

Consolidated Financial Statements

Year Ended March 31, 2018



University of Northern British Columbia

Consolidated Financial Statements

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UNIVERSITY OF NORTHERN BRITISH COLUMBIA

STATEMENT OF MANAGEMENT RESPONSIBILITY

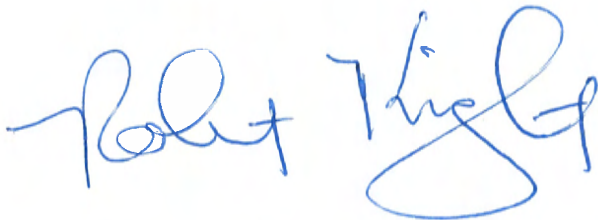
The University of Northern British Columbia is responsible for the preparation of the consolidated financial statements and has prepared them in accordance with Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia and the Restricted Contribution Regulation 198/2011 issued pursuant to it. The regulations require financial statements to be prepared in accordance with the standards of the Canadian Public Sector Accounting Board except that the contributions received or receivable by the University for the purpose of acquisition of tangible capital assets are accounted for as deferred capital contributions as described in note 2a of the consolidated financial statements. The consolidated financial statements present the consolidated financial position of the University as at March 31, 2018 and the consolidated results of its operations and its consolidated cash flows for the year ended March 31, 2018.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University has developed and maintains a system of internal controls designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of consolidated financial statements.

The Board of Governors carries out its responsibility for review of the consolidated financial statements and oversight of Management's performance of its financial reporting responsibilities principally through its Finance and Audit Committee. With the exception of employee group representatives, members of the Finance and Audit Committee are neither officers nor employees of the University.

The Committee meets with Management and the external auditors to discuss the results of audit examinations and financial reporting matters. The external auditors have full access to the Finance and Audit Committee, with and without the presence of Management.

The consolidated financial statements for the year ended March 31, 2018 have been reported on by KPMG LLP. The Independent Auditor's Report outlines the scope of the examination and provides the firm's opinion on the consolidated statements.



Robert A. Knight, MBA
Vice President, Finance & Business Operations



Colleen Smith, CPA, CA
Associate Vice President, Financial Services

May 16, 2018



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the University of Northern British Columbia, and
To the Minister of Advanced Education, Province of British Columbia

We have audited the accompanying consolidated financial statements of the University of Northern British Columbia (the "University") which comprise the consolidated statement of financial position as at March 31, 2018, the consolidated statements of operations and accumulated surplus, changes in net debt and cash flows, for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, 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 our judgment, 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, we consider internal control relevant to the University's preparation 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 of the University of Northern British Columbia as at March 31, 2018 and for the year then ended are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 (a) to the consolidated financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a long, horizontal, slightly curved line.

Chartered Professional Accountants

May 24, 2018

Prince George, Canada

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Financial Position

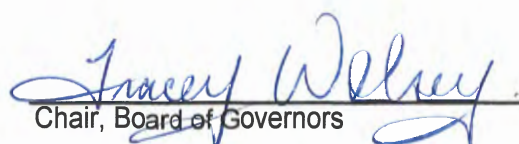
March 31, 2018, with comparative figures for 2017 (in thousands of dollars)

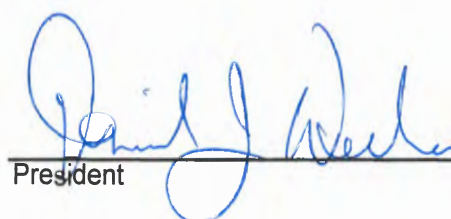
		2018	2017
			(Recast - Note 19)
Financial assets			
Cash and cash equivalents		\$ 25,175	\$ 22,261
Operating investments	(Note 3)	23,578	25,637
Accounts receivable		3,664	2,929
Inventories for resale		672	624
Portfolio investments	(Note 4)	13,998	16,828
Sinking fund, net of long-term debt	(Note 9)	65	58
		67,152	68,337
Liabilities			
Accounts payable and accrued liabilities	(Note 5)	9,850	8,058
Deferred revenue		2,010	923
Deferred contributions	(Note 7)	29,440	28,601
Deferred capital contributions	(Note 8)	158,947	161,360
		200,247	198,942
Net debt		(133,095)	(130,605)
Non-financial assets			
Tangible capital assets	(Note 10)	214,161	211,623
Inventories held for use		80	77
Endowment investments	(Notes 4 and 14)	60,503	58,698
Prepaid expenses		2,344	1,496
		277,088	271,894
Accumulated surplus	(Note 13)	\$ 143,993	\$ 141,289

