2013
Financial Statements

March 31, 2013

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Grant Thornton

Independent auditors' report

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

We have audited the accompanying financial statements of Okanagan College, which comprise the statement of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, and the statement of operations and accumulated surplus, statement of remeasurement gains and losses, statement of changes in net financial debt and statement of cash flows for the years ended March 31, 2013 and March 31, 2012, and a summary of significant accounting policies and other explanatory information.

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

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

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

Grant Thornton

Opinion

In our opinion, the financial statements of Okanagan College for the year ended March 31, 2013 and March 31, 2012 and the statement of financial position as at April 1, 2011 are prepared, in all material respects, in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of matter

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

Kelowna, BC
May 14, 2013

Grant Thornton LLP
Chartered Accountants

OKANAGAN COLLEGE
STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2013

	March 31 2013	March 31 2012	April 1 2011
Financial assets			
Cash and cash equivalents	$ 18,361,065	$ 9,530,358	$ 16,157,875
Investments (note 3)	6,521,821	7,141,815	8,434,237
Accounts receivable (note 4)	2,310,171	4,808,476	2,895,285
Inventory for resale (note 5)	916,328	679,399	676,724
	28,109,385	22,160,048	28,164,121
Financial liabilities			
Accounts payable and accrued liabilities	9,201,822	5,012,584	8,885,034
Long term debt (note 7)	4,457,072	5,607,535	5,886,671
Deferred revenues	6,919,167	5,674,640	7,697,196
Employee future benefit obligations (note 8)	14,180,900	14,101,000	13,670,300
Deferred contributions for tangible capital assets (note 9)	78,537,947	76,977,173	76,225,507
	113,296,908	107,372,932	112,364,708
Net financial debt	(85,187,523)	(85,212,884)	(84,200,587)
Non-financial assets			
Prepaid expenses	635,753	458,179	380,746
Tangible capital assets (note 6)	95,026,455	93,990,680	92,358,279
	95,662,208	94,448,859	92,739,025
Accumulated surplus (note 10)	$ 10,474,685	$ 9,235,975	$ 8,538,438

Commitments and contingencies (note 11)

Approved on behalf of the Board:

Chair, Board of Governors

Chair, Finance, Audit and Risk Review Committee

OKANAGAN COLLEGE
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED MARCH 31, 2013

	Budget 2013	2013	2012
Revenue			
Grants from Province of British Columbia	$ 54,371,872	$ 56,791,177	$ 57,472,939
Tuition and other fees	22,725,789	22,201,414	21,726,142
Contract services	5,093,026	4,220,543	4,835,402
Ancillary service sales	5,605,683	5,945,241	5,762,649
Investment income	290,000	560,883	212,217
Unrealized gain on investments	-	-	334,822
Other	1,009,550	1,506,092	1,276,209
Amortization of deferred contributions for tangible capital assets	3,465,920	3,695,689	3,152,777
	92,561,840	94,921,039	94,773,157
Expense			
Instruction and academic support	51,206,220	52,019,385	50,820,841
Facility and institutional support	17,359,697	17,615,914	18,934,180
Enrolment management and student support	13,579,346	13,431,632	13,991,669
Ancillary operations	4,900,430	5,049,765	5,181,142
Amortization of tangible capital assets	5,311,647	5,493,257	4,940,425
Interest on long term debt	204,500	183,944	207,363
	92,561,840	93,793,897	94,075,620
Excess of revenue over expense	-	1,127,142	697,537
Accumulated operating surplus, beginning of year	9,235,975	9,235,975	8,538,438
Accumulated operating surplus, end of year	$ 9,235,975	10,363,117	9,235,975
Net remeasurement gains for the year		111,568	-
Accumulated surplus (note 10)		$ 10,474,685	$ 9,235,975

OKANAGAN COLLEGE

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

FOR THE YEAR ENDED MARCH 31, 2013

	2013
Accumulated remeasurement gains and losses, beginning of year	$ -
Adoption of Section 3450 Financial instruments (note 2)	30,231
Unrealized gain on investments	315,069
Realized gain on investments, reclassified to statement of operations	(203,501)
Net remeasurement gains for the year	111,568
Accumulated remeasurement gains and losses, end of year	$ 141,799

