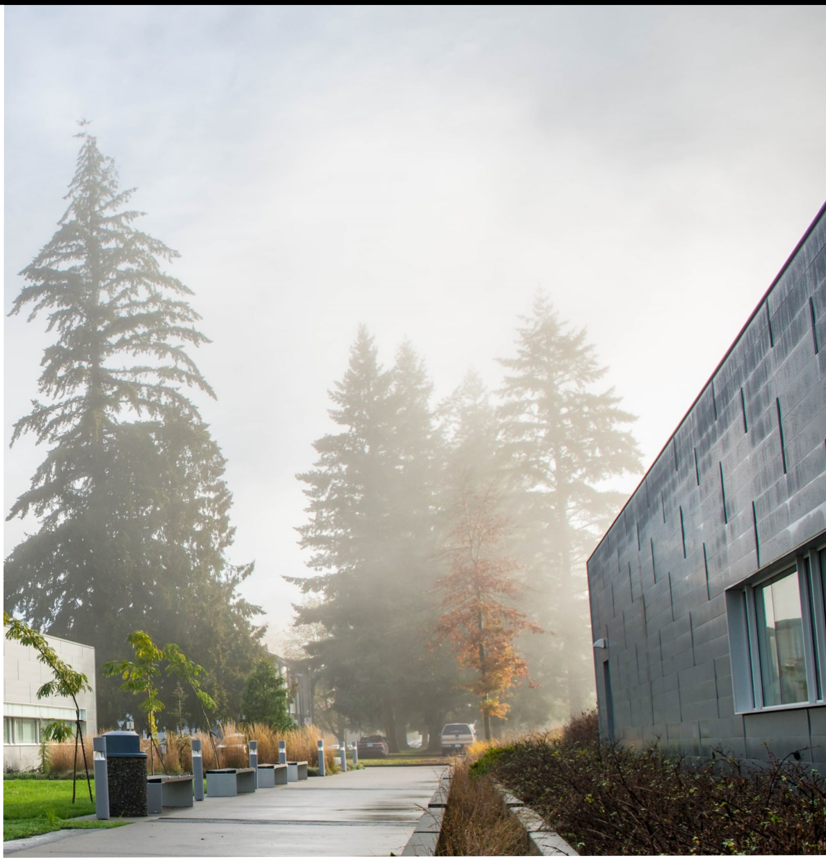
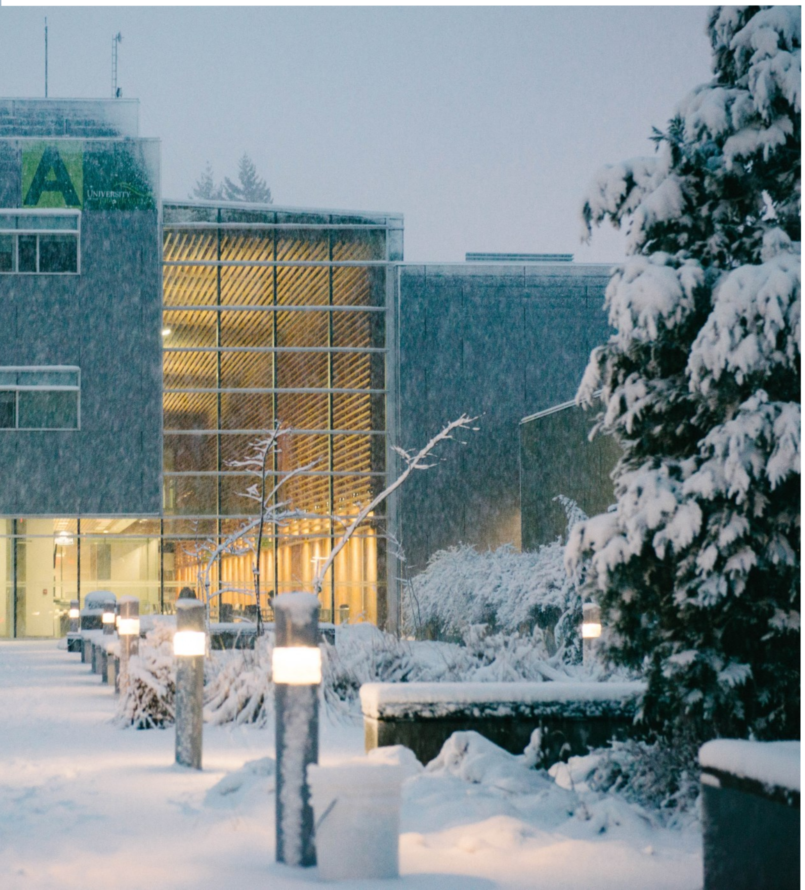
UNIVERSITY OF THE FRASER VALLEY

