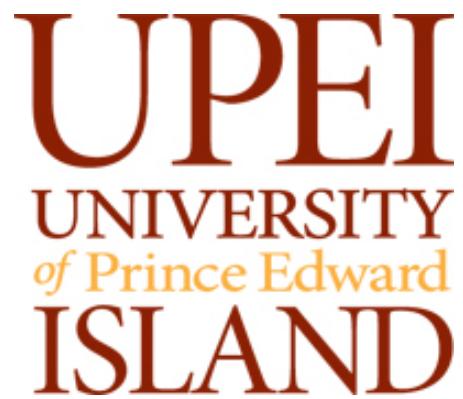




Consolidated Financial Statements

University of Prince Edward Island

April 30, 2015



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Independent auditors' report

To the Board of Governors of
University of Prince Edward Island

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

We have audited the accompanying consolidated financial statements of the University of Prince Edward Island, which comprise the statement of financial position as at April 30, 2015, the consolidated statement of operations, changes in fund balance and cash flows for the year ended April 30, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the University of Prince Edward Island as at April 30, 2015, and the results of its operations and its cash flows for the year then ended April 30, 2015 in accordance with Canadian accounting standards for not-for-profit organizations.

Other matters

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

Grant Thornton LLP

Charlottetown, Prince Edward Island

September 28, 2015

Chartered Accountants

University of Prince Edward Island

Consolidated statement of operations

As restated
Note 2
2014

Year ended April 30

	<u>Operating</u>	<u>Research</u>	<u>Post-retirement benefits</u>	<u>Capital assets</u>	<u>Endowment</u>	<u>Total</u>	<u>Total</u>
Revenue							
Grants and contracts (Note 17)	\$ 56,412,200	\$ 13,054,201		\$ 970,319		\$ 70,436,720	\$ 70,945,359
Amortization of deferred revenue				3,542,377		3,542,377	3,638,178
Student fees	25,351,905					25,351,905	24,361,844
International fees	7,160,760					7,160,760	6,499,314
Ancillaries	8,678,798					8,678,798	8,400,898
Sales and other revenues	9,442,635			343,360		9,785,995	9,171,069
Investment income	1,643,717		1,712,958			3,356,675	1,142,417
Donations	2,571,284					2,571,284	2,690,553
	<u>111,261,299</u>	<u>13,054,201</u>	<u>1,712,958</u>	<u>4,856,056</u>	<u>-</u>	<u>130,884,514</u>	<u>126,849,632</u>
Expenditure							
Salaries and benefits	65,799,658	6,971,192				72,770,850	72,215,308
Supplies	8,648,855	1,580,160				10,229,015	10,636,649
Depreciation	7,908,654					7,908,654	8,066,149
Other	2,418,066					2,418,066	2,036,918
Utilities	5,465,064					5,465,064	5,436,664
Travel	1,515,149	930,515				2,445,664	2,470,676
Repairs and maintenance	2,265,345					2,265,345	2,018,515
Library subscriptions	1,038,119					1,038,119	874,662
Post-retirement benefits (Note 9)			8,193,605			8,193,605	6,734,706
Professional fees and memberships	2,575,564	1,189,918				3,765,482	4,184,868
Scholarships and bursaries (Note 17)	5,551,064	52,601				5,603,665	5,282,208
Interest				1,834,699		1,834,699	2,019,631
Advertising	307,146					307,146	235,753
Insurance	288,652					288,652	294,144
	<u>103,781,336</u>	<u>10,724,386</u>	<u>8,193,605</u>	<u>1,834,699</u>	<u>-</u>	<u>124,534,026</u>	<u>122,506,851</u>
Excess of revenue over expenditure before inter-fund transfers	\$ 7,479,963	\$ 2,329,815	\$ (6,480,647)	\$ 3,021,357	\$ -	\$ 6,350,488	\$ 4,342,781

See accompanying notes to the consolidated financial statements.