OKANAGAN COLLEGE
STATEMENT OF CHANGES IN NET FINANCIAL DEBT
FOR THE YEAR ENDED MARCH 31, 2013

	Budget 2013	2013	2012
Excess of revenue over expense	$ -	$ 1,127,142	$ 697,537
Acquisition of tangible capital assets	(1,610,000)	(6,529,032)	(6,572,826)
Amortization of tangible capital assets	5,311,647	5,493,257	4,940,425
	3,701,647	91,367	(934,864)
Acquisition of prepaid expenses	-	(635,753)	(458,179)
Use of prepaid expenses	-	458,179	380,746
	-	(177,574)	(77,433)
Net remeasurement gains	-	111,568	-
Decrease (increase) in net financial debt	3,701,647	25,361	(1,012,297)
Net financial debt, beginning of year	(85,212,884)	(85,212,884)	(84,200,587)
Net financial debt, end of year	$ (81,511,237)	$ (85,187,523)	$ (85,212,884)

OKANAGAN COLLEGE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2013

	2013	2012
Net cash inflow (outflow) related to the following activities		
Operating activities:		
Excess of revenue over expense (Statement 2)	$ 1,127,142	$ 697,537
Adjust for non-cash item:		
(Gain) loss on disposal of investments	(203,501)	144,154
Unrealized gain on investments	-	(334,822)
Actuarial adjustment on long term debt	(21,175)	(59,876)
Amortization of deferred contibutions for tangible capital assets	(3,695,689)	(3,152,777)
Amortization of tangible capital assets	5,493,257	4,940,425
	2,700,034	2,234,641
Changes in non-cash working capital		
Accounts receivable	2,498,305	(1,913,191)
Prepaid expense	(177,574)	(77,433)
Inventory for resale	(236,929)	(2,675)
Accounts payable and accrued liabilities	4,189,238	(3,872,450)
Employee future benefit obligations	79,900	430,700
Deferred revenues	1,244,527	(2,022,556)
	10,297,501	(5,222,964)
Capital activities:		
Acquisition of tangible capital assets	(6,529,032)	(6,572,826)
	(6,529,032)	(6,572,826)
Investing activities:		
Decrease in investments	935,063	1,483,090
	935,063	1,483,090
Financing activities:		
Deferred contributions for tangible capital assets	5,256,463	3,904,443
Repayment of long term debt	(1,129,288)	(219,260)
	4,127,175	3,685,183
Increase (decrease) in cash and cash equivalents	8,830,707	(6,627,517)
Cash and cash equivalents at beginning of year	9,530,358	16,157,875
Cash and cash equivalents at end of year	$ 18,361,065	$ 9,530,358

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

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

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

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

Detailed information on the impact of conversion to the new accounting framework is provided in Note 2.

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

- April 1, 2011 – increase in accumulated surplus and decrease in deferred contributions for tangible capital assets of $75,176,176.
- Year ended March 31, 2012 – decrease in revenue and annual surplus of $41,275.
- March 31, 2012 – increase in accumulated surplus and decrease in deferred contributions for capital tangible assets of $75,134,901.
- Year ended March 31, 2013 – increase in revenue and annual surplus of $1,473,897.
- March 31, 2013 – increase in accumulated surplus and decrease in deferred contributions for tangible capital assets of $76,608,798.

(continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Cash and cash equivalents

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

(c) Financial instruments

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

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

Except for investments, which are recorded at fair value, all financial assets and liabilities are recorded at cost or amortized cost and the associated transaction costs are added to the carrying values of these financial instruments upon initial recognition. Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or a financial liability.

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations. Interest and dividends attributable to financial instruments are reported in the statement of operations. All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

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

Recognition, derecognition and measurement policies followed in the financial statements for periods prior to April 1, 2012 are not reversed and, therefore, the financial statements of prior periods, including comparative information, have not been restated.

As at March 31, 2013 and for the year then ended, financial instruments are accounted for prospectively in accordance with public sector accounting standards as described above.

(d) Revenue recognition

Revenue from academic and vocational related tuition fees is recognized as revenue in the semester in which the course or program begins. Any portion of the tuition fee revenue relating to the period subsequent to March 31 is recorded as revenue in the current period when the fees are not refundable to the students. In the event that a student is eligible for a refund, revenue is prorated and the portion eligible for a refund is deferred to the next fiscal year.

(continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

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

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

I. Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or in the form of a depreciable tangible capital asset, in each case for use in providing services, are recorded and referred to as deferred contributions for tangible capital assets and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred contributions for tangible capital assets and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

II. Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contribution has been met.

III. Contributions restricted to be retained in perpetuity, allowing only the investment income earned thereon to be spent, are recorded as direct increases to accumulated surplus for the portion to be held in perpetuity and as deferred contributions for the investment income earned thereon.

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

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

Donations that are not externally restricted are recognized as revenue when they are received.

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

(continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(e) Inventory for resale

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

(f) Non-financial assets

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

(g) Prepaid expenses

Prepaid expenses include tuition fees and contract payments.

(h) Tangible capital assets

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

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

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

(continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Employee future benefits

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

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

(j) Asset retirement obligations

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

(k) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the annual budget approved by the Board of Governors of the College on April 24, 2012. The budget is reflected in the Statement of Operations and Accumulated Surplus and the Statement of Changes in Net Financial Debt.

(l) Use of estimates

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

2. ADOPTION OF NEW FINANCIAL REPORTING FRAMEWORK

Effective April 1, 2012, the College adopted the financial reporting framework described in Note 1(a). These financial statements are the first financial statements for which the College has applied this financial reporting framework.

The impact of the adoption of this financial reporting framework on accumulated surplus at the date of transition and the comparative annual surplus is presented below. These accounting changes have been applied retroactively with restatement of prior periods.

The College has elected to use the following exemptions allowed upon first-time adoption:

Retirement and post-employment benefits

The College has elected to recognize all cumulative actuarial gains and losses at April 1, 2011 directly in accumulated surplus.

Tangible capital asset impairment

The College has elected not to reassess past write-downs recorded prior to transition date.

Statement of Financial Position as at April 1, 2011

	Sub-note	Pre- changeover Canadian GAAP	Adjustment	PSAS
Employee future benefit obligations	(a)	$ 12,109,799	$ 1,560,501	$ 13,670,300

Statement of Financial Position as at March 31, 2012

	Sub-note	Pre- changeover Canadian GAAP	Adjustment	PSAS
Cash and cash equivalents	(b)	$ 8,011,746	$ 1,518,612	$ 9,530,358
Investments	(b)	$ 8,660,427	$ (1,518,612)	$ 7,141,815
Employee future benefit obligations	(a)	$ 12,746,419	$ 1,354,581	$ 14,101,000

Statement of Operations for the Year Ended March 31, 2012

	Sub-note	Pre- changeover Canadian GAAP	Adjustment	PSAS
Salaries and benefits	(a)	$ 65,515,029	$ (205,920)	$ 65,309,109

(continued)

2. ADOPTION OF NEW FINANCIAL REPORTING FRAMEWORK (continued)

Statement of Cash Flows for the Year Ended March 31, 2012

	Sub-note	Pre- changeover Canadian GAAP	Adjustment	PSAS
Excess of revenue over expense	(a)	$ 491,617	$ 205,920	$ 697,537
Decrease in investments	(b)	$ (35,522)	$ 1,518,612	$ 1,483,090

Accumulated operating surplus at April 1, 2011:

Accumulated operating surplus, as previously reported	$ 10,098,939
Adjustment for actuarial calculations on employee future benefit obligations	(1,560,501)
Accumulated operating surplus, as restated	8,538,438

Excess of revenue over expense for 2012:

Excess of revenue over expense, as previously reported	491,617
Adjustment for actuarial calculations on employee future benefit obligations	205,920
Excess of revenue over expense, as restated	697,537
Accumulated operating surplus, March 31, 2012, as restated	$ 9,235,975

Key adjustments on the College's financial statements resulting from the adoption of these accounting standards are as follows:

(a) Previously, the College was not required to record an accrued benefit obligation related to sick leave benefits as the benefits do not vest. Canadian public sector accounting standards require that a liability and an expense be recognized for post-employment benefits and compensated absences that vest or accumulate in the period in which employees render services to the College in return for the benefits. An adjustment was made to recognize a liability and an expense related to accumulated sick leave entitlement. The resulting adjustment to the liability for employee future benefit obligations at April 1, 2011 was $1,560,501. A reduction in expense of $205,920 was recognized in the 2012 fiscal year. The liability for employee future benefit obligations recorded at March 31, 2012 was increased by $1,354,581 related to the accrual for accumulated sick leave entitlement, determined by an actuarial valuation.

