepared at least every three years. The accrued liability for unfunded plans is prepared on a basis consistent with funded plans. Employee future benefit plans' assets are measured at fair value as at the date of the consolidated statement of financial position.

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

2. Significant accounting policies (continued):

(f) Employee future benefits (continued):

The University also has a defined contribution plan providing pension benefits to some of its employees. The cost of the defined contribution plan is recognized based on the contributions required to be made during each period.

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. All derivatives and investments are recorded on the consolidated statement of financial position at fair value.

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.

The University is party to an interest rate swap agreement used to manage the exposure to market risks from changing interest rates for its residence loan. At the inception of the hedging relationship, the University designated that hedge accounting would be applied and formally documented the hedging relationship between the swap and the loan. At inception and throughout the loan period, the critical terms of the swap and the loan are the same.

Gains or losses realized on settlement are deferred until the settlement of the swap.

Payments and receipts under the swap are recognized as an adjustment to interest expense on long-term debt. The fair value of the swap is not recorded on the consolidated statement of financial position but is disclosed in note 11.

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

2. Significant accounting policies (continued):

(h) Internal restrictions:

The University internally restricts the use of portions of its operating net assets for specific future uses. When incurred, related expenses are charged to operations, and the balance of internally restricted assets is reduced accordingly.

(i) Non-remunerated services:

Because of the difficulty in determining their fair value, non-remunerated services provided to the University are not recognized in these consolidated financial statements.

(j) Use of estimates:

The preparation of consolidated financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosures of contingent assets and liabilities and the amounts of revenues and expenses recorded in the consolidated financial statements. Actual results could differ from those estimates.

These estimates are reviewed annually and as adjustments become necessary, they are recorded in the consolidated financial statements in the period in which they become known.

Significant management estimates include assumptions used in determining the calculation of the employee future benefit asset.

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

3. Cash and short-term investments:

Fair value:

April 30, 2016	Pooled funds	Segregated funds	Total
Cash	\$ 24,686	\$ 18,229	\$ 42,915
Government bonds	35,644	1,991	37,635
Corporate bonds	53,466	14,589	68,055
	\$ 113,796	\$ 34,809	\$ 148,605

April 30, 2015	Pooled funds	Segregated funds	Total
Cash	\$ 61,664	\$ 9,095	\$ 70,759
Government bonds	19,532	–	19,532
Corporate bonds	28,517	12,411	40,928
	\$ 109,713	\$ 21,506	\$ 131,219

Government bonds under the segregated funds bore interest rates of 1.5% and maturity dates up to 2017. Corporate bonds have interest rates ranging from 2.1% to 6.0% (2015 - 0.98% to 2.53%) and maturity dates up to 2017 (2015 - 2016).

4. Accounts receivable:

	2016	2015
Research grants and contracts	\$ 63,134	\$ 52,615
Tuition and housing fees	19,735	18,968
Others	17,618	16,507
	100,487	88,090
Allowance for doubtful accounts	(9,019)	(8,609)
	\$ 91,468	\$ 79,481

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

5. Long-term investments:

Fair value:

April 30, 2016	Pooled funds	Segregated funds	Total
Fixed income	\$ 76,482	\$ 77,357	\$ 153,839
Canadian equities	37,105	1,681	38,786
Foreign equities	196,223	67,496	263,719
Real estate and infrastructure	89,269	–	89,269
Hedge funds	94,260	–	94,260
	<u>\$ 493,339</u>	<u>\$ 146,534</u>	<u>\$ 639,873</u>

April 30, 2015	Pooled funds	Segregated funds	Total
Fixed income	\$ 77,598	\$ 108,841	\$ 186,439
Canadian equities	45,760	–	45,760
Foreign equities	221,573	69,079	290,652
Real estate and infrastructure	70,156	–	70,156
Hedge funds	100,267	–	100,267
	<u>\$ 515,354</u>	<u>\$ 177,920</u>	<u>\$ 693,274</u>

Coupon interest rates on fixed income investments range from 2.2% to 8.9% (2015 - 2.3% to 8.9%) and the investments mature between 2017 and 2056 (2015 - 2016 and 2052).

