2017 Financial Statements

March 31, 2017

ONTARIO COLLEGES at 50

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FUTURE READY

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY

FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

I N D E X

FINANCIAL STATEMENTS:

SUPPLEMENTARY SCHEDULES:

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Mohawk College of Applied Arts and Technology

We have audited the accompanying financial statements of Mohawk College of Applied Arts and Technology, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, changes in net assets, cash flows and remeasurement gains and losses for the year ended March 31, 2017 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mohawk College of Applied Arts and Technology as at March 31, 2017 and its results of operations, changes in net assets, cash flows and its remeasurement gains and losses for the year then ended, in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 7, 2017
Hamilton, Canada

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Statement of Financial Position
March 31, 2017, with comparative figures for 2016 **Statement 1**

		2017 $	2016 $
ASSETS			
CURRENT			
Cash	(note 2)	13,454,243	5,806,458
Investments	(note 3)	94,994,569	75,757,147
Accounts receivable		14,100,015	13,502,494
Grants receivable		5,339,901	4,752,789
Inventories		1,442,202	1,139,027
Prepaid expenses and other assets		4,055,923	1,833,683
Current portion of long-term receivable	(note 5)	861,060	821,475
		134,247,913	103,613,073
LONG-TERM			
Long-term investment	(note 4)	873,472	873,472
Long-term receivable	(note 5)	31,589,777	32,450,837
Construction in progress	(note 6)	7,874,309	277,563
Capital assets	(note 7)	149,076,020	154,937,400
		189,413,578	188,539,272
		323,661,491	292,152,345
LIABILITIES, DEFERRED CONTRIBUTIONS AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		26,405,905	24,504,526
Deferred revenue	(note 8)	23,657,065	20,604,431
Vacation pay		8,270,904	8,332,982
Current portion of long-term debt	(note 9)	1,731,404	1,680,557
Demand loan	(note 10)	-	8,224,938
		60,065,278	63,347,434
LONG-TERM LIABILITIES			
Long-term debt	(note 9)	45,271,746	47,003,150
Interest rate swap	(note 10)	-	2,458,123
Post-employment benefits and compensated absences	(note 11)	7,116,000	7,110,000
		52,387,746	56,571,273
DEFERRED CONTRIBUTIONS			
Deferred contributions	(note 12a)	5,922,679	5,107,402
Deferred contributions related to construction in progress	(note 12b)	4,471,264	270,000
Deferred contributions related to expenses of future periods	(note 12c)	10,555,716	6,337,698
Deferred contributions related to capital assets	(note 12d)	108,322,087	104,573,931
		129,271,746	116,289,031
NET ASSETS (statement 3)			
Net assets invested in capital assets	(note 13)	30,572,489	27,702,523
Unrestricted net assets:			
Operating		8,196,622	6,414,011
Vacation pay		(8,270,904)	(8,332,982)
Post-employment benefits and compensated absences		(7,116,000)	(7,110,000)
Restricted net assets:			
Internally restricted assets		41,615,000	23,015,000
Endowment contributions	(note 14)	16,211,043	16,120,612
		81,208,250	57,809,164
Accumulated remeasurement gains (losses) **(statement 5)**		728,471	(1,864,557)
		81,936,721	55,944,607
		323,661,491	292,152,345

SIGNED ON BEHALF OF THE BOARD:

ORIGINAL SIGNED BY:
Joe Parker, Chair of the Board of Governors
Ron J. McKerlie, President

See accompanying notes to the financial statements

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY

Statement of Operations

For the year ended March 31, 2017, with comparative figures for 2016 **Statement 2**

		2017	2016
		$	$
REVENUE			
Grants	(schedule 1)	96,800,419	93,549,779
Tuition fees		90,729,290	76,046,835
Ancillary	(schedule 1)	14,594,366	14,281,365
Amortization of deferred contributions		4,926,907	4,678,958
Amortization of deferred contributions related to capital assets		7,436,374	6,950,535
Other	(schedule 1)	23,206,527	10,631,914
		237,693,883	206,139,386
EXPENDITURES			
Salaries and benefits		126,609,223	119,303,052
Contracted services and professional fees		17,854,530	15,465,282
Supplies and other expenses		15,526,638	13,320,721
Utilities, maintenance and taxes		16,257,855	14,002,683
Instructional supplies		6,099,798	6,178,538
Ancillary	(schedule 2)	10,083,858	10,180,887
Scholarship, bursary and award payments		4,926,907	4,678,958
Amortization expense		14,451,134	13,764,852
Interest on long-term liabilities		2,575,285	2,895,864
		214,385,228	199,790,837
EXCESS OF REVENUE OVER EXPENDITURES		23,308,655	6,348,549

See accompanying notes to the financial statements

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Statement of Changes in Net Assets
For the year ended March 31, 2017, with comparative figures for 2016

