

Consolidated Financial Statements of

CAPILANO UNIVERSITY

And Independent Auditors' Report thereon

Year ended March 31, 2020



STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation of the annual financial statements, and has prepared the accompanying consolidated financial statements for the year ended March 31, 2020 in accordance with the financial reporting provisions 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 judgment is required.

In discharging its responsibility 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 assets are safeguarded and that the financial records provide a reliable basis for the preparation of the financial statements.

The Board of Governors of the University carries out its responsibility for review of the consolidated financial statements. The Finance and Audit Committee of the Board meets with management and the external auditors to discuss the results of audit examinations and financial reporting matters.

These consolidated financial statements have been reported on by KPMG LLP, the University's external auditors appointed by the Board of Governors. The external auditors have full access to the Board with and without the presence of management.

A handwritten signature in blue ink, appearing to read "Paul Dangerfield", written over a horizontal line.

Paul Dangerfield, President

A handwritten signature in black ink, appearing to read "Jacqui Stewart", written over a horizontal line.

Jacqui Stewart, Vice-President, Finance & Administration

June 2, 2020



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Capilano University, and
To the Minister of the Ministry of Advanced Education, Skills and Training, Province of
British Columbia

Opinion

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

- the consolidated statement of financial position as at March 31, 2020
- the consolidated statement of operations and accumulated 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, 2020 of the Entity are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Basis for Opinion

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

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

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

Emphasis of Matter – Financial Reporting Framework

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

Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the 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
June 2, 2020

CAPILANO UNIVERSITY

Consolidated Statement of Financial Position

March 31, 2020, with comparative information for 2019

	2020	2019
		(Recast - note 18)
Financial Assets		
Cash and cash equivalents	\$ 35,371,028	\$ 46,823,206
Investments (note 3)	51,133,700	42,370,818
Accounts receivable (note 4)	3,244,907	2,826,024
Other receivables (note 5)	4,100,000	300,000
Inventories	667,881	723,621
	<u>94,517,516</u>	<u>93,043,669</u>
Liabilities		
Accounts payable and accrued liabilities (note 6)	22,179,613	17,018,227
Employee future benefits (note 7(a))	1,280,800	1,189,100
Deferred revenue and contributions (note 8)	24,793,980	31,523,958
Deferred capital contributions (note 9)	46,849,783	49,653,146
	<u>95,104,176</u>	<u>99,384,431</u>
Net debt	(586,660)	(6,340,762)
Non-Financial Assets		
Endowment investments (note 3)	9,988,908	10,503,329
Tangible capital assets (note 10)	75,976,077	73,609,550
Prepaid expenses	1,723,678	245,998
	<u>87,688,663</u>	<u>84,358,877</u>
Accumulated surplus	<u>\$ 87,102,003</u>	<u>\$ 78,018,115</u>
Accumulated surplus is comprised of:		
Accumulated surplus	\$ 87,107,752	\$ 74,545,247
Accumulated rereasurement gains (losses)	(5,749)	3,472,868
	<u>\$ 87,102,003</u>	<u>\$ 78,018,115</u>

Contractual obligations (note 12)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Cherian Itty
Chair, Board of Governors



Patricia Heintzman
Chair, Finance and Audit Committee

CAPILANO UNIVERSITY

Consolidated Statement of Operations and Accumulated Surplus

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

	Budget 2020 (notes 2(j) and 14)	2020	2019 (Recast - note 18)
Revenue:			
Province of British Columbia	\$ 43,231,657	\$ 43,645,304	\$ 41,738,160
Tuition fees	57,979,911	68,346,427	54,726,524
Project and other revenue (note 8(b))	7,456,057	7,930,376	7,579,595
Amortization of deferred capital contributions (note 9)	3,728,082	3,846,424	4,002,330
Sales of goods	2,145,000	2,146,300	2,301,220
Parking, childcare and theatre	2,078,151	2,045,672	2,228,709
Donations and gifts-in-kind	500,000	2,310,082	953,846
Investment income	2,370,718	3,554,386	1,980,557
	119,489,576	133,824,971	115,510,941
Expenses:			
Instruction and student support	71,558,763	71,615,631	64,627,503
Facilities and institutional support	41,053,079	42,654,348	39,478,248
Ancillary	6,877,734	7,095,580	6,671,753
	119,489,576	121,365,559	110,777,504
Annual operating surplus	-	12,459,412	4,733,437
Endowment donations received	-	103,093	476,033
Annual surplus	-	12,562,505	5,209,470
Accumulated surplus, beginning of year	74,545,247	74,545,247	69,335,777
Accumulated surplus, end of year	\$ 74,545,247	\$ 87,107,752	\$ 74,545,247

See accompanying notes to consolidated financial statements.