Investment income is comprised of:

	2016	2015
Dividends, interest and other	\$ 39,795	\$ 31,131
Realized gains on investments	2,110	1,434
Unrealized gains (losses) on investments	(29,523)	18,006
<u>Total</u>	<u>\$ 12,382</u>	<u>\$ 50,571</u>

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

6. Employee future benefits:

The University maintains defined benefit retirement plans which provide a pension to employees based on their length of service and average earnings.

In addition to the University's pension plans, the University provides certain post-employment and post-retirement benefits ("other benefits") to eligible employees, and to their dependents under certain conditions, such as severance payments, life insurance, and health and dental benefits. A significant portion of the University's employees may become eligible for these benefits upon retirement. These other benefits are not funded. The calculation of pension and other benefits expense in accordance with the accounting policy is based on the current service cost of employee benefits and the finance cost on assets and liabilities.

The latest actuarial valuations were completed by an independent actuary as at January 1, 2016 for the pension plans and as at December 31, 2015 for the post-employment and post-retirement benefit plans.

For financial statement purposes, the results of these valuations were extrapolated to April 30, 2016 which is the measurement date used to determine the plans' assets and the accrued benefit obligations. In June 2016, the Board of Governors approved the filing of the most recent actuarial valuation as at January 1 2016, to be filed before September 30, 2016. The next required valuation will be filed as of January 1, 2019 at the latest.

The employee future benefit asset (liability) is as follows:

	2016	2015
Pension benefit plans:		
Balance, beginning of year	\$ 203,605	\$ 115,312
Expense (note 16)	(30,367)	(38,090)
Funding contributions	48,105	44,848
Re-measurement and other items	(110,014)	81,535
Balance, end of year	111,329	203,605
Other benefit plans:		
Balance, beginning of year	(57,137)	(55,245)
Expense (note 16)	(5,793)	(5,561)
Funding contributions	5,300	4,081
Re-measurement and other items	3,696	(412)
Balance, end of year	(53,934)	(57,137)
Employee future benefit asset, end of year	\$ 57,395	\$ 146,468

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

6. Employee future benefits (continued):

Information about the University's employee future benefits is as follows:

Pension benefit plans	2016	2015
Accrued benefit obligation	\$ (1,864,319)	\$ (1,766,739)
Fair value of plans' assets	1,975,648	1,970,344
Employee future benefit asset	\$ 111,329	\$ 203,605
Other benefit plans	2016	2015
Accrued benefit obligation	\$ (53,934)	\$ (57,137)
Fair value of plan assets	–	–
Employee future benefit liability	\$ (53,934)	\$ (57,137)

Pension plans' assets are held by RBC Investor and Treasury Services. Based on the fair value of the plans' assets at April 30, 2016, the assets of the Plans were composed of 49.75% in equities, 19.57% in fixed income investments, and 30.68% in real return assets (2015 - 57.13% in equities, 16.61% in fixed income investments, and 26.26% in real return assets).

In addition to the plan assets, as at April 30, 2016, the University has internally restricted investments totaling \$51,538 (2015 - \$49,468) of which \$24,571 (2015 - \$20,167) is restricted for its pension obligations and \$26,967 (2015 - \$29,301) is restricted for its other benefit plans (note 12).

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations are as follows:

Pension benefit plans	2016	2015
Discount rate obligations	6.25%	6.25%
Rate of compensation increase including inflation (PTR = Progress through rank)	3.00%	3.00%
	+PTR scale	+PTR scale
Inflation rate	2.00%	2.00%

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

6. Employee future benefits (continued):

The University used mortality rates equal to 95% of the rates of the 2014 Public Sector Canadian Pensioners Mortality Table for actuarial assumptions, for fiscal years ending April, 30 2015 and April 30, 2016.

