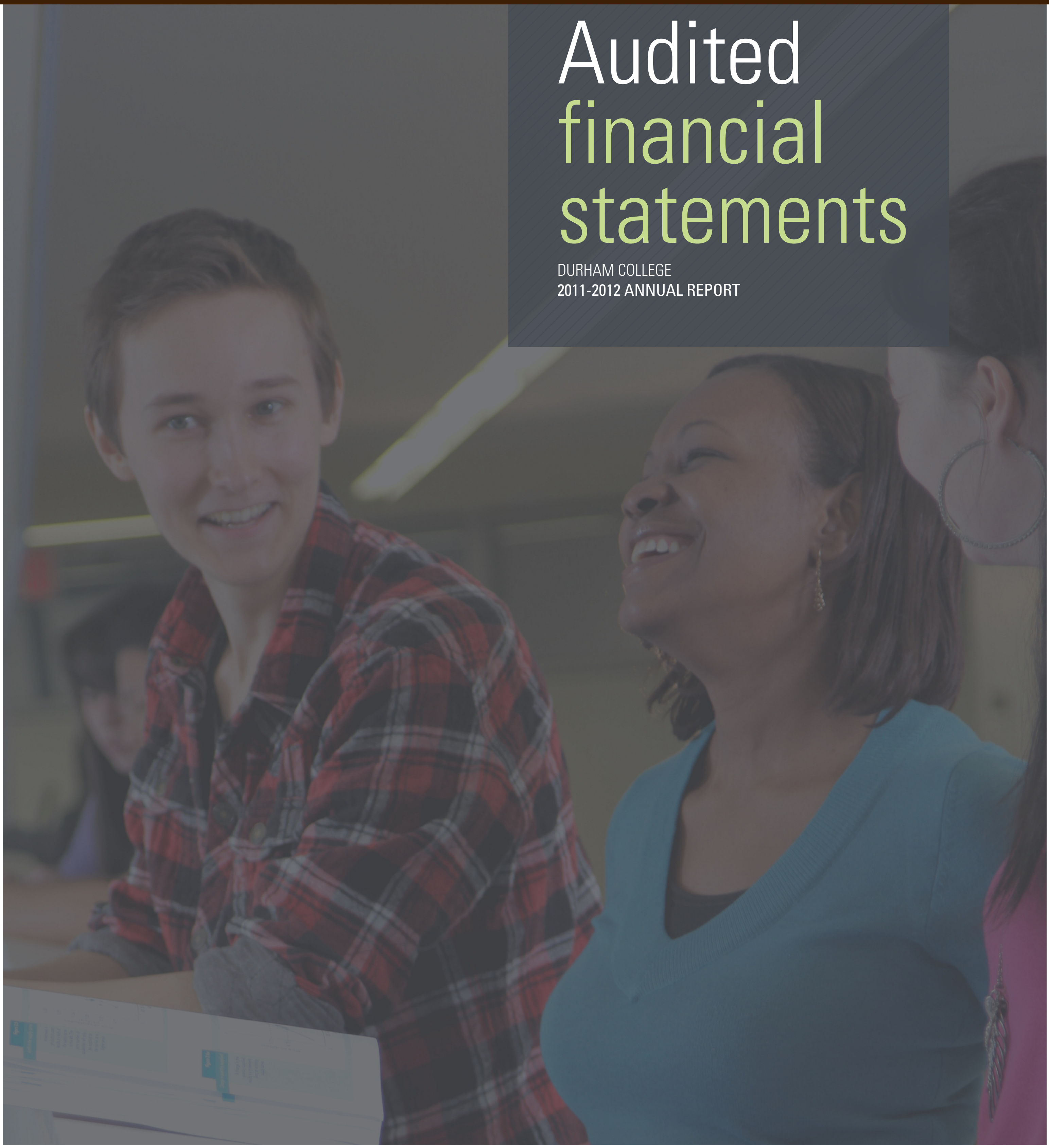
DURHAM COLLEGE
SUCCESS MATTERS

Audited financial statements

DURHAM COLLEGE
2011-2012 ANNUAL REPORT



Consolidated Financial Statements of

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Year ended March 31, 2012

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Durham College of Applied Arts and Technology, which comprise the consolidated statement of financial position as at March 31, 2012, the consolidated statements of operations, changes in net assets and cash flows 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 generally accepted accounting principles, 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 Durham College of Applied Arts and Technology as at March 31, 2012, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 13, 2012
Toronto, Canada

