



Consolidated Financial Statements

University of Prince Edward Island

April 30, 2014

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UNIVERSITY
of Prince Edward
ISLAND

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Independent auditors' report

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To the Board of Governors of

University of Prince Edward Island

We have audited the accompanying consolidated financial statements of the University of Prince Edward Island, which comprise the statement of financial position as at April 30, 2014, the consolidated statement of operations, changes in fund balance and cash flows for the year ended April 30, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

Auditor's 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 the auditor's judgement, 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, the auditor considers 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the University of Prince Edward Island as at April 30, 2014, and the results of its operations and its cash flows for the year then ended April 30, 2014 in accordance with Canadian accounting standards for not-for-profit organizations.

Other matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of the University of Prince Edward Island taken as a whole. The supplementary information included in the Schedules is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Charlottetown, Prince Edward Island

September 10, 2014

Grant Thornton LLP

Chartered Accountants

University of Prince Edward Island

Consolidated statement of operations

Year ended April 30

2014

2013

	<u>Operating</u>	<u>Research</u>	<u>Post-retirement benefits</u>	<u>Capital assets</u>	<u>Endowment</u>	<u>Total</u>	<u>Total</u>
Revenue							
Grants and contracts (Note 17)	\$ 56,417,821	\$ 13,465,400		\$ 1,062,138		\$ 70,945,359	\$ 75,819,222
Amortization of deferred revenue				3,638,178		3,638,178	3,695,768
Student fees	24,361,844					24,361,844	23,864,016
International fees	6,499,314					6,499,314	5,954,976
Ancillaries	8,400,898					8,400,898	9,021,617
Sales and other revenues	9,171,069					9,171,069	10,108,421
Investment income	1,142,417					1,142,417	2,349,206
Donations (Note 8)	2,690,553					2,690,553	2,088,611
	<u>108,683,916</u>	<u>13,465,400</u>	<u>-</u>	<u>4,700,316</u>	<u>-</u>	<u>126,849,632</u>	<u>132,901,837</u>
Expenditure							
Salaries and benefits	65,404,296	6,811,012				72,215,308	77,502,987
Supplies	8,855,313	1,781,336				10,636,649	11,233,191
Depreciation	8,066,149					8,066,149	8,322,461
Other	2,036,918					2,036,918	2,112,829
Utilities	5,436,664					5,436,664	4,657,794
Travel	1,520,555	950,121				2,470,676	2,658,779
Repairs and maintenance	2,018,515					2,018,515	2,122,611
Library subscriptions	874,662					874,662	826,443
Post-retirement benefits (Note 9)			\$ 13,957,200			13,957,200	15,004,663
Professional fees	2,622,840	1,293,148				3,915,988	4,561,723
Scholarships and bursaries (Note 17)	5,221,703	60,505				5,282,208	5,440,186
Interest				2,019,631		2,019,631	2,210,516
Advertising	504,633					504,633	521,832
Insurance	294,144					294,144	301,340
	<u>102,856,392</u>	<u>10,896,122</u>	<u>13,957,200</u>	<u>2,019,631</u>	<u>-</u>	<u>129,729,345</u>	<u>137,477,355</u>
Excess of revenue over expenditure (expenditure over revenue) before inter-fund transfers	<u>\$ 5,827,524</u>	<u>\$ 2,569,278</u>	<u>\$(13,957,200)</u>	<u>\$ 2,680,685</u>	<u>\$ -</u>	<u>\$ (2,879,713)</u>	<u>\$ (4,575,518)</u>

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Consolidated statement of changes in fund balances

Year ended April 30

						2014	2013
	<u>Operating</u>	<u>Research</u>	<u>Post- retirement benefits</u>	<u>Capital assets</u>	<u>Endowment</u>	<u>Total</u>	<u>Total</u>
Fund balance, beginning of year	\$ 5,845,471	\$ 1,983,613	\$(22,470,851)	\$ 41,280,617	\$ 23,738,561	\$ 50,377,411	\$ 54,131,245
Excess revenue (expenditure) before Inter-fund transfers	5,827,524	2,569,278	(13,957,200)	2,680,685	-	(2,879,713)	(4,575,518)
Endowment donations (Note 8)	-	-	-	-	3,128,261	3,128,261	821,684
Inter-fund transfers (Note 16)	<u>(5,786,262)</u>	<u>(2,326,765)</u>	<u>8,320,409</u>	<u>(207,382)</u>	-	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ 5,886,733</u>	<u>\$ 2,226,126</u>	<u>\$(28,107,642)</u>	<u>\$ 43,753,920</u>	<u>\$ 26,866,822</u>	<u>\$ 50,625,959</u>	<u>\$ 50,377,411</u>

(Note 14)

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Consolidated statement of financial position

