

Consolidated Financial Statements

Year Ended March 31, 2020



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, 2020 and the consolidated results of its operations and its consolidated cash flows for the year ended March 31, 2020.

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, 2020 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.



Colleen Smith, CPA, CA
Interim Vice President, Finance



Leanne Murphy, CPA, CMA
Acting Director, Financial Services

May 28, 2020



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the University of Northern British Columbia, and
To the Minister of the Ministry Advanced Education, Skills & Training, Province of British
Columbia

Opinion

We have audited the consolidated financial statements of the University of Northern
British Columbia (the "University"), which comprise:

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

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements as at and for the year ended March
31, 2019 of the University 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing
standards. Our responsibilities under those standards are further described in the
"Auditors' Responsibilities for the Audit of the Financial Statements" section of our
auditors' report.

We are independent of the University in accordance with the ethical requirements that are
relevant to our audit of the financial statements in Canada and we have fulfilled our ethical
responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide
a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Prince George, Canada

June 5, 2020

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Financial Position

March 31, 2020, with comparative figures for 2019 (in thousands of dollars)

		2020	2019
Financial assets			
Cash and cash equivalents		\$ 32,862	\$ 32,061
Operating Investments	(Note 3)	20,245	18,120
Accounts receivable		3,745	3,253
Inventories for resale		684	617
Portfolio Investments	(Note 4)	17,861	16,623
Sinking fund	(Note 9)	-	3,130
		75,397	73,804
Liabilities			
Accounts payable and accrued liabilities	(Note 5)	16,338	12,126
Deferred revenue		2,799	1,936
Deferred contributions	(Note 7)	30,963	31,463
Deferred capital contributions	(Note 8)	152,859	155,674
Long-term debt	(Note 9)	-	3,000
		202,959	204,199
Net debt		(127,562)	(130,395)
Non-financial assets			
Tangible capital assets	(Note 10)	205,887	209,983
Inventories held for use		75	73
Endowment investments	(Notes 4 and 14)	64,135	62,878
Prepaid expenses		2,609	2,425
		272,706	275,359
Accumulated surplus	(Note 13)	\$ 145,144	\$ 144,964

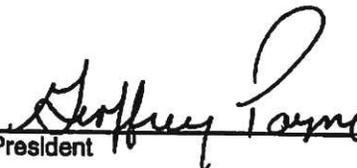
Contractual obligations and commitments (Note 12)

Subsequent events (Note 18)

See accompanying notes to consolidated financial statements.

On behalf of the Board of Governors:


 Chair, Finance & Audit Committee


 President

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2020, with comparative figures for 2019 (in thousands of dollars)

	Budget (Note 2(n))	2020	2019
Revenue:			
Government grants			
Provincial government	\$ 55,291	\$ 56,434	\$ 52,712
Federal government	6,778	8,354	7,337
Tuition fees	22,318	21,597	19,974
Other fees	1,597	1,547	1,546
Sales of goods and services	9,484	8,559	9,598
Gifts, bequests, non-government grants and contracts	11,789	12,519	11,028
Investment income	2,005	4,640	4,236
External cost recovery and other income	406	353	552
Revenue recognized from deferred capital contributions	6,500	6,648	6,620
	<u>116,168</u>	<u>120,651</u>	<u>113,603</u>
Expenses:			
Ancillary operations	7,447	7,396	6,920
Facility operations and maintenance	16,353	15,221	14,648
Instruction	44,244	46,311	43,679
Institutional support	35,104	36,332	33,958
Sponsored research	8,700	8,634	7,921
Specific purpose	4,056	7,834	7,881
	<u>115,904</u>	<u>121,728</u>	<u>115,007</u>
Annual operating surplus/(deficit) before restricted contributions	264	(1,077)	(1,404)
Restricted endowment contributions	1,500	1,257	2,375
Annual surplus	1,764	180	971
Accumulated surplus, beginning of year	144,964	144,964	143,993
Accumulated surplus, end of year	<u>\$ 146,728</u>	<u>\$ 145,144</u>	<u>\$ 144,964</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Changes in Net Debt

Year ended March 31, 2020, with comparative figures for 2019 (in thousands of dollars)

