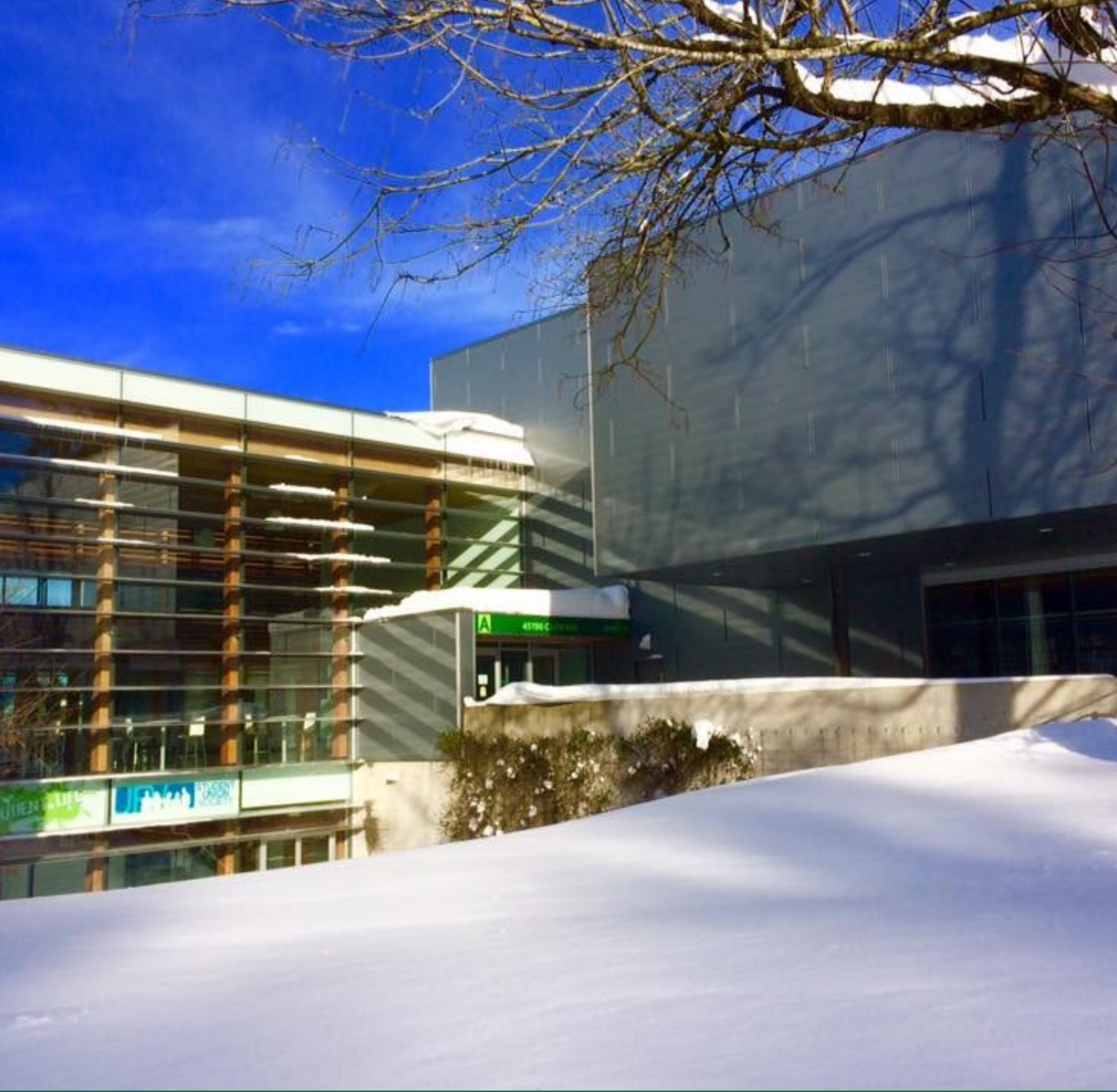

ANNUAL FINANCIAL REPORT 2016-2017

UNIVERSITY OF THE FRASER VALLEY

Financial Discussion & Analysis

FINANCIAL DISCUSSION AND ANALYSIS

The attached financial statements present the financial results of the University of the Fraser Valley (UFV) for the year ended March 31, 2017. UFV 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. 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 257/210 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).

