

Financial Statements of

NSCAD UNIVERSITY

March 31, 2013

Deloitte LLP
1969 Upper Water Street
Suite 1500
Purdy's Wharf Tower II
Halifax NS B3J 3R7
Canada

Tel: 902-422-8541
Fax: 902-423-5820
www.deloitte.ca

Independent Auditor's Report

To the Board of Governors
NSCAD University

We have audited the accompanying financial statements of NSCAD University, which comprise the statement of financial position as at March 31, 2013, and the statements of operations, changes in fund balances and cash flows for the year then ended, and 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 generally accepted accounting principles, 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.

Auditor's Responsibility

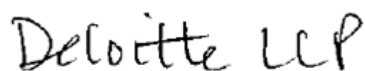
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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 the auditor's 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, the auditor considers 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of NSCAD University as at March 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Halifax, Nova Scotia
September 26, 2013

NSCAD UNIVERSITY

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NSCAD UNIVERSITY
Statement of Financial Position
March 31, 2013

	Unrestricted		Restricted				Total March 31, 2013	Total March 31, 2012 (Restated - Notes 12 & 13)	Total April 1, 2011 (Restated - Note 13)
	Operating Fund		Endowment Fund		Capital Fund				
	2013	2012	2013	2012	2013	2012			
ASSETS									
Cash	\$ 2,215,708	\$ 853,112	\$ 3,986	\$ 2,420	\$ -	\$ -	\$ 2,219,694	\$ 855,532	\$ 459,436
Investments (Note 3)	11,634,571	9,503,684	6,110,132	2,859,631	-	-	17,744,703	12,363,315	12,738,927
Accounts receivable (Note 4)	1,378,665	2,258,879	-	-	-	-	1,378,665	2,258,879	1,414,999
Prepaid expenses	2,380,360	2,431,827	-	-	-	-	2,380,360	2,431,827	2,477,333
Inventory	166,456	192,354	-	-	-	-	166,456	192,354	202,340
Due from endowment fund	-	-	-	-	-	-	-	-	-
Due from operating fund	-	-	99,587	3,070,945	-	-	99,587	3,070,945	60,403
Due from capital fund	2,359,008	4,801,785	-	-	-	-	2,359,008	4,801,785	1,579,848
	20,134,768	20,041,641	6,213,705	5,932,996	-	-	26,348,473	25,974,637	18,933,286
Property and equipment (Note 5)									
Land	-	-	-	-	4,402,490	4,402,490	4,402,490	4,402,490	4,402,490
Building	-	-	-	-	17,495,387	17,297,240	17,495,387	17,297,240	16,711,745
Equipment	-	-	-	-	5,091,636	5,070,782	5,091,636	5,070,782	5,076,427
Computer hardware	-	-	-	-	868,268	808,025	868,268	808,025	756,042
Computer software	-	-	-	-	724,667	724,667	724,667	724,667	714,951
Leasehold improvements	-	-	-	-	12,798,330	12,773,953	12,798,330	12,773,953	12,559,048
	-	-	-	-	41,380,778	41,077,157	41,380,778	41,077,157	40,220,703
Less: Accumulated amortization (Note 5)	-	-	-	-	10,450,323	9,227,440	10,450,323	9,227,440	8,080,129
	-	-	-	-	30,930,455	31,849,717	30,930,455	31,849,717	32,140,574
	\$ 20,134,768	\$20,041,641	\$ 6,213,705	\$5,932,996	\$ 30,930,455	\$31,849,717	\$ 57,278,928	\$ 57,824,354	\$51,073,860
LIABILITIES AND FUND BALANCES									
Bank indebtedness (Note 6)	\$ -	\$ -	\$ -	\$ -	\$ 8,124,985	\$ 5,266,656	\$ 8,124,985	\$ 5,266,656	\$ 7,724,993
Accounts payable	2,249,337	1,915,088	-	-	-	-	2,249,337	1,915,088	2,157,147
Deferred revenue	10,892,535	9,978,075	212,477	185,882	3,475,819	3,760,771	14,580,831	13,924,728	14,187,820
Deferred capital contribution (Note 7)	-	-	-	-	6,174,537	6,451,939	6,174,537	6,451,939	6,554,045
Due to operating fund	-	-	-	-	2,359,008	4,801,785	2,359,008	4,801,785	1,579,848
Due to endowment fund	99,587	3,070,945	-	-	-	-	99,587	3,070,945	60,403
Current portion of long-term debt (Note 6)	-	-	-	-	659,000	701,000	659,000	701,000	743,000
	13,241,459	14,964,108	212,477	185,882	20,793,349	20,982,151	34,247,285	36,132,141	33,007,256
Long-term debt (Note 6)	-	-	-	-	8,427,240	9,086,003	8,427,240	9,086,003	9,790,360
	13,241,459	14,964,108	212,477	185,882	29,220,589	30,068,154	42,674,525	45,218,144	42,797,616
Fund balances	6,893,309	5,077,533	6,001,228	5,747,114	1,709,866	1,781,563	14,604,403	12,606,210	8,276,244
	\$ 20,134,768	\$20,041,641	\$ 6,213,705	\$5,932,996	\$ 30,930,455	\$31,849,717	\$ 57,278,928	\$ 57,824,354	\$51,073,860

