



FINANCIAL STATEMENTS
MARCH 31, 2018

OKANAGAN COLLEGE OKANAGAN COLLEGE OKANAGAN COLLEGE
OKANAGAN COLLEGE OKANAGAN COLLEGE
OKANAGAN COLLEGE OKANAGAN COLLEGE
OKANAGAN COLLEGE **OKANAGAN COLLEGE** OKANA

Independent auditors' report

Grant Thornton LLP
200 - 1633 Ellis Street
Kelowna BC V1Y 2A8

T (250) 712-6800
(800) 661-4244 (Toll Free)
F (250) 712-6850
www.GrantThornton.ca

To the Board of Governors of
Okanagan College and the Ministry of Advanced Education

We have audited the accompanying financial statements of Okanagan College, which comprise the statement of financial position as at March 31, 2018 and the statement of operations and accumulated surplus, statement of remeasurement gains and losses, statement of changes in net debt and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation of the 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 College'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 presentation of the 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 financial statements of Okanagan College for the year ended March 31, 2018 are prepared, in all material respects, in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.



Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Kelowna, Canada
May 15, 2018

Grant Thornton LLP
Chartered Professional Accountants

OKANAGAN COLLEGE
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2018

	March 31 2018	March 31 2017
Financial assets		
Cash and cash equivalents	\$ 19,641,369	\$ 13,737,093
Investments (note 2)	9,361,734	9,069,709
Accounts receivable (note 3)	1,880,781	2,879,652
Inventory for resale (note 4)	782,221	691,740
	31,666,105	26,378,194
Liabilities		
Accounts payable and accrued liabilities (note 5)	11,972,969	9,128,073
Long term debt (note 7)	3,569,866	3,769,049
Deferred revenues	10,201,064	10,475,782
Employee future benefit obligations (note 8)	12,735,300	12,897,700
Deferred contributions for tangible capital assets (note 9)	106,037,843	100,458,906
	144,517,042	136,729,510
Net debt	(112,850,937)	(110,351,316)
Non-financial assets		
Prepaid expenses	784,850	798,888
Tangible capital assets (note 6)	130,526,244	123,120,996
	131,311,094	123,919,884
Accumulated surplus (note 10)	\$ 18,460,157	\$ 13,568,568
Accumulated surplus is comprised of:		
Accumulated surplus	\$ 17,202,173	\$ 12,246,401
Accumulated remeasurement gains	1,257,984	1,322,167
	\$ 18,460,157	\$ 13,568,568
Commitments and contingencies (note 12)		
Approved on behalf of the Board:		
		
_____ Chair, Board of Governors		
	_____ President	

OKANAGAN COLLEGE
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED MARCH 31, 2018

	Budget 2018	2018	2017
Revenue			
Government grants	\$ 58,285,429	\$ 59,607,090	\$ 57,365,737
Tuition and other fees	34,428,061	35,842,236	32,306,092
Ancillary service sales	5,521,801	5,846,157	5,509,594
Contract services	3,405,329	2,027,712	1,989,879
Post construction contributions for tangible capital assets	-	996,073	996,999
Investment income	379,050	704,303	410,738
Other administration fees and sundry	533,450	1,067,645	848,513
Amortization of deferred contributions for tangible capital assets	5,211,914	5,287,100	5,368,555
	<u>107,765,034</u>	<u>111,378,316</u>	<u>104,796,107</u>
Expense (note 14)			
Instruction and academic support	58,042,639	57,858,981	55,225,997
Facility and institutional support	19,887,393	19,249,272	19,089,359
Enrolment management and student support	18,177,756	17,089,672	17,443,915
Ancillary operations	4,597,625	4,991,087	4,679,977
Amortization of tangible capital assets	6,920,194	7,094,105	7,053,607
Interest on long term debt	139,427	139,427	139,427
	<u>107,765,034</u>	<u>106,422,544</u>	<u>103,632,282</u>
Annual surplus	-	4,955,772	1,163,825
Accumulated surplus, beginning of year	12,246,401	12,246,401	11,082,576
Accumulated surplus, end of year	<u>\$ 12,246,401</u>	<u>\$ 17,202,173</u>	<u>\$ 12,246,401</u>

