

Consolidated Financial Statements of

**LOYALIST COLLEGE OF
APPLIED ARTS &
TECHNOLOGY**

Year ended March 31, 2021

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

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Year ended March 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Loyalist College of Applied Arts & Technology

Opinion

We have audited the consolidated financial statements of Loyalist College of Applied Arts & Technology ("the College"), which comprise:

- the consolidated statement of financial position as at March 31, 2021
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the College as at March 31, 2021, and its results of operations, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

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



Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the consolidated financial statements

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

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

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

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

We also:

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

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



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the College's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the College to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate regarding the financial information of the entities or business activities within the College to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

May 26, 2021

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Consolidated Statement of Financial Position

March 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 56,117,680	\$ 34,035,416
Short-term investments (note 6)	15,023,288	-
Accounts receivable	4,209,053	3,001,310
Grants receivable	3,459,662	2,346,005
Inventory	36,697	51,824
Prepaid expenses	1,888,504	1,386,831
Current portion of pledges receivables (note 5)	233,800	244,375
	80,968,684	41,065,761
Accounts receivable - long-term portion	-	10,200
Tangible capital assets (note 4)	44,601,816	43,973,936
Pledges receivable (note 5)	170	233,970
Investments (note 6)	13,199,924	10,427,871
	\$ 138,770,594	\$ 95,711,738

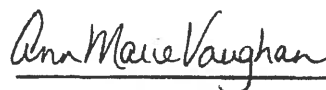
	2021	2020
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,539,326	\$ 7,626,943
Accrued vacation entitlement	3,010,831	3,165,188
Grants refundable	179,009	163,872
Deferred revenue (note 8(a))	55,288,996	20,086,346
Current portion of term loans payable (note 7)	596,020	1,372,657
	<u>67,614,182</u>	<u>32,415,006</u>
Term loans payable (note 7)	2,734,007	3,330,027
Accrued future employee benefits (note 15)	173,690	589,793
Accrued non-vested sick leave (note 15)	1,659,000	1,646,000
Accrued vested sick leave (note 15)	201,000	211,000
Accrued post-retirement benefits (note 15)	389,000	387,000
Deferred capital contributions (note 8(b))	31,848,755	28,682,109
	<u>104,619,634</u>	<u>67,260,935</u>
Net assets:		
Unrestricted:		
Operating sufficiency	10,974,382	6,162,339
Post-employment benefits and compensated expenses	(2,422,690)	(2,833,793)
Vacation	(3,010,831)	(3,165,188)
Residences	(1,177,515)	-
Parking lot	(258,668)	-
	<u>4,104,678</u>	<u>163,358</u>
Investment in capital assets (note 9(a))	15,217,909	12,065,746
Endowment (note 10(a))	11,253,903	11,183,112
Internally restricted (note 10(b))	3,574,470	5,038,587
	<u>34,150,960</u>	<u>28,450,803</u>
Commitments (notes 11 and 14)		
Contingencies (note 12)		
	<u>\$ 138,770,594</u>	<u>\$ 95,711,738</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Chair



President

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Consolidated Statement of Operations

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Revenue:		
Ministry of Colleges and Universities and other government grants	\$ 34,853,173	\$ 33,032,074
Amortization of deferred capital contributions (note 8(b))	2,247,037	2,253,961
Tuition fees and non-tuition incidental fees	31,777,161	37,001,111
Ancillary	1,429,393	3,830,273
Contracted services and other	17,835,144	9,131,446
Interest, dividends and realized gains on investments (note 6(d))	606,940	1,034,825
	<u>88,748,848</u>	<u>86,283,690</u>
Expenses:		
Salaries and wages	41,149,632	42,602,699
Contracted services and fees	13,711,031	8,542,087
Employee and other benefits	8,996,089	9,611,942
Maintenance and utilities	3,944,355	3,768,381
Amortization of tangible capital assets	3,934,989	3,808,831
Insurance and bank charges	1,890,627	1,380,112
Other	1,881,377	1,661,143
Supplies and minor equipment	1,873,517	2,783,249
Transportation and communication	1,605,052	1,532,133
Scholarships and bursaries	1,493,245	529,504
Ancillary	1,423,489	1,902,374
Student assistance from tuition set aside	750,000	800,000
Property taxes	296,796	293,397
Interest on term loans payable	169,283	205,444
	<u>83,119,482</u>	<u>79,421,296</u>
Excess of revenue over expenses	<u>\$ 5,629,366</u>	<u>\$ 6,862,394</u>

See accompanying notes to consolidated financial statements.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2021, with comparative information for 2020

	Investment in capital assets (note 9)	Endowment (note 10(a))	Internally restricted (note 10(b))	Unrestricted	2021 Total	2020 Total
Balance, beginning of year	\$ 12,065,746	\$ 11,183,112	\$ 5,038,587	\$ 163,358	\$ 28,450,803	\$ 21,492,250
Excess (deficiency) of revenue over expenses	(1,687,952)	–	(1,765,077)	9,082,395	5,629,366	6,862,394
Interfund transfers	–	–	300,960	(300,960)	–	–
Endowment contributions	–	70,791	–	–	70,791	96,159
Net change in investment in capital assets	4,840,115	–	–	(4,840,115)	–	–
Balance, end of year	\$ 15,217,909	\$ 11,253,903	\$ 3,574,470	\$ 4,104,678	\$ 34,150,960	\$ 28,450,803