Commitments (Note 9)

APPROVED BY THE BOARD

..... Governor

..... Governor

NSCAD UNIVERSITY
Statement of Operations
Year ended March 31, 2013

	Unrestricted	Restricted		Total 2013	Total 2012
	Operating 2013	Endowment 2013	Capital 2013		
					(Restated - See Notes 12 & 13)
Revenues					
Student academic fees	\$ 6,061,360	\$ -	\$ -	\$ 6,061,360	\$ 5,874,265
Government grants					
Restricted	1,919,000	-	284,953	2,203,953	2,203,953
Unrestricted	8,717,000	-	-	8,717,000	8,952,084
Investment income	42,805	136,840	-	179,645	108,822
Rent	513,300	-	-	513,300	468,777
Ancillary enterprises	889,521	-	-	889,521	931,772
Miscellaneous	156,845	-	-	156,845	165,770
Contributions received	387,332	182,254	370,929	940,515	660,198
Other government grants	1,397,300	-	-	1,397,300	2,385,190
Unrealized gain (loss) on investments	217	155,615	-	155,832	(60,723)
	20,084,680	474,709	655,882	21,215,271	21,690,108
Expenses					
Academic					
Salaries	8,370,079	-	-	8,370,079	8,993,390
Operating	583,580	-	-	583,580	650,035
Administration	2,775,745	-	-	2,775,745	3,122,964
Amortization of property and equipment	-	-	1,322,883	1,322,883	1,247,311
Ancillary enterprises	922,390	-	-	922,390	1,015,087
Interest	807,894	-	-	807,894	835,768
Facilities operation	2,400,550	-	-	2,400,550	2,407,864
Rent	305,823	-	-	305,823	255,040
Scholarships	-	255,716	-	255,716	219,243
Service departments	1,507,539	-	-	1,507,539	1,699,468
	17,673,600	255,716	1,322,883	19,252,199	20,446,170
Excess (deficiency) of revenue over expenses	\$ 2,411,080	\$ 218,993	\$ (667,001)	\$ 1,963,072	\$ 1,243,938

NSCAD UNIVERSITY
Statement of Changes in Fund Balances
Year ended March 31, 2013

	<u>Unrestricted</u>	<u>Restricted</u>		
	<u>Operating</u>	<u>Endowment</u>	<u>Capital</u>	<u>Total</u>
Fund balances, April 1, 2011	\$ 3,698,254	\$ 2,696,842	\$ 1,881,148	\$ 8,276,244
Excess (deficiency) of revenue over expenses (Note 12)	1,937,413	(35,756)	(657,719)	1,243,938
Capital contributions to endowment fund	-	3,086,028	-	3,086,028
Mortgage principal payments	(558,134)	-	558,134	-
Change in fund balances	1,379,279	3,050,272	(99,585)	4,329,966
Fund balances, March 31, 2012	\$ 5,077,533	\$ 5,747,114	\$ 1,781,563	\$ 12,606,210
Excess (deficiency) of revenue over expenses	2,411,080	218,993	(667,001)	1,963,072
Capital contributions to endowment fund	-	35,121	-	35,121
Mortgage principal payments	(595,304)	-	595,304	-
Change in fund balances	1,815,776	254,114	(71,697)	1,998,193
Fund balances, end of year	\$ 6,893,309	\$ 6,001,228	\$ 1,709,866	\$ 14,604,403

