Kwantlen Polytechnic University

Annual Financial Report

March 31, 2023

KPU

Management Discussion and Analysis

Consolidated Financial Statements

Management Discussion and Analysis

Overview and Executive Summary

This management discussion and analysis ("**MD&A**") should be read in conjunction with Kwantlen Polytechnic University's ("**KPU**" or the "**University**") consolidated audited financial statements for the year ended March 31, 2023.

This MD&A provides an overview of KPU's operating environment, financial condition, and areas of financial risk. The Ministry of Post-Secondary Education and Future Skills (the "**Ministry**") provides leadership and direction for post-secondary education and oversees financial reporting for publicly-funded British Columbia post-secondary institutions. KPU prepares its financial statements and reports to satisfy financial reporting requirements of the various acts governing post-secondary institutions. KPU's consolidated audited 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.

On May 22, 2022, KPU Communities Corporation (the "**Corporation**"), a wholly-owned subsidiary of the University, was incorporated under the *Business Corporations Act* of British Columbia and on June 1, 2022 a trust deed was executed and appointed the Corporation the trustee of KPU Communities Trust (the "**Trust**"). The basis for accounting for KPU's consolidated audited financial statements for the year ended March 31, 2023 can be found in note 2(a) of the attached financial statements. This MD&A and the accompanying consolidated audited financial statements are an important measure of the University's financial health.

University overview

KPU is a regional polytechnic university with a focus on teaching and learning. KPU currently offers a range of credentials, many of which are completely unique, to successfully meet the evolving needs of regional and global employment markets. Students have the opportunity to bridge certificate and diploma credentials into bachelor's degrees, creating the option of academic and professional enhancement of applied and technical programs. Credentials offered include bachelor's degrees, associate degrees, diplomas, certificates and citations in more than 140 programs. Almost 20,000 students annually attend courses at KPU's five campuses in Surrey, Richmond, Langley, Cloverdale and Civic Plaza. These campuses serve the region south of the Fraser River that overlaps with the unceded traditional and ancestral lands of the Kwantlen, Matsqui, Musqueam, Katzie, Semiahmoo, Tsawwassen, Qayqayt, and Kwikwetlem Peoples.

As a polytechnic university, KPU combines academic excellence and hands-on, applied learning with a focus on producing job-ready graduates who have the skills required to make valuable contributions to British Columbia's workforce and communities.

Strategic priorities and planning

KPU's strategic plan, Vision 2023, includes mission and vision statements and goals that guide planning and decision making for the University's continued evolvement. To assess progress towards the goals in Vision 2023, three types of measures are reported in KPU's annual "Accountability Plan and Report": 1) measures required by the Ministry; 2) measures for SkilledTradesBC (formerly Industry Training Authority); and 3) measures developed by KPU. Targets for KPU measures were developed in consultation with the KPU Board of Governors (the "**Board**").

KPU's strategic direction, Vision 2023, has driven the framework of planning, budgeting and management processes to allocate finite financial resources and optimize service results. The Vision 2023 strategic plan will close with a final report in the fall of 2023.

Vision 2026

KPU continues to advance and build on its Vision 2023 strategic plan with movement towards Vision 2026, which will form the guidance for strategic values, goals and overall mission for the University over the next few years.

Vision 2026 has involved considerable consultation with key parties during its development process. Vision 2026's mission, vision, values and goals reflect KPU's role as a polytechnic university and its distinct opportunity to evolve and anticipate changes and challenges while focusing on priorities to ensure ongoing success. The final version of Vision 2026 was approved by the Board in May 2023.

BIRDSEYE VIEW OF SURREY CAMPUS

Financial highlights and key financial results

KPU concluded FY2023 with a surplus of $7.7M compared to an original budget of $0 due to lower expenses than budgeted. Subsequent budget adjustments approved during the fiscal year are not reflected as the budget is presented in accordance with Canadian Public Sector Accounting Standards (“**PSAS**”).

Statement of Operations (in 000s)	Budget	2023	2022	Change
Consolidated			(Restated)	
Total revenue	$ 262,733	$ 262,679	$ 230,807	$ 31,872
Total expenses	262,733	255,017	230,245	24,772
Annual surplus	$ -	$ 7,662	$ 562	$ 7,100

Statement of Financial Position (in 000s)	2023	2022	Change
Consolidated		(Restated)	
Financial assets	$ 205,751	$ 173,092	$ 32,659
Liabilities	308,605	287,266	21,339
Net debt	(102,854)	(114,174)	11,320
Non-financial assets	237,283	242,289	(5,006)
Accumulated operating surplus	$ 133,698	$ 126,036	$ 7,662

Financial assets present a year-over-year increase of $32.7M in FY2023. This increase is driven by higher cash and cash equivalents due to less spending than anticipated as a result of lack of resources and supply chain issues, increased accounts receivable due from the Ministry for collective agreement amounts that were not ratified in FY2023, and increased international revenues.

Liabilities present a year-over-year increase of $21.3M in FY2023. This is the result of increased deferred capital contributions of $22.7M, mainly due to the deferral of $23.0M from the FY2023 operating grant for capital purposes. Also, the $4.6M increase of accounts payable is primarily attributable to accrued salaries payable for collective agreement increases.

Net debt, the excess of liabilities over financial assets, decreased by $11.3M to $102.9M in FY2023 (FY2022 - $114.2M). This was largely due to a greater increase in cash and accounts receivable versus liabilities. Net debt has been steadily decreasing for the past five years, providing evidence that the University’s liquidity and financial position are improving.

On April 1, 2022, the University adopted PS 3280 *Asset retirement obligations* using the modified retroactive transitional provisions as at the date of adoption. This new standard requires that the University record the legal obligations associated with the retirement of tangible capital assets. The comparative March 31, 2022 financial statements have therefore been restated along with 2019-2021 figures where relevant throughout the MD&A. Please refer to note 3 in the attached consolidated audited financial statements for details of this restatement.

Operating Environment and Governance

KPU operates under the authority of the *University Act* of British Columbia and is a not-for-profit entity governed by a Board of Governors, the majority appointed by the provincial government of British Columbia. In accordance with the *University Act*, KPU has adopted principles relating to bi-cameral governance, with the management, administration and control of property, revenue and business affairs of the University vested within the Board and academic governance of the University vested within the Senate.

As a publicly funded post-secondary institution, KPU must adhere to guidelines in accordance with the British Columbia post-secondary sector. The financial context for the British Columbia post-secondary sector is one that is tightly constrained by the provincial government. 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.

The Ministry issues mandate letters to British Columbia public post-secondary institutions that outline government priorities for the public post-secondary system. KPU's mandate letter and the Minister's letter of direction highlights the government's priorities for the University which it is measured against. KPU meets these requirements by aligning KPU's strategic goals and performance measures with provincial and Ministry post-secondary education sector objectives. In addition, KPU has its own internal goals and objectives with Vision 2023 and Vision 2026, and identifies additional measures to monitor and track accomplishments.

Operating grants

Each year, eligible public post-secondary institutions receive base funding from the provincial government. For many organizations, including KPU, government grants are provided in parallel to government domestic student full-time equivalent ("**FTE**") targets, meaning that actual changes in student delivery FTEs do not necessarily result in changes to financial support.

Institutions also generate revenue from different sources such as, but not limited to, tuition, ancillary services, federal grants, endowments and investments; however, the provincial operating grant in addition to tuition represents a significant funding source for public post-secondary institutions.

WILSON SCHOOL OF DESIGN ATRIUM

Balanced Budget Legislation

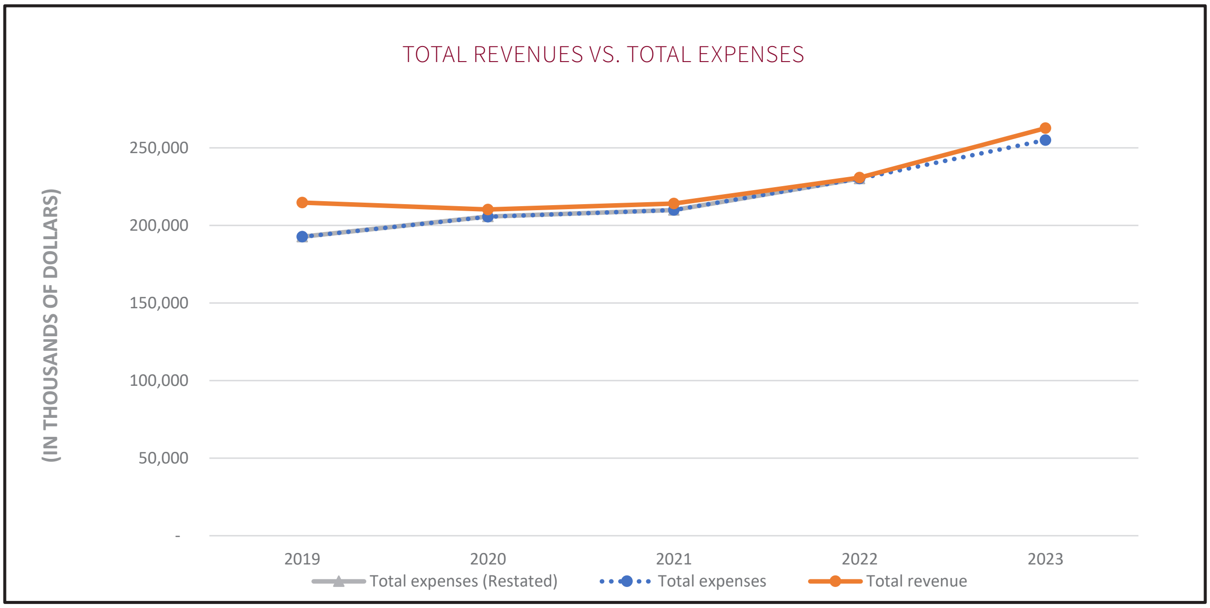
The British Columbia post-secondary education sector is subject to balanced budget legislation. This legislation requires that, in any given fiscal period there cannot be an operating deficit. This contributes to a complex operating environment, especially in times of economic uncertainty. Longer term planning is required to ensure the University is in a balanced financial position each year, regardless of historical surpluses or deficits.

The Ministry issues a budget letter each year with information regarding KPU's operating grant and student FTE targets, associated accountabilites, and roles and expectations for the upcoming year. KPU's FY2023 budget letter indicated an operating grant of $79.6M with a year-over-year increase of $1.15M from FY2022. There was an approved deferral of the operating grant of $12.4M in FY2022 for operating and capital purposes and $23.0M in FY2023 for capital purposes.

Due to the COVID 19 pandemic, the Ministry provided the opportunity to the University, upon request, to present a deficit budget for FY2023. Given its expected position, KPU did not request a deficit budget and KPU's Board approved a balanced budget for FY2023.

