

Financial statements of

Trinity Western University

April 30, 2019

Trinity Western University

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Independent Auditor's Report

To the Board of Governors of
Trinity Western University

Opinion

We have audited the financial statements of Trinity Western University (the "University"), which comprise the statement of financial position as at April 30, 2019, and the statements of operations and changes in fund balances, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the University 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 audit opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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 University'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 University or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 University'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 University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

Deloitte LLP

Chartered Professional Accountants
June 27, 2019
Langley, British Columbia

Trinity Western University

Statement of financial position

As at April 30

	2019	2018
	\$	\$
Assets		
Current		
Cash	6,500,149	10,976,643
Restricted cash	67,740	39,036
Accounts receivable	3,508,249	2,041,391
Inventory	415,344	367,553
Prepaid expenses	2,023,477	1,850,681
	12,514,959	15,275,304
Prepaid deposit	-	835,325
Other asset (Note 4)	1,971,770	2,190,855
Investments (Note 5)	22,403,597	20,982,072
Capital assets (Note 6)	164,894,652	155,174,747
	201,784,978	194,458,303
Liabilities		
Current		
Accounts payable and accrued liabilities	4,752,377	5,673,591
Student deposits and deferred income	14,896,965	10,552,233
Current portion of long-term debt (Note 7)	11,118	449,995
	19,660,460	16,675,819
Long-term debt (Note 7)	23,210,286	29,843,794
Due to Trinity Western University Foundation (Notes 3 & 8)	6,301,000	6,134,000
	49,171,746	52,653,613
Contingent liabilities (Note 13)		
Commitments (Note 16)		
Fund balances		
Restricted funds (Note 9)		
Capital fund	116,006,067	110,014,855
Specific purpose fund	14,061,222	10,724,479
Endowment fund	22,357,191	20,876,604
Unrestricted fund	188,752	188,752
	152,613,232	141,804,690
	201,784,978	194,458,303

Approved by the Board of Governors

"Mr. Lorne Jacobson"

"Mr. Fred Fleming"

The accompanying notes are an integral part of these financial statements.

Trinity Western University
Statement of operations and changes in fund balances
Year Ended April 30

	Unrestricted	Capital	Specific Purpose	Endowment	2019	2018
	\$	\$	\$	\$	\$	\$
Revenues						
Tuition and fees	70,173,048	-	-	-	70,173,048	62,712,073
Donations	3,700,792	8,093,665	2,481,624	981,919	15,258,000	9,769,865
Other (Note 10)	14,759,930	-	2,745,983	-	17,505,913	18,468,300
	88,633,770	8,093,665	5,227,607	981,919	102,936,961	90,950,238
Expenditures						
Compensation	42,900,798	7,199	1,370,259	-	44,278,256	41,194,008
Operating costs	21,958,761	8,093	3,550,368	-	25,517,222	23,596,694
Scholarships and bursaries	12,585,025	-	1,156,976	-	13,742,001	12,872,286
Interest	-	1,005,114	-	-	1,005,114	1,157,984
Overhead and other	2,031,297	-	23,829	-	2,055,126	1,631,187
	79,475,881	1,020,406	6,101,432	-	86,597,719	80,452,159
Excess (deficiency) of revenue over expenditures before the following non-cash items	9,157,889	7,073,259	(873,825)	981,919	16,339,242	10,498,079
Amortization of capital assets	-	(5,473,917)	-	-	(5,473,917)	(5,247,279)
Amortization of other assets	-	(72,677)	(219,086)	-	(291,763)	(227,331)
Change in fair value of interest rate swaps (Note 19)	-	(2,816)	-	-	(2,816)	245,065
Change in fair value of investments (Note 5)	237,796	-	-	-	237,796	(337,921)
	237,796	(5,549,410)	(219,086)	-	(5,530,700)	(5,567,466)
Excess (deficiency) of revenue over expenditures	9,395,685	1,523,849	(1,092,911)	981,919	10,808,542	4,930,613
Interfund transfers (Note 11)	(9,395,685)	4,467,363	4,429,654	498,668	-	-
Change in fund balances for the year	-	5,991,212	3,336,743	1,480,587	10,808,542	4,930,613
Fund balances at the beginning of the year	188,752	110,014,855	10,724,479	20,876,604	141,804,690	136,874,077
Fund balances at the end of the year	188,752	116,006,067	14,061,222	22,357,191	152,613,232	141,804,690

The accompanying notes are an integral part of these financial statements.

