

Financial Statements of

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

Year ended March 31, 2004

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Financial Statements and Supplementary Schedules

Year ended March 31, 2004

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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, 2004 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.

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 2, 2004

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Statement of Financial Position

March 31, 2004, with comparative figures for 2003 and 2002

	2004	2003	2002
		(As restated, note 3)	(As restated, note 3)
Assets			
Current assets:			
Cash and short-term investments	\$ 10,264,801	\$ 790,359	\$ 20,633,132
Accounts receivable	9,703,434	10,229,906	7,059,026
Inventory (note 4)	1,530,919	1,548,945	1,411,799
Prepaid expenses	909,155	851,401	1,327,829
	22,408,309	13,420,611	30,431,786
Investments (note 5)	2,031,890	1,652,829	1,598,831
Intellectual property	15,546	77,733	139,920
Capital assets (note 6)	145,068,843	132,915,031	119,246,477
	\$ 169,524,588	\$ 148,066,204	\$ 151,417,014
Liabilities and Net Assets			
Current liabilities:			
Bank indebtedness	\$ -	\$ -	\$ 7,000,000
Accounts payable and accrued liabilities	9,839,042	7,445,149	5,927,954
Accrued salaries and employee deductions payable	2,983,971	1,572,772	1,203,221
Deferred revenue (note 7(a))	11,731,339	11,580,927	11,910,894
Current portion of obligation under capital leases (note 8)	379,717	86,913	-
Current portion of long-term debt (note 9(a))	3,885,867	1,134,533	1,082,517
	28,819,936	21,820,294	27,124,586
Obligation under capital leases (note 8)	1,202,812	341,333	-
Long-term debt (note 9(a))	58,205,814	46,774,370	41,194,155
Vacation, sick leave and post-employment benefits (note 3a))	16,583,732	16,285,665	16,734,515
Long-term deferred revenue (note 7(b))	3,011,695	1,157,521	7,488,690
Deferred capital contributions (note 10)	61,389,746	61,340,134	55,345,039
Net assets:			
Unrestricted deficiency - operations	(7,650,621)	(8,963,722)	(4,131,429)
Investment in capital assets (note 11(a))	20,004,887	23,237,748	21,624,766
Vacation, sick leave and post-employment benefits (note 14(b))	(16,583,732)	(16,285,665)	(16,734,515)
Internally restricted (note 12)	2,508,429	705,697	1,172,376
Endowments (notes 13 and 20)	2,031,890	1,652,829	1,598,831
	310,853	346,887	3,530,029
Commitments (note 16)			
Contingencies (note 17)			
	\$ 169,524,588	\$ 148,066,204	\$ 151,417,014

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, 2004, with comparative figures for 2003 and 2002

	2004	2003	2002
Revenue (schedule A):			
Grants and reimbursements	\$ 69,698,398	\$ 66,572,216	\$ 63,014,902
Student tuition fees	47,739,770	44,136,682	43,109,689
Contract educational services	13,006,409	14,189,317	13,490,994
Ancillary operations (schedule H)	29,307,277	24,348,930	21,994,173
Other	14,365,715	11,070,139	10,380,780
	<u>174,117,569</u>	<u>160,317,284</u>	<u>151,990,538</u>
Expenditures:			
Operating:			
Academic (schedule B)	82,662,590	79,842,587	78,064,325
Educational resources (schedule C)	2,175,904	1,736,202	1,800,650
Student services (schedule D)	19,296,588	18,674,890	18,389,425
Administrative (schedule E)	15,741,145	14,007,122	12,373,387
Plant (schedule F)	15,774,186	17,205,815	14,595,689
Special projects (schedule G)	2,067,476	1,067,557	1,024,491
Ancillary operations (schedule H)	24,996,425	21,063,103	18,551,045
	<u>162,714,314</u>	<u>153,597,276</u>	<u>144,799,012</u>
Vacation, sick leave and post- employment benefits (note 3a))	298,067	(448,852)	232,606
Amortization and write-off of capital assets	11,458,096	10,343,813	9,626,194
Amortization of intellectual property	62,187	62,187	46,640
	<u>174,532,664</u>	<u>163,554,424</u>	<u>154,704,452</u>
Deficiency of revenue over expenditures	\$ (415,095)	\$ (3,237,140)	\$ (2,713,914)

