

Financial Statements of

**THE ALGONQUIN COLLEGE OF
APPLIED ARTS AND TECHNOLOGY**

Year ended March 31, 2006

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Financial Statements and Supplementary Schedules

Year ended March 31, 2006

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AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

We have audited the statement of financial position of The Algonquin College of Applied Arts and Technology as at March 31, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the College as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the College taken as a whole. The supplementary information included in Schedules "A" to "H" is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Chartered Accountants

Ottawa, Canada

June 6, 2006

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Statement of Financial Position

March 31, 2006, with comparative figures for 2005 and 2004

	2006	2005	2004
Assets			
Current assets:			
Cash and short-term investments	\$ 29,827,011	\$ 15,885,782	\$ 10,264,801
Accounts receivable	8,646,784	17,969,584	9,703,434
Inventory (note 4)	1,662,288	1,507,470	1,530,919
Prepaid expenses	609,944	1,169,964	909,155
	40,746,027	36,532,800	22,408,309
Endowment assets (note 5)	5,830,245	3,700,940	2,031,890
Intellectual property	–	–	15,546
Capital assets (note 6)	144,662,303	144,862,245	145,068,843
	<u>\$ 191,238,575</u>	<u>\$ 185,095,985</u>	<u>\$ 169,524,588</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 7,904,339	\$ 7,073,796	\$ 9,839,042
Accrued salaries and employee deductions payable	2,854,651	3,001,252	2,983,971
Deferred revenue (note 7)	17,549,877	19,272,818	11,731,339
Current portion of obligations under capital leases (note 8)	421,133	416,671	379,717
Current portion of long-term debt (note 9)	1,263,290	5,005,825	3,885,867
	29,993,290	34,770,362	28,819,936
Obligations under capital leases (note 8)	452,832	786,141	1,202,812
Long-term debt (note 9)	53,124,897	55,121,535	58,205,814
Vacation, sick leave and post-employment benefits (note 14(c))	14,413,486	16,662,845	16,583,732
Long-term deferred revenue	–	–	3,011,695
Deferred capital contributions (note 10)	68,685,808	65,753,475	61,389,746
Deferred contribution for building campaign (note 18)	88,697	26,800	–
Net assets (deficiency):			
Unrestricted	965,010	540,671	(7,650,621)
Investment in capital assets (note 11(a))	20,714,343	17,778,598	20,004,887
Vacation, sick leave and post-employment benefits (note 14(c))	(14,413,486)	(16,662,845)	(16,583,732)
Internally restricted (note 12)	11,383,453	6,617,463	2,508,429
Endowment fund (note 13)	5,830,245	3,700,940	2,031,890
	24,479,565	11,974,827	310,853
Commitments and guarantees (note 16)			
Contingencies (note 17)			
	<u>\$ 191,238,575</u>	<u>\$ 185,095,985</u>	<u>\$ 169,524,588</u>

See accompanying notes to financial statements.

On behalf of the Board of Governors:

_____ Chairman

_____ Member

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Statement of Operations

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	2006	2005	2004
Revenue (schedule A):			
Grants and reimbursements	\$ 80,813,103	\$ 76,006,142	\$ 69,698,398
Student tuition fees	46,174,685	47,154,996	46,299,106
Contract educational services	12,016,379	10,668,098	8,029,207
Ancillary operations (schedule H)	31,224,349	30,606,468	29,239,297
Other	11,091,063	11,198,410	10,681,380
Amortization of deferred capital contributions	5,553,799	4,183,164	3,451,102
	<u>186,873,378</u>	<u>179,817,278</u>	<u>167,398,490</u>
Expenditures:			
Operating:			
Academic (schedule B)	84,780,260	80,881,760	76,460,477
Educational resources (schedule C)	2,162,249	1,981,075	2,175,904
Student services (schedule D)	22,464,283	20,429,205	19,119,942
Administrative (schedule E)	14,968,491	15,754,591	15,694,388
Plant (schedule F)	14,030,291	14,708,464	14,836,236
Special projects (schedule G)	2,037,348	1,567,398	2,067,476
Ancillary operations (schedule H)	26,766,921	26,105,472	24,928,445
	<u>167,209,843</u>	<u>161,427,965</u>	<u>155,282,868</u>
Vacation, sick leave and post-employment benefits (note 14(c))	(2,249,359)	79,113	298,067
Amortization and write-off of capital assets	11,537,461	11,074,530	11,359,177
	<u>176,497,945</u>	<u>172,581,608</u>	<u>166,940,112</u>
Excess of revenue over expenditures from continuing operations	10,375,433	7,235,670	458,378
Results from discontinued operation (note 21)	–	2,159,254	(873,473)
Excess (deficiency) of revenue over expenditures	\$ 10,375,433	\$ 9,394,924	\$ (415,095)

See accompanying notes to financial statements.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Statement of Changes in Net Assets

