**CONSOLIDATED FINANCIAL STATEMENTS**

# The Humber College Institute of Technology and Advanced Learning

**March 31, 2013**

## The Humber College Institute of Technology and Advanced Learning

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For the year ended March 31, 2013

### Consolidated Financial Statements

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of The Humber College Institute of Technology and Advanced Learning (the "College") are the responsibility of management and have been approved by the Board of Governors (the "Board").

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 series of standards applicable to government not-for-profit organizations. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Consolidated financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

The College maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the College's assets are appropriately accounted for and adequately safeguarded.

The College's insurance liabilities have been reviewed by management in consultation with its broker. There are no material liabilities in either fact or contingency as at the date of this report.

The Board of Governors are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit and Finance Committee (the "Committee").

The Audit and Finance Committee is appointed by the Board of Governors, and includes within its ranks four Board members. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements. The Committee also considers, for review and approval by the Board, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by BDO Canada LLP, the external auditors, in accordance with Canadian generally accepted auditing standards, on behalf of the Board. BDO Canada LLP has full and free access to the Audit and Finance Committee.

College President & CEO

Vice President, Finance & Administrative Services

May 27th, 2013

Tel: 905 270-7700
Fax: 905 270-7915
Toll-free: 866 248 6660
www.bdo.ca

BDO Canada **LLP**
1 City Centre Drive, Suite 1700
Mississauga ON L5B 1M2 Canada

# Independent Auditor's Report

**To the Board of Governors of The Humber College of Technology and Advanced Learning**

We have audited the accompanying consolidated financial statements of The Humber College Institute of Technology and Advanced Learning, which comprise the consolidated statement of financial position as at March 31, 2013, and the consolidated statements of operations, changes in net assets, cash flows and remeasurement gains and losses for the year then ended, and 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these 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 the auditor's 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, the auditor considers 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 financial position of Humber College Institute of Technology and Advanced learning as at March 31, 2013 and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

**Comparative Information**

Without modifying our opinion, we draw attention to Note 3 to the consolidated financial statements, which describes that The Humber College Institute of Technology and Advanced Learning adopted Canadian public sector accounting standards on April 1, 2012 with a transition date of April 1, 2011. These standards were applied retroactively by management to the comparative information in these consolidated financial statements, including the consolidated statements of financial position as at March 31, 2012 and April 1, 2011 and the consolidated statements of operations, consolidated changes in net assets, remeasurement gains and losses and consolidated cash flow for the year ended March 31, 2012 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Mississauga, Ontario
May 27, 2013

**THE HUMBER COLLEGE INSTITUTE OF TECHNOLOGY AND ADVANCED LEARNING** **Statement 1**

**Consolidated Statement of Financial Position**

| | March 31, 2013 | March 31, 2012 *(unaudited)* | April 1, 2011 *(unaudited)* |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash (Note 7) | $ 34,269,664 | $ 14,259,550 | $ 5,222,185 |
| Investments (Note 7) | 253,988,634 | 217,361,585 | 188,966,683 |
| Grants receivable (Note 8) | 5,039,788 | 3,695,199 | 3,516,323 |
| Accounts receivable (Note 9) | 6,774,514 | 7,753,812 | 8,387,326 |
| Prepaid expenses | 1,798,348 | 1,236,270 | 1,457,341 |
| **Total current assets** | 301,870,948 | 244,306,416 | 207,549,858 |
| INVESTMENT IN UNIVERSITY OF GUELPH-HUMBER (Note 10) | 10,031,312 | 9,287,433 | 9,594,700 |
| LONG-TERM ACCOUNTS RECEIVABLE (Note 11) | - | 548,874 | 2,896,710 |
| LONG-TERM GRANTS RECEIVABLE (Note 12) | 4,580,000 | 6,870,000 | 9,160,000 |
| CAPITAL ASSETS (Note 13) | 281,196,959 | 296,597,854 | 292,179,846 |
| **TOTAL ASSETS** | $ 597,679,219 | $ 557,610,577 | $ 521,381,114 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | $ 16,849,736 | $ 13,178,026 | $ 17,357,228 |
| Accrued payroll and employee benefits | 10,241,452 | 9,958,894 | 7,949,147 |
| Accrued vacation pay | 13,363,640 | 12,836,218 | 11,458,492 |
| Deferred revenue | 35,408,358 | 33,575,901 | 31,403,796 |
| Due to University of Guelph-Humber | 16,166,785 | 14,394,530 | 16,790,796 |
| Due to Humber Students' Federation (Note 14) | 6,252,583 | 3,622,153 | 4,074,307 |
| Bank loan (Note 15) | 35,327,941 | 36,661,676 | 37,924,445 |
| **Total current liabilities** | 133,610,495 | 124,227,398 | 126,958,211 |
| POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (Note 16) | 10,757,000 | 11,351,000 | 12,419,000 |
| DEFERRED CONTRIBUTIONS (Note 17) | 8,096,612 | 7,838,441 | 6,764,753 |
| DEFERRED CAPITAL CONTRIBUTIONS (Note 18) | 133,349,600 | 144,891,136 | 150,270,735 |
| INTEREST RATE SWAP (Note 24) | 9,306,837 | 9,245,403 | 5,633,202 |
| **TOTAL LIABILITIES** | 295,120,544 | 297,553,378 | 302,045,901 |
| **NET ASSETS** | | | |
| Unrestricted | | | |
| Operating | 34,416,807 | 28,456,631 | 24,264,322 |
| Post-employment benefits and compensated absences (Note 16) | (10,757,000) | (11,351,000) | (12,419,000) |
| Vacation pay | (13,363,640) | (12,836,218) | (11,458,492) |
| Unrealized gains (losses) on investments | - | 1,101,477 | (1,410,364) |
| Interest rate swap (Note 24) | - | (9,245,403) | (5,633,202) |
| | 10,296,167 | (3,874,513) | (6,656,736) |
| INVESTED IN CAPITAL ASSETS (Note 19) | 117,031,212 | 116,938,837 | 111,359,187 |
| INTERNALLY RESTRICTED (Note 20) | 170,000,000 | 132,500,000 | 102,400,000 |
| EXTERNALLY RESTRICTED (Note 21) | 14,538,133 | 14,492,875 | 12,232,762 |
| | 311,865,512 | 260,057,199 | 219,335,213 |
| ACCUMULATED REMEASUREMENT LOSSES | (9,306,837) | - | - |
| **TOTAL NET ASSETS** | 302,558,675 | 260,057,199 | 219,335,213 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 597,679,219 | $ 557,610,577 | $ 521,381,114 |

*See accompanying notes*

On behalf of the Board of Governors:

**THE HUMBER COLLEGE INSTITUTE OF TECHNOLOGY AND ADVANCED LEARNING** **Statement 2**

**Consolidated Statement of Operations**

| For the year ended | | **March 31, 2013** | | March 31, 2012 *(unaudited)* |
|---|---|---|---|---|
| **REVENUE** | | | | |
| **Operating** | | | | |
| Grants and reimbursements | **$** | **138,280,373** | $ | 131,485,205 |
| Tuition fees | | **151,744,564** | | 134,448,607 |
| Amortization of deferred capital contributions | | **14,684,816** | | 6,471,708 |
| Interest income | | **5,416,719** | | 4,878,990 |
| Other (Note 10) | | **33,750,675** | | 28,577,763 |
| **Total operating revenue** | | **343,877,147** | | 305,862,273 |
| **Ancillary** | | **27,659,044** | | 28,079,852 |
| **TOTAL REVENUE** | | **371,536,191** | | 333,942,125 |
| **EXPENSES** | | | | |
| **Operating** | | | | |
| Salaries and benefits | | **183,097,408** | | 173,533,707 |
| Contract services | | **30,039,540** | | 23,240,911 |
| Maintenance, utilities and municipal taxes | | **8,975,878** | | 11,802,835 |
| Advertising and marketing | | **11,173,982** | | 8,772,922 |
| Supplies, equipment and other expenses | | **27,983,813** | | 25,965,761 |
| Information technology, software and licenses | | **5,064,334** | | 4,639,783 |
| Student assistance | | **5,524,623** | | 5,602,246 |
| Amortization of capital assets | | **32,427,195** | | 17,468,842 |
| **Total operating expenses** | | **304,286,773** | | 271,027,007 |
| **Ancillary** | | **23,630,289** | | 23,352,885 |
| **TOTAL EXPENSES** | | **327,917,062** | | 294,379,892 |
| **EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR** | **$** | **43,619,129** | $ | 39,562,233 |

*See accompanying notes*

**THE HUMBER COLLEGE INSTITUTE OF TECHNOLOGY AND ADVANCED LEARNING** **Statement 3**

**Consolidated Statement of Changes in Net Assets**

| | March 31, 2013 | | | | |
|---|---|---|---|---|---|
| | **Unrestricted** | **Internally restricted** (Note 20) | **Invested in capital assets** (Note 19) | **Externally restricted** (Note 21) | **Total** |
| **Balance, beginning of year** | **$ (3,874,513)** | **$ 132,500,000** | **$ 116,938,837** | **$ 14,492,875** | **$ 260,057,199** |
| Excess of revenue over expenses for the year | **43,619,129** | **-** | **-** | **-** | **43,619,129** |
| Change in internally restricted net assets | **(37,500,000)** | **37,500,000** | **-** | **-** | **-** |
| Net change in invested in capital assets (Note 19) | **(92,375)** | **-** | **92,375** | **-** | **-** |
| Endowment contributions | **-** | **-** | **-** | **45,258** | **45,258** |
| Reclassification of unrealized (gains) losses on derivative due to adoption of PS 3450 (Note 4) | | | | | |
| a) Interest rate swap | **9,245,403** | **-** | **-** | **-** | **9,245,403** |
| b) Investments | **(1,101,477)** | **-** | **-** | **-** | **(1,101,477)** |
| **Balance, end of year** | **$ 10,296,167** | **$ 170,000,000** | **$ 117,031,212** | **$ 14,538,133** | **$ 311,865,512** |

| | March 31, 2012 *(unaudited)* | | | | |
|---|---|---|---|---|---|
| | **Unrestricted** | **Internally restricted** (Note 20) | **Invested in capital assets** (Note 19) | **Externally restricted** (Note 21) | **Total** |
| **Balance, beginning of year** | $ (6,656,736) | $ 102,400,000 | $ 111,359,187 | $ 12,232,762 | $ 219,335,213 |
| Excess of revenue over expenses for the year | 39,562,233 | - | - | - | 39,562,233 |
| Change in internally restricted net assets | (30,100,000) | 30,100,000 | - | - | - |
| Net change in invested in capital assets (Note 19) | (5,579,650) | - | 5,579,650 | - | - |
| Endowment contributions | - | - | - | 2,260,113 | 2,260,113 |
| Change in fair value of interest rate swap | (3,612,201) | - | - | - | (3,612,201) |
| Change in fair value on investments | 2,511,841 | - | - | - | 2,511,841 |
| **Balance, end of year** | $ (3,874,513) | $ 132,500,000 | $ 116,938,837 | $ 14,492,875 | $ 260,057,199 |

*See accompanying notes*

**THE HUMBER INSTITUTE OF TECHNOLOGY AND ADVANCED LEARNING** **Statement 4**

**Consolidated Statement of Cash Flows**

| | | March 31, 2013 | | March 31, 2012 *(unaudited)* |
|---|---|---|---|---|
| **NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES** | | | | |
| **OPERATING** | | | | |
| Excess of revenue over expenses for the year | **$** | **43,619,129** | $ | 39,562,233 |
| Non-cash items: | | | | |
| Amortization of capital assets | | **32,427,195** | | 17,468,842 |
| Amortization of deferred capital contributions | | **(14,684,816)** | | (6,471,708) |
| Share of excess of revenue over expenses for the year from University of Guelph-Humber (Note 10) | | **(8,925,735)** | | (8,190,833) |
| | | **52,435,773** | | 42,368,534 |
| Accrual for post-employment benefits and compensated absences | | **(594,000)** | | (1,068,000) |
| Endowment contributions | | **45,258** | | 2,260,113 |
| Net change in non-cash working capital items (Note 23) | | **12,628,337** | | 3,845,505 |
| **Cash provided by operating activities** | | **64,515,368** | | 47,406,152 |
| **INVESTING** | | | | |
| Distribution from Guelph-Humber Joint Venture (Note 10) | | **8,181,857** | | 8,498,100 |
| Net (increase)/decrease of investments (net of fair market value adjustment) | | **(37,687,546)** | | (25,883,062) |
| **Cash provided in investing activities** | | **(29,505,689)** | | (17,384,962) |
| **FINANCING** | | | | |
| Deferred contributions (net of fair market value adjustment) | | **217,191** | | 1,073,689 |
| Repayment of bank loan | | **(1,333,734)** | | (1,262,770) |
| **Cash provided by financing activities** | | **(1,116,543)** | | (189,081) |
| **CAPITAL** | | | | |
| Purchase of capital assets | | **(17,056,752)** | | (21,886,853) |
| Contributions received for capital purposes | | **3,143,280** | | 1,092,109 |
| Proceeds on sale of capital assets | | **30,450** | | - |
| **Cash used in capital activities** | | **(13,883,022)** | | (20,794,744) |
| **Net increase in cash during the year** | | **20,010,114** | | 9,037,365 |
| Cash, beginning of year | | **14,259,550** | | 5,222,185 |
| **Cash, end of year** | **$** | **34,269,664** | $ | 14,259,550 |

*See accompanying notes*

**THE HUMBER INSTITUTE OF TECHNOLOGY AND ADVANCED LEARNING** **Statement 5**

## Consolidated Statement of Remeasurement Gains and Losses

| | March 31, 2013 | March 31, 2012 *(unaudited)* |
|---|---|---|
| Accumulated remeasurement losses at the beginning of year | **$ -** | $ - |
| Adjustment upon adoption of financial instruments section (Note 4) | **(9,245,403)** | - |
| Unrealized losses attributable to: | | |
| Derivative - interest rate swap | **(61,434)** | - |
| **Net remeasurement losses for the year** | **(9,306,837)** | - |
| **Accumulated remeasurement losses at end of year** | **$ (9,306,837)** | $ - |

*See accompanying notes*

## 1. DESCRIPTION OF THE ORGANIZATION

The College system was created by an Act of the Ontario Legislature on December 30, 1966. Regulation 771 empowered the then Ministry of Education to establish individual colleges. On February 23, 1967, Humber College of Applied Arts and Technology became a reality. By Ontario Regulation 34/03 filed on February 11, 2003, the name of the College was changed to The Humber College Institute of Technology and Advanced Learning (the "College").

