



Consolidated Financial Statements

University of Prince Edward Island

April 30, 2017

UPEI
UNIVERSITY
of Prince Edward
ISLAND

Contents

	Page
Independent auditors' report	1 - 2
Consolidated statement of operations	3
Consolidated statement of changes in fund balances	4
Consolidated statement of financial position	5
Consolidated statement of cash flows	6
Notes to the consolidated financial statements	7 - 20
Consolidated schedule of Atlantic Veterinary College operations and changes in fund balance	21
Consolidated schedule of Research operations and changes in fund balances	22

Independent auditors' report

Grant Thornton LLP
Suite 710
98 Fitzroy Street, PO Box 187
Charlottetown, PE
C1A 7K4
T +1 902 892 6547
F +1 902 566 5358
www.GrantThornton.ca

To the Board of Governors of

University of Prince Edward Island

We have audited the accompanying consolidated financial statements of the University of Prince Edward Island, which comprise the statement of financial position as at April 30, 2017, the consolidated statements of operations, changes in fund balances and cash flows for the year ended April 30, 2017 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the consolidated 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 University'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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the University of Prince Edward Island as at April 30, 2017, 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.

Other matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of the University of Prince Edward Island taken as a whole. The supplementary information included in the Schedules is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Charlottetown, Prince Edward Island

November 23, 2017

Grant Thornton LLP

Chartered Professional Accountants

University of Prince Edward Island

Consolidated statement of operations

Year ended April 30

2017

2016

	<u>Operating</u>	<u>Research</u>	<u>Post-retirement benefits</u>	<u>Capital assets</u>	<u>Endowment</u>	<u>Total</u>	<u>Total</u>
Revenue							
Grants and contracts (Note 17)	\$ 61,730,786	\$ 12,607,503		\$ 1,009,679		\$ 75,347,968	\$ 72,088,626
Amortization of deferred revenue				3,474,861		3,474,861	3,493,702
Student fees	27,802,396					27,802,396	26,181,060
International fees	9,151,412					9,151,412	8,040,033
Ancillaries	8,309,778					8,309,778	8,477,592
Sales and other revenues	10,373,889					10,373,889	10,374,628
Investment income	1,888,378		\$ 2,013,594			3,901,972	1,757,027
Donations	2,301,641					2,301,641	2,866,610
	<u>121,558,280</u>	<u>12,607,503</u>	<u>2,013,594</u>	<u>4,484,540</u>	<u>-</u>	<u>140,663,917</u>	<u>133,279,278</u>
Expenditure							
Salaries and benefits	70,208,661	6,466,648				76,675,309	74,916,360
Supplies	9,174,212	1,765,101				10,939,313	10,435,660
Depreciation	9,049,334					9,049,334	7,840,757
Other	3,319,384					3,319,384	3,298,972
Utilities	5,588,476					5,588,476	5,112,106
Travel	1,637,944	973,641				2,611,585	2,575,351
Repairs and maintenance	3,048,718					3,048,718	2,650,722
Library subscriptions	1,425,017					1,425,017	1,226,885
Post-retirement benefits (Note 9)			8,943,188			8,943,188	7,979,238
Externally contracted services and memberships	3,289,889	1,126,114				4,416,003	3,680,672
Scholarships and bursaries (Note 17)	5,687,745	191,653				5,879,398	5,516,550
Interest				1,777,905		1,777,905	1,652,786
	<u>112,429,380</u>	<u>10,523,157</u>	<u>8,943,188</u>	<u>1,777,905</u>	<u>-</u>	<u>133,673,630</u>	<u>126,886,059</u>
Excess of revenue over expenditure before inter-fund transfers	\$ 9,128,900	\$ 2,084,346	\$ (6,929,594)	\$ 2,706,635	\$ -	\$ 6,990,287	\$ 6,393,219

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Consolidated statement of changes in fund balances

Year ended April 30

2017

2016

	<u>Operating</u>	<u>Research</u>	<u>Post-retirement benefits</u>	<u>Capital assets</u>	<u>Endowment</u>	<u>Total</u>	<u>Total</u>
Fund balance, beginning of year	\$ 4,532,918	\$ 2,297,339	\$ (46,979,084)	\$ 53,630,223	\$ 30,672,538	\$ 44,153,934	\$ 48,773,192
Excess revenue (expenditure) before Inter-fund transfers	9,128,900	2,084,346	(6,929,594)	2,706,635	-	6,990,287	6,393,219
Re-measurement and other adjustments (Note 9)	-	-	28,482,273	-	-	28,482,273	(12,460,800)
Endowment additions	-	-	-	-	1,443,903	1,443,903	1,448,323
Inter-fund transfers (Note 16)	<u>(8,837,750)</u>	<u>(888,302)</u>	<u>8,575,029</u>	<u>1,151,023</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ 4,824,068</u>	<u>\$ 3,493,383</u>	<u>\$ (16,851,376)</u>	<u>\$ 57,487,881</u>	<u>\$ 32,116,441</u>	<u>\$ 81,070,397</u>	<u>\$ 44,153,934</u>

(Note 15)

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Consolidated statement of financial position

