Consolidated Financial Statements of

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Year ended March 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Seneca College of
Applied Arts and Technology

We have audited the accompanying consolidated financial statements of Seneca College of Applied Arts and Technology, which comprise the consolidated statement of financial position as at March 31, 2014, the consolidated statements of operations, changes in net assets, cash flows and remeasurement gains and losses for the year then ended, and notes, 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 public sector accounting standards, 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 the 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 Seneca College of Applied Arts and Technology as at March 31, 2014 and its consolidated results of operations, its consolidated changes in net assets, its consolidated cash flows and its consolidated remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 5, 2014
Toronto, Canada

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Financial Position

March 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 59,327,749	$ 76,942,766
Grants receivable	1,830,984	911,773
Accounts receivable	5,962,698	6,845,462
Inventory	2,152,327	2,214,225
Prepaid expenses	3,934,367	4,515,292
	73,208,125	91,429,518
Long-term investments	45,000,000	45,000,000
Restricted cash and investments (note 8)	18,050,449	16,218,159
Capital assets (note 2)	316,284,112	294,709,609
	$ 452,542,686	$ 447,357,286
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 36,508,481	$ 47,800,553
Current portion of long-term debt (note 3)	3,137,178	2,938,768
Due to student associations (note 4)	24,260,721	20,079,078
Deferred revenue	49,904,084	48,123,881
Employee vacation accrual	13,425,807	13,378,118
	127,236,271	132,320,398
Long-term debt (note 3)	49,884,497	53,021,675
Deferred derivative liability (note 11)	5,022,963	6,547,141
Post-employment benefits and compensated absences (note 7)	13,090,000	14,189,000
	195,233,731	206,078,214
Deferred contributions (note 5)	4,844,398	2,933,489
Deferred contributions for capital assets (note 6)	99,474,115	105,932,068
	104,318,513	108,865,557
Net assets (deficiency):		
Unrestricted:		
Operating	4,059,924	17,851,780
Post-employment benefits and compensation absences	(13,090,000)	(14,189,000)
Vacation pay	(13,425,807)	(13,378,118)
	(22,455,883)	(9,715,338)
Investment in capital assets (note 9(a))	163,788,322	132,817,098
Externally restricted (endowments) (note 8)	16,680,966	15,858,896
	158,013,405	138,960,656
Accumulated remeasurement losses	(5,022,963)	(6,547,141)
	152,990,442	132,413,515
Commitments and contingent liabilities (note 10)		
	$ 452,542,686	$ 447,357,286

See accompanying notes to consolidated financial statements.

On behalf of the Board of Governors:

C Fleming Chair

President

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Operations

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Revenue:		
Government operating grant	$ 129,138,193	$ 130,349,955
Tuition and related fees	159,424,039	140,348,379
Ancillary	30,179,808	28,234,335
Amortization of deferred contributions for capital assets	8,259,243	7,989,426
Deferred contributions recognized	2,141,285	2,255,217
Student and alumni associations	1,856,667	1,927,226
Other	22,048,597	22,566,949
	353,047,832	333,671,487
Expenses:		
Salaries and benefits	208,459,409	199,720,774
Operating (note 3)	56,905,857	49,755,017
Plant and property maintenance	9,930,092	10,130,069
Bursaries and scholarships	11,124,895	10,206,147
Ancillary	23,363,179	22,718,973
Amortization of capital assets	25,033,721	22,321,346
	334,817,153	314,852,326
Excess of revenue over expenses	$ 18,230,679	$ 18,819,161

See accompanying notes to consolidated financial statements.

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2014, with comparative information for 2013

2014	Endowments	Investment in capital assets	Unrestricted	Total
Net assets (deficiency), beginning of year	$ 15,858,896	$ 132,817,098	$ (9,715,338)	$ 138,960,656
Excess (deficiency) of revenue over expenses	–	(16,774,478)	35,005,157	18,230,679
Endowment contributions	822,070	–	–	822,070
Net change in investment in capital assets (note 9(b))	–	47,745,702	(47,745,702)	–
Net assets (deficiency), end of year	$ 16,680,966	$ 163,788,322	$ (22,455,883)	$ 158,013,405

2013	Endowments	Investment in capital assets	Unrestricted	Total
Net assets (deficiency), beginning of year	$ 15,472,571	$ 119,407,954	$ (21,472,130)	$ 113,408,395
Reclassification of fair value on derivative instrument due to adoption of Public Accounting Standards - PS 3450, Financial Instruments	–	–	6,346,775	6,346,775
Excess (deficiency) of revenue over expenses	–	(14,331,920)	33,151,081	18,819,161
Endowment contributions	386,325	–	–	386,325
Net change in investment in capital assets (note 9(b))	–	27,741,064	(27,741,064)	–
Net assets (deficiency), end of year	$ 15,858,896	$ 132,817,098	$ (9,715,338)	$ 138,960,656

See accompanying notes to consolidated financial statements.

