UNIVERSITY OF VICTORIA FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 2013 and 2012

UNIVERSITY OF VICTORIA FOUNDATION

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University of Victoria is responsible for the preparation of the financial statements of the University of Victoria Foundation. The statements have been prepared in accordance with Canadian Public Sector Accounting Standards for government not-for-profit organizations and present fairly the financial position of the Foundation as at March 31, 2013, March 31, 2012 and April 1, 2011 and the results of its operations for the years then ended March 31, 2013 and March 31, 2012.

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

The financial statements have been examined by KPMG LLP, Chartered Accountants, the independent auditors appointed by the Foundation's Board of Directors. The Independent Auditors' Report outlines the nature of their examination and provides their opinion on the fair presentation of the financial statements of the Foundation for the years ended March 31, 2013 and March 31, 2012.

Lisa Hill
Chair

Andrew Coward
Treasurer

June 21, 2013

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of the University of Victoria Foundation

We have audited the accompanying financial statements of the University of Victoria Foundation, which comprise the statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of revenue and expense and changes in fund balances and cash flows for the years ended March 31, 2013 and March 31, 2012, the statement of remeasurement gain and losses for the year ended March 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University of Victoria Foundation as at March 31, 2013, March 31, 2012 and April 1, 2011, its results of operations, its cash flows for the years ended March 31, 2013 and March 31, 2012 and its remeasurement gains and losses for the year ended March 31, 2013 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

June 20, 2013
Victoria, Canada

UNIVERSITY OF VICTORIA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
as at March 31, 2013, March 31, 2012 and April 1, 2011

	2013	2012	2011
ASSETS			
Cash on deposit	$ 629,767	$ 1,903,388	$ 3,195,567
Accrued interest and other receivables	3,437,473	1,648,609	1,382,515
Investments (note 3)	321,015,231	300,852,475	298,858,023
	325,082,471	304,404,472	303,436,105
LIABILITIES			
Accounts payable	3,042,765	1,088,938	657,558
Amount due to the University of Victoria (note 6)	2,730,222	1,728,064	3,064,259
Loan payable to the University of Victoria (note 7)	-	-	1,602,502
	5,772,987	2,817,002	5,324,319
FUND BALANCES			
Endowment Principal balances (Statement 2):			
Restricted endowment	269,530,001	262,199,189	246,315,852
Restricted quasi-endowment	7,885,312	7,778,556	7,582,237
Designated endowment	17,397,950	17,094,481	16,600,446
Designated quasi-endowment	1,376,920	1,356,572	1,318,343
Unrestricted endowment	2,298,256	2,221,600	2,006,928
Unrestricted quasi-endowment	2,754,105	2,738,035	2,619,033
	301,242,544	293,388,433	276,442,839
Expendable fund balances (Statement 2)	18,066,940	8,199,037	21,668,947
	$ 325,082,471	$ 304,404,472	$ 303,436,105

On behalf of the Board of Directors:

Chair

Treasurer

See accompanying notes to the financial statements

UNIVERSITY OF VICTORIA FOUNDATION
STATEMENTS OF REVENUE AND EXPENSE AND CHANGES IN FUND BALANCES
For the Years ended March 31, 2013 and 2012

	Endowment Principal		Expendable Funds	
	2013	2012	2013	2012
REVENUE				
Donations	$ 2,790,988	$ 8,667,176	$ 234,613	$ 368,130
University of Victoria matching funds	397,500	-	-	-
Interest and dividend income	-	-	9,725,607	10,446,776
Realized gains, less losses	-	-	2,125,690	3,137,569
Unrealized gains, less losses	-	-	-	(4,857,274)
	3,188,488	8,667,176	12,085,910	9,095,201
EXPENSE				
Scholarships, bursaries and other distributions (note 6)	-	-	11,499,775	12,297,041
Administration fees (note 6)	-	-	574,714	662,355
Investment management fees	-	-	1,394,295	1,327,297
	-	-	13,468,784	14,286,693
Excess (deficiency) of revenue over expense	3,188,488	8,667,176	(1,382,874)	(5,191,492)
Fund balances at beginning of year	293,388,433	276,442,839	8,199,037	21,668,947
Interfund transfers - encroachment on quasi-endowments (note 8)	(38,455)	(55,973)	38,455	55,973
Capitalizations to endowment principal (note 5)	4,704,078	8,334,391	(4,704,078)	(8,334,391)
Fund balances, before accumulated remeasurement gains	301,242,544	293,388,433	2,150,540	8,199,037
Accumulated remeasurement gains	-	-	15,916,400	-
Fund balances, at year end	$ 301,242,544	$ 293,388,433	$ 18,066,940	$ 8,199,037

