

Consolidated Financial Statements of

**LOYALIST COLLEGE OF
APPLIED ARTS &
TECHNOLOGY**

Year ended March 31, 2018

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Consolidated Financial Statements

Year ended March 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Loyalist College

We have audited the accompanying consolidated financial statements of Loyalist College, which comprise the consolidated statement of financial position as at March 31, 2018, the consolidated statements of operations, changes in net assets, cash flows and remeasurements gains and losses for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Loyalist College as at March 31, 2018, and its consolidated results of operations, its consolidated cash flows and its remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The financial statements of Loyalist College as at and for the year ended March 31, 2017 were audited by another auditor who expressed an unmodified opinion on these statements on June 15, 2017.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

June 20, 2018

	2018	2017
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,775,000	\$ 5,429,332
Accrued vacation entitlement	3,083,233	2,877,953
Grants refundable	202,329	193,302
Deferred revenue (note 8(a))	4,021,014	3,250,997
Current portion of term loans payable (note 7)	1,049,253	1,030,760
	<u>16,130,829</u>	<u>12,782,344</u>
Term loans payable (note 7)	5,772,500	6,821,753
Accrued future employee benefits (note 15)	343,964	315,497
Accrued non-vested sick leave (note 15)	1,671,000	1,693,000
Accrued vested sick leave (note 15)	227,000	255,000
Accrued post-retirement benefits (note 15)	376,000	419,000
Accrued workers' compensation	400,000	300,000
Deferred capital contributions (note 8(b))	29,729,848	26,994,744
Net assets:		
Unrestricted:		
Operating deficiency	(426,738)	(2,766,642)
Post-employment benefits and compensated expenses	(2,617,964)	(2,682,497)
Vacation	(3,083,233)	(2,877,953)
	<u>(6,127,935)</u>	<u>(8,327,092)</u>
Investment in capital assets (note 9(a))	5,721,229	3,795,505
Endowment (note 10(a))	10,244,430	9,718,678
Internally restricted (note 10(b))	4,389,866	4,429,807
	<u>14,227,590</u>	<u>9,616,898</u>
	<u>68,878,731</u>	<u>59,198,236</u>
Accumulated remeasurement gains	733,685	880,062
Commitments (notes 11 and 14)		
Contingencies (note 12)		
	<u>\$ 69,612,416</u>	<u>\$ 60,078,298</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board and the Membership:

 Chair

 President

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Consolidated Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Ministry of Advanced Education and Skills		
Development (MAESD) and other government grants	\$ 34,034,032	\$ 32,491,397
Amortization of deferred revenue related to capital assets (note 8(b))	2,013,667	1,688,868
Tuition fees	20,618,850	16,947,039
Non-tuition incidental fees	3,576,338	3,212,434
Ancillary	3,331,402	3,566,905
Contracted services and other	4,511,308	3,971,757
Interest, dividends and realized gains on investments, net (note 6(d))	484,748	290,708
	68,570,345	62,169,108
Expenses:		
Salaries and wages	33,221,003	31,697,695
Employee and other benefits	8,383,331	8,007,956
Transportation and communication	1,436,146	1,031,461
Contracted services and fees	6,186,931	4,646,040
Maintenance and utilities	3,159,856	3,079,113
Supplies and minor equipment	2,926,532	2,886,803
Ancillary	1,714,101	1,652,459
Amortization of capital assets	3,250,534	2,875,656
Insurance and bank charges	710,718	504,231
Property taxes	252,645	260,046
Scholarships and bursaries	725,365	656,200
Student assistance from tuition set aside	875,000	810,189
Interest on long-term debt	274,789	309,313
Other	1,227,321	1,334,436
	64,344,272	59,751,598
Excess of revenue over expenses	\$ 4,226,073	\$ 2,417,510

See accompanying notes to consolidated financial statements.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017