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Financial Position

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash	$ –	$ 5,813,833
Short-term investments (note 3(a))	376,564	232,528
Accounts receivable	13,793,708	15,780,794
Current portion of long-term receivables (note 2)	347,306	225,843
Inventories	678,177	800,015
Prepaid expenses	462,352	349,080
	15,658,107	23,202,093
Long-term receivables (note 2)	2,147,458	1,202,730
Long-term investments (note 3(b))	10,297,308	9,999,490
Capital assets (note 4)	195,940,293	196,446,238
	$ 224,043,166	$ 230,850,551
Liabilities and Net Assets		
Current liabilities:		
Bank indebtedness	$ 1,178,283	$ –
Accounts payable and accrued liabilities (note 5)	26,728,420	33,268,852
Deferred revenue (note 6(a))	6,784,513	8,679,782
Current portion of long-term debt (note 7)	2,935,911	2,786,178
	37,627,127	44,734,812
Deferred contributions (note 6(b))	97,260,804	97,340,779
Long-term debt (note 7)	71,144,980	73,940,828
Derivative liability (note 7)	4,047,187	2,349,275
Employee future benefits (note 8)	557,000	554,000
Other long-term employee future benefits (note 9)	1,791,203	1,625,518
Net assets:		
Unrestricted	(26,068,883)	(24,310,948)
Invested in capital assets (note 14)	25,128,972	23,136,475
Internally restricted (note 10(a))	1,739,814	1,692,356
Endowments (note 10(b))	10,814,962	9,787,456
	11,614,865	10,305,339
Commitments (note 16)		
Contingencies (note 17)		
Guarantees (note 18)		
	$ 224,043,166	$ 230,850,551

See accompanying notes to consolidated financial statements.

On behalf of the Board:

________________ Director ________________ Director

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Operations

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Grants and reimbursements	$ 59,203,015	$ 58,611,738
Student tuition fees	30,242,454	28,199,971
Ancillary operations	11,284,411	9,741,683
Rental income	8,722,405	8,922,684
Other income	20,553,098	18,149,691
Gain on sale of assets	575,000	–
Amortization of deferred capital contributions (note 6(b)(i))	5,455,226	4,545,904
Total revenue	136,035,609	128,171,671
Expenditures:		
Salaries and benefits	78,059,546	73,397,890
Instructional supplies	2,198,304	1,919,287
Contracted services	6,303,919	5,392,301
Utilities, maintenance and taxes	9,218,165	9,590,743
Interest and bank charges	4,646,489	4,718,511
Scholarships and bursaries	2,233,794	2,117,713
Supplies and other expenses	18,185,955	18,329,957
Change in market value of derivative interest (note 7)	1,697,912	35,697
Amortization of capital assets (note 14(b))	13,209,505	11,868,376
Total expenditures	135,753,589	127,370,475
Excess of revenue over expenditures	$ 282,020	$ 801,196

See accompanying notes to consolidated financial statements.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2012, with comparative figures for 2011

			Internally restricted net assets				2012	2011
	Unrestricted	Invested in capital assets	Residence	Foundation	Total internally restricted net assets	Endowments	Total	Total
		(note 14)	(note 20)		(note 10(a))	(note 10(b))		
Balance, beginning of year	$ (24,310,948)	$ 23,136,475	$ 1,030,908	$ 661,448	$ 1,692,356	$ 9,787,456	$ 10,305,339	$ 8,714,800
Excess of revenue over expenditures (note 14(b))	8,033,931	(7,754,279)	–	2,368	2,368	–	282,020	801,196
Investment in capital assets (note 14(b))	(9,746,776)	9,746,776	–	–	–	–	–	–
Endowment contributions	–	–	–	–	–	1,027,506	1,027,506	789,343
Transfer (note 20)	(45,090)	–	45,090	–	45,090	–	–	–
Net changes during the year	(1,757,935)	1,992,497	45,090	2,368	47,458	1,027,506	1,309,526	1,590,539
Balance, end of year	$ (26,068,883)	$ 25,128,972	$ 1,075,998	$ 663,816	$ 1,739,814	$ 10,814,962	$ 11,614,865	$ 10,305,339

See accompanying notes to consolidated financial statements.