Financial Results

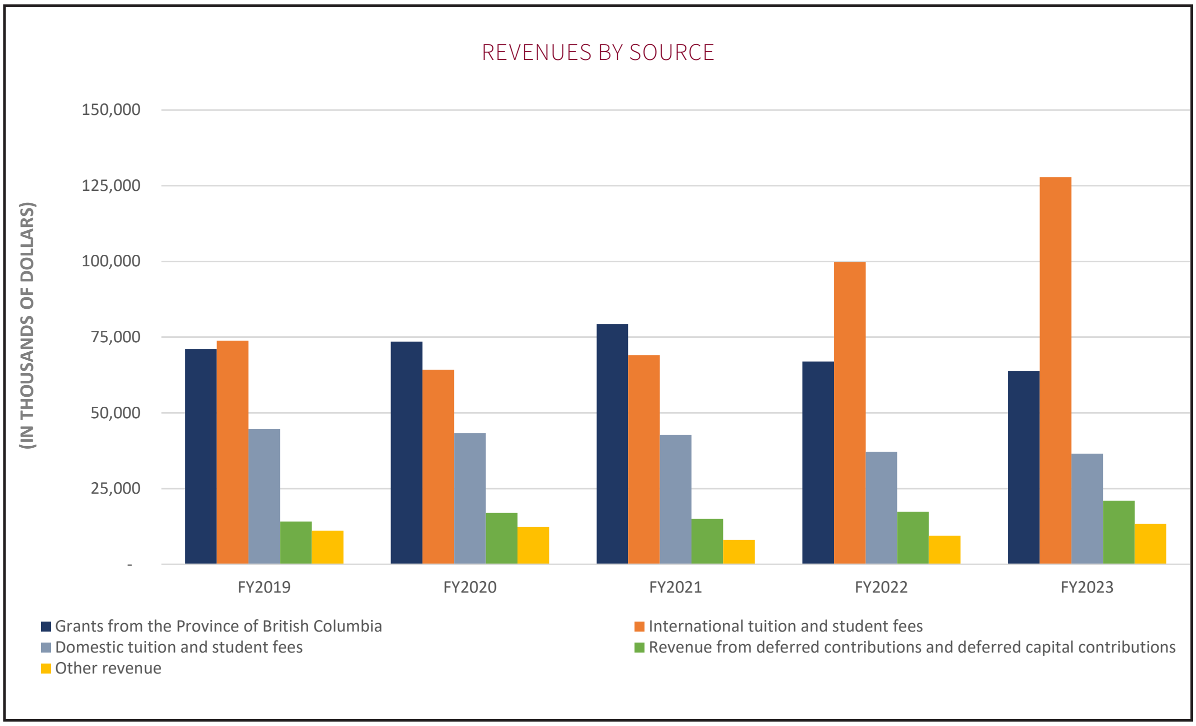
Revenues and Expenses



Revenues and expenses have been increasing year-over-year, with the exception of FY2020 and FY2021 where revenues were dampened by the pandemic, highlighting overall growth for the University over the past five years. Overall, revenues have grown by 22.4% from $214.7M in FY2019 to $262.7M in FY2023 and expenses have grown by 32.3% from $192.7M to $255.0M over the same time frame. The University has recognized an annual surplus in each of the past five years.

KPU DAY 2023

Revenues by source



Revenue increased by 14% to $262.7M in FY2023 (FY2022 - $230.8M). The increase in overall revenues is driven predominately by a $28.0M or 28.1% year-over-year increase in international tuition and student fees (FY2022 - $30.5M or 44.7%) and a year-over-year increase of $3.8M or 163.0% in investment income (FY2022 - $0.5M decrease or 17.3%) as a result of higher interest on cash balances.

Grants from the Province of British Columbia

Grants from the Province of British Columbia is composed largely of the provincial operating grant which represents KPU's base funding. In addition to the provincial operating grant, the grant also includes provincial funding for specific purposes and projects. Overall, grants from the Province of British Columbia decreased by 5% in FY2023 as compared to the prior year. The decrease is a result of KPU requesting and receiving approval from the Ministry to defer $23.0M of the operating grant in FY2023, whereas, the comparable deferral in FY2022 was $12.4M. The deferrals were requested by KPU to provide continuance to projects initiated in the respective year. Historically the total revenue for this revenue source has been similar to international student tuition and fees, however, this shifted in FY2022 and FY2023 where international student tuition and fee revenue significantly surpassed grants from the Province of British Columbia.

Tuition and student fees

Tuition and student fees represent all fees incurred by students to attend KPU for credential programs.

International tuition and student fees is the University's largest revenue source, increasing by $28.0M or 28.1% to $127.9M in FY2023 (FY2022 -$99.8M or 35.4%). This corresponds with a year-over-year increase in international student FTEs of 33.5% as international students are likely to take more courses than domestic students. In addition, tuition for international students is higher than that of domestic students because the government grant cannot be used to subsidize international student tuition.

Domestic tuition and student fees decreased slightly to $36.6M (FY2022 - $37.2M), a 1.7% decrease from FY2022. This corresponds with a decrease in domestic student FTEs of 2.3%.

Whereas overall domestic student FTE enrolment fell during the pandemic and in FY2022 and FY2023, the University did see a year-over-year rise in new domestic student FTEs in FY2023.

Revenue from deferred contributions

Revenue from deferred contributions represent the spending of externally restricted grants, as specified by the contributor. Revenue in this category increased by 34% to $10.5M in FY2023 (FY2022 - $7.9M). A significant contributor of this change is $1.8M revenue recognized in FY2023 related to the $4.0M deferral of the FY2022 operating grant for operating purposes. There was no comparative revenue stream in FY2022. The University has also recognized an uptick in research grant activity, which has begun to recover after being suppressed throughout the pandemic.

Revenue from deferred capital contributions

Contributions that are restricted for the purpose of acquiring capital are recorded as deferred capital contributions. Amounts are recognized into revenue from deferred capital contributions at the same rate that amortization of the tangible capital asset is recorded. There has been a 10.8% increase to $10.5M in FY2023 (FY2022 - $9.5M). This increase is largely due to the recognition of deferred capital contributions received in FY2022 from the operating grant restriction for capital purposes.

Other revenue

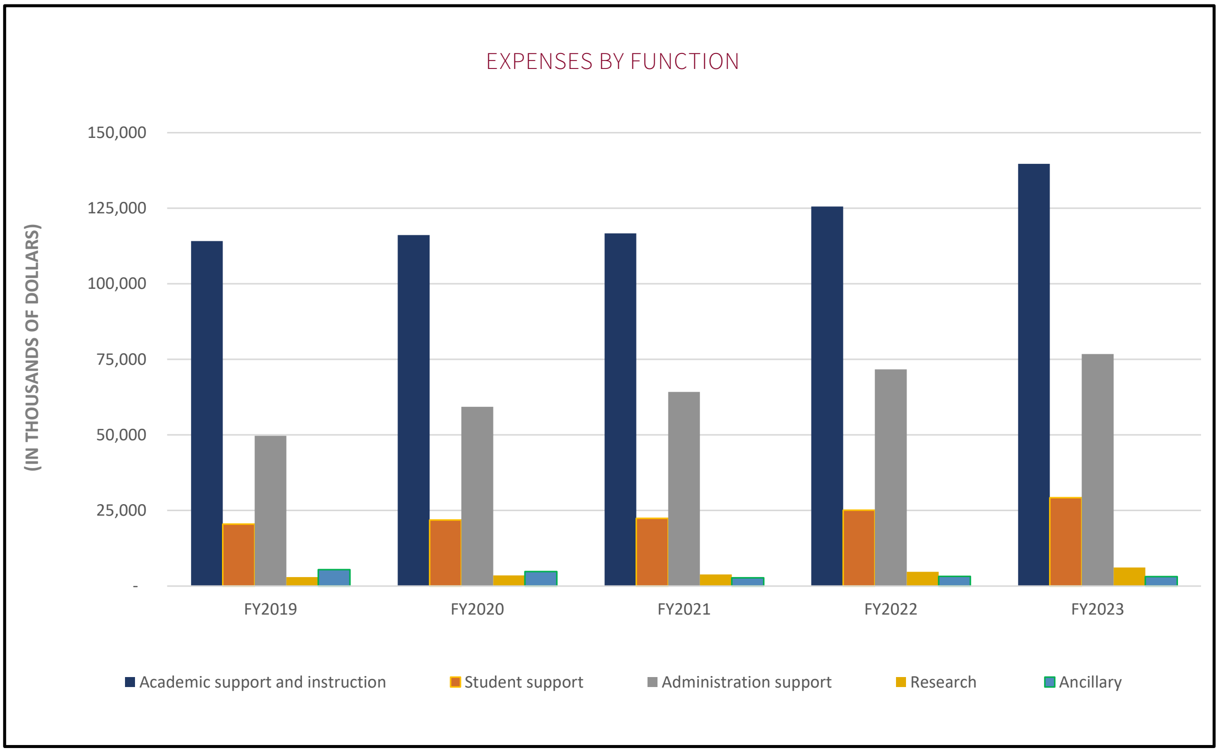
Other revenue is composed of ancillary services revenue, investment income and miscellaneous income.

Ancillary services revenue is composed of bookstore, parking and food services revenue. Overall, ancillary services revenue increased by 35% to $3.3M in FY2023 (FY2022 - $2.4M). This increase is the result of more student and employee activity on campus, however, this revenue source is lower than pre-pandemic levels with an overall reduction in campus activities.

Investment income includes interest revenue, dividends and realized gains and losses on the sale of investments. There has been a 163.0% increase to $6.1M in FY2023 (FY2022 - $2.3M). This increase is largely attributed to higher interest revenue on cash balances as the prime rate increased steadily throughout the year from a low of 2.7% as at April 1, 2022 to a high of 6.7% at March 31, 2023.

The remainder of the other revenue is composed of miscellaneous income such as space rentals, donations received, trades shop income and product sales and contract revenue. This decreased by 14.8% to $4.0M in FY2023 (FY2022 - $4.7M or 40.2% increase).

Expenses by function



Expenses by function continued

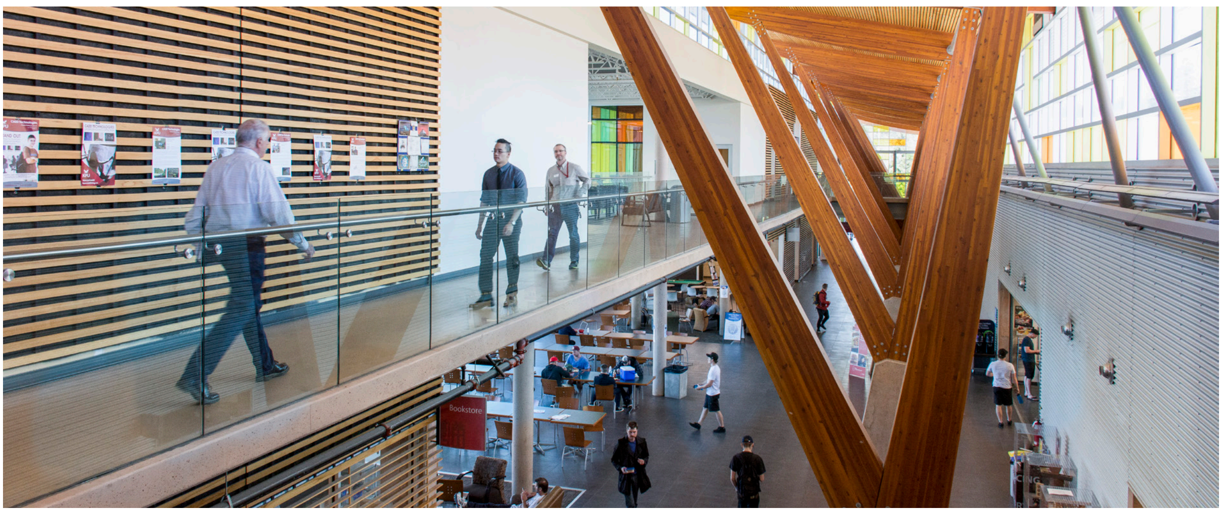
The University spends the majority of its budget on ensuring quality education is offered to individuals by investing in academic support, instruction and administration support. Remaining budget is allocated to supporting students, research initiatives and providing ancillary services.

