UNIVERSITY OF VICTORIA

2012 – 2013 AUDITED FINANCIAL STATEMENTS

University of Victoria
Management Discussion and Analysis
(Unaudited)

Introduction to Management Discussion and Analysis

The attached financial statements present the financial results of the University for the year ended March 31, 2013 in accordance with Public Sector Accounting Standards supplemented by directives set out by the Province of British Colombia. The objective of this Management Discussion and Analysis (MD&A) document is to assist readers of the university's financial statements better understand the financial position and operating activities of the university for fiscal year March 31, 2013, as presented in accordance with Public Sector Accounting Standards. Effective with this fiscal year, the accounting standards for the University changed. Accordingly, the document also provides an overview of the change in the standards and the impact of these changes. This discussion should be read in conjunction with the annual audited financial statements and accompanying notes.

The University of Victoria's 2012 renewed Strategic Plan, "A Vision for the Future – Building on Excellence," reaffirms the vision, mission and goals of our university and our commitment to the highest standards of excellence. Its vision of being "a university of choice for outstanding students, faculty and staff from British Columbia, Canada and the world" remains the hallmark of our institution. The renewed strategic plan reasserts its commitment to: "providing a high quality learning and research environment;" "integrating teaching, learning, research and civic engagement across the disciplines;" "employing our core strengths to benefit our external communities;" providing "environments for work and study that are safe, supportive, inclusive and healthy;" and ensuring "public and internal accountability." To achieve our vision and mission, the Plan focuses on four key areas of "People", "Quality", "Community" and "Resources".

Flowing from the Strategic Plan, the University develops an institutional budget to ensure that financial resources are aligned with the institution's priorities and areas of strategic focus. Commencing with 2006/07, the university has developed its annual budget framework, financial models and plans within the context of a three-year planning cycle. A three-year planning horizon provides a more realistic time-frame for the development of university initiatives and provides greater flexibility than permitted within an annual process.

The MD&A provides an overview of the University's

- Financial Highlights
- Financial Information
- Operating environment
- Financial Reporting Environment
- Risks and Uncertainties
- Related Entities

Financial Highlights

Financial Statement Summary

The university ended the year with total assets of $1.2 billion and consolidated revenue of $511 million. Total consolidated revenue increased by 0.20% and total expenses increased by 0.01% from the prior year. The annual surplus prior to inclusion of donations to the university's endowment fund was $9.6M or 1.9% of total revenues. Of this amount, $6.9M has been internally restricted to meet future commitments and priorities. Growth in revenue was primarily the result of strong international enrollments and the highest amount of sponsored research revenue in the history of the University.

Government Grants

Revenue from the Provincial Government in the form of operating grants remained consistent with previous years. Annual grants from the Province for capital purposes have declined from $6.6M in previous years to $600K for cyclical maintenance plus project specific funding totaling $2.2M.

Tuition and Enrolment

Credit course tuition increased by $4.2M or 4.3% to $102M due to a 2% increase in fees (tuition fees can increase by no more than inflation according to provincial government policy) and growth in international student enrolment.

Investments

The university's endowment investments are held in the University of Victoria Foundation and have a fair value of $322M. The endowments had a 9% return for the year across its six investment pools. The university's working capital increased by $8M to $193M which included a 2.2% return for the year.

Capital Activity

The university received approval to proceed with construction of the new $77M Centre for Athletics, Recreation and Special Abilities (CARSA) and attached parking structure with construction commencing shortly after the fiscal year. Construction continued on the $62.9M ARIEL project, led by UVic and funded primarily by Canada Foundation for Innovation and the Province of British Columbia, to build a lab and underground beam tunnel at TRIUMF.

Financial Information

Financial Assets

Financial assets are defined as assets available to discharge existing liabilities or finance future operations. During the year they increased 7.3% to $284M.

In thousands of dollars	2013	2012
Cash and cash equivalents	107,506	100,946
Accounts Receivable	10,232	10,672
Due from governments	9,585	7,747
Inventories for resale	2,191	1,635
Portfolio investments	117,959	106,357
Loans receivable	30,674	31,504
Investments in government business enterprises	6,106	6,036
Total Financial Assets	284,253	264,897

Due from governments increased by $1.8M as a result of amounts due primarily from the Province of B.C. Portfolio investments include the university's long term working capital, investments underlying endowment expendable funds, investments related to sinking funds held for provincial debt and long term disability plan and supplemental pension obligations. Investments increased by $11.6M due primarily to strong investment returns on the UVic Foundation's endowment funds. Investments in government business enterprises represent the equity held in controlled business operations of Heritage Realty Properties Ltd. and the Vancouver Island Technology Park Trust.

Liabilities

Liabilities increased by 3.6% to $616M.

In thousands of dollars	2013	2012
Accounts payable	33,990	35,553
Derivatives	2,319	2,300
Due to governments	4,220	3,756
Employee future benefits	20,229	19,491
Deferred revenue	10,702	10,658
Deferred contributions	96,118	83,946
Deferred capital contributions	399,873	388,849
Long term debt	48,228	49,519
Total Liabilities	615,679	594,072

Employee future benefits represent liabilities for employee benefit plans including the Staff Pension Plan, supplemental pension obligations, vested sick leave entitlements, long term disability and group life insurance plans. Deferred contributions are externally restricted revenue that is not recognized until related expenses are incurred. Deferred contributions increased $12.2M due to earnings on restricted endowments and sponsored research revenue. Deferred capital contributions are externally restricted capital contributions to be amortized over the life of related tangible capital assets. During the year deferred capital contributions increased by a net $11M resulting from contributions of $41M less amortization of $30M. Long term debt decreased by $1.3M due to scheduled debt repayments.

Non-financial Assets

Non-financial assets increased by 2.1% to $972M.

In thousands of dollars	2013	2012
Tangible capital assets	652,967	641,522
Restricted endowment investments	301,243	293,388
Inventories held for use	1,656	1,672
Prepaid expense	16,041	15,065
Total Non-Financial Assets	971,907	951,647

Tangible capital assets include land, buildings, site improvements, library holdings, computers, equipment and furnishings but do not include $9.8M of artwork and collections. The net increase in tangible capital assets of $11.5M is due to additions of $61.3M less amortization of $48.6M and disposals of $1.2M. The largest single capital asset addition was related to the research project at TRIUMF. Restricted endowment investments represent the portion of endowment investments related to the restricted principal funds. During the year they increased $7.9M due to donations of $3.4M and capitalized investment income of $4.5M. Restricted endowment assets are considered "non-financial" as the funds principal have a restricted purpose and cannot be used to meet the liabilities of the University as they become due.

Accumulated surplus

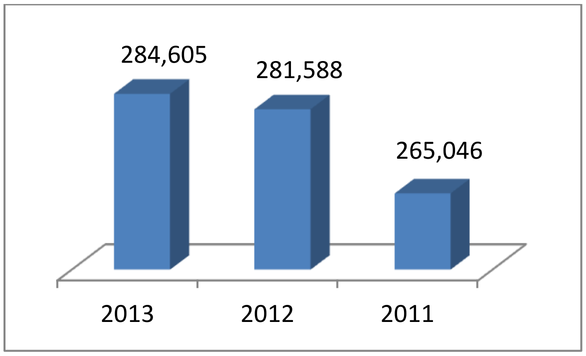
Accumulated surplus increased by 2.9% to $640M.

In thousands of dollars	2013	2012
Endowment	284,605	281,588
Invested in capital assets	221,396	219,516
Internally restricted	110,273	103,374
Unrestricted	18,792	17,994
Remeasurement gains	5,415	-
Accumulated surplus	640,481	622,472

Accumulated surplus represents the university's residual interest in its assets after deducting liabilities (net assets). Most of this balance is unavailable to fund operations as it is either restricted or has already been used to invest in buildings, equipment and other capital assets. Endowment, Invested in capital assets, and Internally Restricted are described in the following sections. Unrestricted surplus consists primarily of balances arising from ancillary operations such as residences and food services, and other entities that are consolidated in the Financial Statements. Remeasurement gains represent unrealized gains on university endowment funds and working capital arising after April 1, 2012, the effective date of the new Public Sector Accounting Standard financial instrument standard.

Accumulated Surplus – Endowment

Endowment surplus increased by 1.1%



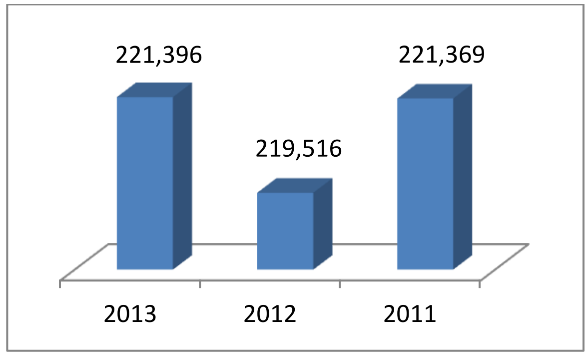
The university's endowments are primarily held by the UVic Foundation. Accumulated surplus-endowment consists of restricted donations and capitalized investment income which is required to be maintained intact in perpetuity to support donor specified activities. During the year $4.7M of unrealized gains capitalized to endowment principal were recorded through the Statement of Remeasurement and are not included in this number. The investment income generated from endowments must be used in accordance with the various purposes stipulated by the donors. At March 31, 2013 there were 1,126 individual endowment funds providing $11.5M (2012:$11.0M) in annual funding support.

