Financial Statements of

RED RIVER COLLEGE

And Independent Auditors' Report thereon

Year ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Red River College

Opinion

We have audited the financial statements of Red River College (the "College"), which comprise the statement of financial position as at March 31, 2020, the statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the College as at March 31, 2020 and its results of operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditors Responsibilities for the Audit of the Financial Statements*"** section of our auditors' report.

We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the financial statement in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the College's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the College or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the College's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the College's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the College to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

June 22, 2020

RED RIVER COLLEGE

Statement of Financial Position
(In thousands of dollars)

March 31, 2020, with comparative information for 2019

	2020	2019 (Restated, note 22)
Financial assets:		
Cash and cash equivalents (note 3)	$ 47,455	$ 60,411
Accounts receivable (note 4)	6,315	8,455
Due from Province of Manitoba (note 7)	9,636	9,636
Portfolio investments - restricted for endowments (note 6)	27,958	30,771
	91,364	109,273
Financial liabilities:		
Accounts payable and accrued liabilities (note 9)	30,890	28,667
Unearned revenue (note 15)	29,511	30,635
Unspent capital funding	3,646	7,739
Demand term loan payable (note 10)	4,400	4,400
Loan payable (note 11)	7,027	7,337
Promissory notes - due to Province of Manitoba (note 14)	198,840	204,405
Employee future benefits (note 12)	18,731	17,978
	293,045	301,161
Net debt	(201,681)	(191,888)
Non-financial assets:		
Tangible capital assets (note 8)	303,783	285,726
Inventories	1,818	1,786
Prepaid expenses	1,807	2,129
	307,408	289,641
Accumulated surplus (note 23)	$ 105,727	$ 97,753

Commitments and contingencies (note 18)
Contractual rights (note 19)
Subsequent event (note 24)

See accompanying notes to financial statements.

Approved by the Board of Governors:

Lorne Cisyk _______________ Chair

Janice Hyde _______________ Vice Chair

RED RIVER COLLEGE

Statement of Operations and Accumulated Surplus
(In thousands of dollars)

Year ended March 31, 2020, with comparative information for 2019

	2020 Budget (note 5)	2020 (Schedule 1)	2019 (Restated, note 22)
Revenue:			
Student tuition and academic fees	$ 51,587	$ 52,495	$ 49,029
Grants:			
Government of Manitoba grants	128,965	136,039	135,328
Federal and other government grants	7,725	20,408	21,694
Ancillary revenue	8,750	8,522	9,083
Contributions and other revenue	5,090	10,889	11,518
Investment income	836	1,303	1,071
	202,953	229,656	227,723
Expenses (note 13):			
Academic instruction	112,885	114,566	112,713
Student support and general operations	45,971	55,439	50,835
Facility operations and maintenance	22,702	23,236	20,042
Amortization of capital assets	13,026	11,627	10,991
Ancillary services	7,529	7,310	8,275
Interest expense	840	9,504	9,166
	202,953	221,682	212,022
Annual surplus		7,974	15,701
Accumulated surplus, beginning of year		97,753	82,052
Accumulated surplus, end of year	-	$ 105,727	$ 97,753

See accompanying notes to financial statements.

RED RIVER COLLEGE

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

Year ended March 31, 2020, with comparative information for 2019

	2020 Budget (note 5)	2020	2019 (Restated, note 22)
Annual surplus	$ –	$ 7,974	$ 15,701
Acquisition of tangible capital assets	(1,219)	(29,684)	(29,485)
Amortization of tangible capital assets	13,026	11,627	10,991
Change in inventories	–	(32)	82
Change in prepaid expenses	–	322	(457)
Change in net debt	11,807	(9,793)	(3,168)
Net debt, beginning of year		(191,888)	(188,720)
Net debt, end of year		$ (201,681)	$ (191,888)

See accompanying notes to financial statements.

