

Financial statements of

**NSCAD University**

March 31, 2017

# **NSCAD University**

March 31, 2017

## Table of contents

Independent Auditor's Report.....	1 - 2
Statement of financial position.....	3
Statement of operations .....	4
Statement of changes in fund balances.....	5
Statement of cash flows.....	6
Notes to the financial statements.....	7 - 13

## Independent Auditor's Report

To the Board of Governors of  
NSCAD University

We have audited the accompanying financial statements of NSCAD University, which comprise the statement of financial position as at March 31, 2017 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 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.

### **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 in our audit 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, 2017, and the results of its operations and its cash flows for the year then ended.

*Deloitte LLP*

Chartered Professional Accountants  
June 26, 2017

**NSCAD University**  
Statement of financial position  
as at March 31, 2017

	Unrestricted						Restricted			
	Operating fund		Endowment fund		Capital fund		Research and Special Purpose Fund		Total	Total
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>										
Cash	17,094	-	-	-	-	-	-	-	17,094	-
Investments (Note 3)	-	-	8,008,266	7,176,631	2,801,795	2,742,982	-	-	10,810,061	9,919,613
Accounts receivable (Note 4)	172,912	344,557	-	-	-	-	-	-	172,912	344,557
Prepaid expenses (Note 9)	2,072,399	2,145,373	-	-	-	-	-	-	2,072,399	2,145,373
Inventory	162,930	162,086	-	-	-	-	-	-	162,930	162,086
Due from operating fund	-	-	47,983	102,949	-	-	2,061,154	1,864,645	2,109,137	1,967,594
Due from capital fund	14,997,590	12,444,492	-	-	-	-	-	-	14,997,590	12,444,492
	<b>17,422,925</b>	<b>15,096,508</b>	<b>8,056,249</b>	<b>7,279,580</b>	<b>2,801,795</b>	<b>2,742,982</b>	<b>2,061,154</b>	<b>1,864,645</b>	<b>30,342,123</b>	<b>26,983,715</b>
Property and equipment (Note 5)										
Land	-	-	-	-	4,402,490	4,402,490	-	-	4,402,490	4,402,490
Building	-	-	-	-	18,347,865	18,277,256	-	-	18,347,865	18,277,256
Equipment	-	-	-	-	4,966,833	5,050,121	-	-	4,966,833	5,050,121
Computer hardware	-	-	-	-	1,247,509	1,301,237	-	-	1,247,509	1,301,237
Computer software	-	-	-	-	765,073	765,073	-	-	765,073	765,073
Leasehold improvements	-	-	-	-	12,922,585	12,895,272	-	-	12,922,585	12,895,272
	-	-	-	-	42,652,355	42,691,449	-	-	42,652,355	42,691,449
Less: Accumulated amortization (Note 5)	-	-	-	-	14,884,571	13,911,968	-	-	14,884,571	13,911,968
	-	-	-	-	27,767,784	28,779,481	-	-	27,767,784	28,779,481
	<b>17,422,925</b>	<b>15,096,508</b>	<b>8,056,249</b>	<b>7,279,580</b>	<b>30,569,579</b>	<b>31,522,463</b>	<b>2,061,154</b>	<b>1,864,645</b>	<b>58,109,907</b>	<b>55,763,196</b>
<b>Liabilities and fund balances</b>										
<b>Current</b>										
Bank indebtedness	245,721	449,777	-	-	-	-	-	-	245,721	449,777
Demand loan payable (Note 6)	-	-	-	-	-	1,640,000	-	-	-	1,640,000
Accounts payable and accrued liabilities	1,649,237	1,158,434	-	-	-	-	-	-	1,649,237	1,158,434
Deferred revenue	839,946	685,675	264,166	182,660	2,721,570	3,048,347	1,086,826	768,645	4,912,508	4,685,327
Deferred capital contribution (Note 7)	-	-	-	-	8,062,977	8,301,931	-	-	8,062,977	8,301,931
Due to operating fund	-	-	-	-	14,997,590	12,444,492	-	-	14,997,590	12,444,492
Due to endowment fund	47,983	102,949	-	-	-	-	-	-	47,983	102,949
Due to Research and Special Purpose Fund	2,061,154	1,864,645	-	-	-	-	-	-	2,061,154	1,864,645
Current portion of long-term debt (Note 6)	-	-	-	-	830,931	777,319	-	-	830,931	777,319
	<b>4,844,041</b>	<b>4,261,480</b>	<b>264,166</b>	<b>182,660</b>	<b>26,613,068</b>	<b>26,212,089</b>	<b>1,086,826</b>	<b>768,645</b>	<b>32,808,101</b>	<b>31,424,874</b>
Long-term debt (Note 6)	-	-	-	-	3,844,539	4,675,468	-	-	3,844,539	4,675,468
	<b>4,844,041</b>	<b>4,261,480</b>	<b>264,166</b>	<b>182,660</b>	<b>30,457,607</b>	<b>30,887,557</b>	<b>1,086,826</b>	<b>768,645</b>	<b>36,652,640</b>	<b>36,100,342</b>
Fund balances	12,578,884	10,835,028	7,792,083	7,096,920	111,972	634,906	974,328	1,096,000	21,457,267	19,662,854
	<b>17,422,925</b>	<b>15,096,508</b>	<b>8,056,249</b>	<b>7,279,580</b>	<b>30,569,579</b>	<b>31,522,463</b>	<b>2,061,154</b>	<b>1,864,645</b>	<b>58,109,907</b>	<b>55,763,196</b>