DURHAM COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenditures	$ 282,020	$ 801,196
Items not affecting cash:		
Amortization of capital assets	13,209,505	11,868,376
Amortization of deferred capital contributions	(5,455,226)	(4,545,904)
Change in market value of derivative instruments	1,697,912	35,697
Employee future benefits	3,000	(11,000)
Gain on sale of assets	(575,000)	–
Change in non-cash operating working capital:		
Accounts receivable	1,987,086	(3,735,571)
Inventories	121,838	(189,489)
Prepaid expenses	(113,272)	99,061
Accounts payable and accrued liabilities and other long-term employee future benefits	(6,374,746)	8,197,328
Deferred revenue	(1,895,269)	(527,113)
	2,887,848	11,992,581
Financing activities:		
Deferred contributions	5,375,250	32,957,946
Endowment contributions	1,027,506	789,343
Repayment of long-term debt	(2,646,115)	(2,641,650)
	3,756,641	31,105,639
Investing activities:		
Purchase of capital assets	(14,103,560)	(38,893,178)
Proceeds from sale of assets	1,975,000	–
Decrease (increase) in long-term receivables	(1,066,191)	152,082
Increase in short-term investments	(144,036)	(94,003)
Increase in long-term investments	(297,818)	(1,353,017)
	(13,636,605)	(40,188,116)
Increase (decrease) in cash	(6,992,116)	2,910,104
Cash, beginning of year	5,813,833	2,903,729
Cash (bank indebtedness), end of year	$ (1,178,283)	$ 5,813,833
Supplemental cash flow information:		
Interest paid	$ 4,159,800	$ 4,173,309

See accompanying notes to consolidated financial statements.

Durham College of Applied Arts and Technology (the "College") was established as a corporation without share capital, as set out in the Ontario Colleges of Applied Arts and Technology Act. The Corporations Act governs the corporate affairs of the College and became effective April 1, 2003. The College is principally involved in providing post-secondary educational services. Under the Income Tax Act (Canada), the College is considered a registered charity and, accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements of the College have been prepared by management in accordance with Canadian generally accepted accounting principles, published by The Canadian Institute of Chartered Accountants, using the deferral method of reporting restricted contributions. These consolidated financial statements reflect the assets, liabilities, revenue and expenditures of the College and its subsidiary, Durham College Foundation (the "Foundation"). All significant intercompany balances and transactions have been eliminated upon consolidation.

(b) Revenue recognition:

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

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

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 at a rate corresponding with the amortization rate for the related capital assets.

1. Significant accounting policies (continued):

Endowment contributions are recognized as direct increases in endowment net assets.

Investment income earned on endowment funds which will be expended is recognized as revenue when the related expense occurs. 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 and the Ontario Student Opportunity Trust Funds ("OSOTF") are recognized as receivable when the related pledge is confirmed, the amount can be reasonably estimated and collection is reasonably assured.

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

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

(c) Financial Instruments:

(i) Long-term receivable:

The College has designated its long-term receivable as loans and receivables and carries it at amortized cost. The fair value of this financial instrument is equal to its carrying value as the interest charged is at variable current rates.

(ii) Long-term investments:

The College has designated all of its investments as held-for-trading and, as such, they are recorded at fair value. Restricted investment income is recognized as revenue when related expenditures are incurred.

(iii) Long-term debt:

The College has designated its long-term debt as other liabilities and carries it at amortized cost.

1. Significant accounting policies (continued):

(iv) Derivative financial instruments:

The College uses interest rate swap agreements to economically manage the floating interest rate portion of the debt portfolio and the related overall cost of borrowing. These instruments are not designated as hedges for accounting purposes and are carried on the consolidated statement of financial position, under the caption derivative liability, at the estimated fair market value. Realized and unrealized gains or losses arising from net payments made or received and changes in fair value related to the interest rate swap agreements are recognized in the consolidated statement of operations in the year of the change as change in market value of derivative instruments.

The College does not enter into derivative financial instruments for trading or speculative purposes.

(v) Other financial instruments:

Cash, bank indebtedness, short-term investments, accounts receivable and accounts payable and accrued liabilities are all classified as held-for-trading and are carried at fair values.