April 30

2014

2013

	Operating	Research	Post-retirement benefits	Capital assets	Endowment	Total	Total
Assets							
Current - Cash and cash equivalents	\$ 17,378,550					\$ 17,378,550	\$ 14,984,443
- Receivables (Note 3)	3,835,401	\$ 2,822,899	\$ -	\$ 8,434		6,666,734	9,575,098
- Inventory and other	1,390,975					1,390,975	1,366,812
	<u>22,604,926</u>	<u>2,822,899</u>	<u>-</u>	<u>8,434</u>		<u>25,436,259</u>	<u>25,926,353</u>
Investments (Note 4)	13,770,506	33,350	13,339,632	7,952,624	\$ 26,866,822	61,962,934	53,298,014
Due from (to) other funds	(2,632,789)	6,492,753		(3,859,964)		-	-
Capital assets (Note 5)				185,360,139		185,360,139	188,251,291
	<u>\$ 33,742,643</u>	<u>\$ 9,349,002</u>	<u>\$ 13,339,632</u>	<u>\$ 189,461,233</u>	<u>\$ 26,866,822</u>	<u>\$ 272,759,332</u>	<u>\$ 267,475,658</u>
Liabilities							
Current - Payables and accruals (Note 6)	\$ 7,707,868					\$ 7,707,868	\$ 9,375,268
- Current portion of long term debt				\$ 3,490,011		3,490,011	3,459,197
- Deferred revenue (Note 7)	5,289,128					5,289,128	4,558,429
	<u>12,996,996</u>			<u>3,490,011</u>		<u>16,487,007</u>	<u>17,392,894</u>
Accrued benefit liabilities (Note 9)			\$ 41,447,274			41,447,274	34,798,971
Long term obligations (Note 10)				31,659,601		31,659,601	35,149,612
	<u>12,996,996</u>		<u>41,447,274</u>	<u>35,149,612</u>		<u>89,593,882</u>	<u>87,341,477</u>
Deferred revenue							
Research contracts		\$ 7,122,876				7,122,876	7,351,936
Capital assets (Note 12)				110,557,701		110,557,701	110,379,134
Other (Note 13)	14,858,914					14,858,914	12,025,700
	<u>27,855,910</u>	<u>7,122,876</u>	<u>41,447,274</u>	<u>145,707,313</u>		<u>222,133,373</u>	<u>217,098,247</u>
Fund balances							
Invested in capital assets				35,801,286		35,801,286	35,525,734
Externally restricted - post-retirement benefit			(28,107,642)			(28,107,642)	(22,470,851)
Externally restricted - endowments					\$ 20,946,362	20,946,362	18,432,016
Internally restricted (Note 14)		2,226,126		7,952,634	5,920,460	16,099,220	13,045,041
Unrestricted	5,886,733					5,886,733	5,845,471
	<u>5,886,733</u>	<u>2,226,126</u>	<u>(28,107,642)</u>	<u>43,753,920</u>	<u>26,866,822</u>	<u>50,625,959</u>	<u>50,377,411</u>
	<u>\$ 33,742,643</u>	<u>\$ 9,349,002</u>	<u>\$ 13,339,632</u>	<u>\$ 189,461,233</u>	<u>\$ 26,866,822</u>	<u>\$ 272,759,332</u>	<u>\$ 267,475,658</u>

(Note 14)

On behalf of the Board of Governors

Chairman

Finance and Audit Chair

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Consolidated statement of cash flows

Year Ended April 30

2014

2013

Cash flows from operating activities

Cash received from (paid for)		
Provincial governments for operations	\$ 59,575,013	\$ 57,871,378
Operations	47,598,449	49,425,050
Restricted grants	14,726,817	17,362,361
Investment income received for operating purposes	601,025	641,938
Donations	3,752,691	3,142,742
Salaries and benefits	(80,839,283)	(84,989,941)
Materials and service	(33,849,976)	(35,123,939)
Interest	<u>(2,035,334)</u>	<u>(2,232,387)</u>
Net cash generated through operating activities	<u>9,529,402</u>	<u>6,097,202</u>

Cash flows from financing and investing activities

Cash received from (paid for)		
Restricted grants and interest for capital assets	3,816,745	5,654,024
Restricted and endowment donations	1,889,402	821,680
Purchase of capital assets	(5,174,994)	(5,791,095)
Purchase of investments, net	(4,207,252)	(1,494,773)
Principal payments on long term obligations	<u>(3,459,196)</u>	<u>(3,430,035)</u>
Net cash used in financing and investing activities	<u>(7,135,295)</u>	<u>(4,240,199)</u>
Net increase in cash and cash equivalents	2,394,107	1,857,003
Cash and cash equivalents, beginning of year	<u>14,984,443</u>	<u>13,127,440</u>
Cash and cash equivalents, end of year	<u>\$ 17,378,550</u>	<u>\$ 14,984,443</u>

See accompanying notes to the consolidated financial statements.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

1. Purpose of the organization

The University of Prince Edward Island is incorporated as an income tax exempt not for profit organization with the following mission statement:

The University, founded on the tradition of liberal education, exists to encourage and assist people to acquire the skills, knowledge and understanding necessary for critical and creative thinking, and thus prepare them to contribute to their own betterment and that of society through the development of their full potential.