Statement 3

	Invested in Capital Assets $	Unrestricted Operating $	Vacation & post-employment benefits & compensated absences $	Internally Restricted $	Endowment Contributions $	2017 Total $	2016 Total $
Balance, beginning of year	27,702,523	6,414,011	(15,442,982)	23,015,000	16,120,612	57,809,164	51,038,297
Excess (deficiency) of revenue over expenditures	(7,014,760)	33,309,989	56,078	(3,042,652)	-	23,308,655	6,348,549
Investment in capital assets	9,884,726	(5,744,481)	-	(4,140,245)	-	-	-
Change in internally imposed restrictions	-	(25,782,897)	-	25,782,897	-	-	-
Endowment contributions	-	-	-	-	90,431	90,431	422,318
Balance, end of year	30,572,489	8,196,622	(15,386,904)	41,615,000	16,211,043	81,208,250	57,809,164

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Statement of Cash Flows
For the year ended March 31, 2017, with comparative figures for 2016 **Statement 4**

	2017	2016
	$	$
Cash provided by (used in):		
OPERATING ACTIVITIES		
Excess of revenue over expenditures	23,308,655	6,348,549
Items not involving cash:		
Amortization expense	14,451,134	13,764,852
Net income of Mohawk College Enterprise	(67,815)	(71,979)
Increase (decrease) in post-employment benefits and compensated absences	6,000	(243,000)
(Gain) loss on disposal of capital assets	(12,443,789)	38,433
Amortization of deferred contributions related to capital assets	(7,436,374)	(6,950,535)
	17,817,811	12,886,320
Changes in non-cash working capital items:		
Accounts receivable	(597,521)	(749,905)
Grants receivable	(587,112)	711,841
Inventories	(303,175)	197,802
Prepaid expenses and other assets	(2,222,240)	(247,210)
Current portion of long-term receivable	(39,585)	(37,764)
Accounts payable and accrued liabilities	1,969,194	5,971,967
Deferred revenue	3,052,634	1,002,790
Vacation pay	(62,078)	19,835
	19,027,928	19,755,676
INVESTING ACTIVITIES		
Purchase of investments, net	(19,102,517)	(13,109,598)
Long-term receivable	861,060	867,382
	(18,241,457)	(12,242,216)
CAPITAL ACTIVITIES		
Purchase of capital assets	(16,410,402)	(11,979,227)
Proceeds from sale of capital assets	20,542,000	12,550
Contributions for capital purposes	6,493,496	4,439,473
Construction in progress, net of deferred contributions	(3,550,299)	(97,563)
	7,074,795	(7,624,767)
FINANCING ACTIVITIES		
Contributions for endowment	90,431	422,318
Contributions for other restricted purposes, net	815,277	(962,488)
Contributions for expenses of future periods, net	8,786,306	549,165
Repayment of long-term debt	(1,680,557)	(1,609,712)
Repayment of demand loan	(8,224,938)	(583,977)
	(213,481)	(2,184,694)
INCREASE (DECREASE) IN CASH	7,647,785	(2,296,001)
CASH, BEGINNING OF YEAR	5,806,458	8,102,459
CASH, END OF YEAR	13,454,243	5,806,458

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Statement of Remeasurement Gains and Losses
For the year ended March 31, 2017, with comparative figures for 2016 **Statement 5**

	2017 $	2016 $
Accumulated remeasurement losses, beginning of year	(1,864,557)	(1,687,919)
Unrealized gains (losses) attributable to:		
Investments	(215,166)	(584,200)
Derivative - interest rate swap	523,743	247,559
Amounts reclassified to the statement of operations:		
Disposition of investments	350,071	160,003
Disposition of interest rate swap	1,934,380	-
Net remeasurement gains (losses) for the year	2,593,028	(176,638)
Accumulated remeasurement gains (losses), end of year	728,471	(1,864,557)

See accompanying notes to the financial statements

General
Mohawk College of Applied Arts and Technology (the "College"), established in 1966, is an Ontario College of Applied Arts and Technology duly established pursuant to Ontario regulation 34/03 made under the Ontario Colleges of Applied Arts and Technology Act, 2002. The College is an agency of the Crown and provides post-secondary, vocationally oriented education in the areas of applied arts, business, health sciences and technology.

The College is a not-for-profit organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation
The financial statements of the College have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector Accounting Board ("PSAB for Government NPOs").

These financial statements do not reflect the assets, liabilities and results of operations of the various student organizations or The Mohawk College Foundation which is a separate public foundation.

(b) Revenue recognition
The College follows the deferral method of accounting for contributions, which include donations and government grants.

Operating grants from the Ministry of Advanced Education and Skills Development ("MAESD") and other government agencies are recorded as revenue in the year to which they relate. Grants approved but not received at the end of the fiscal year are accrued. Where a portion of a grant relates to a future year, it is deferred and recognized in the subsequent year.

