Consolidated Financial Statements of

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Year ended March 31, 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Seneca College of Applied Arts and Technology, which comprise the consolidated statement of financial position as at March 31, 2017, the consolidated statements of operations, changes in net assets, cash flows and remeasurement 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 Seneca College of Applied Arts and Technology as at March 31, 2017, and its consolidated results of operations, its consolidated changes in net assets, its consolidated cash flows and its consolidated remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 8, 2017
Vaughan, Canada

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	$ 53,281,014	$ 27,650,597
Short-term investments (note 11)	22,552,089	15,478,778
Grants receivable	664,010	728,661
Accounts receivable	16,750,112	6,959,416
Prepaid expenses	5,893,701	3,604,530
	99,140,926	54,421,982
Long-term investments (note 11)	41,897,092	44,587,398
Restricted cash and investments (note 8)	25,323,007	20,919,817
Capital assets (note 2)	342,666,336	338,609,451
	$ 509,027,361	$ 458,538,648
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 45,055,759	$ 36,079,789
Current portion of long-term debt (note 3)	3,819,816	3,576,482
Due to student associations (note 4)	16,428,760	13,803,681
Deferred revenue	48,702,674	37,962,444
Employee vacation accrual	12,571,505	12,683,124
	126,578,514	104,105,520
Long-term debt (note 3)	39,137,683	42,957,499
Deferred derivative liability (note 11)	5,052,271	6,424,494
Post-employment benefits and compensated absences (note 7)	12,118,000	12,191,000
	182,886,468	165,678,513
Deferred contributions (note 5)	8,973,991	9,223,346
Deferred contributions for capital assets (note 6)	106,414,796	92,732,302
	115,388,787	101,955,648
Net assets:		
Unrestricted:		
Operating	17,861,806	4,149,172
Post-employment benefits and compensation absences	(12,118,000)	(12,191,000)
Vacation pay	(12,571,505)	(12,683,124)
	(6,827,699)	(20,724,952)
Investment in capital assets (note 9(a))	202,391,571	199,343,168
Externally restricted - endowments (note 8)	20,240,505	18,710,765
	215,804,377	197,328,981
Accumulated remeasurement losses	(5,052,271)	(6,424,494)
	210,752,106	190,904,487
	$ 509,027,361	$ 458,538,648

See accompanying notes to consolidated financial statements.

On behalf of the Board of Governors:

_______________ Chair _______________ President

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Government operating grant	$ 130,867,893	$ 132,330,263
Tuition and related fees	196,614,649	179,558,655
Ancillary	19,520,983	19,343,161
Amortization of deferred contributions for capital assets	7,443,517	7,585,943
Deferred contributions recognized	1,923,601	1,722,979
Student and alumni associations	2,453,967	2,118,946
Other	30,264,622	26,293,777
	389,089,232	368,953,724
Expenses:		
Salaries and benefits	223,897,354	219,974,680
Operating	79,488,961	64,029,502
Plant and property maintenance	16,496,412	13,956,227
Bursaries and scholarships	10,325,979	10,090,128
Ancillary	11,150,132	11,396,830
Amortization of capital assets	30,784,738	30,440,761
	372,143,576	349,888,128
Excess of revenue over expenses	$ 16,945,656	$ 19,065,596

See accompanying notes to consolidated financial statements.

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016

2017	Endowments	Investment in capital assets	Unrestricted	Total
Net assets (deficiency), beginning of year	$ 18,710,765	$ 199,343,168	$ (20,724,952)	$ 197,328,981
Excess (deficiency) of revenue over expenses	–	(21,385,264)	38,330,920	16,945,656
Endowment contributions	1,529,740	–	–	1,529,740
Net change in investments in capital assets (note 9(b))	–	24,433,667	(24,433,667)	–
Net assets, end of year	$ 20,240,505	$ 202,391,571	$ (6,827,699)	$ 215,804,377

2016	Endowments	Investment in capital assets	Unrestricted	Total
Net assets (deficiency), beginning of year	$ 17,459,843	$ 188,675,508	$ (29,122,888)	$ 177,012,463
Excess (deficiency) of revenue over expenses	–	(22,854,818)	41,920,414	19,065,596
Endowment contributions	1,250,922	–	–	1,250,922
Net change in investments in capital assets (note 9(b))	–	33,522,478	(33,522,478)	–
Net assets (deficiency), end of year	$ 18,710,765	$ 199,343,168	$ (20,724,952)	$ 197,328,981

See accompanying notes to consolidated financial statements.