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

As restated
 Note 2
 2014

Year ended April 30

2015

	<u>Operating</u>	<u>Research</u>	<u>Post-retirement benefits</u>	<u>Capital assets</u>	<u>Endowment</u>	Total	<u>Total</u>
Fund balance, beginning of year as previously stated	\$ 5,886,733	\$ 2,226,126	\$(28,107,676)	\$ 43,753,920	\$ 26,866,822	\$ 50,625,925	\$ 50,377,411
Change in accounting policy (Note 2)	-	-	(15,565,814)	-	-	(15,565,814)	(14,154,961)
Fund balance, beginning of year, as restated	5,886,733	2,226,126	(43,673,490)	43,753,920	26,866,822	35,060,111	36,222,450
Excess revenue (expenditure) before Inter-fund transfers	7,479,963	2,329,815	(6,480,647)	3,021,357	-	6,350,488	4,342,781
Re-measurement and other adjustments	-	-	5,005,200	-	-	5,005,200	(8,633,381)
Endowment additions	-	-	-	-	2,357,393	2,357,393	3,128,261
Inter-fund transfers (Note 16)	(7,582,840)	(1,222,704)	9,014,650	(209,106)	-	-	-
Fund balances, end of year	\$ 5,783,856	\$ 3,333,237	\$(36,134,287)	\$ 46,566,171	\$ 29,224,215	\$ 48,773,192	\$ 35,060,111

(Note 14)

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Consolidated statement of financial position

April 30

As restated
Note 2
2014

2015

	<u>Operating</u>	<u>Research</u>	<u>Post-retirement benefits</u>	<u>Capital assets</u>	<u>Endowment</u>	<u>Total</u>	<u>Total</u>
Assets							
Current - Cash and cash equivalents	\$ 18,541,430					\$ 18,541,430	\$ 17,378,550
- Receivables (Note 4)	3,687,052	\$ 1,854,845				5,541,897	6,666,734
- Inventory and other	1,500,927					1,500,927	1,390,975
	23,729,409	1,854,845				25,584,254	25,436,259
Investments (Note 5)	16,181,632	33,351	16,168,628	11,246,891	\$ 29,224,215	72,854,717	61,962,934
Due from (to) other funds	(3,274,817)	7,181,548		(3,906,731)		-	-
Capital assets (Note 6)				183,302,760		183,302,760	185,360,139
	\$ 36,636,224	\$ 9,069,744	\$ 16,168,628	\$ 190,642,920	\$ 29,224,215	\$ 281,741,731	\$ 272,759,332
Liabilities							
Current - Payables and accruals (Note 7)	\$ 8,310,089			\$ 1,351,257		\$ 9,661,346	\$ 7,707,902
- Current portion of long term debt				3,522,469		3,522,469	3,490,011
- Deferred revenue (Note 8)	7,587,850					7,587,850	5,289,128
	15,897,939			4,873,726		20,771,665	16,487,041
Defined benefit liabilities (Note 9)			\$ 52,302,915			52,302,915	57,013,088
Long term obligations (Note 10)				28,137,159		28,137,159	31,659,601
	15,897,939		52,302,915	33,010,885		101,211,739	105,159,730
Deferred revenue							
Research contracts		\$ 5,736,507				5,736,507	7,122,876
Capital assets (Note 12)				111,065,864		111,065,864	110,557,701
Other (Note 13)	14,954,429					14,954,429	14,858,914
	30,852,368	5,736,507	52,302,915	144,076,749		232,968,539	237,699,221
Fund balances							
Invested in capital assets				35,319,279		35,319,279	35,801,286
Internally restricted - post-retirement benefit			(36,134,287)			(36,134,287)	(43,673,490)
Externally restricted - endowments					\$ 23,449,315	23,449,315	20,946,362
Internally restricted (Note 14)		3,333,237		11,246,892	5,774,900	20,355,029	16,099,220
Unrestricted	5,783,856					5,783,856	5,886,733
	5,783,856	3,333,237	(36,134,287)	46,566,171	29,224,215	48,773,192	35,060,111
	\$ 36,636,224	\$ 9,069,744	\$ 16,168,628	\$ 190,642,920	\$ 29,224,215	\$ 281,741,731	\$ 272,759,332

Commitment and subsequent event (Note 19)

(Note 15)

On behalf of the Board of Governors

Chairman

Finance and Audit Chair

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Consolidated statement of cash flows

