Consolidated Financial Statements of

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY

March 31, 2006

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Auditors' Report

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

We have audited the consolidated statement of financial position of Durham College of Applied Arts and Technology as at March 31, 2006 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the College's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
May 12, 2006

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Financial Statements
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DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Statement of Financial Position
March 31, 2006

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash	**$ 2,506,205**	$ -
Accounts receivable	**22,552,263**	31,380,450
Income taxes recoverable	**19,914**	1,396,236
Current portion of long-term loan receivable (Note 2)	**281,265**	281,380
Pledges receivable	**-**	202,173
Inventories	**812,451**	956,236
Prepaid expenses	**1,133,912**	1,124,640
	27,306,010	35,341,115
LONG-TERM ASSETS		
Long-term loan receivable (Note 2)	**2,075,102**	2,207,960
Long-term investments (Note 3)	**4,873,485**	3,861,664
Capital assets (Note 4)	**161,147,461**	165,643,109
Future income tax asset	**715,257**	757,744
	168,811,305	172,470,477
	$196,117,315	$207,811,592
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 7)	**$ -**	$ 6,173,593
Accounts payable and accrued liabilities (Note 5)	**19,987,686**	17,395,096
Deferred revenue (Note 6(a))	**5,521,837**	7,629,961
Current portion of long-term debt (Note 7)	**4,816,053**	12,973,932
	30,325,576	44,172,582
LONG-TERM LIABILITIES		
Deferred contributions (Note 6(b))	**58,995,448**	61,800,634
Long-term debt (Note 7)	**73,554,401**	68,453,737
Employee future benefits (Note 8)	**730,000**	2,138,000
Other long-term accrued liabilities (Note 9)	**3,452,218**	2,581,215
	136,732,067	134,973,586
	167,057,643	179,146,168
NET ASSETS - Statement 3		
UNRESTRICTED	**(3,350,679)**	(3,650,782)
INVESTED IN CAPITAL ASSETS	**26,401,472**	26,980,313
INTERNALLY RESTRICTED	**951,300**	654,808
EXTERNALLY RESTRICTED	**5,057,579**	4,681,085
	29,059,672	28,665,424
	$196,117,315	$207,811,592

APPROVED ON BEHALF OF THE BOARD OF GOVERNORS:

Chair

President

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Statement of Operations
Year ended March 31, 2006

	2006	2005
REVENUE - Schedule 2-1		
Grants and reimbursements	**$ 45,251,699**	$ 40,587,749
Student tuition fees	**17,331,636**	17,781,413
Ancillary operations	**17,586,870**	15,653,284
Corporate training and other income	**22,102,934**	16,950,208
Amortization of deferred capital contributions	**3,975,262**	3,781,422
	106,248,401	94,754,076
Durham College Educational Network - Schedule 2-6	**68,528,613**	70,122,703
Total Revenue	**174,777,014**	164,876,779
EXPENDITURE		
Operating Human Resources - Schedule 2-2	**49,634,231**	47,674,757
Corporate Training Human Resources - Schedule 2-4	**2,265,372**	1,988,580
Ancillary Human Resources- Schedule 2-5	**2,442,949**	1,885,614
Total Human Resources	**54,342,552**	51,548,951
Operating Administrative and Other - Schedule 2-3	**21,461,829**	18,401,232
Total Flow through - Schedule 2-3	**4,146,369**	4,087,552
Corporate Training Administrative and Other - Schedule 2-4	**3,685,944**	2,927,119
Ancillary Administrative and Other - Schedule 2-5	**13,370,529**	10,413,728
Total Administrative and Other	**42,664,671**	35,829,631
Durham College Educational Network - Schedule 2-6	**67,310,521**	74,218,005
AMORTIZATION OF CAPITAL ASSETS (net of $1,584,103 (2005 - $1,279,536 charged to Durham College Educational Network)	**10,441,516**	9,218,809
TOTAL EXPENDITURE	**174,759,260**	170,815,396
EXCESS OF REVENUE OVER EXPENDITURE (EXPENDITURE OVER REVENUE)	**$ 17,754**	$ (5,938,617)

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Statement of Changes in Net Assets
Year ended March 31, 2006