OKANAGAN COLLEGE
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
FOR THE YEAR ENDED MARCH 31, 2018

	2018	2017
Accumulated remeasurement gains, beginning of year	<u>\$ 1,322,167</u>	<u>\$ 791,564</u>
Unrealized gain on investments	114,338	572,584
Realized gain on investments, reclassified to statement of operations	<u>(178,521)</u>	<u>(41,981)</u>
Net remeasurement (losses) gains for the year	<u>(64,183)</u>	<u>530,603</u>
Accumulated remeasurement gains, end of year	<u>\$ 1,257,984</u>	<u>\$ 1,322,167</u>

OKANAGAN COLLEGE
STATEMENT OF CHANGES IN NET DEBT
FOR THE YEAR ENDED MARCH 31, 2018

	Budget		
	2018	2018	2017
Annual surplus	\$ -	\$ 4,955,772	\$ 1,163,825
Acquisition of tangible capital assets	(17,700,000)	(14,499,353)	(6,314,604)
Amortization of tangible capital assets	6,920,194	7,094,105	7,053,607
	<u>(10,779,806)</u>	<u>(2,449,476)</u>	<u>1,902,828</u>
Acquisition of prepaid expenses	-	(784,850)	(798,888)
Use of prepaid expenses	-	798,888	561,126
	-	14,038	(237,762)
Net remeasurement (losses) gains	-	(64,183)	530,603
(Increase) decrease in net debt	(10,779,806)	(2,499,621)	2,195,669
Net debt, beginning of year	<u>(110,351,316)</u>	<u>(110,351,316)</u>	<u>(112,546,985)</u>
Net debt, end of year	<u>\$ (121,131,122)</u>	<u>\$ (112,850,937)</u>	<u>\$ (110,351,316)</u>

OKANAGAN COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2018

	2018	2017
Net cash inflow (outflow) related to the following activities		
Operating activities		
Annual surplus	\$ 4,955,772	\$ 1,163,825
Adjust for non-cash items:		
Realized gain on disposal of investments	(178,521)	(41,981)
Actuarial adjustment on long term debt	(6,298)	3,411
Amortization of deferred contributions for tangible capital assets	(5,287,100)	(5,368,555)
Amortization of tangible capital assets	7,094,105	7,053,607
	<u>6,577,958</u>	<u>2,810,307</u>
Changes in non-cash working capital		
Accounts receivable	998,871	227,011
Prepaid expenses	14,038	(237,762)
Inventory for resale	(90,481)	30,549
Accounts payable and accrued liabilities	2,844,896	(3,816,512)
Deferred revenues	(274,718)	1,360,417
Employee future benefit obligations	(162,400)	(146,600)
	<u>9,908,164</u>	<u>227,410</u>
Capital activities		
Acquisition of tangible capital assets	(14,282,614)	(6,164,293)
Investing activities		
Purchase of investments	(838,687)	(280,624)
Proceeds from disposal of investments	661,000	415,000
	<u>(177,687)</u>	<u>134,376</u>
Financing activities		
Deferred contributions for tangible capital assets	10,649,298	4,422,384
Repayment of long term debt	(192,885)	(192,885)
	<u>10,456,413</u>	<u>4,229,499</u>
Increase (decrease) in cash and cash equivalents	5,904,276	(1,573,008)
Cash and cash equivalents at beginning of year	13,737,093	15,310,101
Cash and cash equivalents at end of year	<u>\$ 19,641,369</u>	<u>\$ 13,737,093</u>

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

Okanagan College (the College) was designated by Order in Council on November 26, 2004, and began operations July 1, 2005. The College operates under the authority of the College and Institute Act of British Columbia. The College is a not-for-profit entity and is exempt from income tax under Section 149 of the Income Tax Act.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

These financial statements are the responsibility of, and have been prepared by, management in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. This Section requires that the financial statements be prepared in accordance with Canadian public sector accounting standards (PSAS) except in regard to the accounting for government transfers as set out below.