CAPILANO UNIVERSITY

Consolidated Statement of Changes in Net Debt

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

	Budget 2020 (notes 2(j) and 14)	2020	2019 (Recast - note 18)
Annual surplus	\$ -	\$ 12,562,505	\$ 5,209,470
Acquisition of tangible capital assets	(12,092,814)	(10,259,320)	(5,349,439)
Amortization of tangible capital assets	7,794,467	7,892,793	7,775,403
	(4,298,347)	(2,366,527)	2,425,964
Acquisition of prepaid expense	-	(3,339,387)	(395,538)
Use of prepaid expenses	-	1,861,707	484,770
	-	(1,477,680)	89,232
Remeasurement gains (losses)	(4,298,347)	(3,478,617)	1,501,048
Change in endowment investments	-	514,421	(840,369)
Decrease (increase) in net debt	(4,298,347)	5,754,102	8,385,345
Net debt, beginning of year	(6,340,762)	(6,340,762)	(14,726,107)
Net debt, end of year	\$ (10,639,109)	\$ (586,660)	\$ (6,340,762)

See accompanying notes to consolidated financial statements.

CAPILANO UNIVERSITY

Consolidated Statement of Cash Flows

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

	2020	2019
		(Recast - note 18)
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 12,562,505	\$ 5,209,470
Items not involving cash:		
Amortization of tangible capital assets	7,892,793	7,775,403
Revenue recognized from deferred capital contributions	(3,846,424)	(4,002,330)
Changes in non-cash working capital:		
Accounts receivable	(418,883)	(1,063,152)
Long term accounts receivable	(3,800,000)	(300,000)
Prepaid expenses	(1,477,680)	89,232
Inventories	55,740	26,028
Accounts payable and accrued liabilities	5,161,386	3,439,664
Employee future benefits	91,700	(58,200)
Deferred revenue and contributions	(6,729,978)	15,010,046
	9,491,159	26,126,161
Capital activities:		
Cash used to acquire tangible capital assets	(10,259,320)	(5,349,439)
Financing activities:		
Deferred capital contributions received	1,043,061	2,189,361
Investing activities:		
Net purchase of investments	(11,727,078)	(2,458,816)
Increase (decrease) in cash and cash equivalents	(11,452,178)	20,507,267
Cash and cash equivalents, beginning of year	46,823,206	26,315,939
Cash and cash equivalents, end of year	\$ 35,371,028	\$ 46,823,206

See accompanying notes to consolidated financial statements.

CAPILANO UNIVERSITY

Consolidated Statement of Remeasurement Gains and Losses

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

	2020	2019 (Recast - note 18)
Accumulated remeasurement gains, beginning of year	\$ 3,472,868	\$ 1,971,820
Unrealized gains (losses) attributed to fair value of investments	(3,153,405)	1,622,140
Amounts reclassified to investment income	(325,212)	(121,092)
Net remeasurement gains (losses) for the year	(3,478,617)	1,501,048
Accumulated remeasurement gains (losses) end of year	\$ (5,749)	\$ 3,472,868

See accompanying notes to consolidated financial statements.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

1. Purpose of the University:

Capilano University (the “University” or “Capilano”) is a post-secondary educational institution funded by the Provincial Government of British Columbia. The University is incorporated under the amended University Act (Bill 34 was enacted on September 1, 2008). The University is a special purpose teaching university and has regional campuses in the Province of British Columbia in North Vancouver, Squamish and the Sunshine Coast.

The University is a registered charity under the Income Tax Act and is exempt from income tax under Section 149 of the Income Tax Act.

These consolidated financial statements incorporate the financial position and results of operations and accumulated surplus and cash flows of the University and its controlled foundation, the Capilano University Foundation (the “Foundation”). The purpose of the Foundation is to raise funds for student financial assistance, capital needs, and program development at the University. The Foundation is a registered charity and is exempt from income taxes under Section 149 of the Income Tax Act.

