UNIVERSITY OF NORTHERN BRITISH COLUMBIA

BOARD OF GOVERNORS

PUBLIC SESSION AGENDA

Thursday, May 25, 2017
Senate Chambers
(Room 1079 Charles J McCaffray Hall)
9:00 AM – 10:30 AM

Members - Hon. James Moore (Chancellor), Daniel Weeks (President and Vice-Chancellor), Karin Beeler (Faculty Member – CASHS), Kathy Lewis (Faculty Member – CSAM), Tim Carmack (Order in Council), Katherine LaForge (Order in Council), Harry Nyce, Sr. (Order in Council), C.E. Lee Ongman (Order in Council), Sean Simmons (Order in Council – VICE-CHAIR), Simon Yu (Order in Council), Tracey Wolsey (Order in Council – Alumni – CHAIR), Julie Ziebart (Order in Council), Arctica Cunningham (Undergraduate Student), Amelia Kaiser (Graduate Student), Carolee Clyne (Employee)

1. **Chair's Remarks**

2. **Approval of Agenda**

   That, the Agenda for the Public Session of the May 25, 2017 meeting of the Board of Governors be approved as presented.

3. **Audit Findings Report - KPMG Audit Representatives** – C. Naphtali and C. Calder - **page 2**

4. **Motions for Approval**

   a. **Presentation and Approval of Financial Statements** – R. Knight/C. Smith – **page 35**
   That, the Board of Governors approves the University of Northern British Columbia's Consolidated Financial Statements for the year ended March 31/17.

5. **Adjournment**

BOARD OF GOVERNORS – PUBLIC SESSION
Approved for Submission:

Heather Sanford
University Secretary

UNBC UNIVERSITY OF NORTHERN BRITISH COLUMBIA

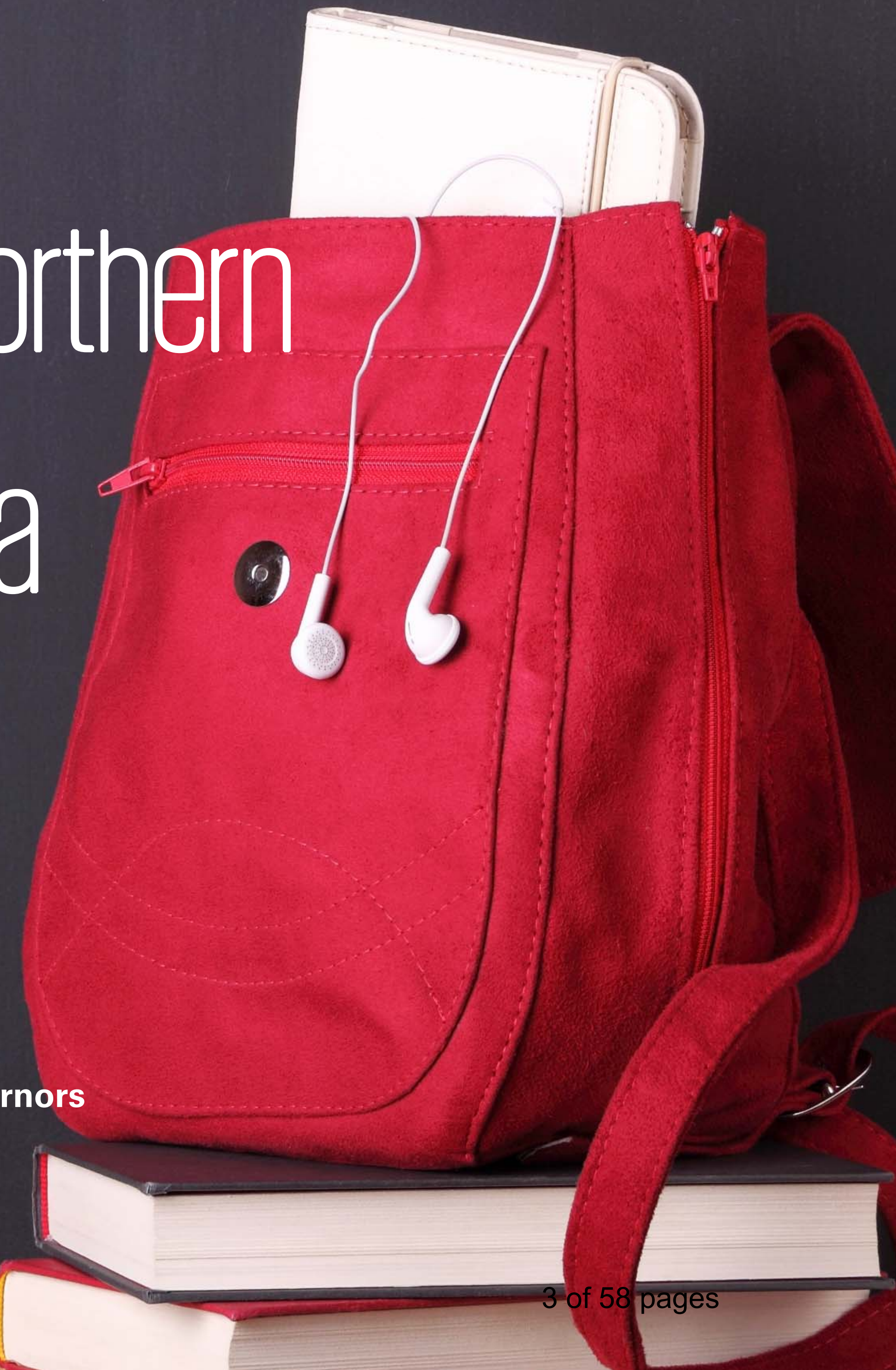
BOARD OF GOVERNORS

Agenda Item:	3. Audit Findings Report – KPMG Audit Representatives – C. Naphtali and C. Calder
Material:	University of Northern British Columbia Audit Findings Report for the year ended March 31, 2017 by KPMG

University of Northern British Columbia

Audit Findings Report

For the year ended March 31, 2017



Dated May 19, 2017
For presentation at the Board of Governors meeting on May 25, 2017

kpmg.ca/audit

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the only **perspective that matters – yours**.

Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Board of Governors, in your review of the results of our audit of the consolidated financial statements of the University of Northern British Columbia (the “University” or “UNBC”) as at and for the year ended March 31, 2017.

This Audit Findings Report builds on the Audit Planning Report we presented to the Finance and Audit Committee on March 29, 2017.

We appreciate the assistance of management and staff in conducting our audit. We hope that this audit findings report is of assistance to you for the purpose above, and we look forward to discussing our findings and answering your questions.

Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- completing our discussions with the Board of Governors;
- receipt of all legal confirmations from the University’s legal counsel;
- completion of subsequent event review procedures to the date of the approval of the consolidated financial statements;
- obtaining evidence of the Board of Governor’s approval of the consolidated financial statements;
- obtaining the signed management representation letter as at the date of approval of the consolidated financial statements

We will update the Board of Governors on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors’ report will be dated upon the completion of any remaining procedures.

 *This Audit Findings Report should not be used for any other purpose or by anyone other than the Board of Governors. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary (continued)

Areas of audit focus

We have highlighted significant areas of audit focus related to management's judgment, estimates and accounting treatments that we would like to bring to your attention. These include revenue and deferred contributions, deferred capital contributions and tangible capital assets, investments and employee future benefits. We are satisfied that our audit work has appropriately dealt with these audit areas.

See pages 5 - 9 for more details

Audit adjustments and differences

We did not identify differences that remain uncorrected.

We did not identify any adjustments that were communicated to management and subsequently corrected in the consolidated financial statements.

See page 10 for more details

Significant qualitative aspects of accounting policies and practices

Overall we are satisfied with the reasonability of the significant accounting policies, critical accounting estimates, and critical disclosures and financial statement presentation taken by management.

See pages 11 - 12 for more details

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Executive summary (continued)

Control observations

In accordance with professional standards, we are required to communicate to the Board of Governors any control deficiencies that we have determined, individually or in the aggregate, to be significant ("significant deficiencies").

We have not identified any significant deficiencies in internal control.

See pages 13 - 14 for more details

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow the policies at the University for obtaining preapproval before undertaking or bidding on any work outside of the audit.

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Areas of audit focus

We identified areas of focus for our audit in our discussion with you in the Audit Planning Report.

Significant findings from the audit regarding our areas of focus are as follows:

Areas of focus	Why	Our significant findings from the audit
Revenue and deferred contributions	The University earns revenue from the following areas: government grants (federal and provincial), tuition fees, other fees, sale of goods and services, gifts, bequests, non-government grants and contracts, investment income, external cost recoveries and other income and revenue recognized from deferred capital contributions. The University receives a variety of contributions that are externally restricted for specific purposes. Such contributions must be deferred until such time as the restrictions have been met.	– The deferred contributions balance of $26.5 million (2016 - $23.9 million) represents contributions received from both provincial, federal and other sources, which are restricted for capital acquisitions, research and other specific purposes. During the year, the University received a total of $22.7 million (2016 - $13.7 million) and recognized $17.7 million (2016 - $19.1 million) as revenue. – We obtained an understanding of the process over the recording of Ministry revenue and tuition fees, other contributions received, amounts spent as well as deferral of unspent contributions. We performed procedures over contributions received to ensure that revenues are appropriately recognized in line with the terms of the underlying agreement. We concur with management's accounting treatment. – We performed test of details on contributions received as well as amounts spent to assess that revenues are appropriately recognized and contributions are appropriately deferred.

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We identified areas of focus for our audit in our discussion with you in the Audit Planning Report.

Significant findings from the audit regarding our areas of focus are as follows:

Areas of focus	Why	Our significant findings from the audit
Deferred capital contributions (“DCC’) and tangible capital assets (“TCA”)	The University receives contributions designated to support capital initiatives. Such contributions are required under provincial regulation to be deferred and subsequently amortized into revenue on the same basis as the amortization of the related tangible capital asset.	– During the year, the University received $2.9 million in additional contributions designated for capital projects, $1.1 million of this was received from the federal government, $0.3 million from the provincial government and $1.5 million received from other sources. The deferred capital contributions balance of $161.4 million (2016 - $165.2 million) represents contributions received from both provincial, federal and other sources, which will be amortized over the remaining useful lives of the corresponding asset. During the year, $6.8 million (2016 - $6.6 million) was recognized as revenue. – We obtained an understanding of the process over capital contributions received, the acquisitions made or development of related tangible capital assets and amortization of the deferred capital contributions. – We performed procedures over the contributions received and ensured that revenues are appropriately recognized in line with the amortization of the corresponding assets and contributions are appropriately deferred. We concur with management’s accounting treatment.
Investments (Operating, Portfolio and Endowment)	The University holds a significant investment portfolio, comprised of operating, portfolio and endowment investments. The University’s investments include term deposits, MFA funds (bond and money market funds), fixed income, mortgages, real estate investments, infrastructure investments, equities, private debt and private equities.	– The operating investments balance of $25.2 million (2016 - $25.1 million) is comprised of term deposits, money market and bond fund investments that will be used to fund future operations. – The portfolio investments balance of $15.1 million (2016 - $15.0 million) is comprised of the accumulated income earned by the University from the endowment investments and is restricted to fund future endowment transactions. – The endowment investments balance of $50.6 million (2016 - $49.3 million) is comprised of the original endowment contributions from donors to the University and is held in perpetuity to fund future endowment transactions. – At year end, the University had an unrealized gain of approximately $2.9 million included in the total endowment investment portfolio (portfolio and endowment investment captions) value of $65.7 million (2016 - $7.7 million on a total endowment investment portfolio value of $64.3 million).

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We identified areas of focus for our audit in our discussion with you in the Audit Planning Report.

Significant findings from the audit regarding our areas of focus are as follows:

Areas of focus	Why	Our significant findings from the audit
		– We obtained an understanding of the activities over recording and monitoring of investments by management. We also obtained third party confirmations directly from the various investment/fund managers used by the University to verify the cost and fair market value of investments held by the University at March 31, 2017, along with the amounts of investment income earned by the University during the 2017 fiscal year. – We ensured that the investments were appropriately recorded and presented in the consolidated financial statements. No misstatements were identified in this area.
Employee future benefits	The University provides specific benefits to its employees that can accumulate. The liabilities connected to employee future benefits are based on underlying assumptions. As such, they are an estimate subject to variability and measurement uncertainty including changes in historical trends.	– The University accrues certain employee future benefits within the accounts payable and accrued liabilities financial statement caption of the consolidated financial statements. – These accruals relate to administrative leaves, vacation payable and banked overtime amounts – We held discussions with management regarding these and other potential employee benefits and reviewed the consolidated financial statement note disclosure to ensure that it was complete and accurate. No issues were noted in this area.

