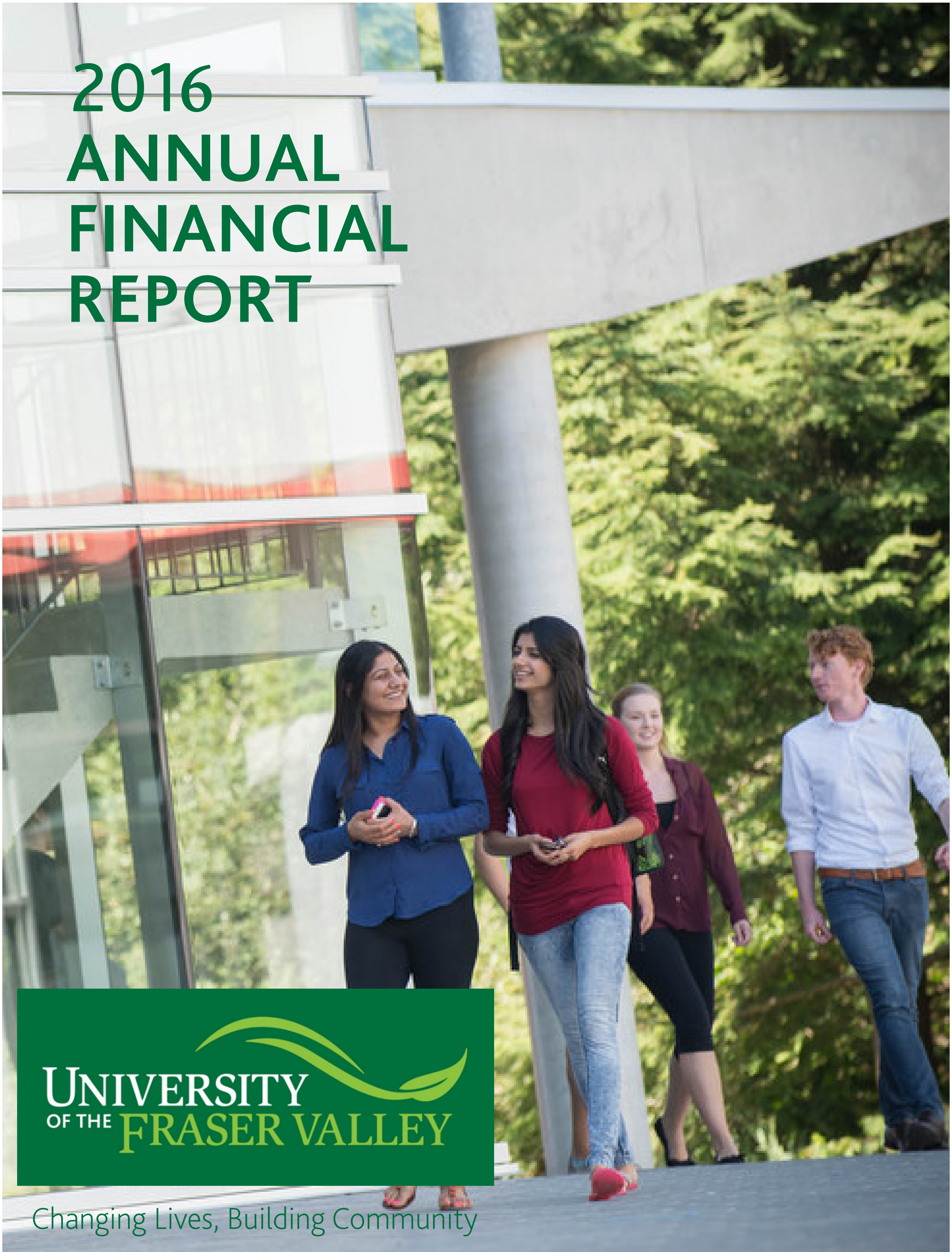
2016 ANNUAL FINANCIAL REPORT



UNIVERSITY OF THE FRASER VALLEY

Changing Lives, Building Community

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Financial Discussion & Analysis

FINANCIAL DISCUSSION & ANALYSIS

The objective of the Financial Discussion and Analysis (FD&A) is to assist readers of UFV's financial statements with understanding the financial position and operating activities of the University for the fiscal year ended March 31, 2016. The FD&A has been prepared by UFV management, is unaudited and should be read in conjunction with the annual audited financial statements and accompanying notes.

The University of the Fraser Valley is a publicly funded institution under the University Act, with direction provided through the Ministry of Advanced Education. As part of the Government Reporting Entity (GRE), the University is required to develop a consolidated balanced budget and prepare consolidated financial statements. The University's consolidated financial statements are presented 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 directions provided through the Act and Regulations require statements to be prepared under modified Public Sector Accounting Standards (PSAS).

University Highlights in 2015-16

After several years of planning and persistence, the Student Union Society and the University were delighted to open the Student Union Building in 2015. The new facility provides much needed space for students and has been a hub of activity over the 2015-16 academic year. The University finalized a pre-paid lease with the Student Union Society in 2015-16, bringing closure to seven years of planning for this building.

The University has negotiated purchase and sale agreements for the sale of 19 acres of the total 26 acre campus in north Chilliwack. These agreements are expected to finalize within the next fiscal year.

An important focus for 2015-16 year has been *UFV 2025: A Vision of our Future*. The dramatic change happening in both higher education and society in general is prompting universities to respond proactively by engaging in longer-term vision exercises focused not on the minutia of courses and programs, but on the very nature and organization of universities. To this end, the Provost and VP Academic struck a visioning committee to lead the institution in a collaborative exercise of imagining and articulating a broad vision of the future of universities, the future of learning, and within this broader vision, the future of teaching-and regionally-focused institutions – more specifically, the future of the University of the Fraser Valley. In response to and inspired by that vision for *UFV 2025,* the University has developed five goals for *Education Plan 2016-2020,* a plan that will guide the University into the future *(http://blogs.ufv.ca/ufv2025/)* . Program, capital and technology infrastructure investment will be required in future years to realize and support the goals of this plan.