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 16,945,656	$ 19,065,596
Items not involving cash:		
Amortization of capital assets	30,784,738	30,440,761
Gain on disposal of capital assets	(1,955,957)	–
Amortization of deferred contributions for capital assets	(7,443,517)	(7,585,943)
Post-employment benefits and compensated absences	725,951	(99,470)
	39,056,871	41,820,944
Change in non-cash operating working capital:		
Decrease in grants receivable	64,651	278,743
Decrease (increase) in accounts receivable	(9,790,696)	555,575
Decrease (increase) in prepaid expenses	(2,289,171)	140,567
Increase (decrease) in accounts payable and accrued liabilities	8,975,970	(6,845,587)
Increase in due to student associations	2,625,079	1,174,299
Increase (decrease) in deferred revenue	10,740,230	(11,598,834)
Decrease in employee vacation accrual	(111,619)	(635,547)
Decrease in post-employment benefits and compensated absences	(798,951)	(331,530)
	48,472,364	24,558,630
Capital activities:		
Contributions received for capital assets	21,126,011	5,334,153
Purchase of capital assets	(35,355,666)	(35,506,115)
Proceeds on disposal of capital assets	2,470,000	–
	(11,759,655)	(30,171,962)
Financing activities:		
Increase (decrease) in deferred contributions	(249,355)	2,954,623
Principal payments on long-term debt	(3,576,482)	(3,350,516)
Endowment contributions	1,529,740	1,250,922
	(2,296,097)	855,029
Investing activities:		
Net purchase of investments	(4,383,005)	(60,066,176)
Increase in restricted cash and investments	(4,403,190)	(1,012,881)
	(8,786,195)	(61,079,057)
Increase (decrease) in cash	25,630,417	(65,837,360)
Cash, beginning of year	27,650,597	93,487,957
Cash, end of year	$ 53,281,014	$ 27,650,597
Supplemental cash flow information:		
Interest paid on long-term debt	$ 2,899,585	$ 3,138,846

See accompanying notes to consolidated financial statements.

SENECA COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Accumulated remeasurement losses, beginning of year	$ (6,424,494)	$ (6,513,140)
Unrealized gain on derivative liability	1,372,223	88,646
Accumulated remeasurement losses, end of year	$ (5,052,271)	$ (6,424,494)

See accompanying notes to consolidated financial statements.

Seneca College of Applied Arts and Technology (the "College") was incorporated as a college in 1966 under legislation of the Province of Ontario. The College is a registered charity and, therefore, exempt from payment of income tax under Section 149 of the Income Tax Act (Canada).

The mission of the College is to contribute to the Canadian society by being a leader in providing students with career-related education and training.

These consolidated financial statements reflect the assets, liabilities, net assets, revenue, expenses and other transactions of operations and organizations controlled by the College. As such, the consolidated financial statements include academic, administrative and other operating expenses that are funded by a combination of tuition and other fees, grants (federal, provincial and municipal), revenue from ancillary operations, and restricted purpose endowment funds.

1. Significant accounting policies:

(a) Basis of accounting:

These consolidated financial statements are the representation of management and have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 Series of Standards, as issued by the Public Sector Accounting Board.

(b) Subsidiary:

These consolidated financial statements reflect the assets, liabilities, revenue and expenses of the College and its wholly owned subsidiary, Seneca Corporation. All inter-organizational balances and transactions are eliminated on consolidation.

(c) Revenue recognition:

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

All revenue relating to tuition and other services provided by the College, as well as revenue from ancillary operations and donations, are reflected in the consolidated statement of operations.

1. Significant accounting policies (continued):

Operating grants are recorded as revenue in the year in which they relate. Grants earned but not received at the end of a year are accrued. Where a portion of a grant relates to a future year, it is deferred and recognized in the subsequent year when the related services are provided.

Contributions and tuition fees 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 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 that must be maintained as an endowment is credited to deferred contributions until the related expense is incurred. Unrestricted investment income is recognized as revenue when earned.

Tuition fees received in advance are recorded as deferred revenue and recognized as revenue when earned through the provision of service.

(d) Vacation accrual:

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

(e) Derivative financial instrument:

A derivative financial instrument is utilized by the College in the economic management of its interest rate exposure. The College does not enter into derivative financial instruments for trading or speculative purposes. The College uses an interest rate swap agreement to economically manage the floating interest rate of a portion of the debt portfolio and the related overall cost of borrowing.

