LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
CONSOLIDATED FINANCIAL STATEMENTS
AS AT MARCH 31, 2012

Approved on behalf of the Board of Governors

_______________________________ Chair

_______________________________ President

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LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPORTING SCHEDULES
AS AT MARCH 31, 2012

LOYALIST COLLEGE

Management's Responsibility for Financial Reporting

The consolidated financial statements of Loyalist College of Applied Arts and Technology are the responsibility of management and are approved by the Board of Governors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. 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 judgments. 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.

Loyalist College of Applied Arts and Technology maintains high quality systems of internal accounting and administrative controls 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.

Loyalist College of Applied Arts and Technology's insurance liabilities have been reviewed by management in consultation with its broker. There are no undisclosed material liabilities in either fact or contingency to the date of this report.

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

The Audit Committee is appointed by the Board of Governors. The Committee meets periodically with management and 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' reports. 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 reappointment of the external auditors.

The consolidated financial statements have been audited by Wilkinson & Company LLP, the external auditors, in accordance with Canadian generally accepted auditing standards, on behalf of the Board. Wilkinson & Company LLP has full and free access to all records of the College and to the Audit Committee.

June 14, 2012	Maureen Piercy	Allan C. Ross
Date	Maureen Piercy President	Allan C. Ross Vice-President Corporate Services & Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Governors
Loyalist College of Applied Arts & Technology

Report on the Financial Statements

We have audited the consolidated financial statements of Loyalist College of Applied Arts & Technology for the year ended March 31, 2012, and a summary of significant accounting policies and other explanatory information, comprising the following:

1. Consolidated Statement of Financial Position
2. Consolidated Statement of Operations
3. Consolidated Statement of Net Assets
4. Consolidated Statement of Cash Flows

Management's Responsibility for the 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.

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, these consolidated financial statements present fairly, in all material respects, the financial position of Loyalist College of Applied Arts & Technology as at March 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wilkinson & Company LLP

BELLEVILLE, Canada
June 14, 2012

Chartered Accountants
Licensed Public Accountants

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STATEMENT 1

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2012

	2012 $	2011 $
ASSETS		
CURRENT		
Cash	**13,897,942**	15,578,893
Accounts receivable	**2,685,450**	3,570,437
Grants receivable	**2,261,079**	1,968,343
Inventory	**47,063**	52,473
Prepaid expenses	**290,027**	307,092
Current portion of pledges receivables	**9,710**	
	19,191,271	21,477,238
CAPITAL ASSETS - Note 5	**42,840,644**	43,252,962
OTHER		
Investments - Note 6	**7,090,652**	6,172,763
Pledges receivable - Note 7	**25,415**	
	7,116,067	6,172,763
	69,147,982	70,902,963
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**7,809,405**	7,369,031
Accrued vacation entitlement	**3,367,851**	3,234,634
Grants refundable	**298,361**	473,001
Deferred revenue - Note 9(a)	**1,826,705**	1,943,992
Current portion of long-term debt	**970,109**	1,128,450
	14,272,431	14,149,108
LONG-TERM		
Term loans payable - Note 8	**9,132,677**	10,108,540
Accrued future employee benefits	**1,094,553**	815,227
Accrued vested sick leave	**547,147**	607,804
Accrued workers' compensation	**150,000**	150,000
Deferred capital contributions - Note 9(b)	**28,599,275**	29,756,418
	39,523,652	41,437,989
NET ASSETS - Statement 3		
Investment in capital assets	**4,138,583**	2,267,954
Endowment and restricted	**16,431,323**	13,492,939
Unrestricted deficiency	**(5,218,007)**	(445,027)
	15,351,899	15,315,866
CONTINGENCIES AND COMMITMENTS - Note 13		
	69,147,982	70,902,963

The accompanying notes form an integral part of these consolidated financial statements

