Consolidated Financial Statements

University of Prince Edward Island

April 30, 2016

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, 2016, the consolidated statements of operations, changes in fund balances and cash flows for the year ended April 30, 2016, 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.

Auditor's 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.

Grant Thornton

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, 2016, 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 22, 2016

Chartered Professional Accountants

University of Prince Edward Island
Consolidated statement of operations

Year ended April 30

	Operating	Research	Post-retirement benefits	Capital assets	Endowment	2016 Total	2015 Total
Revenue							
Grants and contracts (Note 17)	$ 58,657,651	$ 12,596,041		$ 834,934		**$ 72,088,626**	$ 70,436,720
Amortization of deferred revenue				3,493,702		**3,493,702**	3,542,377
Student fees	26,181,060					**26,181,060**	25,351,905
International fees	8,040,033					**8,040,033**	7,160,760
Ancillaries	8,477,592					**8,477,592**	8,678,798
Sales and other revenues	10,374,628					**10,374,628**	9,785,995
Investment income	1,447,254		$309,773			**1,757,027**	3,356,675
Donations	2,866,610					**2,866,610**	2,571,284
	116,044,828	12,596,041	309,773	4,328,636	-	**133,279,278**	130,884,514
Expenditure							
Salaries and benefits	68,088,665	6,827,695				**74,916,360**	72,770,850
Supplies	8,990,120	1,445,540				**10,435,660**	10,229,015
Depreciation	7,840,757					**7,840,757**	7,908,654
Other	2,714,122					**2,714,122**	2,418,066
Utilities	5,112,106					**5,112,106**	5,465,064
Travel	1,629,886	945,465				**2,575,351**	2,445,664
Repairs and maintenance	2,650,722					**2,650,722**	2,265,345
Library subscriptions	1,226,885					**1,226,885**	1,038,119
Post-retirement benefits (Note 9)			7,979,238			**7,979,238**	8,193,605
Externally contracted services and memberships	2,780,412	900,260				**3,680,672**	3,765,482
Scholarships and bursaries (Note 17)	5,467,139	49,411				**5,516,550**	5,603,665
Interest				1,652,786		**1,652,786**	1,834,699
Advertising	304,327					**304,327**	307,146
Insurance	280,523					**280,523**	288,652
	107,085,664	10,168,371	7,979,238	1,652,786	-	**126,886,059**	124,534,026
Excess of revenue over expenditure before inter-fund transfers	$ 8,959,164	$ 2,427,670	$ (7,669,465)	$ 2,675,850	$ -	**$ 6,393,219**	$ 6,350,488

See accompanying notes to the consolidated financial statements.

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

Year ended April 30

	Operating	Research	Post-retirement benefits	Capital assets	Endowment	**2016 Total**	2015 Total
Fund balance, beginning of year	$ 5,783,856	$ 3,333,237	$ (36,134,287)	$ 46,566,171	$ 29,224,215	**$ 48,773,192**	$ 35,060,111
Excess revenue (expenditure) before Inter-fund transfers	8,959,164	2,427,670	(7,669,465)	2,675,850	-	**6,393,219**	6,350,488
Re-measurement and other adjustments (Note 9)	-	-	(12,460,800)	-	-	**(12,460,800)**	5,005,200
Endowment additions	-	-	-	-	1,448,323	**1,448,323**	2,357,393
Inter-fund transfers (Note 16)	(10,210,102)	(3,463,568)	9,285,468	4,388,202	-	**-**	-
Fund balances, end of year	$ 4,532,918	$ 2,297,339	$(46,979,084)	$ 53,630,223	$ 30,672,538	**$ 44,153,934**	$ 48,773,192
					(Note 15)		

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island
Consolidated statement of financial position