			Internally Restricted Net Assets (Note 10)				Total	
	Unrestricted	Invested in Capital Assets (Note 14)	Residence	Foundation	Total Internally Restricted Net Assets	Externally Restricted Net Assets	2006	2005
BALANCE - BEGINNING OF YEAR	**$ (3,650,782)**	**$ 26,980,313**	**$ 246,593**	**$ 408,215**	**$ 654,808**	**$ 4,681,085**	**$ 28,665,424**	$ 32,854,327
EXCESS OF REVENUE OVER EXPENDITURE (EXPENDITURE OVER REVENUE)	**8,046,275**	**(8,050,357)**	**-**	**21,836**	**21,836**	**-**	**17,754**	(5,938,617)
INVESTMENT IN CAPITAL ASSETS	**(7,471,516)**	**7,471,516**	**-**	**-**	**-**	**-**	**-**	-
ENDOWMENT CONTRIBUTIONS	**-**	**-**	**-**	**-**	**-**	**376,494**	**376,494**	1,749,714
TRANSFER	**(274,656)**	**-**	**274,656**	**-**	**274,656**	**-**	**-**	-
NET CHANGES DURING THE YEAR	**300,103**	**(578,841)**	**274,656**	**21,836**	**296,492**	**376,494**	**394,248**	(4,188,903)
BALANCE - END OF YEAR	**$ (3,350,679)**	**$ 26,401,472**	**$ 521,249**	**$ 430,051**	**$ 951,300**	**$ 5,057,579**	**$ 29,059,672**	$ 28,665,424

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Statement of Cash Flows
Year ended March 31, 2006

	2006	2005
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Excess of revenue over expenditure (expenditure over revenue)	**$ 17,754**	$(5,938,617)
Items not affecting cash		
Amortization of capital assets	**12,025,619**	10,498,345
Amortization of deferred capital contributions	**(3,975,262)**	(3,781,422)
Future income taxes	**-**	(757,744)
Unrealized foreign exchange loss	**42,487**	-
	8,110,598	20,562
Net change in non-cash working capital balances relating to operations		
Accounts receivable	**8,828,187**	7,193,959
Inventories	**143,785**	14,934
Prepaid expenses	**(9,272)**	198,042
Income taxes recoverable	**1,376,322**	(1,396,236)
Accounts payable, accrued liabilities and and other long-term accrued liabilities	**3,463,593**	(7,100,359)
Employee future benefits	**(1,408,000)**	338,000
Income taxes payable	**-**	(1,265,894)
Deferred revenue	**(2,108,124)**	1,030,296
Total Operating Activities	**18,397,089**	(966,696)
INVESTING		
Purchase of capital assets	**(7,529,971)**	(9,596,541)
Decrease (increase) in long-term loans receivable	**132,973**	(3,911)
Increase in long-term investments - net	**(1,011,821)**	(369,617)
Decrease in pledges receivable	**202,173**	-
Total Investing Activities	**(8,206,646)**	(9,970,069)
FINANCING		
Net increase in deferred contributions	**1,170,076**	5,567,568
Endowment contributions	**376,494**	1,749,714
Proceeds from long-term debt	**816,425**	8,234,540
Repayment of long-term debt	**(3,873,640)**	(3,811,731)
Total Financing Activities	**(1,510,645)**	11,740,091
NET CASH INFLOW	**8,679,798**	803,326
BANK INDEBTEDNESS, BEGINNING OF YEAR	**(6,173,593)**	(6,976,919)
CASH (BANK INDEBTEDNESS), END OF YEAR	**$ 2,506,205**	$(6,173,593)
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	**$ 4,341,188**	$ 4,136,462
Income taxes paid	**$ 19,914**	$ 1,838,540

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements of the College have been prepared by management in accordance with the accounting standards for not-for-profit organizations, published by the Canadian Institute of Chartered Accountants (CICA) (using the deferral method of reporting restricted contributions). These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the Durham College of Applied Arts and Technology and its subsidiaries, and Durham College Foundation.

(b) Investments

Investments are reported at cost, except if the market value of the investments becomes lower than cost and this decline is considered to be other than temporary, then investments are written down to their market values.

(c) Revenue recognition

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

Operating grants are recorded as revenue in the period to which they relate. Grants earned but not received at the end of an accounting period are accrued. When a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

Unrestricted 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, other than endowment 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 is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

Pledged contributions for the College, are recognized when the related pledge documentation is received, less any allowance for estimated uncollectible amounts.

Tuition fees are deferred to the extent that the related courses extend beyond the fiscal year of the College.

Other operating revenues are deferred to the extent that related services provided, or goods sold, are rendered/delivered subsequent to the end of the College's fiscal year.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Capital assets

Purchased capital assets are recorded at cost, which includes interest incurred before the commencement of commercial operations. Contributed capital assets are recorded at fair value at the date of contribution when fair value is reasonably determinable. Otherwise, contributed assets are recorded at a nominal amount. Repairs and maintenance costs are charged to expense. Betterments, which extend the estimated life of an asset, are capitalized. 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.

Capital assets are amortized on a straight-line basis over their average useful lives, which have been estimated to be as follows:

Buildings	40 years
Furniture and fixtures	5 to 10 years
Equipment and vehicles	5 years
Computer equipment	3 years
Building renovations/Upgrades	10 years
Major equipment	10 years

Capital assets acquired during the year are amortized at half of the applicable rate.