The College's mission statement is as follows:

"Humber develops broadly educated, highly skilled and adaptable citizens who significantly contribute to the educational, economic and social development of their communities." We accomplish this by:

- Preparing learners for careers through a comprehensive choice of educational credentials in a broad range of programming;
- Developing informed and engaged citizens through an applied and liberal education;
- Enabling organizations to enhance their effectiveness through customized training and lifelong learning opportunities; and
- Supporting our local communities through outreach activities.

The College's consolidated financial statements include the accounts of the Humber College Educational Foundation, which is controlled by the College, and the College's 50% equity interest in the University of Guelph-Humber joint venture (the "Joint Venture"). These consolidated financial statements do not reflect the assets, liabilities and results of operations of the Humber Students' Federation or the various other student organizations of the College.

The College is a not-for-profit organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

The consolidated financial statements of the College have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by Public Sector Accounting Board ("PSAB for Government NPOs"). The significant accounting policies are as follows:

### Revenue recognition

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

Tuition fees and contract training revenues are recorded as revenue rateably over the term to which the tuition fees revenue applies to the extent that the related courses and services are provided to the student or client.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Ancillary revenues, including retail operations, food services, student residence, parking and other sundry revenues are recognized when products are delivered or services are provided to the student or client, where the sales price is fixed and determinable, and collection is reasonably assured.

Contributions externally restricted for purposes other than endowment are recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for the purchase or construction of depreciable capital assets are deferred and amortized over the life of the related capital asset.

Endowment contributions are recognized as direct increases in net assets in the period in which they are received. Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

**Capital assets**

Purchased capital assets are recorded at cost while contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis over their useful lives, which has been estimated to be as follows:

| | |
|---|---|
| Buildings | 40 years |
| Site improvements | 10 years |
| Leasehold improvements | 10 to 20 years |
| Furniture and equipment | 3 to 10 years |
| Automotive equipment | 5 years |
| Software | 7 years |

Construction in progress costs are capitalized as incurred and are transferred to various categories of capital assets and are amortized on a basis consistent with similar assets, once the assets are placed in service. When a capital asset no longer contributes to the College's ability to provide services, its carrying amount is written down to its net realizable value.

**Vacation pay**

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

**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, vesting sick leave and non-vesting sick leave. The College has adopted the following policies with respect to accounting for these employee benefits:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 period.

(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 assumptions and/or experience are recognized over the estimated average remaining service life of the employees.

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

**Investment in University of Guelph-Humber**

The investment in the Joint Venture is accounted for using the modified equity method. No adjustment is made for the basis of accounting of the joint venture being different than PSAB for Government NPOs.

**Financial instruments**

The College classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred except for those instruments designated into the fair value category. The College's accounting policy for each category is as follows:

***Fair value***

This category includes derivatives and equity instruments quoted in an active market. The College's interest rate swap is considered to be a derivative financial instrument and is included in this category. The College invests a portion of its externally restricted funds in pooled funds with its investment management firm. These funds are considered to be equity instruments and are included in this category.

Financial instruments in this category are initially 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 related to externally restricted funds are recognized in deferred contributions until the criterion attached to the restrictions has been met, when they are transferred to the consolidated statement of operations.

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

## 2. SUMMARY OF 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 gains and 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 operations.

***Amortized cost***
This category includes cash, investments not considered to be equity instruments, accounts receivable, grants receivable, long-term receivable, long-term grants receivable, accounts payable and accrued liabilities, accrued payroll and employee benefits, accrued vacation pay, bank loan, due to University of Guelph-Humber and due to Humber Students' Federation. 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, except for contributions, which are initially recognized at fair value.

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

Writedowns 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 writedown being recognized in the consolidated statement of operations.

**Management estimates**

The preparation of consolidated financial statements in conformity with PSAB for Government NPOs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates. Areas of key estimation include determination of fair value of investments, determination of fair value of derivatives, deferred tuition revenue, allowance for doubtful accounts, capital asset amortization, amortization of deferred capital contributions and actuarial estimation of post-employment benefits and compensated absences liabilities.

**Public sector salary disclosure act**

The Public Sector Salary Disclosure Act, 1996 (the "Act") requires the disclosure of the salaries and benefits of employees in the public sector who are paid a salary of $100,000 or more in a year. The College complies with this Act by providing the information to MTCU for disclosure on the public website.

## 3. FIRST TIME ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS

The Public Sector Accounting Board (PSAB) issued new standards for government (public sector) not-for-profit organizations. For years beginning on or after January 1, 2012, government NPOs have a choice of:

## 3. FIRST TIME ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

a) Public sector accounting standards including PS 4200 – 4270 for government not-for-profit organizations; or

b) Public sector accounting standards

The College has chosen to follow Public Sector Accounting standards including PS 4200 – 4270 for government not-for-profit organizations.

Effective April 1, 2012, the College adopted the requirements of the new accounting framework, Canadian Public Sector Accounting Standards for Not-for-Profit Organizations (PSAB for NPOs). These are the College's first consolidated financial statements prepared in accordance with this framework and the transitional provisions of Section 2125, First-time Adoption by Government Organizations have been applied. Section 2125 requires retrospective application of the accounting standards with certain elective exemptions and mandatory exceptions. The accounting policies set out in the Summary of Significant Accounting Policies have been applied in preparing the consolidated financial statements for the year ended March 31, 2013, the comparative information presented in these consolidated financial statements for the year ended March 31, 2012 and in the preparation of an opening PSAB for NPOs consolidated balance sheet at the date of transition of April 1, 2011 with the exception of PS 2601 – *Foreign Currency Translation* and PS 3450 – *Financial Instruments*, which have been applied with an effective date of April 1, 2012 (see Note 4 – Change in Accounting Policy).

The College issued consolidated financial statements for the year ended March 31, 2012 using generally accepted accounting principles prescribed by the CICA Handbook – Accounting Part V - Pre-changeover Accounting Standards. The adoption of PSAB for NPOs resulted in adjustments to the previously reported assets, liabilities, net assets, excess of revenue over expenses and cash flows of the College. An explanation of how the transition from pre-changeover Canadian GAAP to PSAB has affected the College's consolidated financial position, operations, changes in net assets and cash flows is set out in the following notes and tables.