1. Significant accounting policies (continued):

(f) 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 derivatives and equity instruments quoted in an active market. The College has elected to continue carrying externally restricted endowment investments, consisting of restricted cash and investments that would otherwise be classified into the amortized cost category at fair value as the College reports performance of it on a fair value basis.

Financial instruments are recognized at cost and subsequently carried at fair value. Unrealized changes in fair value are recognized in the consolidated statement of remeasurement gains and losses until they are realized, when they are transferred to the consolidated statement of operations.

Unrealized changes in fair value of a financial asset in a fair value category that is externally restricted are recorded in deferred contributions.

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

Where a decline in the fair value of the derivative liability 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 financial position for restricted investments and the consolidated statement of operations for unrestricted investments.

1. Significant accounting policies (continued):

(ii) Amortized cost:

This category includes grants receivable, accounts receivable, short-term investments, long-term investments, accounts payable and accrued liabilities, employee vacation accrual and long-term debt. 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.

Write-downs 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 write-down being recognized in the consolidated statement of operations.

(g) Capital assets:

Capital assets are stated at cost with the exception of donated assets, which are recorded at their fair market value at the date of the receipt where fair market value is reasonably determinable; otherwise, they are recorded at a nominal amount. The College amortizes the cost of capital assets on a straight-line basis over the estimated useful lives of the assets as follows:

Land improvements	10 years
Buildings	40 years
Leasehold improvements	Lease term
Furniture	5 years
Equipment	5 - 10 years
Computer equipment	3 - 5 years

1. Significant accounting policies (continued):

Construction in progress relates to the ongoing campus expansion and the technology upgrade project. Upon completion, the College will start amortizing such costs in accordance with defined useful life criteria.

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.

(h) Equipment under capital leases:

The College leases equipment on terms which transfer substantially all the benefits and risks of ownership to the College. These leases have been accounted for as capital leases as though an asset had been purchased and a liability incurred.

(i) Student organizations:

These consolidated financial statements do not include the assets, liabilities or results of operations of the Seneca Student Federation, as this legal entity is not controlled by the College.

(j) Retirement and post-employment benefits and compensated absences:

The College provides defined retirement and post-employment benefits and compensated absences to certain employee groups. These benefits include pension, health and dental, life insurance benefits, vesting sick leave, non-vesting sick leave, short-term disability and maternity 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.

1. Significant accounting policies (continued):

(ii) The costs of the multi-employer defined benefit pension are the employer's contributions due to the plan in the year.

(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 lives of the employees.

(iv) The cost of short-term disability and maternity leave is determined using management's best estimate of the length of the compensated absences.

(k) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the year, in addition to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The most significant items subject to management's estimation are the fair value of deferred derivative liability, allowance for doubtful accounts, carrying amounts and useful lives of capital assets, accrued liabilities and post-employment benefits and compensated absences. Actual results could differ from those estimates.

2. Capital assets:

2017	Cost	Accumulated amortization	Net book value
Land	$ 14,533,980	$ –	$ 14,533,980
Land improvements	92,754,147	49,951,188	42,802,959
Buildings	292,243,378	115,095,481	177,147,897
Leasehold improvements	24,972,049	14,068,834	10,903,215
Furniture	20,188,527	15,612,205	4,576,322
Equipment	144,672,769	71,579,422	73,093,347
Computer equipment	96,222,613	93,128,292	3,094,321
Construction in progress	16,514,295	–	16,514,295
	$ 702,101,758	$ 359,435,422	$ 342,666,336

2016	Cost	Accumulated amortization	Net book value
Land	$ 15,048,023	$ –	$ 15,048,023
Land improvements	79,998,304	42,830,710	37,167,594
Buildings	292,243,378	108,292,332	183,951,046
Leasehold improvements	24,972,049	13,113,807	11,858,242
Furniture	18,787,488	14,199,654	4,587,834
Equipment	138,593,397	61,528,545	77,064,852
Computer equipment	95,665,801	92,725,306	2,940,495
Construction in progress	5,991,365	–	5,991,365
	$ 671,299,805	$ 332,690,354	$ 338,609,451

During 2017, construction in progress of $787,170 (2016 - $773,917) was completed, transferred to capital assets and amortization commenced.

