UNBC UNIVERSITY OF NORTHERN BRITISH COLUMBIA

BOARD OF GOVERNORS - PUBLIC SESSION AGENDA
TELECONFERENCE

Thursday, May 26, 2016
11:00 am – 12:00 pm
UNBC Senate Chambers Room #1079

Members (voting):
Hon. James Moore (Chancellor), Daniel Weeks (President and Vice-Chancellor), Karin Beeler (Faculty Member - CASHS), Kathy Lewis (Faculty Member – CSAM) Katherine LaForge (Order in Council), Ryan Matheson (Order in Council – Alumni - CHAIR), Harry Nyce, Sr. (Order in Council), Sean Simmons (Order in Council), Simon Yu (Order in Council), Tracey Wolsey (Order in Council - Alumni), Julie Ziebart (Order in Council – VICE-CHAIR), Wendel Schwab (Undergraduate Student), Mamie Ifem (Graduate Student), Carolee Clyne (Employee)

UNBC Representatives (Non-Voting):
Dan Ryan (Interim Vice-President Academic and Provost), Robert Knight (Vice-President of Finance and Business Operations), Geoff Payne (Interim Vice-President Research), Barb Daigle (Director of Human Resources), Heather Sanford (University Secretary) Katherine Scouten (Development Manager), Colleen Smith (Director of Finance & Budgets)

Shari Hoff – Governance Officer and Recording Secretary
Denise Nagy – Executive Assistant (Support)

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1. Approval of Agenda

That, the Agenda for the Public Session of the May 26, 2016 meeting of the Board of Governors be approved, as presented.

2. Approval of the Financial Statements - Chair

a. UNBC Financial Statements to March 31, 2016 (approval) – R. Knight

That the Board of Governors approves the University of Northern British Columbia's Financial Statements for the year ended March 31/16.

3. Adjournment

AUDIT

University of Northern British Columbia

Audit Findings Report
For the year ended March 31, 2016

KPMG LLP

Presented at the Board of Governors Meeting on May 26, 2016

The contacts at KPMG in connection with this report are:

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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 as at and for the year ended March 31, 2016.

This Audit Findings Report builds on the Audit Planning Report we presented to the Finance and Audit Committee on March 16, 2016.

We appreciate the assistance of management and staff in conducting our audit. We hope 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

Please refer to Appendix 2 for our draft auditor's report.

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, financial instruments, endowments, employee future benefits and results from binding arbitration. 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.

See pages 11 - 12 for more details

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.

Areas of Audit Focus

Changes from the Audit Plan

There have been no changes from the Audit Planning Report previously presented to you.

We have highlighted below significant matters related to management's judgment, estimates and accounting treatments we would like to bring to your attention:

Revenue and deferred contributions
• The types and sources of revenue to fund programs are varied and the accounting is complex, impacting revenue, deferred revenue, deferred contributions and accounts receivable.
KPMG comments
• KPMG noted that management's analysis over the recognition or deferral of revenue/contributions and related receivables is rigorous and robust.
Misstatements
• No misstatements were identified in these areas.

Financial instruments
• The University holds a portfolio of investments which includes term deposits, MFA funds, fixed income, mortgages, real estate investments, equities, private debt and private equities.
KPMG comments
• KPMG reviewed management's process for recording and monitoring its investments and sent third party external confirmations to verify the fair value of the University's investment portfolio as at March 31, 2016 and the amounts of investment income earned by the University during the 2016 fiscal year.
Misstatements
• No misstatements were identified in these areas.

Endowments
• The University receives endowment contributions from the donors which are required to be recorded separately as revenue of the endowment fund. Investment earnings from the endowments are also restricted to be used for specific purposes.
KPMG comments
• KPMG reviewed management's process for handling endowments and confirmed the balances held in endowment investment accounts at March 31, 2016.
Misstatements
• No misstatements were identified in these areas.