Other benefit plan	2016	2015
Discount rate obligations	6.25%	6.25%
Rate of compensation increase including inflation (PTR = Progress through rank)	3.00% +PTR scale	3.00% +PTR scale

Information about the University's employee future benefits is as follows:

Pension benefit plans	2016	2015
Employer's contributions - normal cost	\$ 45,316	\$ 41,928
Employer's contributions - special payment	2,789	2,920
Employees' contributions	24,360	20,758
Total contributions	\$ 72,465	\$ 65,606
Total benefits paid	\$ 82,855	\$ 74,706
Other benefit plan	2016	2015
Total employer contributions - normal cost	\$ 5,300	\$ 4,081
Total benefits paid	\$ 5,300	\$ 4,081

The assumed discount rates and the rates of increase in future compensation used in determining the actuarial present value of the projected benefit obligations may vary according to the economic conditions.

The assumed medical cost increase trend rate used in measuring the accumulated post-employment benefits obligation in 2016 and for the next 5 years is on average 7.0% and 5.0% thereafter (based on 9.00% per annum in 2010 grading down to 4.50% per annum in and after 2030 for drug and 4.5% for other medical).

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

7. Capital assets:

Cost	Balance at April 30, 2015	Additions	Write-offs / Transfers	Balance at April 30, 2016
Land	\$ 767,869	\$ –	\$ –	\$ 767,869
Buildings	1,081,566	40,213	8,379	1,130,158
Construction in progress	9,439	15,772	(8,379)	16,832
Information Technology project in progress	11,114	13,184	–	24,298
Books	81,768	6,799	–	88,567
Equipment and furniture	197,584	27,076	(17,661)	206,999
Computer software and equipment	17,260	3,365	(3,246)	17,379
Total	\$ 2,166,600	\$ 106,409	\$ (20,907)	\$ 2,252,102

Additions and disposals at April 30, 2015 were \$83,069 and \$18,743, respectively.

Accumulated amortization	Balance at April 30, 2015	Amortization expense	Write-offs	Balance at April 30, 2016
Buildings	\$ 324,715	\$ 26,152	\$ –	\$ 350,867
Books	60,225	8,634	–	68,859
Equipment and furniture	105,589	18,415	(17,661)	106,343
Computer software and equipment	9,580	3,916	(3,246)	10,250
Total	\$ 500,109	\$ 57,117	\$ (20,907)	\$ 536,319

Amortization expense and disposals at April 30, 2015 were \$55,117 and \$18,743, respectively.

	Net book value April 30, 2016	Net book value April 30, 2015
Land	\$ 767,869	\$ 767,869
Buildings	779,291	756,851
Construction in progress	16,832	9,439
Information Technology project in progress	24,298	11,114
Books	19,708	21,543
Equipment and furniture	100,656	91,995
Computer and software equipment	7,129	7,680
Total	\$ 1,715,783	\$ 1,666,491

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

7. Capital assets (continued):

	2016	2015
Acquisitions of capital assets are funded as follows:		
Funded by grants	\$ 35,004	\$ 15,063
Funded by internal resources	63,502	63,934
Donations of capital assets	7,903	4,072
	<u>\$ 106,409</u>	<u>\$ 83,069</u>

8. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$6,922 (2015 - \$7,453), which includes amounts payable for payroll-related taxes.

9. Deferred revenue:

Deferred revenue represents unexpended amounts which are subject to externally imposed restrictions. Changes in the deferred revenue balance are as follows:

	2016	2015
Balance, beginning of year	\$ 233,448	\$ 244,856
Contributions received during the year	552,495	522,965
Recognized as revenue	(503,879)	(528,198)
Transfer to deferred contributions related to capital assets	(4,019)	(6,175)
Balance, end of year	<u>\$ 278,045</u>	<u>\$ 233,448</u>

The balance consists of the following:

	2016	2015
Operating	\$ 32,126	\$ 29,429
Sponsored research and trust	211,770	174,012
Capital	34,149	30,007
Total	<u>\$ 278,045</u>	<u>\$ 233,448</u>