Revenue from tuition fees, contracts and sales from ancillary operations is recognized when the services are provided or the goods are sold and collection is reasonably assured.

Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at a rate corresponding with the amortization rate for the related capital assets.

Unrestricted contributions are recognized as revenue when received or receivable.

Endowment contributions are recognized as direct increases in endowment net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

(c) Inventories
Inventories consist primarily of items held for resale in the Campus Stores. Inventories are valued at the lower of cost and net realizable value.

(d) Construction in progress
Construction in progress costs are capitalized as work progresses. Once the construction has been completed, the total costs will be transferred to the various categories of capital assets and are amortized on a basis consistent with similar assets.

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

(e) Capital assets

Purchased capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at their fair market value at the date of donation. Repairs and maintenance costs are charged to expense. Betterments, which extend the estimated life of an asset, are capitalized. When a capital asset no longer contributes to the College's ability to provide services, its carrying amount is written down to residual value. Remaining capital assets are amortized on a straight-line basis over their estimated useful lives using the following rates:

Asset Class	Rate
Land	n/a
Buildings	40 years
Portables & roof replacement	20 years
Site improvements	10 years
Major equipment	10 years
Furniture & equipment	5 years
Vehicles	5 years
Computers & software	3 years

(f) Vacation pay

The College recognizes vacation pay as an expense on the accrual basis.

(g) Retirement and post-employment benefits and compensated absences

The College provides defined retirement and post-employment benefits and compensated absences to certain employee groups. These benefits include pension, health and dental, vesting sick leave and non-vesting sick leave. The College has adopted the following policies with respect to accounting for these employee benefits:

(i) The costs of post-employment future benefits are actuarially determined using management's best estimate of health care costs, disability recovery rates and discount rates. Adjustments to these costs arising from changes in estimates and experience gains and losses are amortized to income over the estimated average remaining service life of the employee groups on a straight line basis.

(ii) The costs of the multi-employer defined benefit pension are the employer's contributions due to the plan in the period.

(iii) The cost of vesting and non-vesting sick leave benefits are actuarially determined using management's best estimate of salary escalation, employees' use of entitlement and discount rates. Adjustments to these costs arising from changes in actuarial assumption and/or experience are recognized over the estimated average remaining service life of the employees.

(iv) The discount rate used in the determination of the above-mentioned liabilities is based on the effective yield of Ontario bonds (trading on the market) that approximate the weighted average duration of the cash flows for the employee future benefits.

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

(h) Financial instruments

Financial instruments are recorded at fair value on initial recognition. Financial instruments are subsequently recorded at fair value or amortized cost. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value, unless the investment income is externally restricted, are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight line method.

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

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

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

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

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

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

(i) Internally restricted assets

Net assets internally restricted by the Board of Governors are for capital projects, strategic initiatives, and future operating expenses. Expenditures require approval by the Board of Governors.

(j) Endowment contributions

Endowments represent restricted donations received by the College where the principal sum is held for investment while the income earned is expendable for the specific purpose outlined when the funds were donated.

(k) Management estimates

The preparation of financial statements in conformity with PSAB for Government NPOs requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. Areas of key estimation include determination of fair value for long-term investments, allowance for doubtful accounts, useful lives of capital assets, fair value of interest rate swap and actuarial estimation of post-employment benefits and compensated absences liabilities.

2. CASH:

The Canadian bank account earns interest at prime less 1.70%. Cash is carried at fair market value.

3. INVESTMENTS:

Investments are held with the College's investment management firm and consist of the following:

	Level	2017 $	2016 $
Pooled investments			
Fixed income	2	6,492,385	6,056,262
Equities	2	6,570,464	5,975,860
Cash	2	1,021,452	1,001,362
Total pooled investments		14,084,301	13,033,484
Segregated investments			
Fixed income	1	80,137,847	61,130,758
Cash	1	772,421	1,592,905
Total segregated investments		80,910,268	62,723,663
Total investments		94,994,569	75,757,147

The total cost of the investment portfolio is $93,129,325 (2016 – $74,702,472).

There were no significant transfers between Levels 1 and 2 for the years ended March 31, 2017 and 2016. There were no transfers in or out of Level 3.

Maturity profile of fixed income held is as follows:

	March 31, 2017				
	Within 1 year $	2 to 5 years $	6 to 10 years $	Over 10 year $	Total $
Carrying value	7,996,268	47,482,705	30,345,764	805,495	86,630,232
Percent of Total	9%	55%	35%	1%	100%

The College's fixed income portfolio has interest rates ranging from 0.30% to 8.50% (2016 – 0.30% to 8.50%).

4. LONG-TERM INVESTMENT:

Long-term investments are carried at cost. As at March 31, 2017 the long-term investment consists of investment in land of $873,472 (2016 – $873,472). In October 1995, the College purchased land in conjunction with Hillfield-Strathallan College for undetermined future use.

