



Ministry of Training,
Colleges and Universities

Training Completion Assurance Fund

**2014
ANNUAL REPORT**

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Introduction

Private career colleges (PCCs) are independent businesses offering a diverse range of postsecondary training and education programs in Ontario. For over 100 years, PCCs have had a role in preparing Ontario students for entry into occupations. There are currently over 400 registered PCCs with over 600 campuses in Ontario.

PCCs have a common objective of bringing students to the level of a beginning practitioner in the shortest possible time. PCCs generally appeal to:

- Those who need practical skills to enter or re-enter the work force as quickly as possible (e.g., Human Resources and Skills Development Canada and Workplace Safety and Insurance Board sponsored training);
- Mature students who are not interested in academic studies at this point in their lives and want to compress the length of training to minimize time out of the workforce (programs usually range in duration from one to 18 months to complete);
- Those who want specific practical skills in addition to their academic qualifications in order to become more competitive in the marketplace; and
- Those who are looking for flexible delivery of programs (i.e. multiple intake, schedule, location).

PCCs prepare students for careers in areas such as business, information technology, health care, tractor-trailer operation, welding, automotive technology, fashion design, hospitality and beauty. Registered PCCs range in size, with some offering only one program, to large multi-campus organizations with on-site student support services. PCCs also range in organizational structure from sole proprietorships to franchises to multinational corporations.

The PCC sector is regulated by the *Private Career Colleges Act, 2005 (PCCA)*, which outlines requirements for registration, fees, tuition fee refunds, student contracts, financial security, instructional staff and advertising. A key component of the PCCA was the establishment of a Training Completion Assurance Fund (TCAF) to ensure greater student protection. The TCAF model is outlined in Ontario Regulation 414/06.

The Private Career Colleges Act, 2005 can be accessed via the following link:
http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_05p28_e.htm

Ontario Regulation 414/06: TCAF and Other Financial Matters can be accessed via the following link:
http://www.e-laws.gov.on.ca/html/regs/english/elaws_regs_060414_e.htm

Purpose of the Fund

The Fund protects students who are enrolled in approved programs and are impacted by a premature closing of a participating PCC by providing them with the option to either complete their training at no additional cost, receive a partial refund for their unearned tuition fees, or receive a full refund if no training completion option is available to them.

Fund Model

Prior to the establishment of TCAF through *the Private Career Colleges Act, 2005*, PCCs were required to post financial security with the ministry. This financial security was used to compensate students in the event that the PCC closed prior to the completion of their training. Although the average PCC was required to provide approximately \$60,000 in financial security, very often the amount posted did not provide sufficient funding to cover all of the costs associated with providing students the opportunity to complete their training and obtain a diploma in their chosen field.

The use of an assurance fund was identified as a model used in other jurisdictions that allowed PCC students impacted by a premature closure to have the option of either completing their courses of study at no additional cost or receiving a refund for amounts due to them. On January 1st, 2009, following a two year build-up period, TCAF was launched by the ministry.

Under the TCAF model, PCCs are required to post a minimum financial security of \$10,000. The Superintendent may increase the amount of financial security to be provided, up to a maximum of 25% of the PCC's highest monthly unearned revenue. The Private Career Colleges Branch performs an annual review to assess a PCC's viability risk level by reviewing the PCC's business and financial state. The Superintendent considers the results of a PCC's annual review in order to determine the amount of financial security that is required to provide appropriate protection for the students of a PCC.

In addition to financial securities, the TCAF model includes a General Fund (Fund) that is financed through premiums charged to all participating registered PCCs. In the event of a PCC closure, funds are first drawn from the financial security of a PCC followed by the Fund. The maximum payout is limited to the lesser of:

1. The sum of the security provided by the PCC and 75% of the Fund money; or
2. \$3M.

PCCs with annual revenues of \$25 million or greater are excluded from participating in the Fund and must instead provide financial security in the amount of \$3 million, while registered charities are simply exempt from the financial security requirement.

The TCAF model, which includes TCAF premium formulas, financial security requirements, fund target level, claim payout obligations, etc., is prescribed by O.Reg. 414/06. This regulation

was informed by an actuarial studies performed in 2005 and 2011, as well as additional consultations with PCC stakeholders.

Fund Administration

The Superintendent of Private Career Colleges is responsible for the administration of the Fund. The current Superintendent is also the Director of the Private Career Colleges Branch. An Advisory Board, made up of sector and non-sector representatives, provides recommendations to the Superintendent on the administration of the Fund.

TCAF Costs

Following the closure of a PCC, ministry staff issue a request for training completion proposals to the PCC sector. If viable training completion option(s) are identified, students are given the choice to accept training completion or opt for a partial refund of unearned fees.

Provided that a student has paid all fees due to the closed PCC, the full costs of the training completion are covered by TCAF. In cases where a student has not paid all of his or her fees to the failed PCC, the student remains responsible for the payment of those fees to the training completion provider. If the student does not opt for training completion, TCAF will provide students with a partial refund for fees paid to the failed PCC for which they did not receive services for.

If a training completion option cannot be organized, TCAF will provide refunds to students for all fees paid in respect to their vocational training, whether or not the services have been received.

In addition, TCAF reimburses students for incremental travel and dependent care costs related to their training completion.

For more information on administrative and management expenses, see the section titled "Cost Recovery Plan" on page 15 of TCAF's 2014 Annual Report.

