
Financial statements of NSCAD University

March 31, 2018

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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, 2018, 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, 2018 and the results of its operations and its cash flows for the year then ended.



Chartered Professional Accountants
June 28, 2018

NSCAD University
Statement of financial position
As at March 31, 2018

		Unrestricted					Restricted					
		Operating fund		Endowment fund		Capital fund	Research and Special Purpose Fund		Total	Total		
Notes		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets												
	Cash	1,269,425	17,094	—	—	—	—	—	—	1,269,425	17,094	
	Investments	1,279,273	—	8,038,221	8,008,266	2,849,641	2,801,795	—	—	12,167,135	10,810,061	
	Accounts receivable	164,336	172,912	—	—	—	—	—	—	164,336	172,912	
	Prepaid expenses	2,005,135	2,072,399	—	—	—	—	—	—	2,005,135	2,072,399	
	Inventory	197,499	162,930	—	—	—	—	—	—	197,499	162,930	
	Due from operating fund	—	—	120,815	47,983	—	—	4,161,667	2,061,154	4,282,482	2,109,137	
	Due from capital fund	15,805,500	14,997,590	—	—	—	—	—	—	15,805,500	14,997,590	
		20,721,168	17,422,925	8,159,036	8,056,249	2,849,641	2,801,795	4,161,667	2,061,154	35,891,512	30,342,123	
	Property and equipment											
	Land	—	—	—	—	4,402,490	4,402,490	—	—	4,402,490	4,402,490	
	Building	—	—	—	—	18,492,541	18,347,865	—	—	18,492,541	18,347,865	
	Equipment	—	—	—	—	4,878,434	4,966,833	—	—	4,878,434	4,966,833	
	Computer hardware	—	—	—	—	1,239,772	1,247,509	—	—	1,239,772	1,247,509	
	Computer software	—	—	—	—	765,073	765,073	—	—	765,073	765,073	
	Leasehold improvements	—	—	—	—	13,046,021	12,922,585	—	—	13,046,021	12,922,585	
		—	—	—	—	42,824,331	42,652,355	—	—	42,824,331	42,652,355	
	Less: accumulated amortization	—	—	—	—	15,570,295	14,884,571	—	—	15,570,295	14,884,571	
		—	—	—	—	27,254,036	27,767,784	—	—	27,254,036	27,767,784	
		20,721,168	17,422,925	8,159,036	8,056,249	30,103,677	30,569,579	4,161,667	2,061,154	63,145,548	58,109,907	
	Commitments											
Liabilities												
Current liabilities												
	Bank indebtedness	—	245,721	—	—	—	—	—	—	—	245,721	
	Demand loan payable	—	—	—	—	370,126	—	—	—	370,126	—	
	Accounts payable and accrued liabilities	1,609,981	1,649,237	—	—	—	—	—	—	1,609,981	1,649,237	
	Deferred revenue	935,864	839,946	341,251	264,166	2,429,606	2,721,570	1,315,660	1,086,826	5,022,381	4,912,508	
	Deferred capital contribution	—	—	—	—	7,938,091	8,062,977	—	—	7,938,091	8,062,977	
	Due to operating fund	—	—	—	—	15,805,500	14,997,590	—	—	15,805,500	14,997,590	
	Due to endowment fund	120,815	47,983	—	—	—	—	—	—	120,815	47,983	
	Due to Research and Special Purpose Fund	4,161,667	2,061,154	—	—	—	—	—	—	4,161,667	2,061,154	
	Current portion of long-term debt	—	—	—	—	888,241	830,931	—	—	888,241	830,931	
		6,828,327	4,844,041	341,251	264,166	27,431,564	26,613,068	1,315,660	1,086,826	35,916,802	32,808,101	
	Long-term debt	—	—	—	—	2,956,298	3,844,539	—	—	2,956,298	3,844,539	
		6,828,327	4,844,041	341,251	264,166	30,387,862	30,457,607	1,315,660	1,086,826	38,873,100	36,652,640	
	Fund balances	13,892,841	12,578,884	7,817,785	7,792,083	(284,185)	111,972	2,846,007	974,328	24,272,448	21,457,267	
		20,721,168	17,422,925	8,159,036	8,056,249	30,103,677	30,569,579	4,161,667	2,061,154	63,145,548	58,109,907	

The accompanying notes are an integral part of the financial statements.

