

Financial Statements of

**STUDENT TUITION
PROTECTION FUND**

And Independent Auditors' Report thereon

Year ended March 31, 2020



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INDEPENDENT AUDITORS' REPORT

To the Trustee of the Student Tuition Protection Fund

Opinion

We have audited the financial statements of the Student Tuition Protection Fund (the "Fund"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations for the year then ended
- the statement of remeasurement gains and losses for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(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 Fund as at March 31, 2020, and its results of operations, its remeasurement gains and losses, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 Fund 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 public sector accounting standards, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 Fund'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 Fund'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 Fund 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

Vancouver, Canada
September 13, 2021


STUDENT TUITION PROTECTION FUND

Statement of Financial Position

March 31, 2020, with comparative information for 2019

	2020	2019
Financial assets		
Cash and cash equivalents	\$ 1,100,003	\$ 469,758
Investments (note 3)	18,097,666	18,221,200
	19,197,669	18,690,958
Liabilities		
Accounts payable and accrued liabilities (notes 4 and 6)	214,953	74,233
Deferred revenue	88,985	136,071
Contingent liabilities (note 5)	1,025,618	100,223
	1,329,556	310,527
Net financial assets	17,868,113	18,380,431
	<u>\$ 17,868,113</u>	<u>\$ 18,380,431</u>
Accumulated surplus is comprised of:		
Accumulated operating surplus	\$ 18,714,817	\$ 17,971,272
Accumulated remeasurement gains (losses)	(846,704)	409,159
	<u>\$ 17,868,113</u>	<u>\$ 18,380,431</u>

See accompanying notes to financial statements.

_____  _____ Fund Administrator

STUDENT TUITION PROTECTION FUND

Statement of Operations

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

	2020	2019
Revenue:		
Tuition revenue fee	\$ 1,383,137	\$ 1,264,821
Recoveries from institutions of student complaint tuition refunds	2,974	23,934
Investment income	1,152,718	938,477
Other	1,262	-
	<u>2,540,091</u>	<u>2,227,232</u>
Expenses:		
Investment management fee	20,388	13,560
Management fees (note 6)	556,680	846,223
Professional fees	20,000	-
Student tuition claims for institution closures	1,062,228	-
Student tuition refunds for institution complaints	136,111	128,065
Uncollectible accounts	1,139	178
	<u>1,796,546</u>	<u>988,026</u>
Annual surplus	743,545	1,239,206
Accumulated operating surplus, beginning of year	17,971,272	16,732,066
Accumulated operating surplus, end of year	<u>\$ 18,714,817</u>	<u>\$ 17,971,272</u>

See accompanying notes to financial statements.

STUDENT TUITION PROTECTION FUND

Statement of Remeasurement Gains and Losses

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

	2020	2019
Accumulated remeasurement gains, beginning of year	\$ 409,159	\$ 195,368
Unrealized gains (losses) attributable to investments	(590,776)	672,821
Realized gains on investments reclassified to the statement of operations	(665,087)	(459,030)
Net remeasurement gains (losses) for the year	(1,255,863)	213,791
Accumulated remeasurement gains (losses), end of year	\$ (846,704)	\$ 409,159

See accompanying notes to financial statements.

STUDENT TUITION PROTECTION FUND

Statement of Changes in Net Financial Assets

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

	2020	2019
Annual surplus	\$ 743,545	\$ 1,239,206
Effect of remeasurement gains (losses) for the year	(1,255,863)	213,791
Increase (decrease) in net financial assets	(512,318)	1,452,997
Net financial assets, beginning of year	18,380,431	16,927,434
Net financial assets, end of year	\$ 17,868,113	\$ 18,380,431

See accompanying notes to financial statements.

STUDENT TUITION PROTECTION FUND

Statement of Cash Flows

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

	2020	2019
Cash provided by (used in):		
Operating:		
Annual surplus	\$ 743,545	\$ 1,239,206
Change in non-cash operating working capital:		
Accounts payable and accrued liabilities	140,720	(417,009)
Deferred revenue	(47,086)	(12,811)
Contingent liabilities	925,395	(596,494)
	<u>1,762,574</u>	<u>212,892</u>
Investment:		
Net change in investments	<u>(1,132,329)</u>	<u>(924,917)</u>
Increase (decrease) in cash and cash equivalents	630,245	(712,025)
Cash and cash equivalents, beginning of year	469,758	1,181,783
Cash and cash equivalents, end of year	<u>\$ 1,100,003</u>	<u>\$ 469,758</u>

See accompanying notes to financial statements.

