Audited Financial Statements

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Purpose and Application

The collection and reporting of information is essential to the colleges and the Ministry of Training, Colleges and Universities (MTCU) to carry out their respective responsibilities. This operating procedure is issued in accordance with the *Ontario Colleges of Applied Arts and Technology Act, 2002* that requires colleges to provide the Minister of Training, Colleges and Universities with any financial or other information that it may request.

Colleges use the information to plan, to share comparative information with other colleges, and to provide information to their local communities. The ministry uses the data to provide the public with information about the college system, to support requests for college funding from the government, to assist in the design of ministry funding mechanisms, and to undertake analysis relating to individual colleges or the entire college system.

This operating procedure, which applies to all colleges, sets out the minimum requirements for audited financial statements.

The initial audited financial statements under this operating procedure are for the 2006–07 fiscal year and are due June 15, 2007.

Requirements

Each college is required to provide the Ministry with audited financial statements after the end of every fiscal year. The key purpose envisioned here is transparency and accountability to the public and to the government.

The audited financial statements are to be available to the public as part of the college's annual report.

Content

The audited financial statements are to include, at a minimum, the following information:

- The audited financial statements for the college and its subsidiary corporations for the year accompanied by the auditor's report (see Appendix A).

  Colleges, as not-for-profit organizations, are to prepare financial statements using the accrual basis of accounting, as recommended by the Canadian Institute of Chartered Accountants (CICA) (section 4400).

The auditor's report is the result of the audit work performed and covers all financial statements, accompanying notes, and supporting schedules required for fair presentation of the financial position. Audit reports without reservation or qualification are expected.

Submission of the Audited Financial Statements

Once approved by the board of governors, the college's audited financial statements are to be e-mailed to the Colleges Branch Director, Ministry of Training, Colleges and Universities at colleges.branch@ontario.ca by June 15 of each year.

For further information regarding this operating procedure, click on the Contact link to consult with the appropriate ministry contact, listed in the Contacts section on the web site.

Summary of Responsibilities

Colleges of Applied Arts and Technology

The board of governors is responsible for:

- Approving the audited financial statements.
- Ensuring that the audited financial statements are submitted to the ministry by June 15 of each year.
- Ensuring that the audited financial statements are made available to the public.

Ministry of Training, Colleges and Universities

The ministry is responsible for:

- Using audited financial statements to advise and inform government planning and policy-making.
- Working with the college system or individual colleges to facilitate corrective action where provincial priorities or expected outcomes are not being achieved.

Appendix A: Financial Statements

1.0 Glossary

Tangible Capital Assets: such as land, buildings, furniture, and equipment are identifiable assets that meet all of the following criteria:

- They are held for use in the provision of services, or for administrative purposes.
- They have been acquired, and/or constructed with the intention of being used on a continuing basis.
- They are not intended for sale in the ordinary course of operations.
- They have a useful life greater than one year, with a minimum value of $1,000.
- They are not held as part of a collection.

Intangible Capital Assets: such as patents, copyrights, franchises, software, and trademarks are assets that meet the following criteria:

- They are held for use in the provision of services, or for administrative purposes.
- They have been acquired, or developed with the intention of being used on a continuing basis.
- They are not intended for sale in the ordinary course of operations.
- They have a useful life greater than one year, with a minimum value of $1,000.
- They are not held as part of a collection.

Contributions: non-reciprocal transfers of cash or other assets or a non-reciprocal settlement or cancellation of liabilities. Essentially there are three types of contributions; endowment, restricted, and unrestricted. These contributions are to be recognized, measured, presented and disclosed under the deferral method of accounting (CICA Handbook Section 4400).

Financial statements: include a statement of financial position, a statement of operations, a statement of changes in net assets, and a statement of cash flows. Notes to the financial statements and supporting schedules to which the financial statements are cross-referenced are an integral part of the statements (CICA Handbook Section 1000 and Section 4400).

Canadian Generally Accepted Accounting Principles (GAAP): are rules, practices, and procedures relating to specific circumstances concerning the measurement, allocation, and disclosure of financial events and transactions used to determine what information should appear in financial statements and how it should be presented. The CICA Handbook discloses Canadian accounting policies and principles, also known as GAAP. Canadian GAAP is not static; it changes and evolves to meet changing conditions.

2.0 Financial Statement Format and Content

2.1 Generally Accepted Accounting Principles

College financial statements, including the accrual of vacation pay, employee future benefits, and vested sick-leave benefits, are to be prepared in accordance with Canadian GAAP.

2.2 Recognition of Tuition Fee Revenue

Tuition fee revenues are to be recognized as revenue in accordance with Canadian GAAP. The ministry's preferred approach to reporting tuition revenue is, any unearned portion be deferred and recognized as revenue in the period in which it is earned.

2.3 Use of Deferral Method of Accounting

The CICA Handbook has established accounting and disclosure standards that are unique for not-for-profit organizations (see section 4400).

Each college is to use the deferral method for accounting for contributions as disclosed under the "not-for-profit organizations" section of the CICA handbook. For example, all grants and contributions specific to capital expenditures would be recorded as deferred capital contributions and as such would be amortized at the same amortization rate as the related capital asset.

2.4 Property, Plant and Equipment

To facilitate comparisons among colleges, common bases and amortization rates are to be used, as provided below. The same thresholds, once established, should normally be used consistently from year to year.