2. Significant accounting policies:

These consolidated financial statements of the University are prepared by management in accordance with the basis of accounting described below. Significant accounting policies of the University are as follows:

(a) Basis of accounting:

These 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 consolidated financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for public sector organizations, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for public sector organizations as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards without any PS4200 elections effective their first fiscal year commencing after January 1, 2012.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

2. Significant accounting policies (continued):

(a) Basis of accounting (continued):

Regulation 198/2011 requires that restricted contributions received or receivable are to be 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 contributions in the form of a depreciable tangible capital asset are recorded as deferred capital contributions and recognized in revenue at the same rate that amortization of the related 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 those for 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 contributions have been met.

For British Columbia tax-payer supported organizations, these contributions include government transfers and externally restricted contributions.

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of Canadian public sector accounting standards which requires that:

- government transfers that 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 public sector accounting standard PS3410; and
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with public sector accounting standard PS3100.

As a result, revenue recognized in the Consolidated Statement of Operations and Accumulated Surplus and certain related deferred capital contributions would be recorded differently under Canadian public sector accounting standards.

(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.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

2. Significant accounting policies (continued):

(c) Financial instruments:

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

- (i) *Fair value category:* Portfolio instruments that are quoted in an active market 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 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 Surplus and related balances reversed from the Consolidated Statement of Remeasurement Gains and Losses. Unrealized gains and losses on endowment investments where earnings are restricted as to use are recorded as deferred contributions and recognized in revenue when disposed and when related expenses are incurred.

These 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. These different levels are defined as follows:

- Level 1: Quoted prices 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 or indirectly; and
- Level 3: Inputs for the asset or liability that not based on observable market data.

The University's investments, except for the donated insurance policy, are all considered to be Level 1 financial instruments for which the fair value is determined based on quoted prices in active markets. The donated insurance policy is deemed a Level 3 financial instrument as the inputs for the asset are not based on observable market data. 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.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

2. Significant accounting policies (continued):

(c) Financial instruments (continued):

(ii) *Amortized cost category*: Investments with specified or determinable maturity dates are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the Consolidated Statement of Operations and Accumulated Surplus when the financial asset is derecognized due to disposal or impairment. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments is included in the cost of the related investments.

Accounts receivable, other receivables, accounts payable and accrued liabilities are measured at amortized cost using the effective interest rate method. Any gains, losses or interest expense is recorded in the annual surplus depending on the nature of the financial liability that gave rise to the gain, loss or expense. Valuation allowances are made when collection is in doubt.

(d) Inventories:

Inventories held for resale, including books and materials, 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 selling price less any costs to sell.

(e) Non-financial assets:

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

(i) Tangible capital assets:

Tangible capital asset acquisitions are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Donated assets are recorded at fair value at the date of donation. In unusual circumstances where fair value cannot be reasonably determined, the tangible capital asset would be recognized at nominal value. Land is not amortized as it is deemed to have a permanent value. The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives shown below:

Asset	Rate
Buildings, concrete/steel	40 years
Buildings, wood frame	20 years
Leasehold improvements	10 years
Computer equipment	4 years
Software	3 years
Office furniture and equipment	5 years
Public works	10 years
Vehicles	10 years

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

2. Significant accounting policies (continued):

(e) Non-financial assets (continued):

(i) Tangible capital assets (continued):

Assets under construction are not amortized until the asset is available for productive use. Borrowing costs, if any, attributable to the construction of tangible capital assets are capitalized during the construction period.

Tangible capital assets are written down to net realizable value 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 that transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred. As at March 31, 2020, the University did not have leased tangible capital assets (2019 - nil).

(f) Employee future benefits:

The University and its employees make contributions to the College Pension Plan and Municipal Pension Plan, which are multi-employer jointly trustee plans. These plans are a defined benefit plan, 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 plan are not segregated by institution, the plan is accounted for as a defined contribution plan and any contributions of the University to the plan are expensed as incurred.