STUDENT TUITION PROTECTION FUND

Notes to Financial Statements

Year ended March 31, 2020

1. Operations:

The Student Training Completion Fund Trust was established under section 13 of the Private Career Training Institutions Act on November 22, 2004. On September 1, 2016, the Private Training Act (the "Act") came into force. Under Section 20 of the Act, the Student Training Completion Fund Trust continued as a trust fund known as the Student Tuition Protection Fund (the "Fund") and is administered by the Private Training Institutions Branch of the Ministry of Advanced Education and Skills Training (the "Ministry"). The Minister of the Ministry of Advanced Education and Skills Training is the Trustee of the Fund with the ability to delegate the Trustee's powers to one or more employees of the Ministry under Section 21 of the Act.

The Fund is administered as part of the Ministry's mandatory certification program for private post-secondary educational institutions in the Province of British Columbia. Students attending certified institutions that cease to operate can make claims against the Fund to recover lost tuition. The Trustee may also authorize a partial or full tuition refund to a student that, in the opinion of the Trustee, has been misled by a certified institution.

Monies placed into the Fund or received by the Ministry on behalf of the Fund must be held in trust by the Ministry for the purposes listed in the Act, accounted for separately from other monies of the Ministry, and is not subject to any process of seizure or attachment by any creditor of the Ministry.

The Fund is exempt from federal and provincial income taxes under Section 149(1)(d) of the Income Tax Act.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The subsequent shutdowns globally, nationally and locally have had a significant impact on the jurisdictions and market sectors in which the Fund operates. The primary impact on the Fund for the year ended March 31, 2020 was a temporary decline in the fair value of investments. The fair value of investments has recovered subsequent to year-end. The Fund continues to monitor the financial impacts of the pandemic.

2. Significant accounting policies:

(a) Basis of accounting:

These financial statements are prepared by the Ministry in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

The Fund does not prepare a formal budget, and therefore, no budget figures are reported on the statement of operations and statement of changes in net financial assets.

STUDENT TUITION PROTECTION FUND

Notes to Financial Statements

Year ended March 31, 2020

2. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents include cash held by the Provincial Treasury and highly liquid short-term deposits held by British Columbia Investment Corporation on the Fund's behalf.

(c) Revenue:

Initial contributions revenue is recognized upon registration by the institution.

Certified institutions are obligated to make payments to the Fund based on a percentage of tuition fees received and payment rates established by the Act. Payments are recorded based on information from the participating institutions. Such information is cross referenced to institutions' financial statements and annual enrolment reporting received by the Ministry. Institutions have the option to pay tuition revenue fees annually or through monthly installments. Tuition revenue fee payments are recognized when they are reasonably estimable, the amount is fixed or determinable, and collectability is reasonably assured. Tuition revenue fee payments received in advance of the period to which they relate are deferred.

Under Section 27 of the Act, the Trustee has the authority to require an institution to repay the Fund for claims paid out of the Fund. Recoveries from institutions of student complaint tuition refunds and recoveries from institutions of student closure tuition refunds are recognized as revenue when collectability is reasonably assured.

(d) Expenses:

Expenses are recognized as they are incurred and measurable as a result of receipt of goods and services and/or the creation of a legal obligation to pay.

(e) Functional and object reporting:

The operations of the Fund are comprised of a single function. As a result, the expenses of the Fund are presented by object in the statement of operations.

(f) Financial instruments:

Derivatives and equity instruments quoted in an active market are measured at fair value. All other financial assets and financial liabilities are measured at cost or amortized cost unless management has elected to carry the financial instrument at fair value. Management has elected to carry all investments at fair value.

Financial instruments are classified as level 1, 2 or 3 for the purposes of describing the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category, as described below:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

STUDENT TUITION PROTECTION FUND

Notes to Financial Statements

Year ended March 31, 2020

2. Significant accounting policies (continued):

(f) Financial instruments (continued):

Level 3 Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

The Fund's financial instruments consist of cash and cash equivalents, investments, accounts and accrued receivable and accounts payable and accrued liabilities.

Unrealized gains and losses from changes in the fair value of investments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations. Interest and dividend income attributable to financial instruments are reported in the statement of operations.

All financial assets, except investments, are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

Transaction costs are a component of cost for financial instruments measured using cost or amortized cost. Transaction costs are expensed for financial instruments measured at fair value.

