

Consolidated Financial Statements of

NOVA SCOTIA COMMUNITY COLLEGE

March 31, 2014



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the Nova Scotia Community College

We have audited the accompanying consolidated statement of financial position as at March 31, 2014, the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Nova Scotia Community College as at March 31, 2014, and its consolidated results of operations and accumulated surplus, its consolidated changes in net financial assets, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Comparative Information

The consolidated financial statements of the Nova Scotia Community College as at and for the year ended March 31, 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements on June 20, 2013.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that serves as a flourish or underline.

Chartered Accountants
June 19, 2014
Halifax, Canada

NOVA SCOTIA COMMUNITY COLLEGE

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NOVA SCOTIA COMMUNITY COLLEGE
Consolidated Statement of Financial Position
March 31, 2014

	2014	2013
Financial assets		
Cash (Note 15)	\$ 36,000,408	\$ 60,621,062
Investments (Note 15)	36,246,773	4,671,276
Accounts receivable (Note 3)	7,753,600	22,165,099
Provincial receivable - NSTU future health benefits (Note 13)	33,784,904	30,488,368
Inventory for resale	893,135	882,280
	114,678,820	118,828,085
Liabilities		
Accounts payable and accrued liabilities	31,410,055	36,943,128
Deferred revenue - restricted funding (Note 5)	7,114,351	11,227,525
Deferred contributions related to tangible capital assets (Note 6)	1,774,489	-
Deferred contributions - Foundation (Note 7)	7,045,851	6,763,922
Employee future benefit obligations (Note 13)	60,706,322	54,173,155
Accrued obligation for other compensated absences (Note 14)	1,272,592	1,191,224
	109,323,660	110,298,954
Net financial assets	5,355,160	8,529,131
Non-financial assets		
Tangible capital assets (Note 4)	13,516,663	8,478,197
Prepaid expenses	1,047,263	1,742,581
	14,563,926	10,220,778
Accumulated surplus (Note 10)	\$ 19,919,086	\$ 18,749,909

Commitments (Note 16)
 See accompanying notes to the consolidated financial statements

On behalf of the Board:

 Chair

 President

NOVA SCOTIA COMMUNITY COLLEGE
Consolidated Statement of Operations and Accumulated Surplus
Year ended March 31, 2014

	Budget	2014	2013
Revenues			
Labour and Advanced Education - core grant (Note 8)	\$ 128,834,000	\$ 138,956,844	\$ 131,477,382
Labour and Advanced Education - other	17,034,797	20,479,917	17,182,879
Tuition and fees	30,567,668	30,516,719	29,219,729
Contract training and service contracts	6,076,425	4,297,243	5,931,820
Other (Note 9)	13,055,828	20,976,069	20,324,810
Contributions received pertaining to tangible capital assets	-	443,622	-
	195,568,718	215,670,414	204,136,620
Expenditures			
Salaries and benefits	142,631,015	146,881,418	141,288,768
Operating supplies and services	28,285,760	36,487,341	33,821,739
Equipment, rentals and other administration	8,811,538	14,331,027	13,171,945
Utilities and maintenance	11,840,405	11,827,661	11,428,388
Amortization of tangible capital assets	4,000,000	5,013,716	3,810,187
	195,568,718	214,541,163	203,521,027
	-	1,129,251	615,593
Revenue from Foundation operations (net)	25,000	39,926	56,659
Annual surplus	25,000	1,169,177	672,252
Accumulated surplus, beginning of year	18,749,909	18,749,909	18,077,657
Accumulated surplus, end of year	\$ 18,774,909	\$ 19,919,086	\$ 18,749,909

See accompanying notes to the consolidated financial statements

NOVA SCOTIA COMMUNITY COLLEGE
Consolidated Statement of Change in Net Financial Assets
Year ended March 31, 2014