	Investment in capital assets	Endowment	Internally restricted	Unrestricted	2018 Total	2017 Total
Balance (deficiency), beginning of year	\$ 3,795,505	\$ 9,718,678	\$ 4,429,807	\$ (8,327,092)	\$ 9,616,898	\$ 6,411,579
Excess (deficiency) of revenue over expenses	(1,236,867)	141,133	1,182,642	4,139,165	4,226,073	2,417,510
Interfund transfers	-	-	(1,222,583)	1,222,583	-	-
Endowment contributions, net	-	384,619	-	-	384,619	787,809
Net change in investment in capital assets	3,162,591	-	-	(3,162,591)	-	-
Balance (deficiency), end of year	\$ 5,721,229	\$ 10,244,430	\$ 4,389,866	\$ (6,127,935)	\$ 14,227,590	\$ 9,616,898

See accompanying notes to consolidated financial statements.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Consolidated Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 4,226,073	\$ 2,417,510
Items not involving cash:		
Amortization of deferred revenue related to capital assets	(2,013,667)	(1,688,868)
Amortization of capital assets	3,250,534	2,875,656
Increase (decrease) in accrued future employee benefits	28,467	(103,855)
Increase (decrease) in accrued non-vested sick leave	(22,000)	3,000
Decrease in accrued vested sick leave	(28,000)	(34,000)
Increase in accrued workers' compensation	100,000	100,000
Decrease in accrued post-retirement benefits	(43,000)	(27,000)
Net change in non-cash operating working capital (note 13)	3,302,990	1,398,984
	8,801,397	4,941,427
Investing activities:		
Increase in investments	(1,313,105)	(27,768)
Decrease in pledges receivable	477,257	472,432
Decrease in long-term receivable	3,400	3,400
	(832,448)	448,064
Financing activities:		
Repayment of term loans payable	(1,030,760)	(1,039,312)
Capital activities:		
Endowment contributions	384,619	787,809
Contributions related to capital assets	4,748,771	721,466
Capital deferred revenue transfer to deferred revenue	—	(477,275)
Purchase of capital assets	(6,880,602)	(2,125,961)
	(1,747,212)	(1,093,961)
Increase in cash and cash equivalents	5,190,977	3,256,218
Cash and cash equivalents, beginning of year	6,769,218	3,513,000
Cash and cash equivalents, end of year	\$ 11,960,195	\$ 6,769,218

See accompanying notes to consolidated financial statements.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Statement of Remeasurement Gains and Losses

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Accumulated remeasurement gains, beginning of year	\$ 880,062	\$ 324,552
Unrealized gains attributable to investments designated at fair value	38,519	650,136
Realized gain reclassified to the consolidated statement of operations - disposal of investments	(184,896)	(94,626)
Accumulated remeasurement gains, end of year	\$ 733,685	\$ 880,062

See accompanying notes to financial statements.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements

Year ended March 31, 2018

Loyalist College of Applied Arts & Technology (the "College") 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.

1. Significant accounting policies:

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of Loyalist College of Applied Arts & Technology, the Student Centre, and The Loyalist College Foundation.

(b) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. Significant management estimates relate to the valuation of accounts receivable and pledges receivable, useful estimated life of capital assets and actuarial estimation of employee future benefits and non-vested and vested sick leave. Actual results could differ from these estimates.

(c) Financial instruments:

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

(i) Fair value:

This category includes cash and equity instruments quoted in an active market. The College has designated its bond portfolio that would otherwise be classified into the amortized cost category at fair value as the College manages and reports performance of it on a fair value basis.

These financial instruments 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.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(c) Financial instruments (continued):

(i) Fair value (continued):

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

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.

(ii) Amortized cost:

This category includes accounts receivable, grants receivable, pledges receivable, accounts payable and accrued liabilities, accrued vacation entitlement, grants refundable, term loans payable, accrued future employee benefits, accrued non-vested sick leave, accrued vested sick leave, accrued workers' compensation and accrued post-retirement benefits. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

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

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.

(d) 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 and ancillary fees are recognized as revenue at the time the course or program begins. Fees that have been levied for a specific purpose have been internally restricted by the College for that purpose.

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.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(d) Revenue recognition (continued):

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.