Donors, as well as UVic Foundation policy, stipulate that the economic value of the endowments must be protected by restricting the amounts that can be expended and capitalizing a portion of investment income in order to maintain purchasing power against inflation.

Each endowment has an income stabilization account which is recorded as deferred contributions in order to provide a cushion against market fluctuations.

Accumulated Surplus – Invested in Capital Assets

Accumulated surplus invested in capital assets increased by 0.9%

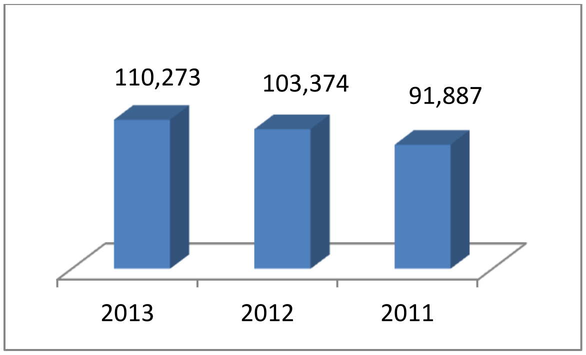


Accumulated surplus invested in capital assets arises when the university funds the acquisition of capital assets from internal resources less amortization of internally financed capital assets. The following comprises the balance of accumulated surplus invested in capital assets:

(in thousands of dollars)	**2013**	**2012**
Land	21,768	21,768
Site development	8,674	7,838
Buildings	173,223	171,733
Equipment	25,376	25,368
Library acquisitions	17,746	17,647
Software	6,308	8,320
Sinking funds	3,609	2,980
Less debt repayments	(35,308)	(36,138)
Invested in capital assets	221,396	219,516

Accumulated Surplus – Internally Restricted

Accumulated surplus internally restricted increased by 6.7% to $110M.

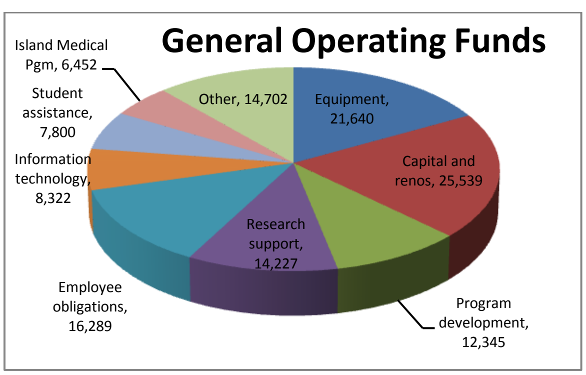


Accumulated surplus internally restricted consists of balances appropriated by the university Board of Governors for employee commitments, equipment replacement, capital improvements, program development, research support and other non-recurring expenditures. Due to restrictions in the ability of the University to borrow externally, these funds are used on a temporary basis to fund capital projects that will generate future revenues. The reserves are offset by future liabilities for employee benefits.

Balances are made up as follows:

(in thousands of dollars)	**2013**	**2012**
General operating	127,316	120,500
Ancillary enterprises	15,006	15,136
Less Capital	(23,552)	(23,086)
Less vacation pay, LTD and staff pension	(8,497)	(9,176)
Total internally restricted	110,273	103,374

General operating reserves consist of:



Revenue

Revenue increased 0.20% to $511M.

(in thousands of dollars)	2013	2012
Government grants and contracts	264,107	259,086
Tuition & student fees	121,207	116,222
Donations, non-government grants & contracts	13,958	13,541
Sales of services and products	58,549	61,219
Investment income	18,163	22,485
Income from business enterprises	482	1,036
Amortization of deferred capital contributions	29,706	30,340
Other revenue	5,135	6,482
Total Revenue	511,307	510,411

Government grants and contracts revenue is received from the Province of B.C. (73%), the Government of Canada (21%), and other governments (6%). Revenue from the Province increased by $10M due research grant funding while the university's operating grant remained flat. Tuition and student fees increased by $5M, or 4.3%, as a result of a 2% increase in domestic tuition fees and overall growth in enrolments. Sales of services and products declined by $2.7M due to reduced sales activity in ancillary and research units. Investment income for 2013 does not include unrealized gains which have been recorded through the Statement of Remeasurement as of April 1, 2102 onward. When remeasurement gains of $5.4M are included, overall investment income increased by $1.1M over 2012 results.

Expenses

Expenses increased by 0.01% to $502M.

Expenses reported by object were as follows:

(in thousands of dollars)	2013	2012
Salaries and benefits	308,003	302,286
Travel	12,952	12,571
Supplies and services	73,355	77,051
Utilities	9,232	9,008
Scholarships and bursaries	33,500	32,497
Cost of goods sold	13,972	15,167
Interest on long term debt	2,143	4,150
Depreciation	48,570	48,961
Total Expenses	501,730	501,691

Salaries and benefits represent 61.4% of total expenses. Compensation increased by $5.7M, the majority of which was due to progression through the ranks and negotiated increases for the university's unionized staff. Increases for faculty have not been reflected in the financial statement as negotiations have not concluded. Supplies and services declined by $3.7M as the university reduced expenditures to meet budgetary pressures. Cost of goods sold declined by $1.2M reflecting the reduced volume of sales activity.

Expenses reported by function were as follows:

(in thousands of dollars)	2013	2012
Instruction and non-sponsored research	198,939	198,675
Academic and student support	120,163	120,466
Administrative support	17,994	16,685
Facilities operations and maintenance	46,732	49,150
Sponsored Research	106,540	104,024
External engagement	11,362	12,691
Total Expenses	501,730	501,691

The increase in Administrative support expenses of $1.3M results from pay increases arising from negotiated settlements with unionized staff and one-time severance costs related to departmental re-organizations which will result in reduced expenditures in the future. The increase also results from a change in classification of expenditures between the two years.

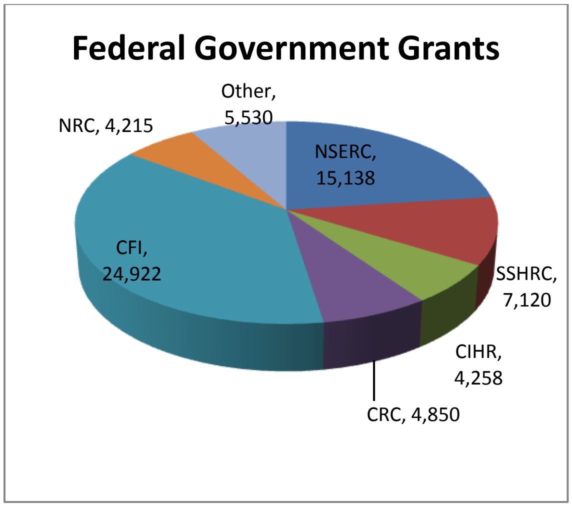
Sponsored Research Contributions

Sponsored research revenue increased by 0.4% to $100M.

(in thousands of dollars)	**2013**	**2012**
Province of B.C.	31,926	19,180
Federal government	66,033	62,152
Other governments	9,370	9,625
Gifts, grants & bequests	8,163	7,691
Sales of services	2,381	3,917
Other revenue	765	595
Total contributions	118,638	103,160
Transfer to/from deferred contributions	(18,273)	(3,223)
Sponsored research revenue	100,365	99,937

In addition to the above, the university also received $6M from the Tri-council for the indirect costs of research which is recorded in the general operating fund.

Federal government grants are comprised of the following:



The university ranks third amongst Canadian comprehensive research intensive universities in total research funding, second in NSERC/CIHR grants and third in SSHRC grants.

Operating Environment

While asserting our commitment to the highest standards of excellence and reaffirming our vision to be a university of choice, the Strategic Plan recognizes that the environment for post-secondary education has entered a period of dramatic economic, demographic and social changes at home and around the world. The external conditions under which universities find themselves operating reflect the impact of a variety of factors such as: the growing importance of post-secondary education internationally, the increased globalization and mobilization of the student population, and altered demographic and labour market trends in Canada and British Columbia. These factors exist within an overall environment of continued global economic uncertainty resulting in fiscal constraint internationally, nationally and provincially. The imperative to recruit the best and the brightest students in order to meet our goals in an environment of financial constraints, is all the more critical in view of the creation of a number of new universities in this province during the past decade which has led to a sharp drop in the number of transfer students to UVic. We are being further challenged to enhance our recruitment activities and to differentiate our institution from others—not only locally, but nationally and internationally as well. For the foreseeable future any growth will have to be even more strategically aligned with our research strengths, with emerging societal needs and with special opportunities as they arise. With respect to research strength, the university has emerged as one of Canada's premier research institutions and is now consistently ranked amongst the best in the world in a number of areas of global significance. Sustainable research infrastructure and support programs will have to be maintained in order to ensure our internationally competitive standing.

We need to deploy our existing resources more effectively, ensuring that we choose carefully where we place emphasis, how we optimize our investments, and how we grow our revenues from other sources. New funding sources will be needed to allow us greater flexibility: in the recruitment of outstanding faculty; in the pursuit of innovative cutting-edge research; in the deployment of innovative teaching and research programs; in setting up scholarships and incentive programs to attract top students; and in procuring world-class research equipment. New funding is essential in order to maintain our national and international reputation for the quality of our academic programs and research.

Revenue growth from student enrollment will be constrained as previous government-funded growth programs have ended and tuition increases are limited to inflation. Flat revenues combined with upward cost pressures from staff and faculty employment agreements and the proposed reduction of provincial grants in the post-secondary sector of $5 million, $20 million and $25 million in each 2013-14, 2014-15 and 2015-16 will increase financial constraints over the next three years. Our share of the reduction in 2013/14 is $0.44 Million. The allocation of the $20 Million and $25 Million has not yet been determined.