To accomplish these ends the university is a community of scholars whose primary tasks are to teach and learn, to engage in scholarship and research, and to offer service for the benefit of our Island and beyond.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using Canadian accounting standards for not-for-profit organizations in Part III of the CICA Handbook.

Principles of consolidation

The consolidated financial statements of the University include the accounts of the Three Oaks Innovation Fund, a member corporation, and the University of Prince Edward Island Foundation, (U.S.) Inc. The Three Oaks Innovation Fund operates a research support division. The University of Prince Edward Island Foundation, (U.S.) Inc. is an income tax exempt foundation for charitable, scientific, literary or educational purposes.

Fund accounting

The University follows the deferral method of accounting for contributions.

Revenue and expenditure related to program delivery and administrative activities are reported in the operating fund.

Revenue and expenditure related to research activities are reported in the Research fund.

Revenue and expenditure related to employee future benefits are reported in the post retirement benefits fund.

Assets, liabilities, revenue and expenditure, except for depreciation, related to the University's capital assets are reported in Capital assets fund.

Endowment donations are reported in the Endowment fund as an increase to the fund balance. Investment income earned on resources of the Endowment fund are reported in the operating fund as deferred revenue and recognized as income in the year in which expenditures are incurred. Principal donations are held in perpetuity and the investment income is used for the purpose specified by the donors.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks and other institutions, net of bank overdrafts. Temporary short term borrowings are considered to be financing activities.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

2. Summary of significant accounting policies (cont'd)

Inventory

Inventory is valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis except in the bookstore where cost is determined based on the retail method.

Revenue recognition

Restricted donations are recognized as revenue of the appropriate fund in the year in which the related expenditures are incurred or related capital asset depreciated. Unrestricted donations are recognized as revenue of the fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Endowment donations are recognized as direct increases in net assets when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted investment income is recognized as revenue of the appropriate fund in the year in which the related expenditures are incurred.

Profits from contracts are recognized on the percentage of completion basis. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost of each contract. Any projected loss is recognized immediately for accounting purposes.

Revenues received without restrictions include tuition fees, and sales of services and goods. These amounts are reported as revenue at the same time the services are provided or the goods are sold. Operating grants from governments are also considered unrestricted and are recorded in the period to which the operating funds relate.

Employee benefit plans

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The excess of experience gains and losses over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the expected average remaining service lives (EARSL) of active employees. The EARSL for employees covered by the pension plan is 11 years. The EARSL for employees covered by other post retirement benefits is 13 years.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

2. Summary of significant accounting policies (cont'd)

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Rates and bases of depreciation applied to write-off the cost of the capital assets over their estimated lives are as follows:

Site improvements	4%, declining balance
Buildings	2.5%, declining balance
Furniture and equipment	10%, declining balance
Computer equipment and motor vehicles	30%, declining balance
Library materials	10%, declining balance

Capital asset additions are depreciated at 50% of the regular rate in the year of acquisition. Facilities under construction are not depreciated until they are available for use.

Capital asset deferred revenue is amortized at the same rate of depreciation as the assets it was used to purchase.

An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value; it is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Financial instruments

The University considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances. The University accounts for the following as financial instruments:

- Cash and cash equivalents
- Receivables
- Investments – actively traded
- Investments – not actively traded
- Payables and accruals
- Long term debt

A financial asset or liability is recognized when the University becomes a party to contractual provisions of the instrument.

The University initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. In the case of a financial asset or liability not being subsequently measured at fair value, the initial fair value will be adjusted for financing fees and transaction costs directly attributable to its origination, issuance, or assumption.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

2. Summary of significant accounting policies (cont'd)

Financial assets and financial liabilities are subsequently measured according to the following methods:

Financial instrument	Subsequent measurement
Cash and cash equivalents	Amortized cost
Receivables	Amortized cost
Investments - actively traded	Fair value
Investments - not actively traded	Fair value; amortized cost
Payables and accruals	Amortized cost
Long term debt	Amortized cost

Derivative financial instruments

The University has entered into several interest rate swap agreements with a chartered bank to reduce interest rate exposure associated with certain long term debt obligations. The agreements have the effect of converting the floating rate of interest on certain debt to a fixed rate. It is the University's policy not to use derivative financial instruments for trading or speculative purposes.

The University designates each interest rate swap agreement as a cash flow hedge of a specifically identified debt instrument. The swap agreements are effective hedges, both at maturity and over the term of the agreement, since the term to maturity, the notional principal amount, and the interest rate of the swap agreements all match the terms of the debt instruments being hedged. The swap agreements involved periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based. The payments are recorded as an adjustment of the interest expense on the hedged debt instrument.