(b) Previously, the College recorded liquid investments with a term to maturity of three months or less at the date of purchase as marketable securities. Canadian public sector accounting standards require such liquid investments to be included and recorded as cash and cash equivalents in the statement of financial position.

(continued)

2. ADOPTION OF NEW FINANCIAL REPORTING FRAMEWORK (continued)

(c) During the year, the College adopted *PS 3450 Financial instruments* which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This standard is effective April 1, 2012 and is required to be adopted prospectively. As a result the unrealized gains and losses on investments for the year ended March 31, 2013 are shown on a new statement, the statement of measurement gains and losses. In addition there is a transition adjustment for the adoption of this new standard in the amount of $30,231 which represents the unrealized gain on the investments as at April 1, 2012. The comparative figures have not been restated from the presentation and disclosure requirements of the previous financial reporting framework adopted by the College.

3. INVESTMENTS

The current investments are invested through RBC Phillips Hager & North:

	2013	2012
Investments held at fair value:		
Fixed income	**$ 4,913,226**	$ 4,586,357
Equity investments	**1,608,595**	2,555,458
	$ 6,521,821	$ 7,141,815

4. ACCOUNTS RECEIVABLE

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

	2013	2012
Student receivables	**$ 1,375,233**	$ 930,593
Trade receivables	**1,057,336**	3,955,178
	2,432,569	4,885,771
Less:		
Allowance for doubtful accounts	**(122,398)**	(77,295)
	$ 2,310,171	$ 4,808,476

5. INVENTORY FOR RESALE

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

	2013	2012
Bookstore	**$ 733,309**	$ 548,073
Other	**183,019**	131,326
	$ 916,328	$ 679,399

In 2013, a total of $3,474,470 (2012 - $3,532,861) of inventories were included in the Statement of Operations and Accumulated Surplus as an expense. This includes an amount of $23,669 (2012 -$9,623) resulting from write-down of inventories.

None of the inventories are pledged as security for liabilities.

6. TANGIBLE CAPITAL ASSETS

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

As at March 31, 2013	Land and site improvements	Buildings	Furniture and equipment	Computer equipment	Leasehold improvements	Assets under construction	2013 Total
Cost							
Opening balance	$ 9,497,799	$ 115,394,064	$ 44,946,434	$ 10,919,180	$ 1,579,304	$ -	$ 182,336,781
Additions	15,795	257,755	2,237,511	285,389	-	3,732,582	6,529,032
Closing Balance	9,513,594	115,651,819	47,183,945	11,204,569	1,579,304	3,732,582	188,865,813
Accumulated Amortization							
Opening balance	5,242,156	31,870,687	39,614,057	10,109,685	1,509,516	-	88,346,101
Amortization	378,031	2,861,678	1,938,511	245,249	69,788	-	5,493,257
Closing balance	5,620,187	34,732,365	41,552,568	10,354,934	1,579,304	-	93,839,358
Net book value	**$ 3,893,407**	**$ 80,919,454**	**$ 5,631,377**	**$ 849,635**	**$ -**	**$ -**	**$ 95,026,455**

Assets under construction

Assets under construction represent work in progress as at March 31, 2013 of $3,732,582 (2012 - $nil) on the existing trades building and the construction of a new trades training facility on the College's Kelowna Campus. Amortization of these assets will commence when the assets are put into service.

(continued)

6. TANGIBLE CAPITAL ASSETS (continued)

As at March 31, 2012	**Land and site improvements**	**Buildings**	**Furniture and equipment**	**Computer equipment**	**Leasehold improvements**	**Assets under construction**	**2012 Total**
Cost							
Opening balance	$ 6,814,815	$ 90,043,587	$ 42,102,379	$ 10,537,060	$ 1,579,304	$ 24,686,810	$ 175,763,955
Additions	2,682,984	25,350,477	2,844,055	382,120	-	(24,686,810)	6,572,826
Closing Balance	9,497,799	115,394,064	44,946,434	10,919,180	1,579,304	-	182,336,781
Accumulated Amortization							
Opening balance	4,964,429	29,329,113	37,830,030	9,912,164	1,369,940	-	83,405,676
Amortization	277,727	2,541,574	1,784,027	197,521	139,576	-	4,940,425
Closing balance	5,242,156	31,870,687	39,614,057	10,109,685	1,509,516	-	88,346,101
Net book value	**$ 4,255,643**	**$ 83,523,377**	**$ 5,332,377**	**$ 809,495**	**$ 69,788**	**$ -**	**$ 93,990,680**