April 30	Operating	Research	Post-retirement benefits	Capital assets	Endowment	**2016 Total**	2015 Total
Assets							
Current - Cash and cash equivalents	$ 14,239,576					**$ 14,239,576**	$ 18,541,430
- Receivables (Note 3)	3,711,339	$ 2,919,899				**6,631,238**	5,541,897
- Inventory and other	1,649,191					**1,649,191**	1,500,927
	19,600,106	2,919,899				**22,520,005**	25,584,254
Investments (Note 4)	17,341,663	33,351	$ 17,391,094	$ 3,593,153	$ 30,672,538	**69,031,799**	72,854,717
Due from (to) other funds	(1,303,028)	5,620,661		(4,317,633)		**-**	-
Capital assets (Note 5)				195,810,446		**195,810,446**	183,302,760
Intangible assets (Note 6)				2,363,467		**2,363,467**	-
	$ 35,638,741	$ 8,573,911	$ 17,391,094	$ 197,449,433	$30,672,538	**$289,725,717**	$281,741,731
Liabilities							
Current - Payables and accruals (Note 7)	$ 10,775,350			$ 2,670,106		**$ 13,445,456**	$ 9,661,346
- Current portion of long term debt				3,480,154		**3,480,154**	3,522,469
- Deferred revenue (Note 8)	7,336,975					**7,336,975**	7,587,850
	18,112,325			6,150,260		**24,262,585**	20,771,665
Defined benefit liabilities (Note 9)			$ 64,370,178			**64,370,178**	52,302,915
Long term obligations (Note 10)				24,657,003		**24,657,003**	28,137,159
	18,112,325		64,370,178	30,807,263		**113,289,766**	101,211,739
Deferred revenue							
Research contracts		$ 6,276,572				**6,276,572**	5,736,507
Capital assets (Note 12)				113,011,947		**113,011,947**	111,065,864
Other (Note 13)	12,993,498					**12,993,498**	14,954,429
	31,105,823	6,276,572	64,370,178	143,819,210		**245,571,783**	232,968,539
Fund balances							
Invested in capital assets				50,037,063		**50,037,063**	35,319,279
Internally restricted - post-retirement benefit			(46,979,084)			**(46,979,084)**	(36,134,287)
Externally restricted - endowments					$ 24,699,556	**24,699,566**	23,449,315
Internally restricted (Note 14)		2,297,339		3,593,160	5,972,982	**11,863,481**	20,355,029
Unrestricted	4,532,918					**4,532,918**	5,783,856
	4,532,918	2,297,339	(46,979,084)	53,630,223	30,672,538	**44,153,934**	48,773,192
	$ 35,638,741	$ 8,573,911	$ 17,391,094	$ 197,449,433	$ 30,672,538	**$289,725,717**	$281,741,731

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	**2016**	2015
Cash flows from operating activities		
Cash received from (paid for)		
Provincial governments for operations	**$ 58,933,015**	$ 55,788,269
Operations	**52,607,236**	53,951,164
Restricted grants	**12,611,113**	14,022,252
Investment income received for operating purposes	**1,817,613**	1,639,756
Donations	**2,578,424**	2,714,081
Salaries and benefits	**(84,311,411)**	(80,694,138)
Materials and service	**(32,634,408)**	(33,304,007)
Interest	**(1,667,009)**	(1,850,592)
Net cash generated through operating activities	**9,934,573**	12,266,785
Cash flows from investing activities		
Cash received from (paid for)		
Restricted grants and interest for capital assets	**4,296,326**	4,050,541
Restricted and endowment donations	**669,388**	1,680,080
Purchase of capital assets and intangibles	**(20,737,544)**	(5,935,235)
Proceeds from sale (purchase) of investments, net	**5,057,872**	(7,409,308)
Net cash used in financing and investing activities	**(10,713,958)**	(7,613,922)
Cash flows from financing activities		
Cash received from (paid for)		
Principal payments on long term obligations	**(3,522,469)**	(3,489,983)
Net increase in cash and cash equivalents	**(4,301,854)**	1,162,880
Cash and cash equivalents, beginning of year	**18,541,430**	17,378,550
Cash and cash equivalents, end of year	**$ 14,239,576**	$ 18,541,430

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 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.

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.

The computer software was still in development at year end and not in production, therefore, there has been no amortization by the University in the current year. Management is currently determining the useful life of the asset which will determine the rate of amortization to be used in future periods.