See accompanying notes to consolidated financial statements.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Consolidated Statement of Cash Flows

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 5,629,366	\$ 6,862,394
Items not involving cash:		
Amortization of deferred capital contributions	(2,247,037)	(2,253,961)
Amortization of capital assets	3,934,989	3,808,831
Increase (decrease) in accrued future employee benefits	(416,103)	253,312
Increase (decrease) in accrued non-vested sick leave	13,000	(10,000)
Decrease in accrued vested sick leave	(10,000)	(8,000)
Increase (decrease) in accrued post-retirement benefits	2,000	(22,000)
Net change in non-cash operating working capital (note 13)	33,167,871	7,727,223
	40,074,086	16,357,799
Investing activities:		
Increase in investments	(17,795,341)	(170,411)
Decrease in pledges receivable	244,375	6,930
Decrease in long-term receivable	10,200	3,400
	(17,540,766)	(160,081)
Financing activities:		
Repayment of term loans payable	(1,372,658)	(1,069,816)
Capital activities:		
Endowment contributions	70,791	96,159
Contributions related to capital assets	5,413,683	1,247,492
Purchase of capital assets	(4,562,869)	(4,463,546)
	921,605	(3,119,895)
Increase in cash and cash equivalents	22,082,267	12,008,007
Cash and cash equivalents, beginning of year	34,035,416	22,027,409
Cash and cash equivalents, end of year	\$ 56,117,683	\$ 34,035,416

See accompanying notes to consolidated financial statements.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements

Year ended March 31, 2021

Loyalist College of Applied Arts & Technology (the “College”) operates as a community college, under its current mission to create learning opportunities leading to success in both employment and lifelong learning. The College was incorporated under the Department of Education Act in 1968 as a not-for-profit organization and is a registered charity under The Income Tax Act. Ontario Colleges are governed by the Ontario Colleges of Applied Arts and Technology Act, 2002 and regulations.

1. Significant accounting policies:

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of Loyalist College of Applied Arts & Technology, the Student Centre, and The Loyalist College Foundation. All significant intercompany balances and transactions have been eliminated upon consolidation.

(b) Use of estimates:

The preparation of consolidated financial statements 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 consolidated financial statements, and the reported amounts of revenue and expenses during the year. Significant management estimates relate to the fair value for investments, valuation of accounts receivables, useful estimated life of capital assets and deferred capital contributions, actuarial estimation of employee future benefits, non-vested and vested sick leave and post-retirement benefits. Actual results could differ from these estimates.

(c) Financial instruments:

The College classifies its financial instruments as either fair value or amortized cost. The College’s accounting policy for each category is as follows:

(i) Fair value:

This category includes cash and equity instruments quoted in an active market. The College has designated its bond portfolio that would otherwise be classified into the amortized cost category at fair value as the College manages and reports performance of it on a fair value basis.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

1. Significant accounting policies (continued):

(c) Financial instruments (continued):

(i) Fair value (continued):

These financial instruments are initially recognized at cost and subsequently carried at fair value. Unrealized changes in fair value of externally restricted amounts are recognized in the Consolidated Statement of Financial Position as deferred revenue until they are realized, when they are transferred to the Consolidated Statement of Operations. A Statement of Remeasurement Gains and Losses has not been provided as there are no significant unrealized gains or losses at March 31, 2021.

Transaction costs related to financial instruments in the fair value category are expensed as incurred.

(ii) Amortized cost:

This category includes accounts receivable, grants receivable, pledges receivable, accounts payable and accrued liabilities, accrued vacation entitlement, grants refundable, and term loans payable. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Write-downs on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the Consolidated Statement of Operations.

(d) Revenue recognition:

The College follows the deferral method of accounting for contributions which include donations and government grants.

Pledged contributions for the College are recognized when the related pledge documentation is received, less an allowance for estimated uncollectable amounts, giving consideration as to the source of pledges and any changed financial position.

Tuition and ancillary fees are recognized as revenue based on the portion of the academic period that occurs within the fiscal year of the College. Fees received for courses that commence after the end of the fiscal year of the College are recorded as deferred revenue.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

1. Significant accounting policies (continued):

(d) Revenue recognition (continued):

Fees that have been levied for a specific purpose have been internally restricted by the College for that purpose.

Operating grants are recorded as revenue in the period to which they relate. Grants earned but not received at the end of an accounting period are accrued. When a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated 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.

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.

Other operating revenues are deferred to the extent that related services provided, or goods sold, are rendered/delivered subsequent to the end of the College's fiscal year.