NSCAD UNIVERSITY
Statement of Cash Flows
Year ended March 31, 2013

	<u>2013</u>	<u>2012</u>
		(Restated - See Note 12 & 13)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating activities		
Excess of revenue over expenses	\$ 1,963,072	\$ 1,243,938
Items not affecting cash		
Amortization of property and equipment	1,322,883	1,247,311
Amortization of deferred capital grants and deferred capital contributions	(655,882)	(589,592)
Unrealized loss (gain) on endowment investments	(155,615)	60,723
Changes in non-cash working capital items (Note 11)	2,232,883	(1,187,130)
	<u>4,707,341</u>	<u>775,250</u>
Investing activities		
Capital grants and deferred capital contributions received	93,528	381,077
Purchase of property and equipment	(403,621)	(956,454)
Capital contributions – endowment fund	35,121	3,086,028
	<u>(274,972)</u>	<u>2,510,651</u>
Financing activities		
Mortgage and lease principal payments and change in bank indebtedness	2,157,566	(3,204,694)
Net change in endowment investments	(3,094,886)	(111,107)
	<u>(937,320)</u>	<u>(3,315,801)</u>
NET INCREASE (DECREASE) IN CASH AND OPERATIONAL INVESTMENTS	3,495,049	(29,900)
CASH AND OPERATING FUND INVESTMENTS, BEGINNING OF YEAR	10,359,216	10,389,116
CASH AND OPERATING FUND INVESTMENTS, END OF YEAR	\$ 13,854,265	\$ 10,359,216
CASH AND OPERATING FUND INVESTMENTS are comprised of:		
Cash	\$ 2,219,694	\$ 855,532
Operating fund investments	11,634,571	9,503,684
	<u>\$ 13,854,265</u>	<u>\$ 10,359,216</u>

NSCAD UNIVERSITY

Notes to the Financial Statements

March 31, 2013

1. THE UNIVERSITY

Nova Scotia College of Art and Design, operating as NSCAD University (the "University"), is located in Halifax and offers degrees in fine arts and design both at undergraduate and graduate levels. The University receives its principal funding from the Province of Nova Scotia through recommendations of the Nova Scotia Council on Higher Education. The University is a registered charity and, as such, is exempt from payment of income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian generally accepted accounting principles using Canadian accounting standards for not-for-profit organizations in Part III of the CICA Handbook. These statements are the first full set of financial statements presented by the University under these accounting standards. Details regarding the adoption of these standards and the impact on the financial statements are contained in Note 13.

Fund accounting

The University maintains its accounts in accordance with the fund accounting method in order to ensure observance of restrictions, if any, placed on the resources made available to it.

The unrestricted Operating Fund accounts for those resources over which the University's Board of Governors has sole authority and which are expendable for any purpose in the fulfillment of the University's objectives.

The restricted funds, consisting of the Endowment Fund and the Capital Fund, account for those resources made available to the University by outside organizations and individuals, by way of grants, service contracts or gifts. These resources, although expendable in the course of normal operations, are restricted as to use by the outside party. These restricted funds also include expendable amounts restricted as to use by action of the University's Board of Governors.

The financial statements of the University are prepared using the deferral method with the multi-column format. The deferral method, which introduces the concept of deferring restricted revenues to future accounting periods, is a process of matching the restricted revenues with the related expenses regardless of when the revenues are received. Restricted revenues are recognized as revenue in the same accounting period as related expenses. Those restricted revenues for which the related expenses have not been incurred are reported as deferred income on the University's statement of financial position.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include cash, accounts receivable and due from capital/operating funds.

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities measured at amortized cost include bank indebtedness, trade accounts payable and accrued liabilities, long-term debt and due to operating/endowment fund.

The organization's financial assets measured at fair value include quoted shares.

Interest rate swap and hedge accounting

Certain derivative financial instruments held by the University are eligible for hedge accounting. To be eligible for hedge accounting, an instrument must meet certain criteria with respect to identification, designation and documentation. In addition, the critical terms of the derivative financial instrument must match the specific terms and conditions of the hedged item. The fair value of derivative instruments eligible and qualifying for hedge accounting is generally not recognized on the consolidated balance sheet. Gains and losses on such instruments are recognized in earnings in the same period as those of the hedged item.

The University has entered into an interest rate swap agreement with a chartered bank to reduce interest rate exposure associated with its long term debt (the mortgage). The agreement has for effect of converting the floating rate of interest to a fixed rate. The University does not use derivative financial instruments for trading or speculative purposes.