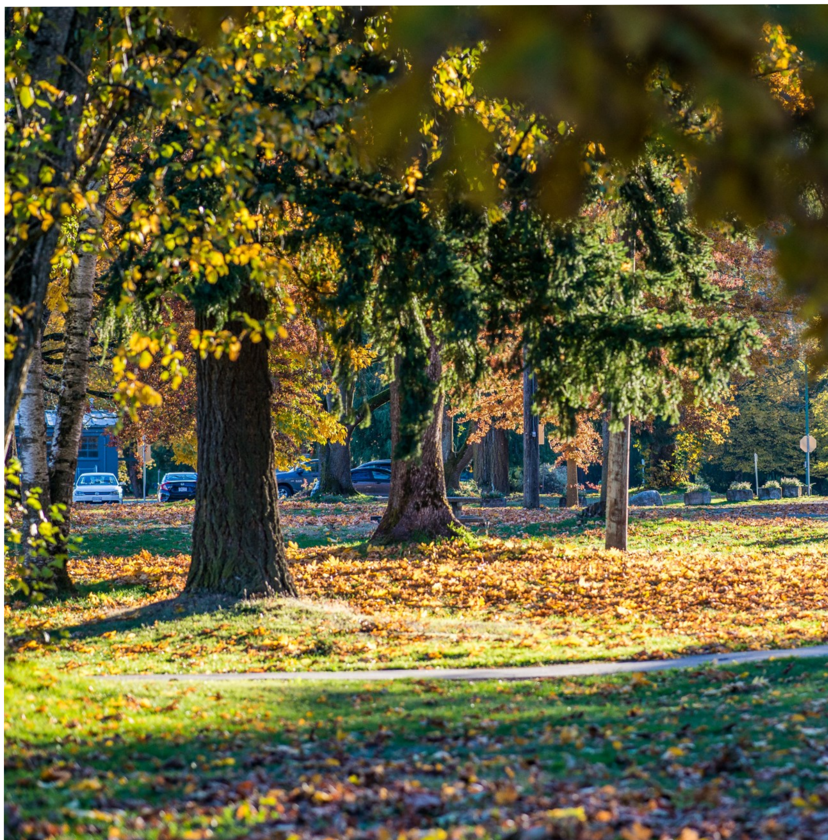
Changing Lives, Building Community

ANNUAL FINANCIAL REPORT

2017 | 2018







University of the Fraser Valley
2018 Financial Discussion and Analysis
(Unaudited)

Introduction to 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, 2018. UFV is a publicly funded institution under the University Act, with direction provided through the Ministry of Advanced Education, Skills & Training (AEST). 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, 2018. 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 FD&A provides an overview of the university's

- Operating Environment
- Financial Information
- Risks and Uncertainties

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 8,200 FTE enrolled with 15% of the total comprised of international student enrolments.

Government funding and priorities

Provincial operating grants have been flat other than increases over the past three years to fund mandated compensation increases. The grant amount is declining as a proportion of the university's operating budget. The Ministry of Advanced Education, Skills & Training (AEST) continues to fund the university for 6,676 domestic student FTEs. Through the BC Skills Gap Plan, 25% of funding for post-secondary education is to be aligned with labour market demand. UFV has met this mandate.

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

The university is required to contribute a portion of the costs of approved major renovations, upgrading and capital projects. There is a need to invest in capital as UFV’s infrastructure ages and requires renewal. Capital is also required to ensure space and infrastructure is relevant to meet the changing needs of students.