	Budget	2014	2013
Annual surplus	\$ 25,000	\$ 1,169,177	\$ 672,252
Change in tangible capital assets			
Acquisition of tangible capital assets	(2,750,000)	(10,054,849)	(2,115,487)
Amortization of tangible capital assets	4,000,000	5,013,716	3,810,187
Loss on disposal of tangible capital assets	-	2,667	-
	1,250,000	(5,038,466)	1,694,700
Net change in prepaid expenses	-	695,318	(791,771)
Increase (decrease) in net financial assets	1,275,000	(3,173,971)	1,575,181
Net financial assets, beginning of year	8,529,131	8,529,131	6,953,950
Net financial assets, end of year	\$ 9,804,131	\$ 5,355,160	\$ 8,529,131

See accompanying notes to the consolidated financial statements

NOVA SCOTIA COMMUNITY COLLEGE

Consolidated Statement of Cash Flows

Year ended March 31, 2014

	<u>2014</u>	<u>2013</u>
Operating transactions		
Annual surplus	\$ 1,169,177	\$ 672,252
Adjustments for:		
Amortization of tangible capital assets	5,013,716	3,810,187
Amortization of deferred revenue related to tangible capital assets	(443,622)	-
Loss on disposal of tangible capital assets	2,667	-
Employee future benefit obligations	6,533,167	6,566,635
Provincial receivable - NSTU future health benefits	(3,296,536)	(3,255,382)
Contributions received related to tangible capital assets	2,218,111	-
Accrued obligation for other compensated absences	81,368	(96,617)
Changes in non-cash working capital (Note 11)	5,337,780	10,645,375
	<u>16,615,828</u>	<u>18,342,450</u>
Capital transactions		
Purchase of tangible capital assets	(10,054,849)	(2,115,487)
	<u>(10,054,849)</u>	<u>(2,115,487)</u>
Investing transactions		
Proceeds on sale of investments	1,833,935	163,667
Purchase of investments	(33,015,568)	(326,284)
	<u>(31,181,633)</u>	<u>(162,617)</u>
Net increase (decrease) in cash	(24,620,654)	16,064,346
Cash, beginning of year	60,621,062	44,556,716
Cash, end of year	<u>\$ 36,000,408</u>	<u>\$ 60,621,062</u>

See accompanying notes to the consolidated financial statements

NOVA SCOTIA COMMUNITY COLLEGE

Notes to the Consolidated Financial Statements

March 31, 2014

1. OVERVIEW OF OPERATIONS

The Nova Scotia Community College (the “College”) was established as a post-secondary public education corporation under the authority of the Community College Act of Nova Scotia effective April 1, 1996.

The College, with thirteen campuses across the Province of Nova Scotia (the “Province”), is responsible for enhancing the economic and social well-being of Nova Scotia by meeting the occupational training requirements of the population and the labour market.

The College established a Foundation entitled “Nova Scotia Community College Foundation” (the “Foundation”) on May 15, 2001 in the Province of Nova Scotia under the Societies Act. The purpose of the Foundation is to support the Nova Scotia Community College and related activities.

The College has entered into consent agreements with the Province that allows the College to construct facilities on land owned by the Province pursuant to the infrastructure investment by the Province. Costs associated with these projects will be managed by the College and flow through a liability account, which is subsequently reimbursed by the Province. The expenditures are netted against the funds receivable from the Province and have no effect on the Statement of Operations and Accumulated Surplus. Ownership of the construction projects related to the consent agreements remain with the Province and do not transfer to the College.

The College and the Foundation are government not-for-profit organizations and, as such, are exempt from income taxes under the Income Tax Act (Canada).

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (“PSAS”) of the Public Sector Accounting Board (“PSAB”) of the Chartered Professional Accountants of Canada (“CPA”).

Basis of preparation

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity, which is composed of all organizations, which are controlled by the College and includes the Foundation. All inter-company accounts and transactions between these organizations are eliminated upon consolidation.

Cash

Cash consists of cash on hand and amounts held by financial institutions, upon which interest is paid at commercial rates.