In September 2010, the Province of British Columbia Treasury Board (“Treasury Board”) provided directive through Government Organization Accounting Standards Regulation 257/2010 requiring all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sector to adopt Canadian public sector accounting standards of the Chartered Professional Accountants of Canada (CPA Canada) without not-for-profit provisions in their first fiscal year commencing on or after January 1, 2012. In March 2011, the Public Sector Accounting Board released a new *Section PS 3410 Government Transfers*. In November 2011, the Treasury Board provided a directive through Restricted Contributions Regulation 198/2011 providing direction for the reporting of restricted contributions whether they are received or receivable by the College before or after this regulation was in effect. The Treasury Board direction on the accounting treatment of restricted contributions is as described in Note 1(d).

Section 23.1 of the Budget Transparency and Accountability Act and its related regulations require the College to recognize government transfers for tangible capital assets into revenue on the same basis as the related amortization expense. As these transfers do not contain stipulations that create a liability, Canadian public sector accounting standards would require these transfers to be fully recognized as revenue in the year received. If these amounts were recognized as revenue in the year received, the financial statements of the College would be adjusted as follows:

- Year ended March 31, 2017 – decrease in revenue and annual surplus of \$417,863.
- March 31, 2017 – increase in accumulated surplus and decrease in deferred contributions for tangible capital assets of \$95,730,686.
- Year ended March 31, 2018 – increase in revenue and annual surplus of \$5,720,414.
- March 31, 2018 – increase in accumulated surplus and decrease in deferred contributions for tangible capital assets of \$101,451,100.

(b) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with a term to maturity of three months or less at the date of purchase.

(continued)

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments

A contract establishing a financial instrument creates, at its inception, rights and obligations to receive or deliver economic benefits. The financial assets and liabilities portray these rights and obligations in the financial statements. The College recognizes a financial instrument when it becomes a party to a financial instrument contract.

Financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable and accrued liabilities, and long term debt.

All financial instruments are initially recorded at fair value. All financial assets and liabilities are subsequently recorded at cost or amortized cost except for investments, which are recorded at fair value, and the associated transaction costs are added to the carrying values of these financial instruments upon initial recognition. Transaction costs associated with financial instruments subsequently measured at fair value are expensed as incurred. Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or a liability.

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations. Interest and dividends attributable to financial instruments are reported in the statement of operations. All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. Any reversals of previously recognized impairment losses are recognized in the statement of operations in the year the reversal occurs to the extent that the reversal of the impairment loss does not exceed the original carrying value of the asset.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

(d) Revenue recognition

Revenue from tuition fees is recognized as revenue over the course of the program. Any portion of the tuition fee revenue relating to the period subsequent to March 31 is deferred to the next fiscal year.

Unrestricted donations and grants are recorded as revenue when receivable if the amounts can be estimated and collection is reasonably assured. Pledges from donors are recorded as revenue when payment is received by the College or the transfer of property is completed.

The accounting treatment for restricted contributions is not consistent with the requirements of Canadian public sector accounting standards which require that government transfers be recognized as revenue when approved by the transferor and eligibility criteria have been met unless the transfer contains a stipulation that meets the criteria for liability recognition in which case the transfer is recognized as revenue over the period that the liability is extinguished. See Note 1 (a) for the impact of this policy on these financial statements.