RED RIVER COLLEGE

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2020, with comparative information for 2019

	2020	2019 (Restated, note 22)
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 7,974	$ 15,701
Items not involving cash:		
Amortization of capital assets	11,627	10,991
Changes in non-cash operating working capital balances (note 16)	4,282	5,533
	23,883	32,225
Investing activities:		
Purchase of capital assets	(29,684)	(29,485)
Long-term investment for trust and endowment	2,813	(177)
Decrease in unspent capital funding	(4,093)	(6,666)
	(30,964)	(36,328)
Financing activities:		
Principal repayments on loan payable	(310)	(310)
Proceeds on promissory notes	150	12,800
Repayment of promissory notes	(5,715)	(4,530)
Repayments of obligation under capital leases	–	(154)
	(5,875)	7,806
Increase (decrease) in cash and cash equivalents	(12,956)	3,703
Cash and cash equivalents, beginning of year	60,411	56,708
Cash and cash equivalents, end of year	$ 47,455	$ 60,411

See accompanying notes to financial statements.

RED RIVER COLLEGE

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 became 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:

(a) Basis of presentation:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards (PSAS) without Sections PS4200-4270.

The Province of Manitoba directed colleges and universities, including the College, to change its basis of accounting from Canadian PSAS for Government Not-for-Profit Organizations (PSAS for GNFPO), which includes Sections PSAS 4200-4270 to PSAS without Sections 4200-4270 for the fiscal year beginning April 1, 2019.

Amounts related to March 31, 2019 and April 1, 2018 were previously presented in accordance with PSAS for GNFPO. These amounts have been restated as required to be compliant with the accounting policies of the College under PSAS. Reconciliations and descriptions of the transition from PSAS for GNFPO to PSAS are included in note 22.

The most significant changes as a result of adopting this basis of accounting include:

- Deferred contributions - tangible capital assets will no longer be recognized by the College unless very specific criteria are met.

- Contributions receivable, now referred to as capital funding receivable, may be recognized in certain circumstances where capital expenditures are undertaken on a reimbursement basis.

- Deferred contributions - expenses of future periods, now referred to as unearned revenue, will be recognized when the College receives one-time funding for multi-year specific projects and other purposes. Any unspent funds at the end of a fiscal year will be recognized as unearned revenue in the statement of financial position.

- Loans payable associated with the financing of capital assets and projects will be recognized in the statement of financial position.

2. Significant accounting policies (continued):

- Cash provided to pay down the principal and interest on the debt associated with funded tangible capital assets will be recognized upon receipt of the funding.

(b) Financial statement presentation:

- The College's budget will be presented in the statement of operations and accumulated surplus along with current year and comparative year actual amounts.

- The statement of financial position will present financial assets and liabilities to determine a net financial debt position; non-financial assets are shown separately and the accumulated surplus is the sum of the above noted items.

- The statement of changes in fund balances will be replaced by the statement of changes in net debt, which presents the activity during the year that contributed to the change in the net debt position on the statement of financial position.

(c) Revenue recognition:

Government transfers from the Province of Manitoba for operating purposes are recognized as revenue in the period in which all eligibility criteria have been met and the amounts are authorized. When revenue is received without eligibility criteria and with stipulations, it is recognized when the government transfer is authorized, except when and to the extent the transfer gives rise to an obligation that meets the definition of a liability for the College. If the obligation does meet the definition of a liability, the related revenue is recognized as the obligation is settled. Funding received for the acquisition or development of tangible capital assets is recognized as revenue in one of two ways:

i. Assets funded by approved/funded debt: revenue is recognized when the debt principal and interest payment funding is received.

ii. Assets funded by an allocation of cash: revenue is recognized immediately when all eligibility criteria are met and no stipulations exist. If stipulations exist and the funding obligation meets the definition of a liability for the College, the revenue is deferred until the stipulations are met.

Any unrestricted non-government contributions or grants, including donations and fundraising, are recorded as revenue in the year received or in the years the funds are committed to the College if the amount can be reasonably estimated and collection is reasonably assured.

(In thousands of dollars)

2. Significant accounting policies (continued):

All non-government contributions or grants, including donations and fundraising, that are externally restricted, and the associated externally restricted investment income are recorded as unearned revenue if the terms for their use create a liability. These resources are recognized as revenue as the terms are met and when the College complies with its communicated use.

