Consolidated Financial Statements

University of Prince Edward Island

April 30, 2018

Contents

Independent auditors' report

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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, 2018, the consolidated statements of operations, changes in fund balances and cash flows for the year ended April 30, 2018 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, 2018, 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.

Grant Thornton LLP

Charlottetown, Prince Edward Island

September 25, 2018

Chartered Professional Accountants

University of Prince Edward Island
Consolidated statement of operations

Year ended April 30, 2018

	Operating	Research	Post-retirement benefits	Capital assets	Endowment	**2018 Total**	2017 Total
Revenue							
Grants and contracts (Note 17)	$ 61,439,611	$ 11,071,764	$	$ 972,428	$	**$ 73,483,803**	$ 75,347,968
Amortization of deferred revenue				3,448,276		**3,448,276**	3,474,861
Student fees	28,907,246					**28,907,246**	27,802,396
International fees	10,680,880					**10,680,880**	9,151,412
Ancillaries	8,234,721					**8,234,721**	8,309,778
Sales and other revenues	12,195,587					**12,195,587**	10,373,889
Investment income	1,554,800		85,239			**1,640,039**	3,901,972
Donations	2,315,496					**2,315,496**	2,301,641
	125,328,341	11,071,764	85,239	4,420,704	-	**140,906,048**	140,663,917
Expenditure							
Salaries and benefits	73,461,531	6,531,341				**79,992,872**	76,675,309
Supplies	9,726,596	1,856,409				**11,583,005**	10,939,313
Depreciation	9,187,600					**9,187,600**	9,049,334
Other	3,204,460					**3,204,460**	3,319,384
Utilities	5,901,706					**5,901,706**	5,588,476
Travel	1,831,526	955,461				**2,786,987**	2,611,585
Repairs and maintenance	2,642,971					**2,642,971**	3,048,718
Library subscriptions	1,365,365					**1,365,365**	1,425,017
Post-retirement benefits (Note 9)			6,404,721			**6,404,721**	8,943,188
Externally contracted services and memberships	3,307,686	615,717				**3,923,403**	4,416,003
Scholarships and bursaries (Note 17)	5,969,291	79,583				**6,048,874**	5,879,398
Interest				1,824,068		**1,824,068**	1,777,905
	116,598,732	10,038,511	6,404,721	1,824,068	-	**134,866,032**	133,673,630
Excess of revenue over expenditure before inter-fund transfers	$ 8,729,609	$ 1,033,253	$ (6,319,482)	$ 2,596,636	$ -	**$ 6,040,016**	$ 6,990,287

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island
Consolidated statement of changes in fund balances

Year ended April 30, 2018

	Operating	Research	Post-retirement benefits	Capital assets	Endowment	**2018 Total**	2017 Total
Fund balance, beginning of year	$ 4,824,068	$ 3,493,383	$ (16,851,376)	$ 57,487,881	$ 32,116,441	**$ 81,070,397**	$ 44,153,934
Excess revenue (expenditure) before Inter-fund transfers	8,729,609	1,033,253	(6,319,482)	2,596,636	-	**6,040,016**	6,990,287
Re-measurement and other adjustments (Note 9)	-	-	1,317,591	-	-	**1,317,591**	28,482,273
Endowment additions	-	-	-	-	3,628,636	**3,628,636**	1,443,903
Inter-fund transfers (Note 16)	(8,562,803)	(983,158)	7,232,839	2,313,122	-	**-**	-
Fund balances, end of year	$ 4,990,874	$ 3,543,478	$ (14,620,428)	$ 62,397,639	$ 35,745,077	**$ 92,056,640**	$ 81,070,397
					(Note 15)		

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island
Consolidated statement of financial position