Employee future benefits
• The University's employee future benefits is comprised of contributions to a defined contribution pension plan, administrative leave and vacation accruals.
KPMG comments
• KPMG reviewed the pension plan contributions made during the year and the related disclosure in the consolidated financial statements to ensure that they are in accordance with public sector standards. Administrative leave and vacation accruals were also reviewed as part of the payroll testing performed during the audit.
Misstatements
• No misstatements were identified in these areas.

Results from binding arbitration
• The University received a decision from an arbitrator on December 17, 2015 regarding the collective agreement between the University and the UNBC Faculty Association, which awarded a five year contract starting retroactively on July 1, 2014 and ending on June 30, 2019.
KPMG comments
• KPMG reviewed the retroactive payments made to currently employed full time faculty and part time instructors effective March 18, 2016 to ensure that the payments were made in accordance with the terms of the arbitrator's decision.
Misstatements
• No misstatements were identified in these areas.

Other matters

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

Investment Portfolio
• At year end, the University's investment portfolio had an unrealized gain of approximately $7.7 million included in the total portfolio value of $64.3 million. At the end of the prior year, the unrealized gain represented approximately $15.0 million of the total portfolio value of $67.2 million. • In the prior year, the University established an investment trust and corporation to hold certain types of investments to ensure the income is generated on a tax-free basis.
KPMG comments
• We reviewed the accounting treatment relating to the valuation of the investment portfolio and agree with management's approach. • KPMG has prepared and filed the trust income tax return for the University's investment trust.

Northern Medical Programs Trust
• At year end, the University is holding approximately $9.2 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. • Operations of the Northern Sports Centre are recorded in the accounts of the University as a separate division and included in the year end statement of operations. • At year end, there is a cumulative excess of revenues over expenditures from operations of the Northern Sports Centre in the amount of $577,000 (2015 - $1,124,000). 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.

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, 2016.

Internally Restricted Surplus
• At the end of the year, the University has an amount of approximately $36.9 million that has been appropriated for specific purposes (a decrease of $0.8 million over the prior year) and an unrestricted surplus of $3.5 million (unchanged from prior year). • This amount has been set aside by the Board and can be changed at any time by the Board. It represents additional surplus of the University. As a result, between unrestricted net assets and the amount appropriated for specific purposes the University has an "effective" surplus of approximately $40.4 million.
KPMG comments
• This is purely informational for the Board of Governors and has no impact on the year-end consolidated financial statements.

Audit adjustments and differences

Misstatements identified during the audit have been categorized as follows:

Corrected misstatements

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

Uncorrected misstatements

We did not identify differences that remain uncorrected

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, 2016 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.
- The University is required under public sector accounting standards to include additional disclosure surrounding Level 2 and Level 3 financial instruments in the notes to the consolidated financial statements. Management has determined that this additional disclosure is not material to the notes to the consolidated financial statements and has represented to us that the omission of this disclosure is not material to the users of the consolidated financial statements.

  We will review the above presentation and disclosure items with the University's finance department for potential inclusion in future years financial statements.

Corrected changes in presentation and disclosure

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

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. • There has been no change in the University's significant accounting policies in the current year.
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.

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.

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 financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the 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 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 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.

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 matter 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.

Appendices

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.

- **Fraud related inquiries** – professional standards required that during the planning of our audit we obtain your views on risk of fraud. We have made similar inquiries to management as part of our planning process; responses to these have assisted us in planning our overall audit strategy and audit approach accordingly.

- **Audit findings report** – as attached.

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report. Attached as Appendix 2 of this report.

- **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 will be provided to the Board of Governors. Attached as Appendix 3 of this report.

Appendix 2: Draft auditors' report

KPMG LLP
400 - 177 Victoria Street
Prince George BC V2L 5R8

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Telefax (250) 563-5693
www.kpmg.ca

INDEPENDENT AUDITOR'S REPORT

To the Members of 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, 2016, the consolidated statements of operations, 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 and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained 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, 2016 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) of 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.