See accompanying notes to financial statements.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Statement of Changes in Net Assets

Year ended March 31, 2004, with comparative figures for 2003 and 2002

	Unrestricted	Investment in capital assets (note 11(a))	Vacation, sick leave and post employment benefits (note 14)	Internally restricted (note 12)	Endowments (notes 13 and 20)	2004 Total	2003 Total	2002 Total
Net assets, beginning of year	\$ (8,963,722)	\$ 23,237,748	\$ (16,285,665)	\$ 705,697	\$ 1,652,829	\$ 346,887	\$ 3,530,029	\$ 5,974,768
Deficiency of revenue over expenditures	(415,095)					(415,095)	(3,237,140)	(2,713,914)
Net change in vacation, sick leave and post-employment benefits obligation	298,067		(298,067)					
Internally imposed restrictions	(1,802,732)			1,802,732				
Net change in investment in capital assets (note 11(b))	3,232,861	(3,232,861)						
Endowment contributions and investment income					379,061	379,061	53,998	269,175
Net assets, end of year	\$ (7,650,621)	\$ 20,004,887	\$ (16,583,732)	\$ 2,508,429	\$ 2,031,890	\$ 310,853	\$ 346,887	\$ 3,530,029

See accompanying notes to financial statements.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Statement of Cash Flows

Year ended March 31, 2004, with comparative figures for 2003 and 2002

	2004	2003	2002
Cash provided by (used for):			
Operations:			
Deficiency of revenue over expenditures	\$ (415,095)	\$ (3,237,140)	\$ (2,713,914)
Items, which do not involve cash:			
Amortization of capital assets	10,641,863	9,971,515	9,295,604
Write-off of capital assets	816,230	372,298	330,590
Amortization of intellectual property	62,187	62,187	46,640
Amortization of deferred capital contributions	(3,451,102)	(2,609,150)	(2,291,276)
Write-off of deferred capital contributions	(800,000)		
Vacation, sick leave and post-employment	298,067	(448,850)	232,606
Change in non-cash working capital (note 18)	4,442,248	(1,274,820)	(1,009,773)
	11,594,398	2,836,040	3,890,477
Financing:			
Increase (decrease) in bank indebtedness		(7,000,000)	7,000,000
Increase in long-term debt	14,182,778	5,632,231	13,184,149
Increase (decrease) in long-term deferred revenue	1,854,174	(6,331,169)	(11,133,928)
Increase in capital lease	1,154,283	428,246	
	17,191,235	(7,270,692)	9,050,221
Investments:			
Decrease in loan receivable			903,352
Capital asset additions (note 11)	(23,611,905)	(24,012,365)	(31,681,345)
Capital contributions received (note 10)	4,300,714	8,604,244	12,409,857
Acquisition of intellectual property			(186,560)
Increase in investment	(379,061)	(53,998)	(269,175)
Endowment contributions and investment income	379,061	53,998	269,175
	(19,311,191)	(15,408,121)	(18,554,696)
Increase (decrease) in cash and short-term investments	9,474,442	(19,842,773)	(5,613,998)
Cash and short-term investments, beginning of year	790,359	20,633,132	26,247,130
Cash and short-term investments, end of year	\$ 10,264,801	\$ 790,359	\$ 20,633,132

See accompanying notes to financial statements.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements

Year ended March 31, 2004

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:

Investments are recorded at cost except for investments donated to the College which are recorded at fair market value at the date of receipt. Gains or losses on the sale of investments are recognized in the year of disposal. Should the market value of investments become lower than cost and this decline in value is considered to be other than temporary, the investments are written-down to market value.

(d) Intellectual property:

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

(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.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

2. Significant accounting policies (continued):

(e) Capital assets (continued):

Donated capital assets are recorded at the value of the receipt issued to the donor, which reflects estimated fair market 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
Leasehold improvements	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.