The University designated the interest rate swap as a cash flow hedge as at April 1, 2011, March 31, 2012 and March 31, 2013 of a specifically identified debt instrument (the mortgage). The swap agreement is an effective hedge, both at maturity and over the term of the agreement since the term to maturity, the notional principal amount and the interest rate of the swap agreement all match the terms of the mortgage being hedged. The payments associated with the interest rate swap are recorded as interest expense.

In the event that the interest rate swap agreement is terminated or ceases to be effective in part or in whole prior to maturity any associated realized or unrealized gain or loss is recognized in income. In the event that the designated mortgage is extinguished or matures prior to the termination of the related interest rate swap agreement any realized or unrealized gain or loss is recognized in income.

Cash

Cash comprised of cash and deposits and overdraft positions with financial institutions.

Investments

Investments include marketable securities, all of which are recorded at fair value, determined using closing price quotations in an active market. Settlement date accounting is used.

Inventory

Inventory consists of merchandise and supplies held for resale and are valued at the lower of cost and net realizable value. Cost is determined on a first in first out basis. Administrative and program supplies and library periodicals are not inventoried.

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalization and amortization

Property and equipment are stated at cost in the Capital Fund.

Library book additions are not capitalized to the capital asset accounts.

Amortization is computed by the straight-line method over the estimated useful asset lives at the following rates:

Building	2%
Equipment	10%
Computer hardware	25%
Computer software	20%
Leasehold improvements	Term of lease

Insurance on a replacement cost basis is carried on the building and contents of the University in the amount of \$87,794,720.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Collection

The University's permanent collections of Historic Art (a portion of it is now on indefinite loan to the Art Gallery of Nova Scotia) and library books were not formed for commercial purposes and are not considered realizable assets. The value of these assets is not reflected in these financial statements.

Revenue recognition

The University follows the deferral method of accounting for revenue. Tuition fees, residence fees and sales are recognized when the services are provided or the goods are sold. Funding for expenditures of future periods are deferred and recognized as revenue in the year in which the related expenditure is incurred. Funding received for property and equipment are deferred and recognized as revenue on the same basis as the acquired property and equipment are amortized.

Use of accounting estimates

The preparation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, as well as revenue and expenses for the period then ended. Actual results could differ from those estimates. Significant accounts most subject to judgement and estimation include the amortization periods for property and equipment, allowance for doubtful accounts, deferred revenue, and accounts payable and accrued liabilities.

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2013

3. INVESTMENTS

The market value of all investments in the Endowment Fund at March 31, 2013 was \$6,110,132 (March 31, 2012 - \$2,859,631; April 1, 2011 - \$2,809,247). The cost of all investments in the Endowment Fund at March 31, 2013 was \$6,066,954 (March 31, 2012 - \$2,672,068 April 1, 2011 - \$2,560,961).

The market value of all investments in the Operating Fund at March 31, 2013 was \$11,634,571 (March 31, 2012 - \$9,503,684; April 1, 2011 - \$9,929,680). The cost of all investments in the Operating Fund at March 31, 2013 was \$11,634,354 (March 31, 2012 - \$9,503,684; April 1, 2011 - \$9,929,680).

4. ACCOUNTS RECEIVABLE

	March 31, 2013	March 31, 2012	April 1, 2011
Students' tuition	\$ 405,548	\$ 311,439	\$ 392,305
Other	1,144,873	2,093,018	1,078,029
HST	50,968	45,189	117,202
	1,601,389	2,449,646	1,587,536
Less: allowance for doubtful accounts	222,724	190,767	172,537
	\$ 1,378,665	\$ 2,258,879	\$ 1,414,999

5. PROPERTY AND EQUIPMENT

	March 31, 2013		March 31, 2012		April 1, 2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 4,402,490	\$ -	\$ 4,402,490	\$ -	\$ 4,402,490	\$ -
Buildings	17,495,387	3,672,354	17,297,240	3,341,106	16,711,745	3,013,821
Equipment	5,091,636	3,830,030	5,070,782	3,697,318	5,076,427	3,555,302
Computer hardware	868,268	608,084	808,025	391,017	756,042	189,011
Computer software	724,667	432,856	724,667	287,923	714,951	142,990
Leasehold improvements	12,798,330	1,906,999	12,773,953	1,510,076	12,559,048	1,179,005
	41,380,778	10,450,323	41,077,157	9,227,440	40,220,703	8,080,129
Less: accumulated amortization	10,450,323		9,227,440		8,080,129	
Net book value	\$ 30,930,455		\$ 31,849,717		\$ 32,140,574	

6. BANK INDEBTEDNESS AND LONG-TERM DEBT

Bank indebtedness

The University has a \$750,000 line of credit with the Bank of Nova Scotia, bearing interest at the banks' prime lending rate. As of March 31, 2013, the outstanding balance was \$Nil (March 31, 2012 - \$Nil; April 1, 2011 - \$Nil).