3. Long-term debt:

The College has negotiated or assumed the following long-term debt commitments:

	2017	2016
Mortgage (a)	$ 10,594,941	$ 11,979,747
Mortgage (b)	3,988,218	4,429,554
Mortgage (c)	8,160,340	8,837,680
Bankers' acceptance loan (d)	20,214,000	21,287,000
	42,957,499	46,533,981
Less current portion	3,819,816	3,576,482
	$ 39,137,683	$ 42,957,499

Interest on long-term debt amounted to $2,899,585 in 2017 (2016 - $3,138,846), and is included in operating expenses.

(a) Mortgage on the student residence on the Newnham Campus (Phase I). The rate is fixed at 6.87% and the maturity date is March 1, 2023. Blended semi-annual payments of $1,092,216 commenced September 1, 1998.

(b) Mortgage on the student residence on the King campus. The rate is fixed at 6.29% and the maturity date is March 1, 2024. Blended semi-annual payments of $356,561 commenced September 1, 1999.

(c) Mortgage on the student residence on the Newnham Campus (Phase II). The rate is fixed at 7.16% and the maturity date is September 1, 2025. Blended semi-annual payments of $649,103 commenced September 1, 2000.

(d) The College negotiated a term bank loan, by way of a bankers' acceptance loan, to finance the acquisition of the Markham campus. The loan is repayable, commencing September 27, 2004, by blended quarterly payments of approximately $573,000, maturing June 25, 2029. The College has since entered into an interest rate swap agreement to modify the floating rate of interest on this loan to a fixed rate of 5.607% (note 11(c)).

3. Long-term debt (continued):

Annual principal payments in each of the next five fiscal years and thereafter are as follows:

2018	$ 3,819,816
2019	4,077,308
2020	4,354,814
2021	4,649,241
2022	4,964,560
Thereafter	21,091,760
	$ 42,957,499

The fair value of these loans and mortgages as at March 31, 2017 is estimated by management to be $50,368,948 (2016 - $56,319,165).

4. Due to student associations:

The funds due to Seneca College Student Associations are unsecured, due on demand and non-interest bearing.

5. Deferred contributions:

Deferred contributions represent unspent externally restricted funding that has been received and relates to expenses of future years. Changes in the contributions deferred to future years are as follows:

	2017	2016
Balance, beginning of year	$ 9,223,346	$ 6,268,723
Add amount received from:		
Set aside tuition	6,486,386	6,476,869
Other sources	536,654	1,849,754
Realized investment income on endowments	1,613,114	1,034,819
Unrealized gain (loss) on endowments (note 8)	1,610,800	(584,466)
Less amounts disbursed:		
Set aside tuition	8,572,708	4,099,374
Other sources	1,923,601	1,722,979
Balance, end of year	$ 8,973,991	$ 9,223,346
Deferred contributions comprise:		
Scholarships and bursaries	$ 2,385,508	$ 4,867,165
Joint employment stability reserve	581,681	576,757
Prepaid leave plan	17,754	8,620
Endowment income:		
Ontario Trust for Student Support and other	5,989,048	3,770,804
	$ 8,973,991	$ 9,223,346

6. Deferred contributions for capital assets:

Deferred contributions for capital assets represent the unamortized amount of grants and other contributions received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the consolidated statement of operations and is amortized in relation to the asset to which it relates. The changes in the deferred contributions for capital asset balances are as follows:

	2017	2016
Balance, beginning of year	$ 92,732,302	$ 94,984,092
Amortization of deferred capital contributions	(7,443,517)	(7,585,943)
Contributions received for capital purposes	21,126,011	5,334,153
Balance, end of year	$ 106,414,796	$ 92,732,302

Deferred contributions for capital assets include $9,097,530 (2016 - nil) of unspent contributions.