Even with greater efforts to diversify revenue sources, increased revenues from tuition and other sources will likely not be sufficient to fund higher increasing costs related to salaries and benefits resulting from new agreements, annual increments and pension pressures. Annual salary increments, even without increases resulting from new agreements, exceed the allowed increase in tuition, resulting in a structural deficit. This shortfall is expected to require a re-allocation of resources in at least two of the next three years and, unless addressed, will continue to cause financial pressures in the future.

To deal with shortfalls in revenue in the past, the university has implemented across-the-board budget reductions in three of the past four years (2.0% for 2009-10 and 1.5% in each of 2011-12, 2012-13). For 2013/14 and 2014/15 faculties and departments were asked to develop plans for reductions of up to 4% per year. Identifying budget reductions that can be implemented without sacrificing quality is difficult across the university as a whole. Budget reduction plans that are, of necessity, based on opportunity (for example vacancies or retirements) and not within a strategic framework can result in often unintended, unplanned outcomes impacting negatively upon the quality of instruction and the delivery of programs. During the past year, in order to mitigate the impact of future budget reductions, we undertook a planning exercise to look at further ways of optimizing the use of our resources, both academic and administrative. Over the next year we will be working on the following optimization projects: smart growth (improved classroom utilization, instructional capacity and class size), retirement planning, improved IT support, energy savings opportunities, reviewing guidelines and processes for travel and shared services across the post-secondary institutions in BC with a focus on procurement and information technology.

Financial Reporting Environment

Accounting standards in Canada are undergoing substantial change which has impacted the university's 2013 consolidated financial statements. Accounting standards are anticipated to continue evolving as gaps in the conceptual framework are addressed.

The university is part of the Government Reporting Entity (GRE) of the Province of B.C. and, as such, is required to present its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Province of B.C. has directed that PSAS be implemented without the PS4200 not-for-profit elections and coordinated the elections of other options upon transition.

The Province of B.C. has also directed that all restricted contributions received for acquiring tangible capital assets be deferred as Deferred Capital Contributions and recognized in revenue at the same rate that the amortization of the related tangible capital asset is recorded. Deferred contributions are to be recorded when contributions meet the PSAS definition of a liability. This approach is consistent with the PS4200 not-for-profit elections and the university's previous reporting framework related to deferrals. As this Provincial directive supplements the requirements of PSAS, the financial statements are presented on a compliance basis, rather than a fair representation of PSAS basis, and this is reflected in the audit opinion.

The new reporting framework (PSAS supplemented with the Province of B.C. directives) has been implemented retroactively by adjusting balances at April 1, 2011 and March 31, 2012. The details of the adjustments and reclassifications are provided in Note 3 to the financial statements. The most significant adjustment was the reduction of tangible capital assets to eliminate $9.8M of art and collections which are no longer defined as tangible capital assets.

PSAS also adopted a new accounting standard for financial instruments which was implemented prospectively as of April 1, 2012. This new standard enables financial instruments to be recorded at fair value and creates a Statement of Remeasurement to report unrealized gains and losses.

The PSAS consolidated financial statements are very different than under the previous not-for-profit standards and the note disclosure is more extensive and technical. Some of the notable differences in presentations are as follows:

The Statement of Financial Position reflects a "Net Debt model" and presents Net Debt as the difference between liabilities and financial assets and is intended to measure the university's future revenue requirements and its ability to finance its activities. Net debt at March 31, 2013 is $(331M) but includes $400M of Deferred Capital Contribution liabilities that would likely never be repaid, thus bringing into question its relevance. The Statement of Financial Position also presents an Accumulated Operating Surplus of $640M representing the university's net assets. A breakdown of this balance is disclosed on the Statement of Financial Position, and in the notes, to communicate to readers of the financial statements that this figure mostly represents restricted, spent or committed funds.

The Statement of Operations reports revenues, functional expenses and budget figures for the university's consolidated operations. Endowment donations and investment income capitalized to endowment principal, that used to be recorded as direct increases in net assets, are now recorded on the Statement of Operations as Restricted Endowment Contributions and included in Annual Operating Surplus, even though they are not available to fund operational expenses.

Remeasurement gains and losses, representing unrealized gains and losses on investments, derivatives and foreign currency, are reported on a separate statement and as a separate category of Accumulated Surplus rather than being included with the other components of investment income on the Statement of Operations. This effectively limits the ability to fund expenses from unrealized gains. Accumulated remeasurement gains commenced as of April 1, 2012 onward, reflecting the prospective implementation of the PSAS financial instrument standard which has created a requirement to track unrealized gains and losses in investment portfolios pre and post April 1, 2012.

A Statement of Changes in Net Debt summarizes the key changes in Net Debt and provides information on how the university financed its expenditures by raising revenue, applying existing resources or incurring liabilities.

Risks and Uncertainties

The University operates in an increasingly more complex environment with many factors that are outside of the control of the University. The University uses an Enterprise Risk Management approach and develops risk mitigation strategies to reduce the impact where possible. The major risks that can affect the University from a financial perspective are as shown below.

Provincial funding

The Province has announced grant reductions to the sector of $5M in 2013/14, $20M in 2014/15 and $25M in 2015/16. There is risk that the reductions, assuming they continue to be reflected in approved provincial budgets, will not be allocated on a pro-rata basis to post-secondary institutions. Given the difficult financial conditions, there is also the risk that reductions are greater than projected.

In addition to the reduction in grant funding, the University is also facing risks because of the moratorium placed on new external borrowing even where the repayment of borrowing will be with incremental funds that do not rely on student tuition or government funding.

Recruitment and retention

Enrolment levels can be affected by the economy, competition and the world economic environment. Changes in these conditions can affect enrolment revenues should, for example, international students choose to stay in their home country for post-secondary education.

Negotiations with Faculty & Staff

While the budget reflects projected increases for salaries and benefits, a financial risk still exists that salaries and benefit costs could be even greater. The 2012/13 financial statements do not include the impact of the increase in faculty salaries for the year as the agreement with faculty remained unsettled at the fiscal year end.

In addition to the risk related to salaries and benefits, there is also a risk of labour disruption. The agreement with the faculty is going to arbitration in Fall 2013. Agreements with all employee groups expire in 2014.

Pensions and Employee Future Benefits

The University has one pension plan for its faculty, Professional Employee Association members, management exempt and executive (Combination Plan) and one plan for members of CUPE and exempt clerical staff (Staff Plan). An actuarial valuation of the Combination Plan is currently being completed with an effective date of December 31, 2012. At the last valuation effective December 31, 2009, there was a need to increase pension contribution rates resulting in an increase of $3M in the University's pension expense. Results of the current valuation will not be known until Fall 2013. The Staff Pension plan was last valued effective December 31, 2010. At that time there was a going concern surplus but a solvency deficiency. While many other post-secondary institutions in BC and in other provinces are not required to meet a solvency test, this requirement for the University resulted in a annual cost of $566K for 2012/13 that will grow in future years.

Funding to support Research

Funding has been secured from the federal government for 40% of operating costs for the NEPTUNE and VENUS projects for 5 years ending March 31, 2017. Provincial matching funding of 40% has been secured for 2 years ending March 31, 2014. There is a risk that the ongoing operating costs will not be funded particularly after March 31, 2014.

Deferred Maintenance

While the Knowledge Infrastructure Program project, funded jointly by the Federal and the Provincial government, addressed some of the aging infrastructure through the renewal of six of the oldest buildings on campus, overall building conditions remain an issue. Given the age of some buildings, the likelihood of large unexpected repairs is high. The university does not have funding set aside for such occurrences.

Related Entities

The university's consolidated financial statements include the following related entities:

University Foundations

The University of Victoria Foundation, Foundation for the University of Victoria and U.S. Foundation for the University of Victoria receive and manage the university's endowment funds. The Foundations are tax exempt as a registered charity, agent of the Crown or charitable organization, respectively. They are consolidated in the university's financial statements.

TRIUMF and WCUMSS

The university participates in two non-profit research joint ventures with other universities. TRIUMF is Canada's national laboratory for particle and nuclear physics. The university is one of eleven members. The Western Canadian Universities Marine Sciences Society (WCUMSS) operates a marine research facility located at Bamfield, B.C. The university is one of five members. The university's interest in these two government partnerships is proportionately consolidated in the university's financial statements.

Heritage Realty Properties and VITP Trust

The university controls two taxable business enterprises. Heritage Realty Properties Ltd. manages the rental properties, hotel and brew-pub operation donated by the late Michael C. Williams. The Vancouver Island Technology Park Trust (VITP) provides leased space to high-technology companies on Vancouver Island. Both enterprises are accounted for in the university's financial statements on the modified equity basis.

UVic Properties Investments Inc.

University of Victoria Properties Investments Inc. manages the university's real estate holdings including the Marine Technology Centre and acts as trustee for the Vancouver Island Technology Park Trust. UVic Properties is consolidated in the university's financial statements.

UVic Industry Partnerships

UVic Industry Partnerships is a taxable corporation that facilitates research partnerships between the private sector and the university by assisting with intellectual property management and commercialization of research discoveries. It is consolidated in the university's financial statements.

Oceans Network Canada Society

Oceans Network Canada Society is a non-profit society that manages the university's two ocean observatories VENUS and NEPTUNE. It is consolidated in the university’s financial statements.

