Financial Statements of

RED RIVER COLLEGE

Year ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Red River College

We have audited the accompanying financial statements of Red River College, which comprise the statement of financial position as at June 30, 2014, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation 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 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 financial statements.

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

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Red River College as at June 30, 2014, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

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.

KPMG LLP

Chartered Accountants

October 29, 2014

Winnipeg, Canada

RED RIVER COLLEGE

Statement of Financial Position
(In thousands of dollars)

June 30, 2014, with comparative information for 2013

		2014		2013
Assets				
Current assets:				
Cash and short-term investments - trust and endowment (note 3)	$	1,012	$	868
Cash and short-term investments (note 3)		6,973		6,519
Accounts receivable (note 4)		6,031		5,435
Inventories (note 5)		924		784
Prepaid expenses (note 6)		2,112		2,126
		17,052		15,732
Long term investments - trust and endowment (note 7)		23,914		20,447
Due from Province of Manitoba (note 8)		9,253		9,253
Capital assets (note 9)		121,443		124,770
Intangible asset		–		2
	$	171,662	$	170,204
Liabilities, Deferred Contributions and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities (note 11)	$	37,567	$	33,527
Current portion of obligations under capital leases (note 12)		1,060		1,529
Deferred revenue		10,635		8,614
		49,262		43,670
Obligations under capital leases (note 12)		961		1,555
Deferred contributions (note 13)		8,817		10,157
Deferred capital campaign contributions (note 14)		6,038		5,815
Deferred contributions related to capital assets (note 15)		80,624		82,438
Net assets:				
Invested in capital and intangible assets (note 16)		32,760		33,435
Restricted for endowments (note 17)		18,786		17,191
Internally restricted (note 17)		6,394		7,306
Unrestricted net assets		(31,980)		(31,363)
		25,960		26,569
Commitments (note 20)				
	$	171,662	$	170,204

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, 2014, with comparative information for 2013

	Budget	2014	2013
Revenue:			
Academic training fees	$ 37,780	$ 42,064	$ 39,953
Grants and reimbursements	96,083	98,252	94,218
International education	4,807	4,676	3,761
Continuing education	10,683	9,236	9,306
Sundry and other revenue	17,089	15,728	14,601
Amortization of deferred contributions	6,895	8,155	7,798
Gain on disposal of capital assets	–	12	17
	173,337	178,123	169,654
Expenses:			
Instruction	96,330	105,721	100,064
Library	2,349	2,422	2,267
Administration and general	39,050	31,185	28,890
Physical plant	18,718	19,363	17,664
Student services	5,908	7,895	7,158
Amortization of capital and intangible assets	10,282	10,324	10,594
	172,637	176,910	166,637
Excess of revenue over expenses before the undernoted	700	1,213	3,017
Other:			
Net increase in accrued vacation and severance liability	1,836	3,417	1,875
Excess (deficiency) of revenue over expenses (note 17)	$ (1,136)	$ (2,204)	$ 1,142

See accompanying notes to financial statements.

RED RIVER COLLEGE

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

Year ended June 30, 2014, with comparative information for 2013

	Invested in capital and intangible assets	Restricted for endow-ments	Internally restricted	Unrestricted	2014 Total	2013 Total
Balance, beginning of year	$ 33,435	$ 17,191	$ 7,306	$ (31,363)	$ 26,569	$ 23,694
Endowment gifts	–	1,550	–	–	1,550	1,453
Amounts restricted for endowments	–	45	–	–	45	280
Transfer to internally restricted	–	–	224	(224)	–	–
Transfer to fund operating deficit (note 17)	–	–	(1,136)	1,136	–	–
Excess (deficiency) of revenue over expenses	(3,416)	–	–	1,212	(2,204)	1,142
Investment in capital assets	2,741	–	–	(2,741)	–	–
Balance, end of year	$ 32,760	$ 18,786	$ 6,394	$ (31,980)	$ 25,960	$ 26,569

See accompanying notes to financial statements.