Contractual obligations and commitments (Note 12)

See accompanying notes to consolidated financial statements.

On behalf of the Board of Governors:


Chair, Board of Governors


President

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2018, with comparative figures for 2017 (in thousands of dollars)

	Budget (Note 2(n))	2018	2017 (Recast - Note 19)
Revenue:			
Government grants			
Provincial government	\$ 52,226	\$ 51,312	\$ 51,477
Federal government	4,895	5,099	4,793
Tuition fees	19,645	19,228	17,353
Other fees	1,597	1,510	1,378
Sales of goods and services	8,222	10,875	9,020
Gifts, bequests, non-government grants and contracts	11,829	9,711	10,139
Investment income	2,115	3,308	3,143
External cost recovery and other income	457	425	543
Revenue recognized from deferred capital contributions	6,900	7,838	6,802
	107,886	109,306	104,648
Expenses:			
Ancillary operations	7,548	7,073	7,063
Facility operations and maintenance	17,615	16,129	14,940
Instruction	42,701	42,200	40,878
Institutional support	27,126	30,025	29,555
Sponsored research	8,400	5,983	6,735
Specific purpose	6,490	6,997	7,151
	109,880	108,407	106,322
Annual operating surplus/(deficit) before restricted contributions	(1,994)	899	(1,674)
Restricted endowment contributions	1,510	1,805	1,518
Annual surplus/(deficit)	(484)	2,704	(156)
Accumulated surplus, beginning of year			
As previously reported	-	133,178	133,605
Recast (Note 19)		8,111	7,840
As recasted	141,289	141,289	141,445
Accumulated surplus, end of year	\$ 140,805	\$ 143,993	\$ 141,289

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Changes in Net Debt

Year ended March 31, 2018, with comparative figures for 2017 (in thousands of dollars)

	Budget (Note 2(n))	2018 Total	2017 Total (Recast - Note 19)
Annual surplus (deficit)	\$ (484)	\$ 2,704	\$ (156)
Exclude items not affecting net debt:			
Restricted endowment contributions	(1,510)	(1,805)	(1,518)
	(1,994)	899	(1,674)
Acquisition of tangible capital assets	-	(12,583)	(8,974)
Loss on disposal of tangible capital assets		1,035	
Amortization of tangible capital assets	-	9,010	8,975
	-	(2,538)	1
Consumption of inventories held for use	-	77	90
Acquisition of inventories held for use		(80)	(77)
Consumption of prepaid expenses	-	1,496	1,465
Acquisition of prepaid expenses	-	(2,344)	(1,496)
	-	(851)	(18)
	(1,994)	(2,490)	(1,691)
(Increase)/decrease in net debt	(1,994)	(2,490)	(1,691)
Net debt, beginning of year	(130,605)	(130,605)	(128,914)
Net debt, end of year	\$ (132,599)	\$ (133,095)	\$ (130,605)

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Cash Flows

Year ended March 31, 2018, with comparative figures for 2017 (in thousands of dollars)