(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.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

2. Significant accounting policies (continued):

(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) 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 those 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, 2004

3. Change in accounting policy:

(a) Non pension post-retirement and post-employment benefits, vacation and sick leave liabilities:

During 2004, the College adopted the recommendations of CICA Handbook Section 3461, Employee Future Benefits. The College now accrues its obligations under employee benefit plans as the employees render the services necessary to earn non-pension post-retirement, post-employment benefits, vacation entitlement liabilities and sick leave liabilities. Prior to the adoption of recommendations, the cost of post-retirement, post-employment benefits, vacation entitlement liabilities and sick leave liabilities as provided under their terms of employment was recognized on a "pay as you go" basis.

The following assumptions are used in calculating the liabilities and corresponding expense:

- (i) The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined prorated on service and plan management's best estimate of salary escalation, retirement ages of employees and expected health care costs.
- (ii) For the purpose of calculating expected return on pension plan assets, those assets are valued at fair value.
- (iii) The excess of the net actuarial gain (loss) over 10% of the greater of the benefits obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.
- (iv) The cost of vacation entitlement liabilities and sick leave liabilities earned by employees is recognized as the employees render the services.

The College adopted the recommendations retroactively with restatement of prior year comparative figures. The effect of the change in policy was to increase the vacation, sick leave and employee retirement benefit obligations and decrease opening unrestricted net assets by \$16,583,731 as at March 31, 2004, \$16,285,665 as at March 31, 2003 and \$16,734,515 as at March 31, 2002.

The College has disclosed the impact of the change in the vacation, sick leave and employee retirement benefit obligations separately on the statement of operations. The amounts paid by the College during the year are included in operating expenditures.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

3. Change in accounting policy (continued):

(b) Buildings and related deferred capital contributions amortization rate:

As directed by the Ministry of Training, Colleges and Universities, the College changed its rate of amortization for buildings and related deferred capital contributions to be in accordance with the Ontario Colleges of Applied Arts and Technology Act, 2002.

In prior years, buildings and their related deferred capital contributions were amortized using the straight-line method over the estimated useful lives of 25 years. For the fiscal year 2004, buildings and their related deferred capital contributions are now amortized using the straight-line method over the estimated useful lives of 40 years. This change in accounting policy has been applied retroactively and has had the following effect on the comparative amounts:

Year ended March 31, 2003:

	As previously reported	Adjustment due to change in rate of amortization	As restated
Capital assets	\$ 114,828,283	\$ 18,086,748	\$ 132,915,031
Deferred capital contribution	46,257,903	15,082,231	61,340,134
Net asset - investment in capital assets	20,233,231	3,004,517	23,237,748
Amortization of deferred capital contributions	2,828,910	(219,760)	2,609,150
Amortization and write-off of capital assets	11,303,729	(959,916)	10,343,813

Year ended March 31, 2002:

	As previously reported	Adjustment due to change in rate of amortization	As restated
Capital assets	\$ 102,119,647	\$ 17,126,830	\$ 119,246,477
Deferred capital contribution	40,482,569	14,862,470	55,345,039
Net asset - Investment in capital assets	19,360,406	2,264,360	21,624,766
Amortization of deferred capital contributions	2,439,210	(147,934)	2,291,276
Amortization and write-off of capital assets	10,406,563	(780,369)	9,626,194

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

4. Inventory:

	2004	2003	2002
Bookstore	\$ 1,309,085	\$ 1,358,532	\$ 1,245,069
Food services	180,826	149,833	123,604
Stationery and supplies	25,000	25,000	25,000
Publishing centre	16,008	15,580	18,126
	<u>\$ 1,530,919</u>	<u>\$ 1,548,945</u>	<u>\$ 1,411,799</u>

5. Investments:

Investments held by the College represent funds which have been permanently endowed. The carrying values and market values of the investments are as follows:

Carrying value	2004	2003	2002
Fixed income and cash	\$ 903,644	\$ 637,711	\$ 679,928
Equities	1,128,246	1,015,118	918,903
	<u>\$ 2,031,890</u>	<u>\$ 1,652,829</u>	<u>\$ 1,598,831</u>

Market value	2004	2003	2002
Fixed income and cash	\$ 940,995	\$ 667,933	\$ 693,775
Equities	1,352,620	905,338	938,750
	<u>\$ 2,293,615</u>	<u>\$ 1,573,271</u>	<u>\$ 1,632,525</u>

