

Financial Statements of

**KING'S UNIVERSITY COLLEGE AT
THE UNIVERSITY OF WESTERN
ONTARIO**

And Independent Auditors' Report thereon

Year ended April 30, 2019



KPMG LLP
140 Fullarton Street Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4800
Fax 519 672-5684

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

Opinion

We have audited the accompanying financial statements of King's University College at The University of Western Ontario (the "Entity"), which comprise:

- the statement of financial position as at April 30, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at April 30, 2019, and its results of operations, its changes in net assets 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. 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.



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 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.
- 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.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

September 25, 2019

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Statement of Financial Position

April 30, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 2,846,897	\$ 2,130,897
Accounts receivable (note 2)	988,153	1,672,926
Investments (note 3)	11,315,182	13,731,684
Prepaid expenses	282,175	360,772
Due from King's University College Foundation (note 9)	-	366,818
	15,432,407	18,263,097
Capital assets (note 4)	58,259,286	44,071,190
	\$ 73,691,693	\$ 62,334,287

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 2,375,170	\$ 3,048,991
Deferred revenue	2,361,979	2,237,303
Research funds held in trust	428,370	399,894
Current portion of long-term debt (note 8)	320,000	-
Due to King's College Foundation (note 9)	300,534	-
	5,786,053	5,686,188
Employee future benefits liability (note 6)	18,430,300	16,246,800
Deferred capital contributions (note 7)	10,606,488	10,961,555
Long-term debt (note 8)	7,573,332	-
	42,396,173	32,894,543
Net assets (note 10)	31,295,520	29,439,744
Commitments and contingencies (note 11)		
	\$ 73,691,693	\$ 62,334,287

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director _____ Director

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Statement of Operations

Year ended April 30, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Tuition	\$ 37,686,375	\$ 31,928,663
Government grants	14,799,591	14,886,809
Ancillary operations (schedule)	4,471,183	3,956,183
Gifts from King's University College Foundation	809,442	603,064
Sundry	422,261	447,827
Amortization of deferred capital contributions (note 7)	367,116	366,772
Investment income	270,893	180,089
	<u>58,826,861</u>	<u>52,369,407</u>
Expenses:		
Instructional (schedule)	24,617,626	23,594,926
Shared services (schedule)	8,394,340	7,675,673
Employee benefits	8,125,780	7,546,407
Service fee to UWO	5,275,599	5,165,920
Ancillary operations (note 14), (schedule)	3,712,089	3,412,443
Operation and maintenance of properties (schedule)	3,708,109	3,396,511
Amortization of capital assets	2,318,369	2,123,234
Mortgage and loan interest	96,473	-
	<u>56,248,385</u>	<u>52,915,114</u>
Excess (deficiency) of revenue over expenses	\$ 2,578,476	\$ (545,707)

See accompanying notes to financial statements.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Statement of Changes in Net Assets

Year ended April 30, 2019, with comparative information for 2018

	2019	2018
Net assets, beginning of year	\$ 29,439,744	\$ 32,240,251
Excess (deficiency) of revenue over expenses	2,578,476	(545,707)
Employee future benefits remeasurements (note 6)	(722,700)	(2,254,800)
Net assets, end of year	\$ 31,295,520	\$ 29,439,744

See accompanying notes to financial statements.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Statement of Cash Flows

Year ended April 30, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 2,578,476	\$ (545,707)
Adjustments for:		
Amortization of capital assets	2,318,369	2,123,234
Amortization of deferred capital contributions	(367,116)	(366,772)
Change in employee future benefits liability	1,460,800	1,170,000
Changes in non-cash working capital (note 13)	910,053	645,192
	<u>6,900,582</u>	<u>3,025,947</u>
Investing activities:		
Net change in investments	2,416,502	(1,115,953)
Purchase of capital assets	(16,506,465)	(2,317,933)
	<u>(14,089,963)</u>	<u>(3,433,886)</u>
Financing activities:		
Increase in long-term debt	8,000,000	-
Repayment of long-term debt	(106,668)	-
Contributions received for capital purposes	12,049	242,761
	<u>7,905,381</u>	<u>242,761</u>
Increase (decrease) in cash	716,000	(165,178)
Cash, beginning of year	2,130,897	2,296,075
Cash, end of year	<u>\$ 2,846,897</u>	<u>\$ 2,130,897</u>