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

10. Deferred contributions related to capital assets:

Deferred contributions related to capital assets represent the unamortized amount of restricted donations and grants used for the purchase of capital assets. The changes in the deferred contributions balance for the period are as follows:

	2016	2015
Balance, beginning of year	\$ 341,692	\$ 339,031
Transfer from deferred revenue	4,019	6,175
Contributions received during the year	34,812	15,492
Contributions in-kind received during the year	7,903	4,072
	46,734	25,739
Recognized as revenue:		
Research grants	(12,778)	(12,379)
Capital grants	(8,303)	(8,166)
Donations	(2,845)	(2,533)
	(23,926)	(23,078)
Balance, end of year	\$ 364,500	\$ 341,692

11. Long-term debt:

	2016	2015
Student residence loan at variable rate converted to a fixed rate loan at 7.064% through an interest rate swap, maturing in August 2026 with monthly payments of \$228 including principal and interest.	\$ 19,461	\$ 20,684
Mortgage on student residences maturing in June 2016 with semi-annual payments of \$12 including principal and interest at a rate of 5.375%.	12	35
Unsecured debentures, Series A, due April 15, 2043, bearing interest at a rate of 6.28%, interest payable in equal semi-annual payments.	150,000	150,000
	169,473	170,719
Current portion	(1,324)	(1,246)
	\$ 168,149	\$ 169,473

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

11. Long-term debt (continued):

The principal installments required to be paid over the next five years are as follows:

2017	\$	1,324
2018		1,407
2019		1,510
2020		1,620
2021		1,739

Interest rate swaps

The University has entered into an interest rate swap agreement related to the variable rate loan on a student residence to minimize the impact on future cash flows of changes in interest rates. The University has designated the interest rate swap as a cash flow hedge, and has assessed it as highly effective.

The fair value of the interest rate swap at April 30, 2016 is estimated to be \$6,231 (2015 - \$6,756) which represents the amount the University would have to pay if the interest rate swap agreement was terminated on that date. The University is current with respect to the required payments under the loan and interest rate swap agreement.

Sinking fund

A sinking fund was established for the purpose of accumulating funds to retire the \$150,000 Series A Unsecured Debentures due April 15, 2043. The University may invest an annual payment, based on an annual review, to ensure that, together with investment income, there will be sufficient funds necessary to extinguish the debt of \$150,000, which is due on April 15, 2043. As of April 30, 2016, the balance of the sinking fund including the accrued interest is \$34,412 (2015 - \$36,239). This amount is included in long-term investments and its counterpart in restricted net assets.

Line of credit

The University has lines of credit allowing it to borrow up to \$27,520 at an interest rate of prime. These lines of credit are subject to annual renewal. There was no outstanding balance as at April 30, 2016 (2015 - \$Nil).

Interest

	2016	2015
Interest paid and incurred related to the long-term debt	\$ 10,847	\$ 10,954

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

12. Internally restricted net assets - other:

The total of internally restricted net assets - other consists of the following:

	2016	2015
Operating fund	\$ 104,969	\$ 161,268
Ancillary enterprises fund - operations	4,348	14,085
Research fund	26,171	30,116
Trust fund	14,741	16,234
Capital fund	91,267	69,562
Balance, end of year	\$ 241,496	\$ 291,265

13. Endowments:

Endowments include restricted donations received by the University. Donations that have been internally designated as endowments are accounted for as transfers. Investment returns generated from endowments are used in accordance with the various purposes established by the donors or by the University in the exercise of its discretion. The University protects the future purchasing power of its endowments by designating a portion of the annual investment income earned to endowments, known as capital protection. Accordingly, the University has established a policy of setting the amount of income available for spending to 3.5% (2015 - 3.5%) of the last 12 quarters market value moving average. The purpose of this policy is to allow the University to distribute a consistent amount of income from endowments on an annual basis regardless of the investment income earned in the fiscal year.