(e) Valuation of inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(f) Student organizations

These financial statements do not reflect the assets, liabilities, and results of operations of the various student organizations.

(g) Accumulated sick leave credits

The College has provided for sick leave benefits as they are earned during the employee's tenure of service.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Employee future benefits

The College recognizes employee future benefits (health, dental, life insurance and other retirement obligations) as they are earned during the employees' tenure of service.

(i) Derivative financial instrument and hedge accounting

The College uses interest rate swaps to reduce interest rate risk on certain of its variable rate debt. The College does not enter into derivative financial instruments for trading or speculative purposes.

The swaps used by the College have been formally designated as hedges of specifically identified debt. The College believes the swaps are highly effective as hedges of its exposure to interest rate risk and are eligible for hedge accounting. As such, the College accounts for the swaps on an accrual basis as an adjustment to interest expense.

(j) Income taxes

The College has a subsidiary which operates in the United States and is subject to income tax. The College follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax base of assets and liabilities and are measured using substantively enacted tax rates estimated to be in effect when the differences are expected to reverse.

Future income tax assets relate primarily to income tax loss carry forwards and to recording allowance for doubtful accounts for accounting purposes, which are not currently deductible for U.S. income tax purposes.

(k) Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange with the resulting gains and losses included in income. Foreign operations are considered integrated and are translated into Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rate of exchange for non-monetary assets and liabilities, and average rates of exchange for revenues and expenditures, except amortization which is translated at rates of exchange applicable to the related assets. Gains and losses resulting from these translation adjustments are included in income.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenue and expenditures during the year. Actual results could differ from these estimates. The item subject to the most significant estimate is the allowance for doubtful accounts and the ultimate realization of recorded future income tax assets.

2. LONG-TERM LOAN RECEIVABLE

Long-term loan receivable includes a loan receivable from the Durham College Student Association Incorporated, a corporation without share capital, amounting to $2,356,367 (2005 - $2,489,340) which is repayable from an annual special levy on student fees over a period not to exceed 40 years. The loan bears interest at prime rate calculated monthly, not in advance.

3. LONG TERM INVESTMENTS

	2006		2005	
	Cost	**Market**	Cost	Market
Equities	**$ 2,609,865**	**$ 3,210,440**	$ 1,903,773	$ 2,071,552
Fixed income	**2,059,401**	**2,001,393**	1,738,846	1,700,614
Mutual Funds	**204,218**	**249,013**	219,045	279,952
	$ 4,873,484	**$ 5,460,846**	$ 3,861,664	$ 4,052,118

U.S. Equities are held in U.S. dollars, which have been converted to Canadian dollars as at year-end, using the exchange rate at that date. Investments held in U.S. dollars at March 31, 2006 were approximately $915,000 (2005 - $976,000) in Canadian dollars.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

4. CAPITAL ASSETS

	2006						
	Cost					Net Book Value	
	Beginning Balance	Additions	Ending Balance	Accumulated Amortization		2006	2005
Land	$ 14,328,016	$ -	$ 14,328,016	$ -		$ 14,328,016	$ 14,328,016
Buildings	177,239,142	822,639	178,061,781	59,639,765		118,422,016	132,232,159
Equipment and furniture	60,267,831	5,358,553	65,626,384	39,116,069		26,510,315	18,544,599
Construction-in-progress	538,335	1,348,779	1,887,114	-		1,887,114	538,335
	$ 252,373,324	$ 7,529,971	$ 259,903,295	$ 98,755,834		$ 161,147,461	$ 165,643,109

Amortization for the current year totalled $12,025,619 (2005 - $10,498,345). Interest capitalized for the current year totalled $Nil (2005 - $515,502).

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

On September 4, 2003, the College purchased the Windfields Farms property for $7,831,815, consisting of $1,000,000 of cash and $6,831,815 of debt, for the purposes of expansion including the future development of University of Ontario Institute of Technology. The ownership of the land currently resides with the College.

During the year, University of Ontario Institute of Technology provided $2,277,272 (2005 - $2,277,272) from its debenture proceeds to the College for the 2006 mortgage payment on the Windfields Farms land. Included in accounts payable and accrued liabilities is $4,554,544 (2005 - $2,277,272) due to University of Ontario Institute of Technology relating to payments from 2005 and 2006.

Included in accounts payable and accrued liabilities is $365,747 due to University of Ontario Institute of Technology relating to the university portion of the activity in ancillary operations.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

6. DEFERRED CONTRIBUTIONS

(a) Deferred revenue

Deferred revenue represent grants, tuition fees and other revenue related to expenses of future periods.

(b) Deferred contributions

(i) Capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations at the same rate as amortization is recorded on the related capital assets.