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 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-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 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

	2016	2015
Operating fund		
MPHEC grant	**$ 348,576**	$ 623,931
Sales and services	**980,818**	880,418
Student accounts	**1,492,598**	1,349,052
Other	**889,347**	833,651
	3,711,339	3,687,052
Research fund	**2,919,899**	1,854,845
	$ 6,631,238	$ 5,541,897

4. Investments

	2016	2015
Operating fund	**$ 17,341,663**	$ 16,181,632
Research fund	**33,351**	33,351
Post-retirement benefits fund		
Health benefit plan	**12,928,743**	11,119,823
Retirement allowances	**3,754,490**	4,219,692
Supplementary retirement benefits	**707,861**	829,113
	17,391,094	16,168,628
Capital assets fund		
Capital projects fund	**3,593,153**	11,246,891
Endowment fund	**30,672,538**	29,224,215
	$ 69,031,799	$ 72,854,717

Investments summary	**2016**		2015	
	Cost	**Market**	Cost	Market
Equities	**$58,612,547**	**$60,747,954**	$ 55,440,672	$60,594,958
Fixed – amortized cost	**1,117,571**	**1,192,970**	1,117,571	1,135,013
Fixed – fair market value	**7,000,000**	**7,090,875**	11,000,000	11,124,746
Total	**$66,730,118**	**$69,031,799**	$ 67,558,243	$72,854,717

5. Capital assets

			2016	2015
	Cost	Accumulated depreciation	**Net book value**	Net book value
Land	$ 986,407	$ -	**$ 986,407**	$ 814,301
Site improvements	12,518,052	5,201,351	**7,316,701**	7,617,977
Buildings	220,718,473	66,547,896	**154,170,577**	141,195,391
Furniture, equipment and vehicles	53,617,843	24,218,014	**29,399,829**	29,421,251
Library materials	12,659,788	8,722,856	**3,936,932**	4,253,840
	$ 300,500,563	$104,690,117	**$ 195,810,446**	$ 183,302,760

Facilities under construction as of April 30, 2016 are $18,875,705 at cost.

6. Intangible assets

			2016	2015
	Cost	Accumulated depreciation	**Net book value**	Net book value
Computer software	$ 2,363,467	$ -	**$ 2,363,467**	**$ -**

Computer software expenditures under development as of April 30, 2016 are $2,363,467 (2015 - $1,351,250) at cost.

7. Payables and accruals

	2016	2015
Operating fund		
Accrued interest	**$ 134,530**	$ 148,746
Faculty development allowance	**351,253**	363,699
Accrued payroll	**1,503,172**	1,174,441
Trade	**5,291,504**	3,253,388
Government remittances	**7,586**	4,573
Accrued vacation and other leaves	**3,487,305**	3,365,242
	10,775,350	8,310,089
Capital asset fund		
Construction holdbacks and payables	**2,670,106**	1,351,257
	$ 13,445,456	$ 9,661,346

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:

	2016	2015
Beginning balance	**$ 7,587,850**	$ 5,289,128
Resources received	**7,159,209**	10,471,742
Recognized as revenue	**(7,410,084)**	(8,173,020)
Ending balance	**$ 7,336,975**	$ 7,587,850

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 acturial valuations completed for the future retirement allowance and the health benefit plan was April 30, 2015, and for the pension plan was April 30, 2014. Funding of supplementary retirement obligations is determined in accordance with conditions of specific agreements.

	2016	2015
Net expense for the University’s benefit plans is as follows:		
Pension	**$ 5,479,200**	$ 5,662,100
Other benefit plans		
Health benefits	**2,109,600**	2,068,964
Retirement allowances	**390,438**	462,541
	2,500,038	2,531,505
Expense per statement of operations	**$ 7,979,238**	$ 8,193,605

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, 2016 and April 30, 2015 were as follows:

	Pension plan		Post-retirement benefit plans	
	2016	2015	**2016**	2015
Change in defined benefit obligation:				
Defined benefit obligation, beginning of year	**$ 244,210,226**	$ 231,505,000	**$ 30,625,092**	$ 30,286,843
Service cost	**8,656,633**	8,427,243	**982,838**	1,140,146
Interest cost	**13,991,167**	13,242,121	**1,517,064**	1,507,812
Transfer in	**101,991**	344,452	**-**	-
Gross benefits paid and transfers out	**(10,529,781)**	(11,186,167)	**(1,146,764)**	(1,147,263)
Actuarial gains and losses	**1,251,737**	1,877,577	**-**	(1,162,446)
Defined benefit obligation, end of year	**$ 257,681,973**	$ 244,210,226	**$ 31,978,230**	$ 30,625,092
Change in plan net assets:				
Fair value of plan assets, beginning of year	**$ 222,532,403**	$ 204,778,755	**$ -**	$ -
Actual return on plan assets	**1,619,195**	17,502,382	**-**	-
Employer contributions	**7,225,937**	6,867,713	**-**	-
Transfer in	**101,991**	344,452	**-**	-
Plan participant's contributions	**4,340,280**	4,225,268	**-**	-
Gross benefits paid and transfers out	**(10,529,781)**	(11,186,167)	**-**	-
Fair value of plan net assets, end of year	**$ 225,290,025**	$ 222,532,403	**$ -**	$ -
Funded status and amounts recognized, end of year				
Fair value of plan net assets	**$ 225,290,025**	$ 222,532,403	**$ -**	$ -
Benefit obligation	**(257,681,973)**	(244,210,226)	**(31,978,230)**	(30,625,092)
Funded status, end of year	**(32,391,948)**	(21,677,823)	**(31,978,230)**	(30,625,092)

	2016	2015
Accrued benefit liability		
Pension plan	**$ (32,391,948)**	$ (21,677,823)
Other benefit plans	**(31,978,230)**	(30,625,092)
Liability per statement of financial position	**$ (64,370,178)**	$ (52,302,915)

	2016	2015
Re-measurement and other adjustments		
Actuarial (loss) gain on assets	**$ (11,209,058)**	$ 5,720,376
Actuarial (loss) on liabilities	**(1,251,742)**	(715,176)
	$ (12,460,800)	$ (5,005,200)

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

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:

	2016	2015
Cash and cash equivalents	**1%**	1%
Government and corporate bonds	**23%**	22%
Mortgages	**5%**	5%
Real estate fund	**14%**	14%
Infrastructure fund	**5%**	-
Equities and mutual funds	**52%**	58%

The significant actuarial assumptions adopted in measuring the University's defined benefit obligations for the pension plan is a discount rate of 5.75% (2015 – 5.75%) and for the future retirement allowances is a discount rate of 5.75%, expected long term rate of return on plan assets of 5.75% (2015: 5.75%), and a rate of compensation increase of 4.00% per annum. For the health benefits plan a 5.75% (2015: 5.75%) discount rate and 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:	**2016**	2015
Employer contributions	**$ 7,224,745**	$ 6,867,713
Employees' contributions and transfers in	**4,441,644**	4,569,720
Benefits paid and transfers out	**10,529,781**	11,186,168

The health benefit plan liability has been estimated to equal $27,516,000 (2015: $26,180,202) based on the last actuarial valuation as of April 30, 2015. In 2016, $12,928,828 (2015: $11,119,822) 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 $3,754,490 as of April 30, 2016, (2015: $3,757,000) based on actuarial valuation and the rates of funding required for future service as determined by the actuary at that time. In 2016, $3,754,490 (2015 - $4,219,692) of investments have been internally allocated to fund this liability.

Supplementary retirement obligations amount to $707,861 (2015 - $687,746) 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	**2016**	2015
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 $1,002,676.	**$ 122,404**	$ 166,330
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 $2,783,015.	**538,475**	590,046
CDOR plus 0.25%, hedged at 5.36%, 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.	**1,143,000**	1,371,600
CDOR plus 0.25%, hedged at 4.94%, Bank of Montreal long term loan on Duffy Science Centre renovation, payable $60,000 quarterly principal plus interest, amortized to 2017 and maturing in 2021.	**420,000**	660,000
CDOR plus 0.25%, hedged at 5.36%, 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.	**1,133,333**	1,360,000
CDOR plus 0.25%, hedged at 5.60% 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.	**2,223,333**	2,610,000
CDOR plus 0.25%, hedged at 5.70%, Bank of Montreal long term loan on the AVC Expansion, payable $33,333 quarterly principal plus interest, amortized to 2023 and maturing in 2023.	**900,000**	1,033,333
CDOR plus 0.25%, hedged at 5.58%, Bank of Montreal long term loan on core renewal projects payable $103,333 quarterly principal plus interest, amortized to 2023 and maturing in 2023.	**2,893,334**	3,306,667
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.	**850,000**	1,050,000
CDOR plus 0.75%, hedged at 4.53%, Bank on 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.	**4,303,000**	5,019,000
Other long term obligations:		
CDOR plus 0.25%, hedged at 5.71%, 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.	**2,247,818**	2,327,516