Accounting and Financial Reporting

The Government's Integrated Financial Information System (IFIS) is the sole financial system supporting the administration of TCAF. A TCAF Special Purpose Account (SPA) was established within IFIS in 2007 and represents cash inflows and outflows received or collected by Ontario for TCAF.

According to Public Sector Accounting Board (PSAB), TCAF is considered a government not-for-profit organization (GNFPO). A GNFPO is an organization that has all of the following characteristics:

- It has counterparts outside the public sector;
- It is an entity normally without transferable ownership interests;
- It is an entity organized and operated exclusively for social, educational, professional; religious, health, charitable or any other not-for-profit purpose; and
- Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

As a GNFPPO, TCAF must use the deferral method to present its financial statements. Under the deferral method of accounting for contributions, restricted contributions related to expenses of future periods are deferred in the statement of financial position and recognized as revenue in the period in which the related expenses are incurred. Endowment contributions are reported as direct increases in net assets as endowment contributions are not recognized as revenue at all since they must be maintained permanently. All other contributions are reported as revenue of the current period.

Audited Financial Statements

TCAF's financial statements have been audited for the last four years ended 2011 through to 2014.

The 2007-2011 Cash Based TCAF Annual Reports and 2011-2014 Accrual Based TCAF Audited Financial Statements can be accessed via the following link:

<http://www.tcu.gov.on.ca/pepg/audiences/pcc/tcaf.html>

TCAF Advisory Board

The Board's mandate is to provide advice to the Superintendent of PCCs on the administration of TCAF, including:

- The financial administration of the Fund (e.g., setting premium and levy amounts);
- The retention of experts (e.g., actuaries, auditors);
- The criteria to be used in assessing a PCC's financial viability; and
- General guidelines for responding to PCC closures.

All TCAF Board members are appointed by the Minister of Training, Colleges and Universities. The Minister identifies one member as Board Chair and another member as Board Vice-Chair. Currently appointed members include a diverse representation from the PCC sector, current and/or former PCC students, those without an affiliation to a PCC, as well as an actuary. Board members are expected to be committed to ensuring a high-quality experience for PCC students, and to providing them with adequate protection in the event that an institution closes. All Board members' positions are voluntary.

The Board has a minimum of three meetings, each of which is held in person. The Board also meets in person or via teleconference to develop responses to PCC closures as they occur. A majority of members constitutes a quorum.

Any reasonable expenses related to Board meetings incurred by the members are eligible for reimbursement out of the Fund, in accordance with the Ontario Public Service Travel, Meal and Hospitality Expenses Directive.

Agency Risk

The Agency Establishment and Accountability Directive (AEAD), 2010, requires ministries to have strategies in place to manage and reduce exposure to risk for any agencies that they oversee. A key mechanism to this risk management approach is a mandatory risk assessment prepared by the Board, and a ministry evaluation of the agency's risks prepared by the Private Career Colleges Branch (PCCB.)

A risk assessment and evaluation were completed for the year ended December 31, 2014, and both the TCAF Advisory Board and the ministry assert that no high risks or concerns have been identified.

The ministry works closely with the Board to manage all potential risks and will continue to support the agency in this regard.

Board Members

Paul Kitchin, Chair, has served as Executive Director of Career Colleges Ontario (CCO), formerly known as the Ontario Association of Career Colleges, since 1990. He also served as the Executive Director of the National Association of Career Colleges (NACC) from 1988 to 2004. Mr. Kitchin is currently a Co-Chair of the Deputy Minister's Private Career College Advisory Committee. Prior to his involvement with the private career college sector, he owned and operated a small home services business and was employed by a national charitable organization as a District Administrator.

Carol Bruni, Vice-Chair, is the President of Regulatory Matters, a consulting practice specializing in quality assurance and regulatory compliance for private career colleges. She serves as an External Advisor to the CCO Board of Directors and has actively participated in Ministry's Working Groups on legislative and policy directives. Ms. Bruni has over 25 years experience in the private career college sector holding senior management positions, including Director of Academics and Director of Regulatory Affairs for one of the largest private career colleges in Canada.

Stephen Bartolini has been working in the private education sector for over 25 years. He was a school Director for the Berlitz Schools of Languages for five years, working in both Calgary and Vancouver. In 1984 he joined the International Academy of Merchandising and Design, a large private career college where he held a number of positions and in 1988 he was promoted to Executive Director. In 1998 the Academy was acquired by Career Education Corporation (CEC). Mr. Bartolini became President and shortly after was made a Managing Director for one of CEC's divisions with a responsibility for four campuses. During his tenure he continued in this role overseeing the growth and expansion of the Academy up until it closed in 2008. At the time it had approximately 2,000 students in 14 programs making it one of the largest private colleges in the country. In 2009 Mr. Bartolini acquired Kingston Learning Centre which had been operating since 1983. Under the new name of KLC College: Healthcare, Business, Education it now has campuses in Kingston, Smith Falls, Richmond Hill and Whitby. Mr. Bartolini has also served on the CCO Board for 4 years. In 2011 he was appointed as a Director of the 1000 Islands Region Workforce Development Board for a three year term where he now serves as Treasurer.