Activities in the endowments were as follows:

	2016	2015
Balance, beginning of year	\$ 254,780	\$ 233,880
External contributions	4,662	4,396
Internal (withdrawals) / contributions	(4,632)	3,556
Investment revenue (loss)	(4,157)	20,728
Distributions	(8,709)	(7,780)
Balance, end of year	\$ 241,944	\$ 254,780

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

13. Endowments (continued):

The balance is composed of the following funds:

	2016	2015
Internally restricted	\$ 34,184	\$ 40,625
Externally restricted	207,760	214,155
	<u>\$ 241,944</u>	<u>\$ 254,780</u>

The endowment fund consists of:

	2016	2015
Permanently endowed contributions	\$ 189,424	\$ 189,394
Cumulative amount for capital protection	52,520	65,386
	<u>\$ 241,944</u>	<u>\$ 254,780</u>

14. Net assets invested in capital assets:

The net asset invested in capital assets consists of the following:

	2016	2015
Capital assets	\$ 1,715,783	\$ 1,666,491
Less amounts financed by:		
Long-term debt	(161,752)	(162,998)
Deferred contributions related to capital assets (note 10)	(364,500)	(341,692)
Balance, end of year	<u>\$ 1,189,531</u>	<u>\$ 1,161,801</u>

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

14. Net assets invested in capital assets (continued):

The change in net assets invested in capital assets is calculated as follows:

	2016	2015
Repayment of long-term debt	\$ 1,246	\$ 1,218
Acquisitions of capital assets	106,409	83,069
Deferred contributions related to capital assets recognized as revenue (note 10)	23,926	23,078
Increase in net assets invested in capital assets	131,581	107,365
Amortization of capital assets	(57,117)	(55,117)
Transfer from deferred revenue (note 9)	(4,019)	(6,175)
Capital asset contributions received (note 10)	(42,715)	(19,564)
Decrease in net assets invested in capital assets	(103,851)	(80,856)
Change in net assets invested in capital assets	\$ 27,730	\$ 26,509

15. Research grants and contracts:

Research grants and contracts revenues are composed of:

	2016	2015
Research related activities	\$ 113,787	\$ 139,019
Trust related activities	3,220	11,972
Total	\$ 117,007	\$ 150,991

Research related activities:

In addition to research grants and contracts presented in the consolidated statement of operations, University researchers actively participate in research activities directly conducted at University affiliated Hospital Research Institutes: Ottawa Hospital Research Institute, Children's Hospital of Eastern Ontario Research Institute, Ottawa Heart Institute Research Corporation, Elisabeth Bruyère Research Institute, University of Ottawa Institute of Mental Health Research and Hôpital Montfort. For the year ended March 31, 2016, the total of the grant revenue for these activities has been determined by University management to be approximately \$166,785 (2015 - \$148,472) (unaudited figures).

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

16. Employee benefits:

Employee benefits expense is composed of:

	2016	2015
Fringe benefits	\$ 51,807	\$ 46,988
Future employee benefits expenses (note 6):		
Pension plan:		
Current service cost	43,093	45,297
Financing cost	(12,726)	(7,207)
	30,367	38,090
Other benefit plans (note 6)	5,793	5,561
Total	\$ 87,967	\$ 90,639

17. Fees:

Fees expenses are composed of:

	2016	2015
Professional services	\$ 1,752	\$ 2,937
Specialized services	25,548	16,596
Academic and research services	15,624	18,511
Total	\$ 42,924	\$ 38,044

18. Inter-institutional research and other agreements:

These expenses consist of amounts delivered to related research institutions and other partners in relation to agreements settled between the University and the partners and in respect of which the University is the main contractor. An equivalent revenue is recorded as research grants and contracts revenue.

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

19. Commitments and contingent liabilities:

Self-insurance

The University is a member of the Canadian Universities Reciprocal Insurance Exchange (CURIE), a self-insurance co-operative comprised of over forty Canadian universities and colleges. CURIE insures property damage, general liability and error and omission risks. If premiums collected and accumulated reserves are insufficient to cover expenses and claims of the various members, the University may be required to pay additional amounts.