Year Ended April 30

2015

2014

Cash flows from operating activities

Cash received from (paid for)		
Provincial governments for operations	\$ 55,788,269	\$ 59,575,013
Operations	53,951,164	47,598,449
Restricted grants	14,022,252	14,726,817
Investment income received for operating purposes	1,639,756	601,025
Donations	2,714,081	3,752,691
Salaries and benefits	(80,694,138)	(80,839,283)
Materials and service	(33,304,007)	(33,849,976)
Interest	(1,850,592)	(2,035,334)
Net cash generated through operating activities	<u>12,266,785</u>	<u>9,529,402</u>

Cash flows from investing activities

Cash received from (paid for)		
Restricted grants and interest for capital assets	4,050,541	3,816,745
Restricted and endowment donations	1,680,080	1,889,402
Purchase of capital assets	(5,935,235)	(5,174,994)
Purchase of investments, net	(7,409,308)	(4,207,252)
Net cash used in financing and investing activities	<u>(7,613,922)</u>	<u>(3,676,099)</u>

Cash flows from financing activities

Cash received from (paid for)		
Principal payments on long term obligations	<u>(3,489,983)</u>	<u>(3,459,196)</u>
Net increase in cash and cash equivalents	1,162,880	2,394,107
Cash and cash equivalents, beginning of year	<u>17,378,550</u>	<u>14,984,443</u>
Cash and cash equivalents, end of year	<u>\$ 18,541,430</u>	<u>\$ 17,378,550</u>

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

1. Purpose of the organization

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

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

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

2. Change in accounting policy

During the year, the University adopted Chartered Professional Accountants of Canada Handbook – Accounting Part II Section 3462 Employee Future Benefits and Part III Section 3463 “Reporting Employee Future Benefits by Not-for-Profit Organizations,” effective for fiscal years beginning on or after January 1, 2014. The standard was adopted by the University on a retrospective basis and therefore the comparative period balances for 2014 have been restated to reflect adoption of the standard.

Under Sections 3462, the previously available deferral and amortization approach, in which actuarial gains and losses and past service costs were deferred and amortized over the average remaining service life of the employees in the plan, is no longer an accounting policy choice. The University’s defined benefit liability for its pension and post-retirement benefits plans equals the defined benefit obligation less plan assets. The annual cost for the pension and post-retirement benefits, which comprises the current service costs and finance costs, is recorded in the Statement of Operations. Remeasurements and other items are recorded in the Statement of Changes in Net Assets, in accordance with the requirements of Section 3463. Remeasurements and other items include:

- the difference between the actual return on plan assets and the return calculated using the discount rate used to determine the defined benefit obligation;
- actuarial gains and losses;
- the effect of any valuation allowance in the case of a net defined benefit asset, determined in accordance with paragraph 3462.086;
- past service costs; and
- gains and losses arising from settlements and curtailments.

For defined benefit plans for which an actuarial valuation for funding purposes exists, an accounting policy choice exists between using the funding valuation or accounting valuation. The University has adopted the funding valuation method.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

2. Change in accounting policy (cont'd)

The impact at adopting the standard retrospectively in accordance with the transitional provisions of Sections 3462 and 3463 was as follows:

Statement of financial position			
	As previously stated	Change	As restated
As at May 1, 2013			
Defined benefit obligation	\$34,798,971	\$14,154,961	\$48,953,932
Post retirement benefits fund	(\$22,470,851)	(\$14,154,961)	(\$36,625,812)
Total fund balance	\$50,377,411	(\$14,154,961)	\$36,222,450
As at April 30, 2014			
Defined benefit obligation	\$41,447,274	\$15,565,814	\$57,013,088
Post retirement benefits fund	(\$28,107,676)	(\$15,565,814)	(\$43,673,490)
Total fund balance	\$50,625,925	(\$15,565,814)	\$35,060,111
Statement of operations			
For the year then ended April 30, 2014			
Post-retirement benefit cost	\$13,957,200	(\$7,222,494)	\$6,734,706
Excess of revenue over expenses (expenses over revenues)	(\$2,879,713)	\$7,222,494	\$4,342,781

3. Summary of significant accounting policies

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

Principles of consolidation

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

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

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

Fund accounting

The University follows the deferral method of accounting for contributions.