7. Post-employment benefits and compensated absences:

The following tables outline the liability components of the College's post-employment benefits and compensated absences:

2017	Post-employment benefits	Non-vesting sick leave	Vesting sick leave	Total liability
Accrued employee future benefits obligations	$ 2,087,000	$ 7,219,000	$ 370,000	$ 9,676,000
Value of plan assets	(298,000)	–	–	(298,000)
Unamortized actuarial gains	93,000	1,576,000	1,071,000	2,740,000
Total liability	$ 1,882,000	$ 8,795,000	$ 1,441,000	$ 12,118,000

7. Post-employment benefits and compensated absences (continued):

2016	Post-employment benefits	Non-vesting sick leave	Vesting sick leave	Total liability
Accrued employee future benefits obligations	$ 2,227,000	$ 6,500,000	$ 2,555,000	$ 11,282,000
Value of plan assets	(395,000)	–	–	(395,000)
Unamortized actuarial gains (losses)	119,000	2,277,000	(1,092,000)	1,304,000
Total liability	$ 1,951,000	$ 8,777,000	$ 1,463,000	$ 12,191,000

The following tables outline the expense component of the College's post-employment benefits and compensated absences:

2017	Post-employment benefits	Non-vesting sick leave	Vesting sick leave	Total expense
Current year benefit costs	$ (29,000)	$ 388,000	$ 23,000	$ 382,000
Interest on accrued benefit obligation	4,000	103,000	8,000	115,000
Amortized actuarial losses (gains)	(19,000)	(130,000)	43,000	(106,000)
Total expenses	$ (44,000)	$ 361,000	$ 74,000	$ 391,000

2016	Post-employment benefits	Non-vesting sick leave	Vesting sick leave	Total expense
Current year benefit costs	$ 5,000	$ 428,000	$ 111,000	$ 544,000
Interest on accrued benefit obligation	3,000	108,000	45,000	156,000
Amortized actuarial losses (gains)	(16,000)	(139,000)	198,000	43,000
Total expenses	$ (8,000)	$ 397,000	$ 354,000	$ 743,000

7. Post-employment benefits and compensated absences (continued):

Above amounts exclude pension contributions to the Colleges of Applied Arts and Technology Pension Plan (the "Plan"), a multi-employer plan, described below:

(a) Pension plan:

Employees of the College are members of the Plan, which is a multi-employer, jointly sponsored defined benefit plan for eligible employees of public colleges and other 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, 2017 indicated an actuarial surplus of $1.6 billion. The College made contributions to the Plan and its associated retirement compensation arrangement of $18,033,736 in 2017 (2016 - $17,562,923), which has been included in the consolidated statement of operations.

(b) 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:

(i) Discount rate:

The present value, as at March 31, 2017, of the future benefits was determined using a discount rate of 2.0% (2016 - 1.7%).

7. Post-employment benefits and compensated absences (continued):

(ii) Drug costs:

Drug costs were assumed to increase at a rate of 9.00% in 2014 and decrease proportionately thereafter to an ultimate rate of 4.00% in 2034.

(iii) Other medical:

Other medical costs and vision/hearing care were assumed to increase at 4.0% per annum.

(iv) Dental costs:

Dental costs were assumed to increase at 4.0% per annum.

(c) Compensated absences:

(i) 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 six 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.

(ii) 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.

7. Post-employment benefits and compensated absences (continued):

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

	2017	2016
Wage and salary escalation	0.50% - 1.50%	0.50% - 1.80%
Discount rate	2.00%	1.70%

The probability that the employee will use more sick days than the annual accrual and the excess number of sick days used are within ranges of 0.00% to 23.70% and 0 to 48 days, respectively, for age groups ranging from 20 and under to 65 and over in bands of five years.

8. Externally restricted endowments:

Externally restricted net assets include endowment funds which have been donated for specific purposes. The principal sum must be held for investment, while the income earned is expendable for the specific purposes outlined when the funds are donated. The College ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they are provided.

Endowment funds of $20,240,505 consist of restricted cash and investments. The fair value of the restricted cash and investments at March 31, 2017 is $25,323,007 (2016 - $20,919,817), which represents funds restricted as to use and are not available for general operations.

Unrealized gains (losses) and realized investment income earned on endowment funds during the year, and reported in deferred contributions is as follows:

			2017	2016
	OTSS	Non-OTSS	Total	Total
Unrealized gain (loss)	$ 1,348,235	$ 262,565	$ 1,610,800	$ (584,466)
Realized investment income	1,350,172	262,942	1,613,114	1,034,819
	$ 2,698,407	$ 525,507	$ 3,223,914	$ 450,353

8. Externally restricted endowments (continued):

Investment income on externally restricted endowments that was disbursed during the year has been recorded in the consolidated statement of operations since this income is available for disbursement as scholarships and bursaries and the donor's conditions were met.