STATEMENT OF FINANCIAL POSITION

Financial Assets

	2016	2015
Cash and equivalents	9,555,240	8,248,806
Accounts receivable	3,074,770	4,029,523
Investories held for resale	1,579,649	1,632,854
Investments	31,404,035	27,844,625
Assets held for resale	2,905,542	0
Investment in GBE	55,908	42,758
Total Financial assets	**48,575,144**	**41,798,566**

Financial assets increased by $6.8M (16%) as compared to the prior year. A significant contribution to this increase is the reclassification of land expected to sell in 2016-17 on our campus in north Chilliwack from a non-financial asset to a financial asset. In prior year, the University had a large grant receivable outstanding at year end. The 2016 receivables balance is more indicative of comparative trends at March 31. Cash received for restricted purposes and not yet spent has increased over prior year and adds to the financial asset balance.

Liabilities

	2016	2015
Accounts payable and accrued liabilities	12,323,385	12,779,383
Deferred revenue	24,566,991	23,646,925
Deferred capital contributions	96,863,772	99,051,835
Long-term debt	10,995,835	11,409,370
Obligations under capital lease	347,570	440,041
Total Liabilities	**145,097,553**	**147,327,554**

Liabilities decreased by $2.2M (8.5%) in 2015-16. The most significant change was in deferred capital where amortization related to contributions for prior year purchases exceeded the purchase of new externally funded capital assets. Deferred revenues are externally restricted resources related to projects, initiatives, programming or services not yet delivered. Revenue for these initiatives is recognized as related expenses are incurred and/or services are fulfilled. The $10M pre-paid lease from the Student Union Society is included in the deferred revenue balance. Long term debt is related to the student residence and is being repaid by student rent revenues as planned. Occupancy rates in the residence remain strong and able to support the debt.

Net Assets

	2016	2015	2014	2013	2012
Total Financial assets	**48,575,144**	**41,798,566**	**36,333,351**	**35,694,254**	**41,732,388**
Liabilities	145,097,553	147,327,554	134,232,244	132,252,773	137,647,192
Adjust deferred capital contributions*	(96,863,772)	(99,051,835)	(99,183,658)	(98,806,003)	(100,677,279)
Adjust pre-paid lease for Student Centre**	(9,905,241)	(7,914,799)			
	38,328,540	**40,360,920**	**35,048,586**	**33,446,770**	**36,969,913**
Net assets	**10,246,604**	**1,437,646**	**1,284,765**	**2,247,484**	**4,762,475**
Financial asset: liability ratio	**1.3**	**1.0**	**1.0**	**1.1**	**1.1**

* Brought into revenue to match amortization expense

** Pre-paid lease deferred and brought into revenue over life of lease; SUS responsible for operating costs related to leased space

The net asset position provides a measure of the future revenues available to pay for past transactions and events. Post-secondary institutions in British Columbia prepare financial statements in accordance with the financial reporting provisions of Section 23.1 of the provincial *Budget Transparency and Accountability Act*. Departing from pure PSAB accounting, contributions for capital assets are deferred and brought into revenue over the lifetime use of the asset as per provincial regulation (Treasury Board Regulation 198/2011), thereby providing readers a better sense of the annual operating position. Reporting deferred capital contributions (DCC) as a liability skews the institution's net debt position as the repayment of DCCs will not be a draw on future revenues. Similarly, the University has a significant pre-paid lease from the Student Union Society which was invested in the construction of the Student Union Building. Adjusting for these contributions, the financial assets to liabilities ratio has improved to 1.3.

Non-Financial Assets

	2016	2015
Tangible capital assets	165,822,878	172,020,960
Prepaid expenses	356,945	494,782
Investments - endowment	8,966,345	8,652,724
	175,146,168	**181,168,466**

Tangible capital assets (net of amortization) include property and site improvements, buildings, leasehold improvements, library acquisitions, computers, furniture and equipment. For the first time in many years, the University does not have a major building project in progress so additions to tangible assets included smaller investments such as renovations, site improvements, and furniture and equipment. (2015-16: $5.9M; 2014-15: $18M). At the same time, the value of assets acquired in prior years decreased as they are amortized over their useful life. The reclassification of land expected to sell in 2015-16 from a tangible non-financial asset to a financial asset further reduced this category of assets.

Non-financial investment assets are the principle portion of UFV endowments. Increases and decreases to endowed funds attributed to realized or unrealized earnings are classified as a financial asset and available for distribution. UFV's endowed funds are professionally managed by RBC Philips, Hagar & North Investment Counsel and guided by Investment Policy of the Board, BRP-215.01. The UFV Scholarship and Bursary Fund was invested in 2002 and has annualized returns of 5.8% since inception. Annual return for the year ended March 31, 2016 is .8%. The Chair, Canada India Business and Economic and Development Fund (CCIBED) was invested in 2007 and since inception has annualized returns of 5.3%. Annual return for the year ended March 31, 2016 is .9%.

Accumulated Surplus

The accumulated surplus represents the net economic position of the University from the operations of past years along with the principal portion of endowed funds. With the exception of endowed funds, the University's surplus is invested in capital assets, held as reserves to mitigate risk, or allocated for projects and initiatives to further the mission of the University. Over the past years, the amount the University invests in capital assets has been growing as the province expects cost sharing on all capital renovations, expansions and new projects. The portion of the development of the campus at Canada Education Park and some site infrastructure projects totaling $19M are self-funded.