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 18,230,679	$ 18,819,161
Items not involving cash:		
Amortization of capital assets	25,033,721	22,321,346
Amortization of deferred contributions for capital assets	(8,259,243)	(7,989,426)
Post employment benefits and compensated absences	(498,629)	(357,388)
	34,506,528	32,793,693
Change in non-cash operating working capital:		
Decrease (increase) in grants receivable	(919,211)	1,920,008
Decrease (increase) in accounts receivable	882,764	(1,022,600)
Decrease in inventory	61,898	740,456
Decrease (increase) in prepaid expenses	580,925	(3,463,006)
Increase (decrease) in accounts payable and accrued liabilities	(11,292,072)	18,394,092
Increase in due to student associations	4,181,643	3,803,496
Increase in deferred revenue	1,780,203	4,137,068
Increase in employee vacation accrual	47,689	457,829
Decrease in post-employment benefits and compensated absences	(600,371)	(650,612)
	29,229,996	57,110,424
Capital activities:		
Contributions received for capital assets	1,801,290	3,334,910
Purchase of capital assets	(46,608,224)	(28,323,331)
	(44,806,934)	(24,988,421)
Financing activities:		
Increase (decrease) in deferred contributions	1,910,909	(242,232)
Principal payments on long-term debt	(2,938,768)	(2,752,643)
Endowment contributions	822,070	386,325
	(205,789)	(2,608,550)
Investing activities:		
Increase in restricted cash and investments	(1,832,290)	(386,325)
Increase (decrease) in cash and cash equivalents	(17,615,017)	29,127,128
Cash and cash equivalents, beginning of year	76,942,766	47,815,638
Cash and cash equivalents, end of year	$ 59,327,749	$ 76,942,766
Supplemental cash flow information:		
Interest paid	$ 3,542,649	$ 3,726,823

See accompanying notes to consolidated financial statements.

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Accumulated remeasurement losses, beginning of year	$ (6,547,141)	$ –
Adjustment upon adoption of Public Accounting Standards - PS 3450, Financial Instruments	–	(6,346,775)
Unrealized (loss) gain on derivative liability	1,524,178	(200,366)
Accumulated remeasurement losses, end of year	$ (5,022,963)	$ (6,547,141)

See accompanying notes to consolidated financial statements.

Seneca College of Applied Arts and Technology (the "College") was incorporated as a college in 1966 under legislation of the Province of Ontario. The College is a registered charity and, therefore, exempt from payment of income tax under Section 149 of the Income Tax Act (Canada).

The mission of the College is to contribute to the Canadian society by being a transformational leader in providing students with career-related education and training.

These consolidated financial statements reflect the assets, liabilities, net assets, revenue, expenses and other transactions of operations and organizations controlled by the College. As such, the consolidated financial statements include academic, administrative and other operating expenses that are funded by a combination of tuition and other fees, grants (federal, provincial and municipal), revenue from ancillary operations, and restricted purpose endowment funds.

1. Significant accounting policies:

(a) Basis of accounting:

These consolidated financial statements are the representation of management and have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations ("NPOs"), including the 4200 Series of Standards, as issued by the Public Sector Accounting Board ("PSAB for Government NPOs").

(b) Subsidiary:

These consolidated financial statements reflect the assets, liabilities, revenue and expenses of the College and its wholly owned subsidiary, Seneca Corporation. All inter-organizational balances and transactions are eliminated on consolidation.

(c) Revenue recognition:

The College follows the deferral method of accounting for contributions, which includes donations and government grants.

All revenue relating to tuition and other services provided by the College, as well as revenue from ancillary operations and donations, are reflected in the consolidated statement of operations.

1. Significant accounting policies (continued):

Operating grants are recorded as revenue in the year in which they relate. Grants earned but not received at the end of a year are accrued. Where a portion of a grant relates to a future year, it is deferred and recognized in the subsequent year when the related services are provided.

Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets. Endowment contributions are recognized as direct increases in endowment net assets.

Restricted investment income that must be maintained as an endowment is credited to deferred contributions until the related expense is incurred. Unrestricted investment income is recognized as revenue when earned.

Tuition fees received in advance are recorded as deferred revenue and recognized as revenue when earned through the provision of service.

(d) Cash equivalents:

Cash equivalents comprise short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk of changes in value.

(e) Long-term investments:

Long-term investments consist of guaranteed investment certificates with maturity dates of greater than one year at the date of acquisition.

(f) Valuation of inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

1. Significant accounting policies (continued):

(g) Vacation accrual:

The College recognizes vacation as an expense on the accrual basis.