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2013

6. BANK INDEBTEDNESS AND LONG-TERM DEBT (continued)

Bank indebtedness (continued)

The University also has a \$10 million non-revolving demand loan repayable in 59 equal instalments of principal of \$41,667 plus interest, with the balance due June 30, 2014. As at March 31, 2013, the outstanding balance was \$8,124,985 (March 31, 2012 - \$5,266,656; April 1, 2011 - \$7,724,993).

Long-term debt

The demand notes bear interest at the bank's prime lending rate less 0.25% and are primarily secured by written confirmation of a facility funding arrangement between the Province of Nova Scotia and the University for a term of 20 years or until repayment of the demand notes, whichever occurs first.

These demand notes are repayable in equal blended monthly instalments of principal plus interest. The term is 5 years (February 27, 2017) and the amortization period is 10 years (March 31, 2022).

The University has entered into an interest rate swap for an amount equal to the principal value of the loan with the Bank of Nova Scotia for a fixed rate of 6.69% with a termination date of March 31, 2022. The bank has the right to terminate the swap transaction in whole, on February 27, 2017. If the swap had been terminated March 31, 2013 the cost to NSCAD would have been \$1,480,151 (\$1,650,444 at March 31, 2012).

	March 31, 2013	March 31, 2012	April 1, 2011
Nova Scotia Power, 0% loan maturing August 2012, monthly payments of \$3,233	\$ -	\$ 16,165	\$ 54,960
Bank of Nova Scotia, prime less 0.25% mortgage maturing February 2017, payments monthly for principal and interest	7,496,562	8,091,866	8,650,000
Halifax Port Authority, 0% loan maturing November 2015, payments monthly	61,355	84,362	107,370
Bank of Nova Scotia, 6.62% loan maturing September 2012, payments monthly for principal and interest	-	66,287	192,707
Nova Scotia Strategic Opportunities Fund Incorporated 1.5% 5 year promissory note, 1.5%, due February 2015			
principal balance due on maturity in February 2015	1,528,323	1,528,323	1,528,323
Long-term debt, end of year	9,086,240	9,787,003	10,533,360
Less: current portion of long-term debt	659,000	701,000	743,000
	\$ 8,427,240	\$ 9,086,003	\$ 9,790,360

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2013

6. BANK INDEBTEDNESS AND LONG-TERM DEBT (continued)

Long-term debt (continued)

The minimum principal repayments for the next five years are:

2014	\$ 659,000
2015	2,232,000
2016	743,000
2017	777,000
2018	831,000
	<u>\$ 5,242,000</u>

7. DEFERRED CAPITAL CONTRIBUTION

Deferred capital contribution represents the unamortized amount of externally funded portion of property and equipment, which will be recognized as income in the capital fund as those items of property and equipment are amortized.

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 6,451,939	\$ 6,554,045
Add: Donations and grants	93,528	202,533
	<u>6,545,467</u>	6,756,578
Less: Amortization	370,928	304,639
	<u>\$ 6,174,539</u>	\$ 6,451,939

8. PENSION

The University contributes on behalf of substantially all of its employees to a defined contribution pension plan (the "Plan"). The University charges income with the required contribution to the Plan on an annual basis. The employer's and employees' contributions for the year ended March 31, 2013 were \$693,423 (2012 - \$712,537) and \$573,181 (2012 - \$565,550) respectively.

9. COMMITMENTS

The University has leased 70,000 square feet of space at the Halifax Seaport from Halifax Port Authority, for a 40 year period ending August 31, 2045. The total base rent for 40 years is \$2.5 million. This amount has been recorded as prepaid rent for the purposes of financial reporting. Amortization of the prepaid rent commenced in September 2007 upon opening of the Port Campus.