(e) Capital assets:

Purchased capital assets are recorded at cost, which includes interest incurred before the commencement of commercial operations. Contributed capital assets are recorded at fair value at the date of contribution when fair value is reasonably determinable. Otherwise, contributed assets are recorded at a nominal amount. Repairs and maintenance costs are charged to expenses. 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 its residual value.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

1. Significant accounting policies (continued):

(e) Capital assets (continued):

Capital assets are amortized on a straight-line basis over their average useful lives, which have been estimated to be as follows:

Asset	Useful life
Site improvements	10 years
Buildings	40 years
Building improvements	20 years
Furniture and equipment	3 to 5 years
Vehicles	5 years
Leasehold improvements	10 years

Costs of construction in progress are capitalized. Amortization is not recognized until project completion.

(f) Vacation pay:

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

(g) Accrued future employee benefits, non-vesting and vesting sick leave:

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 most recent actuarial valuation of the pension plan for funding purposes was as of January 1, 2021, and the next required valuation will be as of January 1, 2024. The most recent actuarial valuation dates of the other employee future benefit plans are disclosed in note 15. 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 employee.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

1. Significant accounting policies (continued):

(g) Accrued future employee benefits, non-vesting and vesting sick leave (continued):

(iv) The discount used in the determination of the above-mentioned liabilities is equal to the College's internal rate of borrowing.

(h) Cash and equivalents:

Cash and equivalents consist of cash on deposit and bank term deposits in money market instruments with maturity dates of less than three months from the date they are acquired.

(i) Other accounts receivable:

Other accounts receivable consists of a long-term note receivable relating to leasehold improvements due from a tenant over a ten-year period.

2. Financial instrument classification:

The following table provides classification of financial instruments by category. The maximum exposure to credit risk would be the carrying value as shown below:

	Fair Value	Amortized cost	2021 Total
Cash and cash equivalents	\$ 56,117,680	\$ –	\$ 56,117,680
Short-term investments	15,023,288	–	15,023,288
Accounts receivable	–	4,209,053	4,209,053
Grants receivable	–	3,459,662	3,459,662
Pledges receivable	–	233,970	233,970
Investments	13,199,924	–	13,199,924
Accounts payable and accrued liabilities	–	(8,539,327)	(8,539,327)
Accrued vacation entitlement	–	(3,010,831)	(3,010,831)
Grants refundable	–	(179,009)	(179,009)
Term loans payable	–	(3,330,027)	(3,330,027)
	\$ 84,340,892	\$ (7,156,509)	\$ 77,184,383

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

2. Financial instrument classification (continued):

	Fair Value	Amortized cost	2020 Total
Cash and cash equivalents	\$ 34,035,416	\$ –	\$ 34,035,416
Accounts receivable	–	3,001,310	3,001,310
Grants receivable	–	2,346,005	2,346,005
Pledges receivable	–	478,345	478,345
Investments	10,427,871	–	10,427,871
Accounts payable and accrued liabilities	–	(7,626,943)	(7,626,943)
Accrued vacation entitlement	–	(3,165,188)	(3,165,188)
Grants refundable	–	(163,872)	(163,872)
Term loans payable	–	(4,702,684)	(4,702,684)
	\$ 44,463,287	\$ (9,833,027)	\$ 34,630,260

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

	Level 1	Level 2	2021 Total (note 6(c))
Cash and cash equivalents	\$ 56,117,680	\$ –	\$ 56,117,680
Short-term investments	15,023,288	–	15,023,288
Investments	8,459,749	4,740,175	13,199,924
	\$ 79,600,717	\$ 4,740,175	\$ 84,340,892

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

2. Financial instrument classification (continued):

	Level 1	Level 2	2020 Total (note 6(c))
Cash and cash equivalents	\$ 34,035,416	\$ –	\$ 34,035,416
Investments	28,422	10,399,449	10,427,871
	\$ 34,063,838	\$ 10,399,449	\$ 44,463,287

There were no transfers between Level 1 and Level 2 for the years ended March 31, 2021 and 2020. There were also no transfers in or out of Level 3.

3. Employee notes receivable:

In order to complement the College's professional development policy, the College provides demand interest-free loans and loans at nominal interest rates to certain full-time staff for the purchase of specified computer equipment and credential studies. These loans in the amount of \$3,800 (2020 - \$6,200) have been included in accounts receivable on the Consolidated Statement of Financial Position.

4. Tangible capital assets:

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
Land	\$ 411,550	\$ –	\$ 411,550	\$ 411,550
Artwork	254,870	–	254,870	254,870
Site improvements	5,175,155	3,330,304	1,844,851	2,010,122
Buildings and building improvements	76,802,149	40,023,229	36,778,920	37,892,030
Furniture and equipment	31,258,750	28,237,876	3,020,874	3,271,151
Vehicles	139,465	114,469	24,996	44,502
Leasehold improvements	142,235	142,235	–	–
Construction in progress	2,265,755	–	2,265,755	89,711
	\$ 116,449,929	\$ 71,848,113	\$ 44,601,816	\$ 43,973,936

Cost and accumulated amortization of capital assets at March 31, 2020 amounted to \$112,302,894 and \$43,973,936, respectively.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

5. Pledges receivable:

As part of the College fundraising campaign activities, the College received pledges for payment in the future. The pledges receivable over the next two years are as follows:

2022	\$	233,800
2023		170
Net pledges receivable		233,970
Less current portion		233,800
Long-term portion	\$	170

6. Investments:

(a) Short-term investments are comprised of GICs with a fair market value of \$15,023,288 and a cost of \$15,000,000. The effective interest rates range from 0.85% to prime less 2.2% and will mature in December 2021 and February 2022.