In addition, the College controls Mohawk College Enterprise Corporation ("MCE") and is the only registered holder of issued and outstanding MCE shares (2017 – $100; 2016 – $100) and accounts for the investment using the modified equity method. The equity earnings are recorded in other revenue. MCE undertakes and carries out education training programs and consulting projects for and on behalf of businesses and industries. MCE is the exclusive provider of corporate training on behalf of the College. MCE is a for-profit organization and was incorporated under the Business Corporations Act (Ontario) by Certificate of Incorporation dated April 1, 2010. The Board of Directors is approved by the College and the Shareholder Declaration provides for limitations on certain activities and actions on the part of MCE without the express consent of the College.

4. LONG-TERM INVESTMENT (continued):

Mohawk College Enterprise Balance Sheet	**2017 $**	**2016 $**
Total assets	647,283	645,712
Total liabilities	770,022	836,266
Total net assets	(122,739)	(190,554)
	647,283	645,712

Mohawk College Enterprise Statement of Operations & Deficit	**2017 $**	**2016 $**
Total revenue	3,183,899	3,137,462
Total expenses	3,116,084	3,065,483
Income before income taxes	67,815	71,979
Income taxes	-	-
Net income for the year	67,815	71,979
Deficit, beginning of year	(190,654)	(262,633)
Deficit, end of year	(122,839)	(190,654)

Mohawk College Enterprise Statement of Cash Flows	**2017 $**	**2016 $**
Cash flows from operating activities	(12,698)	(133,540)
Cash flows used by financing activities	-	(2,863)
Cash flows used by investing activities	(4,865)	(8,526)
Net cash flows	(17,563)	(144,929)

The loss on the investment in MCE has been included in accounts payable and accrued liabilities.

5. LONG-TERM RECEIVABLE:

Long-term receivables held by the College consist of the following:

	2017 $	**2016 $**
DBARC student levy receivable	32,450,837	33,272,312
Less: Current portion of long-term receivable	(861,060)	(821,475)
	31,589,777	32,450,837

In April 2012, the Mohawk Students Association entered into an agreement with the College to establish a new compulsory student activity fee (the “ARC Fee”) to finance the building of the Athletic and Recreation Center (the “DBARC”). In November 2013, the DBARC construction was completed. The annual principal and interest payments on the long-term debt incurred to finance construction will be provided by the future ARC Fee student levies. The total principal and interest payments amount has been discounted at a rate of 4.762% (2016 – 4.762%) and the current amount receivable is $32,450,837 (2016 – $33,272,312). The current portion of long-term receivable represents the principal loan payments due within one year.

6. CONSTRUCTION IN PROGRESS:

Construction in progress represents costs incurred to date for the i) Joyce Centre for Partnership & Innovation $6,224,039, and ii) other miscellaneous projects $1,650,270 (2016 - $277,563).

7. CAPITAL ASSETS:

	Cost $	Accumulated Amortization $	2017 Net Book Value $	2016 Net Book Value $
Land	2,193,775	-	2,193,775	2,193,775
Buildings	132,714,971	38,620,201	94,094,770	101,500,781
Portables & roof replacement	9,874,867	2,304,088	7,570,779	5,045,410
Site improvements	49,778,234	27,680,444	22,097,790	24,672,610
Major equipment	29,104,271	13,356,995	15,747,276	13,208,462
Furniture & equipment	18,357,225	14,589,336	3,767,889	4,225,069
Vehicles	1,390,263	1,034,432	355,831	396,865
Computers & software	18,681,625	15,433,715	3,247,910	3,694,428
	262,095,231	113,019,211	149,076,020	154,937,400

8. DEFERRED REVENUE:

Deferred revenue consists of the following:

	2017 $	2016 $
Student fees	19,579,725	18,011,560
Contracts	2,619,311	1,670,829
Student residence	319,160	315,145
MAESD grants	312,642	54,737
Other	826,227	552,160
	23,657,065	20,604,431

9. LONG-TERM DEBT:

	2017 $	2016 $
Unsecured loan payable to the Ontario Financing Authority at 3.855%, payable in blended semi-annual instalments of $486,267, due November 29, 2028.	9,273,193	9,870,908
Unsecured loan payable to the Ontario Financing Authority at 4.183%, payable in blended monthly instalments of $40,673, due September 2, 2031.	5,277,308	5,538,675
Unsecured loan payable to the Ontario Financing Authority at 4.762%, payable in blended semi-annual instalments of $1,198,162, due November 25, 2038.	32,452,649	33,274,124
	47,003,150	48,683,707
Less current portion	1,731,404	1,680,557
	45,271,746	47,003,150

Principal repayments for the next five years and thereafter:

	$
2018	1,731,404
2019	1,830,845
2020	1,936,684
2021	1,996,855
2022	2,084,913
Thereafter	37,422,449
	47,003,150

10. DEMAND LOAN:

The College repaid its demand credit facility with a Canadian chartered bank. To reduce the interest rate risk on the loan, the College entered into an interest rate swap contract that entitled the organization to receive interest at floating rates and obliged it to pay interest at a fixed rate of 7.75% (including the credit spread).