DRAFT

Chartered Professional Accountants

May 26, 2016

Prince George, Canada

Appendix 3: Management representation letter

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

KPMG LLP
#400 – 177 Victoria Street
Prince George, BC V2L 5R8

May 26, 2016

Dear Sirs:

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 University"), which comprise the consolidated statement of financial position as at March 31, 2016, the consolidated statement 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. These financial statements were prepared in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

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 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:

GENERAL:

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

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

   b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of the Board of Governors and committees of the Board of Governors 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

   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 University 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 University'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.

COMMITMENTS & CONTINGENCIES:

4) There are no:

   a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation

   b) other environmental matters that may have an impact on the financial statements

SUBSEQUENT EVENTS:

5) 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:

6) We have disclosed to you the identity of the University's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

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

8) Significant estimates, which could change materially within the near term, and all areas of measurement uncertainty have been properly recorded or disclosed in the financial statements.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

9) We confirm that the University 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 University 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.

MISSTATEMENTS:

10) We approve the uncorrected presentation and disclosure misstatements identified by you in the audit findings report dated May 26, 2016.

ACCOUNTING POLICIES:

11) The accounting policies selected and applied are appropriate in the circumstances.

POST EMPLOYMENT BENEFITS, COMPENSATED ABSENCES, TERMINATION BENEFITS AND RETIREMENT BENEFITS:

12) We confirm that the University has no post employment benefits, compensated absences, termination benefits and retirement benefit costs, assets and obligations that have not been disclosed to you.

ASSETS & LIABILITIES - GENERAL:

13) The University has satisfactory title to all owned assets.

14) We have no knowledge of any liens or encumbrances on assets and/or assets that have been pledged or assigned as security for liabilities, performance of contracts, etc., not disclosed in the financial statements.

15) We have no knowledge of any plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

CONTRACTUAL OBLIGATIONS:

16) The University has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance including violations or default of the covenants of the University's debt agreements.

ENVIRONMENTAL MATTERS:

17) The University has appropriately recognized, measured and disclosed environmental matters in the financial statements.

REVENUES:

18) Revenue unearned in the current period is reported on the consolidated statement of financial position as deferred revenue.

CONTAMINATED SITES:

19) The University has evaluated all owned properties under the PS 3260- Liability for contaminated sites standard,

20) We have no knowledge of any material liabilities resulting from the evaluation of owned properties under PS 3260 - Liability for contaminated sites.

ASSET RETIREMENT OBLIGATIONS:

21) All legal obligations associated with the retirement of tangible long-lived assets have been recognized, including those under the doctrine of promissory estoppel. The obligations were recognized when incurred using management's best estimate of fair value.

Yours very truly,

____

Dr. Daniel Weeks, President and Vice-Chancellor

____

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

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 a University'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 PS 4260 of 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 PS 4260 of 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.

Appendix 4: Management letter

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www.kpmg.ca

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

Attention: Colleen Smith, Director of Finance & Budgets

May 26, 2016

Dear Colleen:

We have expressed an opinion on the consolidated financial statements (hereinafter referred to as "annual financial statements") of the University of Northern British Columbia ("the Entity") as at and for the period ended March 31, 2016 and have issued our audit report thereon dated May 26, 2016.

As indicated in our engagement letter dated January 29, 2015:

- In planning and performing our audit in accordance with professional standards we have obtained an understanding of the Entity's internal control over financial reporting to identify types of potential misstatements, consider factors that affect the risks of material misstatement, and design the nature, timing and extent of further audit procedures. This understanding will not be sufficient to enable us to render an opinion on the effectiveness of internal control over financial reporting. We have not considered internal control over financial reporting since the date of our audit report.

- Management is responsible for the Entity's internal control, including the design, implementation and operation of internal control over financial reporting to prevent and detect fraud and error, including internal controls over the financial reporting process and the accuracy of period-end adjusting journal entries. Management is also responsible for disclosing to us any known control deficiencies in the design and implementation or operation of internal control over financial reporting.

