



KWANTLEN
POLYTECHNIC
UNIVERSITY



FINANCIAL SERVICES

March 31, 2020 ANNUAL REPORT

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EXECUTIVE DIRECTOR'S MESSAGE

I am pleased to present KPU's second Management Discussion and Analysis ("MD&A") of our financial information for the year ended March 31, 2020 ("FY 2020"). The Financial Services team has prepared this document with the aim of helping the KPU community, and other stakeholders, gain a better understanding of KPU's financial health. The goal of the MD&A is to support continued discussions about the University's overall financial sustainability. I recommend that this MD&A be read in conjunction with the FY 2020 audited financial statements, which have been included at the end of this document.

Over the past several years, KPU has been fortunate to see tremendous growth through increased international student enrolment. While international student enrolment decreased slightly in FY 2020, revenue from international student tuition is by far the second largest revenue source at 32% of total revenue. This presents both opportunity and risk.

In alignment with KPU's Vision 2023 and Academic Plan, and with a focus on improving student experience, revenue from international student tuition can allow KPU to increase student support services, expand IT infrastructure, improve teaching and learning resources, as well as to undertake and maintain major capital projects.

There is a risk, however, of developing a dependency on revenue streams which are uncertain and inherently volatile. We have seen over the past few years the impact that foreign policy and politics can have on a global level. In the current environment we are only starting to gain an understanding as to what effects the COVID-19 pandemic will have on a global level, not to mention how the ongoing pandemic will affect KPU's revenue streams, especially international student tuition revenue. KPU must continue to be very careful not to commit to long-term liabilities based on volatile and potentially unsustainable revenue.

Over the next few years, KPU will continue to focus on improving financial stability and sustainability. In FY 2020 KPU started to see the benefits of integrated planning and enrolment management, referred to as Strategic Enrolment Management (SEM). Although the impact of the pandemic has been, and still is, an unknown at this time with respect to enrolment for the fall 2020 and spring 2021 semesters, the SEM models continue to be refined and provide tremendously useful information for our budgeting and forecasting, as well as helping to maximize the number of sections offered. SEM, together with ongoing improvements in our budgeting and reporting processes and financial framework, will provide the necessary support and structure to ensure KPU achieves the goals outlined in Vision 2023, and the academic excellence described in the Academic Plan.

KPU must continue to embrace the principle of financial prudence and work collaboratively to achieve our goals. While doing so will require some challenging decisions, I am confident that the KPU community will continue to build the sustainable foundation necessary to ensure KPU's continuity in to the future and to continue to provide quality education to the region.

I look forward to working with the KPU community in the coming year to increase financial accountability and transparency, and to proactively address our financial challenges while ensuring KPU continues to maintain the high quality teaching and learning experience we are known for.

Sincerely,



Candice Gartry, CPA, CGA
Executive Director, Financial Services (*Interim*)



KPU FACTS



KPU IS CANADA'S ONLY POLYTECHNIC UNIVERSITY



polytechnic [pol-ee-tek-nik]

adjective: of, relating to, or offering instruction in a variety of industrial arts, applied sciences or technical subjects.

noun: a school or other institution in which instruction in technical subjects is given.

7 FACULTIES
OFFERING OVER
120

DIVERSE DEGREE, DIPLOMA,
CERTIFICATE AND CITATION PROGRAMS.



More than **19,000** students enrolled in **2019-2020** of which almost **5,000** are international students.

KEY FISCAL 2020 FINANCIAL FIGURES

Total Revenues: **\$210** million
Total Assets: **\$358** million



More than **60,000** registered alumni around the world since KPU was established in **1981**.

KPU has a maximum class size of **35** students providing access to **1:1** support



Over

249,384

Students educated at KPU to date

5 Campuses across
Metro Vancouver



Surrey



Langley



Richmond



Cloverdale



Civic Plaza



KPU is a teaching-focused University, with over **1,800** faculty and support staff.

KPU offers the only **BREWING DIPLOMA** of its kind in BC and is the first brewing program in Canada to be recognized by the Master Brewers Association for a standard of excellence in brewing education.



STUDENT ENGAGEMENT





➤ **Accessibility Services**

Accessibility Services at KPU is committed to making KPU campuses, classrooms, and opportunities inclusive and accessible. Where academic and campus experiences present barriers, Accessibility Services team members work together to increase access. Accessibility Services works with students who require personalized plans to ensure access to the University and success in achieving academic goals, while engaging with faculty and staff to develop accommodation solutions and design accessible academic and university experiences.

➤ **Central Academic Advising**

Central Academic Advising engages in collaborative practices to enhance the development, progression, and retention of KPU students. Through guidance and the use of leading and innovative practices, Central Academic Advising empowers students towards student success.

➤ **Career Development Centre**

The Career Development Centre (“CDC”) connects students with employers and community partners, supports students to become employment-ready through job search preparation, employment and volunteer opportunities, co-operative education, and career advising. The CDC offers a range of programs and services related to on-campus and external employment, and volunteer opportunities across four units: Career Development Services, Co-operative Education, Employer Relations, and Volunteer Services.

➤ **Counselling Services**

Counselling Services at KPU strives to improve students’ resilience to distress and increase their repertoire of coping strategies as they navigate through their university experience, empowering them to overcome barriers to their success.

Counselling Services operates within a short-term or intermittent model of individual treatment, in order to maximize KPU’s resources in meeting student counselling needs. Those whose needs cannot be accommodated within this treatment model are referred to community resources. Such referrals might occur immediately following an intake, or they might occur after some treatment and a further assessment of need has taken place.

➤ **Indigenous Services for Students**

Indigenous Services for Students works collaboratively with multiple departments across the University to support the success of Indigenous learners, while acknowledging the diversity in their identities, cultures, and languages as they pursue their academic studies.

➤ **Student Health Promotion**

The Student Health Promotion department was formed in January 2019 with the goal of supporting the six dimensions of wellness, as identified by the Health University Initiative: social, emotional, mental, physical, spiritual and financial. KPU recognizes the fundamental role wellness plays in student success and strives to support individuals in attaining their full potential.

➤ The Learning Centres

The Learning Centres support students in their learning, development, and success by enhancing study skills and learning strategies to achieve their academic goals. Programming is available across all five campuses and online at no cost to students. Services are based on a Learning Excellence model that includes general, complementary, integrated, and embedded supports to foster student success and encourage a desire for lifelong learning.

➤ The Multi-Faith Centre

The Multi-Faith Centre supports the spiritual well-being of the KPU community and provides opportunities for individuals to learn, connect, and engage in meaningful discussion on secular and religious issues. The team consists of faith-based and secular volunteers who support and believe in the importance of inter-faith collaboration and learning from each other.

➤ Orientation & Transitions

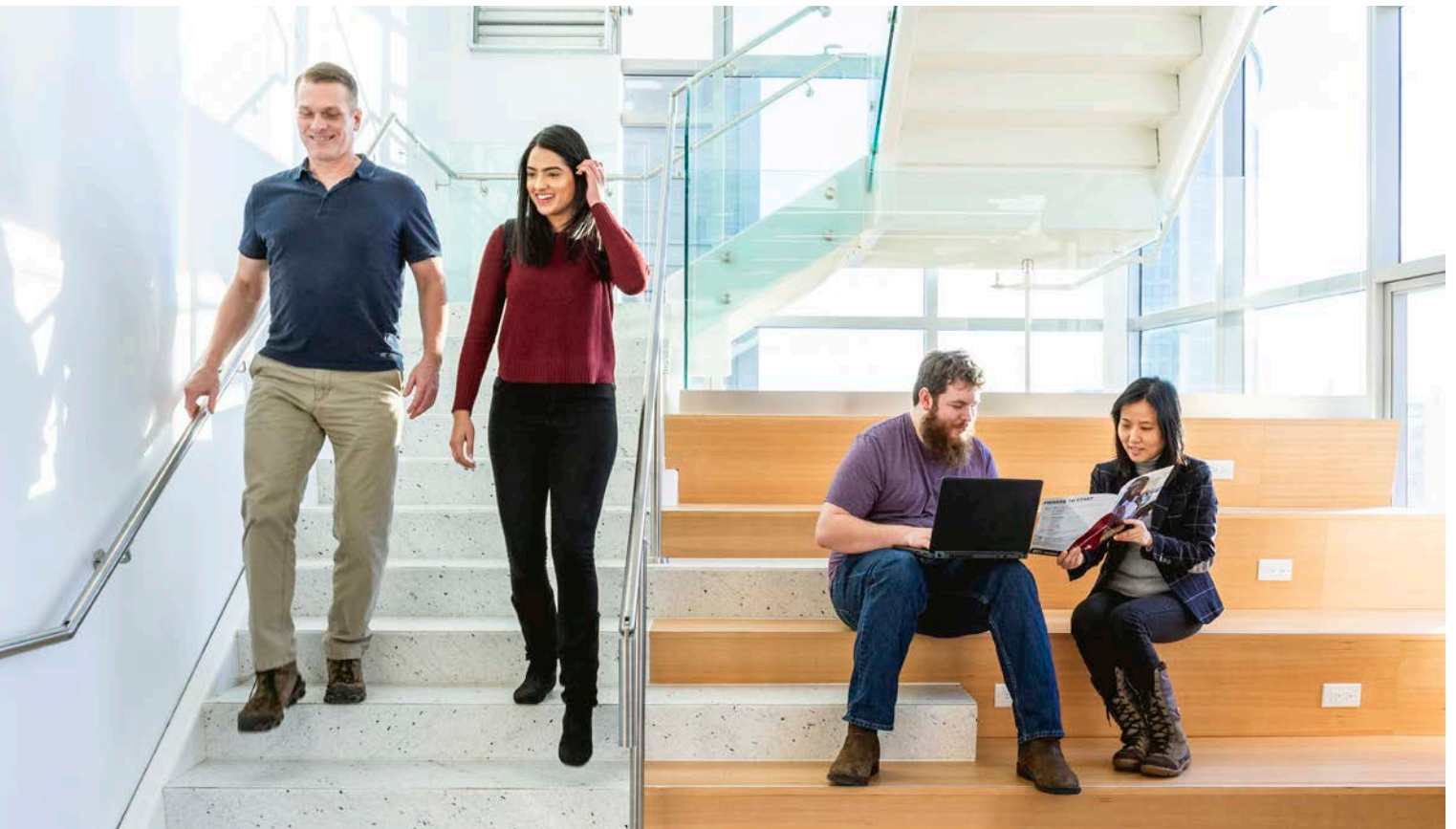
Orientation & Transitions (O&T) facilitates programs and resources to help new students and their supporters prepare for and transition into university life. O&T's goal is to help students excel during their time at KPU and beyond, whether as a first year student, returning to university after time away, or journeying from the other side of the globe.