The University also has a defined benefit plan for retired employees and employees on long-term disability. The University accrues its obligations under this defined benefit plan as the employees render the services necessary to earn these benefits and as employees on long-term disability become eligible for such benefits. Actuarial gains (losses) incurred are deferred and recognized into the Consolidated Statement of Operations and Accumulated Surplus over the estimated average remaining service life of the employee group. The effective date of the most recent valuation is December 31, 2018, and the next required valuation will be as of December 31, 2021. This actuarial valuation has been extrapolated to March 31, 2020.

The University accrues vacation for employees as earned. However, revenue for funding for these is not accrued, as the Province does not provide special funding for vacations and retiring allowances. As the majority of employees are paid salaries, management anticipates that vacation accruals will be reversed when these employees take their standard vacations and that no additional funding will be required above authorized salaries.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

2. Significant accounting policies (continued):

(g) 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. Fees received prior to the year-end where the course is delivered subsequent to the year-end are recorded as deferred revenue.

Project revenue and expenses are recognized as the related activities are performed. The zero profit margin method is used when a contract's financial outcome is not reasonably determinable. This method of accounting requires that equal amounts of revenue and expense be recognized until the financial outcome of a contract can be reasonably estimated. Provision for anticipated losses is made in the period in which they become evident.

Unrestricted donations and grants are recorded as revenue when receivable 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 received on the Consolidated Statement of Operations and Accumulated Surplus for the portion to be held in perpetuity and as deferred contributions for the investment income earned thereon.

Investment income includes interest recorded on an accrual basis and dividends recorded as declared, realized gains and losses on the sale of investment and write downs on investments where the loss in value is determined to be other-than-temporary.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

2. Significant accounting policies (continued):

(h) 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 standards;
- (iii) The University is directly responsible or accepts responsibility;
- (iv) It is expected that future economic benefits will be given up; and
- (v) A reasonable estimate of the amount can be made.

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

(i) Use of estimates:

The preparation of the consolidated financial statements in accordance with the accounting framework described in note 2(a) 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 useful lives of tangible capital assets, accrued liabilities and employee future benefits payable. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

(j) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the consolidated budget approved by the Board of Governors of the University on April 16, 2019. This budget is reflected in the Consolidated Statement of Operations and Accumulated Surplus and the Consolidated Statement of Changes in Net Debt.

(k) 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 currency are reflected in the financial statements in equivalent Canadian dollars at the exchange rate in effect on the year-end date.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

3. Financial instruments:

Financial assets, non-financial assets recorded at fair value are comprised of the following:

	2020	2019
Level 1:		
Fixed income investments	\$ 22,202,010	\$ 23,974,880
Canadian equity investments	15,972,008	16,199,604
Foreign equity investments	12,217,290	12,308,663
Guaranteed Investment Certificate	10,340,300	-
	60,731,608	52,483,147
Less: Endowment investments	(9,988,908)	(10,503,329)
	50,742,700	41,979,818
Level 3:		
Donated insurance policy	391,000	391,000
Investments	\$ 51,133,700	\$ 42,370,818

4. Accounts receivable:

	2020	2019
Accounts receivable	\$ 4,433,206	\$ 3,797,092
Allowance for doubtful accounts	(1,188,299)	(971,068)
	\$ 3,244,907	\$ 2,826,024

5. Other receivables:

	2020	2019
Quest University (a)	\$ 2,100,000	\$ 300,000
Ruby Lake Lagoon Society (b)	2,000,000	-
	\$ 4,100,000	\$ 300,000

(a) Quest University receivable:

Capilano and Quest University ("Quest") entered into an agreement to explore opportunities for Capilano to use Quest's campus and facilities to provide programs in the Sea-to-Sky Corridor. During the year, Capilano provided a loan to Quest for \$2.1 million bearing interest at 4% per annum. Capilano executed and registered several stopgap documents with the BC Land Titles and Survey Office and obtained a priority agreement with the first mortgagee to favour repayment for Capilano.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

5. Other receivables (continued):

(b) Ruby Lake Lagoon Society receivable:

The Ruby Lake Lagoon Society (the "Society") is a non-profit society that works to preserve and enhance the natural habitat and wildlife of the Ruby Lake Lagoon and the Sunshine Coast. The Society operates the Pender Harbour Ocean Discovery Station ("PODS") and envisions this facility to conduct research and to monitor the surrounding marine and freshwater ecosystems and enhance the aquatic biodiversity in the harbour area.