In the event that the interest rate swap agreements are terminated or cease to be effective in part or in whole prior to maturity any associated realized or unrealized gains or losses are recognized in income. In the event a designated hedged debt instrument is extinguished or matures prior to the termination of the related interest rate swap agreement, any realized or unrealized gain or loss is recognized in income.

Donations and pledges

Donations are recorded as revenue in the fiscal period in which they are spent. Gifts in kind, including works of art, equipment, investments and library holdings are recorded at fair market value on the date of their donation.

Pledges of donations to be received in future years are not recorded in the financial statements.

Foreign currency translation

Foreign currency transactions are recorded at the exchange rate in effect at the time of the transaction. Monetary assets and liabilities denominated in foreign currency reported on the Statement of Financial Position are recorded at the exchange rate in effect on the financial statement date. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate in effect on the transaction date. The market value of long term investments denominated in foreign currency is disclosed in the notes to the financial statements at the exchange rate in effect on the financial statement date.

Use of estimates

In preparing the University's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditure during the period.

Significant estimates and assumptions are involved with the calculation of the allowance for doubtful accounts, useful life of capital assets, and accrued liabilities for employee future benefits. Actual results could differ from these estimates. Estimates are regularly reviewed by management and adjusted as required.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

3. Receivables	<u>2014</u>	<u>2013</u>
Operating fund		
MPHEC grant	\$ -	\$ 3,157,191
Pension administration fees	18,133	-
Sales and services	840,336	605,084
Student accounts	1,052,907	1,000,718
Other	<u>1,924,025</u>	<u>727,788</u>
	3,835,401	5,490,781
Capital asset fund	8,434	-
Research fund	<u>2,822,899</u>	<u>4,084,317</u>
	<u>\$ 6,666,734</u>	<u>\$ 9,575,098</u>

4. Investments	<u>2014</u>	<u>2013</u>
Operating fund	<u>\$ 13,770,506</u>	<u>\$ 11,443,104</u>
Research fund	<u>33,350</u>	<u>33,350</u>
Post retirement benefits fund		
Health benefit plan	9,017,888	8,192,791
Retirement allowances	3,497,065	3,259,244
Supplementary retirement benefits	<u>824,679</u>	<u>876,085</u>
	<u>13,339,632</u>	<u>12,328,120</u>
Capital assets fund		
AVC equipment fund	-	340,366
Capital projects fund	<u>7,952,624</u>	<u>5,414,513</u>
	<u>7,952,624</u>	<u>5,754,879</u>
Endowment fund	<u>26,866,822</u>	<u>23,738,561</u>
	<u>\$ 61,962,934</u>	<u>\$ 53,298,014</u>

Investments summary	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Equities	\$48,630,556	\$50,399,676	\$ 28,612,226	\$32,146,265
Fixed – amortized cost	1,119,305	1,119,305	-	-
Fixed – fair market value	<u>10,400,000</u>	<u>10,443,953</u>	<u>20,871,353</u>	<u>21,151,747</u>
Total	<u>\$60,149,861</u>	<u>\$61,962,934</u>	<u>\$ 49,483,579</u>	<u>\$53,298,012</u>

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

			<u>2014</u>	<u>2013</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Net book value</u>
Land	\$ 814,301	\$ -	\$ 814,301	\$ 814,301
Site improvements	12,515,746	4,582,708	7,933,038	8,239,485
Buildings	202,121,605	59,999,033	142,122,572	143,052,418
Furniture, equipment and vehicles	52,320,209	22,236,872	30,083,337	31,586,522
Library materials	12,878,996	8,472,105	4,406,891	4,558,565
	<u>\$ 280,650,857</u>	<u>\$ 95,290,718</u>	<u>\$ 185,360,139</u>	<u>\$ 188,251,291</u>

	<u>2014</u>	<u>2013</u>
Operating fund		
Accrued interest	\$ 164,640	\$ 180,343
Faculty development allowance	355,291	353,130
Accrued payroll	1,118,635	2,485,637
Trade	2,595,440	2,910,948
Government remittances	117,952	157,196
Accrued vacation and other leaves	3,355,910	3,288,014
	<u>\$ 7,707,868</u>	<u>\$ 9,375,268</u>

7. Deferred revenue, operating

Operating deferred revenue represents resources for operating purposes received in the current period which relate to a subsequent period. Changes in the deferred revenue balance are as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 4,558,429	\$ 4,829,910
Resources received	8,725,295	7,525,154
Recognized as revenue	<u>(7,994,596)</u>	<u>(7,796,635)</u>
Ending balance	<u>\$ 5,289,128</u>	<u>\$ 4,558,429</u>

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

8. Donations	<u>2014</u>	<u>2013</u>
Donations received	\$ 3,706,446	\$ 3,394,665
Donations recognized		
Operating	(2,690,553)	(2,088,611)
Endowments	(1,889,402)	(821,684)
	<u>(4,579,955)</u>	<u>(2,910,295)</u>
Donations (recognized) deferred	\$ (873,509)	\$ 484,370

9. Pension plan and other employee post-retirement benefits

The University maintains a contributory defined benefit best average pension plan and provides post employment benefits which cover substantially all of its employees.

