

Financial Statements of

KWANTLEN POLYTECHNIC UNIVERSITY

Year ended March 31, 2018

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

To the Board of Governors of Kwantlen Polytechnic University

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

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

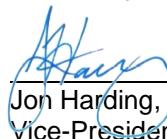
The Board of Governors (the "Board") and the Finance and Audit Committee (the "Committee") are composed primarily of those who are neither management nor employees of the University. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities and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

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

On behalf of Kwantlen Polytechnic University



Dr. Alan Davis
President and Vice-Chancellor



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



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Kwantlen Polytechnic University, which comprise the statement of financial position as at March 31, 2018, statements of operations, changes in net debt, cash flows and remeasurement gains and losses for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements of Kwantlen Polytechnic University as at March 31, 2018 and for the year then ended 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.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(a) to the financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

May 23, 2018
Langley, Canada

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Financial Position


(in thousands of dollars)

As at March 31, 2018, with comparative information for 2017

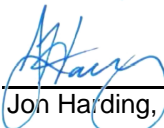
		2018	2017
Financial assets			
Cash and cash equivalents	(Note 3)	\$ 36,763	\$ 22,769
Accounts receivable	(Note 4)	8,227	5,414
Inventories for resale		620	439
Investments	(Note 5)	37,700	38,098
		83,310	66,720
Liabilities			
Accounts payable and accrued liabilities	(Note 6)	37,676	23,648
Deferred revenue		20,177	12,210
Deferred contributions	(Note 8)	3,799	3,734
Deferred capital contributions	(Note 9)	159,104	139,894
Obligations under capital lease	(Note 10)	433	707
		221,189	180,193
Net debt		(137,879)	(113,473)
Non-financial assets			
Tangible capital assets	(Note 11)	225,933	188,268
Endowment investments	(Note 5)	2,817	2,817
Prepaid expenses and deposits		4,358	5,102
		233,108	196,187
Accumulated surplus		\$ 95,229	\$ 82,714
Accumulated surplus is comprised of:			
Accumulated operating surplus		\$ 95,804	\$ 82,520
Accumulated remeasurement gains (losses)		(575)	194
		\$ 95,229	\$ 82,714

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

Approved on behalf of the Board:



 Hanne Madsen



 Jon Harding, CPA, CA

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Operations

(in thousands of dollars)

Year ended March 31, 2018, with comparative information for 2017

		Budget	2018	2017
		(Note 2(k))		
Revenue:				
Province of British Columbia grants	(Note 8)	\$ 75,830	\$ 75,599	\$ 73,223
Other grants	(Note 8)	622	1,584	1,102
Tuition and student fees		76,901	92,996	70,926
Ancillary services		6,966	7,028	6,927
Other revenue		6,674	4,817	6,087
Amortization of deferred capital contributions	(Note 9)	6,357	6,229	5,461
		<u>173,350</u>	<u>188,253</u>	<u>163,726</u>
Expenses:				
Instruction, research and support	(Note 19)	167,866	169,052	155,892
Ancillary operations		5,470	5,917	6,019
		<u>173,336</u>	<u>174,969</u>	<u>161,911</u>
Annual surplus		14	13,284	1,815
Accumulated operating surplus, beginning of year		82,520	82,520	80,705
Accumulated operating surplus, end of year		<u>\$ 82,534</u>	<u>\$ 95,804</u>	<u>\$ 82,520</u>

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Changes in Net Debt

(in thousands of dollars)

Year ended March 31, 2018, with comparative information for 2017

	Budget	2018	2017
	(Note 2(k))		
Annual surplus	\$ 14	\$ 13,284	\$ 1,815
Acquisition of tangible capital assets	-	(50,791)	(19,702)
Write-down of tangible capital assets	-	-	39
Amortization of tangible capital assets	13,458	13,126	11,773
	13,458	(37,665)	(7,890)
Net use of prepaid expenses and deposits	-	744	659
Net remeasurement losses	-	(769)	(427)
Change in net debt	13,472	(24,406)	(5,843)
Net debt, beginning of year	(113,473)	(113,473)	(107,630)
Net debt, end of year	\$ (100,001)	\$ (137,879)	\$ (113,473)

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Cash Flows

(in thousands of dollars)