- Auditors conducting an audit in accordance with professional standards obtain reasonable assurance that the annual financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. It is important to recognize that auditors cannot obtain absolute assurance that material misstatements in the annual financial statements will be detected, because of factors such as: the use of judgment; the use of testing of the data underlying the annual financial statements; the inherent limitations of internal control over financial reporting; and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature. Furthermore, because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with professional standards may not detect a material fraud. While effective internal control over financial reporting reduces the likelihood that misstatements will occur and remain undetected, it does not eliminate that possibility. For these reasons, we cannot guarantee that fraud, error or illegal acts, if present, will be detected when conducting an audit in accordance with professional standards.

Since the purpose of the audit is to express an opinion on the annual financial statements, we did not plan and perform the audit with a view to identify all control deficiencies that might exist. We have not performed audit procedures to obtain reasonable assurance, and are not providing any assurance on the effectiveness of internal control over financial reporting. Had we performed audit procedures on internal control over financial reporting, we might have identified more control deficiencies to be reported, or concluded that some of the reported control deficiencies need not, in fact, have been reported.

This letter is a by-product of the audit and is therefore a derivative communication. This letter is intended solely for the purposes of management and those charged with governance and is not suitable for any other purposes. 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, any other purposes.

Definitions

A control deficiency is a deficiency in the design or effective operation of internal control. 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 is not always met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Canadian generally accepted auditing standards

A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting such that a material misstatement of the entity's annual financial statements is not likely to be prevented or detected.

Professional Standards

Professional standards require us to communicate material weaknesses identified during the audit to management and those charged with governance

Material weaknesses

During the audit, we did not identify any control deficiencies that, individually or in the aggregate, we consider to be material weaknesses as defined above.

Yours very truly,

KPMG LLP

Chartered Professional Accountants
Prince George, Canada

cc: Finance & Audit Committee

Appendix 5: 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 6: Current developments

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

Related Party Transactions and Inter-entity Transactions

- Two new Handbook sections were approved in December 2014, effective for fiscal years beginning on or after April 1, 2017.
- Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity.
- Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.
- Determining which related party transactions to disclose is a matter of judgment based on assessment of:
  - the terms and conditions underlying the transactions;
  - the financial significance of the transactions;
  - the relevance of the information; and
  - the need for the information to enable users' understanding of the financial statements and for making comparisons.
- A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis.
- Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.

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.

Restructurings

- A new Handbook section was approved in March 2015, effective for fiscal years beginning on or after April 1, 2018.
- A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related responsibilities for program delivery or administrative operations, that does not involve a payment or other consideration that approximates the fair value of what is transferred.

- The new standard requires the transferor remove the assets and liabilities transferred from its books at their carrying amount at the restructuring date. The recipient would recognize the assets and liabilities received at their carrying amount with applicable adjustments at the restructuring date. Both the transferor and the recipient would recognize the net effect of the transfer and any compensation involved as revenue or an expense.
- Restructuring-related costs are recognized as expenses when incurred.
- Financial information prior to the restructuring date would not be restated.

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 and comments are currently under deliberation.
- In the 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.

Asset Retirement Obligations

- A new standard is under development addressing the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB current contains no specific guidance in this area.
- In August 2014, a Statement of Principles was issued with responses and feedback solicited by November 2014.
- PSAB is currently deliberating responses and an exposure draft is under development, expected for release in the 2016 year.

Conceptual Framework

- A consultation paper was issued on the conceptual framework and closed in August 2015. A Statement of Principles anticipated in 2016 which includes a number of presentation recommendations to enhance accountability objective of public sector financial statements.
- A new "Statement of Comprehensive Financial Results" replaces the Statement of Operations and Statement of Re-measurement Gains and Losses.
- Revenues and expenses to be grouped to show the net results of services.
- Below net results of services, non-operating items presented such as: grants recognized for the acquisition of tangible capital assets, unrealized re-measurement gains and losses, and unusual transactions.
- Grants received for the purpose of a tangible capital asset used to provide services for a defined number of years proposed to be recognized in operating revenue as the liability is settled.

UNBC UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Financial Statements

Year Ended March 31, 2016

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 financial position of the University as at March 31, 2016 and the results of its operations and its cash flows for the year ended March 31, 2016.

