Financial Statements of

KWANTLEN POLYTECHNIC UNIVERSITY

Year ended March 31, 2019

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

To the Board of Governors of Kwantlen Polytechnic University

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in compliance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the financial statements.

The Board of Governors (the "Board") and the Finance and Audit Committee (the "Committee") are composed primarily of those who are neither management nor employees of the University. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities and for approving the financial statements. The Committee has the responsibility of meeting with management and external auditors to discuss the financial reporting process, auditing matters, financial reporting issues, and recommends approval of the financial statements to the Board. The Committee is also responsible for recommending the appointment of the University's external auditor.

KPMG LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board to audit the financial statements and report directly to them through the Committee. The external auditor has full and free access to, and meets periodically and separately with, both the Committee and management to discuss their audit findings.

On behalf of Kwantlen Polytechnic University

Dr. Alan Davis
President and Vice-Chancellor

Jon Harding, CPA, CA
Vice-President, Finance and Administration

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Kwantlen Polytechnic University, and
To the Minister of Advanced Education, Skills & Training, Province of British Columbia

Opinion

We have audited the financial statements of Kwantlen Polytechnic University (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations and accumulated surplus for the year then ended
- the statement of changes in net debt for the year then ended
- the statement of cash flows for the year then ended
- the statement of remeasurement gains and losses for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements as at and for the year ended March 31, 2019 of the Entity are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Basis for Opinion

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

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

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

Emphasis of Matter – Financial Reporting Framework

We draw attention to Note 2(a) to the financial statements which describes the applicable financial reporting framework and the significant differences between that financial reporting framework and Canadian public sector accounting standards.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- Information, other than the financial statements and the auditors' report thereon, included in the Management Discussion & Analysis document.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Management Discussion & Analysis document as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, 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.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
May 22, 2019

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Financial Position
(in thousands of dollars)
As at March 31, 2019, with comparative information for 2018

		2019	2018
Financial assets			
Cash and cash equivalents	(Note 3)	$ 26,258	$ 36,423
Accounts receivable	(Note 4)	6,517	8,227
Inventories for resale		600	620
Investments	(Note 5)	28,880	38,040
		62,255	83,310
Liabilities			
Accounts payable and accrued liabilities	(Note 6)	27,398	37,676
Deferred revenue		13,495	20,177
Deferred contributions	(Note 8)	3,859	3,799
Deferred capital contributions	(Note 9)	159,328	159,104
Obligations under capital lease	(Note 10)	247	433
		204,327	221,189
Net debt		(142,072)	(137,879)
Non-financial assets			
Tangible capital assets	(Note 11)	255,381	225,933
Endowment investments	(Note 5)	2,817	2,817
Prepaid expenses and deposits		1,989	4,358
		260,187	233,108
Accumulated surplus		$ 118,115	$ 95,229
Accumulated surplus is comprised of:			
Accumulated surplus		$ 117,864	$ 95,804
Accumulated remeasurement gains (losses)		251	(575)
		$ 118,115	$ 95,229

Employee future benefits (Note 7)
Contractual obligations (Note 13)
Commitments and contingent liabilities (Note 14)
Related party transactions (Note 15)
Contingent assets (Note 16)
Contractual rights (Note 17)
See accompanying notes to financial statements.

Approved on behalf of the Board:

Sandra Case
Chair

Jon Harding, CPA, CA
Vice-President, Finance and Administration

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Operations and Accumulated Surplus
(in thousands of dollars)
Year ended March 31, 2019, with comparative information for 2018

		Budget (Note 2(k))	2019	2018
Revenue:				
Province of British Columbia grants		$ 73,260	$ 71,531	$ 69,782
Revenue recognized from deferred contribution	(Note 8)	5,212	6,050	7,401
Tuition and student fees		105,032	118,451	92,996
Ancillary services		6,585	6,472	7,028
Other revenue		4,050	4,615	4,817
Revenue recognized from deferred capital contributions	(Note 9)	8,626	7,612	6,229
		202,765	214,731	188,253
Expenses:	(Note 18)			
Instruction, research and support		196,924	186,927	169,052
Ancillary operations		5,825	5,744	5,917
		202,749	192,671	174,969
Annual surplus		16	22,060	13,284
Accumulated surplus, beginning of year		95,804	95,804	82,520
Accumulated surplus, end of year		$ 95,820	$ 117,864	$ 95,804

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Changes in Net Debt
(in thousands of dollars)
Year ended March 31, 2019, with comparative information for 2018

	Budget (Note 2(k))	2019	2018
Annual surplus	$ 16	$ 22,060	$ 13,284
Acquisition of tangible capital assets	-	(46,109)	(50,791)
Amortization of tangible capital assets	16,653	16,661	13,126
	16,653	(29,448)	(37,665)
Net of use of prepaid expenses and deposits	-	2,369	744
Net remeasurement gain (losses)	-	826	(769)
Change in net debt	16,669	(4,193)	(24,406)
Net debt, beginning of year	(137,879)	(137,879)	(113,473)
Net debt, end of year	$ (121,210)	$ (142,072)	$ (137,879)

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Cash Flows
(in thousands of dollars)
Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 22,060	$ 13,284
Items not involving cash:		
Amortization of tangible capital assets	16,661	13,126
Revenue recognized from deferred capital contributions	(7,612)	(6,229)
Change in non-cash operating working capital:		
Accounts receivable	1,710	(2,813)
Prepaid expenses and deposits	2,369	744
Inventories for resale	20	(181)
Accounts payable and accrued liabilities	(10,278)	14,028
Deferred revenue	(6,682)	7,967
Deferred contributions	60	65
Net change from operating activities	18,308	39,991
Capital activities:		
Cash used to acquire tangible capital assets	(45,998)	(50,718)
Net change from capital activities	(45,998)	(50,718)
Financing activities:		
Contributions received for tangible capital assets	7,836	25,439
Principal payments on capital lease obligations	(297)	(347)
Net change from financing activities	7,539	25,092
Investing activities:		
Decrease in investments	9,160	58
Net remeasurement gains (losses)	826	(769)
Net change from investing activities	9,986	(711)
Net change in cash and cash equivalents	(10,165)	13,654
Cash and cash equivalents, beginning of year	36,423	22,769
Cash and cash equivalents, end of year	$ 26,258	$ 36,423
Non-cash transaction:		
Tangible capital assets acquired and financed by capital leases	$ 111	$ 73

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Remeasurement Gains and Losses
(in thousands of dollars)
Year ended March 31, 2019, with comparative information for 2018

		2019		2018
Accumulated remeasurement gains (losses), beginning of year	$	(575)	$	194
Unrealized gains (losses) generated during the year from:				
Fixed income investments		270		(1,072)
Mortgage-backed securities and mutual funds		15		(37)
Foreign currency translation		(6)		37
Remeasurement (gains) losses realized and reclassified to the Statement of Operations from:				
Fixed income investments		497		340
Mortgage-backed securities and mutual funds		15		-
Foreign currency translation		35		(37)
Net remeasurement gains (losses) for the year		826		(769)
Accumulated remeasurement gains (losses), end of year	$	251	$	(575)

See accompanying notes to financial statements.

1. Authority and purpose

Kwantlen Polytechnic University ("the University") operates under the authority of the University Act of British Columbia. The University is a not-for-profit entity governed by a Board of Governors, the majority of which are appointed by the provincial government of British Columbia. The University is exempt from income taxes under section 149 of the Income Tax Act.