RED RIVER COLLEGE

Statement of Cash Flows
(In thousands of dollars)

Year ended June 30, 2014, with comparative information for 2013

		2014		2013
Cash provided by (used in):				
Operating activities:				
Excess (deficiency) of revenue over expenses	$	(2,204)	$	1,142
Items not involving cash:				
Amortization of intangible assets		2		2
Amortization of capital assets		10,322		10,592
Amortization of deferred capital contributions		(6,895)		(6,826)
Other deferred contributions recognized as revenue		(2,322)		(3,111)
Gain on disposal of capital assets		(12)		(17)
Changes in fair value of investments		(2,331)		(185)
Changes in non-cash operating working capital balances (note 18)		5,339		1,457
		1,899		3,054
Investing activities:				
Purchase of capital assets		(6,386)		(10,563)
Long-term investment for trust and endowment		(4,853)		(3,051)
Proceeds on disposal of capital assets		33		98
Proceeds on disposal of long-term investments for trust and endowment		3,717		809
		(7,489)		(12,707)
Financing activities:				
Endowment gifts received		1,550		1,453
Contributions received for capital purposes		4,785		5,481
Capital campaign contributions		532		3,374
Repayment of obligations under capital leases		(1,704)		(2,352)
Other deferred contributions received		1,025		526
		6,188		8,482
Increase (decrease) in cash and short-term investments		598		(1,171)
Cash and short-term investments, beginning of year		7,387		8,558
Cash and short-term investments, end of year	$	7,985	$	7,387
Comprised of:				
Cash and short-term investments - trust and endowment	$	1,012	$	868
Cash and short-term investments		6,973		6,519
	$	7,985	$	7,387

The following have been excluded from the investing and financing 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 $641 (2013 - $2,193).

See accompanying notes to financial statements.

1. General:

Red River College (the 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 (the Province). The College is a registered charity under the *Income Tax Act.*

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards including PS4200 standards for government not-for-profit organizations.

(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

Construction in progress is transferred to the appropriate capital asset category and amortization begins when the capital project is completed and the asset is placed in service.

2. Significant accounting policies (continued):

(c) Donations:

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

(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 incurred. 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. Investment income includes interest income and realized investment gains and losses. Long-term investments are classified as held-for-trading and are recorded at fair value. Unrealized gains and losses, representing the change between the fair value and the cost of the investments at the beginning and the end of the year, are recorded in deferred contributions or net assets restricted for endowments depending on the restrictions of the long-term investment. Fair value of investments is determined based on quoted market prices.

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

(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) Accrued retirement severance pay:

As a result of eligible employees of the College participating in the Manitoba Government Employees Master Agreement, the College has an obligation to pay severance to participating employees. The accrued retirement severance pay is actuarially determined, with any actuarial gain or loss being immediately recognized in the period in which it arises.

2. Significant accounting policies (continued):

(g) Accumulated non-vested sick leave benefits:

The accumulated non-vested sick leave benefits is calculated annually utilizing an internally developed valuation method which takes into account the usage of sick days used in excess of the annual sick days earned, and average employee compensation per day.

(h) Deferred contributions:

Debt owing to the Province is reflected as deferred contributions related to capital assets in the statement of financial position. The related revenue earned from the Council on Post-Secondary Education (COPSE) to offset the principal repayment and the related interest expense are both excluded from the statement of operations.

(i) Education and training benefits:

The College receives government grants for specified projects with industry partners. The College receives education and training benefits from these projects. The College records both the revenue and the expenditures relating to these projects in the year incurred.

(j) Financial instruments:

Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected not to record any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the College determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the division expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

(In thousands of dollars)

2. Significant accounting policies (continued):

(k) Foreign currency translation:

Monetary assets and liabilities in foreign currencies have been translated into Canadian dollars at year end exchange rates with any gain or loss included in income in the year. Revenues and expenses have been translated at the exchange rate in effect at the transaction date.

(l) 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 of the Province in short-term deposits. Interest rates on short-term investments range between 0.87 percent and 0.88 percent. Short-term investments mature between July 2014 and September 2014.

The carrying value of the short-term investments at the beginning and end of the year approximated fair value due to the short-term maturity of these deposits.