Pacific Climate Impacts Consortium

The Pacific Climate Impacts Consortium is a non-profit organization that furthers the understanding of the climate system, its variability and potential for change and the application of that understanding to decision making in both the public and private sectors. It is consolidated in the university’s financial statements.

UVic Long Term Disability Trust

The LTD Trust administers a self-funded long term disability plan for faculty, administrative and academic professional staff at the university. It is consolidated in the university’s financial statements.

Consolidated Financial Statements of

UNIVERSITY OF VICTORIA

Years ended March 31, 2013 and 2012

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards and Treasury Board direction outlined in note 2 (a). This responsibility includes selecting appropriate accounting principles and methods and making decisions affecting measurement of transactions in which objective judgment is required. In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University's management has developed and maintains a system of internal controls designed to provide reasonable assurance that the University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements. The system of internal controls is monitored by the University's management.

The Board of Governors carries out its responsibility for review of the financial statements principally through its audit committee. The members of the Audit Committee are not officers or employees of the University. The Audit Committee meets with the management and with the internal and external auditors to discuss the results of audit examinations and financial reporting matters. The auditors have full access to the Audit Committee, with and without the presence of the management.

The financial statements have been examined by KPMG LLP, Chartered Accountants, the external auditors appointed by the University's Board of Governors. The Independent Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the University for the years ended March 31, 2013 and 2012.

On behalf of the University:

____________________________ Chair, Board of Governors

____________________________ Vice-President Finance and Operations

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the University of Victoria and the Minister of Advanced Education, Innovation and Technology

We have audited the accompanying consolidated financial statements of the University of Victoria, which comprise the consolidated statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the consolidated statement of remeasurement gains and losses for the year ended March 31, 2013, the consolidated statements of operations, changes in net debt and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 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 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 entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated 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.

KPMG

Opinion

In our opinion, the consolidated financial statements of the University of Victoria as at March 31, 2013, March 31, 2012 and April 1, 2011 and for the years ended March 31, 2013 and March 31, 2012 are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(a) to the consolidated financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

May 28, 2013

Victoria, Canada

UNIVERSITY OF VICTORIA

Statements of Financial Position

As at March 31, 2013, March 31, 2012 and April 1, 2011
(in thousands of dollars)

		March 31, 2013	March 31, 2012	April 1, 2011
Financial Assets				
Cash and cash equivalents	(Note 4)	$107,506	$100,946	$82,244
Accounts receivable		10,232	10,672	16,547
Due from governments	(Note 5)	9,585	7,747	33,945
Inventories for resale		2,191	1,635	1,937
Portfolio investments	(Note 7)	117,959	106,357	113,345
Loans receivable	(Note 6)	30,674	31,504	32,242
Investments in government business enterprises	(Note 8)	6,106	6,036	6,097
		284,253	264,897	286,357
Liabilities				
Accounts payable and accrued liabilities	(Note 10)	33,990	35,553	32,885
Derivatives	(Note 7)	2,319	2,300	1,336
Due to governments		4,220	3,756	4,025
Employee future benefits	(Note 11)	20,229	19,491	18,580
Deferred revenue		10,702	10,658	10,229
Deferred contributions	(Note 12)	96,118	83,946	106,537
Deferred capital contributions	(Note 13)	399,873	388,849	382,244
Long term debt	(Note 14)	48,228	49,519	60,495
		615,679	594,072	616,331
Net debt		(331,426)	(329,175)	(329,974)
Non-financial assets				
Tangible capital assets	(Note 15)	652,967	641,522	637,327
Restricted endowment investments	(Note 7)	301,243	293,388	276,443
Inventories held for use		1,656	1,672	1,412
Prepaid expense		16,041	15,065	12,001
		971,907	951,647	927,183
Accumulated surplus	(Note 17)	$640,481	$622,472	$597,209
Accumulated surplus is comprised of:				
Endowments	(Note 18)	$284,605	$281,588	$265,045
Invested in capital assets		221,396	219,516	221,369
Internally restricted		110,273	103,374	91,887
Unrestricted		18,792	17,994	18,908
Accumulated operating surplus		635,066	622,472	597,209
Accumulated remeasurement gains		5,415	-	-
		$640,481	$622,472	$597,209

Contractual obligations (Note 19)
Contingent liabilities (Note 20)

See accompanying notes to consolidated financial statements

On behalf of the Board:

Chair, Board of Governors

Vice-President Finance and Operations

UNIVERSITY OF VICTORIA

Statements of Operations and Accumulated Surplus

Years ended March 31, 2013, and 2012
(in thousands of dollars)

	Budget	2013	2012
	(Note 2(n))		
Revenue:			
Province of British Columbia grants	$192,000	$193,939	$183,983
Government of Canada grants	52,000	55,174	58,771
Other government grants	14,000	14,994	16,332
Student tuition – credit courses	117,000	102,138	97,933
Student tuition – non-credit courses	-	19,069	18,289
Donations, non-government grants and contracts	14,000	13,958	13,541
Sales of services and products	60,000	58,549	61,219
Investment income	14,000	18,163	22,485
Income from business enterprises	-	482	1,036
Other revenue	6,500	5,135	6,482
Revenue recognized from deferred capital contributions	33,250	29,706	30,340
	502,750	511,307	510,411
Expenses: (Note 21)			
Instruction and non-sponsored research	198,564	198,939	198,675
Academic and student support	120,584	120,163	120,466
Administrative support	17,925	17,994	16,685
Facility operations and maintenance	45,500	46,732	49,150
Sponsored research	106,497	106,540	104,024
External engagement	11,331	11,362	12,691
	500,401	501,730	501,691
Operating surplus before restricted funding	2,349	9,577	8,720
Restricted endowment contributions			
Endowment principal donations	7,000	3,198	8,619
Net investment income and donations capitalized	8,000	(181)	7,924
Net restricted endowment contributions	15,000	3,017	16,543
Annual operating surplus	17,349	12,594	25,263
Accumulated operating surplus, beginning of year	622,472	622,472	597,209
Accumulated operating surplus, end of year	$639,821	$635,066	$622,472

See accompanying notes to consolidated financial statements

UNIVERSITY OF VICTORIA

Statements of Changes in Net Debt

Years ended March 31, 2013 and 2012
(in thousands of dollars)

	Budget (Note 2(n))	2013	2012
Annual surplus	$17,349	$12,594	$25,263
Acquisition and disposition of tangible capital assets	(71,813)	(60,015)	(53,156)
Amortization of tangible capital assets	51,401	48,570	48,961
	(20,412)	(11,445)	(4,195)
Endowment donations and transfers	-	(7,855)	(16,945)
Acquisition of inventories held for use	-	(1,677)	(1,665)
Acquisition of prepaid expense	-	(15,270)	(16,963)
Consumption of inventories held for use	-	1,693	1,405
Use of prepaid expense	-	14,294	13,899
	-	(8,815)	(20,269)
Net remeasurement gains	-	5,415	-
Decrease (increase) in net debt	(3,063)	(2,251)	799
Net debt, beginning of year	(329,175)	(329,175)	(329,974)
Net debt, end of year	$(332,238)	$(331,426)	$(329,175)

See accompanying notes to consolidated financial statements

UNIVERSITY OF VICTORIA

Statements of Cash Flows

March 31, 2013 and 2012
(in thousands of dollars)

	2013	2012
Cash provided by (used in):		
Operations:		
Annual surplus	$12,594	$25,263
Items not involving cash:		
Amortization of tangible capital assets	48,570	48,961
Revenue recognized from deferred capital contributions	(29,706)	(30,340)
Change in deferred contributions	12,172	(22,591)
Change in employee future benefits	738	911
Equity in income of government business enterprises	(70)	(458)
Derivative fair market value adjustments	-	964
Foreign exchange loss to remeasurement	(8)	-
Loss on disposal of tangible capital assets	1,062	-
Changes in non-cash operating working capital:		
Decrease in accounts receivable	440	5,875
Decrease in loans receivable	830	738
Decrease (increase) in inventories	(540)	42
Increase in prepaid expenses	(976)	(3,064)
Increase (decrease) in accounts payable and accrued liabilities	(1,563)	2,668
Increase (decrease) in due to/from government organizations	(1,374)	25,929
Increase in deferred revenue	44	429
Net change from operating activities	42,213	55,327
Capital activities:		
Cash used to acquire tangible capital assets	(61,248)	(53,156)
Proceeds on sale of tangible capital assets	171	-
Net change from capital activities	(61,077)	(53,156)
Investing activities:		
Portfolio investments	170	(8,787)
Endowment investments	(14,185)	(651)
Net change from investing activities	(14,015)	(9,438)
Financing activities:		
Repayment of long-term debt	(1,291)	(10,976)
Cash proceeds from deferred capital contributions	40,730	36,945
Net change from financing activities	39,439	25,969
Net change in cash and cash equivalents	6,560	18,702
Cash and cash equivalents, beginning of year	100,946	82,244
Cash and cash equivalents, end of year	$107,506	$100,946

See accompanying notes to consolidated financial statements

UNIVERSITY OF VICTORIA

Statement of Remeasurement Gains and Losses

March 31, 2013
(in thousands of dollars)

	2013
Accumulated remeasurement gains (losses), beginning of year (Note 7)	$-
Unrealized gains (losses) attributed to:	
Portfolio investments	5,442
Derivatives	(19)
Foreign currency translation	(8)
Net remeasurement gains for the year	5,415
Accumulated remeasurement gains, end of year	$5,415

See accompanying notes to consolidated financial statements

1. Authority and Purpose

The University of Victoria operates under the authority of the *University Act* of British Columbia. The University is a not-for-profit entity 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 Alumni Association. The University is a registered charity and is exempt from income taxes under section 149 of the *Income Tax Act*.