Approved by the Board

_____, Governor

_____, Governor

NSCAD University
Statement of operations
Year ended March 31, 2018

	Unrestricted			Restricted		Total 2017
	Operating	Endowment	Capital	Research and Special Purpose Fund	Total	
	2018	2018	2018	2018	2018	
	\$	\$	\$	\$	\$	\$
Revenue						
Government grants						
Unrestricted	8,752,696	—	—	69,725	8,822,421	8,669,600
Restricted	1,919,000	—	291,833	—	2,210,833	2,419,137
Student academic fees	6,807,185	—	—	—	6,807,185	5,780,777
Other government grants	101,554	—	—	—	101,554	138,216
Contributions received	88,895	494,970	172,733	160,589	917,187	683,202
Ancillary enterprises	604,487	—	—	—	604,487	623,044
Rent	604,186	—	—	—	604,186	606,815
Research grants	—	—	—	318,065	318,065	247,106
Unrealized (loss) gain on investments	—	(235,142)	—	—	(235,142)	639,571
Investment income	41,450	207,727	—	—	249,177	132,341
Miscellaneous	229,644	—	—	29,001	258,645	129,812
	19,149,097	467,555	464,566	577,380	20,658,598	20,069,621
Expenses						
Academic						
Salaries	7,923,016	—	—	—	7,923,016	8,044,665
Operating	447,101	—	—	91,627	538,728	455,940
Facilities operation	2,313,563	—	—	—	2,313,563	2,291,147
Administration	2,306,155	—	—	346,847	2,653,002	2,708,475
Service departments	1,733,147	—	—	40,942	1,774,089	1,748,697
Amortization of property and equipment	—	—	860,723	—	860,723	1,147,603
Ancillary enterprises	605,440	—	—	—	605,440	596,558
Interest	341,297	—	—	—	341,297	401,612
Research expenditures	—	—	—	318,065	318,065	247,106
Scholarships	—	441,853	—	—	441,853	391,937
Rent	73,641	—	—	—	73,641	241,468
	15,743,360	441,853	860,723	797,481	17,843,417	18,275,208
Excess (deficiency) of revenue over expenses	3,405,737	25,702	(396,157)	(220,101)	2,815,181	1,794,413

The accompanying notes are an integral part of the financial statements.

NSCAD University**Statement of changes in fund balances**

Year ended March 31, 2018

	Unrestricted			Restricted	Total
	Operating	Endowment	Capital	Research and Special Purpose Fund	
	\$	\$	\$	\$	\$
Fund balances, March 31, 2017	12,578,884	7,792,083	111,972	974,328	21,457,267
Excess (deficiency) of revenue over expenses	3,405,737	25,702	(396,157)	(220,101)	2,815,181
Change in fund balances	3,405,737	25,702	(396,157)	(220,101)	2,815,181
Appropriations	(2,091,780)	—	—	2,091,780	—
Fund balances, March 31, 2018	13,892,841	7,817,785	(284,185)	2,846,007	24,272,448

The accompanying notes are an integral part of the financial statements.

NSCAD University
Statement of cash flows
Year ended March 31, 2018

Notes	2018	2017
	\$	\$
Operating activities		
Excess of revenue over expenses	2,815,181	1,794,413
Items not affecting cash		
Amortization of property and equipment	860,723	1,147,603
Amortization of deferred capital grants and deferred capital contributions	(464,566)	(624,669)
Unrealized loss (gain) on endowment investments	235,142	(639,571)
Changes in non-cash working capital items	403,852	1,288,536
12	3,850,332	2,966,312
Investing activities		
Purchase of property and equipment	(346,975)	(135,906)
Net change in endowment investments	(265,097)	(192,064)
Capital grants and deferred capital contributions received	47,716	58,938
Net change in restricted capital investments	(47,846)	(58,813)
	(612,202)	(327,845)
Financing activities		
Borrowing (repayment) of short-term revolving credit facility	370,126	(1,640,000)
Mortgage and lease principal payments and change in capital fund bank indebtedness	(830,931)	(777,317)
	(460,805)	(2,417,317)
Net increase in cash	2,777,325	221,150
(Bank indebtedness), beginning of year	(228,627)	(449,777)
Cash (bank indebtedness), end of year	2,548,698	(228,627)
Cash (bank indebtedness) is comprised of		
Cash	1,269,425	17,094
Operating fund investments	1,279,273	—
Operating fund bank indebtedness	—	(245,721)
	2,548,698	(228,627)

