

Financial Statements of

RED RIVER COLLEGE

Year ended June 30, 2006



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AUDITORS' REPORT

To the Board of Governors of Red River College

We have audited the statement of financial position of Red River College as at June 30, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our examination did not extend to the budget which has been provided as additional information and therefore we do not express any opinion concerning the budget.

Signed "KPMG LLP"

Chartered Accountants

Winnipeg, Canada

September 1, 2006

RED RIVER COLLEGE

Statement of Financial Position
(In thousands of dollars)

June 30, 2006, with comparative figures for 2005

	2006	2005
Assets		
Current assets:		
Cash and short-term investments - trust and endowment (note 3)	\$ 3,979	\$ 6,795
Cash and short-term investments (note 3)	2,265	1,303
Accounts receivable	3,214	2,694
Inventories	958	900
Prepaid expenses (note 4)	3,089	2,083
	<u>13,505</u>	<u>13,775</u>
Long term investments - trust and endowment (note 5)	4,273	248
Due from Province of Manitoba (note 6)	9,253	9,253
Capital assets (note 7)	72,189	71,298
Intangible asset	12	14
	<u>\$ 99,232</u>	<u>\$ 94,588</u>

Liabilities and Net Assets

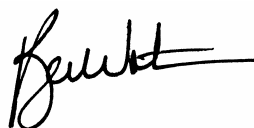
Current liabilities:		
Bank indebtedness (note 8)	\$ 1,340	\$ 765
Accounts payable and accrued liabilities (note 9)	19,754	19,287
Current portion of obligations under capital leases (note 10)	1,458	1,707
Deferred revenue	4,559	4,116
	<u>27,111</u>	<u>25,875</u>
Obligations under capital leases (note 10)	1,350	1,398
Deferred contributions (note 11)	3,087	3,125
Deferred capital campaign contributions (note 12)	3,431	3,523
Deferred contributions related to capital assets (note 13)	53,181	53,899
Net assets:		
Invested in capital and intangible assets (note 14)	12,785	10,785
Restricted for endowments (note 15)	7,078	5,776
Internally restricted (note 15)	1,145	340
Unrestricted net assets	<u>(9,936)</u>	<u>(10,133)</u>
	11,072	6,768
Commitments (note 18)		
	<u>\$ 99,232</u>	<u>\$ 94,588</u>

See accompanying notes to financial statements.

Approved by the Board of Governors:



Chair



Vice-Chair

RED RIVER COLLEGE

Statement of Operations
(In thousands of dollars)

Year ended June 30, 2006, with comparative figures for 2005

	Budget (Unaudited)	2006	2005
Revenue:			
Academic training fees	\$ 21,332	\$ 24,874	\$ 21,216
Grants and reimbursements	62,772	62,553	60,834
International education	889	776	795
Continuing education	7,817	7,327	7,161
Sundry and other revenue	12,674	9,679	8,751
Gain on disposal of capital assets/investments		2	9
Amortization of deferred contributions	4,752	5,301	5,344
	<u>110,236</u>	<u>110,512</u>	<u>104,110</u>
Expenses:			
Instruction	61,713	60,747	56,527
Library	1,745	1,705	1,643
Administration and general	23,052	18,981	17,959
Physical plant	14,304	13,423	13,861
Student services	3,183	3,662	3,435
Amortization of capital assets	5,964	8,227	9,089
	<u>109,961</u>	<u>106,745</u>	<u>102,514</u>
Excess of revenue over expenses before other items	275	3,767	1,596
Other item: Net increase in accrued vacation and severance liability	(275)	(765)	(715)
Excess of revenue over expenses	<u>\$ —</u>	<u>\$ 3,002</u>	<u>\$ 881</u>

See accompanying notes to financial statements.

RED RIVER COLLEGE

Statement of Changes in Net Assets (In thousands of dollars)

Year ended June 30, 2006, with comparative figures for 2005

	Invested in capital and intangible assets	Restricted for endow- ments	Internally restricted	Unrestricted	2006 Total	2005 Total
Balance, beginning of year	\$ 10,785	\$ 5,776	\$ 340	\$ (10,133)	\$ 6,768	\$ 5,183
Endowment gifts	–	1,227	–	–	1,227	667
Amounts restricted for endowments	–	75	–	–	75	37
Transfer to internally restricted	–	–	805	(805)	–	–
Excess (deficiency) of revenue over expenses	(3,483)	–	–	6,485	3,002	881
Investment in capital assets	5,483	–	–	(5,483)	–	–
Balance, end of year	\$ 12,785	\$ 7,078	\$ 1,145	\$ (9,936)	\$ 11,072	\$ 6,768

See accompanying notes to financial statements.