	2018	2017
		(Recast - Note 19)
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ 2,704	\$ (156)
Items not involving cash:		
Amortization of tangible capital assets	9,010	8,975
Loss on disposal of tangible assets	1,035	-
Revenue recognized from deferred capital contributions	(7,838)	(6,802)
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	(735)	(326)
Decrease (increase) in prepaid expenses	(848)	(31)
Decrease in inventories held for use	(3)	13
Decrease in inventories held for sale	(48)	100
Increase (decrease) in accounts payable and accrued liabilities	1,792	(1,645)
Increase (decrease) in deferred revenue	1,087	326
Net change in cash from operating activities	6,156	454
Capital activities:		
Acquisitions of tangible capital assets	(12,583)	(8,974)
Net change in cash from capital activities	(12,583)	(8,974)
Financing activities:		
Cash restricted for repayment of long-term debt	(7)	(36)
Net change in cash from financing activities	(7)	(36)
Investing activities:		
Capital contributions	5,425	2,936
Decrease (increase) in operating investments	2,059	(80)
Deferred contributions	839	2,611
Increase in endowment investments	(1,805)	(1,518)
Sale (purchase) of portfolio investments	2,830	(152)
Net change in cash from investing activities	9,348	3,797
Net change in cash	2,914	(4,759)
Cash, beginning of year	22,261	27,020
Cash, end of year	\$ 25,175	\$ 22,261

Cash is comprised of cash and cash equivalents

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

1. Authority and Purpose

The University of Northern British Columbia (UNBC or the University) operates under the authority of the *University Act* of British Columbia. UNBC is a comprehensive research university dedicated to improving the quality of life in its region, and beyond, by attaining the highest standards of undergraduate and graduate teaching, learning, and research. The University is governed by a 15 member Board of Governors, eight of whom are appointed by the Government of British Columbia, including two on the recommendation of the UNBC Alumni Association. The academic governance of the University is vested in the Senate. UNBC is a registered charity and is therefore exempt from taxes under Section 149 of the *Income Tax Act*. The University receives a significant portion of its revenues from the Province of British Columbia.

2. Summary of significant accounting policies

The consolidated financial statements of the University are prepared by management in accordance with the basis of accounting described below. Significant accounting policies of the University are as follows:

(a) Basis of accounting:

The consolidated financial statements have been prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia supplemented by Regulations 257/2010 and 198/2011 issued by the Province of British Columbia Treasury Board.

The Budget Transparency and Accountability Act requires that the consolidated financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards without any PS4200 elections.

Regulation 198/2011 requires that restricted contributions received or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

2. Summary of significant accounting policies (continued)

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are recorded and, referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.
- (ii) Contributions restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met.

For British Columbia tax-payer supported organizations, these contributions include government transfers and externally restricted contributions.

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of Canadian public sector accounting standards which requires that:

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with public sector accounting standard PS3410; and
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with public sector accounting standard PS3100.

As a result, revenue recognized in the statement of operations and accumulated surplus and certain related deferred capital contributions would be recorded differently under Canadian Public Sector Accounting Standards.

(b) Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of organizations which are controlled by UNBC. UNBC Investment Trust is a for-profit entity controlled by the University, whose primary purpose is to manage certain investment assets of the endowment fund; it is included in the financial statements on a fully consolidated basis.

(c) Cash and cash equivalents

Cash and cash equivalents include cash, money-market securities and investments with terms to maturity of three months or less at date of purchase and are cashable on demand.

(d) Short-term investments

Short-term investments consist of highly liquid money-market and bond securities and other investments with terms to maturity of greater than three months to one year at date of purchase.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

2. Summary of significant accounting policies (continued)

(e) Financial instruments

Financial instruments are classified into two categories: fair value or cost.

Fair value category: Portfolio instruments that are quoted in an active market and derivative instruments are reflected at fair value as at the reporting date. Other financial instruments which the University has designated to be recorded at fair value include cash, cash equivalents and short term investments. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are recorded as an expense. Unrealized gains and losses on financial assets are recognized in the Statement of Remeasurement Gains and Losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the Statement of Operations and Accumulated Surplus and related balances reversed from the Statement of Remeasurement Gains and Losses. Unrealized gains and losses on endowment investments where earnings are restricted as to use are recorded as deferred contributions and recognized in revenue when disposed and when the related expenses are incurred.