April 30, 2018

	Operating	Research	Post-retirement benefits	Capital assets	Endowment	2018 Total	2017 Total
Assets							
Current - Cash and cash equivalents	$ 24,152,397	$	$	$	$	**$ 24,152,397**	$ 16,775,088
- Receivables (Note 3)	4,117,270	2,331,713		69,139		**6,518,122**	12,399,838
- Inventory and other	1,198,971			73,450		**1,272,421**	1,692,174
	29,468,638	2,331,713	-	142,589	-	**31,942,940**	30,867,100
Investments (Note 4)	26,243,268		21,258,166	11,209,238	35,745,077	**94,455,749**	83,433,422
Due from (to) other funds	(12,045,491)	8,074,411		3,971,080		**-**	-
Capital assets (Note 5)				198,007,718		**198,007,718**	197,190,383
Intangible assets (Note 6)				4,188,597		**4,188,597**	3,523,063
	$ 43,666,415	$ 10,406,124	$ 21,258,166	$ 217,519,222	$35,745,077	**$ 328,595,004**	$315,013,968
Liabilities							
Current - Payables and accruals (Note 7)	$ 12,442,817	$ 34,557	$	$ 545,807	$	**$ 13,023,181**	$ 11,382,973
- Current portion of long term debt				3,920,158		**3,920,158**	3,952,862
- Deferred revenue (Note 8)	9,355,496					**9,355,496**	7,795,749
	21,798,313	34,557	-	4,465,965	-	**26,298,835**	23,131,584
Defined benefit liabilities (Note 9)			35,878,594			**35,878,594**	36,893,229
Long term obligations (Note 10)				34,283,986		**34,283,986**	34,664,144
	21,798,313	34,557	35,878,594	38,749,951	-	**96,461,415**	94,688,957
Deferred revenue							
Research contracts		6,828,089				**6,828,089**	6,536,661
Capital assets (Note 12)				116,371,632		**116,371,632**	115,247,369
Other (Note 13)	16,877,228					**16,877,228**	17,470,584
	38,675,541	6,862,646	35,878,594	155,121,583	-	**236,538,364**	233,943,571
Fund balances							
Invested in capital assets				51,188,401		**51,188,401**	50,680,992
Internally restricted - post-retirement benefit			(14,620,428)			**(14,620,428)**	(16,851,376)
Externally restricted - endowments					29,230,063	**29,230,063**	25,987,148
Internally restricted (Note 14)		3,543,478		11,209,238	6,515,014	**21,267,730**	16,429,565
Unrestricted	4,990,874					**4,990,874**	4,824,068
	4,990,874	3,543,478	(14,620,428)	62,397,639	35,745,077	**92,056,640**	81,070,397
	$ 43,666,415	$ 10,406,124	$ 21,258,166	$ 217,519,222	$ 35,745,077	**$328,595,004**	$315,013,968

(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, 2018	**2018**	2017
Operating		
Excess of revenue over expenditure before inter-fund transfer	**$ 6,040,016**	$ 6,990,287
Amortization of deferred contributions	**(3,448,276)**	(3,474,861)
Amortization of deferred revenue	**(321,346)**	4,283,268
Re-measurement and other adjustments	**1,317,591**	28,482,273
Realized and unrealized investment gains	**(1,225,015)**	(6,689,514)
Depreciation of capital and intangible assets	**9,187,600**	9,049,334
Change in employee future benefit obligation	**(1,014,635)**	(27,476,949)
Changes in non-cash operating working capital		
Receivables	**5,881,716**	(5,768,600)
Inventory and other	**419,753**	(42,983)
Payables and accruals	**466,289**	418,999
Contributions related to operating	**1,559,747**	458,774
Contributions related tor research	**291,428**	260,089
Net cash generated through operating activities	**19,154,868**	6,490,117
Financing		
Contributions related to special purpose	**3,291,076**	1,489,960
Contributions related to capital assets	**4,572,539**	5,710,283
Proceeds from long-term obligations	**3,540,000**	14,188,000
Principal repayments on long term obligations	**(3,952,862)**	(3,708,154)
Net cash generated through financing activities	**7,450,753**	17,680,089
Investing		
Purchase of capital and intangible assets	**(9,685,163)**	(16,740,044)
Purchase of investments	**(13,600,000)**	(9,087,483)
Disposal of investments	**4,056,851**	4,192,832
Net cash used in financing activities	**(19,228,312)**	(21,634,695)
Net increase in cash and cash equivalents	**7,377,309**	2,535,511
Cash and cash equivalents, beginning of year	**16,775,088**	14,239,577
Cash and cash equivalents, end of year	**$ 24,152,397**	$ 16,775,088