➤ Student Awards & Financial Assistance

Student Awards & Financial Assistance (SAFA) supports student success by reducing financial barriers and recognizing achievement. KPU offers a wide range of scholarships, bursaries, awards, and government assistance programs to recognize students with high academic achievement, community involvement, and to provide financial assistance to help meet educational costs.

➤ Sport & Recreation

The Sport & Recreation department is dedicated to engaging the KPU community through outstanding programming that promotes a healthy, active and connected lifestyle. Sport & Recreation's goal is to inspire personal wellness through physical activity, social connection and fun.





KPU COMMUNITY & COVID-19

WHAT STARTED OUT AS A SOMEWHAT TYPICAL YEAR BACK IN JANUARY 2020 QUICKLY BECAME A YEAR THAT WE WILL NOT SOON FORGET.

By February 2020 the COVID-19 pandemic had hit Canada, and BC, necessitating numerous changes in our everyday lives. Things at KPU were no exception. We are so proud of how quickly the KPU community was able to transition to virtual learning, and how employees were able to transition to a largely work-from-home model. Not only that, the KPU community stepped up to help out in a variety of ways.

Below are some fantastic examples:



Dr. Worobec (left), Ms. Mihel and Dr. Dhesei (right)

➤ Faculty of Health and Faculty of Science & Horticulture

KPU personnel from both faculties joined together and donated much-needed supplies to local hospitals, including 37 boxes of items that included gloves, masks, and lab coats.

KPU personnel also responded to the call out from the Nursing Inter-School Committee (NIS), through which KPU Nursing does its clinical placements, who were seeking supplies for Vancouver General Hospital. In response, Dr. Harjit Dhesei, the Faculty of Health's acting Dean, put a call out to all KPU faculties for supplies, and the KPU community did not let her down. The donations collected included almost 100 lab coats and aprons, 400 masks, and over 15,000 gloves.



➤ KPU Student Services and Graduation & Convocation

Due to the COVID-19 pandemic, the usual in-person spring convocation ceremonies had to be cancelled. While this may have been disappointing to the graduating students and their families, the Convocation team prepared a virtual tribute and special boxes for all of KPU's spring Grads. These boxes contained a cap and tassel, credential folder, alumni magazine/pen, and medal.

➤ Office of Research Services

Faculty and staff from KPU's various Research areas undertook a variety of initiatives, including:

1. The Applied Genomics Laboratory at KPU's Surrey Campus has a polymerase chain reaction (PCR) machine and a trained technician which enables them to be able to perform hundreds of COVID-19 tests. These capabilities were shared with the BC Centre for Disease Control (BC CDC).
2. The Institute for Sustainable Food Systems, based out of KPU's Richmond campus, began conducting survey research on the effects of the COVID-19 pandemic on the food system from the consumer's perspective. The study aims to gain insights in to food access, food purchasing and consumption behaviors, as well as the perception and concerns of BC consumers during the COVID-19 pandemic. This research will contribute to the on-going discussions on the importance/urgency of building resilient regional food systems.
3. Sarah Eppler, a student in the Technical Apparel Design program at the Wilson School of Design, developed Immunoscrub. These are functional, comfortable and anti-microbial medical scrubs for physicians.
4. At the Wilson School of Design, Dr. Victor Martinez, with inputs from his colleagues and collaborators elsewhere, including WorkSafeBC, designed and prototyped adjustable face shields which were donated for non-medical use in the community.
5. The Institute for Sustainable Horticulture at KPU's Langley Campus stepped up and lent out molecular equipment and seconded highly qualified research personnel for COVID-19 research.
6. KPU's Research Ethics Board began fast-tracking reviews of projects supporting COVID-19 research in a week in order to help facilitate time-sensitive work.
7. In response to a request from Vancouver Coastal Health, the Wilson School of Design and the Faculty of Science & Horticulture, supported by the Office of Research Services, KPU produced 1,000 3-D printed surgical mask straps, also known as "ear savers".
8. KPU leased space for a joint venture to produce N95 masks at the Cloverdale Tech campus.
9. Dr. Karen Davison received funding for two grants related to COVID-19 research.



Colleagues that participated:
Fergal Callaghan, Takashi Sato,
James Hoyland, Flavio Ruiz-
Oliveras, and Michael Chernoff
(Physics Department)

Students:
Birk Zukowsky and Leo Zhuo
(Wilson School of Design)

VISION 2023





As the strategic plan for KPU, Vision 2023 will guide our planning and decision-making over a five year period. Building on the progress made in Vision 2018, KPU is committed to four interconnected themes that will guide the strategic activities of our organization:

**› Experience › Sustainability
› Creativity › Quality**

OUR MISSION: By thinking and acting together, we transform lives and empower positive change.

OUR VISION: In 2023, KPU is a learning ecosystem rooted in a culture of sustainability, creativity and quality that inspires our people and our communities.



➤ Experience

By making the perspectives of students, employees, and friends our priority, we will improve their experiences at KPU.

KPU will be an inclusive and safe learning and working environment that values, supports, and benefits from the diversity of all its people.

➤ Creativity

KPU links thought to action, appreciating and embracing creativity and innovation in all forms.

KPU will do more to recognize and celebrate the innovation, research and scholarship already underway.

We will invest more in all types of creative activity, both formal and informal, especially in the context of the digital transformation in our society.

➤ Sustainability

The 2015 Truth and Reconciliation Commission's Call for Action suggests how Indigenous communities and cultures can be sustained.

KPU's commitment to environmental sustainability through cross-university engagement and co-ordination will continue, and external validation will be sought.

Integrated planning will ensure that academic offerings and services are aligned with our resources so that quality, financial and institutional stability are sustained.

➤ Quality

KPU's mandate is to add value by contributing to the social, economic, and cultural life of our region and beyond. We do this by providing the right mix of offerings and services, and undertaking research and innovation of many types. These can all be improved through thoughtful and collegial reflection, evaluation, and subsequent change.

Attention to continuous improvement is key to building our long term reputation and thus its ability to attract and retain motivated students and talented employees, and to increase respect within the community.





MANAGEMENT
DISCUSSION
AND ANALYSIS

INTRODUCTION

Vision 2023 set out the organizational direction for financial management, and we continue to work on the priority of “aligning our operations with our resources”. A number of projects are ongoing to ensure that we better understand, manage, and utilize our finite financial resources, including evolving refinements to our financial budgeting and reporting processes. We have been taking a more targeted approach to asset management, and have implemented life-cycle refresh strategies for furniture and computer equipment, in alignment with organizational needs. Furthermore, we continue to evolve our communications with the KPU community, working to provide transparency, and providing updates and educational sessions to demonstrate our continued commitment to prudent financial management and to the BC Taxpayer Accountability Principles.

Fiscal year 2020 (FY 2020) saw the development and approval of KPU’s first five-year budget to support the alignment of operational activities with available resources, and to provide ongoing financial sustainability and predictability for faculty and employees.

This MD&A, designed to supplement the FY 2020 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 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 legislation. This legislation requires 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 contributes to a complex operating environment, especially in times of economic uncertainty. 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.

There are limited opportunities to increase tuition revenue as the provincial government has mandated a 2% per year limit on domestic tuition increases. While international tuition rate increases are not currently 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 student full-time equivalent (FTE) targets, meaning that changes in targets do not necessarily result in increased financial support.

COVID-19 Pandemic

Just prior to the end of FY 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. While the pandemic did not have a discernible effect on KPU’s finances for FY 2020, it is expected that there will be significant effects for FY 2021.

As of the time of writing, the effects of the COVID-19 pandemic on KPU’s finances for FY 2021 are not known. Enrolment for the summer 2020 semester was strong, but as the summer semester is traditionally KPU’s smallest semester, it is not generally indicative of enrolment for the fall and spring semesters, which are the larger semesters. Travel restrictions remain in place, and quarantining continues to be mandatory for anyone traveling into Canada. While KPU has largely transitioned to virtual courses, not all students may find this as desirable as the previous model of in-person classes. We continue to actively monitor enrolments and expect to have a better idea of the financial impact of COVID-19 once KPU has passed the stable state date for fall 2020 enrolments.

Office of Planning and Accountability’s Role in Budget Development

Starting with the development of the budget, the Office of Planning and Accountability is involved in the budget development process by modelling the alignment between instructional budgets and enrolment capacity. Past data on the cost of delivery is used to model the capacity that can be expected based on the instructional budgets for each faculty. Data on past demand is used to model the number of seats that could be filled by domestic and international students based on various assumptions and seat fill rates. Estimates of tuition revenue are developed based on seats filled, the credit value of those seats, the tuition fees per credit, and the mix of domestic and international students. In addition, “what if” scenarios are conducted to determine the optimum distribution of budget across faculties to maximize alignment with known demand, to the extent possible.