The University offers career, vocational, developmental and academic programs from its Richmond, Langley and three Surrey campuses located in southwestern British Columbia. The academic governance of the University is vested in the Senate.

2. Summary of significant accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia supplemented by Regulations 257/2010 and 198/2011 issued by the Province of British Columbia Treasury Board.

The Budget Transparency and Accountability Act requires that the financial statements be prepared in accordance with the set of standards and guidelines that are comprised of generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that are comprised of generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Government Organization Accounting Standards Regulation 257/2010 requires all taxpayer supported organizations in the schools, universities, colleges and hospitals sectors to adopt the Canadian Public Sector Accounting Standards ("PSAS") without any public sector ("PS") 4200 elections, effective their first fiscal year commencing after January 1, 2012.

Government Organization Accounting Standards Regulation 198/2011 requires that restricted contributions received or receivable for acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are to be deferred and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded.

Regulation 198/2011 also requires that the contributions restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the period when the stipulation or restriction on the contributions have been met.

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of PSAS which requires government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with PS 3410. Externally restricted contributions are recognized in revenue in the period when the resources are used for the purpose specified in accordance with PS 3100.

2. Summary of significant accounting policies (continued)

(a) Basis of accounting (continued)

As a result, revenue recognized in the Statement of Operations and Accumulated Surplus and certain related deferred capital contributions would be recorded differently under PSAS.

(b) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with a term to maturity of three months or less at the date of purchase.

(c) Financial instruments

Financial instruments are classified into two categories: Fair value or cost.

(i) Fair value category: The University manages and reports performance for groups of financial assets on a fair-value basis. Cash and cash equivalents and investments are reflected at fair value as at the reporting date. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are recorded as an expense. Unrealized gains and losses on financial assets except for those related to restricted endowments are recognized in the Statement of Remeasurement Gains and Losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the Statement of Operations and Accumulated Surplus and related balances reversed from the Statement of Remeasurement Gains and Losses. Unrealized gains and losses on endowment investment assets, where earnings are restricted as to use, are recorded as deferred contributions and recognized in revenue when disposed and when the related expenses are incurred.

(ii) Cost category: Amounts receivable are measured at cost less any amount for valuation allowance. Valuation allowances are made when collection is in doubt.

(d) Inventories for resale

Inventories for resale, including new and used textbooks, course manuals, stationary, art supplies, clothing, crested and non-crested giftware are recorded at the lower of cost or net realizable value. Cost includes the original purchase cost, plus shipping and applicable duties. Net realizable value is the estimated proceeds on sale less any costs to sell. Inventories are written down to net realizable value when the cost of inventories is estimated not to be recoverable. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of write-down previously recorded is reversed.

(e) Contaminated sites

A liability for contaminated sites is recognized when a site is not in productive use and the following criteria are met:

(i) An environmental standard exists;

(ii) Contamination exceeds the environmental standard;

2. Summary of significant accounting policies (continued)

(e) Contaminated sites (continued)

(iii) The University is directly responsible or accepts responsibility;

(iv) It is expected that future economic benefits will be given up; and

(v) A reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

(f) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land and air space parcels, are amortized on a straight-line basis over their estimated useful lives shown below. Land is not amortized as it is deemed to have a permanent value. Work in progress is not amortized until the asset is available for productive use.

	Term
Buildings	40 years
Major site improvements	10 years
Major equipment	10 - 20 years
Library holdings	10 years
Technology infrastructure	8 years
Furniture and equipment	5 years
Computing equipment	3 years
Leased capital assets	shorter of 5 years or lease term

Tangible capital assets are written down when conditions indicate that they no longer contribute to the University's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

2. Summary of significant accounting policies (continued)

(f) Non-financial assets (continued)

(ii) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as obligations under capital lease and are reflected as part of tangible capital assets in the financial statements. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(g) Employee future benefits

The University and its employees make contributions to the College and Municipal pension plans which are multi-employer joint trustee pension 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. As the assets and liabilities of the plans are not segregated by institution, the plans are accounted for as defined contribution plans and any contributions of the University to the plans are expensed as incurred.

The University's sick leave benefits do not vest or accumulate and related costs are expensed as incurred.

(h) Revenue recognition

Tuition and student fees, and sales of goods and services are reported as revenue at the time the services are provided or the products are delivered, and collection is reasonably assured.

Unrestricted donations and grants are recorded as revenue if the amounts can be estimated and collection is reasonably assured. Pledges from donors are recorded as revenue when payment is received by the University or the transfer of property is completed.

Restricted donations and grants are reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

(i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or in the form of a depreciable tangible capital asset, in each case for use in providing services, are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

(ii) Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contribution have been met.

2. Summary of significant accounting policies (continued)

(h) Revenue recognition (continued)

(iii) Contributions restricted to be retained in perpetuity, allowing only the investment income earned thereon to be spent are recorded as endowment donations and as deferred contributions for any unspent restricted investment income earned thereon.

Investment income is reported as part of Other Revenue on the Statement of Operations and Accumulated Surplus and includes interest recorded on an accrual basis, dividends recorded as declared, and realized gains and losses on the sale of investments.

(i) Use of estimates

In accordance with PSAS, the preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures, and the 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. Key areas where management has made estimates and assumptions include those related to the determination of useful lives of tangible capital assets for amortization and the amortization of related deferred capital contributions, accrued liabilities, valuation of accounts receivable, and provisions for contingencies. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

(j) Foreign currency translation

The University's functional currency is the Canadian dollar. Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities which are designated in the fair value category under the financial instrument standard are reflected in the financial statements in equivalent Canadian dollars at the exchange rate in effect on the Statement of Financial Position date. Any gains or losses resulting from a change in rates between the transaction date and the settlement date or Statement of Financial Position date is recognized in the Statement of Remeasurement Gains and Losses. In the period of settlement, the related cumulative remeasurement gain/loss is reversed in the Statement of Remeasurement Gains and Losses and the exchange gains or losses in relation to the exchange rate at the date of the item's initial recognition is recognized in the Statement of Operations and Accumulated Surplus.

(k) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2018-2019 University Budget approved by the Board of Governors on March 28, 2018. The budget is reflected in the Statement of Operations and Accumulated Surplus and the Statement of Changes in Net Debt.

(in thousands of dollars)

3. Cash and cash equivalents

		2019		2018
Cash	$	15,891	$	31,575
Cash equivalents		10,367		4,848
	$	26,258	$	36,423

4. Accounts receivable

		2019		2018
Accounts receivable	$	8,038	$	9,268
Allowance for doubtful accounts		(1,521)		(1,041)
	$	6,517	$	8,227

5. Investments and endowment investments

Investments and endowment investments recorded at fair value are comprised of the following:

		2019		2018
Fixed income investments	$	28,716	$	37,369
Mortgage-backed securities and mutual funds		2,981		3,488
		31,697		40,857
Endowment investments		2,817		2,817
Investments	$	28,880	$	38,040

All fixed income investments held at March 31, 2019 mature at various dates to September 2077 (2018 – September 2077) and bear interest at rates varying from 1.300% – 6.464% (2018 – 1.100% – 6.310%).