Academic support and instruction increased by 11.3% to $139.7M in FY2023 (FY2022 - $125.6M). The majority of this increase resides in faculty salaries and benefits for existing programs, in addition to the new Entertainment Arts program which rolled out in summer 2022, as well as targeted increases to support academic strategic initiatives and reduce waitlists for high demand courses. There has been a targeted investment in this area in both FY2022 and FY2023 as KPU emerged from the pandemic. The focus shifted from maintaining core academic activities to furthering academic innovation and teaching excellence.

Administration support represents the core support functions of the University which increased by 7.2% to $76.9M in FY2023 (FY2022 - $71.7M). In FY2023, there were additional facilities costs as the University transitioned from an online teaching model to a blended model for course offerings. The University also engaged in the first phase of its information technology migration to the cloud.

Student support increased by 16.5% to $29.2M in FY2023 (FY2022 - $25.1M). The University made targeted investments to directly support students and the student experience by contributing significant funds to student awards and international education. Similarly to FY2022, the University endowed $3.0M in FY2023 to the KPU Foundation to support the reduction of financial barriers for KPU students and established a food endowment to support students in immediate need of food.

Research increased by 29% to $6.1M in FY2023 (FY2022 - $4.7M). This is due to increased activity on short-term research grants. KPU continues to support the expansion of its research initiatives and in FY2023 donated $4.0M to the KPU Research Endowment in the KPU Foundation towards research activities at the University. Overall, the research function has shown the most growth since FY2019 with an increase of 104% due to the University's focus on supporting these activities to further enhance experiential learning.



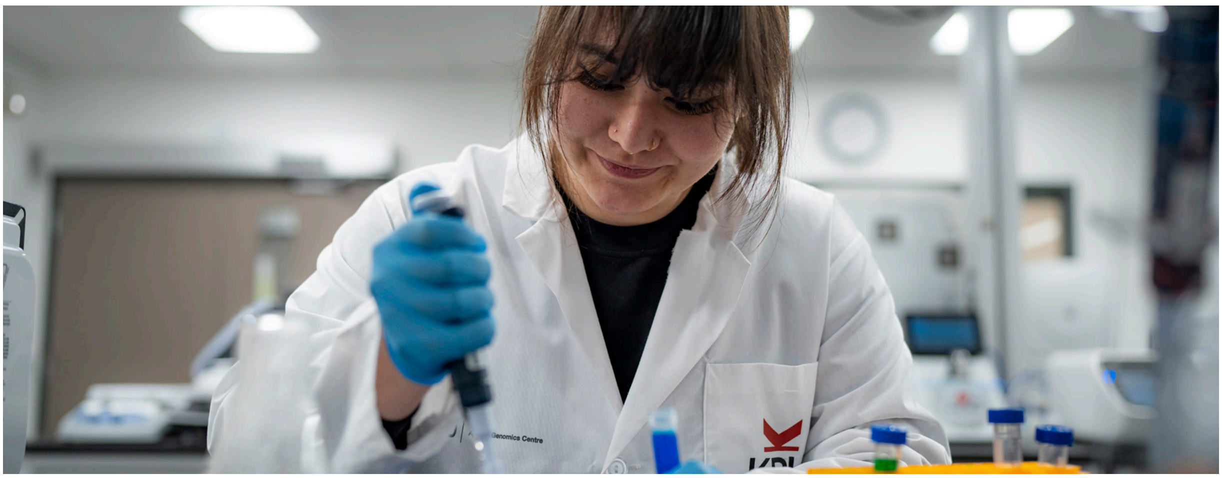
CLOVERDALE CAMPUS

Expenses by object

Expenses by object (in 000s)		2023		2022
				(Restated)
Salaries and benefits	$	173,175	$	151,358
Travel and professional development		3,334		1,967
Supplies		5,121		4,802
Student awards, bursaries and donations		11,600		9,246
Fees and services		25,326		28,469
Facilities		14,524		11,990
Cost of sales		1,475		1,502
Leases, property taxes, insurance		469		730
Accretion		98		45
Amortization of tangible capital assets		19,895		20,136
Total expenses by object	$	255,017	$	230,245

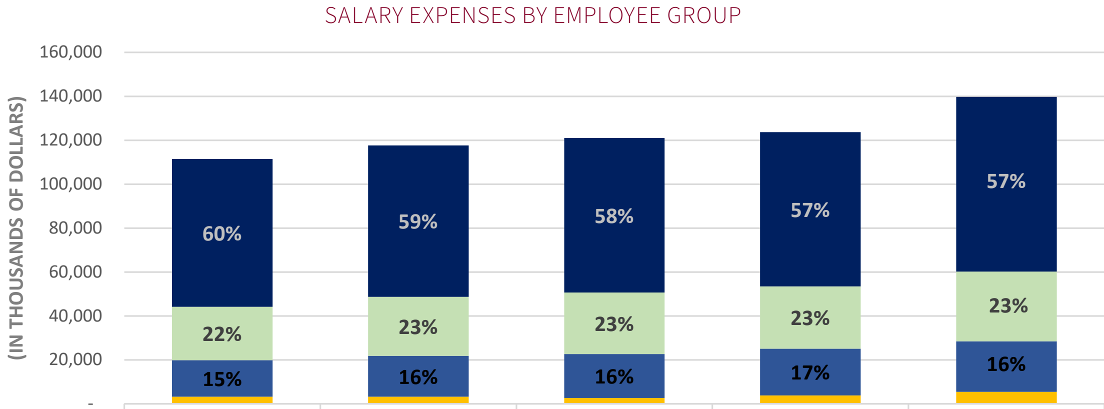
Salaries and benefits

Salaries and benefits are KPU's single largest expenditure representing 67.9% of KPU's expenses in FY2023 (FY2022 – 65.7%). There was an overall increase in salaries and benefits of $21.8M or 14.4% year-over-year to $173.2M in FY2023 (FY2022 - $151.4M) as a result of higher staffing levels along with paid and accrued wage increases across all employee groups. The expected wage increases for employees under collective agreements have been accrued in the FY2023 consolidated audited financial statements, as estimated by the Province of British Columbia's published Shared Recovery Mandate. The largest increase in salaries is in faculty salaries and benefits, due to accrued salary increases, the newly created Entertainment Arts programs, targeted support for academic strategic initiatives and addressing the reduction of waitlists for high demand courses.



KPU'S APPLIED GENOMICS CENTRE

Salary expenses by employee group



	FY2019	FY2020	FY2021	FY2022	FY2023
Faculty	67,252	68,977	70,269	70,303	79,526
Staff	24,289	26,842	28,058	28,329	31,714
Administration	16,654	18,587	19,937	21,225	23,012
Other	3,249	3,203	2,694	3,844	5,443
Total Salaries	111,445	117,609	120,958	123,700	139,695

There are three main employee groups at KPU: faculty, staff and administration. The proportion of salary expense by employee group has remained relatively stable over time.

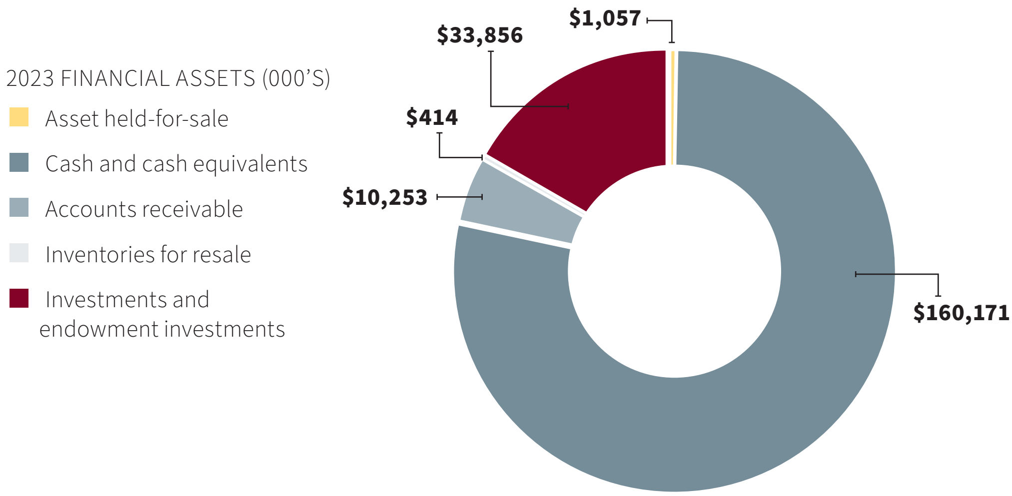
Non-salary expenses

Non-salary expenses, including amortization, increased in FY2023 by 10.6% or $3.0M to $81.8M (FY2022 – $78.9M). In FY2023, the key driver of this increase was a shift back to campus activity, which resulted in higher facilities costs, more post pandemic travel and professional development activities. In addition, due to the University continuing to focus on providing supports to students, there was a $2.4M increase in student awards, bursaries and donations. In FY2022, KPU incurred one-time costs in fees and services including a $4.0M expense to cover deficiencies identified at one of its campuses and upfront costs to prepare for the new Entertainment Arts programs which commenced in summer 2022.

Financial Position

Financial assets

Financial assets represent the amount of resources available that can be converted to cash to meet obligations or fund future operations. During FY2023, financial assets increased by 18.9% to $205.8M (FY2022 - $173.1M or 40.1%).



Cash and cash equivalents is the most significant component of financial assets at $160.2M or 77.8% (FY2022 - $135.8M or 78.5%). This saw a $24.3M year-over-year increase (FY2022 – $50.2M increase). This increase was the result of a delay in cash outflow for planned expenditures. In addition, high interest income was earned on cash balances which further increased the balance.