See accompanying notes to financial statements.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements

Year ended April 30, 2019

King's University College at The University of Western Ontario ("King's" or "the College") is a Liberal Arts college providing post-secondary education programs in Arts, Social Sciences, and Social Work for over 3,000 students.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian standards for not-for-profit organizations in Part III of the CPA Canada Handbook - Accounting.

(b) Revenue recognition:

King's follows the deferral method of accounting for contributions, which include donations and government grants.

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of the year are accrued. Where a portion of a grant relates to a future year, it is deferred and recognized in the subsequent year.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are deferred and recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred, and when expended, are amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

Gifts of capital assets are recorded at their fair market value on the date of receipt and related contributions are amortized into revenue at a rate corresponding with the amortization rate of the related capital assets.

Student fees are recognized as tuition revenue when courses and seminars are held. Activity fees are included in student fees. Sales of product and services included in ancillary operations and sundry revenues are recognized at point of sale or when the service has been provided. Funds received for courses, seminars and other sales and services not yet held or provided are recorded as deferred revenue.

Investment income is recognized on an accrual basis and consists of interest, dividends, realized gains (losses) on sales of investments and the net change in unrealized gains (losses).

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

1. Significant accounting policies (continued):

(c) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful life of buildings and on a declining balance basis for all other capital assets. Amortization rates are as follows:

Asset	Basis	Rate
Buildings	Straight-line	40 years
Parking lots	Declining balance	10%
Equipment and furnishings	Declining balance	20%
Computer equipment	Declining balance	30%
Library books	Straight-line	100%

Works of art are recorded at cost and are not amortized.

(d) Employee future benefits:

The King's pension plan, covering full-time faculty, eligible part-time faculty and grandfathered non-teaching employees, is a defined benefit pension plan. The cost of pension benefits earned by employees is determined using the projected benefit method prorated on service and is expensed as services are rendered. This cost reflects management's best estimates of the pension plan's expected yields, salary escalations, mortality of members, termination and the ages at which members will retire. Remeasurement differences arising from plan amendments, changes in assumptions and actuarial gains and losses are recognized in net assets. The pension plan agreement requires that King's use surpluses to improve benefits.

Other employees participate in a group registered retirement savings plan.

The non-pension post retirement benefit plan includes medical and dental benefits provided to retirees and their eligible dependents. The post employment benefit plan includes the continuation of medical and dental benefits for employees on long-term disability and their eligible dependents. The non-pension post retirement and post employment benefit plans are defined benefit plans funded on a cash basis by contributions from King's.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

1. Significant accounting policies (continued):

(d) Employee future benefits (continued):

King's accrues its obligations for funded employee future benefit plans as the employees render the services necessary to earn them based on the latest valuation for going-concern funding purposes. The actuarial valuation is performed at least every three years. In the years between valuations, plan results are prepared based on extrapolations of the latest available valuation results. King's has elected to accrue its obligations for unfunded plans on a basis consistent with funded plans. Assets of the employee future benefit plans are valued using fair values at the date of the statement of financial position.

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Investments are carried at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Fund determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the College expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of financial statements in accordance with Canadian accountings 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 reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the valuation of pension and other employee future benefits, carrying value of capital assets and valuation of accounts receivable. Actual results could differ from those estimates.