April 30

2017

2016

	Operating	Research	Post-retirement benefits	Capital assets	Endowment	Total	Total
Assets							
Current - Cash and cash equivalents	\$ 16,775,088					\$ 16,775,088	\$ 14,239,576
- Receivables (Note 3)	8,626,854	\$ 3,690,067		\$ 82,917		12,399,838	6,631,238
- Inventory and other	1,650,690			41,484		1,692,174	1,649,191
	<u>27,052,632</u>	<u>3,690,067</u>		<u>124,401</u>		<u>30,867,100</u>	<u>22,520,005</u>
Investments (Note 4)	24,468,238		\$ 20,041,853	6,806,890	\$ 32,116,441	83,433,422	69,031,799
Due from (to) other funds	(10,426,844)	6,389,374		4,037,470		-	-
Capital assets (Note 5)				197,190,383		197,190,383	195,810,446
Intangible assets (Note 6)				3,523,063		3,523,063	2,363,467
	<u>\$ 41,094,026</u>	<u>\$ 10,079,441</u>	<u>\$ 20,041,853</u>	<u>\$ 211,682,207</u>	<u>\$ 32,116,441</u>	<u>\$ 315,013,968</u>	<u>\$ 289,725,717</u>
Liabilities							
Current - Payables and accruals (Note 7)	\$ 11,003,625	\$ 49,397		\$ 329,951		\$ 11,382,973	\$ 13,445,456
- Current portion of long term debt				3,952,862		3,952,862	3,480,154
- Deferred revenue (Note 8)	7,795,749					7,795,749	7,336,975
	<u>18,799,374</u>	<u>49,397</u>		<u>4,282,813</u>		<u>23,131,584</u>	<u>24,262,585</u>
Defined benefit liabilities (Note 9)			\$ 36,893,229			36,893,229	64,370,178
Long term obligations (Note 10)				34,664,144		34,664,144	24,657,003
	<u>18,799,374</u>	<u>49,397</u>	<u>36,893,229</u>	<u>38,946,957</u>		<u>94,688,957</u>	<u>113,289,766</u>
Deferred revenue							
Research contracts		6,536,661				6,536,661	6,276,572
Capital assets (Note 12)				115,247,369		115,247,369	113,011,947
Other (Note 13)	17,470,584					17,470,584	12,993,498
	<u>36,269,958</u>	<u>6,586,058</u>	<u>36,893,229</u>	<u>154,194,326</u>		<u>233,943,571</u>	<u>245,571,783</u>
Fund balances							
Invested in capital assets				50,680,992		50,680,992	50,037,063
Internally restricted - post-retirement benefit			(16,851,376)			(16,851,376)	(46,979,084)
Externally restricted - endowments					\$ 25,987,148	25,987,148	24,699,556
Internally restricted (Note 14)		3,493,383		6,806,889	6,129,293	16,429,565	11,863,481
Unrestricted	4,824,068					4,824,068	4,532,918
	<u>4,824,068</u>	<u>3,493,383</u>	<u>(16,851,376)</u>	<u>57,487,881</u>	<u>32,116,441</u>	<u>81,070,397</u>	<u>44,153,934</u>
	<u>\$ 41,094,026</u>	<u>\$ 10,079,441</u>	<u>\$ 20,041,853</u>	<u>\$ 211,682,207</u>	<u>\$ 32,116,441</u>	<u>\$ 315,013,968</u>	<u>\$ 289,725,717</u>

Commitment and subsequent event (Note 19)

(Note 15)

On behalf of the Board of Governors

Chairman

Finance and Audit Chair

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Consolidated statement of cash flows

Year Ended April 30

2017

2016

Cash flows from operating activities

Cash received from (paid for)		
Provincial governments for operations	\$ 57,327,543	\$ 58,933,015
Operations	55,501,054	52,607,236
Restricted grants	12,097,421	12,611,113
Investment income received for operating purposes	1,960,780	1,817,613
Donations	3,551,712	2,578,424
Salaries and benefits	(84,768,204)	(84,311,411)
Materials and service	(37,910,889)	(32,634,408)
Interest	(1,771,086)	(1,667,009)
Net cash generated through operating activities	<u>5,988,331</u>	<u>9,934,573</u>

Cash flows from investing activities

Cash received from (paid for)		
Restricted grants and interest for capital assets	5,710,283	4,296,326
Restricted and endowment donations	665,537	669,388
Purchase of capital assets and intangibles	(16,740,444)	(20,737,544)
(Purchase) sale of investments, net	<u>(3,568,042)</u>	<u>5,057,872</u>
Net cash used in investing activities	<u>(13,932,666)</u>	<u>(10,713,958)</u>

Cash flows from financing activities

Cash received from (paid for)		
Proceeds from long term obligations	14,188,000	-
Principal payments on long term obligations	<u>(3,708,154)</u>	<u>(3,522,469)</u>
Net cash generated (used) in financing activities	<u>10,479,846</u>	<u>(3,522,469)</u>
Net increase (decrease) in cash and cash equivalents	2,535,511	(4,301,854)
Cash and cash equivalents, beginning of year	<u>14,239,577</u>	<u>18,541,430</u>
Cash and cash equivalents, end of year	<u>\$ 16,775,088</u>	<u>\$ 14,239,576</u>

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

1. Purpose of the organization

The University of Prince Edward Island is incorporated as an income tax exempt not-for-profit organization with the following mission statement:

The University, founded on the tradition of liberal education, exists to encourage and assist people to acquire the skills, knowledge and understanding necessary for critical and creative thinking, and thus prepare them to contribute to their own betterment and that of society through the development of their full potential.

To accomplish these ends the University is a community of scholars whose primary tasks are to teach and learn, to engage in scholarship and research, and to offer service for the benefit of our Island and beyond.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

Principles of consolidation

The consolidated financial statements of the University include the accounts of the Synapse Applied Research and Industry Services Inc., a member corporation, and the University of Prince Edward Island Foundation, (U.S.) Inc. Synapse Applied Research and Industry Services Inc., operates a research support division. The University of Prince Edward Island Foundation, (U.S.) Inc. is an income tax exempt foundation for charitable, scientific, literary or educational purposes.