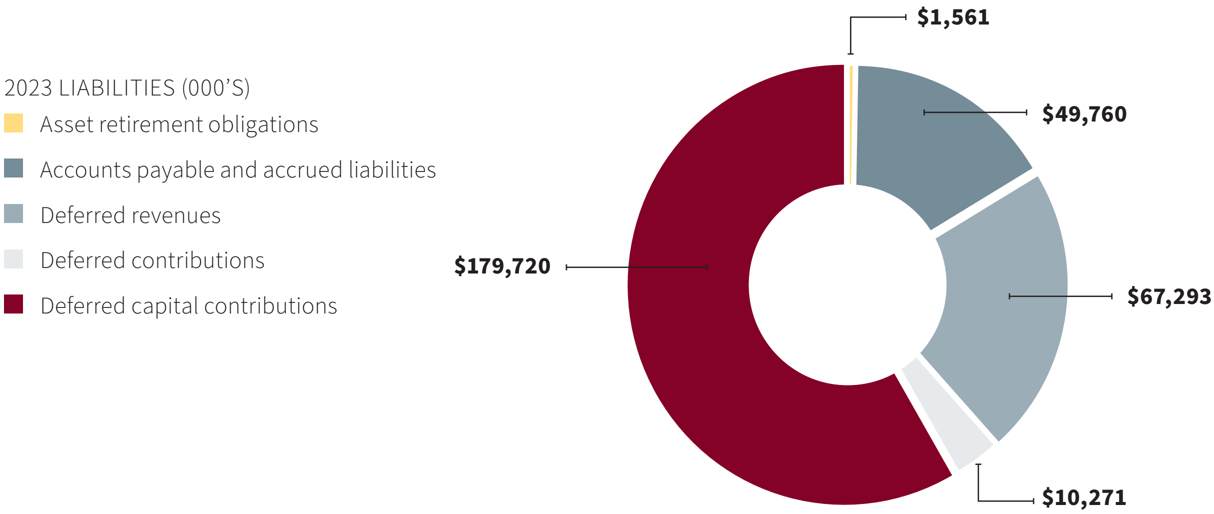
After cash and cash equivalents, investments and endowment investments is the next largest component of financial assets at $33.9M or 16.4% of financial assets (FY2022 – $33.0M or 19.1%). The year-over-year change of was mainly due to the purchase of a guaranteed investment certificate during the year.

Accounts receivable represents $10.3M or 5.0% of the financial asset balance (FY2022 - $3.9M or 2.2%), which increased year-over-year by $6.4M (164.7%) largely due to a receivable from the Ministry for collective agreement increases that have not yet been ratified in FY2023. This amount is estimated by the Province of British Columbia's Shared Recovery Mandate.

In FY2023, the Board approved to sell a portion of the land at the Cloverdale campus and, as a result, land with a cost of $1.1M has been reclassified from tangible capital assets to an asset held-for sale.

Liabilities

Liabilities represent the obligations the University has to others arising from past transactions or events. Liabilities increased by 7.4% to $308.6M in FY2023 (FY2022 -$287.3M or 18%).



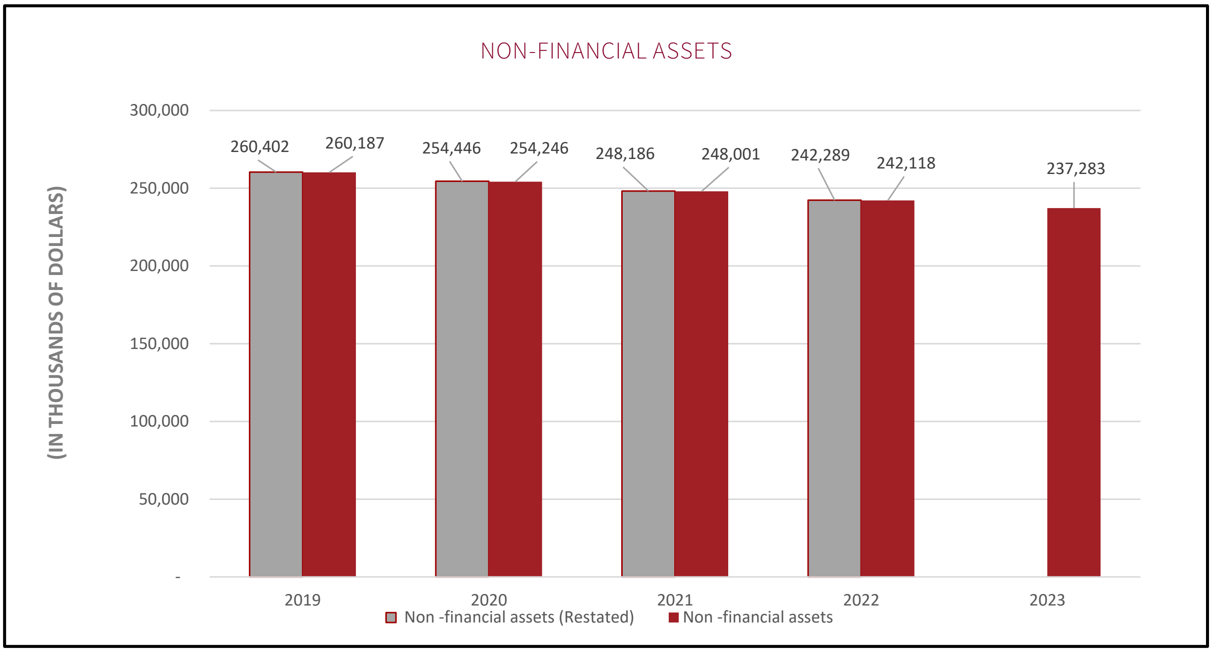
Deferred capital contributions, which are contributions that are restricted for the purpose of acquiring capital, are the largest component of liabilities at 58.2% of total liabilities (FY2022 – 54.7%). This category increased by 14.5% to $179.7M in FY2023 (FY2022 - $157.0M). In the fourth quarter of FY2023, the Ministry approved the deferral of $23.0M of the University's FY2023 operating grant for capital purposes which contributed to the significant increase of deferred capital contributions.

Deferred revenues, representing 21.8% of total liabilities (FY2022 – 25.2%), decreased by 7.0% to $67.3M in FY2023 (FY2022 - $72.4M). This balance relates to tuition payments made by students for future courses. These prepayments are deferred and reported as revenue when course delivery has occurred. International students often prepay for future courses and during the pandemic a number of international students prepaid and subsequently delayed their start date due to uncertainties. The University started to realize some of these prepayment balances during FY2023 as these students enrolled in courses.

Accounts payable and accrued liabilities, representing 16.1% of total liabilities (FY2022 – 15.7%), increased by 10.2% to $49.8M in FY2023 (FY2022 - $45.1M). This increase is largely attributable to an increase in accrued salaries, benefits and wages payable as a result of the retroactive amount owing to employees as estimated by the Province of British Columbia's Shared Recovery Mandate.

On April 1, 2022, the University adopted PS 3280 *Asset retirement obligations* using the modified retroactive transitional provisions as at the date of adoption. This new standard requires that the University record the legal obligations associated with the retirement of tangible capital assets. Included in liabilities is an asset retirement obligation for the removal of hazardous material from some of the University's buildings. The balance of asset retirement obligations at March 31, 2023 was $1.6M (FY2022 - $1.5M).

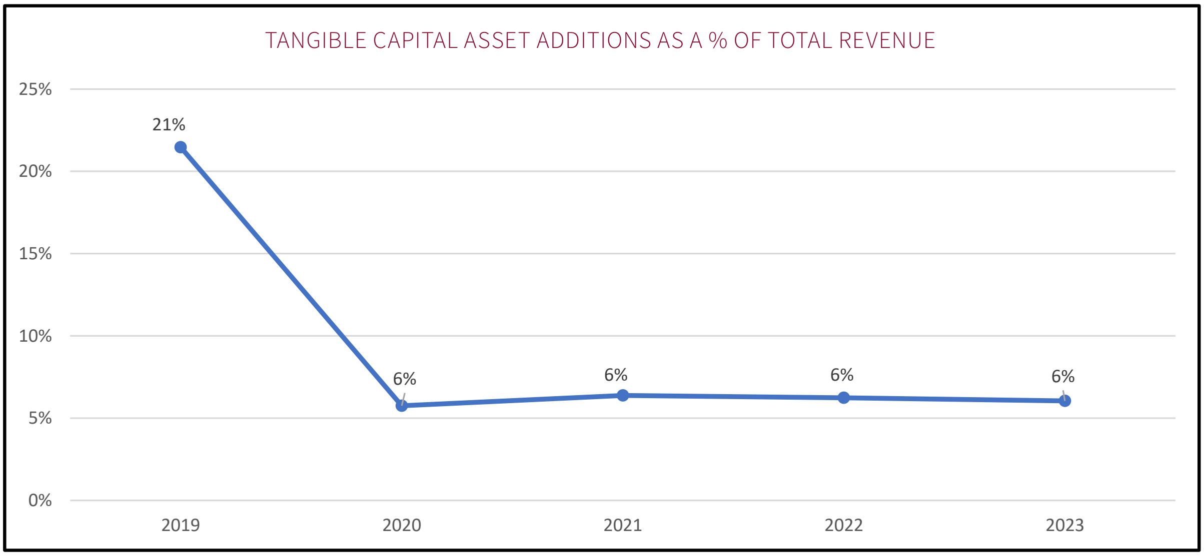
Non-financial assets



Non-financial assets are not available to discharge existing liabilities and are held to provide services in the future. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations. Total non-financial assets decreased by 2.0% to $237.3M in FY2023 (FY2022 - $242.3M).

Non-financial assets (in 000s)		2023		2022
				(Restated)
Tangible capital assets	$	232,450	$	237,517
Investments and endowment investments		2,817		2,817
Prepaid expenses and deposits		2,016		1,955
Total non-financial assets	$	237,283	$	242,289

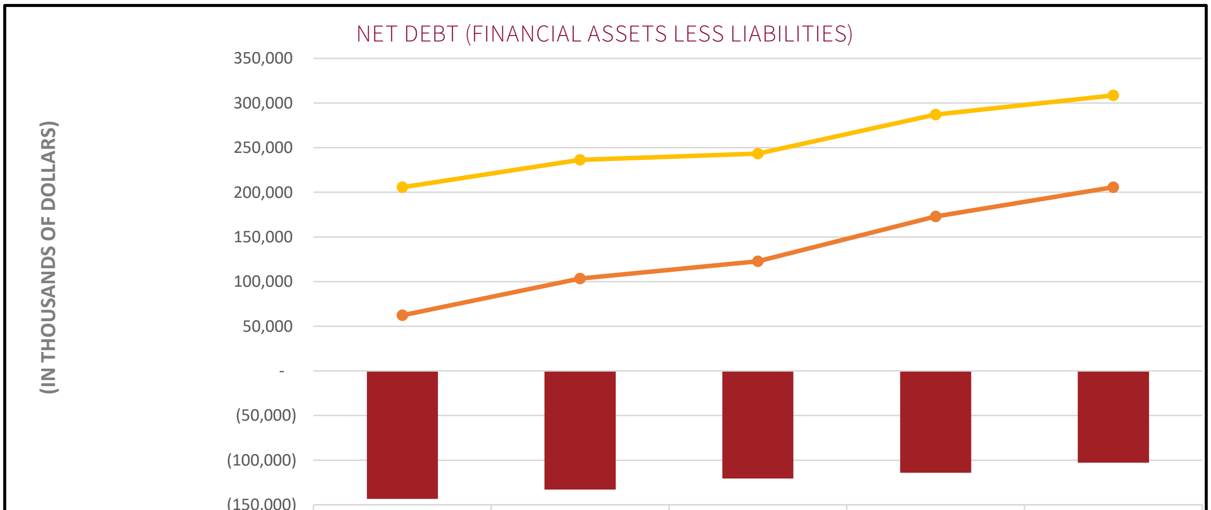
Tangible capital assets include assets purchased or constructed by the University and assets that were fully or partially contributed to by the provincial government and include land, buildings, major site improvements, major equipment, library holdings, technology infrastructure, furniture and equipment, computing equipment and leased capital assets. The net decrease in tangible capital assets of $5.1M is mainly due to amortization. Furniture and equipment purchases were significant as the University focused on a furniture refresh project which had been put on hold during the pandemic. Additions to work-in-progress and major equipment also largely related to upgrades on aging infrastructure.