NOVA SCOTIA COMMUNITY COLLEGE

Notes to the Consolidated Financial Statements

March 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and liabilities

Financial assets and liabilities are measured at fair value on initial recognition. The carrying amounts subsequent to initial recognition of the financial assets and liabilities of the College by measurement basis are summarized as follows:

- Cash and investments are measured at fair value
- Inventory held for resale are measured at cost
- Accounts receivable and Provincial receivable – NSTU future health benefits are measured at amortized cost
- Accounts payable and accrued liabilities are measured at amortized cost

Unrestricted unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

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 gain is adjusted through the statement of remeasurement gains and losses.

The College does not have unrealized gains or losses related to unrestricted investments nor unrealized foreign exchange gains or losses and therefore has not presented a statement of remeasurement gains and losses

Tangible capital assets

Tangible capital assets are recorded at cost and are amortized on a straight-line basis over the following estimated useful life:

Computer equipment	3 years
Furniture and equipment	5 years
Leasehold improvements	3 to 10 years
Buildings	20 years

Land and buildings used in the delivery of the College services that are owned by the Province are not reflected in the assets of the College. Improvements made to these buildings are therefore expensed in the year. Improvements made to buildings with leases in place are capitalized and amortized over their useful life or the term of the lease, whichever is less.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The College derives certain revenues from various funding agencies, which are recorded in the period in which the entitlement arises. Tuition and fees, contract training and service contracts and other income are recorded as goods are sold and services are provided and when collection is reasonably assured.

Government and other contributions are recognized as revenue in the period the transfer is authorized, and all eligibility criteria have been met, except when and to the extent the transfer includes stipulations which have not yet been met.

Government and other contributions with stipulations are initially deferred and recognized as revenue as the related stipulations are met. Stipulations associated with the acquisition of tangible capital assets are considered to be met as the assets are used for their intended purpose.

The Foundation recognizes unrestricted donations and gifts as revenue when received or receivable if the amounts are to received can be reasonably estimated and collection is reasonably assured.

Externally restricted and endowment contributions are recognized as revenue in the year the related expenses are recognized.

Investment income is recorded on an accrual basis. Restricted investment income is recognized as revenue in the year in which related expenses are recognized. Unrestricted investment revenue is recognized as earned. Investments are recorded on a trade-date basis. All transaction costs associated with acquisition and disposition of investments are expensed to the Statement of Operations and Accumulated Surplus as incurred.

Pension Plans

The employees of the College belong to the Nova Scotia Public Service Superannuation Plan or the Nova Scotia Teachers' Union Pension Plan, which are multi-employer joint trustee plans. These plans are defined benefit plans, providing a pension on retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. Inflation adjustments are contingent upon available funding. The College accounts for these plans as defined contribution plans. The contributions to the plans required during the year are recorded as an expense.

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee future benefit obligations

The College provides a service award to eligible employees who retire based on a percentage of compensation and years of service. This award is paid to eligible employees in the year of retirement.

The College also pays the cost of life insurance and health care benefits for all retirees or surviving spouses of retirees. The program is funded each year by the payment of the required premiums.

The College accrues its benefit liabilities under the above noted plans as the employees render the services necessary to earn the future benefits. The cost of post-retirement benefits earned by employees is actuarially determined using the projected unit method pro-rated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Accrued obligation for other compensated absences

Employees of the College are entitled to sick-pay benefits which accumulate but do not vest. In accordance with PSAS for post-employment benefits and compensated absences, the College recognizes the liability in the period in which the employee renders service.

Use of estimates

The preparation of financial statements in conformity with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the allowance for doubtful accounts, amortization periods for tangible capital assets and deferred revenue, employee future benefits, and certain accrued liabilities. Actual results could differ from those estimates.

