

Financial statements of

Trinity Western University

April 30, 2014

Trinity Western University

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Deloitte LLP
8621 201 Street
Suite 600
Langley, British Columbia
V2Y 0G9
Canada

Independent Auditor's Report

To the Board of Governors of
Trinity Western University

Tel: 604-534-7477
Fax: 604-534-4220
www.deloitte.ca

We have audited the accompanying financial statements of Trinity Western University, which comprise the statement of financial position as at April 30, 2014, and the statements of operations and changes in fund balances, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Trinity Western University as at April 30, 2014, 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.

Chartered Accountants
Langley, British Columbia

August 14, 2014

Trinity Western University

Statement of financial position

As at April 30

	2014	2013
	\$	\$
Assets		
Current		
Cash	10,556,318	8,104,320
Restricted cash (Note 4)	535,130	2,887,815
Accounts receivable	2,100,638	1,896,476
Inventory	289,334	294,908
Prepaid expenses	1,319,232	1,245,124
	14,800,652	14,428,643
Other asset (Note 6)	3,067,197	3,286,282
Accounts receivable	-	200,000
Investments (Note 5)	17,837,688	15,043,510
Capital assets (Note 7)	139,921,353	132,724,069
	175,626,890	165,682,504
Liabilities		
Current		
Accounts payable and accrued liabilities	3,294,315	2,424,571
Student deposits and deferred income	6,814,551	6,053,895
Current portion of capital lease obligations (Note 8)	86,397	207,479
Current portion of long-term debt (Note 9)	4,245,564	4,899,986
	14,440,827	13,585,931
Capital lease obligations (Note 8)	122,895	37,100
Long-term debt (Note 9)	37,533,218	40,049,115
	52,096,940	53,672,146
Fund balances		
Restricted funds		
Capital fund	97,954,729	93,057,657
Specific purpose fund (Note 10)	9,632,660	6,265,663
Endowment fund (Note 10)	15,753,809	12,498,286
Unrestricted fund	188,752	188,752
	123,529,950	112,010,358
	175,626,890	165,682,504

Approved by the Board of Governors

"Mr. Bob Kuhn"

"Mr. Fred Fleming"

Trinity Western University

Statement of operations and changes in fund balances

Year ended April 30

	Unrestricted	Capital	Specific Purpose	Endowment	2014	2013
	\$	\$	\$	\$	\$	\$
Revenues						
Tuition and fees	47,713,161	-	-	-	47,713,161	46,551,246
Less: Scholarships and bursaries	(11,853,427)	-	-	-	(11,853,427)	(11,612,023)
Tuition and fees (net)	35,859,734	-	-	-	35,859,734	34,939,223
Ancillaries	10,593,315	-	-	-	10,593,315	9,999,444
Donations	5,503,176	6,057,948	1,948,449	700,020	14,209,593	7,046,233
Other (Note 11)	3,868,729	1,459,655	2,388,768	-	7,717,152	5,745,781
	55,824,954	7,517,603	4,337,217	700,020	68,379,794	57,730,681
Expenditures						
Compensation	30,911,743	-	1,275,983	-	32,187,726	31,257,706
Operating costs	7,652,691	87,114	1,931,781	-	9,671,586	9,829,664
Ancillaries	5,347,464	-	-	-	5,347,464	4,932,979
Scholarships and bursaries	-	-	1,330,843	-	1,330,843	1,137,583
Interest	-	1,754,356	-	-	1,754,356	1,838,410
Overhead and other	1,821,356	-	-	-	1,821,356	1,768,930
	45,733,254	1,841,470	4,538,607	-	52,113,331	50,765,272
Excess (deficiency) of revenue over expenditures before the following items	10,091,700	5,676,133	(201,390)	700,020	16,266,463	6,965,409
Amortization of capital assets (non-cash)	-	(4,950,137)	-	-	(4,950,137)	(4,880,740)
Amortization of other asset (non-cash)	-	(8,600)	(219,086)	-	(227,686)	(227,705)
Interest rate swaps (non-cash)	-	(183,896)	-	-	(183,896)	-
Change in fair value of investments (non-cash)	658,780	(43,932)	-	-	614,848	361,129
	658,780	(5,186,565)	(219,086)	-	(4,746,871)	(4,747,316)
Excess (deficiency) of revenue over expenditures	10,750,480	489,568	(420,476)	700,020	11,519,592	2,218,093
Interfund transfers (Note 12)	(10,750,480)	4,407,504	3,787,473	2,555,503	-	-
Change in fund balances for the year	-	4,897,072	3,366,997	3,255,523	11,519,592	2,218,093
Fund balances at the beginning of the year	188,752	93,057,657	6,265,663	12,498,286	112,010,358	109,792,265
Fund balances at the end of the year	188,752	97,954,729	9,632,660	15,753,809	123,529,950	112,010,358