	2006	2005
Balance - beginning of year	**$ 60,828,047**	$ 58,718,239
Contributions	**1,091,779**	5,891,230
Less amounts amortized to revenue	**(3,975,262)**	(3,781,422)
Balance - end of year	**$ 57,944,564**	$ 60,828,047

As at March 31, 2006 there was $1,569,029 (2005 - $3,592,920) of deferred capital contributions which were received and not spent.

(ii) Fundraising

	2006	2005
Balance - beginning of year	**$ 972,587**	$ 1,296,249
Contributions - net of allowance	**289,982**	197,297
Transfer to endowments	**-**	(224,950)
Expenditure financed from fundraising receipts	**(211,685)**	(296,009)
Balance - end of year	**$ 1,050,884**	$ 972,587
Total deferred contributions	**$ 58,995,448**	$ 61,800,634

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

7. LONG TERM DEBT

	2006	2005
5.48% unsecured mortgage on student residence, repayable in monthly instalments of $69,740 principal and interest, due 2023, interest rate renewable in 2013.	**$ 9,491,196**	$ 9,792,974
5.27% unsecured mortgage on student residence, repayable in monthly instalments of $60,039 principal and interest, due 2027, interest rate renewable in 2007.	**9,199,520**	9,428,641
5.57% unsecured mortgage on student residence, repayable in monthly instalments of $204,649 principal and interest, due 2029, interest rate renewable in 2014.	**31,921,360**	32,579,114
4.89% unsecured mortgage on student residence, repayable in monthly instalments of $74,505 principal and interest, due 2030, interest rate renewable in 2015.	**12,374,511**	12,661,761
5.75% unsecured mortgage on off-campus parking lot, interest payable monthly, principal repayable 2008.	**1,100,000**	1,100,000
4.78% unsecured loan to finance the Student Centre, repayable in monthly instalments of $18,629 principal and interest only, due 2018, interest rate renewable in 2008.	**2,090,170**	2,210,636
Non-interest bearing mortgage on property north of Conlin Road, repayable in three equal instalments of $2,277,272.	**2,277,272**	4,554,543
Prime rate less 0.25%, unsecured demand loan, interest only repayable monthly.	**5,600,000**	5,600,000
Prime rate less 0.25%, unsecured demand loan, interest only repayable monthly.	**3,500,000**	3,500,000
Prime rate less 0.25% unsecured demand loan on athletic and health centre construction to be converted into a 25 year amortized mortgage on November 1, 2007.	**651,504**	-
Prime rate plus 0.75% non-revolving term facility, repayable in monthly installments of $2,945 principal and interest, due 2011.	**164,920**	-
	78,370,454	81,427,669
Less current portion	**4,816,053**	12,973,932
	$ 73,554,401	$ 68,453,737

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

7. LONG TERM DEBT (continued)

Principal payments due in each of the next five years and thereafter are as follows:

2007	$ 4,816,053
2008	3,103,803
2009	2,110,991
2010	2,224,033
2011	2,331,470
Thereafter	63,784,104
	$ 78,370,454

The fair value of this long-term debt as at March 31, 2006 is estimated to be $81,500,000.

The College has entered into a forward starting interest swap to manage the interest rate variability arising on the 25 year mortgage to be entered into on the completion of the athletic and health centre construction. The mortgage is expected to bear interest at floating rates based on banker's acceptances. The swap effectively fixes the interest rate at 5.13% on an initial principal amount of $14,000,000 over the 25 year life of the mortgage. At March 31, 2006, the fair value of the swap was $(394,452).

The College has an unsecured loan approval of $15,000,000 of which $3,500,000 was drawn to finance the purchase of a building at 199 Wentworth Avenue and $5,600,000 was drawn to finance an expansion.

The College has credit facility agreements with Canadian chartered banks, which provide for a revolving operating line of credit up to $11 million, bearing interest at prime less 0.25%. At March 31, 2006, the College utilized $1,053,454 (2005 - $588,194) of the operating line of credit.

A subsidiary of the College has a credit facility agreement with a Canadian chartered bank, which provides for a revolving operating line of credit up to $6.5 million. At March 31, 2006, the subsidiary utilized $Nil (2005 - $2,810,900) of the operating line of credit. Borrowings under the line of credit facility bear interest at rates based upon the bank’s prime lending rate. The subsidiary of the College has provided the bank with a general security agreement as security for its borrowings.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

8. EMPLOYEE FUTURE BENEFITS

Employee future benefits are health and dental benefits that are provided to early retirees, future retirees and employees currently on long term disability. The College recognizes these employee future benefits as they are earned during the employees' tenure of services. The related benefit liability at March 31, 2006 was determined by an actuarial valuation study as at March 31, 2006 commissioned by the College Compensation and Appointments Council using a discount rate of 5%.