See accompanying notes to the financial statements

UNIVERSITY OF VICTORIA FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years ended March 31, 2013 AND 2012

	2013	2012
Cash provided by (used in)		
Operating activities		
Excess of revenue over expense	$ 1,805,614	$ 3,475,684
Items not involving cash		
Realized gains, less losses on investments	(2,125,690)	(3,137,569)
Unrealized gains, less losses on investments	-	4,857,274
Changes in non-cash working capital balances (net)		
Net increase in current assets	(1,788,864)	(266,094)
Net increase in current liabilities	1,953,827	431,380
Increase (decrease) in due to the University of Victoria	1,002,158	(1,336,195)
	847,045	4,024,480
Investing activities		
Increase in investments	(2,120,666)	(3,714,157)
Financing activities		
Loan payable	-	(1,602,502)
Decrease in cash during the year	(1,273,621)	(1,292,179)
Cash, beginning of year	1,903,388	3,195,567
Cash, end of year	$ 629,767	$ 1,903,388

See accompanying notes to the financial statements

UNIVERSITY OF VICTORIA FOUNDATION
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
For the Year ended March 31, 2013

	2013
Accumulated remeasurement gains (losses), beginning of the year	-
Unrealized gains attributable to equity instruments	15,916,400
Realized gains (losses), reclassified to the statement of operations:	
Equity instruments	-
Net remeasurement gains for the year	15,916,400
Accumulated remeasurement gains, end of the year	$ 15,916,400

See accompanying notes to the financial statements

UNIVERSITY OF VICTORIA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013 and 2012

Note 1. Purpose and Status of University of Victoria Foundation

The purpose of the Foundation is to encourage and administrate financial support of the University through donations from individuals, corporations, and foundations to fund scholarships, bursaries and other university purposes; and to promote a continuing interest in the University and in higher education in general. The Foundation is incorporated in British Columbia under the *University of Victoria Foundation Act* . It is a charitable organization registered under the Income Tax Act and as such is exempt from income taxes.

The accounts of the Foundation are included in the consolidated financial statements of the University of Victoria.

On April 1, 2012, the Foundation adopted Canadian Public Sector Accounting Standards. The Foundation has also elected to apply the 4200 standards for government not-for-profit organizations using the restricted fund method of accounting. These are the first financial statements prepared in accordance with these public sector accounting standards.

In accordance with the transitional provisions in Public Sector Accounting Standards, the Foundation has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying public sector accounting standards.

On transition, the Foundation has not made any adjustments to fund balances as at April 1, 2011 or excess of revenue over expenses for the year ended March 31, 2012.

Note 2. Significant Accounting Policies

a) Basis of Presentation

The Foundation financial statements are prepared in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations using the restricted fund method of accounting and include the following significant accounting policies:

b) Fund Accounting

The Foundation follows the restricted fund method of accounting for donations to recognize restrictions placed on the use of funds by donors, the University, or the Board of Directors of the Foundation.

The endowment principal of funds is classified into two groups:

(i) Endowment funds - where the principal is to be held intact in perpetuity,

(ii) Quasi-endowment funds - where the terms of the endowment permit the principal to be expended under certain circumstances.

The expendable income of funds is classified as follows:

(i) Restricted - by the donor to certain specific uses, e.g. scholarships, bursaries, library books, etc.,

(ii) Designated - internally restricted by the Board of Directors of the Foundation for certain specific uses, usually at the time the gift or bequest is received,

(iii) Unrestricted - where no direction is given by the donor and the Board of Directors of the Foundation decides not to direct that the income be used for any specific purposes.