Annual funding requirements for the pension plan and for future retirement allowances are determined by Eckler Ltd., who completed their last actuarial estimate as of April 30, 2014. Annual funding for a health benefit plan is based on an actuarial estimate prepared by Morneau Shepell, last completed as of April 30, 2012. Funding of supplementary retirement obligations is determined in accordance with conditions of specific agreements.

	<u>2014</u>	<u>2013</u>
Net expense for the University's benefit plans is as follows:		
Pension	\$ 11,229,000	\$ 12,649,700
Other benefit plans		
Health benefits	2,472,269	2,085,000
Retirement allowances	255,931	269,963
	<u>2,728,200</u>	<u>2,354,963</u>
Expense per statement of operations	\$ 13,957,200	\$ 15,004,663

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

9. Pension plan and other employee post-retirement benefits (cont'd)

The actuarial present value of benefit obligations and fair value of plan assets recognized in the accompanying statements of financial position as at April 30, 2014 and April 30, 2013 were as follows:

	Pension plan		Post-retirement benefit plans	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 257,169,151	\$ 233,863,461	\$ 34,386,571	\$ 29,686,956
Service cost	10,889,025	10,278,733	1,411,264	1,168,947
Interest cost	10,325,848	10,118,738	1,253,000	1,240,194
Transfer in	108,006	180,300	-	-
Gross benefits paid	(9,044,380)	(7,515,375)	(1,164,875)	(1,110,526)
Actuarial loss	11,279,625	10,243,294	1,200,414	3,401,000
Benefit obligation, end of year	<u>\$ 280,727,275</u>	<u>\$ 257,169,151</u>	<u>\$ 37,086,374</u>	<u>\$ 34,386,571</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 176,348,651	\$ 155,929,495	\$ -	\$ -
Actual return on plan assets	27,332,894	17,460,818	-	-
Employer contributions	6,136,197	6,770,790	-	-
Transfer in	108,006	180,342	-	-
Plan participant's contributions	4,260,965	3,522,581	-	-
Gross benefits paid	(9,044,380)	(7,515,375)	-	-
Fair value of plan assets, end of year	<u>\$ 205,142,333</u>	<u>\$ 176,348,651</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status and amounts recognized, end of year				
Fair value of plan assets	\$ 205,142,333	\$ 176,348,651	\$ -	\$ -
Benefit obligation	(280,727,275)	(257,169,151)	(37,086,374)	(34,386,571)
Funded status, end of year	(75,584,942)	(80,820,500)	(37,086,374)	(34,386,571)
Unrecognized prior service cost	3,834,400	4,469,400	-	-
Unrecognized actuarial net loss	61,863,642	71,449,700	5,526,000	4,489,000
Amounts recognized, end of year	<u>\$ (9,886,900)</u>	<u>\$ (4,901,400)</u>	<u>\$ (31,560,374)</u>	<u>\$ (29,897,571)</u>
Accrued benefit asset (liability)			<u>2014</u>	<u>2013</u>
Pension plan			\$ (9,886,900)	\$ (4,901,400)
Other benefit plans			(31,560,374)	(29,897,571)
Liability per statement of financial position			<u>\$ (41,447,274)</u>	<u>\$ (34,798,971)</u>

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

9. Pension plan and other employee post-retirement benefits (cont'd)

Pension plan assets are held in trust and are not available for operating purposes of the University. Separate audited financial statements are prepared for the pension plan. The percentage of the fair value of the pension plan's total assets is as follows:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	0.78%	0.82%
Government and corporate bonds	23.52%	24.21%
Mortgages	4.66%	-
Real estate fund	14.57%	14.31%
Equities and mutual funds	56.47%	60.66%

Plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. Net expense for 2014 includes \$635,000 (2013: \$635,000) of amortization of plan amendments.

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations for the pension plan is a discount rate of 4.30% (2013 – 4.0%) and for the future retirement allowances is a discount rate of 3.5%, expected long term rate of return on plan assets of 6.0% (2013: 6.0%), and a rate of compensation increase of 4.00% per annum. For the health benefits plan a 4.50% (2013: 4.10%) discount rate and 3.5% rate of compensation increase were assumed. Extended health and drug claims were assumed to increase 5.0% per annum and dental claims were assumed to increase at 4.0% per annum.