(h) Derivative financial instrument:

A derivative financial instrument is utilized by the College in the economic management of its interest rate exposure. The College does not enter into derivative financial instruments for trading or speculative purposes. The College uses an interest rate swap agreement to economically manage the floating interest rate of a portion of the debt portfolio and the related overall cost of borrowing.

(i) Financial instruments:

The College classifies its financial instruments as either fair value or amortized cost. The College's accounting policy for each category is as follows:

(i) Fair value:

This category includes derivatives and equity instruments quoted in an active market. The College has elected to continue carrying externally restricted endowment investments, consisting of restricted cash and investments that would otherwise be classified into the amortized cost category at fair value as the College reports performance of it on a fair value basis.

Financial Instruments are recognized at cost and subsequently carried at fair value. Unrealized changes in fair value are recognized in the consolidated statement of remeasurement gains and losses until they are realized, when they are transferred to the consolidated statement of operations.

Unrealized changes in fair value of a financial asset in a fair value category that is externally restricted are recorded in deferred contributions.

Transaction costs related to financial instruments in the fair value category are expensed as incurred.

1. Significant accounting policies (continued):

Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated remeasurement losses and recognized in the consolidated statement of operations. On sale, the amount held in accumulated remeasurement gains and losses associated with that instrument is removed from net assets and recognized in the consolidated statement of financial position for restricted investments and the consolidated statement of operations for unrestricted investments.

(ii) Amortized cost:

This category includes grants receivable, accounts receivable, long-term investments, accounts payable and accrued liabilities, employee vacation accrual and long-term debt. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Write-downs on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the consolidated statement of operations.

1. Significant accounting policies (continued):

(j) Capital assets:

Capital assets are stated at cost with the exception of donated assets, which are recorded at their fair market value at the date of the receipt where fair market value is reasonably determinable, otherwise, they are recorded at a nominal amount. The College amortizes the cost of capital assets on a straight-line basis over the estimated useful lives of the assets as follows:

Land and improvements	10 years
Buildings	40 years
Leasehold improvements	Over lease term
Furniture	5 years
Equipment	5 - 10 years
Computer equipment	3 - 5 years

Construction in progress relates to the ongoing campus expansion and the technology upgrade project. Upon completion, the College will start amortizing such costs in accordance with defined useful life criteria.

When a capital asset no longer contributes to the College's ability to provide services, its carrying amount is written down to its residual value.

(k) Equipment under capital leases:

The College leases equipment on terms which transfer substantially all the benefits and risks of ownership to the College. These leases have been accounted for as capital leases as though an asset had been purchased and a liability incurred.

(l) Student organizations:

These consolidated financial statements do not include the assets, liabilities or results of operations of the Seneca Student Federation, as this legal entity is not controlled by the College.

1. Significant accounting policies (continued):

(m) Retirement and post-employment benefits and compensated absences:

The College provides defined retirement and post-employment benefits and compensated absences to certain employee groups. These benefits include pension, health and dental, life insurance benefits, vesting sick leave, non-vesting sick leave, short-term disability and maternity leave. The College has adopted the following policies with respect to accounting for these employee benefits:

(i) The costs of post-employment future benefits are actuarially determined using management's best estimate of health care costs, disability recovery rates and discount rates. Adjustments to these costs arising from changes in estimates and experience gains and losses are amortized to income over the estimated average remaining service life of the employee groups on a straight-line basis.

(ii) The costs of the multi-employer defined benefit pension are the employer's contributions due to the plan in the year.

(iii) The cost of vesting and non-vesting sick leave benefits are actuarially determined using management's best estimate of salary escalation, employees' use of entitlement and discount rates. Adjustments to these costs arising from changes in actuarial assumption and/or experience are recognized over the estimated average remaining service lives of the employees.

(iv) The discount used in the determination of the above-mentioned liabilities is equal to the College's internal rate of borrowing.

(v) The cost of short-term disability and maternity leave is determined using management's best estimate of the length of the compensated absences.

1. Significant accounting policies (continued):

(n) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the year, in addition to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The most significant items subject to management's estimation are the fair value of deferred derivative liability, allowance for doubtful accounts, carrying amounts and useful lives of capital assets, accrued liabilities and post-employment benefits and compensated absences. Actual results could differ from those estimates.