The Post-Secondary Administrative Service Delivery Transformation (ASDT) program has been working collaboratively with sector partners to share ideas, best practices, expertise and resources. Administrative service efficiencies and shared services between institutions through ASDT will be considered where consistent with UFV goals and where savings can be realized.

Other

The university reached an agreement with the Faculty and Staff Association (FSA) 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 FSA members are funded; increases for excluded employees are not provincially funded.

Financial Information

The university ended the year with $246M in assets and a surplus of $10.5M. Higher than planned international student enrolments, Continuing Education revenues, investment income, and salary and benefit savings related to the timing of filling vacancies resulted in a surplus from on-going operations of $6.6M. Strong UFV India Global Education results in Chandigarh (consolidated in UFV statements on a modified equity basis), a gain on sale of university property and restricted endowment contributions contributed to the overall surplus of $10.5M.

Financial Assets

Financial assets are defined as assets available to discharge liabilities or finance future operations. As compared to last year, financial assets increased by 29% to $81M.

	2018	2017
Cash and equivalents	11,862,902	11,018,458
Accounts receivable	1,955,045	2,297,693
Inventories held for resale	1,388,594	1,794,005
Investments	59,156,373	45,572,692
Assets held for resale	5,575,853	1,631,626
Investment in GBE	1,187,277	758,132
Total Financial assets	**81,126,044**	**63,072,606**

Cash and cash equivalents, accounts receivable and inventories held for resale remained relatively unchanged. Investments, which include the universities long-term working capital, and investments underlying endowment expendable funds increased 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 Assets held for resale is due to the reclassification of the remainder of the campus in north Chilliwack. Strong year end results of UFV India Global Education, classified as a Government Business Enterprise, contribute to the increase in assets.

Liabilities

Liabilities increased by 1.5% to $147M.

	2018	2017
Accounts payable and accrued liabilities	16,414,925	14,943,482
Deferred revenue	29,725,825	26,048,128
Deferred capital contributions	90,817,056	93,116,040
Debt	10,000,000	10,560,588
Obligations under capital lease	142,735	248,596
Total Liabilities	**147,100,541**	**144,916,834**

An increase in accounts payable and accrued liabilities is due to timing of events in annual operations. The increase in deferred revenue, externally restricted revenue that is not recognized until related expenses are incurred, is a direct result of the increase in international student deposits and unearned tuition revenue, and a reclassification of $1M from deferred capital contributions to deferred revenue.

Deferred capital contributions (DCC), externally restricted capital contributions, are amortized over the life of the related tangible capital asset. The net decrease of $2.3M includes new contributions ($6.9M), amortization of prior year contributions ($8.2M) and a reclassification to deferred revenue ($1M).

Debt is related to student housing and is being repaid by student rent revenues.

Net Assets

	2018	2017	2016	2015	2014
Total Financial assets	**81,126,044**	**63,072,606**	**48,575,144**	**41,798,566**	**36,333,351**
Total Liabilities	147,100,541	144,916,834	145,097,553	147,327,554	134,232,244
Adjust deferred capital contributions*	(90,817,056)	(93,116,040)	(96,863,772)	(99,051,835)	(99,183,658)
Adjust pre-paid lease**	(10,372,279)	(9,651,260)	(9,905,241)	(7,914,799)	
	45,911,206	**42,149,534**	**38,328,540**	**40,360,920**	**35,048,586**
Net assets	**35,214,838**	**20,923,072**	**10,246,604**	**1,437,646**	**1,284,765**
Debt to Total Assets	**0.57**	**0.67**	**0.79**	**0.97**	**0.96**

* Brought into revenue to match amortization expense

** Pre-paid lease deferred recognized as revenue over life of lease;
SUS & CEPCO responsible for related operating costs

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 significant pre-paid lease revenue from the Student Union Society and starting in 2018 from Chilliwack Economic Partners Corporation (CEPCO). Adjusting for these contributions, the debt to financial assets ratio has improved to .57.