4. Accounts receivable:

	2014	2013
Trust and endowment receivables	$ 343	$ 207
Other accounts receivable	5,688	5,228
	$ 6,031	$ 5,435

5. Inventories:

Inventories consist primarily of books purchased for resale. During the year ended June 30, 2014, inventories totaling $4,231 were expensed (2013 - $3,759).

(In thousands of dollars)

6. Prepaid expenses:

		2014		2013
Prepaid property taxes	$	939	$	930
Other prepaid expenses		1,173		1,196
	$	2,112	$	2,126

7. Long-term investments:

	2014				2013			
		Fair value		Cost		Fair value		Cost
Cash and fixed term instruments	$	8,571	$	7,500	$	12,152	$	11,277
Equity investments		13,341		10,787		6,715		6,020
Debentures		2,002		2,002		1,580		1,580
	$	23,914	$	20,289	$	20,447	$	18,877

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

The fixed term investments and debentures mature between fiscal 2015 and 2037 and bear interest at rates between 1.3 percent and 5.7 percent.

8. Due from Province of Manitoba:

The balance due from the Province 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 to the College in 1996. The College is responsible for funding liabilities for vacation pay and severance pay benefits accumulated after the transfer through its operating grants from the Province of Manitoba. As a result, the change in the severance liability, including the interest accretion, is reflected in the funding for severance expense. The portion of the receivable related to the vacation pay is paid annually through the operating grants.

(In thousands of dollars)

9. Capital assets:

		Cost		Accumulated amortization		2014 Net book value		2013 Net book value
Equipment and furniture	$	51,557	$	40,405	$	11,152	$	13,784
Computer equipment and software		19,685		18,097		1,588		959
Major renovations		7,634		4,106		3,528		3,061
Buildings		113,776		16,440		97,336		98,017
Vehicles		414		350		64		84
Aircraft		2,209		1,021		1,188		1,245
Leasehold improvements		10,626		7,685		2,941		2,622
Construction in progress		–		–		–		93
Assets under capital leases		17,916		15,493		2,423		3,682
Library holdings		1,223		–		1,223		1,223
	$	225,040	$	103,597	$	121,443	$	124,770

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 $1,832 (2013 - $2,261).

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

		2014		2013
Balance, beginning of year	$	124,770	$	122,552
Purchase of capital assets:				
Funded by deferred capital contributions		4,776		5,397
Funded by deferred capital campaign contributions		532		3,374
Funded by deferred capital revenue (construction in progress)		(84)		84
Internally funded		2,741		3,961
Financed through capital lease, net of obligation paid		(1,062)		(159)
Donations of capital assets		80		136
Gain on disposal of capital assets		12		17
Amortization of capital assets		(10,322)		(10,592)
Balance, end of year	$	121,443	$	124,770

(In thousands of dollars)

10. Operating line of credit:

The College has a $5,000 operating line of credit with the Province, bearing interest at prime. At June 30, 2014, there had been no withdrawals on this operating line.

11. Accounts payable and accrued liabilities:

	2014	2013
Trade payables	$ 4,393	$ 4,293
Trust and endowment payables	–	3
Accrued salaries and benefits	2,307	1,964
Accrued retirement severance pay	14,906	12,580
Accrued vacation pay	15,025	13,907
Accumulated non-vested sick leave benefits	936	780
	$ 37,567	$ 33,527

The accrued retirement severance pay is actuarially determined every three years. The most recent actuarial report was prepared on March 31, 2014. Information about the College's accrued retirement severance pay is as follows:

	2014	2013
Balance, beginning of year	$ 12,580	$ 11,846
Current benefit cost	1,004	855
Interest	883	788
Actuarial loss	1,443	–
Benefits paid	(1,004)	(909)
Balance, end of year	$ 14,906	$ 12,580

Significant actuarial assumptions used in the severance obligations at June 30, 2014 and June 30, 2013, are as follows:

	2014	2013
Interest rate on obligations	6.50%	6.50%
Employer current service cost as a percentage of salary	0.98%	0.89%

(In thousands of dollars)

11. Accounts payable and accrued liabilities (continued):

The College provides accumulating sick leave benefits to certain employee groups. These benefits accumulate with employee service and benefit amounts are determined with reference to employees' final earnings at the time they are paid out. The significant assumptions adopted in measuring the College's accumulated non-vested sick leave benefits include a discount rate of 6 percent (2013 - 5 percent) and a rate of salary increase of 3.75 percent (2013 - 3.75 percent).