PSAS defines the fair value of a financial instrument as the amount of the consideration that would be agreed upon in an arm's length transacton between knowledgeable, willing parties who are under no compulsion to act. The University uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Statement of Financial Position under the following captions:

- Cash and cash equivalents, accounts receivable, and accounts payables and accrued liabilities – the carrying amounts approximate fair value because of the short maturity of these instruments.
- Investments – the carrying amounts are shown at fair value based on quoted prices (unadjusted) in active markets.

(in thousands of dollars)

5. Investments and endowment investments (continued)

The financial instruments measured at fair value held within each investment are classified according to a hierarchy which includes three levels, reflecting the reliability of the inputs involved in the fair value determination. The different levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The University's investments are all considered to be level 1 financial instruments for which the fair value is determined based on quoted prices in active markets. Changes in fair valuation methods or in the availability of market observable inputs may result in a transfer between levels. During the year there were no significant transfers of securities between the different levels.

6. Accounts payable and accrued liabilities

	2019	2018
Accounts payable and accrued liabilities	$ 13,338	$ 24,547
Salaries and wages payable	3,439	2,791
Accrued vacation payable	10,621	10,338
	$ 27,398	$ 37,676

7. Employee future benefits

(a) Pension benefits

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan (jointly trusteed pension plans). The boards of trustees for these plans, representing plan members and employers, are responsible for administering the pension plans, including investing assets and administering benefits. The plans are multi-employer defined benefit pension plans. Basic pension benefits are based on a formula. As at August 31, 2018, the College Pension Plan has about 14,000 active members, and approximately 8,000 retired members. As at December 31, 2017, the Municipal Pension Plan has about 197,000 active members, including approximately 6,000 from colleges.

Every three years, an actuarial valuation is performed to assess the financial position of the plans and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plans. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plans. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

7. Employee future benefits (continued)

(a) Pension benefits (continued)

The most recent actuarial valuation for the College Pension Plan as at August 31, 2015, indicated a $67 million surplus for basic pension benefits on a going concern basis.

The most recent valuation for the Municipal Pension Plan as at December 31, 2015, indicated a $2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, $1,927 million was transferred to the rate stabilization account and $297 million of the surplus ensured the required contribution rates remained unchanged.

The next valuation for the College Pension Plan will be as at August 31, 2018, with results available in 2019. The next valuation for the Municipal Pension Plan will be December 31, 2018, with results available in 2019.

Employers participating in the plans record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plans record accrued liabilities and accrued assets for each plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

The University incurred $10,095 for employer contributions to the plans in the current year (2018 – $9,255).

(b) Maternity or parental leave

The University provides supplemental employee benefits for faculty, staff and administration on maternity or parental leave. For the duration of the leave, employees on maternity or parental leave receive a supplemental payment added to employment insurance benefits. Employer-paid benefits also continue to be paid on the employees' behalf. The University has expensed $559 in the current year (2018 – $270). As at March 31, 2019, the University has an obligation of $357 (2018 – $262) which has been included in salaries and wages payable.

(in thousands of dollars)

8. Deferred contributions

Deferred contributions represent the unspent externally restricted grants and contributions that will be used in future periods for academic programming and student awards, as specified by the contributor.

	2018	Amounts received	Recognized as revenue	2019
Provincial	$ 2,849	$ 4,318	$ (4,377)	$ 2,790
Federal	244	884	(675)	453
Other sources	706	908	(998)	616
	$ 3,799	$ 5,202	$ (6,050)	$ 3,859

9. Deferred capital contributions

Changes in deferred capital contributions balance are as follows:

	2018	Amounts received	Recognized as revenue	2019
Provincial	$ 134,648	$ 6,411	$ (6,489)	$ 134,570
Federal	9,948	509	(473)	9,984
Other sources	14,508	916	(650)	14,774
	$ 159,104	$ 7,836	$ (7,612)	$ 159,328

10. Obligations under capital lease

The University has entered into capital leases to finance computers and equipment at an estimated cost of borrowing of 3.10% (2018 – 2.46%) per annum. The principal and interest payments are as follows:

	2019	2018
2019	$ -	$ 288
2020	161	126
2021	61	31
2022	24	-
2023	10	-
Total minimum capital lease payments	256	445
Less amounts representing interest	(9)	(12)
Present value of net minimum capital lease payments	$ 247	$ 433

Total interest payment on capital leases for the year was $11 (2018 – $16).

(in thousands of dollars)

11. Tangible capital assets

	Land	Buildings	Major site improvements	Major equipment	Library holdings	Technology infrastructure	Furniture & equipment	Computing Equipment	Leased capital assets	Work in progress (WIP) [1]	Total
2019 Cost											
Opening balance	$ 20,040	$230,298	$ 20,982	$ 4,588	$ 8,387	$ 3,390	$ 61,118	$ 6,648	$ 1,858	$ 26,495	$ 383,804
Additions	-	23,105	14,394	1,332	342	476	3,957	1,400	111	992	46,109
Transfer to/(from) WIP	1,445	13,162	7,809	700	-	-	3,379	-	-	(26,495)	-
Closing balance	21,485	266,565	43,185	6,620	8,729	3,866	68,454	8,048	1,969	992	429,913
2019 Accumulated amortization											
Opening balance	-	(82,946)	(9,879)	(400)	(6,191)	(713)	(50,854)	(5,492)	(1,396)	-	(157,871)
Amortization	-	(6,211)	(3,114)	(435)	(479)	(454)	(4,827)	(843)	(298)	-	(16,661)
Closing balance	-	(89,157)	(12,993)	(835)	(6,670)	(1,167)	(55,681)	(6,335)	(1,694)	-	(174,532)
2019 Net book value	$ 21,485	$177,408	$ 30,192	$ 5,785	$ 2,059	$ 2,699	$ 12,773	$ 1,713	$ 275	$ 992	$ 255,381
2018 Net book value	$ 20,040	$147,352	$ 11,103	$ 4,188	$ 2,196	$ 2,677	$ 11,420	$ -	$ 462	$ 26,495	$ 225,933

1. As at March 31, 2019, work in progress with a value of $992 (2018 - $26,495) has not been amortized. Amortization of these assets will commence when the assets are put into productive use.

12. Financial risk management

The University has exposure to certain risks from its use of financial instruments.

The Board of Governors ensures that the University has identified its major risks and ensures that management monitors and controls them.

(a) Credit risk

Credit risk is the risk of financial loss to the University if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from certain financial assets held by the University consisting of cash and cash equivalents, investments and accounts receivable.

The University manages credit risk with established investment guidelines for its investment management companies to follow in managing its investment portfolios. The guidelines limit investments to those with BBB- or greater credit rating. The University does not invest in any derivatives.

(b) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the University's income. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing the return on risk.

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

It is management's opinion that the University is not exposed to significant market or interest rate risk arising from its financial instruments.

(c) Liquidity risk

Liquidity risk is the risk that the University will not be able to meet its financial obligations as they become due.

The University manages liquidity risk by continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the University's reputation.

(in thousands of dollars)

13. Contractual obligations

The nature of the University's activities can result in multi-year contracts and obligations whereby the University will be committed to make future payments. Significant contractual obligations related to operations that can be reasonably estimated are as follows:

	2020	2021	2022	2023	2024
Capital leases	$ 161	$ 61	$ 24	$ 10	$ -
Service contracts	11,592	3,006	696	73	-
Total	$ 11,753	$ 3,067	$ 720	$ 83	$ -

14. Commitments and contingent liabilities

(a) The University may, from time to time, be involved in legal proceedings, claims, and litigation that arise in the normal course of operations.