Ontario Trust for Student Support fund:

The externally restricted endowments include monies provided by the Government of Ontario through the OTSS matching funds program to award student aid as a result of raising an equal amount of endowed donations. The College has recorded the following amounts under the program:

	2017	2016
Schedule of Changes in Endowment Fund Balance		
Fund balance, beginning of year	$ 16,098,365	$ 15,437,575
Cash donations received and receivable	842,883	660,790
Fund balance, end of year	$ 16,941,248	$ 16,098,365

	2017	2016
Schedule of Changes in Expendable Funds Available for Awards		
Balance, beginning of year	$ 3,410,383	$ 3,170,415
Investment income	1,350,172	781,794
Bursaries awarded (total number - 966; 2016 - 45)	(863,100)	(38,963)
Unrealized gain (loss) on endowment funds	1,348,235	(502,863)
Balance, end of year	$ 5,245,690	$ 3,410,383

9. Investment in capital assets:

(a) Investment in capital assets represents the following:

	2017	2016
Capital assets	$ 342,666,336	$ 338,609,451
Less amounts financed by:		
Long-term debt (note 3)	42,957,499	46,533,981
Deferred contributions for capital assets (note 6)	97,317,266	92,732,302
	$ 202,391,571	$ 199,343,168

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

	2017	2016
Deficiency of revenue over expenses:		
Amortization of deferred contributions related to capital assets	$ 7,443,517	$ 7,585,943
Amortization of capital assets	(30,784,738)	(30,440,761)
Gain on disposal of capital assets	1,955,957	–
	$ (21,385,264)	$ (22,854,818)
Net change in investment in capital assets:		
Purchase of capital assets	$ 35,355,666	$ 35,506,115
Proceeds on disposal of capital assets	(2,470,000)	–
Amounts funded by deferred capital contributions	(12,028,481)	(5,334,153)
Repayments of long-term debt	3,576,482	3,350,516
	$ 24,433,667	$ 33,522,478

10. Commitments and contingent liabilities:

(a) Service agreements and lease commitments:

The College has entered into various service agreements, as well as other commitments, to lease premises and equipment. The anticipated annual payments in each of the next five years and thereafter in aggregate under current arrangements are as follows:

2018	$ 12,862,014
2019	11,096,161
2020	10,145,241
2021	5,109,220
2022	2,884,873
Thereafter	16,134,854
	$ 58,232,363

(b) Contractual commitments:

The primary services contracted by the College through contractual agreements with external companies include facilities management, security, grounds maintenance and print/copy services.

(c) Contingent liabilities:

In the normal course of its operations, the College is subject to various litigation and claims. Where management has assessed the likelihood of financial exposure for a claim as more than likely and where a reasonable estimate as to the exposure can be made, an accrual has been recorded in these consolidated financial statements. In some instances, the ultimate outcome of these claims cannot be determined at this time. However, the College's management believes that the ultimate disposition of these matters will not have a material adverse effect on its consolidated financial position.

(d) Letters of guarantee:

The College issues letters of guarantee through its financial institutions to provide guarantees to certain vendors. Outstanding letters of guarantee amount to $1,944,900 as at March 31, 2017 (2016 - $2,666,001).

10. Commitments and contingent liabilities (continued):

(e) Indemnification agreements:

In the normal course of business, the College enters into agreements that meet the definition of a guarantee. The College's primary guarantees subject to the disclosure requirements are as follows:

(i) The College has provided indemnities under lease agreements for the use of various operating facilities and equipment. Under the terms of these agreements, the College agrees to indemnify the counterparties for various items, including, but not limited to, all liabilities, loss, suits and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(ii) Indemnity has been provided to all directors and/or officers of the College for various items including, but not limited to, all costs to settle suits or actions due to association with the College, subject to certain restrictions. The College has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the College. The maximum amount of any potential future payment cannot be reasonably estimated.

(iii) In the normal course of business, the College has entered into agreements that include indemnities in favour of third parties, such as student work placement agreements. These indemnification agreements may require the College to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the College from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the College has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the consolidated statement of financial position with respect to these agreements.