2. FINANCIAL HIGHLIGHTS

As was anticipated, KPU finished FY 2020 with a smaller surplus than that of the prior fiscal year - \$4.7 million surplus for FY 2020 compared to \$22M surplus for FY 2019. The international student growth in FY 2018 and FY 2019 was unprecedented and took many by surprise. It heavily taxed KPU's infrastructure as we were not prepared for such a large increase in international students. Beginning in FY 2019, KPU Leadership identified the risks associated with uncontrolled growth and limited international student intakes. This resulted in the decrease in international student enrolment that was observed at the beginning of FY 2020. As KPU Leadership began efforts to strategically control international student enrolment we saw a small rebound through both the fall 2019 and spring 2020 semesters; however, as previously noted, the impact of COVID-19 on enrolments is yet to be known.

The FY 2020 surplus is a result of three main factors. FY 2020 saw a decrease in international student enrolment as

described above which translated into actual international student tuition coming in approximately \$11 million under budget. The second factor which helped to offset the impact of the decreased international student tuition was an underspend in salary and benefits of approximately \$10 million. This is due largely to employee turnover and unfilled positions. The third factor at play was inflationary pressures on our non-salary expenses.

Budget Tenets and Philosophy

KPU introduced budget tenets and philosophies in advance of the FY 2020 budget development process. These tenets and philosophies are updated on an annual basis, and are presented to the University Senate and Board of Governors' Finance Committee for review and discussion. Given the COVID-19 pandemic, the budget tenets and philosophies were recently updated to include some guidance around the possible effects of the pandemic. The current budget tenets and philosophies are listed below:

BUDGET TENET	BUDGET PHILOSOPHY	2022 BUDGET UPDATE
Support for continuity of teaching and learning	The University Budget will help to address the changing environment related to COVID-19, both during and post pandemic.	As KPU has moved most of its courses to a virtual environment, and many employees are working under a work-from-home model, enhanced focus will need to be placed on supporting employees and students in the post COVID-19 environment.
Predictability for faculties	The University Budget will provide predictability for faculties by providing budget clarity and direction for the next four years, allowing faculties to plan for program delivery and staffing needs well in advance.	A five-year draft institutional budget has been delivered. However, given the challenges and uncertainty surrounding the COVID-19 pandemic, the FY 2022 budget will need to be more flexible and fluid than in prior years due to the potential level of revenue volatility in these unprecedented times.
All new activities must be funded on a lifecycle basis	All activities must be funded over the lifecycle of the activity, initiative or project to ensure adequate funding over the life of the activity, initiative or project. Approved projects will have budget spanning fiscal years, where appropriate.	Institutionally, expenditure budgets have been maintained, with inflationary pressures added. Any new funding allocations may only be achieved with an equal and opposite reduction in funding. KPU will continue to proceed with caution on any new projects and initiatives given the revenue uncertainty surrounding COVID-19, both during and post pandemic.
Capital expenditures should not increase annual amortization expense	KPU's annual amortization expense is approximately \$18.8 million; no capital expenditures should be incurred that will increase this amount without targeted external funding to support ongoing amortization commitments.	Despite changes to the budget process, stringent capital approval processes have been maintained. Annual amortization will need to increase in the short-term to meet organizational requirements; however, only organizational refreshes and high priority facilities and teaching assets will be approved.

continued on page 18

BUDGET TENET	BUDGET PHILOSOPHY	2022 BUDGET UPDATE
<p>International student tuition and enrolment should be forecasted and maintained at desired levels</p>	<p>KPU is reliant on international student tuition as a revenue stream, and efforts to control and predict this stream are critical.</p>	<p>Current revenue strategy is to maintain revenue targets at approximately \$225 million, driven primarily by targets in international tuition. While work on enrolment management and sustainability has proven very useful and effective, the unprecedented times that we are facing due to the COVID-19 pandemic are unpredictable. As such, international student tuition is highly unpredictable for the coming year(s). Efforts to control and predict this revenue stream are more critical than ever, but the actual amount of international student tuition realized is largely out of KPU's control due to issues surrounding the pandemic.</p>
<p>KPU should not grow its current level of commitments</p>	<p>If international student revenues continue on their upward trend, KPU should not spend any incremental revenue in excess of \$225 million, but rather generate a surplus so as not to increase future year's commitments.</p>	<p>Future year commitments have not increased, with the exception of amortization and contractual increases. Given the revenue uncertainties, both during and post pandemic, KPU should proceed cautiously with any non-essential spending until there is more revenue predictability.</p>
<p>KPU must budget to the lower band of international student revenue sensitivity</p>	<p>KPU should ultimately budget to the lower band of international student revenue sensitivity (15% reduction) to ensure revenue estimates are conservative. Any surpluses that result from the under-budgeting of revenues should be used to establish endowments that will contribute to operating expenses on an ongoing basis, relieving cost pressures in future years.</p>	<p>Given the unpredictability of international student tuition revenue due to the uncertainties surrounding the COVID-19 pandemic, KPU should do its best to budget to the lower band of international revenue sensitivity.</p>
<p>Academic Budgets should fall within the scope of the Vice President, Academic</p>	<p>Academic Budgets should fall within the scope of the Vice President Academic, to ensure key pedagogical and academic initiatives are prioritized.</p>	<p>The budget process is in line with this budget philosophy.</p>
<p>Budget models must be based on enrolment drivers</p>	<p>A set of assumptions must be adopted regarding enrolment expectations on a long-term basis to create a foundational assumption for the development of a five-year budget.</p>	<p>The Office of Planning and Accountability, and Financial Services, have been working collaboratively to bridge this gap. Significant progress has been made and will continue to be refined in the future. However, given the uncertainty around the COVID-19 pandemic, assumptions around enrolment expectations may not hold true given these unprecedented times.</p>

Government Grants

Operating grant funding from the Province remained relatively flat in FY 2020. 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 international tuition and ancillary revenues to fund our ongoing obligations, including inflationary pressures and amortization.

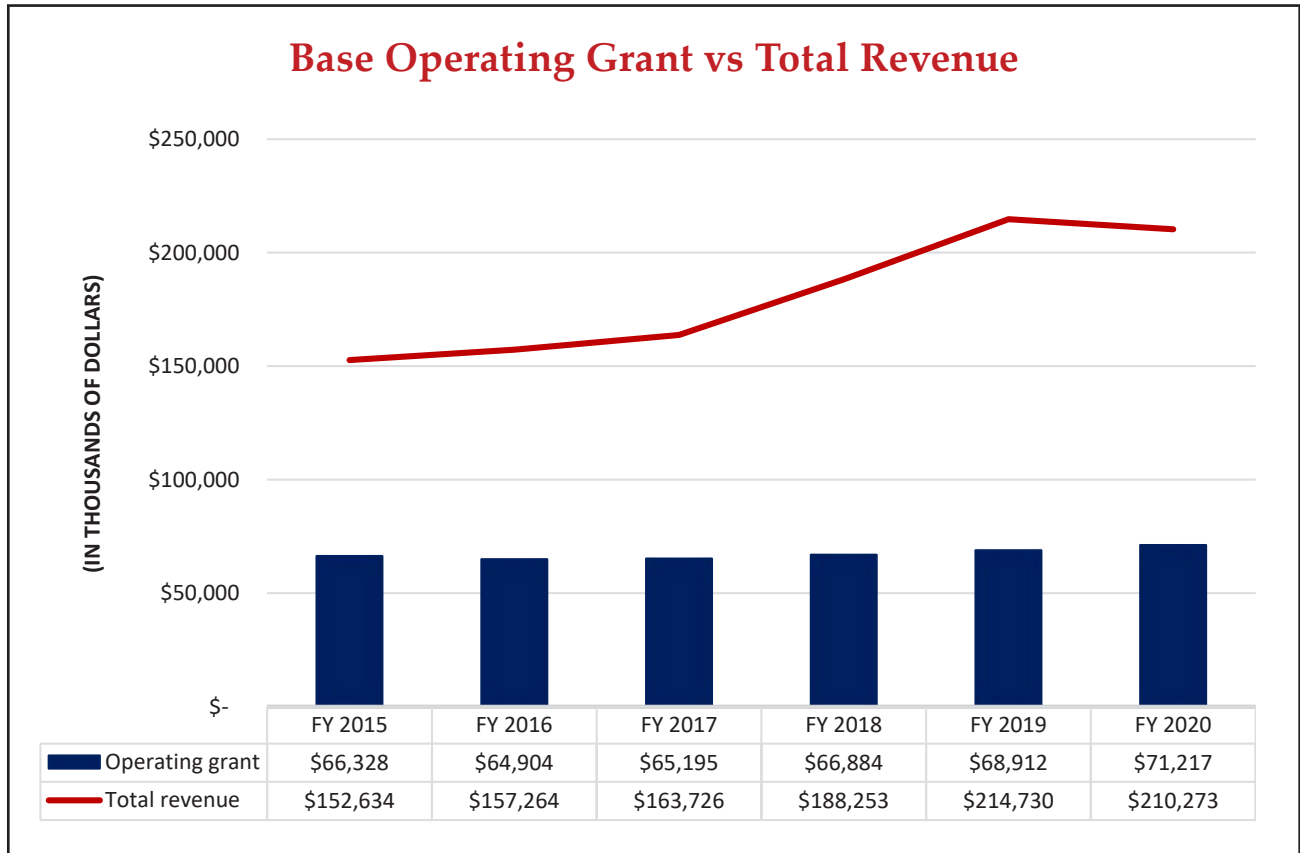


Figure 1 – Provincial Operating Grant vs. Total Revenue

Student Tuition & Fees

KPU continues to rely on international student revenues. They have been, and will continue to be, the main driver of growth at KPU. In FY 2015 international student tuition and fees were the third largest source of revenue but still below \$25M per year (see Figure 2). By FY 2019 international student tuition and fees became the top revenue generator for KPU. While we did see a decrease in international student tuition and fees in FY 2020, it was the second highest revenue source for FY 2020, only slightly less than the Provincial operating grant revenue.