The objective of the Financial Discussion and Analysis (FD&A) is to assist readers of the university's financial statements to better understand the financial position and operating activities of the university for fiscal year March 31, 2017. 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.

Operating Environment

Student Demographics

Domestic student enrolments have been declining over the past few years. This is partially attributed to the change in demographics and the decreasing pool of 15-24 year olds in Canada. Increased competition, lack of growth funding and changes in funding for specific programs have all impacted domestic enrolments at UFV.

Though domestic FTEs have been softening, the overall student body continues to gradually increase with growth in international students exceeding the decline in domestic enrolment. Excluding Chandigarh, UFV now has over 8,100 FTE enroled with 12.5% of the total comprised of international enrolments.

Government Funding and Priorities

The Ministry of Advanced Education (AVED) funds the university for 6,676 domestic student FTEs. Through the AVED Skills Gap Plan, 25% of funding for post-secondary education will be aligned with labour market demand by 2017/18. UFV is well positioned to meet this mandate.

Ministry policy limits domestic student tuition increases and since 2005, domestic student rates have been limited to a maximum increase of 2%.

The Industry Training Authority (ITA) plans to move to a multi-year training plan process for fiscal 2018/19 with planning to commence in September 2017. ITA funded programs are offered consistent with the approved ITA training plan and funded at ITA standardized rates.

The university is required to contribute a portion of the costs of approved major renovations, upgrading, and capital projects.

Other

The university reached an agreement with the Faculty and Staff Association in the fall of 2016. The agreement was retroactive to April 1, 2014 and expires March 31, 2019. Salary increases included in this agreement are regulated by the provincial Economic Stability Mandate as directed by the Public Sector Employers' Council (PSEC). PSEC also directs and approves salary increases for non-unionized employees of UFV. Increases for Faculty and Staff Association members are funded; increases for excluded employees are not provincially funded.

FINANCIAL INFORMATION

The university ended the year with $234M in assets and a $6.4M operating surplus. Higher than planned international student enrolments, Industry Services and Continuing Education revenues, salary and benefit savings related to the timing of filling vacancies, and strong UFV India Global Education results in Chandigarh (consolidated into UFV statements on a modified equity basis) are significant to the operating surplus position. Other income, a gain on sale of university property and restricted endowment contributions, added another $3.8M resulting in a total surplus of $10.2M.

Financial Assets

	2017	2016
Cash and equivalents	11,018,458	9,555,240
Accounts receivable	2,297,693	3,074,770
Investories held for resale	1,794,005	1,579,650
Investments	45,572,692	31,404,035
Assets held for resale	1,631,626	2,905,542
Investment in GBE	758,132	55,908
Total Financial assets	**63,072,606**	**48,575,145**

Financial assets are assets available to discharge existing liabilities or finance future operations. As compared to last year, financial assets increased by approximately $14.5M. The most significant changes are summarized as follows: increase in Investments as a result of cash received from the sale of property, increased international student deposits for future terms, and the annual surplus position; the change in receivables is largely due to a one-time receivable from the provincial government in the prior year; the sale of a portion of the Chilliwack north campus in 2016/17 reduced assets held for resale; expanded programming in Chandigarh, India resulted in a strong year end position for UFV India Global Education (GBE).

Liabilities

	2017	2016
Accounts payable and accrued liabilities	14,943,482	12,323,385
Deferred revenue	26,048,128	24,566,991
Deferred capital contributions	93,116,040	96,863,772
Long-term debt	10,560,588	10,995,835
Obligations under capital lease	248,596	347,570
Total Liabilities	**144,916,834**	**145,097,553**

Liabilities remained relatively unchanged overall. An increase in international student deposits and unearned tuition revenue offset the decrease in deferred capital contributions (DCC), where external capital contributions are matched to related amortization expense. Long term debt is related to the student residence and is being repaid by student rent revenues as planned.