Other information about the University's pension plan is as follows:

	<u>2014</u>	<u>2013</u>
Employer contributions	\$ 6,085,314	\$ 6,659,422
Employees' contributions	4,345,413	3,640,816
Benefits paid	9,044,380	7,515,374

The health benefit plan liability has been estimated to equal \$27,118,000 (2013: \$25,379,735) based on the last actuarial extrapolation update as of April 30, 2014. In 2014, \$9,017,888 (2013: \$8,192,791) of this liability has been funded.

The University has an obligation to pay lump sum retirement allowances to non-faculty employees who retire after reaching the age of 55 years. The allowances are to a maximum of six months salary. The total liability has been estimated to equal \$3,752,917 as of April 30, 2014 is based on management estimates (2013: \$3,798,979) and the rates of funding required for future service as determined by the actuary at that time. In 2014, \$3,497,065 (2013 - \$3,259,212) of this liability has been funded.

Supplementary retirement obligations amount to \$689,457 (2013 - \$718,857) and relate to the retirement obligations payable to past presidents for their term as president of the University. Upon termination of the retirement obligations, per the conditions of the agreements, any surplus funds become assets of the University. These obligations are fully funded.

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

10. Long term obligations	<u>2014</u>	<u>2013</u>
Long term obligations funded by the Province of Prince Edward Island:		
6.25% CMHC loan payable \$53,646 annually including interest amortized to and maturing in October 2018. As security a mortgage has been provided on Bernadine Hall. The carrying value of Bernadine Hall is \$863,637.	\$ 207,634	\$ 246,474
7.625% CMHC loan payable \$95,597 annually including interest amortized to and maturing in September 2023. As security a mortgage has been provided on Blanchard Hall. The carrying value of Blanchard Hall is \$2,597,378.	637,899	682,301
CDOR plus 0.25%, hedged at 5.11%, Bank of Montreal long term loan on Regis and Joan Duffy Research Centre, payable \$57,150 quarterly plus interest, amortized to 2021 and maturing in 2021.	1,600,200	1,828,800
CDOR plus 0.25%, hedged at 4.69%, Bank of Montreal long term loan on Duffy Science Centre renovation, payable \$60,000 quarterly principal plus interest, amortized to 2018 and maturing in 2018.	900,000	1,140,000
CDOR plus 0.25%, hedged at 5.11%, Bank of Montreal long term loan on Duffy Science Centre renovation, payable \$56,667 quarterly principal plus interest, amortized to 2021 and maturing in 2021.	1,586,666	1,813,333
CDOR plus 0.25%, hedged at 5.35% Bank of Montreal long term loan on the Don and Marion McDougall Hall, payable \$96,667 quarterly principal plus interest, amortized to 2022 and maturing in 2022.	2,996,666	3,383,333
CDOR plus 0.25%, hedged at 5.55%, Bank of Montreal long term loan on the AVC Expansion, payable \$33,333 quarterly principal plus interest, amortized to 2023 and maturing in 2023.	1,166,667	1,300,000
CDOR plus 0.25%, hedged at 5.63%, Bank of Montreal long term loan on core renewal projects payable \$103,333 quarterly principal plus interest, amortized to 2023 and maturing in 2023.	3,720,000	4,133,334
CDOR plus 1.30%, hedged at 3.71%, Bank of Montreal long term loan on the Knowledge Infrastructure Program, payable in \$50,000 quarterly principal plus interest, amortized to 2020 and maturing in 2020.	1,250,000	1,450,000
CDOR plus 1.30%, hedged at 4.53%, Bank on Montreal long term loan on the Nursing and Applied Human Sciences Building, payable in \$179,000 quarterly principal plus interest, amortized to and maturing in 2022.	5,735,000	6,451,000
Other long term obligations:		
CDOR plus 0.25%, hedged at 5.75%, Bank of Montreal long term loan on Blanchard Hall and Bernadine Hall renovations, payable in \$54,517 quarterly payments including principal and interest, amortized to 2032 and maturing in 2032, funded by residence operations.	2,402,792	2,473,890

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

10. Long term obligations (cont'd)

	<u>2014</u>	<u>2013</u>
CDOR plus 0.25%, hedged at 5.42%, Bank of Montreal long term loan on Bill and Denise Andrew Hall, payable \$208,000 quarterly including interest, amortized to 2031 and maturing in 2031, funded by residence operations.	8,835,494	9,151,830
CDOR plus 1.30%, hedged at 3.80%, Bank of Montreal long term loan on the AVC Phase III Expansion, payable in \$88,000 quarterly principal plus interest, amortized to and maturing in 2020.	3,892,000	4,244,000
3.48% Royal Bank term loan payable \$8,434 monthly including interest maturing in July 2016 and amortized until 2016. The loan relates to the construction of W A Murphy Student Centre, funded by the Student Union.	<u>218,594</u>	<u>310,514</u>
	35,149,612	38,608,809
Less: current portion	<u>3,490,011</u>	<u>3,459,197</u>
	\$ 31,659,601	\$ 35,149,612

Annual principal repayments in each of the next five years are due as follows: 2015 - \$3,490,011; 2016 - \$3,522,577; 2017 - \$3,480,213; 2018 - \$3,427,862; 2019 - \$3,257,159.