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	Unrestricted	Investment in capital assets (note 11(a))	Vacation, sick leave and post employment benefits (note 14(c))	Internally restricted (note 12)	Endowment fund (note 13)	2006 Total	2005 Total	2004 Total
Net assets, beginning of year	\$ 540,671	\$ 17,778,598	\$ (16,662,845)	\$ 6,617,463	\$ 3,700,940	\$ 11,974,827	\$ 310,853	\$ 346,887
Change in accounting policy (note 3)	–	–	–	–	376,748	376,748	–	–
Net assets, beginning of year, as restated	540,671	17,778,598	(16,662,845)	6,617,463	4,077,688	12,351,575	310,853	346,887
Excess (deficiency) of revenue over expenditures	10,375,433	–	–	–	–	10,375,433	9,394,924	(415,095)
Net change in vacation, sick leave and post-employment benefits (note 14(c))	(2,249,359)	–	2,249,359	–	–	–	–	–
Internally imposed restrictions	(4,765,990)	–	–	4,765,990	–	–	–	–
Net change in investment in capital assets (note 11(b))	(2,935,745)	2,935,745	–	–	–	–	–	–
Endowment contributions and investment income (note 13)	–	–	–	–	1,752,557	1,752,557	1,669,050	379,061
Donation towards purchase of land	–	–	–	–	–	–	600,000	–
Net assets, end of year	\$ 965,010	\$ 20,714,343	\$ (14,413,486)	\$ 11,383,453	\$ 5,830,245	\$ 24,479,565	\$ 11,974,827	\$ 310,853

See accompanying notes to financial statements.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Statement of Cash Flows

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	2006	2005	2004
Cash provided by (used for):			
Operations:			
Excess (deficiency) of revenue over expenditures from continued operations	\$ 10,375,433	\$ 7,235,670	\$ (458,378)
Items, which do not involve cash:			
Amortization of capital assets	11,443,645	11,016,830	10,542,947
Write-off of capital assets	93,816	57,700	816,230
Amortization of deferred capital contributions	(5,553,799)	(4,183,164)	(3,451,102)
Write-off of deferred capital contributions	—	—	(800,000)
Vacation, sick leave and post-employment	(2,249,359)	79,113	298,067
Change in non-cash working capital (note 19)	8,689,003	(3,709,995)	4,442,248
	22,798,739	10,496,154	11,390,012
Financing:			
Increase (decrease) in long-term debt	(5,739,173)	(1,964,321)	14,182,778
Increase (decrease) in long-term deferred revenue	—	(3,011,695)	1,854,174
Increase (decrease) in capital lease	(328,847)	(379,717)	1,154,283
	(6,068,020)	(5,355,733)	17,191,235
Investments:			
Proceeds from sale of discontinued operation (note 21)	—	2,000,000	—
Capital asset additions (note 11(b))	(11,337,519)	(10,965,682)	(23,611,905)
Capital contributions received (note 10)	8,486,132	9,146,893	4,300,714
Increase in deferred contribution for building campaign	61,897	26,800	—
Increase in endowment assets	(2,129,305)	(1,669,050)	(379,061)
Increase in endowment fund (note 13)	2,129,305	1,669,050	379,061
	(2,789,490)	208,011	(19,311,191)
Increase in cash and short-term investments	13,941,229	5,348,432	9,270,056
Increase in cash from discontinued operation	—	272,549	204,386
Cash and short-term investments, beginning of year	15,885,782	10,264,801	790,359
Cash and short-term investments, end of year	\$ 29,827,011	\$ 15,885,782	\$ 10,264,801
Consisting of:			
Cash	\$ 8,064,163	\$ 6,330,029	\$ 9,917,143
Short-term investments	21,762,848	9,555,753	347,658
Cash and short-term investments, end of year	\$ 29,827,011	\$ 15,885,782	\$ 10,264,801

See accompanying notes to financial statements.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements

Year ended March 31, 2006

1. Description:

The Algonquin College of Applied Arts and Technology was incorporated as a College in 1966 under the laws of the Province of Ontario. The College is dedicated to providing post-secondary education.

The College is a registered charity and therefore is, under Section 149 of the Income Tax Act, exempt from payment of income tax.

The financial statements reflect the assets, liabilities, net assets, revenue, expenditures and other transactions of all of the operations and organizations controlled by the College. Accordingly, these financial statements include the academic, administrative and other operating expenditures funded by fees, grants and other general revenue; restricted purpose endowment funds, and the ancillary operations of the College.

2. Significant accounting policies:

(a) General:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(c) Investments:

(i) Short-term investments:

Short-term investments are designated as held to maturity and are recorded at cost plus accrued interest, which approximates fair value.

(ii) Endowed investments:

Endowed investments are designated as available for sale and are recorded at fair value. Realized investment income and unrealized gains or losses from the change in fair value are recorded in the statement of changes in net assets. Fair value is determined at quoted market prices.

For comparative periods, endowed investments are recorded at the lower of cost or fair value if the decline in fair value is considered to be other than temporary (see note 3).

(d) Intellectual property:

Intellectual property relates to the College's acquisition of corporate training operations. Intellectual property was amortized on a straight-line basis over four years.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

2. Significant accounting policies (continued):

(e) Capital assets:

Capital assets in excess of \$1,000 are recorded at cost with the following exceptions:

- (i) Academic furniture and library holdings are charged to expenditures in the year of acquisition.
- (ii) Computer software is charged to expenditures in the year of acquisition.
- (iii) Land originally acquired at the Woodroffe and Rideau campuses is recorded at a nominal value of \$1 with subsequent additions at cost.