Non-Financial Assets

	2018	2017
Tangible capital assets	154,592,706	161,041,400
Prepaid expenses	811,905	183,316
Investments - endowments	9,911,331	9,417,551
	165,315,942	**170,642,267**

Tangible capital assets include property and site improvements, buildings, leasehold improvements, furniture and equipment. A contributing factor to the decrease in tangible capital assets is the reclassification of the remaining value of the north Chilliwack campus as available for sale.

Endowment Investments represent the portion of endowments related to the restricted principal portion of the funds. Increases and decreases to endowed funds attributed to realized or unrealized earnings are classified as available for distribution and are reported as a financial asset under Investments. 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% since inception. Annual return for the year ended March 31, 2018 was 4.5%. The Chair, Canada India Business and Economic and Development Fund (CCIBED), was invested in 2007 and since inception has annualized returns of 5.4%. Annual returns for the year ended March 31, 2018 is 3.6%.

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 $10.4M are self-funded.

Revenue from Operations

Revenues increased $5.1M over the previous year to $133.6M

	2018 Actuals	2017 Actuals
Province of British Columbia	55,998,964	56,959,643
Tuition and student fees	56,236,895	50,518,582
Sales of goods and services	7,045,125	6,992,784
Amortization of deferred capital contributions	7,048,866	6,858,001
Donations, non-government grants, contracts, and other revenue	5,595,095	5,679,531
Investment income	1,271,528	810,321
Income from GBE	429,145	702,224
	133,625,618	**128,521,086**

Revenue recorded from the Province of BC decreased by $961K overall due to a portion of the operating grant being restricted for capital purposes offset by increased funding related to collective bargaining salary increases and funding to cover student tuition for Adult Basic Education and English as a Second Language programs. Base operating grants from the AEST and the Industry Training Authority (ITA) totals approximately $55.8M. In addition to base grants, the university receives one-time funding for specific purposes and projects, such as directed programming and adult upgrading support.

Tuition and student fees increased by $5.7M or 11%. This includes a 2% increase to domestic student tuition rates and international student tuition contributed $5.4M (94%) 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.

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, non-government grants, contracts and other 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 and revenue recognition from year to year can be volatile.

Investment income is 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.

Other Revenue

During 2017-18 the sale of a portion of the north Chilliwack campus resulted in one-time income of $3M.

	2018 Actuals	**2017 Actuals**
Gains on disposal of assets	3,053,241	3,351,850
Investments - endowment	493,779	451,206
	3,053,241	**3,351,850**

Expenses

Expenses increased by 3.7% to $127M. Expenses reported by object were as follows:

	2018 Actuals	2017 Actuals
Salaries and benefits	88,247,702	85,017,375
Other costs	12,730,367	12,441,682
Amortization of tangible capital assets	9,697,806	9,555,515
Office and program costs	7,382,116	6,630,710
Cost of goods sold	3,142,445	2,790,951
Minor renovations and repairs	1,424,185	1,186,827
Utilities	2,063,043	1,952,002
Scholarships and bursaries	1,667,491	1,999,355
Interest expense	274,077	575,445
	126,629,232	**122,149,864**

Salaries and benefits increased by 3.8% over prior year and represent 69.69% of total expenditures (69.76% in 2016-17). The increase is due mainly to negotiated increases through the Economic Stability Mandate (ESM). Benefit costs remained constant.

Office and program costs increased by 11.3%. Costs in this category includes office and classroom supplies, books, travel and conferences. Significant increases over prior year are related to additional library licensing costs, and increased costs for travel and conferences linked to research and externally funded activity.

The increase in cost of goods sold is directly related to an increase in bookstore revenues.

Scholarships and bursaries experienced a decrease as a result of a change in provincial policy. Beginning in fall of 2017 tuition for Adult Basic Education (ABE) and English as a Second (ESL) Language programming is free for students and reimbursed directly to the university. Bursary funding from the province in 2017-18 is reflective of 2014-15 funding levels when tuition for ABE and ESL was free for students.

Interest expense is related to debt on student housing. During 2017-18 the university refinanced its debt through the Ministry of Finance of British Columbia resulting in lower interest expense.

Risks and Uncertainties

The university operates in an increasingly complex environment with many factors outside of the control of the university.