There are several lawsuits pending in which the University is involved. It is considered that the potential claims against the University resulting from such litigation would not materially affect the financial statements of the University.

(b) The University committed to the building of the Chip and Shannon Wilson School of Design at the Richmond campus for the Faculty of Design. The project, which has a total budget of $36,000, was substantially complete by December 2017. As at March 31, 2019, the University received $12,000 (2018 – $12,000) from Chip and Shannon Wilson and lululemon athletica Canada Inc., and $12,000 (2018 – $12,000) from provincial funding. The University's contribution toward this project is $12,000 per the budget approved by the Board. As at March 31, 2019, the University incurred costs of $34,996 (2018 – $33,933) for this project, with the anticipated remaining costs of $1,004 (2018 - $2,067) to be incurred in fiscal 2020.

(c) The University has entered into an agreement to purchase five office floors at Civic Plaza in central Surrey to provide additional classroom space to meet future student demand. The construction of the space was substantially completed in late June 2018 and the five floors were purchased on June 28, 2018. The purchase price for the five office floors including goods and service tax was $24,195 and was funded by the University. The construction cost for the interior classroom space and the cost of furnishing totalled $14,472 (2018 – $7,095). Civic Plaza was officially opened by January 2, 2019. As at March 31, 2019, the total cost incurred for the five floors, and completion of the interior construction and furnishing was $38,667 (2018 – $7,095), with the anticipated remaining costs of $638 to be incurred in fiscal 2020.

(d) The University has entered into an agreement for the construction and upgrade of the Spruce building on the Surrey campus in fiscal 2018. The project was funded by $22,000 from Government of Canada's Strategic Investment Fund and provincial funding. As at March 31, 2019, the total cost incurred to build the new addition and the renovation of the existing Spruce building was $23,491, of which $22,000 was funded by Government of Canada and the Province of British Columbia.

(in thousands of dollars)

14. Commitments and contingent liabilities (continued)

(e) The University has the ability to draw on a line of credit with a commercial bank for $7,500 (2018 – $7,500). As at March 31, 2019, the University has not utilized the available line of credit.

(f) As at March 31, 2019, the University has issued two letters of credit to the City of Surrey totalled $294 (2018 – $294) which expire on January 25, 2020. These letters of credit are automatically renewed each year and will terminate once the City of Surrey advises the University that the guarantees are not required.

15. Related party transactions

The University is related through common ownership to all Province of British Columbia ministries, agencies, school districts, health authorities, colleges, universities, and crown corporations. Transactions with these entities, unless disclosed separately, are considered to be in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Significant related party transactions with the provincial government entities are as follows:

Revenue and expenses:

Included in revenue	2019	2018
Ministry of Advanced Education, Skills and Training – grants and revenue recognized in deferred contributions	$ 72,064	$ 71,512
Other provincial government entity – grants and revenue recognized in deferred contributions	3,161	3,159
	$ 75,225	$ 74,671

Included in expenses	2019	2018
Ministry of Advanced Education, Skills and Training	$ 202	$ 211
Other provincial government entity	1,466	1,153
Other provincial university	340	338
	$ 2,008	$ 1,702

Receivables and payables:

Included in accounts receivable	2019	2018
Ministry of Advanced Education, Skills and Training	$ 928	$ 1,616

There are $nil (2018 - $nil) amounts included in accounts payable for related party transactions with the provincial government entities.

(in thousands of dollars)

15. Related party transactions (continued)

Related party transactions with key management personnel:

During the year, the key management personnel, comprised of the Board of Governors and the University's Executives, have $nil (2018 – $nil) related party transactions with the University with respect to the delivery of goods and services, and payment of fees that were transacted at non-arms' length. As at March 31, 2019, the University had a net receivable of $nil (2018 – $nil) and a net payable of $nil (2018 – $nil) with respect to these transactions.

16. Contingent assets

The University has $nil of contingent assets as at March 31, 2019 and 2018.

17. Contractual rights

The University may, from time to time, enter into contracts or agreements in its normal course of operations that will result in the realization of assets and revenues in future fiscal years. The University is a recipient of research grants from various federal, provincial and municipal funding agencies. During the year, the University has entered into a three-year lease agreement with an optional two year renewal with the City of Surrey to lease the fifth floor of Civic Plaza for $133 per year, and various multi-year research funding agreements whereby the University has the opportunity to earn revenue in future years by incurring qualified expenditures. These lease and research funding agreements do not abnormally impact the University's financial position and do not guarantee the University the right to future funding.

18. Expenses by object

The following is a summary of expenses by object:

	Instruction, research, and support	Ancillary operations	2019
Salaries and benefits	$ 135,044	$ 1,090	$ 136,134
Travel and professional development	2,894	20	2,914
Supplies	4,326	14	4,340
Student awards, bursaries and donations	3,425	-	3,425
Fees and services	15,589	378	15,967
Facilities	8,374	515	8,889
Cost of sales	-	3,375	3,375
Leases, property taxes, insurance	930	36	966
Amortization of tangible capital assets	16,345	316	16,661
	$ 186,927	$ 5,744	$ 192,671

(in thousands of dollars)

18. Expenses by object (continued)

		Instruction, research, and support		Ancillary operations	2018
Salaries and benefits	$	124,034	$	1,119	$ 125,153
Travel and professional development		2,897		8	2,905
Supplies		4,479		54	4,533
Student awards, bursaries and donations		1,303		-	1,303
Fees and services		15,269		326	15,595
Facilities		7,288		320	7,608
Cost of sales		-		3,807	3,807
Leases, property taxes, insurance		905		34	939
Amortization of tangible capital assets		12,877		249	13,126
	$	169,052	$	5,917	$ 174,969

19. Comparative figures

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction:

Vision 2023 has clearly set out the organizational direction for financial management, and we will continue to work on the priority of "aligning our operations with our resources". A number of projects are underway to ensure that we better understand, manage, and utilize our finite financial resources, including refinements to our financial budgeting and reporting processes. We will be taking a more targeted approach to asset management, and implementing life-cycle refresh strategies in alignment with organizational needs. Furthermore, we will continue to ensure transparent communication with the KPU community, providing updates and educational sessions to demonstrate our continued commitment to prudent financial management and the BC Taxpayer Accountability Principles.

This MD&A, designed to supplement the fiscal 2019 audited financial statements, provides an overview of the following topics:

1. BC Post-Secondary Sector Financial Context
2. Financial Highlights
3. Risks and Uncertainties
4. Current Operating Environment
5. Looking Ahead

1. BC Post-Secondary Sector Financial Context:

The publicly funded BC Post-Secondary sector must report its financial statements using Public Sector Accounting Standards ("PSAB") and any supplemental guidance provided by Section 23.1 of the BC *Budget Transparency and Accountability Act*.

Additionally, the sector is subject to Balanced Budget requirements. This means that in any given fiscal period, revenues must exceed expenditures (i.e. there must be an operating surplus), as reported under the PSAB accounting framework and the Province's reporting mandate. This is a complex operating environment, and longer term planning is required to ensure an annual operating surplus each year, regardless of historical surpluses, cash flow and an organization's ability to service a deficit.