(continued)

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Revenue recognition (continued)

Restricted donations and grants are reported as revenue depending on the nature of the restrictions placed on the use of the funds by the contributors as follows:

- I. Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or in the form of a depreciable tangible capital asset, in each case for use in providing services, are recorded and referred to as deferred contributions for tangible capital assets and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred contributions for tangible capital assets and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.
- II. Contributions restricted for specific purposes other than those to be held in perpetuity or for the acquisition or development of a depreciable tangible capital asset are recorded as deferred revenues and recognized in revenue in the year in which the stipulation or restriction on the contribution has been met.
- III. Contributions restricted to be retained in perpetuity, allowing only the investment income earned thereon to be spent, are recorded as direct increases to accumulated surplus for the portion to be held in perpetuity and as deferred contributions for the investment income earned thereon.

Investment income includes interest recorded on an accrual basis and dividends recorded as declared, realized gains and losses on the sale of investments, and write-downs on investments where the loss in value is determined to be other-than-temporary.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by external parties.

Donations and post construction contributions for tangible capital assets that are not externally restricted are recognized as revenue when they are received. Post construction capital contributions are contributions received after the completion of a tangible capital asset.

Ancillary sales are recognized when the product or service is provided to the consumer.

Contributed goods and services received and used in operations of the College are recognized as revenues and expenses only to the extent that their fair values can be reasonably determined or estimated.

(e) Inventory for resale

Inventories held for resale are recorded at the lower of cost and net realizable value. Costs are assigned using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(continued)

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(g) Prepaid expenses

Prepaid expenses include licenses and contract payments.

(h) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. Interest is not capitalized when external debt is issued to finance the construction of tangible capital assets. The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight-line basis over the estimated useful lives shown below. Land is not amortized as it is deemed to have a permanent value.

Category	Years
Site improvements	10
Buildings	40
Furniture and equipment	5
Computer equipment	5
Leasehold improvements	3

Tangible capital assets are written down when conditions indicate that they no longer contribute to the College's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets is less than their net book value.

(i) Employee future benefits

The College and its employees make contributions to the College Pension Plan and the Municipal Pension Plan which are multi-employer joint trustee plans. These plans are defined benefit plans, providing a pension on retirement based on the member's age at retirement, length of service, and highest earnings averaged over five years. As the assets and liabilities of the plans are not segregated by institution, the plans are accounted for as defined contribution plans and any College contributions to the plans are expensed as incurred.

Sick leave benefits and retirement severance benefits are also available to the College's employees. The costs of these benefits are actuarially determined based on service and best estimates of retirement ages and expected future salary and wage increases. The obligation under these benefit plans is accrued based on projected benefits as the employees render services necessary to earn the future benefits. Actuarial gains and losses are amortized over the expected average remaining service life of the employees.

(continued)

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Asset retirement obligations

Liabilities are recognized for statutory, contractual, or legal obligations associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development, or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs are capitalized into the carrying amount of the related tangible capital asset. In subsequent periods, the liability is adjusted for accretion and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is amortized on the same basis as the related asset and accretion expense is included in the Statement of Operations.

(k) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the annual budget approved by the Board of Governors of the College on March 28, 2017. The budget is reflected in the Statement of Operations and Accumulated Surplus and the Statement of Changes in Net Debt.

(l) Use of estimates

The preparation of the financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, and related disclosures. Key areas where management has made estimates and assumptions include those related to the useful life of tangible capital assets and amortization of deferred contributions for tangible capital assets, the amount of allowance for doubtful accounts, deferral of tuition revenue, and the valuation of employee future benefit obligations. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

2. INVESTMENTS

Investments are invested through RBC Phillips Hager & North:

	<u>2018</u>	<u>2017</u>
Investments held at fair value:		
Fixed income	\$ 4,412,876	\$ 3,823,943
Equity investments	<u>4,948,858</u>	<u>5,245,766</u>
	<u>\$ 9,361,734</u>	<u>\$ 9,069,709</u>

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

3. ACCOUNTS RECEIVABLE

The following table shows the categories of accounts receivable and the related provision for doubtful accounts:

	<u>2018</u>	<u>2017</u>
Student receivables	\$ 255,202	\$ 419,241
Trade and other receivables	<u>1,811,642</u>	<u>2,650,939</u>
	2,066,844	3,070,180
Less: Allowance for doubtful accounts	<u>(186,063)</u>	<u>(190,528)</u>
	<u>\$ 1,880,781</u>	<u>\$ 2,879,652</u>

4. INVENTORY FOR RESALE

Inventories recognized in the statement of financial position can be analyzed as follows:

	<u>2018</u>	<u>2017</u>
Bookstore	\$ 770,854	\$ 671,108
Other	<u>11,367</u>	<u>20,632</u>
	<u>\$ 782,221</u>	<u>\$ 691,740</u>

In 2018, a total of \$3,038,847 (2017 - \$2,840,866) of inventories were included in the Statement of Operations and Accumulated Surplus as an expense. This includes an amount of \$3,816 (2017 - \$34,072) resulting from write-down of inventories.

None of the inventories are pledged as security for liabilities.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table shows the categories of accounts payable and accrued liabilities:

	<u>2018</u>	<u>2017</u>
Trade payables	\$ 7,383,552	\$ 4,736,412
Accrued payables	1,876,917	1,638,616
Wages payables	<u>2,712,500</u>	<u>2,753,045</u>
	<u>\$ 11,972,969</u>	<u>\$ 9,128,073</u>

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

6. TANGIBLE CAPITAL ASSETS

The following tables show the cost, additions, transfers, disposals, accumulated amortization and net book value of the College's tangible capital assets:

As at March 31, 2018						
	Land and site improvements	Buildings	Furniture and equipment	Computer equipment	Assets under construction	2018 Total
Cost						
Opening balance	\$ 11,476,162	\$ 159,618,950	\$ 55,429,594	\$ 13,078,321	\$ 724,191	\$ 240,327,218
Additions/ transfers	1,588,566	4,801,327	1,421,163	944,771	5,743,526	14,499,353
Closing Balance	13,064,728	164,420,277	56,850,757	14,023,092	6,467,717	254,826,571
Accumulated Amortization						
Opening balance	7,327,061	48,037,041	50,136,310	11,705,810	-	117,206,222
Amortization	635,865	4,015,477	1,944,997	497,766	-	7,094,105
Closing balance	7,962,926	52,052,518	52,081,307	12,203,576	-	124,300,327
Net book value	\$ 5,101,802	\$ 112,367,759	\$ 4,769,450	\$ 1,819,516	\$ 6,467,717	\$ 130,526,244
As at March 31, 2017						
	Land and site improvements	Buildings	Furniture and equipment	Computer equipment	Assets under construction	2017 Total
Cost						
Opening balance	\$ 10,602,041	\$ 157,285,110	\$ 53,807,306	\$ 12,318,157	\$ -	\$ 234,012,614
Additions/ transfers	874,121	2,333,840	1,622,288	760,164	724,191	6,314,604
Closing Balance	11,476,162	159,618,950	55,429,594	13,078,321	724,191	240,327,218
Accumulated Amortization						
Opening balance	6,814,331	44,104,622	47,921,876	11,311,786	-	110,152,615
Amortization	512,730	3,932,419	2,214,434	394,024	-	7,053,607
Closing balance	7,327,061	48,037,041	50,136,310	11,705,810	-	117,206,222
Net book value	\$ 4,149,101	\$ 111,581,909	\$ 5,293,284	\$ 1,372,511	\$ 724,191	\$ 123,120,996

(continued)

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

6. TANGIBLE CAPITAL ASSETS (continued)

Assets under construction

Assets under construction as at March 31, 2018, represent work in progress of \$6,467,717 (2017 - \$724,191) on the construction of a new health building on the Kelowna Campus, a welding trades building on the Penticton Campus, and a trades training facility on the Vernon Campus. Amortization of these assets will commence when the assets are put into service.

Contributed tangible capital assets

In 2018, \$216,739 (2017 - \$150,311) of contributed tangible capital assets were included in furniture and equipment additions to be used for program support.