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

3. ACCOUNTS RECEIVABLE

	<u>2014</u>	<u>2013</u>
Organizations	\$ 4,510,581	\$ 6,808,443
Student fees	1,030,795	1,471,042
Government funding	818,233	12,565,000
Foundation	1,890	97,373
Harmonized sales tax	1,932,001	1,881,839
Allowance for doubtful accounts	(539,900)	(658,598)
	<u>\$ 7,753,600</u>	<u>\$ 22,165,099</u>

4. TANGIBLE CAPITAL ASSETS

	<u>2014</u>			<u>2013</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 836,809	\$ -	\$ 836,809	\$ 544,165
Buildings	302,875	15,144	287,731	-
Computer equipment	6,759,020	6,126,218	632,802	231,512
Furniture and equipment	33,038,363	25,075,979	7,962,384	6,107,947
Leasehold improvements	6,775,084	2,978,147	3,796,937	1,594,573
	<u>\$ 47,712,151</u>	<u>\$ 34,195,488</u>	<u>\$ 13,516,663</u>	<u>\$ 8,478,197</u>

5. DEFERRED REVENUE – RESTRICTED FUNDING

Deferred revenue represents the unearned portion of amounts received for specific purposes and is summarized as follows:

	<u>2014</u>	<u>2013</u>
Apprenticeship	\$ 1,164,937	\$ 790,695
Applied research	1,653,937	209,137
Business development	504,909	1,191,754
Continuing education	71,807	83,516
Cost recovery programs	679,880	851,735
Disability resources	585,000	1,294,253
Links programs	-	110,000
Department of Labour and Advanced Education	-	5,524,335
Other	2,453,881	1,172,100
	<u>\$ 7,114,351</u>	<u>\$ 11,227,525</u>

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

6. DEFERRED CONTRIBUTIONS RELATED TO TANGIBLE CAPITAL ASSETS

Deferred revenue related to tangible assets represents the recognized portion of funding received from Labour and Advanced Education for tangible asset additions with stipulations. In the event stipulations are not met, the College is required to repay their contributions. As stipulations are satisfied and amounts are no longer repayable, the contributions are recognized as revenue. The changes in the deferred balance are as follows:

	<u>2014</u>	<u>2013</u>
Deferred revenue - beginning balance	\$ -	\$ -
Contribution received	2,218,111	-
Recognition of deferred contributions related to tangible capital assets	(443,622)	-
	<u>\$ 1,774,489</u>	<u>\$ -</u>

7. DEFERRED CONTRIBUTIONS – FOUNDATION

The Foundation's deferred contributions includes amounts received from donors and funders that have been restricted or endowed for scholarships, bursaries, projects and other program expenditures that will occur in the future. The terms of these external restrictions and endowments also restrict the use of net investment income earned on these funds.

	<u>Restricted Fund</u>	<u>Endowment Fund</u>	<u>Total</u>
Balance - April 1, 2012	\$ 2,963,940	\$ 3,267,680	\$ 6,231,620
Contributions	662,743	321,653	984,396
Investment income	(692)	98,840	98,148
Unrealized gain on investments	-	74,564	74,564
Gain on sale of investments	-	17,512	17,512
Revenue recognized	(552,933)	(89,385)	(642,318)
Balance - March 31, 2013	<u>\$ 3,073,058</u>	<u>\$ 3,690,864</u>	<u>\$ 6,763,922</u>
Contributions	570,553	131,382	701,935
Investment income	17,257	116,576	133,833
Unrealized gain on investments	-	353,160	353,160
Gain on sale of investments	-	40,704	40,704
Revenue recognized	(815,846)	(131,857)	(947,703)
Balance - March 31, 2014	<u>\$ 2,845,022</u>	<u>\$ 4,200,829</u>	<u>\$ 7,045,851</u>

As a result of external restrictions and endowments the College has restricted the following financial assets:

The Foundation has investments of \$6,246,773 (2013 - \$4,671,276) related to externally restricted and endowment funds (note 15).

The portion of cash that is externally restricted and endowed is \$593,974 and \$232,246, respectively (2013 - \$1,494.75 and \$305,068, respectively).