Opportunities to increase tuition revenue are limited, as the government has also mandated a 2% per year limit on domestic tuition increases. And while international tuition rate increases are not limited by government, discretion must be used when setting rates to ensure that they are competitive within the international student market.

Government operating grants have also been relatively static over the past several years. For many organizations, including KPU, government grants are provided in parallel to government FTE targets, meaning that changes in targets do not necessarily result in increased financial support.

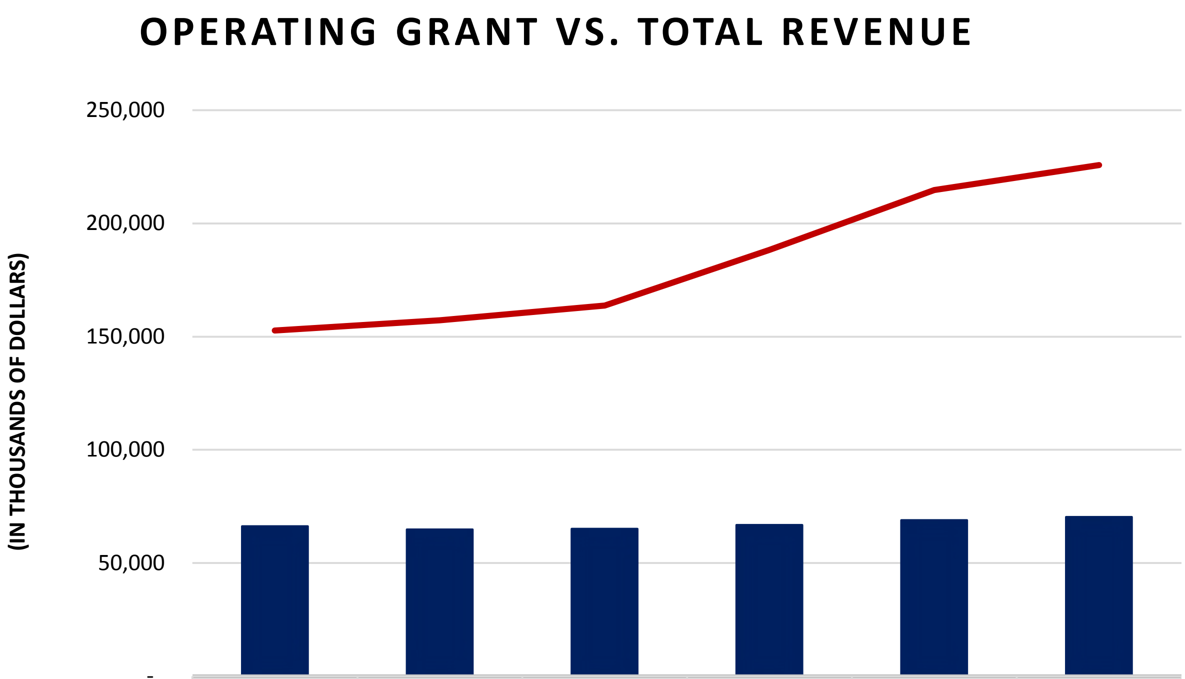
2. Financial Highlights:

KPU finished the 2018/19 fiscal year with a surplus of $22 million. While this may seem like a large surplus, it is important to understand it in the context of the broader financial picture and take a long-term approach to understanding financial health and sustainability.

The surplus is a result of two main factors. The first factor was higher than anticipated international enrolment resulting in an increase in international tuition of $13 million over budget. This international enrolment growth trend is expected to reverse in fiscal 2020 and consequently these funds were not committed to long-term liabilities, such as employee salary, as they will likely not be available in subsequent years. The second factor was an underspent salary and benefits budget of approximately $7 million. This is due largely to employee turnover and unfilled positions.

Government Grants

Operating grant funding from the Province remained relatively flat in fiscal 2018/19. The proportion of KPU's revenue that is funded by provincial grants has been decreasing in recent years (see Figure 1). This means that we are increasingly reliant on tuition and ancillary revenues to fund our ongoing obligations, including inflationary pressures.



	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 (Budget)
Operating grant	66,328	64,904	65,195	66,884	68,912	70,357
Total revenue	152,634	157,264	163,726	188,253	214,730	225,730

Figure 1 – Provincial Operating Grant vs. Total Revenue

Student Tuition & Fees

Increases in international revenues have been, and continue to be, the main driver of growth at KPU (see Figure 2). Tuition for international students is higher than that of domestic students because there is no government grant associated with them. International revenue increased by 50%, which is the result of increased tuition rates, increased enrolment and greater delivery efficiency (see Figure 2). International tuition is now KPU's single largest revenue stream.

While we are cautiously optimistic about the efficiency improvements we have seen in the delivery of academic programming, future year surpluses are unlikely to result from increases in international tuition, whether through either increased student enrolment or tuition rate adjustments.

International tuition is discussed more in the *Risks and Uncertainties* section below.

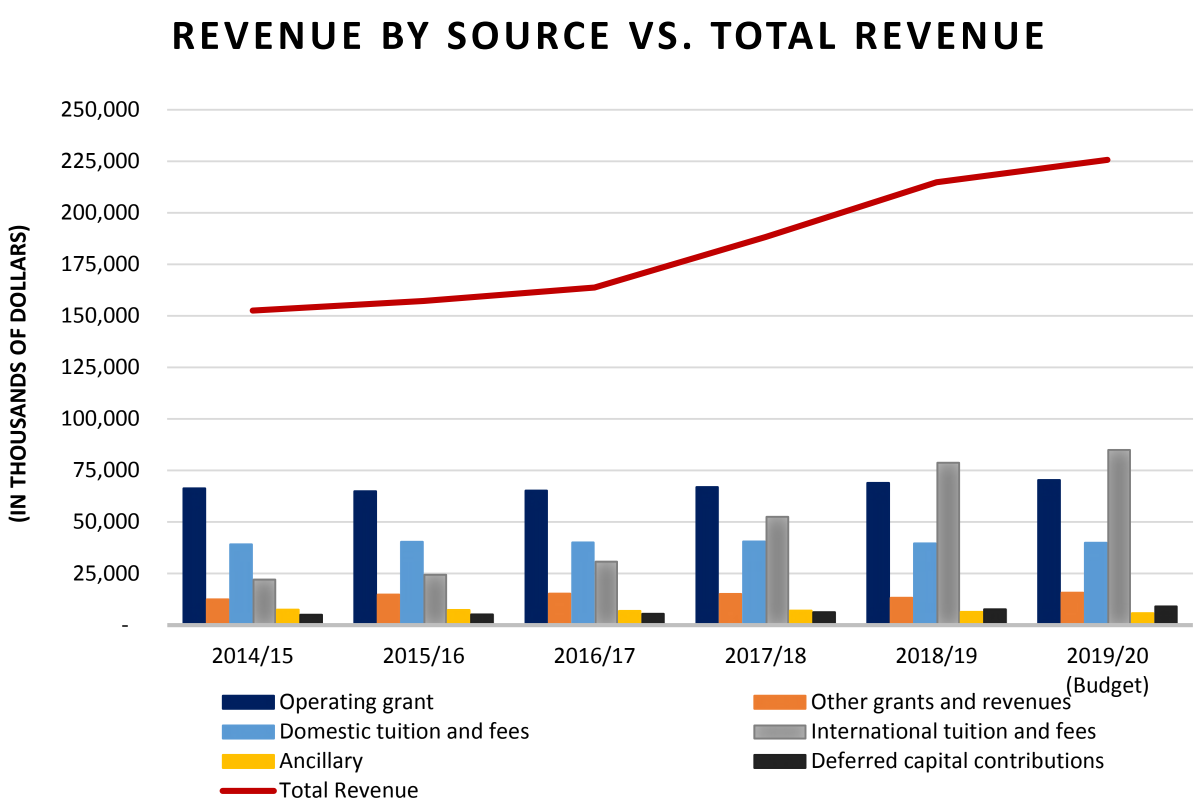
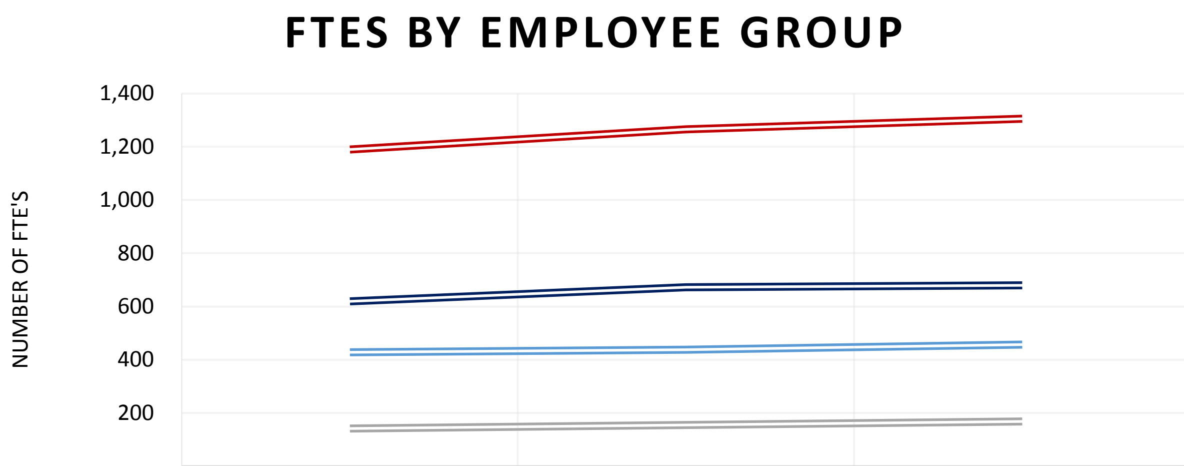