STATEMENT OF OPERATIONS AND ANNUAL SURPLUS

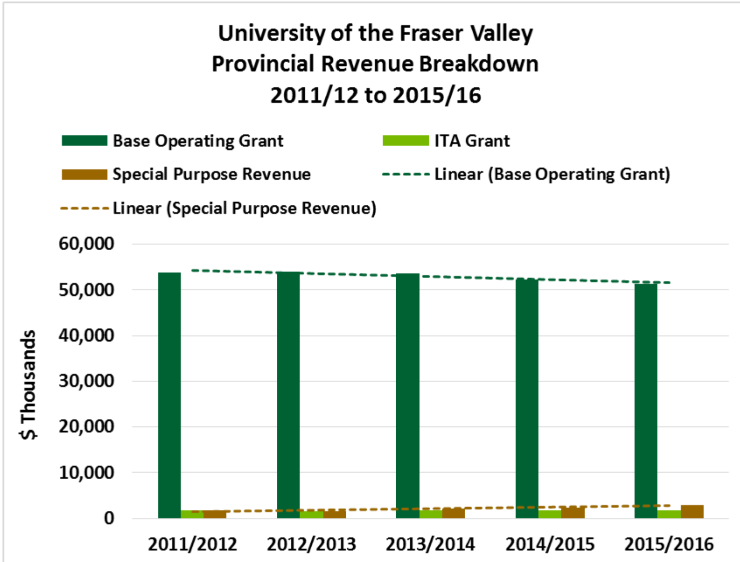
The University ended the year with a $2.7M (2%) all fund surplus. Strong International student fee revenues, salary and benefit savings related to the timing of filling vacancies, and a shortfall in domestic student fees offset by the contingency budget were contributing factors.

Revenues

	2016 Budget	2016 Actuals	Variance to Budget	2015 Actuals
Province of British Columbia	54,462,901	56,125,585	1,662,684	56,445,177
Tuition and student fees	45,873,007	46,398,120	525,113	42,990,980
Sales of goods and services	6,630,356	6,597,700	(32,656)	6,625,127
Amortization of DCC (deferred capital contributions)	6,200,000	6,879,434	679,434	6,488,470
Donations, non-government grants and contracts	2,896,151	4,469,936	1,573,785	3,529,929
Government of Canada	605,100	816,164	211,064	756,406
Investment income	550,000	701,205	151,205	642,434
Income (loss) from GBE (government business enterprise)		13,150	13,150	(139,028)
	117,217,515	122,001,294	4,783,779	117,339,495

Revenues of $122 million in the 2015-16 year are 4% above budget plan. Contributing factors are:

Provincial of British Columbia grants: Operating grant funding decreased by $1M, partially offset by provincial one-time funding for designated purposes. One-time provincial funding in 2015-16 includes funding related to the cancelation of Adult Basic Education compensation grant, as well as Trades critical seats funding. Capital annual grants from the Province for routine maintenance and specific minor capital projects were $3.5M ($3.9M 2014-15).



Tuition and student fee revenue increased by $3.4M or 7.9% to $46M and makes up 38% of consolidated revenues. The increase is attributed to tuition fee increases of 2% for domestic students and 6.1% for international students, as well as some growth in international student numbers.

Amortization of DCC is related to external funding for capital projects, as well as for maintenance and minor renovations (MMR). This funding is restricted and brought into revenue over the life of related assets or as the dollars are spent on maintenance and repairs. The favorable variance is related to MMR funding approved and received after the 2015-16 Budget plan was approved.

Other revenue, donations, non-government grants and contracts includes miscellaneous fees revenue (i.e. facility rental) and one-time funds received for special purposes. As the majority of funds in this category are tied to specific projects and initiatives approved at various points throughout the year, funding from year to year can be volatile.

Government of Canada revenue funds Research Chairs and includes one-time grants from federal research agencies for research projects. This category of funding fluctuates depending on the success of research grant proposals.

Investment Income includes interest earned on fluctuating operating funds. The University manages operating cash-flows with a combination of term securities and participation in the provincial Central Deposit Program (CDP), a program that offers a small premium on daily cash balances. Earnings on our endowment investments are restricted in purpose and are brought into revenue in the *Other Revenue* category as related scholarships or bursaries are awarded to students.

Income from GBE recognizes the year-end position of UFV India Global Education (UIGE). Note: UFV India Global Education (UIGE) reimburses UFV for costs incurred related to operations in India such as Canadian faculty members teaching in Chandigarh.

Expenses

Expenses for Public Sector Accounting statements are classified by major function or program. Since the categories on the statement are at an aggregate level, this discussion and analysis will comment on expenses by object as presented below.

	2016 Budget	2016 Actuals	Variance to Budget	2015 Actuals
Salaries and benefits	84,841,897	84,159,626	(682,271)	82,290,209
Other costs	10,201,393	11,056,161	854,768	9,954,842
Amortization of tangible capital assets	9,348,000	9,199,465	(148,535)	8,537,829
Office and program costs	5,042,404	5,984,002	941,598	5,912,395
Cost of good sold	2,860,660	3,182,015	321,355	3,221,360
Minor renovations and repairs	428,825	1,232,704	803,879	1,405,095
Utilities	1,969,489	1,988,367	18,878	1,803,395
Scholarships and bursaries	1,910,700	1,924,523	13,823	1,597,863
Interest expense	614,147	603,790	(10,357)	622,103
	117,217,515	**119,330,653**	**2,113,138**	**115,345,091**

Overall, expenditures increased by 3.5% over last year and were 1.8% over budget plan. Largest variances are related to capital maintenance and other one-time projects and are matched by positive revenue variances.