STATEMENT 2

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2012

	2012 $	2011 $
REVENUE		
MTCU and other government grants	**35,972,034**	37,701,743
Tuition fees	**13,743,217**	13,481,747
Non-tuition incidental fees	**3,050,929**	2,937,298
Ancillary	**3,248,818**	3,388,844
Contributions	**283,319**	326,294
Contracted services and other	**6,314,718**	6,877,785
Amortization of deferred revenue related to capital assets	**1,485,635**	1,399,922
Interest, dividends and realized gains on investments, net - Note 6(e)	**266,350**	263,906
Unrealized gain on held-for-trading investments	**7,853**	133,614
	64,372,873	66,511,153
EXPENDITURE		
Salaries and wages	**35,392,638**	34,141,105
Employee and other benefits	**7,846,658**	7,008,292
Supplies and other expenses	**6,993,318**	7,217,875
Maintenance and utilities	**3,108,489**	2,759,852
Ancillary	**1,868,248**	1,962,509
Contracted services and fees	**2,417,654**	2,334,886
Training incentives and payments to trainees	**1,204,207**	1,339,887
Interest on long-term debt	**515,018**	577,519
Property taxes	**350,416**	233,625
Amortization of capital assets	**2,977,279**	2,855,963
Scholarships and bursaries	**523,958**	553,884
Other	**1,643,434**	1,402,830
	64,841,317	62,388,227
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FOR YEAR	**(468,444)**	4,122,926

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
CONSOLIDATED STATEMENT OF NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2012

	Investment in Capital Assets $ (Note 10)	Endowment $ (Note 11)	Internally Restricted $ (Note 11)	Unrestricted $ (Note 12)	2012 Total $	2011 Total $
BALANCE - BEGINNING OF YEAR	**2,267,954**	**7,225,778**	**6,267,161**	**(445,027)**	**15,315,866**	10,283,577
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	**(1,491,644)**	**206,664**	**2,227,243**	**(1,410,707)**	**(468,444)**	4,122,926
ENDOWMENT CONTRIBUTIONS, NET		**504,477**			**504,477**	909,363
NET CHANGE IN INVESTMENT IN CAPITAL ASSETS	**3,362,273**			**(3,362,273)**		
BALANCE - END OF YEAR	**4,138,583**	**7,936,919**	**8,494,404**	**(5,218,007)**	**15,351,899**	15,315,866

The accompanying notes form an integral part of these consolidated financial statements

STATEMENT 4

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2012

	2012 $	2011 $
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenditures for year	**(468,444)**	4,122,926
Amortization of deferred capital revenue	**(1,485,635)**	(1,399,922)
Amortization of capital assets	**2,977,279**	2,855,963
	1,023,200	5,578,967
Net change in non-cash working capital balances related to operations - Note 14	**896,390**	(1,298,133)
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES	**1,919,590**	4,280,834
INVESTING ACTIVITIES		
Net increase in investments	**(917,889)**	(1,826,192)
Contributions received related to capital assets	**328,492**	13,764,555
Purchase of capital assets	**(2,564,961)**	(16,541,364)
Increase in net pledges receivable	**(35,125)**	
CASH FLOWS USED IN INVESTING ACTIVITIES	**(3,189,483)**	(4,603,001)
FINANCING ACTIVITIES		
Endowment contributions	**504,477**	909,363
Repayment of long-term debt	**(1,134,204)**	(1,084,438)
Increase (decrease) in accrued future employee benefits	**279,326**	(74,983)
Increase (decrease) in accrued vested sick leave	**(60,657)**	2,577
Decrease in workers' compensation		(86,424)
CASH FLOWS USED IN FINANCING ACTIVITIES	**(411,058)**	(333,905)
DECREASE IN CASH AND CASH EQUIVALENTS FOR YEAR	**(1,680,951)**	(656,072)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**15,578,893**	16,234,965
CASH AND CASH EQUIVALENTS - END OF YEAR	**13,897,942**	15,578,893
REPRESENTED BY:		
Cash	**13,897,942**	15,578,893
SUPPLEMENTAL INFORMATION:		
Interest paid	**519,897**	570,357

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

1. PURPOSE OF THE ORGANIZATION

Loyalist College of Applied Arts & Technology operates as a community college, under its current mission to create learning opportunities leading to success in both employment and lifelong learning. The College was incorporated under the Department of Education Act in 1968 as a not-for-profit organization and is a registered charity under The Income Tax Act. Ontario Colleges are governed by the Ontario Colleges of Applied Arts and Technology Act, 2002 and regulations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These consolidated financial statements of the College have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. The significant accounting policies adopted by the College are as follows:

(a) Basis of Presentation

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

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenditures during the year. The most significant management estimates relate to the valuation of accounts receivable, useful estimated life of capital assets and employee future benefits. Actual results could differ from these estimates.

(c) Financial Instruments

Purchases and sales of financial assets are accounted for at settlement date including related transition costs.