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Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

Northern Medical Programs Trust
• At year end, the University is holding approximately $10.2 million (2016 - $9.5 million) on behalf of the Northern Medical Programs Trust. The funds form part of the overall investment portfolio of the University, although for financial statement purposes this amount is excluded from the University's consolidated financial statements. • We are not aware of a formal trust agreement between the Northern Medical Programs Trust and the University documenting the trust relationship and the nature of services to be provided by the University. • The University does not have control over the funds of the Northern Medical Programs Trust and therefore these funds are not included in the assets and liabilities of the University.
KPMG comments
• We recommend that the University review the documentation related to the relationship between itself and the Trust. • We also recommend that the Northern Medical Programs Trust prepare annual audited financial statements to facilitate the review of results by its board of directors.

Northern Sports Centre
• The Northern Sports Centre Limited is the umbrella organization established to operate the Northern Sports Centre. The Northern Sports Centre itself is a physical asset of the University and is included in the University's tangible capital assets. • Accounting for operations at the Northern Sports Centre is on the basis that UNBC has been "contracted" by Northern Sports Centre Limited to manage and operate the Northern Sports Centre facility. • At year end, there is a cumulative excess of revenues over expenditures from operations of the Northern Sports Centre in the amount of $621,000 (2016 - $577,000). This amount has been included in deferred contributions on the basis that it is externally restricted by the Northern Sports Centre Limited (i.e. the Board of Northern Sports Centre Limited can direct the University as to how these excess funds are utilized). The excess of revenues over expenses does not form part of the University's accumulated surplus.
KPMG comments
• As described above, management has treated operations of the Northern Sports Centre as part of the University, except that any excess of revenues over expenses has been treated as a deferred contribution instead of as part of the University's accumulated surplus. • We reviewed the accounting for the Northern Sports Centre and agree with management's approach.

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Northern Sports Centre Limited - Tax returns
• The Northern Sports Centre Limited is a separate legal entity operating as a not-for-profit organization. The University has representation on the Board of Directors of this entity and is therefore associated with its activities. As a legal entity incorporated under the BC Business Corporations Act, it is required to file annual income tax returns. We understand that income tax returns have not been filed for this entity.
• A not-for-profit entity is required to file a T1044 Information Return. In addition, we recommend that a nil T2 Corporation Income Tax Return be filed as well in order to "start the clock" on the statute-barred period in the event a taxation issue arises in the future. For example, in general terms, if an entity files a tax return, Canada Revenue Agency ("CRA") has three years from the date of assessment to reassess that tax return. Once the three year period has passed, CRA cannot go back and re-open prior years for review. If an entity does not file a tax return the "statute-barred" three year clock does not start and therefore all years are open to further scrutiny by CRA.
• While we do not anticipate any issues in the future, we believe it is prudent to ensure tax returns are filed on a timely basis even for not-for-profit entities.
• While there is a maximum $2,500 annual penalty for non-filing, we have not seen the local CRA office assess this penalty.
KPMG comments
• The University has provided KPMG with the information required to prepare income tax returns for this entity from the time of incorporation of the entity.
• Working with the University's finance department, the income tax returns are expected to be completed by June 30, 2017.

Potential tax recoveries
• The University's finance department is currently working with KPMG's indirect tax group, as KPMG is reviewing financial transaction data from the University to assess the potential for recoveries of GST for the University.
KPMG comments
• A report will be provided to the finance department with any potential recoveries identified during the 2018 fiscal year.

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Audit adjustments and differences

Adjustments and differences identified during the audit have been categorized as "Corrected adjustments" or "Uncorrected differences". These include presentation and disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the consolidated financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.

Corrected adjustments in presentation and disclosure

We provided minor suggestions concerning presentation and disclosure that management has incorporated in the consolidated financial statements.

Uncorrected changes in presentation and disclosure

The University is required under public sector accounting standards to prepare a statement of re-measurement gain and loss. Management has determined that the total accumulated re-measurement gain/loss as at March 31, 2017 is not a material amount and has represented to us that the omission of this statement is not material to the users of the consolidated financial statements as the amount of accumulated re-measurement loss as at March 31, 2017 is $49,078.

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Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of individuals making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed are not contrary to positions KPMG has taken.

The following are the matters we plan to discuss with you:

Significant accounting policies	Significant accounting policies or practices are disclosed in Note 2 to the consolidated financial statements. • An additional significant accounting policy was added in the current year for employee future benefits in note 2(h) to the consolidated financial statements.
Significant accounting estimates	**Overview:** • Management's identification of accounting estimates. • Management's process for making accounting estimates. • Indicators of possible management bias. • Disclosure of estimation uncertainty in the consolidated financial statements. • Factors affecting the University's asset and liability carrying values. **Commitments and Contingencies:** • Management makes estimates regarding the determination of the outcome of material outstanding lawsuits and material contingency provisions requiring adjustment and disclosure.

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Significant disclosures and financial statement presentation	**Overview:** • Issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures. • Overall neutrality, consistency, and clarity of the disclosure in the consolidated financial statements. • Potential effect on the consolidated financial statements of significant risks, exposures and uncertainties. **Financial risk management** • See note 11 to the consolidated financial statements for significant disclosures required for the University's financial instruments and financial risk management.

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Control observations

Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Identification

We did not identify any control deficiencies we determined to be significant deficiencies in ICFR.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited consolidated financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the consolidated financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

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Control observations (continued)

Consenting to the use of the auditors' report

When specifically engaged in the engagement letter, we will provide our consent, in writing, to the use of our auditors' report, once we have completed all of the procedures required under professional standards and no unresolved matters exist.

If there are any unresolved matters arising from the performance of the above procedures, we will inform the Board of Governors of such matters.

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Appendices

Appendix 1: Required communications

Appendix 2: Management representation letter

Appendix 3: Management letter

Appendix 4: Audit Quality and Risk Management

Appendix 5: Current developments

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Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters provided to management. The engagement letter was provided to management on January 29, 2015.
- **Audit findings report** – as attached.
- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft consolidated financial statements.
- **Management representation letter** – we will obtain from management at the completion of the annual audit. In accordance with professional standards, copies of the representation letter are provided to the Board of Governors. The management representation letter is attached in Appendix 2.

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Appendix 2: Management representation letter

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PRINCE GEORGE, BC V2N 4Z9

KPMG LLP
177 Victoria Street, Suite 400
Prince George, BC V2L 5R8
Canada

May 25, 2017

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of the University of Northern British Columbia ("the Entity") as at and for the period ended March 31, 2017.