Trinity Western University

Statement of cash flows

Year Ended April 30

	2019	2018
	\$	\$
Operating activities		
Excess of revenues over expenditures	10,808,542	4,930,613
Add back (deduct) items not involving cash:		
Amortization of transaction costs	72,677	8,245
Amortization of capital assets	5,473,917	5,247,279
Amortization of other assets	219,086	219,086
Donated capital asset additions	(975)	(70,635)
Change in fair value of interest rate swaps	2,816	(245,065)
Change in fair value of investments	(237,796)	337,921
	16,338,267	10,427,444
Change in operating working capital		
Accounts receivable	(1,466,858)	(646,421)
Inventory	(47,791)	(7,448)
Prepaid expenses	(172,796)	64,324
Accounts payable and accrued liabilities	(921,214)	2,202,528
Student deposits and deferred income	4,344,732	956,861
	1,736,073	2,569,844
	18,074,340	12,997,288
Financing activities		
Scheduled annual amortization of long-term debt	(106,072)	(594,508)
Additional repayment of HSBC long-term debt	-	(667,000)
Increase in Trinity Western University Foundation long-term debt	167,000	667,000
Additional repayment of long-term debt	(9,127,787)	(2,070,132)
Increase in long-term debt	2,085,980	2,860,654
	(6,980,879)	196,014
Investing activities		
Change in restricted cash	(28,704)	2,137
Change in prepaid deposit	835,325	(835,325)
Purchase of capital assets	(15,197,507)	(16,152,877)
Proceeds from disposal of capital asset	4,661	248,026
Purchase of investments	(1,489,681)	(1,429,652)
Proceeds from sale of investments	305,951	396,000
	(15,569,955)	(17,771,691)
Change in cash during the year	(4,476,494)	(4,578,389)
Cash at beginning of year	10,976,643	15,555,032
Cash at end of year	6,500,149	10,976,643

The accompanying notes are an integral part of these financial statements.

Trinity Western University

Notes to financial statements

April 30, 2019

1. Business operations

Purpose and authority

The mission of Trinity Western University, as an arm of the Church, is to develop godly Christian leaders: positive, goal-oriented university graduates with thoroughly Christian minds; growing disciples of Jesus Christ who glorify God through fulfilling the Great Commission, serving God and people in the marketplaces of life.

Established in 1962, Trinity Western University ("TWU", the "University") operates under the authority of the *Trinity Western University Act* of the Province of British Columbia. TWU is a Christian liberal arts and sciences university offering undergraduate, graduate and continuing education programs. TWU is a not-for-profit entity, governed by a Board of Governors. TWU is a registered charity and is therefore exempt from income taxes under section 149 of the Canadian Income Tax Act and section 501(c)(3) of the Internal Revenue Code in the United States of America.

2. Significant accounting policies

These financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant policies:

Fund accounting

TWU accounts provide for separate fund balances to be maintained at various times in order to recognize restrictions imposed on the use of available resources. The Statements of Financial Position and Cash Flows combine the assets and liabilities of all funds. The Statement of Operations and Changes in Fund Balances segregates the Unrestricted, Capital, Specific Purpose and Endowment funds.

TWU follows the restricted fund method of accounting for contributions.

The Unrestricted Fund reports on TWU's program delivery, administrative and ancillary activities.

The Capital Fund reports the net investment in capital assets.

The Specific Purpose Fund reports funds received but not yet expended for specific projects.

The Endowment Fund reports donations received to be held permanently, the income of which is to be used primarily for scholarships. Realized investment gains and losses from the Endowment Fund are reported in the Unrestricted Fund, unless restricted by the donor.

Ancillaries (Note 10) include Housing Services, Dining Services, Conference Services, and the University Bookstore.

Controlled not-for-profit organizations

The University does not consolidate controlled not-for-profit organizations into its financial statements. Information on controlled not-for-profit organizations is disclosed in Note 3.

Trinity Western University

Notes to financial statements

April 30, 2019

2. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the University becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost except for the following instruments:

- a) Investments in unlisted shares, which are measured at cost less any reduction for impairment;
- b) Investments in listed shares and derivative financial instruments that are not designated in a qualifying hedging relationship, which are measured at fair value at the statement of financial position date. The fair value of listed shares is based on the latest closing price and the fair value quote received from the bank counterparty is used as a proxy for the fair value of derivative financial instruments.