Cash and cash equivalents are classified as held-for-trading. Receivables are classified as loans and receivables, which are measured at amortized cost. Investments are classified in accordance to Note 2(d) below. Accounts payable and accrued liabilities, grants refundable and long-term debt are classified as other financial liabilities which are measured at amortized cost.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(d) Investments

Investments are classified as held-for-trading and are initially recorded at their acquisition cost, including related transaction costs, on the trade date. Investments are subsequently adjusted to fair value as at the date of the statement of financial position and the corresponding unrealized gains and losses are recorded in the consolidated statement of operations for the year.

(e) Revenue Recognition

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

Pledged contributions for the College are recognized when the related pledge documentation is received, less an allowance for estimated uncollectable amounts, giving consideration as to the source of pledges and any changed financial position.

Tuition fees are recognized as revenue at the time the course or program begins.

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

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

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

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

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized.

Unrestricted investment income is recognized as revenue when earned.

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

(f) Deferred Revenue Relating to Capital Assets

Grants, donations and other revenues received relating to the purchase of capital assets are deferred and amortized over future periods. The amortization period is based on the period used to amortize the corresponding capital assets.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(g) Capital Assets - Property, Plant and Equipment

Purchased capital assets are recorded at cost, which includes interest incurred before the commencement of commercial operations. Contributed capital assets are recorded at fair value at the date of contribution when fair value is reasonably determinable. Otherwise, contributed assets are recorded at a nominal amount. Repairs and maintenance costs are charged to expenses. Betterments, which extend the estimated life of an asset, are capitalized. When a capital asset no longer contributes to the College’s ability to provide services, its carrying amount is written down to its residual value.

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

Asset	**Rate**
Site improvements	10 years
Buildings	40 years
Building improvements	20 years
Furniture and equipment	3 to 5 years
Vehicles	5 years
Equipment under capital lease	Term of lease
Leasehold improvements	10 years

(h) Vacation Pay, Employee Future Benefits, Vested Sick Leave Benefits and Workers' Compensation

The College has provided for vacation pay, employee future benefits, vested sick leave benefits and workers' compensation on the accrual basis.

(i) Cash and Equivalents

Cash and equivalents consist of cash on deposit and bank term deposits in money market instruments with maturity dates of less than three months from the date they are acquired.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

3. CHANGES IN ACCOUNTING POLICY

Future Accounting Changes

Effective for years beginning on or after January 1, 2012, Ontario Colleges will be required to transition to the Public Sector Accounting ("PSA") handbook. This will impact the College's March 31, 2013 fiscal year end. The Public Sector Accounting Board ("PSAB") will incorporate the current Handbook's 4400 series of not-for-profit accounting standards into the PSA handbook, which will be known as the 4200 series. The result of the new Series 4200 using the existing 4400 series is that there should be minimal impact on the College. Those standards which do not fall within the existing 4200 series will be subject to the equivalent PSA standards.

4. EMPLOYEE NOTES RECEIVABLE

In order to complement the College professional development policy, the College provides demand interest-free loans and loans at nominal interest rates to certain full-time staff for the purchase of specified computer equipment and credential studies. These loans in the amount of $41,137 ($64,262 in 2011) have been included in accounts receivable.

5. CAPITAL ASSETS - Property, Plant and Equipment

	2012		2011	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
	$	**$**	$	$
Land	**411,550**		551,550	
Collections	**242,870**		242,870	
Site improvements	**2,428,607**	**1,947,724**	2,216,209	1,847,658
Buildings and building improvements	**62,137,510**	**24,449,264**	61,533,945	23,059,249
Furniture and equipment	**19,682,719**	**15,665,624**	17,793,721	14,178,426
Vehicles	**41,938**	**41,938**	41,938	41,938
Leasehold improvements	**142,235**	**142,235**	142,235	142,235
	85,087,429	**42,246,785**	82,522,468	39,269,506
Cost less accumulated amortization	**$ 42,840,644**		$ 43,252,962	

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

6. INVESTMENTS

(a) As noted in Note 2(d) to these consolidated financial statements, investments are classified as held-for-trading and are adjusted to market value as at the statement of financial position date. The market value of investments as at March 31, 2012 are as follows:

	2012 Market Value $	2011 Market Value $
Cash	**79,667**	104,273
Fixed-income securities		
Federal	**1,068,192**	776,212
Provincial and provincial guaranteed	**1,059,803**	850,144
Corporate - Rated A or better	**1,193,694**	1,019,324
	3,321,689	2,645,680
Pooled funds		
Money market fund	**264,031**	226,030
Fixed income fund	**1,320,030**	1,526,921
Canadian equity fund	**868,078**	835,621
Global equity fund	**1,237,157**	834,238
	3,689,296	3,422,810
	7,090,652	6,172,763

(b) The investments have varying maturity dates, but may be liquidated in the short-term, based on the College's needs. The effective interest rates range from 3.00% to 6.02% for these investments.