Fund accounting

The University follows the deferral method of accounting for contributions.

Revenue and expenditure related to program delivery and administrative activities are reported in the operating fund.

Revenue and expenditure related to research activities are reported in the research fund.

Revenue and expenditure related to employee future benefits are reported in the post-retirement benefits fund.

Assets, liabilities, revenue and expenditure, except for depreciation, related to the University's capital assets are reported in capital assets fund.

Endowment donations are reported in the Endowment fund as an increase to the fund balance. Investment income earned on resources of the Endowment fund are reported in the operating fund as deferred revenue and recognized as income in the year in which expenditures are incurred. Principal donations are held in perpetuity and the investment income is used for the purpose specified by the donors.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks and other institutions, net of bank overdrafts. Temporary short term borrowings are considered to be financing activities.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

2. Summary of significant accounting policies (cont'd)

Inventory

Inventory is valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis.

Revenue recognition

Restricted donations are recognized as revenue of the appropriate fund in the year in which the related expenditures are incurred or related capital asset depreciated. Unrestricted contributions are recognized as revenue of the general fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Endowment contributions are recognized as direct increases in net assets when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted investment income is recognized as revenue of the appropriate fund in the year in which the related expenditures are incurred.

Profits from contracts are recognized on the percentage of completion basis. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost of each contract. Any projected loss is recognized immediately for accounting purposes.

Revenues received without restrictions include tuition fees, and sales of services and goods. These amounts are reported as revenue at the same time the services are provided or the goods are sold. Operating grants from governments are also considered unrestricted and are recorded in the period to which the operating funds relate.

Employee benefit plans

The University maintains a defined benefit plan providing pension and other retirement benefits to a number of its employees and faculty. The University's benefit obligation and current service costs are determined based on the employee benefit plans going concern obligation and current service costs as determined based on the last funding valuations and extrapolated to the fiscal year end date. The measurement date of the defined benefit obligations coincides with the University's fiscal year end date and is determined by independent actuaries. Employee benefit plan assets are recorded at their fair values.

The components of the total cost of the University's employee benefit plans include the current service cost (or actuarial present value of benefits attributed to employee services rendered during the period, less employee contributions), finance cost (or net interest on the defined benefit liability), and re-measurements and other items. Re-measurements and other items are recognized directly into net assets in the consolidated Statement of Changes in Net Asset, and included the following: actuarial gains and losses, valuation allowances, past service costs, gains and losses on settlements and curtailments, and the difference between the actual returns on plan assets and the return calculated using the discount rate used to determine the defined benefit obligation.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

2. Summary of significant accounting policies (cont'd)

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Rates and bases of depreciation applied to write-off the cost of the capital assets over their estimated lives are as follows:

Site improvements	4%, declining balance
Buildings	2.5%, declining balance
Furniture and equipment	10%, declining balance
Computer equipment and motor vehicles	30%, declining balance
Library materials	10%, declining balance

Capital asset additions are depreciated at 50% of the regular rate in the year of acquisition. Facilities under construction are not depreciated until they are available for use.

Capital asset deferred revenue is amortized at the same rate of depreciation as the assets it was used to purchase.

An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value; it is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Intangible assets

Computer software development expenditure is capitalized only if the directly related costs (both internal and external) can be measured reliably, the product or process is technically feasible, future economic benefits are probable and the University has the intention and sufficient resources to complete development and to use the asset. Computer software assets are derecognized when these factors no longer exist. The capitalized expenditures include the direct cost of materials and labour, but not administrative costs, including training. Other development expenditures are expensed as incurred if they do not meet the prescribed capitalization criteria. Similarly, costs associated with maintaining computer software programs in a functional condition, as originally intended, are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in subsequent periods.

Rates and bases of depreciation applied to write-off the cost of the intangible assets over their estimated lives are as follows:

Computer software	25%, declining balance
-------------------	------------------------

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

2. Summary of significant accounting policies (cont'd)

Financial instruments

The University considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances. The University accounts for the following as financial instruments:

- Cash and cash equivalents
- Receivables
- Investments – actively traded
- Investments – not actively traded
- Payables and accruals
- Long term debt

A financial asset or liability is recognized when the University becomes a party to contractual provisions of the instrument.

The University initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. In the case of a financial asset or liability not being subsequently measured at fair value, the initial fair value will be adjusted for financing fees and transaction costs directly attributable to its origination, issuance, or assumption.

Financial assets and financial liabilities are subsequently measured according to the following methods:

Financial instrument	Subsequent measurement
Cash and cash equivalents	Amortized cost
Receivables	Amortized cost
Investments – actively traded	Fair value
Investments – not actively traded	Fair value; amortized cost
Payables and accruals	Amortized cost
Long term debt	Amortized cost

Derivative financial instruments

The University has entered into several interest rate swap agreements with a chartered bank to reduce interest rate exposure associated with certain long term debt obligations. The agreements have the effect of converting the floating rate of interest on certain debt to a fixed rate. It is the University's policy not to use derivative financial instruments for trading or speculative purposes.

The University designates each interest rate swap agreement as a cash flow hedge of a specifically identified debt instrument. The swap agreements are effective hedges, both at maturity and over the term of the agreement, since the term to maturity, the notional principal amount, and the interest rate of the swap agreements all match the terms of the debt instruments being hedged. The swap agreements involved periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based. The payments are recorded as an adjustment of the interest expense on the hedged debt instrument.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

2. Summary of significant accounting policies (cont'd)

In the event that the interest rate swap agreements are terminated or cease to be effective in part or in whole prior to maturity any associated realized or unrealized gains or losses are recognized in income. In the event a designated hedged debt instrument is extinguished or matures prior to the termination of the related interest rate swap agreement, any realized or unrealized gain or loss is recognized in income.