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

8. LABOUR AND ADVANCED EDUCATION – CORE GRANT

	<u>2014</u>	<u>2013</u>
Funding received	\$ 135,261,308	\$ 127,809,000
NSTU- future health benefits contribution	3,695,536	3,668,382
	<u>\$ 138,956,844</u>	<u>\$ 131,477,382</u>

9. OTHER REVENUE

	<u>2014</u>	<u>2013</u>
Bookstore revenue	\$ 5,095,233	\$ 5,064,608
Food sales	1,675,481	1,625,543
Shop revenue	262,456	273,163
Interest	820,021	659,674
Recoveries	3,394,439	2,541,539
Capital recoveries	505,077	-
Applied research	1,069,599	1,584,113
Lodging, rent and miscellaneous	8,153,763	8,576,170
	<u>\$ 20,976,069</u>	<u>\$ 20,324,810</u>

10. ACCUMULATED SURPLUS

Certain funds have been internally restricted by the Board and the Foundation to ensure that the funds are used solely for College and Foundation development projects. The Foundation has internally materialized funds for campus-based student emergency funding, scholarship, bursaries and awards in the amount of \$219,165 (2013 - \$207,789). The Board of the College has also restricted \$4,722,923 (2013 - \$4,722,923) for College development projects. Internally restricted funds are subject to internally imposed stipulations specifying the purpose for which they must be used. The College and Foundation are in compliance with all restrictions applicable to these funds.

	<u>2014</u>	<u>2013</u>
Accumulated surplus - College operating	\$ 14,941,211	\$ 13,811,960
Accumulated surplus - internally restricted for College development	4,722,923	4,722,923
Accumulated surplus - Foundation operating	35,787	7,237
Accumulated surplus - internally restricted Foundation	219,165	207,789
	<u>\$ 19,919,086</u>	<u>\$ 18,749,909</u>

During the year \$90,010 (2013 - \$84,687) of internally restricted contributions were recognized in revenue.

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

11. CHANGES IN NON-CASH WORKING CAPITAL

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ 14,411,499	\$ (5,478,171)
Inventory for resale	(10,855)	83,003
Prepaid expenses	695,318	(791,771)
Accounts payable and accrued liabilities	(5,533,073)	10,461,175
Deferred revenue - restricted funding	(4,113,174)	5,930,913
Deferred contribution - Foundation	(111,935)	440,226
	<u>\$ 5,337,780</u>	<u>\$ 10,645,375</u>

The change in deferred contributions excludes restricted investment income related to externally restricted and endowed contributions of \$393,864 (2013 - \$ 92,076). The related amounts are not recognized in the statement of operations until the year the related expenditures are incurred.

12. PENSION PLANS

The College contributes to two defined benefit pension plans separately administered by the Public Service Superannuation Plan Trustee Inc. and the Teachers' Pension Plan Trustee Inc. The College accounts for these pensions as defined contribution plans.

In the first plan, the Nova Scotia Public Service Superannuation Plan, the Public Service Superannuation Plan Trustee Inc. assumes the actuarial and investment risk. For this plan, the College matches employees' contributions calculated as follows: 8.4% (2013 - 8.4%) on the part of their salary that is equal to or less than the "Year's Maximum Pensionable Earnings" ("YMPE") under the Canada Pension Plan ("CPP") and 10.9% (2013 - 10.9%) on the part of their salary that is in excess of YMPE. Under this plan, the College has recognized contributions of \$8,310,806 (2013 - \$7,724,340) for the year.

In the second plan, the Nova Scotia Teachers' Union Pension Plan, the Province of Nova Scotia along with the Nova Scotia Teachers' Union ("NSTU") assumes the actuarial and investment risk. For this plan, the College matches employees' contributions calculated as follows: 8.3% (2013 - 8.3%) on the part of their salary that is equal to or less than the YMPE under the CPP and 9.9% (2013 - 9.9%) on the part of their salary that is in excess of YMPE. Under this plan, the College has recognized contributions of \$11,920,797 (2013 - \$10,464,654) for the year.