10. Long term obligations (cont'd)

	2016	2015
CDOR plus 0.25%, hedged at 5.67%, Bank of Montreal long term loan on Bill and Denise Andrew Hall, payable $208,000 quarterly including interest, amortized to 2031 and maturing in 2016, funded by residence operations.	**8,149,363**	8,501,662
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 and maturing in 2020.	**3,188,000**	3,540,000
3.25% Royal Bank term loan payable $8,434 monthly including interest maturing in July 2016 and amortized until 2016. The loan relates to the construction of W A Murphy Student Centre, funded by the Student Union.	**25,097**	123,474
	28,137,157	31,659,628
Less: current portion	**3,480,154**	3,522,469
	$ 24,657,003	$ 28,137,159

Annual principal repayments in each of the next five years are due as follows: 2017 - $3,480,154; 2018 - $3,427,862; 2019 - $3,257,159; 2020 - $3,264,701; 2021 - $3,150,244.

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, 2016 was $27,451,181 (2015 - $30,779,778). 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, 2016, it would have been obligated to incur a payment of $5,036,258 (2015 - $5,488,195), the fair value of the swaps.

Subsequent to year end the University has entered into a new interest rate swap agreement with new financing totalling $13,647,000 that will be effective September 2016 and mature in September 2036.

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:

	2016	2015
General deferred revenue, capital assets		
Beginning balance	**$ 111,065,864**	$ 110,557,701
Capital grants and donations received	**5,439,785**	4,515,105
Capital grants and donations recognized, net	**(3,493,702)**	(4,006,942)
Ending balance	**$ 113,011,947**	$ 111,065,864

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:

	2016	2015
Beginning balance	**$ 14,954,429**	$ 14,858,914
Contributions received	**630,605**	889,309
Income earned	**1,405,271**	4,850,409
Recognized as revenue	**(3,996,807)**	(5,644,203)
Ending balance	**$ 12,993,498**	$ 14,954,429
Representing:		
Unexpended investment income on endowment funds (Note 15)	**$ 5,979,566**	$ 7,684,492
Special purpose funds	**7,013,932**	7,269,937
	$ 12,993,498	$ 14,954,429

14. Internal restrictions on fund balances

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

	2016	2015
Capital projects		
Capital renovations	**$ 1,111,793**	$ 1,301,399
Engineering capital fund	**-**	4,209,588
Technology development fund	**2,335,542**	4,500,000
Dalton Hall capital fund	**-**	1,000,000
Other	**145,825**	235,905
	3,593,160	11,246,892
Endowment	**5,972,982**	5,774,900
Research	**2,297,339**	3,333,237
	$ 11,863,481	$ 20,355,029

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.

	2016	2015
Endowment fund		
Externally restricted	**$ 24,699,556**	$ 23,449,315
Internally restricted	**5,972,982**	5,774,900
	30,672,538	29,224,215
Operating fund		
Deferred revenue, unexpended investment income (Note 13)	**5,979,566**	7,684,492
	$ 36,652,104	$ 36,908,707

16. Inter-fund transfers

	Operating Unrestricted Main Campus	Operating Unrestricted AVC	Research	Post-retirement benefits	Capital assets
Depreciation	$ 5,207,302	$ 2,633,455			$ (7,840,757)
Equipment additions	(894,802)	(328,635)	$ (2,183,569)		3,407,006
Library materials	(38,745)	(24,161)			62,906
Land, building & site improvements	-	-	(991,424)		991,424
Principal debt repayment	(527,492)	(352,000)			879,492
Internal financing	(6,045,092)	(25,186)			6,070,278
Research	(78,768)	211,609	(132,841)		
Interest repayment	(663,423)	(154,430)			817,853
Post-retirement health benefits	(1,355,311)	(393,557)		$ 1,748,868	
Retirement allowance	(226,581)	(84,119)		310,700	
Pension plan	(4,958,667)	(2,111,499)	(155,734)	7,225,900	
	$ (9,581,579)	$ (628,523)	$ (3,463,568)	$ 9,285,468	$ 4,388,202

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 $1,370,600 (2015 - $1,571,400).