Litigation

The University is involved with pending litigation and claims which arise in the normal course of operations. In management's opinion, the University has valid defenses and appropriate insurance coverage in places that are not expected to have a material impact on the University's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

Real estate and infrastructure investment vehicles

The University has funding commitments related to real estate and infrastructure investment vehicles, which may be funded over the next several years within the existing investment portfolio in accordance with the terms and conditions agreed to. As at April 30, 2016, these potential commitments totaled \$76,142 (2015 - \$65,528).

Funds provided under agreements

In the normal course of operations, the University signs agreements whereby funds are provided to the University for the execution of projects which are subject to restrictions as to the use of the funds. The sponsors of these projects can execute an audit of the financial records of the University to ensure compliance with the project requirements. In the event that amounts to be reimbursed to the sponsor of a project are identified, the necessary adjustments will be recognized in the year they are identified.

Contractual commitments

The University is in the process of replacing its student information system. The project is estimated at \$43,000 over 3 years. As at April 30, 2016, there was \$27,461 spent. The new system's implementation is planned for fall 2016. As at April 30, 2016, contractual commitments related to this project totaled \$13,572 (2015 - \$23,721).

The University has undertaken the construction and renovation of facilities. As at April 30, 2016, the University had signed contractual obligations for approximately \$ 42,911 (2015 - \$22,320).

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

19. Commitments and contingent liabilities (continued):

Obligation under operating lease

The University of Ottawa has entered into various long-term operating leases for buildings.

Future minimum lease payments over the next five years, by year are as follow:

2017	\$	4,154
2018		4,252
2019		4,337
2020		4,424
2021		4,513

20. Capital management:

The University's objectives when managing capital are to preserve its capital and to optimize the investment income of the University. The University's capital consists of unrestricted net assets, internally restricted net assets, the endowment fund and its long-term debt. The University is not subject to external restrictions on investments related to its capital.

Debt management

The University's Board of Governors has approved a debt management policy. Its objectives are:

- To ensure that debt is used prudently to meet the key strategic objectives of the University;
- To ensure that the University maintains access to capital markets;
- To align the strategic use of debt with the University's investment policies to manage the overall cost of capital, minimize long-term costs for debt service and ensure the overall level of risk does not exceed acceptable levels;
- To take into account the University's assets, liabilities and market conditions when evaluating different debt strategies and instruments, including bridge financing and derivative products; and
- To guide ongoing relationships with rating agencies, bond purchasers and other external constituents by communicating management's approach to the financing strategies undertaken by the University.

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

20. Capital management (continued):

The policy sets out two ratios which the University must maintain, which are as follows:

	Threshold	Ratios 2016	Ratios 2015
Unrestricted liquidity-to-debt	> 0.5x	2.05	2.39
Debt burden	< 5%	1.62%	1.57%

The University may only issue debt for capital plans that have been approved by the Board of Governors. Debts for ancillary services are excluded from these ratios. Management reports annually to the Board on the University's compliance to this policy.

Endowment fund management

The University's Board of Governors has approved a non-expendable endowment fund policy, which outlines the rules governing these endowment funds. Funds are invested in accordance with the University's Investment Policy, which is approved by the Board of Governors. The primary objectives for the fund are:

- to earn a real rate of return of 4.0% after expenses over a four-year moving period. This will fulfill the fund's objectives to meet its expenditure requirements and maintain capital in real terms; and
- to earn a rate of return that exceeds a benchmark that is comprised of market indices relevant to the actual asset mix, as established from time to time by the Finance and Treasury Committee of the Board of Governors.