The following exemptions and exceptions were used at the date of transition to Canadian public sector accounting standards for government not-for-profit organizations:

<u>Optional exemptions</u>

*Actuarial Gains and Losses*

Pre-changeover GAAP allowed the College to only recognize actuarial gains and losses that exceeded certain prescribed amounts ("the corridor approach"). PSAB requires the amortization of actuarial gains and losses on post-employment benefit obligations and compensated absences to be amortized over the estimated average remaining service life of employees. Retroactive application of this approach would require the College to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to PSAB into a recognized portion and an unrecognized portion. The College has elected to recognize all cumulative actuarial gains and losses at the date of transition to PSAB directly in net assets. Actuarial gains and losses subsequent to the date of transition to PSAB are accounted for in accordance with *PS 3250 – Retirement Benefits*.

## 3. FIRST TIME ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

*Business combinations*

The College elected to not retrospectively apply the provisions *PS 2510 – Additional Areas of Consolidation* to periods prior to the date of transition to PSAB for Government NPO's. As such, assets, liabilities and net assets have not been restated that may have been required if the provisions of PS 2510 had been applied retrospectively.

Mandatory exemptions

*Estimates*

The estimates previously made by the College under pre-changeover Canadian GAAP were not revised for the application of PSAB except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the College has not used hindsight to revise estimates.

Reconciliation of net assets and excess of revenue over expenses

In preparing these consolidated financial statements, management has amended certain accounting policies previously applied in the pre-changeover Canadian GAAP consolidated financial statements to comply with PSAB. The comparative figures for March 31, 2012 were restated to reflect these adjustments. The following reconciliations and explanatory notes provide a description of the effect of the transition from pre-changeover Canadian GAAP to PSAB on net assets and excess of revenues over expenses:

Consolidated Statement of Financial Position as at April 1, 2011 – Transition Date

| | Pre-changeover Canadian GAAP | Transitional Adjustments | | | PSAB |
|---|---|---|---|---|---|
| | | **Adj. (i)** | **Adj. (ii)** | **Adj. (iii)** | |
| **Liabilities** | | | | | |
| **Post-employment benefits and compensated absences** | | | | | |
| Vesting sick leave | $ 4,280,164 | $ - | $ - | $ (1,557,164) | $ 2,723,000 |
| Non-vesting sick leave | - | 7,893,000 | - | - | 7,893,000 |
| Post-employment benefits | 1,460,000 | - | 168,000 | 175,000 | 1,803,000 |
| | $ 5,740,164 | $ 7,893,000 | $ 168,000 | $ (1,382,164) | $ 12,419,000 |
| **Net Assets** | | | | | |
| **Post-employment benefits and compensated absences** | $ (5,740,164) | $ (7,893,000) | $ (168,000) | $ 1,382,164 | $ (12,419,000) |

## 3. FIRST TIME ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

Consolidated Statement of Financial Position for the year-ended March 31, 2012

| | Pre-changeover Canadian GAAP | Transitional Adjustments Adj. (i) | Adj. (ii) | Adj. (iii) | PSAB |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| **Post-employment benefits and compensated absences** | | | | | |
| Vesting sick leave | $ 3,785,020 | $ - | $ - | $ (1,829,020) | $ 1,956,000 |
| Non-vesting sick leave | - | 7,509,000 | - | - | 7,509,000 |
| Post-employment benefits | 1,487,000 | - | - | 399,000 | 1,886,000 |
| | $ 5,272,020 | $ 7,509,000 | $ - | $ (1,430,020) | $ 11,351,000 |
| **Net Assets** | | | | | |
| **Post-employment benefits and compensated absences** | $ (5,272,020) | $ (7,509,000) | $ - | $ 1,430,020 | $ (11,351,000) |

Consolidated Statement of Operations for the year-ended March 31, 2012

| | Sub-note | Pre-changeover Canadian GAAP | Adjustments | PSAB |
|---|---|---|---|---|
| **Expenses** | | | | |
| Salaries and benefits | (i), (ii), (iii) | $ 174,133,563 | $ (599,856) | $ 173,533,707 |
| **Excess of revenue over expenses** | (i), (ii), (iii) | $ 38,962,377 | $ 599,856 | $ 39,562,233 |

Consolidated Statement of Cash Flows for the year-ended March 31, 2012

The transition to PSAB had no impact on total operating or financing activities on the consolidated statement of cash flows. The change in excess of revenues over expenses for year-ended March 31, 2012 has been offset by adjustments to operating activities. The transition to PSAB for Government NPOs resulted in the reclassification of cash receipts and outflows relating to the acquisition of tangible capital assets from investing activities to capital activities. The capital section of the consolidated statement of cash flows did not exist prior to the transition to PSAB for Government NPOs.

## 3. FIRST TIME ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

Explanations for Adjustments to PSAB for Government NPOs

(i) Non-vesting Sick Leave

PSAB for Government NPOs requires the recognition of a liability for sick leave benefits that accumulate, but do not vest, which was not required under pre-changeover GAAP. As a result, the College has recognized a liability and charge to net assets as described in the tables above.

(ii) Amortization of Actuarial Gains/Losses

As discussed in Note 3 – First Time Adoption of Public Sector Accounting Standards, Optional Exemptions, the College has elected to recognize actuarial gains and losses at the date of transition to PSAB for Government NPOs directly in net assets. As a result, the College has recognized an increased liability and a charge to net assets as described in the tables above.

(iii) Discount Rate Used to Calculate Post-Employment Benefits and Compensated Absences Liabilities

PSAB for Government NPOs requires these liabilities to be calculated with a discount rate that is equal to either the College's rate of borrowing or the rate of return on the plan assets. Pre-changeover GAAP required the discount rate to be equal to the yield on high quality corporate bonds. The College has chosen to discount these liabilities using its internal rate of borrowing. The change in the discount rate resulted in changes to the related liabilities and charges to net income as described in the tables above.

## 4. CHANGE IN ACCOUNTING POLICY

On April 1, 2012, the College adopted Public Accounting Standards *PS 1201 – Financial Statement Presentation*, *PS 3450 – Financial Instruments* and *PS 2601 – Foreign Currency Translation*. The standards were adopted prospectively from the date of adoption. The new standards provide revised guidance in the general presentation of financial statements, comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency translations.

In addition, on April 1, 2012, the College early adopted an amendment to PS – 3450 – Financial Instruments that would otherwise be effective for year-ends beginning on or after March 1, 2013. This amendment provides guidance on the classification of investment income on externally restricted assets.

Under PS 3450, all financial instruments, including derivatives, are included on the consolidated statement of financial position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the College's accounting policy choices (see Note 2 – Significant Accounting Policies).

## 4. CHANGE IN ACCOUNTING POLICY (continued)

In accordance with the provisions of this new standard, the College reflected the following adjustments:

- April 1, 2012: a decrease of $1,101,477 to unrestricted net assets and a decrease of $1,101,477 to cash and investments due to the College choosing to follow the amortized cost method of accounting for investments where possible upon initial adoption of the standard whereas they were originally classified as available for sale under pre-changeover GAAP.

