UNIVERSITY OF VICTORIA FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 2016

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, 2016 and the results of its operations for the year then ended.

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 Professional 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 year ended March 31, 2016.

Carolyn Thoms	Andrew Coward
Chair	Treasurer

June 21, 2016

KPMG LLP
800-730 View Street
Victoria BC V8W 3Y7
Telephone (250) 480-3500

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 statement of financial position as at March 31 2016, the statements of revenue and expense and changes in fund balances, cash flows and remeasurement gains and losses for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation 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 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, 2016 and its results of operations, its changes in fund balances, its cash flows and its remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

June 21, 2016
Victoria, Canada

UNIVERSITY OF VICTORIA FOUNDATION
STATEMENT OF FINANCIAL POSITION
as at March 31, 2016

	2016	2015
ASSETS		
Cash and cash equivalents	$ 1,577,546	$ 1,331,025
Accrued interest and other receivables	1,184,446	1,813,219
Investments (note 3)	392,874,566	396,961,744
	$ 395,636,558	$ 400,105,988
LIABILITIES		
Accounts payable	$ 448,060	$ 2,640,767
Amount due to the University of Victoria (note 5)	4,025,768	3,433,651
	4,473,828	6,074,418
FUND BALANCES		
Endowment Principal balances		
Restricted endowment	298,772,897	288,150,028
Restricted quasi-endowment	8,785,130	8,714,701
Designated endowment	18,251,574	18,003,689
Designated quasi-endowment	1,444,558	1,428,841
Unrestricted endowment	2,408,755	2,377,506
Unrestricted quasi-endowment	470,720	1,218,278
	330,133,634	319,893,043
Expendable fund balances	61,029,096	74,138,527
	$ 395,636,558	$ 400,105,988

On behalf of the Board of Directors:

Chair

Treasurer

See accompanying notes to the financial statements

UNIVERSITY OF VICTORIA FOUNDATION
STATEMENT OF REVENUE AND EXPENSE AND CHANGES IN FUND BALANCES
For the Year ended March 31, 2016

	Endowment Principal		Expendable Funds	
	2016	2015	2016	2015
REVENUE				
Donations	$ 6,670,027	$ 4,255,616	$ 456,014	$ 411,883
Interest and dividend income	-	-	14,772,122	20,177,166
Realized gains, less losses	-	-	33,555,339	23,173,284
	6,670,027	4,255,616	48,783,475	43,762,333
EXPENSE				
Scholarships, bursaries and other distributions	-	-	13,715,607	12,082,932
Administration fees (note 5)	-	-	791,083	794,355
Investment management fees	-	-	1,483,841	1,311,425
	-	-	15,990,531	14,188,712
Excess of revenue over expense	6,670,027	4,255,616	32,792,944	29,573,621
Fund balances at beginning of year	319,893,043	309,304,888	21,804,582	(1,436,500)
Interfund transfers - encroachment on quasi-endowments (note 6)	(52,518)	(36,526)	52,518	36,526
Capitalizations to endowment principal (note 4)	3,623,082	6,369,065	(3,623,082)	(6,369,065)
Fund balances, before accumulated remeasurement gains	330,133,634	319,893,043	51,026,962	21,804,582
Accumulated remeasurement gains	-	-	10,002,134	52,333,945
Fund balances, at year end	$ 330,133,634	$ 319,893,043	$ 61,029,096	$ 74,138,527

See accompanying notes to the financial statements

UNIVERSITY OF VICTORIA FOUNDATION
STATEMENT OF CASH FLOWS
For the Year ended March 31, 2016

	2016	2015
Cash provided by (used in)		
Operating activities		
Excess of revenue over expense	$ 39,462,971	$ 33,829,237
Items not involving cash		
Realized gains (losses) on investments	(33,555,339)	(23,173,284)
Changes in non-cash working capital balances (net)		
Net decrease in current assets	628,773	2,846,629
Net decrease in current liabilities	(2,192,707)	(1,431,709)
Increase in due to the University of Victoria	592,117	867,727
	4,935,815	12,938,600
Investing activities		
Increase in investments	(4,689,294)	(12,875,727)
Increase in cash during the year	246,521	62,873
Cash, beginning of year	1,331,025	1,268,152
Cash, end of year	$ 1,577,546	$ 1,331,025