In 2019, a major building project was completed and for the last four years, acquisitions have been near 6% of total revenues comprised largely of routine furniture and equipment and computing equipment.

CIVIC PLAZA CAMPUS

Net debt

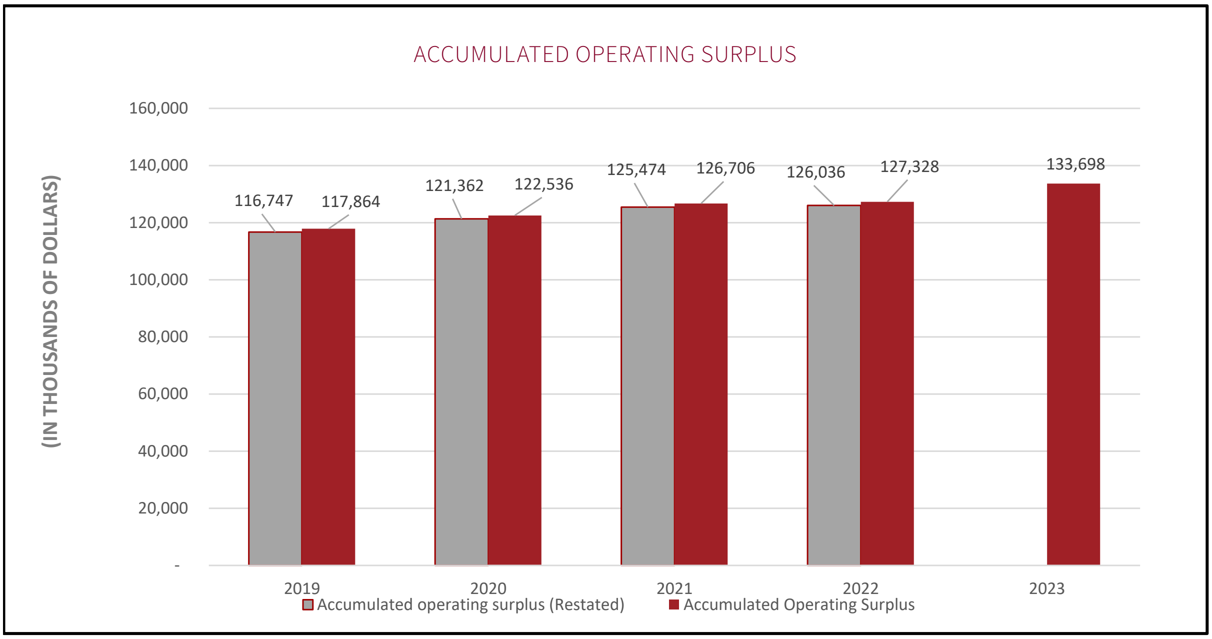


	2019	2020	2021	2022	2023
Net Debt (Restated 2019-2022)	(143,403)	(133,030)	(120,545)	(114,174)	(102,854)
Financial Assets	62,255	103,363	122,880	173,092	205,751
Liabilities (Restated 2019-2022)	205,658	236,393	243,425	287,266	308,605

Net debt is the excess of liabilities over financial assets and in FY2023 was $102.9M, which decreased by $11.3M over the prior year. This was largely due to a greater increase in cash and accounts receivable versus liabilities. Net debt has been steadily decreasing for the past five years, providing evidence that the University's liquidity and financial position are improving.

CIVIC PLAZA CAMPUS

Accumulated operating surplus

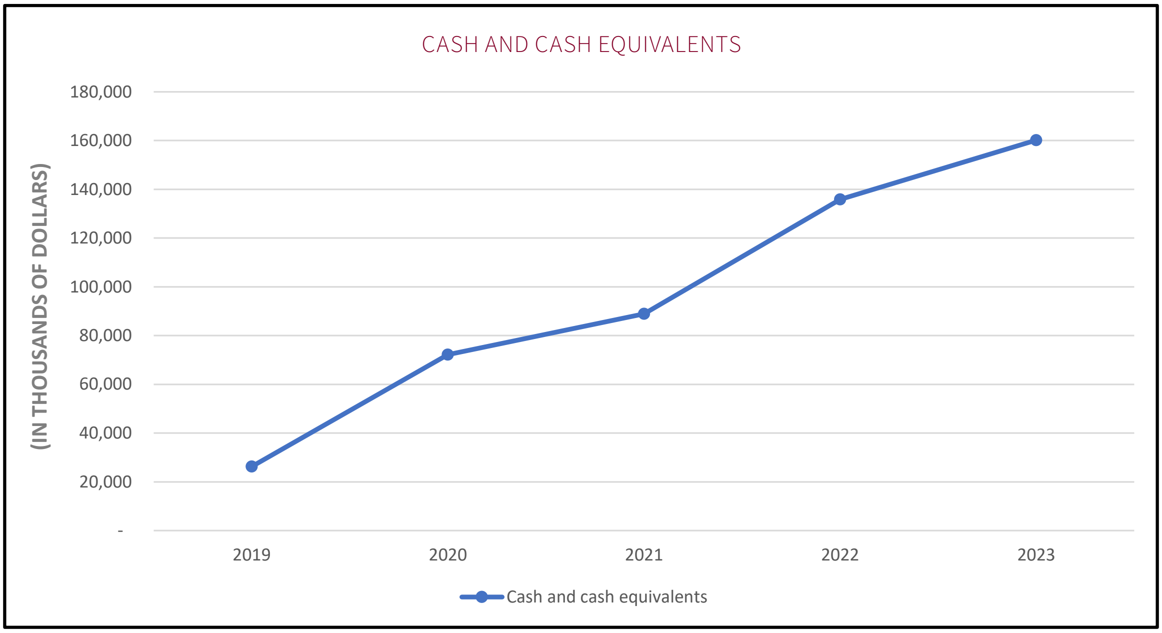


Accumulated operating surplus represents the University's accumulated interest in its net debt (assets minus liabilities) over time. It can also be described as the accumulation of annual surpluses since inception to date. This balance is largely unavailable to fund KPU's operations, as it has either already been invested in capital assets, or has been internally or externally restricted. While some of this balance does reflect cash available for use, these funds cannot be spent without violating the Balanced Budget legislation.

LANGLEY CAMPUS WALKWAY

Cash Flows

The Consolidated Statement of Cash Flows reports on the sources and uses of cash during the year. The University's overall cash position increased by $24.3M from $135.8M in FY2022 to $160.2M in FY2023.



The primary source of cash is from operations, specifically cash received for student tuition and fees and grants from the Province of British Columbia, as well as contributions received for tangible capital assets. Cash is used to meet operational expenses, reduce liabilities and pay for the University's investment in infrastructure. More detail is available on the Consolidated Statement of Cash Flows within the consolidated audited financial statements.

STUDENTS IN KPU SURREY LIBRARY

Financial Indicators

Key Financial Ratios	March 31 2023	March 31 2023	March 31 2022	March 31 2021
	Target	Actual	(Restated)	(Restated)
Net debt to total revenue ratio	48%	39%	49%	56%
Province of BC grant revenue to total revenue ratio	31%	24%	29%	37%
Own source revenue per student FTE (in 000s)	$ 10.8	$ 12.4	$ 11.3	$ 9.9
Net debt per student (in 000s)	$ 8.2	$ 7.1	$ 8.8	$ 9.9

Net debt to total revenue ratio identifies the percentage of income available to cover KPU's net debt. The decrease in the percentage over the past two fiscal years as well as actuals being lower than the target is favourable as it indicates higher revenues earned in relation to net debt.

Province of BC revenue to total revenue ratio dropped in FY2023 when compared to FY2022 and the target, however, this is partially due to an approval by the Ministry to restrict $23M of the operating grant in FY2023 (FY2022 - $12.4M). When normalizing for these deferrals, the proportion of operating provincial grants to total revenue decreased by only 2% year-over-year. Another factor that contributes to the decrease is that international student and tuition fee revenues have increased by a higher proportion than the Province of BC grant revenue.

Own source revenue per student FTE represents revenue the University has earned outside of grants from the Province of British Columbia and other external contributions per student. There is an increase over the past two fiscal years and when compared to the target, which indicates more money per student is being earned through the University's own source revenues as discussed throughout. This is driven by an increase in international student tuition and fees.

Net debt per student represents the University's debt in terms of the amount attributable to each student. This ratio decreased in FY2022 and FY2023 as well as when compared to the target, which represents growth in resources for the University.

Overall, when reviewing the University's financial condition, KPU is well positioned. The University has continued to maintain surpluses each year, and successfully navigated its way through the uncertainties of the pandemic. The University has a strong cash balance that allows it to meet its day to day obligations and provide the cash flow required for strategic opportunities. Net debt, the excess of liabilities over financial assets dropped in FY2023 and has been decreasing steadily over the past five years indicating improved financial condition. Of note, KPU does not currently have any long-term debt obligations. In addition, the University's unrestricted accumulated surplus increased from $23.0M in FY2022 to $35.7M in FY2023. This amount is available to fund capital assets.

Risks and Uncertainties

KPU is operating in an increasingly complex environment—from competitive, financial, regulatory, research and scholarship and innovation perspectives.

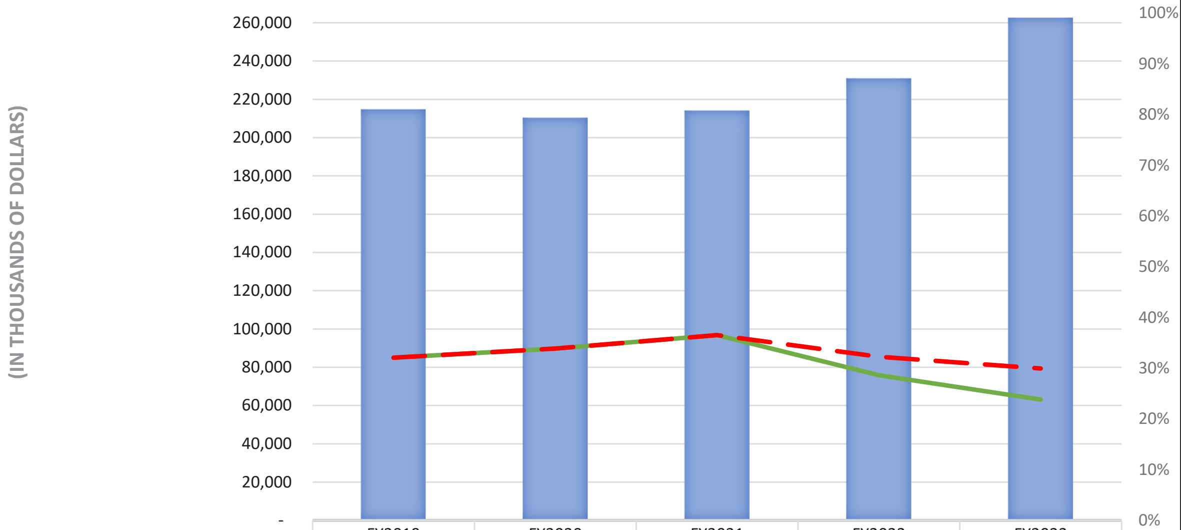
Revenue stability and diversity

KPU's largest financial risk is related to international student tuition and the University's overall reliance on this revenue source. As KPU's tuition revenues have grown so has a need for additional infrastructure and employees, which results in an increased reliance on international student tuition revenue for long-term sustainability. Of the three-primary revenue sources— government grants, domestic tuition and fees and international tuition and fees—international tuition and fees is the most volatile. A number of factors, including geo-political and immigration policy changes, can substantially impact this revenue source with little notice.