2. Capital assets:

2014	Cost	Accumulated amortization	Net book value
Land and improvements	$ 72,625,162	$ 33,175,961	$ 39,449,201
Buildings	292,243,378	94,571,696	197,671,682
Leasehold improvements	24,972,049	11,030,319	13,941,730
Furniture	15,449,038	10,949,207	4,499,831
Equipment	67,460,882	44,962,383	22,498,499
Computer equipment	95,121,925	82,943,094	12,178,831
Construction in progress	26,044,338	–	26,044,338
	$ 593,916,772	$ 277,632,660	$ 316,284,112

2013	Cost	Accumulated amortization	Net book value
Land and improvements	$ 69,957,530	$ 28,469,782	$ 41,487,748
Buildings	279,456,008	87,870,769	191,585,239
Leasehold improvements	25,090,183	10,071,001	15,019,182
Furniture	15,056,003	10,832,855	4,223,148
Equipment	60,481,999	42,400,619	18,081,380
Computer equipment	96,823,395	82,668,726	14,154,669
Construction in progress	10,158,243	–	10,158,243
	$ 557,023,361	$ 262,313,752	$ 294,709,609

During 2014, construction in progress of $2,349,005 (2013 - $769,585) was completed, transferred to capital assets and amortization commenced.

3. Long-term debt:

The College has negotiated or assumed the following long-term debt commitments:

	2014	2013
Mortgage (a)	$ 14,483,919	$ 15,614,714
Mortgage (b)	5,234,307	5,600,812
Mortgage (c)	10,057,449	10,605,917
Bankers' acceptance loan (d)	23,246,000	24,139,000
	53,021,675	55,960,443
Less current portion	3,137,178	2,938,768
	$ 49,884,497	$ 53,021,675

Interest on long-term debt amounted to $3,542,649 in 2014 (2013 - $3,726,823), and is included in operating expenses.

(a) Mortgage on the student residence on the Newnham Campus (Phase I). The rate is fixed at 6.87% and the maturity date is March 1, 2023. Blended semi-annual payments of $1,092,216 commenced September 1, 1998.

(b) Mortgage on the student residence on the King campus. The rate is fixed at 6.29% and the maturity date is March 1, 2024. Blended semi-annual payments of $356,561 commenced September 1, 1999.

(c) Mortgage on the student residence Newnham Campus (Phase II). The rate is fixed at 7.16% and the maturity date is September 1, 2025. Blended semi-annual payments of $649,103 commenced September 1, 2000.

(d) The College negotiated a term bank loan, by way of a bankers' acceptance loan, to finance the acquisition of the Markham campus. The loan is repayable, commencing September 27, 2004, by blended principal quarterly payments of a total of $893,000 in 2014 (2013 - $840,000), maturing June 25, 2029. The College has since entered into an interest rate swap agreement to modify the floating rate of interest on this loan to a fixed rate of 5.607% (note 11).

3. Long-term debt (continued):

Annual principal payments in each of the next five fiscal years and thereafter are as follows:

2015	$ 3,137,178
2016	3,350,516
2017	3,576,482
2018	3,819,816
2019	4,077,308
Thereafter	35,060,375
	$ 53,021,675

The fair value of these loans and mortgages as at March 31, 2014 is estimated by management to be $78,861,600 (2013 - $82,435,700).

4. Due to student associations:

The funds due to Seneca College Student Associations are unsecured, due on demand and non-interest bearing.

5. Deferred contributions:

Deferred contributions represent unspent externally restricted funding that has been received and relates to expenses of future periods. Changes in the contributions deferred to future periods are as follows:

	2014	2013
Balance, beginning of year	$ 2,933,489	$ 2,816,458
Add amount received from:		
Set aside tuition	6,286,433	6,134,850
Other sources	3,158,595	2,012,985
Unrealized gain on endowments (note 8)	1,010,221	359,263
Less amounts disbursed:		
Set aside tuition	6,286,433	6,134,850
Other sources	2,257,907	2,255,217
Balance, end of year	$ 4,844,398	$ 2,933,489
Deferred contributions are comprised of:		
Scholarships and bursaries	$ 1,635,308	$ 526,660
Joint employment stability reserve	723,957	788,195
Prepaid leave plan	105,601	286,216
Endowment interest funds (note 8)	207,549	189,525
Unrealized gain on endowments (note 8)	1,369,484	359,263
Other	802,499	783,630
	$ 4,844,398	$ 2,933,489

6. Deferred contributions for capital assets:

Deferred contributions for capital assets represent the unamortized amount of grants and other contributions received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the consolidated statement of operations and is amortized in relation to the asset to which it relates. The changes in the deferred contributions for capital asset balances are as follows:

	2014	2013
Balance, beginning of year	$ 105,932,068	$ 110,586,584
Amortization of deferred capital contributions	(8,259,243)	(7,989,426)
Contributions received for capital purposes	1,801,290	3,334,910
Balance, end of year	$ 99,474,115	$ 105,932,068

7. Post-employment benefits and compensated absences:

The following tables outline the liability components of the College's post-employment benefits and compensated absences:

2014	Post-employment benefits	Non-vesting sick leave	Vesting sick leave	Total liability
Accrued employee future benefits obligations	$ 1,984,000	$ 6,325,000	$ 3,216,000	$ 11,525,000
Value of plan assets	(318,000)	–	–	(318,000)
Unamortized actuarial gains (losses)	198,000	2,995,000	(1,310,000)	1,883,000
Total liability	$ 1,864,000	$ 9,320,000	$ 1,906,000	$ 13,090,000

7. Post-employment benefits and compensated absences (continued):

2013	Post-employment benefits	Non-vesting sick leave	Vesting sick leave	Total liability
Accrued employee future benefits obligations	$ 2,363,000	$ 9,747,000	$ 2,554,000	$ 14,664,000
Value of plan assets	(312,000)	–	–	(312,000)
Unamortized actuarial gains (losses)	(58,000)	(120,000)	15,000	(163,000)
Total liability	$ 1,993,000	$ 9,627,000	$ 2,569,000	$ 14,189,000

The following tables outline the expense component of the College's post employment benefits and compensated absences:

2014	Post-employment benefits	Non-vesting sick leave	Vesting sick leave	Total expense
Current year benefit costs (recovery)	$ (75,000)	$ 478,000	$ 166,000	$ 569,000
Interest on accrued benefit obligation	11,000	181,000	59,000	251,000
Amortized actuarial losses	7,000	15,000	5,000	27,000
Total expenses (recovery)	$ (57,000)	$ 674,000	$ 230,000	$ 847,000

2013	Post-employment benefits	Non-vesting sick leave	Vesting sick leave	Total expense
Current year benefit costs	$ 166,000	$ 543,000	$ 136,000	$ 845,000
Interest on accrued benefit obligation	11,000	235,000	68,000	314,000
Amortized actuarial losses	4,000	51,000	25,000	80,000
Total expenses	$ 181,000	$ 829,000	$ 229,000	$ 1,239,000

7. Post-employment benefits and compensated absences (continued):

Above amounts exclude pension contributions to the Colleges of Applied Arts and Technology Pension Plan (the "Plan"), a multi-employer plan, described below:

(a) Pension plan:

Employees of the College are members of the Plan, which is a multi-employer, jointly sponsored defined benefit plan for eligible employees of public colleges and related employers in Ontario. The College makes contributions to the Plan equal to those of the employees. Contribution rates are set by the Plan's governors to ensure the long-term viability of the Plan.

Any pension surplus or deficit is a joint responsibility of the members and employers and may affect future contribution rates. The College does not recognize any share of the Plan's pension surplus or deficit as insufficient information is available to identify the College's share of the underlying pension assets and liabilities. The most recent actuarial valuation filed with pension regulators as at January 1, 2014 indicated an actuarial surplus of $525,000,000. The College made contributions to the Plan and its associated retirement compensation arrangement of $16,998,908 in 2014 (2013 - $15,141,536), which has been included in the consolidated statement of operations.

(b) Post-employment benefits:

The College extends post-employment life insurance, health and dental benefits to certain employee groups subsequent to their retirement. The College recognizes these benefits as they are earned during the employees' tenure of service. The related benefit liability was determined by an actuarial valuation study commissioned by the College Employer Council.

The major actuarial assumptions employed for the valuations are as follows:

(i) Discount rate:

The present value, as at March 31, 2014, of the future benefits was determined using a discount rate of 2.70% (2013 - 2.10%).

7. Post-employment benefits and compensated absences (continued):

(ii) Drug costs:

Drug costs were assumed to increase at a rate of 9.00% for 2014 (2013 - 10.50%) and decrease proportionately thereafter to an ultimate rate of 4.00% in 2034.

(iii) Other medical:

Other medical costs and vision/hearing care were assumed to increase at 4.00% per annum (2013 - 4.50%).

(iv) Dental costs:

Dental costs were assumed to increase at 4.00% per annum in 2014 (2013 - 4.0%).

(c) Compensated absences:

(i) Vesting sick leave:

The College has provided for vesting sick leave benefits during the year. Eligible employees, after 10 years of service, are entitled to receive 50% of their accumulated sick leave credit on termination or retirement to a maximum of six months' salary. The program to accumulate sick leave credits ceased for employees hired after March 31, 1991. The related benefit liability was determined by an actuarial valuation study commissioned by the College Employer Council.

7. Post-employment benefits and compensated absences liabilities (continued):

(ii) Non-vesting sick leave:

The College allocates to certain employee groups a specified number of days each year for use as paid absences in the event of illness or injury. These days do not vest and are available immediately. Employees are permitted to accumulate their unused allocation each year, up to the allowable maximum provided in their employment agreements. Accumulated days may be used in future years to the extent that the employees' illness or injury exceeds the current year's allocation of days. Sick days are paid out at the salary in effect at the time of usage. The related benefit liability was determined by an actuarial valuation study commissioned by the College Employer Council.

