

Financial Statements of

RED RIVER COLLEGE

Year ended June 30, 2016



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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, 2016, 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Red River College as at June 30, 2016, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

September 28, 2016

Winnipeg, Canada

RED RIVER COLLEGE

Statement of Financial Position
(In thousands of dollars)

June 30, 2016, with comparative information for 2015

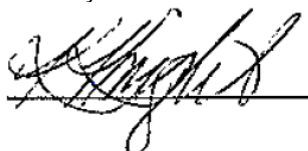
	2016	2015
Assets		
Current assets:		
Cash and short-term investments - trust and endowment (note 3)	\$ 2,696	\$ 879
Cash and short-term investments (note 3)	23,603	10,114
Accounts receivable (note 4)	9,159	5,164
Inventories (note 5)	1,294	899
Prepaid expenses (note 6)	2,653	3,108
	<u>39,405</u>	<u>20,164</u>
Long-term investments - trust and endowment (note 7)	24,063	24,978
Due from Province of Manitoba (note 8)	9,636	9,253
Capital assets (note 9)	221,806	116,726
	<u>\$ 294,910</u>	<u>\$ 171,121</u>

Liabilities, Deferred Contributions and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 25,923	\$ 20,874
Current portion of obligations under capital leases (note 13)	593	870
Deferred revenue	11,806	9,982
	<u>38,322</u>	<u>31,726</u>
Future employee benefits (note 12)	18,866	16,790
Obligations under capital leases (note 13)	369	918
Long-term loan (note 14)	4,400	-
Deferred contributions (note 15)	9,205	9,176
Deferred capital campaign contributions (note 16)	6,003	5,969
Deferred contributions related to capital assets (note 17)	164,277	77,426
Net assets:		
Invested in capital assets (note 18)	50,564	31,543
Restricted for endowments (note 19)	21,566	19,878
Internally restricted (note 19)	12,232	6,107
Unrestricted net assets	(30,894)	(28,412)
	<u>53,468</u>	<u>29,116</u>
Commitments (note 22)		
	<u>\$ 294,910</u>	<u>\$ 171,121</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, 2016, with comparative information for 2015

	Budget	2016	2015
Revenue:			
Academic training fees	\$ 42,059	\$ 47,160	\$ 44,784
Grants and reimbursements	102,518	102,211	100,058
International education	4,464	6,481	4,495
Continuing education	13,411	12,621	11,497
Sundry and other revenue	17,994	17,480	17,004
Amortization of deferred contributions	6,263	8,754	7,916
	<u>186,709</u>	<u>194,707</u>	<u>185,754</u>
Expenses:			
Instruction	104,666	110,515	110,156
Library	2,693	2,818	2,634
Administration and general	41,295	34,307	32,814
Physical plant	20,339	19,703	18,917
Student services	6,877	9,066	8,636
Amortization of capital assets	8,733	9,500	9,128
Future employee benefits	2,106	2,545	1,405
	<u>186,709</u>	<u>188,454</u>	<u>183,690</u>
Excess of revenue over expenses	\$ —	\$ 6,253	\$ 2,064

See accompanying notes to financial statements.

RED RIVER COLLEGE

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

Year ended June 30, 2016, with comparative information for 2015

	Invested in capital assets	Restricted for endowments	Internally restricted	Unrestricted	2016 Total	2015 Total
Balance, beginning of year	\$ 31,543	\$ 19,878	\$ 6,107	\$ (28,412)	\$ 29,116	\$ 25,960
Endowment gifts	–	1,620	–	–	1,620	1,279
Amounts unrestricted from endowments	–	68	–	–	68	(187)
Contribution of land (note 9)	16,411	–	–	–	16,411	–
Transfer from internally restricted (note 19)	–	–	(128)	128	–	–
Transfer of surplus to internally restricted (note 19)	–	–	6,253	(6,253)	–	–
Excess (deficiency) of revenue over expenses	(2,539)	–	–	8,792	6,253	2,064
Investment in capital assets	5,149	–	–	(5,149)	–	–
Balance, end of year	\$ 50,564	\$ 21,566	\$ 12,232	\$ (30,894)	\$ 53,468	\$ 29,116

See accompanying notes to financial statements.