The operating grant, included in grants from the Province of British Columbia, is considered stable revenue. Provincial operating grants are a significant source of funding to the University's operating budget and for FY2023 KPU's operating grant was approximately 23.8% of the operating budget (FY2022 - 28.6%). The operating grant has remained relatively stable year-over-year, however it is important to note that revenue reported in FY2023 was reduced by $23.0M as it was deferred for capital purposes. The University requested this deferral to help move forward and fund initiatives into the future that it couldn't attend to in the current fiscal year that would otherwise have a significant impact on its operations which will allow the University to focus on deferred maintenance of aging infrastructure, refreshing aged information technology and furniture along with targeting planned University capital initiatives. This mitigation strategy supports the long-term financial stability of the University. As seen in the figure below, when normalizing the operating grant funding for the deferrals over time, there is evidence of a deterioration of the proportion of the operating grant to total revenues from 37% in FY2021 to 30% in FY2023.

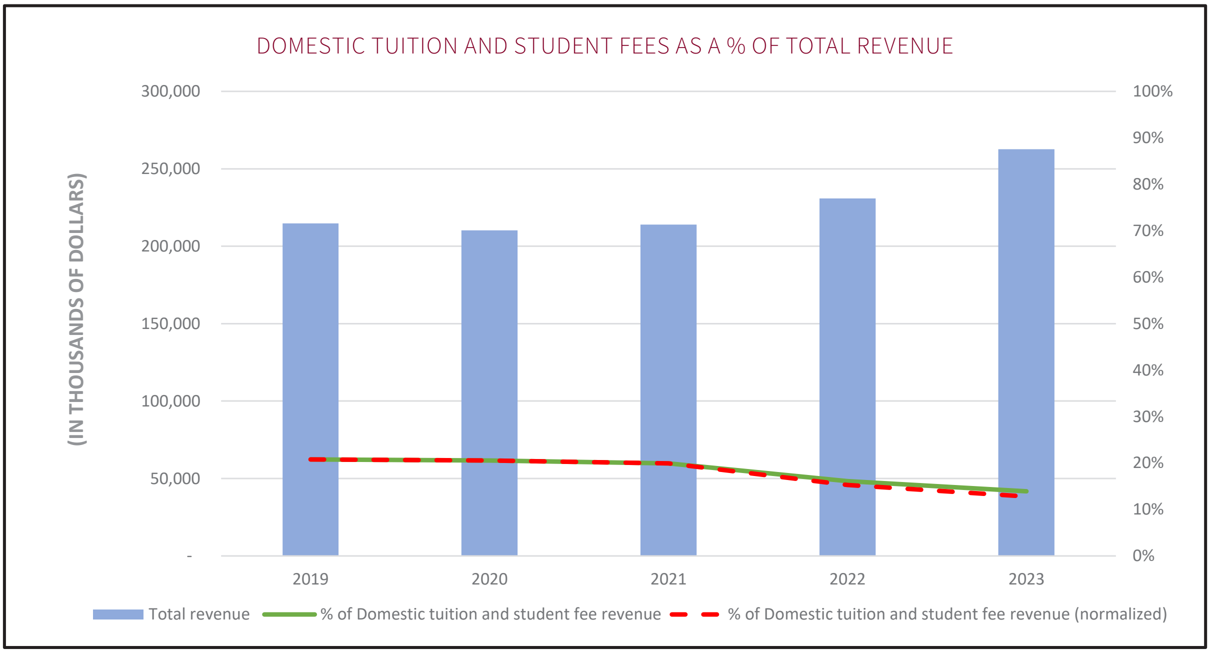
SURREY CAMPUS LIBRARY

OPERATING GRANT AS A % OF TOTAL REVENUE



	FY2019	FY2020	FY2021	FY2022	FY2023
Total revenue	214,731	210,273	214,022	230,807	262,679
% of Grant revenue	32%	34%	37%	29%	24%
% of Grant revenue (normalized)	32%	34%	37%	32%	30%

Domestic tuition and student fees are also considered more stable revenue, however, the provincial government mandates that annual domestic tuition increases be capped at 2%. The only way to increase this revenue stream further is to increase the domestic student base. KPU has seen a continuing decline in domestic student FTEs since FY2019, with 9,734 FTEs in FY2019 declining to 7,969 FTEs in FY2023, representing an 18.1% decrease over the last five years. However, in FY2023 the University had an increase in new domestic student FTEs, compared to FY2022, which may be in part due to the return of more traditional in person course offerings. The University is optimistic that domestic FTEs will return to pre-pandemic levels.



Overall, the University may be at risk if it becomes increasingly reliant on less resilient sources of revenue such as international tuition and fees, to fund ongoing obligations. Recognizing the risk of international revenue, KPU has implemented procedures to control international enrolment through strategic enrolment planning. Through this, international recruitment has focused on diversifying the international student body, as reducing concentrations of students from any one country reduces the potential risk associated with barriers from that country which would affect their intake.

Inflation

During FY2023, domestic and global inflation increased significantly which has had economic and social impacts for the University. With costs rising for supplies, food, housing and other living expenses, inflation has also impacted the University's operational costs.

Inflation has put significant pressures on operating costs due to the nature and geographical location of KPU's multi-campus, asset-rich, environment. In addition, expenditures are increasing as a result of new activities largely driven by the success of KPU's scholarship and research programs, as well as from faculty and student innovation. The University does maintain a financial reserve when planning to ensure it can respond to any unforeseen challenges.

KPU Looking Forward

KPU SURREY COURTYARD

As KPU continues to evolve, strategic enrolment management will continue to be an essential element in managing cost pressures and maintaining effective operations. KPU is cautiously optimistic that domestic student numbers will continue to increase and international student numbers will remain consistent. Global economic uncertainties and higher inflation are a concern when assessing financial impacts for the institution; however, KPU remains committed to educational advancements, innovation and excellence for its students, employees and the learning community.

As the COVID-19 pandemic shifted educational delivery from primarily in-person classes to online delivery, KPU continues to assess the impacts of this evolutionary approach to learning and if there may be any long-term financial impacts to the University as a result. While this evolution has been enabled through enduring and high levels of faculty engagement, it has been sustained through increased investments in teaching and learning, including personnel, technologies and infrastructure. Currently, KPU has adopted a blended approach to learning with both in-person classes and online instruction available in many study areas.

Cautionary note on forward-looking statements:

Some statements in this MD&A are forward-looking statements, which are based on assumptions and future events and conditions, and by nature may involve significant risks and uncertainties. Actual results could differ materially from those anticipated in forward-looking statements. Readers should not place undue reliance on any forward-looking statements. The reader should refer to the Risks and Uncertainties section of this MDA for information, but not limited to, on certain factors, that could cause results to differ materially from stated expectations. KPU does not undertake any obligation to update or revise these forward-looking statements to reflect events or circumstances after the date of this report, or to reflect the occurrence of unanticipated events, except by law.

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 consolidated financial statements for the year ended March 31, 2023, 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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

Chervahun Emilien
Chief Financial Officer

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of Kwantlen Polytechnic University, and to the Ministry of Post-Secondary Education and Future Skills, Province of British Columbia

Opinion

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

- the consolidated statement of financial position as at March 31, 2023
- the consolidated statement of operations and accumulated operating surplus for the year then ended
- the consolidated statement of changes in net debt for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of remeasurement gains and losses for the year then ended
- and notes to the consolidated 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, 2023 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 **"*Auditor's Responsibilities for the Audit of the Financial Statements*"** section of our auditor's 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.

Emphasis of Matter – Comparative Information

We draw attention to Note 3 to the financial statements, which explains that certain comparative information presented for the year ended March 31, 2022 has been restated.

Note 3 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Matter – Comparative Information

As part of our audit of the financial statements for the year ended March 31, 2023, we also audited the adjustments that were applied to restate certain comparative information presented for the year ended March 31, 2022. In our opinion, such adjustments are appropriate and have been properly applied.

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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
May 24, 2023

KWANTLEN POLYTECHNIC UNIVERSITY

Consolidated Statement of Financial Position

As at March 31, 2023 (In thousands of dollars)

			2023		2022
					(Restated - Note 3)
Financial assets					
Cash and cash equivalents	(Note 4)	$	160,171	$	135,836
Accounts receivable	(Note 5)		10,253		3,874
Inventories for resale			414		383
Investments and endowment investments	(Note 6)		33,856		32,999
Asset held-for-sale	(Note 7)		1,057		-
			205,751		**173,092**
Liabilities					
Accounts payable and accrued liabilities	(Note 8)		49,760		45,140
Deferred revenue			67,293		72,418
Deferred contributions	(Note 10)		10,271		11,225
Deferred capital contributions	(Note 11)		179,720		157,020
Asset retirement obligations	(Note 12)		1,561		1,463
			308,605		**287,266**
Net debt			**(102,854)**		**(114,174)**
Non-financial assets					
Tangible capital assets	(Note 14)		232,450		237,517
Investments and endowment investments	(Note 6)		2,817		2,817
Prepaid expenses and deposits			2,016		1,955
			237,283		**242,289**
Accumulated surplus		**$**	**134,429**	**$**	**128,115**
Accumulated surplus is comprised of:					
Accumulated operating surplus	(Note 15)	$	133,698	$	126,036
Accumulated remeasurement gains			731		2,079
		$	134,429	$	128,115

Contractual obligations (Note 17)
Contingent liabilities (Note 18)
Contractual rights (Note 19)

Ivy Chen
Chair, Board of Governors

Chervahun Emilien
Chief Financial Officer

See accompanying notes to consolidated financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Consolidated Statement of Operations and Accumulated Operating Surplus

Year ended March 31, 2023 (In thousands of dollars)