11. Financial instruments:

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

2017	Fair value	Amortized cost
Cash	$ 53,281,014	$ –
Short-term investments (a)	–	22,552,089
Grants receivable	–	664,010
Accounts receivable	–	16,750,112
Long-term investments (a)	–	41,897,092
Restricted cash and investments (b)	25,323,007	–
Accounts payable and accrued liabilities	–	45,055,759
Current portion of long-term debt	–	3,819,816
Employee vacation accrual	–	12,571,505
Long-term debt	–	39,137,683
Deferred derivative liability (c)	5,052,271	–

2016	Fair value	Amortized cost
Cash	$ 27,650,597	$ –
Short-term investments (a)	–	15,478,778
Grants receivable	–	728,661
Accounts receivable	–	6,959,416
Long-term investments (a)	–	44,587,398
Restricted cash and investments (b)	20,919,817	–
Accounts payable and accrued liabilities	–	36,079,789
Current portion of long-term debt	–	3,576,482
Employee vacation accrual	–	13,803,681
Long-term debt	–	42,957,499
Deferred derivative liability (c)	6,424,494	–

(a) Excess operating funds are invested in liquid securities that are accessible when required. Short-term investments consist of T-bills and government bonds with maturities of less than one year. Long-term investments consist of government and corporate bonds with maturities that are greater than one year. All investments follow the Government of Ontario Binding Policy Directive on Banking, Investments and Borrowing.

11. Financial instruments (continued):

Excess operating funds held in short-term investments have yields varying from 0.425% to 3.50% (2016 - 0.6% to 0.83%) with maturity dates ranging from April 2017 to March 2018 (2016 - June 2016 to October 2016). The fair value of short-term investments as at March 31, 2017 was $22,557,782 (2016 - $15,521,098). Excess operating funds held in long-term investments have yields varying from 1.24% to 5.0% (2016 - 0.73% to 2.81%) with maturity dates ranging from June 2018 to December 2025 (2016 - January 2017 to December 2025). The fair value of long-term investments as at March 31, 2017 was $42,103,320 (2016 - $45,030,892).

(b) Restricted cash and investments are externally restricted for endowment purposes (note 8) and consist of pooled funds invested in money market, bonds and Canadian and international equity funds.

(c) The College entered into an interest rate swap agreement in a prior year to economically manage the floating interest rate of the bankers' acceptance loan (note 3(d)). Under the terms of the interest rate swap agreement, the College has contracted with the counterparty to pay a fixed rate of interest of 5.607% (2016 - 5.607%), while receiving interest at a variable rate to be set quarterly based on the bankers' acceptance rates which ranged from 0.86% to 0.93% (2016 - 0.78% to 1.00%) during the year. The effective date of the interest rate swap agreement was June 25, 2004, with a maturity date of June 25, 2029. The notional value of the interest rate swap agreement at March 31, 2017 is $20,214,000 (2016 - $21,287,000) and is amortized quarterly during the term of the interest rate swap agreement. The fair value of the interest rate swap agreement at March 31, 2017 is $5,052,271 (2016 - $6,424,494) and is recorded as a deferred derivative liability on the consolidated statement of financial position.

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to Level 3 based on the degree to which the fair value is observable:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

11. Financial instruments (continued):

- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All cash and restricted cash and investments are classified as Level 1 financial instruments, except for $24,321,254 (2016 - $19,868,304) invested in a Canadian Equity Fund, a US Equity Fund, a Fixed Income Fund and an International Equity Fund, which are classified as Level 2 financial instruments. The deferred derivative liability is classified as a Level 3 financial instrument.

There were no transfers among levels for the years ended March 31, 2017 and 2016. For a sensitivity analysis of financial instruments recognized in Level 3, see note 12, interest rate risk, as the prevailing interest rate is the most significant input into the fair value of the instrument.

12. Financial instruments and risk management:

(a) Credit risk:

Credit risk is the risk of financial loss to the College if a debtor fails to make payments of interest and principal when due. The College is exposed to this risk relating to its cash and accounts receivable. The College holds its cash accounts with federally regulated chartered banks which are insured by the Canadian Deposit Insurance Corporation. In the event of default, the College's cash accounts are insured up to $100,000 (2016 - $100,000).

The College's investment policy operates within the constraints of the investment guidelines issued by the Ministry of Advanced Education and Skills Development ("MAESD") and puts limits on the bond portfolio, including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis. The guidelines permit the College's funds to be invested in government bonds, bank-listed Schedule I or Schedule II or a branch in Canada of an authorized foreign bank under the Bank Act. Externally restricted and endowment funds, which are generally money and donations for scholarships and bursaries, can be invested in corporate bonds with a credit rating of A(R-1) or better. All other College funds are restricted to corporate bonds with a rating of AAA.

12. Financial instruments and risk management (continued):

The maximum exposure to investment credit risk is outlined in note 11.