Figure 2 – Revenue by Source

Salaries and Benefits

Salaries and benefits are KPU's single largest expenditure. Employee related expenses increase with enrolment growth to ensure that students are supported both academically and administratively. In fiscal 2019 there was an increase in salaries and benefits by approximately $11 million, or 9% year-over-year. This growth reflects collectively bargained increases, step increases for administrative staff, and growth in employee numbers. Figure 3, below, shows the growth in our faculty, staff and administration full time equivalents (FTEs) over a three-year period. All staffing groups have increased proportionally during this period.



	2017	2018	2019
GEU Staff	429	438	457
Faculty	620	672	680
Admin	142	155	168
Total	1,190	1,265	1,305

GEU Staff Faculty Admin Total

Figure 3 – FTEs by Employee Group

Amortization Expense

Amortization expense reflects the ongoing operational cost of large capital assets that have a useful life beyond one fiscal period. The intent of amortization expense is to distribute the one-time cost of an asset over the lifespan of the asset's service. These annual expenses reduce the amount that can be allocated in the budget process, as there is an operating expense impact for amortized assets not funded by the Province.

Due to the completion of several significant capital projects, including the Wilson School of Design, Civic Plaza, and Spruce renovation, KPU's amortization expense has grown by 42% over a three-year period (see Figure 4). In order to manage our long-term amortization and maintain current expenditure levels, our capital budget process is being refined for the fiscal 2020 budget.

