UNIVERSITY OF VICTORIA

2014 - 2015 Management Discussion and Analysis (Unaudited)

2014 – 2015 Audited Financial Statements

University of Victoria
2015 Management Discussion and Analysis
(Unaudited)

University
of Victoria

Introduction to Management Discussion and Analysis

The attached financial statements present the financial results of the University for the year ended March 31, 2015 in accordance with Public Sector Accounting Standards consistent with Section 23.1 of the *Budget Transparency and Accountability Act* (BTAA) of the Province of British Columbia supplemented by directives set out by the Province of British Columbia. 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, 2015, as presented in accordance with the above reporting framework. This discussion should be read in conjunction with the annual audited financial statements and accompanying notes.

The University of Victoria's 2012 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 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". The goals of the strategic plan are reflected in the UVic Edge through the powerful fusion of three ingredients: Dynamic Learning, Vital Impact and Extraordinary Environment.

Flowing from the Strategic Plan, and with the increased focus as contained in the report from the President of the University in his "Report to the university community on campus conversations" (https://www.uvic.ca/president/activities/talks/ConversationsReport2014.pdf), 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 $1.3 billion and consolidated revenue of $541 million. Total consolidated revenue and total expenses increased by 3.3% and 2.1% respectively from the prior year. The annual surplus prior to inclusion of donations to the university's endowment fund was $16.4M or 3.0% of total revenues ($10M or 1.9% for the prior year). Growth in the annual surplus resulted from a 3.3% increase in revenues as a result of increased tuition from strong international enrollments and favourable investment returns, less a 2.1% increase in expenses.

Government Grants

Revenue from the Provincial Government in the form of grants declined 3.3% over previous years. While the operating grant declined slightly (1%), there was a larger decline in sponsored research funding (British Columbia Knowledge Development Fund "BCKDF") due to completion of large research projects. Annual grants from the Province for capital purposes also decreased with receipt of $2.1M of routine maintenance funding, down from $6M received last year, related to cyclical maintenance and specific project funding.

Tuition and Enrolment

Credit course tuition increased by $8.8M, or 8.0%, to $118.7M due to a 2% increase in fees (domestic tuition fees can increase by no more than inflation according to provincial government policy) and continued growth in international student enrolment. Non-credit tuition increased by $1.1M due to growth in international programs in Continuing Studies.

Investments

The university's endowment investments are held in the University of Victoria Foundation and have a fair value of $397M. The endowments experienced a 13.3% return for the year across its six investment mandates resulting in the largest dollar return in the Foundation's history of $48.5M. Short term investments held within the University returned 2.8% for the year.

Capital Activity

During the year, construction commenced on the $13.7M addition to the Continuing Studies Building and construction continued on the new $77M Centre for Athletics, Recreation and Special Abilities (CARSA) and attached parking structure. The new facility was completed and opened in May 2015. The renovations to McKinnon that are an integral part of this project are expected to occur over the next two years.

Financial Information

Financial Assets

Financial assets are defined as assets available to discharge existing liabilities or finance future operations. During the year they increased 3.1% to $326M.

In thousands of dollars	2015	2014
Cash and cash equivalents	100,725	117,127
Accounts Receivable	9,712	15,357
Due from governments	8,262	11,618
Inventories for resale	1,488	1,744
Portfolio investments	170,902	134,009
Loans receivable	28,576	29,671
Investments in government business enterprises	6,290	6,756
Total Financial Assets	325,955	316,282

Cash and cash equivalents decreased by $16.4M reflecting the funding of the CARSA building project. Accounts receivable and Due from governments decreased by $5.6M and $3.4M respectively, reflecting timing of year end funding and improved collection efforts. Portfolio investments which 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 increased by $36.9M 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 1.8% to $656M.

In thousands of dollars	2015	2014
Accounts payable	34,347	36,507
Derivatives	2,410	1,331
Due to governments	4,321	3,933
Employee future benefits	20,246	21,725
Deferred revenue	14,878	16,271
Deferred contributions	146,162	113,624
Deferred capital contributions	379,426	394,933
Long term debt	54,739	56,574
Total Liabilities	656,529	644,898

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 $32.5M due to earnings on restricted endowments. 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 decreased by a net $15.5M resulting from contributions of $15.5M less amortization of $31M. Long term debt decreased by $1.8M resulting from scheduled debt repayments.

Non-financial Assets

Non-financial assets increased by 2.9% to $1,020M.

In thousands of dollars	2015	2014
Tangible capital assets	694,679	674,562
Restricted endowment investments	308,531	298,074
Inventories held for use	1,694	1,694
Prepaid expense	15,372	16,869
Total Non-Financial Assets	1,020,276	991,199

Tangible capital assets include land, buildings, site improvements, library holdings, computers, equipment and furnishings but do not include $10.4M of artwork and collections. The net increase in tangible capital assets of $20.1M is due to additions of $70.0 less amortization of $49.9M. The largest single capital asset addition was related to CARSA building project. Restricted endowment investments represent the portion of endowment investments related to the restricted principal funds. During the year they increased $10.5M due to donations of $4.3M and capitalized investment income of $6.2M. 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

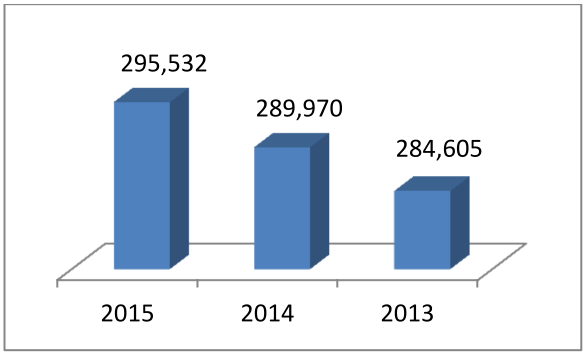
Accumulated surplus increased by 4.1% to $690M.