The assumptions used in the valuation of vesting and non-vesting sick leave are the College's best estimates of expected rates of:

	2014	2013
Wage and salary escalation	0.00%	0.00% - 2.00%
Discount rate	2.70%	2.10%

The probability that the employee will use more sick days than the annual accrual and the excess number of sick days used are within ranges of 0.00% to 24.00% and 0 to 43.6 days, respectively for age groups ranging from 20 and under to 65 and over in bands of five years.

8. Externally restricted net assets:

Externally restricted net assets include endowment funds which have been donated for specific purposes. The principal sum must be held for investment, while the income earned is expendable for the specific purposes outlined when the funds are donated. The College ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they are provided.

Endowment funds of $16,680,966 consist of restricted cash and investments including an unrealized loss of $181,445. The fair value of the restricted cash and investments at March 31, 2014 is $18,050,449 (2013 - $16,218,159), which represents funds restricted as to use and are not available for general operations. Included in this amount is an unrealized gain of $1,369,484 included in deferred contributions (note 5).

Investment income on externally restricted endowments that was disbursed during the year has been recorded in the consolidated statement of operations since this income is available for disbursement as scholarships and bursaries and the donor's conditions were met. The unspent portion of the investment income is recorded in deferred contributions. Investment income on endowments recognized and deferred was $96,728 and $207,549 (2013 - $42,066 and $189,525), respectively.

9. Investment in capital assets:

(a) Investment in capital assets represents the following:

	2014	2013
Capital assets	$ 316,284,112	$ 294,709,609
Less amounts financed by:		
Long-term debt (note 3)	53,021,675	55,960,443
Deferred contributions for capital assets (note 6)	99,474,115	105,932,068
	$ 163,788,322	$ 132,817,098

9. Investment in capital assets (continued):

(b) Change in net assets invested in capital assets is calculated as follows:

	2014	2013
Deficiency of revenue over expenses:		
Amortization of deferred contributions related to capital assets	$ 8,259,243	$ 7,989,426
Amortization of capital assets	(25,033,721)	(22,321,346)
	$ (16,774,478)	$ (14,331,920)
Net change in investment in capital assets:		
Purchase of capital assets, net	$ 46,608,224	$ 28,323,331
Amounts funded by deferred capital contributions	(1,801,290)	(3,334,910)
Repayments of long-term debt	2,938,768	2,752,643
	$ 47,745,702	$ 27,741,064

10. Commitments and contingent liabilities:

(a) Service agreements and lease commitments:

The College has entered into various service agreements, as well as other commitments, to lease premises and equipment. The anticipated annual payments in each of the next five years and thereafter in aggregate under current arrangements are as follows:

2015	$ 9,218,673
2016	5,476,028
2017	4,568,628
2018	4,020,722
2019	2,317,868
Thereafter	14,156,545
	$ 39,758,464

10. Commitments and contingent liabilities (continued):

(b) Contractual commitments:

The primary services contracted by the College through contractual agreements with external companies include facilities management, security, grounds maintenance and print/copy services.

(c) Contingent liabilities:

In the normal course of its operations, the College is subject to various litigation and claims. Where management has assessed the likelihood of financial exposure for a claim as more than likely and where a reasonable estimate as to the exposure can be made, an accrual has been recorded in these consolidated financial statements. In some instances, the ultimate outcome of these claims cannot be determined at this time. However, the College's management believes that the ultimate disposition of these matters will not have a material adverse effect on its consolidated financial position.

(d) Letters of guarantee:

The College issues letters of guarantee through its financial institutions to provide guarantees to certain vendors. Outstanding letters of guarantee amount to $1,383,950 as at March 31, 2014 (2013 - $1,753,094).

(e) Indemnification agreements:

In the normal course of business, the College enters into agreements that meet the definition of a guarantee. The College's primary guarantees subject to the disclosure requirements are as follows:

(i) The College has provided indemnities under lease agreements for the use of various operating facilities and equipment. Under the terms of these agreements, the College agrees to indemnify the counterparties for various items, including, but not limited to, all liabilities, loss, suits and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

10. Commitments and contingent liabilities (continued):

(ii) Indemnity has been provided to all directors and/or officers of the College for various items including, but not limited to, all costs to settle suits or actions due to association with the College, subject to certain restrictions. The College has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the College. The maximum amount of any potential future payment cannot be reasonably estimated.

(iii) In the normal course of business, the College has entered into agreements that include indemnities in favour of third parties, such as student work placement agreements. These indemnification agreements may require the College to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the College from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the College has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the consolidated statement of financial position with respect to these agreements.

11. Financial instruments:

The following tables provide cost and fair value information of financial instruments by category. The maximum exposure to credit risk would be the carrying value as shown below.