Frank Gerencser has a 30-year history of co-founding and building companies, including a corporate systems integrator, a national computer distributor, an internet services provider, a computer support and consulting firm, a corporate IT trainer, and the PCC triOS College Business Technology Healthcare. In 1998, together with his partner Stuart Bentley, Frank started triOS by buying the assets of a closed PCC with the responsibility to train-out 300 students and assume 50 staff over five campuses. triOS College is now a four time recipient of Canada's Best Managed Companies award. Frank is also an active board member on the NACC and CCO boards of directors.

Eric R. Keen, FCIA¹, FCAS², is an independent consulting actuary. He is a Fellow of the Canadian Institute of Actuaries and the Casualty Actuarial Society. His most recent position was Director in the Audit and Assurance Group for PricewaterhouseCoopers Canada. Previously, Eric was the chief actuary at two reinsurance companies, one in Toronto and one in Bermuda. At the Bermuda Company, he also held the title of Vice President of Underwriting. He was also employed as an insurance specialist at another major accounting firm in Bermuda

Ian Lebane has been a member of the Ontario Bar since 1990. He was in private practice with a focus on Estate Planning and Taxation until 1994; a Masters of Law (Taxation) was conferred upon him in that year. From 1994 to 2006 he held various positions with the Law Society of Upper Canada related to lawyer training and accreditation including: Faculty Member in the Department of Education; Director, Bar Admissions; Manager, Professional Development; Counsel, Professional Development & Competence; and Manager, Professional Development. In 2007, Ian joined TD Wealth, as a Will and Estate Planner.

Frank Perez is currently an instructor of Computer Aided Design and Drafting. He is also an AutoCad Technologist and has a background in residential construction and design. Mr. Perez volunteers as a crew leader with Habitat for Humanity Halton.

¹ Fellow of Canadian Institute of Actuaries.

² Fellow, Casualty Actuarial Society.

Sector Highlights

For the year ended December 31, 2014, the number of registered institutions has remained unchanged at 411 institutions since 2013. Conversely, the number of campuses has increased from 595 in 2013, to 601 in 2014.

The aggregate number of students in the private career college sector has increased from approximately 69,300 in 2013, to 93,245 students in 2014.

2014 PCC Closures

The number of closures in the year remains unchanged from prior year at 5 closures in the 12 month period. Although 3 of the 5 closures that occurred in 2014 were hairstyling schools, PCCB is unable to identify a particular trend or cause to 2014's school closures.

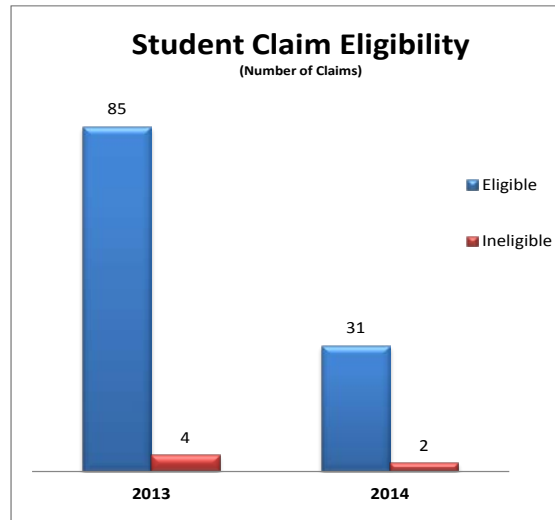
Below is a list of the school closures that occurred within the year and their closure dates:

Closed PCC	Program Offered	Closure Date
Ottawa School of Speech and Drama	Applied Arts	January 6, 2014
2148080 Ontario Limited o/a Salon Sisu School of Hair Styling	Human Services	August 29, 2014
2035863 Ontario Inc. o/a Synergy College of Management, Technology and Health Care	Combined	August 29, 2014
911888 Ontario Inc o/a Bluewater School of Hair Design	Human Services	September 30, 2014
Hair Couture Academy & Aesthetics Inc.	Human Services	November 7, 2014

Of the 5 PCCs listed above, Synergy College of Management, Technology and Health Care is the only closure that did not result in any TCAF costs. TCAF applicants related to this closure either did not select the training completion option, or did not have any refunds for partial fees. The remaining four closures resulted in TCAF costs related to refunds of unearned amounts, full refunds, or training completion expenses.

Student Claims

A total of 33 student TCAF claims were submitted for the closures that occurred in 2014. 93% of those claims were found to be eligible claims, and the remaining 7 % of those claims were found to be ineligible, as seen in the graph below:



The number of student TCAF claims in 2014 has decreased significantly compared to prior year due to the fact that a relatively large closure occurred in 2013 (Regency Dental Hygiene Academy Inc.) that affected 61 TCAF applicants. The largest closure to occur in 2014 was that of Ottawa School of Speech and Drama that affected a total of 21 TCAF applicants.