The main actuarial assumptions employed for the valuation are as follows:

Hospital

Hospital costs were assumed to increase at 5% for 2006 and thereafter.

Drugs

Drug costs were assumed to increase at 9% for 2006, grading down to 5% in 2010.

Other Medical

Other medical costs were assumed to increase at 5% for 2006 and thereafter.

Dental Costs

Dental costs were assumed to increase at 4% in 2006 and thereafter.

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

	2006	2005
Balance - beginning of year	**$ 2,138,000**	$ 1,800,000
Current service costs	**86,000**	364,000
Interest	**59,000**	101,000
Curtailment gain	**(1,432,000)**	-
Benefits paid	**(121,000)**	(127,000)
Balance - end of year	**$ 730,000**	$ 2,138,000

Effective September 1, 2005, the plan provisions changed with the cost of the early retiree benefits (Extended Health, Dental Care and Life Insurance provided to age 65) no longer being subsidized by the College. The College's liability was commensurately reduced as a result of this plan curtailment. This gain was recognized in the financial statements as there were no unamortized losses to offset on the date of the curtailment.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

9. OTHER LONG-TERM ACCRUED LIABILITIES

Included in other long-term accrued liabilities are the following:

(a) Early retirement incentive plans, payment incentive plans and other agreements

Future employee retirement and other compensation payments are calculated based on estimated employee retirement dates and are valued at March 31, 2006 using a discount rate of 5.25%.

(b) Employee sick leave gratuity

The employee sick leave gratuity liability is calculated based on management's best estimate of salary escalation rates and expected retirement dates and using a discount rate of 5.25%

10. RESTRICTED NET ASSETS

Internally restricted

Residence reserve: These funds are expendable for major capital refurbishments. Income earned is expendable.

Fundraising - General: These funds are expendable as directed by the individual donor. Income earned is expendable.

Externally Restricted

Foundation - Endowments: Endowment funds are restricted donations received by the College where the endowment principal is required to be maintained intact. The investment income generated from these endowments must be used in accordance with the various purposes established by donors. The College ensures, as part of its fiduciary responsibilities, that all funds received and transferred to the Foundation with a restricted purpose are expended for the purpose for which they were provided.

Endowment funds include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund ("OSOTF") and the Ontario Trust for Student Success "(OTSS"). Under these programs, the government matches funds raised by the College. The purpose of these programs is to assist academically qualified individuals who, for financial reasons, would not otherwise be able to attend College.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

10. RESTRICTED NET ASSETS (continued)

The balance of endowments at March 31 consists of the following:

	2006	2005
OSOTF (Note 11)	**$ 3,925,164**	$ 3,810,840
OTSS (Note 12)	**257,514**	-
Other	**874,901**	870,245
	5,057,579	4,681,085

These funds are donated specifically for student assistance. Income earned is expendable to provide financial assistance to students.

11. ONTARIO STUDENT OPPORTUNITY TRUST FUNDS

Net assets restricted for endowments include monies provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund matching program to award student aid as a result of raising an equal amount of endowment donations.

The College has recorded the following amounts under the program:

Phase I

	2006	2005
Fund balance - beginning of year	**$ 1,904,838**	$ 1,904,838
Endowment contributions	**-**	-
Capital preservation	**57,145**	-
Fund balance - end of year	**$ 1,961,983**	$ 1,904,838

	2006	2005
Expendable funds available for awards:		
Balance, beginning of year	**$ -**	$ -
Investment income, net of direct investment - related expenses	**128,445**	80,000
Bursaries awarded (70 awarded, 2005 - 192 awarded)	**(39,000)**	(80,000)
Transfer to endowment for capital preservation	**(57,145)**	-
Fund Balance - end of year	**$ 32,300**	$ -

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

11. ONTARIO STUDENT OPPORTUNITY TRUST FUNDS (continued)

Phase II

	2006	2005
Fund balance - beginning of year	**$ 1,906,002**	$ 399,604
Endowment contributions	**-**	1,506,398
Capital preservation	**57,179**	-
Fund balance - end of year	**$ 1,963,181**	$ 1,906,002

Expendable funds available for awards:

	2006	2005
Balance, beginning of year	**$ 24,014**	$ -
Investment income, net of direct investment - related expenses	**128,523**	24,014
Transfer to endowment for capital preservation	**(57,179)**	-
Bursaries awarded (70 awarded, 2005 - nil awarded)	**(39,000)**	-
Fund Balance - end of year	**$ 56,358**	$ 24,014

The total OSOTF fund balance at March 31, 2006 was $3,925,164 (2005 - $3,810,840).