In thousands of dollars	2015	2014
Endowment	295,532	289,970
Invested in capital assets	277,306	239,705
Internally restricted	80,470	101,974
Unrestricted	19,069	18,738
Remeasurement gains	17,324	12,196
Accumulated surplus	689,701	662,583

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 1.9%



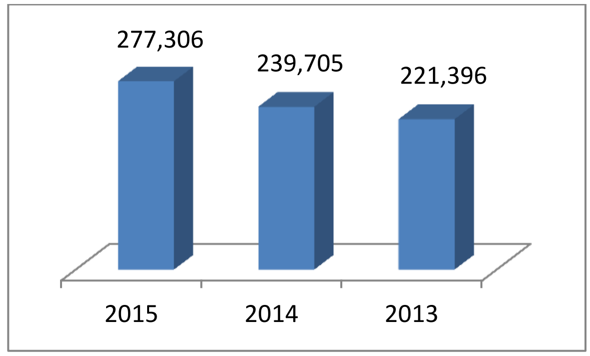
The university's endowments are primarily held by the UVic Foundation. Accumulated surplus-endowment consists of restricted donations and capitalized investment income which is required to be maintained intact in perpetuity to support donor specified activities. The investment income generated from endowments must be used in accordance with the various purposes stipulated by the donors. At March 31, 2015 there were 1,194 individual endowment funds providing $12.1M (2014:$11.4M) 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 15.7%

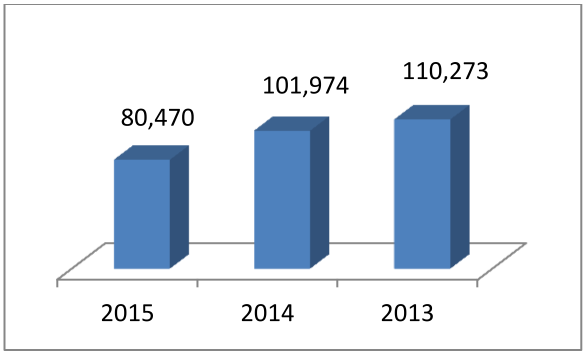


Accumulated surplus invested in capital assets arises when the university funds the acquisition of capital assets from internal resources less amortization of internally financed capital assets. The following comprises the balance of accumulated surplus invested in capital assets:

(in thousands of dollars)	**2015**	**2014**
Land	23,133	21,768
Site development	9,668	9,143
Buildings	240,324	203,336
Equipment	23,332	25,925
Library acquisitions	16,513	17,160
Software	2,285	4,296
Sinking funds	4,867	4,238
Less debt repayments	(42,816)	(44,161)
Invested in capital assets	277,306	239,705

Accumulated Surplus – Internally Restricted

Accumulated surplus internally restricted decreased by 21.1% to $80.5M.

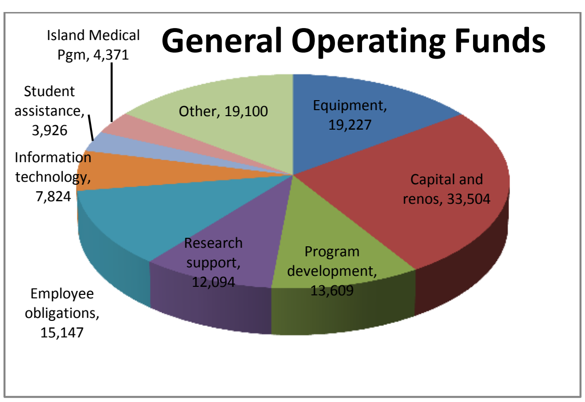


Accumulated surplus - internally restricted consists of balances appropriated by the university Board of Governors for employee commitments, equipment replacement, capital improvements, program development, research support and other non-recurring expenditures. Due to restrictions in the ability of the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

Balances are made up as follows:

(in thousands of dollars)	**2015**	**2014**
General operating	128,802	129,438
Ancillary enterprises	10,368	17,688
Less Capital	(54,491)	(36,941)
Less vacation pay, LTD and staff pension	(4,209)	(8,211)
Total internally restricted	80,470	101,974

General operating reserves consist of:



Revenue

Revenue increased 3.3% to $524M.

(in thousands of dollars)	**2015**	**2014**
Government grants and contracts	259,342	262,373
Tuition & student fees	141,600	131,630
Donations, non-government grants & contracts	18,389	15,439
Sales of services and products	61,988	60,448
Investment income	21,980	17,904
Income from business enterprises	1,352	753
Amortization of deferred capital contributions	30,941	29,278
Other revenue	5,374	5,867
Total Revenue	540,966	523,692

Government grants and contracts revenue is received from the Province of B.C. (71%), the Government of Canada (24%), and other governments (5%). Revenue from the Province decreased by $6.3M overall due to research grant funding while the university's operating grant declined by 1.0%. Tuition and student fees increased by $10.0M, or 7.6%, as a result of a 2% increase in domestic fees, $7.7M increase in international fees and $1.1M in non-credit fees. Investment income for 2015 does not include unrealized gains which have been recorded through the Statement of Remeasurement. When remeasurement gains of $5.2M are included, overall investment income increased by $2.5M over 2014 results.

Expenses

Expenses increased by 2.1% to $525M. Expenses reported by object were as follows:

(in thousands of dollars)	2015	2014
Salaries and benefits	322,601	319,367
Travel	13,557	13,186
Supplies and services	75,753	71,193
Utilities	8,680	9,871
Scholarships and bursaries	37,440	35,925
Cost of goods sold	14,094	14,386
Interest on long term debt	2,552	2,495
Depreciation	49,861	47,313
Total Expenses	524,538	513,736

Salaries and benefits represent 61.5% of total expenses. Compensation increased by $3.2M, due to progression through the ranks and gender equity pay for the university's faculty, and negotiated increases for the university's professional staff. Benefit costs decreased due to actuarial gains on pension and LTD plans. Scholarships and bursaries increased by $1.5M reflecting increased undergraduate entrance scholarships.

Expenses reported by function were as follows:

(in thousands of dollars)	2015	2014
Instruction and non-sponsored research	209,547	205,491
Academic and student support	131,304	124,375
Administrative support	18,787	18,253
Facilities operations and maintenance	44,682	46,780
Sponsored Research	108,295	107,303
External engagement	11,923	11,534
Total Expenses	524,538	513,736

Increases in instruction (2.0%) and Academic and Student Support (5.6%) were relatively higher than Administration (2.9%), Facilities (-4.5%), Sponsored research (0.9%) and External engagement (3.4%).

Sponsored Research Contributions

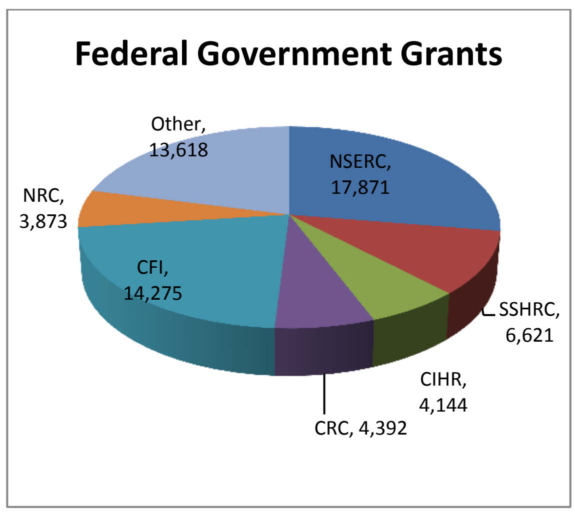
Sponsored research revenue increased by 25.9% to $101.8M.