Net Assets

	2017	2016	2015	2014	2013
Total Financial assets	**63,072,606**	**48,575,144**	**41,798,566**	**36,333,351**	**35,694,254**
Liabilities	144,916,834	145,097,553	147,327,554	134,232,244	132,252,773
Adjust deferred capital contributions*	(93,116,040)	(96,863,772)	(99,051,835)	(99,183,658)	(98,806,003)
Adjust pre-paid lease for Student Centre**	(9,651,260)	(9,905,241)	(7,914,799)		
	42,149,534	**38,328,540**	**40,360,920**	**35,048,586**	**33,446,770**
Net assets	**20,923,072**	**10,246,604**	**1,437,646**	**1,284,765**	**2,247,484**
Debt to Financial Assets	**0.67**	**0.79**	**0.97**	**0.96**	**0.94**

* Brought into revenue to match amortization expense

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

Post-secondary institutions in British Columbia prepare financial statements in accordance with the financial reporting provision 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 useful life of the asset as per provincial regulation (Treasury Board Regulation 198/2011). 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 or financial resources. 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 debt to financial assets ratio has improved to 0.67%.

Non-Financial Assets

	2017	2016
Tangible capital assets	161,041,400	165,822,878
Prepaid expenses	183,316	356,945
Investments - endowments	9,417,551	8,966,345
	170,642,267	**175,146,168**

Tangible capital assets includes property and site improvements, buildings, leasehold improvements, furniture, and equipment. The value of capital assets sold this year were reclassified as a financial asset available for sale in the prior year. The university does not have significant new capital buildings in progress so additions to tangible assets is less than the amortization of assets acquired in prior periods.

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 the Investment Policy of the Board. The UFV Scholarship and Bursary Fund began in 2002 and has annualized returns of 6.1% since inception. Annual return for the year ended March 31, 2017 was 10.1%. The Chair, Canada India Business and Economic and Development Fund (CCIBED) was invested in 2007 and since inception has annualized returns of 5.6%. Annual returns for the year ended March 31, 2017 is 8.6%.

Accumulated Surplus

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 contributes to 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 totalling $14.5M are self-funded.

STATEMENT OF OPERATIONS

Revenue from Operations

	2017 Actuals	2016 Actuals
Province of British Columbia	56,959,643	56,125,585
Tuition and student fees	50,518,582	46,398,120
Sales of goods and services	6,992,784	6,597,700
Amortization of DCC	6,858,001	6,879,434
Donations, grants, and contracts	5,679,531	5,286,100
Investment income	810,321	701,205
Income from GBE	702,224	13,150
	128,521,086	122,001,294

In 2016/17, consolidated operating revenues increased $6.5M (5.3%) over the previous year to $128.5M.

The largest revenues source is provincial government funding. Base operating grants from the Ministry of Advanced Education (AVED) and from the Industry Training Authority (ITA) totalled approximately $53.25M. In addition to base grants, the university receives one-time funding for specific purposes and projects, such as directed programming and adult upgrading support. Economic Stability Mandate (ESM) funding for retroactive salary and wage increases is the significant contributing factor to the increase over prior year funding. ESM funding will be included in future base operating grant allocations.

Tuition and student fees increased by $4.1M (8.9%). Contributing factors are the 2% increase to domestic student tuition and fees and the new student Experiential Learning and Wellness fee introduced in the fall of 2016. International student numbers grew to an all-time high of 1016 FTE and contributed $2.7M (66%) to the total tuition and student fees increase. International students are not supported by government funding and as a result pay the full cost of education at competitive rates in the international education market.

Sales of goods and services is up $400K over prior year. A decline in bookstore sales is offset by increased revenues in all other activity: parking, food services, student residence, conferencing, advertising, and lease revenues.

Amortization of deferred capital contributions (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.

Donations, grants, and contracts revenue is one-time funds received for special purposes. As these revenues are tied to specific projects and initiatives approved at various points throughout the year, funding from year to year can be volatile.

Investment revenue includes revenue 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). Earnings on 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 is the annual net position of UFV India Global Education (UIGE). UIGE delivers UFV programming to students in Chandigarh, India.