Tuition for international students is higher than that of domestic students because there is no government grant associated with international student FTEs.

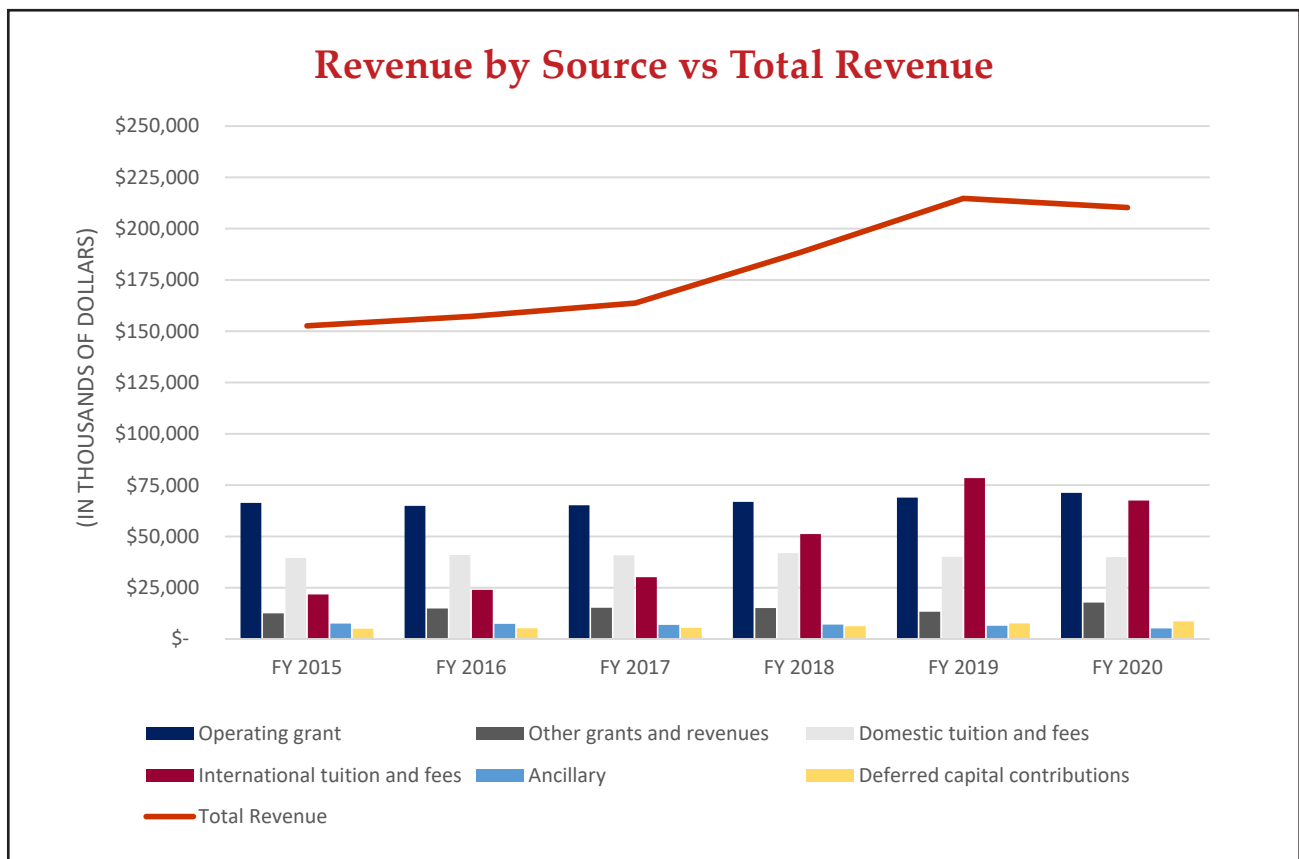


Figure 2 – Revenue by Source

In FY 2016 domestic student tuition accounted for 62% of tuition, and international only 38% (see Figure 3). By FY 2019 these allocations had completely flipped, with international tuition accounting for 67% of total tuition, and domestic tuition now only 33%. Although we saw a decrease in international student enrolment, and thus tuition, in FY 2020, international student tuition remained the higher contributor by far to total tuition at 64%.

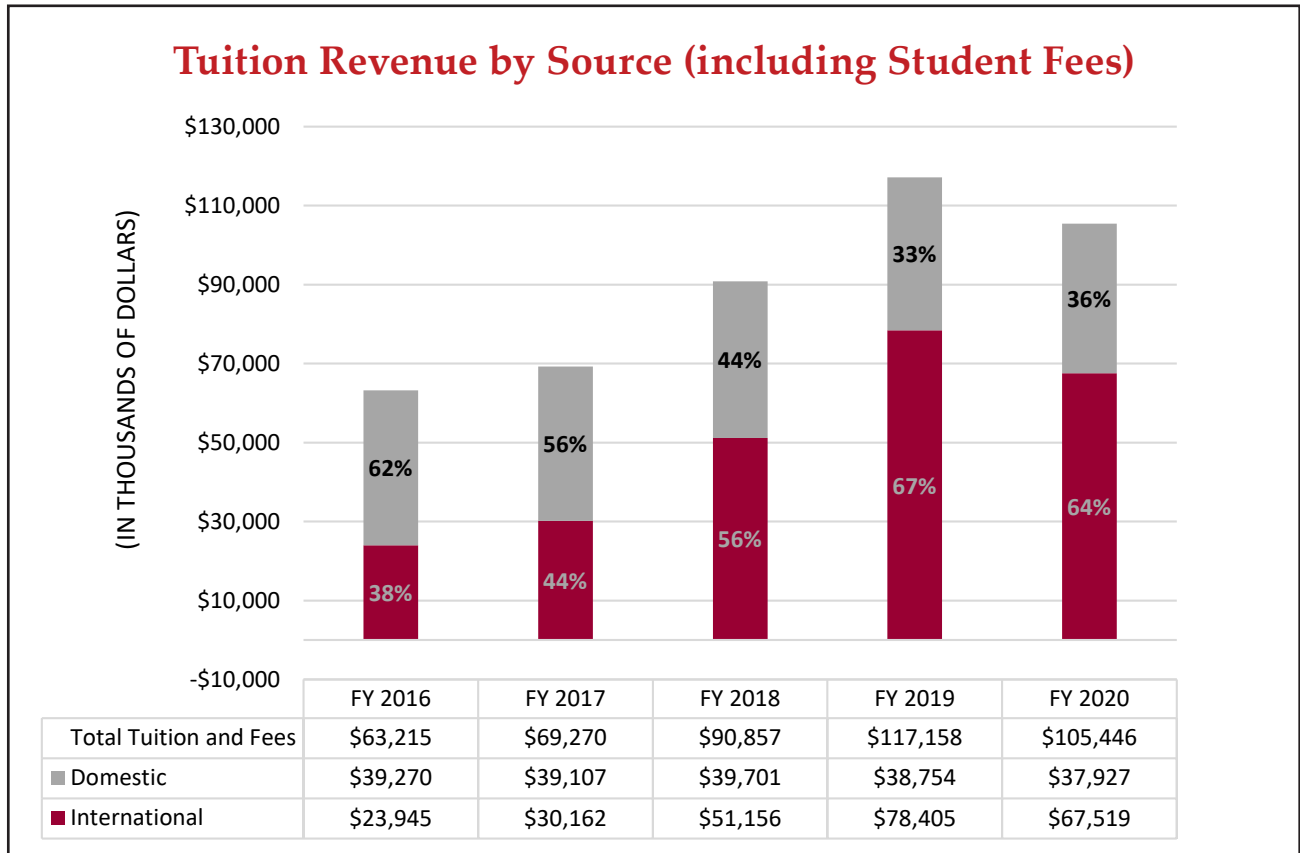


Figure 3 – Tuition Revenue by Source

We continue to be cautiously optimistic about the efficiency improvements we have seen in the delivery of academic programming over the past few years. Continued increases in international student enrolment in future years will likely see international student tuition and fees re-take the number one spot as the largest revenue source. However, the impacts of COVID-19 on international student enrolment are still uncertain.

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

Salaries and Benefits

Salaries and benefits are KPU’s single largest expenditure. In FY 2020 there was an increase in salaries and benefits of approximately \$9 million or 6% year-over-year (FY 2019 \$11 million increase, or 9% year-over-year). This growth reflects accrued collectively bargained increases (both collective agreements expired in 2019, and new agreements for both unions were ratified in July 2020), step increases for administrative staff, and growth in employee numbers. Figure 4 below shows the salary expenses by group over a five-year period.