(in thousands of dollars)	2015	2014
Province of B.C.	8,774	10,266
Federal government	64,794	58,044
Other governments	9,473	8,427
Gifts, grants & bequests	9,914	9,764
Sales of services	2,420	1,714
Other revenue	487	347
Total contributions	95,862	88,562
Transfer to/from deferred contributions	5,973	(7,666)
Sponsored research revenue	101,835	80,896

In addition to the above, the university also received $6.2M from the Tri-council for the indirect costs of research which is recorded in the general operating fund.

The decrease in provincial funding is a result of the completion and timing of large research projects.

Federal government grants are comprised of the following:



In 2014, the university ranked second amongst Canadian comprehensive research intensive universities in total research funding, first 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 mobility 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. Provincial operating grants for post-secondary institutions, as currently proposed, will decrease again in the upcoming year following two previous years of reductions. Tuition fee increases cannot exceed inflation changes limiting UVic's ability to increase revenues. Contractual obligations related to salaries and rising costs associated with utilities and library acquisitions are examples of pressures that will further constrain financial planning.

Within BC, a fifteen year demographic trough is beginning that forecasts decreasing numbers of 18-24 year olds, the traditional age group associated with undergraduate enrolments and, historically, UVic's largest demographic segment. Competition will intensify for new students and UVic will need to respond by maintaining its focus on recruiting high quality students and enhancing its unique, high quality student experience. Retention and engagement of existing students will continue to receive attention. The "UVic Difference" project will shape how communications and outreach activities will help reinforce the message that UVic is a university of choice. UVic is a place for dynamic learning and research devoted to nourishing and enriching the quality of people, community, and resources. Our extraordinary academic environment inspires and nurtures discovery, creativity, and innovation, and fuels our commitment to sustainability, health, and well-being. The campus supports UVic in making a vital impact on people, places, and the planet.

As part of the Campus Conversations, there was also agreement that the university is at the right size and indeed that size is a relative strength – UVic is large enough to offer programs of teaching and research in all fields but small enough to enable personal connections for students, faculty and staff. While the overall size of the university is expected to stay about the same, there will be realignments in the program mix to match student demand and the research foci of faculty. Graduate enrolment remains robust and will grow incrementally in areas of research strengths.

This year, the provincial government launched its Jobs Blueprint which calls for an eventual targeting of approximately 25% of the university's operating grant towards programs that support a priority set of occupations. Of the "Top 60" jobs that are projected to have the highest number of openings by 2022, one-third requires a university degree (the remainder requires certificates, diplomas, or a trade accreditation). Student demand for those degree programs will naturally increase and so UVic must be positioned to meet that demand.

International student demand continues to be very strong (two years of over 30% enrolment increases) and while it would not be prudent to predict that such growth continues, it is expected that a higher than historical average of international students will continue to enroll. This enrolment, however, is not distributed uniformly across the university – programs that have felt and will continue to feel the strongest pressure from rising international numbers are Engineering, Business, and Economics. Incremental investment, therefore, will be directed to those areas to support students and faculty, and augment student support services.

At just over fifty years since its establishment as a degree granting university, UVic's physical infrastructure is showing signs of requiring further renewal and enhancement. There is an identified need to invest in capital to support strategic priorities including renewal of existing spaces and increasing space for both teaching and research as well as student residences. Much like the operating grant reductions from government, there is also reduced government funding for capital projects, therefore fundraising as well as increased university resources will be important funding sources for these infrastructure priorities. UVic will be updating its Campus Plan to guide future decisions on the physical development of the campus and this will provide an important decision-making framework for these infrastructure priorities. This is particularly true of large scale research infrastructure, which is increasingly common, but poses new and significant challenges for its sustainability and maintaining university competitiveness. These challenges are also occasioned by much more focused research competitions, for example the explicit linkage of the Canada First Research Excellence Fund to the renewed federal Science and Technology Strategy.

In a post-secondary environment where enhancing the quality of academic programs is critical, it is more important than ever to align the university's resources with its priorities. In the Campus Conversations, faculty and staff expressed a desire for a more transparent, data-informed process to provide them with the tools to facilitate planning and better align resources with university priorities. A working group and an advisory committee have been struck to research and recommend enhanced planning tools that will support UVic decision-makers in academic and service units in reaching that goal. Over the coming year the tools, including criteria and an institutional dataset, will assist administrators in their ongoing annual planning and decision making processes.

Diversifying 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. Funding is essential in order to maintain our national and international reputation for the quality of our academic programs and research.

While UVic has had positive revenue growth from international undergraduate students, revenue growth from student enrollment will be constrained as there have been no government-funded growth programs since 2011 and tuition increases are limited to inflation. For 2014/15, the provincial government implemented the second of a three year, total sector, grant reduction of $5M, $20M and $25M for 2013/14, 2014/15 and 2015/16. Our share of the reduction in 2014/15 is $1.9M and total reduction over the three years will be $4.7M

The Provincial Government had previously indicated that the grant reductions would be achieved through shared services and administrative savings. Significant action has been taken to reduce administrative expenses, as shown in the lower rate of growth in non-academic costs. A portion of the reduction in utility costs is a result of better pricing for natural gas achieved through a sector wide joint purchasing initiative. While there has been some success it will be difficult to continue to absorb both the announced provincial grant reductions and other cost pressures. The largest cost pressure is related to salaries. Recent settlements in the public sector have been funded by the provincial government and it is expected that this will be the case for UVic. With the slightly improved financial position that has resulted from the greater than expected growth in international students and the potential for provincial funding of negotiated salary settlements, the University is not implementing budget reductions for 2015/16. This follows reductions of across-the-board budget reductions in three of the past six years (2.0% for 2009-10, 1.5% in each of 2011-12, 2012-13 and 4% in 2013/14). With a change in the implementation of the provincial reduction (from $20M in 2013/14 to $5M in 2014/15) and the greater than expected growth in international students, the full amount of the reduction was not required and is available to offset what would have otherwise been budget shortfalls in 2015/16. Increased international student enrolment will continue to offset what would have otherwise been budget shortfalls for the next two years and we will be looking to use enhanced planning tools and information to most effectively invest our resources.