Donated capital assets are recorded at the value of the receipt issued to the donor, which reflects estimated fair value of the capital asset at the time of the donation.

Construction in progress is not amortized until the project is complete and the facilities come into use.

Amortization is provided on a straight-line basis over the estimated useful lives as follows:

Asset	Useful life
Buildings	40 years
Site improvements	10 years
Parking lots	10 years
Equipment	5 years
Laptop/desktop computers	22/48 months
Automotive equipment	5 years
ITS infrastructure	5 years
Residence furniture and appliances	5 years
Equipment under capital lease	Over term of lease

(f) Deferred capital contributions:

Contributions received for capital assets are deferred and amortized over the same term and on the same basis as the related capital asset.

(g) Revenue:

- (i) Grants and donations are recorded using the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable. Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the period in which the related expenditures are recognized. Endowment contributions are recognized as direct increases in net assets in the period in which they are received.
- (ii) Student tuition fees are recorded in the accounts based on the academic period of the specific courses. Tuition fees are deferred to the extent that the courses extend beyond the fiscal year of the College.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

2. Significant accounting policies (continued):

(g) Revenue (continued):

(iii) Contract educational services are recorded in the accounts based on the services provided in the College's fiscal year on a percentage of completion basis.

(iv) Restricted investment income is recognized as revenue in the year that the related expenditures are incurred. Unrestricted investment income is recognized as revenue when earned.

(h) Student organizations:

These financial statements do not reflect the assets, liabilities and results of operations of the various student organizations at the College.

(i) Contributed services:

Volunteers contribute an indeterminable number of hours per year to assist the College in carrying out its service delivery activities. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

(j) Leases:

Leases are classified as either capital or operating in nature. Capital leases are those which substantially transfer the benefits and risks of ownership to the College. Assets acquired under capital leases are amortized at the same rates as those described in note 2(e). Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to expense.

(k) Employee benefit plans:

The College accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.

(l) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the period. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

3. Change in accounting policy – financial instruments:

In 2005, the Canadian Institute of Chartered Accountants released *Handbook Section 3855, Financial Instruments - Recognition and Measurement*, and *Section 3865 Hedges*. These new standards change the way certain financial assets and liabilities are accounted for and reported in the financial statements.

The College has elected to adopt these Sections effective April 1, 2005. In accordance with the transitional provisions of these Sections, the College has prospectively adopted the recommendations, and therefore the 2004 and 2005 figures have not been restated.

The College has designated its endowed investments as available for sale and, as such, these investments are recorded at fair value for the current year. In prior years, endowed investments were recorded at cost and realized gains and losses were recognized in the year of disposal.

As a result of adopting these Sections, the opening balance of the endowment fund has been increased by \$376,748 to \$4,077,688 to reflect the prior year's net appreciation of the fair value of endowed investments.

4. Inventory:

	2006	2005	2004
Bookstore	\$ 1,436,104	\$ 1,301,542	\$ 1,309,085
Food services	183,664	162,592	180,826
Stationery and supplies	25,000	25,000	25,000
Publishing centre	17,520	18,336	16,008
	<u>\$ 1,662,288</u>	<u>\$ 1,507,470</u>	<u>\$ 1,530,919</u>

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

5. Endowment assets:

Endowment assets represent funds held or receivable by the College which have been permanently endowed.

For the fiscal year ending March 31, 2006, the carrying value of endowed investments is recorded at fair value. For comparative years, the carrying value of endowed investments is recorded at cost (see note 3).

The endowment assets consist of the following:

Fair value	2006	2005	2004
Receivable from Government of Ontario for Ontario Trust for Student Support matching funds (note 23(c))	\$ 423,576	\$ -	\$ -
Endowed investments:			
Fixed income and cash	2,274,815	2,105,872	940,995
Equities	3,131,854	1,971,816	1,352,620
	<u>\$ 5,830,245</u>	<u>\$ 4,077,688</u>	<u>\$ 2,293,615</u>

Cost	2006	2005	2004
Receivable from Government of Ontario for Ontario Trust for Student Support matching funds (note 23(c))	\$ 423,576	\$ -	\$ -
Endowed investments:			
Fixed income and cash	2,257,706	2,078,096	903,644
Equities	2,455,325	1,622,844	1,128,246
	<u>\$ 5,136,607</u>	<u>\$ 3,700,940</u>	<u>\$ 2,031,890</u>

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

6. Capital assets:

		2006		2005		2004	
	Cost	Accumulated amortization	Net book value	Net book value	Net book value	Net book value	Net book value
Land	\$ 4,370,097	\$ —	\$ 4,370,097	\$ 4,370,097	\$ 2,829,797		
Buildings	167,336,564	52,253,135	115,083,429	119,179,096	117,512,056		
Site improvements	10,264,690	3,054,144	7,210,546	3,873,399	3,265,640		
Construction-in-progress	345,062	—	345,062	92,865	3,626,844		
Parking lots	3,818,720	2,175,626	1,643,094	2,024,967	1,725,744		
Computers and equipment	47,345,448	32,768,525	14,576,923	13,133,205	12,894,991		
Automotive equipment	278,134	209,787	68,347	54,259	37,885		
ITS infrastructure	1,352,490	1,181,535	170,955	351,583	622,081		
Residence furniture and appliances	1,985,289	1,684,335	300,954	608,740	1,005,798		
Equipment under capital lease	1,934,612	1,041,716	892,896	1,174,034	1,548,007		
	\$ 239,031,106	\$ 94,368,803	\$ 144,662,303	\$ 144,862,245	\$ 145,068,843		

Cost and accumulated amortization at March 31, 2005 amounted to \$230,491,708 and \$85,629,463 respectively. Cost and accumulated amortization at March 31, 2004 amounted to \$225,351,814 and \$80,282,971 respectively.