Expenses

	2017 Actuals	**2016 Actuals**
Salaries and benefits	85,017,375	84,159,626
Other costs	12,441,682	11,056,161
Amortization of tangible capital assets	9,555,515	9,199,465
Office and program costs	6,630,710	5,984,002
Cost of goods sold	2,790,951	3,182,015
Minor renovations and repairs	1,186,827	1,232,704
Utilities	1,952,002	1,988,367
Scholarships and bursaries	1,999,355	1,924,523
Interest expense	575,445	603,790
	122,149,864	**119,330,653**

Overall, expenditures increased by 2.4% over last year. Salaries and benefits make up 69.6% of total expenditures (70.6% in 2015/16) and increased 1.02%. Salaries and wages increased by 1.9% over prior year mainly due to negotiated increases through the Economic Stability Mandate (ESM). Benefit costs decreased as compared to the prior year as ESM retroactive salary payments were not necessarily subject to additional employer costs, and a lower uptake on other benefits available to employees through the collective agreement.

Other costs increased by $1.4M (12.5%). Significant increases include snow removal, guard services, and insurance costs. Costs related directly to increased ancillary revenues and expenditures tied directly to funding of external agencies also increased.

Office and program costs increased by 10.8%. Costs in this category includes office and classroom supplies, books, travel, and conferences. Significant increases over prior year are related to additional trades programming including growth in Industry Training Services contract training and to library licensing costs. Travel, conference, workshop, and training costs increased $92K (3.9%).

The decrease in cost of goods sold is directly related to lower retail bookstore sales.

Interest expense is related to debt on student housing offset by rental revenues.

RISKS AND UNCERTAINTIES

The university operates in an increasingly complex environment with many factors outside of the control of the university. The university uses an Enterprise Risk Management approach to assess and mitigate risk.

Risks and uncertainties for the university are considered below:

- *Presidential Search:* Dr. Evered's term ends June 30, 2017. The initial search to replace Dr. Evered failed and a second search is in process. Jackie Hogan has been appointed interim President beginning July 1, 2017;
- *Domestic student recruitment:* domestic student enrolments have softened. Demographics, the economy, government and university policies, and competition from other institutions all impact domestic enrolments;
- *Higher reliance on international student revenues:* a global catastrophe, economic events, and a concentration of international students from two or three regions are risk factors;
- *Employee recruitment and retention:* attracting and retaining employees within a salary grid that is not competitive with post-secondary salaries in other provinces or the market;
- *Managing continuous change:*
    - Changing nature of students, curriculum, classroom instruction, technology, and learning itself. University education must remain relevant;
    - Manage changing administrative and business processes while maintaining employee morale;
- *Deferred maintenance:* maintaining aging buildings within current MMR allocations. This issue is a common issue within the post-secondary sector.

Financial Statements

Financial Statements of

UNIVERSITY OF THE FRASER VALLEY

For the year ended March 31, 2017

KPMG LLP
32575 Simon Avenue
Abbotsford BC V2T 4W6
Canada
Telephone (604) 854-2200
Fax (604) 853-2756

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, 2017, 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.

KPMG

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, 2017 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

May 18, 2017
Abbotsford, Canada

University of the Fraser Valley

Statement of Financial Position

As at March 31, 2017, with comparative information for 2016

		2017		2016
Financial assets				
Cash and cash equivalents	$	11,018,458	$	9,555,240
Accounts receivable		2,297,693		3,074,770
Inventories held for resale		1,794,005		1,579,650
Investments (Note 3)		45,572,692		31,404,035
Assets held for sale (Note 14.b)		1,631,626		2,905,542
Investment in government business enterprises (Note 4)		758,132		55,908
		63,072,606		48,575,145
Liabilities				
Accounts payable and accrued liabilities (Note 5)		14,943,482		12,323,385
Deferred revenue (Note 6)		26,048,128		24,566,991
Deferred capital contributions (Note 7)		93,116,040		96,863,772
Long-term debt (Note 8)		10,560,588		10,995,835
Obligations under capital lease (Note 9)		248,596		347,570
		144,916,834		145,097,553
Net debt		(81,844,228)		(96,522,408)
Non-financial assets				
Tangible capital assets (Note 14)		161,041,400		165,822,878
Prepaid expenses		183,316		356,945
Investments - endowments (Note 16)		9,417,551		8,966,345
		170,642,267		175,146,168
Accumulated surplus	$	88,798,039	$	78,623,760