12. ONTARIO TRUST FOR STUDENT SUPPORT

Net assets restricted for endowments include monies provided by the Government of Ontario from the Ontario Trust for Student Support matching program to award student aid as a result of raising an equal amount of endowment donations.

The College has recorded the following amounts this program:

OTSS

	2006	2005
Fund balance - beginning of year	**$ -**	$ -
Endowment contributions	**257,514**	-
Fund balance - end of year	**$ 257,514**	$ -

None of these funds are currently available for awards.

13. PENSION PLANS

Employees are participants in the contributory retirement pension plans administered by the Colleges of Applied Arts and Technology Pension Plan. Under this arrangement, the College makes contributions to these plans equal to those of the employees. No provision has been made for any actuarial deficiencies of the plan. In the 2006 fiscal year, the College's contributions in respect to the current service costs for these pension plans, amounted to $3,538,039 (2005 - $3,340,218).

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
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13. PENSION PLANS (continued)

A subsidiary of the College sponsors and administers a Defined Contribution Registered Pension Plan for their eligible employees. The Plan provides for contributions by employees up to 8% of their salary. The subsidiary matches these contributions to the employees plan up to a maximum of 5% of the employees' salary. In 2006, the subsidiary contributed a total of $296,000 (2005 - $254,000) to this pension plan. Employees are responsible for the investments made and held in their individual plans. The subsidiary funds the employer portion of the contribution on a current basis to the plan manager (a large Canadian financial institution). The College's contribution vests with the employees two years after the employee has joined the subsidiary companies.

14. INVESTED IN CAPITAL ASSETS

(a) Investment in capital assets represents the following:

	2006	2005
Capital assets - net book value	**$ 161,147,461**	$ 165,643,109
Less amount financed by deferred capital contributions	**(56,375,535)**	(57,235,127)
Less amount financed by long term debt (Note 7)	**(78,370,454)**	(81,427,669)
Investment in capital assets (Statement 3)	**$ 26,401,472**	$ 26,980,313

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

	2006	2005
Amortization of deferred contributions related to capital assets	**$ 3,975,262**	$ 3,781,422
Less amortization of capital assets	**(12,025,619)**	(10,498,345)
	$ (8,050,357)	$ (6,716,923)

Net change in investment in capital assets:

	2006	2005
Purchases of capital assets	**$ 7,529,971**	$ 9,596,541
Amounts funded by:		
Deferred capital contributions	**(3,115,670)**	(2,298,310)
Long-term debt	**(816,425)**	(8,234,540)
Repayment of long-term debt	**3,873,640**	3,811,731
	$ 7,471,516	$ 2,875,422

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

15. SERVICE COSTS

Durham College provides certain administrative services to the University of Ontario Institute of Technology under a shared service agreement. The costs of salaries and benefits allocated to the University has been calculated using the percentage of time that each administrative function spent on University activities. An allocation of overhead expenses has been recorded based on College facilities used by the University based on a square footage allocation.

16. COMMITMENTS

Computer equipment

The College has entered into an arrangement to lease laptop computers over a two-year period, with the number of computers leased dependant upon the expected enrolment in programs utilizing laptop computers. The current cost of this operating lease reflected in the financial statements is $1,182,660.

Premises and equipment

Future minimum lease payments, exclusive of taxes and operating costs, for premises and equipment under operating leases at March 31, 2006 are as follows:

2007	$ 879,133
2008	286,624
2009	171,943
2010	143,099
2011	127,956
	$ 1,608,755

The Board of Governors approved a resolution to assist in the funding of the semi-annual principal and interest payments for the University of Ontario Institute of Technology $220 million bond, by contributing $3.5 million from surplus on a year-to-year basis, only if required.

During the year ended March 31, 2006, the College had signed a contract for the construction of the Athletic Centre totaling $14,115,300. As at March 31, $636,795 had been incurred with respect to this contract.

17. CONTINGENT LIABILITIES

The College has been named as the defendant in certain legal actions, in which damages have been sought. The outcome of these actions are not determinable as at March 31, 2006 and accordingly, no provision has been made in these financial statements for any liability which may result.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

18. GUARANTEES

The College's primary guarantees are as follows:

(a) Indemnity has been provided to all directors and or officers of the College for various items including, but not limited to, all settled 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 suits or actions. The term of indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a governor, director or officer of the College. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) 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, purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service 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.

(c) The College received approval from the Ministry of Finance, Ontario to guarantee $220,000,000 in Series A Debentures for the University of Ontario Institute of Technology. These debentures bear interest at 6.351%, payable semi-annually, with the principal due in 2034.

The nature of the indemnification agreement noted in (a) and (b) above prevent 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 with respect to these agreements.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Notes to the Consolidated Financial Statements
March 31, 2006

19. FINANCIAL INSTRUMENTS

Fair value

The fair value of financial assets and liabilities approximate their market value due to the related short-term maturity except for long-term investments (Note 3) and long-term debt (Note 7).