(b) As noted in note 1(c) to these consolidated financial statements, investments are recorded at fair value at the Consolidated Statement of Financial Position date. The fair market value of investments are as follows:

	2021	2020
Cash	\$ –	\$ 28,422
Fixed-income securities:		
Federal	300,733	49,950
Provincial and provincial guaranteed	1,988,145	1,300,469
Municipal	41,036	–
Corporate - Rated A or better	2,410,261	2,240,254
	4,740,175	3,590,673
Pooled funds:		
Money market fund	916,312	718,269
Equity securities:		
Canadian	3,943,757	3,159,409
United States	1,801,232	1,498,263
International	1,798,448	1,432,835
	7,543,437	6,090,507
	\$ 13,199,924	\$ 10,427,871

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

6. Investments (continued):

(c) The investments have varying maturity dates, but may be liquidated in the short-term, based on the College's needs. The effective interest rates range from 0.6% to 3.8% (2020 - 1.9% to 4.6%) for these investments.

(d) The expected maturity dates for fixed-income securities are as follows:

	2021	2020
Maturing between one and five years	\$ 1,683,003	\$ 1,370,770
Maturing over five years	3,057,172	2,219,903
	<u>\$ 4,740,175</u>	<u>\$ 3,590,673</u>

(e) Net investment income is comprised of the following:

	2021	2020
Interest income	\$ 502,354	\$ 776,126
Dividend income	284,130	242,031
Realized gains (losses) on disposition of investments	(109,724)	85,605
	<u>676,760</u>	<u>1,103,762</u>
Less: Interest and investment management fees	(69,820)	(68,937)
	<u>\$ 606,940</u>	<u>\$ 1,034,825</u>

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

7. Term loans payable:

Term loans payable consisting of the following unsecured amounts:

	2021	2020
Original residence loan bearing interest at 2.84% and repayable by semi-annual blended payments of principal and interest at \$235,608 payable on August 31 and February 28 until maturity on August 28, 2020.	\$ –	\$ 231,960
Renovation loan – OFA loan bearing interest at 2.641% and repayable by semi-annual blended payments of principal and interest of \$157,355 payable on May 7 and November 7 until maturity on May 7, 2024.	1,045,551	1,327,061
Residence expansion – two residences plus commons building Part 1 – loan bearing interest at 4.83% and repayable by semi-annual blended payments of principal and interest of \$206,851 payable on August 28 and February 28 until maturity on August 28, 2027.	2,284,476	2,577,193
Residence expansion – two residences plus commons building Part 2 – loan bearing interest at 3.07% and repayable by semi-annual blended payments of principal and interest of \$40,209 payable on August 31 and February 28 until maturity on February 28, 2021.	–	566,470
	3,330,027	4,702,684
Less current portion	(596,020)	(1,372,657)
	\$ 2,734,007	\$ 3,330,027

The principal portion of the term loans repayable over the next five years and thereafter, based on terms and agreements in effect as at March 31, 2021, are as follows:

2022	\$ 596,020
2023	618,722
2024	642,340
2025	509,593
2026	371,606
Thereafter	591,746
	\$ 3,330,027

The College anticipates the renewal of term loans that mature in the next five years with terms comparable to the existing loans.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

8. Deferred contributions:

(a) Deferred revenue:

Deferred revenue is comprised of:

	2021	2020
Ministry of Colleges, Universities and other grants	\$ 634,488	\$ 2,351,678
Tuition fees	51,945,896	17,159,307
Externally restricted donations	585,047	743,470
Other	94,287	54,555
Restricted investment income	780,659	–
Unrealized gains (losses) on long-term investments	1,248,619	(222,664)
	<u>\$ 55,288,996</u>	<u>\$ 20,086,346</u>

(b) Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations and grants for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the Consolidated Statement of Operations at the same rate as amortization is recorded on the related capital assets.