Salaries and benefits costs increased by 2.3% and comprise 70.6% of total expenditures. Increases to pension contributions and MSP premiums were the main benefit increase drivers. Usual salary savings due to a time delay in filling vacancies are mitigated this year by an unbudgeted accrual for anticipated negotiated salary increases equivalent to the provincial salary mandate.

Other costs increased by approximately $1.1M over prior year. Costs related to research grants and one-time projects along with increases related to software licensing are of note. The weak Canadian dollar as compared to the US dollar impacted licensing costs.

Office and program costs are consistent with prior year. Costs in this category include office and classroom supplies, books, travel and conferences. One-time specific purpose (i.e. study tours) and research related program and travel expenses are included in this category and result in variance to budget.

Cost of goods sold are similar to the prior year but over budget as the bookstore struggles to compete with alternative textbook sources and a weak Canadian dollar.

Minor renovations and repair costs vary year over year as funding is largely dependent on one-time provincial MRR funding approved after the annual budget.

Utility costs: In spite of bringing the new Student Centre into operations this fiscal year, natural gas costs decreased by 6.2% over last year (-27.4% over two years), partially due to a mild winter, favorable rates negotiated through the provincial ASDT initiative, and energy efficiencies initiated by the facilities department. Electricity costs increased by 23.1% over the prior year (26.6% over two years) as hydro rates continue to increase through 2018.

Scholarships and bursaries awarded this year increased with the main contributor being increased adult upgrading grants for low income students to mitigate the impact of tuition costs for upgrading courses.

RISKS AND UNCERTAINTIES

The University operates in an increasingly complex environment with many factors outside of the control of the University. **The most significant risks for University are considered below:**

1. Presidential Search: Dr. Evered's term ends June 30, 2017 with the search for his replacement underway. The University will need to transition and manage the challenges and opportunities that come with new leadership.
2. Provincial funding: Multiple years of reduced funding has eroded the ability to invest in both programs and equipment. A further erosion of funding could impact program quality.
3. Student recruitment and tuition as an increasing portion of total revenue: Enrolments may be negatively impacted by demographics, the economy, federal and provincial policies, and competition from other institutions.
4. Higher reliance on international students: A global catastrophe, economic events, and a higher concentration of international students from two or three regions could negatively impact international enrolments.
5. Managing continuous change:
    a. Changing nature of students, curriculum, classroom instruction, technology and learning itself: If universities (including UFV) do not make necessary changes, there is a risk that university education will be seen as irrelevant.
    b. ASDT initiatives: Managing changing administrative and business processes while maintaining employee morale.
    c. Outstanding collective agreement and lengthy negotiations: Keeping employees motivated in the midst of on-going uncertainty and era of cost constraints.
    d. Friction between meeting the needs of the region and managing within financial resources: Making choices between financial sustainability and program accessibility.
    e. Ending year with a small surplus may be desirable but it increases the risk that even a relatively small unplanned event will cause University to slide into a deficit position.
6. Sale of Chilliwack North campus.
7. Deferred maintenance funding: Maintaining buildings with a reduced capital funding allocation.
8. Capital investments: There is a need to upgrade facilities and provide new space to meet enrolment plans and changing educational delivery modes. Limited funding opportunities will constrain necessary investments to capital infrastructure.

Financial Statements

Financial Statements of

UNIVERSITY OF THE FRASER VALLEY

For the year ended March 31, 2016

KPMG LLP
32575 Simon Avenue
Abbotsford BC V2T 4W6
Canada
Telephone (604) 854-2200
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the University of the Fraser Valley, which comprise the statement of financial position as at March 31, 2016, the statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the 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 entity'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 financial statements.

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

Opinion

In our opinion, the financial statements of the University of the Fraser Valley as at March 31, 2016 and for the year then ended are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

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

KPMG LLP

Chartered Professional Accountants

June 17, 2016
Abbotsford, Canada

University of the Fraser Valley

Statement of Financial Position

As at March 31, 2016, with comparative information for 2015

	2016	2015
Financial assets		
Cash and cash equivalents	$ 9,555,240	$ 8,248,806
Accounts receivable	3,074,770	4,029,523
Inventories held for resale	1,579,650	1,632,854
Investments (Note 3)	31,404,035	27,844,625
Assets held for sale (Note 12.b)	2,905,542	-
Investment in government business enterprises (Note 4)	55,908	42,758
	48,575,145	41,798,566
Liabilities		
Accounts payable and accrued liabilities (Note 5)	12,323,385	12,779,383
Deferred revenue (Note 6)	24,566,991	23,646,925
Deferred capital contributions (Note 7)	96,863,772	99,051,835
Long-term debt (Note 8)	10,995,835	11,409,370
Obligations under capital lease (Note 9)	347,570	440,041
	145,097,553	147,327,554
Net debt	(96,522,408)	(105,528,988)
Non-financial assets		
Tangible capital assets (Note 12)	165,822,878	172,020,980
Prepaid expenses	356,945	494,782
Investments - endowments (Note 14)	8,966,345	8,652,724
	175,146,168	181,168,486
Accumulated surplus	$ 78,623,760	$ 75,639,498
Contractual obligations (Note 15)		
Contingent liabilities (Note 16)		

Approved by:

Chairman of the Board

CFO and VP Administration

See accompanying notes to the financial statements.