	Budget (Note 2(n))	2020 Total	2019 Total
Annual surplus	\$ 1,764	\$ 180	\$ 971
Exclude items not affecting net debt:			
Restricted endowment contributions	(1,500)	(1,257)	(2,375)
	264	(1,077)	(1,404)
Acquisition of tangible capital assets	-	(5,241)	(5,002)
Loss on disposal of tangible capital assets	-	-	-
Amortization of tangible capital assets	-	9,337	9,180
	-	4,096	4,178
Consumption of inventories held for use	-	73	80
Acquisition of inventories held for use	-	(75)	(73)
Consumption of prepaid expenses	-	2,425	2,344
Acquisition of prepaid expenses	-	(2,609)	(2,425)
	-	(186)	(74)
	264	2,833	2,700
Decrease in net debt	264	2,833	2,700
Net debt, beginning of year	(130,395)	(130,395)	(133,095)
Net debt, end of year	\$ (130,131)	\$ (127,562)	\$ (130,395)

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Cash Flows

Year ended March 31, 2020, with comparative figures for 2019 (in thousands of dollars)

	2020	2019
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 180	\$ 971
Items not involving cash:		
Amortization of tangible capital assets	9,337	9,180
Loss on disposal of tangible assets	-	-
Revenue recognized from deferred capital contributions	(6,648)	(6,620)
Change in non-cash operating working capital:		
(Increase) decrease in accounts receivable	(492)	411
Increase in prepaid expenses	(184)	(81)
(Increase) decrease in inventories held for use	(2)	7
(Increase) decrease in inventories held for sale	(67)	55
Increase in accounts payable and accrued liabilities	4,212	2,276
Increase (decrease) in deferred revenue	863	(74)
Net change in cash from operating activities	7,199	6,125
Capital activities:		
Acquisitions of tangible capital assets	(5,241)	(5,002)
Net change in cash from capital activities	(5,241)	(5,002)
Financing activities:		
Cash restricted for repayment of long-term debt	3,130	(65)
Repayment of long-term debt	(3,000)	-
Net change in cash from financing activities	130	(65)
Investing activities:		
Capital contributions	3,833	3,347
Decrease (increase) in operating investments	(2,125)	5,458
Deferred contributions	(500)	2,023
Increase in endowment investments	(1,257)	(2,375)
Change in portfolio investments	(1,238)	(2,625)
Net change in cash from investing activities	(1,287)	5,828
Net change in cash	801	6,886
Cash, beginning of year	32,061	25,175
Cash, end of year	\$ 32,862	\$ 32,061

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, 2020 (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, 2020 (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, 2020 (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, 2020 (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, 2020 (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, 2020 (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 2019/20 Financial Planning Overview approved by the Board of Governors of UNBC on March 15, 2019 and the 2019/20 Consolidated Budget, approved May 28, 2020. 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	2020	2019
Term Deposits, GIC, T-bills	Level 1	\$ 11,350	\$ 9,500
Municipal Financing Authority - bond fund	Level 1	8,895	8,620
		<u>\$ 20,245</u>	<u>\$ 18,120</u>

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2020 (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	2020	2019
Financial assets:			
Portfolio investments quoted at fair value - restricted:			
Fixed income	Level 1	3,062	3,339
Equity	Level 1	4,172	4,862
Real Estate	Level 3	2,658	2,361
Infrastructure	Level 3	3,547	3,066
Private debt	Level 3	3,318	2,427
Private equity	Level 3	1,104	568
		<u>17,861</u>	<u>16,623</u>
Non-financial assets:			
Restricted endowment investments quoted at fair value:			
Fixed income	Level 1	10,997	12,632
Equity	Level 1	14,977	18,390
Real Estate	Level 3	9,546	8,929
Infrastructure	Level 3	12,736	11,597
Private debt	Level 3	11,914	9,181
Private equity	Level 3	3,965	2,149
		<u>64,135</u>	<u>62,878</u>
Total financial instruments		<u>\$ 81,996</u>	<u>\$ 79,501</u>

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended March 31, 2020 (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.