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

6. Capital assets:

			2004	2003	2002
	Cost	Accumulated amortization	Net book value	Net book value	Net book value
Land	\$ 2,829,797	\$	\$ 2,829,797	\$ 2,829,797	\$ 2,642,028
Buildings	161,585,393	44,073,337	117,512,056	104,676,294	87,523,445
Site improvements	4,908,911	1,643,271	3,265,640	3,338,538	1,330,684
Buildings work-in-progress	3,626,844		3,626,844	6,673,192	12,558,639
Parking lots	3,176,608	1,450,864	1,725,744	1,518,976	1,842,634
Computers and equipment	43,567,004	30,672,013	12,894,991	11,978,983	11,224,448
Automotive equipment	154,833	116,948	37,885	43,964	4,889
ITS infrastructure	1,352,491	730,410	622,081	568,110	764,421
Residence furniture and appliances	1,985,289	979,491	1,005,798	863,139	1,160,557
Leasehold improvements	293,977	293,977			194,732
Equipment under Capital lease	1,870,667	322,660	1,548,007	424,038	
	\$ 225,351,814	\$ 80,282,971	\$ 145,068,843	\$ 132,915,031	\$ 119,246,477

Cost and accumulated amortization at March 31, 2003 amounted to \$207,280,910 and \$74,365,879 respectively. Cost and accumulated amortization at March 31, 2002 amounted to \$188,624,563 and \$69,378,086 respectively.

Included in the cost of buildings is \$203,996 of interest that was capitalized during construction.

Included in capital assets are the assets held for resale related to Rideau campus for which the sale is contingent on certain requirements being met.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

7. Deferred revenue:

(a) Details of the year-end balance are as follows:

	2004	2003	2002
Student tuition fees	\$ 6,188,042	\$ 6,023,759	\$ 5,705,301
Grants and reimbursements	1,861,360	1,672,225	1,693,436
Contract education services	521,379	582,765	1,279,003
Student aid	1,094,189	1,525,437	1,980,021
Miscellaneous projects	2,066,369	1,776,741	1,253,133
	<u>\$ 11,731,339</u>	<u>\$ 11,580,927</u>	<u>\$ 11,910,894</u>

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 specific items in future years.

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.

(b) Long-term deferred revenue represents funds received from the Ministry of Training, Colleges and Universities for capital projects under the Major Capital Support Program. Management expects to use these funds to finance the remaining construction of the new Trades Facility and reconfiguration of space.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

8. Capital lease obligation:

The College is committed to lease payments for its food services equipment until 2008 and for its telephone equipment until 2006 and for its publishing equipment until 2009. Future minimum annual lease payments are as follows:

2005	\$ 494,138
2006	498,656
2007	459,404
2008	283,307
2009	111,048
<hr/>	
Total minimum lease payments	1,846,553
Less amounts representing interest (at rates of 9.50%, 7.36% and 7.91%)	264,024
<hr/>	
Obligation under capital leases	1,582,529
Less current portion of obligation	379,717
<hr/>	
	\$ 1,202,812

Operating expenditures include interest on capital leases of \$88,465 (2003 - \$28,806)

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

9. Long-term debt and bank indebtedness:

(a) Long-term debt:

The College has entered into the following long-term debt agreements to finance the renovations to the parking facilities, the renovations to the Food and Beverage facilities, the construction of student residences and the Police and Public Safety Building, the Automotive Trades Center and the purchase of land and the acquisition of Corporate Training operations respectively.

	2004	2003	2002
Parking facilities term loan, bearing interest at 5.58%	\$	\$	\$ 320,000
Food & Beverage loan, bearing interest at prime plus .25%, maturing in 2008	1,533,364	1,933,372	
Residence I building loan, bearing interest at prime plus 0.40%, maturing in 2025 (note 15 (c))	12,269,096	12,506,220	12,727,578
Residence II building loan, bearing interest at prime plus 0.25%, maturing in 2027 (note 15 (c))	17,056,411	17,362,969	17,650,000
Residence III building loan, bearing interest at prime plus 0.25%, maturing in 2029 (note 15(c))	17,947,682	5,006,023	
Police and Public Safety building loan, bearing interest at prime plus 0.40%, maturing in 2025 (note 15(c))	9,409,476	9,600,319	9,779,094
Automotive Trades facility loan, bearing interest at prime plus 0.55%, maturing in 2006	2,375,652		
Land for Corporate Training Centre (Kanata), bearing interest at 4.01%, maturing in November, 2004	1,500,000	1,500,000	1,500,000
Training Centre promissory note, bearing no interest			300,000
	62,091,681	47,908,903	42,276,672
Less current portion	3,885,867	1,134,533	1,082,517
	\$ 58,205,814	\$ 46,774,370	\$ 41,194,155