(e) Capital assets:

Purchased capital assets are recorded at cost, which includes interest incurred before the commencement of commercial operations. Contributed capital assets are recorded at fair value at the date of contribution when fair value is reasonably determinable. Otherwise, contributed assets are recorded at a nominal amount. Repairs and maintenance costs are charged to 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	Useful life
Site improvements	10 years
Buildings	40 years
Building improvements	20 years
Furniture and equipment	3 to 5 years
Vehicles	5 years
Leasehold improvements	10 years

Cost of construction-in-progress are capitalized. Amortization is not recognized until project completion.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(f) Vacation pay:

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

(g) Accrued future employee benefits, non-vesting and vesting sick leave and Workers' Compensation:

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:

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

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

(h) 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.

(i) Other accounts receivable:

Other accounts receivable consists of a long-term note receivable relating to leasehold improvements due from a tenant over a ten-year period.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

2. Financial instrument classification:

The following table provides classification of financial instruments by category. The maximum exposure to credit risk would be the carrying value as shown below:

	Fair Value	Amortized cost	2018 Total
Cash	\$ 11,960,195	\$ —	\$ 11,960,195
Accounts receivable	—	2,072,067	2,072,067
Grants receivable	—	1,236,255	1,236,255
Pledges receivable	—	402,871	402,871
Investments	10,746,853	—	10,746,853
Accounts payable and accrued liabilities	—	(7,775,000)	(7,775,000)
Accrued vacation entitlement	—	(3,083,233)	(3,083,233)
Grants refundable	—	(202,329)	(202,329)
Term loan payable	—	(6,821,753)	(6,821,753)
	\$ 22,707,048	\$ (14,171,122)	\$ 8,535,926

The following table provides an analysis of financial instruments 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; and
- 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).

	Level 1	Level 2	2018 Total
Cash	\$ 11,960,195	\$ —	\$ 11,960,195
Investments	5,765,146	4,981,707	10,746,853
	\$ 17,725,341	\$ 4,981,707	\$ 22,707,048

There were no transfers between Level 1 and Level 2 for the years ended March 31, 2018 and 2017. There were also no transfers in or out of Level 3.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

3. Employee notes receivable:

In order to complement the College's 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 \$8,484 (2017 - \$10,051) have been included in accounts receivable.

4. Tangible capital assets:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Land	\$ 411,550	\$ —	\$ 411,550	\$ 411,550
Collections	254,870	—	254,870	254,870
Site improvements	3,361,864	2,553,507	808,357	605,099
Buildings and building improvements	67,476,809	33,893,612	33,583,197	35,145,720
Furniture and equipment	27,451,127	24,414,351	3,036,776	2,158,847
Vehicles	112,011	55,952	56,059	—
Leasehold improvements	142,235	142,235	—	—
Construction in progress	4,122,021	—	4,122,021	66,676
	\$ 103,332,487	\$ 61,059,657	\$ 42,272,830	\$ 38,642,762

Cost and accumulated amortization of capital assets at March 31, 2017 amounted to \$96,451,887 and \$57,809,125, respectively.

5. Pledges receivable:

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:

2019	\$ 171,430
2020	147,596
2021	66,875
2022	16,800
2023	170
Net pledges receivable	402,871
Less current portion	171,430
Long-term portion	\$ 231,441

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

6. Investments:

- (a) As noted in note 1(c) to these consolidated financial statements, investments are recorded at fair value at the consolidated statement of financial position date. The market value of investments are as follows:

	2018 Market value	2017 Market value
Fixed-income securities:		
Provincial and provincial guaranteed	\$ 3,479,913	\$ 3,517,472
Corporate - Rated A or better	1,501,794	1,352,816
	4,981,707	4,870,288
Pooled funds:		
Money market fund	382,269	278,962
Equity securities:		
Canadian	2,582,285	2,198,711
United States	1,528,547	1,362,284
International	1,272,045	869,880
	5,382,877	4,430,875
	\$ 10,746,853	\$ 9,580,125

- (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 1.6% to 4.6% for these investments.