Training Completion Availability

Of the 31 students that were presented with a TCAF option in 2014, 64% of student claims did not have an available training completion option and were presented with a full refund option, as seen in the graph below:

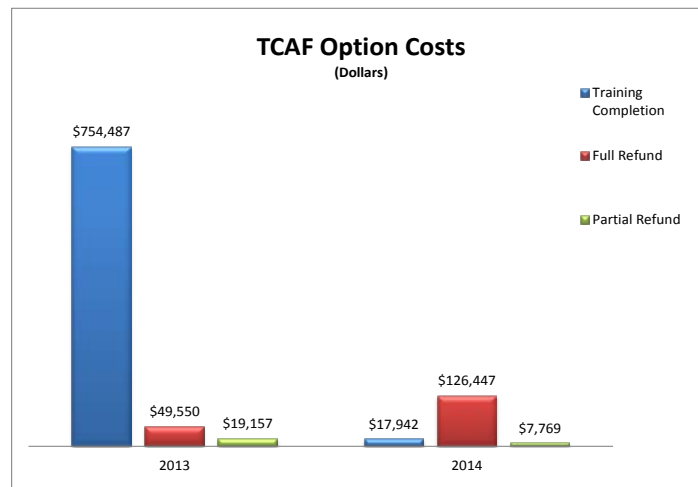


TCAF Student Selections

Of the 11 students who were presented a training completion option, only 8 students opted to participate in training completion. The remaining 3 students selected the partial refund option. All 20 students who were presented a full refund accepted their TCAF option.

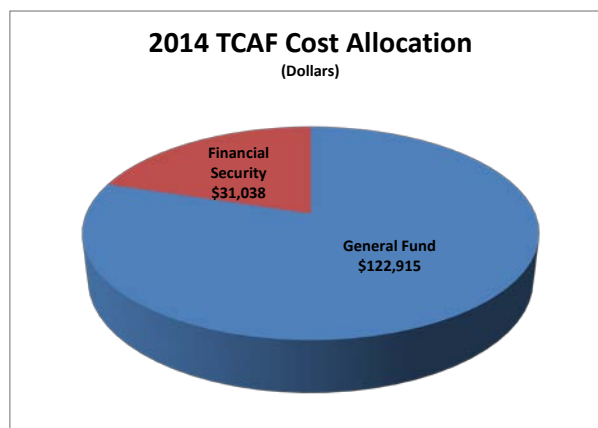
TCAF Costs

The TCAF fund incurred \$17,942 in training completion costs, \$126,447 in full refund costs, and \$7,769 in partial refunds costs in 2014³, as seen in the graph below:



TCAF Cost Allocation

TCAF claims are first financed through the closed PCC's financial security, followed by TCAF's General Fund. 20% of the total costs associated with 2014's closures were paid with financial security funding and 80% through the General Fund³, as seen in the graph below:



³ Analysis based on all five (5) school closures that occurred in 2014, irrespective of the timing of the costs incurred.

PCC Financial Security Analysis

In 2014, an average of 55% of a closure’s total TCAF costs were funded with financial security funding, and the remaining 45% of a closure’s total TCAF costs were funded through the General Fund ⁴.

School Closure	Financial Security Portion %	General Fund Portion %
Ottawa School of Speech and Drama	0%	100%
2148080 Ontario Limited o/a Salon Sisu School of Hair Styling	58%	42%
911888 Ontario Inc o/a Bluewater School of Hair Design	100%	0%
Hair Couture Academy & Aesthetics Inc.	63%	37%
Average	55%	45%

Ottawa School of Speech and Drama did not post financial security as they were a registered charity, and therefore, the General Fund paid 100% of the costs related to their closure.

Salon Sisu School of Hair Styling and Hair Couture Academy & Aesthetics Inc.’s financial securities were exhausted, and the remaining costs associated with their closures were financed through the General Fund.

Bluewater School of Hair Design’s financial security exceeded the total costs associated with their closure.

⁴ Analysis based only on four (4) 2014 closures that resulted in TCAF costs and does not include the closure that did not result in TCAF costs, irrespective of the timing of costs incurred.

Fund Surplus

The fund is currently overfunded by \$3.9 million relative to the target amount of \$8.6 million determined by TCAF's 2011's actuarial review.

2014 Actuarial Review

An actuarial review of TCAF was initiated in 2014 to examine potential amendments that would provide better protection to students and ensure that the Fund is operating efficiently.

The model currently used to support TCAF is based on information that was available to the ministry in 2005. An actuarial review which was completed in 2011 generally validated the structure of the fund, but suggested that a tri-annual review be completed.

The ministry now has significantly more data related to school closures and the operation of TCAF. This data will allow an actuary to conduct a more meaningful analysis of the optimal structure for TCAF, which may result in reduced costs for PCC operators and greater stability of the fund.

The ministry is also in the process of developing a series of proposals which the Superintendent related to improving the financial protections provided to students of private career colleges, and enhancing the efficiency of TCAF. These proposals include:

- Creating a mechanism to reduce TCAF through the issuance of refunds to private career colleges in the event TCAF is overfunded by a substantial margin;
- Removing the \$3 million cap on TCAF payouts;
- Removing the exemption from TCAF participation currently in place for private career colleges with revenues exceeding \$25 million; and
- Expanding TCAF coverage to students who attend non-vocational programs at a registered private career college.

The ministry is currently interpreting the results of the 2014 actuarial review and will apply the review's conclusions to either implement amendments to the model and scope of TCAF, or to demonstrate the continued appropriateness of the established model.

Any changes to TCAF would be implemented in a phased approach.

Cost Recovery Plan

Pursuant to O. Reg. 414/06 s.18, the Superintendent has the authority to redirect General Fund monies for any expenditures incurred in administrative costs. The Superintendent and ministry staff currently perform the following key TCAF administrative support and management functions:

- TCAF Advisory Board oversight;
- TCAF Premiums processing and billing;
- Fund reconciliation and reporting;
- Annual audit and reports;
- Financial security identification and forfeiture; and
- TCAF related closures (refunds and training completions).