- April 1, 2012: an increase of $9,245,403 to unrestricted net assets and an increase of $9,245,403 to accumulated remeasurement losses due to the fair value of the College's interest rate swap derivative being reclassified to accumulated remeasurement losses.

## 5. CHANGE IN ESTIMATE

During the year, the College completed a review of its fixed assets' useful lives. The College determined that as a result of continual change in use and change in technology, actual lives of certain assets were generally less than the useful lives for depreciation purposes. As a result, the College shortened the estimated useful lives of certain assets, effective April 1, 2012. The effect of this change in estimate increased depreciation expense for the year by $15,231,689, increased amortization of deferred capital contributions by $8,596,019 and decreased excess of revenues over expenses by $6,635,670.

## 6. FINANCIAL INSTRUMENT CLASSIFICATION

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

| | 2013 | | |
|---|---|---|---|
| | Fair Value | Amortized Cost | Total |
| Cash | $ 34,269,664 | $ - | $ 34,269,664 |
| Investments | 8,061,617 | 245,927,017 | 253,988,634 |
| Accounts receivable | - | 6,774,514 | 6,774,514 |
| Grants receivable | - | 5,039,788 | 5,039,788 |
| Long-term grants receivable | - | 4,580,000 | 4,580,000 |
| Accounts payable and accrued liabilities | - | 16,849,736 | 16,849,736 |
| Accrued payroll and employee benefits | - | 10,241,452 | 10,241,452 |
| Accrued vacation pay | - | 13,363,640 | 13,363,640 |
| Due to University of Guelph-Humber | - | 16,166,785 | 16,166,785 |
| Due to Humber Students' Federation | - | 6,252,583 | 6,252,583 |
| Bank loan | - | 35,327,941 | 35,327,941 |
| Interest rate swap | 9,306,837 | - | 9,306,837 |
| | $ 51,638,118 | $ 360,523,456 | $ 412,161,574 |

Cash and investments consist of cash, redeemable and non-redeemable guaranteed investment certificates, daily interest deposits, Canadian treasury bills, Canadian provincial bonds, Canadian corporate bonds and mutual funds.

## 6. FINANCIAL INSTRUMENT CLASSIFICATION (continued)

Maturity profile of investments held at amortized cost is as follows:

| | 2013 | | | | |
|---|---|---|---|---|---|
| | **Within 1 year** | **1 to 5 years** | **5 to 10 years** | **over 10 years** | **Total** |
| **Carrying value** | $ 68,626,679 | $ 177,300,338 | $ - | $ - | $ 245,927,017 |
| **Percent of Total** | 28% | 72% | 0% | 0% | |

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 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).

| | 2013 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Cash | $ 34,269,664 | $ - | $ - | $ 34,269,664 |
| Investments | 8,061,617 | - | - | 8,061,617 |
| Interest rate swap | - | - | 9,306,837 | 9,306,837 |
| Total | $ 42,331,281 | $ - | $ 9,306,837 | $ 51,638,118 |

There were no transfers between Level 1 and Level 2 for the years ended March 31, 2013 and 2012. There were also no transfers in or out of Level 3. For a sensitivity analysis of financial instruments recognized in Level 3, see Note 24 – Interest rate risk.

## 7. CASH AND INVESTMENTS

The College's cash and investments include amounts restricted for specific purposes that are not available to be spent at the College's discretion.

| | **2013** | 2012 |
|---|---|---|
| Cash | **$ 34,269,664** | $ 14,259,550 |
| Investments | **253,988,634** | 217,361,585 |
| **Total cash and investments** | **$ 288,258,298** | $ 231,621,135 |

### 7. CASH AND INVESTMENTS (continued)

Cash and investments include the following restricted and unrestricted amounts:

| | **2013** | 2012 |
|---|---|---|
| Restricted trust funds | **$ 3,282,511** | $ 3,192,362 |
| Restricted endowment funds | **14,538,133** | 14,492,875 |
| Deferred contributions | **4,814,101** | 4,646,079 |
| Unspent deferred capital contributions | **4,511,798** | 1,893,795 |
| Due to University of Guelph-Humber | **16,166,785** | 14,394,530 |
| Due to Humber Students' Federation | **6,252,583** | 3,622,153 |
| Unrestricted cash and investments | **238,692,387** | 189,379,341 |
| **Total cash and investments** | **$ 288,258,298** | $ 231,621,135 |

### 8. GRANTS RECEIVABLE

| | **2013** | 2012 |
|---|---|---|
| Other grants receivable | **$ 2,749,788** | $ 1,405,199 |
| Current portion of long-term grant receivable | **2,290,000** | 2,290,000 |
| **Total current grants receivable** | **$ 5,039,788** | $ 3,695,199 |

Other grants receivable represent amounts receivable from the Ministry to fund programs delivered by the College.

### 9. ACCOUNTS RECEIVABLE

| | **2013** | 2012 |
|---|---|---|
| Investment interest receivable | **$ 2,874,159** | $ 2,310,093 |
| Commodity taxes receivable | **1,742,795** | 1,526,091 |
| Other accounts receivable | **1,894,155** | 1,717,628 |
| Current portion of long-term accounts receivable | **263,405** | 2,200,000 |
| **Total current accounts receivable** | **$ 6,774,514** | $ 7,753,812 |

Other accounts receivable represent sundry receivables such as revenues earned by schools for corporate training or teaching sessions and commissions earned on ancillary businesses.

### 10. INVESTMENT IN UNIVERSITY OF GUELPH-HUMBER

In 1999, the College entered into a Memorandum of Understanding with the University of Guelph, known as the University of Guelph-Humber Joint Venture. The purpose of the Joint Venture is to provide students with a four-year collaborative learning opportunity which results in the conferment of both a university degree and a college diploma.

The following is the College’s combined 50% share of the components of the financial statements of the Joint Venture:

## 10. INVESTMENT IN UNIVERSITY OF GUELPH-HUMBER (continued)

| | | **2013** | | 2012 |
|---|---|---|---|---|
| Total assets | **$** | **13,661,076** | $ | 12,317,088 |
| Total liabilities | | **3,629,764** | | 3,029,655 |
| Net assets | | **10,031,312** | | 9,287,433 |
| | | | | |
| Revenue | **$** | **25,283,849** | $ | 23,306,293 |
| Expenses | | **16,358,114** | | 15,115,460 |
| Excess of revenue over expenses for the year | **$** | **8,925,735** | $ | 8,190,833 |
| | | | | |
| Cash provided by operating activities | **$** | **8,255,108** | $ | 8,653,475 |
| Cash used in investing activities | | **(73,252)** | | (155,375) |
| Cash used in financing activities | | **(8,181,856)** | | (8,498,100) |
| Net cash flows | **$** | **-** | $ | - |

Excess of revenue over expenses for the year has been included in other revenue.

During the year, the College earned $10,995,818 (2012 - $9,747,574) of fees from the Joint Venture for services provided which has been included in other revenue.

The amount due to the Joint Venture is unsecured, non-interest bearing and due on demand.