		Budget	2023	2022
				(Restated - Note 3)
Revenue:				
Grants from the Province of British Columbia		$ 82,575	$ 63,850	$ 66,978
Revenue from deferred contributions	(Note 10)	6,172	10,540	7,892
International tuition and student fees		117,506	127,869	99,830
Domestic tuition and student fees		39,077	36,559	37,196
Ancillary services		3,049	3,301	2,440
Investment income		1,500	6,055	2,302
Other revenue		3,621	3,987	4,677
Revenue from deferred capital contributions	(Note 11)	9,233	10,518	9,492
		262,733	**262,679**	**230,807**
Expenses:	(Note 21)			
Academic support and instruction		150,102	139,713	125,556
Student support		28,013	29,243	25,112
Administration support		76,260	76,809	71,662
Research		5,065	6,127	4,735
Ancillary		3,293	3,125	3,180
		262,733	**255,017**	**230,245**
Annual surplus		-	7,662	562
Accumulated operating surplus, beginning of the year as originally reported		127,328	127,328	126,706
Change in accounting policy	(Note 3)	(1,292)	(1,292)	(1,232)
Accumulated operating surplus, beginning of the year restated		126,036	126,036	125,474
Accumulated operating surplus, end of year		**$ 126,036**	**$ 133,698**	**$ 126,036**

See accompanying notes to consolidated financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Consolidated Statement of Changes in Net Debt

Year ended March 31, 2023 (In thousands of dollars)

	Budget	2023	2022
			(Restated - Note 3)
Annual surplus	$ -	$ 7,662	$ 562
Acquisition of tangible capital assets, net of write-offs	(32,137)	(15,885)	(14,371)
Transfer of asset held for sale (Note 7)	-	1,057	-
Amortization of tangible capital assets	21,347	19,895	20,136
	(10,790)	5,067	5,765
Net use (acquisition) of prepaid expenses and deposits	-	(61)	133
Net remeasurement losses	-	(1,348)	(89)
Change in net debt	(10,790)	11,320	6,371
Net debt, beginning of year	(114,174)	(114,174)	(120,545)
Net debt, end of year	**$ (124,964)**	**$ (102,854)**	**$ (114,174)**

See accompanying notes to consolidated financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Consolidated Statement of Cash Flows

Year ended March 31, 2023 (In thousands of dollars)

	2023	2022
		(Restated - Note 3)
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 7,662	$ 562
Items not involving cash:		
Amortization of tangible capital assets	19,895	20,136
Write-off of tangible capital assets	-	33
Asset retirement obligation accretion expense	98	45
Revenue recognized from deferred capital contributions	(10,518)	(9,492)
	17,137	11,284
Change in non-cash operating working capital:		
Accounts receivable	(6,379)	(1,946)
Prepaid expenses and deposits	(61)	133
Inventories for resale	(31)	64
Accounts payable and accrued liabilities	4,620	2,026
Deferred revenue	(5,125)	31,558
Deferred contributions	(954)	5,728
Net change from operating activities	**9,207**	**48,847**
Capital activities:		
Cash used to acquire tangible capital assets	(15,885)	(14,404)
Net change from capital activities	**(15,885)**	**(14,404)**
Financing activities:		
Contributions received for tangible capital assets	33,218	14,009
Principal payments on capital lease obligations	-	(33)
Net change from financing activities	**33,218**	**13,976**
Investing activities:		
Increase in investments	(2,205)	(1,474)
Net change from investing activities	**(2,205)**	**(1,474)**
Net change in cash and cash equivalents	24,335	46,945
Cash and cash equivalents, beginning of year	**135,836**	**88,891**
Cash and cash equivalents, end of year	**$ 160,171**	**$ 135,836**

Total interest paid during the year $37 (2022 - $52)

See accompanying notes to consolidated financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2023 (In thousands of dollars)

	2023	2022
Accumulated remeasurement gains, beginning of year	**$ 2,079**	**$ 2,168**
Unrealized gains (losses) generated during the year from:		
Fixed income investments	1,027	805
Pooled investments, mortgage-backed securities and mutual funds	(2,042)	(109)
Foreign currency translation	(58)	(30)
Remeasurement (gains) losses realized and reclassified to the Statement of Operations and Accumulated Surplus from:		
Pooled investments, mortgage-backed securities and mutual funds	(345)	(797)
Foreign currency translation	70	42
Net remeasurement losses for the year	(1,348)	(89)
Accumulated remeasurement gains, end of year	**$ 731**	**$ 2,079**

See accompanying notes to consolidated financial statements.

1. Authority and purpose

Kwantlen Polytechnic University (the “University”) operates under the authority of the *University Act* of British Columbia. The University is a not-for-profit entity governed by a Board of Governors, the majority of which are appointed by the Province of British Columbia. The University is a registered charity and is exempt from income taxes under section 149 of the *Income Tax Act*.

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

2. Summary of significant accounting policies

(a) Basis of accounting

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

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

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

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

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

2. Summary of significant accounting policies (continued)

(a) Basis of accounting (continued)

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 Consolidated Statement of Operations and Accumulated Operating Surplus and certain related deferred capital contributions in the Consolidated Statement of Financial Position would be recorded differently under PSAS.

(b) Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of organizations which are controlled by the University. On May 22, 2022, KPU Communities Corporation (the "Corporation"), a wholly-owned subsidiary of the University, was incorporated under the *Business Corporations Act* of British Columbia and on June 1, 2022 a trust deed was executed and appointed KPU Communities Corporation as trustee of KPU Communities Trust (the "Trust"). The purpose of the Trust is to create revenue generating opportunities to support academic endeavors and enhance student experience and well-being for the University. The Corporation and the Trust are fully consolidated into these statements and all inter-entity balances and transactions are eliminated on consolidation.

(c) 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. They are subject to insignificant risk of change in value.

(d) 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. Investments are reflected at fair value as at the reporting date. The carrying amounts are shown at fair value based on quoted prices (unadjusted) in active markets. 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 Consolidated 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 Consolidated Statement of Operations and Accumulated Operating Surplus and related balances reversed from the Consolidated 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 or when the related expenses are incurred.

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Cost category: For accounts receivable, accounts payable and accrued liabilities, the carrying amount generally approximates fair value because of the short maturity of these instruments. Valuation allowances are made when collection is in doubt.

(e) Inventories for resale

Inventories for resale, including new and used textbooks, course manuals, stationery, art supplies, clothing, and crested and non-crested giftware, are recorded at the lower of cost or net realizable value.

Cost includes the original purchase cost, plus shipping and applicable duties. Net realizable value is the estimated proceeds on sale less any costs to sell. Inventories are written down to net realizable value when the cost of inventories is estimated not to be recoverable.

When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of write-down previously recorded is reversed.

(f) 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 costs directly attributable to remediation activities, including the cost of post-remediation operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

(g) 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 the acquisition, construction, development or betterment of the asset. The cost, less the residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as 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.

2. Summary of significant accounting policies (continued)

(g) 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	4 years
Leased capital assets	lesser 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.

(h) Employee future benefits

The University and its employees make contributions to the College Pension Plan and the Municipal Pension Plan 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. The University accrues vacation for employees as earned. The University accrues a supplemental employment benefit for maternity and parental leave upon commencement of the related leave. Retirement allowances, where applicable, are accrued upon approval.

2. Summary of significant accounting policies (continued)

(i) Asset retirement obligations

The University recognizes an asset retirement obligation, as at the financial reporting date, when there is a legal obligation to incur retirement costs in relation to a tangible capital asset, the past transaction or event giving rise to the liability has occurred, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount can be made.

The estimate of the asset retirement obligation includes costs directly attributable to the asset retirement activities and is recorded as a liability and increase to the related tangible capital asset. The amount capitalized in tangible capital assets is amortized using the amortization accounting policy outlined in note 2(g)(i).

The carrying value of the liability is re-evaluated at each financial reporting date with changes to the timing or amount of the original estimate of cash flows recorded as an adjustment to the asset retirement obligation liability and tangible capital assets.

(j) Revenue recognition

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

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

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

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

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

(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.

2. Summary of significant accounting policies (continued)

(j) Revenue recognition (continued)

Investment income includes interest recorded on an accrual basis, dividends recorded as declared, and realized gains and losses on the sale of investments.

(k) Functional classification of expenses

The University has identified the following functions and associated groups of activities based upon the functional areas of service provided by various departments:

(i) Academic support and instruction

Academic support and instruction includes the activities related to the support and delivery of education including cost of instructors, academic management, support staff and related support costs.

(ii) Student support

Student support includes direct supports for students including Student Affairs, Alumni Relations, International Education, The Learning Centre, Library Resources and the Office of the Registrar.

(iii) Administrative support

Administrative support includes expenses that relate to the activities that support the University. This includes Financial Services, Procurement, Business Performance (Internal Audit) and Advisory Services, Human Resources, Information Technology, Office of Planning and Analysis, the Office of Advancement, Campus Security and Safety, Facilities, and External Affairs.

(iv) Research

Research consists of the Office of Research Services which assists researchers with proposal preparation, administration of sponsored projects and active research activities.

(v) Ancillary

Ancillary represents the business activities that support the Universities campus life. It consists of Bookstore, Food Services and Parking and Transit Services.

2. Summary of significant accounting policies (continued)

(l) Use of estimates

The preparation of the consolidated 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. 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, provisions for contingencies, and discount rate and future cash flows associated with asset retirement obligations. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

(m) 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 Consolidated Statement of Financial Position date.

Any gains or losses resulting from a change in rates between the transaction date and the settlement date or Consolidated Statement of Financial Position date is recognized in the Consolidated Statement of Remeasurement Gains and Losses. In the period of settlement, the related cumulative remeasurement gain/loss is reversed in the Consolidated 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 Consolidated Statement of Operations and Accumulated Operating Surplus.

(n) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2022-2023 University Budget approved by the Board of Governors on March 30, 2022. The budget is reflected in the Consolidated Statement of Operations and Accumulated Operating Surplus and the Consolidated Statement of Changes in Net Debt.

(o) Asset held-for-sale

Asset held-for-sale includes land which is ready and available to be sold and for which there is a market. It is valued at the lower of cost or expected net realizable value.

Year ended March 31, 2023 (All figures in thousands of dollars)

3. Change in accounting policy

On April 1, 2022, the University adopted PS 3280 *Asset retirement obligations* using the modified retroactive transitional provisions as at the date of adoption. This new standard requires that the University record the legal obligations associated with the retirement of tangible capital assets. The March 31, 2022 consolidated financial statements have therefore been restated as follows:

	Previously stated 2022	Adjustment	Restated 2022
Asset retirement obligations	$ -	$ 1,463	$ 1,463
Cost of tangible capital assets	467,683	595	468,278
Accumulated amortization of tangible capital assets	(230,337)	(424)	(230,761)
Accumulated operating surplus	127,328	(1,292)	126,036
Amortization	20,121	15	20,136
Accretion expense	-	45	45
Annual surplus	622	(60)	562
Net debt, beginning of year	(119,127)	(1,418)	(120,545)

4. Cash and cash equivalents

	2023	2022
Cash	$ 157,182	$ 132,860
Cash equivalents	2,989	2,976
	$ 160,171	**$ 135,836**

5. Accounts receivable

	2023	2022
Student	$ 3,004	$ 3,033
Trade and other	8,584	1,999
Allowance for doubtful accounts	(1,335)	(1,158)
	$ 10,253	**$ 3,874**

Year ended March 31, 2023 (All figures in thousands of dollars)

6. Investments and endowment investments

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

		2023		2022
Designated to the fair value category (Level 1)				
Fixed income pooled investments	$	20,996	$	19,970
Canadian equities pooled investments		7,087		8,723
International equities pooled investments		6,375		6,381
Guaranteed investment certificate		1,000		-
Total Level 1 category investments		35,458		35,074
Designated to the fair value category (Level 3)				
Infrastructure pooled investments		82		294
Real estate pooled investments		1,133		448
Total Level 3 category investments		1,215		742
Total investments		36,673		35,816
Less endowment investments		(2,817)		(2,817)
Investments	**$**	**33,856**	**$**	**32,999**

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 following table reconciles the changes in the fair value of investments classified as Level 3 during the year.