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 13,284	\$ 1,815
Items not involving cash:		
Amortization of tangible capital assets	13,126	11,773
Write-down of tangible capital assets	-	39
Amortization of deferred capital contributions	(6,229)	(5,461)
Change in non-cash operating working capital:		
Accounts receivable	(2,813)	256
Prepaid expenses and deposits	744	659
Inventories for resale	(181)	843
Accounts payable and accrued liabilities	14,028	(1,448)
Deferred revenue	7,967	772
Deferred contributions	65	536
Net change from operating activities	39,991	9,784
Capital activities:		
Cash used to acquire tangible capital assets	(50,718)	(19,652)
Net change from capital activities	(50,718)	(19,652)
Financing activities:		
Contributions received for tangible capital assets	25,439	15,493
Principal payments on capital lease obligations	(347)	(379)
Net change from financing activities	25,092	15,114
Investing activities:		
Decrease (increase) in investments	398	(1,274)
Net remeasurement losses	(769)	(427)
Net change from investing activities	(371)	(1,701)
Net change in cash and cash equivalents	13,994	3,545
Cash and cash equivalents, beginning of year	22,769	19,224
Cash and cash equivalents, end of year	\$ 36,763	\$ 22,769
Non-cash transaction:		
Tangible capital assets acquired and financed by capital leases	\$ 73	\$ 50

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Statement of Remeasurement Gains and Losses

(in thousands of dollars)

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Accumulated remeasurement gains, beginning of year	\$ 194	\$ 621
Unrealized gains (losses) attributed to:		
Long-term bonds	(1,072)	(253)
Securities	(37)	(22)
Foreign currency translation	37	88
Amounts reclassified to the Statement of Operations:		
Long-term bonds	340	(136)
Foreign currency translation	(37)	(104)
Net remeasurement losses for the year	(769)	(427)
Accumulated remeasurement gains (losses), end of year	\$ (575)	\$ 194

See accompanying notes to financial statements.

KWANTLEN POLYTECHNIC UNIVERSITY

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2018

1. Authority and purpose

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

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

2. Summary of significant accounting policies

(a) Basis of accounting:

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

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

Government Organization Accounting Standards Regulation 257/2010 requires all taxpayer supported organizations in the schools, universities, colleges and hospitals sectors to adopt the Canadian Public Sector Accounting Standards (“PSAS”) without any Public Sector 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.

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of the Canadian 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 PSAS 3410. As a result, revenue recognized in the Statement of Operations and certain related deferred capital contributions would be recorded differently under Canadian Public Sector Accounting Standards.

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

2. Summary of significant accounting policies (continued)

(b) Cash and cash equivalents

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

(c) Financial instruments

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

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

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

(d) Inventories for resale

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

(e) Contaminated sites

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

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

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

2. Summary of significant accounting policies (continued)

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

(f) Non-financial assets

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

(i) Tangible capital assets

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

	Term
Buildings	40 years
Major site improvements	10 years
Major equipment	10 - 20 years
Library holdings	10 years
Technology infrastructure	8 years
Furniture and equipment	3 - 5 years
Leased capital assets	2 - 5 years

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.

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

2. Summary of significant accounting policies (continued)

(g) Employee future benefits

The University and its employees make contributions to the College and Municipal pension plans which are multi-employer joint trustee pension plans. These plans are defined benefit plans, providing a pension on retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. Inflation adjustments are contingent upon available funding. As the assets and liabilities of the plans are not segregated by institution, the plans are accounted for as defined contribution plans and any contributions of the University to the plans are expensed as incurred.

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

(h) Revenue recognition

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

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

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

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or in the form of a depreciable tangible capital asset, in each case for use in providing services, are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.
- (ii) Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contribution have been met.
- (iii) Contributions restricted to be retained in perpetuity, allowing only the investment income earned thereon to be spent are recorded as endowment donations and as deferred contributions for any unspent restricted investment income earned thereon.

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

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

2. Summary of significant accounting policies (continued)

(i) Use of estimates

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

(j) Foreign currency translation

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

(k) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2017-2018 University Budget approved by the Board on March 29, 2017. The budget is reflected in the Statement of Operations and the Statement of Changes in Net Debt.

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

3. Cash and cash equivalents

	2018	2017
Cash	\$ 31,575	\$ 18,071
Cash equivalents	5,188	4,698
	<u>\$ 36,763</u>	<u>\$ 22,769</u>

4. Accounts receivable

	2018	2017
Accounts receivable	\$ 9,268	\$ 7,528
Allowance for doubtful accounts	(1,041)	(2,114)
	<u>\$ 8,227</u>	<u>\$ 5,414</u>

5. Investments and endowment investments

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

	2018	2017
Long term bonds	\$ 38,994	\$ 39,267
Securities	1,523	1,648
	<u>40,517</u>	<u>40,915</u>
Endowment investments	2,817	2,817
Investments	<u>\$ 37,700</u>	<u>\$ 38,098</u>

All fixed income securities held at March 31, 2018 mature at various dates to September 2077 (2017 – June 2108) and bear interest at rates varying from 1.100% – 6.310% (2017 – 0.950% – 9.976%).