UNIVERSITY OF VICTORIA FOUNDATION
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
For the Year ended March 31, 2016

	2016	2015
Accumulated remeasurement gains, beginning of the year	$ 52,333,945	$ 47,209,378
Unrealized gains (losses), including foreign exchange, attributable to equity instruments	(8,776,472)	28,297,851
Realized gains, reclassified to the statement of operations:		
Equity instruments and foreign exchange	(33,555,339)	(23,173,284)
Net change in remeasurement gains and losses for the year	(42,331,811)	5,124,567
Accumulated remeasurement gains, end of the year	$ 10,002,134	$ 52,333,945

See accompanying notes to the financial statements

Note 1. Purpose and Status of University of Victoria Foundation

The purpose of the Foundation is to encourage and administer 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.

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.

c) Investments
The assets underlying the endowment principal and expendable funds 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.

Note 2. Significant Accounting Policies (continued)

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 and reversed from the Statement of Remeasurement Gains and Losses.

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.

(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.

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.

Note 3. Investments

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

(in thousands of dollars)	Fair Value Hierarchy	2016 Fair Value	2016 Original Cost	2015 Fair Value	2015 Original Cost
Investments at fair value:					
Bonds	Level 2	$ 45,312,721	$ 44,484,302	$ 47,210,360	$ 44,016,418
Various pooled bond funds	Level 1	54,726,518	55,326,857	55,235,949	54,246,015
Canadian equities	Level 1	103,927,561	105,114,304	103,555,314	72,016,706
Global equities	Level 1	121,745,971	106,818,261	138,131,920	110,256,959
Infrastructure and real estate	Level 3	58,473,085	53,157,522	47,815,909	44,726,161
		384,185,856	364,901,246	391,949,452	325,262,259
Investments at cost:					
Short term investments		8,688,710	8,688,710	5,012,292	5,012,292
Total investments		$ 392,874,566	$ 373,589,956	$ 396,961,744	$330,274,551

Note 4. 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, 2016, $3,623,082 (2015 - $6,369,065) of expendable funds were capitalized.

Note 5. Related Party Transaction

The Foundation paid $666,400 (2015 - $613,100) in administration fees to the University of Victoria during the year ended March 31, 2016.

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

Note 6. Interfund Transfers

The Foundation's policy allows for encroachment on the principal balance of quasi-endowments. This interfund transfer covers any deficit in expendable balances at year end. During the year ended March 31, 2016, $52,518 (2015 - $36,526) was transferred from principal to expendable.

Note 7. 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.

Note 7. Financial Risk Management (continued)

(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, 2016 is $108,627,949. The following shows the percentage of fixed income holdings in the portfolio by credit rating:

Credit Rating	%
AAA	15.0%
AA	36.3%
A	14.1%
BBB	18.1%
BB and below	1.7%
Mortgages	5.4%
Cash and short terms	
R1 high	5.2%
R1 mid	0.8%
R1 low	3.4%
	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.

Note 7. Financial Risk Management (continued)

Asset Class		Estimated Volatility (% change)
Canadian equities	+/-	21.10%
Foreign equities	+/-	17.50%
Real estate	+/-	10.10%
Bonds	+/-	5.10%
Infrastructure	+/-	17.6%

Benchmark for Investments		Net Impact on Foundation Portfolio Market Value (thousands of dollars)
S&P/TSX Composite Index	+/-	$ 21,929
MSCI All Country World Index	+/-	21,306
FTSE TMX Canada Universe Bond Index	+/-	5,102
Canadian Consumer Price Index (Real Estate)	+/-	3,760
Canadian Consumer Price Index (Infrastructure	+/-	3,739

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, 2016, the modified duration of all fixed income in aggregate was 7.1 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 7.1%, contrarily if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 7.1%.

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