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

9. Long-term debt and bank indebtedness (continued):

(a) Long-term debt (continued):

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

2005	\$ 3,885,867
2006	1,584,278
2007	1,663,298
2008	1,680,938
2009	1,437,552
Thereafter	51,839,748
	<hr/>
	\$ 62,091,681

(b) Automotive Trades Facility Loan:

The loan for the Automotive Trades Facility represents short-term bridge financing for the construction of the Automotive Trades Facility. The loan will be paid back when the Major Capital Support Program funding is received in 2005 and 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:

	2004	2003	2002
Balance, beginning of year	\$ 61,340,134	\$ 55,345,039	\$ 45,226,458
Less amortization of deferred capital contributions	(3,451,102)	(2,609,150)	(2,291,276)
Less write-off of deferred capital contributions	(800,000)		
Add capital contributions received:			
Donated equipment	366,975	367,663	133,417
Government grants	3,933,739	8,236,582	12,276,440
Balance, end of year	<hr/>	<hr/>	<hr/>
	\$ 61,389,746	\$ 61,340,134	\$ 55,345,039

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

11. Investment in capital assets:

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

	2004	2003	2002
Capital assets	\$ 145,068,843	\$ 132,915,031	\$ 119,246,477
Less amounts financed by:			
Deferred capital contributions	(61,389,746)	(61,340,134)	(55,345,039)
Long-term debt	(62,091,681)	(47,908,903)	(42,276,672)
Capital lease	(1,582,529)	(428,246)	
	\$ 20,004,887	\$ 23,237,748	\$ 21,624,766

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

	2004
Capital asset additions:	
Total additions	\$ 23,611,905
Less:	
Donated equipment	(366,975)
Capital asset purchases financed with grants and donations	(3,933,739)
Capital asset additions financed with College funds	19,311,191
External financing:	
Increase in long-term debt	(14,182,778)
Increase in capital lease	(1,154,283)
Amortization of deferred capital contributions	3,451,102
Write-off of deferred capital contributions	800,000
Amortization of capital assets	(10,641,863)
Write-off of capital assets	(816,231)
Net change in investment in capital assets	\$ (3,232,862)

12. Internally restricted net assets:

	2004	2003	2002
Employment Stabilization Funds	\$ 456,431	\$ 451,799	\$ 458,506
Other student aid	3,311	3,898	4,315
Appropriations	2,048,687	250,000	709,555
	\$ 2,508,429	\$ 705,697	\$ 1,172,376

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

12. Internally restricted net assets (continued):

Internally restricted net assets are funds committed for specific purposes which reflect the application of College policy as follows:

- (a) Employment Stabilization Funds represent funds committed by the College for retraining and counselling for employees upon separation from the College. The College's annual commitment is based on a formula prescribed by the collective agreements. Expenditures from this fund are approved by the respective employee union and College management.
- (b) Other Student Aid represents the unspent portion of unrestricted endowment fund income and other unrestricted contributions which have been designated for scholarships and bursaries by the College.
- (c) Appropriations represent current year budget allocations primarily relating to capital projects which were unable to be completed during the 2003/2004 fiscal year.

13. Endowments:

	2004	2003	2002
Endowed funds	\$ 1,963,079	\$ 1,568,003	\$ 1,455,067
Investment income available for distribution	68,811	84,826	143,764
Total endowments	\$ 2,031,890	\$ 1,652,829	\$ 1,598,831

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.

The College's endowment policy is to annually distribute 4% of the average endowment balance, so that the distributed amount is available to be expended for the restricted purposes. The investment income available for distribution is the investment income actually earned on the endowed funds in excess of these distributions.

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 ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

14. Pension plans:

- (a) Full-time employees of the College are participants in The College of Applied Arts and Technology Pension Plan.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries.