GENERAL:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

RESPONSIBILITIES:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated January 29, 2015, for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework

   b) providing you with all relevant information, such as all financial records and related data, including the names of all related parties and information regarding all relationships and transactions with related parties, and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information

   c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

   d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

INTERNAL CONTROL OVER FINANCIAL REPORTING:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

   a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

   b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements

   c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity’s financial statements, communicated by employees, former employees, analysts, regulators, or others

   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements

   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

5) We have disclosed to you the identity of the Entity’s related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

MISSTATEMENTS:

9) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

10) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

By: Dr. Daniel Weeks, President and Vice-Chancellor

By: Mr. Robert Knight, Vice President, Finance & Business Operations

By: Mrs. Colleen Smith, Associate Vice President, Financial Services

cc: Board of Governors

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian Public Sector Accounting Standards *related party* is defined as:

- one party that has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Canadian Public Sector Accounting Standards a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Attachment II

Summary of uncorrected audit misstatements in presentation and disclosures

	Description of Audit Misstatement	Resolution	Type of Misstatement
1	•The University is required under public sector accounting standards to prepare a statement of re-measurement gain and loss. Management has determined that the total accumulated re-measurement gain/loss as at March 31, 2017 is not a material amount and has represented to us that the omission of this statement is not material to the users of the consolidated financial statements as the accumulated amount of re-measurement loss at at March 31, 2017 is $49,078.	Uncorrected	Factual

Appendix 3: Management letter

19 *This Audit Findings Report should not be used for any other purpose or by anyone other than the Board of Governors. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

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Private & Confidential

University of Northern British Columbia
3333 University Way
Prince George, BC V2N 4Z9

Attention: Mrs. Colleen Smith, Associate VP, Financial Services

May 25, 2017

Dear Colleen:

In planning and performing our audit of the consolidated financial statements of University of Northern British Columbia ("the Entity") for the period ended March 31, 2017, we obtained an understanding of internal control over consolidated financial reporting (ICFR) relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on ICFR. Accordingly, we do not express an opinion on the effectiveness of the Entity's ICFR.

Our consideration of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. As a result, any matters reported below are limited to those deficiencies in ICFR that we identified during the audit.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

IDENTIFICATION

Refer to the Appendix A for the definitions of various control deficiencies.

SIGNIFICANT DEFICIENCIES

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

USE OF LETTER

This letter is for the use of management and those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purpose or anyone other than management and those changed with governance. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP

cc: Finance and Audit Committee

Appendix A

Terminology	**Definition**
DEFICIENCY IN INTERNAL CONTROL	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.
SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Appendix 4: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx for more information.

- Other controls include:
  - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 5: Current developments

The following is a summary of the current developments that are relevant to the University:

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	• New Accounting Standards, Financial Instruments PS3450 and Foreign Currency Translation PS2601 have been approved by the PSAB and are effective for years commencing on or after April 1, 2019. Early adoption is permitted. • Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. Instruments denominated in foreign currencies must be adjusted to reflect the exchange rate in effect at the reporting date. • Hedge accounting is not permitted. • A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted and foreign currency denominated financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.
Related Party Disclosures and Inter-Entity Transactions	• PSAB issued Section PS2200 Related Party Transactions which defines related party and provides disclosures requirements. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties. • Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements. • This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amount has been recognized. • This standard is effective for fiscal periods beginning on or after April 1, 2017.

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Assets, Contingent Assets, and Contractual Rights	• Three new Handbook sections were approved in March 2015, effective for fiscal years beginning on or after April 1, 2017. • The intended outcome of the three new Handbook Sections is improved consistency and comparability. • The standard includes enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the public sector entity. Disclosure of contingent assets and contractual rights is required to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met.
Retirement Obligations	• PSAB issued a statement of principles in August 2014 on Retirement Obligations associated with tangible capital assets. • The statement of principles recommended that retirement obligations associated with tangible capital assets increase the carrying amount of the related tangible capital assets and be expensed in a rational and systematic manner. Retirement obligations include post-retirement operation, maintenance and monitoring. PSAB is still reviewing the comments it received on this document and expects to issue an exposure draft subsequent to its December 2016 meeting.
Revenue	• PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013. • The statement of principles recommended that in case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • For unilateral revenues, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue. Adoption of these principles would result in a need to assess current accounting policies. PSAB is still reviewing the comments it received on this document and expects to issue an exposure draft subsequent to its December 2016 meeting.

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UNIVERSITY OF NORTHERN BRITISH COLUMBIA

BOARD OF GOVERNORS

Agenda Item:	4.a. Presentation and Approval of Financial Statements – R. Knight/C. Smith
Material:	UNBC’s Consolidated Financial Statements – March 31, 2017
Motion:	*That, the Board of Governors approves the University of Northern British Columbia’s Consolidated Financial Statements for the year ended March 31/17.*

UNBC UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Financial Statements

Year Ended March 31, 2017

www.unbc.ca/finance/statements

University of Northern British Columbia

Consolidated Financial Statements

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UNIVERSITY OF NORTHERN BRITISH COLUMBIA

STATEMENT OF MANAGEMENT RESPONSIBILITY

The University of Northern British Columbia is responsible for the preparation of the consolidated financial statements and has prepared them in accordance with Section 23.1 of *the Budget Transparency and Accountability Act* of the Province of British Columbia and the Restricted Contribution Regulation 198/2011 issued pursuant to it. The regulations require financial statements to be prepared in accordance with the standards of the Canadian Public Sector Accounting Board except that the contributions received or receivable by the University for the purpose of acquisition of tangible capital assets are accounted for as deferred capital contributions as described in note 2a of the consolidated financial statements. The consolidated financial statements present the consolidated financial position of the University as at March 31, 2017 and the consolidated results of its operations and its consolidated cash flows for the year ended March 31, 2017.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University has developed and maintains a system of internal controls designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of consolidated financial statements.

The Board of Governors carries out its responsibility for review of the consolidated financial statements and oversight of Management's performance of its financial reporting responsibilities principally through its Finance and Audit Committee. With the exception of employee group representatives, members of the Finance and Audit Committee are neither officers nor employees of the University.

The Committee meets with Management and the external auditors to discuss the results of audit examinations and financial reporting matters. The external auditors have full access to the Finance and Audit Committee, with and without the presence of Management.

The consolidated financial statements for the year ended March 31, 2017 have been reported on by KPMG LLP. The Independent Auditor's Report outlines the scope of the examination and provides the firm's opinion on the consolidated statements.