Investment income includes dividends, interest income, and realized gains or losses on the sale of portfolio investments. Unrealized gains and losses on portfolio investments, exclusive of restricted transfers or donations, are recognized in the statement of remeasurement gains and losses until the related investments are sold. When realized, these gains or losses are recognized in the statement of operations. Investment income and unrealized gains and losses from restricted transfers or donations are allocated to their respective balances according to the provisions with the individual agreements. The College's portfolio investments at March 31, 2020 and March 31, 2019 are restricted for endowments with the unrealized gain and losses recorded in unearned revenue. As the remaining unrestricted portfolio investments are in short-term deposits, the carry-value approximates the fair value and no unrealized gains or losses exists on the unrestricted portfolio investments.

The unearned portion of tuition fees and contractual training revenue received, but not earned until next fiscal period, is recorded as unearned revenue. Ancillary revenue is recognized as revenue when earned.

(d) 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 applied to the various classes of assets as follows:

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	10-33%

2. Significant accounting policies (continued):

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.

(e) Inventories:

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

(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 amortized over the expected average remaining service life (EARSL) of the membership group.

(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) 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 period incurred.

(i) Financial instruments:

Derivative instruments and equity instruments that are quoted in an active market are reported, on initial recognition and subsequently, 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 to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, at which point they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

2. Significant accounting policies (continued):

All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

(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. Cash equivalents:

Cash equivalents amounting to $1,624 as at March 31, 2020 (2019 - $1,455) represent short-term deposits held with the Department of Finance of the Province of Manitoba (the “Province”). Interest rates on short-term investments range between 1.01 percent and 1.77 percent. Short-term investments mature June 1, 2020.

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

RED RIVER COLLEGE

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

Year ended March 31, 2020

4. Accounts receivable:

		2020		2019
Trust and endowment receivables	$	121	$	203
Other accounts receivable		6,194		5,489
Capital grant receivable		–		2,763
	$	6,315	$	8,455

5. Budget:

On April 29, 2019, the Board of Directors approved the final budget for the College for the year ended March 31, 2020.

6. Portfolio investments - restricted for endowments:

	2020				2019			
		Fair value		Cost		Fair value		Cost
Cash and fixed term instruments	$	7,881	$	6,633	$	8,641	$	7,437
Equity investments		18,141		16,710		20,089		15,288
Debentures		1,936		1,936		2,041		2,041
	$	27,958	$	25,279	$	30,771	$	24,766

The fixed term investments and debentures mature between fiscal 2021 and 2037 and bear interest at rates between 1.01 percent and 6.125 percent (2019 - 2.0 percent and 6.125 percent).

The College's assets which are recorded at fair value are required to be classified into one of three levels, depending on the inputs used for valuation. The hierarchy of inputs is summarized below:

- Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities;

- Level 2 - Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and

- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

RED RIVER COLLEGE

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

Year ended March 31, 2020

6. Portfolio investments - restricted for endowments (continued):

	Level 1	Level 2	Level 3	2020 Total
Cash held for investment purposes	$ 224	$ –	$ –	$ 224
Canadian equity investments	14,063	–	–	14,063
US equity investments	2,760	–	–	2,760
Fixed income securities	–	9,593	–	9,593
Real estate	–	–	1,318	1,318
	$ 17,047	$ 9,593	$ 1,318	$ 27,958

	Level 1	Level 2	Level 3	2019 Total
Cash held for investment purposes	$ 117	$ –	$ –	$ 117
Canadian equity investments	16,942	–	–	16,942
US equity investments	2,689	–	–	2,689
Fixed income securities	–	10,566	–	10,566
Real estate	–	–	457	457
	$ 19,748	$ 10,566	$ 457	$ 30,771

The change in fair value in the level 3 classification from March 31, 2019 to March 31, 2020 is due to purchases of real estate investments of $795 (2019 - $451) and unrealized gains of $65 (2019 - $6).

7. 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 March 31, 2020 of $9,636 (2019 - $9,636) arose from the transfer of the severance and vacation pay liabilities for employees of the College 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.