Donations and pledges

Unrestricted donations are recorded as revenue in the fiscal period in which they are received. Restricted donations are recorded as revenue in the fiscal period in which they are spent. Gifts in kind, including works of art, equipment, investments and library holdings are recorded at fair market value on the date of their donation.

Pledges of donations to be received in future years are not recorded in the financial statements.

Foreign currency translation

Foreign currency transactions are recorded at the exchange rate in effect at the time of the transaction. Monetary assets and liabilities denominated in foreign currency reported on the consolidated Statement of Financial Position are recorded at the exchange rate in effect on the financial statement date. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate in effect on the transaction date. The market value of long term investments denominated in foreign currency is disclosed in the notes to the financial statements at the exchange rate in effect on the financial statement date.

Use of estimates

In preparing the University's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditure during the period. Significant estimates and assumptions are involved with the calculation of the allowance for doubtful accounts, useful life of capital assets, and accrued liabilities for employee future benefits. Actual results could differ from these estimates. Estimates are regularly reviewed by management and adjusted as required.

3. Receivables

	<u>2017</u>	<u>2016</u>
Operating fund		
Provincial grants	\$ 4,751,819	\$ 348,576
Sales and services	568,158	980,818
Student accounts	1,964,686	1,492,598
Other	<u>1,342,191</u>	<u>889,347</u>
	<u>8,626,854</u>	3,711,339
Capital asset fund	82,917	-
Research fund	<u>3,690,067</u>	<u>2,919,899</u>
	<u>\$ 12,399,838</u>	<u>\$ 6,631,238</u>

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

4. Investments	<u>2017</u>	<u>2016</u>
Operating fund	<u>\$ 24,468,238</u>	<u>\$ 17,375,014</u>
Post-retirement benefits fund		
Health benefit plan	15,784,719	12,928,743
Retirement allowances	3,534,240	3,754,490
Supplementary retirement benefits	<u>722,894</u>	<u>707,861</u>
	<u>20,041,853</u>	<u>17,391,094</u>
Capital assets fund		
Capital projects fund	<u>6,806,890</u>	<u>3,593,153</u>
Endowment fund	<u>32,116,441</u>	<u>30,672,538</u>
	<u>\$ 83,433,422</u>	<u>\$ 69,031,799</u>

Investments summary	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Equities	\$63,020,351	\$69,269,559	\$ 58,612,547	\$60,747,954
Fixed – amortized cost	1,117,517	1,163,863	1,117,571	1,192,970
Fixed – fair market value	<u>13,000,000</u>	<u>13,000,000</u>	<u>7,000,000</u>	<u>7,090,875</u>
Total	<u>\$77,137,868</u>	<u>\$83,433,422</u>	<u>\$ 66,730,118</u>	<u>\$69,031,799</u>

5. Capital assets	<u>2017</u>			<u>2016</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Net book value</u>
Land	\$ 986,407	\$ -	\$ 986,407	\$ 986,407
Site improvements	13,300,377	5,525,312	7,775,065	7,316,701
Buildings	226,080,372	70,428,412	155,651,960	154,170,577
Furniture, equipment and vehicles	54,345,653	25,185,799	29,159,854	29,399,829
Library materials	<u>12,424,735</u>	<u>8,807,638</u>	<u>3,617,097</u>	<u>3,936,932</u>
	<u>\$ 307,137,544</u>	<u>\$109,947,161</u>	<u>\$ 197,190,383</u>	<u>\$ 195,810,446</u>

Facilities under construction as of April 30, 2017 are \$534,085 (2016 - \$18,875,705) at cost.

6. Intangible assets	<u>2017</u>			<u>2016</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Net book value</u>
Computer software	<u>\$ 4,342,804</u>	<u>\$ 819,741</u>	<u>\$ 3,523,063</u>	<u>\$ 2,363,467</u>

Computer software expenditures under development as of April 30, 2017 are \$4,258,658 (2016 - \$2,363,467) at cost.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

7. Payables and accruals	<u>2017</u>	<u>2016</u>
Operating fund		
Faculty development allowance	\$ 459,606	\$ 351,253
Accrued payroll	1,213,907	1,503,172
Trade	5,391,949	5,291,504
Government remittances	78,276	7,586
Accrued vacation and other leaves	<u>3,859,887</u>	<u>3,487,305</u>
	<u>11,003,625</u>	<u>10,640,820</u>
Capital asset fund		
Accrued interest	141,336	134,530
Construction holdbacks and payables	<u>188,615</u>	<u>2,670,106</u>
	<u>329,951</u>	<u>2,804,636</u>
Research fund		
Accrued payroll	<u>49,397</u>	-
	<u>\$ 11,382,973</u>	<u>\$ 13,445,456</u>

8. Deferred revenue, operating

Operating deferred revenue represents resources for operating purposes received in the current period which relate to a subsequent period. Changes in the deferred revenue balance are as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 7,336,975	\$ 7,587,850
Resources received	9,717,002	7,159,209
Recognized as revenue	<u>(9,258,228)</u>	<u>(7,410,084)</u>
Ending balance	<u>\$ 7,795,749</u>	<u>\$ 7,336,975</u>

9. Pension plan and other employee post-retirement benefits

The University maintains a contributory defined benefit best average pension plan and provides post employment benefits which cover substantially all of its employees.