11. Interest rate swap agreements

The University has entered into interest rate swap agreements with a chartered bank to manage interest rate exposure associated with certain long-term debt obligations. The agreements have the effect of converting the floating rate interest on certain debt to a fixed rate.

The notional underlying principal value of the interest rate swaps related to debt outstanding at April 30, 2014 was \$34,085,485 (2013 - \$37,369,519). The University has no plans to sell or terminate the interest rate swap agreements prior to maturity. If the University had terminated these swaps on April 30, 2014, it would have been obligated to incur a payment of \$5,004,118 (2013 - \$6,929,262), the fair value of the swaps.

12. Deferred revenue, capital assets

Capital assets deferred revenue represents restricted contributions used to purchase buildings, equipment, and site improvements. Changes in the deferred revenue balance are as follows:

	<u>2014</u>	<u>2013</u>
General deferred revenue, capital assets		
Beginning balance	\$ 110,379,134	\$ 109,475,010
Capital grants and donations received	3,816,745	4,599,894
Capital grants and donations recognized	<u>(3,638,178)</u>	<u>(3,695,770)</u>
Ending balance	\$ 110,557,701	\$ 110,379,134

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

13. Deferred revenue, other

Other deferred revenue represents unexpended investment income on endowment funds and contributions for other specified purposes. The funds are recognized as revenue in the periods the related expenditures are incurred. Changes in the deferred revenue balance are as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 12,025,700	\$ 9,275,230
Contributions received	543,458	614,273
Income earned	6,275,245	3,866,435
Recognized as revenue	<u>(3,985,489)</u>	<u>(1,730,238)</u>
Ending balance	<u>\$ 14,858,914</u>	<u>\$ 12,025,700</u>
Representing:		
Unexpended investment income on endowment funds (Note 15)	\$ 6,346,428	\$ 4,610,480
Special purpose funds	<u>8,512,486</u>	<u>7,415,220</u>
	<u>\$ 14,858,914</u>	<u>\$ 12,025,700</u>

14. Internal restrictions on fund balances

The following amounts have been restricted by the Board of Governors for specific purposes:

	<u>2014</u>	<u>2013</u>
Capital projects		
CFI/AIF matching	\$ 81,886	\$ 354,483
Capital renovations	1,301,399	2,477,501
Library reserves	69,349	82,533
Engineering capital fund	1,000,000	-
Technology development fund	4,500,000	2,500,000
Dalton Hall capital fund	1,000,000	-
AVC equipment fund	-	340,366
	<u>7,952,634</u>	<u>5,754,883</u>
Endowment	5,920,460	5,306,545
Research	<u>2,226,126</u>	<u>1,983,613</u>
	<u>\$ 16,099,220</u>	<u>\$ 13,045,041</u>

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

15. Restricted funds for scholarships, bursaries, and academic programs

Restricted funds available for scholarship and bursary purposes and for academic programs include both internally and externally restricted endowment fund balances and unexpended endowment investment income recorded as deferred revenue.

	<u>2014</u>	<u>2013</u>
Endowment Fund		
Externally restricted	\$ 20,946,362	\$ 18,432,016
Internally restricted	5,920,460	5,306,545
	<u>26,866,822</u>	<u>23,738,561</u>
Operating Fund		
Deferred revenue, unexpended investment income (Note 13)	<u>6,346,428</u>	<u>4,610,480</u>
	<u>\$ 33,213,250</u>	<u>\$ 28,349,041</u>

16. Inter-fund transfers

	<u>Operating</u>	<u>Research</u>	<u>Post-retirement benefits</u>	<u>Capital assets</u>
Depreciation	\$ 8,066,149			\$ (8,066,149)
Equipment additions	(931,895)	\$ (873,999)		1,805,894
Library materials	(268,552)			268,552
Land, buildings and site improvements	(325,000)	(169,716)		494,716
Principal debt repayment	(822,676)			822,676
Internal financing	(3,558,635)			3,558,635
Research	1,163,419	(1,163,419)		
Interest repayment	(908,294)			908,294
Post-retirement health benefits	(1,537,062)		\$ 1,537,062	
Retirement allowance	(539,847)		539,847	
Pension plan	(6,123,869)	(119,631)	6,243,500	
	<u>\$ (5,786,262)</u>	<u>\$ (2,326,765)</u>	<u>\$ 8,320,409</u>	<u>\$ (207,382)</u>

17. Scholarships

The University received restricted grants to fund scholarships and bursaries from the Province of Prince Edward Island including the George Coles bursary and Island Student Awards. The total for the year was \$1,698,200 (2013 - \$2,266,600).