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

	2018	2017
Maturing between one and five years	\$ 1,293,308	\$ 1,788,432
Maturing over five years	3,688,399	3,081,856
	\$ 4,981,707	\$ 4,870,288

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

6. Investments (continued):

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

	2018	2017
Interest income	\$ 235,570	\$ 137,306
Dividend income	127,417	118,490
Realized gains on disposition of investments	184,896	94,626
	547,883	350,422
Less: Interest and investment management fees	(63,135)	(59,714)
	\$ 484,748	\$ 290,708

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

7. Term loans payable:

Term loans payable consisting of the following unsecured amounts:

	2018	2017
Original residence loan bearing interest at 2.84% and repayable by semi-annual blended payments of principal and interest at \$235,608 payable on August 31 and February 28 until maturity on August 28, 2020.	\$ 1,129,141	\$ 1,559,110
Renovation loan – OFA loan bearing interest at 2.641% and repayable by semi-annual blended payments of principal and interest of \$157,355 payable on May 7 and November 7 until maturity on May 7, 2024.	1,868,391	2,128,594
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.	3,122,336	3,376,004
Residence expansion – two residences plus commons building Part 2 – loan bearing interest at 3.07% and repayable by semi-annual blended payments of principal and interest of \$40,209 payable on August 31 and February 28 until maturity on February 28, 2021.	687,841	745,810
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.	14,044	28,760
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.	–	14,235
	6,821,753	7,852,513
Less current portion	(1,049,253)	(1,030,760)
	\$ 5,772,500	\$ 6,821,753

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

7. Term loans payable (continued):

The principal portion of the term loans repayable over the next five years and thereafter, based on terms and agreements in effect as at March 31, 2018, are as follows:

2019	\$ 1,049,253
2020	1,069,816
2021	869,698
2022	661,495
2023	686,212
Thereafter	2,485,279
	\$ 6,821,753

The College anticipates the renewal of term loans that mature in the next five years with terms comparable to the existing loans.

8. Deferred contributions:

(a) Deferred revenue:

Deferred revenue represents 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.

Deferred revenue relating to property, plant and equipment is comprised of the following:

	2018	2017
Balance, beginning of year	\$ 26,994,744	\$ 28,439,421
Add amounts related to the following sources:		
Federal/Province of Ontario grants and capital campaign	4,748,771	721,466
Capital deferred revenue transfer to deferred revenue	—	(477,275)
	4,748,771	244,191
Deduct amounts related to the following:		
Amounts recognized as revenue in the year	(2,013,667)	(1,688,868)
Balance, end of year	\$ 29,729,848	\$ 26,994,744

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

9. Investment in capital assets:

(a) Investment in capital assets at March 31, 2018 represents the following:

	2018	2017
Capital assets, at cost	\$ 103,332,487	\$ 96,451,887
Accumulated amortization of capital assets	(61,059,657)	(57,809,125)
Term loans payable - current portion	(1,049,253)	(1,030,760)
Term loans payable - long-term portion	(5,772,500)	(6,821,753)
Deferred revenue relating to capital assets	(29,729,848)	(26,994,744)
	<u>\$ 5,721,229</u>	<u>\$ 3,795,505</u>

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

	2018	2017
Amortization of deferred contributions related to capital assets	\$ 2,013,667	\$ 1,688,868
Less amortization of capital assets	(3,250,534)	(2,875,656)
	<u>\$ (1,236,867)</u>	<u>\$ (1,186,788)</u>

(c) Net change in investment in capital assets:

	2018	2017
Purchase of capital assets	\$ 6,880,602	\$ 2,125,961
Amounts funded by:		
Capital contributions	(4,748,771)	(721,466)
Repayment of term loans payable	1,030,760	1,039,312
Capital deferred transfer to deferred revenue	—	477,275
	<u>\$ 3,162,591</u>	<u>\$ 2,921,082</u>

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

10. Restrictions on net assets:

(a) Externally restricted:

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

(b) Internally restricted:

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

	2018	2017
Residence	\$ 1,347,628	\$ 1,514,442
Parking lots and roadways	154,137	302,494
Student Office for Alternative Resources	332,957	309,829
Student government activity	505,481	369,068
Student facilities enhancement	135,363	—
Student centre	1,296,264	1,243,612
Student government - athletic and fitness centre	—	52,875
Student government - health centre	314,107	262,674
Student government - Access Copyright	—	6,904
Information technology fee	246,362	300,333
Alumni	45,282	48,936
Athletics capital fee	12,285	18,640
	<u>\$ 4,389,866</u>	<u>\$ 4,429,807</u>

Residence, Parking Lot and Roadway funds have been set aside to deal with the costs of future major renovations and repairs for these areas. All other internally restricted funds represent net accumulated funds collected from students. Under agreements with Student Government and/or Provincial Government directives these funds must be used to support specified activities and projects.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

11. 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 occupancy at 95%. Management has assessed the likelihood of any actual guarantee payments to be minimal.