RED RIVER COLLEGE

Statement of Cash Flows
(In thousands of dollars)

Year ended June 30, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 6,253	\$ 2,064
Items not involving cash:		
Amortization of intangible assets	-	2
Amortization of capital assets	9,500	9,126
Amortization of deferred capital contributions	(6,973)	(6,263)
Other deferred contributions recognized as revenue	(2,593)	(1,443)
Loss on disposal of capital assets	12	21
Changes in fair value of investments	373	156
Changes in non-cash operating working capital balances (note 20)	4,631	(660)
	11,203	3,003
Investing activities:		
Purchase of capital assets	(114,504)	(1,972)
Long-term investment for trust and endowment	(1,089)	(6,156)
Proceeds on disposal of capital assets	-	13
Proceeds on disposal of long-term investments for trust and endowment	1,631	4,935
	(113,962)	(3,180)
Financing activities:		
Long-term loan received	4,400	-
Endowment gifts received	1,688	1,093
Contributions received for capital purposes	109,907	1,371
Capital campaign contributions	362	250
Repayment of obligations under capital leases	(914)	(1,332)
Other deferred contributions received	2,622	1,803
	118,065	3,185
Increase in cash and short-term investments	15,306	3,008
Cash and short-term investments, beginning of year	10,993	7,985
Cash and short-term investments, end of year	\$ 26,299	\$ 10,993
Comprised of:		
Cash and short-term investments - trust and endowment	\$ 2,696	\$ 879
Cash and short-term investments	23,603	10,114
	\$ 26,299	\$ 10,993

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 \$88 (2015 - \$1,097).

See accompanying notes to financial statements.

RED RIVER COLLEGE

Notes to Financial Statements
(In thousands of dollars)

Year ended June 30, 2016

1. General:

Red River College (the College) was established as a board-governed institution on April 1, 1993, and was governed by the College Act of Manitoba until June 30, 2015 when it now is governed by its own Act, *The Red River College Act*. 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 - 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
Parking lot improvements	5%
Capital renovations	20%
Leased computers and equipment	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.

RED RIVER COLLEGE

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

Year ended June 30, 2016

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 and contributions of capital assets with unlimited lives 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) 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.

(f) 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.

RED RIVER COLLEGE

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

Year ended June 30, 2016

2. Significant accounting policies (continued):

(g) 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 Education and Advanced Learning (EAL) to offset the principal repayment and the related interest expense are both excluded from the statement of operations.

(h) 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.

(i) 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.

RED RIVER COLLEGE

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

Year ended June 30, 2016

2. Significant accounting policies (continued):

(j) Foreign currency translation:

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

(k) 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 of Manitoba (the Province) in short-term deposits. Interest rates on short-term investments range between 0.35 percent and 0.62 percent. Short-term investments mature between July 2016 and September 2016.

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:

	2016	2015
Trust and endowment receivables	\$ 99	\$ -
Other accounts receivable	3,895	5,164
Capital grant receivable from the Province	5,165	-
	<u>\$ 9,159</u>	<u>\$ 5,164</u>

5. Inventories:

Inventories consist primarily of books purchased for resale. During the year ended June 30, 2016, inventories totaling \$4,721 were expensed (2015 - \$4,373).