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

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

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

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

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

Cash and cash equivalents

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

Inventory

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

Revenue recognition

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

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

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

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

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

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

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

Employee benefit plans

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

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

Capital assets

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

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

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

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

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

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

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

Financial instruments

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

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

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

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

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

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

Derivative financial instruments

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

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

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

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

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

Donations and pledges

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

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

Foreign currency translation

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

Use of estimates

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

4. Receivables	2015	2014
Operating fund		
MPHEC grant	\$ 623,931	\$ -
Pension administration fees	-	18,133
Sales and services	880,418	840,336
Student accounts	1,349,052	1,052,907
Other	833,651	1,924,025
	<u>3,687,052</u>	<u>3,835,401</u>
Capital asset fund	-	8,434
Research fund	<u>1,854,845</u>	<u>2,822,899</u>
	\$ 5,541,897	\$ 6,666,734

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

5. Investments	<u>2015</u>	<u>2014</u>
Operating fund	<u>\$ 16,181,632</u>	<u>\$ 13,770,506</u>
Research fund	<u>33,351</u>	<u>33,350</u>
Post retirement benefits fund		
Health benefit plan	<u>11,119,823</u>	9,017,888
Retirement allowances	<u>4,219,692</u>	3,497,065
Supplementary retirement benefits	<u>829,113</u>	824,679
	<u>16,168,628</u>	<u>13,339,632</u>
Capital assets fund		
Capital projects fund	<u>11,246,891</u>	7,952,624
Endowment fund	<u>29,224,215</u>	26,866,822
	<u>\$ 72,854,717</u>	<u>\$ 61,962,934</u>

Investments summary	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Equities	<u>\$55,440,672</u>	<u>\$60,594,958</u>	\$ 48,630,556	\$50,399,676
Fixed – amortized cost	<u>1,117,571</u>	<u>1,135,013</u>	1,119,305	1,119,305
Fixed – fair market value	<u>11,000,000</u>	<u>11,124,746</u>	10,400,000	10,443,953
Total	<u>\$67,558,243</u>	<u>\$72,854,717</u>	<u>\$ 60,149,861</u>	<u>\$61,962,934</u>

6. Capital assets	<u>2015</u>			<u>2014</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	Net book value
Land	\$ 814,301	\$ -	<u>\$ 814,301</u>	\$ 814,301
Site improvements	12,518,052	4,900,075	<u>7,617,977</u>	7,933,038
Buildings	204,277,501	63,082,110	<u>141,195,391</u>	142,122,572
Furniture, equipment and vehicles	52,636,623	23,215,372	<u>29,421,251</u>	30,083,337
Library materials	<u>12,863,494</u>	<u>8,609,654</u>	<u>4,253,840</u>	4,406,891
	<u>\$ 283,109,971</u>	<u>\$ 99,807,211</u>	<u>\$ 183,302,760</u>	<u>\$ 185,360,139</u>

Facilities under construction as of April 30, 2015 are, at cost \$1,351,250.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

7. Payables and accruals	<u>2015</u>	<u>2014</u>
Operating fund		
Accrued interest	\$ 148,746	\$ 164,640
Faculty development allowance	363,699	355,291
Accrued payroll	1,174,441	1,118,635
Trade	3,253,388	2,595,435
Government remittances	4,573	117,952
Accrued vacation and other leaves	<u>3,365,242</u>	<u>3,355,949</u>
	8,310,089	7,707,902
Capital asset fund		
Construction holdbacks and payables	<u>1,351,257</u>	-
	<u>\$ 9,661,346</u>	<u>\$ 7,707,902</u>

8. Deferred revenue, operating

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

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 5,289,128	\$ 4,558,429
Resources received	10,471,742	8,725,295
Recognized as revenue	<u>(8,173,020)</u>	<u>(7,994,596)</u>
Ending balance	<u>\$ 7,587,850</u>	<u>\$ 5,289,128</u>

9. Pension plan and other employee post-retirement benefits

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

Annual funding requirements for the pension plan, future retirement allowances and for a health benefit plan are determined by Eckler Ltd. The last actuarial valuations completed for the future retirement allowance and the health benefit plan was April 30, 2015, and for the pension plan was April 30, 2014. Funding of supplementary retirement obligations is determined in accordance with conditions of specific agreements.