Interest earned on short term investments, unrealized gains and losses on listed shares, and realized gains and losses on sale of short term investments are included in other income in the statement of operations.

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of operations as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the University recognizes in net earnings an impairment loss, if any, when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the statement of operations in the period the event occurs.

Revenue recognition

Tuition and fees and ancillaries are recognized as revenue at the time the goods are delivered or the services are provided. Deferred revenue is recorded for payments made prior to services rendered.

Restricted contributions are recognized as revenue of one of the restricted funds in the year received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions are recognized as revenue of the Unrestricted Fund in the year received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions subject to internal restrictions are allocated to the appropriate restricted fund through an inter-fund transfer.

Endowment donations are recognized as revenue in the Endowment Fund.

The sources of donation revenues described above are individuals and corporations.

Trinity Western University

Notes to financial statements

April 30, 2019

2. Significant accounting policies (continued)

Gifts in kind are recorded at fair market value on the date of their donation, or at nominal value when fair market value cannot be reasonably determined. Donated services are not recognized in these financial statements.

Other income is recognized in the year received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Inventory

Inventory is comprised of items held for resale by the University Bookstore and is valued at the lower of cost and net realizable value. Cost is determined on the average cost basis. Net realizable value is the selling price less the cost necessary to make the sale. During the year the University expensed \$987,524 (2018 - \$1,093,816) of inventory on the statement of operations and changes in fund balances.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at their fair market value on the date of the contribution. No amortization is taken in the year of acquisition and a full year of amortization is taken in the year of disposal. Amortization is provided using the straight-line basis over the estimated useful life of the assets as follows:

Buildings, roads and parking lots	8 - 40 years
Furniture and equipment	10 years
Library collection	10 years
Computers	3 - 7 years
Vehicles	5 years

An impairment loss is recognized in capital assets when the asset no longer has any long-term service potential to the University. The amount of the impairment loss is determined as the excess of its net carrying amount over any residual value and will be recognized in the statement of operations.

Other asset

Other asset is recorded at cost and is amortized on a straight-line basis over the term of the related agreement.

Assets under capital lease

Assets under capital lease are accounted for at cost. Amortization is provided using the straight-line basis over the estimated useful life of the assets, which is 3 years.

Asset retirement obligations

Legal obligations related to asset retirement obligations are recognized when a reasonable estimate of fair value can be made. These obligations are recorded at fair value with a corresponding increase in asset value. The liability is accreted over the life of the asset to fair value and the increase in asset value is depreciated over the remaining useful life of the asset. This includes future removal and site restoration costs as required due to environmental law or contract. Management has determined that the University has no asset retirement obligations at April 30, 2019.

Trinity Western University

Notes to financial statements

April 30, 2019

2. Significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Key areas of estimation, as a result of matters that are inherently uncertain, include the provision for doubtful accounts in respect of receivables, the useful lives of capital assets, accrued liabilities, and liabilities under legal contingencies. Actual results could differ from those estimates.

3. Related party transactions

Not-for-profit organizations controlled by the University are as follows:

Trinity Western University Foundation (TWUF)

TWUF was established as a Crown Corporation under the *Trinity Western University Foundation Act* of the Province of British Columbia on July 20, 1989. Its main purpose is to receive, manage and invest funds to further the purposes of TWU. The Act provides TWUF with the status of an Agent of the Crown in the Right of the Province of British Columbia. TWUF is not subject to income taxes. The TWUF board members consist of TWU board members.

Trinity Western University Foundation - US (TWUF - US)

TWUF - US was incorporated under the *Washington Non-Profit Corporation Act* in 1980 to support and benefit Christian colleges associated with the Evangelical Free Churches of America and receive charitable donations for the benefit of TWU. TWUF - US is not subject to income taxes. TWUF - US is controlled by an independent board of governors.

Not-for-profit organization significantly influenced by the University:

The Associated Canadian Theological Schools Society (ACTS)

ACTS is incorporated under the Society Act of British Columbia. The primary purpose of ACTS is to support and facilitate excellent theological education, Christian leadership training, and the provision of resources for effective Christian ministry primarily at the graduate level and to support the creation and maintenance of effective joint academic programs among those registered charities that are members of the Society that grant the credits and confer the degrees offered through such joint academic programs. TWU is one of the four full members of ACTS. Each full member may appoint three individuals to the Board of Directors and elect additional directors from associate members, where applicable, subject to certain restrictions. As a full member, among other responsibilities, TWU is obligated to financially support the jointly-managed systems and infrastructure facilitated by the ACTS according to the amounts, fees and formula approved by the Board. During the year these financial support payments totalled \$193,328 (2018 - \$160,212).