RED RIVER COLLEGE

Statement of Cash Flows
(In thousands of dollars)

Year ended June 30, 2006, with comparative figures for 2005

	2006	2005
Operating activities:		
Excess of revenue over expenses	\$ 3,002	\$ 881
Adjustments for:		
Amortization of intangible assets	2	1
Amortization of capital assets	8,227	9,089
Amortization of deferred capital contributions	(4,743)	(4,754)
Other deferred contributions recognized as revenue	(2,282)	(1,980)
Other deferred contributions received	2,319	2,453
Gain on disposal of capital assets	(3)	(9)
Change in non-cash working capital balances (note 16)	(674)	2,848
	5,848	8,529
Investing activities:		
Purchase of capital assets	(7,037)	(4,955)
Capital assets purchased with trust funds	-	(6)
Long-term investment for trust and endowment	(4,025)	(248)
Proceeds on disposal of capital assets	3	99
	(11,059)	(5,110)
Financing activities:		
Endowment gifts received	1,227	667
Contributions received for capital purposes	3,507	1,700
Capital campaign contributions	195	561
Repayment of obligations under capital leases	(2,147)	(3,961)
	2,782	(1,033)
Increase (decrease) in cash and short-term investments	(2,429)	2,386
Cash and short-term investments, beginning of year	7,333	4,947
Cash and short-term investments, end of year	\$ 4,904	\$ 7,333
Comprised of:		
Cash and short-term investments - trust and endowment	\$ 3,979	\$ 6,795
Cash and short-term investments	2,265	1,303
Bank indebtedness	(1,340)	(765)
	\$ 4,904	\$ 7,333

The following have been excluded from the financing and investing activities on the statement of cash flows:

The portion of the purchase price of assets under capital lease satisfied by the assumption of debt in the amount of \$1,850 (2005 - \$2,179).

See accompanying notes to financial statements.

RED RIVER COLLEGE

Notes to Financial Statements
(In thousands of dollars)

Year ended June 30, 2006

1. General:

Red River College operates under the authority of *The Colleges Act of Manitoba*. This legislation, which established the College as a board-governed institution on April 1, 1993, allowed for the transfer of assets, liabilities, investment in capital assets and contributed surplus from the Province of Manitoba.

2. Significant accounting policies:

(a) Inventories:

Inventories are valued at the lower of cost and net realizable value.

(b) Capital assets:

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their fair value at the time of the donation. Library holdings are accounted for using the base stock method. Under this method, the value of the base stock is capitalized, but subsequent purchases are not capitalized because it has been determined that annual additions are approximately equal to reductions. Capital assets are amortized on a straight-line basis using an annual rate of:

Asset	Rate
Buildings	2.5%
Major renovations	5%
Equipment and furniture	10 - 20%
Computer equipment and software	20 - 33%
Vehicles	20%
Aircraft	5%
Leasehold improvements	Over the term of the lease

(c) Donations:

Donations are recorded when received. Donations of materials and equipment are recorded at fair value.

RED RIVER COLLEGE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended June 30, 2006

2. Significant accounting policies (continued):

(d) Revenue recognition:

The College follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received. Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the period in which they are received.

The unearned portion of tuition fees and contractual training revenue received but not earned until next fiscal year is recorded as deferred revenue.

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

(e) Intangible asset:

The intangible asset is recorded at cost and is amortized on a straight-line basis using an annual rate of 10 percent.

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

3. Short-term investments:

Short-term investment activity is transacted with the Department of Finance, Province of Manitoba in short-term deposits. Interest rates on short-term investments range between 3.85 percent and 4.25 percent. Short-term investments mature between July 2006 and September 2006.

RED RIVER COLLEGE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended June 30, 2006

4. Prepaid expenses:

	2006		2005	
Property taxes	\$	1,274	\$	1,446
Other		1,815		637
	\$	3,089	\$	2,083

5. Long-term investments:

	2006		2005	
	Fair value	Cost	Fair value	Cost
Cash and fixed term instruments	\$ 3,274	\$ 3,274	\$ 248	\$ 248
Equity investments	952	999	–	–
	\$ 4,226	\$ 4,273	\$ 248	\$ 248

Fair value as represent above was derived from the market value of investments.

6. Due from Province of Manitoba:

The balance due from the Province of Manitoba is non-interest bearing, unsecured and has no fixed terms of repayment. This balance arose when the severance and vacation pay liabilities were transferred from the Province of Manitoba to the College.