7. LONG TERM DEBT

	<u>2018</u>	<u>2017</u>
Province of British Columbia - Centre for Learning \$4,162,000 bond, 3.35%, unsecured, sinking fund contributions at \$192,885 annually plus semi-annual interest of \$69,714, due June 9, 2029. Debt is reported at net of sinking fund. The sinking fund balance in 2018 is \$592,134 (2017 - \$392,951).	<u>\$ 3,569,866</u>	<u>\$ 3,769,049</u>

(a) Sinking fund installments and retirement provisions

Aggregate payments for the next five fiscal years to meet sinking fund installments on externally restricted sinking funds are:

2018-2019	\$	192,885
2019-2020		192,885
2020-2021		192,885
2021-2022		192,885
2022-2023		192,885
		<u>964,425</u>

(b) Operating line of credit

The College has an operating line of credit with TD Canada Trust for an authorized amount of \$1,000,000, bearing interest at bank prime rate minus 0.5% on outstanding balances. At March 31, 2018, the balance outstanding on the operating line of credit was \$nil (2017 - \$nil).

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

8. EMPLOYEE FUTURE BENEFITS

(a) Pension benefits

The College and its employees contribute to the College Pension Plan and Municipal Pension Plan (jointly trustee pension plans). The boards of trustees for these plans, representing plan members and employers, are responsible for administering the pension plans, including investing assets and administering benefits. The plans are multi-employer defined benefit pension plans. Basic pension benefits are based on a formula. As at August 31, 2017, the College Pension Plan has about 14,000 active members, and approximately 7,500 retired members. As at December 31, 2016, the Municipal Pension Plan has about 193,000 active members, including approximately 5,800 from colleges.

Every three years, an actuarial valuation is performed to assess the financial position of the plans and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plans. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plans. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2015 indicated a \$67 million surplus for basic pension benefits on a going concern basis.

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2015 indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

The Okanagan College paid \$5,564,308 (2017 - \$5,295,602) for employer contributions to the plans in fiscal 2018.

The next valuation for the College Pension Plan will be as at August 31, 2018, with results available in 2019. The next valuation for the Municipal Pension Plan will be December 31, 2018, with results available in 2019.

Employers participating in the plans record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plans record accrued liabilities and accrued assets for the plans in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

(b) Employee future benefit obligations

The College does not establish plan assets to fund the employee future benefit obligations. The College has been providing, and will continue to provide for the payment of these benefits as they become due.

(continued)

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

8. EMPLOYEE FUTURE BENEFITS (continued)

(b) Employee future benefit obligations (continued)

Employees of the College are entitled to sick leave in accordance with the terms and conditions of their employment contracts. Sick leave credits accumulate for employees of the College. As they render services, they earn the right to the sick leave benefit. The College recognizes a liability and an expense for sick leave in the period in which employees render services in return for the benefits.

Retirement benefit payments represent the College's share of the cost to provide employees with various benefits upon retirement. The accrued benefit obligation and the net periodic benefit cost were estimated by an actuarial valuation completed April 2, 2018. The next valuation will be as at March 31, 2021 with results available in 2021.

Information about liabilities for the College's employee future benefit obligations are as follows:

	<u>2018</u>	<u>2017</u>
Employee future benefit obligations		
Balance, beginning of year	\$ 12,395,300	\$ 12,434,500
Current service cost	1,067,800	1,016,900
Interest cost	413,900	414,700
Benefits paid	(1,542,000)	(1,470,800)
Actuarial loss	2,460,000	-
Recognition of continuation of benefits for disabled employees	5,300	-
Balance, end of year	<u>14,800,300</u>	<u>12,395,300</u>
Unamortized actuarial (loss) gain	<u>(2,065,000)</u>	<u>502,400</u>
Employee future benefit obligations, end of year	<u>\$ 12,735,300</u>	<u>\$ 12,897,700</u>
Components of net benefit expense		
Service cost	\$ 1,067,800	\$ 1,016,900
Interest cost	413,900	414,700
Amortization of net actuarial gain	(107,400)	(107,400)
Recognition of continuation of benefits for disabled employees	5,300	-
Net benefit expense	<u>\$ 1,379,600</u>	<u>\$ 1,324,200</u>