(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 capital assets are recorded at a nominal value. Repairs and maintenance costs are charged to expenditures. Betterments, which extend the estimated life of a capital 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.

1. Significant accounting policies (continued):

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
Equipment and furniture	5 - 10 years
Computer equipment	3 years

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

(e) 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 consolidated financial statements do not reflect the assets, liabilities and results of operations of the various student organizations as they are not controlled by the College.

(g) Employee sick leave:

The College recognizes employee sick leave gratuity liabilities as they are earned during the employees' tenure of service.

(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.

1. Significant accounting policies (continued):

(i) 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 rates of exchange for non-monetary assets and liabilities, and average rates of exchange for revenue 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.

(j) Capital disclosures:

The College manages its capital primarily through its investments and adheres to the College's investment policies.

(k) Use of estimates:

The preparation of financial statements 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. Estimates are used in reporting allowance for doubtful accounts, employee future benefits and accrued liabilities. Actual results could differ from those estimates.

2. Long-term receivables:

(a) Long-term receivable:

The long-term receivable includes a loan receivable from the Durham College Student Association Incorporated, amounting to $1,280,135 (2011 - $1,428,573), which is repayable from an annual special levy on student fees over a period not to exceed 40 years. The loan bears interest at the prime rate calculated monthly. The fair value of the long-term receivable is not determinable as the repayment amounts fluctuate annually based on student levy rates.

(b) Other long-term receivables:

The long-term receivable includes a receivable from the University of Ontario Institute of Technology (the "University"), amounting to $1,214,629 (2011 - nil), which is repayable at a fixed amount of $121,463 annually until September 2021. At March 31, 2012, the fair value of the other long-term receivable was $924,455.

3. Investments:

(a) Short-term investments:

	2012		2011	
	Cost	Market	Cost	Market
Mutual funds	$ 179,659	$ 179,659	$ 230,734	$ 232,528
Equities	197,500	196,905	–	–
	$ 377,159	$ 376,564	$ 230,734	$ 232,528

3. Investments (continued):

(b) Long-term investments:

	2012		2011	
	Cost	Market	Cost	Market
Equities	$ 6,246,019	$ 6,697,557	$ 5,830,080	$ 6,770,997
Fixed income	3,192,752	3,368,284	2,948,917	3,101,407
Mutual funds	231,466	231,467	128,880	127,086
	$ 9,670,237	$ 10,297,308	$ 8,907,877	$ 9,999,490

The College has long-term investments in a managed portfolio of equities, fixed income investments and mutual funds. These investments are recorded at fair value based on year-end quoted market prices.

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, 2012 were approximately $2,343,661 (2011 - $2,014,895) stated in Canadian dollars.

(i) Investment risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the College's activities and the associated operating environment. Investments are primarily exposed to credit, interest rate, maturity, foreign currency, market and liquidity risks. The College has formal policies and procedures that establish target asset mix. The College's policies also require diversification of investments within categories, and set limits on exposure to individual investments.

3. Investments (continued):

(ii) Credit, interest rate and maturity risks:

The value of fixed income securities will generally rise if interest rates fall and decrease if interest rates rise. Changes in interest rates may also affect the value of equity securities. The fixed income investments consist of government bonds and corporate bonds, bearing interest at rates ranging from 3.00% to 7.75% (2011 - 2.00% to 5.85%) and maturing from June 1, 2012 to April 21, 2021 (2011 - September 15, 2011 to December 1, 2036).

(iii) Foreign currency risk:

The value of securities denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to the value of the currency in which the security is denominated.

(iv) Market risk:

Market risk arises as a result of trading fixed income securities. The value of equity securities changes with stock market conditions, which are affected by general economic and market conditions. Changes in interest rates may also affect the value of equity securities. Fluctuation in the market exposes the College to a risk of loss.

(v) Liquidity risk:

Money market investments represent instruments in highly liquid investments that are readily converted into known amounts of cash. Equities and mutual funds represent liquid securities traded in public markets.

4. Capital assets:

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Land	$ 12,928,016	$ –	$ 12,928,016	$ 14,328,016
Buildings	259,035,489	89,744,618	169,290,871	170,128,094
Equipment and furniture	81,041,064	68,040,515	13,000,549	11,941,682
Computer equipment	2,429,393	2,429,393	–	–
Construction-in-progress	720,857	–	720,857	48,446
	$ 356,154,819	$ 160,214,526	$ 195,940,293	$ 196,446,238

Amortization for the current year totalled $13,209,505 (2011 - $11,868,376).