RED RIVER COLLEGE

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

Year ended June 30, 2016

6. Prepaid expenses:

	2016		2015	
Prepaid property taxes	\$	1,136	\$	1,115
Other prepaid expenses		1,517		1,993
	\$	2,653	\$	3,108

7. Long-term investments:

	2016		2015	
	Fair value	Cost	Fair value	Cost
Cash and fixed term instruments	\$ 7,352	\$ 6,179	\$ 8,754	\$ 7,701
Equity investments	14,921	13,188	14,326	13,054
Debentures	1,790	1,790	1,898	1,898
	\$ 24,063	\$ 21,157	\$ 24,978	\$ 22,653

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

The fixed term investments and debentures mature between fiscal 2019 and 2041 and bear interest at rates between 2.45 percent and 6.125 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. The balance outstanding at June 30, 2015 of \$9,253 arose when the severance and vacation pay liabilities were transferred from the Province to the College in 1996. During the year, the balance increased by \$383 due to employees being transferred to the College from the Province as part of the Notre Dame Campus asset transfer (note 9), where the severance and vacation pay liabilities associated with these employees were also transferred to the College.

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.

RED RIVER COLLEGE

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

Year ended June 30, 2016

9. Capital assets:

			2016		2015	
	Cost	Accumulated amortization	Net book value	Net book value		
Land	\$ 18,396	\$ –	\$ 18,396	\$ –		
Equipment and furniture	52,947	45,748	7,199	9,036		
Computer equipment and software	20,078	18,662	1,416	1,616		
Major renovations	5,424	3,788	1,636	1,920		
Buildings	192,327	23,157	169,170	94,549		
Vehicles	461	397	64	79		
Aircraft	3,843	1,304	2,539	2,322		
Leasehold improvements	5,134	4,527	607	786		
Construction in progress	15,955	–	15,955	10		
Assets under capital leases	17,908	16,649	1,259	2,183		
Library holdings	1,223	–	1,223	1,223		
Parking lot improvements	2,448	1,105	1,343	1,439		
Capital renovations	5,696	4,697	999	1,563		
	\$ 341,840	\$ 120,034	\$ 221,806	\$ 116,726		

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 \$1,024 (2015 - \$1,348).

On March 18, 2016, the College and the Province signed an agreement relating to the transfer of the Notre Dame Campus to the College at an exchange value of \$102,229, comprised of land of \$16,411, buildings of \$74,541 and construction in progress of \$11,277. The transfer of the building and construction in progress is included as a deferred capital contribution addition in the current year (note 17). The transfer of land is recognized as a direct increase in investment in capital assets in the current year (note 18). The College executed a promissory note equal to the value of the asset transfer payable to the Department of Finance of the Province (note 17).

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

	2016		2015	
Balance, beginning of year	\$	116,726	\$	121,443
Purchase / transfer of capital assets:				
Funded by deferred capital contributions		93,061		1,371
Funded by deferred capital campaign contributions		362		250
Internally funded		5,149		1,670
Financed through capital lease, net of obligation paid		(826)		(235)
Donations of capital assets		435		1,374
Contribution of land		16,411		–
Loss on disposal of capital assets		(12)		(21)
Amortization of capital assets		(9,500)		(9,126)
Balance, end of year	\$	221,806	\$	116,726

RED RIVER COLLEGE

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

Year ended June 30, 2016

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, 2016, there had been no withdrawals on this operating line.

11. Accounts payable and accrued liabilities:

	2016	2015
Trade payables	\$ 5,909	\$ 2,972
Trust and endowment payables	—	—
Accrued salaries and benefits	3,394	2,397
Accrued vacation pay	15,956	15,505
Holdback liability	664	—
	\$ 25,923	\$ 20,874

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 (2015 - 6 percent) and a rate of salary increase of 3.75 percent (2015 - 3.75 percent).