University of the Fraser Valley

Statement of Operations and Accumulated Surplus

For the year ended March 31, 2016, with comparative information for 2015

	2016 Budget (Note 2.k)	2016	2015
Revenue			
Province of British Columbia	$ 54,462,901	$ 56,125,585	$ 56,445,177
Tuition and student fees	45,873,007	46,398,120	42,990,980
Sales of goods and services	6,630,356	6,597,700	6,625,127
Amortization of deferred capital contributions (Note 7)	6,200,000	6,879,434	6,488,470
Other revenue	1,720,401	2,423,675	1,900,775
Donations, non-government grants and contracts	1,175,750	2,046,261	1,629,154
Government of Canada	605,100	816,164	756,406
Investment income	550,000	701,205	642,434
Income (loss) from government business enterprises (Note 4)	-	13,150	(139,028)
	117,217,515	122,001,294	117,339,495
Expenses (Note 18)			
Instruction and Support	111,761,562	113,672,764	109,662,808
Ancillary	5,455,953	5,657,889	5,682,283
	117,217,515	119,330,653	115,345,091
Annual surplus from operations	-	2,670,641	1,994,404
Other income			
Endowment contributions (Note 14)	-	313,621	465,818
Gain on sale of tangible capital assets	-	-	8,238
	-	313,621	474,056
Annual surplus	-	2,984,262	2,468,460
Accumulated surplus, beginning of year	-	75,639,498	73,171,038
Accumulated surplus, end of year	$ -	$ 78,623,760	$ 75,639,498

See accompanying notes to the financial statements.

University of the Fraser Valley

Statement of Changes in Net Debt

For the year ended March 31, 2016, with comparative information for 2015

	2016 Budget (Note 2.k)	2016	2015
Annual surplus	$ -	$ 2,984,262	$ 2,468,460
Acquisition of tangible capital assets	-	(5,518,794)	(17,781,119)
Contributed tangible capital asset(Note 12.a)	-	(388,111)	(312,361)
Transfer to assets held for sale	-	2,905,542	-
Gain on sale of tangible capital assets	-	-	(8,238)
Proceeds on sale of tangible capital assets	-	-	29,525
Amortization of tangible capital assets	9,348,000	9,199,465	8,537,829
	9,348,000	6,198,102	(9,534,364)
Acquisition of prepaid expenses	-	(356,945)	(494,782)
Use of prepaid expenses	-	494,782	396,409
	-	137,837	(98,373)
	9,348,000	9,320,201	(7,164,277)
Endowment contributions	-	(313,621)	(465,818)
Decrease (increase) in net debt	9,348,000	9,006,580	(7,630,095)
Net debt, beginning of year	(105,528,988)	(105,528,988)	(97,898,893)
Net debt, end of year	$ (96,180,988)	$ (96,522,408)	$ (105,528,988)

See accompanying notes to the financial statements.

University of the Fraser Valley

Statement of Cash Flows

For the year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities		
Annual surplus	$ 2,984,262	$ 2,468,460
Items not involving cash		
Amortization of tangible capital assets	9,199,465	8,537,829
Amortization of deferred capital contributions	(6,879,434)	(6,488,470)
Loss (income) from government business enterprises	(13,150)	139,028
Contributed tangible capital asset	(388,111)	(312,361)
Gain on sale of tangible capital assets	-	(8,238)
Change in non-cash operating working capital (Note 10)	1,609,862	11,789,532
Net change from operating activities	6,512,894	16,125,780
Investing activities		
Increase in investments - non endowment	(3,559,410)	(10,167,876)
Increase in investments - endowment	(313,621)	(465,818)
Net change from investing activities	(3,873,031)	(10,633,694)
Capital activities		
Acquisition of tangible capital assets	(5,518,794)	(17,275,709)
Proceeds on sale of tangible capital assets	-	29,525
Net change from capital activities	(5,518,794)	(17,246,184)
Financing activities		
Repayment of long-term debt	(413,535)	(392,907)
Deferred contributions received	4,691,371	6,356,648
Repayment of obligations under capital lease	(92,471)	(88,740)
Net change from financing activities	4,185,365	5,875,001
Net change in cash and cash equivalents	1,306,434	(5,879,097)
Cash and cash equivalents, beginning of year	8,248,806	14,127,903
Cash and cash equivalents, end of year	$ 9,555,240	$ 8,248,806

See accompanying notes to the financial statements.

1. Authority and purpose

The University of the Fraser Valley (the "University") is a special purpose teaching university, partially funded by the Province of British Columbia, which operates under the authority of the University Act of British Columbia. The University is governed by a Board of Governors, the majority of which are appointed by the Province of British Columbia. The University is also a registered charity and is exempt from income taxes under section 149 of the *Income Tax Act*.

2. Significant accounting policies

(a) Basis of accounting

The 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 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 effective their first fiscal year commencing after January 1, 2012.

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:

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 in deferred contributions and recognized as 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 198/2011 are significantly different from the requirements of Canadian public sector 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 standard PS3410.

2. Significant accounting policies (continued)

(a) Basis of accounting (continued)

As a result, revenue recognized in the Statement of Operations and Accumulated Surplus and certain deferred capital contributions would be recorded differently under Canadian Public Sector Accounting Standards.

(b) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with a term to maturity of three months or less at the date of purchase.

(c) Financial instruments

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

(i) Fair value category: Includes portfolio investments that are quoted in an active market and derivative instruments reflected at fair value as at the reporting date. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments is recorded as an expense. Unrealized gains and losses on financial assets would be recognized in the Statement of Re-measurement Gains and Losses until such time that the financial asset is de-recognized due to disposal or impairment. At the time of de-recognition, the related realized gains and losses are recognized in the Statement of Operations and Accumulated Surplus. Unrealized gains and losses on endowment investments where earnings are restricted as to use are recorded as deferred revenue and recognized in revenue when disposed and when the related expenses are incurred.