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

13. EMPLOYEE FUTURE BENEFIT OBLIGATIONS

The College employees are entitled to a number of benefits as follows:

	<u>2014</u>	<u>2013</u>
College service award	\$ 12,174,257	\$ 11,217,945
Non-pension retirement benefits – NSGEU and non-union employees	14,747,161	12,466,842
Non-pension retirement benefits – NSTU	33,784,904	30,488,368
	\$ 60,706,322	\$ 54,173,155

College Service Award

An employee hired on or after August 1, 1998 who retires because of age or mental or physical incapacity will be granted a College Service Award (“CSA”) equal to 1% of the employee’s annual salary for each year of continuous service to a maximum of 25 years. There are no employee contributions in respect of the plan. There is no distinct fund held in respect of the CSA benefits but sufficient cash is maintained to cover the obligation. The benefits are paid from unrestricted cash. The benefits paid during the year were \$160,008 (2013 - \$46,170). An actuarial valuation was completed as of March 31, 2014 and the College’s obligation relating to these benefits includes:

	<u>2014</u>	<u>2013</u>
College service award accrued benefit obligation	\$ 7,919,000	\$ 8,469,000
Unamortized actuarial gain	4,255,257	2,748,945
College service award obligation	\$ 12,174,257	\$ 11,217,945

The total expenses related to the College service award benefit include the following components:

	<u>2014</u>	<u>2013</u>
Current period benefit costs	\$ 1,416,000	\$ 1,269,000
Amortization of actuarial gains	(299,680)	(255,059)
Total expenses related to the College service award	\$ 1,116,320	\$ 1,013,941

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

13. EMPLOYEE FUTURE BENEFIT OBLIGATIONS (continued)

College Service Award (continued)

The significant actuarial assumptions adopted in estimating the College's obligation are as follows:

Future salary increase	4.5 % per annum
Discount rate	2% per annum (prior 0% per annum)
Retirement age	Age 55 and 80 points (age plus service) if hired before April 6, 2010 or 85 points if hired on or after April 6, 2010; the remainder at 35 years of service or age 60, whichever is earlier
Expected Average Remaining Service Life ("EARSL")	11 years

Non-pension Retirement Benefits – NSGEU and non-union employees

In fiscal 2007/2008, the Province required the College to assume the future liability for non-pension retirement benefits for the College's non-teaching staff and non-union employees.

In 2008/2009, the College created a separate account that would be held in respect of the non-pension retirement benefits. This account has sufficient cash to cover the obligations associated with this liability. The amount of cash in this account is equal to the liability as noted below and is grouped with cash on the Statement of Financial Position. The benefits paid during the year were \$228,765 (2013 - \$233,289). An actuarial valuation was completed as of March 31, 2014 and the College's obligation relating to these benefits includes:

	<u>2014</u>	<u>2013</u>
Accrued benefit obligation	\$ 18,399,093	\$ 16,748,730
Unamortized actuarial loss	(3,651,932)	(4,281,888)
Benefit obligation - NSGEU and non-union employees	\$ 14,747,161	\$ 12,466,842

The total expenses related to this benefits include the following components:

	<u>2014</u>	<u>2013</u>
Current period benefit costs	\$ 1,707,521	\$ 1,579,185
Interest expense	288,554	284,846
Amortization of actuarial loss	513,009	600,708
Total expenses related to the obligation	\$ 2,509,084	\$ 2,464,739

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

13. EMPLOYEE FUTURE BENEFIT OBLIGATIONS (continued)

Non-pension Retirement Benefits – NSGEU and non-union employees (continued)

The significant actuarial assumptions adopted in estimating the College’s obligation are as follows:

Discount rate	2% per annum (prior 1.65% per annum)
Retirement age	Age 55 and 80 points (age plus service) if hired before April 6, 2010 or 85 points if hired on or after April 6, 2010; the remainder at 35 years of service or age 60, whichever is earlier
EARSLS	11 years

Non-pension Retirement Benefits - NSTU

In 2007/2008, the Province transferred the future liability for the non-pension retirement benefits for the College’s teaching and professional support staff to the College. The Province also agreed to fund these obligations. As a result the College has recognized a receivable equal to the obligation recognized. There is no impact on the annual surplus or net financial position of the College as a result of the transfers. The benefits paid during the year were \$399,000 (2013 - \$413,000).