(c) The expected maturity dates for fixed-income securities are as follows:

	2012 $	2011 $
Maturing within one year	**372,772**	
Maturing between one and five years	**1,295,807**	910,929
Maturing over five years	**1,653,110**	1,734,751
	3,321,689	2,645,680

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

6. INVESTMENTS (Cont'd)

(d) The expected maturity dates for fixed-income pooled funds are as follows:

	2012	2011
	$	$
Maturing within one year	**298,327**	127,040
Maturing between one and five years	**432,970**	589,239
Maturing over five years	**588,733**	810,642
	1,320,030	1,526,921

(e) Net investment income is comprised of the following:

	2012	2011
	$	$
Interest income	**186,228**	198,465
Dividend income	**115,564**	87,295
Realized gains on disposition of investments	**43,929**	29,522
	345,721	315,282
Less:		
Amortization of premium on fixed-income securities	**(36,580)**	(22,025)
Interest and investment management fees	**(42,791)**	(29,351)
	266,350	263,906

7. FUNDRAISING

As part of the College fundraising campaign activities, the College received pledges for payment in the future. The pledges receivable over the next five years are as follows:

	$
2013	**9,710**
2014	**9,435**
2015	**6,260**
2016	**3,760**
2017	**2,760**
Thereafter	**3,200**
Net pledges receivable	**35,125**
Less current portion	**9,710**
Long-term portion	**25,415**

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

8. TERM LOANS PAYABLE

Term loans payable consisting of the following unsecured amounts:

	2012 **$**	2011 $
Original residence loan bearing interest at 5.25% and repayable by semi-annual blended payments of principal and interest at $253,453 payable on August 31 and February 28 until maturity on August 31, 2014.	**3,442,058**	3,755,865
Client information system loan, bearing interest at 2.962% and repayable by monthly blended payments of principal and interest of $102,492 until maturity on April 6, 2015.	**676,760**	857,669
Residence expansion – two residences plus commons building Part 1 – loan bearing interest at 4.83% and repayable by semi-annual blended payments of principal and interest of $206,851 payable on August 28 and February 28 until maturity on August 28, 2027.	**4,477,654**	4,668,157
Residence expansion – two residences plus commons building Part 2 – loan bearing interest at 5.34% and repayable by semi-annual blended payments of principal and interest of $46,807 payable on August 31 and February 28 until maturity on February 16, 2016.	**995,160**	1,038,904
Residence expansion – furniture and equipment loan bearing interest at 5.59% and repayable by semi-annual blended payments of principal and interest of $44,481 payable on August 31 and February 28 until maturity on January 16, 2013.	**86,198**	166,945
Parking lot construction – cost of paving parking lot loan bearing interest at 4.27%, repayable in fixed monthly payments of $1,305, blended to include principal and interest until maturity on February 24, 2019.	**93,666**	105,033
	9,771,496	10,592,573

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

8. TERM LOANS PAYABLE (Cont'd)

	2012 **$**	2011 $
Balance carried forward	**9,771,496**	10,592,573
Chartwell's renovations – convert College food services from a Harvey's to a Tim Horton's format loan, bearing interest at 2.85%, repayable in fixed monthly payments of $3,732, blended to include principal and interest until maturity on March 31, 2011.		8
Master plan capital projects loan, bearing interest at 5.27% and repayable by monthly blended payments of principal and interest of $4,835 until maturity on June 15, 2017.	**265,420**	308,173
Academic capital projects loan, bearing interest at 5.08% and repayable by monthly blended payments of principal and interest of $22,720 until maturity on June 15, 2012.	**65,870**	327,836
Water utilities loan, City of Belleville, non-interest bearing, repayable in fixed monthly payments of $2,800 until maturity on June 1, 2011.		8,400
	10,102,786	11,236,990
Less current portion	**970,109**	1,128,450
	9,132,677	10,108,540

The principal portion of the term loans repayable over the next five years are as follows:

	$
2013	**970,109**
2014	**858,077**
2015	**896,263**
2016	**834,750**
2017	**770,935**
Thereafter	**5,772,652**
	10,102,786

The carrying values of the above loans approximate their fair value based on the terms of the loans compared to current market rates and conditions.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

9. DEFERRED CONTRIBUTIONS

(a) Deferred Revenue

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

(b) Deferred 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.