		2023		2022
Balance, beginning of year	$	742	$	382
Purchases		727		520
Dispositions		(302)		(198)
Income distribution		34		19
Unrealized gain		14		19
Balance, end of year	**$**	**1,215**	**$**	**742**

Year ended March 31, 2023 (All figures in thousands of dollars)

7. Asset held-for-sale

The Board of Governors approved to sell a portion of land at the Cloverdale campus and the sale is expected to be completed in one year. Accordingly, land with a cost of $1,057 has been classified as asset held-for-sale.

8. Accounts payable and accrued liabilities

	2023	2022
Accounts payable and accrued liabilities	$ 24,822	$ 25,137
Salaries, benefits and wages payable	12,410	7,788
Accrued vacation payable	12,528	12,215
	$ 49,760	**$ 45,140**

9. Employee future benefits

(a) Pension benefits

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan (jointly trusteed pension plans). The boards of trustees for these plans, representing plan members and employers, are responsible for administering the pension plans, including investing assets and administering benefits. The plans are multi-employer defined benefit pension plans. Basic pension benefits are based on a formula. As at August 31, 2022, the College Pension Plan has about 16,600 active members, and approximately 10,100 retired members. As at December 31, 2022, the Municipal Pension Plan has about 240,000 active members, including approximately 7,000 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.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2021, indicated a $202,000 surplus for basic pension benefits on a going concern basis.

Year ended March 31, 2023 (All figures in thousands of dollars)

9. Employee future benefits (continued)

(a) Pension benefits (continued)

The most recent valuation for the Municipal Pension Plan as at December 31, 2021, indicated a $3,761,000 funding surplus for basic pension benefits on a going concern basis. The University paid $11,932 for employer contributions to the plans in the fiscal year 2023 (2022 – $11,286).

The next valuation for the College Pension Plan will be as at August 31, 2024. The next valuation for the Municipal Pension Plan will be December 31, 2024, with results available in 2025.

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 $982 in the current year (2022 – $798). As at March 31, 2023, the University has an obligation of $452 (2022 – $710) which has been included in salaries, benefits and wages payable.

10. Deferred contributions

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

	2022	Amounts received	Recognized as revenue	2023
Provincial	$ 7,784	$ 5,062	$ (6,799)	$ 6,047
Federal	1,717	1,764	(1,458)	2,023
Other sources	1,724	2,760	(2,283)	2,201
	$ 11,225	**$ 9,586**	**$ (10,540)**	**$ 10,271**

Year ended March 31, 2023 (All figures in thousands of dollars)

11. Deferred capital contributions

Contributions that are restricted for the purpose of acquiring capital are recorded as deferred capital contributions. Amounts are recognized into revenue as the same rate that amortization of the tangible capital asset is recorded.

Changes in deferred capital contributions balance are as follows:

	2022	Amounts received	Recognized as revenue	2023
Provincial	$ 134,853	$ 31,095	$ (9,145)	$ 156,803
Federal	9,126	72	(781)	8,417
Other sources	13,041	2,051	(592)	14,500
	$ 157,020	**$ 33,218**	**$ (10,518)**	**$ 179,720**

12. Asset retirement obligations

The University has recorded asset retirement obligations for the removal of hazardous material from some of the University's buildings.

The following is a reconciliation of the changes in the asset retirement obligations during the year:

	2023	2022
		(Restated – Note 3)
Balance, beginning of year	$ 1,463	$ 1,418
Accretion expense	98	45
Balance, end of year	**$ 1,561**	**$ 1,463**

The undiscounted estimated cash flows required to settle the obligations are approximately $2,169 to be paid during the fiscal years 2032 to 2034. The estimated cash flows were discounted using the credit-adjusted risk-free rate of 3.2% per annum.

13. Line of credit

The University has the ability to draw on a line of credit with a commercial bank for $7,500 (2022 - $7,500). As at March 31, 2023, the University has not utilized the available line of credit.

Year ended March 31, 2023 (All figures in thousands of dollars)

14. Tangible capital assets

	Land	Buildings	Major site improvements	Major equipment	Library holdings	Technology infrastructure	Furniture & equipment	Computing Equipment	Work in progress (WIP)	2023	2022
											(Restated - Note 3)
Cost											
Opening balance	$ 21,485	$ 267,414	$ 47,274	$ 15,604	$ 9,739	$ 3,866	$ 82,429	$ 14,772	$ 5,695	$ 468,278	$ 453,965
Additions	-	-	684	619	197	-	5,406	1,485	7,494	15,885	14,404
Dispositions	-	-	-	-	-	-	-	-	-	-	(91)
Transfer to asset held for sale	(1,057)	-	-	-	-	-	-	-	-	(1,057)	
Transfer to/(from) WIP	-	-	1,083	2,361	-	-	732	-	(4,176)	-	-
Closing balance	20,428	267,414	49,041	18,584	9,936	3,866	88,567	16,257	9,013	483,106	468,278
Accumulated amortization											
Opening balance	-	(109,584)	(26,204)	(3,090)	(7,953)	(2,614)	(70,688)	(10,628)	-	(230,761)	(210,683)
Amortization	-	(6,685)	(4,105)	(1,220)	(380)	(483)	(5,107)	(1,915)	-	(19,895)	(20,136)
Dispositions	-	-	-	-	-	-	-	-	-	-	58
Closing balance	-	(116,269)	(30,309)	(4,310)	(8,333)	(3,097)	(75,795)	(12,543)	-	(250,656)	(230,761)
Net book value	**$ 20,428**	**$ 151,145**	**$ 18,732**	**$ 14,274**	**$ 1,603**	**$ 769**	**$ 12,772**	**$ 3,714**	**$ 9,013**	**$ 232,450**	**$ 237,517**

Year ended March 31, 2023 (All figures in thousands of dollars)

15. Accumulated surplus

The accumulated surplus is comprised of the following:

		2023		2022
				(Restated – Note 3)
Investment in tangible capital assets	$	88,984	$	94,003
Endowments (Note 6)		2,817		2,817
Internally restricted		6,170		6,170
Unrestricted		35,727		23,046
Accumulated remeasurement gains		731		2,079
	$	**134,429**	**$**	**128,115**

16. 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 and accounts receivable.

Credit risk associated with cash and cash equivalents is minimized by ensuring that these assets are held at financial institutions with a high credit quality. The University holds the majority of its cash and cash equivalents in a Canadian Chartered bank.

Management believes the credit risk associated with accounts receivable is limited as the balance largely consists of receivables from the Province of British Columbia and student accounts receivable that are closely monitored and managed to limit further enrollment until payment is made.

(b) Market risk and interest rate 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.

The University manages its market risk and interest rate risk on investments 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.

Year ended March 31, 2023 (All figures in thousands of dollars)

16. Financial risk management (continued)

(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.

(d) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. The University is exposed to foreign exchange risk on investments that are dominated in foreign currencies.

The functional currency of the University is the Canadian dollar. The University is also exposed to risk at it conducts some transactions in foreign currencies, particularly the U.S. dollar. The University maintains a U.S. dollar denominated bank account to minimize foreign exchange risk on these transactions.

17. 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:

	2024	2025	2026	2027	2028
Capital commitments	$ 4,120	$ -	$ -	$ -	$ -
Operational commitments	13,832	4,139	1,411	966	123
	$ 17,952	**$ 4,139**	**$ 1,411**	**$ 966**	**$ 123**

18. 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.

Year ended March 31, 2023 (All figures in thousands of dollars)

18. Contingent liabilities (continued)

(b) As at March 31, 2023, the University does not have any letters of credit outstanding (2022 - $189).

19. 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.

The University enters 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.

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

Revenue and expenses:

Included in revenue		**2023**		**2022**
Ministry of Post-Secondary Education and Future Skills grants	$	63,850	$	66,978
Other provincial government entity – grants and revenue recognized from deferred contributions		6,799		5,518
Other provincial government entity – grants and revenue recognized from deferred capital contributions		9,145		8,080
	$	**79,794**	**$**	**80,576**

Included in expenses		**2023**		**2022**
Ministry of Post-Secondary Education and Future Skills	$	318	$	261
Other provincial government entity		1,408		1,327
Other provincial universities		384		397
	$	**2,110**	**$**	**1,985**

Receivables and payables:

Included in accounts receivable		**2023**		**2022**
Ministry of Post-Secondary Education and Future Skills	**$**	**6,098**	**$**	**700**

Year ended March 31, 2023 (All figures in thousands of dollars)

20. Related party transactions (continued)

Related party transactions with key management personnel:

During the year, the key management personnel, comprised of the Board and the University's Executives, have nil (2022 – 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.

21. Expense by object

The following is a summary of expenses by object:

	2023	2022
		(Restated – Note 3)
Salaries and benefits	$ 173,175	$ 151,358
Travel and professional development	3,334	1,967
Supplies	5,121	4,802
Student awards, bursaries and donations	11,600	9,246
Fees and services	25,326	28,469
Facilities	14,524	11,990
Cost of sales	1,475	1,502
Leases, property taxes, insurance	469	730
Accretion	98	45
Amortization of tangible capital assets	19,895	20,136
	$ 255,017	**$ 230,245**

22. Kwantlen Polytechnic University Foundation

The Kwantlen Polytechnic University Foundation (the "Foundation") was established on July 14, 2000 and is registered under the Societies Act (British Columbia). The Foundation is a registered charity under the Income Tax Act of Canada. The purpose of the Foundation, is the solicitation and management of donations and endowments for the purpose of providing awards and grants to students of the University and to advance the University's engagement with and within communities it serves. The Foundation is governed by an independent board of directors, the voting members of which can include employees and officers of the University. The University does not exercise control over the Foundation.

Year ended March 31, 2023 (All figures in thousands of dollars)

22. Kwantlen Polytechnic University Foundation (continued)

During the year, as part of its ordinary course of business, the University transferred certain funds to the Foundation.

		2023		2022
KPU Research Endowment	$	4,000	$	-
KPU Food Endowment		1,000		-
KPU Financial Aid Endowment		-		3,300
KPU Financial Barrier Reduction Fund		2,000		3,700
	$	**7,000**	**$**	**7,000**

The University also provides administrative, management and staff resources to the Foundation at no charge.

23. Comparative information

Certain comparative figures have been reclassified to conform to the current year consolidated financial statement presentation. These changes do not affect prior year’s annual surplus.

KPU CIVIC PLAZA
13485 Central Ave
Surrey, BC

KPU LANGLEY
20901 Langley Bypass
Langley, BC

KPU RICHMOND
8771 Lansdowne Rd
Richmond, BC

KPU SURREY
12666 72 Ave
Surrey, BC

KPU TECH
5500 180 St
Surrey, BC

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