2014	Fair value	Amortized cost
Cash and cash equivalents	$ 59,327,749	$ –
Grants receivable	–	1,830,984
Accounts receivable	–	5,962,698
Long-term investments	–	45,000,000
Restricted cash and investments	18,050,449	–
Accounts payable and accrued liabilities	–	36,508,481
Current portion of long-term debt	–	3,137,178
Employee vacation accrual	–	13,425,807
Long-term debt	–	49,904,084
Deferred derivative liability	5,022,963	–

2013	Fair value	Amortized cost
Cash and cash equivalents	$ 76,942,766	$ –
Grants receivable	–	911,773
Accounts receivable	–	6,845,462
Long-term investments	–	45,000,000
Restricted cash and investments	16,218,159	–
Accounts payable and accrued liabilities	–	47,800,553
Current portion of long-term debt	–	2,938,768
Employee vacation accrual	–	13,378,118
Long-term debt	–	53,021,675
Deferred derivative liability	6,547,141	–

Long-term investments consist of redeemable guaranteed investment certificates with a maturity date of March 16, 2015 and interest rate at maturity of 1.75%. Restricted cash and investments are externally restricted for endowment purposes (note 8) and comprise a balanced fund that invests in Canadian public companies, government and corporate bonds and guaranteed investment certificates.

11. Financial instruments (continued):

The College entered into an interest rate swap agreement in a prior year to economically manage the floating interest rate of the bankers' acceptance loan (note 3(d)). Under the terms of the interest rate swap agreement, the College has contracted with the counterparty to pay a fixed rate of interest of 5.607% (2013 - 5.607%), while receiving interest at a variable rate to be set quarterly based on the bankers' acceptance rates which ranged from 1.26% to 1.28% (2013 - 1.28% to 1.31%) during the year. The effective date of the interest rate swap agreement was June 25, 2004, with a maturity date of June 25, 2029. The notional value of the interest rate swap agreement at March 31, 2014 is $23,246,000 (2013 - $24,139,000) and is amortized quarterly during the term of the interest rate swap agreement. The fair value of the interest rate swap agreement at March 31, 2014 is $5,022,963 (2013 - $6,547,141) and is recorded as a deferred derivative liability on the consolidated statement of financial position.

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to Level 3 based on the degree to which the fair value is observable:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All cash and cash equivalents and restricted cash and investments are classified as Level 1 financial instruments, except for $8,875,639 invested in a balanced fund which is classified as a Level 2 financial instrument. The deferred derivative liability is classified as a Level 3 financial instrument.

There were no transfers between levels for the years ended March 31, 2014 and 2013. For a sensitivity analysis of financial instruments recognized in Level 3, see note 12 - interest rate risk, as the prevailing interest rate is the most significant input into the fair value of the instrument.

12. Financial instruments and risk management:

(a) Credit risk:

Credit risk is the risk of financial loss to the College if a debtor fails to make payments of interest and principal when due. The College is exposed to this risk relating to its cash and accounts receivable. The College holds its cash accounts with federally regulated chartered banks which are insured by the Canadian Deposit Insurance Corporation. In the event of default, the College's cash accounts are insured up to $100,000 (2013 - $100,000).

The College's investment policy operates within the constraints of the investment guidelines issued by the Ministry of Training, Colleges and Universities ("MTCU") and puts limits on the bond portfolio, including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis. The guidelines permit the College's funds to be invested in government bonds, bank-listed Schedule I or Schedule II or a branch in Canada of an authorized foreign bank under the Bank Act. Externally restricted and endowment funds, which are generally money and donations for scholarships and bursaries, can be invested in corporate bonds with a credit rating of A(R-1) or better. All other College funds are restricted to corporate bonds with a rating of AAA.

The maximum exposure to investment credit risk is outlined in note 11.

Accounts receivable are ultimately due from students. Credit risk is mitigated by financial approval processes before a student is enrolled and the highly diversified nature of the student population.

12. Financial instruments and risk management (continued):

The College measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the College's historical experience regarding collections. The amounts outstanding were as follows:

2014:

			Past due		
	Total	1 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days
Grants receivable	$ 1,830,984	$ 1,461,234	$ –	$ –	$ 369,750
Other receivables	6,605,527	4,767,425	116,745	427,695	1,293,662
Gross receivables	8,436,511	6,228,659	116,745	427,695	1,663,412
Less impairment allowances	642,829	–	–	–	642,829
	$ 7,793,682	$ 6,228,659	$ 116,745	$ 427,695	$ 1,020,583

2013:

			Past due		
	Total	1 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days
Grants receivable	$ 911,773	$ 911,773	$ –	$ –	$ –
Other receivables	7,569,492	4,298,215	410,314	683,269	2,177,694
Gross receivables	8,481,265	5,209,988	410,314	683,269	2,177,694
Less impairment allowances	724,030	–	–	–	724,030
	$ 7,757,235	$ 5,209,988	$ 410,314	$ 683,269	$ 1,453,664

Student receivables not impaired are collectible based on the College's assessment and past experience regarding collection rates.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

12. Financial instruments and risk management (continued):

(b) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The College's investment policy operates within the constraints of the investment guidelines issued by the MTCU. The policy's application is monitored by management, the investment managers and the Board of Governors. Diversification techniques are utilized to minimize risk.