(b) Capital commitments:

The College entered into an agreement for the Northumberland Wing Renovation Project. The total cost of the contract is \$4,352,000 of which \$3,863,000 has been paid to date.

12. Contingencies:

(a) Provincial Student Class Action Suit:

The College is involved in certain legal matters and litigation, including the Provincial Student Class Action Suit related to the Faculty Strike, the outcomes of which are not presently determinable. The loss, if any, from these contingencies will be accounted for in the period in which the matters are resolved.

(b) Potential claims:

The nature of the College's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2018, management believes that the College has valid defenses and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the College's financial position.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

13. Net change in non-cash operating working capital:

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

	2018	2017
Accounts receivable	\$ (332,940)	\$ (1,106,197)
Grants receivable	423,896	809,529
Inventory	(4,508)	(1,308)
Prepaid expenses	(113,450)	(76,205)
Accounts payable and accrued liabilities	2,345,668	60,856
Accrued vacation entitlement	205,280	1,897
Grants refundable	9,027	107,305
Deferred revenue	770,017	1,603,107
	<u>\$ 3,302,990</u>	<u>\$ 1,398,984</u>

14. Lease commitments

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

2019	\$ 231,954
2020	149,175
2021	134,094
	<u>\$ 515,223</u>

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

15. Accrued future employee benefits and compensated absences liability:

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

	Employee future benefits	Non-vesting sick leave	Vesting sick leave	2018 Accrued post- retirement benefits
Accrued employee future benefits obligations	\$ 343,964	\$ 1,359,000	\$ 38,000	\$ 442,000
Fair value of plan assets	—	—	—	(94,000)
Unamortized actuarial gains	—	312,000	189,000	28,000
Total liability	\$ 343,964	\$ 1,671,000	\$ 227,000	\$ 376,000

	Employee future benefits	Non-vesting sick leave	Vesting sick leave	2017 Accrued post- retirement benefits
Accrued employee future benefits obligations	\$ 315,497	\$ 1,464,000	\$ 574,000	\$ 436,000
Fair value of plan assets	—	—	—	(61,000)
Unamortized actuarial gains (losses)	—	229,000	(319,000)	44,000
Total liability	\$ 315,497	\$ 1,693,000	\$ 255,000	\$ 419,000

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

15. Accrued future employee benefits and compensated absences liability (continued):

	Employee future benefits	Non-vesting sick leave	Vesting sick leave	2018 Accrued post- retirement benefits
Current year benefit cost (recovery)	\$ (28,467)	\$ 74,000	\$ 1,000	\$ (34,000)
Interest on accrued benefit obligation	—	26,000	1,000	1,000
Benefit payments	—	(121,000)	(65,000)	(4,000)
Amortization of unamortized actuarial losses (gains)	—	(1,000)	35,000	(6,000)
Total expense (recovery)	\$ (28,467)	\$ (22,000)	\$ (28,000)	\$ (43,000)

	Employee future benefits	Non-vesting sick leave	Vesting sick leave	2017 Accrued post- retirement benefits
Current year benefit cost (recovery)	\$ 103,855	\$ 79,000	\$ 35,000	\$ (16,000)
Interest on accrued benefit obligation		21,000	13,000	1,000
Benefit payments		(71,000)	(149,000)	(7,000)
Amortization of unamortized actuarial losses (gains)		(26,000)	67,000	(5,000)
Total expense (recovery)	\$ 103,855	\$ 3,000	\$ (34,000)	\$ (27,000)

The above amounts are included in employee and other benefits on the Consolidated Statement of Operations.

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

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

15. Accrued future employee benefits and compensated absences liability (continued):

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 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 governor's 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 Plan's funding reserve increased to \$2.3 billion from \$1.6 billion in 2017, reflecting in the Plan's 15.4% net return for 2017. The College made contributions to the Plan and its associated retirement compensation arrangement of \$3,424,084 (2017 - \$3,487,486), which has been included 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 related benefit liability was determined by an actuarial valuation study commissioned by the College Employer Council.