Risks and uncertainties for the university are considered below:

- *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;
- *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;
  - changing administrative and business processes while maintaining employee morale.
- *Deferred maintenance:* maintaining aging buildings within current Minor and Major Renovation funding allocations from the Ministry. This issue is a common issue within the post-secondary sector.

University of the Fraser Valley
2017/2018 Financial Statements

Financial Statements of

UNIVERSITY OF THE FRASER VALLEY

For the year ended March 31, 2018

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, Skills & Training, 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, 2018, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the financial statements of the University of the Fraser Valley as at March 31, 2018 and for the year then ended are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(a) to the 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 17, 2018
Abbotsford, Canada

University of the Fraser Valley

March 31, 2018

CONTENTS

University of the Fraser Valley

Statement of Financial Position

As at March 31, 2018, with comparative information for 2017

	2018	2017
Financial assets		
Cash and cash equivalents	$ 11,862,902	$ 11,018,458
Accounts receivable	1,955,045	2,297,693
Inventories held for resale	1,388,594	1,794,005
Investments (Note 4)	59,156,373	45,572,692
Assets held for sale (Note 16.a)	5,575,853	1,631,626
Investment in government business enterprises (Note 5)	1,187,277	758,132
	81,126,044	63,072,606
Liabilities		
Accounts payable and accrued liabilities (Note 6)	16,414,925	14,943,482
Deferred revenue (Note 7)	29,725,825	26,048,128
Deferred capital contributions (Note 8)	90,817,056	93,116,040
Debt (Note 10)	10,000,000	10,560,588
Obligations under capital lease (Note 11)	142,735	248,596
	147,100,541	144,916,834
Net debt	(65,974,497)	(81,844,228)
Non-financial assets		
Tangible capital assets (Note 16)	154,592,706	161,041,400
Prepaid expenses	811,905	183,316
Investments - endowments (Note 18)	9,911,331	9,417,551
	165,315,942	170,642,267
Accumulated surplus	$ 99,341,445	$ 88,798,039

Contractual obligations (Note 14)
Contingent liabilities (Note 9)
Contractual rights (Note 15)

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, 2018,with comparative information for 2017

	2018 Budget (Note 2.k)	2018	2017 (Recast - Note 3)
Revenue			
Province of British Columbia	$ 57,528,288	$ 55,998,964	$ 56,959,643
Tuition and student fees	51,070,545	56,236,895	50,518,582
Sales of goods and services	7,095,942	7,045,125	6,992,784
Amortization of deferred capital contributions	6,939,000	7,048,866	6,858,001
Other revenue	1,860,526	2,263,587	2,031,289
Donations, non-government grants and contracts	1,284,900	2,278,670	2,869,464
Government of Canada	825,225	1,052,838	778,778
Investment income	600,000	1,271,528	810,321
Income from government business enterprise (Note 5)	-	429,145	702,224
Gains on disposal of assets (Note 16.a)	-	3,053,241	3,351,850
	127,204,426	136,678,859	131,872,936
Expenses			
Instruction and Support	121,386,692	121,094,172	116,269,341
Ancillary	5,817,734	5,535,060	5,880,522
	127,204,426	126,629,232	122,149,863
Annual surplus from operations	-	10,049,627	9,723,073
Other Income			
Endowment contributions	-	493,779	451,206
Annual Surplus	-	10,543,406	10,174,279
Accumulated surplus, beginning of year	88,798,039	88,798,039	78,623,760
Accumulated surplus, end of year	$ 88,798,039	$ 99,341,445	$ 88,798,039

See accompanying notes to the financial statements.