Included in land and buildings are the assets held for resale related to the Rideau campus, which have a net book value of \$1,597,000.

7. Deferred revenue:

Details of the year-end balance are as follows:

	2006	2005	2004
Student tuition fees	\$ 6,008,808	\$ 6,257,397	\$ 6,188,042
Grants and reimbursements	5,438,638	8,722,298	1,861,360
Contract education services	3,547,030	1,393,044	521,379
Student aid	1,738,133	1,069,990	1,094,189
Miscellaneous projects	817,268	1,830,089	2,066,369
	\$ 17,549,877	\$ 19,272,818	\$ 11,731,339

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

7. Deferred revenue (continued):

Student tuition fees are for academic courses which extend beyond the fiscal year of the College.

Grants and reimbursements are unexpended restricted grants to be spent on future specific projects, including improvements and investments in the College's campus facilities, information systems, equipment and programs.

Contract education services represent prepayments for courses to be held in subsequent years.

Student aid represents the unexpended donations and interest to be spent on student scholarships and bursaries in future years.

Miscellaneous projects include contributions, deposits and prepayments related to small, miscellaneous activities of the College.

8. Capital lease obligation:

The College is committed to minimum lease payments for food services equipment until 2008, for telephone equipment until 2006 and for publishing equipment until 2011. Future minimum annual lease payments are as follows:

2007	\$	474,895
2008		298,798
2009		135,040
2010		32,493
2011		21,662
Total minimum lease payments		962,888
Less amounts representing interest (at rates of 9.50%, 7.36% and 7.91%)		88,923
Obligations under capital leases		873,965
Less current portion of obligations under capital leases		421,133
Long-term portion of obligations under capital leases		\$ 452,832

Operating expenditures include interest on capital leases of \$84,850 (2005 - \$114,416).

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

9. Long-term debt and bank indebtedness:

Long-term debt:

The College has entered into the following long-term debt agreements to finance renovations to the Food and Beverage facilities, the construction of student residences, the Police and Public Safety Building, the Automotive Trades Centre and the purchase of land for the Corporate Training Centre (Kanata).

	2006	2005	2004
Residence I building loan, bearing interest at prime plus 0.40%, maturing in 2025 (note 15(c))	\$ 11,742,982	\$ 12,015,085	\$ 12,269,096
Residence II building loan, bearing interest at prime plus 0.25%, maturing in 2027 (note 15 (c))	16,379,305	16,728,993	17,056,411
Residence III building loan, bearing interest at prime plus 0.25%, maturing in 2029 (note 15(c))	17,277,625	17,622,627	17,947,682
Police and Public Safety building loan, bearing interest at prime plus 0.40%, maturing in 2025 (note 15(c))	8,988,275	9,205,752	9,409,476
Automotive Trades facility loan, bearing interest at prime minus 0.55%	–	1,921,547	2,375,652
Food & Beverage loan, bearing interest at prime plus .25%	–	1,133,356	1,533,364
Land for Corporate Training Centre (Kanata), bearing interest at 4.01%	–	1,500,000	1,500,000
	54,388,187	60,127,360	62,091,681
Less current portion	1,263,290	5,005,825	3,885,867
	\$ 53,124,897	\$ 55,121,535	\$ 58,205,814

Interest is payable on a monthly basis. The principal of the loans is payable as follows:

2007	\$ 1,263,290
2008	1,347,599
2009	1,437,552
2010	1,533,528
2011	1,635,931
Thereafter	47,170,287
	\$ 54,388,187

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

10. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of the deferred capital contributions is recorded as revenue in the statement of operations. The changes in the deferred capital contributions balance are as follows:

	2006	2005	2004
Balance, beginning of year	\$ 65,753,475	\$ 61,389,746	\$ 61,340,134
Less amortization of deferred capital contributions	(5,553,799)	(4,183,164)	(3,451,102)
Less write-off of deferred capital contributions	—	—	(800,000)
Add capital contributions received:			
Donated equipment	64,747	872,171	366,975
Government grants	8,421,385	7,674,722	3,933,739
Balance, end of year	\$ 68,685,808	\$ 65,753,475	\$ 61,389,746

11. Investment in capital assets:

(a) The investment in capital assets consists of the following:

	2006	2005	2004
Capital assets	\$ 144,662,303	\$ 144,862,245	\$ 145,068,843
Less amounts financed by:			
Deferred capital contributions	(68,685,808)	(65,753,475)	(61,389,746)
Long-term debt	(54,388,187)	(60,127,360)	(62,091,681)
Capital lease	(873,965)	(1,202,812)	(1,582,529)
	\$ 20,714,343	\$ 17,778,598	\$ 20,004,887