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 in cash and $6,831,815 of debt, for the purposes of expansion, including the future development of the University. The ownership of the land currently resides with the College.

Included in accounts payable and accrued liabilities is $6,831,815 from 2007 due to the University relating to payments of $2,277,272 each in years 2005, 2006 and 2007 for the mortgage payments, paid by the University, for the Windfields Farms property.

Subsequent to year end, the College and the University signed an agreement such that the title of the land will be transferred to the University upon a cash transfer of $1,000,000 on April 1, 2013. At that time, the accounts payable will be extinguished.

6. Deferred contributions:

(a) Deferred revenue:

Deferred revenue represent grants, tuition fees and other revenue related to expenditures 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 consolidated statement of operations at the same rate as amortization is recorded on the related capital assets.

	2012	2011
Balance, beginning of year	$ 96,582,757	$ 68,582,182
Contributions	5,602,899	32,546,479
Amounts amortized to revenue	(5,455,226)	(4,545,904)
Balance, end of year	$ 96,730,430	$ 96,582,757

(ii) Foundation:

	2012	2011
Balance, beginning of year	$ 758,022	$ 346,555
Deferred investment income	–	676,927
Amortized to revenue	53,754	–
Scholarships and bursaries	(281,402)	(265,460)
Balance, end of year	$ 530,374	$ 758,022
Total deferred contributions	$ 97,260,804	$ 97,340,779

7. Long-term debt:

	2012	2011
5.48% unsecured mortgage on student residence, repayable in monthly installments of $69,740 principal and interest, due in December 2023, interest rate renewal in December 2013	$ 7,272,686	$ 7,663,411
5.51% unsecured mortgage on student residence, repayable in monthly installments of $61,392 principal and interest, due in July 2017	7,574,094	7,882,986
5.57% unsecured mortgage on student residence, repayable in monthly installments of $204,649 principal and interest, due in May 2029, interest rate renewal in May 2014	27,168,815	28,008,120
4.89% unsecured mortgage on student residence, repayable in monthly installments of $74,505 principal and interest, due in May 2014	10,352,534	10,729,392
4.69% unsecured loan to finance the Student Centre, repayable in monthly installments of $18,820 principal and interest, due in 2018, interest rate renewal in September 2013	1,285,219	1,428,571
Variable rate secured mortgage, with an underlying swap fixing the rate at 5.14% on 199 Wentworth Avenue, due in April 2016, interest and principal paid monthly	7,767,000	8,018,000
Variable rate secured mortgage, with an underlying swap fixing the rate at 5.38% on the Athletic and Health Centre, due in November 2032, interest and principal paid monthly	12,660,543	12,996,526
	74,080,891	76,727,006
Less current portion	2,935,911	2,786,178
	$ 71,144,980	$ 73,940,828

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

2013	$ 2,935,911
2014	3,093,150
2015	3,258,306
2016	3,420,812
2017	3,303,123
Thereafter	58,069,589
	$ 74,080,891

7. Long-term debt (continued):

Interest expense on long-term debt of $4,159,800 (2011 - $4,173,309) is included in interest and bank charges expenses.

The fair value of the fixed rate mortgages was $65,473,635 (2011 - $56,937,451) compared to a carrying value of $53,564,597 (2011 - $55,712,480). Fair value has been calculated using the future cash flows of the actual outstanding debt instrument, discounted at current market rates available to the College.

The College entered into an interest rate swap to manage the interest rate variability arising on the 25-year mortgage for the Athletic and Health Centre. The mortgage bears interest at floating rates based on bankers' acceptances. The swap effectively fixes the interest rate at 5.38% on an initial principal amount of $14,000,000 over the 25-year life of the mortgage. At March 31, 2012, the fair value of the swap was a liability of $3,107,298 (2011 - $1,581,656).

The College entered into an interest rate swap to manage the interest rate variability arising on the 10-year mortgage for 199 Wentworth Avenue. The mortgage bears interest at floating rates based on bankers' acceptances. The swap effectively fixes the interest rate at 5.14% on an initial principal amount of $9,100,000 over the 10-year life of the mortgage. At March 31, 2012, the fair value of the swap was a liability of $939,889 (2011 - $767,619).