Deferred revenue relating to tangible capital assets is comprised of the following:

	2021	2020
Balance, beginning of year	\$ 28,682,109	\$ 29,688,578
Add amounts related to the following sources:		
Federal/Province of Ontario grants and capital campaign	5,413,683	1,247,492
Deduct amounts related to the following:		
Amounts recognized as revenue in the year	(2,247,037)	(2,253,961)
Balance, end of year	<u>\$ 31,848,755</u>	<u>\$ 28,682,109</u>

The balance of deferred capital contributions consists of the following:

	2021	2020
Unamortized capital contributions	\$ 26,053,880	\$ 27,205,506
Unspent capital contributions	5,794,875	1,476,603
	<u>\$ 31,848,755</u>	<u>\$ 28,682,109</u>

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

9. Investment in capital assets:

(a) Investment in capital assets at March 31 represents the following:

	2021	2020
Tangible capital assets, at cost	\$ 116,449,929	\$ 112,302,894
Accumulated amortization of tangible capital assets	(71,848,113)	(68,328,958)
Term loans payable - current portion	(596,020)	(1,372,657)
Term loans payable - long-term portion	(2,734,007)	(3,330,027)
Deferred capital contributions	(26,053,880)	(27,205,506)
	<u>\$ 15,217,909</u>	<u>\$ 12,065,746</u>

(b) Change in investment in capital assets is calculated as follows:

	2021	2020
Excess of expenses over revenue:		
Amortization of deferred contributions related to capital assets	\$ 2,247,037	\$ 2,253,961
Less amortization of capital assets	(3,934,989)	(3,808,831)
	<u>\$ (1,687,952)</u>	<u>\$ (1,554,870)</u>

	2021	2020
Purchase of capital assets	\$ 4,562,869	\$ 4,463,546
Amounts funded by:		
Capital contributions	(1,095,411)	(1,435,754)
Repayment of term loans payable	1,372,657	1,069,816
	<u>\$ 4,840,115</u>	<u>\$ 4,097,608</u>

10. Restrictions on net assets:

(a) Endowment:

The externally restricted endowment contributions have been donated or received as grants from governments specifically for student assistance. Income earned is expendable to provide financial assistance to students.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

10. Restrictions on net assets (continued):

(b) Internally restricted:

These funds have been restricted by the Board of Governors to be expended on the following:

	2021	2020
Residence	\$ –	\$ 570,991
Student Office for Alternative Resources	324,174	341,291
Student government activity	1,266,357	1,132,721
Student facilities enhancement	57,335	37,618
Student centre	606,388	1,191,200
Student government - health centre	536,993	497,441
Information technology fee	471,099	337,000
Alumni	40,230	48,683
Athletics capital fee	–	12,409
Health & Wellness complex	–	869,233
Parking lot	–	–
Work-integrated learning	271,894	–
	<u>\$ 3,574,470</u>	<u>\$ 5,038,587</u>

Residence funds have been set aside to deal with the costs of future major renovations and repairs for these areas. Residence is in a deficit position due to the reduction in 2020/21 revenue. Parking lot funds have been set aside for future renovations. Parking lot is in a deficit position due to the reduction in 2020/21 revenue. The 2021 deficits of the Residence and Parking lot will therefore be included against the Unrestricted surplus in the current year. All other internally restricted funds represent net accumulated funds collected from students. Under agreements with Student Government and/or Provincial Government directives these funds must be used to support specified activities and projects.

11. Commitments:

- (a) The College has entered into three agreements which allow outside parties to use certain of the College's facilities for use as a bookstore, a cafeteria and for print and mail services, respectively. If the College prematurely terminates the contracts, the College is liable to pay the depreciated value of leasehold improvements paid for by the other parties to the agreements. It is not anticipated that any of the contracts will be terminated prior to the date anticipated in the respective contracts.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

11. Commitments (continued):

(b) The College entered into an agreement with a third party for the construction and operation of student residences. The residences are owned and operated by the third party and the College has agreed to guarantee the residence occupancy at 96%. Management has assessed the likelihood of any actual guarantee payments. Due to COVID-19, the college was required to reimburse the third party for not meeting the residence occupancy of 96% in the 2021 fiscal year.

12. Contingencies:

The nature of the College's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2021, management believes that the College has valid defenses and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the College's financial position.

13. Net change in non-cash operating working capital:

Cash provided from (used in) non-cash operating working capital is compiled as follows:

	2021	2020
Accounts receivable	\$ (1,207,741)	\$ (1,022,018)
Grants receivable	(1,113,657)	(1,043,289)
Inventory	15,127	2,372
Prepaid expenses	(501,673)	(330,371)
Accounts payable and accrued liabilities	912,385	82,480
Accrued vacation entitlement	(154,357)	(9,506)
Grants refundable	15,137	(59,697)
Deferred revenue	35,202,650	10,107,252
	<hr/>	<hr/>
	\$ 33,167,871	\$ 7,727,223

14. Lease commitments

The College leases certain premises and equipment for which the future minimum lease payment for the next year is as follows:

2022	\$ 203,475
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LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

15. Accrued future employee benefits and compensated absences liability:

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

	Employee future benefits	Non-vesting sick leave	Vesting sick leave	2021 Accrued post- retirement benefits
Accrued employee future benefits obligations	\$ 173,690	\$ 1,438,000	\$ 39,000	\$ 474,000
Fair value of plan assets	–	–	–	(108,000)
Unamortized actuarial gains	–	221,000	162,000	23,000
Total liability	\$ 173,690	\$ 1,659,000	\$ 201,000	\$ 389,000