Robert A. Knight, MBA
Vice President, Finance & Business Operations

Colleen Smith, CPA, CA
Associate Vice President, Financial Services

May 16, 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the University of Northern British Columbia (the "University") which comprise the consolidated statement of financial position as at March 31, 2017, the consolidated 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 Consolidated Financial Statements

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

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

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

Opinion

In our opinion, the consolidated financial statements of the University of Northern British Columbia as at March 31, 2017 and for the year then ended are prepared, in all material aspects, 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 consolidated financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Chartered Professional Accountants

May 25, 2017

Prince George, Canada

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Financial Position

March 31, 2017, with comparative figures for 2016 (in thousands of dollars)

			2017		2016
Financial assets					
Cash and cash equivalents		$	22,261	$	27,020
Operating investments	(Note 3)		25,214		25,134
Accounts receivable			2,929		2,603
Inventories for resale			624		724
Portfolio investments	(Note 4)		15,134		14,982
Sinking fund, net of long-term debt	(Note 9)		58		22
			66,220		70,485
Liabilities					
Accounts payable and accrued liabilities	(Note 5)		8,058		9,703
Deferred revenue			923		597
Deferred contributions	(Note 7)		26,484		23,873
Deferred capital contributions	(Note 8)		161,360		165,226
			196,825		199,399
Net debt			(130,605)		(128,914)
Non-financial assets					
Tangible capital assets	(Note 10)		211,623		211,624
Inventories held for use			77		90
Endowment investments	(Notes 4 and 14)		50,587		49,340
Prepaid expenses			1,496		1,465
			263,783		262,519
Accumulated surplus	(Note 13)	$	133,178	$	133,605

Contractual obligations and commitments (Note 12)
See accompanying notes to consolidated financial statements.

On behalf of the Board of Governors:

Chair, Board of Governors

President

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2017, with comparative figures for 2016 (in thousands of dollars)

	Budget	2017	2016
Revenue:			
Government grants			
Provincial government	$ 50,663	$ 51,477	$ 50,314
Federal government	5,065	4,793	5,230
Tuition fees	19,394	17,353	17,456
Other fees	1,307	1,378	1,341
Sales of goods and services	8,474	9,020	8,839
Gifts, bequests, non-government grants and contracts	11,037	10,139	10,689
Investment income	2,365	2,713	2,639
External cost recovery and other income	649	543	702
Revenue recognized from deferred capital contributions	6,500	6,802	6,649
	105,454	104,218	103,859
Expenses:			
Ancillary operations	8,282	7,063	7,940
Facility operations and maintenance	12,587	12,004	12,262
Instruction	40,187	40,878	42,140
Institutional support	32,137	32,491	32,492
Sponsored research	8,500	6,735	6,328
Specific purpose	6,450	6,721	6,164
	108,143	105,892	107,326
Annual operating deficit before restricted contributions	(2,689)	(1,674)	(3,467)
Net restricted endowment contributions	1,500	1,247	1,957
Annual deficit	(1,189)	(427)	(1,510)
Accumulated surplus, beginning of year	133,605	133,605	135,115
Accumulated surplus, end of year	$ 132,416	$ 133,178	$ 133,605

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Changes in Net Debt

Year ended March 31, 2017, with comparative figures for 2016 (in thousands of dollars)

	Budget	2017 Total	2016 Total
Annual deficit	$ (2,689)	$ (427)	$ (1,510)
Acquisition of tangible capital assets	-	(8,974)	(4,172)
Amortization of tangible capital assets	-	8,975	9,022
	-	1	4,850
Consumption of inventories held for use	-	90	92
Acquisition of inventories held for use		(77)	(90)
Consumption of prepaid expenses	-	1,465	1,822
Acquisition of prepaid expenses	-	(1,496)	(1,465)
Acquisition of endowment investments	-	(1,247)	(1,958)
	-	(1,265)	(1,599)
	(2,689)	(1,691)	1,741
(Increase)/decrease in net debt	(2,689)	(1,691)	1,741
Net debt, beginning of year	(128,914)	(128,914)	(130,655)
Net debt, end of year	$ (131,603)	$ (130,605)	$ (128,914)

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Cash Flows

Year ended March 31, 2017, with comparative figures for 2016 (in thousands of dollars)

		2017		2016
Cash provided by (used in):				
Operating activities:				
Annual deficit	$	(427)	$	(1,510)
Items not involving cash:				
Amortization of tangible capital assets		8,975		9,022
Revenue recognized from deferred capital contributions		(6,802)		(6,649)
Change in non-cash operating working capital:				
Decrease (increase) in accounts receivable		(326)		613
Decrease (increase) in prepaid expenses		(31)		357
Decrease in inventories held for use		13		2
Decrease in inventories held for sale		100		4
Increase (decrease) in accounts payable and accrued liabilities		(1,645)		255
Increase (decrease) in deferred revenue		326		(258)
Net change in cash from operating activities		183		1,836
Capital activities:				
Cash used to acquire tangible capital assets		(8,974)		(4,172)
Net change in cash from capital activities		(8,974)		(4,172)
Financing activities:				
Cash restricted for repayment of long-term debt		(36)		(27)
Net change in cash from financing activities		(36)		(27)
Investing activities:				
Capital contributions		2,936		1,961
Increase in operating investments		(80)		(621)
Deferred contributions		2,611		(6,324)
Increase in endowment investments		(1,247)		(1,958)
Sale (purchase) of portfolio investments		(152)		4,869
Net change in cash from investing activities		4,068		(2,073)
Net change in cash		(4,759)		(4,436)
Cash, beginning of year		27,020		31,456
Cash, end of year	$	22,261	$	27,020

Cash is comprised of cash and cash equivalents

See accompanying notes to consolidated financial statements.

1. Authority and Purpose

The University of Northern British Columbia (UNBC or the University) operates under the authority of the *University Act* of British Columbia. UNBC is a comprehensive research university dedicated to improving the quality of life in its region, and beyond, by attaining the highest standards of undergraduate and graduate teaching, learning, and research. The University is governed by a 15 member Board of Governors, eight of whom are appointed by the Government of British Columbia, including two on the recommendation of the UNBC Alumni Association. The academic governance of the University is vested in the Senate. UNBC is a registered charity and is therefore exempt from taxes under Section 149 of the *Income Tax Act*. The University receives a significant portion of its revenues from the Province of British Columbia.

2. Summary of significant accounting policies

The consolidated financial statements of the University are prepared by management in accordance with the basis of accounting described below. Significant accounting policies of the University are as follows:

(a) Basis of accounting:

The consolidated financial statements have been prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia supplemented by Regulations 257/2010 and 198/2011 issued by the Province of British Columbia Treasury Board.

The Budget Transparency and Accountability Act requires that the consolidated financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards without any PS4200 elections.