The Foundation received a \$2.0 million donation to support educational and research efforts on the Sunshine Coast and donated these funds to the University. The University and the Society entered into a partnership to collaborate in the development of PODS to support the University and students to participate in educational and research initiatives on the Sunshine Coast. The University provided an interest free loan of \$2.0 million to the Society that is secured by a first mortgage against the Society's property. The Society commits to providing the University access to facilities, programs, services and recognition that will be used to offset the outstanding loan. It is anticipated that the construction of the new PODS facility will be completed in 2022 and the partnership and loan will be fully satisfied in 2037.

6. Accounts payable and accrued liabilities:

	2020	2019
Accounts payable and accrued liabilities	\$ 9,435,820	\$ 6,021,950
Salaries and benefits payable	8,885,599	7,808,328
Accrued vacation pay	3,858,194	3,187,949
	<u>\$ 22,179,613</u>	<u>\$ 17,018,227</u>

7. Employee future benefits:

(a) Benefits for employees on long-term disability and faculty retirees:

Information about liabilities for the University's employee benefit plans is as follows:

	2020	2019
Accrued benefit obligation balance, beginning of year	\$ 1,082,800	\$ 1,194,000
Interest cost	2,100	3,900
Employee contributions	314,700	386,900
Expected benefit payments	(311,600)	(387,800)
Immediate recognition of continuation of benefits for disabled employees	100,900	(53,500)
Actuarial loss (gain)	5,300	(60,700)
Accrued benefit obligation balance, end of year	<u>\$ 1,194,200</u>	<u>\$ 1,082,800</u>

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

7. Employee future benefits (continued):

(a) Benefits for employees on long-term disability and faculty retirees (continued):

Information about liabilities for the University's employee benefit plans is as follows (continued):

	2020	2019
Accrued benefit obligation	\$ 1,194,200	\$ 1,082,800
Unamortized actuarial gain	86,600	106,300
Accrued benefit liability	\$ 1,280,800	\$ 1,189,100

As the employee future benefit liability for long-term disability is an event-driven obligation, the expense (recovery) recorded in the Consolidated Statement of Operations and Accumulated Surplus is comprised only of the immediate recognition of the liability.

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligation are as follows:

	2020	2019
Obligation discount rate	1.78%	2.45%
Estimated average remaining service life	9 years	9 years

(b) Provincial pension plans:

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan (the "Plans"), jointly trustee pension plans. The Board of Trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of the assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are based on a formula. The College Pension Plan has about 15,000 active members from college senior administration and instructional staff and approximately 8,000 retired members. The Municipal Pension Plan has about 205,000 active members.

The actuarial valuation for the College Pension Plan as at August 31, 2018 indicated a \$303 million funding surplus for basic pension benefits. The actuarial valuation for the Municipal Pension Plan as at December 31, 2018 indicated a \$2,866 million funding surplus for basic pension benefits.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

7. Employee future benefits (continued):

(b) Provincial pension plans (continued):

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 records accrued liabilities and accrued assets for the Plans in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the Plans.

The University records pension expense as cash contributions to the Plans are made. During the year, the University contributed \$5,507,737 (2019 - \$5,005,371) to the above plans.

8. Deferred revenue and contributions:

Deferred revenue and contributions consists of deferred tuition fees, deferred government contributions and project and other revenue, deferred restricted donations and deferred restricted investment income as follows:

	2020	2019
Tuition fees	\$ 16,420,949	\$ 23,430,887
Deferred government contributions and project and other revenue (a) and (b)	3,110,348	2,157,950
Restricted donations and investment income (c)	5,262,683	5,935,121
	<u>\$ 24,793,980</u>	<u>\$ 31,523,958</u>

(a) Included in deferred government contributions and project and other revenue is the following:

	2020	2019
Provincial contributions:		
Beginning of year	\$ 848,115	\$ 728,756
Amounts received during the year	3,718,749	2,691,981
Recognized as revenue	(2,769,162)	(2,572,622)
	<u>\$ 1,797,702</u>	<u>\$ 848,115</u>

Operating grants from the Province of British Columbia of \$40,876,142 (2019 - \$39,165,538) were immediately recognized as revenue in the Consolidated Statement of Operations and Accumulated Surplus when received. Amounts recognized as revenue are included in the Province of British Columbia revenue in the Consolidated Statement of Operations and Accumulated Surplus.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