Interest rate risk

The College is exposed to interest rate fluctuations on its long-term debt. The College currently does not use any hedging strategy to mitigate this interest rate exposure other than as disclosed in Note 7.

Foreign exchange risk

The College is subject to foreign exchange risk on its U.S. operations. The College currently does not use any hedging strategy to mitigate this foreign exchange risk.

The following financial statement categories contain U.S. dollar denominated amounts as follows:

	2006	2005
Cash	**$ 446,740**	$ 2,394,440
Accounts receivable	**$ 5,439,034**	$ 9,618,786
Future income tax asset	**$ 616,378**	$ 626,442
Accounts payable and accrued liabilities	**$ 660,276**	$ 754,299

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The College is exposed to credit risk from customers, however the risk is mitigated by proactive credit collections.

20. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform with the current year presentation.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Analysis of Operating Revenue
Year ended March 31, 2006

	2006	2005
GRANTS AND REIMBURSEMENTS		
General operating	**$ 25,695,395**	$ 24,877,221
Grants In Lieu of Municipal Taxation	**414,450**	419,625
Termination gratuities	**328,300**	241,763
Special programs/projects	**8,521,591**	5,703,383
Other reimbursements	**2,295,311**	2,188,469
Canadian Job Strategy		
Apprenticeship	**4,200,097**	3,756,128
Ontario Training Strategy		
Career and Employment Preparation Program and Summer Job Services Program	**2,602,121**	2,401,115
Literacy and Basic Skills	**1,194,434**	1,000,045
	45,251,699	40,587,749
STUDENT TUITION FEES		
Full-time students	**12,287,329**	12,880,078
Part-time students	**5,044,307**	4,901,335
	17,331,636	17,781,413
ANCILLARY OPERATIONS		
Paid parking	**1,606,602**	1,174,485
Bookstore	**6,584,402**	5,744,430
Day care centres	**550,905**	479,676
Fitness/sports centre	**672,680**	643,222
Residence	**7,461,318**	6,802,754
Cafeterias	**710,963**	808,717
	17,586,870	15,653,284
CORPORATE TRAINING AND OTHER INCOME		
Training centre fees	**7,608,075**	6,278,731
Other	**10,393,576**	6,548,155
Student incidental fees	**4,101,283**	4,123,322
	22,102,934	16,950,208
AMORTIZATION OF DEFERRED CAPITAL CONTRIBUTIONS	**3,975,262**	3,781,422
TOTAL OPERATING REVENUE	**$ 106,248,401**	$ 94,754,076

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Analysis of Operating Human Resource Expenditure
Year ended March 31, 2006

	2006	2005
TEACHING SALARIES		
Full-time academic	**$ 18,654,590**	$ 18,135,004
Coordinator's allowances	**165,258**	159,679
Other leaves	**322,319**	247,479
Professional leaves	**123,544**	50,959
Overtime - academic	**129,584**	100,782
Part-time academic	**3,291,771**	2,940,553
Partial load academic	**405,151**	672,738
Sessional teaching	**1,109,060**	946,118
Contract teaching services	**1,238,966**	1,661,465
	25,440,243	24,914,777
OTHER SALARIES		
Full-time administration	**5,197,194**	4,834,163
Full-time support	**10,133,509**	9,459,751
Other leaves	**299,274**	427,047
Overtime - support	**153,878**	163,019
Part-time support	**830,877**	868,772
Other support	**22,299**	141,994
	16,637,031	15,894,746
EMPLOYEE BENEFITS	**7,556,957**	6,865,234
TOTAL OPERATING HUMAN RESOURCE EXPENDITURE	**$ 49,634,231**	$ 47,674,757

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Analysis of Operating Administrative and Other Expenditure
Year ended March 31, 2006

	2006	2005
Instructional supplies	**$ 2,007,686**	$ 1,848,025
Field work	**22,066**	13,610
Memberships and dues	**117,880**	84,900
Staff employment	**51,734**	27,635
Professional development	**471,906**	537,295
Travel, accommodation and meals	**569,045**	585,162
Promotion/public relations	**888,029**	1,068,291
Maintenance - equipment	**1,049,944**	932,852
Telecommunications	**453,469**	500,587
Office supplies and other expense	**936,278**	885,012
Janitorial supplies	**3,849**	8,311
Maintenance - buildings	**625,239**	627,196
Maintenance - grounds	**34,107**	33,312
Vehicle expense	**49,684**	38,498
Insurance	**673,259**	454,468
Professional fees	**404,434**	413,478
Contract security services	**482,429**	693,036
Contract cleaning services	**1,149,118**	1,140,907
Contract - other services	**3,066,493**	2,436,479
Electricity	**1,404,262**	1,041,824
Fossil fuels	**576,091**	364,296
Water	**57,178**	49,766
Refuse removal	**81,851**	144,023
Property taxes	**26,843**	15,526
Postage	**246,066**	249,291
Bank services	**564,688**	741,322
Rental and leasing charges	**2,213,248**	1,888,640
Credit card charges	**291,399**	294,602
Varsity athletics	**94,298**	89,475
Bad debts	**454,633**	198,736
Student assistance program	**2,394,623**	994,677
TOTAL ADMINISTRATIVE AND OTHER OPERATING EXPENDITURES	**$21,461,829**	$18,401,232