The Superintendent has estimated the monthly cost of TCAF support services to be \$12,406, as per the calculation in the table below:

Ministry Staff	Full Time Equivalent
Sr. Financial Analyst	100%
Financial & Business Coordinator	20%
Manager - QPU	10%
Superintendent	5%
Annual Salaries, Benefits and ODOE	\$148,878
Monthly Chargeback (50%, Jan 2015)	\$6,203
Monthly Chargeback (100%, Jan 2016)	\$12,406

Costs will be recovered from the fund using a staged approach, utilizing a 50% cost recovery in the first year (commencing January 1st, 2015) and a full cost recovery thereafter.

Financial Year in Review

Accounting Adjustment

The auditors engaged for the year ended December 31st, 2014 financial audit applied a retroactive adjustment to the audited financial statements for the year ended December 31st, 2014.

Due to a number of bookkeeping errors and understated expenses, the Fund balance at January 1st, 2014 has been reduced by \$40,983, and the 2013 financial statements have been restated. The Fund balance at January 1st, 2013 has been reduced by \$1,563, which represents understated expenses for years prior to 2013.

These adjustments represent less than 1% of the total fund balance and are considered immaterial, as they have little to no impact on the decisions made by the users of the financial statements.

Statement of Financial Position

As at December 31, 2014 the Fund balance was \$12.53 million, increasing 4.1% since prior year (2013 - \$12.03 million). Although the Fund's assets have increased slightly compared to prior year, the increase in the overall Fund is primarily due to the reduction in the Fund's liabilities by 4.18%.

The most notable reduction in liabilities is due to the reversal of \$355,000 in deferred revenues. This reversal includes \$158,000 that was recognized as revenue in the current year for expenses related to the closure of Regency Dental Hygiene Academy, and \$161,500 that was refunded to the Toronto College of Technology Inc. as no further expenses related to that closure were outstanding.

Statement of Operations

In 2014 the Fund recognized revenue of \$935,000, decreasing 43% since prior year (2014 - \$1.65 million). As premiums and interest income have remained consistent, this decrease is largely due to the reduction in revenues from forfeited securities, as expenses related to school closures has decreased significantly since prior year. Two very large closures resulted in significant TCAF expenses in 2013; The Canadian Institute of Dental Hygiene Inc. in the amount of \$254,558, and Regency Dental Hygiene Academy Inc. in the amount of \$486,480.

In 2014 the Fund incurred \$432,000 in expenses related to operations, decreasing 63% since prior year (2013 - \$1.19 million). As mentioned above, costs related to school closures decreased significantly since prior year due to the relatively large closures that occurred in 2013.

In terms of year-over-year changes in administrative costs, expenses have decreased 51% since prior year due to efficiencies identified and implemented by professional service providers, including accounting translation and financial audit services. Also, an accrued liability for actuarial fees was reversed in 2014 (as the expense was not incurred) further decreasing the total administrative expense reported at the fiscal year end.

Statement of Cash Flows

As at December 31, 2014 the Fund's cash balance was \$12.57 million. This represents less than a 1% increase over the same period last year (2013 - \$12.49 million). Net contributions were larger in the current year than in prior year, however, as the Fund paid out significant deferred forfeited securities and premium revenue amounts, the net change to the Fund's cash balance was minimal.



Lori A. Halliday, CPA, CA, LPA

Michael J. Kerr, CPA, CA

INDEPENDENT AUDITOR'S REPORT

To: The Advisory Board of the Training Completion Assurance Fund

We have audited the accompanying financial statements of the Training Completion Assurance Fund, which comprise the statement of financial position as at December 31, 2014, statement of operations and fund balance for the year then ended, statement of cash flows and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Training Completion Assurance Fund at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Original signed by Weiler & Company

Guelph, Ontario
May 8, 2015

Chartered Accountants
Licensed Public Accountants

Woolwich Street, Guelph, Ontario N1H
www.Weiler.ca 519-837-3111 1-888-239-3111
Fax 519-837-1049

STATEMENT OF FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2014

	2014	2013
Assets		
Cash	\$ 12,577,630	\$ 12,491,484
Premiums receivable	191,550	259,091
Interest receivable	28,109	29,303
Prepaid expenses	4,879	864
Total Assets	12,802,168	12,780,742
Total Liabilities	268,007	749,703
Fund Balance	<u>\$ 12,534,161</u>	<u>\$ 12,031,039</u>

Original signed by Carol Strachan, Superintendent

Original signed by Paul Kitchin, Board Chair

(See accompanying notes)

STATEMENT OF OPERATIONS AND FUND BALANCE
YEAR ENDED DECEMBER 31, 2014

	2014	2013
Revenues		
Premiums	\$ 609,516	\$ 611,725
Forfeited securities	208,158	911,205
Investment income	112,964	119,720
Interest and penalties	4,640	8,542
Total Revenue	\$935,278	\$1,651,192
Expenses		
Administrative costs	22,570	45,518
Bad debt expense	18,559	50,135
Board travel costs	228	412
Professional fees	23,601	27,899
Student Refunds	133,959	164,930
Training completion costs	210,761	844,474
Travel and dependent care costs	22,478	66,002
Total Expenses	432,156	1,199,370
Net Contributions	\$503,122	\$ 451,822
Fund balance, beginning of year	\$ 12,031,039	\$ 11,579,217
Fund balance, end of year	\$ 12,534,161	\$ 12,031,039

(See accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

1. DESCRIPTION OF THE TRAINING COMPLETION ASSURANCE FUND

The Training Completion Assurance Fund (TCAF) was established under the Private Career Colleges Act (PCCA). The Fund launched January 1, 2007 for the purpose of providing students who are attending a Private Career College (PCC) that closes, the option of completing their training elsewhere or receiving a refund.