As at March 31, 2012, deferred revenue relating to property, plant and equipment is comprised of the following:

	2012	2011
	$	$
Beginning of year	**29,756,418**	17,391,785
Add amounts related to following sources		
Federal and Province of Ontario - capital grants	**370,992**	13,647,541
Donations	**97,500**	117,014
	468,492	13,764,555
	30,224,910	31,156,340
Deduct amounts related to the following		
Amount of deferred capital contributions related to capital disposed of during the year	**(140,000)**	
Amounts recognized as revenue in year	**(1,485,635)**	(1,399,922)
End of year	**28,599,275**	29,756,418

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

10. INVESTMENT IN CAPITAL ASSETS

(a) Investment in capital assets at March 31, 2012 represents the following:

	2012	2011
	$	$
Capital assets, at cost	**85,087,429**	82,522,468
Accumulated amortization of capital assets	**(42,246,785)**	(39,269,506)
Term loans payable - current portion	**(970,109)**	(1,128,450)
Term loans payable - long-term portion	**(9,132,677)**	(10,100,140)
Deferred revenue relating to capital assets	**(28,599,275)**	(29,756,418)
	4,138,583	2,267,954

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

	2012	2011
	$	$
Amortization of deferred contributions related to capital assets	**1,485,635**	1,399,922
Less amortization of capital assets	**(2,977,279)**	(2,855,963)
	(1,491,644)	(1,456,041)

(c) Net change in investment in capital assets:

	2012	2011
	$	$
Purchase of capital assets	**2,564,961**	16,541,364
Amounts funded by:		
Deferred capital contributions	**(328,492)**	(13,764,555)
Repayment of long-term debt	**1,125,804**	1,050,838
	3,362,273	3,827,647

11. RESTRICTIONS ON NET ASSETS

Externally Restricted

Endowment contributions have been donated or grants received from governments specifically for student assistance. Income earned is expendable to provide financial assistance to students.

Internally Restricted

These funds have been restricted by the Board of Governors to be expended on the following:

	2012	2011
	$	$
Residence	**564,845**	898,687
Student Office for Alternative Resources	**228,487**	225,343
Parking lots and roadways	**169,772**	68,131
Strategic Program Delivery Fund	**61,600**	250,000
Entrepreneurial Centre	**124,600**	500,000
	1,149,304	1,942,161
Internal Appropriations		
Capital and deferred maintenance	**3,000,000**	2,000,000
Program and service development and renewal	**1,000,000**	
Future years' stabilization	**2,759,300**	2,000,000
Capital campaign cost	**206,500**	325,000
Loyalist Certification Management System upgrades	**379,300**	
	7,345,100	4,325,000
	8,494,404	6,267,161

Internal appropriations consists of funds appropriated to address academic equipment needs, maintenance needs and to provide stabilization in funding.

12. UNRESTRICTED

The unrestricted net assets reflect the set aside of funds for future benefits which have been accrued in liabilities in accordance with the accounting policy as discussed in Note 2(h). The amounts set aside in the unrestricted net assets for these future benefits are as follows:

	2012	2011
	$	$
Vacation entitlements	**(3,367,851)**	(3,234,634)
Future employee benefits	**(1,094,553)**	(815,227)
Vested sick leave	**(547,147)**	(607,804)
	(5,009,551)	(4,657,665)
Unrestricted for future use	**(208,456)**	4,212,638
	(5,218,007)	(445,027)

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13. CONTINGENCIES AND COMMITMENTS

(a) Contractual Commitments

The College has entered into three agreements which allow outside parties to use certain of the College's facilities for use as a bookstore, a cafeteria and for print and mail services, respectively. If the College prematurely terminates the contracts, the College is liable to pay the depreciated value of leasehold improvements paid for by the other parties to the agreements. It is not anticipated that any of the contracts will be terminated prior to the date anticipated in the respective contracts.

The College entered into an agreement with a third party for the construction and operation of student residences. The residences are owned and operated by the third party and the College has agreed to guarantee the residence revenues at a specified minimum amount. Management has assessed the likelihood of any actual guarantee payments to be minimal.

(b) Other

During a prior year, the College was served with two statements of claim, commencing proceedings under the Class Proceedings Act, by students enrolled in the College's nursing program. During the year, the court allowed the case to proceed, however, neither the ultimate outcome of these claims, nor the ultimate loss (if any) can be reasonably estimated at this time.

14. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

Cash provided from (used in) non-cash working capital is compiled as follows:

	2012	2011
	$	$
(INCREASE) DECREASE IN CURRENT ASSETS		
Accounts receivable	**884,987**	(1,207,556)
Grants receivable	**(292,736)**	303,750
Inventory	**5,410**	8,043
Prepaid expenses	**17,065**	45,490
	614,726	(850,273)
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**440,374**	993,845
Accrued vacation entitlement	**133,217**	93,858
Grants refundable	**(174,640)**	331,266
Deferred revenue	**(117,287)**	(1,866,829)
	281,664	(447,860)
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	**896,390**	(1,298,133)

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15. LEASE COMMITMENTS

The College leases certain premises and equipment for which future minimum lease payments for the next four years are as follows:

	$
2013	**419,794**
2014	**387,283**
2015	**373,799**
2016	**373,799**

16. PENSION PLANS

The 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 of public colleges and related employers in Ontario. The College makes contributions to the Plan equal to those of the employees. Contribution rates are set by the Plan's governors to ensure the long term viability of the Plan.

Any pension surplus or deficit is a joint responsibility of the members and employers and may affect future contribution rates. The College does not recognize any share of the Plan's pension surplus or deficit as insufficient information is available to identify the College's share of the underlying pension assets and liabilities. The most recent actuarial valuation filed with pension regulators as at January 1, 2012 indicated an actuarial surplus of $154 million. In 2012, the College's contributions to the Plan and its associated retirement compensation arrangement amounted to $3,276,980 (2011 - $2,979,048), which has been included in the consolidated statement of operations.

17. ONTARIO STUDENT OPPORTUNITY TRUST FUND

(a) Year-End Report for Phase One of the Ontario Student Opportunity Trust Fund of Loyalist College of Applied Arts and Technology

At the direction of the Ministry of Training, Colleges and Universities, separate disclosure of the Ontario Student Opportunity Trust Fund of Loyalist College of Applied Arts and Technology which is included as part of the Foundation is required. As at March 31, 2012, the activity within the fund is summarized as follows:

(i) Schedule of Changes in Endowment Fund Balance for the Year Ended March 31, 2012 are as Follows:

	2012 **$**	2011 $
Fund balance - Beginning of year	**1,693,120**	1,689,188
Preservation of capital	**4,028**	3,932
Fund balance – End of year	**1,697,148**	1,693,120

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17. ONTARIO STUDENT OPPORTUNITY TRUST FUND (Cont'd)

(ii) Details of Changes in Expendable Funds Available for Awards for the Year Ended March 31, 2012 are as Follows:

	2012 **$**	2011 $
Fund balance - Beginning of year	**33,519**	24,695
Realized investment income net of direct investment related expenses and preservation of capital contributions	**36,257**	35,389
Bursaries awarded - 83 (2011 - 71)	**(34,505)**	(26,565)
Fund balance – End of year	**35,271**	33,519
ENDOWMENT TOTAL BASED ON BOOK VALUE	**1,732,419**	1,726,639

The market value of the endowment as at March 31, 2012 was $1,672,979 (2011 - $1,608,274).

(b) Year-End Report for the Phase Two of the Ontario Student Opportunity Trust Fund of Loyalist College of Applied Arts and Technology

(i) Schedule of Changes in Endowment Fund Balance for the Year Ended March 31, 2012:

	2012 **$**	2011 $
Fund balance - Beginning of year	**741,733**	740,127
Preservation of capital	**1,767**	1,606
Fund balance – End of year	**743,500**	741,733

(ii) Schedule of Changes in Expendable Funds Available for Awards for the Year Ended March 31, 2012:

	2012 **$**	2011 $
Fund balance - Beginning of year	**15,257**	9,539
Realized investment income net of direct investment related expenses and preservation of capital contributions	**15,909**	15,612
Bursaries awarded - 31 (2011 - 28)	**(13,951)**	(9,894)
Fund balance – End of year	**17,215**	15,257
ENDOWMENT TOTAL BASED ON BOOK VALUE	**760,715**	756,990

The market value of the endowment as at March 31, 2012 was $731,124 (2011 - $705,097).