7. Capital assets:

	2006		2005	
	Cost	Accumulated amortization	Net book value	Net book value
Equipment and furniture	\$ 24,739	\$ 14,745	\$ 9,994	\$ 10,716
Computer equipment and software	18,374	14,383	3,991	2,455
Major renovations	6,002	1,511	4,491	3,422
Buildings	47,882	2,717	45,165	45,420
Vehicles	148	81	67	73
Aircraft	1,716	270	1,446	1,308
Leasehold improvements	4,472	1,876	2,596	2,839
Construction in progress	33	–	33	245
Assets under capital leases	9,569	6,386	3,183	3,597
Library holdings	1,223	–	1,223	1,223
	\$ 114,158	\$ 41,969	\$ 72,189	\$ 71,298

RED RIVER COLLEGE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended June 30, 2006

7. Capital assets (continued):

The assets under capital leases are amortized on a straight-line basis over the expected useful life of the assets. The amount of amortization charged to expense is \$2,263 (2005 - \$3,663).

The increase in net book value of capital assets is due to the following:

	2006	2005
Balance, beginning of year	\$ 71,298	\$ 73,076
Purchase of capital assets:		
Funded by deferred capital contributions	3,507	1,700
Funded by deferred capital campaign contributions	195	561
Internally funded	5,483	6,557
Financed through capital lease proceeds	(301)	(1,781)
Donations of capital assets	231	265
Gain on disposal of capital assets	3	9
Amortization of capital assets	(8,227)	(9,089)
	\$ 72,189	\$ 71,298

8. Bank indebtedness:

Bank indebtedness of \$1,340 (2005 - \$765) represents cheques issued in excess of cash on deposit with Royal Bank of Canada.

In addition, the College has a \$5,000 operating line of credit with the province of Manitoba, bearing interest at prime.

9. Accounts payable and accrued liabilities:

	2006	2005
Trade payables	\$ 3,105	\$ 3,450
Accrued salaries and benefits	2,166	2,068
Accrued retirement severance pay	7,057	6,704
Accrued vacation pay	7,426	7,065
	\$ 19,754	\$ 19,287

RED RIVER COLLEGE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended June 30, 2006

9. Accounts payable and accrued liabilities (continued):

Significant actuarial assumptions used in the severance obligations at June 30, 2006 and June 30, 2005 were:

Interest rate on obligations	7.00%
Employer current service cost as a percentage of salary	.62%

10. Obligations under capital leases:

The following is a schedule of future minimum lease payments under capital leases expiring between July 2006 and August 2009 together with the balances of the obligations under capital leases:

2007	\$	1,569
2008		944
2009		355
2010		100
Total minimum lease payments		2,968
Less amount representing interest (ranging from 5% to 10%)		(160)
Balance of obligations		2,808
Current portion		1,458
	\$	1,350

Interest expense on the lease obligations amounted to \$184 (2005 - \$271).

RED RIVER COLLEGE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended June 30, 2006

11. Deferred contributions:

Deferred contributions represent the portion of the provincial operating grant and other contributions that pertains to expenditures of the following year and donations for various scholarships, bursaries and other specific purposes to be paid out in future years.

	2006	2005
Deferred provincial operating grant:		
Balance, beginning of year	\$ 1,724	\$ 1,390
Amount recognized as revenue during the year	(1,724)	(1,390)
Amount received related to following year	1,657	1,724
Balance, end of year	1,657	1,724
Deferred other contributions:		
Balance, beginning of year	1,401	1,305
Amount recognized as revenue during the year	(558)	(590)
Amount restricted for endowment	(75)	(37)
Amount used to purchase capital	—	(6)
Amount received related to following year	662	729
Balance, end of year	1,430	1,401
	\$ 3,087	\$ 3,125

12. Deferred capital campaign contributions:

Deferred capital campaign contributions represent donations received for capital fundraising campaigns. The donations are being amortized on the same basis as the capital assets to which they relate. The changes in the deferred capital campaign contributions balance are as follows:

	2006	2005
Balance, beginning of year	\$ 3,523	\$ 3,214
Less amortization of deferred capital campaign contributions during the year	(287)	(252)
Add donations received during the year	195	561
Balance, end of year	\$ 3,431	\$ 3,523

13. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of grants, donations and other revenue received for the purchase of capital assets.