See accompanying notes to the consolidated financial statements.

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.

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 Fund Balances, 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.

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

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.

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 consolidated 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 consolidated financial statement date. Non-monentary 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 consolidated financial statements at the exchange rate in effect on the consolidated 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 consolidated 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

	2018	2017
Operating fund		
Provincial grants	**$ 314,027**	$ 4,751,819
Sales and services	**598,062**	568,158
Student accounts	**1,730,650**	1,964,686
Other	**1,474,531**	1,342,191
	4,117,270	8,626,854
Capital asset fund	**69,139**	82,917
Research fund	**2,331,713**	3,690,067
	$ 6,518,122	$ 12,399,838

4. Investments

	2018	2017
Operating fund	**$ 26,243,268**	$ 24,468,238
Post-retirement benefits fund		
Health benefit plan	**16,879,707**	15,784,719
Retirement allowances	**3,622,100**	3,534,240
Supplementary retirement benefits	**756,359**	722,894
	21,258,166	20,041,853
Capital asset fund	**11,209,238**	6,806,890
Endowment fund	**35,745,077**	32,116,441
	$ 94,455,749	$ 83,433,422

Investments summary	2018 Cost	2018 Market	2017 Cost	2017 Market
Equities	**$66,188,498**	**$ 72,813,325**	$ 63,020,351	$ 69,269,559
Fixed – amortized cost	**517,499**	**525,358**	1,117,517	1,163,863
Fixed – fair market value	**21,000,000**	**21,117,066**	13,000,000	13,000,000
Total	**$ 87,705,997**	**$ 94,455,749**	$ 77,137,868	$ 83,433,422

5. Capital assets

	Cost	Accumulated depreciation	2018 Net book value	2017 Net book value
Land	$ 986,407	$ -	**$ 986,407**	$ 986,407
Site improvements	14,273,177	5,875,227	**8,397,950**	7,775,065
Buildings	231,656,409	74,352,092	**157,304,317**	155,651,960
Furniture, equipment and vehicles	54,722,754	26,781,752	**27,941,002**	29,159,854
Library materials	12,246,922	8,868,880	**3,378,042**	3,617,097
	$ 313,885,669	$115,877,951	**$ 198,007,718**	$ 197,190,383

6. Intangible assets

	Cost	Accumulated depreciation	2018 Net book value	2017 Net book value
Computer software	$ $6,063,987	$ 1,875,390	**$ 4,188,597**	$ 3,523,063

Computer software expenditures under development as of April 30, 2018 are $5,979,841 (2017 - $4,258,658) at cost.

7. Payables and accruals

	2018	2017
Operating fund		
Trade	$ 5,760,999	$ 5,391,949
Accrued payroll	1,618,595	1,213,907
Accrued vacation and other leaves	4,288,743	3,859,887
Faculty development allowance	568,240	459,606
Government remittances	206,240	78,276
	12,442,817	11,003,625
Capital asset fund		
Accrued interest	113,754	141,336
Construction holdbacks and payables	432,053	188,615
	545,807	329,951
Research fund		
Accrued payroll	34,557	49,397
	$ 13,023,181	$ 11,382,973

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:

	2018	2017
Beginning balance	$ 7,795,749	$ 7,336,975
Resources received	10,113,240	9,717,002
Recognized as revenue	(8,553,493)	(9,258,228)
Ending balance	$ 9,355,496	$ 7,795,749

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 allowance, and a health benefit plan are determined by Eckler Ltd. The last acturial valuations completed for the future retirement allowance and the health benefit plan was April 30, 2018 and for the pension plan was September 30, 2016. Funding of supplementary retirement obligations is determined in accordance with conditions of specific agreements.