FLOW THROUGH EXPENDITURE		
Participants wages, training allowances and benefits	**$ 1,118,574**	$ 1,149,667
Special support allowances	**48,100**	37,779
Municipal taxes	**414,573**	419,625
Termination gratuities	**233,992**	292,013
Reimbursable expenditure	**2,331,130**	2,188,468
TOTAL FLOW THROUGH EXPENDITURE	**$ 4,146,369**	$ 4,087,552

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Analysis of Corporate Training Expenditure
Year ended March 31, 2006

	2006	2005
SALARIES		
Full-time academic	**$ 97,097**	$ 111,417
Part-time academic	**112,821**	103,946
Contract teaching services	**5,537**	25,859
Full-time administration	**214,900**	150,698
Full-time support	**170,705**	247,410
Overtime - support	**24,287**	10,458
Part-time support	**57,063**	30,646
Other support	**1,269,025**	1,044,172
	1,951,435	1,724,606
EMPLOYEE BENEFITS	**313,937**	263,974
	2,265,372	1,988,580
ADMINISTRATIVE AND OTHER EXPENDITURE		
Instructional supplies	**106,027**	180,945
Travel, accommodation and meals	**70,289**	88,455
Promotion/public relations	**5,731**	13,758
Office supplies and other expense	**23,190**	17,774
Contract - other services	**1,070,262**	748,432
Reimbursable expenditure	**2,410,445**	1,877,755
	3,685,944	2,927,119
TOTAL CORPORATE TRAINING EXPENDITURE	**$ 5,951,316**	$ 4,915,699

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Analysis of Ancillary Expenditure
Year ended March 31, 2006

	2006	2005
SALARIES		
Full-time administrative	**$ 520,392**	$ 178,930
Full-time support	**787,534**	693,197
Overtime - support	**1,727**	7,580
Part-time support	**245,042**	253,794
Other support	**573,269**	538,611
	2,127,964	1,672,112
EMPLOYEE BENEFITS	**314,985**	213,502
	2,442,949	1,885,614
ADMINISTRATIVE AND OTHER EXPENDITURE		
Instructional supplies	**30,116**	25,408
Professional development	**-**	310
Travel, accommodation and meals	**7,745**	5,569
Promotion/public relations	**15,251**	14,109
Maintenance - office and other equipment	**140,040**	68,601
Telecommunications	**2,919**	3,899
Office supplies and other expense	**167,604**	122,893
Maintenance - buildings	**49,210**	46,368
Maintenance - grounds	**452,107**	465,602
Contract security services	**317,593**	52,037
Contract cleaning services	**31,086**	3,100
Contract - other services	**921,668**	216,265
Electricity	**55,437**	116,617
Fossil Fuels	**73,204**	-
Rental and leasing charges	**889**	1,525
Credit card charges	**61,018**	24,712
Residence	**6,184,440**	5,049,067
Cost of goods sold	**4,860,202**	4,197,646
	13,370,529	10,413,728
TOTAL ANCILLARY EXPENDITURE	**$15,813,478**	$12,299,342

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Consolidated Analysis of Durham College Educational Network
Statement of Operations
Year ended March 31, 2006

	2006	2005
REVENUES	**$68,528,613**	$70,122,703
DIRECT COST OF SERVICES	**47,552,907**	49,265,111
EXPENSES		
Salaries and benefits	**8,387,626**	10,674,449
Occupancy	**2,937,594**	2,481,791
Professional fees	**779,593**	1,020,422
Bad debt expense	**1,537,306**	4,985,065
Other	**1,045,788**	1,088,927
Depreciation and amortization	**1,584,103**	1,279,536
Foreign exchange	**214,287**	1,414,274
General administration	**877,249**	865,299
Technology	**1,645,329**	1,489,085
Marketing	**748,739**	1,384,016
Income taxes	**-**	(1,729,970)
TOTAL EXPENSES	**67,310,521**	74,218,005
EXCESS OF (EXPENSES OVER REVENUE) REVENUE OVER EXPENSES	**$ 1,218,092**	$ (4,095,302)