Annual funding requirements for the pension plan, future retirement allowances and for a health benefit plan are determined by Eckler Ltd. The last actuarial valuations completed for the future retirement allowance and the health benefit plan was April 30, 2015 and for the pension plan was September 30, 2016. Funding of supplementary retirement obligations is determined in accordance with conditions of specific agreements.

	<u>2017</u>	<u>2016</u>
Net expense for the University's benefit plans is as follows:		
Pension	<u>\$ 6,341,647</u>	<u>\$ 5,479,200</u>
Other benefit plans		
Health benefits	2,213,678	2,109,600
Retirement allowances	<u>387,863</u>	<u>390,438</u>
	<u>2,601,541</u>	<u>2,500,038</u>
Expense per statement of operations	<u>\$ 8,943,188</u>	<u>\$ 7,979,238</u>

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

9. Pension plan and other employee post-retirement benefits (cont'd)

The actuarial present value of benefit obligations and fair value of plan assets recognized in the accompanying statements of financial position as at April 30, 2017 and April 30, 2016 were as follows:

	Pension plan		Post-retirement benefit plans	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Change in defined benefit obligation:				
Defined benefit obligation, beginning of year	\$ 257,681,973	\$ 244,210,226	\$ 31,978,230	\$ 30,625,092
Service cost	9,072,269	8,656,633	1,006,663	982,838
Interest cost	14,728,704	13,991,167	1,594,878	1,517,064
Transfer in	45,918	101,991	-	-
Gross benefits paid and transfers out	(12,179,361)	(10,529,781)	(1,386,906)	(1,146,764)
Actuarial (gains) and losses	(16,600,652)	1,251,737	(2,523,636)	-
Defined benefit obligation, end of year	<u>\$ 252,748,851</u>	<u>\$ 257,681,973</u>	<u>\$ 30,669,229</u>	<u>\$ 31,978,230</u>
Change in plan net assets:				
Fair value of plan assets, beginning of year	\$ 225,290,025	\$ 222,532,403	\$ -	\$ -
Actual return on plan assets	28,956,762	1,619,195	-	-
Employer contributions	6,550,986	7,225,937	-	-
Plan participant's contributions and transfer in	4,581,170	4,442,271	-	-
Gross benefits paid and transfers out	(12,179,361)	(10,529,781)	-	-
Fair value of plan net assets, end of year	<u>\$ 253,199,582</u>	<u>\$ 225,290,025</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status and amounts recognized, end of year				
Fair value of plan net assets	\$ 253,199,582	\$ 225,290,025	\$ -	\$ -
Benefit obligation	(252,748,851)	(257,681,973)	(30,669,229)	(31,978,230)
Valuation allowance	(450,731)	-	-	-
Shared risk funding agreement	(6,224,000)	-	-	-
Funded status, end of year	<u>(6,224,000)</u>	<u>(32,391,948)</u>	<u>(30,669,229)</u>	<u>(31,978,230)</u>
Accrued benefit liability			<u>2017</u>	<u>2016</u>
Pension plan			\$ (6,224,000)	\$ (32,391,948)
Other benefit plans			(30,669,229)	(31,978,230)
Liability per statement of financial position			<u>\$ (36,893,229)</u>	<u>\$ (64,370,178)</u>
Re-measurement and other adjustments			<u>2017</u>	<u>2016</u>
Actuarial gain (loss) on assets			\$ 16,032,597	\$ (11,209,058)
Actuarial gain (loss) on liabilities			12,449,676	(1,251,742)
			<u>\$ 28,482,273</u>	<u>\$ (12,460,800)</u>

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

9. Pension plan and other employee post-retirement benefits (cont'd)

Shared risk funding agreement pension plan

The University effective October 1, 2016, entered into an agreement with the faculty association and unions of the University to adopt a shared risk model relating to the pension plan obligation. At September 30, 2016 the deficit in the pension plan was actuarially determined to be \$10,039,000 which would be funded by both the University and the faculty association and unions. The University's portion of this deficit at September 30, 2016 was determined to be \$6,475,000 and would be funded over 15 years with annual payments of \$431,667 per year.

The Sponsor Board will determine the funding of pension plan deficits or the use of fund surpluses. The Sponsor Board is made up of representatives from the University, faculty association and the unions. The employees and the University will have one vote each with no provision for a tie breaker, with all decisions required to be unanimous.

If in the future, the pension plan reports a surplus, the Sponsor Board can decide to reinstate benefits, reduce special deficit contributions, increase benefits or reduce plan risk. In the situations of future deficits, the sponsor board can reduce benefits or fund the deficits on a 50/50 basis between employees and the University.

Post-retirement obligations

The pension plan assets are held in trust and are not available for operating purposes of the University. Separate audited financial statements are prepared for the pension plan. The percentage of the fair value of the pension plan's total assets is held in investments as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	1%	1%
Government and corporate bonds	21%	23%
Mortgages	4%	5%
Real estate fund	13%	14%
Infrastructure fund	5%	5%
Equities and mutual funds	56%	52%

The significant actuarial assumptions adopted in measuring the University's defined benefit obligations for the pension plan is a discount rate of 6.00% (2016 – 5.75%) and for the future retirement allowances is a discount rate of 6.00% (2016 - 5.75%), expected long term rate of return on plan assets of 6.0% (2016: 5.75%), and a rate of compensation increase of 3.5% per annum. For the health benefits plan a 6.0% (2016: 5.75%) discount rate and 3.5% (2016: 4.0%) rate of compensation increase were assumed. Extended health and drug claims were assumed to increase 5.0% per annum and dental claims were assumed to increase at 4.0% per annum.