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

Trinity Western University

Statement of cash flows

Year ended April 30

	2014	2013
Operating activities	\$	\$
Excess of revenues over expenditures	11,519,592	2,218,093
Add back (deduct) items not involving cash:		
Gain on disposal of capital asset	(1,275,192)	12,489
Amortization of transaction costs	8,600	8,619
Amortization of capital assets	4,950,137	4,880,740
Amortization of other asset	219,086	219,086
Donated capital asset additions	(4,444,680)	(78,397)
Change in fair value of interest rate swaps	183,896	-
Change in fair value of investments	(614,848)	(361,129)
	10,546,591	6,899,501
Change in operating working capital		
Accounts receivable	(4,162)	(5,343)
Inventory	5,574	13,343
Prepaid expenses	(74,108)	(415,201)
Accounts payable	869,744	(546,035)
Student deposits and deferred income	760,656	551,461
	1,557,704	(401,775)
	12,104,295	6,497,726
Financing activities		
(Decrease) increase in long-term debt	(1,076,290)	1,252,986
Repayment of long-term debt	(2,321,813)	(3,052,511)
	(3,398,103)	(1,799,525)
Investing activities		
Change in restricted cash	2,352,685	(730,164)
Purchase of capital assets	(7,927,838)	(3,222,266)
Proceeds from disposal of capital asset	1,500,289	-
Purchase of investments	(2,930,862)	(3,372,966)
Proceeds from sale of investments	751,532	249,653
	(6,254,194)	(7,075,743)
Change in cash during the year	2,451,998	(2,377,542)
Cash at beginning of year	8,104,320	10,481,862
Cash at end of year	10,556,318	8,104,320

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

Trinity Western University

Notes to financial statements

April 30, 2014

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 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 include Housing Services, Dining Services, Conference Services, University Bookstore and Trinity Western University's English as a Second Language (ESL) program. Compensation expenses for Ancillaries are included in the compensation line of the Unrestricted Fund.

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, 2014

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 investments which are measured at fair value at the balance sheet date.

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs related to the financial instruments that are measured at amortized cost 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 net income as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the University recognizes in net income an impairment loss, if any, when 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 shall be reversed in net income in the period the reversal occurs.

Revenue recognition

Tuition and fees and Ancillaries are recognized as revenue at the time the goods are delivered or the services are provided.

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.

As of April 30, 2014 there are pledges totalling \$nil included in accounts receivable (2013 – \$99,520). During the year, \$nil (2013 - \$99,510) was recognized in revenue.

Endowment donations are recognized as revenue in the Endowment Fund.

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

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.

Trinity Western University

Notes to financial statements

April 30, 2014

2. Significant accounting policies (continued)

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 \$1,072,919 (2013 - \$1,144,161) of inventory through Ancillaries on the statement of operations and 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 organization. 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, 2014.

Trinity Western University

Notes to financial statements

April 30, 2014

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 fair value of the private company shares, impairment of long-lived assets, the useful lives of capital assets, accrued liabilities, and liabilities under legal contingencies. Actual results could differ from those estimates.

3. Related party transactions

The Associated Canadian Theological Schools (ACTS)

TWU is a 20% participant in the ACTS joint venture and recognizes this interest under the equity method. ACTS forms an instructional consortium of independent seminaries which have in common an extensive doctrinal compatibility and are committed to church leadership training in a manner which preserves the distinct goals of each of the five participating institutions. As ACTS, the five seminaries constitute the Graduate School of Theological Studies of Trinity Western University. ACTS is not subject to income taxes.

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.