The fair value of the interest rate swap of $nil (2016 – ($2,458,123)) is recorded on the statement of financial position. The change in fair value of the interest rate swap is recorded in the statement of remeasurement gains and losses, and the amount paid for the disposition of the interest rate swap is recorded in the College’s statement of operations under other revenue.

11. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES:

The following tables outline the components of the College's post-employment benefits and compensated absences liabilities and related expenses.

	March 31, 2017			
	Post-employment benefits $	Non-vesting sick leave $	Vesting sick leave $	Total liability $
Accrued employee future benefit obligations	1,334,000	4,032,000	88,000	5,454,000
Value of plan assets	(191,000)	-	-	(191,000)
Unamortized actuarial gains	193,000	867,000	793,000	1,853,000
Total liability	1,336,000	4,899,000	881,000	7,116,000

	March 31, 2016			
	Post-employment benefits $	Non-vesting sick leave $	Vesting sick leave $	Total liability $
Accrued employee future benefit obligations	1,395,000	4,012,000	1,297,000	6,704,000
Value of plan assets	(244,000)	-	-	(244,000)
Unamortized actuarial gains (losses)	184,000	877,000	(411,000)	650,000
Total liability	1,335,000	4,889,000	886,000	7,110,000

	March 31, 2017			
	Post-employment benefits $	Non-vesting sick leave $	Vesting sick leave $	Total expense $
Current year benefit cost	26,000	218,000	6,000	250,000
Interest on accrued benefit obligation	3,000	57,000	2,000	62,000
Amortized actuarial losses (gains)	(12,000)	(73,000)	10,000	(75,000)
Total expense	17,000	202,000	18,000	237,000

	March 31, 2016			
	Post-employment benefits $	Non-vesting sick leave $	Vesting sick leave $	Total expense $
Current year benefit cost	13,000	264,000	55,000	332,000
Interest on accrued benefit obligation	3,000	67,000	23,000	93,000
Amortized actuarial losses (gains)	(12,000)	(86,000)	101,000	3,000
Total expense	4,000	245,000	179,000	428,000

11. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (continued):

The benefits paid out in the year were $231,000 (2016 – $671,000).

Above amounts exclude pension contributions to the Colleges of Applied Arts and Technology pension plan, a multi-employer plan, described below.

Retirement Benefits

<u>CAAT Pension Plan</u>
Substantially all employees of the College are members of the Colleges of Applied Arts and Technology Pension Plan (the "Plan"), which is a multi-employer jointly sponsored defined benefit plan for eligible employees of public colleges and related employers in Ontario. Contributions by the College on account of current service pension costs amounted to $11,066,698 (2016 – $10,619,957), which have been included in the statement of operations. Contributions by employees amounted to $10,961,521 (2016 – $10,521,117). Contribution rates are set by the Plan's governors to ensure the long-term viability of the Plan.

Any pension surplus or deficit is a joint responsibility of the members and employers and may affect future contribution rates. The College does not recognize any share of the Plan's pension surplus or deficit as insufficient information is available to identify the College's share of the underlying pension assets and liabilities. The most recent actuarial valuation filed with pension regulators as at January 1, 2017 indicated an actuarial surplus of $1.6 billion.

Post-employment Benefits

The College extends post-employment life insurance, health and dental benefits to certain employee groups subsequent to their retirement. The College recognizes these benefits as they are earned during the employees' tenure of service. The related benefit liability was determined by an actuarial valuation study commissioned by the College Employer Council.

The major actuarial assumptions employed for the valuation are as follows:

(a) *Discount rate*
The present value as at March 31, 2017 of the future benefits was determined using a discount rate of 2% (2016 – 1.7%).

(b) *Drug costs*
Drug costs were assumed to increase at an 8.25% rate for 2017 (2016 – 8.5%) and decrease proportionately thereafter to an ultimate rate of 4% in 2034 for fiscal 2017 (2016 – 4%).

(c) *Hospital and other medical*
Hospital and other medical costs were assumed to increase at 4% per annum for fiscal 2017 (2016 – 4%).

(d) *Dental costs*
Dental costs were assumed to increase at 4% per annum for fiscal 2017 (2016 – 4%).

Compensated Absences

<u>Vesting Sick Leave</u>
The College has provided for vesting sick leave benefits during the year. Eligible Faculty employees, hired before April 1, 1991 and Administrative employees hired before July 1, 1974 are entitled to receive on termination or retirement, accumulated sick days multiplied by their actual daily rate to a maximum of six months' salary. The related benefit liability was determined by an actuarial valuation study commissioned by the College Employer Council.

11. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (continued):

Non-vesting Sick Leave

The College allocates to certain employee groups a specified number of days each year for use as paid absences in the event of illness or injury. These days do not vest and are available immediately. Employees are permitted to accumulate their unused allocation each year, up to the allowable maximum provided in their employment agreements. Accumulated days may be used in future years to the extent that the employees' illness or injury exceeds the current year's allocation of days. Sick days are paid out at the salary in effect at the time of usage. The related benefit liability was determined by an actuarial valuation study commissioned by the College Employer Council.

The assumptions used in the valuation of vesting and non-vesting sick leave are the College's best estimate of expected rates of:

	2017	2016
Wage and salary escalation	0.5% - 1.5%	0.5% - 1.8%
Discount rate	2.0%	1.7%

The probability that the employee will use more sick days than the annual accrual and the excess number of sick days used are within ranges of 0% to 23.7% and 0 to 48 days respectively for age groups ranging from 20 and under to 65 and over in bands of 5 years.

12. DEFERRED CONTRIBUTIONS:

a) Deferred contributions:

Deferred contributions represent unspent externally restricted scholarships, bursaries, grants and donations for student awards and student assistance. It also includes unspent endowment investment income.

	2017 $	2016 $
Balance, beginning of year	5,107,402	6,069,890
Additional contributions received	5,742,184	3,716,470
Less award payments & administrative expenses	(4,926,907)	(4,678,958)
Balance, end of year	5,922,679	5,107,402

Deferred contributions are comprised of:

	2017 $	2016 $
Endowment interest funds and unrealized gains	2,891,933	2,239,709
Tuition set-aside funds	1,409,567	1,539,480
Scholarships and bursaries	732,776	516,499
Joint employment stability replacement fund	460,384	428,468
MAESD grants	422,634	374,153
Other	5,385	9,093
	5,922,679	5,107,402

12. DEFERRED CONTRIBUTIONS (continued):

b) Deferred contributions related to construction in progress:

	2017 $	2016 $
Balance, beginning of year	270,000	-
Additional contributions received	4,324,010	180,000
Plus amounts transferred from deferred contributions related to expenses of future periods	147,254	90,000
Less amounts transferred to capital assets in the year	(270,000)	-
Balance, end of year	4,471,264	270,000

c) Deferred contributions related to expenses of future periods:

Deferred contributions related to expenses of future periods represent unspent externally restricted grants and donations intended to support primarily college-wide equipment and facility improvements and also provide student financial assistance.

	2017 $	2016 $
Balance, beginning of year	6,337,698	6,001,919
Additional contributions received	9,613,369	3,034,307
Less amounts recognized as revenue in the year	(827,063)	(2,485,142)
Less amounts transferred to deferred contributions related to capital assets	(4,421,034)	(123,386)
Less amounts transferred to deferred contributions related to construction in progress	(147,254)	(90,000)
Balance, end of year	10,555,716	6,337,698

Deferred contributions related to expenses of future periods are comprised of:

	2017 $	2016 $
MAESD	4,744,044	13,280
Donations	4,157,706	3,223,215
Other	1,653,966	3,101,203
	10,555,716	6,337,698

d) Deferred contributions related to capital assets:

Deferred capital contributions related to capital assets represent the unamortized amount of donations, grants and other contributions received for the purchase of capital assets.

	2017 $	2016 $
Balance, beginning of year	104,573,931	106,961,607
Additional contributions received	6,493,496	4,439,473
Plus amounts transferred from deferred contributions related to construction in progress	270,000	-
Plus amounts transferred from deferred contributions related to expenses of future periods	4,421,034	123,386
Less amortization in the year	(7,436,374)	(6,950,535)
Balance, end of year	108,322,087	104,573,931

12. DEFERRED CONTRIBUTIONS (continued):

d) Deferred contributions related to capital assets (continued):

Deferred contributions related to capital assets are comprised of:

	2017 $	2016 $
MAESD	56,166,538	57,118,491
ARC Fees	30,614,919	31,792,509
Donations	15,752,082	10,802,309
Other	5,788,548	4,860,622
	108,322,087	104,573,931

13. INVESTMENT IN CAPITAL ASSETS:

The College's investment in capital assets is calculated as follows:

	2017 $	2016 $
Capital assets	149,076,020	154,937,400
Construction in progress	7,874,309	277,563
Investment in land	873,472	873,472
	157,823,801	156,088,435
Less:		
Current portion of long-term debt	(870,344)	(859,082)
Demand loan	-	(8,224,938)
Long-term debt	(13,587,617)	(14,457,961)
Deferred contributions related to construction in progress	(4,471,264)	(270,000)
Deferred contributions related to capital assets	(108,322,087)	(104,573,931)
Investment in capital assets	30,572,489	27,702,523