Regulation 198/2011 requires that restricted contributions received or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

2. **Summary of significant accounting policies (continued)**

(i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are recorded and, referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

(ii) Contributions restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met.

For British Columbia tax-payer supported organizations, these contributions include government transfers and externally restricted contributions.

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of Canadian public sector accounting standards which requires that:

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with public sector accounting standard PS3410; and
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with public sector accounting standard PS3100.

As a result, revenue recognized in the statement of operations and accumulated surplus and certain related deferred capital contributions would be recorded differently under Canadian Public Sector Accounting Standards.

(b) Basis of consolidation

(i) Consolidated entities

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of organizations which are controlled by UNBC. UNBC Investment Trust is a for-profit entity controlled by the University, whose primary purpose is to manage certain investment assets of the endowment fund; it is included in the financial statements on a fully consolidated basis.

(ii) Trusts under administration

Trusts administered by the University as directed by agreement or statute for certain beneficiaries are not included in the University's consolidated financial statements.

(c) Cash and cash equivalents

Cash and cash equivalents include cash, money-market securities and investments with terms to maturity of three months or less at date of purchase and are cashable on demand.

2. **Summary of significant accounting policies (continued)**

(d) **Short-term investments**

Short-term investments consist of highly liquid money-market and bond securities and other investments with terms to maturity of greater than three months to one year at date of purchase.

(e) **Financial instruments**

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

Fair value category: Portfolio instruments that are quoted in an active market and derivative instruments are reflected at fair value as at the reporting date. Other financial instruments which the University has designated to be recorded at fair value include cash, cash equivalents and short term investments. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are recorded as an expense. Unrealized gains and losses on financial assets are recognized in the Statement of Remeasurement Gains and Losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the Statement of Operations and Accumulated Surplus and related balances reversed from the Statement of Remeasurement Gains and Losses. Unrealized gains and losses on endowment investments where earnings are restricted as to use are recorded as deferred contributions and recognized in revenue when disposed and when the related expenses are incurred.

Cost category: Realized gains, losses and interest expense are recognized in the Statement of Operations and Accumulated Surplus when the financial asset is derecognized due to disposal or impairment. Accounts receivable, accounts payable and accrued liabilities are measured at cost. Any gains, losses or expense is recorded in the annual surplus (deficit) depending on the nature of the financial asset or liability that gave rise to the gain, loss or expense. Valuation allowances are made when collection is in doubt. Interest is accrued on accounts receivable to the extent it is deemed collectible.

(f) **Inventories for resale**

Inventories held for resale, including books, clothing, office and paper supplies, food and other items for retail sale are recorded at the lower of cost and net realizable value. Cost includes the original purchase cost, plus shipping and applicable duties. Net realizable value is the estimated selling price less any costs to sell.

(g) **Non-financial assets**

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Interest is not capitalized whenever external debt is issued to finance the construction of tangible capital assets. Donated assets are recorded at fair value at the date of transfer. In unusual circumstances where fair value cannot be reasonably determined, the tangible capital

2. **Summary of significant accounting policies (continued)**

asset would be recognized at nominal value. The cost of the tangible capital assets, excluding land, is amortized on a straight line basis over their estimated useful lives shown below. Land is not amortized as it is deemed to have a permanent value:

Asset	Rate
Buildings and site services	50 years
Capital renovations	20 years
Library materials	10 years
Equipment and furnishings	8 years
Computers	3 years

Assets under construction are not amortized until the asset is available for productive use. Tangible capital assets are written down when conditions indicate that they no longer contribute to the University's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

(ii) Works of art and historic assets

Works of art and historic assets are not recorded as assets in these consolidated financial statements.

(iii) Inventories held for use

Inventories held for use such as office, stationery and lab supplies distributed to various departments are recorded at cost.

Cost includes the original purchase cost, plus shipping and applicable duties.

(h) Employee future benefits

The University and eligible employees contribute to a defined contribution pension plan providing benefits on a money purchase basis. The cost of pension benefits includes the current service cost based on 8% to 10% of salary, less a fixed offsetting amount relating to Canada Pension Plan contributory earnings. The assets and liabilities of this plan are not included in the University's consolidated financial statements. The University expenses its contributions to the plan in the year to which the contributions relate.

The University's sick leave benefits do not vest or accumulate and related costs are expensed as incurred.

Vacation benefits for the University's employees are accrued as earned. The obligations under these benefits are based on the applicable collective agreements for unionized employees and employment contracts for employees not covered by collective agreements.

(i) Revenue recognition

Tuition and student fees and sales of goods and services are reported as revenue in the period to which they apply and when the liability to refund has expired.

2. Summary of significant accounting policies (continued)

Unrestricted donations and grants are recorded as revenue when receivable if the amounts can be estimated and collection is reasonably assured. Pledges from donors are recorded as revenue when payment is received by or the transfer of property is completed.

The University follows the deferral method of accounting for contributions. Restricted donations and grants are reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

(i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or in the form of a depreciable tangible capital asset, in each case for use in providing services are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

(ii) Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contribution have been met.

(iii) Contributions restricted to be retained in perpetuity, allowing only the investment income earned thereon to be spent are recorded as endowment contributions on the statement of operations for the portion to be held in perpetuity and as deferred contributions for any restricted investment income earned thereon.

Investment income includes interest recorded on an accrual basis and dividends recorded as declared, realized gains and losses on the sale of investments, and writedowns on investments where the loss in value is determined to be other-than-temporary.

(j) Use of estimates

The preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, and related disclosures. Key areas where management has made estimates and assumptions include those related to the determination of fair value of financial instruments, the useful life of tangible capital assets for amortization and the related amortization of deferred capital contributions. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

(k) Foreign currency translation

The University’s functional currency is the Canadian dollar. Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities which were designated in the fair value category under the financial instrument standard are reflected in the financial statements in equivalent Canadian dollars at the exchange rate in effect on the date of the statement of financial position. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or date

2. **Summary of significant accounting policies (continued)**

of the statement of financial position is recognized in the statement of remeasurement gains and losses. In the period of settlement, the related cumulative remeasurement gain/loss is reversed in the statement of remeasurement gains and losses and the exchange gain or loss in relation to the exchange rate at the date of the item's initial recognition is recognized in the statement of operations and accumulated surplus.

(l) Contaminated sites:

Contaminated sites are defined as the result of contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard.