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 actuarial valuation of the plan as at March 31, 2004 indicates the plan is under funded. The College recognizes as expense for current services the amount of its required contribution in a given year plus the difference between the accrued benefit liability and the liability recorded in the statement of financial position. The College's contributions to this plan are based on the participant contributions and are calculated according to matching formulae. Charges to expenditure for these contributions amount to \$4,023,320 in 2004, \$3,797,420 in 2003 and \$3,636,220 in 2002.

- (b) The composition of the net asset amount is as follows:

	2004	2003	2002
Post-employment	\$ 4,940,600	\$ 4,410,000	\$ 4,186,000
Vacation	7,014,039	6,770,093	6,974,669
Sick leave	4,629,092	5,105,572	5,573,846
	<u>\$ 16,583,731</u>	<u>\$ 16,285,665</u>	<u>\$ 16,734,515</u>

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, 2004 was \$3,206,309 (2003 - \$3,426,536; 2002 - \$3,600,000) with the Algonquin Students Association Inc. related to a guarantee of borrowings related to the Student Fitness Centre.

- (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 and the Automotive Trades Facility loan approximate their fair value due to the relatively short periods to maturity of the instruments.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

15. Financial instruments (continued):

(b) Fair values (continued):

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.

- (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 7.35%. The maturity date of the derivative agreements are the same as the maturity dates of the associated debt, ranging from 2025 to 2029.

16. Commitments:

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

2005	\$	911,357
2006		627,556
2007		568,281
2008		561,514
2009		373,067

\$ 3,041,775

(b) Construction commitments:

The College has entered into an agreement for the construction of the Automotive Trades Facility due to be completed in fiscal year 2004/2005. The total construction cost of the Trades Facility is expected to be approximately \$6,000,000, of which \$3,626,844 has been incurred in the current year.

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.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

18. Change in non-cash working capital:

	2004	2003	2002
Decrease (increase) in accounts receivable	\$ 526,472	\$ (3,170,880)	\$ 1,838,175
Decrease (increase) in inventory	18,026	(137,146)	53,513
Decrease (increase) in prepaid expenses	(57,754)	476,428	(1,050,209)
Increase in accounts payable and accrued liabilities	2,393,893	1,517,195	232,733
Increase in accrued salaries and employee deductions payable	1,411,199	369,551	119,152
Increase (decrease) in deferred revenue	150,412	(329,968)	(2,203,137)
	\$ 4,442,248	\$ (1,274,820)	\$ (1,009,773)

19. Public Sector Salary Disclosure:

Under the Public Sector Salary Disclosure Act, 1996, the College is required to disclose the name, position, salary and taxable benefits of each employee with an annual salary of \$100,000 or more.

For the calendar year ending December 31, 2003, the individuals who met the requirements for disclosure were:

Employee	Position	Salary	Taxable benefits
R. Gillett	President	\$ 201,767	\$ 16,070
J. Hamilton	VP Finance & Administration	162,300	580
R. Hanson	VP Academic	137,456	639
C. Warburton	VP Student Life & Human Resources	134,305	638
A. Sherif	Director, International Education	120,971	
N. Papadolias	Director, Educational Services	108,606	556
J. Molnar	Academic	108,489	182
H. Dworschak	Academic	108,217	182
R. Thoms	Director, Marketing	107,461	546
M. Uremovich	Dean, School of Advanced Technology	106,346	540
K. Robinson	Director, Learning Services	106,247	554
M. Cormier	Dean, Health & Community Studies	106,058	290
M. Rushton	Director, Physical Resources	105,009	388
K. Faulkner	Academic	103,460	182
D. Rowan-Legg	Registrar	103,245	154
M. Stratton-Zimmer	Director, Student Services	102,978	509
M. Burke	Senior Account Executive	102,603	
J. MacCartney	Dean, Perth Campus	102,133	161
B. Brock	Director, Information Technology Services	101,519	160
G. MacDougall	Director, Learning & Technology Services	100,298	497

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

20. 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:

PHASE I

Schedule of Changes in Endowment Fund Balance

Fund balance at beginning of year	\$ 994,793
Cash donations received	
<hr/>	<hr/>
Fund balance at end of year	\$ 994,793