The University has leased 1,003 square feet of space in the Immigration Annex Building, for a total of five years ending December 31, 2015 (Seeds Gallery) and an additional 5,235 square feet of space in the Seaport from the Halifax Port Authority, for a total of five years ending August 31, 2016.

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2013

9. COMMITMENTS (continued)

The lease payments over the next five fiscal years are as follows:

2014	\$	69,336
2015		70,753
2016		69,099
2017		25,213
2018		-
	\$	<u>234,401</u>

10. FINANCIAL INSTRUMENTS

Financial risk refers to the impact on the University's cash flows due to fluctuations in interest rates and the credit quality of student receivables. The University manages its financial risks as follows:

Interest rate risk

Interest rate risk is minimized as the University uses interest rate swaps, as described in Note 6, to fix interest rates on its long-term debt.

Credit risk

The University performs a continuous evaluation of its accounts receivable and records an allowance for doubtful accounts as required. Management considers there is no significant credit risk as at March 31, 2013.

Fair value

The fair value of cash, bank indebtedness, accounts receivable and accounts payable is approximately equal to their carrying values due to their short-term maturity. The fair value of long-term debt is described in Note 6. Investments are recorded at fair value.

Liquidity risk

The University's objective is to have sufficient liquidity to meet its liabilities when due. The University monitors its cash balances and cash flows generated from operations to meet its requirements.

Market risk

The University is subject to market risk with respect to its investments. The University manages this risk by managing a diversified portfolio.

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2013

11. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	<u>2013</u>	<u>2012</u>
Accounts receivable	\$ 880,214	\$ (843,880)
Prepaid expenses	51,467	45,506
Inventory	25,898	9,986
Due from operating fund	2,971,358	(3,010,542)
Due from capital fund	2,442,777	(3,221,937)
Accounts payable	334,249	(242,059)
Deferred income	941,055	(156,683)
Due to operating fund	(2,442,777)	3,221,937
Due to endowment fund	(2,971,358)	3,010,542
	<u>\$ 2,232,883</u>	<u>\$ (1,187,130)</u>

12. RESTATEMENT OF PRIOR PERIOD

The University has restated the comparative financial statement balances to reflect the proper treatment of a grant received from the Province of Nova Scotia of \$241,968. The grant was originally recorded as a deferred capital grant but because it is not restricted, it should have been recorded as an operating grant. The impact of this restatement to the March 31, 2012 statement of financial position is an increase in the unrestricted operating fund of \$241,968 and decrease of \$20,219 in the capital fund. The restatement also resulted in a \$241,968 increase in unrestricted government grant revenues on the statement of operations and a decrease of \$20,219 in the capital fund restricted government grant. The impact to the statement of cash flow was to increase the excess of revenue over expense by \$221,749, decrease amount of deferred capital grants by \$20,219 and decrease deferred capital contributions by \$241,968.

13. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

During the year ending March 31, 2013, the University adopted the new accounting standards for not-for-profit organizations. These financial statements are the first financial statements for which the University applied the new Canadian accounting standards for not-for-profit organizations. In accordance with the accounting principles and provisions set out in Section 1501, *First-time Adoption by Not-for-Profit Organizations ("Section 1501")*, the date of transition is April 1, 2011 and the University has prepared and presented an opening statement of financial position at that date.

The impact of adopting these standards was accounted for in net assets at the date of transition and in accordance with the requirements of Section 1501, the accounting policies set out in Note 2 have been consistently applied to all years presented and adjustments resulting from the adoption of the new standards have been applied retrospectively. The University has not elected to apply any of the available exemptions under Section 1501.

The fair value of interest rate swaps designated as hedges were previously recorded on the Statement of Financial Position. Changes in the fair value were recorded in the Statement of Changes in Fund Balances. Upon transition to Canadian accounting standards for not-for-profit organizations, the University adopted Section 3856 for hedge accounting which requires the University's interest rate swap, which qualifies as an effective cash flow hedge, to be accounted for off-balance sheet.

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13. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING (continued)

On transition to the new standards on April 1, 2011, the University derecognized its derivative liability in the amount of \$1,296,898 and recorded a corresponding increase in fund balances.

The impact to the March 31, 2012 year was to reverse the \$353,546 change in fair value of cash flow hedge adjustment recorded in the Statement of Fund Balances, derecognize the derivative liability in the amount of \$1,650,444 from the statement of financial position and record an offsetting adjustment in fund balances.

The transition to Part III had no impact on the Statement of Operations for the year ended March 31, 2013.