Trinity Western University

Notes to financial statements

April 30, 2014

3. Related party transactions (continued)

Financial summaries for controlled related parties and TWU's share of its interest in the ACTS joint venture are as follows:

				2014	2013
	ACTS	TWUF	TWUF - US	Total	Total
	30-Apr-14	31-Mar-14	31-Dec-13		
	\$	\$	\$	\$	\$
Financial position					
Total assets	398,541	1,538	4,039,316	4,439,395	3,381,904
Total liabilities	(517,592)	-	(2,095,110)	(2,612,702)	(2,148,912)
Total net (liabilities) assets	(119,051)	1,538	1,944,206	1,826,693	1,232,992
Results of operations					
Total revenues	1,955,227	1,000	1,504,369	3,460,596	2,722,203
Total expenses	(2,670,951)	(1,000)	(1,014,498)	(3,686,449)	(3,411,017)
(Deficiency) excess of revenues over expenses	(715,724)	-	489,871	(225,853)	(688,814)
Contributions by members	-	-	147,419	147,419	770,012
	(715,724)	-	637,290	(78,434)	81,197
TWU's share of interest	20%	100%	100%		
	(143,145)	-	637,290	494,145	96,507
Cash flows					
Cash (used) provided by operations	(38,957)	-	270,017	231,060	(66,108)
Cash (used) provided by investing activities	(18,018)	-	(215,651)	(233,669)	(6,432)
Cash provided by financing activities	57,004	-	-	57,004	17,786
Net cash flow	29	-	54,366	54,395	(54,754)

During the year TWU contributed \$140,007 (2013 - \$139,620) to ACTS.

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

			2014	2013
	ACTS	TWUF - US	Total	Total
	\$	\$	\$	\$
Donations	-	391,094	391,094	290,160
Recovery of salaries	806,248	-	806,248	806,248
Provision of goods and services	349,267	-	349,267	351,058
	1,155,515	391,094	1,546,609	1,447,466

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, 2014

3. Related party transactions (continued)

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

	2014	2013
	\$	\$
ACTS	217,368	159,652
TWUF - US	70,739	70,837
	288,107	230,489

4. Restricted cash

Restricted cash is comprised of the following:

	2014	2013
	\$	\$
Land acquisition	500,000	2,541,250
Other	35,130	346,565
	535,130	2,887,815

Trinity Western University

Notes to financial statements

April 30, 2014

5. Investments

	2014	2013
	\$	\$
Portfolio investments:		
Marketable securities	17,727,932	14,889,822
Shares of private company	109,756	153,688
	17,837,688	15,043,510

The composition and return on investment of the portfolio investments are as follows:

	2014	
Portfolio Investments	Market Value	Fund Allocation
Cash Equivalents	280,238	1.6%
Canadian Equities	5,647,486	31.7%
US Equities	2,435,280	13.7%
International Equities	2,658,714	14.9%
Fixed Income Fund	4,516,557	25.3%
Total Leith Wheeler	15,538,275	87.1%
HSBC	2,000,000	11.2%
Other funds	299,413	1.7%
Total Funds	17,837,688	100.0%

During the year, the University transferred its endowment investment portfolio from CIBC Private Investment Counsel (who had previously acquired MFS McLean Budden) to Leith Wheeler Investment Counsel Limited.

	2013	
Portfolio Investments	Market Value	Fund Allocation
	\$	
Canadian Equity Fund	5,055,342	33.6%
Global Equity Fund	3,945,843	26.2%
Fixed Income Fund	3,236,348	21.5%
Money Market Fund	451,679	3.0%
HSBC	2,026,556	13.5%
Total McLean Budden & HSBC	14,715,768	97.8%
Other funds	327,742	2.2%
Total Funds	15,043,510	100.0%

The return on investment of the portfolio investments was 14.8% (2013 – 7.5%).

Marketable securities held by HSBC have been pledged as security against HSBC loans as described in Note 9.

Trinity Western University

Notes to financial statements

April 30, 2014

5. Investments (continued)

The University monitors the performance of endowment 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 investments managers when considered necessary.

The market return on investments includes interest income, dividends, capital gains and unrealized gains / losses. Realized gains / losses on investments are disclosed in Note 11. During the year ended April 30, 2014, the University recognized an unrealized gain on investments of \$614,848 (2013 – \$361,129) and a realized gain on investments of \$1,774,257 (2013 – \$541,977).

The return on investment for the other funds above is for the year ending December 31.