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

11. Investment in capital assets (continued):

(b) The net change in investment in capital assets is calculated as follows:

	2006	2005	2004
Capital asset additions:			
Total additions	\$ 11,337,519	\$ 10,965,682	\$ 23,611,905
Less:			
Donated equipment	(64,747)	(872,171)	(366,975)
Land purchase with donations	–	(600,000)	–
Capital asset purchases financed with grants and donations	(8,421,385)	(7,674,722)	(3,933,739)
Equipment purchases with College funds	2,851,387	1,818,789	19,311,191
External financing:			
Decrease (increase) in long-term debt	5,739,173	1,964,321	(14,182,778)
Decrease (increase) in capital lease	328,847	379,717	(1,154,283)
Amortization of deferred capital contributions	5,553,799	4,183,164	3,451,102
Write-off of deferred capital contributions	–	–	800,000
Amortization of capital assets	(11,443,645)	(11,016,830)	(10,641,863)
Write-off of capital assets	(93,816)	(57,700)	(816,231)
Amortization and write-off of capital assets relating to discontinued operations (note 21)	–	(97,750)	–
Net change in investment in capital assets	\$ 2,935,745	\$ (2,826,289)	\$ (3,232,862)

12. Internally restricted net assets:

Internally restricted net assets are funds restricted by the College for future projects to improve and invest in the College's campus facilities, information systems, equipment, programs, student aid and employee retraining.

13. Endowment fund:

Endowed funds consist of external contributions that either the donor or the College has designated as a permanent endowment. The endowed funds cannot be expended by the College. The annual income earned on the endowed funds may be expended only for the externally restricted purpose specified by the donor or the College. Total endowments include \$4,368,967 in endowed funds relating to the Ontario Student Opportunity Trust Fund and Ontario Trust for Student Support. Included in the student aid portion of the deferred revenue (note 7), is \$66,022 of investment income available for distribution relating to the Ontario Student Opportunity Trust Fund (note 23).

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

13. Endowment fund (continued):

The College's endowment policy is to annually distribute 4% of the average endowment balance.

The purpose of this policy is to allow the College to distribute a consistent amount of income from the endowed funds on an annual basis regardless of the investment income actually earned in the fiscal year.

The Endowment fund balance at March 31, 2006 consists of \$4,976,869 (2005 - \$3,607,591; 2004 - \$1,963,079) of permanently endowed contributions from donors and \$159,738 (2005 - \$93,349; 2004 - \$68,811) of realized net investment income available for distribution and \$693,638 of unrealized investment income due to change in fair value.

The change in the endowment fund balance in 2006 consists of \$1,368,278 of permanently endowed contributions, \$67,389 of realized net investment income and \$316,890 of unrealized investment income due to change in fair value.

14. Employee benefits plans:

(a) Pension plan:

Substantially all of the employees of the College are members of the Colleges of Applied Arts and Technology ("CAAT") Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the CAAT. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the highest five consecutive years prior to retirement, termination or death.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing Plan assets in trust and through the Plan investment policy.

The College's pension expense is calculated in accordance with the contribution formula contained in the Plan Text, using Plan management's best estimates, in consultation with its actuaries. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent triennial actuarial valuation of the Plan as at December 31, 2003 indicates the Plan is fully funded. Contributions to the Plan made during the year by the College on behalf of its employees amounted to \$5,324,454 (2005 - \$5,281,752) and are included in the statement of operations.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

14. Employee benefits plans (continued):

(b) Post employment benefits:

The College provides extended health care, dental insurance and life insurance benefits to certain of its employees under a multi-employer plan under CAAT. This coverage may be extended to the post-employment period. The most recent actuarial valuation of employee future benefits was completed as at March 31, 2006.

During the year, there was a change in the plan provisions under CAAT. Effective September 1, 2005, the cost of the early retiree benefits are no longer subsidized by the Colleges. The elimination of benefits to early retirees after August 30, 2005 creates a curtailment gain per the recent actuarial valuation for the College of \$2,449,000. This curtailment gain, net of annual service costs, reduces the accrued benefit liability as at March 31, 2006.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The College recognizes as expense for current services the amount of its required contribution in a given year and the change in the accrued benefit liability in the year.

The significant actuarial assumptions adopted in estimating the College's accrued benefit liability are as follows:

Discount rate	5.0%
Dental benefits cost escalation	4.0%
Medical benefits cost escalation - hospital and other medical	5.0%
- drugs	9.0% in 2004, decreasing to 5.0% per annum in 2010 and thereafter.

(c) Net asset deficiency – vacation, sick leave and post employment benefits:

The composition of the vacation, sick leave and post-employment net asset deficiency is as follows:

	2006	2005	2004
Post-employment benefits	\$ 3,080,800	\$ 5,060,000	\$ 4,940,600
Vacation	7,498,389	7,379,788	7,014,039
Sick leave	3,834,297	4,223,057	4,629,093
	<u>\$ 14,413,486</u>	<u>\$ 16,662,845</u>	<u>\$ 16,583,732</u>

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

14. Employee benefits plans (continued):

(c) Net asset deficiency – vacation, sick leave and post employment benefits (continued):

Post-employment benefits refer to health, dental and life insurance benefits provided to retired employees at reduced cost.