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 were as follows:

			Past due		
2017	Total	1 - 30 days	31 - 60 days	61 - 90 days	> 90 days
Grants receivable	$ 664,010	$ 664,010	$ –	$ –	$ –
Accounts receivable	25,372,391	5,616,950	317,666	8,610,990	10,826,785
Gross receivables	26,036,401	$ 6,280,960	$ 317,666	$ 8,610,990	$ 10,826,785
Less impairment allowances	8,622,279				
	$ 17,414,122				

			Past due		
2016	Total	1 - 30 days	31 - 60 days	61 - 90 days	> 90 days
Grants receivable	$ 728,661	$ 728,661	$ –	$ –	$ –
Accounts receivable	7,037,768	2,029,620	3,774,006	30,490	1,203,652
Gross receivables	7,766,429	$ 2,758,281	$ 3,774,006	$ 30,490	$ 1,203,652
Less impairment allowances	78,352				
	$ 7,688,077				

Student receivables not impaired are collectible based on the College's assessment and past experience regarding collection rates.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

12. Financial instruments and risk management (continued):

(b) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The College's investment policy operates within the constraints of the investment guidelines issued by the MAESD. The policy's application is monitored by management, the investment managers and the Board of Governors. Diversification techniques are utilized to minimize risk.

The investment policy outlines an asset mix comprising:

Fixed income	25% - 50%
Equities	50% - 65%
Cash and short-term investments	0% - 15%

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

(i) 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 rates when adverse changes in foreign currency rates occur. The College does not have any material transactions or financial instruments denominated in foreign currencies.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure risk.

(ii) 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.

12. Financial instruments and risk management (continued):

The College is exposed to this risk through the fixed income securities and long-term debt.

The College mitigates interest rate risk on its long-term debt (note 3(d)) through a derivative financial instrument that exchanges the variable rate inherent in the long-term debt for a fixed rate (note 11). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the term debt. In addition, the College's other long-term debt, as described in note 3(a) to (c), would not be impacted as the inherent rates are fixed.

Fixed income securities have yields varying from 0.43% to 4.15% (2016 - 0.44% to 4.69%) with maturity dates ranging from April 2017 to December 2064 (2016 - May 2016 to December 2064).

At March 31, 2017, a 1% fluctuation in interest rates, with all other variables held constant, would have an estimated impact on the fair value of the bonds and the interest rate swap of $2,147,545 (2016 - $2,384,717) and $1,474,325 (2016 - $1,762,000), respectively.

There have been no significant changes from the previous year in the exposure to interest rate risk or policies, procedures and methods used to measure the risk.

(iii) 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 the equity holdings with its investment portfolio. At March 31, 2017, a 10% movement in the stock markets with all variables held constant would have an estimated effect on the fair values of the College's equities of $1,477,017 (2016 - $1,206,842).

There have been no significant changes from the previous year in the exposure to the risk or policies, procedures and methods used to measure the risk.

12. Financial instruments and risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the College will not be able to meet all cash outflow obligations as they come due. The College mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining investments that may be converted to cash in the near term if unexpected cash outflows arise. The following tables set out the contractual maturities (representing undiscounted contractual cash flows of financial liabilities):

2017	Within 6 months	6 months to 1 year	1 - 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 43,371,046	$ 1,684,713	$ –	$ –	$ 45,055,759
Employee vacation accrual	11,344,117	1,227,388	–	–	12,571,505
Current portion of long-term debt	1,878,376	1,941,440	–	–	3,819,816
Long-term debt	–	–	23,347,738	15,789,945	39,137,683
	$ 56,593,539	$ 4,853,541	$ 23,347,738	$ 15,789,945	$ 100,584,763

2016	Within 6 months	6 months to 1 year	1 - 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 35,047,761	$ 1,032,028	$ –	$ –	$ 36,079,789
Employee vacation accrual	11,470,495	1,212,629	–	–	12,683,124
Current portion of long-term debt	1,736,073	1,840,409	–	–	3,576,482
Long-term debt	–	–	21,865,739	21,091,760	42,957,499
	$ 48,254,329	$ 4,085,066	$ 21,865,739	$ 21,091,760	$ 95,296,894

Derivative financial liabilities mature, as described in note 11.

There have been no significant changes from the previous year in the exposure to liquidity risk or policies, procedures and methods used to measure the risk.

13. Comparative information:

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