Other information about the University's pension plan is as follows:

	<u>2017</u>	<u>2016</u>
Employer contributions	\$ 6,555,208	\$ 7,224,745
Employees' contributions and transfers in	4,572,225	4,441,644
Benefits paid and transfers out	12,179,361	10,529,781

The health benefit plan liability has been estimated to equal \$26,421,100 (2016: \$27,516,000) based on the last actuarial valuation as of April 30, 2016. In 2017, \$15,784,677 (2016: \$12,928,743) of investments have been internally allocated to fund this liability.

The University has an obligation to pay lump sum retirement allowances to non-faculty employees who retire after reaching the age of 55 years. The allowances are to a maximum of six month's salary. The total liability has been estimated to equal \$3,534,240 as of April 30, 2017, (2016: \$3,754,490) based on actuarial valuation and the rates of funding required for future service as determined by the actuary at that time. In 2017, \$3,534,240 (2016 - \$3,754,490) of investments have been internally allocated to fund this liability.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

9. Pension plan and other employee post-retirement benefits (cont'd)

Supplementary retirement obligations amount to \$722,896 (2016 - \$707,861) and relate to the retirement obligations payable to senior administrators for their terms at the University. Upon termination of the retirement obligations, per the conditions of the agreements, any surplus funds become assets of the University. Investment assets equal to the full amount of the liability have been internally allocated to fund this liability.

10. Long term obligations	<u>2017</u>	<u>2016</u>
Long term obligations funded by the Province of Prince Edward Island:		
6.25% CMHC loan payable \$53,646 annually including interest amortized to and maturing in October 2018. As security, a mortgage has been provided on Bernadine Hall. The carrying value of Bernadine Hall is \$1,102,750.	\$ 75,690	\$ 122,404
7.625% CMHC loan payable \$95,597 annually including interest amortized to and maturing in September 2023. As security, a mortgage has been provided on Blanchard Hall. The carrying value of Blanchard Hall is \$2,585,800.	482,897	538,475
CDOR plus 0.25%, hedged at 5.11%, Bank of Montreal long term loan on Regis and Joan Duffy Research Centre, payable \$57,150 quarterly plus interest, amortized to 2021 and maturing in 2021.	914,400	1,143,000
CDOR plus 0.25%, hedged at 4.69%, Bank of Montreal long term loan on Duffy Science Centre renovation, payable \$60,000 quarterly principal plus interest, amortized to 2018 and maturing in 2018.	180,000	420,000
CDOR plus 0.25%, hedged at 5.11%, Bank of Montreal long term loan on Duffy Science Centre renovation, payable \$56,667 quarterly principal plus interest, amortized to 2021 and maturing in 2021.	906,667	1,133,333
CDOR plus 0.25%, hedged at 5.35% Bank of Montreal long term loan on the Don and Marion McDougall Hall, payable \$96,667 quarterly principal plus interest, amortized to 2022 and maturing in 2022.	1,836,667	2,223,333
CDOR plus 0.25%, hedged at 5.55%, Bank of Montreal long term loan on the AVC Expansion, payable \$33,333 quarterly principal plus interest, amortized to 2023 and maturing in 2018.	766,667	900,000
CDOR plus 0.25%, hedged at 5.63%, Bank of Montreal long term loan on core renewal projects payable \$103,333 quarterly principal plus interest, amortized to 2023 and maturing in 2018.	2,480,000	2,893,334
CDOR plus 0.75%, hedged at 3.71%, Bank of Montreal long term loan on the Knowledge Infrastructure Program, payable in \$50,000 quarterly principal plus interest, amortized to 2020 and maturing in 2020.	650,000	850,000
CDOR plus 0.75%, hedged at 4.53%, Bank of Montreal long term loan on the Nursing and Applied Human Sciences Building, payable in \$179,000 quarterly principal plus interest, amortized to and maturing in 2022.	3,587,000	4,303,000

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

10. Long term obligations (cont'd)

	<u>2017</u>	<u>2016</u>
CDOR plus 0.83%, hedged at 3.06%, Royal Bank long term loan on the School of Sustainable Design Engineering Building, payable in quarterly installments of approximately \$246,000 including principal and interest, amortized and maturing in 2036,	13,419,000	-
CDOR plus 0.85%, hedged at 2.68% Royal Bank long term loan on the Artificial Turf Field and Steel Building, payable in \$16,000 quarterly principal payments plus interest, amortized and maturing in 2038	541,000	-
Other long term obligations:		
CDOR plus 0.25%, hedged at 5.75%, Bank of Montreal long term loan on Blanchard Hall and Bernadine Hall renovations, payable in \$54,517 quarterly payments including principal and interest, amortized to 2032 and maturing in 2032, funded by residence operations.	2,163,438	2,247,818
CDOR plus 0.25%, hedged at 5.42%, Bank of Montreal long term loan on Bill and Denise Andrew Hall, payable in \$208,000 quarterly including interest, amortized to 2031 and maturing in 2026, funded by residence operations.	7,777,580	8,149,363
CDOR plus 0.75%, hedged at 3.80%, Bank of Montreal long term loan on the AVC Phase III Expansion, payable in \$88,000 quarterly principal plus interest, amortized to 2025 and maturing in 2020.	2,836,000	3,188,000
Loan repaid during the year	-	25,097
	38,617,006	28,137,157
Less: current portion	3,952,862	3,480,154
	<u>\$ 34,664,144</u>	<u>\$ 24,657,003</u>

Annual principal repayments in each of the next five years are due as follows: 2018 - \$3,952,862; 2019 - \$3,920,159; 2020 - \$3,953,701; 2021 - \$3,863,244; 2022 - \$3,233,293.