University of the Fraser Valley

Statement of Changes in Net Debt

For the year ended March 31, 2018, with comparative information for 2017

	2018 Budget (Note 2.k)	2018	2017
Annual surplus	$ -	$ 10,543,406	$ 10,174,279
Acquisition of tangible capital assets	-	(8,824,965)	(4,774,037)
Net transfer to (from) assets held for sale	-	3,944,226	(1,273,916)
Gain on sale of assets held for sale	-	(3,053,241)	(3,351,850)
Recognition of DCC on sale of assets held for sale	-	1,192,352	317,802
Proceeds on sale of assets held for sale	-	3,492,515	4,307,964
Amortization of tangible capital assets	9,500,000	9,697,806	9,555,515
	9,500,000	6,448,693	4,781,478
Acquisition of prepaid expenses	-	(811,905)	(183,316)
Use of prepaid expenses	-	183,316	356,945
	-	(628,589)	173,629
	9,500,000	16,363,510	15,129,386
Endowment contributions	-	(493,779)	(451,206)
Decrease in net debt	9,500,000	15,869,731	14,678,180
Net debt, beginning of year	(81,844,228)	(81,844,228)	(96,522,408)
Net debt, end of year	$ (72,344,228)	$ (65,974,497)	$ (81,844,228)

See accompanying notes to the financial statements.

University of the Fraser Valley

Statement of Cash Flows

For the year ended March 31, 2018, with comparative information for 2017

	March 31, 2018	March 31, 2017
Cash provided by (used in):		
Operating activities		
Annual surplus	$ 10,543,406	$ 10,174,279
Items not involving cash		
Amortization of tangible capital assets	9,697,806	9,555,515
Amortization of deferred capital contributions	(7,048,866)	(6,858,001)
Income from government business enterprises	(429,145)	(702,224)
Gain on sale of assets held for sale	(3,053,241)	(3,351,850)
Change in non-cash operating working capital (Note 12)	4,268,610	4,837,585
Net change in cash from operating activities	13,978,570	13,655,304
Investing activities		
Increase in investments - non endowment	(13,583,681)	(14,168,657)
Increase in investments - endowment	(493,779)	(451,206)
Net change in cash from investing activities	(14,077,460)	(14,619,863)
Capital activities		
Acquisition of tangible capital assets	(8,824,965)	(4,774,037)
Proceeds on sale of tangible capital assets	3,492,515	4,307,964
Net change in cash from capital activities	(5,332,450)	(466,073)
Financing activities		
Principal payment on tangible capital lease obligations	(105,862)	(98,974)
Repayment of long term debt	(560,588)	(435,247)
Deferred contributions received	6,942,234	3,428,071
Net change in cash from financing activities	6,275,784	2,893,850
Net change in cash and cash equivalents	844,444	1,463,218
Cash and cash equivalents, beginning of year	11,018,458	9,555,240
Cash and cash equivalents, end of year	$ 11,862,902	$ 11,018,458

See accompanying notes to the financial statements.

1. Authority and purpose

The University of the Fraser Valley (the "University" or "UFV") 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 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 deferred capital contributions and recognition of 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.

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.

2. Significant accounting policies (continued)

(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
Computer hardware and software	Straight-line	2-4 years
Leasehold improvements	Straight-line	Life of the lease
Site improvements	Straight-line	10 years
Library books	Straight-line	10 years

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 2017/2018 Budget approved by the Board of Governors of the University on April 6, 2017. 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 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. Recast of comparative figures

During the year the University determined that an adjustment was required in its comparative figures to correct the presentation of the gain on disposal of assets in the Statement of Operations and Accumulated Surplus. This change in presentation resulted in an increase in revenue of $3,351,850 and an offsetting decrease to other income on the Statement of Operations and Accumulated Surplus. This presentation adjustment resulted in a net nil impact to the annual surplus.

4. Investments

(a) Investments recorded at fair value

	2018	2017
Philips Hager North - UFV Endowment Fund	$ 9,472,436	$ 8,517,215
Philips Hager North - CCIBED* Endowment Fund	3,371,623	3,265,986
	12,844,059	11,783,201
Investments recorded at cost or amortized cost	56,223,645	43,207,042
	69,067,704	54,990,243
Principal portion of endowments	(9,911,331)	(9,417,551)
	$ 59,156,373	$ 45,572,692

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.

5. 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 and the combined financial information is detailed below.