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18. ONTARIO TRUST FOR STUDENT SUPPORT

(i) Schedule of Donations Received Between April 1, 2011 and March 31, 2012

	2012 **$**	2011 $
Cash donations matched between April 1, 2011 and March 31, 2012	**221,158**	292,743

(ii) Schedule of Changes in Endowment Fund Balance for the Period April 1, 2011 to March 31, 2012:

	2012 **$**	2011 $
Balance – Beginning of year	**3,682,259**	2,765,777
Eligible cash donations received between April 1, 2011 and March 31, 2012 in compliance with the November 2005 Program Guidelines and Reporting Requirements	**283,319**	292,743
Unmatched cash donations received between April 1, 2011 and March 31, 2012	**33,551**	33,551
Matching funds received/receivable from Ministry of Training, Colleges and Universities	**187,607**	583,069
Preservation of capital	**9,227**	7,119
Fund balance at end of year	**4,195,963**	3,682,259

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18. ONTARIO TRUST FOR STUDENT SUPPORT (Cont'd)

(iii) Schedule of Changes in Expendable Funds Available for Awards for the Period April 1, 2011 to March 31, 2012:

	2012 **$**	2011 $
Balance – Beginning of year	**63,651**	31,247
Realized investment income, net of direct investment – related expenses and preservation of capital contributions	**83,050**	64,067
Bursaries awarded - 124 (2011 - 84)	**(68,825)**	(31,663)
Balance – End of year	**77,876**	63,651
The market value of the endowment	**4,107,594**	3,489,120

Status of	OSAP Recipients		Non-OSAP Recipients		Total	
Recipients	Number	Amount	Number	Amount	Number	Amount
Full-Time	69	37,069	55	31,756	124	68,825
Part-Time	Not applicable	Not applicable	0	0	0	0
Total	69	37,069	55	31,756	124	68,825

(i) Cash donations received in excess of an institution’s annual matching ceiling may be reported as unmatched cash donations and be considered for matching in future years (subject to the availability of funding and the institution’s matching ceilings).

(ii) Please see OTSS Directive May 31, 2009 for Ministry's position on spending of endowment principal.

(iii) In order to prevent erosion of capital due to inflation, the College has a preservation of capital policy that provides for a portion of the investment income to be added to the endowment capital. In this case, only the portion of investment income available for spending is reported under “investment income” in the schedule of changes in expendable funds available for awards.

19. FINANCIAL INSTRUMENTS

Fair Value

Financial instruments consist of cash, grants receivable, accounts receivable, portfolio investments, accounts payable and accrued liabilities, vacation entitlement, grants refundable and long-term debt. The carrying amounts approximate their fair market value due to the immediate or short-term maturity of these financial instruments except for long-term investments (Note 6) and term loans payable (Note 8).

Credit Risk

Credit risk is the risk of financial loss to the College if a debtor fails to make payments when due. The College is exposed to this risk relating to its receivables and its debt holdings in its investment portfolio.

Accounts receivable are short-term in nature and are net of management's estimate of allowances for doubtful accounts. It is in management's opinion that they are not subject to material credit risk.

The College's investment policy and the Ministry's Banking, Investing and Borrowing Policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, and aggregate issuer limits. The debt security portfolio remains very high quality with 100% of the securities rated A or better; all debt securities must have an A rating or better under the College's investment policy. All fixed income portfolios are measured for performance on a not less than semi-annual basis and monitored by management on a monthly basis.

A large portion of the interest-bearing funds held by the College in previous years have been liquidated, and reinvested in similar securities upon the change in the investment management company. As a result, the credit risk profile is not consistent with the prior period. The College still maintains similar policies, procedures and methods used to measure 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.

An investment policy is in place and its application is monitored by the Finance & Investment Committee and the Board of Governors. Diversification techniques are utilized to minimize risk.

Currency Risk

Currency risk relates to the College operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

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19. FINANCIAL INSTRUMENTS (Cont'd)

Currency Risk (Cont'd)

The College records its operations in Canadian dollars. The College is exposed to currency fluctuations on some of its equity securities held in fixed income and global pooled funds with a carrying value of $1,320,030 and $1,237,157, respectively, as they are denominated in U.S. dollars, and other foreign currencies. These potential currency fluctuations could have a significant impact on the market value of these securities. If the exchange rate were to change by 1% compared to the Canadian dollar, the aggregate effect would be a 0.36% effect on the market value of those securities.

The foreign currency funds held by the College in the previous year have been liquidated during the period, and reinvested upon the change in the investment management company. As a result, the foreign exchange risk profile is not consistent with the prior period. The College still maintains similar policies, procedures and methods used to measure the risk.

The College is subject to foreign exchange risk on its US dollar denominated cash and accounts receivable totalling $1,787,596 USD and accounts payable totalling $1,347 USD. The college is also subject to foreign exchange risk on its GBP cash of £10,000. The College currently does not use any hedging strategy to mitigate this foreign exchange risk.