Commitments (Note 9)

Approved by the Board

\_\_\_\_\_ Governor

\_\_\_\_\_ Governor

# NSCAD University

## Statement of operations year ended March 31, 2017

	Unrestricted		Restricted			Total 2016
	Operating 2017	Endowment 2017	Capital 2017	Research and Special Purpose Fund 2017	Total 2017	
	\$	\$	\$	\$	\$	\$
<b>Revenues</b>						
Government grants						
Unrestricted	8,669,600	-	-	-	8,669,600	8,697,066
Restricted	1,919,000	173,232	326,905	-	2,419,137	2,377,130
Student academic fees	5,780,777	-	-	-	5,780,777	5,768,544
Other government grants	74,650	-	-	63,566	138,216	219,536
Contributions received	87,335	164,645	297,764	133,458	683,202	751,836
Ancillary enterprises	623,044	-	-	-	623,044	680,180
Rent	606,815	-	-	-	606,815	546,755
Research grants	-	-	-	247,106	247,106	385,335
Unrealized gain (loss) on investments	-	639,571	-	-	639,571	(67,341)
Investment income	22,689	109,652	-	-	132,341	201,906
Miscellaneous	87,049	-	-	42,763	129,812	138,043
	<b>17,870,959</b>	<b>1,087,100</b>	<b>624,669</b>	<b>486,893</b>	<b>20,069,621</b>	<b>19,698,990</b>
<b>Expenses</b>						
Academic						
Salaries	8,044,665	-	-	-	8,044,665	8,324,254
Operating	391,156	-	-	64,784	455,940	519,475
Facilities operation	2,291,147	-	-	-	2,291,147	2,482,387
Administration	2,450,353	-	-	258,122	2,708,475	2,484,287
Service departments	1,710,144	-	-	38,553	1,748,697	1,661,801
Amortization of property and equipment	-	-	1,147,603	-	1,147,603	1,204,846
Ancillary enterprises	596,558	-	-	-	596,558	724,959
Interest	401,612	-	-	-	401,612	473,395
Research expenditures	-	-	-	247,106	247,106	385,335
Scholarships	-	391,937	-	-	391,937	332,761
Rent	241,468	-	-	-	241,468	153,788
	<b>16,127,103</b>	<b>391,937</b>	<b>1,147,603</b>	<b>608,565</b>	<b>18,275,208</b>	<b>18,747,288</b>
Excess (deficiency) of revenue over expenses	<b>1,743,856</b>	<b>695,163</b>	<b>(522,934)</b>	<b>(121,672)</b>	<b>1,794,413</b>	<b>951,702</b>