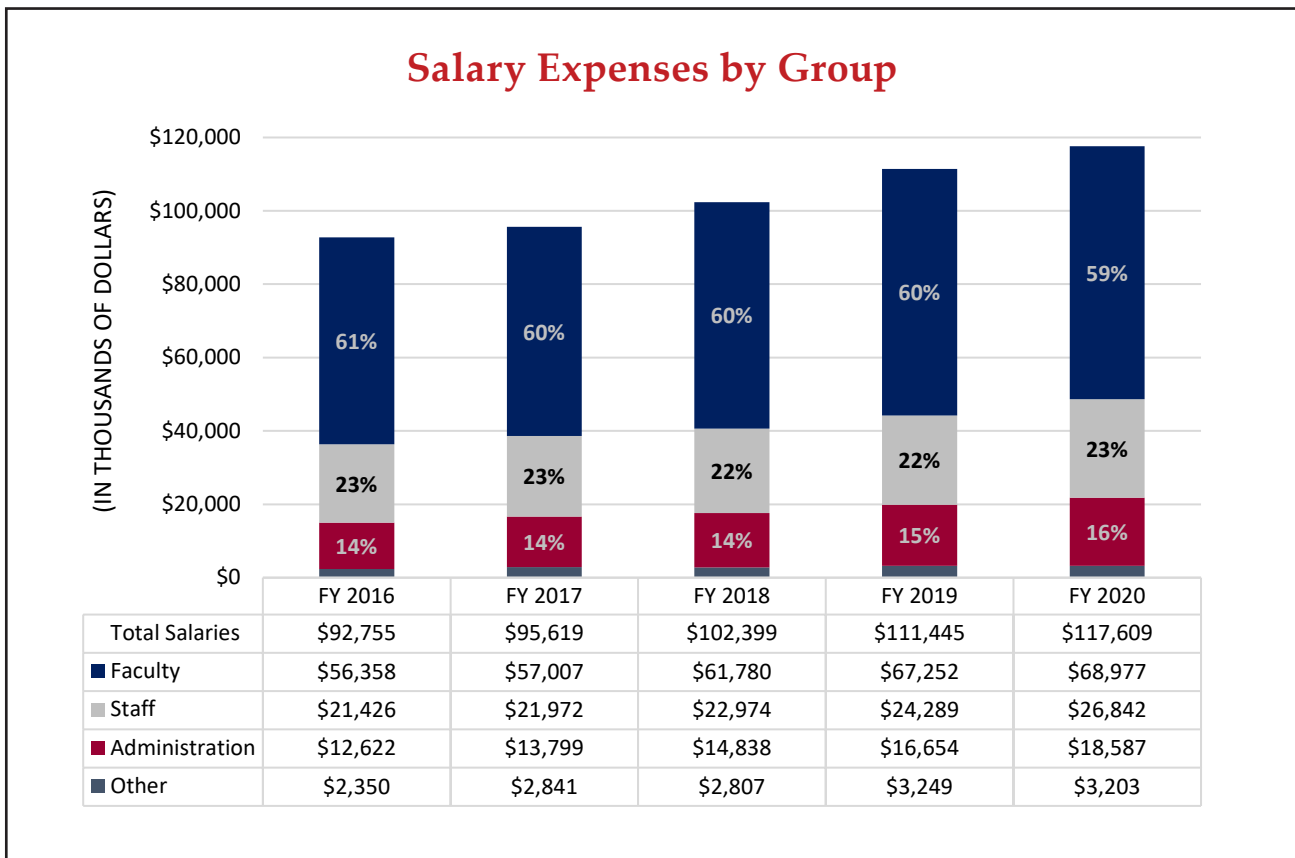


Figure 4 – Salary Expenses by Group

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 life. 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 the Spruce building renovation, KPU's amortization expense has grown by 57% over a four-year period (see Figure 5). We began refining the capital budget process in the FY 2020 budget, and further refined it for the FY 2021 budget in order to better manage our long-term self-funded amortization. As described in the budget tenets listed above, annual amortization will need to increase in the short-term due to organizational requirements and the significant capital projects that were recently completed (first full year of amortization for Civic Plaza and the Spruce building renovation was FY 2020) and are now being amortized. However, going forward the intent is that only organizational refreshes and high priority facility and teaching assets be approved so that we start to see a downward trend in self-funded amortization over the next few years.

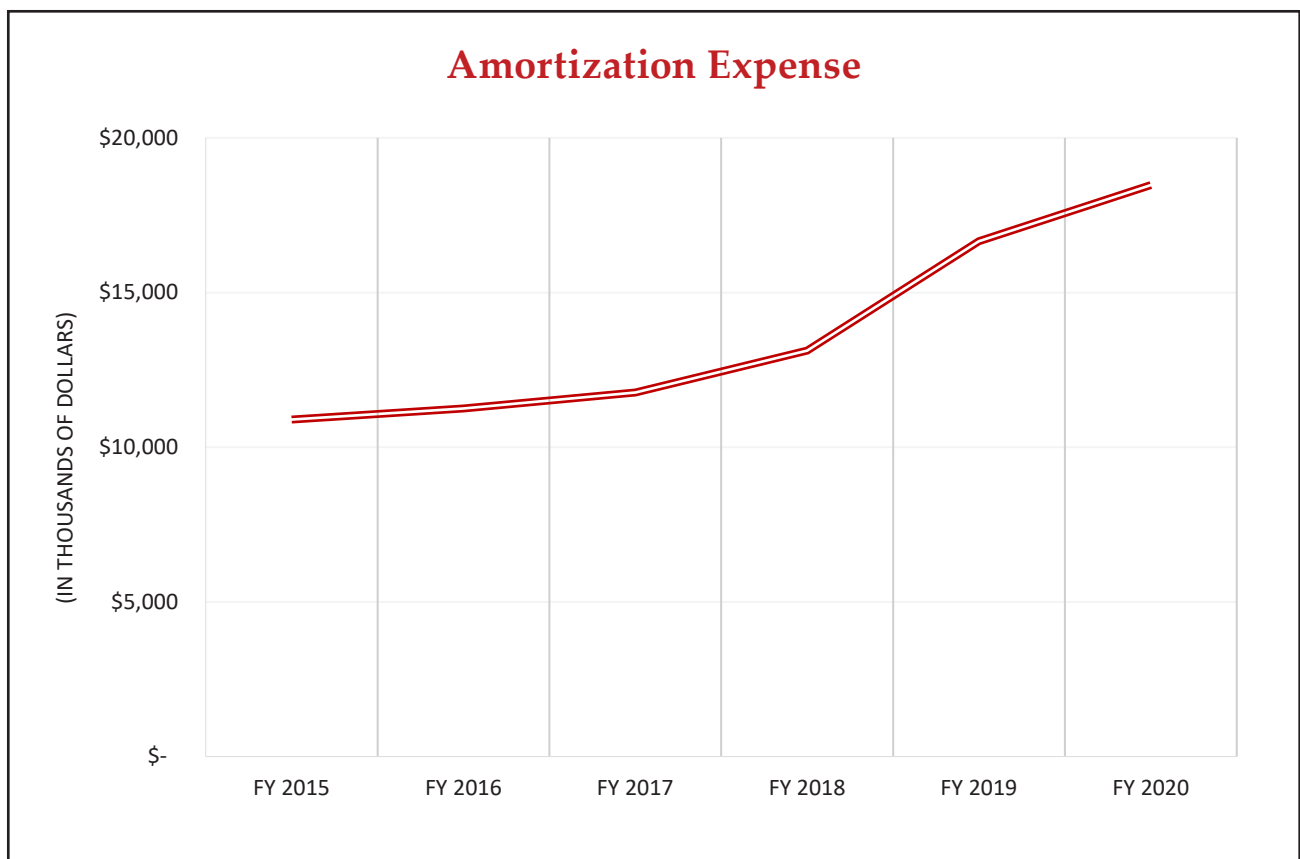


Figure 5 - Amortization

Non-salary Expenses

Non-salary expenditures, including amortization expenses, continued to increase in FY 2020, up approximately 7% or \$4 million (FY 2019 up approximately 13%, or \$6.7 million) as our new infrastructure had become operational and the University absorbed inflationary pressures. As our overall square footage increased by approximately 5% in FY 2020 (10% in FY 2019), these increased cost pressures were expected.

Accumulated Surplus

Accumulated Surplus (see Figure 6 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 legislation noted above, as a fiscal deficit would result. Investment returns from these funds can be, and are, used for operating activities. During the fiscal year Financial Services refined and updated KPU's investment policy and procedures in order to seek higher returns to try and offset ongoing inflationary cost pressures.



Figure 6 – Accumulated Surplus Trend

3. CURRENT OPERATING ENVIRONMENT

The financial context for the BC post-secondary sector is one that is tightly constrained by the provincial government, and institutions continue to 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, as well as from faculty and student innovation.

4. RISKS AND UNCERTAINTIES

KPU is operating in an increasingly complex environment—from a competitive, 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 international student enrolment and KPU's overall reliance on this revenue stream. As KPU's tuition revenues have grown, so have our physical infrastructure and number of employees, representing an increased reliance on the current levels of international student tuition for long-term sustainability. It is also important to note that of our three primary revenue drivers—government grants, domestic tuition, and international tuition—international tuition is our most volatile (see Figure 7 below). A number of factors, including geo-political and immigration policy changes, and now the COVID-19 pandemic, can substantially impact this revenue stream with little notice.

As was mentioned in section 1., the effects on international student enrolment, and international tuition revenue, of the COVID-19 pandemic remain largely unknown at this

time. 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 FY 2014, prior to the rapid international student 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.

time. Many of the international borders remain closed and some countries continue to see a steady rate of infection. While the Canadian government has given permission for international students to complete up to six-months of their Canadian schooling on-line in their home country, it has yet to be determined whether international students will be able to enter Canada in six-months in order to complete their education. Additional factors that could impact international student enrolment is the requirement to self-quarantine for fourteen days upon arrival in to Canada, whether they still want to complete their studies in Canada with the majority of the classes now being online, and the backlog of being able to obtain a Canadian student visa.

Any significant decrease in international student enrolment and tuition would have a serious effect on KPU's finances. Such a decrease would be further compounded by decreases already seen in on-campus parking revenues as well as cafeteria/catering revenues. Coupled with these issues is the difficulty in cutting back on expenses in a timely manner. Maintenance costs for KPU's five campuses are largely fixed to some degree. Additionally, personnel changes cannot be made swiftly due to the Collective Agreements governing KPU.

Figure 7 below shows KPU’s stable revenues, which include domestic tuition and fees plus the operating grant from the Province, as a percentage of KPU’s total revenues. In FY 2015 stable revenues made up almost 70% of KPU’s total revenues. Starting in FY 2018 KPU started to see significant growth in international student tuition revenues, allowing for growth in faculty, staff, students, and infrastructure. Moving ahead to FY 2020, stable revenues now represent only 50% of total revenues. This represents a significant financial risk as we must ensure a balanced budget even if international student enrolments decline.