Cost category: Realized gains, losses and interest expense are recognized in the Statement of Operations and Accumulated Surplus when the financial asset is derecognized due to disposal or impairment. Accounts receivable, accounts payable and accrued liabilities are measured at cost. Any gains, losses or expense is recorded in the annual surplus (deficit) depending on the nature of the financial asset or liability that gave rise to the gain, loss or expense. Valuation allowances are made when collection is in doubt. Interest is accrued on accounts receivable to the extent it is deemed collectible.

(f) Inventories for resale

Inventories held for resale, including books, clothing, office and paper supplies, food and other items for retail sale are recorded at the lower of cost and net realizable value. Cost includes the original purchase cost, plus shipping and applicable duties. Net realizable value is the estimated selling price less any costs to sell.

(g) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Interest is not capitalized whenever external debt is issued to finance the construction of tangible capital assets. Donated assets are recorded at fair value at the date of transfer. In unusual circumstances where fair value cannot be reasonably determined, the tangible capital asset would be recognized at nominal value. The cost of the tangible capital assets, excluding land, is amortized on a straight line basis over their estimated useful lives shown below. Land is not amortized as it is deemed to have a permanent value:

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

2. Summary of significant accounting policies (continued)

Asset	Rate
Buildings and site services	50 years
Capital renovations	20 years
Library materials	10 years
Equipment and furnishings	8 years
Computers	3 years

Assets under construction are not amortized until the asset is available for productive use. Tangible capital assets are written down when conditions indicate that they no longer contribute to the University's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

(ii) Works of art and historic assets

Works of art and historic assets are not recorded as assets in these consolidated financial statements.

(iii) Inventories held for use

Inventories held for use such as office, stationery and lab supplies distributed to various departments are recorded at cost.

Cost includes the original purchase cost, plus shipping and applicable duties.

(h) Employee future benefits

The University and eligible employees contribute to a defined contribution pension plan providing benefits on a money purchase basis. The cost of pension benefits includes the current service cost based on 8% to 10% of salary, less a fixed offsetting amount relating to Canada Pension Plan contributory earnings. The assets and liabilities of this plan are not included in the University's consolidated financial statements. The University expenses its contributions to the plan in the year to which the contributions relate.

The University's sick leave benefits do not vest or accumulate and related costs are expensed as incurred.

Vacation benefits for the University's employees are accrued as earned. The obligations under these benefits are based on the applicable collective agreements for unionized employees and employment contracts for employees not covered by collective agreements.

(i) Revenue recognition

Tuition and student fees and sales of goods and services are reported as revenue in the period to which they apply and when the liability to refund has expired.

Unrestricted donations and grants are recorded as revenue when receivable if the amounts can be estimated and collection is reasonably assured. Pledges from donors are recorded as revenue when payment is received or the transfer of property is completed.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

2. Summary of significant accounting policies (continued)

The University follows the deferral method of accounting for contributions. Restricted donations and grants are reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or in the form of a depreciable tangible capital asset, in each case for use in providing services are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.
- (ii) Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contribution have been met.
- (iii) Contributions restricted to be retained in perpetuity, allowing only the investment income earned thereon to be spent are recorded as endowment contributions on the statement of operations for the portion to be held in perpetuity and as deferred contributions for any restricted investment income earned thereon.

Investment income includes interest recorded on an accrual basis and dividends recorded as declared, realized gains and losses on the sale of investments, and writedowns on investments where the loss in value is determined to be other-than-temporary.

(j) Use of estimates

The preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, and related disclosures. Key areas where management has made estimates and assumptions include those related to the determination of fair value of financial instruments, the useful life of tangible capital assets for amortization and the related amortization of deferred capital contributions. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

(k) Foreign currency translation

The University's functional currency is the Canadian dollar. Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities which were designated in the fair value category under the financial instrument standard are reflected in the financial statements in equivalent Canadian dollars at the exchange rate in effect on the date of the statement of financial position. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or date

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

2. Summary of significant accounting policies (continued)

of the statement of financial position is recognized in the statement of remeasurement gains and losses. In the period of settlement, the related cumulative remeasurement gain/loss is reversed in the statement of remeasurement gains and losses and the exchange gain or loss in relation to the exchange rate at the date of the item's initial recognition is recognized in the statement of operations and accumulated surplus.