Contractual obligations (Note 12)

Contingent liabilities (Note 13)

Subsequent event (Note 14.b)

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, 2017,with comparative information for 2016

	2017 Budget (Note 2.k)	2017	2016
Revenue			
Province of British Columbia	$ 54,393,341	$ 56,959,643	$ 56,125,585
Tuition and student fees	48,371,288	50,518,582	46,398,120
Sales of goods and services	7,182,419	6,992,784	6,597,700
Amortization of deferred capital contributions	6,786,000	6,858,001	6,879,434
Other revenue	1,678,199	2,031,289	2,423,675
Donations, non-government grants and contracts	1,350,277	2,869,464	2,046,261
Government of Canada	616,890	778,778	816,164
Investment income	550,000	810,321	701,205
Income from government business enterprise(Note 4)	-	702,224	13,150
	120,928,414	128,521,086	122,001,294
Expenses			
Instruction and Support	114,950,810	116,269,341	113,672,764
Ancillary	5,977,604	5,880,522	5,657,889
	120,928,414	122,149,863	119,330,653
Annual surplus from operations	-	6,371,223	2,670,641
Other Income			
Endowment contributions	-	451,206	313,621
Gains on disposal of assets	-	3,351,850	-
	-	3,803,056	313,621
Annual Surplus	-	10,174,279	2,984,262
Accumulated surplus, beginning of year	-	78,623,760	75,639,498
Accumulated surplus, end of year	$ -	$ 88,798,039	$ 78,623,760

See accompanying notes to the financial statements.

University of the Fraser Valley

Statement of Changes in Net Debt

For the year ended March 31, 2017, with comparative information for 2016

	2017 Budget (Note 2.k)	2017	2016
Annual surplus	$ -	$ 10,174,279	$ 2,984,262
Acquisition of tangible capital assets	-	(4,774,037)	(5,518,794)
Contributed tangible capital asset(Note 14.a)	-	-	(388,111)
Transfer to assets held for sale	-	-	2,905,542
Amortization of tangible capital assets	9,200,000	9,555,515	9,199,465
	9,200,000	4,781,478	6,198,102
Acquisition of prepaid expenses	-	(183,316)	(356,945)
Use of prepaid expenses	-	356,945	494,782
	-	173,629	137,837
	9,200,000	15,129,386	9,320,201
Endowment contributions	-	(451,206)	(313,621)
Decrease in net debt	9,200,000	14,678,180	9,006,580
Net debt, beginning of year	(96,522,408)	(96,522,408)	(105,528,988)
Net debt, end of year	$ (87,322,408)	$ (81,844,228)	$ (96,522,408)

See accompanying notes to the financial statements.

University of the Fraser Valley

Statement of Cash Flows

For the year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities		
Annual surplus	$ 10,174,279	$ 2,984,262
Items not involving cash		
Amortization of tangible capital assets	9,555,515	9,199,465
Amortization of deferred capital contributions	(6,858,001)	(6,879,434)
Income from government business enterprises	(702,224)	(13,150)
Contributed tangible capital asset	-	(388,111)
Gain on sale of assets held for sale	(3,351,850)	-
Change in non-cash operating working capital (Note 10)	4,837,585	1,609,862
Net change in cash from operating activities	13,655,304	6,512,894
Investing activities		
Increase in investments - non endowment	(14,168,657)	(3,559,410)
Increase in investments - endowment	(451,206)	(313,621)
Net change in cash from investing activities	(14,619,863)	(3,873,031)
Capital activities		
Acquisition of tangible capital assets	(4,774,037)	(5,518,794)
Proceeds on sale of assets held for sale	4,307,964	-
Net change in cash from capital activities	(466,073)	(5,518,794)
Financing activities		
Principal payment on tangible capital lease obligations	(98,974)	(92,471)
Repayment of long term debt	(435,247)	(413,535)
Deferred contributions received	3,428,071	4,691,371
Net change in cash from financing activities	2,893,850	4,185,365
Net change in cash and cash equivalents	1,463,218	1,306,434
Cash and cash equivalents, beginning of year	9,555,240	8,248,806
Cash and cash equivalents, end of year	$ 11,018,458	$ 9,555,240