The change in equity is as follows:

	2018	2017
Equity, beginning of year	$ 758,132	$ 55,908
Net earnings	429,145	702,224
Equity, end of year	$ 1,187,277	$ 758,132

Condensed financial information is as follows:

	2018	2017
Statement of Financial Position		
Assets	$ 1,297,422	$ 952,216
Liabilities	(110,145)	(194,084)
Accumulated surplus	$ 1,187,277	$ 758,132

	2018	2017
Statement of Operations		
Revenue	$ 2,446,250	$ 3,070,509
Expenses	2,017,105	2,368,285
Annual surplus	429,145	702,224
Accumulated surplus, beginning of year	758,132	55,908
Accumulated surplus, end of year	$ 1,187,277	$ 758,132

6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	2018	2017
Trades payable	$ 9,974,363	$ 8,019,156
Wages payable	270,287	931,622
Accrued vacation and overtime payable	6,170,275	5,992,704
	$ 16,414,925	$ 14,943,482

7. Deferred revenue

Deferred revenue is comprised of the following:

	2017	Amounts Received	Revenue Recognized	2018
Student tuition fees	$ 9,266,946	$ 11,210,491	$ 9,251,195	$ 11,226,242
Student award funding	3,691,146	919,948	780,738	3,830,356
Special purpose and research funding	3,438,776	4,882,354	4,024,182	4,296,948
Prepaid lease revenue (Note 8)	9,651,260	1,000,000	278,981	10,372,279
Total	$ 26,048,128	$ 18,012,793	$ 14,335,096	$ 29,725,825

8. Deferred capital contributions

Changes in the deferred capital contributions ("DCC") balance are as follows:

	2018	2017
Balance, beginning of year	$ 93,116,040	$ 96,863,772
Contributions from the Province of British Columbia	6,942,234	3,351,751
Contributions from the Government of Canada	-	41,132
Contribution from other restricted resources	-	35,188
Transfer to prepaid lease revenue (Note 7)	(1,000,000)	-
DCC recognized on sale of asset held for sale	(1,192,352)	(317,802)
Amortization of deferred capital contributions	(7,048,866)	(6,858,001)
Balance, end of year	$ 90,817,056	$ 93,116,040

9. 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.

10. Debt

Debt is comprised of the following:

	2018	2017
BC Immigrant Investment Fund Ltd. (a)	$ -	$ 10,560,588
Ministry of Finance of British Columbia (b)	10,000,000	-
	$ 10,000,000	$ 10,560,588

(a) Discharge of long-term loan

The University held long-term debt, recorded at amortized cost, with BC Immigrant Investment Fund Ltd. (BCIIF). This debt was secured by a general security agreement payable in quarterly installments of $248,304, including interest at 5.15%, and was fully repaid on August 1, 2017. Interest on this debt in the amount of $180,353 (2017 - $554,255) is included in the Statement of Operations and Accumulated Surplus.

(b) New financing

The University assumed new short-term debt, recorded at amortized cost, with the Ministry of Finance of British Columbia. This debt is payable in full in the amount of $10,125,044, including interest at 1.25% on August 1, 2018. Interest on this debt in the amount of $83,363 is included in the Statement of Operations and Accumulated Surplus.

11. Obligations under capital lease

Repayments of obligations under capital leases are due as follows:

	2018	2017
2018	$ -	$ 120,110
2019	120,110	120,110
2020	30,027	30,027
Total minimum lease payments	150,137	270,247
Less amounts representing interest at 6.8%	(7,402)	(21,651)
Present value of net minimum capital lease payments	$ 142,735	$ 248,596

Total interest expensed on leases for the year was $14,305 (2017 - $21,191) and is included in the statement of operations and accumulated surplus.

12. Supplemental cash flow information

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

	2018	2017
Accounts receivable	$ 342,648	$ 777,077
Prepaid expenses	(628,589)	173,629
Inventories held for resale	405,411	(214,355)
Accounts payable and accrued liabilities	1,471,443	2,620,097
Deferred revenue	2,677,697	1,481,137
	$ 4,268,610	$ 4,837,585

13. 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.