The University is a comprehensive research university offering a wide range of undergraduate, graduate and continuing studies programs. The academic governance of the University is vested in the Senate.

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 for acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are to be deferred and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded.

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

2. Summary of significant accounting policies (continued)

(a) Basis of accounting (continued):

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 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 the University. Controlled organizations are consolidated except for government business enterprises which are accounted for by the modified equity method. Inter-organizational transactions, balances, and activities have been eliminated on consolidation.

The following organizations are controlled by the University and fully consolidated in these financial statements:

- UVic Industry Partnerships (formerly University of Victoria Innovation and Development Corporation) which facilitates research partnerships between the private sector and the University.
- University of Victoria Properties Investments Inc. which manages the University's real estate holdings including the Vancouver Island Technology Park Trust.
- Ocean Networks Canada Society which manages the University's VENUS and NEPTUNE ocean observatories.
- Pacific Climate Impacts Consortium which stimulates collaboration to produce climate information for education, policy and decision making.
- University of Victoria Long Term Disability Trust which administers an employee benefit plan on behalf of the University's faculty and administrative professional staff.
- University of Victoria Foundation, the Foundation for the University of Victoria, and the U.S. Foundation for the University of Victoria which encourage financial support of the University and administer the University's endowment funds.

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued):

(ii) Investment in government business enterprises

Government business enterprises are accounted for by the modified equity method. Under this method, the University's investment in the business enterprise and its net income and other changes in equity are recorded. No adjustment is made to conform the accounting policies of the government business enterprise to those of the University other than if other comprehensive income exists, it is accounted for as an adjustment to accumulated surplus (deficit). Inter-organizational transactions and balances have not been eliminated, except for any profit or loss on transactions between entities of assets that remain within the entities controlled by University.

The following organizations are controlled government business enterprises and are accounted for by the modified equity method:

- Heritage Realty Properties Ltd. which manages the property rental and downtown hotel and brew-pub operation donated by the late Michael C. Williams.
- Vancouver Island Technology Park Trust which provides leased space to high-technology companies on Vancouver Island.

(iii) Investment in government partnerships

Government partnerships that are not business partnerships are accounted for under the proportionate consolidation method. The University accounts for its share of the partnership on a line by line basis on the financial statements and eliminates any interorganizational transactions and balances. Accounting policies of the partnership, which is not a business partnership, are conformed to those of the University before it is proportionately consolidated.

The following organizations are government partnerships and are proportionately consolidated in these financial statements:

- Tri-Universities Meson Facility (TRIUMF) which operates a research facility for sub-atomic physics located at the University of British Columbia. The financial statements include the University's 9.09% interest.
- Western Canadian Universities Marine Sciences Society (WCUMSS) which operates a marine research facility at Bamfield on the west coast of Vancouver Island. The financial statements include the University's 20% interest.

(iv) Funds held in trust

Funds held in trust 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 highly liquid investments with a term to maturity of three months or less at the date of purchase.

2. Summary of significant accounting policies (continued)

(d) Financial instruments:

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

(i) 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 endowment and portfolio investments*.* Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments is 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 in endowment investments, where earnings are restricted as to use, are recorded as deferred contributions and recognized in revenue when disposed and when related expenses are incurred. Restricted unrealized gains spent to meet current year endowment expenses or capitalization transfers are recorded in the Statement of Remeasurement Gains and Losses.

(ii) Cost category: Gains and losses are recognized in the Statement of Operations and Accumulated Surplus 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. Accounts receivable are measured at amortized cost using the effective interest method; accounts payable and accrued liabilities and long term debt are measured at amortized cost using the effective interest method. Any gains, losses or interest expense is recorded in the annual surplus (deficit) depending on the nature of the financial liability that gave rise to the gain, loss or expense; loans receivable are recorded at cost, or amortized cost using the effective interest method, less any amount for valuation allowance. Valuation allowances are made when collection is in doubt. Interest is accrued on loans receivable to the extent it is deemed collectible.

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.

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued):

The University applied requirements of PS 3450, 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 University immediately preceding its adoption of Public Sector Accounting Standards, as follows:

The University measured its cash and cash equivalents, derivative instruments, and endowment and other investments at fair value and designated them as held-for-trading. Annual changes in the fair value of investments were recognized in the consolidated statement of operations. Transaction costs directly attributable to the acquisition of the investments were recognized as expenses immediately on the statement of operations.

Accounts receivable and related party long term receivables were classified as loans receivable; accounts payable and long term debt were classified as financial liabilities; both categories were carried at amortized cost using the effective interest method.

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

(e) Short-term investments:

Short term investments are comprised of money market securities and other investments with maturities that are capable of prompt liquidation. Short-term investments are cashable on demand and are recorded at cost based on the transaction price on the trade date. All interest income, gains and losses are recognized in the period in which they arise.

(f) Inventories for resale and assets held for sale

Inventories held for resale, including books, merchandise and food are recorded at the lower of cost or 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.

Assets held for sale are those expected to be sold within one year. They are valued at the lower of cost and expected net realizable value. Cost includes amounts for improvements to prepare the assets for sale.

2. Summary of significant accounting policies (continued)

(g) Non-financial assets:

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

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Interest is not capitalized whenever external debt is issued to finance the construction of tangible capital assets. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are 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.

Donated assets are recorded at fair value as the date of donation. In unusual circumstances where fair value cannot be reasonably determined, the tangible capital asset would be recognized at nominal value.

Asset	Straight line Rate
Buildings – Concrete	50 years
Buildings – Woodframe	30 years
Buildings – Heritage	35 years
Site improvements	30 years
Equipment – Computing	3 years
Equipment – Other	8 years
Information systems	8 years
Furnishings	8 years
Library Holdings	10 years
Ships/Vessels	25 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 financial statements.

2. Summary of significant accounting policies (continued)

(g) Non-financial assets:

(iii) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(iv) Inventories held for use

Inventories held for use are recorded at the lower of cost and replacement cost.

Cost includes the original purchase cost, plus shipping and applicable duties. Replacement cost is the estimated current price to replace the items.

(h) Employee future benefits:

The costs of pension and other future employee benefits are recognized on an accrual basis over the working lives of employees as detailed in Note 11.

(i) Revenue recognition:

Tuition and student fees and sales of goods and services are reported as revenue at the time the services are provided or the products are delivered, and collection is reasonably assured.

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 the University 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.

(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.

2. Summary of significant accounting policies (continued)

(i) Revenue recognition:

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

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

(j) Pledges, gifts-in-kind and contributed services:

Pledges from donors are recorded when payment is received by the University or the transfer of property is completed since their ultimate collection cannot be reasonably assured until that time. Gifts-in-Kind include securities and equipment which are recorded in the financial statements at their fair market value at the time of donation. The University acknowledges the substantial and significant services provided by its many volunteers. The value of these services is not determinable and is not recorded in the financial statements.

(k) Use of estimates:

The preparation of the 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 carrying amount of capital assets, valuation allowances for receivables and inventories, the valuation of financial instruments and assets and obligations related to employee future benefits. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

(l) Asset retirement obligations:

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 amortized 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. At this time the University has determined that there are no significant retirement obligations with respect to its assets.

2. Summary of significant accounting policies (continued)

(m) 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 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 Operations and Accumulated Surplus.

(n) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the 2012/13 to 2014/15 Planning and Budget Framework approved by the Board of Governors of the University on March 27, 2012 and the University's first quarter forecast provided to the Province. The budget is reflected in the Statement of Operations and Accumulated Surplus and the Statement of Changes in Net Debt.

3. Adoption of new financial reporting framework and prior period adjustment

Effective April 1, 2012, the University adopted the financial reporting framework described in note 2(a). These consolidated financial statements are the first financial statements for which the University has applied this financial reporting framework. Previously, the University's consolidated financial statements were prepared in accordance with Part V of Canadian generally accepted accounting principles.

The impact of the adoption to this financial reporting framework on accumulated surplus at the date of transition and the comparative annual surplus is presented below. These accounting changes have been applied retroactively with restatement of prior periods.

The University has elected to use the following exemptions allowed upon first-time adoption:

- Retirement and post-employment benefits
  - The University has elected to delay application of the new discount rate until the sooner of the date of the next actuarial valuation or three years from transition date, and has also elected to record all cumulative gains and losses from inception to date of transition into accumulated surplus.
- Business Combinations
  - The University as elected to not apply Business Combinations, section PS 2510, to business combinations before transition date and has consistently applied this to all business combinations.

3. Adoption of new financial reporting framework and prior period adjustment (continued)

Key adjustments on the University's consolidated financial statements resulting from the adoption of these accounting standards are as follows:

a) Previously, the University recorded its interest in the joint ventures of WCUMSS and TRIUMF using the equity method of accounting. Under Canadian public sector accounting standards, the assets, liabilities, revenues and expenses of these government business partnerships have been proportionately consolidated.

b) Previously, the University recorded its interest in government business enterprises on the equity method of accounting. Under Canadian public sector accounting standards they are recorded using the modified equity method of accounting.

c) Under Canadian public accounting standards artwork and collections are no longer defined as tangible capital assets.

d) Previously, the University amortized actuarial gains and losses on employee future benefits over employees' service lives. Under Canadian public sector accounting standards cumulative actuarial gains and losses are recognized at the date of transition into accumulated surplus.

e) Under Canadian public sector accounting standards endowment investments are split between portfolio investments and restricted endowment investments in non-financial assets.

f) Under Canadian public sector accounting standards endowment contributions and capitalized donations and investment income are recorded as restricted endowment contributions on the Statement of Operations.

g) Under Canadian public sector accounting standards deferred contributions have been recorded using the Public Sector Standards' definition of a liability.