Change in net assets invested in capital assets is calculated as follows:

	2017 $	2016 $
Deficiency of revenues over expenditures:		
Amortization of deferred capital contributions related to capital assets	7,436,374	6,950,535
Amortization of capital assets	(14,451,134)	(13,764,852)
	(7,014,760)	(6,814,317)
Net change in investment of capital assets:		
Purchase of capital assets and construction in progress	24,284,711	12,256,790
Disposals of capital assets	(8,098,211)	(50,983)
Amounts funded by deferred capital contributions	(15,385,794)	(4,832,859)
Repayment of term debt	9,084,020	1,409,977
Investment in capital assets	9,884,726	8,782,925

14. ENDOWMENT CONTRIBUTIONS:

The College has the following endowment funds:

	2017	2016
	$	$
Ontario Student Opportunity Trust Funds (Schedule 3)	5,621,027	5,583,328
Ontario Trust for Student Support (Schedule 4)	7,519,560	7,620,697
Other	3,070,456	2,916,587
	16,211,043	16,120,612

Investment income on endowments that was disbursed during the year has been recorded in the statement of operations since this income is available for disbursement as scholarships and bursaries and the donors' conditions have been met. The unspent portion of investment income is recorded in deferred contributions. Investment income on endowed assets recognized and deferred was $517,875 and $1,755,160 respectively (2016 – $621,558 and $1,778,600).

15. FINANCIAL INSTRUMENT RISK MANAGEMENT:

Credit risk

Credit risk is the risk of financial loss to the College if a debtor fails to make payments of interest and principal when due. The College is exposed to this risk relating to its cash, debt holdings in its investment portfolio, long-term receivable, accounts receivable and grants receivable. The College holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, the College's cash accounts are insured up to $100,000.

The College's investment policy operates within the constraints of the investment guidelines issued by the MAESD and puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis. The guidelines permit the College's funds to be invested in bonds issued by the Government of Canada, a Canadian province or a Canadian municipality having a rating of AAA or better.

The College's maximum exposure to credit risk is representative of the carrying value of cash, investments, accounts receivable, grants receivable, current portion of long-term receivable and long-term receivable which as at March 31, 2017 totals $160,339,565.

Accounts receivable are ultimately due from students. Credit risk is mitigated by financial approval processes before a student is enrolled and the highly diversified nature of the student population.

Grants receivable are due from government sources. The College works to ensure that all eligibility criteria are met in order to qualify to receive the funding.

The College measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the College's historical experience regarding collections.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued):

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The College's investment policy operates within the constraints of the investment guidelines issued by the MAESD. The policy's application is monitored by management, the investment managers and the board of governors. Diversification techniques are utilized to minimize risk.

Currency risk

Currency risk relates to the College operating in different currencies and converting non-Canadian earnings at different points in time at different foreign levels when adverse changes in foreign currency rates occur. The College does not have any material transactions or financial instruments denominated in foreign currencies.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure the risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The College is exposed to this risk through its interest bearing investments and long-term debt.

The College mitigated interest rate risk on its demand loan through a derivative financial instrument that exchanged the variable rate inherent in the term debt for a fixed rate (see note 10). During the year the College repaid the demand loan and disposed of the related interest rate swap.

At March 31, 2017, a 1% fluctuation in interest rates, with all other variables held constant, would have an estimated impact on the fair value of bonds of $3,279,598.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The College is exposed to this risk through its equity holdings within its investment portfolio. At March 31, 2017, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the College's equities of $657,046. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

Liquidity risk is the risk that the College will not be able to meet all cash outflow obligations as they come due. The College mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining investments that may be converted to cash in the near-term if unexpected cash outflows arise.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

16. COMMITMENTS:

a) Leases:
Mohawk's commitments to annual rental payments in the aggregate and in each of the next five years principally as a result of premise rental leases are as follows:

	$
2018	1,742,160
2019	1,742,160
2020	1,742,160
2021	1,742,160
2022	1,742,160
	8,710,800

b) Student residence:
The student residence, which accommodates 340 students, was leased to Campus Development Hamilton Corp. in December 2016. The agreement meets the definition of a capital lease for accounting purposes and resulted in a gain of $10,235,728 recorded in other revenue within the statement of operations. The College has entered into an operating lease with Campus Development Hamilton Corp. to lease the residence back. Collegiate Management Services Corp. manages the residence by way of a property management agreement. The annual property management fee is $677,280.

c) Capital commitments:
As at March 31, 2017, outstanding capital commitments amount to approximately $43.1 million primarily for construction of the Joyce Centre for Partnership & Innovation.