	<u>2015</u>	<u>Restated (Note 2) 2014</u>
Net expense for the University's benefit plans is as follows:		
Pension	<u>\$ 5,662,100</u>	<u>\$ 4,514,532</u>
Other benefit plans		
Health benefits	2,068,964	1,964,243
Retirement allowances	<u>462,541</u>	<u>255,931</u>
	<u>2,531,505</u>	<u>2,220,174</u>
Expense per statement of operations	<u>\$ 8,193,605</u>	<u>\$ 6,734,706</u>

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

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

The actuarial present value of benefit obligations and fair value of plan assets recognized in the accompanying statements of financial position as at April 30, 2015 and April 30, 2014 were as follows:

	Pension plan		Post-retirement benefit plans	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Change in defined benefit obligation:				
Defined Benefit obligation, beginning of year	\$ 231,505,000	\$ 198,981,029	\$ 30,286,843	\$ 26,336,244
Service cost	8,427,243	7,400,165	1,140,146	980,656
Interest cost	13,242,121	11,892,776	1,507,812	1,325,000
Transfer in	344,452	108,006	-	-
Gross benefits paid and transfers out	(11,186,167)	(9,044,380)	(1,147,263)	(1,164,875)
Actuarial gains and losses	1,877,577	22,167,404	(1,162,446)	2,809,818
Defined Benefit obligation, end of year	\$ 244,210,226	\$ 231,505,000	\$ 30,625,092	\$ 30,286,843
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 204,778,755	\$ 176,349,342	\$ -	\$ -
Actual return on plan assets	17,502,382	26,968,625	-	-
Employer contributions	6,867,713	6,136,197	-	-
Transfer in	344,452	108,006	-	-
Plan participant's contributions	4,225,268	4,260,965	-	-
Gross benefits paid and transfers out	(11,186,167)	(9,044,380)	-	-
Fair value of plan assets, end of year	\$ 222,532,403	\$ 204,778,755	\$ -	\$ -
Funded status and amounts recognized, end of year				
Fair value of plan assets	\$ 222,532,403	\$ 204,778,755	\$ -	\$ -
Benefit obligation	(244,210,226)	(231,505,000)	(30,625,092)	(30,286,843)
Funded status, end of year	(21,677,823)	(26,726,245)	(30,625,092)	(30,286,843)
		<u>2015</u>	<u>2014</u>	
Accrued benefit liability				
Pension plan		\$ (21,677,823)	\$ (26,726,245)	
Other benefit plans		(30,625,092)	(30,286,843)	
Liability per statement of financial position		\$ (52,302,915)	\$ (57,013,088)	

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

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

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

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	1%	1%
Government and corporate bonds	22%	24%
Mortgages	5%	5%
Real estate fund	14%	15%
Equities and mutual funds	58%	55%

The significant actuarial assumptions adopted in measuring the University's defined benefit obligations for the pension plan is a discount rate of 5.75% (2014 – 5.75%) and for the future retirement allowances is a discount rate of 3.5%, expected long term rate of return on plan assets of 5.75% (2014: 5.75%), and a rate of compensation increase of 4.00% per annum. For the health benefits plan a 5.75% (2014: 5.75%) discount rate and 4.0% rate of compensation increase were assumed. Extended health and drug claims were assumed to increase 5.0% per annum and dental claims were assumed to increase at 4.0% per annum.

Other information about the University's pension plan is as follows:	<u>2015</u>	<u>2014</u>
Employer contributions	\$ 6,867,713	\$ 6,085,314
Employees' contributions and transfers in	4,569,720	4,345,413
Benefits paid and transfers out	11,186,168	9,044,380

The health benefit plan liability has been estimated to equal \$26,180,202 (2014: \$25,844,302) based on the last actuarial valuation as of April 30, 2015. In 2015, \$11,119,822 (2014: \$9,017,888) of investments have been internally allocated to fund this liability.

The University has an obligation to pay lump sum retirement allowances to non-faculty employees who retire after reaching the age of 55 years. The allowances are to a maximum of six months salary. The total liability has been estimated to equal \$3,757,000 as of April 30, 2015 is based on an actuarial valuation (2014: \$3,752,917) and the rates of funding required for future service as determined by the actuary at that time. In 2015, \$4,219,692 (2014 - \$3,497,065) of investments have been internally allocated to fund this liability.