12. Future employee benefits:

	2016	2015
Accrued retirement severance pay	\$ 17,762	\$ 15,889
Accumulated non-vested sick leave benefits	1,104	901
	\$ 18,866	\$ 16,790

RED RIVER COLLEGE

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

Year ended June 30, 2016

12. Future employee benefits (continued):

The accrued retirement severance pay is actuarially determined every three years. The most recent actuarial report was prepared on March 31, 2016. Information about the College's accrued retirement severance pay is as follows:

	2016	2015
Balance, beginning of year	\$ 15,889	\$ 14,906
Current benefit cost	1,024	1,036
Interest	977	965
Actuarial loss	677	194
Benefits paid	(805)	(1,212)
Balance, end of year	\$ 17,762	\$ 15,889

Significant actuarial assumptions used in the severance obligations at June 30, 2016 and June 30, 2015, are as follows:

	2016	2015
Interest rate on obligations	6.00%	6.00%
Employer current service cost as a percentage of salary	0.93%	0.97%

RED RIVER COLLEGE

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

Year ended June 30, 2016

13. Obligations under capital leases:

The following is a schedule of future minimum lease payments under capital leases with payments due between August 2016 and December 2018 together with the balances of the obligations under capital leases:

2017	\$	613
2018		240
2019		154
Total minimum lease payments		1,007
Less amount representing interest (ranging from 2.76% to 10.36%)		(45)
Balance of obligations		962
Current portion		593
	\$	369

Interest expense on the lease obligations amounted to \$65 (2015 - \$94).

14. Long-term loan:

During the year, the College obtained a term loan in the amount of \$4,400. The term loan is due in full on June 28, 2019 and bears interest at prime plus 0.9 percent.

RED RIVER COLLEGENotes to Financial Statements (continued)
(In thousands of dollars)

Year ended June 30, 2016

15. 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.

	2016	2015
Deferred provincial contributions:		
Balance, beginning of year	\$ 3,196	\$ 2,332
Amount recognized as revenue during the year	(903)	(350)
Amount received related to the following year	1,621	1,214
Balance, end of year	3,914	3,196
Deferred other contributions:		
Balance, beginning of year	5,980	6,485
Amount recognized as revenue during the year	(1,690)	(1,092)
Amount received related to following year	1,001	587
Balance, end of year	5,291	5,980
	\$ 9,205	\$ 9,176

16. 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:

	2016	2015
Balance, beginning of year	\$ 5,969	\$ 6,038
Less amortization of deferred capital campaign contributions during the year	(328)	(319)
Add donations received during the year	362	250
Balance, end of year	\$ 6,003	\$ 5,969

RED RIVER COLLEGE

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

Year ended June 30, 2016

17. 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:

	2016	2015
Balance, beginning of year	\$ 77,426	\$ 80,624
Less amortization of deferred contributions	(6,645)	(5,943)
Add:		
Contributions received/transferred for capital purposes (note 9)	87,896	1,371
Contribution receivable	5,165	-
Donations-in-kind	435	1,374
Balance, end of year	\$ 164,277	\$ 77,426

Unamortized capital contributions of \$164,277 (2015 - \$77,426) 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 EAL.

RED RIVER COLLEGE

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

Year ended June 30, 2016

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

No revenue or expense is recorded in accordance with their extinguishment. The balances of the promissory notes are as follows:

	2016	2015
Princess Street campus:		
Phase 1 - 6.3% interest, maturing July 31, 2042, repayable in monthly instalments which in the current year ranged from \$76 - \$82 including principal and interest	\$ 9,198	\$ 9,551
Phase 2 - 6.3% interest, maturing July 31, 2043, repayable in monthly instalments which in the current year ranged from \$131 - \$142 including principal and interest	16,085	16,679
Phase 3 - 6.3% interest, maturing March 31, 2044, repayable in monthly instalments which in the current year ranged from \$54 - \$59 including principal and interest	6,746	6,989
Heavy Equipment Transportation Centre of Excellence: 5.5% interest, maturing January 31, 2048, repayable in monthly instalments of \$60 including principal and interest	10,839	10,964
Paterson GlobalFoods Institute: 4% interest, maturing April 30, 2053, repayable in monthly instalments ranging from \$72 - \$78 in the current year including principal and interest	13,352	13,715
Notre Dame Campus (note 9): 3.9% interest, maturing March 31, 2056, repayable in monthly instalments ranging from \$130 - \$506 in the current year including principal and interest	93,373	-
3.9% interest, maturing March 31, 2056, repayable in monthly instalments ranging from \$0.7 - \$5 in the current year including principal and interest	909	-
Skilled Trades and Technology Centre: 3.9% interest, maturing March 31, 2056, repayable in monthly instalments ranging from \$10 - \$39 in the current year including principal and interest	7,348	-
Floating interest rate and terms of promissory note to be arranged, currently paying interest quarterly	501	-
	\$ 158,351	\$ 57,898