TCAF is administered by the Superintendent and supported by mandatory premiums paid by private career colleges. It is authorized by the Private Career Colleges Act, 2005, legislation that protects students and strengthens the quality of education at private career colleges. The money is held in a Special Purpose Account of the Consolidated Revenue Fund.

TCAF has an Advisory Board which is appointed by the Minister of Training, Colleges and Universities (Minister) to provide advice and make recommendations to the Superintendent with respect to the administration of the fund.

2. NATURE OF OPERATIONS

Participation in the Training Completion Assurance Fund (TCAF) is mandatory for all registered Private Career Colleges (PCCs) with the exception of PCCs with gross annual vocational revenue that equals or exceeds \$25 million.

In 2014 PCCs that contributed 24 months of initial premium (0.875% of gross vocational revenue), were billed an annual premium for their current registration period. Once a PCC completes contribution of 24 months of premiums, the PCC will move to a risk-adjusted approach in calculating annual premiums using the following formula:

<u>Risk Level</u>	<u>Initial Premium %</u>		
Low	0.75%	x	Highest monthly prepaid unearned
Medium	1.00%	x	Highest monthly prepaid unearned
High	1.25%	x	Highest monthly prepaid unearned

In addition, once PCCs transition from paying the initial premium to paying the annual premium, they are also required to pay a surcharge on the annual portion of their premium. This surcharge may be levied on the annual premiums until TCAF reaches its fund target of 3% of total sector gross vocational revenue. The surcharge is stipulated in Ontario Regulation 414/06 as a multiple of the annual premium. The surcharge will decline as the fund balance approaches its target.

NOTES TO THE FINANCIAL STATEMENTS – Continued

YEAR ENDED DECEMBER 31, 2014

<u>% Total Sector Gross Vocational Revenue (GVR)</u>	<u>Multiple</u>
A percentage that is at least 2.25 per cent but less than 3 per	3
A percentage that is at least 1.5 per cent but less than 2.25 per	4
A percentage that is at least 0.75 per cent but less than 1.5 per	5
A percentage that is at least 0.75 per cent	6

Ex.: When the Fund's balance is 2% of GVR, Surcharge = 4 x PCC's Annual Premium

As of January 1, 2013, gross vocational revenue for the sector was approximately \$273 million. Therefore, the target Fund balance would be 3% of this figure, \$8.2 million. The Fund balance as of January 1, 2013 was \$12 million or 4% of gross vocational revenue for the sector. Therefore, there is no longer a surcharge on the annual premium.

3. **SEGREGATED RISK CATEGORY**

PCCs with revenue from vocational programs that equals or exceeds \$25 million are placed in a "segregated risk" category. These PCCs are not required to pay TCAF premiums; instead they are required to provide financial security of \$3 million.

In the event a PCC in the segregated risk category ceases to operate, its students will only be compensated out of the \$3 million financial security provided by the PCC. TCAF monies will not be used to provide additional compensation to these students.

Should the vocational revenues of a segregated risk PCC fall below \$20 million, the PCC must leave the segregated risk category. The PCC will be required to pay TCAF premiums and provide financial security as determined by the Superintendent.

In 2014, there were two private career colleges placed in the Segregated Risk Category.

4. **FINANCIAL SECURITY REQUIREMENTS**

Effective January 1, 2009, existing PCCs were required to post financial security in the amount of 25% of the highest monthly prepaid unearned revenue collected in a given fiscal year. New PCCs are required to post financial security in the amount of 10% of projected gross vocational revenue at initial registration. In both cases, this

NOTES TO THE FINANCIAL STATEMENTS – Continued

YEAR ENDED DECEMBER 31, 2014

amount is a minimum of \$10,000. However, the Superintendent has the authority to increase the security amount as necessary to provide appropriate protection for the students of a PCC. (As indicated above, the prescribed financial security for PCCs in the Segregated Risk category is \$3 million.)

One exception to the above is that registered charities are exempt from the financial security requirement. Financial security acts as a protection measure for TCAF in the event a PCC closes and does not fulfill its obligation to train out existing students. The closed PCC's financial security is used first to train out or provide refunds to students before TCAF is accessed.

There are three types of financial security that can be posted:

- 1) A surety bond guaranteed by a surety company or another guarantor;
- 2) A letter of credit issued by a bank or financial institution that is supervised or examined by the central bank of Canada or another governmental authority in Canada; or
- 3) A personal bond accompanied by collateral security issued by Canada or by any province of Canada.

5. **FUND ADMINISTRATION AND THIRD PARTY TRANSACTIONS**

TCAF is administered by the Superintendent of Private Career Colleges. The accounts receivable (AR) function is managed by Ontario Shared Services (OSS). On behalf of TCAF, OSS provides AR invoicing, collections, aging accounts and interest calculations.

6. **SIGNIFICANT ACCOUNTING POLICIES**

Basis of accounting

The accounting policies of TCAF are in accordance with Canadian accounting standards for not-for-profit organizations.