Supplementary retirement obligations amount to \$687,746 (2014 - \$689,457) and relate to the retirement obligations payable to senior administrators for their terms at the University. Upon termination of the retirement obligations, per the conditions of the agreements, any surplus funds become assets of the University. Investment assets equal to the full amount of the liability have been internally allocated to fund this liability.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

10. Long term obligations	<u>2015</u>	<u>2014</u>
Long term obligations funded by the Province of Prince Edward Island:		
6.25% CMHC loan payable \$53,646 annually including interest amortized to and maturing in October 2018. As security, a mortgage has been provided on Bernadine Hall. The carrying value of Bernadine Hall is \$1,002,676.	\$ 166,330	\$ 207,634
7.625% CMHC loan payable \$95,597 annually including interest amortized to and maturing in September 2023. As security, a mortgage has been provided on Blanchard Hall. The carrying value of Blanchard Hall is \$2,783,015.	590,046	637,899
CDOR plus 0.25%, hedged at 5.36%, Bank of Montreal long term loan on Regis and Joan Duffy Research Centre, payable \$57,150 quarterly plus interest, amortized to 2021 and maturing in 2016.	1,371,600	1,600,200
CDOR plus 0.25%, hedged at 4.94%, Bank of Montreal long term loan on Duffy Science Centre renovation, payable \$60,000 quarterly principal plus interest, amortized to 2017 and maturing in 2021.	660,000	900,000
CDOR plus 0.25%, hedged at 5.36%, Bank of Montreal long term loan on Duffy Science Centre renovation, payable \$56,667 quarterly principal plus interest, amortized to 2021 and maturing in 2016.	1,360,000	1,586,666
CDOR plus 0.25%, hedged at 5.60% Bank of Montreal long term loan on the Don and Marion McDougall Hall, payable \$96,667 quarterly principal plus interest, amortized to 2022 and maturing in 2022.	2,610,000	2,996,666
CDOR plus 0.25%, hedged at 5.70%, Bank of Montreal long term loan on the AVC Expansion, payable \$33,333 quarterly principal plus interest, amortized to 2023 and maturing in 2023.	1,033,333	1,166,667
CDOR plus 0.25%, hedged at 5.58%, Bank of Montreal long term loan on core renewal projects payable \$103,333 quarterly principal plus interest, amortized to 2023 and maturing in 2023.	3,306,667	3,720,000
CDOR plus 0.75%, hedged at 3.71%, Bank of Montreal long term loan on the Knowledge Infrastructure Program, payable in \$50,000 quarterly principal plus interest, amortized to 2020 and maturing in 2020.	1,050,000	1,250,000
CDOR plus 0.75%, hedged at 4.53%, Bank on Montreal long term loan on the Nursing and Applied Human Sciences Building, payable in \$179,000 quarterly principal plus interest, amortized to and maturing in 2022.	5,019,000	5,735,000
Other long term obligations:		
CDOR plus 0.25%, hedged at 5.71%, Bank of Montreal long term loan on Blanchard Hall and Bernadine Hall renovations, payable in \$54,517 quarterly payments including principal and interest, amortized to 2032 and maturing in 2032, funded by residence operations.	2,327,516	2,402,792

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

10. Long term obligations (cont'd)

	<u>2015</u>	<u>2014</u>
CDOR plus 0.25%, hedged at 5.67%, Bank of Montreal long term loan on Bill and Denise Andrew Hall, payable \$208,000 quarterly including interest, amortized to 2031 and maturing in 2016, funded by residence operations.	8,501,662	8,835,494
CDOR plus 0.75%, hedged at 3.80%, Bank of Montreal long term loan on the AVC Phase III Expansion, payable in \$88,000 quarterly principal plus interest, amortized to and maturing in 2020.	3,540,000	3,892,000
3.25% Royal Bank term loan payable \$8,434 monthly including interest maturing in July 2016 and amortized until 2016. The loan relates to the construction of W A Murphy Student Centre, funded by the Student Union.	123,474	218,594
Less: current portion	<u>31,659,628</u>	<u>35,149,612</u>
	<u>3,522,469</u>	<u>3,490,011</u>
	\$ 28,137,159	\$ 31,659,601

Annual principal repayments in each of the next five years are due as follows: 2016 - \$3,522,469; 2017 - \$3,480,154; 2018 - \$3,427,862; 2019 - \$3,257,159; 2020 - \$3,264,701.