RED RIVER COLLEGE

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

Year ended March 31, 2020

8. Tangible capital assets:

Cost	Balance at March 31, 2019	Additions	Disposals	2020 Total	2019 Total
Land	$ 18,429	$ –	$ –	$ 18,429	$ 18,429
Equipment and furniture	55,784	8,473	(741)	63,516	55,784
Computer equipment and software	20,988	849	(14,185)	7,652	20,988
Major renovations	6,338	1,233	–	7,571	6,338
Buildings	264,194	3,660	–	267,854	264,194
Vehicles	543	161	–	704	543
Aircraft	4,488	63	–	4,551	4,488
Leasehold improvements	5,138	–	–	5,138	5,138
Construction in progress	32,568	24,600	(9,430)	47,738	32,568
Assets under capital leases	17,123	–	(2,177)	14,946	17,123
Library holdings	1,223	–	–	1,223	1,223
Parking lot improvements	2,458	–	–	2,458	2,458
Capital renovations	6,087	73	–	6,160	6,087
	$ 435,361	$ 39,112	$ (26,533)	$ 447,940	$ 435,361

Accumulated amortization	Balance at March 31, 2019	Additions	Disposals	2020 Total	2019 Total
Land	$ –	$ –	$ –	$ –	$ –
Equipment and furniture	50,589	1,719	(740)	51,568	50,589
Computer equipment and software	19,809	446	(14,168)	6,087	19,809
Major renovations	4,522	209	–	4,731	4,522
Buildings	42,942	8,642	–	51,584	42,942
Vehicles	468	27	–	495	468
Aircraft	1,961	225	–	2,186	1,961
Leasehold improvements	4,999	56	–	5,055	4,999
Assets under capital leases	17,037	106	(2,197)	14,946	17,037
Library holdings	–	–	–	–	–
Parking lot improvements	1,479	96	–	1,575	1,479
Capital renovations	5,829	101	–	5,930	5,829
	$ 149,635	$ 11,627	$ (17,105)	$ 144,157	$ 149,635

(In thousands of dollars)

8. Tangible capital assets (continued):

Net book value		2020 Total		2019 Total
Land	$	18,429	$	18,429
Equipment and furniture		11,948		5,195
Computer equipment and software		1,565		1,179
Major renovations		2,840		1,816
Buildings		216,270		221,252
Vehicles		209		75
Aircraft		2,365		2,527
Leasehold improvements		83		139
Construction in progress		47,738		32,568
Assets under capital leases		–		86
Library holdings		1,223		1,223
Parking lot improvements		883		979
Capital renovations		230		258
	$	303,783	$	285,726

9. Accounts payable and accrued liabilities:

		2020		2019
Trade payables	$	11,064	$	10,983
Accrued salaries and benefits		2,793		1,561
Accrued vacation pay		15,884		15,017
Holdback liability		1,149		1,106
	$	30,890	$	28,667

10. Demand term loan:

During fiscal 2017, the College obtained a demand term loan in the amount of $4,400 with the Toronto-Dominion Bank (Lender) to finance the purchase of land for the Innovation Centre Project. In December 2018, the Lender extended the interest only period on the demand loan to 60 months, which now ends in June 2021. The demand loan bears interest at prime less 0.9 percent.

The College has a guarantee agreement with the Province of Manitoba and the Lender, where the Province guaranteed the payment of the demand loan. The guarantee was a withdrawal from a $5,000 operating line of credit the College has with the Province, of which $600 remains unutilized.

RED RIVER COLLEGE

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

Year ended March 31, 2020

11. Loan payable:

The loan payable is due on or before the contractual term maturity date of November 30, 2042 and is secured through a guarantee by the Province of Manitoba. The loan payable bears interest at prime less 0.9%, repayable in monthly installments of $25.8 plus interest.

Principal repayments over the next five years are as follows:

2021	$	310
2022		310
2023		310
2024		310
2025		310

12. Employee future benefits:

		2020		2019
Accrued retirement severance pay	$	16,681	$	16,259
Accumulated non-vested sick leave benefits		2,050		1,719
	$	18,731	$	17,978

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 5.75 percent (2019 - 6 percent) and a rate of salary increase of 3.50 percent (2019 - 3.75 percent).