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, 2016 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 fairness of presentation of the information in the statements.

Robert Knight	Colleen Smith, CPA, CA
Vice President, Finance & Business Operations	Director, Finance & Budgets

May 16, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Members of 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, 2016, the consolidated statements of operations, 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 and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained 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, 2016 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) of 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 26, 2016

Prince George, Canada

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Financial Position

March 31, 2016, with comparative figures for 2015 (in thousands of dollars)

			2016		2015
Financial assets					
Cash and cash equivalents		$	27,020	$	31,456
Short-term investments	(Note 3)		25,134		24,513
Accounts receivable			2,603		3,216
Inventories for resale			724		728
Portfolio investments	(Note 4)		14,982		19,851
Sinking fund, net of long-term debt	(Note 9)		22		-
			70,485		79,764
Financial Liabilities					
Accounts payable and accrued liabilities	(Note 5)		9,703		9,448
Deferred revenue			597		855
Deferred contributions	(Note 7)		23,873		30,197
Deferred capital contributions	(Note 8)		165,226		169,914
Long-term debt, net of sinking fund	(Note 9)		-		5
			199,399		210,419
Net debt			(128,914)		(130,655)
Non-financial assets					
Tangible capital assets	(Note 10)		211,624		216,474
Inventories held for use			90		92
Endowment investments	(Notes 4 and 13)		49,340		47,382
Prepaid expenses			1,465		1,822
			262,519		265,770
Accumulated surplus	(Note 12)	$	133,605	$	135,115

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, 2016, with comparative figures for 2015 (in thousands of dollars)

	Budget (Note 16)	2016	2015
Revenue:			
Government grants			
Provincial government	$ 48,194	$ 50,314	$ 48,818
Federal government	1,145	5,230	5,307
Tuition fees	20,781	17,456	18,822
Other fees	1,247	1,341	1,343
Sales of goods and services	7,748	8,839	9,678
Gifts, bequests, non-government grants and contracts	6,099	10,689	11,640
Investment income	515	2,639	2,635
External cost recovery and other income	217	702	550
Revenue recognized from deferred capital contributions	-	6,649	6,589
	85,946	103,859	105,382
Expenses:			
Ancillary operations	10,119	7,940	7,814
Facility operations and maintenance	2,171	12,262	12,519
Instruction	40,725	42,140	40,107
Institutional support	30,726	32,492	31,346
Sponsored research	-	6,328	6,941
Specific purpose	-	6,164	6,318
	83,741	107,326	105,045
Annual operating surplus/(deficit) before restricted contributions	2,205	(3,467)	337
Net restricted endowment contributions	-	1,957	3,663
Annual surplus (deficit)	2,205	(1,510)	4,000
Accumulated surplus, beginning of year	135,115	135,115	131,115
Accumulated surplus, end of year	$ 137,320	$ 133,605	$ 135,115

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Changes in Net Debt

Year ended March 31, 2016, with comparative figures for 2015 (in thousands of dollars)

	Budget (Note 16)	2016 Total	2015 Total
Annual surplus/(deficit)	$ 2,205	$ (1,510)	$ 4,000
Acquisition of tangible capital assets	-	(4,172)	(7,113)
Amortization of tangible capital assets	-	9,022	8,888
	-	4,850	1,775
Consumption of inventories held for use	-	92	98
Acquisition of inventories held for use		(90)	(92)
Consumption of prepaid expenses	-	1,822	1,283
Acquisition of prepaid expenses	-	(1,465)	(1,822)
Acquisition of endowment investments	-	(1,958)	(3,663)
	-	(1,599)	(4,196)
	2,205	1,741	1,579
Decrease in net debt	2,205	1,741	1,579
Net debt, beginning of year	(130,655)	(130,655)	(132,234)
Net debt, end of year	$ (128,450)	$ (128,914)	$ (130,655)

See accompanying notes to consolidated financial statements.