The investment policy outlines an asset mix comprising:

Fixed income	25 - 50%
Equities	50 - 65%
Cash and short-term investments	0 - 15%

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

(i) Currency risk:

Currency risk relates to the College operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange rates when adverse changes in foreign currency rates occur. The College does not have any material transactions or financial instruments denominated in foreign currencies.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure risk.

(ii) Interest rate risk:

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

12. Financial instruments and risk management (continued):

The College is exposed to this risk through the fixed income securities held in the balanced fund and long-term debt.

The College mitigates interest rate risk on its long-term debt (note 3(d)) through a derivative financial instrument that exchanges the variable rate inherent in the long-term debt for a fixed rate (note 11). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the term debt. In addition, the College's other long-term debt, as described in note 3(a) to (c) would not be impacted as the inherent rates are fixed.

Fixed income securities held in the balanced fund have yields varying from 1.2% to 5.0% (2013 - 0.9% to 5.5%) with maturity dates ranging from November 2014 to October 2046 (2013 - May 2013 to October 2046).

At March 31, 2014, a 1% fluctuation in interest rates, with all other variables held constant, would have an estimated impact on the fair value of the bonds and the interest rate swap of $214,917 (2013 - $166,003) and $1,960,200 (2013 - $2,327,148), respectively.

There have been no significant changes from the previous year in the exposure to interest rate risk or policies, procedures and methods used to measure the risk.

(iii) Equity risk:

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The College is exposed to this risk through the equities held in the balanced fund. At March 31, 2014, a 10% movement in the stock markets with all variables held constant would have an estimated effect on the fair values of the College's equities of $569,080 (2013 - $460,946).

There have been no significant changes from the previous year in the exposure to the risk or policies, procedures and methods used to measure the risk.

12. Financial instruments and risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the College will not be able to meet all cash outflow obligations as they come due. The College mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining investments that may be converted to cash in the near term if unexpected cash outflows arise. The following tables set out the contractual maturities (representing undiscounted contractual cash flows of financial liabilities):

2014	Within 6 months	6 months to 1 year	1 - 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 35,523,196	$ 985,285	$ –	$ –	$ 36,508,481
Employee vacation accrual	11,620,848	1,804,959	–	–	13,425,807
Current portion of long-term debt	1,542,683	1,594,495	–	–	3,137,178
Long-term debt	–	–	19,178,936	30,705,561	49,884,497
	$ 48,686,727	$ 4,384,739	$ 19,178,936	$ 30,705,561	$ 102,955,963

2013	Within 6 months	6 months to 1 year	1 - 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 46,978,655	$ 821,898	$ –	$ –	$ 47,800,553
Employee vacation accrual	11,342,612	2,035,506	–	–	13,378,118
Current portion of long-term debt	1,427,678	1,511,090	–	–	2,938,768
Long-term debt	–	–	17,961,300	35,060,375	53,021,675
	$ 59,748,945	$ 4,368,494	$ 17,961,300	$ 35,060,375	$ 117,139,114

Derivative financial liabilities mature, as described in note 11.

There have been no significant changes from the previous year in the exposure to liquidity risk or policies, procedures and methods used to measure the risk.

13. Ontario Trust for Student Support fund:

The externally restricted endowments (note 8) include monies provided by the Government of Ontario through the Ontario Trust for Student Support matching funds program to award student aid as a result of raising equal amount of endowed donations. The College has recorded the following amounts under the program:

	2014	2013
Schedule of Donations Received and Receivable		
Cash donations received and receivable	$ 1,065,350	$ 283,251
Schedule of Changes in Endowment Fund Balance		
Fund balance, beginning of year	$ 13,717,577	$ 13,434,326
Cash donations received and receivable	1,065,350	283,251
Fund balance, end of year	$ 14,782,927	$ 13,717,577
Schedule of Changes in Expendable Funds Available for Awards		
Balance, beginning of year	$ 1,142,894	$ 817,105
Investment income	362,490	335,781
Bursaries awarded (total number - 620 2013 - 663)	(343,623)	(369,255)
Unrealized gain on endowment funds	1,010,221	359,263
Balance, end of year	$ 2,171,982	$ 1,142,894