	Employee future benefits	Non-vesting sick leave	Vesting sick leave	2020 Accrued post- retirement benefits
Accrued employee future benefits obligations	\$ 589,793	\$ 555,000	\$ 46,000	\$ 464,000
Fair value of plan assets	–	–	–	(101,000)
Unamortized actuarial gains	–	1,091,000	165,000	24,000
Total liability	\$ 589,793	\$ 1,646,000	\$ 211,000	\$ 387,000

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

15. Accrued future employee benefits and compensated absences liability (continued):

	Employee future benefits	Non-vesting sick leave	Vesting sick leave	2021 Accrued post- retirement benefits
Current year benefit cost (recovery)	\$ (416,103)	\$ 152,000	\$ 1,000	\$ 10,000
Interest on accrued benefit obligation	–	24,000	1,000	1,000
Benefit payments	–	(163,000)	(12,000)	(3,000)
Amortization of unamortized actuarial gains	–	–	–	(6,000)
Total expense (recovery)	\$ (416,103)	\$ 13,000	\$ (10,000)	\$ 2,000

	Employee future benefits	Non-vesting sick leave	Vesting sick leave	2020 Accrued post- retirement benefits
Current year benefit cost (recovery)	\$ 253,312	\$ 73,000	\$ 1,000	\$ (14,000)
Interest on accrued benefit obligation	–	27,000	1,000	1,000
Benefit payments	–	(109,000)	(8,000)	(4,000)
Amortization of unamortized actuarial gains	–	(1,000)	(2,000)	(5,000)
Total expense (recovery)	\$ 253,312	\$ (10,000)	\$ (8,000)	\$ (22,000)

The above amounts are included in employee and other benefits on the Consolidated Statement of Operations.

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

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

15. Accrued future employee benefits and compensated absences liability (continued):

Retirement benefits:

CAAT pension plan

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. The College makes contributions to the Plan equal to those of the employees. Contribution rates are set by the Plan's governor's 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 Plan's most recent actuarial valuation filed with pension regulators as at January 1, 2021 indicated an actuarial surplus of \$3.3 billion (January 1, 2020 - \$2.9 billion), reflecting in the Plan's 10% net return for 2021. The College made contributions to the Plan and its associated retirement compensation arrangement of \$4,098,369 (2020 - \$4,069,171), which has been included in the Consolidated Statement of Operations.

Post-employment benefits:

The College extends post-employment life insurance, health and dental benefits to certain employee groups subsequent to their retirement. The most recent actuarial valuation of these employee future benefits was completed February 5, 2020 for the non-pension post-retirement plan and January 29, 2021 for the continuation of medical and dental benefits and the life waiver of premium benefit for employees currently on long-term disability. The results of these valuations have been extrapolated to March 31, 2021. 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 valuations are as follows:

(a) Discount Rate

The present value as at March 31, 2021 of the future benefits was determined using a discount rate of 1.7% (2020 - 1.6%).

(b) Medical

Medical premium increases were assumed to increase at 6.42% per annum in 2021 (2020 - 6.55%) and decrease proportionately thereafter to an ultimate rate of 4.0% in 2040.

(c) Dental Costs

Dental costs were assumed to increase at 4% per annum in 2021 (2020 - 4.0%).

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

15. Accrued future employee benefits and compensated absences liability (continued):

Compensated absences:

Vesting sick leave

The College has provided for vesting sick leave benefits during the year. Eligible employees, after 10 years of service, are entitled to receive 50% of their accumulated sick leave credit on termination or retirement to a maximum of 6 months' salary. The program to accumulate sick leave credits ceased for employees hired after March 31, 1991. The related benefit liability was determined by an actuarial valuation study commissioned by the College Employer Council.

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 estimates of expected rates of:

Wage and salary escalation:

2% in 2020, and 1% thereafter for full-time and partial load academic staff.

1% in 2020 for full time support staff, 2% in 2021, 1.25% in 2022 and 1% thereafter.

1% in 2020 for part time support staff, 2%, in 2021, 1.25% in 2022 and 1% thereafter.

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 26.0% and 0 to 51 days, respectively, for age groups ranging from 20 and under to 65 and over in bands of 5 years.

The unamortized actuarial gains and losses are amortized over the expected average remaining service life:

Accumulated sick leave benefit entitlements for 10.0 years (2020 - 10.0 years) for academic

Accumulated sick leave benefit entitlements for 10.2 years (2020 - 10.2 years) for support

Employee future benefits for 11.3 years (2020 - 11.3 years)

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

16. Ontario student opportunity trust fund

- (a) Year-End Report for Phase One of the Ontario Student Opportunity Trust Fund of Loyalist College of Applied Arts and Technology:

At the direction of the Ministry of Colleges & Universities (MCU), separate disclosure of the Ontario Student Opportunity Trust Fund of Loyalist College of Applied Arts and Technology which is included as part of the Foundation is required. As at March 31, 2021, the activity within the fund is summarized as follows:

- (i) Schedule of Changes in Endowment Fund Balance for the year ended March 31, are as follows:

	2021	2020
Fund balance, beginning of year	\$ 1,852,669	\$ 1,813,836
Preservation of capital	99,006	38,833
Fund balance, end of year	\$ 1,951,675	\$ 1,852,669

- (ii) Details of Changes in Expendable Funds Available for Awards for the year ended March 31, 2021 are as follows:

	2021	2020
Fund balance, beginning of year	\$ 31,198	\$ 30,690
Realized investment income net of direct investment related expenses and preservation of capital contributions	56,998	25,444
Bursaries awarded - 70 (2020 - 70)	(21,056)	(24,936)
Fund balance, end of year	\$ 67,140	\$ 31,198
Endowment total based on book value	\$ 2,018,815	\$ 1,883,867

The market value of the endowment as at March 31, 2021 was \$2,258,286 (2020 - \$1,870,727).