The College has a credit facility agreement with a Canadian chartered bank, which provides for a revolving operating line of credit up to $10,000,000, bearing interest at prime plus 1.25%. At March 31, 2012, the College utilized $3,466,849 (2011 - nil) of the operating line of credit.

The College has a credit facility agreement with another Canadian chartered bank, which provides for a revolving operating line of credit up to $1,000,000 with a temporary bulge up to $6,000,000 during May 1 to August 30 and December 1 to January 15 of each year. The facility bears interest at prime on the $1,000,000 portion and prime plus 0.50% on the excess. As at March 31, 2012, no amount was drawn against the operating line of credit (2011 - nil).

The College has entered into irrevocable standby letters of credit with a Canadian chartered bank. The letters of credit consist of $15,000, bearing interest at 1.2% and $43,025, bearing interest at 0.4%.

8. Employee future benefits:

Employee future benefits are health and dental benefits, life insurance and other retirement obligations 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, 2012 was determined by an actuarial valuation study as at March 31, 2012 commissioned by the College Compensation and Appointments Council using a discount rate of 4.20% (2011 - 4.75%).

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

	2012	2011
Balance, beginning of year	$ 554,000	$ 565,000
Current service costs	42,000	29,000
Interest	13,000	14,000
Benefits paid	(52,000)	(54,000)
Balance, end of year	$ 557,000	$ 554,000

9. Other long-term employee future benefits:

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

(a) Early retirement incentive plans, payments incentive plans and other agreements:

Future employee retirement and other compensation payments are calculated based on estimated employee retirement dates and are valued as at March 31, 2012 using a discount rate of 4.20% (2011 - 4.75%).

(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 4.20% (2011 - 4.75%).

10. Restricted net assets:

(a) 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 donors. Income earned is expendable.

(b) Endowments:

Endowment funds are restricted donations received by the College where the endowment principal is required to be maintained. 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 OSOTF and the Ontario Trust for Student Support ("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 the College.

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

	2012	2011
OSOTF (note 11)	$ 4,402,950	$ 4,284,529
OTSS (note 12)	5,414,012	4,531,770
Other	998,000	971,158
	$ 10,814,962	$ 9,787,457

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 OSOTF 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:

(a) OSOTF I:

	2012	2011
Schedule of Changes in Endowment Fund Balance		
Endowment fund balance, beginning of year	$ 2,143,914	$ 2,081,470
Preservation of capital	59,256	62,444
Endowment fund balance, end of year	$ 2,203,170	$ 2,143,914
Schedule of Changes in Expendable Funds Available for Awards		
Expendable balance, beginning of year	$ 59,811	$ 70,912
Realized investment income	(8,447)	60,564
Bursaries awarded	(51,364)	(71,665)
Expendable balance, end of year	$ –	$ 59,811
Number of bursaries awarded	67	90
Market value of endowment	$ 2,265,952	$ 2,482,668

11. Ontario Student Opportunity Trust Funds (continued):

(b) OSOTF II:

	2012	2011
Schedule of Changes in Endowment Fund Balance		
Endowment fund balance, beginning of year	$ 2,140,615	$ 2,078,267
Preservation of capital	59,165	62,348
Endowment fund balance, end of year	$ 2,199,780	$ 2,140,615
Schedule of Changes in Expendable Funds Available for Awards		
Expendable balance, beginning of year	$ 65,449	$ 76,753
Realized investment income	(14,006)	60,471
Bursaries awarded	(51,443)	(71,775)
Expendable balance, end of year	$ –	$ 65,449
Number of bursaries awarded	67	90
Market value of endowment	$ 2,262,464	$ 2,478,676

12. Ontario Trust for Student Support:

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

12. Ontario Trust for Student Support (continued):

The College has recorded the following amounts in the program:

	2012	2011
Schedule of Changes in Endowment Fund Balance		
Endowment balance, beginning of year	$ 4,531,770	$ 3,895,507
Eligible cash donations	310,721	259,699
Matching funds received/receivable from MTCU	446,266	259,699
Preservation of capital	125,255	116,865
Endowment fund balance, end of year	$ 5,414,012	$ 4,531,770
Schedule of Changes in Expendable Funds Available for Awards		
Expendable balance, beginning of year	$ 113,818	$ 71,344
Realized investment income	(61,945)	114,849
Bursaries awarded	(51,873)	(72,375)
Expendable balance, end of year	$ –	$ 113,818
Number of bursaries awarded	68	91
Market value of endowment	$ 4,789,730	$ 4,676,204

13. Pension plans:

Employees of the College 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. The College follows defined contribution accounting for its portion of the multi-employer plan. 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, 2012 indicated an actuarial surplus of $154,000,000 . In the 2012 fiscal year, the College's contributions in respect to the current service costs for these pension plans amounted to $6,165,632 (2011 - $5,988,945).