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 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 Statement of Financial Position date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or Statement of Financial Position 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 2016/2017 Budget approved by the Board of Governors of the University on April 7, 2016. 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.

University of the Fraser Valley

Notes to the Financial Statements

For the year ended March 31, 2017, with comparative information for 2016

3. Investments

(a) Investments recorded at fair value

	2017	2016
Philips Hager North - UFV Endowment Fund	$ 8,517,215	$ 7,770,805
Philips Hager North - CCIBED* Endowment Fund	3,265,986	3,018,588
	11,783,201	10,789,393
Investments recorded at cost or amortized cost	43,207,042	29,580,987
	54,990,243	40,370,380
Principal portion of endowments	(9,417,551)	(8,966,345)
	$ 45,572,692	$ 31,404,035

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:

	2017	2016
Accumulated surplus, beginning of year	$ 55,908	$ 42,758
Annual surplus	702,224	13,150
Accumulated surplus, end of year	$ 758,132	$ 55,908

Condensed financial information is as follows:

	2017	2016
Statement of Financial Position		
Assets	$ 952,216	$ 510,545
Liabilities	(194,084)	(454,637)
Accumulated surplus	$ 758,132	$ 55,908

	2017	2016
Statement of Operations		
Revenue	$ 3,070,509	$ 1,355,754
Expenses	2,368,285	1,342,604
Annual surplus	702,224	13,150
Accumulated surplus, beginning of year	55,908	42,758
Accumulated surplus, end of year	$ 758,132	$ 55,908

University of the Fraser Valley

Notes to the Financial Statements

For the year ended March 31, 2017, with comparative information for 2016

5. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	2017	2016
Trades payable	$ 8,019,156	$ 4,828,447
Wages payable	931,622	1,457,865
Accrued vacation and overtime payable	5,992,704	6,037,073
	$ 14,943,482	$ 12,323,385

6. Deferred revenue

Deferred revenue is comprised of the following:

	2016	Amounts Received	Revenue Recognized	2017
Student tuition fees	$ 8,195,171	$ 9,251,195	$ 8,179,420	$ 9,266,946
Student award funding	2,819,188	1,681,173	809,215	3,691,146
Special purpose and research funding	3,647,391	3,922,450	4,131,065	3,438,776
Prepaid lease revenue	9,905,241	-	253,981	9,651,260
Total	$ 24,566,991	$ 14,854,818	$ 13,373,681	$ 26,048,128

7. Deferred capital contributions

Changes in the deferred capital contributions balance are as follows:

	2017	2016
Balance, beginning of year	$ 96,863,772	$ 99,051,835
Contributions from the Province of British Columbia	3,351,751	4,270,817
Contributions from the Government of Canada	41,132	6,097
Contributed tangible capital asset (Note 14.a)	-	388,111
Contribution from other restricted resources	35,188	26,346
DCC recognized on sale of asset held for sale	(317,802)	-
Amortization of deferred capital contributions	(6,858,001)	(6,879,434)
Balance, end of year	$ 93,116,040	$ 96,863,772

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 $248,304 including interest at 5.15%, and is due August 1, 2017. Interest on long-term debt in the amount of $554,255 (2016 - $576,152) is included in the Statement of Operations and Accumulated Surplus.