11. Interest rate swap agreements

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

The notional underlying principal value of the interest rate swaps related to debt outstanding at April 30, 2015 was \$30,779,778 (2014 - \$34,085,485). The University has no plans to sell or terminate the interest rate swap agreements prior to maturity. If the University had terminated these swaps on April 30, 2015, it would have been obligated to incur a payment of \$5,488,195 (2014 - \$5,004,118), the fair value of the swaps.

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

12. Deferred revenue, capital assets

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

	<u>2015</u>	<u>2014</u>
General deferred revenue, capital assets		
Beginning balance	\$ 110,557,701	\$ 110,379,134
Capital grants and donations received	4,515,105	3,816,745
Capital grants and donations recognized, net	<u>(4,006,942)</u>	<u>(3,638,178)</u>
Ending balance	\$ 111,065,864	\$ 110,557,701

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

13. Deferred revenue, other

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

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 14,858,914	\$ 12,025,700
Contributions received	889,309	543,458
Income earned	4,850,409	6,275,245
Recognized as revenue	<u>(5,644,203)</u>	<u>(3,985,489)</u>
 Ending balance	 <u>\$ 14,954,429</u>	 <u>\$ 14,858,914</u>
 Representing:		
Unexpended investment income on endowment funds (Note 15)	\$ 7,684,492	\$ 6,346,428
Special purpose funds	<u>7,269,937</u>	<u>8,512,486</u>
 <u>\$ 14,954,429</u>	 <u>\$ 14,858,914</u>	

14. Internal restrictions on fund balances

	<u>2015</u>	<u>2014</u>
The following amounts have been restricted by the Board of Governors for specific purposes:		
Capital projects		
Capital renovations	\$ 1,301,399	\$ 1,301,399
Engineering capital fund	4,209,588	1,000,000
Technology development fund	4,500,000	4,500,000
Dalton Hall capital fund	1,000,000	1,000,000
Other	<u>235,905</u>	<u>151,235</u>
 Endowment	 <u>11,246,892</u>	 <u>7,952,634</u>
Research	<u>5,774,900</u>	<u>5,920,460</u>
	<u>3,333,237</u>	<u>2,226,126</u>
 <u>\$ 20,355,029</u>	 <u>\$ 16,099,220</u>	

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

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

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

	<u>2015</u>	<u>2014</u>
Endowment Fund		
Externally restricted	\$ 23,449,315	\$ 20,946,362
Internally restricted	<u>5,774,900</u>	<u>5,920,460</u>
	<u>29,224,215</u>	<u>26,866,822</u>
Operating Fund		
Deferred revenue, unexpended investment income (Note 13)	<u>7,684,492</u>	<u>6,346,428</u>
	<u>\$ 36,908,707</u>	<u>\$ 33,213,250</u>

16. Inter-fund transfers

	Operating			Post-	
	Unrestricted	Unrestricted		retirement	Capital
	Main Campus	AVC		benefits	assets
Depreciation	\$ 5,208,401	\$ 2,700,253			(7,908,654)
Equipment additions	(995,369)		\$(1,076,175)		2,071,544
Library materials	(191,912)	(59,587)			251,499
Principal debt repayment	(498,265)	(352,000)			850,265
Internal financing	(4,006,152)	343,452			3,662,700
Research	138,737	(140,655)	1,918		
Interest repayment	(693,767)	(169,773)			863,540
Post-retirement health benefits	(1,246,666)	(380,487)		1,627,153	
Retirement allowance	(320,880)	(198,917)		519,797	
Pension plan	<u>(4,691,383)</u>	<u>(2,027,870)</u>	<u>(148,447)</u>	<u>6,867,700</u>	
	<u>\$ (7,297,256)</u>	<u>\$ (285,584)</u>	<u>\$ (1,222,704)</u>	<u>\$ 9,014,650</u>	<u>\$ (209,106)</u>

17. Scholarships

The University received restricted grants to fund scholarships and bursaries from the Province of Prince Edward Island including the George Coles bursary and Island Student Awards. The total for the year was \$1,571,400 (2014 - \$1,698,200).

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2015

18. Financial assets and liabilities

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

Credit risk

The University is exposed to credit risk through payment default on its accounts receivable. Exposure to credit risk on accounts receivable is managed through active monitoring and collection practices. A provision for uncollectible accounts has been determined in the amount of \$327,875 (2014 - \$314,174) based on respective aging of accounts, risk profile of certain accounts and collections subsequent to year end. Receivables written off during the year and adjustments to the allowance for doubtful receivables amount to \$122,235 (2014 - \$98,268).