	2018	2017
Net expense for the University's benefit plans is as follows:		
Pension	$ 3,691,400	$ 6,341,647
Other benefit plans		
Health benefits	2,131,649	2,213,678
Retirement allowances	581,672	387,863
	2,713,321	2,601,541
Expense per statement of operations	$ 6,404,721	$ 8,943,188

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, 2018 and April 30, 2017 were as follows:

	Pension plan		Post-retirement benefit plans	
	2018	2017	**2018**	2017
Funded status and amounts recognized, end of year				
Fair value of plan net assets	**$ 263,613,469**	$ 253,199,582	**$ -**	$ -
Benefit obligation	**(266,378,031)**	(252,748,851)	**(29,814,594)**	(30,669,229)
Valuation allowance	**-**	(450,731)	**-**	-
Shared risk funding agreement	**(3,299,438)**	(6,224,000)	**-**	-
Funded status, end of year	**$ (6,064,000)**	$ (6,224,000)	**$ (29,814,594)**	$ (30,669,229)

	2018	2017
Accrued benefit liability		
Pension plan	**$ (6,064,000)**	$ (6,224,000)
Other benefit plans	**(29,814,594)**	(30,669,229)
Liability per statement of financial position	**$ (35,878,594)**	$ (36,893,229)

	2018	2017
Re-measurement and other adjustments		
Actuarial (loss) gain on assets	**$ (2,409,861)**	$ 16,032,597
Actuarial gain on liabilities	**3,727,452**	12,449,676
	$ 1,317,591	$ 28,482,273

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 through employer contributions to the plan.

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.

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

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:

	2018	2017
Cash and cash equivalents	**1%**	1%
Government and corporate bonds	**21%**	21%
Mortgages	**5%**	4%
Real estate fund	**12%**	13%
Infrastructure fund	**6%**	5%
Equities and mutual funds	**55%**	56%

The significant actuarial assumptions adopted in measuring the University's defined benefit obligations for the pension plan is a discount rate of 6.00% (2017 – 6.00%) and for the future retirement allowances is a discount rate of 6.00% (2017 - 6.00%), expected long term rate of return on plan assets of 6.0% (2017: 6.0%), and a rate of compensation increase of 3.5% per annum. For the health benefits plan a 6.0% (2017: 6.0%) discount rate and 3.5% (2017: 3.5%) 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:	**2018**	2017
Employer contributions	**$ 4,737,758**	$ 6,555,208
Employee contributions and transfers in	**5,215,561**	4,572,225
Benefits paid and transfers out	**12,256,452**	12,179,361

The health benefit plan liability has been estimated to equal $25,436,157 (2017: $26,421,100) based on the last actuarial valuation as of April 30, 2018. In 2018, $16,879,707 (2017: $15,784,719) 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 $3,622,100 as of April 30, 2018, (2017: $3,534,240) based on actuarial valuation and the rates of funding required for future service as determined by the actuary at that time. Investment assets equal to the full amount of the liability have been internally allocated to fund this liability.