The accrued retirement severance pay is actuarially determined on an annual basis. The most recent actuarial report was prepared on March 31, 2020. Information about the College's accrued retirement severance pay is as follows:

		2020		2019
Balance, beginning of year	$	16,259	$	18,270
Current benefit cost		844		929
Interest		960		1,080
Actuarial loss		45		(2,546)
Unamortized actuarial loss		(45)		–
Benefits paid		(1,382)		(1,474)
Balance, end of year	$	16,681	$	16,259

RED RIVER COLLEGE

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

Year ended March 31, 2020

12. Employee future benefits (continued):

Beginning in 2020, all actuarial gains and losses are amortized over the expected average remaining service life of the membership group (EARSL) which is estimated to be 8 years. Significant actuarial assumptions used in the severance obligations at March 31, 2020 and 2019, are as follows:

	2020	2019
Interest rate on obligations	5.75%	6.00%
Employer current service cost as a percentage of salary	1.27%	1.27%

13. Classification of expenditures by object:

The statement of operations reports the expenditures by function; the following classifies those same expenditures by object:

	2020 Budget	2020	2019 (Restated, note 22)
Salaries	$ 124,117	$ 125,892	$ 120,739
Employee benefits	24,633	25,151	22,612
Materials, supplies and services	26,041	29,062	30,575
Utilities	4,076	3,546	3,483
Maintenance and repairs	7,132	9,576	7,025
Costs of goods sold	3,088	3,041	3,309
Amortization of tangible capital assets	13,026	11,627	10,991
Interest expense	840	9,504	9,165
Scholarships and bursaries	–	4,283	4,123
Total expenditures by object	$ 202,953	$ 221,682	$ 212,022

14. Promissory notes - due to Province of Manitoba:

The College has executed promissory notes payable to the Department of Finance of the Province and the payment of these liabilities is guaranteed and funded by the Advanced Education and Skills Division of Economic Development and Training Department of the Province.

RED RIVER COLLEGE

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

Year ended March 31, 2020

14. Promissory notes - due to Province of Manitoba (continued):

The balances of the promissory notes are as follows:

	2020	2019
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	$ 7,876	$ 8,228
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	13,858	14,451
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	5,834	6,077
Heavy Equipment Transportation Centre of Excellence:		
5.5% interest, maturing January 31, 2048, repayable in monthly instalments of $60 including principal and interest	10,308	10,460
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	11,993	12,355
Notre Dame Campus:		
3.9% interest, maturing March 31, 2056, repayable in monthly instalments ranging from $130 - $506 in the current year including principal and interest	84,564	86,913
3.9% interest, maturing March 31, 2056, repayable in monthly instalments ranging from $0.7 - $5 in the current year including principal and interest	823	846
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	6,655	6,840
STTC:		
3.875% interest, maturing January 31, 2059, repayable in monthly instalments ranging from $275 - $290 in the current year including principal and interest	52,625	53,980
Capital Projects:		
4.125% interest, maturing March 31, 2057, repayable in monthly instalments of $5.1 - $5.4 in the current year including principal and interest.	925	950
Deferred maintenance (Advance 32):		
3.875% interest, maturing April 30, 2058, repayable in monthly instalments of $10.2 - $10.6 in the current year including principal and interest.	1,904	1,954
Motive lab:		
3.25% interest, maturing July 31, 2059, repayable in monthly instalments of $6.9 - $2.3 in the current year including principal and interest.	1,475	1,351
	$ 198,840	$ 204,405

RED RIVER COLLEGE

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

Year ended March 31, 2020

15. Unearned revenue:

Unearned revenue represents the unearned portion of grants received where external stipulations outlined by agreement have not been met and other unearned revenue from unearned tuition, student residences charges and other amounts received relating to future fiscal periods.