(l) Contaminated sites:

Contaminated sites are defined as the result of contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard.

A liability for remediation of contaminated sites is recognized, net of any expected recoveries, when all of the following criteria are met:

- (i) an environmental standard exists
- (ii) contamination exceeds the environmental standard
- (iii) the organization is directly responsible or accepts responsibility for the liability
- (iv) future economic benefits will be given up, and
- (v) a reasonable estimate of the liability can be made.

(m) Asset retirement obligation

The University recognizes asset retirement obligations in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset including leased premises resulting from the acquisition, construction, development, and/or normal use of the asset. The fair value of the asset retirement cost is capitalized as part of the carrying value of the related long-lived asset and is depreciated over the life of the asset. The liability may be changed to reflect the passage of time and changes in the fair value assessment of the retirement obligation.

(n) Budget figures

Budget figures are provided for comparative purposes and have been derived from the 2017/18 Financial Planning Overview approved by the Board of Governors of UNBC on March 31, 2017 and the 2017/18 Consolidated Budget, approved March 23, 2018. The budget is reflected in the Statement of Operations and Accumulated Surplus and the Statement of Changes in Net Debt.

3. Operating investments

	Fair Value Hierarchy	2018	2017
Term Deposits, GIC, T-bills	Level 1	\$ 10,520	\$ 11,620
Municipal Financing Authority - bond fund	Level 1	8,351	8,368
Municipal Financing Authority - money market fund	Level 1	4,707	5,649
		<u>\$ 23,578</u>	<u>\$ 25,637</u>

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

4. Financial instruments

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties. UNBC uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Statement of Financial Position under the following captions:

Financial assets and liabilities recorded at fair value are comprised of the following:

- Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities - the carrying amounts approximate fair value because of the short maturity of these instruments.
- Operating investments
- Endowment investments

The financial instruments measured at fair value held within each investment are classified according to a hierarchy which includes three levels, reflecting the reliability of the inputs involved in the fair value determination. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		Fair Value	
		Hierarchy	
		2018	2017
Financial assets:			
Portfolio investments quoted at fair value - restricted:			
Money market	Level 1	-	-
Fixed income	Level 1	3,836	5,048
Equity	Level 1	6,701	8,263
Real Estate	Level 3	581	690
Infrastructure	Level 3	466	269
Private debt	Level 3	2,136	2,356
Private equity	Level 3	278	202
		<u>13,998</u>	<u>16,828</u>
Non-financial assets:			
Restricted endowment investments quoted at fair value:			
Money market	Level 1	-	-
Fixed income	Level 1	16,581	17,610
Equity	Level 1	28,963	28,820
Real Estate	Level 3	2,511	2,407
Infrastructure	Level 3	2,015	939
Private debt	Level 3	9,234	8,218
Private equity	Level 3	1,199	704
		<u>60,503</u>	<u>58,698</u>
Total financial instruments		<u>\$ 74,501</u>	<u>\$ 75,526</u>

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

4. Financial instruments (continued)

The following table reconciles the changes in fair value of financial instruments classified as level 3 during the year.

		2018	2017
Balance, beginning of year	\$	15,785	\$ 10,556
Unrealized losses		(93)	(144)
Purchases		5,578	5,373
Dispositions		(2,850)	-
Balance, end of year	\$	18,420	\$ 15,785

5. Accounts payable and accrued liabilities

		2018	2017
Accounts payable and accrued liabilities	\$	6,437	\$ 4,830
Salaries and benefits payable		2,600	2,417
Accrued vacation pay		813	811
	\$	9,850	\$ 8,058

6. Pension plan

The University has a defined contribution pension plan covering all eligible, permanent employees of the University. The pension plan is a separate legal entity with its own Board of Trustees. Sun Life of Canada was appointed to provide custodial services for plan members. Investment management services are provided by several fund managers and plan members individually select their investment vehicles from those available which include bond, balanced, money market, equity and global funds, and guaranteed term deposits (1, 3, and 5 year).