(continued)

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

8. EMPLOYEE FUTURE BENEFITS (continued)

The significant actuarial assumption adopted in preparing the College's accrued benefit liability is as follows:

	<u>2018</u>	<u>2017</u>
Interest (discount) rate	2.75%	3.3%
Wages and salary escalation rate range	2.0 – 6.0%	2.0 – 6.0%

9. DEFERRED CONTRIBUTIONS FOR TANGIBLE CAPITAL ASSETS

The amortization of deferred contributions for tangible capital assets is recorded as revenue in the statement of operations and accumulated surplus, and deferred contributions for tangible capital assets represents the unamortized amount of externally restricted contributions received for the purchase of tangible capital assets.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 100,458,906	\$101,254,766
Deferred contributions received from:		
Ministry of Advanced Education	8,107,394	3,631,094
Federal Strategic Investment Fund	2,194,893	500,000
Donations	563,750	441,601
	<u>111,324,943</u>	<u>105,827,461</u>
Less: Amounts amortized to revenue	(5,287,100)	(5,368,555)
Balance, end of year	\$ 106,037,843	\$100,458,906

10. ACCUMULATED SURPLUS

The following table shows the changes in accumulated surplus:

	Operating surplus (deficit)	Unfunded employee future benefit obligations	Investment in tangible capital assets	Remeasurement gains and losses	2018 Total	2017 Total
Accumulated surplus, beginning of year	\$ 6,251,060	\$ (12,897,700)	\$18,893,041	\$ 1,322,167	\$ 13,568,568	\$ 11,874,140
Annual surplus	6,594,079	162,400	(1,800,707)	-	4,955,772	1,163,825
Net remeasurement (losses) gains for the year	-	-	-	(64,183)	(64,183)	530,603
Acquisition of tangible capital assets	(3,633,316)	-	3,633,316	-	-	-
Repayment of long term debt	(192,885)	-	192,885	-	-	-
Accumulated surplus, end of year	\$ 9,018,938	\$ (12,735,300)	\$20,918,535	\$ 1,257,984	\$ 18,460,157	\$ 13,568,568

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

11. RELATED PARTY TRANSACTIONS

The College is related through common ownership to all Province of British Columbia ministries, agencies, school districts, health authorities, colleges, universities, and crown corporations. Transactions with these entities, unless disclosed separately, are considered to be in the normal course of operations and are recorded at the exchange amount.

12. COMMITMENTS AND CONTINGENCIES

(a) The College has entered into various leases, agreements and contracts with third parties for various services with periods ranging from one to thirty-five years. The combined annual costs over the next five fiscal years are estimated to be as follows:

2018-2019	\$ 1,533,738
2019-2020	1,489,054
2020-2021	1,375,086
2021-2022	857,900
2022-2023	556,633
	<u>\$ 5,812,411</u>

(b) The College is involved in certain legal actions. Some of these legal actions are managed and covered by the University, College and Institute Protection Program. The outcome of these matters cannot be determined at this time. In the event that any claims are successful, it is management's opinion that the settlements of such claims would not have a material effect on the financial position of the College. The resulting loss to the College, if any, will be recorded in the period in which it is determinable.

13. SEGMENTED INFORMATION

Segmentation is defined by the College as groups of activities that have in common that they serve a particular purpose that is unique and meaningful in the post-secondary sector, and is well understood by the readers. Costs included in these activities include salaries, wages, contracts, benefits, and non-personnel costs such as consulting, travel, printing, supplies, services, repairs and maintenance.

The College has identified the following segments and associated groups of activities based upon the functional areas of service as provided by various departments within the College:

(a) Instruction and academic support - This segment includes direct department cost and academic support costs of delivering programs. These costs include personnel and non-personnel operating costs directly held in academic departments.