An actuarial valuation was completed as of March 31, 2014 and the College’s obligation relating to these benefits includes:

	<u>2014</u>	<u>2013</u>
Accrued benefit obligation	\$ 38,487,000	\$ 32,138,000
Unamortized actuarial loss	(4,702,096)	(1,649,632)
Benefit obligation - NSTU	\$ 33,784,904	\$ 30,488,368

The total expenses related to this benefit include the following components:

	<u>2014</u>	<u>2013</u>
Current period benefit costs	\$ 2,099,000	\$ 2,119,000
Interest expense	1,405,000	1,379,000
Amortization of actuarial loss	191,536	170,382
Total expenses related to the obligation	\$ 3,695,536	\$ 3,668,382

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13. EMPLOYEE FUTURE BENEFIT OBLIGATIONS (continued)

Non-pension Retirement Benefits – NSTU (continued)

The significant actuarial assumptions provided by the Province are as follows:

Discount rate	4.1% per annum (prior 4.3% per annum)
Retirement age	50% at earliest age eligible for unreduced pension, the remainder at earlier of age 60 with 10 years of service, 35 years of service and age 65
EARSLS	13 years

14. ACCRUED OBLIGATION FOR OTHER COMPENSATED ABSENCES

College employees receive sick leave that accumulates at varying amounts per month based on services rendered by employees. Unused hours can be carried forward for future paid leave and employees can accumulate up to a maximum number of hours. An actuarial estimate for this future liability has been completed and forms the basis for the estimated liability reported in these financial statements. The benefits paid during the year were \$258,443 (2013 - \$304,906).

At March 31, 2014, the College's accrued obligation for other compensated absences costs and obligations consists of:

	<u>2014</u>	<u>2013</u>
Accrued benefit obligation for compensated absences	\$ 1,808,577	\$ 1,692,224
Unamortized actuarial loss	(535,985)	(501,000)
Total accrued obligation for compensated absences	\$ 1,272,592	\$ 1,191,224

The total expenses related to the accrued obligation for other compensated balances include the following components:

	<u>2014</u>	<u>2013</u>
Current period benefit costs	\$ 256,240	\$ 187,395
Interest expense	27,904	20,894
Amortization of actuarial loss	55,667	-
Total expenses related to the obligation	\$ 339,811	\$ 208,289

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

14. ACCRUED OBLIGATION FOR OTHER COMPENSATED ABSENCES (continued)

The significant actuarial assumptions adopted in estimating the College's obligation are as follows:

Future salary increases	4.5 % per annum
Discount rate	2% per annum (prior 1.65% per annum)
Retirement age	20% upon attainment of age 55 and 80 points (age plus service) if hired before April 6, 2010 or 85 points if hired on or after April 6, 2010; the rest at 35 years of service or age 60, whichever is earlier.
EARSLS	9 years

15. FINANCIAL INSTRUMENTS

a) Financial risk factors

The College has exposure to credit risk, liquidity risk, and market risk. The College's Board of Directors has overall responsibility for the oversight of these risks and reviews the College's policies on an ongoing basis to ensure that these risks are appropriately managed. The source of risk exposure and how each is managed is outlined below:

(i) Credit risk

Credit risk arises with the uncertainties of predicting the financial difficulties students and corporations may experience which could cause them to be unable to fulfill their commitments to the College. The College mitigates this risk by having a diversified mix of students and corporations thereby limiting the exposure to a single individual or corporation. The College's credit risk is limited to the recorded amount of accounts receivable. The College performs a continuous evaluation of its accounts receivable balance and records an allowance for doubtful accounts as required. The amount of accounts receivable disclosed on the statement of financial position is net of allowances for bad debts, estimated by management based on prior experience and their assessment of the current economic environment. Management considers there is no significant credit risk as at March 31, 2014.