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 $342,049 (2015 - $327,875) 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 $142,237 (2015 - $122,235).

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 construction of a new engineering building and related speciality engineering equipment for the School of Sustainable Design Engineering for a total estimated cost of $26,000,000. Financing for this project has been fully secured through the Province of Prince Edward Island, ACOA, loans from a chartered bank and the University's capital reserves.

20. Comparative figures

Certain of the 2015 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	2016	2015
Revenue		
Operating grants	**$ 21,313,606**	$ 20,973,004
Student fees	**3,297,898**	3,185,803
International fees	**3,897,469**	3,751,315
Sales and services	**8,139,362**	7,103,422
Investment income	**98,191**	71,676
Donations	**519,331**	428,282
	37,265,857	35,513,502
Expenditure		
Salaries and benefits	**23,771,179**	23,962,956
Supplies	**3,250,812**	3,169,919
Depreciation	**2,633,455**	2,700,253
Other	**756,594**	652,631
Utilities	**2,313,157**	2,578,163
Travel	**254,757**	278,393
Repairs and maintenance	**1,004,159**	613,841
Library subscriptions	**393,515**	364,111
Externally contracted services and memberships	**971,774**	853,123
Scholarships	**229,639**	162,015
Advertising	**36,029**	39,351
Insurance	**115,257**	118,886
	35,730,327	35,493,642
Excess of revenues over expenditures before inter-fund transfers	**$ 1,535,530**	$ 19,860

Fund balance, beginning of year	**$ 153,454**	$ 419,178
Excess of revenues over expenditures before inter-fund transfers	**1,535,530**	19,860
Inter-fund transfers (Note 16)	**(628,523)**	(285,584)
Fund balance, end of year	**$ 1,060,461**	$ 153,454

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

Year ended April 30

	Main Campus	AVC	**2016 Total**	2015 Total
Revenues				
Deferred revenue, beginning of year	$ 2,396,110	$ 3,340,397	**$ 5,736,507**	$ 7,122,875
Research funds received	7,822,227	5,313,879	**13,136,106**	11,667,833
Deferred revenue, end of year	(3,328,519)	(2,948,053)	**(6,276,572)**	(5,736,507)
	6,889,818	5,706,223	**12,596,041**	13,054,201
Expenditures				
Salaries and benefits	3,532,700	3,294,995	**6,827,695**	6,971,192
Supplies	505,277	940,263	**1,445,540**	1,580,160
Travel	551,773	393,692	**945,465**	930,515
Externally contracted services	462,865	437,395	**900,260**	1,189,918
Scholarships	34,581	14,830	**49,411**	52,601
	5,087,196	5,081,175	**10,168,371**	10,724,386
Excess of revenue over expenditure before inter-fund transfers	$ 1,802,622	$ 625,048	**$ 2,427,670**	$ 2,329,815

	Main Campus	AVC	**2016 Total**	2015 Total
Fund balances, beginning of year	$ 1,385,288	$ 1,947,949	**$ 3,333,237**	$ 2,226,126
Excess of revenue over expenditure before inter-fund transfers	1,802,622	625,048	**2,427,670**	2,329,815
Inter-fund transfers (Note 16)	(2,134,589)	(1,328,979)	**(3,463,568)**	(1,222,704)
Fund balances, end of year	$ 1,053,321	$ 1,244,018	**$ 2,297,339**	$ 3,333,237

	Main Campus	AVC	**2016 Total**	2015 Total
Unspent funds at year end				
Fund balances	$ 1,053,321	$ 1,244,018	**$ 2,297,339**	$ 3,333,237
Deferred revenue	3,328,512	2,948,053	**6,276,572**	5,736,507
	$ 4,381,833	$ 4,192,071	**$ 8,573,911**	$ 9,069,744