11. Interest rate swap agreements

The University has entered into interest rate swap agreements with a chartered bank to manage interest rate exposure associated with certain long term debt obligations. The agreements have the effect of converting the floating rate interest on certain debt to a fixed rate.

The notional underlying principal value of the interest rate swaps related to debt outstanding at April 30, 2017 was \$38,058,419 (2016 - \$27,451,181). The University has no plans to sell or terminate the interest rate swap agreements prior to maturity. If the University had terminated these swaps on April 30, 2017, it would have been obligated to incur a payment of \$5,742,492 (2016 - \$5,036,258), the fair value of the swaps.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

12. Deferred revenue, capital assets

Capital assets deferred revenue represents restricted contributions used to purchase buildings, equipment, and site improvements. Changes in the deferred revenue balance are as follows:

	<u>2017</u>	<u>2016</u>
General deferred revenue, capital assets		
Beginning balance	\$ 113,011,947	\$ 111,065,864
Capital grants and donations received	5,710,283	5,439,785
Capital grants and donations recognized, net	<u>(3,474,861)</u>	<u>(3,493,702)</u>
Ending balance	<u>\$ 115,247,369</u>	<u>\$ 113,011,947</u>

13. Deferred revenue, other

Other deferred revenue represents unexpended investment income on endowment funds and contributions for other specified purposes. The funds are recognized as revenue in the periods the related expenditures are incurred. Changes in the deferred revenue balance are as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 12,993,498	\$ 14,954,429
Contributions received	824,423	630,605
Income earned	6,468,902	1,405,271
Recognized as revenue	<u>(2,816,239)</u>	<u>(3,996,807)</u>
Ending balance	<u>\$ 17,470,584</u>	<u>\$ 12,993,498</u>
Representing:		
Unexpended investment income on endowment funds (Note 15)	\$ 9,721,677	\$ 5,979,566
Special purpose funds	<u>7,748,907</u>	<u>7,013,932</u>
	<u>\$ 17,470,584</u>	<u>\$ 12,993,498</u>

14. Internal restrictions on fund balances

The following amounts have been restricted by the Board of Governors for specific purposes:

	<u>2017</u>	<u>2016</u>
Capital projects		
Capital renovations	\$ 5,356,790	\$ 1,111,793
Technology development fund	1,433,271	2,335,542
Other	<u>16,828</u>	<u>145,825</u>
	<u>6,806,889</u>	3,593,160
Endowment	6,129,293	5,972,982
Research	<u>3,493,383</u>	<u>2,297,339</u>
	<u>\$ 16,429,565</u>	<u>\$ 11,863,481</u>

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

15. Restricted funds for scholarships, bursaries, and academic programs

Restricted funds available for scholarship and bursary purposes and for academic programs include both internally and externally restricted endowment fund balances and unexpended endowment investment income recorded as deferred revenue.

	<u>2017</u>	<u>2016</u>
Endowment fund		
Externally restricted	\$ 25,987,148	\$ 24,699,556
Internally restricted	<u>6,129,293</u>	<u>5,972,982</u>
	32,116,441	30,672,538
Operating fund		
Deferred revenue, unexpended investment income (Note 13)	<u>9,721,677</u>	<u>5,979,566</u>
	<u>\$ 41,838,118</u>	<u>\$ 36,652,104</u>

16. Inter-fund transfers

	Operating			Post- retirement	Capital
	Unrestricted <u>Main Campus</u>	Unrestricted <u>AVC</u>	<u>Research</u>	<u>benefits</u>	<u>assets</u>
Depreciation	\$ 6,537,477	\$ 2,511,857			\$ (9,049,334)
Equipment additions	(939,844)	(29,152)	\$ (1,377,241)		2,346,237
Library materials	(23,293)	(29,687)			52,980
Land, building & site improvements			(210,548)		210,548
Principal debt repayment	(559,872)	(352,000)			911,872
Internal financing	(3,642,386)	(2,268,426)			5,910,812
Research	(1,408,003)	548,925	859,078		
Interest repayment	(629,711)	(138,197)			767,908
Post-retirement health benefits	(1,336,756)	(382,800)		\$ 1,719,556	
Retirement allowance	(221,104)	(83,369)		304,473	
Pension plan	<u>(4,584,491)</u>	<u>(1,806,918)</u>	<u>(159,591)</u>	<u>6,551,000</u>	
	<u>\$ (6,807,983)</u>	<u>\$ (2,029,767)</u>	<u>\$ (888,302)</u>	<u>\$ 8,575,029</u>	<u>\$ 1,151,023</u>

Inter-fund transfers outline the movement of transactions from the fund balance in which they were paid or originally recognized to the fund balance where they are held for accounting purposes. The inter-fund transfers are consistent with the treatment adopted in prior years.

17. Scholarships

The University received restricted grants to fund scholarships and bursaries from the Province of Prince Edward Island including the George Coles' bursary and Island Student Awards. The total for the year was \$1,415,600 (2016 - \$1,370,600).

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2017

18. Financial assets and liabilities

The following sections describe the University's financial risk exposure and related mitigation strategies:

Credit risk

The University is exposed to credit risk through payment default on its accounts receivable. Exposure to credit risk on accounts receivable is managed through active monitoring and collection practices. A provision for uncollectible accounts has been determined in the amount of \$639,869 (2016 - \$342,049) based on respective aging of accounts, risk profile of certain accounts and collections subsequent to year end. Receivables written off during the year and adjustments to the allowance for doubtful receivables amount to \$404,417 (2016 - \$142,237).