(g) Contributed services:

King's benefits from services provided by volunteers in assisting the College in carrying out its activities. Because of the difficulty in determining the fair value, contributed services are not recognized in the financial statements.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

2. Accounts receivable:

	2019	2018
Students	\$ 228,135	\$ 74,601
Other	860,309	1,669,240
	1,088,444	1,743,841
Allowance for doubtful accounts	(100,291)	(70,915)
	\$ 988,153	\$ 1,672,926

3. Investments:

The invested funds are held in a high-interest savings account and guaranteed investment certificates (GICs). The investments have an effective interest rate of 2.16% (2018 - 1.40%).

4. Capital assets:

	2019		2018	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 17,342,050	\$ -	\$ 17,342,050	\$ 4,779,843
Buildings	58,354,093	19,984,396	38,369,697	37,231,353
Parking lots	1,769,224	901,172	868,052	437,636
Equipment and furnishings	6,739,730	5,846,105	893,625	865,966
Computer equipment	5,308,188	4,671,217	636,971	607,501
Library books	10,343,364	10,343,364	-	-
Works of art	148,891	-	148,891	148,891
	\$100,005,540	\$ 41,746,254	\$ 58,259,286	\$ 44,071,190

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$23,721 (2018 - \$852,118), which includes amount payable for HST and payroll related taxes.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

6. Employee future benefits:

The College has a defined benefit pension plan that provides a minimum level of pension benefits to eligible employees. The assets of the pension plan are managed by an external investment manager and are held by an independent custodian, separate and apart from the assets of the College. The College measures its accrued pension benefit obligation and fair value of pension plan assets at April 30 each year. The most recent actuarial valuation for going-concern funding purposes of the pension benefit plan was performed as of December 31, 2017 and results have been extrapolated to April 30, 2019.

The College also provides other post-retirement and post-employment benefits, such as medical and dental, to eligible employees. Post-employment benefits are benefits provided to disabled employees. The College measures its accrued benefit obligation for other post-retirement and post-employment benefits at April 30 each year. For the other post-retirement and post-employment benefit plans, the most recent actuarial valuation was performed as of April 30, 2017.

Information about King's benefit plans as at April 30 is as follows:

2019	Pension benefit plan	Other benefit plans	Total
Accrued benefit obligation	\$ (63,225,400)	\$ (16,644,000)	\$ (79,869,400)
Fair value of plan assets	61,439,100	-	61,439,100
Liability	\$ (1,786,300)	\$ (16,644,000)	\$ (18,430,300)

2018	Pension benefit plan	Other benefit plans	Total
Accrued benefit obligation	\$ (56,628,900)	\$ (15,999,000)	\$ (72,627,900)
Fair value of plan assets	56,381,100	-	56,381,100
Asset (liability)	\$ (247,800)	\$ (15,999,000)	\$ (16,246,800)

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

6. Employee future benefits (continued):

Accrued benefit obligation and fair value of plan assets includes \$262,200 (2018 - \$275,500) in optional flexible contributions made by members of the Plan. Information on the contributions and benefits paid for each plan are as follows:

2019	Pension benefit plan	Other benefit plans	Total
Employee contributions	\$ 1,148,700	\$ -	\$ 1,148,700
Employer contributions	1,724,300	-	1,724,300
Benefits paid	1,229,300	389,000	1,618,300

2018	Pension benefit plan	Other benefit plans	Total
Employee contributions	\$ 1,145,000	\$ -	\$ 1,145,000
Employer contributions	1,630,100	-	1,630,100
Benefits paid	2,108,500	353,000	2,461,500

The net expense for King's benefit plans, which is included in employee benefits on the statement of operations, is as follows:

2019	Pension benefit plan	Other benefit plans	Total
Current service cost	\$ 1,946,000	\$ 873,000	\$ 2,819,000
Net finance cost	12,100	795,000	807,100
Benefit plan expense	\$ 1,958,100	\$ 1,668,000	\$ 3,626,100

2018	Pension benefit plan	Other benefit plans	Total
Current service cost	\$ 1,733,100	\$ 785,000	\$ 2,518,100
Net finance cost	(90,000)	725,000	635,000
Benefit plan expense	\$ 1,643,100	\$ 1,510,000	\$ 3,153,100