Schedule of Changes in Expendable Funds Available for Awards

Balance, beginning of year	\$ 92,037
Investment income, net of direct investment-related expenses	42,542
Bursaries awarded (#86)	42,052
<hr/>	<hr/>
Balance, end of year	\$ 92,527

The market value of the endowment as at March 31, 2004 was \$2,293,615.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

20. Ontario Student Opportunity Trust Fund (continued):

PHASE II

Schedule of Donations Received

Cash donations received	\$	229,285
Unmatched cash donations		
Outstanding pledges (net of pledges converted to cash)		
Cash/pledge total	\$	229,285

Schedule of Changes in Endowment Fund Balance

Fund balance, beginning of year	\$	
Cash donations received		229,285
Funds received from MTCU		176,830
Funds receivable from MTCU		129,857
Fund balance at end of year	\$	535,972

Schedule of Changes in Expendable Funds Available for Awards

Balance, beginning of year	\$	
Investment Income, net of direct investment-related expenses and preservation of capital contributions		
Bursaries awarded (total number: 0)		
Balance, end of year	\$	

There was an overpayment of \$77,402 which will be adjusted in 2004/2005.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Notes to Financial Statements (continued)

Year ended March 31, 2004

21. 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 operations costs of the Foundation are included in these financial statements. The objectives of the Foundation are to solicit, receive, manage and distribute money and other property to support education at the College.

The College incorporated a division of the College on November 30, 2001 under the name 3976602 Canada Limited under the Canada Business Corporations Act. Articles of Amendment were filed to change the name to Acerra Learning Inc. and this amendment was effective July 10, 2002. Acerra Learning Inc. is an inactive corporation.

22. Comparative figures:

Certain of the 2002 and 2003 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2004.

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Revenue

Schedule A

Year ended March 31, 2004, with comparative figures for 2003 and 2002

	2004	2003	2002
Grants and reimbursements:			
Provincially financed programs:			
Plant and activity grants	\$ 64,588,784	\$ 61,547,035	\$ 58,362,036
Special bursaries	1,938,695	1,574,142	923,585
	66,527,479	63,121,177	59,285,621
Flat-rate funding programs:			
Apprentice	3,170,919	3,451,039	3,729,281
	69,698,398	66,572,216	63,014,902
Student tuition fees:			
Post secondary:			
Full-time	29,854,026	26,298,123	24,522,951
Full-time fast track	1,419,790	3,042,093	5,050,596
Part-time	12,012,846	11,117,244	11,102,803
Adult training	1,681,048	1,296,636	744,883
Student information technology fee	2,772,060	2,382,586	1,688,456
	47,739,770	44,136,682	43,109,689
Contract educational services:			
Provincially funded programs	5,169,530	4,411,270	5,472,410
International programs	260,639	250,628	257,302
Other	7,576,240	9,527,419	7,761,282
	13,006,409	14,189,317	13,490,994
Ancillary operations (schedule H)	29,307,277	24,348,930	21,994,173
Other:			
Amortization of deferred capital contributions (note 10)	3,451,102	2,609,149	2,291,276
Write-off of deferred capital contributions (note 10)	800,000		
Miscellaneous	10,114,613	8,460,990	8,089,504
	14,365,715	11,070,139	10,380,780
Total operating revenue	\$ 174,117,569	\$ 160,317,284	\$ 151,990,538

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Academic Expenditures

Schedule B

Year ended March 31, 2004, with comparative figures for 2003 and 2002

	2004	2003	2002
Salaries:			
Faculty	\$ 44,742,427	\$ 43,777,192	\$ 42,889,343
Administration	6,493,118	6,813,330	5,982,838
Support staff	7,980,605	7,518,498	7,495,652
Fringe benefits	9,567,676	9,020,782	8,386,640
Job Connect stipends and fringe benefits	1,198,775	1,188,522	1,931,573
Travel and professional development	1,699,743	1,237,876	1,104,011
Instructional supplies and software	6,182,316	6,190,515	5,959,688
Equipment maintenance and rental	1,679,301	1,145,902	2,097,663
Contract services	3,118,629	2,949,970	2,216,917
	\$ 82,662,590	\$ 79,842,587	\$ 78,064,325