6. 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, 2014 (2013 - \$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, 2014

7. Capital assets

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	49,000,420	-	49,000,420	41,664,278
Buildings, roads and parking lots	92,792,962	8,451,148	84,341,815	83,775,015
Furniture and equipment	14,997,589	11,204,285	3,793,304	4,259,215
Library collection	6,845,987	6,074,104	771,883	878,958
Computers	10,333,309	8,322,235	2,011,073	2,122,887
Vehicles	78,928	76,070	2,858	23,715
	174,049,195	34,127,842	139,921,353	132,724,069

During the year ended April 30, 2014 the University acquired capital assets totalling \$12,372,518 (2013 - \$3,300,663) – of this total, \$4,444,680 (2013 - \$78,397) was by means of donated assets and \$7,927,838 (2013 - \$3,532,945) by means of cash. A donated asset valued at \$4,417,500 was subsequently exchanged for another asset of equal value by means of a non-monetary transaction.

Non-Monetary Transactions

During the year, the University entered into non-monetary transactions under which assets and liabilities were exchanged. The transactions were accounted for at fair value.

Land with a fair value of \$4,417,500 was exchanged for land with an equivalent fair value. No gain or loss was recorded on this transaction.

Lands with a fair value of \$1,572,710 were transferred to settle debt of \$1,499,821, resulting in a net receivable of \$72,888. There was a gain of \$1,277,192 recorded on this transaction arising from fair value being in excess of historical cost.

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Notes to financial statements

April 30, 2014

8. Capital lease obligations

	2014	2013
	\$	\$
Computer equipment lease in the amount of \$302,152, repayable in quarterly instalments of \$20,432 including interest calculated at 4.5%, maturing August 2014.	38,984	113,540
Computer equipment lease in the amount of \$142,169, repayable in monthly instalments of \$5,306 including interest calculated at 6.75%, matured November 2013.	-	34,352
Computer equipment lease in the amount of \$225,513, repayable in monthly instalments of \$7,778 without interest, matured November 2013.	-	50,264
Computer equipment lease in the amount of \$191,261, repayable in monthly instalments of \$5,625 without interest, maturing August 2014.	16,370	51,928
Computer equipment lease in the amount of \$170,516, repayable in monthly instalments of \$2,842 including interest calculated at 4.3%, maturing March 2019.	170,516	-
	225,870	250,083
Less amounts representing interest	(16,578)	(5,504)
	209,292	244,579
Less current portion	(86,397)	(207,479)
	122,895	37,100

Future minimum lease payments under the capital leases in each of the next five years are as follows:

2015	86,397
2016	34,870
2017	34,870
2018	34,870
2019	34,863
	225,870
Less amounts representing interest	(16,578)
	209,292

Trinity Western University

Notes to financial statements

April 30, 2014

9. Long-term debt

The University manages interest rate risk by entering into interest rate swap agreements that fix the market based component of its interest rates over the term of the corresponding obligation. In April 2013, the university entered into \$6,400,000 of swap agreements with a start date of May 14, 2013. In October 2013, the university entered into \$4,500,000 of swap agreements with a start date of October 15, 2013. In January 2014, the university entered into \$3,100,000 of swap agreements with a start date of January 15, 2014.

	2014	2013
	\$	\$
HSBC Bank Canada non-revolving loans, 3 year to 7 year fixed principal swaps bearing interest at 3.88% to 5.00%, maturing between May 14, 2016 and January 15, 2021.	14,000,000	-
HSBC Bank Canada non-revolving loan (First Capital Loan), bearing interest at HSBC prime rate plus 1%, this facility is currently being financed by rolling 30 day bankers acceptances bearing interest at 3.58%, due May 31, 2014, payable in equal monthly installments of principal and interest based on an amortization period of 20 years, maturing in 2032.	2,314,000	4,690,000
HSBC Bank Canada non-revolving loan (Second Capital Loan), bearing interest at HSBC prime rate plus 1%, this facility is currently being financed by rolling 30 day bankers acceptances bearing interest at 3.58%, due May 31, 2014, payable in equal monthly installments of principal and interest based on an amortization period of 20 years, maturing in 2032.	2,033,000	13,437,000
HSBC Bank Canada revolving demand loan facilities, bearing interest at HSBC prime plus 1%, due May 31, 2014.	-	1,000,000
Balance carried forward	18,347,000	19,127,000