Prior to fiscal year ending March 31, 2005, the payment of accumulated sick leave liability was directly funded by the Ministry of Training, Colleges and Universities on an annual basis.

15. Financial instruments:

(a) Concentrations of credit risk:

The College is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Credit exposure is minimized by dealing mostly with creditworthy counterparties such as government agencies and public companies. The College also enforces approved collection policies for student accounts.

The largest credit exposure to a single institution at March 31, 2006 was \$2,723,104 (2005 - \$2,972,127; 2004 - \$3,206,309) with the Algonquin Students Association Inc. related to a guarantee of borrowings for the Student Fitness Centre.

In addition, the College has committed, upon receiving appropriate notification, to apply fees collected on behalf of the Algonquin Students' Association to ensure that the bank loan to the Students' Association related to the construction of the Sportsfield remains current.

(b) Fair values:

The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, accrued salaries and employee deductions payable, approximate their fair value due to the relatively short periods to maturity of the instruments.

The fair value of the obligation under capital leases is measured as the present value of contractual future lease payments discounted at a rate for similar leases.

The fair value of investments is disclosed in note 5.

(c) The College has entered into interest rate derivative agreements to manage the volatility of interest rates. The College converted a net notional \$59.0 million of floating rate debt for the three phases of the Residence and the Police & Public Safety Institute. The fixed rates range from 5.97% to 6.95%. The maturity date of the derivative agreements are the same as the maturity dates of the associated debt, ranging from 2025 to 2029.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

16. Commitments and guarantees:

- (a) The College has committed to make the following future minimum payments under various vehicle and premises rental leases:

2007	\$	160,094
2008		141,841
2009		61,553
		<hr/>
		\$ 363,488

- (b) Letters of credit:

The College is contingently liable under letters of credit amounting to \$230,973 (2005 - \$230,555) which have been issued in the normal course of business.

- (c) Guarantee:

In the normal course of business, the College has entered into lease agreements for premises and equipment. It is common in such commercial lease transactions for the College as the lessee, to agree to indemnify the lessor liabilities that may arise from the use of the leased assets. The maximum amount potentially payable under the foregoing indemnities cannot be reasonably estimated. The College has liability insurance that relates to the indemnifications described above.

17. Contingencies:

The College is involved with pending litigation and claims which arise in the normal course of operations. In the opinion of the administration, any liability that may arise from such contingencies would not have a significant adverse effect on the financial statements of the College. Losses, if any, arising from these matters will be accounted for in the year in which they are resolved.

18. Building campaign:

In 2005, the Algonquin College Foundation launched a building campaign to raise \$2 million by 2010 to finance the construction of the new Technology Trades Centre. To date, \$88,697 has been contributed and externally restricted for this new building.

The building campaign has obtained \$337,000 in pledges, which have not been recorded in these financial statements.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

19. Change in non-cash working capital:

	2006	2005	2004
Decrease (increase) in accounts receivable	\$ 9,322,800	\$ (8,266,150)	\$ 526,472
Decrease (increase) in inventory	(154,818)	23,449	18,026
Decrease (increase) in prepaid expenses	560,020	(260,809)	(57,754)
Increase (decrease) in accounts payable and accrued liabilities	830,543	(2,765,245)	2,393,893
Increase (decrease) in accrued salaries and employee deductions payable	(146,601)	17,281	1,411,199
Increase (decrease) in deferred revenue	(1,722,941)	7,541,479	150,412
	<u>\$ 8,689,003</u>	<u>\$ (3,709,995)</u>	<u>\$ 4,442,248</u>

20. Related parties:

The College has an economic interest in the Algonquin College Foundation. The Foundation was incorporated without share capital on December 4, 1995 under the Ontario Corporations Act. The objectives of the Foundation are to solicit, receive, manage and distribute money and other property to support education at the College.

During the year, the College received \$1,917,504 (2005 - \$1,547,585) from the Foundation in endowed contributions, deferred contributions and other restricted donations. The College provides the Foundation with office premises without charge and pays the salaries of all employees involved with the Foundation.

21. Discontinued operation:

On March 31, 2005 the College completed the sale of one of its corporate training divisions. The College sold Acerra Learning Inc. of Ottawa, Ontario and the related College assets for a total consideration of \$2,000,000.

Summarized financial information for the discontinued operation is as follows:

	2006	2005	2004
Revenue:			
Operating	\$ -	\$ 8,198,483	\$ 6,764,162
Proceeds of sale	-	2,000,000	-
	-	10,198,483	6,764,162
Expenditures:			
Operating	-	7,925,933	7,476,529
Amortization and write-off of capital assets	-	97,750	98,919
Amortization of intellectual property	-	15,546	62,187
	-	8,039,229	7,637,635
Results of discontinued operations	<u>\$ -</u>	<u>\$ 2,159,254</u>	<u>\$ (873,473)</u>

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

22. Comparative figures:

Certain March 31, 2004 and 2005 comparative figures have been reclassified to conform to the financial statement presentation adopted for March 31, 2006.