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Consolidated Statement of Cash Flows

Year ended March 31, 2016, with comparative figures for 2015 (in thousands of dollars)

	2016	2015
Cash provided by (used in):		
Operating activities:		
Annual surplus/(deficit)	$ (1,510)	$ 4,000
Items not involving cash:		
Amortization of tangible capital assets	9,022	8,888
Revenue recognized from deferred capital contributions	(6,649)	(6,589)
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	613	(1,046)
Decrease (increase) in prepaid expenses	357	(539)
Decrease in inventories held for use	2	6
Decrease in inventories held for sale	4	35
Increase in accounts payable and accrued liabilities	255	1,692
Increase (decrease) in deferred revenue	(258)	269
Net change in cash from operating activities	1,836	6,716
Capital activities:		
Cash used to acquire tangible capital assets	(4,172)	(7,114)
Net change in cash from capital activities	(4,172)	(7,114)
Financing activities:		
Cash used (restricted) for repayment of long-term debt	(27)	3,132
Repayment of long-term debt		(4,500)
Net change in cash from financing activities	(27)	(1,368)
Investing activities:		
Capital contributions	1,961	3,687
(Increase) decrease in short-term investments	(621)	1,680
Deferred contributions	(6,324)	4,098
Increase in endowment investments	(1,958)	(3,663)
Purchase of portfolio investments	4,869	3,663
Net change in cash from investing activities	(2,073)	9,465
Net change in cash	(4,436)	7,699
Cash, beginning of year	31,456	23,757
Cash, end of year	$ 27,020	$ 31,456

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 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:

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

2. Summary of significant accounting policies (continued)

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 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) **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.

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.

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.

2. Summary of significant accounting policies (continued)

(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.

(i) 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.

(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 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 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.

(k) 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:

Year ended March 31, 2016 (in thousands of dollars)

2. Summary of significant accounting policies (continued)

(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.

(l) 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.

(m) Budget figures

Budget figures are provided for the operating and ancillary funds only. They have been provided for comparative purposes in Note 16 and have been derived from the 2015/16 General Operating and Ancillary Fund budgets approved by the Board of Governors of UNBC on May 30, 2015.

3. Short-term investments

	2016	2015
Term Deposits, GIC, T-bills	$ 11,285	$ 10,820
Municipal Financing Authority - bond fund	8,246	8,138
Municipal Financing Authority - money market fund	5,603	5,555
	$ 25,134	$ 24,513

4. Financial instruments

Financial assets and liabilities recorded at fair value are comprised of the following: Money market, fixed income and equity amounts are managed in pooled balanced funds by Letko Brosseau & Associates Inc. and Gryphon Investment Counsel Inc. Mortgages are held in an open-ended mutual fund unit trust as well as Trez Capital Fund V and managed by Trez Capital Inc.; private equities are held in a limited partnership, Clairvest Equity Partners V, managed by Clairvest Group Inc.; private debt is held in limited partnerships, Wellington Financial Fund IV and Fund V, managed by Wellington Financial; and real estate is held in a limited partnership, Bentall Kennedy Prime Canadian Property Fund, managed by Bentall Kennedy (Canada) Limited Partnership.

Year ended March 31, 2016 (in thousands of dollars)

4. Financial Instruments (continued)

	Fair Value Hierarchy	2016	2015
Financial assets:			
Portfolio investments quoted at fair value - restricted:			
Money market	Level 1	539	1,390
Fixed income	Level 1	3,521	4,707
Equity	Level 1	8,766	11,918
Mortgages	Level 2	1,018	1,293
Real Estate	Level 3	405	-
Private debt	Level 3	523	471
Private equity	Level 3	210	72
		14,982	19,851
Total portfolio investments		14,982	19,851
Non-financial assets:			
Restricted endowment investments quoted at fair value:			
Money market	Level 1	1,777	3,316
Fixed income	Level 1	11,595	11,240
Equity	Level 1	28,861	28,446
Mortgages	Level 2	3,356	3,084
Real Estate	Level 3	1,332	-
Private debt	Level 3	1,728	173
Private equity	Level 3	691	1,123
		49,340	47,382
Total financial instruments		$ 64,322	$ 67,233