Trinity Western University

Notes to financial statements

April 30, 2014

9. Long-term debt (continued)

	2014	2013
	\$	\$
Balance forward	18,347,000	19,127,000
Due to the Township of Langley, unsecured, bearing interest at the municipal rate + 0.25% (currently 5.97%), repayable over 20 years, maturing in 2028.	235,229	615,130
Due to the Township of Langley, unsecured, bearing interest at 3.6%, repaid in 2014.	-	1,170,511
Promissory notes payable, unsecured income contracts with varying terms, bearing interest at an average rate of 4.05%.	10,175,732	10,756,989
Promissory notes payable, income contracts with varying terms, bearing interest at an average rate of 4.93% secured by a fixed charge on specific land and buildings.	3,129,529	4,792,067
Loan payable to Canadian Western Trust for TWU's RRSP/RRIF program, revocable indefinite term contracts bearing interest at an average rate of 4.39%, rates adjusted semi-annually, secured by a fixed charge on specific land and building.	9,813,740	8,602,348
	41,701,230	45,064,045
Fair value of interest rate swaps	183,896	-
Unamortized transaction costs	(106,344)	(114,944)
	41,778,782	44,949,101
Less current portion	(4,245,564)	(4,899,986)
	37,533,218	40,049,115

Trinity Western University

Notes to financial statements

April 30, 2014

9. Long-term debt (continued)

Under the terms of the agreement with HSBC Bank Canada dated April 16, 2014, the University was in compliance with its loan covenants for the fiscal year ending April 30, 2014.

The following table outlines the University's borrowing capacity with HSBC.

Borrowing capacity - HSBC	Balance Available at April 30, 2014	Balance Utilized at April 30, 2014
	\$	\$
Capital Loan and SWAP facility	18,607,000	18,347,000
Operating loan *	4,000,000	-
Evergreen loan	1,500,000	-
Lease facility	1,500,000	153,939
Letter of Credit facility	250,000	150,000

* increases to \$6,500,000 from May 1- September 30

As of April 30, 2014, the University has an agreement to renew its credit facilities beyond their stated maturity dates. The estimated principal repayments assuming credit facilities are renewed on similar terms over the next five years are as follows:

	2015	2016	2017	2018	2019
Amortizing debt - HSBC	780,000	780,000	780,000	924,000	924,000
Amortizing debt - Township of Langley	9,714	10,294	10,908	11,559	12,249
Amortizing debt - funded by operations	789,714	790,294	790,908	935,559	936,249
Promissory notes	2,810,576	4,147,601	1,770,237	779,579	540,328
Promissory notes (secured by specific properties)	645,274	2,451,946	-	-	-
	3,455,850	6,599,547	1,770,237	779,579	540,328
Total estimated principal repayments	4,245,564	7,389,841	2,561,145	1,715,138	1,476,577

The table above presents the promissory notes at their stated maturity dates. However, the University has experienced an average renewal subscription rate of 48% on maturing promissory notes.

The HSBC bank loans are secured by a general security agreement, a fixed charge on specific land and buildings of up to \$50 million, assignment of rents and insurance, hypothecation and pledge of fixed income and money market securities held by HSBC Bank Canada in the form of a \$2,000,000 debt reserve deposit, environmental and indemnity agreements on specific properties.

Total cash interest paid on all borrowings during the year is \$1,296,972 (2013 - \$1,288,060).

Trinity Western University

Notes to financial statements

April 30, 2014

9. Long-term debt (continued)

The following table summarizes the land and building values pledged as security for various debt instruments:

	Long term debt	Fair market value of land and buildings pledged as security
	\$	\$
HSBC Bank Canada	18,347,000	100,519,874
Loan payable to Canadian Western Trust for TWU's RRSP/RRIF program, secured by fixed charge on specific land and buildings	9,813,740	24,887,287
Promissory notes payable, secured by fixed charge on specific land and buildings	3,129,529	6,661,722
	<u>31,290,269</u>	<u>132,068,883</u>
Land and buildings not pledged as security		9,622,033
		<u><u>141,690,916</u></u>

The fair market values represent the depreciated replacement cost plus estimated land value determined by a third party valuator, as at June, 2012, adjusted for asset additions and disposals from that date to the end of the current fiscal year.

10. Specific Purpose Fund and Endowment Fund

Restrictions imposed on the following funds are:

	2014		2013	
	Specific Purpose	Endowment	Specific Purpose	Endowment
	\$	\$	\$	\$
Externally restricted	2,224,637	11,176,191	2,502,096	10,476,171
Internally restricted	7,408,024	4,577,618	3,763,567	2,022,115
	<u>9,632,661</u>	<u>15,753,809</u>	6,265,663	12,498,286

The externally restricted portion of the Endowment Fund is comprised of donations from external sources. 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 trips. The internally restricted portion is comprised of interfund transfers and earnings net of scholarship distributions.