Supplementary retirement obligations amount to $756,349 (2017 - $722,896) 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

	2018	2017
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 $1,102,750.	**$ 26,011**	$ 75,690
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.	**423,001**	482,897
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.	**685,800**	914,400
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.	**680,000**	906,667
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.	**1,450,000**	1,836,667
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.	**633,333**	766,667
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.	**2,066,667**	2,480,000
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.	**450,000**	650,000
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.	**2,871,000**	3,587,000

10. Long term obligations (cont'd)

	2018	2017
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.	**12,949,000**	13,419,000
CDOR plus 0.85%, hedged at 2.68% Royal Bank long term loan on the Artificial Turf Field and Strategic Initiative Fund Projects, payable in $48,583 average quarterly principal payments plus interest over the life of the loan, amortized and maturing in 2038.	**4,026,000**	541,000
Other long term obligations:		
CDOR plus 0.25%, hedged at 4.69%, 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.	**2,074,100**	2,163,438
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.	**7,385,232**	7,777,580
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.	**2,484,000**	2,836,000
Loan repaid during the year	**-**	180,000
	38,204,144	38,617,006
Less: current portion	**3,920,158**	3,952,862
	$ 34,283,986	$ 34,664,144

Annual principal repayments in each of the next five years are due as follows: 2019 - $3,920,159; 2020 - $3,953,701; 2021 - $3,863,244; 2022 - $3,226,292; 2023 - $2,348,510.

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 of 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, 2018 was $37,755,132 (2017 - $38,058,419). 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, 2018, it would have been obligated to incur a payment of $2,823,119 (2017 - $5,742,492), the fair value of the swaps.

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:

	2018	2017
General deferred revenue, capital assets		
Beginning balance	**$ 115,247,369**	$ 113,011,947
Capital grants and donations received	**4,572,539**	5,710,283
Capital grants and donations recognized, net	**(3,448,276)**	(3,474,861)
Ending balance	**$ 116,371,632**	$ 115,247,369

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:

	2018	2017
Beginning balance	**$ 17,470,584**	$ 12,993,498
Contributions received	**552,413**	824,423
Income earned	**2,985,309**	6,468,902
Recognized as revenue	**(4,131,078)**	(2,816,239)
Ending balance	**$ 16,877,228**	$ 17,470,584
Representing:		
Unexpended investment income on endowment funds (Note 15)	**$ 9,217,895**	$ 9,721,677
Special purpose funds	**7,659,333**	7,748,907
	$ 16,877,228	$ 17,470,584

14. Internal restrictions on fund balances

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

	2018	2017
Capital Renovations		
AVC	**$ 2,629,057**	$ 1,129,057
Dalton Hall	**1,359,900**	1,359,900
Parking lots	**-**	973,000
Robertson Library	**660,500**	-
Memorial Hall	**296,000**	123,000
Other projects	**876,279**	988,661
	5,821,736	4,573,618
AVC equipment replacement fund	**1,800,000**	800,000
Technology infrastructure fund	**3,000,000**	-
Technology development fund	**587,502**	1,433,271
	11,209,238	6,806,889
Endowment	**6,515,014**	6,129,293
Research	**3,543,478**	3,493,383
	$ 21,267,730	$ 16,429,565

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.

	2018	2017
Endowment fund		
Externally restricted	**$ 29,230,063**	$ 25,987,148
Internally restricted	**6,515,014**	6,129,293
	35,745,077	32,116,441
Operating fund		
Deferred revenue, unexpended investment income (Note 13)	**9,217,895**	9,721,677
	$ 44,962,977	$ 41,838,118

16. Inter-fund transfers

	Operating				
	Unrestricted Main Campus	Unrestricted AVC	Research	Post-retirement benefits	Capital assets
Depreciation	$ 6,790,990	$ 2,396,610	$	$	$ (9,187,600)
Equipment additions	(231,654)	(497,486)	(1,108,003)		1,837,143
Library materials	(57,046)	(36,117)			93,163
Principal debt repayment	(591,262)	(352,000)			943,262
Internal financing	(5,253,395)	(2,657,517)			7,910,912
Research	(294,682)	48,530	246,152		
Interest repayment	(595,582)	(120,660)			716,242
Post-retirement health benefits	(1,454,910)	(384,542)		1,839,452	
Retirement allowance	(288,532)	(333,597)		622,129	
Pension plan	(3,347,226)	(1,302,725)	(121,307)	4,771,258	
	$ (5,323,299)	$ (3,239,504)	$ (983,158)	$ 7,232,839	$ 2,313,122

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 $1,481,000 (2017 - $1,415,600).