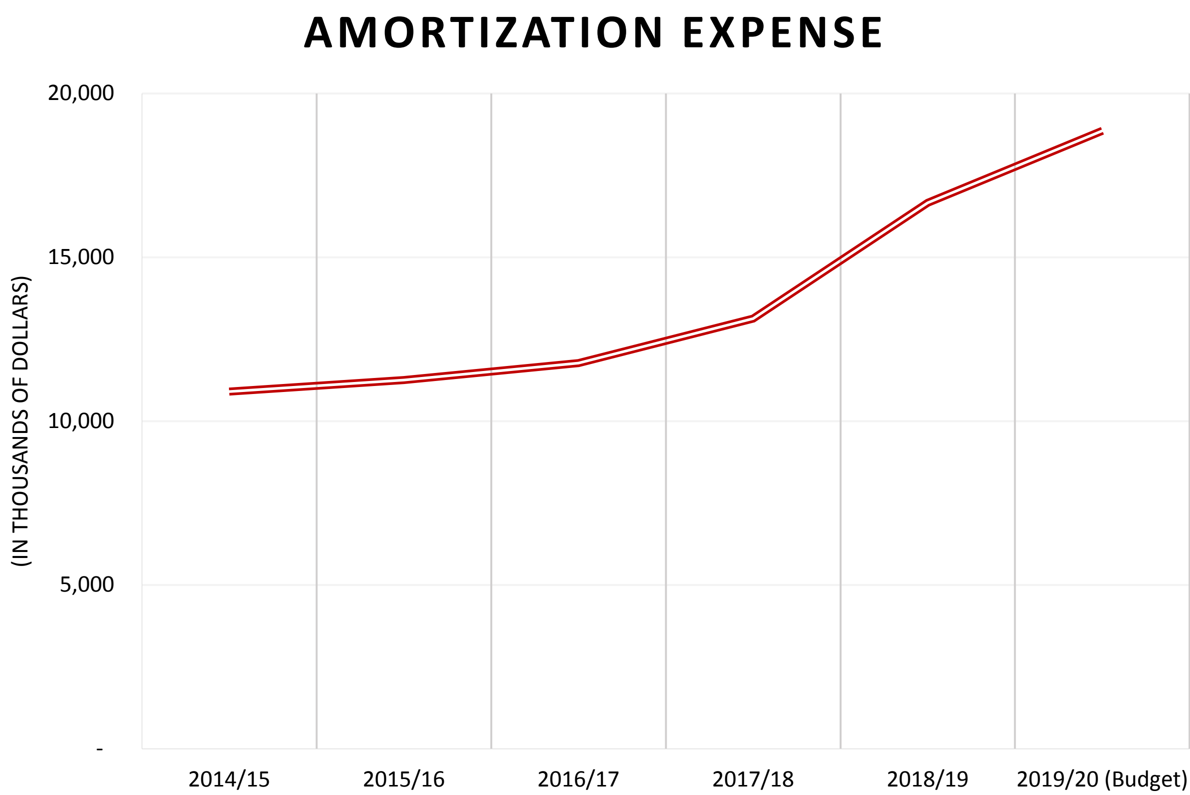


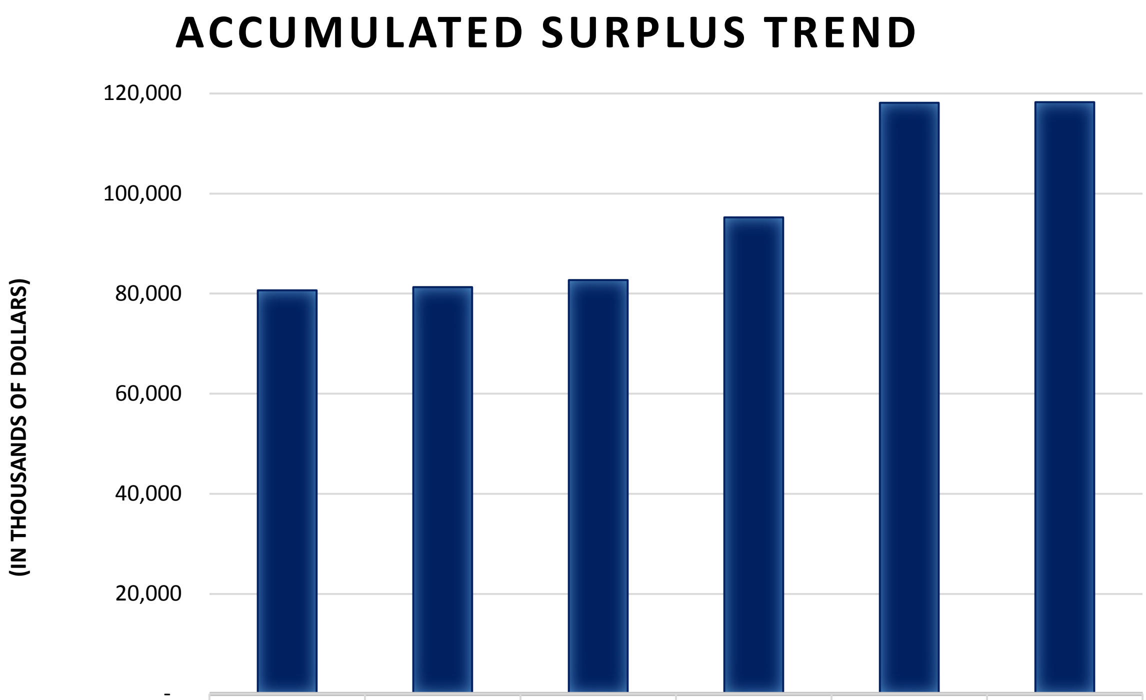
Figure 4 – Amortization

Non-salary Expenses

Non-salary expenditures, including amortization expenses, continued to increase in fiscal 2019 (up approximately 13%, or $6.7 million) as our new infrastructure became operational. As our overall square footage increased by approximately 10%, these increased cost pressures were expected.

Accumulated Surplus

Accumulated Surplus (see Figure 5 below) represents the University's remaining interest in its net assets (assets minus liabilities). This balance is largely unavailable to fund KPU operations, as it has either already been invested in capital assets, or has been internally or externally restricted. Some of this balance does reflect cash available for use; however, these funds cannot be spent without violating the Balanced Budget stipulations noted above, as a fiscal deficit would result. Investment returns from these funds can be used for operating activities though, and Financial Services is in the process of refining our investment policy to seek higher returns to offset ongoing inflationary cost pressures.



	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 (Budgeted)
Accumulated Surplus	80,648	81,326	82,714	95,229	118,115	118,275

Figure 5 – Accumulated Surplus Trend

3. Current Operating Environment:

The financial context for the BC post-secondary sector is one that is tightly constrained by government, and organizations face increasing cost pressures. Of particular concern for KPU is inflation, which continues to put significant pressure on operating costs due to the nature and geographical location of our multi-campus, asset-rich environment. In addition, expenditures are rising from net new activities largely driven by the success of our scholarship and research programs, and from faculty and student innovation.

Resourcing also continues to be a challenge for many of KPU's operational units. Budgets have not caught up to the increases in work related to international student enrolment increases, and we have not returned to the relative resourcing observed in fiscal 2014, prior to the rapid international growth.

Given these challenges, we will maintain our focus on addressing low-dollar, high-impact priorities, and ensuring that administrative units work effectively to achieve operational excellence and continually improve service to students and faculty.

4. Risks and Uncertainties:

KPU is operating in an increasingly complex environment—from a competative, financial, regulatory, research and scholarship, and innovation perspective—and employs an Enterprise Risk Management (ERM) methodology to manage the significant risks associated with University operations.

International Tuition Revenues

KPU's largest financial risk is related to the current levels of international tuition and the overall reliance on this revenue stream. As KPU's tuition revenues have grown, so have the University's physical infrastructure and number of employees, representing an increased reliance on the current levels of international tuition for long-term sustainability. It is also important to note that of our three primary revenue drivers—government grants, domestic and international tuition—international tuition is our most volatile (see Figure 6 below). A number of factors, including geo-political and immigration policy changes, can substantially impact this revenue stream with little notice.

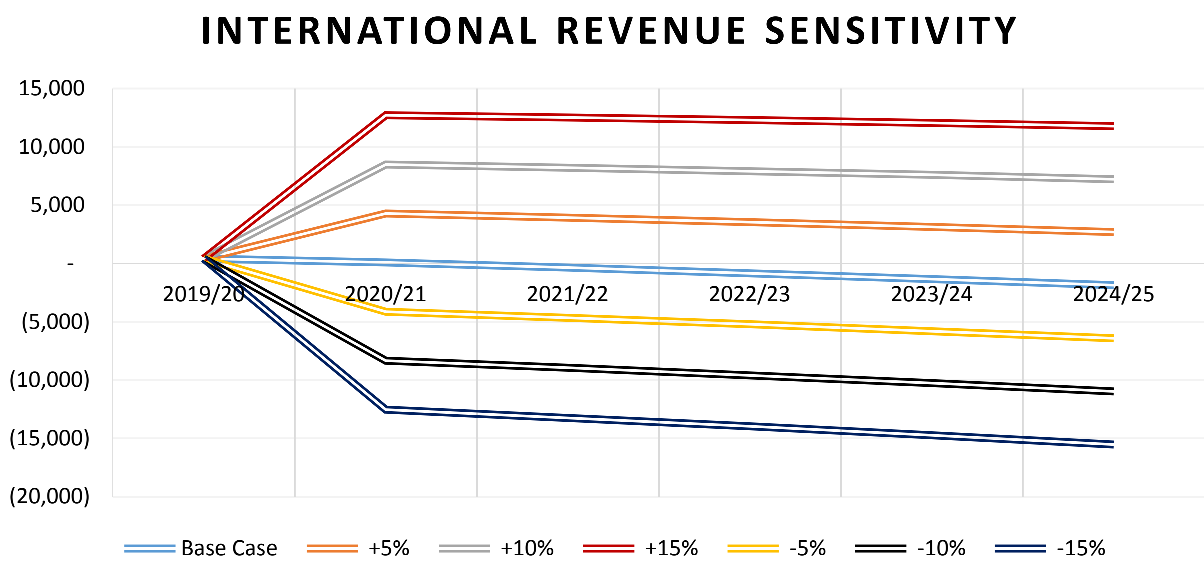


Figure 6 – International Revenue Sensitivity

Figure 6 above shows KPU's international tuition revenue sensitivity to changes in international enrolment. A decrease in international enrolment of 15%, which could occur within a single year, would result in a revenue loss of over $12m. Furthermore, inflation is expected to outpace allowable tuition increases, as illustrated in Figure 6's downward trend. Over the past few years, international growth has exceeded expectations, allowing for growth of faculty, staff, students and infrastructure. This growth, however, appears to be slowing (see Figure 7 below): this represents a significant financial risk, as we must ensure a balanced budget even if international student enrolments decline.