Generally accepted accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The University uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Statement of Financial Position under the following captions:

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

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

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

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

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

6. Accounts payable and accrued liabilities

	2018	2017
Accounts payable and accrued liabilities	\$ 24,547	\$ 10,807
Salaries and wages payable	2,791	3,246
Accrued vacation payable	10,338	9,595
	<u>\$ 37,676</u>	<u>\$ 23,648</u>

7. Employee future benefits

(a) Pension benefits:

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trustee pension plans. The Boards of Trustees for these plans represent plan members and employers, and are responsible for the administering the pension plans, including investing assets and administering benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are based on a formula. As at August 31, 2017, the College Pension Plan has about 14,000 active members, and approximately 7,500 retired members. As at December 31, 2016, the Municipal Pension Plan has about 193,000 active members, including approximately 5,800 from colleges.

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

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

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

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

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

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

The University incurred \$9,255 for employer contributions to the Plans in the current year (2017 – \$8,580).

(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 \$270 in the current year (2017 – \$561). As at March 31, 2018, the University has an obligation of \$262 (2017 – \$509) which has been included in salaries and wages payable.

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

8. Deferred contributions and grants

Deferred contributions represent externally restricted contributions that will be used in future periods for academic programming and student awards, as specified by the contributor. Grants represent unrestricted funding from various sources.

	2017	Amounts received	Recognized as revenue	2018
Provincial Grants	\$ -	\$ 69,782	\$ (69,782)	\$ -
Deferred contributions	2,620	6,046	(5,817)	2,849
Federal Deferred contributions	387	592	(735)	244
Other sources Deferred contributions	727	828	(849)	706
	\$ 3,734	\$ 77,248	\$ (77,183)	\$ 3,799

9. Deferred capital contributions

	2017	Amounts received	Amortized as revenue	2018
Provincial	\$ 125,447	\$ 14,842	\$ (5,641)	\$ 134,648
Federal	3,745	6,371	(168)	9,948
Other sources	10,702	4,226	(420)	14,508
	\$ 139,894	\$ 25,439	\$ (6,229)	\$ 159,104

10. Obligations under capital lease

The University has entered into capital leases to finance computers and equipment at an estimated cost of borrowing of 2.46% (2017 – 2.78%) per annum. The principal and interest payments are as follows:

	2018	2017
2018	\$ -	\$ 344
2019	288	269
2020	126	107
2021	31	13
Total minimum lease payments	445	733
Less amounts representing interest	(12)	(26)
Present value of net minimum capital lease payments	\$ 433	\$ 707

Total interest payment on leases for the year was \$16 (2017 – \$26).

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

11. Tangible capital assets

	Land	Buildings	Major site improvements	Major equipment	Library holdings	Technology infrastructure	Furniture & equipment	Leased capital assets	Work ^{1,2} in progress	Total
2018 Cost										
Opening balance	\$ 20,040	\$ 198,338	\$ 19,770	\$ 3,107	\$ 8,044	\$ 3,390	\$ 60,638	\$ 1,785	\$ 17,901	\$ 333,013
Additions	-	16,165	838	1,454	343	-	6,661	73	25,257	50,791
Transfers to/(from) WIP	-	15,795	374	27	-	-	467	-	(16,663)	-
Closing balance	20,040	230,298	20,982	4,588	8,387	3,390	67,766	1,858	26,495	383,804
2018 Accumulated amortization										
Opening balance	-	(77,588)	(7,908)	(97)	(5,692)	(289)	(52,279)	(892)	-	(144,745)
Amortization	-	(5,358)	(1,971)	(303)	(499)	(424)	(4,067)	(504)	-	(13,126)
Closing balance	-	(82,946)	(9,879)	(400)	(6,191)	(713)	(56,346)	(1,396)	-	(157,871)
2018 Net book value	\$ 20,040	\$ 147,352	\$ 11,103	\$ 4,188	\$ 2,196	\$ 2,677	\$ 11,420	\$ 462	\$ 26,495	\$ 225,933
2017 Net book value	\$ 20,040	\$ 120,750	\$ 11,862	\$ 3,010	\$ 2,352	\$ 3,101	\$ 8,359	\$ 893	\$ 17,901	\$ 188,268

- As at March 31, 2018, work in progress ("WIP") of \$26,495 (2017 – \$17,901) has not been amortized. Amortization of these intangible capital assets will commence when the assets are put into service.
- During the year, there was \$nil (2017 – \$39) of write-down of intangible capital assets within work in progress.