There have been no significant changes from the previous period 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 risk through its interest-bearing investments (fixed-income securities and fixed-income pooled funds).

The College maintains two investment portfolios; one containing fixed-income securities complying with the MTCU BIB policy and a long-term portfolio containing a number of diversified pooled funds. For bonds that the College did not sell during the year, the change during the year and changes prior to the year would be recognized as unrealized gain (loss) on held-for-trading financial instruments during the period.

As previously noted, a large portion of the interest-bearing funds held by the College in the previous year have been liquidated, and reinvested in similar securities upon the change in the investment management company. As a result, the interest rate risk profile is not consistent with the prior period. The College still maintains similar policies, procedures and methods used to measure the risk.

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19. FINANCIAL INSTRUMENTS (Cont'd)

Interest Rate Risk (Cont'd)

As prevailing interest rates increase or decrease, the market value of these interest-bearing investments change. If interest rates were to change by 1%, with all other variables being held constant, then the effect on the market value of the MTCU mandated portfolio, with a carrying value of $3,321,689 would be a 4.3% change. If interest rates were to change by 1%, with all other variables being held constant, then the effect on the market value of the fixed income pooled fund with a carrying value of $1,320,030 would be a 2.4% change. The College has structured its portfolio in a manner as to be able to allow debt securities to be held to maturity to reduce any potential interest rate 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 equity holdings within its investment portfolio.

The College does not have any equity exposure in its MTCU Mandated portfolio and therefore the portfolio is not exposed to significant equity risk. The College's Canadian equity and global equity pooled funds with carrying values of $868,078 and $1,237,157, respectively, includes U.S., International and Canadian stocks with fair values that move with their respective Stock Exchange Composite Index. A 1% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Foundation's Canadian equity and global pooled funds of 0.60%

For pooled equity funds that the College did not sell during the period, the change would be recognized in the asset value and in unrealized gain (loss) on held-for-trading financial instruments. For pooled equity funds that the College did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

An investment policy is in place and its application is monitored by the Finance & Investment Committee of the Board of Directors of the Loyalist College Foundation. Diversification techniques are utilized to minimize risk. The policy limits the investment in Canadian equities, US equities and International equities to a maximum of 40%, 20% and 20% respectively and a minimum of 15%, 5% and 5%, respectively.

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, maintaining liquidity in their investment portfolios, and budgeting expenditures to meet cash needs. There are no material liabilities that can be called unexpectedly at the demand of a lender or client. There are no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous period in the exposure to risk, other than that noted above, or policies procedures and methods used to measure the risk.

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20. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS

In compliance with CICA Handbook Section 3862, the College has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the College's assumptions about the assumptions market participants would use in pricing the assets or liabilities.

	Level 1 $	Level 2 $	Total $
ASSETS			
Cash and cash equivalents	**13,977,609**	**NIL**	**13,977,609**
Fixed income securities			
Federal government		**1,068,192**	**1,068,192**
Provincial government and guaranteed		**1,059,803**	**1,059,803**
Corporate - rated A or better		**1,193,694**	**1,193,694**
	NIL	**3,321,689**	**3,321,689**
Pooled funds			
Money market fund		**264,031**	**264,031**
Fixed income fund		**1,320,030**	**1,320,030**
Canadian equity fund		**868,078**	**868,078**
Global equity fund		**1,237,157**	**1,237,157**
	NIL	**3,689,296**	**3,689,296**
TOTAL ASSETS MEASURED AT FAIR VALUE	**13,977,609**	**7,010,985**	**20,988,594**

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21. CAPITAL MANAGEMENT

The College’s objectives with respect to capital management are to maintain endowment funds and a minimum capital base that allows the College to continue with and execute its overall purpose including the maintaining of their internally and externally restricted funds as described in Note 1 and Note 11 of these consolidated financial statements. The College's Board of Governors perform periodic reviews of the College’s capital needs to ensure they remain consistent with the risk tolerance that is acceptable to the College.

In addition to the College's objectives with respect to capital management, the College must comply with the Banking, Investments and Borrowing ("BIB") policies set forth by the Ministry of Training, Colleges and Universities. The College has several guidelines and benchmarks established by the BIB regarding its banking, investment and borrowing policies intended to mitigate various credit, market and liquidity risks associated with the College's financial instruments, described in Note 19 to these consolidated financial statements. All requirements under the BIB have historically been met or exceeded by the College and management believes they will continue to do so in the current and future years.