RED RIVER COLLEGE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended June 30, 2006

13. Deferred capital contributions (continued):

The amortization of capital contributions is recorded as revenue in the statement of operations. The changes in the deferred capital contributions are as follows:

	2006	2005
Balance, beginning of year	\$ 53,899	\$ 56,435
Less amortization of deferred contributions	(4,456)	(4,501)
Add:		
Contributions received for capital purposes	3,507	1,700
Donations-in-kind	231	265
Balance, end of year	\$ 53,181	\$ 53,899

14. Investment in capital and intangible assets:

The investment in capital and intangible assets consists of the following:

	2006	2005
Capital assets	\$ 72,189	\$ 71,298
Intangible assets	12	14
Less:		
Amounts financed by deferred capital campaign contributions	(3,431)	(3,523)
Deferred capital contributions	(53,181)	(53,899)
Amounts financed by capital lease	(2,804)	(3,105)
Balance, end of year	\$ 12,785	\$ 10,785

The change in investment in capital and intangible assets is calculated as follows:

	2006	2005
Purchase of capital assets internally financed	\$ 5,483	\$ 6,556
Amortization of:		
Capital assets	(8,229)	(9,089)
Deferred capital contributions	4,456	4,501
Deferred capital campaign contributions	287	252
Gain on disposal of capital assets	3	9
Increase in investment in capital and intangible assets	\$ 2,000	\$ 2,229

RED RIVER COLLEGE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended June 30, 2006

15. Restrictions on net assets:

Net assets restricted for endowment purposes are subject to externally imposed restrictions stipulating that the resources be maintained permanently. Investment income on these resources is externally restricted to provide various scholarships, bursaries and other expenditures.

Internally restricted net assets consist of the following:

	2006	2005
Princess Street structural reserve	\$ 430	\$ –
Contract training net proceeds	715	340
Balance, end of year	\$ 1,145	\$ 340

Under a college internal best practice guideline, net proceeds earned from designated contract training activities are restricted and eligible for expenditure under certain conditions, in the years following contract completion.

16. Change in non-cash working capital balances:

	2006	2005
Accounts receivable	\$ (520)	\$ (101)
Inventories	(58)	30
Prepaid expenses	(1,006)	(156)
Accounts payable and accrued liabilities	467	2,290
Deferred revenue	443	785
Change in non-cash working capital	\$ (674)	\$ 2,848

17. Pension costs and obligations:

The College, together with other related and unrelated parties, is part of a defined benefit pension plan (Civil Service Superannuation Plan) that satisfies the definition of a multi-employer plan. The costs of the benefit plan are not allocated to the individual entities within the group. As a result, individual entities within the group are not able to identify their share of the underlying assets and liabilities. Therefore, the plan is accounted for as a defined contribution plan in accordance with the requirements of the Canadian Institute of Chartered Accountants Handbook, Section 3461.

The expense related to the pension plan was \$587 (2005 - \$376). These contributions represent the total pension obligations of the College. The College is not required under present legislation to make contributions with respect to any actuarial deficiencies of the plan.

RED RIVER COLLEGE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended June 30, 2006

18. Commitments:

The College leases classroom and office space in Winnipeg, Portage la Prairie, Steinbach and Winkler, Manitoba. The College has also contracted for services, as well as leased certain computer and other equipment. Minimum annual lease and contractual commitment payments for accommodation, services, construction costs and equipment, in aggregate, for each of the next five years, is approximately as follows:

2007	\$	3,085
2008		1,950
2009		1,173
2010		1,004
2011		806
	\$	8,018

19. Related parties:

(a) Crecomm Radio Inc.:

Crecomm Radio Inc. (Crecomm), is an organization controlled and partially funded by the College. It operates a campus radio station and provides training and educational opportunities for Creative Communication students. Crecomm is incorporated under the *Corporations Act of Manitoba*. As at June 30, 2006, net resources of Crecomm amount to \$14.

The net assets and results from operations of Crecomm are not included in the statements of the College.

(b) Canadian Animal Blood Bank Inc.:

The Canadian Animal Blood Bank Inc. (the Blood Bank) is a significantly influenced investee owned 50 percent by the College and 50 percent by the Manitoba Veterinary Medical Association. The Blood Bank is dedicated to improving veterinary care by providing blood products for animals who require transfusion therapy. The Blood Bank is incorporated under the *Corporations Act of Manitoba* and operates on a not-for-profit basis. As at May 31, 2006, net resources of the Blood Bank amount to \$87.

The net assets and results of operations of the Blood Bank are not included in the statements of the College.

RED RIVER COLLEGE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended June 30, 2006

20. Charitable status:

The College is a registered charity under the *Income Tax Act*.

21. Financial instruments:

Credit risk:

Credit risk is the risk to the College's earnings arising from the risk that a counter party to a transaction is unable to satisfy its obligations to the College. Credit risk is mitigated by the fact that the College's accounts receivable are comprised of a large number of comparatively small individual balances.

Fair value:

The carrying amounts of short-term financial assets and liabilities are a reasonable estimate of their fair values because of the short maturity of those instruments. Short-term financial assets are comprised of cash, short-term investments and accounts receivable. Short-term financial liabilities are comprised of accounts payable and accrued liabilities and current portion of obligations under capital leases. The fair value of obligations under capital leases are also approximately equal to their carrying amounts.

22. Comparative figures:

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