The University's Statement of Investment Policies and Goals ("SIPG") outlines the asset classes, targets and environmental, social and governance ("ESG") criteria as established by the United Nations supported Principles for Responsible Investment ("PRI"), which are approved by the University's Board of Governors. Asset classes and targets are as follows:

Assets classes	Minimum	Target	Maximum
Equities	40 %	50 %	60 %
Fixed income	15 %	20 %	35 %
Alternatives	15 %	30 %	40 %

Funds may only be invested in investments that meet the policy's minimum quality requirements, as approved by recognized rating agencies.

The University complied with its capital-related policies throughout the year.

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

20. Capital management (continued):

Cash management

The University maintains cash, short-term and long-term investments to fund internally restricted and endowment net assets as well as to hold cash amounts received in advance of services rendered, as follows:

	2016	2015
Unrestricted cash	\$ 55,715	\$ 61,376
Restricted cash:		
Deferred revenue	278,045	233,448
Endowments net assets	241,944	254,780
Sinking fund	34,412	36,239
Internally restricted net assets - other (note 12):		
Operating fund	104,969	161,268
Ancillary enterprises fund - operations	4,348	14,085
Research fund	26,171	30,116
Trust fund	14,741	16,234
Capital fund	91,267	69,562
Accounts receivable related to research (note 4)	(63,134)	(52,615)
Total restricted cash	732,763	763,117
Total cash, short-term and long-term investments	\$ 788,478	\$ 824,493

21. Financial instruments:

Interest rate risk

The University is exposed to interest rate risk on its fixed interest rate financial instruments. Further details about the fixed rate investments are included in notes 3 and 5 and for long-term debt in note 11.

Credit risk

The risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The University's SIPG, which is reviewed annually, defines permitted investments and provides guidelines and restrictions on acceptable investment categories which minimize credit risk.

The maximum credit exposure of the University is represented by the fair value of the investments and accounts receivable as presented in the statement of financial position.

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

21. Financial instruments (continued):

Credit risk concentration exists where a significant portion of the portfolio is invested in securities which have similar characteristics or similar variations relating to economic, political or other conditions. The University monitors the financial health of its investments on an on-going basis with the assistance of its Finance and Treasury Committee of the Board of Governors and its investment advisors.

Foreign currency risk

Foreign currency exposure arises from the University's holdings of foreign equities and bonds. Currency hedging may be used to reduce the risk from fluctuations of foreign currency exchange rates, as defined in the SIPG.

Liquidity risk

Liquidity risk is the risk that the University will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The University manages its liquidity risk by monitoring its operating requirements. The University prepares budgets and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There has been no significant change to the risk exposures during the year.

22. Consolidated entity:

On January 13, 2010, the University created 7311842 Canada Inc., which is a wholly-owned subsidiary incorporated under the Canadian Business Corporations Act. The purpose of this subsidiary is to hold, on behalf of the University, certain investments outside of Canada.

As at April 30, 2016, the subsidiary held \$19,100 of assets, \$1,300 of liabilities and \$17,700 of equity (2015 - the subsidiary held \$16,200 of assets, \$1,400 of liabilities and \$14,800 of equity). During the year, the subsidiary incurred net results of \$2,500 (2015 - net results of \$2,700).

The University accounts for its investment in 7311842 Canada Inc. using the equity method and the investment is included in long-term investments in the consolidated statement of financial position.

23. Pledges receivable:

The estimated realizable value of significant donations which have been pledged but not received as at April 30, 2016 was approximately \$32,533 (2015 - \$31,652). These pledges are not recorded in these consolidated financial statements.

24. Comparative information:

Certain comparative information has been reclassified to conform to the current year's presentation.

UNIVERSITY OF OTTAWA

Notes to Consolidated Financial Statements (continued)

Year ended April 30, 2016
(in thousands of dollars)

25. Ontario Student Opportunity Trust Fund and Ontario Trust for Student Support:

The restricted endowment fund includes funds granted by the Government of Ontario for Phase I and Phase II of the Ontario Student Opportunity Trust Fund (OSOTF) and the Ontario Trust for Student Support (OTSS), as these programs provide for the matching by the Province of Ontario of the endowment contributions received by the University. The investment revenue earned on those funds must be used to provide financial aid to Ontario Students.