The University also recorded a prior period adjustment related to certain Annual Capital Allowance (ACA) funding attributed to periods beyond the fiscal year. As a result, certain funding has been removed from deferred capital contributions and recorded in accumulated surplus. The impact of this change, which has been applied retroactively, is to adjust the Statement of Financial Position by decreasing deferred capital contributions and increasing accumulated surplus by $11,180,000. There was no effect on the annual surplus in 2012 or 2013.

3. Adoption of new financial reporting framework and prior period adjustment (continued)

Summary of adjustments

Consolidated Statement of Financial Position *(in thousands of dollars)*	2012 Previously presented	Reclassifications	Adjustments	2012 Adjusted
Financial assets	$1,221,715	$(951,638)	$(5,180)	$264,897
Liabilities	606,215	-	(12,143)	594,072
Non-financial assets	-	951,638	9	951,647
Accumulated surplus	$615,500	$-	$6,972	$622,472

Consolidated Statement of Financial Position *(in thousands of dollars)*	2011 Previously presented	Reclassifications	Adjustments	2011 Adjusted
Financial assets	$1,218,060	$(927,173)	$(4,530)	$286,357
Liabilities	630,234	-	(13,903)	616,331
Non-financial assets	-	927,173	10	927,183
Accumulated surplus	$587,826	$-	$9,383	$597,209

Consolidated Statement of Operations *(in thousands of dollars)*	2012 Previously presented	Reclassifications	Adjustments	2012 Adjusted
Revenue	$506,121	$-	$4,290	$510,411
Expenses	495,028	-	6,663	501,691
Restricted endowment contributions	-	-	16,543	16,543
Total annual surplus (deficit)	$11,093	$-	$14,170	$25,263

Accumulated surplus at April 1, 2011:	
Accumulated surplus, as previously reported	$587,826
Prior period adjustment to remove ACA from deferred capital contributions	11,180
Expense art to accumulated surplus	(9,787)
Change TRIUMF from equity method to proportionate consolidation	429
Change WCUMSS from equity method to proportionate consolidation	(10)
Adjustment to the pension accrued benefit asset	1,287
Adjustments to deferred contributions relating to the PSAS definition of a liability	3,186
Adjustment to investments in government business enterprises	3,098
Accumulated surplus, as adjusted	$597,209

3. Adoption of new financial reporting framework and prior period adjustment (continued)

Accumulated surplus at March 31, 2012:	
Accumulated surplus, as previously reported	$615,500
Prior period adjustment to remove ACA from deferred capital contributions	11,180
Expense art to accumulated surplus	(9,825)
Change TRIUMF from equity method to proportionate consolidation	402
Change WCUMSS from equity method to proportionate consolidation	29
Adjustment to the pension accrued benefit asset	1,024
Adjustments to deferred contributions relating to the PSAS definition of a liability	1,583
Adjustment to investments in government business enterprises	2,579
Accumulated surplus, as adjusted	$622,472

4. Cash and cash equivalents

(in thousands of dollars)	2013	2012	2011
Cash	$16,114	$45,224	$32,896
Short term investments	90,450	54,795	48,433
Restricted cash	942	927	915
	$107,506	$100,946	$82,244

Restricted cash is comprised of an escrow account balance related to TRIUMF's asset retirement obligations.

5. Due from governments

(in thousands of dollars)	2013	2012	2011
Federal government	$6,325	$5,888	$30,207
Provincial government	3,175	1,839	3,678
Other	85	20	60
	$9,585	$7,747	$33,945

6. Loans receivable

(in thousands of dollars)	2013	2012	2011
BCNET			
interest at 4.5%, due April 2019, unsecured	$652	$745	$834
Various faculty and senior administrators			
Home relocation loans, interest free for 5 years with option for further renewal unless employment ceases, secured by second mortgages	4,362	4,538	5,003
Heritage Realty Properties Ltd.			
Promissory note receivable, interest at Royal Bank Prime + 5.0%, due May 31, 2021, secured by an unregistered equitable mortgage	9,608	9,608	9,258
Vancouver Island Technology Park Trust			
Loans receivable			
Interest at 5.13%, due April 2030, unsecured	12,920	13,381	13,820
Interest at 6.13%, due April 2030, unsecured	3,132	3,232	3,327
	$30,674	$31,504	$32,242

7. Financial instruments

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

(in thousands of dollars)	Fair Value Hierarchy	2013	2012	2011
Portfolio investments quoted at fair value:				
Bonds	Level 2	$1,972	$882	$2,345
Various pooled bond funds	Level 1	92,575	91,307	75,667
Canadian equities	Level 1	5,181	2,322	6,383
US equities	Level 1	1,430	782	3,817
Non-North American equities	Level 1	5,795	2,518	4,519
Infrastructure and real estate	Level 3	2,508	983	2,531
Other	Level 1	8,037	7,265	17,267
		117,498	106,059	112,529
Portfolio investments at cost:				
Short term investments		365	189	471
Cash		34	60	323
Other		62	49	22
Total Portfolio investments		$117,959	$106,357	$113,345

7. Financial instruments (continued)

(in thousands of dollars)	Fair Value Hierarchy	2013	2012	2011
Restricted endowment investments quoted at fair value:				
Bonds	Level 2	$29,120	$27,610	$25,307
Various pooled bonds	Level 1	46,741	53,466	57,731
Canadian equities	Level 1	75,791	70,396	68,106
US equities	Level 1	21,110	24,505	41,199
Non-North American equities	Level 1	85,569	78,873	48,775
Infrastructure and real estate	Level 3	37,027	30,788	27,321
		295,358	285,638	268,439
Restricted endowment investments at cost:				
Short term investments		5,385	5,906	5,079
Cash		500	1,844	2,925
Total restricted endowment investments		$301,243	$293,388	$276,443

(in thousands of dollars)	Fair Value Hierarchy	2013	2012	2011
Derivatives – interest rate swaps on long term debt quoted at fair value:				
BC Immigrant Investment Fund interest rate swap fixed at 5.138%, commencing in 2017	Level 1	$(335)	$(245)	$(32)
Royal Bank of Canada floating interest rate fixed at 5.38%, to 2014, through an interest rate swap due Nov 2024, unsecured	Level 1	(1,984)	(2,055)	(1,304)
		$(2,319)	$(2,300)	$(1,336)

8. Investments in government business enterprises

The University controls two profit oriented subsidiaries which are recorded using the modified equity method of accounting. Heritage Realty Properties Limited manages the property rental and downtown hotel and brew-pub operation donated by the late Michael C. Williams. The Vancouver Island Technology Park Trust provides leased space to high technology companies on Vancouver Island.

8. Investments in government business enterprises (continued)

Change in equity in government business enterprises

(in thousands of dollars)	2013	2012	2011
Equity at beginning of year	$3,926	$3,971	$3,820
Dividends/distributions paid	(771)	(1,081)	(797)
Net earnings (loss)	482	1,036	948
Equity at end of year	$3,637	$3,926	$3,971
Dividends/distributions payable	2,469	2,110	2,126
Investment in government business enterprises	$6,106	$6,036	$6,097

Condensed financial information of these government business enterprises are as follows*:*

Consolidated Statement of Financial Position

(in thousands of dollars)	2013	2012	2011
Assets	$38,671	$39,466	$40,634
Liabilities	35,034	35,540	36,663
Equity	$3,637	$3,926	$3,971

Consolidated Statement of Operations:

(in thousands of dollars)	2013	2012	2011
Revenue	$11,681	$12,345	$11,992
Expenses	11,199	11,309	11,044
Net income	$482	$1,036	$948

9. Investments in government partnerships

The University is one of eleven university members of a consortium which manages the Tri-Universities Meson Facility (TRIUMF) for research in sub-atomic physics. The facility is funded by federal government grants and the University makes no direct financial contribution. TRIUMF's financial results are proportionately consolidated with those of the University based upon the University's share of its total contributions of 9.09% (2012 and 2011- 9.09%).

The University is one of five university members of the Western Canadian Universities Marine Sciences Society (WCUMSS) for marine field research. The University provided a grant to the Society in 2013 of $253,000 (2012 – 228,000). WCUMSS financial results are proportionately consolidated with those of the University based upon the University's share of its total contributions of 20% (2012 and 2011- 20%).

9. Investments in government partnerships (continued)

The proportionate amounts included in these consolidated financial statements are as follows:

Consolidated Statement of Financial Position

(in thousands of dollars)	2013	2012	2011
Financial assets	$2,769	$2,665	$2,462
Liabilities	2,255	2,169	2,041
Net assets	514	496	421
Non-financial assets	1,110	1,142	1,167
Accumulated surplus	$1,624	$1,638	$1,588

Consolidated Statement of Operations

(in thousands of dollars)	2013	2012	2011
Revenue	$8,737	$7,713	$7,165
Expenses	8,751	7,663	6,724
Surplus (deficit) for the year	(14)	50	441
Accumulated surplus – beginning of year	1,638	1,588	1,147
Accumulated surplus – end of year	$1,624	$1,638	$1,588

10. Accounts payable and accrued liabilities

(in thousands of dollars)	2013	2012	2011
Accounts payables and accrued liabilities	$23,032	$25,034	$22,941
Salaries and benefits payable	3,787	3,259	2,569
Accrued vacation pay	7,171	7,260	7,375
	$33,990	$35,553	$32,885

11. Employee future benefits

Employee future benefit liabilities arise in connection with the University's self-funded group life insurance and long-term disability plans. The University maintains pension plans, other retirement and supplementary benefit arrangements, and long-term disability plans for substantially all of its continuing employees.