	2020		2019	
Balance, beginning of year	\$	40,278	\$	18,420
Unrealized gains		4,048		1,132
Purchases		5,847		22,166
Dispositions		(1,385)		(1,440)
Balance, end of year	\$	48,788	\$	40,278

5. Accounts payable and accrued liabilities

	2020		2019	
Accounts payable and accrued liabilities	\$	8,615	\$	7,149
Salaries and benefits payable		6,671		4,108
Accrued vacation pay		1,052		869
	\$	16,338	\$	12,126

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 \$4,156 (2019 - \$4,066) 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:

	2020			2019	
	Capital	Research	Specific Purpose	Total	Total
Balance, beginning of year	\$ 431	\$ 6,485	\$ 24,547	\$ 31,463	\$ 29,440
Contributions received during the year	3,383	10,496	13,312	27,191	25,070
Revenue recognized from deferred contributions	(230)	(9,948)	(13,680)	(23,858)	(20,870)
Transfers to deferred capital contributions	(3,153)	(536)	(144)	(3,833)	(2,177)
Balance, end of year	\$ 431	\$ 6,497	\$ 24,035	\$ 30,963	\$ 31,463

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Notes to Consolidated Financial Statements

Year ended March 31, 2020 (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:

	2020	2019
Balance, beginning of year	\$ 155,674	\$ 158,947
Contributions received during the year	3,833	3,347
Revenue recognized from deferred capital contributions	(6,648)	(6,620)
Balance, end of year	\$ 152,859	\$ 155,674

9. Long-term debt and related sinking fund asset

Long-term debt, and the related sinking fund asset reported separately on the statement of financial position, is measured at amortized cost and is as follows:

	2020	2019
Province of British Columbia (Section 58 of the <i>University Act</i>), bearing interest at 9%, retired during the year	\$ -	\$ 3,000
Sinking fund asset	-	(3,130)
Balance, end of year	\$ -	\$ (130)
Interest expense for the year on outstanding debt	\$ 64	\$ 270

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10. Tangible capital assets

2020 Cost	Balance at March 31, 2019	Additions	Disposals/ Transfers	Balance at March 31, 2020
Land	\$ 7,145	\$ -	\$ -	\$ 7,145
Buildings and site improvements	292,910	-	1,335	294,245
Furniture and equipment	55,509	1,036	(43)	56,502
Computers	39,358	1,322	(12)	40,668
Library holdings	28,035	165	-	28,200
Assets under construction	178	2,721	(1,335)	1,564
Total	\$ 423,135	\$ 5,244	\$ (55)	\$ 428,324

2020 Accumulated amortization	Balance at March 31, 2019	Disposals	Amortization expense	Balance at March 31, 2020
Land	\$ -	\$ -	\$ -	\$ -
Buildings and site improvements	(101,385)	-	(6,305)	(107,690)
Furniture and equipment	(47,684)	43	(1,864)	(49,505)
Computers	(38,144)	9	(855)	(38,990)
Library holdings	(25,939)	-	(313)	(26,252)
Assets under construction	-	-	-	-
Total	\$ (213,152)	\$ 52	\$ (9,337)	\$ (222,437)

	Net book value March 31, 2019	Net book value March 31, 2020
Land	\$ 7,145	\$ 7,145
Buildings and site improvements	191,525	186,555
Furniture and equipment	7,825	6,997
Computers	1,214	1,678
Library holdings	2,096	1,948
Assets under construction	178	1,564
Total	\$ 209,983	\$ 205,887

2019 Cost	Balance at March 31, 2018	Additions	Disposals/ Transfers	Balance at March 31, 2019
Land	\$ 7,145	\$ -	\$ -	\$ 7,145
Buildings and site improvements	286,243	-	6,667	292,910
Furniture and equipment	54,129	1,380	-	55,509
Computers	38,455	917	(14)	39,358
Library holdings	27,100	935	-	28,035
Assets under construction	5,075	1,770	(6,667)	178
Total	\$ 418,147	\$ 5,002	\$ (14)	\$ 423,135

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Notes to Consolidated Financial Statements

Year ended March 31, 2020 (in thousands of dollars)