8. Deferred revenue and contributions (continued):

(b) Included in deferred government contributions and project and other revenue is the following related to contributions revenue:

	2020	2019
Non-provincial contributions:		
Beginning of year	\$ 1,309,835	\$ 1,588,159
Amounts received during the year	7,933,187	7,301,271
Recognized as revenue	(7,930,376)	(7,579,595)
	\$ 1,312,646	\$ 1,309,835

(c) Restricted donations and investment income is comprised of the following amounts from non-government organizations:

	2020	2019
Beginning of year	\$ 5,935,121	\$ 5,070,165
Amounts received during the year	3,532,528	2,340,781
Recognized as revenue	(4,204,966)	(1,475,825)
	\$ 5,262,683	\$ 5,935,121

9. Deferred capital contributions:

Contributions for capital are referred to as deferred capital contributions. Amounts are recognized as revenue over the useful life of the asset. Treasury Board provided direction on accounting treatment as disclosed in note 2(a). Changes in the deferred capital contributions balance are as follows:

	2020	2019
Balance, beginning of year	\$ 49,653,146	\$ 51,466,115
Contributions received during the year	1,043,061	2,189,361
Revenue recognized from deferred capital contributions	(3,846,424)	(4,002,330)
Balance, end of year	\$ 46,849,783	\$ 49,653,146

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

9. Deferred capital contributions (continued):

Included in the above is the following related to government and non-government organizations:

	2020	2019
Provincial contributions:		
Beginning of year	\$ 35,660,618	\$ 36,751,991
Amounts received during the year	1,043,061	2,189,361
Recognized as revenue	(3,249,825)	(3,280,734)
	<u>\$ 33,453,854</u>	<u>\$ 35,660,618</u>

	2020	2019
Federal contributions:		
Beginning of year	\$ 13,817,523	\$ 14,239,119
Recognized as revenue	(421,595)	(421,596)
	<u>\$ 13,395,928</u>	<u>\$ 13,817,523</u>

	2020	2019
Other contributions:		
Beginning of year	\$ 175,005	\$ 475,005
Recognized as revenue	(175,004)	(300,000)
	<u>\$ 1</u>	<u>\$ 175,005</u>

Revenue is recognized as amortization of deferred capital contributions on the Consolidated Statement of Operations and Accumulated Surplus.

10. Tangible capital assets:

Cost	Balance, March 31, 2019	Additions net of Transfers	Disposals	Balance, March 31, 2020
Land	\$ 10,000,370	\$ -	\$ -	\$ 10,000,370
Buildings	117,168,942	1,309,406	-	118,478,348
Leasehold improvements	60,830	3,454,681	-	3,515,511
Computer equipment	12,367,301	2,715,877	-	15,083,178
Other furniture and equipment	12,803,867	2,592,564	-	15,396,431
Public works	2,192,949	-	-	2,192,949
Software	1,903,434	186,792	-	2,090,226
Vehicles	595,231	-	-	595,231
Total	<u>\$ 157,092,924</u>	<u>\$ 10,259,320</u>	<u>\$ -</u>	<u>\$ 167,352,244</u>

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

10. Tangible capital assets (continued):

Accumulated amortization	Balance, March 31, 2019	Additions	Disposals	Balance, March 31, 2020
Land	\$ -	\$ -	\$ -	\$ -
Buildings	64,068,611	3,064,895	-	67,133,506
Leasehold improvements	-	116,090	-	116,090
Computer equipment	8,440,711	2,289,141	-	10,729,852
Other furniture and equipment	8,474,634	1,829,097	-	10,303,731
Public works	962,537	184,381	-	1,146,918
Software	1,310,199	355,008	-	1,665,207
Vehicles	226,682	54,181	-	280,863
Total	\$ 83,483,374	\$ 7,892,793	\$ -	\$ 91,376,167

Net book value	March 31, 2019	March 31, 2020
Land	\$ 10,000,370	\$ 10,000,370
Buildings	53,100,331	51,344,842
Leasehold improvements	60,830	3,399,421
Computer equipment	3,926,590	4,353,326
Other furniture and equipment	4,329,233	5,092,700
Public works	1,230,412	1,046,031
Software	593,235	425,019
Vehicles	368,549	314,368
Total	\$ 73,609,550	\$ 75,976,077

11. Financial risk management:

The University has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk.