Financial Reporting Environment

Accounting standards in Canada have undergone substantial change in recent years which impacted the university's consolidated financial statements commencing in 2013. 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 Section 23.1 of the *Budget Transparency and Accountability Act* supplemented by directives set out by the Province of British Columbia. The Province has directed that PSAS be adopted without the PS4200 not-for-profit elections and 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. This approach is consistent with 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 basis, and this is reflected in the audit opinion.

PSAS adopted a financial instruments standard which was implemented prospectively as of April 1, 2012. This standard allows financial instruments to be recorded at fair value and creates the Statement of Remeasurement Gains and Losses to report unrealized gains and losses.

The consolidated financial statements under the reporting framework 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, 2015 is $(331M) but includes $379M 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 $690M 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 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 instituted grant reductions to the sector of $5M in 2013/14, $20M in 2014/15 and $25M in 2015/16. While originally intended by the Province to be offset by administrative savings, these savings have been far less than the amount of the reductions. While there has been no indication of future grant reductions, the risk remains that there will be future reductions. It is assumed that Provincial funding will be received to offset the financial implications of collective bargaining, but this has not been confirmed.

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. Addressing deferred maintenance and well as adding capacity of new residences is a strategic direction and an imperative if we are to remain a destination university of choice. Our ability to do this will be severely impaired without the ability to borrow or otherwise secure 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. International enrolment has increased and UVic has a greater reliance on international students in order to achieve expected tuition revenues.

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.

In addition to the risk related to salaries and benefits, there is also a risk of labour disruption. Agreements with all employee groups, with the exception of the Professional Employees Association, expired in 2014. The faculty voted to certify as a Trade Union and the implications of this relative to both financial costs as well as ongoing operations, including risk of labour disruption, is not known.

Pensions and Employee Future Benefits

The University has two pension plans for its faculty, Professional Employee Association members, management exempt and executive (Combination Plan and Money Purchase Plan) and one plan for members of CUPE and exempt clerical staff (Staff Plan). The previous actuarial valuation of the Combination Plan, with an effective date of December 31, 2012, shows that the Plan is fully funded. 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. The next valuation date is December 31, 2015. The last valuation for the Staff Pension Plan was December 31, 2013. As at the valuation date, 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 an annual cost of $245,000 for 2014/15.

Funding to support Research

Funding has been secured for operating costs for the NEPTUNE and VENUS projects for 5 years ending March 31, 2017. Work is underway to identify funding sources for the period after March 31, 2017.

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 and the limited amount of Provincial capital funding means that the amount of deferred maintenance will continue to increase.

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 twelve 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.

Gustavson School of Business Executive Education Inc.

During the year a new taxable business enterprise was created to deliver executive education services. It is accounted for in the university's financial statements on the modified equity basis.

Byron Price & Associates Ltd.

Byron Price and Associates Ltd. is a taxable business enterprise donated to the university during the year which holds land located in North Saanich. It is consolidated in the university's financial statements.

Consolidated Financial Statements of

UNIVERSITY OF VICTORIA

Year ended March 31, 2015

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 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 management.

The consolidated financial statements have been examined by the Office of the Auditor General of British Columbia. The Independent Auditors' Report outlines the nature of the examination and the opinion on the consolidated financial statements of the University for the year ended March 31, 2015.

On behalf of the University:

____________________________ Chair, Board of Governors

____________________________ Vice-President Finance and Operations

University of Victoria

INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of the University of Victoria, and
To the Minister of Advanced Education, Province of British Columbia

I have audited the accompanying consolidated financial statements of the University of Victoria ("the entity"), which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of operations and accumulated surplus, changes in net debt, cash flows, and remeasurement gains and losses for the year then ended, and 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 accounting requirements 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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, the auditor considers 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.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements of the University of Victoria for the year ended March 31, 2015 are prepared, in all material respects, in accordance with the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2(a) to the consolidated financial statements, which describes the basis of accounting used in the preparation of these financial statements. Note 23 to the consolidated financial statements discloses the impact of these differences between such basis of accounting and Canadian public sector accounting standards.

Other Matter

The comparative figures presented in these consolidated financial statements for the year ended March 31, 2014 were audited by KPMG Victoria who expressed an unmodified opinion on those consolidated financial statements in their report dated May 27, 2014.

Russ Jones

Victoria, British Columbia
June 16, 2015

Russ Jones, CPA, FCA
Deputy Auditor General

UNIVERSITY OF VICTORIA

Consolidated Statement of Financial Position

As at March 31, 2015

(in thousands of dollars)

		2015	2014
Financial Assets			
Cash and cash equivalents	*(Note 3)*	$ 100,725	$ 117,127
Accounts receivable		9,712	15,357
Due from governments	*(Note 4)*	8,262	11,618
Inventories for resale		1,488	1,744
Portfolio investments	*(Note 6)*	170,902	134,009
Loans receivable	*(Note 5)*	28,576	29,671
Investments in government business enterprises	*(Note 7)*	6,290	6,756
		325,955	316,282
Liabilities			
Accounts payable and accrued liabilities	*(Note 9)*	34,347	36,507
Derivatives	*(Note 6)*	2,410	1,331
Due to governments		4,321	3,933
Employee future benefits	*(Note 10)*	20,246	21,725
Deferred revenue		14,878	16,271
Deferred contributions	*(Note 11)*	146,162	113,624
Deferred capital contributions	*(Note 12)*	379,426	394,933
Long-term debt	*(Note 13)*	54,739	56,574
		656,529	644,898
Net debt		(330,574)	(328,616)
Non-financial Assets			
Tangible capital assets	*(Note 14)*	694,679	674,562
Restricted endowment investments	*(Note 6)*	308,531	298,074
Inventories held for use		1,694	1,694
Prepaid expense		15,372	16,869
		1,020,276	991,199
Accumulated surplus	*(Note 16)*	$ 689,701	$ 662,583
Accumulated surplus is comprised of:			
Endowments	*(Note 17)*	$ 295,532	$ 289,970
Invested in capital assets		277,306	239,705
Internally restricted		80,470	101,974
Unrestricted		19,069	18,738
Accumulated operating surplus		672,377	650,387
Accumulated remeasurement gains		17,324	12,196
Accumulated surplus		$ 689,701	$ 662,583

Contractual Obligations *(Note 18)*
Contingent Liabilities *(Note 19)*

On behalf of the Board:

Chair, Board of Governors

Vice President, Finance and Operations

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF VICTORIA

Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2015
(in thousands of dollars)