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

(a) Discount Rate

The present value as at March 31, 2018 of the future benefits was determined using a discount rate of 2.60% (2017 - 2.00%).

(b) Drug Costs

Drug costs were assumed to increase at a rate of 8.0% for 2018 (2017 - 9.0%) and decreasing proportionately thereafter to an ultimate rate of 4.0% in 2034.

(c) Hospital and Other Medical

Hospital and other medical costs were assumed to increase at 4.0% per annum (2017 - 4.0%).

Medical premium increases were assumed to increase at 6.8% per annum in 2018 (2017 - 7.5%) and decrease proportionately thereafter to an ultimate rate of 4.0% in 2034.

(d) Dental Costs

Dental costs were assumed to increase at 4.0% per annum in 2018 (2017 - 4.0%).

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

15. Accrued future employee benefits and compensated absences liability (continued):

Compensated absences:

Vesting sick leave

The College has provided for vesting sick leave benefits during the year. Eligible employees, after 10 years of service, are entitled to receive 50% of their accumulated sick leave credit on termination or retirement to a maximum of 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.

Non-vesting sick leave

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

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

Wage and salary escalation:

2% in 2018, 2019 and 2020, and 1.5% thereafter for full-time and partial load staff.

1.5% in 2018 and thereafter for full time support staff.

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% to 24.0% and 0 to 48 days, respectively, for age groups ranging from 20 and under to 65 and over in bands of 5 years.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

16. 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 Advanced Education and Skills Development (MAESD), 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, 2018, the activity within the fund is summarized as follows:

- (i) Schedule of Changes in Endowment Fund Balance for the year ended March 31, 2018 are as follows:

	2018	2017
Fund balance, beginning of year	\$ 1,747,929	\$ 1,740,606
Preservation of capital	26,046	7,323
Fund balance, end of year	\$ 1,773,975	\$ 1,747,929

- (ii) Details of Changes in Expendable Funds Available for Awards for the year ended March 31, 2018 are as follows:

	2018	2017
Fund balance, beginning of year	\$ 40,206	\$ 38,262
Realized investment income net of direct investment related expenses and preservation of capital contributions	31,047	36,705
Bursaries awarded - 95 (2017 - 88)	(36,524)	(34,761)
Fund balance, end of year	\$ 34,729	\$ 40,206
Endowment total based on book value	\$ 1,808,704	\$ 1,788,135

The market value of the endowment as at March 31, 2018 was \$1,964,604 (2017 - \$1,854,891).

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

16. Ontario student opportunity trust fund (continued):

(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, 2018:

	2018	2017
Fund balance, beginning of year	\$ 765,732	\$ 762,506
Preservation of capital	11,438	3,226
Fund balance, end of year	\$ 777,170	\$ 765,732

(ii) Schedule of Changes in Expendable Funds Available for Awards for the year ended March 31, 2018:

	2018	2017
Fund balance, beginning of year	\$ 17,968	\$ 22,061
Realized investment income net of direct investment related expenses and preservation of capital contributions	13,634	16,166
Bursaries awarded - 31 (2017 - 48)	(10,126)	(20,259)
Fund balance, end of year	\$ 21,476	\$ 17,968
Endowment total based on book value	\$ 798,646	\$ 783,700

The market value of the endowment as at March 31, 2018 was \$867,486 (2017 - \$812,958).

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

17. Ontario trust for student support

(i) Schedule of Changes in Endowment Fund Balance for the year ended March 31, 2018:

	2018	2017
Fund balance, beginning of year	\$ 4,321,514	\$ 4,303,381
Preservation of capital	64,428	18,133
Fund balance, end of year	\$ 4,385,942	\$ 4,321,514

(ii) Schedule of Changes in Expendable Funds Available for Awards for the year ended March 31, 2018:

	2018	2017
Fund balance, beginning of year	\$ 103,259	\$ 106,558
Realized investment income net of direct investment related expenses and preservation of capital contributions	76,797	90,885
Bursaries awarded - 186 (2017 - 181)	(83,883)	(94,184)
Fund balance, end of year	\$ 96,173	\$ 103,259
Endowment total based on book value	\$ 4,482,115	\$ 4,424,773

The market value of the endowment as at March 31, 2018 was \$4,868,450 (2017 - \$4,589,962).