Trinity Western University

Notes to financial statements

April 30, 2014

11. Other income

The components of other income are as follows:

	Unrestricted	Capital	Specific Purpose	2014 Total	2013 Total
	\$	\$	\$	\$	\$
Rental income	287,493	-	-	287,493	277,369
Investment income realized	1,774,257	-	-	1,774,257	541,978
Parking receipts	455,337	-	-	455,337	405,334
Project revenues	-	1,459,655	2,130,601	3,590,256	2,736,881
Student related	482,851	-	258,167	741,018	952,056
Wellness centre	238,588	-	-	238,588	240,977
US exchange	122,547	-	-	122,547	131,337
Miscellaneous	507,656	-	-	507,656	459,849
	3,868,729	1,459,655	2,388,768	7,717,152	5,745,781

12. Interfund transfers

Transfers between the various funds are summarized as follows:

	Unrestricted	Capital	Specific Purpose	Endowment
	\$	\$	\$	\$
Debt repayment	(789,167)	789,167	-	-
Interest on long-term debt	(1,754,356)	1,754,356	-	-
Capital assets	(2,759,919)	2,843,230	(83,311)	-
Appropriations	(2,885,543)	226,423	2,559,121	100,000
Investment gain, net of scholarship expenses	(1,909,297)	-	(546,205)	2,455,503
Travel studies	(652,196)	-	652,196	-
Transfer of equity	-	(1,205,671)	1,205,671	-
	(10,750,480)	4,407,504	3,787,473	2,555,503

Trinity Western University

Notes to financial statements

April 30, 2014

13. Interfund loans

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

	2014	2013
	\$	\$
Unrestricted Fund	(3,781,882)	(2,685,169)
Capital Fund	(2,588,877)	(861,917)
Specific Purpose Fund	6,346,378	3,930,806
Endowment Fund	24,381	(383,720)
	-	-

14. 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.

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 60 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 \$25,047 (2013 - \$23,334) related to the return of excess premiums; there are no anticipated member assessments in the near future 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.

Trinity Western University

Notes to financial statements

April 30, 2014

14. Contingent liabilities (continued)

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. 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, 2014 the amount calculated under the formula was approximately \$1,716,016 (2013 - \$1,783,048). At the end of the lease term, including all renewals, title and ownership of the building will pass to the University.

15. 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. During the year the University contributed \$950,121 (2013 - \$944,271) to employee retirement plans. The fair market value of the assets owned by employees in the University sponsored program at April 30, 2014 was \$24,576,114 (2013 - \$22,439,384). There is no past service liability with respect to this program.

16. 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:

	2014	2013
	\$	\$
Aggregate contributed principal	387,000	387,000
Market value on March 31	501,463	448,107
Income earned	17,021	16,597
Distribution to TWU	16,772	16,448

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.

17. Commitments

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

	\$
2015	194,004
2016	125,096
2017	80,052
2018	19,935
2019	3,286

Trinity Western University

Notes to financial statements

April 30, 2014

18. Government remittances

Included in accounts payable and accrued liabilities (accounts receivable) is \$185,002 (2013 – \$116,870) of government remittances.

19. 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.

Under the terms of the HSBC long-term debt agreements, the University must satisfy restrictive covenants. The University satisfied those debt covenants as at April 30, 2014.

20. Financial instruments

Fair values

The carrying values of cash and restricted cash, accounts receivable and accounts payable approximate their fair values due to their liquidity and short-term maturity. Interest on long-term debt is based on prime and therefore the carrying value approximates the fair value.

The fair value of the marketable securities included in Note 5 is based on quoted market prices. The fair value of the private company shares was determined by review of the historical net income and dividend payments and the ability of the company to sustain or increase those amounts.

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 that fix the interest rates over the term of the corresponding obligation.

Currency and credit risk

Due to the nature of revenue as well as the amount of revenue which is received in advance of services being provided, the University is not exposed to significant currency or credit risks arising from its financial instruments. The allowance for doubtful accounts balance at April 30, 2014 was \$71,000 (2013 - \$47,000).

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Notes to financial statements

April 30, 2014

20. Financial instruments (continued)

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, 2014, the most significant financial liabilities are: accounts payable and accrued liabilities, capital lease obligations and long-term debt.