Asset Class	Method	Rate
Land, art, and historical collections	N/A	N/A
Buildings	Straight line	40 years
Furniture and fixtures	Straight line	5 years
Equipment and vehicles	Straight line	5 years
Computer equipment	Straight line	3 to 5 years
Major equipment (value > $25,000)	Straight line	10 years
Leased assets	Evenly over the life of the lease	
Other assets not categorized above (i.e., prefabricated [demountable] buildings and portables)	Evenly over the life of the asset	

When a capital asset no longer has any service potential to the college, the asset should be written-off. Any resulting gain or loss on disposal will be recognized in the statement of operations.

The amortization method and the estimate of the useful life of a capital asset should be reviewed on a regular basis. Events that may indicate a need to revise the estimated useful life of a capital asset may include a change in the manner in which the capital asset is used, removal of the asset from service for an extended period of time, or technological developments.

On disposal of a capital asset, whether by sale, destruction, loss, abandonment, or expropriation, the difference between the proceeds on disposal and the net carrying value (which is cost, less both accumulated amortization and the amount of any write-down) is recognized in the statement of operations. Any unamortized deferred capital contributions related to the capital asset disposal should be recognized as revenue in the period of the disposal.

Where the proceeds of disposal of a capital asset are subject to restrictions by the Province, the difference between the net proceeds on disposal and the net carrying amount is recognized on the statement of financial position as a deferred capital contribution.

2.5 Presentation and Disclosure

The statement of operations is to continue to be presented showing expenses by operational function (see below). The preferred approach for presenting the effects of amortization of capital assets would be to separate the amortization expenses by operational function. If this method is not appropriate for the college, it may group the amortization expenses under the single heading of Amortization of Capital. Any extraordinary items or material gains/losses on capital assets should be isolated on separate lines. Supporting supplementary schedules for each operational function should accompany the financial statements.

Similarly, the statement of operations is to be presented showing amortization of deferred contributions related to capital assets as separate revenue lines.

Operational functions are referenced and defined in the Ontario College Financial Information System (CFIS) manual prepared by the ministry. They are:

- Academic services
- Administrative services
- Plant and property
- Ancillary operations
- Student services
- Supplementary expenses

The statement of financial position should be prepared according to the following guidelines so as to facilitate inter-college comparisons:

- Property, Plant and Equipment are to be recorded at cost. The cost, less any residual value, should be amortized unless the asset has an unlimited life (e.g. land).
- The following disclosures are to be made for each major category of property, plant and equipment:
  - cost;
  - accumulated amortization, including the amount of any write-down; and
  - the amortization method, including period or rate.

- Leases that transfer substantially all the benefits and risks of ownership to the college (capital leases) should be recognized as capital assets and financial obligations in accordance with the CICA Handbook (Section 3065). Operating leases are expensed as incurred.

- Deferred capital contributions for the purchase of capital assets as a note to the financial statements should include the source of funds and amounts as they relate to capital projects. This will assist with the monitoring of funds as they relate to capital projects.

  The unspent amount of the capital contribution should be identified. This will assist in the calculation of a current ratio that represents more closely the liquidity of a college and the college system.

- Deferred revenues are revenue that has yet to be matched with related expenses and are accumulated in the statement of financial position as deferred revenues. (Note: Deferred capital contributions for the purchase of capital assets are discussed above and are shown separately.)

- Bank loans and other long-term debt are to be disclosed in the notes to the financial statements. Notes should state the lending institution, interest rate, due date, amount outstanding, and existence of sinking funds. The aggregate amount of payments estimated to be required in each of the next five years to meet sinking fund or retirement provisions should also be disclosed (CICA Handbook Section 3210).

- Net assets of the college should include the following:

invested in capital assets	$XX,XXX
unrestricted net assets	XX,XXX
Operating	(XX,XXX)
employee future benefits accrual	(XX,XXX)
vacation pay accrual	(XX,XXX)
vested sick-leave benefit accrual	(XX,XXX)
restricted net assets	
externally restricted assets and endowments	XX,XXX
internally restricted assets	XX,XXX
	$XX,XXX

Unrestricted net assets isolate the amounts for general operating, employee future benefits accrual, and vacation pay accrual and also include separately vested sick-leave benefit accrual. Though the ministry has in past years provided funding for vested sick-leave benefits as they were incurred, the liability remains with the college and is to be accounted for in the financial statement.

Restricted net assets isolate externally and internally restricted net assets. Externally restricted and endowments include the Ontario Student Opportunities Trust Fund, Phases I and II (OSOTF1 and OSOTF2) and the Ontario Trust for Student Support (OTSS). OSOTF1, OSOTF2, and OTSS funding are each separately explained in the notes to the financial statements. Internally restricted net assets include board of governor's internally restricted amounts for scholarships, bursaries, and other specific purposes, since externally restricted contributions that have yet to be matched with related expenses are accumulated as deferred contributions. The amount and purpose of each internally restricted item should be disclosed.

2.6 Reporting of Corporate Subsidiaries

College subsidiary corporations are be reported on a consolidated or combined basis in the college's annual audited financial statements according to the Minister's Binding Policy Directive on Entrepreneurial Activities and as recommended in the CICA Handbook. The schedules to the audited financial statements should include a separate statement of the financial account of the college and each of its subsidiaries.