Status of Recipients	OSAP Recipients		Non-OSAP Recipients		Total	
	Number	Amount	Number	Amount	Number	Amount
Full-time	117	\$ 56,904	48	\$ 26,979	165	\$ 83,883
Part-time	—	—	—	—	—	—
	117	\$ 56,904	48	\$ 26,979	165	\$ 83,883

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

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

18. Foundation award for student support:

- (i) Schedule of Changes in Endowment Fund for the year ended March 31, 2018:

	2018
Fund balance, beginning of year	\$ 1,467,520
Cash donations received	380,684
Preservation of capital	23,838
Fund balance, end of year	\$ 1,872,042

- (ii) Schedule of Changes in Expandable Funds for the year ended March 31, 2018:

	2018
Fund balance, beginning of year	\$ 25,754
Realized investment income	28,415
Bursaries awarded	(16,378)
Fund balance, end of year	\$ 37,791
Endowment total based on book value	\$ 1,909,833

The market value of the endowment as at March 31, 2018 was \$2,074,450 (2017 - \$1,549,022).

19. Financial instrument risk management:

- (a) Fair value:

Financial instruments consist of cash, accounts receivable, grants receivable, pledges 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 7).

- (b) 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 cash, receivables and its debt holdings in its investment portfolio.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

19. Financial instrument risk management (continued):

(b) Credit risk (continued):

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 to \$180,850 (2017 – \$192,000). The College has access to a \$2 million line of credit with a federal regulated chartered bank.

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.

Accounts receivable are primarily 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.

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:

	Current	Past Due		Total	Allowances	Net receivables
		> 90 days	> 1 year			
Accounts receivable	\$ 2,125,731	\$ 61,854	\$ 176,482	\$ 2,364,067	\$ (275,000)	\$ 2,089,067
Grants receivable	1,236,255	–	–	1,236,255	–	1,236,255
Pledges receivable	171,430	–	231,441	402,871	–	402,871
	\$ 3,533,416	\$ 61,854	\$ 407,923	\$ 4,003,193	\$ (275,000)	\$ 3,728,193

Amounts past due but not allowed for are deemed by management to be collectible based on historical experience regarding collections.

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.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

19. Financial instrument risk management (continued):

(c) 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.

(d) 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.

The College records its operations in Canadian dollars. The College is exposed to currency fluctuations on some of its securities held in U.S. and international equity securities with a carrying value of \$1,528,547 (CAD) and \$1,272,045 (CAD), 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.

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.

(e) 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 MAESD BIB policy and a long-term portfolio containing a number of equity securities. For bonds that the College did not sell during the year, the change in fair value is recognized in the consolidated statement of remeasurement gains and losses.

The College maintains policies, procedures and methods used to measure the risk.

As prevailing interest rates increase or decrease, the market values 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 MAESD mandated portfolio, with a carrying value of \$4,981,707 would be approximately a 5.9% 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.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

19. Financial instrument risk management (continued):

(e) Interest rate risk (continued):

In addition to the above, the College is exposed to interest rate risk as it has term loans payable in the amount of \$6,821,753 bearing interest at a fixed rate as described in note 8 to these financial statements. As prevailing interest rates fluctuate, the market value of these debts will fluctuate. Risk is mitigated by the College's intention and ability to hold the debt to maturity.

(f) 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 MAESD Mandated portfolio and therefore the portfolio is not exposed to significant equity risk. The College's equity portfolio with a carrying value of \$5,382,877, 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 College's equity portfolio of approximately 0.83%.

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 60%, 30% and 30% respectively and a minimum of 26%, 12% and 12%, respectively.

(g) 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 or policies procedures and methods used to measure the risk.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

20. Adoption of new accounting policies:

On April 1, 2017, the College adopted Canadian public sector accounting standards PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual rights. The adoption of these standards did not result in an accounting policy change for the College, and did not result in any adjustments to the financial statements as at April 1, 2017.

21. Comparative information:

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.