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

6. Employee future benefits (continued):

The remeasurements for King's benefit plans, which are included on the statement of changes in net assets, are as follows:

2019	Pension benefit plan	Other benefit plans	Total
Investment gain	\$ 666,200	\$ -	\$ 666,200
Actuarial gain (loss)	(1,970,900)	582,000	(1,388,900)
Remeasurements	\$ (1,304,700)	\$ 582,000	\$ (722,700)

2018	Pension benefit plan	Other benefit plans	Total
Investment loss	\$ (1,565,200)	\$ -	\$ (1,565,200)
Actuarial loss	(487,600)	(202,000)	(689,600)
Remeasurements	\$ (2,052,800)	\$ (202,000)	\$ (2,254,800)

The discount rate used in the actuarial measurement of the employee future benefits obligation was 5.09% (2018 - 4.87%).

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

7. Deferred capital contributions:

Deferred capital contributions represent the unamortized amounts of grants already spent on the purchase of capital assets.

The change in deferred capital contributions consist of the following:

	2019	2018
Balance, beginning of year	\$ 10,961,555	\$ 11,085,566
Receipt of deferred capital contributions	12,049	242,761
Amortization of deferred capital contributions	(367,116)	(366,772)
Balance, end of year	\$ 10,606,488	\$ 10,961,555

King's University College Foundation has committed to provide approximately \$9,000,000 to King's University College to assist with construction costs related to the Darryl J. King Student Life Centre, of which \$8,852,622 (2018 - \$8,840,573) has been received as of April 30, 2019 and reflected above. Management expects that the remaining commitment will be transferred to King's University College and recorded as funds are received in accordance with the donor agreements.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

8. Long-term debt and credit facilities:

During the year, King's entered into a \$14.5 million Term Loan facility with a Canadian bank maturing on December 31, 2028. In the current year, \$8 million had been drawn on this facility to help fund the purchase of land. The Term loan bears interest based on bank prime rate less 0.60%. This loan is secured by a Security Agreement governed by the Ontario Personal Property Security Agreement over net assets. Principal payments of \$26,667 and interest are made on a monthly basis. Financing costs are amortized over the term of the bank term loan and \$96,473 in interest charges is included in interest expense on the statement of operations.

A Treasury Risk Management Facility is available in the amount of \$1.5 million to facilitate hedging of interest rate risk for the Term Loan facility. This facility has the option of interest rate swaps for a maximum term of up to 10 years.

A \$5 million overdraft facility is also available of which nil has been drawn at year end. Amounts drawn on this facility are due on demand and bear interest at bank prime rate less 0.50% or banker's acceptance plus 0.45%.

Principal payments are due over the term of the loan as follows:

2020	\$	320,000
2021		320,000
2022		320,000
2023		320,000
2024		320,000
Thereafter		6,293,332
		<hr/>
	\$	7,893,332

9. Related party transactions:

Revenues of King's University College Foundation at The University of Western Ontario (the "Foundation") are received by and expenditures are paid by King's on behalf of the Foundation, giving rise to an on-going amount receivable from or payable to the Foundation. The amount due to the Foundation at April 30, 2019 is \$300,534 (2018 - \$366,818 due from the Foundation) and is unsecured, non-interest bearing and has no specific repayment terms.

King's provides a maximum subsidy of \$120,000 (2018 - \$120,000) annually to assist in the operation of the Foundation, which is included as part of shared services in the statement of operations.