	Budget	2015	2014
	(Note 2(m))		
Revenue:			
Province of British Columbia grants	$ 188,000	$ 184,180	$ 190,439
Government of Canada grants	56,000	61,064	54,522
Other government grants	15,500	14,098	17,412
Student tuition - credit courses	114,000	118,740	109,903
Student tuition - non-credit courses	22,000	22,860	21,727
Donations, non-government grants and contracts	15,500	18,389	15,439
Sales of services and products	61,150	61,988	60,448
Investment income	3,254	21,980	17,904
Income from business enterprises	800	1,352	753
Other revenue	16,000	5,374	5,867
Revenue recognized from deferred capital contributions	28,771	30,941	29,278
	520,975	540,966	523,692
Expenses: *(Note 20)*			
Instruction and non-sponsored research	206,304	209,547	205,491
Academic and student support	124,612	131,304	124,375
Administrative support	18,660	18,787	18,253
Facility operations and maintenance	48,462	44,682	46,780
Sponsored research	110,484	108,295	107,303
External engagement	11,783	11,923	11,534
	520,305	524,538	513,736
Operating surplus before restricted funding	670	16,428	9,956
Restricted endowment contributions			
Endowment principal donations	3,000	4,268	4,297
Net investment income & donations capitalized	-	1,294	1,068
Net restricted endowment contributions	3,000	5,562	5,365
Annual operating surplus	3,670	21,990	15,321
Accumulated operating surplus, beginning of year	650,387	650,387	635,066
Accumulated operating surplus, end of year	$ 654,057	$ 672,377	$ 650,387

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF VICTORIA

Consolidated Statement of Changes in Net Debt

Year ended March 31, 2015
(in thousands of dollars)

	Budget *(Note 2(m))*	2015	2014
Annual surplus	$ 3,670	$ 21,990	$ 15,321
Acquisition of tangible capital assets	(75,735)	(69,977)	(68,908)
Amortization of tangible capital assets	49,945	49,861	47,313
	(25,790)	(20,116)	(21,595)
Restricted endowment investments		(10,457)	(8,848)
Acquisition of inventories held for use		(1,769)	(1,749)
Acquisition of prepaid expense		(5,630)	(7,418)
Consumption of inventories held for use		1,769	1,711
Use of prepaid expense		7,127	6,590
		(8,960)	(9,714)
Net remeasurement gains		5,128	6,781
Decrease (increase) in net debt	3,501	(1,958)	(9,207)
Net debt, beginning of year	(328,616)	(328,616)	(319,409)
Net debt, end of year	$ (332,117)	$ (330,574)	$ (328,616)

UNIVERSITY OF VICTORIA

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2015
(in thousands of dollars)

	2015	2014
Accumulated remeasurement gains, beginning	$ 12,196	$ 5,415
Unrealized gains (losses) attributed to:		
Portfolio investments	6,005	5,853
Derivatives	(1,079)	988
Foreign currency translation	202	(60)
Net remeasurement gains for the year	5,128	6,781
Accumulated remeasurement gains, end of year	$ 17,324	$ 12,196

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF VICTORIA

Consolidated Statement of Cash Flows

Year ended March 31, 2015
(in thousands of dollars)

	2015	2014
Cash provided by (used in):		
Operations:		
Annual surplus	$ 21,990	$ 15,321
Items not involving cash		
Amortization of tangible capital assets	49,861	47,313
Revenue recognized from deferred capital contributions	(30,941)	(29,278)
Change in deferred contributions	32,538	17,506
Change in employee future benefits	(1,479)	1,496
Equity in income of government business enterprises	466	(650)
Unrealized foreign exchange gain (loss)	202	(60)
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	5,645	(5,125)
Decrease in loans receivable	1,095	1,003
Decrease in inventories	256	409
Decrease (increase) in prepaid expenses	1,497	(828)
Increase (decrease) in accounts payable and accrued liabilities	(2,160)	2,517
Increase (decrease) in due to/from government organizations	3,744	(2,320)
Increase (decrease) in deferred revenue	(1,393)	5,569
Net change from operating activities	81,321	52,873
Capital activities:		
Cash used to acquire tangible capital assets	(69,977)	(68,908)
Investing activities:		
Sale (Purchase) of portfolio investments	(4,993)	24,909
Acquisition of endowment investments	(36,352)	(31,937)
Net change from investing activities	(41,345)	(7,028)
Financing activities:		
Proceeds from (repayment of) long-term debt	(1,835)	8,346
Cash proceeds from deferred capital contributions	15,434	24,338
Net change from financing activities	13,599	32,684
Net change in cash and cash equivalents	(16,402)	9,621
Cash and cash equivalents, beginning of year	117,127	107,506
Cash and cash equivalents, end of year	$ 100,725	$ 117,127

The accompanying notes are an integral part of these financial statements.

1. Authority and Purpose

The University of Victoria (the "University") 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*.

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 related to not-for-profit accounting standards.

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.

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

2. Summary of significant accounting policies (continued)

(a) Basis of accounting (continued)

- 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. (See note 23)

(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 the financial support of the University and administer the University's endowment funds.

- Byron Price & Associates Ltd. which holds land in North Saanich.

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 the University.

The following organizations are controlled by the University and consolidated in these financial statements using the modified equity basis:

- 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.

- Gustavson School of Business Executive Education Inc provides executive training and other non-credit education.

(iii) Investment in government partnerships

Government partnerships that are not wholly controlled 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 inter-organizational 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. These financial statements include the University's 8.33% interest.

- Western Canadian Universities Marine Sciences Society (WCUMSS) which operates a marine research facility at Bamfield on the west coast of Vancouver Island. These financial statements include the University's 20% interest.

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

(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.

(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 designated to be recorded at fair value are endowment and portfolio investments. Transaction costs related to the acquisition of investments are recorded as an expense. Sales and purchases of investments are recorded at trade date. 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.

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)

(ii) Cost category

Gains and losses are recognized in the statement of operations when the financial asset is derecognized due to disposal or impairment and the gains and losses are recognized 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.

(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

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.

(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, are amortized on a straight line basis over their estimated useful lives. Land is not amortized as it is deemed to have a permanent value.

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

2. Summary of significant accounting policies (continued)

(g) Non-financial assets (continued)

(i) Tangible capital assets (continued)

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.

(iii) Leased 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.

(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 10.

2. Summary of significant accounting policies (continued)

(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.

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.

(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 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 value of contributed services is not determinable and is not recorded in the financial statements.

2. Summary of significant accounting policies (continued)

(k) Use of estimates

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 amortization period of tangible 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) Foreign currency translation

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 statement of financial position date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or statement of financial position date is recognized in the statement of remeasurement gains and losses. In the period of settlement, any exchange gain or loss is reversed out of remeasurement and reflected in the Statement of Operations.