23. Ontario Student Opportunity Trust Fund:

The externally restricted endowments include monies provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund matching program to award student aid as a result of raising an equal amount of endowed donations. The College has recorded the following amounts under the program:

(a) PHASE I

Schedule of Changes in Endowment Fund Balance For the year ended March 31, 2006

Fund balance at beginning of year	\$ 994,793	
Cash donations received	-	
Preservation of capital	-	
Fund balance at end of year	\$ 994,793	(A)

Schedule of Changes in Expendable Funds Available for Awards for the year ended March 31, 2006

Balance, beginning of year	\$ 79,151	
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	40,854	
Bursaries awarded (total number: 148)	(80,852)	
Balance, end of year	\$ 39,153	(B)
Endowment total based on book value (=A+B)	\$ 1,033,946	

The fair value of this endowment as at March 31, 2006 is \$1,181,357.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

23. Ontario Student Opportunity Trust Fund (continued):

(b) PHASE II

Schedule of Changes in Endowment Fund Balance for the Period of April 1, 2005 to March 31, 2006

Fund balance at beginning of year	\$ 2,002,396	
Cash donations received	-	
Audited unmatched cash donations, received between March 27, 2003 and March 31, 2005, transferred to OTSS in 2005-06	-	
Preservation of capital (where applicable)	-	
Fund balance at end of year	\$ 2,002,396	(A)

Schedule of Changes in Expendable Funds Available for Awards for the Period April 1, 2005 to March 31, 2006

Balance, beginning of year	\$ -	
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	80,789	
Bursaries awarded (total number: 107)	(53,920)	
Balance, end of year	\$ 26,869	(B)
Endowment total based on book value (=A+B)	\$ 2,029,265	

The fair value of this endowment as at March 31, 2006 is \$ 2,377,853.

(c) ONTARIO TRUST FOR STUDENT SUPPORT

Schedule of donations received between April 1, 2005 And March 31, 2006

Cash donations matched between April 1, 2005 And March 31, 2006	\$ 467,411	
Unmatched cash donations (Received between April 1, 2005 and March 31, 2006)	-	
Total cash donations	\$ 467,411	

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

23. Ontario Student Opportunity Trust Fund (continued):

(c) ONTARIO TRUST FOR STUDENT SUPPORT

Schedule of Changes in Endowment Fund Balance For the Period April 1, 2005 to March 31, 2006

Balance, beginning of year	\$	–	
Eligible cash donations received between April 1, 2005 And March 31, 2006 in compliance with the November 2005 Program Guidelines and Reporting Requirements	\$	467,411	
Matching funds received from MTCU in 2005-06		480,791	
Matching funds receivable from MTCU in 2005-06		423,576	
Fund balance at end of year	\$	1,371,778	(A)

Schedule of Changes in Expendable Funds Available for Awards For the Period April 1, 2005 to March 31, 2006

Balance, beginning of year	\$	–	
Realized investment income, net of direct investment-related Expenses and preservation of capital contributions		–	
Bursaries awarded (total number: 0)		–	
Balance, end of year	\$	–	(B)
Endowment total based on book value (=A+B)	\$	1,371,778	

The fair value of this endowment as at March 31, 2006 is \$1,549,244.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2006

23. Ontario Student Opportunity Trust Fund (continued):

Algonquin College
Report of OTSS Awards Issued for the Period of April 1, 2005 to March 31, 2006

Status of Recipients	OSAP Recipients		Non-OSAP Recipients		Total	
	Number	Amount	Number	Amount	Number	Amount
Full-Time	0	\$0.00	0	\$0.00	0	\$0.00
Part-Time	N/A	N/A	0	\$0.00	0	\$0.00
Total						

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Revenue

Schedule A

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	2006	2005	2004
Grants and reimbursements:			
Provincially financed programs:			
Plant and activity grants	\$ 75,639,698	\$ 70,519,116	\$ 64,588,784
Special bursaries	1,769,132	1,854,800	1,938,695
	<u>77,408,830</u>	<u>72,373,916</u>	<u>66,527,479</u>
Flat-rate funding programs:			
Apprentice	3,404,273	3,632,226	3,170,919
	<u>80,813,103</u>	<u>76,006,142</u>	<u>69,698,398</u>
Student tuition fees:			
Post secondary:			
Full-time	33,234,242	32,127,326	29,854,026
Full-time fast track	731,266	1,023,591	1,386,663
Part-time	8,382,895	9,482,501	10,605,309
Adult training	1,600,595	1,643,072	1,681,048
Student information technology fee	2,225,687	2,878,506	2,772,060
	<u>46,174,685</u>	<u>47,154,996</u>	<u>46,299,106</u>
Contract educational services:			
Provincially funded programs	5,623,486	4,838,601	4,038,780
International programs	1,347,664	423,163	314,198
Corporate and other programs	5,045,229	5,406,334	3,676,229
	<u>12,016,379</u>	<u>10,668,098</u>	<u>8,029,207</u>
Ancillary operations (schedule H)	31,224,349	30,606,468	29,239,297
Other:			
Write-off of deferred capital contributions (note 11(b))	—	—	800,000
Early Learning Centre	778,610	715,478	667,349
Student ancillary fees	3,821,468	3,456,066	3,350,433
Applied research	56,102	243,437	1,072,116
Miscellaneous	6,434,883	6,783,429	4,791,482
	<u>11,091,063</u>	<u>11,198,410</u>	<u>10,681,380</u>
Amortization of deferred capital contributions (note 11(b))	5,553,799	4,183,164	3,451,102
Total operating revenue	\$ 186,873,378	\$ 179,817,278	\$ 167,398,490