Note 2. Significant Accounting Policies (continued)

c) Investments

The assets underlying the endowment principal and expendable funds, with the exception of the Kenneth and Joy Williams Trust, (see Note 3) are held in an investment pool. This investment pool is recorded at market value. The principal and expendable portion of each fund in the pool is expressed as a number of units. The value of each unit is calculated monthly based on the market value of the investments, with additions assigned a number of units corresponding to their market value. The income of the investment pool is distributed to funds according to the number of units held in the prior month.

d) Pledge Revenue

Pledges from donors are recorded as revenue when payment is received since their ultimate collection cannot be assured until that time.

e) Use of Estimates

The preparation of the financial statements in conformity with Canadian Public Sector Accounting Standards, including the 4200 standards for government not-for-profit organizations, requires management to make estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported revenues and expenses during the reporting period. Actual results could differ from these estimates.

f) Financial Instruments

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

(i) Fair value category: Investments that are quoted in an active market are reflected at fair value as at the reporting date. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments 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 Revenue and Expense and Changes in Fund Balances reversed from the Statement of Remeasurement Gains and Losses.

(ii) Cost category: Gains and losses are recognized in the Statement of Revenue and Expense and Changes in Fund Balances and excess (loss) of revenue over expenses when the financial asset is derecognized due to disposal or impairment. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are included in the cost of the related investments.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

Level 1 - Unadjusted quoted market prices in an active market for identical assets or liabilities,

Level 2 - Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

f) Financial Instruments (continued)

The Foundation applied requirements of PS3450, Financial Instruments, effective April 1, 2012, in the same period as it adopted Public Sector Accounting Standards for the first time. PS 3450 was not applied retroactively. Comparative amounts for financial instruments are presented in accordance with the accounting policies applied by the Foundation immediately preceding its adoption of Public Sector Accounting Standards, as follows:

The Foundation classified its financial instruments into three categories. Cash and investments were classified as held-for-trading and carried at fair value. Changes in fair value were recorded in operations. Accrued interest and other receivables were classified as other loans and receivables; accounts payable, loans payable and amounts due to the University of Victoria were classified as other financial liabilities; both categories were carried at amortized cost using the effective yield method.

For the year ended March 31, 2012, the Foundation applied the financial instrument disclosure and presentation standards in accordance with Section 3861 of CICA Handbook.

g) Foreign currency translation

The Foundation'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 balance sheet date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or balance sheet date 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 Revenue and Expense and Changes in Fund Balances.

h) Net Investment Income

Net investment income includes interest and dividend income, realized and unrealized gains and losses and is measured net of investment management and administration fees.

i) Change in Accounting Policy

On April 1, 2012, the Foundation adopted Public Accounting Standards *PS 3450 - Financial Instruments and PS 2601 - Foreign Currency Translation* . The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency.

Under PS 3450, all financial instruments are included on the statement of financial position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the Foundation's accounting policy choices (see note 2(f)).

Note 3. Investments

(a) Foundation investments recorded at fair value and cost are comprised of the following:

(in thousands of dollars)	Fair Value Hierarchy	2013 Fair Value	2013 Original Cost	2012 Fair Value	2011 Fair Value
Investments at fair value:					
Bonds	Level 2	$ 31,091,634	$ 30,300,895	$ 28,491,463	$ 27,651,561
Various pooled bond funds	Level 1	49,906,989	49,696,285	55,173,386	51,056,192
Canadian equities	Level 1	80,163,194	63,467,126	71,829,407	84,088,978
Global equities	Level 1	114,664,883	96,436,358	107,493,242	100,659,103
Infrastructure and real estate	Level 3	39,438,701	34,862,508	31,770,847	29,852,329
		315,265,401	274,763,172	294,758,345	293,308,163
Investments at cost:					
Short term investments		5,749,830	5,749,830	6,094,130	5,549,860
Total investments		$321,015,231	$280,513,002	$ 300,852,475	$ 298,858,023

Note 4. Kenneth and Joy Williams Trust

The assets underlying the Kenneth and Joy Williams Trust are invested separately from the investment pool. The terms of the trust call for the income to be paid to the settlers.