(m) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2014 / 2015 to 2016/2017 Planning and Budget Framework approved by the Board of Governors of the University on May 21, 2014 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.

(in thousands of dollars)

3. Cash and cash equivalents

	2015	2014
Cash	$ 15,229	$ 8,351
Short term investments	84,600	107,816
Restricted cash	896	960
	$ 100,725	$ 117,127

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

4. Due from governments

	2015	2014
Federal government	$ 3,147	$ 7,161
Provincial government	4,874	4,437
Other	241	20
	$ 8,262	$ 11,618

5. Loans receivable

	2015	2014
BCNET		
Interest at 4.5%, due April 2019, unsecured	$ 454	$ 555
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	3,680	4,050
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
Vancouver Island Technology Park Trust loans receivable		
Interest at 5.13%, due April 2030, unsecured	11,923	12,434
Interest at 6.13%, due April 2030, unsecured	2,911	3,024
	$ 28,576	$ 29,671

(in thousands of dollars)

6. Financial Instruments

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

(a) Portfolio investments

	Fair Value Hierarchy	2015	2014
Portfolio investments carried at fair value:			
Bonds	Level 2	$ 10,677	$ 5,482
Various pooled bond and mortgage funds	Level 1	89,872	77,604
Canadian equities	Level 1	24,707	18,764
Global equities	Level 1	33,346	20,828
Infrastructure and real estate	Level 3	10,782	6,092
Other	Level 1	-	4,238
		169,384	133,008
Portfolio investments at cost:			
Short-term investments		1,130	719
Cash		300	220
Other		88	62
Total portfolio investments		$ 170,902	$ 134,009

(b) Restricted endowment investments

	Fair Value Hierarchy	2015	2014
Restricted endowment investments carried at fair value:			
Bonds	Level 2	$ 36,673	$ 27,691
Various pooled bond and mortgage funds	Level 1	42,673	45,416
Canadian equities	Level 1	80,922	84,412
Global equities	Level 1	106,269	105,068
Infrastructure and real estate	Level 3	37,034	30,767
		303,571	293,354
Restricted endowment investments at cost:			
Short-term investments		3,882	3,630
Cash		1,031	1,090
Other		47	-
Total restricted endowment investments		$ 308,531	$ 298,074

(in thousands of dollars)

6. Financial Instruments (continued)

Financial assets and liabilities recorded at fair value are comprised of the following (See note 13 for breakdown of debt related to derivatives):

(c) Derivatives

	Fair Value Hierarchy	2015	2014
Derivatives - interest rate swaps on long-term debt quoted at fair value:			
BC Immigrant Investment Fund interest rate swap fixed at 5.38% commencing in 2017	Level 1	$ (162)	$ (122)
Royal Bank of Canada floating interest rate fixed at 5.38%, through an interest rate swap due Nov 2024, unsecured	Level 1	(1,727)	(1.480)
BC Immigrant Investment Fund floating interest rate fixed at 3.56%, commencing 2023 through	Level 1	(521)	271
Total derivatives		$ (2,410)	$ (1,331)

7. Investments in government business enterprises

The University controls three profit oriented subsidiaries which are recorded using the modified equity method of accounting. The three entities are Heritage Realty Properties, Vancouver Island Technology Park and Gustavson School of Business Executive Education Inc.

	2015	2014
Equity at beginning of year	$ 3,748	$ 3,637
Dividends/distributions paid	(642)	(642)
Net earnings	1,352	753
Equity at end of year	4,458	3,748
Dividends/distributions payable	1,832	3,008
Investment in government business enterprises	$ 6,290	$ 6,756

Change in equity in government business enterprises

(in thousands of dollars)

7. Investments in government business enterprises (continued)

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

Consolidated Statement of Financial Position

	2015	2014
Assets	$ 37,535	$ 38,225
Liabilities	(33,077)	(34,477)
Equity	$ 4,458	$ 3,748

Consolidated Statement of Operations

	2015	2014
Revenue	$ 11,423	$ 11,665
Expenses	(10,071)	(10,912)
Surplus (deficit) for the year	$ 1,352	$ 753

8. Investments in government partnerships

The University is one of twelve 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 ownership of 8.33% (2014 – 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 2015 of $253,400 (2014 – $253,000). WCUMSS financial results are proportionately consolidated with those of the University based upon the University's share of its total contributions of 20% (2014 – 20%).

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

Consolidated Statement of Financial Position

	2015	2014
Financial assets	$ 2,347	$ 2,526
Liabilities	907	1,111
Net assets	1,440	1,415
Non-financial assets	1,061	1,079
Accumulated surplus	$ 2,501	$ 2,494

(in thousands of dollars)

8. Investments in government partnerships (continued)

Consolidated Statement of Operations

	2015	2014
Revenue	$ 6,403	$ 8,078
Expenses	6,396	7,208
Surplus for the year	$ 7	$ 870

9. Accounts payable and accrued liabilities

	2015	2014
Accounts payable and accrued liabilities	$ 23,702	$ 25,423
Salaries and benefits payable	3,396	3,969
Accrued vacation pay	7,249	7,115
	$ 34,347	$ 36,507

10. Employee future benefits

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

	2015	2014
Staff pension plan	$ (5,409)	$ (2,581)
Supplemental pension obligations	6,155	5,369
Special accumulated sick leave	3,226	3,373
Long term disability benefits	14,765	14,097
Basic group life insurance plan	1,509	1,467
	$ 20,246	$ 21,725

Summary of employee future benefit obligations:

10. Employee future benefits (continued)

(a) Pension benefits

(i) Combination plan

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 121 members have received a defined benefit supplement. At December 31, 2014, 107 were receiving supplements that totalled $34,985 of a total pension payroll of $2,000,000 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, 2012 showed that the accrued formula pension benefit liabilities of the Combination Plan were fully funded. The next valuation will be as at December 31, 2015. 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 plans during the year of $20,000,000 (2014 – $18,800,000) 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 $6,154,000 as at March 31, 2015 (2014 – $5,370,000). The University paid supplemental benefits of $147,000 in the year (2014 – $209,000) and recorded employee benefit expense of $148,000 (2014 – $129,000).