Trinity Western University

Notes to financial statements

April 30, 2019

3. Related party transactions (continued)

Financial summaries for controlled not-for-profit organizations are as follows:

	2019			2018
	TWUF 31-Mar-19	TWUF - US 31-Dec-18	Total	Total
	\$	\$	\$	\$
Financial position				
Total assets	6,326,635	6,185,564	12,512,199	12,328,560
Total liabilities	-	(2,540,390)	(2,540,390)	(2,461,179)
Total net assets	6,326,635	3,645,174	9,971,809	9,867,381
Results of operations				
Total revenues	168,144	1,098,472	1,266,616	3,865,859
Total expenses	(1,042)	(1,442,979)	(1,444,021)	(2,234,684)
Excess (deficiency) of revenues over expenses	167,102	(344,507)	(177,405)	1,631,175
Contributions	-	131,865	131,865	121,820
	167,102	(212,642)	(45,540)	1,752,995
Cash flows				
Cash provided by operations	167,102	218,525	385,627	927,774
Cash used in investing activities	-	(240,337)	(240,337)	(877,197)
Net cash flow	167,102	(21,812)	145,290	50,577

During the fiscal year TWU received the following amounts from related parties:

	2019			2018
	ACTS	TWUF - US	Total	Total
	\$	\$	\$	\$
Donations	-	721,246	721,246	600,279
Recovery of salaries	521,134	-	521,134	513,234
Provision of goods and services	500,020	-	500,020	457,952
	1,021,154	721,246	1,742,400	1,571,465

During the year, TWU received an additional \$167,000 loan from TWUF. Refer to Note 8.

These transactions are in the normal course of operations and are measured at the exchange amounts.

Trinity Western University

Notes to financial statements

April 30, 2019

3. Related party transactions (continued)

Included in accounts (payable) receivable are the following amounts with related parties:

	2019	2018
	\$	\$
ACTS	(94,722)	11,287
TWUF - US	74,468	(16,390)
	(20,254)	(5,103)

4. Other asset

The University has prepaid for the multi-year access and operating agreements with the Township of Langley (the "Township") to utilize a portion of the Langley Events Centre until April 2029.

The University recorded amortization of \$219,086 during the year ended April 30, 2019 (2018 - \$219,086) and the current portion of \$219,086 has been included in prepaid expenses on the statement of financial position.

Trinity Western University

Notes to financial statements

April 30, 2019

5. Investments

The composition of the portfolio investments is as follows:

	2019	
Portfolio Investments	Fair Value	Fund Allocation
	\$	
Cash Equivalents	1,077,284	4.8%
Canadian Equities	5,208,687	23.3%
US Equities	3,889,085	17.4%
International Equities	3,272,349	14.6%
Fixed Income Fund	8,462,891	37.8%
Total Leith Wheeler	21,910,296	97.8%
Other funds	493,301	2.2%
Total Funds	22,403,597	100.0%

	2018	
Portfolio Investments	Fair Value	Fund Allocation
	\$	
Cash Equivalents	964,075	4.6%
Canadian Equities	4,979,182	23.7%
US Equities	3,599,435	17.2%
International Equities	3,129,523	14.9%
Fixed Income Fund	7,949,077	37.9%
Total Leith Wheeler	20,621,292	98.3%
Other funds	360,780	1.7%
Total Funds	20,982,072	100.0%

During the year ended April 30, 2019, the return on investment of the Leith Wheeler endowment portfolio was 5.3% (2018 – 4.0%), after all related fees.

The University monitors the performance of investment managers through its Independent Investment Committee (“IIC”). The IIC is comprised of two Board members and one external advisor. The IIC reports to the University’s Board of Governors through its Finance Committee. IIC’s primary responsibilities are to regularly monitor investment manager performance and recommend changes to investment policy and strategy and to replace or expand investment managers when considered necessary.

The market return on investments includes interest income, dividends, capital gains and unrealized gains / losses. During the year ended April 30, 2019, the University recorded an unrealized gain on investments of \$237,796 (2018 - \$337,921 loss) and recognized investment income of \$1,002,411 (2018 – \$1,247,843).