During the year, the Joint Venture distributed $8,181,857 (2012 - $8,498,100) to the College which was applied against the investment.

The Joint Venture is a not-for-profit organization, and as such follows the recommendations of CICA Handbook Part III – Accounting Standards for Not-for-Profit Organizations. As such, there are differences between the accounting policies of the College under PSAB and the Joint Venture under Part III of the CICA Handbook. Under the modified equity approach, the College makes no adjustment to the amounts disclosed or recognized in its financial statements for these differences. For the year ended March 31, 2013, there were no accounting policy differences that would have resulted in an adjustment to amounts or disclosures in these financial statements.

## 11. LONG-TERM ACCOUNTS RECEIVABLE

The College, in concert with the Humber Students' Federation, agreed to direct the building levy assessed upon students to fund a number of improvements to facilities at both campuses including partial support for Building K at the Lakeshore Campus and the Student Centre renovation at the North Campus. The levy generates approximately $2,200,000 per annum.

| | | **2013** | | 2012 |
|---|---|---|---|---|
| Long-term accounts receivable | **$** | **263,405** | $ | 2,748,874 |
| Less: Current portion included in accounts receivable | | **263,405** | | 2,200,000 |
| **Total long-term accounts receivable** | **$** | **-** | $ | 548,874 |

### 12. LONG-TERM GRANTS RECEIVABLE

The Ministry of Training, Colleges and Universities (the "MTCU") is providing funding of $22,900,000 to finance a building, which was completed in 2007. The non-interest bearing funding is being provided in equal instalments of $2,290,000 over a ten-year period commencing with the fiscal year ending March 31, 2007.

| | 2013 | 2012 |
|---|---|---|
| Long-term grants receivable | **$ 6,870,000** | $ 9,160,000 |
| Less: Current portion included in grants receivable | **2,290,000** | 2,290,000 |
| **Total long-term grants receivable** | **$ 4,580,000** | $ 6,870,000 |

### 13. CAPITAL ASSETS

| | 2013 | | |
|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** |
| Land | **$ 8,966,449** | **$ -** | **$ 8,966,449** |
| Buildings | **291,461,321** | **95,407,809** | **196,053,512** |
| Site improvements | **20,510,889** | **14,454,253** | **6,056,636** |
| Leasehold improvements | **83,726,061** | **34,546,050** | **49,180,011** |
| Furniture and equipment | **82,179,485** | **69,279,142** | **12,900,343** |
| Automotive equipment | **2,527,470** | **2,053,854** | **473,616** |
| Software | **9,631,382** | **2,170,910** | **7,460,472** |
| Artwork | **105,920** | **-** | **105,920** |
| | **$ 499,108,977** | **$ 217,912,018** | **$ 281,196,959** |

| | 2012 | | |
|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** |
| Land | $ 8,966,449 | $ - | $ 8,966,449 |
| Buildings | 287,446,895 | 88,570,490 | 198,876,405 |
| Site improvements | 14,422,998 | 13,969,276 | 453,722 |
| Leasehold improvements | 83,726,063 | 17,998,447 | 65,727,616 |
| Furniture and equipment | 77,822,682 | 62,147,045 | 15,675,637 |
| Automotive equipment | 2,355,029 | 1,894,691 | 460,338 |
| Software | 7,372,134 | 934,447 | 6,437,687 |
| | $ 482,112,250 | $ 185,514,396 | $ 296,597,854 |

### 14. DUE TO HUMBER STUDENTS' FEDERATION

The amount due to Humber Students' Federation is unsecured, bears interest at the bank's prime rate less 2.25% with an effective rate at March 31, 2013 of 0.75% (2012 - 0.75%) and is due on demand.

## 15. BANK LOAN

The College has unsecured loan facilities with the Bank of Montreal to a maximum amount of $62,000,000 to finance the construction of two student residences. The College has utilized $35,327,941 (2012 - $36,661,676) under this facility as described below. The balance of the facility is available in either prime rate loans bearing interest at the bank's prime rate of 3.000% (2012 – 3.000%) less ¾% per annum, Bankers' Acceptances or public sector fixed rate operating loans bearing interest at the bank's 30-day cost of funds rate of 1.220% (2012 – 1.450%) plus 0.225% per annum.

The original loan of $45,000,000 obtained on April 1, 2004 is scheduled to be repaid over twenty-five years, bears interest at prime minus ¾% per annum and is repayable monthly on the first of each month in blended payments of $275,802 and is scheduled to be repaid on April 1, 2029.

The loan is due on demand and has therefore been classified as current. The College has fixed its interest rate at 5.705% through an interest rate swap for the term of the loan. The interest rate includes a credit spread of 0.25%. The interest rate swap is a derivative financial instrument. It has effectively locked in a fixed rate through 2029.

The fair value of the interest rate swap (in favour of the counterparty) of $9,306,837 (2012 - $9,245,403) is recorded in the consolidated statement of financial position with the fluctuations in fair value being recorded in the consolidated statement of remeasurement gains and losses.

The scheduled principal amounts payable withing the next five years and thereafter are as follows:

| | |
|---|---|
| 2014 | $ 1,408,687 |
| 2015 | 1,487,852 |
| 2016 | 1,571,465 |
| 2017 | 1,659,778 |
| 2018 | 1,753,053 |
| Thereafter | 27,447,106 |
| Total | $ 35,327,941 |

Interest on the demand loan amounted to $2,050,295 (2012 - $2,125,403) and is included in ancillary operations expense.

## 16. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES

The following tables outline the components of the College's post-employment benefits and compensated absences liabilities and the related expenses.

| | **2013** | | | |
|---|---|---|---|---|
| | **Post-employment Benefits** | **Non-vesting sick leave** | **Vesting sick leave** | **Total liability** |
| Accrued employee future benefits obligations | **$ 2,374,000** | **$ 7,311,000** | **$ 1,517,000** | **$ 11,202,000** |
| Value of plan assets | **(310,000)** | **-** | **-** | **(310,000)** |
| Unamortized actuarial (gains)/losses | **(54,000)** | **(92,000)** | **11,000** | **(135,000)** |
| Total liability | **$ 2,010,000** | **$ 7,219,000** | **$ 1,528,000** | **$ 10,757,000** |

| | 2012 | | | |
|---|---|---|---|---|
| | Post-employment Benefits | Non-vesting sick leave | Vesting sick leave | Total liability |
| Accrued employee future benefits obligations | $ 2,258,000 | $ 7,899,000 | $ 1,992,000 | $ 12,149,000 |
| Value of plan assets | (336,000) | - | - | (336,000) |
| Unamortized actuarial losses | (36,000) | (390,000) | (36,000) | (462,000) |
| Total liability | $ 1,886,000 | $ 7,509,000 | $ 1,956,000 | $ 11,351,000 |

| | **2013** | | | |
|---|---|---|---|---|
| | **Post-employment Benefits** | **Non-vesting sick leave** | **Vesting sick leave** | **Total expense** |
| Current year benefit cost | **$ 195,000** | **$ 408,000** | **$ 81,000** | **$ 684,000** |
| Interest on accrued benefit obligation | **12,000** | **177,000** | **40,000** | **229,000** |
| Amortized actuarial losses | **4,000** | **38,000** | **15,000** | **57,000** |
| Total expense | **$ 211,000** | **$ 623,000** | **$ 136,000** | **$ 970,000** |

## 16. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (continued)

| | 2012 | | | |
|---|---|---|---|---|
| | Post-employment Benefits | Non-vesting sick leave | Vesting sick leave | Total expense |
| Current year benefit cost | $ 167,000 | $ 369,000 | $ 77,000 | $ 613,000 |
| Interest on accrued benefit obligation | 17,000 | 237,000 | 71,000 | 325,000 |
| Amortized actuarial losses | - | - | - | - |
| Total expense | $ 184,000 | $ 606,000 | $ 148,000 | $ 938,000 |

Post-employment benefits and compensated absences expense has been included in salaries and benefits expense.