10. Tangible capital assets (continued)

2019 Accumulated amortization	Balance at March 31, 2018	Disposals	Amortization expense	Balance at March 31, 2019
Land	\$ -	\$ -	\$ -	\$ -
Buildings and site improvements	(95,197)	-	(6,188)	(101,385)
Furniture and equipment	(45,803)	-	(1,881)	(47,684)
Computers	(37,421)	14	(737)	(38,144)
Library holdings	(25,565)	-	(374)	(25,939)
Assets under construction	-	-	-	-
Total	\$ (203,986)	\$ 14	\$ (9,180)	\$ (213,152)

	Net book value March 31, 2018	Net book value March 31, 2019
Land	\$ 7,145	\$ 7,145
Buildings and site improvements	191,046	191,525
Furniture and equipment	8,326	7,825
Computers	1,034	1,214
Library holdings	1,535	2,096
Assets under construction	5,075	178
Total	\$ 214,161	\$ 209,983

(a) Assets under construction

Assets under construction having a value of \$1,564 (2019 - \$178) 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.

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Notes to Consolidated Financial Statements

Year ended March 31, 2020 (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 \$6.1 million (2019 - \$6.1 million); \$1.2 million (2019 - \$2.5 million); and \$1.3 million (2019 - \$2.1 million), respectively.

13. Accumulated surplus

Accumulated surplus is comprised of the following:

	2020	2019
Accumulated operating surplus	\$ 81,009	\$ 82,086
Endowments	64,135	62,878
	<u>\$ 145,144</u>	<u>\$ 144,964</u>

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Year ended March 31, 2020 (in thousands of dollars)

13. Accumulated surplus (continued)

Accumulated operating surplus consists of the following individual fund surpluses:

	2020	2019
Invested in tangible capital assets		
Capital assets	\$ 205,887	\$ 209,983
Amounts financed by deferred capital contributions	(152,859)	(155,674)
	<u>53,028</u>	<u>54,309</u>
Appropriated for specific purposes		
General Operating		
Departmental carryforwards	4,163	3,625
Minor capital projects, equipment purchases and special projects	13,769	12,128
Professional development and internal research funds	3,583	3,489
	<u>21,514</u>	<u>19,242</u>
Ancillary Services	(11,821)	(11,697)
Capital	7,975	8,866
Specific Purpose	6,796	7,849
	<u>24,464</u>	<u>24,260</u>
Unrestricted surplus	<u>3,517</u>	<u>3,517</u>
Total accumulated operating surplus	<u>\$ 81,009</u>	<u>\$ 82,086</u>

General Operating appropriations are comprised of departmental amounts calculated under a policy that 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. 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, as well as the outstanding balance of an internal loan for a housing renovation project.

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.

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14. Endowments

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

	2020	2019
Balance, beginning of year	\$ 62,878	\$ 60,503
Contributions received during the year	314	1,468
Capitalized interest	943	907
Balance, end of year	\$ 64,135	\$ 62,878

The balance shown does not include endowment principal with fair value of \$1,937 (2019 - \$2,129) and book value of \$1,681 (2019 - \$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:

	2020	2019
Salaries and wages	\$ 62,730	\$ 60,889
Benefits	11,883	10,682
Travel and personnel costs	3,196	3,412
Operational supplies and expenses	11,013	9,247
Equipment, furnishings and rent	1,427	1,126
Professional and contracted services	8,847	8,897
Scholarships, fellowships and bursaries	5,982	3,801
Renovations, alterations and maintenance	3,121	3,141
Cost of goods sold	1,660	1,795
Interest	67	274
Utilities	2,465	2,563
Amortization of tangible capital assets	9,337	9,180
	\$ 121,728	\$ 115,007

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.

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Notes to Consolidated Financial Statements

Year ended March 31, 2020 (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 expects to receive \$12,547 in research funding from fiscal 2021 to 2025.

The University also expects to receive additional research funding from federal, provincial and other sources from 2021 to 2025; however, this additional research funding is not specifically guaranteed to be received in future periods as at March 31, 2020. As a result, this additional research funding is not included in the total noted above.

18. Subsequent events

The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. Subsequent to March 31, 2020, the situation continues to be dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the University is not known at this time. The current challenging economic climate may lead to adverse changes in cash flows and working capital levels, which may also have a direct impact on the operating results and financial position of the University in the future.

19. 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 surplus.