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

16. Ontario student opportunity trust fund (continued):

(b) Year-End Report for the Phase Two of the Ontario Student Opportunity Trust Fund of Loyalist College of Applied Arts and Technology:

(i) Schedule of Changes in Endowment Fund Balance for the year ended March 31:

	2021	2020
Fund balance, beginning of year	\$ 811,857	\$ 794,761
Preservation of capital	43,588	17,096
Fund balance, end of year	\$ 855,445	\$ 811,857

(ii) Schedule of Changes in Expendable Funds Available for Awards for the year ended March 31:

	2021	2020
Fund balance, beginning of year	\$ 16,793	\$ 18,649
Realized investment income net of direct investment related expenses and preservation of capital contributions	25,095	11,201
Bursaries awarded - 26 (2020 - 42)	(7,741)	(13,057)
Fund balance, end of year	\$ 34,147	\$ 16,793
Endowment total based on book value	\$ 889,592	\$ 828,650

The market value of the endowment as at March 31, 2021 was \$995,115 (2020 - \$807,737).

17. Ontario trust for student support:

(i) Schedule of Changes in Endowment Fund Balance for the year ended March 31:

	2021	2020
Fund balance, beginning of year	\$ 4,580,960	\$ 4,484,727
Preservation of capital	244,651	96,233
Fund balance, end of year	\$ 4,825,611	\$ 4,580,960

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

17. Ontario trust for student support (continued):

- (ii) Schedule of Changes in Expendable Funds Available for Awards for the year ended March 31:

	2021	2020
Fund balance, beginning of year	\$ 86,446	\$ 92,843
Realized investment income net of direct investment related expenses and preservation of capital contributions	140,852	63,052
Bursaries awarded - 120 (2020 - 162)	(67,512)	(69,449)
Fund balance, end of year	\$ 159,786	\$ 86,446
Endowment total based on book value	\$ 4,985,397	\$ 4,667,406

The market value of the endowment as at March 31, 2021 was \$5,576,766 (2020 - \$4,634,852).

Status of Recipients	OSAP Recipients		Non-OSAP Recipients		Total	
	Number	Amount	Number	Amount	Number	Amount
Full-time	82	\$ 46,527	38	\$ 20,985	120	\$ 67,512

- (i) Please see OTSS Directive May 31, 2009 for Ministry's position on spending of endowment principal.
- (ii) In order to prevent erosion of capital due to inflation, the College has a preservation of capital policy that provides for a portion of the investment income to be added to the endowment capital. In this case, only the portion of investment income available for spending is reported under "investment income" in the schedule of changes in expendable funds available for awards.

18. Foundation award for student support:

- (i) Schedule of Changes in Endowment Fund for the year ended March 31:

	2021	2020
Fund balance, beginning of year	\$ 2,455,059	\$ 2,307,837
Cash donations received	70,692	95,878
Preservation of capital	134,750	51,344
Fund balance, end of year	\$ 2,660,501	\$ 2,455,059

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

18. Foundation award for student support (continued):

(ii) Schedule of Changes in Expandable Funds for the year ended March 31, 2021:

	2021	2020
Fund balance, beginning of year	\$ 57,373	\$ 48,363
Realized investment income	77,291	33,642
Bursaries awarded	(25,654)	(24,632)
Fund balance, end of year	\$ 109,010	\$ 57,373
Endowment total based on book value	\$ 2,769,511	\$ 2,512,432

The market value of the endowment as at March 31, 2021 was \$3,098,031 (2020 - \$2,494,908).

19. Financial instrument risk management:

(a) Fair value:

Financial instruments consist of cash and cash equivalents, accounts receivable, grants receivable, pledges receivable, portfolio investments, accounts payable and accrued liabilities, vacation entitlement, grants refundable and long-term debt. The carrying amounts approximate their fair market value due to the immediate or short-term maturity of these financial instruments except for long-term investments (note 6) and term loans payable (note 7).

(b) Credit risk:

Credit risk is the risk of financial loss to the College if a debtor fails to make payments when due. The College is exposed to this risk relating to its cash, receivables and its debt holdings in its investment portfolio.

The College holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. The College has access to a \$2 million line of credit with a federal regulated chartered bank.

Accounts receivable are short term in nature and are net of management's estimate of allowances for doubtful accounts. It is in management's opinion that they are not subject to material credit risk.