Above amounts exclude pension contributions to the Colleges of Applied Arts and Technology pension plan, a multi-employer plan, described below.

*Retirement Benefits*

CAAT Pension Plan

Substantially all employees of the College are members of the Colleges of Applied Arts and Technology Pension Plan (the "Plan"), which is a multi-employer jointly-sponsored defined benefit plan for eligible employees 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. The plan is a multi-employer plan and therefore the College's contributions are accounted for as if the plan were a defined contribution 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, 2013 indicated an actuarial surplus of $347 million. The College made contributions to the Plan and its associated retirement compensation arrangement of $13,205,807 (2012 - $12,513,310), which has been included salaries and benefits in the consolidated statement of operations.

*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 College also provide continuation of medical and dental benefits to certain employee groups while receiving long-term disability benefits. The related benefit liabilities were determined by an actuarial valuation study commissioned by the College Employer Council.

## 16. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (continued)

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

*a)* *Discount rate*

The present value as at March 31, 2013 of the future benefits was determined using a discount rate of 2.10% (2012 – 2.25%).

*b)* *Drug Costs*

Drug costs were assumed to increase at a 10.50% rate for 2011 and decrease proportionately thereafter to an ultimate rate of 4.00% in 2026.

*c)* *Hospital and other medical*

Hospital and other medical costs were assumed to increase at 4.00% per annum (2012 – 4.50%).

Medical premium increases were assumed to increase at 8.00% per annum in 2011 and decrease proportionately thereafter to an ultimate rate of 4.00% in 2026 for the fiscal 2013.

*d)* *Dental costs*

Dental costs were assumed to increase at 4.00% per annum in 2013 (2012 – 4.50%).

*Compensated Absences*

<u>Vesting Sick Leave</u>

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 6 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.

<u>Non-Vesting Sick Leave</u>

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. Certain employee groups 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.

## 16. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (continued)

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

a) *Discount rate*

The present value as at March 31, 2013 of the future benefits was determined using a discount rate of 2.10% (2012 – 2.25%).

b) *Wage and salary escalation rates*

Academic full-time and academic partial load salaries were assumed to increase at a rate of 2.00% per annum in 2011 and 2012, 0.00% per annum in 2013 and 2014, and 1.75% per annum thereafter.

Support staff full-time salaries were assumed to increase at a rate of 1.50% per annum in 2011, 1.75% per annum in 2012, 2.00% per annum in 2013, 0.00% per annum in 2014 and 2015 and 1.75% per annum thereafter.

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 38.70% and 0 to 51.7 days respectively for age groups ranging from 20 and under to 65 and over in bands of 5 years.

## 17. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants and donations for awards, scholarships and bursaries, arboretum projects and other restricted puposes. The changes in the deferred contributions balance are as follows:

| | **2013** | 2012 |
|---|---|---|
| Balance, beginning of year | **$ 7,838,441** | $ 6,794,753 |
| Amounts received during the year | **33,333,025** | 31,828,744 |
| Amounts recognized as revenue during the year | **(33,074,854)** | (30,785,056) |
| **Balance, end of year** | **$ 8,096,612** | $ 7,838,441 |

Deferred contributions are comprised of:

| | **2013** | 2012 |
|---|---|---|
| Externally restricted trust funds | **$ 2,466,945** | $ 2,401,894 |
| Joint employment stability reserves | **815,566** | 790,468 |
| Other restricted grants and contributions | **4,814,101** | 4,646,079 |
| **Balance, end of year** | **$ 8,096,612** | $ 7,838,441 |

## 18. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount and unspent amount of restricted donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the consolidated statement of operations. The changes in the deferred capital contributions balance are as follows:

| | 2013 | 2012 |
|---|---|---|
| Balance, beginning of year | $ 144,891,136 | $ 150,270,735 |
| Add: contibutions received for capital purposes | 3,143,280 | 1,092,109 |
| Less: amortization of deferred capital contributions | (14,684,816) | (6,471,708) |
| **Balance, end of year** | $ 133,349,600 | $ 144,891,136 |

## 19. INVESTED IN CAPITAL ASSETS

Invested in capital assets consists of the following:

| | 2013 | 2012 |
|---|---|---|
| Net book value of capital assets | $ 281,196,959 | $ 296,597,854 |
| Less amounts financed by: | | |
| Bank loan (note 15) | 35,327,941 | 36,661,676 |
| Deferred capital contributions (note 18) | 128,837,806 | 142,997,341 |
| **Balance, end of year** | $ 117,031,212 | $ 116,938,837 |

The change in invested in capital assets is as follows:

| | 2013 | 2012 |
|---|---|---|
| Amortization of deferred capital contributions | $ 14,684,816 | $ 6,471,708 |
| Amortization of capital assets | (32,427,195) | (17,468,842) |
| Purchase of capital assets | 17,056,752 | 21,886,853 |
| Disposal of capital assets | (30,450) | - |
| Amounts funded by deferred capital contributions | (525,282) | (6,572,839) |
| Repayment of long-term debt | 1,333,734 | 1,262,770 |
| **Total change in invested in capital assets** | $ 92,375 | $ 5,579,650 |

## 20. INTERNALLY RESTRICTED NET ASSETS

The College, by resolution of the Board of Governors, internally restricts amounts from unrestricted net assets to cover anticipated future strategic infrastructure projects, operating expenses including obligations and commitments existing at year end which are as follows:

| | 2013 | 2012 |
|---|---|---|
| Strategic Infrastructure | $ 146,750,000 | $ 110,750,000 |
| Operating | 5,400,000 | 7,350,000 |
| Contingency | 17,850,000 | 14,400,000 |
| **Total internally restricted net assets** | $ 170,000,000 | $ 132,500,000 |

## 21. EXTERNALLY RESTRICTED NET ASSETS

Externally restricted net assets include 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 various purposes established by the donors. 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 were provided.

Investment income on endowments that was disbursed during the year has been recorded in the consolidated statement of operations since this income is available for disbursement as the donors' conditions have been met. The unspent portion of investment income is recorded in deferred contributions.