7. LONG TERM DEBT

	2013	2012
Province of British Columbia - Centre for Learning $5,000,000 bond, 3.10%, unsecured, sinking fund contributions at $151,221 annually plus semi-annual interest of $77,500, due June 9, 2014. Debt is reported net of sinking fund balance of $542,928 (2012 - $370,352)	**$ 4,457,072**	$ 4,629,468
Royal Bank of Canada – Vernon expansion loan, repaid during the year	**-**	978,067
	$ 4,457,072	$ 5,607,535

(a) Sinking fund installments and retirement provisions

Aggregate payments for the next two fiscal years to meet sinking fund installments on externally restricted sinking funds and retirement provisions on debentures are:

2014	$ 151,221
2015	4,305,851
	$ 4,457,072

(continued)

7. LONG TERM DEBT (continued)

(b) Operating line of credit

The College has an operating line of credit with TD Canada Trust for an authorized amount of $1,000,000, bearing interest at bank prime rate minus .5%. At March 31, 2013 the balance outstanding on the operating line of credit was $nil (2012 - $nil).

8. EMPLOYEE FUTURE BENEFITS

(a) Pension benefits

The College and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trusteed pension plans. The boards of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of the assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are based on a formula. The College Pension Plan has about 13,000 active members from college senior administration and instructional staff and approximately 5,000 retired members. The Municipal Pension Plan has about 176,000 active members, with approximately 5,700 from colleges.

The most recent valuation for the College Pension Plan as at August 31, 2009 indicated a $1 million funding surplus for basic pension benefits. The next valuation will be as at August 31, 2012 with results available in 2013. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2009 indicated a $1,024 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. Defined contribution plan accounting is applied to the plan as the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.

The Okanagan College paid $4,554,825 (2012 - $4,535,673) for employer contributions to the plans in fiscal 2013.

(b) Employee future benefit obligations

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

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

Retirement benefit payments represent the College's share of the cost to provide employees with various benefits upon retirement. The accrued benefit obligation and the net periodic benefit cost were estimated by an actuarial valuation completed April 12, 2013.

(continued)

8. EMPLOYEE FUTURE BENEFITS (continued)

(b) Employee future benefit obligations (continued)

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

	2013	2012
Employee future benefit obligations		
Balance, beginning of year	**$ 13,187,700**	$ 13,670,300
Current service cost	**972,200**	937,600
Interest cost	**405,300**	420,100
Benefits paid	**(1,206,300)**	(927,000)
Actuarial gain	**(670,900)**	(913,300)
Balance, end of year	**12,688,000**	13,187,700
Unamortized actuarial loss	**1,492,900**	913,300
Employee future benefit obligations, end of year	**$ 14,180,900**	$ 14,101,000

Components of net benefit expense	2013	2012
Service cost	**$ 972,200**	$ 937,600
Interest cost	**405,300**	420,100
Amortization of net actuarial gain	**(91,300)**	-
Net benefit expense	**$ 1,286,200**	$ 1,357,700

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

	2013	2012
Interest (discount) rate	**3.1%**	3.1%

9. DEFERRED CONTRIBUTIONS FOR TANGIBLE CAPITAL ASSETS

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

(continued)

9. DEFERRED CONTRIBUTIONS FOR TANGIBLE CAPITAL ASSETS (continued)

	2013	2012
Balance, beginning of year	**$ 76,977,173**	$ 76,225,507
Deferred contributions from:		
Federal Government	**-**	1,756,562
Ministry of Advanced Education	**4,881,299**	1,205,888
Donations	**375,164**	941,993
	82,233,636	80,129,950
Less: Amounts amortized to revenue	**(3,695,689)**	(3,152,777)
Balance, end of year	**$ 78,537,947**	$ 76,977,173

10. ACCUMULATED SURPLUS

The following table shows the changes in accumulated surplus:

	Operating surplus (deficit)	**Unfunded employee future benefit obligations**	**Investment in tangible capital assets**	**Remeasurement gains and losses**	**Total 2013**	**Total 2012**
Accumulated surplus, beginning of year	$ 11,931,003	$ (14,101,000)	$11,405,972	$ -	$ 9,235,975	$ 8,538,438
Excess of revenue over expense	2,983,435	(79,900)	(1,776,393)	-	1,127,142	697,537
Adoption of Section 3450 Financial instruments	(30,231)	-	-	30,231	-	-
Net remeasurement gains for the year	-	-	-	111,568	111,568	-
Acquisition of tangible capital assets	(1,272,569)	-	1,272,569	-	-	-
Repayment of long term debt	(1,129,288)	-	1,129,288	-	-	-
Accumulated surplus, end of year	$ 12,482,350	$ (14,180,900)	$12,031,436	$ 141,799	$ 10,474,685	$ 9,235,975

The operating surplus excludes the unfunded liability for employee future benefit obligations in the amount of $14,180,900 (2012 - $14,101,000). The operating surplus (deficit) with the unfunded liability for employee future benefit obligations would be $(1,698,550) (2012 – $(2,169,997)).

11. COMMITMENTS AND CONTINGENCIES

(a) The College leases, for the Penticton campus, 5.92 hectares under a long term lease, which expires June 30, 2049. The annual lease payment is $324,111.

(continued)

11. COMMITMENTS AND CONTINGENCIES (continued)

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

Fiscal year 2013-14	$	1,940,554
Fiscal year 2014-15		1,133,792
Fiscal year 2015-16		800,605
Fiscal year 2016-17		544,880
Fiscal year 2017-18		510,097
	$	4,929,928

Subject to anticipated government funding, the College also has a commitment of $33,035,000 to renovate the existing Trades building and to construct a new trades training facility on its Kelowna Campus in fiscal years 2014-2016. Work on the Trades building started in the current fiscal year and is scheduled to complete by March 31, 2016.

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

12. SEGMENTED INFORMATION

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

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

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

(b) Enrolment and Student support - This segment, unique to the post-secondary sector, includes enrolment management and student service costs such as student recruitment, student registration, student placement, student counseling and library services. It also includes administrative costs in the Regional Dean's offices in all campus locations, and operating costs for scholarships, fundraising and alumni administration.

(continued)

12. SEGMENTED INFORMATION (continued)

(c) Facility and Institutional support - In addition to segment (b), there is a group of operating activities that commonly exist in an organization to provide administrative and infrastructure support. This segment captures costs associated with the operation of the following support departments: Board of Governors, Executive Offices, Financial Services, Human Resources, Campus Planning and Facility Management, Information Technology Services, Legal Affairs, Public Affairs, Business Services. Costs Included within these departments are costs associated with staff recruitment and termination, legal fees, custodial services, grounds maintenance, security, occupational health and safety, shipping and receiving. In addition, institutional costs such as investment fees, insurance premiums, bank charges, audit fees and employee related costs are included here.

(d) Ancillary operations - This segment includes the activities of the ancillary operations. An ancillary operation is one that provides goods and services to students, staff or others, and that charges a fee directly related to the cost of providing the goods or services. Ancillary operations include parking, food services, student residence and bookstores. Costs associated with this segment include administration and support costs related to these activities.

(e) Interest on long term debt – Disclosure is required as a separate item under PS 3230 15 (f) of the Canadian public sector accounting standards.

13. EXPENSES BY OBJECT

Total expenses by object are itemized as follows:

	2013	2012
Salary and benefits	**$ 65,747,936**	$ 65,309,109
Supplies and services	**22,368,760**	23,618,723
Interest on long term debt	**183,944**	207,363
Amortization of tangible capital assets	**5,493,257**	4,940,425
	$ 93,793,897	$ 94,075,620

14. FINANCIAL RISK MANAGEMENT

The College has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk.

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

(continued)

14. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk

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

The College manages its credit risk through prudent investment policy by the College's Board of Governors. Accounts receivable consist primarily of amounts outstanding from federal and provincial governments for projects completed by March 31. Other accounts receivable are carefully monitored and are actively pursued, which includes the use of a collection agency for balances more than three months old. The College's exposure to credit risk is minimal.

(b) Market risk

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

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

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

(c) Liquidity risk

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

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

(d) Fair value of financial instruments

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

(continued)

14. FINANCIAL RISK MANAGEMENT (continued)

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

15. COMPARATIVE FIGURES

Certain comparative figures from the prior year have been reclassified to conform to the presentation format adopted for the current year.