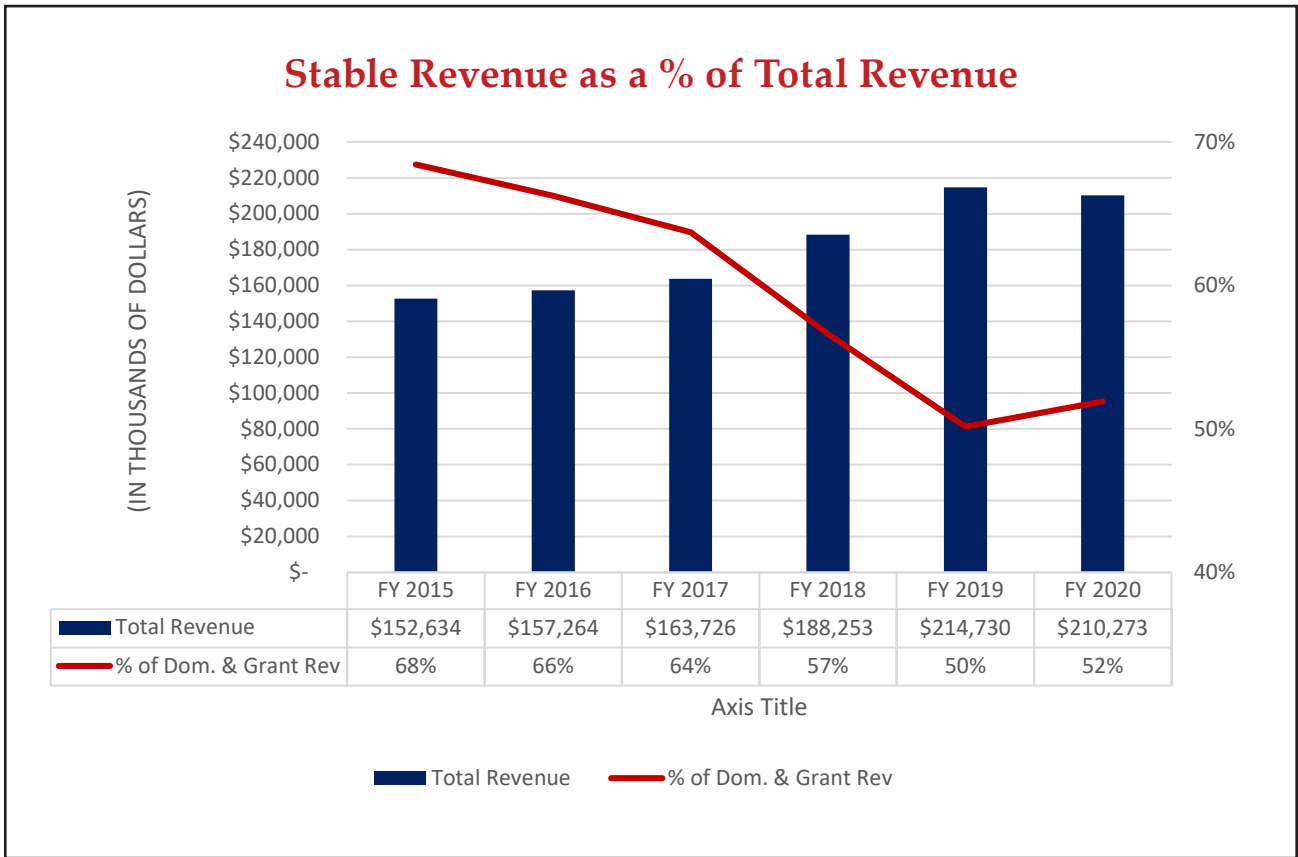


Figure 7 – Stable Revenue as a Percentage of Total Revenue

Figure 8 below shows the five-year enrolment trend of international and domestic student FTEs over the past five years. The figure shows an increasing trend in international student enrolments up to FY 2019, with a decrease in FY 2020. While domestic student enrolments remained relatively static for FYs 2016 though to 2018, they started to decline in FY 2019 with a further decline in FY 2020.

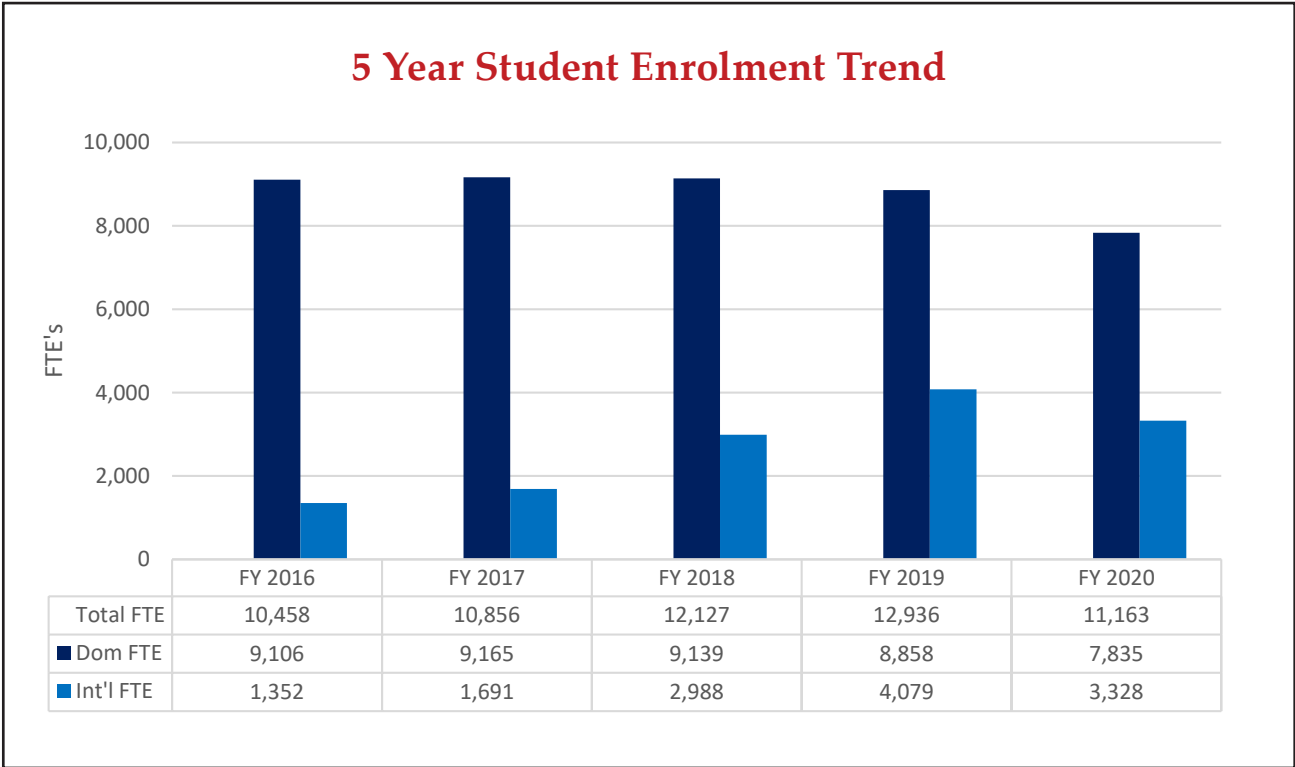


Figure 8 – Five-year Enrolment FTE

Figure 9 further illustrates the cumulative enrolment trend over the past five years, with FY 2016 as the base year.