Trinity Western University

Notes to financial statements

April 30, 2019

6. Capital assets

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	49,319,702	-	49,319,702	49,319,702
Buildings, roads and parking lots	132,786,273	25,103,796	107,682,477	98,122,799
Furniture and equipment	9,457,247	4,621,117	4,836,130	4,751,458
Library collection	6,526,126	5,934,971	591,155	616,664
Computers	7,407,175	4,978,038	2,429,137	2,317,392
Vehicles	148,755	112,704	36,051	46,732
	205,645,278	40,750,626	164,894,652	155,174,747

During the year ended April 30, 2019 the University acquired capital assets totalling \$15,198,482 (2018 - \$16,223,512) – of this total, \$975 (2018 - \$70,635) was by means of donated assets and \$15,197,507 (2018 - \$16,152,877) by means of cash expenditures.

Trinity Western University

Notes to financial statements

April 30, 2019

7. Long-term debt

	2019	2018
	\$	\$
HSBC Bank Canada revolving loan (Operating Loan). The University has entered into an interest rate swap covering \$2,533,333 of this loan (Note 19).	2,533,333	9,657,999
Promissory notes payable, unsecured income contracts with varying terms, bearing interest at an average rate of 2.81%, maturing at various dates up to 2023.	3,833,328	5,314,760
Loan payable to Canadian Western Trust for TWU's RRSP/RRIF program, revocable indefinite term contracts bearing interest at an average rate of 3.75%, rates adjusted semi-annually, secured by a fixed charge on specific land and building.	16,807,693	15,287,568
Parking equipment lease in the amount of \$138,178, repayable in monthly instalments of \$2,861 including interest calculated at 4.33%, maturing September 2019.	11,118	43,286
Computer equipment lease in the amount of \$146,608, repayable in monthly instalments of \$2,842 including interest calculated at 4.3%, repaid during the year.	-	29,737
	23,185,472	30,333,350
Fair value of interest rate swaps	35,932	33,116
Unamortized transaction costs	-	(72,677)
	23,221,404	30,293,789
Less current portion	(11,118)	(449,995)
	23,210,286	29,843,794

During the year ended April 30, 2019, the University renewed its credit facilities with HSBC Bank Canada ("HSBC") for financing working capital requirements, repaying certain investor promissory notes, redeeming certain RRSP contributions and financing construction activities. The University obtained two loan facilities maturing June 11, 2023, with the balance outstanding in aggregate not to exceed \$40,000,000 and with allocation between the two loan facilities at the University's discretion:

- a) Operating loan: Revolving, non-amortizing, with interest at the HSBC prime rate. \$2,533,333 has been drawn on this loan facility as at April 30, 2019 as noted in the table above.
- b) Term loan: Non-revolving, 25 year straight-line amortization, with interest at the HSBC prime rate minus 0.35%. No balance has been drawn on this loan facility as at April 30, 2019.

Trinity Western University

Notes to financial statements

April 30, 2019

7. Long-term debt (continued)

The HSBC loan facilities are secured by the following:

- i. A general security agreement creating a first fixed charge and security interest over all present and after acquired personal property of the University.
- ii. A fixed charge on specific land and buildings of up to \$50,000,000.
- iii. Assignment of rents and insurance.
- iv. Environmental and indemnity agreements on specific properties.

The University is required to satisfy certain restrictive financial covenants under the terms of the HSBC loan facilities. The University was in compliance with these covenants during the year ended April 30, 2019. The HSBC loan facilities are due on demand following an occurrence of an event of default as defined in the agreement. Since no such event of default has occurred, the loans are classified as a non-current liability in these financial statements.

The University expects to repay \$11,118 of principal in fiscal 2020 and until the University utilizes the HSBC Term Loan facility, there are no further principal repayments required by HSBC in fiscal 2021 through to fiscal 2024.

Total cash interest paid on all borrowings during the year is \$547,146 (2018 - \$775,398).

8. Due to Trinity Western University Foundation

As of April 30, 2019, the University has received \$6,301,000 in loan funds from Trinity Western University Foundation for the purposes of HSBC bank debt repayment. This loan is non-interest bearing, matures April 2026, has no fixed terms of repayment, and has covenants attached. Certain land and buildings have been pledged as security for the Trinity Western University Foundation loan.