(ii) Liquidity risk

Liquidity risk is the risk that the College will not be able to meet its financial obligations as they become due. As at March 31, 2014, the College had cash of \$36,000,408 (2013 - \$60,621,062) and investments include \$30,000,000 (2013 - nil) comprised of a cashable GIC bearing interest at 1.4% maturing on March 30, 2015. This investment can be redeemed for cash at anytime without penalty.

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
March 31, 2014

15. FINANCIAL INSTRUMENTS (continued)

(iii) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the College's surplus or loss or the value of its financial instruments. The College mitigates these risks by maintaining a diversified investment portfolio.

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

Financial assets and financial liabilities with variable interest rates expose the Organization to cash flow interest rate risk. The College is exposed to this risk through to its investments. The College mitigates its risk through investing in fixed interest rate, short-term fixed income investments.

Equity price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changed in equity prices. The Foundation's investments of \$6,246,773 (2013 - \$4,671,276) are exposed to price risk.

The fixed income portfolio contains bonds with an average duration of 5.3 years. A 1% increase in interest rates would impact the value of the bond portfolio by approximately (5.3%). Bonds comprise about 40% of the investment portfolio, the impact would be (2.1%) to the investment value.

As equities comprise about 57% of the investment portfolio, a 2% increase in equity values would increase the portfolio by 1.1% or approximately \$38,500 on \$3.5 Million market value in equities.

As at March 31, 2014, approximately 21% of the portfolio is directly exposed to foreign currency fluctuations of which half would be attributable to US dollar and Canadian dollar (CAD) translation risk. A 10% increase in the Canadian dollar against a relevant basket of foreign currencies, and the underlying foreign equity values remained unchanged in local currencies, then the portfolio could experience a \$140,000 decline in value which is 2% of the value to the overall portfolio. The remainder of the portfolio is comprised largely of British Pound, Euro, Yen and Australian Dollar to CAD translation risk. Many of the individual securities in the portfolio are naturally hedged from an earnings perspective as a large percentage of their operating and borrowing costs are denominated in the currencies in which they undertake business.

NOVA SCOTIA COMMUNITY COLLEGE
Notes to the Consolidated Financial Statements
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15. FINANCIAL INSTRUMENTS (continued)

b) Fair value

The College evaluated the fair values of its financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms. The carrying values of cash, restricted cash, accounts receivable, investments - College and accounts payable and accrued liabilities are considered to approximate fair values due to their short-term maturity. The carrying value of the Provincial receivable – NSTU Future Health Benefits approximates fair value based on the actuarial valuation performed on non-pension retirement benefits – NSTU (Note 13). Investments – Restricted Fund and Endowment Fund are investments in pooled funds. Their fair value is approximated by their respective fund’s net asset value which is determined based on the fair value of the assets held by the fund less any liabilities.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included with 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 valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The following table presents the financial instruments recorded at fair value in the Consolidated Statement of Financial Position, classified using the fair value hierarchy described above:

	March 31, 2014		March 31, 2013	
	Fair Value	Cost	Fair Value	Cost
Level 1				
Cash	\$ 36,000,408	\$ 36,000,408	\$ 60,621,062	\$ 60,621,062
Level 2				
Investments - College	30,000,000	30,000,000	\$ -	\$ -
Investments - Restricted Fund	-	-	1,278,306	1,278,306
Investments - Endowment Fund	6,246,773	5,700,906	3,392,970	3,200,264
	\$ 72,247,181	\$ 71,701,314	\$ 65,292,338	\$ 65,099,632

During the year, there has been no significant transfer of amounts between Level 1 and Level 2. There were no fair value measurements classified as level 3.

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16. COMMITMENTS

The College is committed to the following lease and maintenance agreement payments over the next five years:

2015	\$ 1,637,397
2016	1,520,525
2017	1,378,690
2018	1,138,946
2019	680,244
	<hr/>
	\$ 6,355,802