Annual principal repayment within the next year is as follows:

2018	$	10,560,588
Total	$	10,560,588

9. Obligations under capital lease

Repayments of obligations under capital leases are due as follows:

		2017		2016
2016	$	-	$	120,110
2017		120,110		120,110
2018		120,110		120,110
2019		30,027		30,027
Total minimum lease payments		270,247		390,357
Less amounts representing interest at 6.8%		(21,651)		(42,787)
Present value of net minimum capital lease payments	$	248,596	$	347,570

Total interest on leases for the year was $21,191 (2016 - $27,639).

10. Supplemental cash flow information

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

		2017		2016
Accounts receivable	$	777,077	$	954,753
Prepaid expenses		173,629		137,837
Inventories held for resale		(214,355)		53,204
Accounts payable and accrued liabilities		2,620,097		(455,998)
Deferred revenue		1,481,137		920,066
	$	4,837,585	$	1,609,862

University of the Fraser Valley

Notes to the Financial Statements

For the year ended March 31, 2017, with comparative information for 2016

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. 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:

	2018	2019	2020	2021	2022
Long-term lease commitments	$ 623,847	$ 531,937	$ 437,392	$ 368,096	$ 300,797

13. 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.

University of the Fraser Valley

Notes to the Financial Statements

For the year ended March 31, 2017, with comparative information for 2016

14. Tangible capital assets

	Land	Buildings	Furniture and equipment	Computer hardware and software	Leasehold improvements	Site improvements	Library books	Assets under construction	2017 Total
2017 Cost									
Balance, beginning 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
Additions	-	1,203,811	2,718,531	329,903	-	45,410	136,858	339,524	4,774,037
Balance, end of year	8,339,408	204,822,720	45,581,183	15,001,342	1,619,974	9,223,312	10,227,249	339,524	295,154,712
2017 Accumulated Amortization									
Balance, beginning of year	-	63,304,233	33,094,520	13,005,793	871,562	5,523,119	8,758,570	-	124,557,797
Amortization	-	4,791,070	2,803,926	787,931	130,158	778,332	264,098	-	9,555,515
Balance, end of year	-	68,095,303	35,898,446	13,793,724	1,001,720	6,301,451	9,022,668	-	134,113,312
2017 Net Book Value	8,339,408	136,727,417	9,682,737	1,207,618	618,254	2,921,861	1,204,581	339,524	161,041,400
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

(a) Contributed tangible capital asset

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

	2017	2016
Equipment	$ -	$ 388,111
	$ -	$ 388,111

14. Tangible capital assets (continued)

(b) Assets classified as held for sale

Subsequent to the year end the University sold the remainder of the Chilliwack North property that was held for sale at year end for proceeds of $3,492,515.

15. 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.

15. 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.

16. Endowments

Changes to the endowment balances are as follows:

	2017	2016
Balance, beginning of year	$ 8,966,345	$ 8,652,724
Contributions received during the year	405,121	255,033
Capitalization of endowment surplus	46,085	58,588
Balance, end of year	$ 9,417,551	$ 8,966,345

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:

	2017	2016
Salaries and wages	$ 68,149,902	$ 66,883,735
Employee benefits	16,867,473	17,275,891
Amortization of tangible capital assets	9,555,515	9,199,465
Contracted services	5,884,514	5,615,576
Other operating expenses	5,258,942	4,155,110
Supplies and books	4,169,370	3,614,764
Cost of goods sold	2,790,951	3,182,015
Travel and conferences	2,461,341	2,369,238
Utilities	1,952,002	1,988,367
Scholarships and bursaries	1,999,355	1,924,523
Minor renovations and repairs	1,186,827	1,232,704
Rentals and leases	735,168	678,793
Printing and advertising	563,058	606,682
Interest	575,445	603,790
	$ 122,149,863	$ 119,330,653

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 7,000 retired members. The Municipal Pension Plan has about 189,000 active members.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2015 indicated a $67 million funding surplus for basic pension benefits. The next valuation will be as at August 31, 2018 with results available in 2019. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2015 indicated a $2,224 million funding surplus for basic pension benefits. The next valuation will be as at December 31, 2018 with results available in 2019. 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 $1,533,322 (2016 - $1,529,497) for employer contributions to the Municipal Pension Plan and $4,651,934 (2016 - $4,567,533) to the College Pension in fiscal 2017.