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, investments, accounts receivable and endowment investments. The University assesses these financial assets on a continuous basis for any amounts that are not collectible or realizable.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

11. Financial risk management (continued):

(b) Market risk:

Market risk is the risk that changes in market prices, including interest rates, will affect University's income. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing the return on risk. The University manages market risk by adoption of an investment policy and adherence to this policy by an investment manager. Investments are in pooled funds in a diversified portfolio in accordance with the University's investment policy.

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 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.

12. Contractual obligations:

The nature of the University's activities results in multi-year contracts and obligations whereby the University is committed to make future payments. Significant contractual obligations related to facilities, security, parking and janitorial services that can be reasonably estimated are as follows:

2021	\$ 3,817,000
2022	3,557,900
2023	1,901,900
2024	962,700
	<hr/>
	\$ 10,239,500

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

13. Expenses by object:

The following is a summary of expenses by object:

	2020	2019
Amortization of tangible capital assets	\$ 7,892,793	\$ 7,775,403
Buildings and grounds maintenance	6,960,709	6,300,859
Cost of goods sold	1,535,478	1,694,878
Other operating expenses	25,655,016	23,829,210
Salaries and benefits	77,486,633	69,131,525
Student support activities	1,834,930	2,045,629
	\$ 121,365,559	\$ 110,777,504

14. Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the consolidated budget approved by the Board of Governors of the University on April 16, 2019. The budget is reflected in the Consolidated Statement of Operations and Accumulated Surplus and the Consolidated Statement of Changes in Net Debt and is reconciled to the Consolidated Statement of Operations as follows:

	Approved Budget	Reallocation	Statement of Operations and Accumulated Surplus
Expenses by object:			
Amortization of tangible capital assets	\$ 7,794,467	\$ (7,794,467)	\$ -
Expenses	31,318,372	(31,318,372)	-
Salaries and benefits	80,376,737	(80,376,737)	-
	119,489,576	(119,489,576)	-
Expenses by function:			
Instruction and student support	-	71,558,763	71,558,763
Facility and institutional support	-	41,053,079	41,053,079
Ancillary	-	6,877,734	6,877,734
	-	119,489,576	119,489,576
	\$ 119,489,576	\$ -	\$ 119,489,576

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

15. Impact of COVID-19:

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our operations are not known at this time.

At the time of approval of these consolidated financial statements, the University has experienced the following indicators of financial implications and undertaken activities in relation to the COVID-19 pandemic:

- effective March 18, 2020, the University moved to a primarily remote (online) instructional delivery model.
- effective March 20, 2020, the University implemented a remote working from home model for employees able to do so and implemented social distancing policies for employees that remain on campus.

At this time these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.

16. Related party transactions:

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

17. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

CAPILANO UNIVERSITY

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2020

18. Recast of comparative information:

During the year, the University determined that an adjustment was required in its comparative information to correct the accounting treatment of unrealized gains and losses on endowment investments in these consolidated financial statements. This change has been recorded retroactively and accordingly, the 2019 comparative financial information has been recast as follows:

	As previously stated	Adjustment	As recast
Consolidated Statement of Financial Position:			
Accumulated surplus	\$ 70,269,709	\$ 4,275,538	\$ 74,545,247
Accumulated rereasurement gains	7,748,406	(4,275,538)	3,472,868
	78,018,115	-	78,018,115
Consolidated Statement of Operations and Accumulated Surplus:			
Investment income	1,087,340	893,217	1,980,557
Consolidated Statement of Changes in Net Debt:			
Annual surplus	4,316,253	893,217	5,209,470
Remeasurement gains (losses)	2,394,265	(893,217)	1,501,048
Consolidated Statement of Cash Flows:			
Cash from operating activities	25,232,944	893,217	26,126,161
Cash from investing activities	(1,565,599)	(893,217)	(2,458,816)
Consolidated Statement of Remeasurement Gains and Losses:			
Accumulated rereasurement gains, beginning of year	5,354,141	(3,382,321)	1,971,820
Unrealized gains attributed to fair value of investment	2,546,064	(923,924)	1,622,140
Amounts reclassified to investment income	(151,799)	30,707	(121,092)
	7,748,406	(4,275,538)	3,472,868