A liability for remediation of contaminated sites is recognized, net of any expected recoveries, when all of the following criteria are met:

(i) an environmental standard exists
(ii) contamination exceeds the environmental standard
(iii) the organization is directly responsible or accepts responsibility for the liability
(iv) future economic benefits will be given up, and
(v) a reasonable estimate of the liability can be made.

(m) Asset retirement obligation

The University recognizes asset retirement obligations in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset including leased premises resulting from the acquisition, construction, development, and/or normal use of the asset. The fair value of the asset retirement cost is capitalized as part of the carrying value of the related long-lived asset and is depreciated over the life of the asset. The liability may be changed to reflect the passage of time and changes in the fair value assessment of the retirement obligation.

(n) Budget figures

Budget figures are provided for comparative purposes and have been derived from the 2016/17 Financial Planning Overview approved by the Board of Governors of UNBC on May 20, 2016 and the 2016/17 Consolidated Budget, approved March 31, 2017. The budget is reflected in the Statement of Operations and Accumulated Surplus and the Statement of Changes in Net Debt.

3. **Operating investments**

	Fair Value Hierarchy	2017	2016
Term Deposits, GIC, T-bills	Level 1	$ 11,197	$ 11,285
Municipal Financing Authority - bond fund	Level 1	8,368	8,246
Municipal Financing Authority - money market fund	Level 1	5,649	5,603
		$ 25,214	$ 25,134

4. Financial instruments

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties. UNBC uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Statement of Financial Position under the following captions:

Financial assets and liabilities recorded at fair value are comprised of the following:

- Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities - the carrying amounts approximate fair value because of the short maturity of these instruments.
- Operating investments
- Endowment investments

The financial instruments measured at fair value held within each investment are classified according to a hierarchy which includes three levels, reflecting the reliability of the inputs involved in the fair value determination. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair Value Hierarchy	2017	2016
Financial assets:			
Portfolio investments quoted at fair value - restricted:			
Money market	Level 1	-	539
Fixed income	Level 1	4,540	3,521
Equity	Level 1	7,430	8,766
Real Estate	Level 3	621	405
Infrastructure	Level 3	242	1,018
Private debt	Level 3	2,119	523
Private equity	Level 3	182	210
		15,134	14,982
Non-financial assets:			
Restricted endowment investments quoted at fair value:			
Money market	Level 1	-	1,777
Fixed income	Level 1	15,176	11,595
Equity	Level 1	24,838	28,861
Real Estate	Level 3	2,074	1,332
Infrastructure	Level 3	810	3,356
Private debt	Level 3	7,082	1,728
Private equity	Level 3	607	691
		50,587	49,340
Total financial instruments		$ 65,721	$ 64,322

5. Accounts payable and accrued liabilities

		2017		2016
Accounts payable and accrued liabilities	$	4,830	$	5,326
Salaries and benefits payable		2,417		3,553
Accrued vacation pay		811		824
	$	8,058	$	9,703

6. Pension plan

The University has a defined contribution pension plan covering all eligible, permanent employees of the University. The pension plan is a separate legal entity with its own Board of Trustees. Sun Life of Canada was appointed to provide custodial services for plan members. Investment management services are provided by several fund managers and plan members individually select their investment vehicles from those available which include bond, balanced, money market, equity and global funds, and guaranteed term deposits (1, 3, and 5 year).

The University expenses the contributions made to the plan in the year to which they relate. During the year, the University contributed $3,803 (2016 - $3,748) to the plan.

7. Deferred contributions

Deferred contributions are comprised of funds restricted for research, capital acquisitions and other specific purposes. Changes in deferred contributions balances are as follows:

		Capital		Research		Specific Purpose		2017 Total		2016 Total
Balance, beginning of year	$	621		6,069		17,183		23,873		30,197
Contributions received during the year		-		8,651		14,012		22,663		13,690
Revenue recognized from deferred contributions		-		(8,171)		(9,498)		(17,669)		(19,096)
Transfers to deferred capital contributions		-		(1,230)		(1,153)		(2,383)		(918)
Balance, end of year	$	621	$	5,319	$	20,544	$	26,484	$	23,873

8. Deferred capital contributions

Contributions that are restricted for capital are referred to as deferred capital contributions. Amounts are recognized into revenue as the liability is extinguished over the useful life of the asset. Treasury Board provided direction on accounting treatment as disclosed in note 2. Changes in the deferred capital contributions balance are as follows:

	2017	2016
Balance, beginning of year	$ 165,226	$ 169,914
Contributions received during the year	2,936	1,961
Revenue recognized from deferred capital contributions	(6,802)	(6,649)
Balance, end of year	$ 161,360	$ 165,226

9. Sinking fund, net of long term debt

Sinking fund, net of long-term debt, reported on the statement of financial position is measured at amortized cost and is as follows:

	2017	2016
Sinking fund asset	$ 3,058	$ 3,022
Province of British Columbia (Section 58 of the *University Act*), bearing interest at 9%, maturing June 2019	(3,000)	(3,000)
Balance, end of year	$ 58	$ 22

	2017	2016
Interest expense for the year on outstanding debt	$ 270	$ 273

Sinking fund instalments

The debt is a 25 year debenture with a 20 year sinking fund; obligations for sinking fund instalments have been completely fulfilled.

10. Tangible capital assets

2016 Cost		Balance at March 31, 2016		Additions		Disposals/ Transfers		Balance at March 31, 2017
Land	$	6,781	$	31	$	-	$	6,812
Buildings and site improvements		275,168				5,220		280,388
Furniture and equipment		51,178		2,341		-		53,519
Computers		37,201		589		(8)		37,782
Library holdings		26,740		267				27,007
Assets under construction		814		5,746		(5,220)		1,340
Total	$	397,882	$	8,974	$	(8)	$	406,848

2016 Accumulated amortization		Balance at March 31, 2016		Disposals		Amortization expense		Balance at March 31, 2017
Land	$	-	$	-	$	-	$	-
Buildings and site improvements		(83,814)		-		(5,675)		(89,489)
Furniture and equipment		(42,106)		-		(1,834)		(43,940)
Computers		(35,802)		8		(892)		(36,686)
Library holdings		(24,536)		-		(574)		(25,110)
Assets under construction		-		-				-
Total	$	(186,258)	$	8	$	(8,975)	$	(195,225)

		Net book value March 31, 2016		Net book value March 31, 2017
Land	$	6,781	$	6,812
Buildings and site improvements		191,354		190,899
Furniture and equipment		9,072		9,579
Computers		1,399		1,096
Library holdings		2,204		1,897
Assets under construction		814		1,340
Total	$	211,624	$	211,623