The University expenses the contributions made to the plan in the year to which they relate. During the year, the University contributed \$3,950 (2017 - \$3,803) to the plan.

7. Deferred contributions

Deferred contributions are comprised of funds restricted for research, capital acquisitions and other specific purposes. Changes in deferred contributions balances are as follows:

				2018	2017
	Capital	Research	Specific Purpose	Total	Total
Balance, beginning of year	\$ 621	\$ 5,319	\$ 22,661	\$ 28,601	\$ 23,873
Contributions received during the year	75	7,939	14,156	22,170	24,780
Revenue recognized from deferred contributions	(133)	(7,311)	(13,769)	(21,213)	(17,669)
Transfers to deferred capital contributions	(40)	(58)	(20)	(118)	(2,383)
Balance, end of year	\$ 523	\$ 5,889	\$ 23,028	\$ 29,440	\$ 28,601

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

8. Deferred capital contributions

Contributions that are restricted for capital are referred to as deferred capital contributions. Amounts are recognized into revenue as the liability is extinguished over the useful life of the asset. Treasury Board provided direction on accounting treatment as disclosed in note 2. Changes in the deferred capital contributions balance are as follows:

	2018	2017
Balance, beginning of year	\$ 161,360	\$ 165,226
Contributions received during the year	5,425	2,936
Revenue recognized from deferred capital contributions	(7,838)	(6,802)
Balance, end of year	\$ 158,947	\$ 161,360

9. Sinking fund, net of long term debt

Sinking fund, net of long-term debt, reported on the statement of financial position is measured at amortized cost and is as follows:

	2018	2017
Sinking fund asset	\$ 3,065	\$ 3,058
Province of British Columbia (Section 58 of the <i>University Act</i>), bearing interest at 9%, maturing June 2019	(3,000)	(3,000)
Balance, end of year	\$ 65	\$ 58

	2018	2017
Interest expense for the year on outstanding debt	\$ 270	\$ 270

Sinking fund instalments

The debt is a 25 year debenture with a 20 year sinking fund; obligations for sinking fund instalments have been completely fulfilled.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

10. Tangible capital assets

2018 Cost	Balance at March 31, 2017	Additions	Disposals/ Transfers	Balance at March 31, 2018
Land	\$ 6,812	\$ 333	\$ -	\$ 7,145
Buildings and site improvements	280,388		5,855	286,243
Furniture and equipment	53,519	610	-	54,129
Computers	37,782	691	(18)	38,455
Library holdings	27,007	93		27,100
Assets under construction	1,340	10,856	(7,121)	5,075
Total	\$ 406,848	\$ 12,583	\$ (1,284)	\$ 418,147

2018 Accumulated amortization	Balance at March 31, 2017	Disposals	Amortization expense	Balance at March 31, 2018
Land	\$ -	\$ -	\$ -	\$ -
Buildings and site improvements	(89,489)	233	(5,941)	(95,197)
Furniture and equipment	(43,940)	-	(1,863)	(45,803)
Computers	(36,686)	16	(751)	(37,421)
Library holdings	(25,110)	-	(455)	(25,565)
Assets under construction	-	-		-
Total	\$ (195,225)	\$ 249	\$ (9,010)	\$ (203,986)

	Net book value March 31, 2017	Net book value March 31, 2018
Land	\$ 6,812	\$ 7,145
Buildings and site improvements	190,899	191,046
Furniture and equipment	9,579	8,326
Computers	1,096	1,034
Library holdings	1,897	1,535
Assets under construction	1,340	5,075
Total	\$ 211,623	\$ 214,161

2017 Cost	Balance at March 31, 2016	Additions	Disposals/ Transfers	Balance at March 31, 2017
Land	\$ 6,781	\$ 31	\$ -	\$ 6,812
Buildings and site improvements	275,168		5,220	280,388
Furniture and equipment	51,178	2,341	-	53,519
Computers	37,201	589	(8)	37,782
Library holdings	26,740	267		27,007
Assets under construction	814	5,746	(5,220)	1,340
Total	\$ 397,882	\$ 8,974	\$ (8)	\$ 406,848