Revenue recognition

TCAF follows the deferral method of accounting for revenues. Restricted revenues are recognized as revenue in the year in which the related expenses are incurred.

NOTES TO THE FINANCIAL STATEMENTS – Continued

YEAR ENDED DECEMBER 31, 2014

Unrestricted revenues are recognized as revenue when they are received or receivable if the amount can be reasonably estimated and its collection can be reasonably assured.

Premiums are recognized as revenue over the period to which they relate. Deferred revenue represents premiums received in advance.

Investment income is recognized on an accrual basis.

Cash

Cash is comprised of cash on deposit with the Special Purpose Account and earns interest at the rate of three month treasury bills. For 2014 the annual rates ranged from 0.85% to 0.96%.

Forfeited Security

The Superintendent may declare the security provided by a PCC under section Private Career Colleges Act, 2005, to be forfeited if either of the following events occurs;

- (1) A PCC has ceased to operate or discontinued all vocational programs before some of the students enrolled in the programs had completed their training
- (2) The Superintendent has issued a proposal to suspend, revoke or refuse to renew a private career college's registration

If the Superintendent decides to declare a security to be forfeited, he or she shall do so within 12 months of having knowledge of the occurrence of the event that gave rise to the decision. In the event that there is a residual amount of financial security after a 12 month period has elapsed without additional student claims, the remaining funds will be released to the closed PCC.

Late Premium Penalties

Simple interest is applied on outstanding accounts receivable at the rate specified by the Ministry of Finance.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS – Continued

YEAR ENDED DECEMBER 31, 2014

Estimates used in the preparation of the financial statements include premiums receivable, allowance for doubtful accounts and accrued liabilities. Actual results could differ from these estimates.

6. **SIGNIFICANT ACCOUNTING POLICIES- Other**

Financial Instruments

Measurement of financial instruments:

- The Organization initially measures its financial assets and liabilities at fair value.
- The Organization subsequently measures all its financial assets and liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net income.
- Financial assets measured at amortized cost include cash, accounts receivable, and government remittances recoverable.
- Financial liabilities measured at amortized cost include the accounts payable and accrued liabilities.

Impairment:

- Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

Transaction costs:

- For financial instruments subsequently measured at fair value, the Organization recognizes transaction costs directly attributable to their origination, issuance or assumption in net income in the period incurred. When a financial instrument is measured at amortized cost, transaction costs are included in the initial measurement of the instrument.

NOTES TO THE FINANCIAL STATEMENTS – Continued

YEAR ENDED DECEMBER 31, 2014

7. FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash, premiums receivable, interest receivable, accounts payable and accrued liabilities and student refunds and training completion costs payable.

Fair Value

The fair value of cash, premiums receivable, interest receivable, accounts payable and accrued liabilities and student refunds, training completion and travel costs payable approximates their carrying value due to their short term nature.

Liquidity risk

Liquidity risk refers to the adverse consequence that the Fund will encounter difficulty in meeting obligations associated with financial liabilities, which are comprised of accounts payable and accrued liabilities and student refunds and training completion costs payable.

The Fund manages liquidity risk by monitoring its cash flow requirements. The Fund believes its overall liquidity risk to be minimal as the Fund's financial assets are considered to be highly liquid.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's cash earns interest at prevailing three month Canada T-Bill interest rates and the interest rate exposure related to these financial instruments is negligible.

Credit risk

The Fund is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The Funds maximum exposure to credit risk represents the sum of the carrying value of its cash, premiums receivable and interest receivable. The organization's cash is deposited with a Special Purpose Account of the Consolidated Revenue Fund and as a result management believes the risk of loss on this item to be remote.

Management believes that the organization's credit risk with respect to accounts receivable is limited. The organization manages its credit risk by reviewing accounts receivable aging and following up on outstanding amounts. Of the accounts receivable outstanding at year end, \$97,577 has been outstanding for more than 90

NOTES TO THE FINANCIAL STATEMENTS – Continued

YEAR ENDED DECEMBER 31, 2014

days and an allowance in the amount of \$68,662 has been made.

8. CLOSED PCC PAYMENTS

In 2014 there were five new private career college closures. During 2014 TCAF incurred expenses for the purposes of student refunds, training completion costs and travel and dependent care costs as follows:

Legal Name	Year of Closure	Student refunds	Students rec'd refund	Training completion costs	Students rec'd completion	Travel and dependent costs	Students rec'd Travel & Dependent	Total
Guyana Training School of International Studies	2011	\$-	-	\$(4,998)**	1	\$7,366	1	\$ 2,368
Canadian Institute of Dental Hygiene	2012	-	-	2,990	1	4,285	1	7,275
Toronto School of Art	2012	-	-	1,408	1	-	-	1,408
Regency Dental Hygiene Academy Inc.	2013	-	N/A*	180,974	55	10,827	7	191,801
Toronto College of Technology Inc.	2013	4,252	2	15,316	4	-	-	19,569
Information Technology Business College Inc. o/a Thames Valley College	2013	3,260	1	15,071	6	-	-	18,331
The Ottawa School of Speech and Drama	2013	105,107	16	-	N/A*	-	-	105,107
2148080 Ontario Limited o/a Salon Sisu School of Hair Styling	2014	21,340	4	-	N/A*	-	-	21,340
Total		\$133,959	23	\$210,761	68	\$22,478	9	\$367,198
Payable at December 31, 2014		-		\$40,422		-		\$40,422
Payable at December 31, 2013		-		\$26,498		-		\$26,498

* Small cell suppression under the *Freedom of Information and Protection of Privacy Act, 1990*

** Training completion costs are negative as students previously enrolled at Guyana Training School of International Studies continued their studies at Regency Dental Hygiene Academy Inc. which subsequently closed. The Training completion costs relating to these students that were previously included in Guyana Training School of International Studies' Training completion costs have been included in Regency Dental Hygiene Academy Inc.'s Training completion costs in 2014.