The Foundation holds funds of \$10,335,510 (2018 - \$10,028,928), the benefit of which is to be used for King's.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

10. Net assets:

The components of net assets as reflected in the Statement of Financial Position are as follows:

	2019	2018
Invested in capital assets	\$ 39,759,466	\$ 33,109,635
Unrestricted deficit	(8,463,946)	(3,669,891)
	<u>\$ 31,295,520</u>	<u>\$ 29,439,744</u>

11. Commitments and contingencies:

(a) Operating leases:

At April 30, 2019, King's has lease commitments for photocopiers. Minimum annual lease payments, not including operating expenses, due over the next five years are expected to be as follows:

2020	\$	54,839
2021		37,828
2022		16,011
2023		4,416
2024		-

(b) Legal matters:

King's is involved from time to time in litigation that arises in the normal course of operations. In respect to these claims, King's believes it has valid defences, funded provision and/or appropriate insurance coverage in place. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable. It is possible the final resolution of some of these matters may require King's to make expenditures in excess of estimated reserves, over an extended period of time and in a range that cannot be reasonably estimated at this time. King's policy is to recognize the losses on litigation when the outcome becomes reasonably determinable. In management's judgment, no material exposure exists on the eventual settlement of litigation.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

12. Financial instruments:

(a) Fair values:

Fair value estimates are made at a specific point in time, using available information about the financial instrument.

The carrying value of cash, accounts receivable, investments, due to/from King's University College Foundation, and accounts payable and accrued liabilities approximates their fair values based on the short-term maturity of those instruments. Research funds held in trust are carried at their market value. The carrying value of long-term debt approximates fair value based on terms at market rates.

(b) Risk management:

The College, through its financial assets and liabilities is exposed to various risks, which have not changed from the prior year. The following analysis will provide a summary of risks at the statement of financial position date, April 30, 2019. There is no change to King's risk exposures from the prior year.

(i) Liquidity risk:

Liquidity risk is the risk that the College will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The College manages its liquidity risk by monitoring its operating requirements. The College prepares budgets and cash flow forecasts to ensure it has sufficient funds to fulfill its obligations. The College also has available unused credit facilities at April 30, 2019 to meet fluctuations in working capital requirements.

(ii) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The College is exposed to credit risk with respect to accounts receivable and investments. The College assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The actual credit risk from receivables from students and employees is minimal as the College has various methods or recourse for collection such as withholding transcripts, certificates or degrees and payroll deduction. The actual credit risk from grants receivables, from provincial and federal governments, included in accounts receivable is minimal. Provided employees carry out the required reporting, the College continues to receive grants as awarded by the provincial and federal governments. Investments are invested in accordance with the College investment policy.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

12. Financial instruments (continued):

(b) Risk management (continued):

(iii) Market price risk:

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market. The College's financial instruments are carried at fair value with fair value changes recognized in the statement of operations. Market price risk is managed by the investment managers.

(iv) Foreign currency risk:

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The College invests in financial instruments and enters into transactions denominated in non-Canadian dollars. Consequently, the College is exposed to risks that the exchange rate of the foreign currency may change in a manner that has an adverse affect on the value of the portion of the College's assets or liabilities denominated in currencies other than Canadian dollars. The College's overall currency positions and exposures are monitored on a regular basis.

(v) Interest rate risk:

A portion of the College's financial assets and liabilities are interest bearing and as a result, the College is subject to certain level of interest rate risk. In general, bond returns are sensitive to changes in the level of interest rates, with longer bond prices being more sensitive to interest rate changes than shorter term bonds. Fixed rate instruments subject the College to a fair value risk while the floating rate instruments subject the College to a cash flow risk.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Notes to Financial Statements (continued)

Year ended April 30, 2019

13. Changes in non-cash working capital:

	2019	2018
Changes in non-cash working capital:		
Accounts receivable	\$ 684,773	\$ 20,261
Prepaid expenses	78,597	(167,318)
Due from King's College Foundation	667,352	(7,984)
Accounts payable and accrued liabilities	(673,821)	(211,026)
Deferred revenue	124,676	1,044,537
Research funds held in trust	28,476	(33,278)
	\$ 910,053	\$ 645,192

14. Allocated expenses:

In an effort to ensure that core grants are not used to offset costs within the ancillary functions, King's allocates the cost of administrative duties which are not directly charged to ancillary programs based on an estimate of the time required to facilitate ancillary processes. Shared services expenses of \$335,649 (2018 - \$289,381) and employee benefits of \$70,503 (2018 - \$58,390) were allocated to ancillary operations during the year.