17. THE MOHAWK COLLEGE FOUNDATION:

The College has an economic interest in the Mohawk College Foundation (the "Foundation"), which raises funds from the community and alumni to finance certain expenditures of the College. The Foundation's accounts are not included in these financial statements. The Foundation is incorporated under the Province of Ontario as a public foundation and is a registered charity under the Income Tax Act.

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Analysis of Operating Grants, Ancillary and Other Revenue
For the year ended March 31, 2017, with comparative figures for 2016 **Schedule 1**

	2017	2016
	$	$
OPERATING GRANTS REVENUE		
General operating and capital grants	67,988,863	65,086,561
Apprenticeship	9,175,395	8,915,889
Collaborative program grants	7,209,450	7,234,988
Employment Services	2,766,698	3,099,059
Federal projects	2,410,144	2,231,539
School College Works Initiative	1,481,155	1,395,763
Literacy & Basic Skills	1,386,034	1,386,909
Aboriginal grants	1,200,256	1,420,653
Disability Services	1,132,668	1,175,704
Municipal tax grant	808,125	813,675
Termination gratuities	157,737	323,332
Other Ministry grants	1,083,894	465,707
	96,800,419	93,549,779
ANCILLARY REVENUE		
Campus stores	5,358,298	5,723,650
Parking	3,482,829	3,321,895
Student residence	3,251,771	3,249,712
Food services	1,042,312	959,492
Facility rentals	640,045	445,103
Student life	263,506	167,456
Athletic and recreation centre	210,040	142,062
Printing	146,425	153,524
Other	199,140	118,471
	14,594,366	14,281,365
OTHER REVENUE		
Contract training projects	4,631,561	2,637,004
Investment income	1,412,272	1,343,122
Student government	331,716	370,929
Donations	302,233	279,438
International projects	256,258	402,388
Miscellaneous	16,272,487	5,599,033
	23,206,527	10,631,914

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Analysis of Ancillary Expenditures
For the year ended March 31, 2017, with comparative figures for 2016 **Schedule 2**

	2017	2016
	$	$
Salaries and benefits	1,686,120	1,534,969
Cost of sales	4,042,315	4,288,411
Contracted services and professional fees	1,629,611	1,620,080
Supplies and other expenses	1,519,350	1,215,813
Utilities, maintenance and taxes	1,206,462	1,521,614
	10,083,858	10,180,887

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Analysis of Ontario Student Opportunity Trust Fund (OSOTF I)
For the year ended March 31, 2017, with comparative figures for 2016 **Schedule 3**

	2017 (Book Value) $	2016 (Book Value) $
Endowment Fund Balance		
Fund Balance, beginning of year	5,520,998	5,520,998
Cash donations received	37,699	-
Fund Balance, end of year	5,558,697	5,520,998
Expendable Funds Available for Awards		
Balance, beginning of year	753,747	761,056
Investment income, net of related expenses	155,469	191,049
Awards issued (2017-#206; 2016-#284)	(156,729)	(198,358)
Balance, end of year	752,487	753,747

The amounts recorded above are for Ministry purposes only. The fair market value of the endowment and expendable funds as at March 31, 2017 were $5,558,697 and $1,139,894 respectively.

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Analysis of Ontario Student Opportunity Trust Fund (OSOTF II)
For the year ended March 31, 2017, with comparative figures for 2016

	2017 (Book Value) $	2016 (Book Value) $
Endowment Fund Balance		
Fund Balance, beginning and end of year	62,330	62,330
Expendable Funds Available for Awards		
Balance, beginning of year	19,092	16,722
Investment income, net of related expenses	4,900	2,370
Balance, end of year	23,992	19,092

The amounts recorded above are for Ministry purposes only. The fair market value of the endowment and expendable funds as at March 31, 2017 were $62,330 and $28,629 respectively.

THE MOHAWK COLLEGE OF APPLIED ARTS AND TECHNOLOGY
Analysis of Ontario Trust for Student Support (OTSS)
For the year ended March 31, 2017, with comparative figures for 2016 **Schedule 4**

	2017 (Book Value) $	2016 (Book Value) $
Endowment Fund Balance		
Fund Balance, beginning of year	7,620,697	7,310,255
Donor funds transferred to expendable funds	(66,838)	-
Funds repayable to Ministry	(56,833)	-
Cash donations received	22,534	310,442
Fund Balance, end of year	7,519,560	7,620,697
Expendable Funds Available for Awards		
Balance, beginning of year	562,997	499,130
Investment income, net of related expenses	184,299	237,333
Cash donations received	8,999	7,745
Donor funds transferred from endowment funds	66,838	-
Awards issued (2017-#195; 2016-#181)	(229,719)	(181,211)
Balance, end of year	593,414	562,997

The amounts recorded above are for Ministry purposes only. The fair market value of the endowment and expendable funds as at March 31, 2017 were $7,519,560 and $996,109 respectively.