Liquidity risk

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

Market risk

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

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

Interest rate risk

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

19. Commitment and subsequent event

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

20. Comparative figures

Certain of the 2014 comparative figures have been restated to agree with the financial statement presentation adopted for the current year.

**University of Prince Edward Island
Consolidated schedule of
Atlantic Veterinary College operations
and changes in fund balance**

Year ended April 30

2015

2014

Revenue		
Operating grants	\$ 20,973,004	\$ 21,075,824
Student fees	3,185,803	3,093,693
International fees	3,751,315	3,688,288
Sales and services	7,103,422	7,133,424
Investment income	71,676	102,372
Donations	428,282	649,917
	<u>35,513,502</u>	<u>35,743,518</u>
Expenditure		
Salaries and benefits	23,962,956	24,702,151
Supplies	3,169,919	3,182,042
Depreciation	2,700,253	2,815,050
Other	652,631	346,625
Utilities	2,578,163	2,517,975
Travel	278,393	338,829
Repairs and maintenance	613,841	575,384
Library subscriptions	364,111	302,713
Professional fees and memberships	853,123	699,776
Scholarships	162,015	162,545
Advertising	39,351	31,059
Insurance	118,886	121,879
	<u>35,493,642</u>	<u>35,796,028</u>
Excess of revenues over expenditures (expenditure over revenue) before inter-fund transfers	\$ 19,860	\$ (52,510)
Fund balance, beginning of year	\$ 419,178	\$ 279,735
Excess of revenues over expenditures (expenditure over revenue) before inter-fund transfers	19,860	(52,510)
Inter-fund transfers (Note 16)	<u>(285,584)</u>	<u>191,953</u>
Fund balance, end of year	<u>\$ 153,454</u>	<u>\$ 419,178</u>

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

Year ended April 30

2015

2014

	Main Campus	AVC	Total	Total
Revenues				
Deferred revenue, beginning of year	\$ 2,914,581	\$ 4,208,294	\$ 7,122,875	\$ 7,351,936
Research funds received	6,349,033	5,318,800	11,667,833	13,236,340
Deferred revenue, end of year	(2,396,110)	(3,340,397)	(5,736,507)	(7,122,876)
	<u>6,867,504</u>	<u>6,186,697</u>	<u>13,054,201</u>	<u>13,465,400</u>
Expenditures				
Salaries and benefits	3,565,183	3,406,009	6,971,192	6,811,012
Supplies	774,357	805,803	1,580,160	1,781,336
Travel	462,166	468,349	930,515	950,121
Professional fees	832,013	357,905	1,189,918	1,293,148
Scholarships	52,101	500	52,601	60,505
	<u>5,685,820</u>	<u>5,038,566</u>	<u>10,724,386</u>	<u>10,896,122</u>
Excess of revenue over expenditure before inter-fund transfers	<u>\$ 1,181,684</u>	<u>\$ 1,148,131</u>	<u>\$ 2,329,815</u>	<u>\$ 2,569,278</u>
Fund balances , beginning of year	\$ 1,027,412	\$ 1,198,714	\$ 2,226,126	\$ 1,983,613
Excess of revenue over expenditure before inter-fund transfers	1,181,684	1,148,131	2,329,815	2,569,278
Inter-fund transfers (Note 16)	<u>(823,808)</u>	<u>(398,896)</u>	<u>(1,222,704)</u>	<u>(2,326,765)</u>
Fund balances, end of year	<u>\$ 1,385,288</u>	<u>\$ 1,947,949</u>	<u>\$ 3,333,237</u>	<u>\$ 2,226,126</u>
Unspent funds at year end				
Fund balances	\$ 1,385,288	\$ 1,947,949	\$ 3,333,237	\$ 2,226,126
Deferred revenue	<u>2,396,110</u>	<u>3,340,397</u>	<u>5,736,507</u>	<u>7,122,8766</u>
	<u>\$ 3,781,398</u>	<u>\$ 5,288,346</u>	<u>\$ 9,069,744</u>	<u>\$ 9,349,002</u>