Accounts receivable are primarily 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.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

19. Financial instrument risk management (continued):

(b) Credit risk:

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. The amounts outstanding at year end were as follows:

	Current	Past Due		Total	Allowances	Net receivables
		> 90 days	> 1 year			
Accounts receivable	\$ 4,409,053	\$ –	\$ –	\$ 4,409,053	\$ (200,000)	\$ 4,209,053
Grants receivable	3,459,662	–	–	3,459,662	–	3,459,662
Pledges receivable	233,800	–	170	233,970	(170)	233,800
	\$ 8,102,515	\$ –	\$ 170	\$ 8,102,685	\$ (200,170)	\$ 7,902,515

Amounts past due but not allowed for are deemed by management to be collectible based on historical experience regarding collections.

The College's investment policy and the Ministry's Banking, Investing and Borrowing Policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, and aggregate issuer limits. The debt security portfolio remains very high quality with a weighted average of an A rating or better under the College's investment policy. All fixed income portfolios are measured for performance on a not less than semi-annual basis and monitored by management on a monthly basis.

(c) 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.

An investment policy is in place and its application is monitored by the Finance & Investment Committee and the Board of Governors. Diversification techniques are utilized to minimize risk.

(d) 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 exchange levels when adverse changes in foreign currency exchange rates occur.

The College records its operations in Canadian dollars. The College is exposed to currency fluctuations on some of its securities held in U.S. and international equity securities with a carrying value of \$1,801,232 (CAD) and \$1,798,448 (CAD), respectively, as they are denominated in U.S. dollars, and other foreign currencies. These potential currency fluctuations could have a significant impact on the market value of these securities.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

19. Financial instrument risk management (continued):

(d) Currency risk (continued):

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

(e) 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 risk through its interest-bearing investments (fixed-income securities and fixed-income pooled funds).

The College maintains an investment portfolio; containing both fixed-income securities complying with the MCU BIB policy equity securities.

The College maintains policies, procedures and methods used to measure the risk.

As prevailing interest rates increase or decrease, the market values of these interest-bearing investments change. If interest rates were to change by 1%, with all other variables being held constant, then the effect on the market value of the portfolio, with a carrying value of \$4,740,175 (2020 - \$3,590,673) would be approximately a 7.0% (2020 - 6.3%) change. The College has structured its portfolio in a manner as to be able to allow debt securities to be held to maturity to reduce any potential interest rate risk.

In addition to the above, the College is exposed to interest rate risk as it has term loans payable in the amount of \$3,330,027 (2020 - \$4,702,684) bearing interest at a fixed rate as described in note 7 to these consolidated financial statements. As prevailing interest rates fluctuate, the market value of these debts will fluctuate. Risk is mitigated by the College's intention and ability to hold the debt to maturity.

(f) 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.

The College's equity portfolio with a carrying value of \$7,543,437 (2020 - \$6,090,507), includes U.S., International and Canadian stocks with fair values that move with their respective Stock Exchange Composite Index. A 1% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the College's equity portfolio of approximately 0.58%

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

19. Financial instrument risk management (continued):

(f) Equity risk (continued):

For pooled equity funds that the College did not sell during the period, the change would be recognized in the asset value and in unrealized gain (loss) on held-for-trading financial instruments. For pooled equity funds that the College did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

An investment policy is in place and its application is monitored by the Finance & Investment Committee of the Board of Directors of the Loyalist College Foundation. Diversification techniques are utilized to minimize risk. The policy limits the investment in Canadian equities, US equities and International equities to a maximum of 55%, 20% and 20% respectively and a minimum of 25%, 7% and 8%, respectively.

(g) 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, maintaining liquidity in their investment portfolios, and budgeting expenditures to meet cash needs. There are no material liabilities that can be called unexpectedly at the demand of a lender or client. There are no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous period in the exposure to risk or policies procedures and methods used to measure the risk other than the impact of COVID-19 as described in note 20.

20. Impact of COVID-19:

Effective March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

At the time of approval of these financial statements, the entity has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic:

- Closure of all campus facilities to non-essential personnel, based on public health recommendations, including administrative, academic and residence buildings, from March 16, 2020 to the date of the auditors' report;
- Transitioned all possible academic programming to online delivery, which allowed Spring 2020, Fall 2020 and Winter 2021 term students to complete their course requirements within the original term schedule; and
- Instituted mandatory working from home requirements for all employees.

LOYALIST COLLEGE OF APPLIED ARTS & TECHNOLOGY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2021

20. Impact of COVID-19 (continued):

In recognition of significant challenges faced by colleges during COVID, the Ministry provided funding to support COVID related expenses.

The ultimate duration and magnitude of the pandemic's impact on the College's operations and financial operations is not known at this time. These impacts could include a decline in future cash flows, changes to the value of assets and liabilities and the use of accumulated net assets to sustain operations. An estimate of the financial effect of the pandemic is not predictable at this time.

21. Comparative information:

Certain comparative information has been reclassified to conform with the consolidated financial statement presentation adopted in the current year.