(ii) Cost category: Gains and losses are recognized in the Statement of Operations and Accumulated Surplus when the financial asset is derecognized due to disposal or impairment. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments is included in the cost of the related investments.

(d) Investments

Investments, non-endowment, are comprised of money market securities and other investments with terms that are capable of liquidation. Investments are recorded at cost plus any accrued interest to date. All interest income and realized gains and losses are recognized in the period in which they arise.

(e) Inventories held for resale

Inventories held for resale are recorded at the lower of cost or net realizable value. Cost includes the original purchase cost, plus shipping and applicable duties. Net realizable value is the estimated proceeds from sale less any costs incurred to sell. Inventories are written down to net realizable value when the cost of inventories is estimated not to be recoverable. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of write down previously recorded is reversed.

2. Significant accounting policies (continued)

(f) 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. The cost of the tangible capital assets are 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.

Asset	Basis	Rate
Buildings	Straight-line	20-60 years
Furniture and equipment	Straight-line	2-5 years
Library books	Straight-line	10 years
Site improvements	Straight-line	10 years
Computer hardware and software	Straight-line	2-4 years
Leasehold improvements	Straight-line	Life of the lease

Assets under construction are not amortized until the asset is put into 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. The net write-downs are accounted for as expenses in the Statement of Operations. Contributed tangible capital assets are recorded into revenue at their fair market value on the date of donation, except in circumstances where fair value cannot be reasonably determined, in which case they are recognized at nominal value.

(ii) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as obligations under capital lease. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(iii) Endowment investments

Endowment investments quoted in an active market are reported at fair value. Investment income and unrealized gains and losses relating to the investments are reported as deferred revenue on the Statement of Financial Position.

2. Significant accounting policies (continued)

(g) Revenue recognition

Tuition and student fees and sales of goods and services are reported as revenue at the time the services are provided or the products are delivered, and collection is reasonably assured. Unrestricted donations and grants are recorded as revenue when received or receivable if the amounts can be estimated and collection is reasonably assured. Pledges from donors are recorded as revenue when payment is received by the University or the transfer of property is completed.

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 revenue 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 donations on the Statement of Operations for the portion to be held in perpetuity and as deferred revenue 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 write-downs on investments where the loss in value is determined to be other-than-temporary. Investment income excludes income from endowed investments.

(h) Use of estimates

Preparation of financial statements in accordance with the basis of accounting described in note 2(a) requires management to make estimates and assumptions that impact reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting periods. Significant areas requiring the use of management estimates relate to the potential impairment of assets, estimated useful lives of tangible capital assets, contingent liabilities and estimated employee future benefits. Actual results could differ from those estimates.

2. Significant accounting policies (continued)

(i) Assets held for sale

Long-lived assets are classified by the University as an asset held for sale at the point in time when the asset is in a condition to be sold and is publicly seen to be for sale, management has committed to selling the asset and has a plan in place, there is an active market, and it is reasonably anticipated that the sale will be completed within a one-year period.

Assets held for sale are separately presented in the Statement of Financial Position as a financial asset, are reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(j) 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 balance sheet date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or balance sheet date would be recognized in the Statement of Re-measurement Gains and Losses. In the period of settlement, the related cumulative re-measurement gain/loss would be reversed in the Statement of Re-measurement 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.

(k) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2015/2016 Budget approved by the Board of Governors of the University on April 16, 2015. The budget is reflected in the Statement of Operations and Accumulated Surplus and the Statement of Changes in Net Debt.

(l) Expense functions

Expense functions have been identified based upon the functional lines of service provided by the University. The University's services are provided by departments and their activities are reported by functional area in the Statement of Operations and Accumulated Surplus. The functional lines, along with the services they provide, are as follows:

i) Instruction and support: This function includes activities related to delivering education. This includes instruction, education administration, student support, general administration, and the cost of space, safety, and equipment.

ii) Ancillary: This function includes the activities of the ancillary operations. An ancillary operation is one that is generally outside of the normal functions of instruction and research, provides goods and services to students, staff or others, and that charges a fee directly related to the cost of providing the goods or services. Ancillary operations include parking, food services, and bookstores. Costs associated with this function include function-related contracts and general and financial administration and support costs.

2. Significant accounting policies (continued)

(m) Investment in government business enterprises

Government business enterprises are accounted for by the modified equity method. Under this method, the University's investment in the business enterprise and its net income (loss) and other changes in equity are recorded. No adjustment is made to conform the accounting policies of the government business enterprise to those of the University other than, if other comprehensive income exists, it is accounted for as an adjustment to accumulated surplus of the University. Inter-organizational transactions and balances have not been eliminated, except for any profit or loss on transactions between entities of assets that remain within the entities controlled by the University.

The following organizations are controlled government business enterprises and are accounted for by the modified equity method:

i) Indo Canadian Education Society, Chandigarh, India, a separate legal entity, administers and delivers business education to students in India using the University's Bachelor of Business curriculum.

ii) UFV India Global Education, Chandigarh, India, a separate legal entity, administers and delivers UFV education programs to students in India using the University's curriculum.

(n) Contaminated sites

A liability for contaminated sites is recognized when a site is not in productive use and the following criteria are met:

i) An environmental standard exists;

ii) Contamination exceeds the environmental standard;

iii) The University is directly responsible or accepts responsibility;

iv) It is expected that future economic benefits will be given up; and

v) A reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

3. Investments

(a) Investments recorded at fair value

	2016	2015
Philips Hager North - UFV Endowment Fund	$ 7,770,805	$ 7,419,011
Philips Hager North - CCIBED* Endowment Fund	3,018,588	3,058,265
	10,789,393	10,477,276
Investments recorded at cost or amortized cost	29,580,987	26,020,073
	40,370,380	36,497,349
Principal portion of endowments	(8,966,345)	(8,652,724)
	$ 31,404,035	$ 27,844,625

Investments held with Philips Hager North are recorded at fair value and are comprised of equity instruments quoted in an active market.