12. Obligations under capital leases:

The following is a schedule of future minimum lease payments under capital leases with payments due between September 2014 and December 2018 together with the balances of the obligations under capital leases:

2015	$ 1,137
2016	641
2017	306
2018	44
2019	8
Total minimum lease payments	2,136
Less amount representing interest (ranging from 3.82% to 8.04%)	(115)
Balance of obligations	2,021
Current portion	1,060
	$ 961

Interest expense on the lease obligations amounted to $130 (2013 - $186).

(In thousands of dollars)

13. Deferred contributions:

Deferred contributions represent contributions received from the Province and other contributions that pertain to expenditures of the following year and donations for various scholarships, bursaries and other specific purposes to be paid out in future years.

	2014	2013
Deferred provincial contributions:		
Balance, beginning of year	$ 5,828	$ 8,782
Amount recognized as revenue during the year	(1,062)	(2,139)
Amount transferred to deferred contributions related to capital assets	(2,556)	(3,871)
Amount received related to the following year	122	3,056
Balance, end of year	2,332	5,828
Deferred other contributions:		
Balance, beginning of year	4,329	4,238
Amount recognized as revenue during the year	(1,260)	(971)
Amount restricted for endowment	(44)	(280)
Amount received related to following year	3,460	1,342
Balance, end of year	6,485	4,329
	$ 8,817	$ 10,157

14. 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:

	2014	2013
Balance, beginning of year	$ 5,815	$ 2,774
Less amortization of deferred capital campaign contributions during the year	(309)	(333)
Add donations received during the year	532	3,374
Balance, end of year	$ 6,038	$ 5,815

(In thousands of dollars)

15. Deferred contributions related to capital assets:

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

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

		2014		2013
Balance, beginning of year	$	82,438	$	83,315
Less amortization of deferred contributions		(6,586)		(6,493)
Add:				
Contributions received for capital purposes		2,136		1,609
Transferred from deferred provincial contributions		2,556		3,871
Donations-in-kind		80		136
Balance, end of year	$	80,624	$	82,438

Unamortized capital contributions of $80,624 (2013 - $82,438) include contributions received from the Province for the purchase of capital assets. The College has executed promissory notes for these contributions. The promissory notes are payable to the Department of Finance of the Province and the payment of these liabilities is guaranteed and funded by the COPSE.

(In thousands of dollars)

15. Deferred contributions related to capital assets (continued):

No revenue or expense is recorded in accordance with their extinguishment, except for the amortization of the deferred contributions. The balances of the promissory notes are as follows:

	2014	2013
Princess Street campus:		
Phase 1 - 6.3% interest, maturing July 31, 2042, repayable in monthly instalments which in the current year ranged from $80 - $86 including principal and interest	$ 9,903	$ 10,256
Phase 2 - 6.3% interest, maturing July 31, 2043, repayable in monthly instalments which in the current year ranged from $137 - $148 including principal and interest	17,272	17,866
Phase 3 - 6.3% interest, maturing March 31, 2044, repayable in monthly instalments which in the current year ranged from $57 - $62 including principal and interest	7,232	7,475
Heavy Equipment Transportation Centre of Excellence:		
5.5% interest, maturing January 31, 2048, repayable in monthly instalments of $60 including principal and interest	11,081	11,192
Paterson GlobalFoods Institute:		
4% interest, maturing April 30, 2053, repayable in monthly instalments ranging from $77 - $79 in fiscal 2014 including principal and interest	14,077	14,500
	$ 59,565	$ 61,289

16. Investment in capital and intangible assets:

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

	2014	2013
Capital assets, net book value	$ 121,443	$ 124,770
Intangible asset, net book value	–	2
Less:		
Amounts financed by deferred capital campaign contributions	(6,038)	(5,815)
Deferred capital contributions	(80,624)	(82,438)
Amounts financed by capital lease	(2,021)	(3,084)
	$ 32,760	$ 33,435

(In thousands of dollars)