NOTES TO THE FINANCIAL STATEMENTS – Continued

YEAR ENDED DECEMBER 31, 2014

9. DEFERRED FORFEITED SECURITIES

Deferred forfeited securities represent forfeited securities received due to closed PCCs that is in excess of related expenses incurred to date and is therefore related to expenses incurred in subsequent years.

Changes in the deferred forfeited securities balances are as follows:

Legal Name	Year of closure	Balance, beginning of year	Funds received	Recognized as revenue in the year	Refunds	Balance, end of year
Granton Institute of Technology Limited	2010	\$ 7,325	\$ -	\$ -	\$ -	\$ 7,325
Guyana Training School of International Studies Inc. o/a Academy for Allied Dental	2011	67,500	-	-	39,184	28,316
Canadian Aesthetic Academy Inc.	2012	31,916	-	-	-	31,916
1050141 Ontario Ltd. o/a Aero Academy	2012	21,492	-	-	-	21,492
Andrew Di Martino o/a Di Martino School of Hair Design	2012	4,684	-	-	-	4,684
Regency Dental Hygiene Academy Inc.	2013	158,548	-	158,548	-	-
Toronto College of Technology Inc.	2013	182,750	-	19,569	161,500	1,681
Information Technology Business College Inc. o/a Thames Valley College	2013	17,722	-	17,722	-	-
Synergy College of Management, Technology and Health Care	2014	-	31,000	-	-	31,000
2148080 Ontario Limited o/a Salon Sisu School of Hair Styling	2014	-	12,319	12,319	-	-
Bluewater School of Hair Design	2014	-	9,985	-	-	9,985
		\$ 491,937	\$53,304	\$208,158	\$200,684	<u>\$136,399</u>

NOTES TO THE FINANCIAL STATEMENTS – Continued

YEAR ENDED DECEMBER 31, 2014

10. ADMINISTRATION

TCAF covers the expenses incurred by the Superintendent for purposes of the administration and management of the Fund. TCAF funded administration expenses incurred during the year were as follows:

	<u>2014</u>	<u>2013</u>
Directors and Officers liability insurance	\$ 1,457	\$ 1,728
Credit reports	9,518	13,219
Actuarial and translation services (recovered)	(7,109)	71
Account Services	<u>18,704</u>	<u>30,500</u>
	<u>\$ 22,570</u>	<u>\$ 45,518</u>

11. ACCOUNTING ADJUSTMENT

During the year it was discovered that TCAF has understated expenses for a number of years due to bookkeeping errors. As a result, the fund balance as at January 1, 2014 has been reduced by \$40,983, and the 2013 financial statements have been restated. The fund balance as at January 1, 2013 has been reduced by \$1,563, which represents understated expenses for years prior to 2013.

Comparative figures, for the year ended December 31, 2013 have been increased (decreased) as follows: Statement of financial position as at December 31, 2013

Cash	\$ (40,983)
Fund Balance	\$ (40,983)

Statement of operations for the year ended December 31, 2013

Administrative costs	\$ (793)
Bad debt expense	\$ 44,709
Professional fees	\$ (3,575)
Training completion costs	\$ (921)

12. INCOME TAXES

The fund is a non-profit entity and is not subject to income taxes, in accordance with section 149(1) of the Income Tax Act.

NOTES TO THE FINANCIAL STATEMENTS – Continued
YEAR ENDED DECEMBER 31, 2014

13. **FUND VALUE**

TCAF considers its fund value to be its net assets. The Superintendent's objective in administering the fund is to safeguard its solvency so that it can continue to finance training completions or refunds in the event of a private career college closure.

Contact Information

The Office of the Superintendent can be contacted at the following address:

Office of the Superintendent

Private Career Colleges Branch, Postsecondary Education Division
Ministry of Training, Colleges and Universities
77 Wellesley Street West, BOX 977
Toronto, ON M7A 1N3
E-mail: TCAF-PCC@Ontario.ca

For general inquiries and information on TCAF claim submissions contact:

Marisa Cugliari, CPA, CA

Senior Financial Analyst
Private Career Colleges Branch, Postsecondary Education Division
Ministry of Training, Colleges and Universities
900 Bay Street, Mowat Block
Toronto, ON M7A 1L2
E-mail: Marisa.Cugliari@Ontario.ca

For more information on TCAF, including TCAF Fact Sheets, visit the following link:

<http://www.tcu.gov.on.ca/pepg/audiences/pcc/tcaf.html>

For information on Private Career Colleges, including policy and compliance directives, visit the following link:

<http://www.tcu.gov.on.ca/pepg/audiences/pcc/superintendent.html>

For information on postsecondary education industry guidelines, reports and legislation, visit the following link:

<http://www.tcu.gov.on.ca/pepg/>