(ii) Staff plan

The Staff Pension Plan (the "Plan") is a contributory defined benefit pension plan made available to 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, 2013, the average age of the 1,152 active employees covered by the Plan is 47.8. In addition, there are 419 former employees who are entitled to deferred pension benefits averaging $289 per month. At December 31, 2013, there were 639 pensioners receiving an average monthly pension of $826. 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 asset at March 31 includes the following components:

(in thousands of dollars)

10. Employee future benefits (continued)

(a) Pension benefits (continued)

(ii) Staff plan (continued)

	2015	2014
Accrued benefit obligation	$ 191,182	$ 184,477
Pension fund assets	(217,031)	(197,554)
	(25,849)	(13,077)
Unamortized actuarial gains (losses)	20,440	10,496
Net obligation (asset)	$ (5,409)	$ (2,581)

Actuarial valuations for funding purposes are performed triennially using the projected benefit prorate method. The latest triennial actuarial valuation completed as at December 31, 2013 reported a going concern surplus and a solvency deficiency (i.e. if the plan were to be wound up on that date of $41,866,000. 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 a letter of credit in the amount of $27.6 million at March 31, 2015 (2014 - $19.9 million) to satisfy the contribution requirements through 2016. This letter of credit will be reassessed in conjunction with the December 31, 2015 plan valuation and updated solvency funding level. The accrued benefit obligation shown for 2015 is based on an extrapolation of that 2014 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 2.0%. The discount rate used to determine the accrued benefit obligation is 6%. Pension fund assets are valued at market value.

The expected rate of return on pension fund assets is 6%. The actual gross return on Plan assets in 2014 was 12.5%. The total expenses related to pensions for the fiscal year ending, include the following components:

(in thousands of dollars)

10. Employee future benefits (continued)

(a) Pension benefits (continued)

(ii) Staff plan (continued)

	2015	2014
Current period benefit cost	$ 6,735	$ 6,638
Amortization of actuarial gains (losses)	(1,060)	81
	5,675	6,719
Less: Employee contributions	(2,055)	(1,080)
Pension expense	3,620	5,639
Interest cost on the average accrued benefit obligation	10,832	10,628
Expected return on average pension plan assets	(11,631)	(10,559)
Pension interest expense	(799)	69
Total expenses related to pensions	$ 2,821	$ 5,708

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 (2014 – $114,000).

(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, 2015 the balance of this special accumulated sick leave was $3,226,000 (2014 – $3,373,000).

(in thousands of dollars)

10. Employee future benefits (continued)

(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.

Information about liabilities for the University's long-term disability plan includes:

	2015	2014
Accrued benefit obligation:		
Beginning of year	$ 14,097	$ 13,056
Current service cost	4,280	4,358
Interest cost	258	202
Benefits paid	(2,060)	(2,001)
Actuarial gain/(loss)	(1,810)	(1,518)
Accrued benefit obligation, end of year	$ 14,765	$ 14,097

	2015	2014
Accrued benefit obligation:		
Plan assets	$ 12,169	$ 10,132
Liability, end of year	(14,765)	(14,097)
Accrued benefit obligation, end of year	$ (2,596)	$ (3,965)

Components of net benefit expense

	2015	2014
Service cost	$ 4,280	$ 4,358
Interest cost	258	202
Expected return on assets	(180)	(144)
Amortization of net acturial gain	(2,566)	(1,441)
Net benefit expense	$ 1,792	$ 2,975

(in thousands of dollars)

10. Employee future benefits (continued)

(c) Long-term disability benefits (continued)

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

	2015	2014
Discount rates	1.7%	1.7%
Expected future inflation rates	2.0%	2.0%
Salary increase assumption	2.0%	2.0%
Retirement 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, 2015 was $888,000 (2014 - $1,118,000).

11. Deferred contributions

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

	2015	2014
Specific purpose: (including endowment earnings)	$ 92,336	$ 64,199
Research	51,865	47,092
Capital	1,961	2,333
	$ 146,162	$ 113,624

	2015				
	Specific Purpose	Research	Capital	Total	2014
Balance, beginning of year	$ 64,199	$ 47,092	$ 2,333	$ 113,624	$ 96,118
Contributions and endowment investment income	57,552	82,584	231	140,367	123,805
Revenue recognized from deferred contributions	(29,415)	(77,811)	(603)	(107,829)	(106,251)
Transfer to deferred capital contributions	-	-	-	-	(48)
Balance, end of year	$ 92,336	$ 51,865	$ 1,961	$ 146,162	$ 113,624

(in thousands of dollars)

12. 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 (a). Changes in the deferred capital contributions balance are as follows:

	2015	2014
Balance, beginning of year	$ 394,933	$ 399,873
Contributions received during the year	15,434	24,290
Transfers from deferred contributions	-	48
Revenue from amortization of deferred capital contributions	(30,941)	(29,278)
Balance, end of year	$ 379,426	$ 394,933

13. Long-term debt

Long-term debt reported on the consolidated statement of financial position is comprised of the following (see note 6(c) for related derivative information):

	2015	2014
Royal Bank of Canada 5.38% term loan due 2024, unsecured	$ 9,179	$ 9,888
British Columbia Immigrant Investment Fund 4.75% term loan due 2017, unsecured	3,527	3,742
British Columbia Immigrant Investment Fund 2.48% term loan due 2023, unsecured	9,310	9,710
Province of British Columbia 4.82% bond due 2027, unsecured, with annual sinking fund payments of $327,000	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
Great West Life Insurance Company 5.13% term loan due 2030, unsecured	11,923	12,434
	$ 54,739	$ 56,574

(in thousands of dollars)

13. Long-term debt (continued)

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

(a) Principal repayments

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

	2015		
	Sinking Fund	Other	**Total**
2016	$ 629	$ 1,904	$ 2,533
2017	629	1,994	2,623
2018	629	2,088	2,717
2019	629	2,187	2,816
2020	629	2,291	2,920
Thereafter	12,788	28,342	41,130
	$ 15,933	$ 38,806	$ 54,739

(in thousands of dollars)

14. Tangible capital assets

Cost	Balance at March 31, 2014	Additions	Disposals	Balance as at March 31, 2015
Land	$ 21,769	$ 1,365	$ -	$ 23,134
Site Improvements	33,168	946	-	34,114
Buildings	686,199	46,407	-	732,606
Equipment and furnishings	222,598	13,586	(21,217)	214,967
Information systems	18,441	-	-	18,441
Computer equipment	15,590	4,333	(2,872)	17,051
Library holdings	40,049	3,342	(2,920)	40,471
Total	$ 1,037,814	$ 69,979	$ (27,009)	$ 1,080,784