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

10. Tangible capital assets (continued)

2017 Accumulated amortization	Balance at March 31, 2016	Disposals	Amortization expense	Balance at March 31, 2017
Land	\$ -	\$ -	\$ -	\$ -
Buildings and site improvements	(83,814)	-	(5,675)	(89,489)
Furniture and equipment	(42,106)	-	(1,834)	(43,940)
Computers	(35,802)	8	(892)	(36,686)
Library holdings	(24,536)	-	(574)	(25,110)
Assets under construction	-	-	-	-
Total	\$ (186,258)	\$ 8	\$ (8,975)	\$ (195,225)

	Net book value March 31, 2016	Net book value March 31, 2017
Land	\$ 6,781	\$ 6,812
Buildings and site improvements	191,354	190,899
Furniture and equipment	9,072	9,579
Computers	1,399	1,096
Library holdings	2,204	1,897
Assets under construction	814	1,340
Total	\$ 211,624	\$ 211,623

(a) Assets under construction

Assets under construction having a value of \$5,075 (2017 - \$1,340) are not amortized. Amortization of these assets commences when the asset is put into service; if it is determined that the costs no longer represent the cost of an ongoing project, they are expensed in the statement of operations.

(b) Works of art and historical treasures

The University manages and controls various works of art and non-operational historical cultural assets including artifacts, paintings and sculptures located at University sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

11. Financial risk management

UNBC has exposure to the following risks from its use of financial instruments: credit risk, interest rate risk, liquidity risk and foreign exchange risk. The Board of Governors, through management, ensures that the University has processes in place to identify and monitor major risks.

(a) Credit risk

Credit risk is the risk of financial loss to the University if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from certain financial assets held by the University consisting of cash, operating investments, accounts receivable and portfolio investments.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

11. Financial risk management (continued)

Unless otherwise disclosed in these consolidated financial statements, the University is not subject to significant credit risk associated with its financial instruments. The maximum credit risk for the University's financial assets is the carrying value of the asset.

(b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

It is management's opinion that the University is not exposed to significant interest rate risk arising from its financial instruments.

(c) Liquidity risk

Liquidity risk is the risk that the University will not be able to meet its financial obligations as they become due.

The University manages liquidity risk by continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the University's reputation.

(d) Foreign Exchange Risk

The University is exposed to foreign exchange risk on investments held in foreign currencies and may use foreign currency swaps to mitigate this risk.

12. Contractual obligations and commitments

Contractual obligations and commitments are as follows:

Funding commitments

Under its endowment investment strategy, the University has outstanding commitments to fund private debt, private equity and infrastructure investments totalling approximately \$6.8 million (2017- \$6.4 million); \$3.1 million (2017 – \$4.0 million); and \$14.0 million (2017 – \$5.1 million), respectively.

13. Accumulated surplus

Accumulated surplus is comprised of the following:

	2018	2017
Accumulated operating surplus	\$ 83,490	\$ 82,591
Endowments	60,503	58,698
	<u>\$ 143,993</u>	<u>\$ 141,289</u>

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

13. Accumulated surplus (continued)

Accumulated operating surplus consists of the following individual fund surpluses:

	2018	2017
Invested in tangible capital assets		
Capital assets	\$ 214,161	\$ 211,623
Amounts financed by deferred capital contributions	(158,947)	(161,360)
	<u>55,214</u>	<u>50,263</u>
Appropriated for specific purposes		
General Operating		
Departmental carryforwards	4,020	3,405
Minor capital projects, equipment purchases and special projects	13,878	12,179
Professional development and internal research funds	3,811	3,866
	<u>21,709</u>	<u>19,450</u>
Ancillary Services	(12,122)	(6,807)
Capital	7,044	6,785
Specific Purpose	8,128	9,383
	<u>24,759</u>	<u>28,811</u>
Unrestricted surplus	<u>3,517</u>	<u>3,517</u>
Total accumulated operating surplus	<u>\$ 83,490</u>	<u>\$ 82,591</u>

General Operating appropriations are comprised of departmental amounts calculated under a policy which allows them to carry forward unspent amounts to future periods, as well as an allocation of unspent salary amounts under the authority of the Provost and the Vice President, Finance and Business Operations. It also includes allocations for one time projects, minor capital projects and new equipment purchases and funds set aside for individuals covered under various employment handbooks for professional development and research.