(continued)

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

13. SEGMENTED INFORMATION (continued)

- (b) Facility and institutional support - In addition to segment (c), there is a group of operating activities that commonly exist in an organization to provide administrative and infrastructure support. This segment captures costs associated with the operation of the following support departments: Board of Governors, Executive Offices, Financial Services, Human Resources, Facilities and Business Services, Information Technology Services, Legal Affairs, and Public Affairs. Costs included within these departments are costs associated with staff recruitment and termination, legal fees, custodial services, grounds maintenance, security, occupational health and safety, and shipping and receiving. In addition, institutional costs such as investment fees, insurance premiums, bank charges, audit fees and employee related costs are included here.
- (c) Enrolment management and student support - This segment, unique to the post-secondary sector, includes enrolment management and student service costs such as student recruitment, student registration, student placement, student counseling and library services. It also includes administrative costs in the Regional Dean's offices in all campus locations, and operating costs for scholarships, fundraising and alumni administration.
- (d) Ancillary operations - This segment includes the activities of the ancillary operations. An ancillary operation is one that provides goods and services to students, staff or others, and that charges a fee directly related to the cost of providing the goods or services. Ancillary operations include parking, food services, student residence and bookstores. Costs associated with this segment include administration and support costs related to these activities.
- (e) Amortization of tangible capital assets – This segment includes the amortization costs of all depreciable assets. Depreciable assets include: site improvements, buildings, furniture and equipment and computer equipment.
- (f) Interest on long term debt – Disclosure is required as a separate item under PS 3230.15(f) of the Canadian public sector accounting standards.

14. EXPENSES BY OBJECT

Total expenses by object are itemized as follows:

	Budget		
	<u>2018</u>	<u>2018</u>	<u>2017</u>
Salary and benefits	\$ 76,133,778	\$ 73,941,300	\$ 71,689,359
Supplies and services	24,571,635	25,247,712	24,749,889
Amortization of tangible capital assets	6,920,194	7,094,105	7,053,607
Interest on long term debt	139,427	139,427	139,427
	\$ 107,765,034	\$ 106,422,544	\$103,632,282

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

15. FINANCIAL RISK MANAGEMENT

The College has exposure to the following risks with respect to its financial instruments: credit risk, market risk and liquidity risk.

The Board of Governors ensures that College has identified its major risks and ensures that management monitors and controls them.

(a) Credit risk

Credit risk is the risk of financial loss to the College if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from certain financial assets held by the College consisting of cash and cash equivalents, investments, and accounts receivable.

The College manages its credit risk through a prudent investment policy approved by the College's Board of Governors. The College's accounts receivable are numerous and diverse and therefore the College has no significant concentration of credit risk. Accounts receivable are carefully monitored and are actively pursued, which includes the use of a collection agency for balances more than three months old. The College's exposure to credit risk is minimal and there was no significant change in exposure from the prior year.

(b) Market risk

Market risk is the risk that changes in market factors, such as interest rates, will affect the College's income. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing the return on investments.

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

It is management's opinion that the College is not exposed to significant market or interest rate risk arising from its financial instruments.

(c) Liquidity risk

Liquidity risk is the risk that the College will not be able to meet its financial obligations as they become due.

The College manages liquidity risk by continually monitoring actual and forecast cash flows from operations and anticipated investing and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

OKANAGAN COLLEGE
Notes to the Financial Statements
Year Ended March 31, 2018

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Canadian public sector accounting standards define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The financial instruments measured at fair value held within each investment are classified according to a hierarchy which includes three levels, reflecting the reliability of the inputs involved in the fair value determination. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The College's investments are all considered to be level 1 financial instruments for which the fair value is determined based on quoted prices in active markets. Changes in fair valuation methods or in the availability of market observable inputs may result in a transfer between levels. During the year there was no transfer of securities between the different levels.