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 $419,954 (2017 - $639,869) 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 $210,421 (2017 - $404,417).

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. Comparative figures

Certain of the 2017 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, 2018

	2018	2017
Revenue		
Grants and contracts	**$ 22,085,335**	$ 21,835,511
Student fees	**3,498,159**	3,510,834
International fees	**5,001,387**	4,495,150
Sales and other revenues	**9,191,749**	7,998,683
Investment income	**224,928**	97,244
Donations	**455,826**	359,623
	40,457,384	38,297,045
Expenditure		
Salaries and benefits	**23,951,170**	23,516,196
Supplies	**3,652,295**	3,031,385
Depreciation	**2,396,610**	2,511,857
Other	**1,367,961**	821,193
Utilities	**2,511,285**	2,430,898
Travel	**442,516**	293,893
Repairs and maintenance	**645,963**	895,969
Library subscriptions	**419,320**	434,551
Externally contracted services and memberships	**1,407,866**	1,459,658
Scholarships and bursaries	**275,770**	254,526
	37,070,756	35,650,126
Excess of revenue over expenditure before inter-fund transfers	**$ 3,386,628**	$ 2,646,919

	2018	2017
Fund balance, beginning of year	**$ 1,677,613**	$ 1,060,461
Excess of revenue over expenditure before inter-fund transfers	**3,386,628**	2,646,919
Inter-fund transfers (Note 16)	**(3,239,504)**	(2,029,767)
Fund balance, end of year	**$ 1,824,737**	$ 1,677,613

University of Prince Edward Island
Consolidated schedule of Research operations and changes in fund balances

Year ended April 30, 2018

	Main Campus	AVC	**2018 Total**	2017 Total
Revenues				
Deferred revenue, beginning of year	$ 2,598,751	$ 3,937,910	**$ 6,536,661**	$ 6,276,572
Research funds received	6,726,582	4,636,610	**11,363,192**	12,867,592
Deferred revenue, end of year	(2,511,110)	(4,316,979)	**(6,828,089)**	(6,536,661)
	6,814,223	4,257,541	**11,071,764**	12,607,503
Expenditures				
Salaries and benefits	3,913,168	2,618,173	**6,531,341**	6,466,648
Supplies	900,511	955,898	**1,856,409**	1,765,101
Travel	596,634	358,827	**955,461**	973,641
Externally contracted services and memberships	418,524	197,193	**615,717**	1,126,114
Scholarships and bursaries	8,229	71,354	**79,583**	191,653
	5,837,066	4,201,445	**10,038,511**	10,523,157
Excess of revenue over expenditure before inter-fund transfers	$ 977,157	$ 56,096	**$ 1,033,253**	$ 2,084,346

	Main Campus	AVC	**2018 Total**	2017 Total
Fund balances, beginning of year	$ 1,994,939	$ 1,498,444	**$ 3,493,383**	$ 2,297,339
Excess of revenue over expenditure before inter-fund transfers	977,157	56,096	**1,033,253**	2,084,346
Inter-fund transfers (Note 16)	(860,559)	(122,599)	**(983,158)**	(888,302)
Fund balances, end of year	$ 2,111,537	$ 1,431,941	**$ 3,543,478**	$ 3,493,383

	Main Campus	AVC	**2018 Total**	2017 Total
Unspent funds at year end				
Fund balances	$ 2,111,537	$ 1,431,941	**$ 3,543,478**	$ 3,493,383
Deferred revenue	2,511,110	4,316,979	**6,828,089**	6,536,661
	$ 4,622,647	$ 5,748,920	**$ 10,371,567**	$ 10,030,044