Trinity Western University

Notes to financial statements

April 30, 2019

9. Restricted Funds

Restrictions imposed on the following funds are:

	2019			
	Capital	Specific Purpose	Endowment	Total
	\$	\$	\$	\$
Externally restricted	9,965,339	6,161,405	15,060,071	31,186,815
Internally restricted	106,040,728	7,899,817	7,297,120	121,237,665
	116,006,067	14,061,222	22,357,191	152,424,480

	2018			
	Capital	Specific Purpose	Endowment	Total
	\$	\$	\$	\$
Externally restricted	3,869,459	5,728,788	14,078,151	23,676,398
Internally restricted	106,145,396	4,995,691	6,798,453	117,939,540
	110,014,855	10,724,479	20,876,604	141,615,938

The externally restricted portion of the Capital Fund is comprised of unspent donations for capital projects, most of which are earmarked for the capital elements of the Vision 2020 fundraising initiative. The externally restricted portion of the Specific Purpose Fund is comprised of amounts restricted for various purposes including scholarships, program development, athletic sponsorships, and student related activities. The externally restricted portion of the Endowment Fund is comprised of donations from external sources.

The internally restricted portion of the funds is comprised of investments in capital assets, interfund transfers, and endowment investment earnings net of scholarship distributions.

10. Other income

The components of other income are as follows:

	Unrestricted	Specific Purpose	2019 Total	2018 Total
	\$	\$	\$	\$
Ancillaries	11,128,439	-	11,128,439	10,644,641
Miscellaneous	1,190,071	783,095	1,973,166	3,363,682
Grants	146,979	1,901,322	2,048,301	1,988,691
Investment & Other	1,288,569	-	1,288,569	1,499,761
Parking & Rental	1,005,872	61,566	1,067,438	971,525
	14,759,930	2,745,983	17,505,913	18,468,300

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11. Interfund transfers

Transfers between the various funds during the fiscal year 2019 are summarized as follows:

	Unrestricted	Capital	Specific Purpose	Endowment
	\$	\$	\$	\$
Debt repayment	(416,940)	416,940	-	-
Interest on long-term debt	(1,004,483)	1,004,483	-	-
Capital asset purchases	(2,716,669)	2,783,063	(66,394)	-
Appropriations	(3,484,580)	256,752	3,227,828	-
Investment gain, net of scholarship expenses	(1,032,670)	6,125	527,877	498,668
Travel studies	(740,343)	-	740,343	-
	<u>(9,395,685)</u>	<u>4,467,363</u>	<u>4,429,654</u>	<u>498,668</u>

12. Interfund loans

The loans receivable (payable) between the various funds as outlined below are non-interest bearing and have no specific terms for repayment.

	2019	2018
	\$	\$
Unrestricted Fund	7,741,765	1,565,427
Capital Fund	(19,367,181)	(9,576,302)
Specific Purpose Fund	11,604,308	7,983,079
Endowment Fund	21,108	27,796
	<u>-</u>	<u>-</u>

13. Contingent liabilities

Evangelical Free Church of Canada

TWU has agreed to provide the Evangelical Free Church of Canada ("EFCC") perpetual occupancy of specific office premises on campus. In return, the EFCC has contributed certain amounts towards construction costs of their premises.

By an agreement dated July 30, 1995, TWU has agreed to repay the EFCC an amount based on the appraised value of the space occupied by EFCC, should they choose to vacate the office premises. Neither the amount nor the timing of any potential liability under this agreement can be reasonably estimated at this time. Therefore, no provision has been made in the financial statements. If the payment clause were to be exercised, the University would record the cost as a capital asset addition.

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Notes to financial statements

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13. Contingent liabilities (continued)

Canadian University Reciprocal Insurance Exchange

Since 1988 Trinity Western University has been a member of the Canadian University Reciprocal Insurance Exchange ("C.U.R.I.E"), a self-insurance co-operative providing property and general liability insurance coverage to 64 university subscribers in Canada.

Under this co-operative arrangement, the University participates in the periodic return of excess premiums and shares in any losses realized by C.U.R.I.E., in proportion to its participation in C.U.R.I.E. For the current fiscal year, there was a return of \$0 (2018 - \$3,511) related to the return of excess premiums; there are no anticipated member assessments based on C.U.R.I.E.'s current financial position.

Letter of guarantee

In accordance with the Post-secondary Education Choice and Excellence Act of the Province of Ontario [S.O. 2000, Chap. 36], the University has provided a \$150,000 letter of guarantee to the Ministry of Training, Colleges and Universities to operate the Laurentian Leadership Centre in Ottawa.