16. Investment in capital and intangible assets (continued):

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

	2014	2013
Purchase of capital assets internally financed	$ 2,741	$ 3,963
Amortization of:		
Capital and intangible assets	(10,322)	(10,594)
Deferred capital contributions	6,585	6,493
Deferred capital campaign contributions	309	333
Gain on disposal of capital assets	12	17
Increase (decrease) in investment in capital and intangible assets	$ (675)	$ 212

17. 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:

	2014	2013
Princess Street campus structural reserve	$ 799	$ 799
Notre Dame campus structural reserve	600	600
Contract training net proceeds	3,945	4,907
Campus renovation reserve	1,000	1,000
Risk Management reserve	50	–
	$ 6,394	$ 7,306

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

The College budgeted for a fiscal 2014 operating deficit of $1,136 to be funded through a transfer from internally restricted net assets relating to closed contract projects.

(In thousands of dollars)

18. Changes in non-cash working capital balances:

		2014		2013
Accounts receivable	$	(596)	$	(1,276)
Inventories		(140)		170
Prepaid expenses		14		(244)
Accounts payable and accrued liabilities		4,040		1,477
Deferred revenue		2,021		1,330
Changes in non-cash working capital	$	5,339	$	1,457

19. 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 $6,462 (2013 - $5,602). 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.

20. Commitments:

The College leases classroom and office space in Winnipeg, Portage la Prairie, Steinbach, Neepawa, and Winkler, Manitoba. The College has also contracted for services, as well as leased certain computer and other equipment. Minimum annual operating 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:

2015	$	2,958
2016		2,336
2017		1,449
2018		547
2019		371
	$	7,661

21. Related parties:

(a) Red River College Students' Association Inc.:

The Red River College Students' Association (the Students' Association) is an income tax exempt organization significantly influenced by the College. The Students' Association is responsible for providing services such as health and dental benefits, study and lounging areas, and a voice on the College's Board of Governors for students of the College. The Students' Association and the Students' Association Building Fund (SABF) are incorporated under the *Corporations Act* of Manitoba and operate on a not-for-profit basis. SABF is a wholly-owned subsidiary of the Students' Association.

(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 that require transfusion therapy. The Blood Bank is incorporated under the *Corporations Act* of Manitoba and operates on a not-for-profit basis and is exempt from income taxes. As at May 31, 2014, net resources of the Blood Bank amount to $196.

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

22. Financial instruments:

(a) 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 these instruments. Short-term financial assets are comprised of cash, short-term investments and accounts receivable. Short-term financial liabilities are comprised of bank indebtedness, accounts payable and accrued liabilities and current portion of obligations under capital leases. The fair value of obligations under capital leases is also approximately equal to their carrying amounts. The fair value of the long-term investments is disclosed in note 7.

The fair value of the balance due from the Province of Manitoba is not readily determinable due to the underlying terms and conditions.

22. Financial instruments (continued):

(b) 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. Reviews are made of the credit worthiness of accounts and reserves established as required.

(c) Interest rate and foreign exchange risk:

Interest rates, maturities and security affect the interest rate risk of certain of the College's financial assets and liabilities.

The College is subject to foreign exchange risk because a portion of its financial instruments are denominated in foreign currencies.

The financial risk is the risk to the College's earnings that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The College does not use derivative instruments to reduce its exposure to interest rate and foreign exchange risk.

23. Capital disclosure:

The College's objectives in managing capital are:

- minimizing the cost of capital
- preserving the ability to continue as a going concern
- maintaining flexibility to ensure the ongoing ability to execute the Strategic Plan.

Management considers the current and long-term portions of debt, unrestricted net assets and internally restricted net assets are capital. The College has various policies in place to manage capital, including a policy requiring Board approval on major capital expenditures, securing debt and capital budget approval. The College also uses its net assets to support the Strategic Plan, special initiatives, trust and endowment activities and campus expansion and redevelopment. The College receives Province of Manitoba funding to support major capital projects. The College also maintains deferred contribution accounts and endowments for externally restricted funding. These funds are managed with the objectives of spending the funds in accordance with various terms stipulated in the funding arrangements. For the year ended June 30, 2014 the College has met its externally imposed capital requirements.