14. Invested in capital assets:

(a) Investment in capital assets represents the following:

	2012	2011
Capital assets, net book value	$ 195,940,293	$ 196,446,238
Less:		
Amounts financed by deferred capital contributions (note 6(b))	96,730,430	96,582,757
Amount financed by long-term debt (note 7)	74,080,891	76,727,006
	170,811,321	173,309,763
Investment in capital assets	$ 25,128,972	$ 23,136,475

14. Invested in capital assets (continued):

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

	2012	2011
Amortization of deferred contributions related to capital assets (note 6(b))	$ 5,455,226	$ 4,545,904
Amortization of capital assets	(13,209,505)	(11,868,376)
	$ (7,754,279)	$ (7,322,472)
Net change in investment in capital assets:		
Purchases of capital assets	$ 14,103,560	$ 38,893,178
Sale of capital assets	(1,400,000)	–
Amounts funded by:		
Deferred capital contributions (note 6(b)(i))	(5,602,899)	(32,546,479)
Repayment of long-term debt	2,646,115	2,641,650
	$ 9,746,776	$ 8,988,349
Change in investment in capital assets	$ 1,992,497	$ 1,665,877

15. Service costs:

The College provides certain administrative services to the University under a shared service agreement. The cost of salaries, benefits and operating expenses allocated to the University has been calculated based on an individual percentage per department.

Effective April 1, 2007, the ancillary operations are being allocated based on metrics per operation between the College and the University. Prior to fiscal 2008, the gross revenue and expenditures were recorded on the College's consolidated financial statements and an allocation of net profits was provided to the University.

During 2009, the College and the University began reviewing the organization of the integrated services departments in order to best serve both institutions going forward. In the review, a need was recognized for both the College and the University to have certain dedicated teams to meet each of the institutions' objectives and, as such, some of the departments were segregated.

15. Service costs (continued):

Both institutions have continued to review the remaining services to formalize service level agreements where collaboration is required. In 2011, a master service level agreement was signed and service level agreements for three departments were finalized. During 2012, a subsequent Memorandum of Agreement in Principle was signed with the remaining service level agreements to be finalized in 2013.

16. Commitments:

(a) Computer equipment:

The College has entered into various arrangements to lease laptop computers, which will expire up to and including fiscal 2013. The current cost of these operating leases reflected in the consolidated financial statements is nil (2011 - $343,153).

(b) Premises and equipment:

The future minimum lease payment in 2013, exclusive of taxes and operating costs, for premises and equipment under operating leases at March 31, 2012 are as follows:

2013	$ 158,866
2014	45,000
2015	45,000
2016	49,416
2017	51,866
2018	4,341
	$ 354,489

17. Contingencies:

The College has been named as the defendant in certain legal actions, in which damages have been sought. The outcomes of these actions are not determinable as at March 31, 2012 and, accordingly, no provision has been made in these consolidated financial statements for any liability which may result.

17. Contingencies (continued):

The College is involved in various legal actions that are within the normal course of operations. In the opinion of management, any resulting liabilities are not expected to have a material adverse effect on the consolidated financial position or net operations.

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. These debentures bear interest at 6.351%, payable semi-annually, with the principal due in 2034.

19. Financial instruments:

(a) Fair values:

The fair values of financial assets and liabilities approximate their carrying values due to the related short-term maturity. The fair value of long-term receivables is disclosed in note 2, investments in note 3 and long-term debt in note 7.

(b) Interest rate risk:

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

(c) Credit risk:

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

20. Internally restricted net assets - residence:

On June 13, 2012, the Board of Governors resolved to approve a transfer of $45,090 to the internally restricted net assets for the residence for the purpose of future improvements to the facility.