Canada Institute of Linguistics ("CANIL") ground lease

The University has entered into a ground lease that allows CANIL to construct and occupy a building on University lands for a period of 35 years with four tenant renewal options of five years each. The initial lease term ends in 2039. Under the terms of the arrangement, CANIL may vacate the premises at any time and require TWU to purchase its interest in the building according to a reducing balance formula. At April 30, 2019 the amount calculated under the formula was approximately \$1,380,857 (2018 -\$1,447,888). At the end of the lease term, including all renewals, title and ownership of the building will pass to the University. No amounts have been recorded in these financial statements with respect to the CANIL lease. If the payment clause were to be exercised, the University would record the cost as a capital asset addition.

The Associated Canadian Theological Schools Society (ACTS)

As one of the four full members of the ACTS, TWU guaranteed a maximum of \$100,000 of a \$300,000 working capital line of credit provided to ACTS by its banker. At April 30, 2019, the balance outstanding on the line of credit is \$nil.

14. Retirement plans

Trinity Western University makes a defined contribution to registered retirement plans for employees. Both the employee and employer portions vest immediately. Employees have full discretion to invest the funds within the University sponsored program. There is no past service liability with respect to this program.

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15. Trinity Western Advancement Fund

Trinity Western University established a permanent Endowment Fund with the Vancouver Foundation in 1986, known as the Trinity Western Advancement Fund:

	2019	2018
	\$	\$
Aggregate contributed principal	387,000	387,000
Market value on March 31	572,627	563,139
Income earned	21,567	20,535
Distribution to TWU	21,088	20,063

Under the terms of the Fund, the capital and any addition thereto shall be held permanently by Vancouver Foundation, the income from which shall be used for scholarships, bursaries and for such other educational purposes as may be determined by the University's Board of Governors from time to time.

16. Commitments

The University's future minimum operating lease payments on furniture and equipment are as follows:

	\$
2020	118,774
2021	107,656
2022	107,656
2023	107,656
2024	119,294

17. Government remittances

Included in accounts payable and accrued liabilities is \$176,323 (2018 - \$105,939) of government remittances.

18. Capital disclosures

The University's capital consists of restricted capital, special purpose and endowment funds, unrestricted funds and long-term debt, as shown on the Statement of Financial Position.

The University manages the capital structure and makes adjustments to it in light of changes in economic conditions and working capital requirements. The University has adopted prudent investment and budgetary policies with the goal of maintaining liquidity and earning a sustainable return on capital. These policies are designed to enable the University to meet its obligations as they fall due, fund its capital and special purpose funds, and build long-term financial stability. In order to facilitate the management of its capital requirements, the University prepares annual budgets and multi-year financial plans that are updated as necessary for review with the Board of Governors.

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19. Financial risks

Market risk

The University's market risk arises from its investment in marketable securities (Note 5). This exposes the University to changes in its investment value which fluctuates based on changes in market prices. Refer to Note 5 on how the University manages its market risk.

The fair value of the marketable securities included in Note 5 is based on quoted market prices.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The University is subject to interest rate cash flow risk with respect to its floating rate debt. When interest rate risk exposure is considered significant, the University manages this risk by entering into interest rate swap agreements ("swaps") that fix the interest rates over the term of the corresponding obligation.

As at April 30, 2019, the University has entered into swaps covering \$2,533,333 of the HSBC revolving loan (Note 7). Under the terms of the swaps, the variable interest rate has been exchanged for fixed interest rates of between 3.75% to 3.94%, maturing between October 15, 2020 and January 15, 2021. The fair value of the swaps at April 30, 2019 is a liability of \$35,932 (2018 - \$33,116 liability). The fair value is based on information received from the financial institution. An unrealized loss of \$2,816 has been recorded in the current year related to these swaps (2018 - \$245,065 unrealized gain).

Currency and credit risk

The University provides credit to its students in the normal course of its operations, and maintains an allowance for doubtful accounts. The allowance for doubtful accounts balance at April 30, 2019 is \$271,326 (2018 - \$220,687).

Liquidity risk

The University's objective is to have sufficient liquidity to meet its liabilities when due. The University monitors its cash balances and cash flows generated from operations to meet its requirements. As at April 30, 2019, the most significant financial liabilities are: accounts payable and accrued liabilities, capital lease obligations, loan due to Trinity Western University Foundation and long-term debt.

20. Comparative figures

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