5. Accounts payable and accrued liabilities

	2016	2015
Accounts payable and accrued liabilities	$ 5,326	$ 5,821
Salaries and benefits payable	3,553	2,930
Accrued vacation pay	824	697
	$ 9,703	$ 9,448

Year ended March 31, 2016 (in thousands of dollars)

6. Pension plan

The University has a defined contribution pension plan covering all 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 including Phillips, Hager & North Investment Management Ltd., Sun Life Assurance, Beutel Goodman, BlackRock Asset Management Canada Ltd., Connor Clark & Lunn Investment Management Ltd., McLean Budden, Hexavest Inc. and CI Investments Inc. 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 contribution amounts made to the plan in each year. During the year, the University contributed $3,748 (2015 - $3,495) 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	2016 Total	2015 Total
Balance, beginning of year	$ 630	7,141	22,426	30,197	26,099
Contributions received during the year		6,371	7,319	13,690	15,741
Revenue recognized from deferred contributions	(9)	(6,981)	(12,106)	(19,096)	(10,338)
Transfers to deferred capital contributions		(462)	(456)	(918)	(1,305)
Balance, end of year	$ 621	$ 6,069	$ 17,183	$ 23,873	$ 30,197

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:

	2016	2015
Balance, beginning of year	$ 169,914	$ 172,816
Contributions received during the year	1,961	3,687
Revenue recognized from deferred capital contributions	(6,649)	(6,589)
Balance, end of year	$ 165,226	$ 169,914

Year ended March 31, 2016 (in thousands of dollars)

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:

		2016		2015
Sinking fund asset	$	3,022	$	2,995
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	$	22	$	(5)

		2016		2015
Interest expense for the year on outstanding debt	$	273	$	487

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, 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

2016 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)

Year ended March 31, 2016 (in thousands of dollars)

10. Tangible capital assets (continued)

	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
Capital renovations	-			-
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

2015 Cost	Balance at March 31, 2014	Additions	Disposals/ Transfers	Balance at March 31, 2015
Land	$ 6,656	$ -	$ -	$ 6,656
Buildings and site improvements	272,924	2,139	-	275,063
Furniture and equipment	45,223	3,634	-	48,857
Computers	35,520	748	-	36,268
Library holdings	26,290	222	-	26,512
Assets under construction	-	370		370
Total	$ 386,613	$ 7,113	$ -	$ 393,726

2015 Accumulated amortization	Balance at March 31, 2014	Disposals	Amortization expense	Balance at March 31, 2015
Land	$ -	$ -	$ -	$ -
Buildings and site improvements	(72,774)	-	(5,499)	(78,273)
Furniture and equipment	(38,765)	-	(1,577)	(40,342)
Computers	(33,777)	-	(1,014)	(34,791)
Library holdings	(23,048)	-	(798)	(23,846)
Assets under construction	-	-	-	-
Total	$ (168,364)	$ -	$ (8,888)	$ (177,252)

	Net book value March 31, 2014			Net book value March 31, 2015
Land	$ 6,656			$ 6,656
Buildings and site improvements	200,150			196,790
Capital renovations	-			-
Furniture and equipment	6,458			8,515
Computers	1,743			1,477
Library holdings	3,242			2,666
Assets under construction	-			370
Total	$ 218,249			$ 216,474

10. Tangible capital assets (continued)

(a) Assets under construction

Assets under construction having a value of $814 (2015 - $370) 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, market risk and liquidity 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.

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) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the University's income. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing the return on 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 market or 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

Year ended March 31, 2016 (in thousands of dollars)

11. Financial risk management (continued)

normal and stressed conditions, without incurring unacceptable losses or risking damage to the University's reputation.

(d) Fair value of financial instruments

Generally accepted accounting principles 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) The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short term nature. These financial instruments are classified as level 2 in the fair value hierarchy as, while prices are available, there is no active market for these instruments.

(ii) 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 or 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).