University of Prince Edward Island

Notes to the consolidated financial statements

April 30, 2014

18. Financial assets and liabilities

The following sections describe the University's financial risk exposure and related mitigation strategies:

Credit risk

The University is exposed to credit risk through payment default on its accounts receivable. Exposure to credit risk on accounts receivable is managed through active monitoring and collection practices. A provision for uncollectible accounts has been determined in the amount of \$314,174 (2013 - \$287,623) based on respective aging of accounts, risk profile of certain accounts and collections subsequent to year end. Receivables written off during the year and adjustments to the allowance for doubtful receivable amount to \$98,268 (2013 - \$83,273).

Liquidity risk

Liquidity risk is the risk that the University will encounter difficulty in meeting obligations associated with financial liabilities. The University is exposed to liquidity risk arising primarily from trade payables. The University ensures that it has sufficient capital to meet its short and long-term financial obligations after taking into account its operations and cash on hand. The University actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

Market risk

The University invests in publicly traded equities listed on domestic and foreign exchanges, and bonds traded over the counter through broker dealers. These securities are affected by fluctuations in market prices. Such market changes are subject to economic factors and other fluctuations in domestic and global capital markets, as well as risks to issuers, which may affect the market value of the individual securities. Policy guidelines have been established to ensure that the University's investments are diversified by issuer, industry and geographic location.

The University has certain investments denominated in foreign currencies. Currency risk is the risk that the value of these investments will fluctuate due to changes in foreign exchange rates. The University has diversified its foreign portfolio by investing in various foreign currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. The University is exposed to interest rate risk on long term debt, which it manages through the use of fixed interest rates and use of interest rate swap agreements.

19. Comparative figures

Certain of the 2013 comparative figures have been restated to agree with the financial statement presentation adopted for the current year.

University of Prince Edward Island

Consolidated schedule of Atlantic Veterinary College operations and changes in fund balance

Year ended April 30

2014

2013

Revenue		
Operating grants	\$ 21,075,824	\$ 21,080,160
Student fees	3,093,693	2,921,609
International fees	3,688,288	3,518,169
Sales and services	7,133,424	8,149,348
Investment income	102,372	86,488
Donations	649,917	498,681
	<u>35,743,518</u>	<u>36,254,455</u>
Expenditure		
Salaries and benefits	24,702,151	26,174,289
Supplies	3,182,042	3,307,058
Depreciation	2,815,050	2,881,172
Other	346,625	525,543
Utilities	2,517,975	2,132,459
Travel	338,829	348,676
Repairs and maintenance	575,384	648,206
Library subscriptions	302,713	324,455
Professional fees	610,392	454,855
Scholarships	162,545	168,429
Advertising	120,443	143,663
Insurance	121,879	123,377
	<u>35,796,028</u>	<u>37,232,182</u>
Excess of expenditure over revenue before inter-fund transfers	\$ (52,510)	\$ (977,727)
Fund balance, beginning of year	\$ 279,735	\$ 1,043,166
Excess of expenditure over revenue before inter-fund transfers	(52,510)	(977,727)
Inter-fund transfers	<u>191,953</u>	<u>214,296</u>
Fund balance, end of year	<u>\$ 419,178</u>	<u>\$ 279,735</u>

University of Prince Edward Island

Consolidated schedule of Research operations and changes in fund balances

Year ended April 30

2014

2013

	<u>Total</u>	<u>Total</u>
Revenues		
Deferred revenue, beginning of year	\$ 7,351,936	\$ 7,002,803
Research funds received	13,236,340	17,391,499
Deferred revenue, end of year	<u>(7,122,876)</u>	<u>(7,351,936)</u>
	<u>13,465,400</u>	<u>17,042,366</u>
Expenditures		
Salaries and benefits	6,811,012	7,914,486
Supplies	1,781,336	1,710,717
Travel	950,121	1,141,953
Professional fees	1,293,148	2,478,410
Scholarships	<u>60,505</u>	<u>40,575</u>
	<u>10,896,122</u>	<u>13,286,141</u>
Excess of revenue over expenditure before inter-fund transfers	<u>\$ 2,569,278</u>	<u>\$ 3,756,225</u>
Fund balances, beginning of year	\$ 1,983,613	\$ 1,913,919
Excess of revenue over expenditure before inter-fund transfers	2,569,278	3,756,225
Inter-fund transfers (Note 16)	<u>(2,326,765)</u>	<u>(3,686,531)</u>
Fund balances, end of year	<u>\$ 2,226,126</u>	<u>\$ 1,983,613</u>
Unspent funds at year end		
Fund balances	\$ 2,226,126	\$ 1,983,613
Deferred revenue	<u>7,122,876</u>	<u>7,351,936</u>
	<u>\$ 9,349,002</u>	<u>\$ 9,335,549</u>