14. 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:

	2019	2020	2021	2022	2023
Long-term lease commitments	$ 610,955	$ 516,409	$ 412,649	$ 310,885	$ 59,422

15. Contractual rights

The University has entered into multi-year contracts with third parties that entitles the University to receive the following amounts:

2019	2020	2021	2022	2023
$ 302,740	$ 267,223	$ 192,080	$ 162,464	$ 100,000

16. Tangible capital assets

	Land	Buildings	Furniture and equipment	Computer hardware and software	Leasehold improvements	Site improvements	Library books	Assets under construction	2018 Total
2018 Cost									
Balance, beginning 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
Additions	-	4,375,178	3,315,507	996,585	-	-	137,695	-	8,824,965
Transfer to assets held for sale	(496,466)	(11,926,543)	-	-	-	-	-	-	(12,423,009)
Transfer of assets under construction	-	339,524	-	-	-	-	-	(339,524)	-
Balance, end of year	7,842,942	197,610,879	48,896,690	15,997,927	1,619,974	9,223,312	10,364,944	-	291,556,668
2018 Accumulated Amortization									
Balance, beginning of year	-	68,095,303	35,898,446	13,793,724	1,001,720	6,301,451	9,022,668	-	134,113,312
Amortization	-	4,915,732	2,833,784	786,008	130,158	780,603	251,521	-	9,697,806
Transfer to assets held for sale	-	(6,847,156)	-	-	-	-	-	-	(6,847,156)
Balance, end of year	-	66,163,879	38,732,230	14,579,732	1,131,878	7,082,054	9,274,189	-	136,963,962
2018 Net Book Value	7,842,942	131,447,000	10,164,460	1,418,195	488,096	2,141,258	1,090,755	-	154,592,706
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

(a) Assets classified as held for sale

The University sold the Chilliwack North property that was held for sale at March 31, 2017 for proceeds of $3,492,515. The University has entered into a purchase and sale agreement for the remainder of the campus in North Chilliwack and the sale is expected to complete within one year.

17. 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.

(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.

18. Investments - endowments

Changes to the endowment balances are as follows:

	2018	2017
Balance, beginning of year	$ 9,417,551	$ 8,966,345
Contributions received during the year	435,554	405,121
Capitalization of endowment surplus	58,226	46,085
Balance, end of year	$ 9,911,331	$ 9,417,551

19. Expenses by object

The following is a summary of expenses by object:

	2018	2017
Salaries and wages	$ 71,385,007	$ 68,149,902
Employee benefits	16,862,695	16,867,473
Amortization of tangible capital assets	9,697,806	9,555,515
Contracted services	5,654,081	5,884,514
Other operating expenses	5,619,563	5,258,942
Supplies and books	4,654,743	4,169,370
Cost of goods sold	3,142,445	2,790,951
Travel and conferences	2,727,373	2,461,341
Utilities	2,063,043	1,952,002
Scholarships and bursaries	1,667,491	1,999,355
Minor renovations and repairs	1,424,185	1,186,827
Rentals and leases	829,554	735,168
Printing and advertising	627,169	563,058
Interest	274,077	575,445
	$ 126,629,232	$ 122,149,863

20. Pension plans

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan (jointly trusteed pension plans). The boards of trustees for these plans, representing plan members and employers, are responsible for administering the pension plans, including investing assets and administering benefits. The plans are multi-employer defined benefit pension plans. Basic pension benefits are based on a formula. As at August 31, 2017, the College Pension Plan has about 14,000 active members, and approximately 7,500 retired members. As at December 31, 2016, the Municipal Pension Plan has about 193,000 active members, including approximately 5,800 from colleges.

Every three years, an actuarial valuation is performed to assess the financial position of the plans and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plans. The actuary's calculated contribution rate is based on the entry- age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plans. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2015, indicated a $67 million surplus for basic pension benefits on a going concern basis.

The most recent valuation for the Municipal Pension Plan as at December 31, 2015, indicated a $2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, $1,927 million was transferred to the rate stabilization account and $297 million of the surplus ensured the required contribution rates remained unchanged.

The University paid $6,465,497 (2017 - $6,185,256) for employer contributions to the plans in fiscal 2018.

The next valuation for the College Pension Plan will be as at August 31, 2018, with results available in 2019. The next valuation for the Municipal Pension Plan will be December 31, 2018, with results available in 2019.

Employers participating in the plans record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plans record accrued liabilities and accrued assets for each plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

21. Comparative information

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current period.