Externally restricted endowment funds include grants provided by MTCU from the Ontario Student Opportunity Trust Fund 1 ("OSOTF 1") matching program, the Ontario Student Opportunity Trust Fund 2 ("OSOTF 2") matching program, and the Ontario Trust for Student Support Fund ("OTSS") matching program. Under these programs the government matches funds raised by the College. The purpose of these programs is to academically assist students who, for financial reasons, would not otherwise be able to attend College.

Changes in expendable funds available for awards under the OSOTF 1, OSOTF 2 and OTSS matching programs are as follows:

| | OSOTF 1 | OSOTF 2 | OTSS | **2013 TOTAL** | 2012 TOTAL |
|---|---|---|---|---|---|
| Balance, beginning of year | $ 51,079 | $ 15,560 | $ 306,827 | **$ 373,466** | $ 271,360 |
| Investment income, net of direct expenses | 41,343 | 17,005 | 258,550 | **316,898** | 249,386 |
| Bursaries awarded | (36,400) | (13,788) | (214,512) | **(264,700)** | (147,280) |
| **Balance, end of year** | $ 56,022 | $ 18,777 | $ 350,865 | **$ 425,664** | $ 373,466 |
| Bursaries awarded (#) | 59 | 34 | 145 | **238** | 169 |

The bursaries awarded under OTSS comprise 65 to OSAP recipients totaling $100,066 and 80 to non-OSAP recipients totaling $114,446.

## 22. COMMITMENTS

The College has entered into a ninety-nine (99) year lease agreement with Her Majesty the Queen in Right of Ontario for the property now known as the Robert A. Gordon Learning Centre. The base rent is one dollar ($1) per year for the term of the lease which expires January 31, 2094.

The College has provided unconditional loan guarantees to certain third parties amounting to $26,573 (2012 - $232,725) primarily related to possible defaults in financial agreements for certain construction projects.

## 22. COMMITMENTS (continued)

The College has also entered into various other agreements to lease premises and equipment. The anticipated annual payments for the remaining fiscal years under current lease arrangements are as follows:

| | | |
|---|---|---|
| 2014 | $ | 915,923 |
| 2015 | | 463,074 |
| 2016 | | 173,054 |
| Total commitments | $ | 1,552,051 |

## 23. CONSOLIDATED STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

| | | **2013** | | 2012 |
|---|---|---|---|---|
| Grants receivable | **$** | **(1,344,589)** | $ | (178,876) |
| Accounts receivable | | **979,298** | | 633,514 |
| Prepaid expenses | | **(562,078)** | | 221,071 |
| Long-term accounts receivable | | **548,874** | | 2,347,836 |
| Long-term grants receivable | | **2,290,000** | | 2,290,000 |
| Accounts payable and accrues liabilities | | **3,671,710** | | (4,179,201) |
| Accrued payroll and employee benefits | | **282,558** | | 2,009,748 |
| Accrued vacation pay | | **527,422** | | 1,377,727 |
| Deferred revenue | | **1,832,457** | | 2,172,106 |
| Due to University of Guelph-Humber | | **1,772,255** | | (2,396,266) |
| Due to Humber Students' Federation | | **2,630,430** | | (452,154) |
| **Net change, non-cash working capital** | **$** | **12,628,337** | $ | 3,845,505 |

## 24. FINANCIAL INSTRUMENT RISK MANAGEMENT

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, debt holdings in its investment portfolio, accounts receivable, grants receivable, long-term accounts receivable and long-term grants receivable. The College holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, the College’s cash accounts are insured up $100,000 (2012 - $100,000).

The College’s investment guideline puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. All fixed income portfolios are measured for performance on a semi-annually basis and monitored by management on a monthly basis.

## 24. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

The College's investment guideline operates within the constraints of the investment directive issued by the Ministry of Training, Colleges and Universities and permits the College's funds to be invested in bonds issued by the Government of Canada, a Canadian province or a Canadian municipality. The directive also permits the College's funds to be invested in certain corporate investments having a minimum rating of A-1+ or AAA by Standard and Poor's rating agency.

The maximum exposure to investment credit risk is outlined in Note 6.

Accounts receivable and long-term 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.

Grants receivable and long-term grants receivable are ultimately due from the Ministry of Training, Colleges and Universities, as well as other government entities. Credit risk is mitigated by the governmental nature of the funding source.

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 at year end were as follows:

| | | | *Past Due* | | | |
|---|---|---|---|---|---|---|
| | **Total** | **Current** | **0 - 30 days** | **31 - 60 days** | **61 - 90 days** | **91 - 120 days** |
| **Government receivables** | $ 5,039,788 | $ 5,039,788 | $ - | $ - | $ - | $ - |
| **Interest receivable** | 2,874,159 | 2,874,159 | - | - | - | - |
| **Commodity taxes receivable** | 1,742,795 | 980,685 | 762,110 | - | - | - |
| **Other accounts receivable** | 2,270,204 | 1,956,733 | 216,523 | 87,945 | - | 9,003 |
| **Gross receivables** | 11,926,946 | 10,851,365 | 978,633 | 87,945 | - | 9,003 |
| **Less: impairment allowances** | (112,644) | (34,785) | (43,360) | (27,296) | - | (7,203) |
| **Net receivables** | $ 11,814,302 | $ 10,816,580 | $ 935,273 | $ 60,649 | $ - | $ 1,800 |

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.

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 guideline operates within the constraints of the investment directive 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 guideline puts certain sector limits and individual issuer limits on the asset mix of investments.

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.

## 24. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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 College levels when adverse changes in foreign currency College 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 the risk.

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.

The College is exposed to this risk through its interest bearing investments and bank loan.

The College mitigates interest rate risk on its term debt through a derivative financial instrument that exchanges the variable rate inherent in the term debt for a fixed rate (see Note 15). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the term debt.

At March 31, 2013, a 1% fluctuation in interest rates, with all other variables held constant, would have an estimated impact on the market value of the interest rate swap of $3,248,900.

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.

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 its externally restricted funds being held in pooled fund investments with its investment management firm. At March 31, 2013 a 10% movement in equity prices with all other variables held constant would have an estimated effect of the fair value of the College's equities of $798,400.

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.

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.

## 24. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

The following table sets out the expected maturities, representing undiscounted cash-flows of financial liabilities:

| | 2013 | | |
|---|---|---|---|
| | **Within 1 year** | **1 to 5 years** | **over 5 years** |
| Accounts payable and accrued liabilities | $ 16,849,736 | $ - | $ - |
| Accrued payroll and employee benefits | 10,241,452 | - | - |
| Accrued vacation pay | 6,681,820 | 6,681,820 | - |
| Bank loan | 1,408,687 | 6,472,148 | 27,447,106 |
| Due to University of Guelph-Humber | 16,166,785 | - | - |
| Due to Humber Students' Federation | 6,252,583 | - | - |
| | **$ 40,751,327** | **$ 13,153,968** | **$ 27,447,106** |

Derivative financial liabilities mature as described in Note 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.

## 25. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2013 consolidated financial statements.