Liquidity risk

Liquidity risk is the risk that the University will encounter difficulty in meeting obligations associated with financial liabilities. The University is exposed to liquidity risk arising primarily from trade payables. The University ensures that it has sufficient capital to meet its short and long term financial obligations after taking into account its operations and cash on hand. The University actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

Market risk

The University invests in publicly traded equities listed on domestic and foreign exchanges, and bonds traded over the counter through broker dealers. These securities are affected by fluctuations in market prices. Such market changes are subject to economic factors and other fluctuations in domestic and global capital markets, as well as risks to issuers, which may affect the market value of the individual securities. Policy guidelines have been established to ensure that the University's investments are diversified by issuer, industry and geographic location.

The University has certain investments denominated in foreign currencies. Currency risk is the risk that the value of these investments will fluctuate due to changes in foreign exchange rates. The University has diversified its foreign portfolio by investing in various foreign currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. The University is exposed to interest rate risk on long term debt, which it manages through the use of fixed interest rates and use of interest rate swap agreements.

19. Commitment and subsequent event

The University has committed to the renovation of Dalton Hall and Memorial Hall through the Post-Secondary Institutions Strategic Investment Fund agreement for a total cost of the projects of \$7,617,900. Financing for these projects will be funded by the Government of Canada in the amount of \$3,539,500, financing that will be fully secured by the Province of Prince Edward Island in the amount of \$3,539,500 and the remainder funded by the University.

20. Comparative figures

Certain of the 2016 comparative figures have been restated to agree with the financial statement presentation adopted for the current year.

University of Prince Edward Island

Consolidated schedule of Atlantic Veterinary College operations and changes in fund balance

Year ended April 30

2017

2016

Revenue		
Operating grants	\$ 21,835,511	\$ 21,313,606
Student fees	3,510,834	3,297,898
International fees	4,495,150	3,897,469
Sales and services	7,998,683	8,139,362
Investment income	97,244	98,191
Donations	<u>359,623</u>	<u>519,331</u>
	<u>38,297,045</u>	<u>37,265,857</u>
Expenditure		
Salaries and benefits	23,516,196	23,771,179
Supplies	3,031,385	3,250,812
Depreciation	2,511,857	2,633,455
Other	821,193	907,880
Utilities	2,430,898	2,313,157
Travel	293,893	254,757
Repairs and maintenance	895,969	1,004,159
Library subscriptions	434,551	393,515
Externally contracted services and memberships	1,459,658	971,774
Scholarships	<u>254,526</u>	<u>229,639</u>
	<u>35,650,126</u>	<u>35,730,327</u>
Excess of revenues over expenditures before inter-fund transfers	<u>\$ 2,646,919</u>	<u>\$ 1,535,530</u>
Fund balance, beginning of year	\$ 1,060,461	\$ 153,454
Excess of revenues over expenditures before inter-fund transfers	2,646,919	1,535,530
Inter-fund transfers (Note 16)	<u>(2,029,767)</u>	<u>(628,523)</u>
Fund balance, end of year	<u>\$ 1,677,613</u>	<u>\$ 1,060,461</u>

University of Prince Edward Island

Consolidated schedule of Research operations and changes in fund balances

Year ended April 30

2017

2016

	Main Campus	AVC	Total	Total
Revenues				
Deferred revenue, beginning of year	\$ 3,328,511	\$ 2,948,061	\$ 6,276,572	\$ 5,736,507
Research funds received	6,262,358	6,605,234	12,867,592	13,136,106
Deferred revenue, end of year	<u>(2,598,752)</u>	<u>(3,937,909)</u>	<u>(6,536,661)</u>	<u>(6,276,572)</u>
	<u>6,992,117</u>	<u>5,615,386</u>	<u>12,607,503</u>	<u>12,596,041</u>
Expenditures				
Salaries and benefits	3,547,501	2,919,147	6,466,648	6,827,695
Supplies	972,892	792,209	1,765,101	1,445,540
Travel	616,477	357,164	973,641	945,465
Externally contracted services	747,049	379,065	1,126,114	900,260
Scholarships	<u>159,353</u>	<u>32,300</u>	<u>191,653</u>	<u>49,411</u>
	<u>6,043,272</u>	<u>4,479,885</u>	<u>10,523,157</u>	<u>10,168,371</u>
Excess of revenue over expenditure before inter-fund transfers	<u>\$ 948,845</u>	<u>\$ 1,135,501</u>	<u>\$ 2,084,346</u>	<u>\$ 2,427,670</u>
<hr/>				
Fund balances, beginning of year	\$ 1,053,321	\$ 1,244,018	\$ 2,297,339	\$ 3,333,237
Excess of revenue over expenditure before inter-fund transfers	948,845	1,135,501	2,084,346	2,427,670
Inter-fund transfers (Note 16)	<u>(7,227)</u>	<u>(881,075)</u>	<u>(888,302)</u>	<u>(3,463,568)</u>
Fund balances, end of year	<u>\$ 1,994,939</u>	<u>\$ 1,498,444</u>	<u>\$ 3,493,383</u>	<u>\$ 2,297,339</u>
<hr/>				
Unspent funds at year end				
Fund balances	\$ 1,994,939	\$ 1,498,444	\$ 3,493,383	\$ 2,297,339
Deferred revenue	<u>2,598,752</u>	<u>3,937,909</u>	<u>6,536,661</u>	<u>6,276,572</u>
	<u>\$ 4,593,691</u>	<u>\$ 5,436,353</u>	<u>\$ 10,030,044</u>	<u>\$ 8,573,911</u>