Note 5. Endowment Management Policy

The Foundation has an Endowment Management Policy which balances the intention to protect the value of the fund against inflation with the intention to maintain stability and predictability in the distribution of income. Consistent with this policy, a portion of the expendable fund of each endowment may be capitalized to endowment principal to provide a larger investment base for future years. During the year ended March 31, 2013, $4,704,078 (2012 - $8,334,391) of expendable funds were capitalized.

Note 6. Related Party Transaction

The Foundation paid $485,600 (2012 - $489,000) in administration fees to the University of Victoria during the year ended March 31, 2013.

Amount due to the University of Victoria relates to cash flows resulting from activities between the University of Victoria and the Foundation.

Note 7. Loan from University of Victoria

In 2012 the Foundation paid in full, the $1,602,502 loan provided by the University of Victoria during 2010 and 2011.

Note 8. Interfund Transfers

The Foundation's policy allows for encroachment on the principal balance of quasi-endowments. This interfund transfer covers any deficit expendable balances at year end. During the year ended March 31, 2013, $38,455 (2012-$55,973) was transferred from principal to expendable.

Note 9. Financial Risk Management

The Foundation has exposure to the following risks from its use of the financial instruments: credit risk, market risk and liquidity risk.

The Foundation Board of Directors ensures that the Foundation has identified major risks and management monitors and controls them.

(a) Credit risk

Credit risk is the risk of financial loss to the Foundation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from the amounts receivable and from fixed income assets held by the Foundation.

The Foundation manages amounts receivable by using a specific bad debt provision when management considers that the expected recovery is less than the account receivable.

The Foundation limits the risk in the event of non-performance related to fixed income holdings by dealing principally with counter-parties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

The credit risk of the Foundation investments at March 31, 2013 is $85,140,725. The following shows the percentage of fixed income holdings in the portfolio by credit rating:

Credit Rating	%
AAA	8.5%
AA	19.2%
A	15.5%
BBB	7.2%
BB and below	0.6%
Mortgages	4.3%
Cash and short terms	
R1 high	26.3%
R1 mid	16.1%
R1 low	2.3%
	100.0%

(b) Price Risk

Price risk includes market risk and interest rate risk.

Market risk relates to the possibility that the investments will change in value due to fluctuations in market prices. The objective of market risk management is to mitigate market risk exposures with acceptable parameters while optimizing the return on risk. This risk is mitigated by the investment policies for the respective asset mixes to be followed by the investment managers, the requirements for diversification of investments within each asset class and credit quality constraints on fixed income investments. Market risk can be measured in terms of volatility, i.e. the standard deviation of change in the value of a financial instrument within a specific time horizon. Based on the volatility of the Foundation's current asset class holdings, the net impact on market value of each asset class is shown below.

Asset Class		Estimated Volatility % Change
Canadian equities	+/-	19.80%
Foreign equities	+/-	18.30%
Real estate	+/-	8.60%
Bonds	+/-	5.10%
Infrastructure	+/-	13.0%
Benchmark for Investments		**Value (in thousands of dollars)**
DEX Universe Bond Index	+/-	$ 8,666
S&P/TSX Composite Index	+/-	16,177
MSCI World Index	+/-	21,068
Canadian Consumer Price Index (Real Estate)	+/-	2,880
Canadian Consumer Price Index (Infrastructure)	+/-	786

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. The value of fixed-income and debt securities, such as bonds, debentures, mortgages or other income-producing securities, is affected by interest rates. Generally, the value of these securities increases if interest rates fall and decreases if interest rates rise.

It is management's opinion that the Foundation is exposed to market or interest rate risk arising from its financial instruments. Duration is an appropriate measure of interest rate risk for fixed income funds as a rise (fall) in interest rates will cause a decrease (increase) in bond prices - the longer the duration, the greater the effect. Duration is managed by the investment manager at the fund level. At March 31, 2013, the modified duration of all fixed income in aggregate was 6.2 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 6.2%, contrarily if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 6.2%.

(c) Liquidity risk

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

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

(d) Foreign currency risk:

The Foundation has entered into agreements and purchases for foreign currency hedging made through various investment portfolios. Management has assessed that the foreign exchange risk derived from currency conversions is not significant to the Foundation.