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

12. Financial risk management

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

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

(a) Credit risk

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

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

(b) Market risk

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

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

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

(c) Liquidity risk

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

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

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

13. Contractual obligations

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

	2019	2020	2021	2022	2023
Contractual obligations	\$ 22,917	\$ 3,583	\$ 2,109	\$ 146	\$ 37

14. Commitments and contingent liabilities

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

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

(b) The University committed to the building of the Chip and Shannon Wilson School of Design at the Richmond campus for the Faculty of Design. The project, which has a total budget of \$36,000, was substantially complete by December 2017. As at March 31, 2018, the University received \$12,000 (2017 – \$8,000) from Chip and Shannon Wilson and lululemon athletica Canada Inc., and \$12,000 (2017 – \$10,500) from provincial funding. The University's contribution toward this project is \$12,000 per the budget approved by the Board. As at March 31, 2018, the University incurred costs of \$33,933 (2017 – \$15,795) for this project, with the anticipated remaining costs of \$2,067 to be incurred in fiscal 2019.

(c) The University has entered into an agreement to purchase real estate to provide additional classroom space to meet future student demand. The construction of the space is estimated to be completed by fiscal 2019. The project is funded by the University. As at March 31, 2018, the estimated purchase price for the real estate is \$23,800 (2017 – \$23,800) and the estimated budget for the construction project is \$15,260 (2017 – \$15,260).

(d) During the year, the University has entered into an agreement for the construction and upgrade of the Spruce building on the Surrey campus. The project is funded by \$22,000 from Government of Canada's Strategic Investment Fund and provincial funding.

(e) The University has the ability to draw on a line of credit of \$7,500 (2017– \$7,000). As at March 31, 2018, the University has not utilized the available line of credit.

(f) As at March 31, 2018, the University has issued letters of credits to the City of Surrey totalling \$294 (2017 – \$294) which expire on January 25, 2019. There is an automatic renewal that occurs each year thereafter and will terminate once the City of Surrey advises the University that the guarantee is no longer required.

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

15. Related party transactions

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

Related party transactions with government and other government organizations:

Revenue and expenses:

Included in revenue	2018	2017
Province of British Columbia grants	\$ 75,599	\$ 73,223
Other grants - federal	735	547
Other revenue - other government entities	-	142
Amortization of deferred capital contributions - provincial	5,641	5,142
Amortization of deferred capital contributions - federal	168	147
	\$ 82,143	\$ 79,201

Included in expenses	2018	2017
Other government entities	\$ 1,153	\$ 767
Other provincial universities	338	338
	\$ 1,491	\$ 1,105

Receivables and payables:

Included in accounts receivable	2018	2017
Provincial government	\$ 1,934	\$ 2,082
Federal government	731	-
Other government entities	605	410
	\$ 3,270	\$ 2,492

Included in accounts payable and accrued liabilities	2018	2017
Provincial government	\$ 65	\$ 63
Other government entities	-	3
	\$ 65	\$ 66

Related party transactions with Key Management Personnel:

During the year, the Key Management Personnel, comprised of the Senate, the Board and the University's Executives, have \$nil (2017 – \$nil) related party transactions with the University with respect to the delivery of goods and services, and payment of fees that were transacted at non-arms' length. As at March 31, 2018, the University had a net receivable of \$nil (2017 – \$nil) and a net payable of \$nil (2017 – \$nil) with respect to these transactions.

KWANTLEN POLYTECHNIC UNIVERSITY

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

Year ended March 31, 2018

16. Contingent assets

The University has \$nil of contingent assets as at March 31, 2018 and 2017.

17. Contractual rights

The University has \$nil of contractual rights as at March 31, 2018 and 2017.

18. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

19. Expenses by object

The following is a summary of expenses by object:

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

	Instruction, research, and support	Ancillary operations	2017
Salaries and benefits	\$ 115,310	\$ 1,145	\$ 116,455
Travel and professional development	2,340	6	2,346
Supplies	4,617	44	4,661
Student awards and bursaries	2,010	-	2,010
Fees and services	11,708	649	12,357
Facilities	7,381	143	7,524
Cost of sales	-	3,800	3,800
Leases, property taxes, insurance	976	9	985
Amortization of tangible capital assets	11,550	223	11,773
	\$ 155,892	\$ 6,019	\$ 161,911