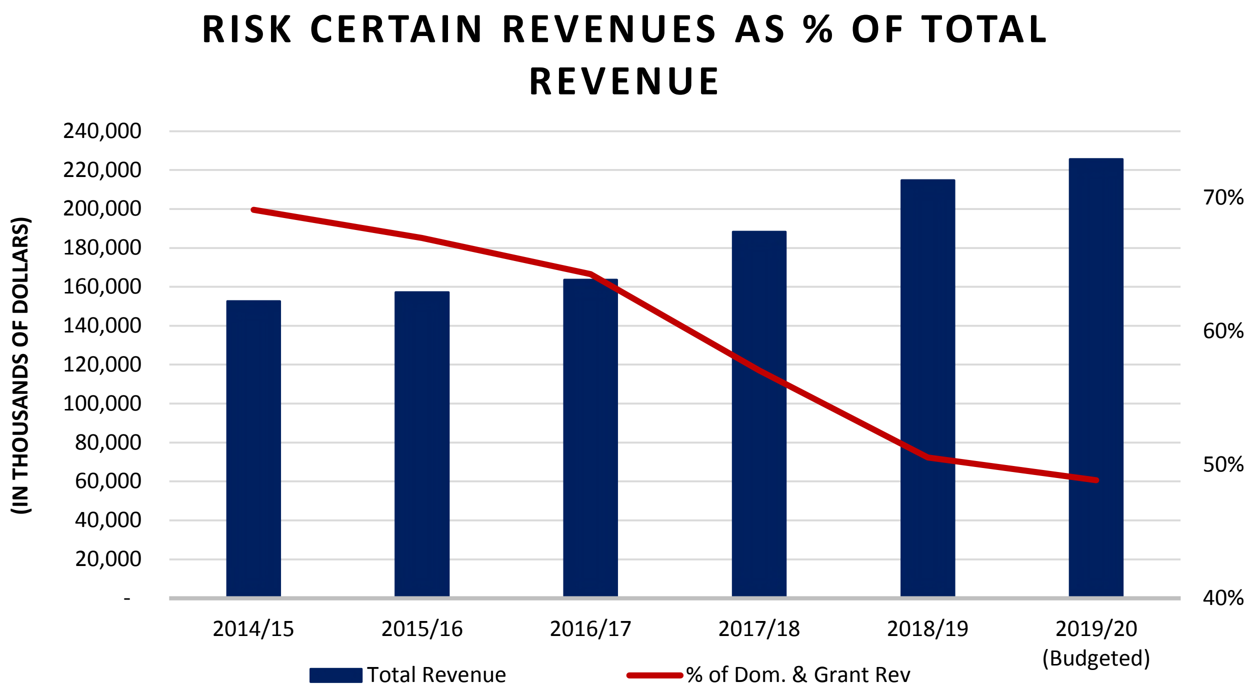


Figure 7 – Risk Certain Revenues As Percentage of Total Revenue

Figure 8 below shows the enrolment separated out by semester and fiscal year. As is apparent, international enrolment is declining as indicated by the application graph above.

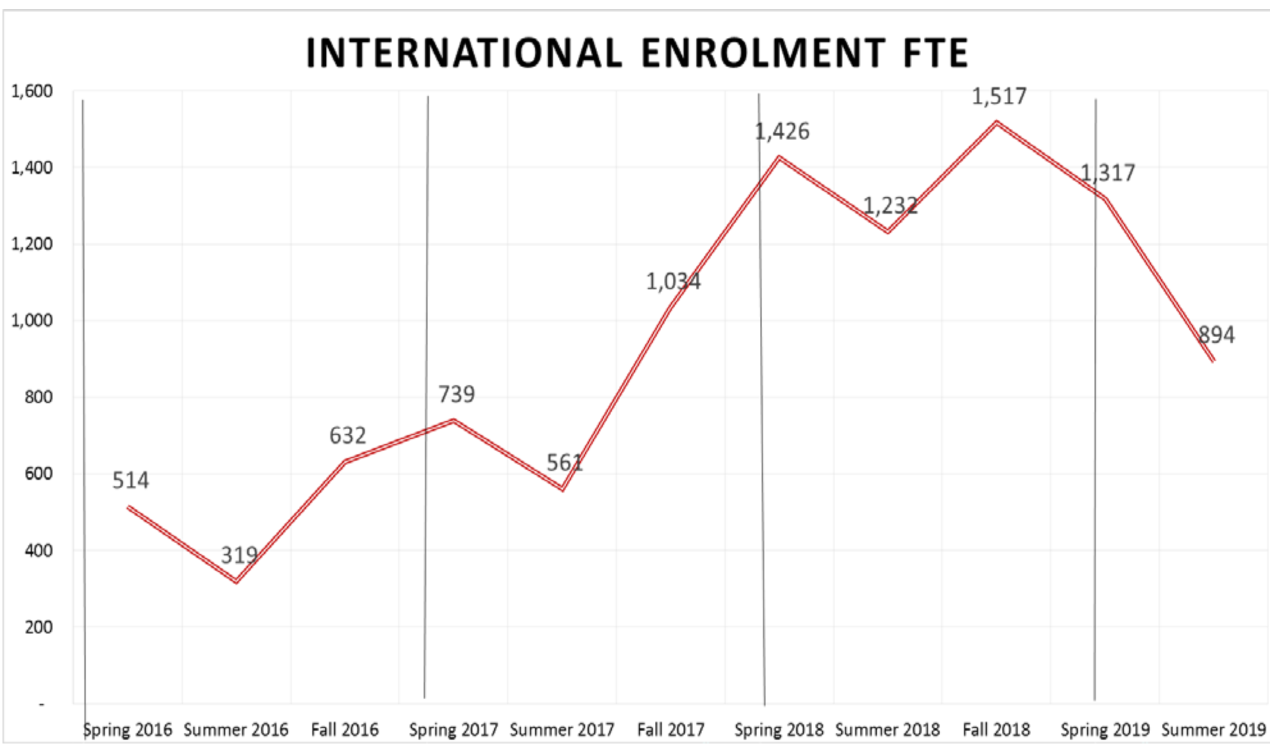


Figure 8 – International Enrolment FTE

Deferred Maintenance

Deferred maintenance refers to the maintenance costs of physical infrastructure that have been deferred due to limited resources or resource prioritization. Adequate resourcing for deferred maintenance is a significant risk for many government organizations, including KPU. While we are at risk of an unanticipated infrastructure issue, particularly with some of our older assets, we continue to work closely with government to develop mitigation strategies.

5. Looking Ahead:

Continuing to manage cost pressures and effective strategic enrolment management will be essential elements in our goal to better align operational activities with available resources and provide ongoing financial sustainability.

This year we will be restructuring our budget approach and completing our first five-year draft budget to support this alignment, and create cost predictability for students and expenditure stability and flexibility for employees.

We will also look to diversify our revenue streams and mitigate risks associated with dependence on tuition revenue. A property development team was created as part of the fiscal 2020 budget process with the aim of monetizing one of KPU's competitive advantages, our real estate portfolio. The expectation is that revenues derived from our real estate holdings will help to offset inflationary cost pressures and reduce the reliance on international student tuition.