# NSCAD University

## Statement of changes in fund balances year ended March 31, 2017

	Unrestricted		Restricted		Total
	Operating	Endowment	Capital	Research and Special Purpose Fund	
	\$	\$	\$	\$	\$
Fund balances, March 31, 2016	10,835,028	7,096,920	634,906	1,096,000	19,662,854
Excess (deficiency) of revenue over expenses	<b>1,743,856</b>	<b>695,163</b>	<b>(522,934)</b>	<b>(121,672)</b>	<b>1,794,413</b>
Fund balances, March 31, 2017	<b>12,578,884</b>	<b>7,792,083</b>	<b>111,972</b>	<b>974,328</b>	<b>21,457,267</b>

# NSCAD University

## Statement of cash flows

year ended March 31, 2017

	2017	2016
	\$	\$
<b>Operating activities</b>		
Excess of revenue over expenses	1,794,413	951,702
Items not affecting cash		
Amortization of property and equipment	1,147,603	1,204,846
Amortization of deferred capital grants and deferred capital contributions	(624,669)	(670,365)
Unrealized (gain) loss on endowment investments	(639,571)	67,341
Changes in non-cash working capital items (Note 12)	1,288,536	(401,576)
	<b>2,966,312</b>	<b>1,151,948</b>
<b>Investing activities</b>		
Purchase of property and equipment	(135,906)	(428,661)
Net change in endowment investments	(192,064)	(471,108)
Capital grants and deferred capital contributions received	58,938	63,189
Net change in restricted capital investments	(58,813)	293,212
	<b>(327,845)</b>	<b>(543,368)</b>
<b>Financing activities</b>		
Repayment of short-term revolving credit facility	(1,640,000)	-
Mortgage and lease principal payments and change in capital fund bank indebtedness	(777,317)	(6,227,482)
	<b>(2,417,317)</b>	<b>(6,227,482)</b>
Net increase (decrease) in cash	221,150	(5,618,902)
(Bank indebtedness) cash, beginning of year	(449,777)	5,169,125
<b>(Bank indebtedness) cash, end of year</b>	<b>(228,627)</b>	<b>(449,777)</b>
Cash is comprised of:		
Cash	17,094	-
Operating fund bank indebtedness	(245,721)	(449,777)
	<b>(228,627)</b>	<b>(449,777)</b>

The accompanying notes to the financial statement are an integral part of this financial statement.



# NSCAD University

## Notes to the financial statements

### March 31, 2017

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#### 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 Chartered Professional Accountants of Canada Handbook.

##### *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, the Capital Fund and the Research and Special Purpose 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 measured 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.

Financial liabilities measured at amortized cost include bank indebtedness, demand loan payable, accounts payable and accrued liabilities, long-term debt and due to operating/endowment/research and special purpose funds.

# NSCAD University

## Notes to the financial statements

### March 31, 2017

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## 2. Significant accounting policies (continued)

### *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 the 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 March 31, 2015 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 is 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.

### *Property and equipment*

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

### *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.

# NSCAD University

## Notes to the financial statements

### March 31, 2017

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#### 2. Significant accounting policies (continued)

##### *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 are not reflected in these financial statements.

##### *Revenue recognition*

The University follows the deferral method of accounting for revenue. Student academic fees and ancillary revenue are recognized when the services are provided or the goods are sold and collectability is reasonably assured. Rent revenue is recognized over the term of the lease as it becomes due and investment income is recognized when the University's right to receive payment has been established. Funding for expenditures is deferred and recognized as revenue in the year in which the related expenditure is incurred. Funding received for property and equipment is 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, deferred revenue, deferred capital contributions, accrued liabilities and the contingent liability.

#### 3. Investments

The market value of all investments in the Endowment Fund at March 31, 2017 was \$8,008,268 (2016 - \$7,176,631). The cost of all investments in the Endowment Fund at March 31, 2017 was \$6,592,578 (2016 - \$6,401,143). The investments in the Endowment Fund are comprised of \$3,212,626 in fixed income investments and \$4,795,642 in equity investments (2016 - \$3,523,941 and \$3,652,690 respectively).

The market value of all investments in the Capital Fund approximate their book value as they are comprised of cash and cash equivalents and fixed income investments.