2015 Cost		Balance at March 31, 2015		Additions		Disposals/ Transfers		Balance at March 31, 2016
Land	$	6,656	$	125	$	-	$	6,781
Buildings and site improvements		275,063		-		105		275,168
Furniture and equipment		48,857		2,321		-		51,178
Computers		36,268		949		(16)		37,201
Library holdings		26,512		228		-		26,740
Assets under construction		370		549		(105)		814
Total	$	393,726	$	4,172	$	(16)	$	397,882

10. Tangible capital assets (continued)

2015 Accumulated amortization		Balance at March 31, 2015		Disposals		Amortization expense		Balance at March 31, 2016
Land	$	-	$	-	$	-	$	-
Buildings and site improvements		(78,273)		-		(5,541)		(83,814)
Furniture and equipment		(40,342)		-		(1,764)		(42,106)
Computers		(34,791)		16		(1,027)		(35,802)
Library holdings		(23,846)		-		(690)		(24,536)
Assets under construction		-		-				-
Total	$	(177,252)	$	16	$	(9,022)	$	(186,258)

		Net book value March 31, 2015		Net book value March 31, 2016
Land	$	6,656	$	6,781
Buildings and site improvements		196,790		191,354
Furniture and equipment		8,515		9,072
Computers		1,477		1,399
Library holdings		2,666		2,204
Assets under construction		370		814
Total	$	216,474	$	211,624

(a) Assets under construction

Assets under construction having a value of $1,340 (2016 - $814) are not amortized. Amortization of these assets commences when the asset is put into service; if it is determined that the costs no longer represent the cost of an ongoing project, they are expensed in the statement of operations.

(b) Works of art and historical treasures

The University manages and controls various works of art and non-operational historical cultural assets including artifacts, paintings and sculptures located at University sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

11. Financial risk management

UNBC has exposure to the following risks from its use of financial instruments:, credit risk, interest rate risk, liquidity risk and foreign exchange risk. The Board of Governors, through management, ensures that the University has processes in place to identify and monitor major risks.

(a) Credit risk

Credit risk is the risk of financial loss to the University if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from certain financial assets held by the University consisting of cash, short-term investments, accounts receivable and investments.

11. Financial risk management (continued)

Unless otherwise disclosed in these consolidated financial statements, the University is not subject to significant credit risk associated with its financial instruments. The maximum credit risk for the University's financial assets is the carrying value of the asset.

(b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

It is management's opinion that the University is not exposed to significant interest rate risk arising from its financial instruments.

(c) Liquidity risk

Liquidity risk is the risk that the University will not be able to meet its financial obligations as they become due.

The University manages liquidity risk by continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the University's reputation.

(d) Foreign Exchange Risk

The University is exposed to foreign exchange risk on investments held in foreign currencies and may use foreign currency swaps to mitigate this risk.

12. Contractual obligations and commitments

Contractual obligations and commitments are as follows:

(a) Capital Projects

At March 31, 2017 outstanding commitments totalled approximately $9 million (2016 - $5 million) for capital projects. These commitments are payable in subsequent years and are funded by federal and provincial contributions, donations and earnings from sales and services.

(b) Funding commitments

Under its endowment investment strategy, the University has outstanding commitments to fund private debt, private equity and infrastructure investments totalling approximately $6.4 million (2016 - $2.6 million); $4.0 million (2016 – $4.1 million); and $5.1 million (2016 – $Nil), respectively.

13. Accumulated surplus

Accumulated surplus is comprised of the following:

		2017		2016
Accumulated operating surplus	$	82,591	$	84,265
Endowments		50,587		49,340
	$	133,178	$	133,605

Accumulated operating surplus consists of the following individual fund surpluses:

		2017		2016
Invested in tangible capital assets				
Capital assets	$	211,623	$	211,624
Amounts financed by deferred capital contributions		(161,360)		(165,226)
		50,263		46,398
Appropriated for specific purposes				
General Operating				
Departmental carryforwards		3,405		4,902
Minor capital projects, equipment purchases and special projects		12,179		10,096
Professional development and internal research funds		3,866		4,002
		19,450		19,000
Ancillary Services		(6,807)		(2,020)
Capital		6,785		6,896
Specific Purpose		9,383		10,474
		28,811		34,328
Unrestricted surplus		3,517		3,517
Total accumulated operating surplus	$	82,591	$	84,265

General Operating appropriations are comprised of departmental amounts calculated under a policy which allows them to carry forward unspent amounts to future periods, as well as an allocation of unspent salary allocations under the authority of the Provost and the Vice President, Finance and Business Operations. It also includes allocations for one time projects, minor capital projects and new equipment purchases and funds set aside for individuals covered under various employment handbooks for professional development and research.

Ancillary Services represents accumulated funds held for the ongoing operations of ancillaries such as the Bookstore, Conference Services, Continuing Education and Vending.

Capital represents funds held for specific capital projects and the Capital Equipment Replacement Reserve.

Specific Purpose are funds that are restricted internally for specific activities and use, such as conference fees, library fines and reserves.

14. Endowments

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

	2017	2016
Balance, beginning of year	$ 49,340	$ 47,382
Contributions received during the year	260	749
Capitalized interest	987	947
Transfers from specific purpose funds		261
Balance, end of year	$ 50,587	$ 49,340

The balance shown does not include endowment principal with fair value of $2,099 (2016 - $1,945) and book value of $1,681 (2016 - $1,681) held by the Vancouver Foundation. The excluded principal is not owned or controlled by the University, but income from it is paid to the University to be used for specific purposes.

15. Expenses by object

The following is a summary of expenses by object:

	2017	2016
Salaries and wages	$ 54,666	$ 54,865
Benefits	10,451	10,508
Travel and personnel costs	3,420	3,317
Operational supplies and expenses	10,071	10,132
Equipment, furnishings and rent	950	1,331
Professional and contracted services	7,382	7,476
Scholarships, fellowships and bursaries	3,214	3,279
Renovations, alterations and maintenance	2,605	2,924
Cost of goods sold	1,609	1,723
Interest	282	273
Utilities	2,368	2,476
Amortization of tangible capital assets	8,874	9,022
	$ 105,892	$ 107,326

16. Trust funds

At March 31, 2017 the University held funds in trust on behalf of the Northern Medical Programs Trust which are not included in these consolidated financial statements. Trust fund balances, having a book value of $8,533 (2016 - $8,175) and fair value of $10,228 (2016 - $9,533) are administered by the University.

17. Comparative figures

Certain of the prior year comparative figures have been reclassified to conform to the current year's presentation; the changes have no effect on the prior year's deficit.