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Academic Expenditures

Schedule B

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	2006	2005	2004
Salaries:			
Faculty	\$ 46,022,403	\$ 44,571,378	\$ 43,478,414
Administration	5,563,092	5,227,733	4,264,770
Support staff	8,262,045	7,833,713	7,643,290
Fringe benefits	10,255,907	10,210,375	9,247,645
Job Connect stipends and fringe benefits	1,238,165	1,215,595	1,198,776
Travel and professional development	890,260	1,122,681	649,274
Instructional supplies and software	5,888,854	5,838,007	5,481,770
Equipment maintenance and rental	2,458,146	1,527,992	1,550,341
Contract services	4,201,388	3,334,286	2,946,197
	\$ 84,780,260	\$ 80,881,760	\$ 76,460,477

Educational Resources Expenditures

Schedule C

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	2006	2005	2004
Salaries	\$ 1,502,813	\$ 1,397,112	\$ 1,403,337
Fringe benefits	314,853	295,981	282,691
Library resource material	262,745	202,910	370,504
Office expense, supplies and maintenance	81,838	85,072	119,372
	\$ 2,162,249	\$ 1,981,075	\$ 2,175,904

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Student Services Expenditures

Schedule D

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	2006	2005	2004
Salaries	\$ 8,779,778	\$ 8,306,465	\$ 7,794,154
Fringe benefits	1,653,422	1,547,176	1,411,988
Media advertising, public relations and calendar	2,342,225	2,186,854	2,320,094
Travel and conferences	271,499	244,364	210,652
Office expense and supplies	1,413,503	1,292,513	1,280,313
Contract services	968,246	746,627	464,613
Insurance – international students	202,524	302,159	314,207
Student aid	3,534,354	3,686,181	3,572,542
Student bursaries	3,298,732	2,116,866	1,751,379
	\$ 22,464,283	\$ 20,429,205	\$ 19,119,942

Administrative Expenditures

Schedule E

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	2006	2005	2004
Salaries	\$ 7,399,301	\$ 7,468,250	\$ 6,829,558
Fringe benefits	1,547,645	1,545,417	1,333,217
Travel and conferences	155,316	186,713	278,134
Office expense and supplies	1,713,090	1,715,308	2,115,762
Telephone	610,527	767,289	697,935
Professional fees	1,253,227	629,361	1,363,812
Equipment maintenance, rental and software	1,305,364	1,942,045	1,864,609
Contract services	247,176	637,135	496,388
Interest on long-term debt	736,845	863,073	714,973
	\$ 14,968,491	\$ 15,754,591	\$ 15,694,388

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Plant Expenditures

Schedule F

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	2006	2005	2004
Salaries	\$ 3,350,599	\$ 3,281,976	\$ 3,162,185
Fringe benefits	713,269	716,613	680,144
Cleaning, security and other services	2,325,344	2,268,930	2,287,300
Building and equipment - repairs and maintenance	3,187,993	3,790,896	4,288,138
Utilities and services	2,755,050	2,752,750	2,583,241
Municipal taxes	907,445	865,927	823,671
Insurance	365,456	399,907	397,355
Premises rental	206,567	461,802	447,909
Office expense and supplies	218,568	169,663	166,293
	\$ 14,030,291	\$ 14,708,464	\$ 14,836,236

Special Projects Expenditures

Schedule G

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	2006	2005	2004
Salaries	\$ 158,354	\$ 128,259	\$ 144,909
Fringe benefits	18,829	16,267	15,001
Software expense	65,172	63,017	806,451
Sick leave and College compensation	1,129,384	585,195	549,130
Office expense and supplies	381,424	462,027	318,906
Contract services	225,838	162,226	103,376
Equipment maintenance and rental	58,347	150,407	129,703
	\$ 2,037,348	\$ 1,567,398	\$ 2,067,476

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Ancillary Operations Summary

Schedule H

Year ended March 31, 2006, with comparative figures for 2005 and 2004

	Revenue	Expenditures	2006 Contribution	2005 Contribution	2004 Contribution
Food Services	\$ 6,014,550	\$ 5,560,111	\$ 454,439	\$ 675,345	\$ 398,718
Bookstore	13,165,936	12,141,770	1,024,166	949,675	746,044
Parking and Lockers	3,039,451	1,373,911	1,665,540	1,845,812	1,853,270
Publishing Centre	1,908,406	1,395,652	512,754	414,109	443,322
Residence	6,993,906	6,003,501	990,405	728,315	976,642
Other	102,100	291,976	(189,876)	(112,260)	(107,144)
Totals	\$ 31,224,349	\$ 26,766,921	\$ 4,457,428	\$ 4,500,996	\$ 4,310,852