Investments recorded at cost or amortized cost are comprised of cashable securities with terms ranging from one to five years.

*CCIBED - Chair Canada India Business & Economic Development

(b) Public Sector Accounting Standards define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The University 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 Statement of Financial Position under the following captions:

(i) Cash and cash equivalents, accounts receivable, investments - non endowment and accounts payables and accrued liabilities - the carrying amounts approximate fair value because of the short maturity or ability to liquidate these instruments.

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:

(i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

(ii) 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)

(iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The University’s instruments are all considered to be level 1 financial instruments for which the fair value is determined based on quoted prices in active markets. Changes in financial instruments valuation methods or in the availability of market observable inputs may result in a transfer between levels. During the year there were no significant transfers of securities between the different levels.

4. Investment in government business enterprises

The University has controlling interest in the operations of UFV India Global Education and Indo Canadian Education Society located in Chandigarh, India. The operations of Indo Canadian Education Society were transferred to UFV India Global Education during the year and the combined financial information is detailed below.

The change in equity is as follows:

	2016	2015
Equity, beginning of year	$ 42,758	$ 181,786
Net earnings (loss)	13,150	(139,028)
Equity, end of year	$ 55,908	$ 42,758

Condensed financial information is as follows:

	2016	2015
Statement of Financial Position		
Assets	$ 510,545	$ 152,357
Liabilities	(454,637)	(109,599)
Accumulated surplus	$ 55,908	$ 42,758

	2016	2015
Statement of Operations		
Revenue	$ 1,355,754	$ 1,018,304
Expenses	1,342,604	1,157,332
Annual surplus (deficit)	13,150	(139,028)
Accumulated surplus, beginning of year	42,758	181,786
Accumulated surplus, end of year	$ 55,908	$ 42,758

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Notes to the Financial Statements

For the year ended March 31, 2016, with comparative information for 2015

5. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	2016	2015
Trades payable	$ 4,828,447	$ 6,454,326
Wages payable	1,457,865	264,556
Accrued vacation and overtime payable	6,037,073	6,060,501
	$ 12,323,385	$ 12,779,383

6. Deferred revenue

Deferred revenue is comprised of the following:

	2015	Amounts Received	Revenue Recognized	2016
Student tuition fees	$ 7,789,971	$ 8,179,420	$ 7,774,221	$ 8,195,171
Student award funding	3,118,839	383,921	683,571	2,819,188
Special purpose and research funding	4,005,663	4,006,481	4,364,753	3,647,391
Prepaid lease revenue	8,732,452	1,426,770	253,981	9,905,241
Total	$ 23,646,925	$ 13,996,592	$ 13,076,526	$ 24,566,991

7. Deferred capital contributions

Changes in the deferred capital contributions balance are as follows:

	2016	2015
Balance, beginning of year	$ 99,051,835	$ 99,183,658
Contributions from the Province of British Columbia	4,270,817	4,208,330
Contributions from the Government of Canada	6,097	1,596,720
Contributed tangible capital asset (Note 12.a)	388,111	312,361
Contribution from other restricted resources	26,346	239,236
Amortization of deferred capital contributions	(6,879,434)	(6,488,470)
Balance, end of year	$ 96,863,772	$ 99,051,835

8. Long-term debt

Long-term debt, recorded at amortized cost, is held with BC Immigrant Investment Fund Ltd. (BCIIF), secured by a general security agreement, payable in quarterly installments of $284,304 including interest at 5.15%, and is due August 1, 2017. Interest on long-term debt in the amount of $576,152 (2015 - $596,956) is included in the Statement of Operations and Accumulated Surplus.

Anticipated annual principal repayments over the next two years are as follows:

2017	$ 435,247
2018	10,560,588
Total	$ 10,995,835

9. Obligations under capital lease

Repayments of obligations under capital leases are due as follows:

	2016	2015
2015	$ -	$ 120,110
2016	120,110	120,110
2017	120,110	120,110
2018	120,110	120,110
2019	30,027	30,027
Total minimum lease payments	390,357	510,467
Less amounts representing interest at 6.8%	(42,787)	(70,426)
Present value of net minimum capital lease payments	$ 347,570	$ 440,041

Total interest on leases for the year was $27,639 (2015 - $25,146).

10. Supplemental cash flow information

The change in non-cash operating working capital is comprised of the following:

	2016	2015
Accounts receivable	$ 954,753	$ (1,419,022)
Prepaid expenses	137,837	(98,372)
Inventories held for resale	53,204	103,556
Accounts payable and accrued liabilities	(455,998)	2,134,118
Deferred revenue	920,066	11,069,252
	$ 1,609,862	$ 11,789,532

11. Related party transactions

The University is related through common ownership to all Province of British Columbia ministries, agencies, school districts, health authorities, colleges, universities, and crown corporations. Transactions with these entities, unless disclosed separately, are considered to be in the normal course of operations and are recorded at the exchange amount.