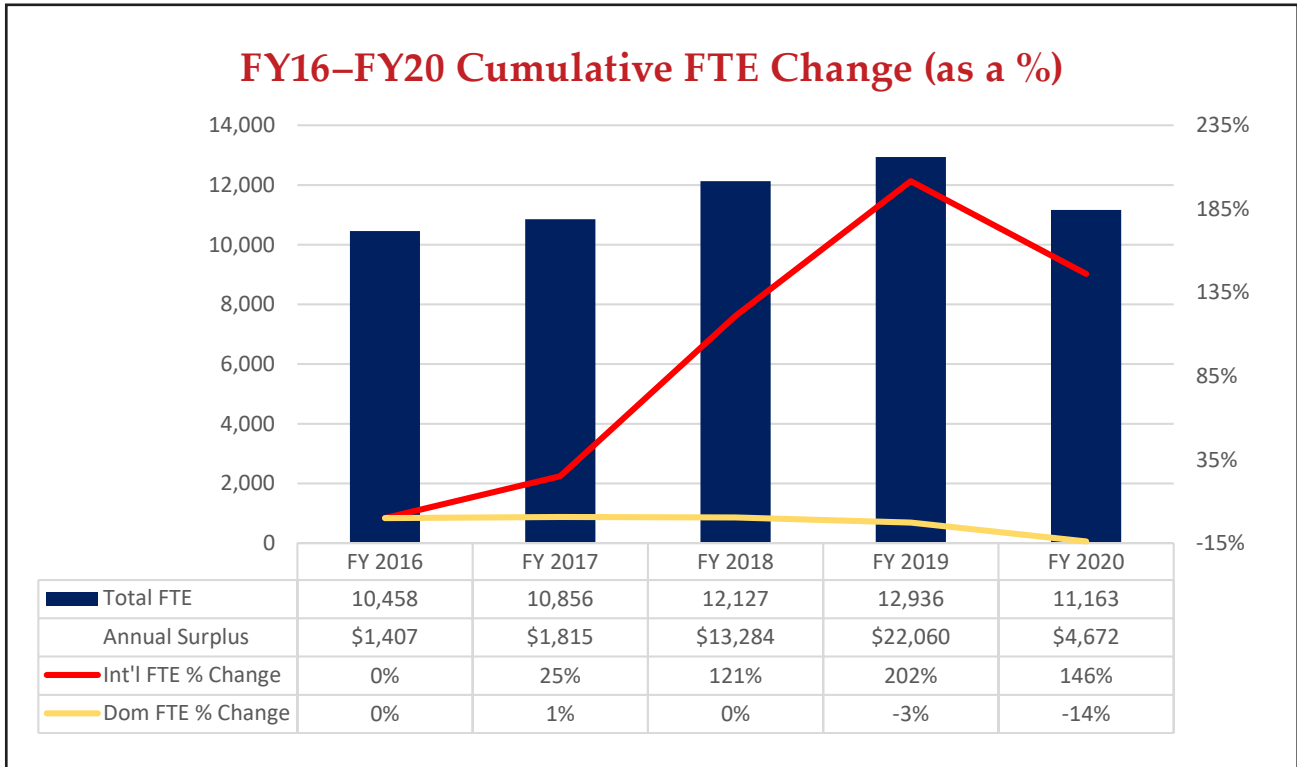


Figure 9 – Cumulative Student FTE Change

COVID-19 Pandemic

There are still many unknowns surrounding the financial effects of the COVID-19 pandemic. As was discussed in earlier sections, the pandemic is expected to have a significant effect on international student enrolment. While international students can take up to 50% of their courses online, in their home country, not all may choose the remote learning option. Additionally, they may not be able to obtain student visas to get in to Canada. As international student tuition accounts for a large proportion of KPU's income, any substantial changes in international student enrolment may have a large, negative effect on KPU's net income.

In addition to the uncertainties around international student enrolment, KPU, like many other post-secondary institutions across the country, has seen increases in expenditures because of the COVID-19 pandemic. In order for the majority of KPU employees to work from home, a large number of laptop computers have been purchased. Additionally, significant purchases have been required for software and licenses to enable remote learning, and extra costs have been incurred to increase cleaning on campus.

The COVID-19 pandemic was declared a global pandemic by the World Health Organization in March 2020. This was toward the end of KPU's spring semester and instructional time for the semester was winding down. KPU successfully moved the majority of its courses online in relatively short order, finishing the spring semester online and having the summer session online. This was a fantastic achievement for all of the KPU community.

Now that we are approaching the fall semester, which is a busier and larger semester than the summer, we are again seeing rising costs related to successfully delivering most of our courses remotely. At the same time, KPU is working to bring back to campus the research labs and the components of our Trades program where in-person instruction or supervision is mandatory. As KPU brings more employees, faculty and staff on-campus, additional cleaning and sanitizing is needed, both in type and frequency. Additionally, personal protective equipment (PPE) is required for those labs, trades courses, and university operations where social distancing may not be achievable. All of these additional costs will need to continue to be measured and assessed as we move forward through this pandemic.

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

Closely monitoring international enrolment and COVID-19 related expenses is essential. KPU will continue to manage cost pressures and effective strategic enrolment management will be essential elements as we move to the post-pandemic state. Our goal will continue to be to better align operational activities with available resources and provide ongoing financial sustainability. As we work to support this alignment, create cost predictability for students, and expenditure

stability and flexibility for employees, we will continue to prepare five-year draft budgets.

While the current pandemic environment is uncertain, we will continue to look to diversify our revenue streams and mitigate risks associated with dependence on international student tuition revenue.



CONSOLIDATED FINANCIAL STATEMENTS

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 for the year ended March 31, 2020, 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



Candice Gartry, CPA, CGA
Executive Director, Financial Services (*Interim*)

Financial Statements of

KWANTLEN POLYTECHNIC UNIVERSITY

And Independent Auditors' Report thereon

Year ended March 31, 2020



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Kwantlen Polytechnic University, and
To the Minister of the Ministry 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, 2020
- 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 rereasurement 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, 2020 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.

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 27, 2020

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Financial Position

(in thousands of dollars)

As at March 31, 2020, with comparative information for 2019

		2020		2019
Financial assets				
Cash and cash equivalents	(Note 3)	\$ 72,217	\$	26,258
Accounts receivable	(Note 4)	2,668		6,517
Inventories for resale		532		600
Investments	(Note 5)	27,946		28,880
		103,363		62,255
Liabilities				
Accounts payable and accrued liabilities	(Note 6)	44,229		27,398
Deferred revenue		30,957		13,495
Deferred contributions	(Note 8)	3,952		3,859
Deferred capital contributions	(Note 9)	155,789		159,328
Obligations under capital lease	(Note 10)	92		247
		235,019		204,327
Net debt		(131,656)		(142,072)
Non-financial assets				
Tangible capital assets	(Note 11)	249,005		255,381
Endowment investments	(Note 5)	2,817		2,817
Prepaid expenses and deposits		2,424		1,989
		254,246		260,187
Accumulated surplus		\$ 122,590	\$	118,115
Accumulated surplus is comprised of:				
Accumulated surplus		\$ 122,536	\$	117,864
Accumulated remeasurement gains		54		251
		\$ 122,590	\$	118,115

Contractual obligations (Note 13)

Commitments and contingent liabilities (Note 14)

See accompanying notes to financial statements.

Approved on behalf of the Board:



Sandra Case
Chair, Board of Governors



Candice Gartry, CPA, CGA
Interim Executive Director, Financial Services

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Operations and Accumulated Surplus

(in thousands of dollars)

Year ended March 31, 2020, with comparative information for 2019

	Budget	2020	2019
	(Note 2(k))		
Revenue:			
Province of British Columbia grants	\$ 74,922	\$ 73,511	\$ 71,045
Revenue recognized from deferred contribution (Note 8)	3,122	8,374	6,536
Tuition and student fees	123,980	107,463	118,451
Ancillary services	5,739	5,199	6,472
Other revenue	8,888	7,110	4,615
Revenue recognized from deferred capital contributions (Note 9)	9,078	8,616	7,612
	225,729	210,273	214,731
Expenses:			
Instruction, research and support (Note 18)	218,879	200,782	187,243
Ancillary operations	6,439	4,819	5,428
	225,318	205,601	192,671
Annual surplus	411	4,672	22,060
Accumulated surplus, beginning of year	117,864	117,864	95,804
Accumulated surplus, end of year	\$ 118,275	\$ 122,536	\$ 117,864

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Changes in Net Debt

(in thousands of dollars)

Year ended March 31, 2020, with comparative information for 2019

	Budget	2020	2019
	(Note 2(k))		
Annual surplus	\$ 411	\$ 4,672	\$ 22,060
Acquisition of tangible capital assets	-	(12,098)	(46,109)
Amortization of tangible capital assets	18,860	18,474	16,661
	18,860	6,376	(29,448)
Net of (acquisition) use of prepaid expenses and deposits	-	(435)	2,369
Net remeasurement gains (losses)	-	(197)	826
Change in net debt	19,271	10,416	(4,193)
Net debt, beginning of year	(142,072)	(142,072)	(137,879)
Net debt, end of year	\$ (122,801)	\$ (131,656)	\$ (142,072)

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Cash Flows

(in thousands of dollars)

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 4,672	\$ 22,060
Items not involving cash:		
Amortization of tangible capital assets	18,474	16,661
Revenue recognized from deferred capital contributions	(8,616)	(7,612)
Change in non-cash operating working capital:		
Accounts receivable	3,849	1,710
Prepaid expenses and deposits	(435)	2,369
Inventories for resale	68	20
Accounts payable and accrued liabilities	16,831	(10,278)
Deferred revenue	17,462	(6,682)
Deferred contributions	93	60
Net change from operating activities	52,398	18,308
Capital activities:		
Cash used to acquire tangible capital assets	(12,098)	(45,998)
Net change from capital activities	(12,098)	(45,998)
Financing activities:		
Contributions received for tangible capital assets	5,077	7,836
Principal payments on capital lease obligations	(155)	(297)
Net change from financing activities	4,922	7,539
Investing activities:		
Decrease in investments	934	9,160
Net remeasurement gains (losses)	(197)	826
Net change from investing activities	737	9,986
Net change in cash and cash equivalents	45,959	(10,165)
Cash and cash equivalents, beginning of year	26,258	36,423
Cash and cash equivalents, end of year	\$ 72,217	\$ 26,258
Non-cash transaction:		
Tangible capital assets acquired and financed by capital leases	\$ -	\$ 111

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Remeasurement Gains and Losses

(in thousands of dollars)

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Accumulated remeasurement gains (losses), beginning of year	\$ 251	\$ (575)
Unrealized gains (losses) generated during the year from:		
Fixed income investments	(21)	270
Mortgage-backed securities and mutual funds	1	15
Foreign currency translation	(37)	(6)
Remeasurement (gains) losses realized and reclassified to the Statement of Operations and Accumulated Surplus from:		
Fixed income investments	(186)	497
Mortgage-backed securities and mutual funds	(5)	15
Foreign currency translation	51	35
Net remeasurement gains (losses) for the year	(197)	826
Accumulated remeasurement gains, end of year	\$ 54	\$ 251

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2020

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.

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The University temporarily closed campuses to students as of March 16, 2020 based on public health recommendations with a transition to virtual courses, and has not reopened its campuses as of the date of these financial statements were approved. The University has transitioned to a work from home approach for employees that are able to do so, along with the implementation of social distancing policies for employees that remain on campuses. The ultimate duration of the pandemic, related public health measures and their impact on the economy and the financial effect on the University are not known at this time.

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.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

2. Summary of significant accounting policies (continued)

(a) Basis of accounting (continued)

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.

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.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

2. Summary of significant accounting policies (continued)

(d) Inventories for resale (continued)

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 the following criteria are met:

- (i) An environmental standard exists;
- (ii) Contamination exceeds the environmental standard;
- (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 asset acquisitions 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.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

2. Summary of significant accounting policies (continued)

(f) Non-financial assets (continued)

(i) Tangible capital assets (continued)

	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.