Educational Resources Expenditures

Schedule C

Year ended March 31, 2004, with comparative figures for 2003 and 2002

	2004	2003	2002
Salaries	\$ 1,403,337	\$ 1,197,600	\$ 1,172,566
Fringe benefits	282,691	243,375	229,736
Library resource material	370,504	237,339	286,383
Office expense, supplies and maintenance	119,372	57,888	111,965
	\$ 2,175,904	\$ 1,736,202	\$ 1,800,650

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Student Services Expenditures

Schedule D

Year ended March 31, 2004, with comparative figures for 2003 and 2002

	2004	2003	2002
Salaries	\$ 7,794,154	\$ 7,248,042	\$ 6,933,690
Fringe benefits	1,411,988	1,331,140	1,196,301
Media advertising, public relations and calendar	2,496,740	3,001,976	3,352,179
Travel and conferences	210,652	228,114	237,767
Office expense and supplies	1,280,313	1,101,331	1,732,466
Contract services	464,613	995,365	1,036,833
Insurance international students	314,207	248,752	204,899
Student aid	3,572,542	3,189,477	2,437,547
Student bursaries	1,751,379	1,330,693	1,257,743
	\$ 19,296,588	\$ 18,674,890	\$ 18,389,425

Administrative Expenditures

Schedule E

Year ended March 31, 2004, with comparative figures for 2003 and 2002

	2004	2003	2002
Salaries	\$ 6,829,558	\$ 6,207,583	\$ 6,314,315
Fringe benefits	1,333,217	1,218,416	1,190,793
Travel and conferences	278,134	191,028	163,217
Office expense and supplies	2,115,762	1,573,413	1,400,484
Telephone	744,692	984,861	802,242
Professional fees	1,363,812	489,970	325,877
Equipment maintenance, rental and software	1,864,609	2,254,285	765,870
Contract services	496,388	309,947	734,264
Interest on long-term debt	714,973	777,619	676,325
	\$ 15,741,145	\$ 14,007,122	\$ 12,373,387

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Plant Expenditures

Schedule F

Year ended March 31, 2004, with comparative figures for 2003 and 2002

	2004	2003	2002
Salaries	\$ 3,162,185	\$ 3,174,968	\$ 3,303,717
Fringe benefits	680,144	674,052	649,387
Cleaning, security and other services	2,287,300	2,326,892	2,124,726
Building and equipment - repairs and maintenance	4,283,390	6,093,736	3,985,595
Utilities and services	2,583,241	2,272,453	2,253,963
Municipal taxes	823,671	767,769	768,150
Insurance	397,355	395,744	199,824
Premises rental	1,390,607	1,246,940	1,047,647
Office expense and supplies	166,293	253,261	262,680
	\$ 15,774,186	\$ 17,205,815	\$ 14,595,689

Special Projects Expenditures

Schedule G

Year ended March 31, 2004, with comparative figures for 2003 and 2002

	2004	2003	2002
Salaries	\$ 144,909	\$ 79,669	\$ 54,613
Fringe benefits	15,001	9,680	7,607
Software expense	806,451	56,669	30,143
Sick leave termination benefits	549,130	595,745	679,652
Office expense and supplies	448,609	271,816	217,309
Contract services	103,376	53,978	35,167
	\$ 2,067,476	\$ 1,067,557	\$ 1,024,491

THE ALGONQUIN COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Ancillary Operations Summary

Schedule H

Year ended March 31, 2004, with comparative figures for 2003 and 2002

	Revenue	Expenditures	2004 Contribution	2003 Contribution	2002 Contribution
Food Services	\$ 5,177,373	\$ 4,778,655	\$ 398,718	\$ 322,541	\$ 265,067
Bookstore	13,443,194	12,697,150	746,044	477,790	301,099
Parking and Lockers	2,978,572	1,125,302	1,853,270	1,811,374	1,650,379
Publishing Centre	1,997,413	1,554,091	443,322	361,814	252,105
Residence	5,631,585	4,654,943	976,642	449,023	1,096,467
Other	79,140	186,284	(107,144)	(136,715)	(121,989)
Totals	\$ 29,307,277	\$ 24,996,425	\$ 4,310,852	\$ 3,285,827	\$ 3,443,128