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Schedule - Operating Fund Expenditures (Unaudited)

Year ended April 30, 2019, with comparative information for 2018

	2019	2018
Instructional:		
Salaries	\$ 19,338,796	\$ 18,819,256
Scholarships and bursaries	3,245,933	2,846,177
Research grants, learned society and guest lectures	394,058	393,194
Transportation and travel	554,211	560,100
Marking	1,233	1,250
Teaching program assistance	494,131	444,791
Office expenses	99,371	94,902
Telephone	11,651	10,803
Teaching aids	114,916	100,045
Small furnishings, equipment rentals and maintenance	11,844	12,297
Library supplies and binding	4,424	4,476
Memberships and dues	16,944	16,698
Interview and moving expenses	35,413	40,471
Sundry	294,701	250,466
	\$ 24,617,626	\$ 23,594,926
Shared services:		
Office salaries	\$ 5,755,413	\$ 5,728,293
Telephone	32,793	43,958
Office supplies	234,911	171,921
Promotional material	122,553	135,538
Student counselling	16,000	13,573
Special events	77,794	86,250
Small furnishings, equipment rental and maintenance	206,790	149,133
Liaison	475,685	354,523
Travel	75,272	89,907
Postage	32,268	56,806
Audit	49,775	69,005
International ESL Program	752,547	-
Pine channel and refugee sponsorship	124,926	138,439
Chapel	151,943	151,816
Chapel social action fund	26,115	15,459
Membership fees	63,257	66,338
Legal fees	89,607	42,286
Bad debts	52,029	61,637
Sundry	217,178	441,557
King's University College Foundation subsidy	120,000	120,000
Less internal cost recovery, ancillary operations	(282,516)	(260,766)
	\$ 8,394,340	\$ 7,675,673
Operation and maintenance of properties:		
Wages	\$ 2,159,483	\$ 1,981,812
Property taxes	210,741	244,392
Utilities	549,777	546,948
Repairs and maintenance	577,238	401,135
Insurance	84,265	81,760
Supplies	71,979	73,365
Small furnishings, equipment rentals and maintenance	31,277	28,818
Sundry	76,449	66,896
Less internal cost recovery, ancillary operations	(53,100)	(28,615)
	\$ 3,708,109	\$ 3,396,511

KING'S UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

Schedule - Revenue and Expenditures of Ancillary Operations (Unaudited)

Year ended April 30, 2019, with comparative information for 2018

	Residence and dining hall	Other	2019 Total	2018 Total
Revenue:				
Residence and cafeteria fees	\$ 3,936,481	\$ -	\$ 3,936,481	\$ 3,548,154
Licensed operations	-	3,007	3,007	7,404
Parking	-	257,707	257,707	224,322
Conferences	-	95,224	95,224	71,210
Sundry	21,355	157,409	178,764	105,093
	<u>3,957,836</u>	<u>513,347</u>	<u>4,471,183</u>	<u>3,956,183</u>
Expenditures:				
Food services	1,440,882	69,211	1,510,093	1,348,126
Salaries and wages	1,110,172	146,332	1,256,504	1,245,960
Utilities	213,461	11,762	225,223	209,701
Repairs and maintenance	147,924	9,812	157,736	91,418
Liquor, beer, wine and supplies	-	2,037	2,037	2,246
Laundry	-	7,309	7,309	19,271
Cleaning supplies	47,335	-	47,335	51,499
Small furnishings and supplies	8,119	-	8,119	13,198
Sundry	91,259	322	91,581	83,252
Internal cost allocation:				
Shared services	299,052	36,564	335,616	289,382
Employee benefits	70,536	-	70,536	58,390
	<u>3,428,740</u>	<u>283,349</u>	<u>3,712,089</u>	<u>3,412,443</u>
Excess of revenue over expenditures	\$ 529,096	\$ 229,998	\$ 759,094	\$ 543,740