The accompanying notes are an integral part of the financial statements.

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.

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

2. Significant accounting policies (continued)

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 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, 2018 was \$8,038,221 (\$8,008,266 in 2017). The cost of all investments in the Endowment Fund at March 31, 2018 was \$6,857,870 (\$6,592,578 in 2017). The investments in the Endowment Fund are comprised of \$2,356,364 in fixed income investments and \$3,659,141 in equity investments (\$3,212,626 and \$4,795,642 respectively in 2017).

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.

The market value of all investments in the Operating Fund approximate their book value as they are comprised of cash equivalents.

4. Accounts receivable

	2018	2017
	\$	\$
Student tuition and fees	53,880	183,155
Student accounts deemed uncollectible	306,026	250,109
Trade and other receivables	80,166	141,649
Harmonized Sales Tax	45,736	21,953
	485,808	596,866
Less: allowance for doubtful accounts	(321,472)	(423,954)
	164,336	172,912

The allowance for doubtful accounts is made up of \$15,446 for student tuition and fees, \$306,026 for student accounts deemed uncollectible and \$nil for trade and other receivables (\$63,843, \$250,109 and \$110,002 respectively in 2017).

5. Property and equipment

	2018		2017	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Land	4,402,490	—	4,402,490	—
Buildings	18,492,541	5,395,232	18,347,865	5,044,305
Equipment	4,878,434	4,280,719	4,966,833	4,280,360
Computer hardware	1,239,772	1,192,087	1,247,509	1,205,385
Computer software	765,073	765,561	765,073	757,481
Leasehold improvements	13,046,021	3,936,696	12,922,585	3,597,040
	42,824,331	15,570,295	42,652,355	14,884,571
Less: accumulated amortization	15,570,295	—	14,884,571	—
Net book value	27,254,036	—	27,767,784	—

Insurance on a replacement cost basis is carried on the building and contents of the University in the amount of \$85,164,000 (\$87,532,000 in 2017).

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	7,000,000	—
Reduction in credit facility during the year	(500,000)	—
Repayments during the year	—	—
Drawdowns during the year	—	370,126
Balance, end of year	6,500,000	370,126

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, 2018 the cost to NSCAD would have been \$292,112 (\$566,132 in 2017).

	2018	2017
	\$	\$
Bank of Nova Scotia, prime less 0.25% demand notes maturing February 2022, payments monthly for principal and interest	3,844,539	4,675,470
Less: current portion of long-term debt	888,241	830,931
	2,956,298	3,844,539

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

	\$
2019	888,241
2020	949,505
2021	1,014,994
2022	991,799
	<u>3,844,539</u>

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.

	2018	2017
	\$	\$
Balance, beginning of year	8,062,977	8,301,931
Add: donations and grants	47,847	58,810
	8,110,824	8,360,741
Less: amortization	172,733	297,764
	7,938,091	8,062,977

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 \$644,050 (\$639,512 in 2017) and \$532,884(\$537,740 in 2017), 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 \$1,886,465 (\$1,955,273 in 2017).

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, 2018.

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.

10. Financial instruments (continued)

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.

12. Change in non-cash working capital items

	2018	2017
	\$	\$
Accounts receivable	8,576	171,645
Prepaid expenses	67,264	72,974
Inventory	(34,569)	(844)
Accounts payable	(39,256)	490,803
Deferred revenue	401,837	553,958
	403,852	1,288,536