(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.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

2. Summary of significant accounting policies (continued)

(h) Revenue recognition (continued)

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.
- (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.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

2. Summary of significant accounting policies (continued)

(j) Foreign currency translation (continued)

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 2019-2020 University Budget approved by the Board of Governors on March 27, 2019. The budget is reflected in the Statement of Operations and Accumulated Surplus and the Statement of Changes in Net Debt.

(l) Expense Functions

Expense functions have been identified based upon the functional lines of service provided by the University. The University's services are provided by departments and their activities are reported by functional area in the Statement of Operations and Accumulated Surplus. The functional lines, along with the services they provide, are as follows:

- (i) Instruction, research, and support: This function includes activities related to delivering education. This includes instruction, education administration, student support, general administration, and the cost of space, safety, and equipment.
- (ii) Ancillary: This function includes the activities of the ancillary operations. An ancillary operation is one that is generally outside of the normal functions of instruction, research, and support, and provides goods and services to students, staff or others, and that charges a fee directly related to the cost of providing the goods or services. Ancillary operations include parking, food services, and bookstores. Costs associated with this function include function related contracts and general and financial administration and support costs.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

3. Cash and cash equivalents

	2020	2019
Cash	\$ 70,085	\$ 15,891
Cash equivalents	2,132	10,367
	<u>\$ 72,217</u>	<u>\$ 26,258</u>

4. Accounts receivable

	2020	2019
Accounts receivable	\$ 5,467	\$ 8,038
Allowance for doubtful accounts	(2,799)	(1,521)
	<u>\$ 2,668</u>	<u>\$ 6,517</u>

5. Investments and endowment investments

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

	2020	2019
Fixed income investments	\$ 25,491	\$ 28,716
Mortgage-backed securities and mutual funds	5,272	2,981
	<u>30,763</u>	<u>31,697</u>
Endowment investments	2,817	2,817
Investments	<u>\$ 27,946</u>	<u>\$ 28,880</u>

All fixed income investments held at March 31, 2020 mature at various dates to September 2077 (2019 – September 2077) and bear interest at rates varying from 1.30% to 6.63% (2019 – 1.30% to 6.46%).

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 transaction 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.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

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

	2020	2019
Accounts payable and accrued liabilities	\$ 26,291	\$ 13,338
Salaries and wages payable	7,043	3,439
Accrued vacation payable	10,895	10,621
	\$ 44,229	\$ 27,398

7. Employee future benefits

(a) Pension benefits

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan (jointly trustee 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, 2019, the College Pension Plan has about 15,025 active members, and approximately 8,414 retired members. As at December 31, 2018, the Municipal Pension Plan has about 205,000 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.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

7. Employee future benefits (continued)

(a) Pension benefits (continued)

The most recent actuarial valuation for the College Pension Plan as at August 31, 2018, indicated a \$303,000 surplus for basic pension benefits on a going concern basis.

The most recent valuation for the Municipal Pension Plan as at December 31, 2018, indicated a \$2,866,000 funding surplus for basic pension benefits on a going concern basis. The University paid \$10,416 for employer contributions to the plans in the fiscal year 2020 (2019 - \$10,095).

The next valuation for the College Pension Plan will be as at August 31, 2021, with results available in 2022. The next valuation for the Municipal Pension Plan will be December 31, 2021, with results available in 2022.

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.

(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 \$691 in the current year (2019 – \$559). As at March 31, 2020, the University has an obligation of \$783 (2019 – \$357) which has been included in salaries and wages payable.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

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.

	2019	Amounts received	Recognized as revenue	2020
Provincial	\$ 2,790	\$ 6,179	\$ (6,319)	\$ 2,650
Federal	453	1,125	(1,030)	548
Other sources	616	1,163	(1,025)	754
	\$ 3,859	\$ 8,467	\$ (8,374)	\$ 3,952

9. Deferred capital contributions

Changes in deferred capital contributions balance are as follows:

	2019	Amounts received	Recognized as revenue	2020
Provincial	\$ 134,570	\$ 4,565	\$ (7,206)	\$ 131,929
Federal	9,984	342	(734)	9,592
Other sources	14,774	170	(676)	14,268
	\$ 159,328	\$ 5,077	\$ (8,616)	\$ 155,789

10. Obligations under capital lease

The University has entered into capital leases to finance computers and equipment at an estimated cost of borrowing of 3.38% (2019 – 3.10%) per annum. The principal and interest payments are as follows:

	2020	2019
2020	\$ -	\$ 161
2021	61	61
2022	24	24
2023	10	10
Total minimum capital lease payments	95	256
Less amounts representing interest	(3)	(9)
Present value of net minimum capital lease payments	\$ 92	\$ 247

Total interest payment on capital leases for the year was \$5 (2019 – \$11).

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)

(in thousands of dollars)

Year ended March 31, 2020

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
2020 Cost											
Opening balance	21,485	266,565	43,185	6,620	8,729	3,866	68,454	8,048	1,969	992	429,913
Additions	-	45	1,058	1,017	467	-	4,143	1,400	-	3,968	12,098
Dispositions	-	-	-	-	-	-	-	-	(1,599)	-	(1,599)
Transfer to/(from) WIP	-	-	421	-	-	-	-	-	-	(421)	-
Closing balance	21,485	266,610	44,664	7,637	9,196	3,866	72,597	9,448	370	4,539	440,412
2020 Accumulated amortization											
Opening balance	-	(89,157)	(12,993)	(835)	(6,670)	(1,167)	(55,681)	(6,335)	(1,694)	-	(174,532)
Amortization	-	(6,666)	(4,298)	(544)	(463)	(482)	(4,745)	(1,092)	(184)	-	(18,474)
Dispositions	-	-	-	-	-	-	-	-	1,599	-	1,599
Closing balance	-	(95,823)	(17,291)	(1,379)	(7,133)	(1,649)	(60,426)	(7,427)	(279)	-	(191,407)
2020 Net book value	\$ 21,485	\$ 170,787	\$ 27,373	\$ 6,258	\$ 2,063	\$ 2,217	\$ 12,171	\$ 2,021	\$ 91	\$ 4,539	\$ 249,005
2019 Net book value	\$ 21,485	\$ 177,408	\$ 30,192	\$ 5,785	\$ 2,059	\$ 2,699	\$ 12,773	\$ 1,713	\$ 275	\$ 992	\$ 255,381

1. As at March 31, 2020, work in progress with a value of \$4,539 (2019 - \$992) has not been amortized. Amortization of these assets will commence when the assets are put into productive use.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

12. Financial risk management

The University has exposure to certain risks from its 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 the 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.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

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:

	2021	2022	2023	2024	2025
Contractual obligations	\$ 18,623	\$ 2,446	\$ 2,441	\$ 560	\$ 0

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, 2020, the University incurred costs of \$35,285 (2019 – \$34,996) for this project, with the anticipated remaining costs of \$715 to be incurred in fiscal 2021.

(c) The University has the ability to draw on a line of credit with a commercial bank for \$7,500 (2019–\$7,500). As at March 31, 2020, the University has not utilized the available line of credit.

(d) As at March 31, 2020, the University has issued letters of credits to the City of Surrey totalling \$294 (2019 – \$294) which expire on January 25, 2021. There is an automatic renewal that occurs each year thereafter and will terminate once the City of Surrey advises the University that the guarantee is no longer required.

15. Related party transactions

The University has entered into certain transactions and agreements in the normal course of business with certain of its related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

15. Related party transactions (continued)

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

Revenue and expenses:

Included in revenue	2020	2019
Ministry of Advanced Education, Skills and Training – Grants and revenue recognized in deferred contributions	\$ 76,546	\$ 72,064
Other provincial government entity – grants and revenue Recognized in deferred contributions	3,297	3,161
	\$ 79,843	\$ 75,225

Included in expenses	2020	2019
Ministry of Advanced Education, Skills and Training	\$ 239	\$ 202
Other provincial government entities	1,238	1,466
Other provincial universities	351	340
	\$ 1,828	\$ 2,008

Receivables and payables:

Included in accounts receivable	2020	2019
Ministry of Advanced Education, Skills and Training	\$ 1,070	\$ 928
	\$ 1,070	\$ 928

There are \$nil (2019 - \$nil) included in accounts payable for related party transactions with the provincial government entities.

Related party transactions with key management personnel:

During the year, the key management personnel, comprised of the Senate, the Board and the University's Executives, have \$nil (2019 – \$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, 2020, the University had a net receivable of \$nil (2019 – \$nil) and a net payable of \$nil (2019 – \$nil) with respect to these transactions.

16. Contingent assets

The University has \$nil of contingent assets as at March 31, 2020 and 2019.

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.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements (Continued)
(in thousands of dollars)

Year ended March 31, 2020

17. Contractual rights (continued)

During the year, the University has entered into various multi-year research funding agreements whereby the University has the opportunity to earn revenue in future years by incurring qualified expenditures. These research funding agreements do not abnormally impact the University's financial position and do not guarantee the University the right to future funding.

18. Expense by object

The following is a summary of expenses by object:

	Instruction, research, and support	Ancillary operations	2020
Salaries and benefits	\$ 143,700	\$ 1,168	\$ 144,868
Travel and professional development	3,426	6	3,432
Supplies	4,299	16	4,315
Student awards and bursaries	4,459	-	4,459
Fees and services	15,888	440	16,328
Facilities	9,428	373	9,801
Cost of sales	-	2,784	2,784
Leases, property taxes, insurance	1,108	32	1,140
Amortization of tangible capital assets	18,474	-	18,474
	\$ 200,782	\$ 4,819	\$ 205,601

	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 and bursaries	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	16,661	-	16,661
	\$ 187,243	\$ 5,428	\$ 192,671

19. Comparative figures

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