Accumulated amortization	Balance at March 31, 2014	Disposals	Amortization	Balance as at March 31, 2015
Land	$ -	$ -	$ -	$ -
Site Improvements	16,128	-	897	17,025
Buildings	181,508	-	13,735	195,243
Equipment and furnishings	121,645	(21,217)	24,789	125,217
Information systems	13,558	-	2,305	15,863
Computer equipment	9,115	(2,872)	4,256	10,499
Library holdings	21,298	(2,920)	3,880	22,258
Total	$ 363,252	$ (27,009)	$ 49,862	$ 386,105

Net book value	March 31, 2015	March 31, 2014
Land	$ 23,134	$ 21,769
Site improvements	17,089	17,040
Buildings	537,363	504,691
Equipment and furnishings	89,750	100,953
Information systems	2,578	4,883
Computer equipment	6,552	6,475
Library holdings	18,213	18,751
Total	$ 694,679	$ 674,562

(in thousands of dollars)

14. Tangible capital assets (continued)

Contributed tangible capital assets:

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

	2015	2014
Equipment and furnishings	$ 54	$ 26

(a) Assets under construction

Assets under construction having a value of $74,845,000 (2014 – $78,438,000) comprised of buildings of $74,845,000 (2014– $58,714,000) and equipment $0 (2014 – $19,724,000) have not been amortized. Amortization of these assets will commence when the asset is available for productive use.

(b) De-recognition of tangible capital assets

The de-recognition of tangible capital assets during the year was $27,009,000 (2014 – $24,974,000) related to fully amortized assets with a net book value of $ nil (2014 – $ nil) related to asset disposals.

15. Financial risk management

The University has exposure to the following risks from its use of financial instruments: credit risk, price 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 accounts for 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 maximum credit risk exposure of the University investments at March 31, 2015 is $261,285,524.

(in thousands of dollars)

15. Financial risk management (continued)

The following shows the percentage of fixed income holdings in the portfolio by credit rating:

Credit Rating	%
AAA	10.0%
AA	25.5%
A	7.3%
BBB	8.8%
BB and below	0.8%
Mortgages	11.7%
Cash and short term	
R1 high	33.9%
R1 mid	0.7%
R1 low	1.2%
	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.

Asset Class		Estimated Volatility (% change)
Canadian equities	+/-	21.1%
Foreign equities	+/-	17.5%
Real estate	+/-	9.9%
Bonds	+/-	5.4%
Infrastructure	+/-	16.0%
Benchmark for Investments		**Net Impact on Market Value**
DEX Universe Bond index	+/-	$ 9,563
S&P/TSX Composite index	+/-	22,005
MSCI World Index	+/-	24,173
Canadian Consumer Price Index (Real Estate)	+/-	3,514
Canadian Consumer Price Index (Infrastructure)	+/-	1,190

(in thousands of dollars)

15. Financial risk management (continued)

(b) Price risk (continued)

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The value of fixed-income and debt securities, such as bonds, debentures, mortgages or other income-producing securities is affected by interest rates. Generally, the value of these securities increases if interest rates fall and decreases if interest rates rise.

It is management's opinion that the 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, 2015, the modified duration of all fixed income in aggregate was 4 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 4%, contrarily if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 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.

16. Accumulated surplus

Accumulated surplus is comprised of the following:

	2015	2014
Endowments	$ 295,532	$ 289,970
Invested in capital assets	277,306	239,705
Internally restricted	80,470	101,974
Unrestricted	19,069	18,738
Accumulated remeasurement gains	17,324	12,196
	$ 689,701	$ 662,583

(in thousands of dollars)

16. Accumulated surplus (continued)

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.

17. Endowments

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

	2015	2014
Balance, beginning of year	$ 289,970	$ 284,605
Contributions received during the year	4,268	4,297
Invested income and donations capitalized	1,294	1,068
Balance, end of year	$ 295,532	$ 289,970

The balance shown does not include endowment principal with fair value of $7,076,000 (2014 -$6,628,000) and book value of $4,820,000 (2014 -$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.

(in thousands of dollars)

18. 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:

		2016		2017		2018		2019		2020
Construction contracts	$	14,054	$	-	$	-	$	-	$	-
Operating leases	$	569		256		23		7		-
Total	$	14,623	$	256	$	23	$	7	$	-

19. 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.

20. Expenses by object

The following is a summary of expenses by object:

		2015		2014
Salaries and wages	$	275,545	$	270,134
Employee benefits		47,056		49,233
Travel		13,557		13,186
Supplies and services		71,089		65,688
Equipment rental and maintenance		4,664		5,007
Utilities		8,680		9,871
Scholarships, fellowships and bursaries		37,440		35,925
Cost of goods sold		14,094		14,386
Interest on long-term debt		2,541		2,495
Interest - other		11		498
Amortization of tangible capital assets		49,861		47,313
	$	524,538	$	513,736

(in thousands of dollars)

21. 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 (2015 – $1,906,000; 2014 – $2,119,000).

22. Supplemental cash flow information

	2015	2014
Cash paid for interest	$ 2,480	$ 2,602

23. Differences between Financial Reporting Framework (FRF) and PSAS

As noted in the significant accounting policies, per the Budget Transparency and Accountability Act of the Province of British Columbia and the Restricted Contribution Regulation 198/2011 issued pursuant to it, the university is required to account for government funding of tangible capital assets by deferring and amortizing deferred capital contributions to income on the same basis as the related amortization expense. If restricted government funding for tangible capital assets does not contain stipulations that create a liability, then PSAS requires it to be reported as income immediately. The impact of this difference on the consolidated financial statements of the university would be as follows:

	2015		
	FRF	PSAS	Difference
Liabilities			
Deferred capital contributions	$ 379,426	$ -	$ 379,426
Accumulated surplus			
Accumulated surplus	689,701	1,069,127	(379,426)
Revenue			
Government grants and contracts	259,341	270,726	(11,385)
Donations, non-government grants and contracts	18,389	22,438	(4,049)
Amortization of deferred capital contributions	30,941	-	30,941
Annual operating surplus			
Annual operating surplus (after restricted endowment contributions)	$ 21,990	$ 6,483	$ 15,507

(in thousands of dollars)

23. Differences between Financial Reporting Framework (FRF) and PSAS (continued)

	2014		
	FRF	PSAS	Difference
Liabilities			
Deferred capital contributions	$ 394,933	$ -	$ 394,933
Accumulated surplus			
Accumulated surplus	662,583	1,057,516	(394,933)
Revenue			
Government grants and contracts	262,373	282,989	(20,616)
Donations, non-government grants and contracts	15,439	19,161	(3,722)
Amortization of deferred capital contributions	29,278	-	29,278
Annual operating surplus			
Annual operating surplus (after restricted endowment contributions)	$ 15,321	$ 10,381	$ 4,940