11. Employee future benefits (continued)

Summary of employee future benefit obligations:

(in thousands of dollars)	2013	2012	2011
Staff pension plan	$(2,463)	$(2,540)	$(1,607)
Supplemental pension obligations	4,697	4,482	4,419
Special accumulated sick leave	3,496	3,407	3,269
Long term disability benefits	13,056	12,728	11,129
Basic group life insurance plan	1,443	1,414	1,370
	$20,229	$19,491	$18,580

(a) Pension benefits:

(i) The pension fund for full-time continuing faculty and administrative and academic professional staff is referred to as the Combination Plan. This plan's benefits are derived primarily from defined contributions. If a retiring member selects an internal annuity with the defined contribution account, the annuity may be supplemented from a defined benefit provision to bring total benefits up to a defined benefit minimum. Most members qualify for little or no supplement because the defined contribution benefits usually exceed 90% of the defined benefit minimum. Since 1991, only seventy-seven members have received a defined benefit supplement. At December 31, 2012, seventy-six were receiving supplements that totalled $27,300 of a total pension payroll of $1.4 million per month. As a result, this plan has been accounted for as a defined contribution plan. The latest actuarial valuation as at December 31, 2009 showed that the accrued formula pension benefit liabilities of the Combination Plan were fully funded although as recommended by the actuary, contributions were increased in 2011 to maintain financial sustainability of the plan. The next valuation will be as at December 31, 2012. A pure defined contribution plan is available for part-time faculty and administrative and academic professional staff who meet certain eligibility criteria. The University has made contributions to these two plans during the year of $18,400,000 (2012 - $17,542,000) and recorded them as a pension expense.

The University provides supplemental pensions in excess of those provided under registered plans. They are fully funded out of the general assets of the University. The accrued liabilities of these arrangements total $4,697,000 as at March 31, 2013 (2012 - $4,482,000). The University paid supplemental benefits of $299,000 in the year (2012 - $90,000) and recorded employee benefit expense of $114,000 (2012 - $123,000). The supplemental pension obligations are complementary to the Combination Plan and as a result are similarly accounted for as defined contribution arrangements.

11. Employee future benefits (continued)

(a) Pension benefits (continued):

(ii) The University sponsors the University of Victoria Staff Pension Plan (the "Plan") which is a contributory defined benefit pension plan made available to their regular staff employees that are eligible to join the Plan. The Plan provides pensions based on credited service and final average salary. Based on membership data as at the last actuarial valuation for funding purposes as at December 31, 2010, the average age of the 1,215 active employees covered by the Plan is 46.6. In addition, there are 407 former employees who are entitled to deferred pension benefits averaging $275 per month. At December 31, 2010, there are 573 pensioners receiving an average monthly pension of $743. The employees make contributions equal to 4.53% of salary that does not exceed the year's maximum pensionable earnings ("YMPE") plus 6.28% of salary in excess of the YMPE. A separate pension fund is maintained. The University makes contributions to the plan in line with recommendations contained in the actuarial valuation for funding purposes. Though the University and the employees both contribute to the pension fund, the University retains the full risk of the accrued benefit obligation. The pension fund assets are invested primarily in universe bonds and equities. The pension liability at March 31 includes the following components:

(in thousands of dollars)	2013	2012
Accrued benefit obligation	$174,846	$165,935
Pension fund assets	(176,339)	(162,826)
	(1,493)	3,109
Unamortized actuarial gains	(970)	(5,649)
	$(2,463)	$(2,540)

Actuarial valuations for funding purposes are performed triennially using the projected benefit prorate method. The latest triennial actuarial valuation completed as at December 31, 2010 reported a going concern surplus and a solvency deficiency (ie. if the plan were to be wound up on that date) of $33,000,000. The B.C. Pension Benefits Standards Act requires minimum annual contributions or the use of letters of credit to fund a solvency deficiency. The University has chosen to arrange letters of credit in the amount of $6,975,000 to satisfy the current year’s requirement and in years 2013 through 2016 a further $6,900,000 per year will be required to satisfy the contribution requirement. The accrued benefit obligation shown for 2013 is based on an extrapolation of that 2010 valuation. There is an unamortized gain to be amortized on a straight-line basis over the expected average remaining service life of the related employee group (12 years).The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases and employee turnover and mortality. The assumptions used reflect the University's best estimates. The expected inflation rate is 2.25%. The discount rate used to determine the accrued benefit obligation is 6%.Pension fund assets are valued at market value.

11. Employee future benefits (continued)

(a) Pension benefits (continued):

The expected rate of return on pension fund assets is 6%. The actual gross return on Plan assets in 2012 was 8.6%. The total expenses related to pensions for the fiscal year ending, include the following components:

(in thousands of dollars)	2013	2012
Current period benefit cost	$6,327	$6,020
Amortization of actuarial gains (losses)	471	-
	6,798	6,020
Less: Employee contributions	(1,084)	(1,073)
Pension expense	5,714	4,947
Interest cost on the average accrued benefit obligation	10,078	9,534
Expected return on average pension plan assets	(9,756)	(9,511)
Pension interest expense	322	23
Total expenses related to pensions	$6,036	$4,970

The Supplementary Retirement Benefit Account is a separate fund available to provide pensioners over the age of 65 with supplemental indexing against inflation beyond that provided by the basic plan above. It is accounted for as a defined contribution plan, with University contributions during the year of $114,000 (2012 - $115,000).

(b) Special accumulated sick leave benefit liability:

Certain unionized employees of the University are entitled to a special vested sick leave benefit in accordance with the terms and conditions of their collective agreements. Employees who accumulate and maintain a minimum balance of regular sick leave may opt to transfer sick days into this special accumulating and vested benefit. The University recognizes a liability and an expense as days are transferred into this benefit. At March 31, 2013 the balance of this special accumulated sick leave was $3,496,000 (2012 - $3,407,000).

(c) Long term disability benefits:

The University administers an employee-funded long-term disability plan for faculty and administrative and academic professional staff. It is self-insured and the liability for the discounted present value of estimated future payments to current claimants is recorded.

11. Employee future benefits (continued)

(c) Long term disability benefits (continued):

Information about liabilities for the University's long term disability plan for faculty and administrative and academic professional staff includes:

(in thousands of dollars)	2013	2012	2011
Accrued benefit obligation:			
Balance, beginning of year	$12,728	$11,128	$10,039
Current service cost	1,904	3,298	2,580
Interest cost	209	-	-
Benefits paid	(2,070)	(1,698)	(1,491)
Actuarial loss	285	-	-
Accrued benefit obligation, end of year	$13,056	$12,728	$11,128

(in thousands of dollars)	2013	2012	2011
Accrued benefit obligation:			
Plan Assets	$9,020	$8,069	$6,643
Liability, end of year	13,056	12,728	11,129
Accrued benefit liability, end of year	$(4,036)	$(4,659)	$(4,486)

Components of net benefit expense

(in thousands of dollars)	2013	2012
Service cost	$1,904	$3,298
Interest cost	209	-
Expected return on assets	(134)	-
Amortization of net actuarial (gain)/loss	149	-
Net benefit expense	$2,128	$3,298

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligation are as follows:

	2013	2012
Discount rates	1.5%	2.1%
Expected future inflation rates	2%	2%
Salary increase assumption	2%	2%
Retired age assumption	65	65

An insured long-term disability plan funded entirely by the University was commenced for other staff on July 1, 2000. The University contribution for the year ending March 31, 2013 was $1,008,000 (2012 - $1,110,000).

12. Deferred contributions

Deferred contributions are comprised of funds restricted for the following purposes:

(in thousands of dollars)	2013	2012	2011
Specific Purpose (including earnings on endowment)	$37,799	$27,669	$40,534
Research	56,010	52,719	61,701
Capital	2,309	3,558	4,302
	$96,118	$83,946	$106,537

Changes in the deferred contribution balance are as follows:

(in thousands of dollars)	2013			
	Specific Purpose	Research	Capital	Total
Balance, beginning of year	$27,669	$52,719	$3,558	$83,946
Contributions received during the year	35,895	79,231	429	115,555
Revenue recognized from deferred contributions	(25,765)	(75,940)	(614)	(102,319)
Transfer to deferred capital contributions	-	-	(1,064)	(1,064)
Balance, end of year	$37,799	$56,010	$2,309	$96,118

(in thousands of dollars)	2012			
	Specific Purpose	Research	Capital	Total
Balance, beginning of year	$40,534	$61,701	$4,302	106,537
Contributions received during the year	29,791	68,853	136	98,780
Revenue recognized from deferred contributions	(29,639)	(77,835)	504	(106,970)
Transfers to deferred capital contributions	-	-	(1,384)	(1,384)
Decrease in endowment stabilization accounts	(13,017)	-	-	(13,017)
Balance, end of year	$27,669	$52,719	$3,558	$83,946

13. 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:

(in thousands of dollars)	2013	2012
Balance, beginning of year	$388,849	$382,244
Contributions received during the year	39,666	35,561
Transfers from deferred contributions	1,064	1,384
Revenue from amortization of deferred capital contributions	(29,706)	(30,340)
Balance, end of year	$399,873	$388,849

14. Long term debt

Long-term debt reported on the consolidated statement of financial position is comprised of the following:

(in thousands of dollars)	2013	2012	2011
Royal Bank of Canada			
Term loan with floating interest rate fixed at 5.38%, to 2014, through an interest rate swap due November 2024, unsecured	$10,561	$ 11,196	$11,798
British Columbia Immigrant Investment Fund			
4.75 % term loan due February 2017, unsecured	3,947	4,142	4,328
Province of British Columbia			
7.875% bond due 2023, unsecured	-	-	9,749
Province of British Columbia			
4.82% bond due 2027, unsecured, with annual sinking fund payments of $327,000	10,800	10,800	10,800
Province of British Columbia			
4.74% bond due 2038, unsecured, with annual sinking fund payments of $302,000	10,000	10,000	10,000
Great West Life Assurance Company			
5.13% term loan due April 2030, unsecured	12,920	13,381	13,820
	$48,228	$49,519	$60,495

14. Long term debt

(a) Principal repayments:

Anticipated annual principal repayments, including sinking fund instalments, due over the next five years and thereafter are as follows:

(in thousands of dollars)	Sinking Fund	Other	Total
2014	$629	$1,364	$1,993
2015	629	1,438	2,067
2016	629	1,516	2,145
2017	629	1,599	2,228
2018	629	1,685	2,314
Thereafter	14,046	23,435	37,481
	$17,191	$31,037	$48,228

15. Tangible capital assets

(in thousands of dollars) Cost	Balance at March 31, 2012	Additions	Disposals	Balance at March 31, 2013
Land	$21,769	$-	$-	$21,769
Site improvements	31,755	1,223	-	32,978
Buildings	612,044	29,440	(120)	641,364
Equipment and furnishings	208,048	22,744	(11,083)	219,709
Information systems	18,441	-	-	18,441
Computer equipment	18,740	3,895	(3,985)	18,650
Ships/vessels	1,113	-	(1,113)	-
Library holdings	41,893	3,946	(4,870)	40,969
Total	$953,803	$61,248	$(21,171)	$993,880

Accumulated amortization	Balance at March 31, 2012	Disposals	Amortization expense	Balance at March 31, 2013
Land	$-	$-	$-	$-
Site improvements	14,356	-	881	15,237
Buildings	155,447	-	13,346	168,793
Equipment and furnishings	98,349	(11,083)	23,849	111,115
Information systems	8,948	-	2,305	11,253
Computer equipment	12,502	(3,985)	4,290	12,807
Ships/vessels	-	-	-	-
Library holdings	22,679	(4,870)	3,899	21,708
Total	$312,281	$(19,938)	$48,570	$340,913

15. Tangible capital assets (continued)

	Net book value March 31, 2012	Net book value March 31, 2013
Land	$21,769	$21,769
Site improvements	17,399	17,741
Buildings	456,597	472,571
Equipment and furnishings	109,699	108,594
Information systems	9,493	7,188
Computer equipment	6,238	5,843
Ships/vessels	1,113	-
Library holdings	19,214	19,261
Total	$641,522	$652,967

(in thousands of dollars) Cost	Balance at April 1, 2011	Additions	Disposals	Balance at March 31, 2012
Land	$21,769	$-	$-	$21,769
Site improvements	29,916	1,839	-	31,755
Buildings	589,073	22,971	-	612,044
Equipment and furnishings	196,449	20,827	(9,228)	208,048
Information systems	18,441	-	-	18,441
Computer equipment	18,222	4,237	(3,719)	18,740
Ships/vessels	909	204	-	1,113
Library holdings	43,354	3,079	(4,540)	41,893
Total	$918,133	$53,157	$(17,487)	$953,803

Accumulated amortization	Balance at April 1, 2011	Disposals	Amortization expense	Balance at March 31, 2012
Land	$-	$-	$-	$-
Site improvements	13,482	-	874	14,356
Buildings	142,657	-	12,790	155,447
Equipment and furnishings	83,500	(9,228)	24,077	98,349
Information systems	6,642	-	2,306	8,948
Computer equipment	11,342	(3,719)	4,879	12,502
Ships/vessels	-	-	-	-
Library holdings	23,183	(4,540)	4,036	22,679
Total	$280,806	$(17,487)	$48,962	$312,281

15. Tangible capital assets (continued)

	Net book value April 1, 2011	Net book value March 31, 2012
Land	$21,769	$21,769
Site improvements	16,434	17,399
Buildings	446,416	456,597
Equipment and furnishings	112,949	109,699
Information systems	11,799	9,493
Computer equipment	6,880	6,238
Ships/vessels	909	1,113
Library holdings	20,171	19,214
Total	$637,327	$641,522

(a) Contributed tangible capital assets:

Additions to equipment and furnishings and computers include the following contributed tangible capital assets:

(in thousands of dollars)	2013	2012	2011
Equipment and furnishings	$87	$61	$47

(b) Assets under construction:

Assets under construction having a value of $57,603,000 (2012 - $20,601,000) comprised of buildings of $35,061,000 (2012 – 16,144,000) and equipment of $22,542,000 (2012- 4,457,000) have not been amortized. Amortization of these assets will commence when the asset is available for productive use.

(c) 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.

(d) Writedown of tangible capital assets:

The writedown of tangible capital assets during the year was $19,938,000 (2012 - $17,487,000) related to fully amortized assets with a net book value of nil and $1,233,000 (2012 – $0) related to asset disposals.

16. Financial risk management

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

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

(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 the amounts receivable and from fixed income assets held by the University.

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

The University 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 University investments at March 31, 2013 is $265,232,000. 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 term	
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 within 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 University's current asset class holdings, the net impact on market value of each asset class is shown below.

16. Financial risk management (continued)

(b) Price Risk (continued):

Asset Class		Estimated Volatility % Change
Canadian equities	+/-	19.8%
Foreign equities	+/-	18.3%
Real estate	+/-	8.6%
Bonds	+/-	5.1%
Infrastructure	+/-	13.0%

Benchmark for Investments		Net Impact on Market 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 University 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 3.4 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 3.4%, contrarily if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 3.4%.

(c) Liquidity risk

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

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

17. Accumulated surplus

Accumulated surplus is comprised of the following:

(in thousands of dollars)	2013	2012	2011
Endowments	$284,605	$281,588	$265,045
Invested in capital assets	221,396	219,516	221,369
Internally restricted	110,273	103,374	91,887
Unrestricted	18,792	17,994	18,908
Accumulated remeasurement gains	5,415	-	-
	$640,481	$622,472	$597,209

Endowments consist of restricted donations and capitalized investment income to be held in perpetuity.

Invested in capital assets consist of unrestricted funds previously spent on capital assets and debt repayment.

Internally restricted funds consist of balances set aside or appropriated by the Board of Governors for equipment replacement, capital improvements and other non-recurring expenditures.

Unrestricted funds consist primarily of balances arising from the University's ancillary and specific purpose funds, and consolidated entities.

18. Endowments

Changes to the endowment principal balances, not including remeasurement gains/losses, are as follows:

(in thousands of dollars)	2013	2012
Balance, beginning of year	$281,588	$265,045
Contributions received during the year	3,198	8,619
Investment income and donations capitalized	(181)	7,924
Balance, end of year	$284,605	$281,588

The balance shown does not include endowment principal with fair value of $5,923,000 (2012- $5,705,000) and book value of $4,820,000 (2012 - $4,820,000) 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.

19. Contractual obligations

The nature of the University's activities can result in multiyear contracts and obligations whereby the University will be committed to make future payments. Significant contractual obligations related to operations that can be reasonably estimated are as follows:

(in thousands of dollars)	2014	2015	2016	2017	2018
Construction contracts	$60,454	$-	$-	$-	$-
Operating leases	556	500	253	47	7
Total	$61,010	$500	$253	$47	$7

20. Contingent liabilities

The University may, from time to time, be involved in legal proceedings, claims, and litigation that arise in the normal course of business. It is management's opinion that the aggregate amount of any potential liability is not expected to have a material adverse effect on the University's financial position or results.

The University is one of 58 Canadian university subscribers to CURIE, which has provided property and liability insurance coverage to most campuses other than Quebec and Prince Edward Island since 1988. The anticipated cost of claims based on actuarial projections is funded through member premiums. Subscribers to CURIE have exposure to premium retro-assessments should the premiums be insufficient to cover losses and expenses.

21. Expenses by object

The following is a summary of expenses by object:

(in thousands of dollars)	2013	2012
Salaries and wages	$260,698	$256,475
Employee benefits	47,308	45,811
Travel	12,952	12,571
Supplies and services	68,305	73,754
Equipment rental and maintenance	5,050	3,297
Utilities	9,232	9,008
Scholarships, fellowships and bursaries	33,500	32,497
Cost of goods sold	13,972	15,167
Interest on long term debt	2,447	3,057
Interest - other	(304)	1,093
Depreciation	48,570	48,961
	$501,730	$501,691

22. Funds Held in Trust

Funds held in trust are funds held on behalf of autonomous organizations, agencies, and student societies having a close relationship with the university. These funds are not reported on the University's consolidated Statement of Financial Position (2013 –$1,916,000; 2012 – $1,672,000).

23. Supplementary cash flow information

(in thousands of dollars)	2013	2012	2011
Cash paid for interest	$2,452	$3,326	$3,524