The classification of the University's instruments is indicated in Note 4.

12. Accumulated surplus

Accumulated surplus is comprised of the following:

	2016	2015
Accumulated operating surplus	$ 84,265	$ 87,733
Endowments	49,340	47,382
	$ 133,605	$ 135,115

Year ended March 31, 2016 (in thousands of dollars)

12. Accumulated surplus (continued)

Accumulated operating surplus consists of the following individual fund surpluses:

	2016	2015
Invested in tangible capital assets		
Capital assets	$ 211,624	$ 216,474
Amounts financed by deferred capital contributions	(165,226)	(169,941)
Amount financed by long term debt (net of sinking fund)	-	(5)
	46,398	46,528
Appropriated for specific purposes		
General Operating		
Departmental carryforwards	4,902	5,891
Minor capital projects, equipment purchases and special projects	10,096	8,573
Professional development and internal research funds	4,002	4,926
	19,000	19,390
Ancillary Services	107	1,176
Capital	4,769	5,410
Specific Purpose	10,474	11,712
	34,328	37,688
Unrestricted surplus	3,517	3,517
Total accumulated operating surplus	$ 84,265	$ 87,733

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.

Year ended March 31, 2016 (in thousands of dollars)

13. Endowments

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

	2016	2015
Balance, beginning of year	$ 47,382	$ 43,719
Contributions received during the year	749	2,454
Capitalized interest	947	874
Transfers from specific purpose funds	261	335
Balance, end of year	$ 49,340	$ 47,382

The balance shown does not include endowment principal with fair value of $1,945 (2015 - $1,991) and book value of $1,681 (2015 - $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.

14. Expenses by object

The following is a summary of expenses by object:

	2016	2015
Salaries and wages	$ 54,865	$ 52,585
Benefits	10,508	9,738
Travel and personnel costs	3,317	3,276
Operational supplies and expenses	10,132	10,653
Equipment, furnishings and rent	1,331	1,877
Professional and contracted services	7,476	6,681
Scholarships, fellowships and bursaries	3,279	3,240
Renovations, alterations and maintenance	2,924	2,722
Cost of goods sold	1,723	2,333
Interest	273	354
Utilities	2,476	2,698
Amortization of tangible capital assets	9,022	8,888
	$ 107,326	$ 105,045

Year ended March 31, 2016 (in thousands of dollars)

15. Trust funds

At March 31, 2016 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 $7,840 (2015 - $7,562) and fair value of $9,218 (2015 - $9,827) are administered by the University.

16. Budget

The University administers each of its types of funds from a financial perspective in a manner relevant to the nature of the operations of the fund.

- The Operating Fund, consisting of the General Operating Fund, including the Northern Medical Program, is managed pursuant to an annual operating budget approved by the Board of Governors. The budget included for the Northern Medical Program is part of the overall Medical Program Expansion budget approved by the Distributed Program Planning Committee, of which UNBC is a member.
- The Capital Fund is financially managed based on a project by project basis, with funding derived from various sources. Projects are approved individually and may span several reporting periods; therefore, capital budget figures are not available for inclusion on the Statement of Changes in Net Debt.
- Externally funded Specific Purpose and Sponsored Research funds are financially managed on an individual basis based on the contract or agreement in place relating to the revenue.
- Ancillary Funds are financially managed pursuant to annual operating budgets approved by the Board of Governors.

The 2015/16 budgets for the Operating and Ancillary Funds were approved by the Board of Governors on May 30, 2015. These budgets, prepared on internal accounting basis, have been adjusted to more closely conform to PSAS standards in the table below.

	As Approved
Total revenue	$ 85,946
Total expenses	83,741
Total capital expenditures	450
Total interfund transfers	1,755
	85,946
Budgeted annual surplus	-
Eliminate interfund transfers	(1,755)
Eliminate capital expenditures and debt payments	(450)
Annual surplus for Operating Commitments	$ 2,205

17. Comparative figures

Certain of the prior year comparative figures have been reclassified to conform to the current year's presentation.