RED RIVER COLLEGE

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

Year ended June 30, 2016

18. Investment in capital assets:

The investment in capital assets consists of the following:

	2016	2015
Capital assets, net book value	\$ 221,806	\$ 116,726
Less:		
Amounts financed by deferred capital campaign contributions	(6,003)	(5,969)
Deferred capital contributions	(164,277)	(77,426)
Amounts financed by capital lease	(962)	(1,788)
	<u>\$ 50,564</u>	<u>\$ 31,543</u>

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

	2016	2015
Purchase of capital assets internally financed	\$ 5,149	\$ 1,670
Contribution of land	16,411	-
Amortization of:		
Capital assets	(9,500)	(9,128)
Deferred capital contributions	6,645	5,943
Deferred capital campaign contributions	328	319
Loss on disposal of capital assets	(12)	(21)
Increase (decrease) in investment in capital assets	<u>\$ 19,021</u>	<u>\$ (1,217)</u>

Land was contributed to the College from the Province as part of the Notre Dame Campus asset transfer on March 18, 2016 (note 9). As land is a capital asset with unlimited life, the College has recognized the exchange value of the land as a direct increase in investment in capital assets during the year.

RED RIVER COLLEGE

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

Year ended June 30, 2016

19. 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:

	2016	2015
Princess Street campus structural reserve	\$ 799	\$ 799
Notre Dame campus structural reserve	600	600
Project reserves	9,783	3,658
Campus renovation reserve	1,000	1,000
Risk Management reserve	50	50
	\$ 12,232	\$ 6,107

Under the College's 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 transferred amount of \$6,253 from unrestricted net assets to internally restricted net assets, relating to the excess of revenue over expenses generated during the year. The amount was allocated to the reserve for future projects.

20. Changes in non-cash working capital balances:

	2016	2015
Accounts receivable	\$ (3,995)	\$ 867
Inventories	(395)	25
Prepaid expenses	455	(996)
Accounts payable and accrued liabilities	5,049	(851)
Deferred revenue	1,824	(653)
Future employee benefits	2,076	948
Due from Province	(383)	-
Changes in non-cash working capital	\$ 4,631	\$ (660)

RED RIVER COLLEGE

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

Year ended June 30, 2016

21. 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 CPA Canada Handbook, Section 3462.

The expense related to the pension plan was \$7,731 (2015 - \$7,305). 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.

22. Commitments and contingencies:

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 and services, in aggregate, for each of the next five years, is approximately as follows:

2017	\$	3,065
2018		1,078
2019		407
2020		367
2021		367
		367
	\$	5,284

During fiscal 2016, the College entered into construction contracts for the Skilled Trades and Technology Centre with approximately \$42 million remaining to be incurred before the expected completion date of December 31, 2017.

Contingencies:

The College is involved in various legal matters arising in the ordinary course of business. Management believes the resolution of these matters is not likely to have a material adverse effect on the College's financial position, results of operations or cash flows.

RED RIVER COLLEGE

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

Year ended June 30, 2016

23. 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, 2016, net resources of the Blood Bank amount to \$166.

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

24. 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.

RED RIVER COLLEGE

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

Year ended June 30, 2016

24. 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.

25. 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, 2016 the College has met its externally imposed capital requirements.

RED RIVER COLLEGE

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

Year ended June 30, 2016

26. Comparative information:

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