(g) Contingent liability for claims due to institution closures:

The Fund recognizes contingent liabilities at the time an institution closes when the claim is likely to be approved by the Trustee. Management estimates the amount of contingent liabilities for possible student tuition claims based on the best information about the circumstances of each student enrolled at the time of closure. Estimates are adjusted as additional information is received by management during the claim process.

The Fund also recognizes contingent liabilities when a student complaint is received and is likely to be approved by the Trustee.

Contingent liabilities are transferred to accounts payable and accrued liabilities when the claims are approved by the Trustee. Contingent liabilities are derecognized when new circumstances indicate that a payment will not be made.

STUDENT TUITION PROTECTION FUND

Notes to Financial Statements

Year ended March 31, 2020

2. Significant accounting policies (continued):

(h) Investment income:

The Fund earns investment income on funds invested with British Columbia Investment Corporation ("BCI"). Investment income includes interest recorded on an accrual basis and dividends recorded as declared, realized gains and losses on the sale of investments, write downs on investments where the loss in value is determined to be other than temporary. Investment transactions are recorded on a settlement date basis. Transaction costs are expensed as incurred.

(i) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

3. Investments:

	Fair value hierarchy level	2020	2019
Canadian fixed income fund	Level 1	\$ 11,467,188	\$ 10,860,710
Canadian equity fund	Level 1	3,087,054	3,687,360
Global equity fund	Level 1	3,521,170	3,651,155
Canadian money market fund	Level 1	22,254	21,975
		\$ 18,097,666	\$ 18,221,200

4. Accounts payable and accrued liabilities:

	2020	2019
Accrued liabilities to related parties (note 6)	\$ 156,566	\$ 4,229
Student claims payable	58,387	70,004
	\$ 214,953	\$ 74,233

STUDENT TUITION PROTECTION FUND

Notes to Financial Statements

Year ended March 31, 2020

5. Payments from the Fund for institution closures:

Since the Fund was established in November 2004, there have been 61 (2019 - 56) institution closures that resulted in student tuition claims. In total, the Fund has authorized payments on account of students in the amount of \$6,280,100 as at March 31, 2020 (2019 - \$6,143,267).

Contingent liabilities for likely student tuition refund claims due to institution closures totalling \$1,025,618 as at March 31, 2020 (2019 - \$100,223) have been recognized in these financial statements.

6. Fund administration and related party transactions:

In administering the Fund, the Ministry may invest the Fund only in the manner authorized by the Trustee Act.

The Fund paid the Ministry a management fee of \$556,680 (2019 - \$846,223) for the year ended March 31, 2020 in exchange for administering the Fund. The Trustee sets the amount at which the fee will be charged. As at March 31, 2020, \$151,199 (2019 – nil) of the management fee is included in accounts payable and accrued liabilities on the statement of financial position.

The Ministry collects legislated fees from certified institutions on the Fund's behalf and transfers the fees to the Fund in the same month they are billed. If the Ministry is subsequently unable to collect the Fund's fees from the institutions, the Fund records a bad debt expense and transfers the funds back to the Ministry. As at March 31, 2020, the Fund owed the Ministry \$5,367 (2019 – \$4,229) for uncollectible fees which is included in accounts payable and accrued liabilities on the statement of financial position.

7. Financial instruments:

The Fund is exposed to various risks through its financial assets and liabilities. The following is an assessment of those risks at March 31, 2020.

(a) Credit risk:

Credit risk is the risk that the Fund will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that could subject the Fund to significant concentrations of credit risk are primarily of accounts receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balance in the financial statements.

(b) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash equivalents include investments that bear some interest rate risk as the market price may fluctuate based on changes in interest rates. The Fund is also exposed to interest rate risk on fixed income funds held in investments.

STUDENT TUITION PROTECTION FUND

Notes to Financial Statements

Year ended March 31, 2020

7. Financial instruments (continued):

(c) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The Fund is exposed to market risk on its cash and cash equivalents and investments.

(d) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. The Trustee ensures that an adequate level of working capital is maintained in the Fund to ensure all its obligations can be met when they come due.

There have been no changes to the risks from the prior period.

8. Repayment of claims paid out of the Fund:

As per Section 27 of the Act, the Trustee has the authority to require institutions to repay the Fund for approved claims paid out of the Fund. Due to the typical circumstances surrounding institutions generating student claims, the majority of claims are deemed to be uncollectible and are only recognized as revenue when a payment is received. For the year ended March 31, 2020, the Fund paid out \$279,114 (2019 - \$1,120,286) in claims for which repayments are not anticipated to be collected.

As at March 31, 2020, there are no claim repayments outstanding that management believes are likely to be received (2019 – nil).