		2020		2019
Tuition	$	11,848	$	11,278
Projects		7,384		6,711
Apprenticeship		3,536		2,952
Unrealized net gain attributable to portfolio investments related to endowments		3,094		6,162
Grant		448		542
Other		3,201		2,990
	$	29,511	$	30,635

16. Changes in non-cash working capital balances:

		2020		2019
Accounts receivable	$	2,140	$	3,659
Inventories		(32)		82
Prepaid expenses		322		(457)
Accounts payable and accrued liabilities		2,223		(731)
Unearned revenue		(1,124)		4,627
Future employee benefits		753		(1,647)
Changes in non-cash working capital	$	4,282	$	5,533

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 Chartered Professional Accountants of Canada's Handbook, Public Sector Accounting Standards, Section 3250, *Retirement Benefits*.

The expense related to the pension plan was $8,430 (2019 - $8,108). 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 March 31, 2020

18. Commitments and contingencies:

Commitments:

The College has remaining construction and related equipment costs as at March 31, 2020 relating to the following projects currently under construction:

- Innovation Centre - approximately $63,800 remaining to be incurred before the expected completion date of August 31 2021.

- Vehicle Technology and Research Centre - approximately $1,700 remaining to be incurred before the expected completion date of March 31 2022.

- Other commitments - approximately $1,300 remaining to be incurred for various capital projects before the expected completion dates ranging between fiscal 2021 to fiscal 2022.

The College leases classroom and office space in Winnipeg, Steinbach, Portage la Prairie, and Winkler, Manitoba, as well as in the Interlake region. 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 included in the following table.

2021	$	2,137
2022		1,142
2023		433
2024		66
2025		–
	$	3,778

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.

The College is currently involved in a review by the Canada Revenue Agency (CRA) over GST income tax credits relating to a construction project completed in 2014. In previous years the CRA withheld GST input tax credit payments to the College of approximately $1,000 until this review is completed, which are included in accounts receivable as at March 31, 2020 and at March 31, 2019.

(In thousands of dollars)

19. Contractual rights:

The College is involved in various contracts and agreements arising in the ordinary course of business. This results in contractual rights to economic resources, leading to both assets and revenue in the future. The contractual rights excludes provincial future funding of payments of promissory notes (note 14).

2021	$	26,259
2022		5,295
2022		146
2024		148
2025		148
	$	31,996

20. Financial risks:

(a) 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.

There has been no significant changes to the credit risk exposure from 2019.

(b) Interest rate and foreign exchange risk:

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

Financial assets and financial liabilities with variable interest rates expose the College to cash flow interest rate risk. The College is exposed to this risk through its loans payable, demand term loan and one of its promissory notes.

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

RED RIVER COLLEGE

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

Year ended March 31, 2020

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20. Financial risks (continued):

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.

The College's investments, including fixed term investments and debentures, are disclosed in note 6.

There has been no significant changes to the interest rate and foreign exchange risk exposure from 2019.

(c) Liquidity risk:

Liquidity risk is the risk that the College will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The College manages its liquidity risk by monitoring its operating requirements. The College prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

There have been no significant changes to the liquidity risk exposure from 2019.

(d) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, will affect the College's revenue or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing return on investment.

There have been no significant changes to the market risk exposure from 2019.

21. Economic dependence:

The College received approximately 51 percent (2019 - 51 percent) of its operating revenue from the Province of Manitoba as an operating grant and is economically dependent on the Province of Manitoba for continued operations.

RED RIVER COLLEGE

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

Year ended March 31, 2020

22. Restatement of prior period financial statements:

Certain accounting policies previously applied under PSAS for GNFPO have been amended to comply with PSAS without Sections PSAS 4200-4270. The comparative figures for March 31, 2019 were restated to reflect these adjustments. The following reconciliations provide a description of the effect of transition on accumulated surplus at April 1, 2018 and annual surplus for the year ended March 31, 2019:

	Annual surplus for the year ended March 31,2019	Accumulated surplus at April 1, 2018
Excess of revenue over expenses and Fund balances PSAS for GNFPOs	$ 3,048	$ 60,631
Adjustments:		
Endowment revenue previously recognized directly to net assets	548	–
Reversal of amortization of deferred contributions previously recorded as revenue	(9,475)	–
Government transfers related to capital projects	12,666	–
Government transfers related to principal and Interest on promissory note	12,887	–
Revenue recognition of contributions previously deferred as an expenses of future periods	4,398	–
Government transfers		
Interest expense on loans payable	(8,371)	–
Deferred contributions tangible capital assets, net of promissory note	–	15,264
Deferred contributions - expenses of future period unamortized balance	–	6,157
Annual surplus and accumulated surplus, PSAS without Section 4200	$ 15,701	$ 82,052

23. Accumulated surplus:

	2020	2019
Invested in tangible capital assets	$ 93,519	$ 69,585
Unrestricted deficit	(32,752)	(20,154)
Accumulated surplus restricted for endowments	26,433	29,950
Internally restricted surplus for future purposes	18,527	18,372
	$ 105,727	$ 97,753

RED RIVER COLLEGE

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

Year ended March 31, 2020

23. Accumulated surplus (continued):

Accumulated surplus 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.

The College has restructured its internally restricted surplus for future purposes to align with strategic planning. Internally restricted surplus for future purposes consist of the following:

	2020	2019
Princess Street campus structural reserve	$ –	$ 799
Notre Dame campus structural reserve	–	1,600
Project reserves	1,918	5,545
Campus Renovation reserve	–	1,000
Risk Management reserve	–	200
Strategic Development reserve	9,227	9,228
Infrastructure reserve	3,399	–
Sustainability reserve	3,134	–
Research reserve	849	–
	$ 18,527	$ 18,372

24. Subsequent event:

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. At the time of approval of these financial statements, the College has experienced a closure of its educational facilities and a movement to virtually instructed courses based on public health recommendations, lay-offs of part-time and casual employees and mandatory working from home requirements for those able to do so as a result of the COVID-19 pandemic. Financial statements are required to be adjusted for events occurring between the date of the financial statements and the date of the auditors' report which provide additional evidence relating to conditions that existed as at year end. Management completed this assessment and determined that no adjustments were required in these financial statements. At this time, there are also other factors which present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations of the College. An estimate of the financial effect of these items is not practicable at this time.

RED RIVER COLLEGE

Year ended March 31, 2020, with comparative information for 2019

		2020 Budget		2020 Operating		2020 Capital		2020 Total		2019 Total
Revenue:										
Student tuition and academic fees	$	51,587	$	52,495	$	–	$	52,495	$	49,029
Grants:										
Government of Manitoba grants - operating grant		114,344		102,904		17,451		120,355		119,295
Other grants		14,621		15,684		–		15,684		16,033
Federal and other government grants		7,725		11,934		8,474		20,408		21,694
Ancillary revenue		8,750		8,522		–		8,522		9,083
Contributions and other revenue		5,090		10,386		503		10,889		11,518
Investment Income		836		1,303		–		1,303		1,071
Total revenue	$	202,953	$	203,228	$	26,428	$	229,656	$	227,723
Expenses:										
Academic instruction	$	112,885	$	114,566	$	–	$	114,566	$	112,713
Student support and general operations		45,971		55,439		–		55,439		50,835
Facility operations and maintenance		22,702		23,236		–		23,236		20,042
Amortization of capital assets		13,026		–		11,627		11,627		10,991
Ancillary services		7,529		7,310		–		7,310		8,275
Interest expense		840		774		8,730		9,504		9,166
Total expenses	$	202,953	$	201,325	$	20,357	$	221,682	$	212,022
Surplus for the year	$	–	$	1,903	$	6,071	$	7,974	$	15,701
Opening balance, accumulated surplus (deficit) (note 23)				(20,154)		69,585		49,431		43,487
Internally funded tangible capital assets purchases				(17,863)		17,863		–		–
Transfer to internally restricted surplus for future periods				(155)		–		(155)		(3,048)
Transfer to endowment fund				3,517		–		3,517		(548)
Ending balance, accumulated surplus (deficit) (note 23)			$	(32,752)	$	93,519	$	60,767	$	55,592