#### 4. Accounts receivable

	2017	2016
	\$	\$
Student tuition and fees	29,360	98,274
Student accounts deemed uncollectible	250,109	222,205
Trade and other receivables	295,444	332,926
HST	21,953	35,092
	<b>596,866</b>	688,497
Less: allowance for doubtful accounts	<b>(423,954)</b>	(343,940)
	<b>172,912</b>	344,557

The allowance for doubtful accounts is made up of \$63,843 for student tuition and fees, \$250,109 for student accounts deemed uncollectible and \$110,002 for trade and other receivables (2016 - \$48,395, \$222,205 and \$73,340 respectively).

**NSCAD University**  
Notes to the financial statements  
March 31, 2017

**5. Property and equipment**

	2017		2016	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Land	4,402,490	-	4,402,490	-
Buildings	18,347,865	5,044,305	18,277,256	4,696,270
Equipment	4,966,833	4,280,360	5,050,121	4,186,446
Computer hardware	1,247,509	1,205,385	1,301,237	1,151,764
Computer software	765,073	757,481	765,073	747,456
Leasehold improvements	12,922,585	3,597,040	12,895,272	3,130,032
	<b>42,652,355</b>	<b>14,884,571</b>	42,691,449	13,911,968
Less: accumulated amortization	14,884,571	-	13,911,968	-
Net book value	<b>27,767,784</b>	-	28,779,481	-

Insurance on a replacement cost basis is carried on the building and contents of the University in the amount of \$87,532,298 (2016 - \$87,752,565).

**6. Demand loan and long-term debt**

*Demand loan*

In 2015, the University renegotiated the terms of its non-revolving demand loan and converted it to a reducing revolving term credit facility with an opening authorized amount of \$7,875,000. The authorized amount was reduced by \$125,000 on June 30, 2015 and \$250,000 semi-annually thereafter.

	Available	Outstanding
	\$	\$
Credit facility balance, beginning of year	7,500,000	1,640,000
Reduction in credit facility during the year	(500,000)	-
Repayments during the year	-	(1,640,000)
Drawdowns during the year	-	-
Balance, end of year	<b>7,000,000</b>	-

# NSCAD University

## Notes to the financial statements

### March 31, 2017

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#### 6. Demand loan and long-term debt (continued)

##### *Long-term debt*

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 February 28, 2022. If the swap had been terminated as at March 31, 2017 the cost to NSCAD would have been \$566,132 (2016 - \$841,688).

	2017	2016
	\$	\$
Bank of Nova Scotia, prime less 0.25% demand notes maturing February 2022, payments monthly for principal and interest	4,675,470	5,452,787
Less: current portion of long-term debt	830,931	777,319
	<b>3,844,539</b>	4,675,468

The minimum principal repayments due over the next five years are:

	\$
2018	830,931
2019	888,241
2020	949,505
2021	1,014,994
2022	991,799
	<b>\$ 4,675,470</b>

#### 7. Deferred capital contribution

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

	2017	2016
	\$	\$
Balance, beginning of year	8,301,931	8,598,871
Add: donations and grants	58,810	49,021
	<b>8,360,741</b>	8,647,892
Less: amortization	297,764	345,961
	<b>8,062,977</b>	8,301,931

# NSCAD University

## Notes to the financial statements

### March 31, 2017

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#### 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 were \$639,512 (2016 - \$765,142) and \$537,740 (2016 - \$634,136), 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 unamortized balance is \$1,955,273 (2016 - \$2,024,080).

#### 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, 2017.

##### *Fair value*

The fair value of cash, bank indebtedness, demand loan, accounts receivable, accounts payable and accrued liabilities and due to/from operating/capital/endowment/research and special purpose funds are 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 maintaining a diversified portfolio.

#### 11. Contingent liability

All contingent liabilities have been appropriately accrued in the financial statements.

# NSCAD University

Notes to the financial statements  
March 31, 2017

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**12. Change in non-cash working capital items**

	<b>2017</b>	2016
	\$	\$
Accounts receivable	<b>171,645</b>	389,852
Prepaid expenses	<b>72,974</b>	74,477
Inventory	<b>(844)</b>	24,091
Accounts payable	<b>490,803</b>	(686,778)
Deferred revenue	<b>553,958</b>	(203,218)
	<b>1,288,536</b>	(401,576)