Ancillary Services represents accumulated funds held for the ongoing operations of ancillaries such as the Bookstore, Conference Services, Continuing Education and Vending.

Capital represents funds held for specific capital projects and the Capital Equipment Replacement Reserve.

Specific Purpose are funds that are restricted internally for specific activities and use, such as conference fees, library fines and reserves.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

14. Endowments

Endowment contributions form part of accumulated surplus. Changes to the endowment balances are as follows:

	2018	2017
Balance, beginning of year	\$ 58,698	\$ 57,180
Contributions received during the year	631	374
Capitalized interest	1,174	1,144
Balance, end of year	\$ 60,503	\$ 58,698

The balance shown does not include endowment principal with fair value of \$2,094 (2017 - \$2,099) and book value of \$1,681 (2017 - \$1,681) held by the Vancouver Foundation. The excluded principal is not owned or controlled by the University, but income from it is paid to the University to be used for specific purposes.

15. Expenses by object

The following is a summary of expenses by object:

	2018	2017
Salaries and wages	\$ 55,835	\$ 54,974
Benefits	10,384	10,544
Travel and personnel costs	3,479	3,412
Operational supplies and expenses	8,666	9,401
Equipment, furnishings and rent	1,025	1,006
Professional and contracted services	7,972	7,626
Scholarships, fellowships and bursaries	3,740	3,259
Renovations, alterations and maintenance	2,520	2,621
Cost of goods sold	1,898	1,788
Interest	296	283
Utilities	2,547	2,433
Loss on disposal of tangible capital assets	1,035	-
Amortization of tangible capital assets	9,010	8,975
	\$ 108,407	\$ 106,322

16. Related parties:

The University is related through common ownership to all Province of British Columbia ministries, agencies, crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2018 (in thousands of dollars)

17. Contractual rights

The University receives research grants from various federal and provincial agencies, foundations, and institutions, and also enters into research agreements with some of these parties. The University is expected to receive \$12,943 in research funding from fiscal 2019 to 2023.

The University is also expected to receive additional research funding from federal, provincial and other sources from 2019 to 2023; however, this additional research funding is not specifically guaranteed to be received in future periods as at March 31, 2018. As a result, this additional research funding is not included in the total noted above.

18. Comparative figures

Certain of the prior year comparative figures have been reclassified to conform to the current year's presentation; the changes have no effect on the prior year's deficit.

19. Recast

During the year, management determined that the following adjustments needed to be made to correct immaterial errors reported in prior periods:

Endowment investments relating to the Northern Medical Programs Trust (NMPT) not previously included in the University's endowment investments on the consolidated financial statements, were found to be under the control of the University following the clarification of an agreement between the University and the NMPT.

	As Previously Reported	Increase (Decrease)	As recast
<i>Consolidated Statement of Financial Position as at March 31, 2017</i>			
Operating investments	25,214	423	25,637
Portfolio investments	15,134	1,694	16,828
Endowment investments	50,587	8,111	58,698
Deferred contributions	26,484	2,117	28,601
<i>Consolidated Statement of Operations and Accumulated Surplus for the year ended March 31, 2017</i>			
Restricted endowment contributions	1,247	271	1,518
<i>Accumulated surplus for the year ended March 31, 2017</i>			
Annual deficit	(427)	271	(156)
Accumulated surplus, beginning	133,605	7,840	141,445
Accumulated surplus, ending	133,178	8,111	141,289