As per Ministry of Training, Colleges and Universities policies, the transactions related to the Ontario Student Opportunity Trust Fund and to the Ontario Trust for Student Support must be presented in these financial statements, for the year ended March 31, 2016.

Endowment fund	Ontario Student Opportunity Trust Funds		Ontario Trust for Student Support	Total 2016	Total 2015
	Phase I	Phase II			
Fund balance, beginning of year	\$ 18,912	\$ 5,556	\$ 27,774	\$ 52,242	\$ 51,525
Increases of capital	285	26	312	623	717
Fund balance, end of year	\$ 19,197	\$ 5,582	\$ 28,086	\$ 52,865	\$ 52,242

Schedule of changes in expendable funds available for awards	Ontario Student Opportunity Trust Funds		Ontario Trust for Student Support	Total 2016	Total 2015
	Phase I	Phase II			
Balance, beginning of year	\$ 9,805	\$ 1,658	\$ 4,504	\$ 15,967	\$ 12,553
Realized investment income, net of direct investment -related expenses and preservation of capital contributions	(503)	(104)	(266)	(873)	5,147
Bursaries awarded	(1,454)	(214)	(564)	(2,232)	(1,733)
Balance, end of year	\$ 7,848	\$ 1,340	\$ 3,674	\$ 12,862	\$ 15,967
Number of recipients	831	70	258	1,159	948
Endowment total based on book value	\$ 27,045	\$ 6,922	\$ 31,760	\$ 65,727	\$ 68,209

University of Ottawa

Schedule 1 - Statement of Operations by fund

Years ended April 30, 2016 and 2015

(in thousands of dollars)	Operating Fund	Ancillary Funds	Research Fund	Trust Fund	Capital Fund	Total	
						2016	2015
REVENUE							
Operating grants	382,519	243	-	-	-	382,762	384,649
Tuition and other fees	360,140	1,044	-	-	-	361,184	346,911
Research grants and contracts	-	-	113,787	3,220	-	117,007	150,991
Student housing	-	24,836	-	-	-	24,836	21,961
Sale of services	9,565	9,476	-	2,114	-	21,155	19,143
Donations	2,194	-	7,478	9,231	415	19,318	11,057
Investment income	1,171	2	345	8,437	2,427	12,382	50,571
Capital grants	-	-	-	-	8,303	8,303	8,166
Other	10,522	5,832	884	8,830	595	26,663	21,138
	766,111	41,433	122,494	31,832	11,740	973,610	1,014,587
EXPENSES							
Salaries	461,299	6,959	39,862	10,955	-	519,075	497,010
Employee benefits	79,625	1,226	5,020	2,096	-	87,967	90,639
Supplies and other contractual services	59,388	17,311	23,815	2,595	3,093	106,202	95,896
Scholarships, bursaries and financial aid	66,116	1	21,941	9,002	-	97,060	94,640
Fees	28,648	774	8,121	5,381	-	42,924	38,045
Inter-institutional research and other agreements	751	-	19,865	2,100	-	22,716	27,286
Travel	7,729	160	8,398	2,091	-	18,378	17,597
Interest and bank fees	7,931	4,363	2	19	-	12,315	12,125
Amortization of capital assets	19,285	3,518	13,138	1,030	20,146	57,117	55,117
Other	15,845	2,126	2,629	2,489	-	23,089	23,390
	746,617	36,438	142,791	37,758	23,239	986,843	951,745
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES, BEFORE UNDERNOTED ITEMS	19,494	4,995	(20,297)	(5,926)	(11,499)	(13,233)	62,842
TRANSFERS - CAPITAL FUND	(7,378)	(13,429)	3,607	(147)	17,347	-	-
TRANSFERS - OTHERS	(12,413)	1,356	11,064	(7)	-	-	-
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(297)	(7,078)	(5,626)	(6,080)	5,848	(13,233)	62,842