12. Tangible capital assets

		Land		Buildings		Furniture and equipment		Computer hardware and software		Leasehold improvements		Site improvements		Library books		Assets under construction		2016 Total
2016 Cost																		
Balance, beginning of year	$	9,734,795	$	188,638,188	$	39,752,497	$	13,612,146	$	1,619,974	$	8,705,072	$	9,936,491	$	15,380,149	$	287,379,312
Additions		-		1,110,727		3,110,155		1,059,293		-		472,830		153,900		-		5,906,905
Transfer to assets held for sale		(1,395,387)		(1,510,155)		-		-		-		-		-		-		(2,905,542)
Transfer of assets under construction		-		15,380,149		-		-		-		-		-		(15,380,149)		-
Balance, end of year		8,339,408		203,618,909		42,862,652		14,671,439		1,619,974		9,177,902		10,090,391		-		290,380,675
2016 Accumulated amortization																		
Balance, beginning of year		-		58,551,644		30,607,020		12,215,252		741,404		4,770,698		8,472,314		-		115,358,332
Amortization		-		4,752,589		2,487,500		790,541		130,158		752,421		286,256		-		9,199,465
Balance, end of year		-		63,304,233		33,094,520		13,005,793		871,562		5,523,119		8,758,570		-		124,557,797
2016 Net book value	$	8,339,408	$	140,314,676	$	9,768,132	$	1,665,646	$	748,412	$	3,654,783	$	1,331,821	$	-	$	165,822,878
2015 Net book value	$	9,734,795	$	130,086,544	$	9,145,477	$	1,396,894	$	878,570	$	3,934,374	$	1,464,177	$	15,380,149	$	172,020,980

(a) Contributed tangible capital asset

Additions to tangible capital assets include the following contributed tangible capital assets:

		2016		2015
Building	$	-	$	312,361
Equipment		388,111		-
	$	388,111	$	312,361

12. Tangible capital assets (continued)

(b) Assets classified as held for sale

The University has entered into purchase and sale agreements for a portion of the campus in north Chilliwack and the sales are expected to complete within one year.

13. Financial risk management

The University has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk.

The Board of Governors ensures that the University has identified its major risks and ensures that management monitors and controls them.

(a) Credit risk

Credit risk is the risk of financial loss to the University if a party to a financial instrument fails to meet its contractual obligations. Such risk arises principally from certain financial assets held by the University consisting of cash and cash equivalents, accounts receivable and investments.

Accounts receivable: Management believes risk with respect to accounts receivable is limited. Student accounts receivable is a large population of limited amounts where the University has the ability to stop further enrolments and granting of transcripts until payment is made. Other receivables and tax recoveries are generally with governments and other credit-worthy institutions.

Investments: The University has an Investment Policy to ensure funds are managed appropriately in order to balance preservation of capital, liquidity requirements and returns. The University retains an external investment firm to manage endowed funds in accordance with its investment policy utilizing diverse agreed upon investment strategies primarily in active trading markets.

(b) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the University’s income. The University cash and cash equivalents and investments include amounts on deposit with financial institutions that earn interest at market rates. The University manages its cash by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day to day basis. Fluctuation in market rates of interest does not have a significant effect on the University`s cash and cash equivalents and investments.

The primary objective of the University with respect to its investment of endowed funds is to ensure the security of principal amounts while achieving a satisfactory investment return.

13. Financial risk management (continued)

(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 meets its liquidity risk requirements by continually monitoring actual and forecasted cash flows and anticipating investment and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

14. Endowments

Changes to the endowment balances are as follows:

	2016	2015
Balance, beginning of year	$ 8,652,724	$ 8,186,905
Contributions received during the year	255,033	402,567
Capitalization of endowment surplus	58,588	63,252
Balance, end of year	$ 8,966,345	$ 8,652,724

15. Contractual obligations

The nature of the University's activities can result in multi-year contracts and obligations whereby the University will be committed to make future payments.

Significant contractual obligations related to operations that can be reasonably estimated are as follows:

	2017	2018	2019	2020	2021
Long-term lease commitments	$ 358,613	$ 582,553	$ 512,648	$ 367,629	$ 337,602

16. Contingent liabilities

The University may, from time to time, be involved in legal proceedings, claims, and litigation that arise in the normal course of operations. In the event that any such claims or litigation are resolved against the University, such outcomes or resolutions could have a material effect on the business, financial condition, or results of operations of the University. The University has accrued for claims for which the amounts are known or can reasonably be estimated. The outcome of other claims is undeterminable at this time and accordingly no provision has been made for these claims.

17. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

18. Expenses by object

The following is a summary of expenses by object:

	2016	2015
Salaries and wages	$ 66,883,735	$ 65,284,119
Employee benefits	17,275,891	17,006,090
Amortization of tangible capital assets	9,199,465	8,537,829
Contracted services	5,615,576	4,703,166
Other operating expenses	4,155,110	3,974,754
Supplies and books	3,614,764	3,416,793
Cost of goods sold	3,182,015	3,221,360
Travel and conferences	2,369,238	2,495,602
Utilities	1,988,367	1,803,395
Scholarships and bursaries	1,924,523	1,597,863
Minor renovations and repairs	1,232,704	1,405,095
Rentals and leases	678,793	606,783
Printing and advertising	606,682	670,139
Interest	603,790	622,103
	$ 119,330,653	$ 115,345,091

19. Pension plans

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trusteed pension plans. The board of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of the assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are based on a formula. The College Pension Plan has about 14,000 active members from college senior administration and instructional staff and approximately 6,500 retired members. The Municipal Pension Plan has about 185,000 active members, with approximately 5,800 from colleges.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2012 indicated a $105 million funding deficit for basic pension benefits. The next valuation will be as at August 31, 2015 with results available in 2016. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2012 indicated a $1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016. Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because each Plan records accrued liabilities and accrued assets for the Plan in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the Plans.

The University paid and expensed $1,529,497 (2015 - $1,538,375) for employer contributions to the Municipal Pension Plan and $4,567,533 (2015 - $4,478,416) to the College Pension Plan in fiscal 2016.