UNIVERSITY OF VICTORIA

2017 - 2018 Management Discussion and Analysis (Unaudited)

2017 – 2018 Audited Financial Statements

University of Victoria
2018 Management Discussion and Analysis (Unaudited)

Introduction to Management Discussion and Analysis

The attached financial statements present the financial results of the University for the year ended March 31, 2018 in accordance with Public Sector Accounting Standards supplemented by directives set out by the Province of British Columbia and consistent with Section 23.1 of the *Budget Transparency and Accountability Act* (BTAA) of the Province of British Columbia. These statements are the consolidation of all University operations including the results of general operations, ancillary operations, capital projects, endowment returns and spending, research grants and expenditures etc. As required by Public Sector Accounting Standards they also include the financial results of each of the University's 13 external entities as well as the staff pension plan and the long term disability trust. While required to be included in the financial statements the assets and their use are restricted for specific purposes (e.g. pension and LTD) and therefore are not available to management to support general operations.

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, 2018, 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 new Strategic Framework for the University of Victoria 2018-2023 articulates our shared understanding of our vision, values and priorities in fulfilling our commitment to contributing to a better future for people, places and the planet. The framework's objective is to serve as a guide to our future—setting out priorities and high-reaching goals in six key areas and articulating strategies to realize them. The six priority areas are to "cultivate an extraordinary academic environment, advance research excellence and impact, intensify dynamic learning, foster respect and reconciliation, promote sustainable futures, and engage locally and globally". The priority areas in the Strategic Framework are reflected in the UVic Edge through the powerful fusion of three ingredients: Dynamic Learning, Vital Impact and Extraordinary Environment.

The Strategic Framework provides a structure for our ongoing planning and serves as a reference for making strategic choices among the many possible initiatives that could move us forward. Creating a shared understanding of our goals and priorities enables us to coordinate our efforts and work together to achieve maximum impact. Guided by the Strategic Framework, the University develops an institutional budget to ensure that financial resources are aligned with the institution's priorities and areas of strategic focus. 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 consolidated assets of $1.5 billion and consolidated revenue of $582 million. The consolidated surplus prior to inclusion of donations to the University's endowment fund was $34.2M or 5.9% of total revenues ($7.4M or 1.3% for the prior year). The increase in the surplus resulted from a 4.4% increase in revenues and a 0.4% decrease in expenses. The surplus exceeded budget by $26.1M, (under budget by $2.8M for the prior year). Almost all of the variance compared to the prior year is due to one time events (eg. gain on sale of property) or transactions that do not increase the resources available to the University (eg. actuarial adjustments and accounting treatment).

The largest single difference is related to funding for capital expenditures. Funding for capital expenditures comes from a number of different sources including the University, provincial government, federal government and other external sources. The University is required to generate surpluses in order to make investments in capital. In the prior year, the University received approval to have $9.4M of provincial grants restricted for capital expenditures. This resulted in a reduction in surplus for the year and a corresponding reduction in the University's requirement to invest its own funds into capital. For the current year, a request to restrict $10.7M for eligible capital expenditures was not approved. As a result, $10.7M is recorded as provincial grant revenue recorded in the current year and the surplus for the year is greater by $10.7M. While reflected as a surplus, the funds have been invested in capital and there will be amortization expenses in future years.

The surplus applicable to operations, after adjusting for the $10.7M investment in capital assets, that represents resources available to the University is $2.4M.

Government Grants

Revenue from the Provincial Government in the form of grants increased by 8.1% over the previous year due primarily to funding of compensation increases and no restriction of a portion of the operating grant for eligible capital expenditures ($9.4M for the prior year). Annual grants received from the Province for capital purposes remained consistent at $26.5M, up slightly from the $26.2M received last year (not including the $9.4M operating grant restriction), related to routine maintenance and specific project funding.

Tuition and Enrolment

Overall, credit tuition remained consistent at $136.3M. There was an increase due to a 2% increase in domestic fees (the increase to domestic tuition fees is limited to 2% by provincial government policy), a small reduction in domestic enrolment, a 4% increase in international fees and a small increase in international enrolment all offset by differences in timing of revenue recognition. Non-credit tuition increased by $0.8M due to higher enrolments in international programs in Continuing Studies.

Investments

Investment income is comprised of both returns on endowments and returns on short-term investments. The University's endowment investments are held in the University of Victoria Foundation and have a fair value of $451M. The endowments earned a return of 7.0% for the year (2017 – 9.8%) across its six investment mandates. Short-term investments held within the University returned 1.4% for the year (2017 – 1.7%).

Major Capital Activity

During the year, work continued on a $9.5M renovation to one building at the Queenswood Campus to provide office and research space for UVic's ocean and climate hub. Construction continued on the $20M District Energy Plant that will replace the University's aging energy heating infrastructure. The sale of the 100-acre Dunsmuir Lodge property in North Saanich was completed during the year resulting in a gain on sale of $4.4M.

Financial Information

Financial Assets

Financial assets are defined as assets available to discharge existing liabilities or finance future operations. During the year, they increased 10.9% to $388M.

In thousands of dollars	2018	2017
Cash and cash equivalents	117,425	91,913
Accounts Receivable	18,437	20,106
Due from governments	10,739	5,921
Inventories for resale	1,474	1,678
Portfolio investments	206,890	197,905
Loans receivable	26,118	26,610
Investments in government business enterprises	7,252	6,295
Total Financial Assets	388,335	350,428

Cash and cash equivalents increased by $25.5M reflecting funding received in advance of expenditures. Accounts receivable decreased by $1.7M and Due from governments increased by $4.8M, reflecting timing and year end funding. 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 $9.0M due largely to 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 5.0% to $707M.

In thousands of dollars	2018	2017
Accounts payable	33,534	31,625
Derivatives	853	1,913
Due to governments	4,616	4,871
Employee future benefits	12,009	18,333
Deferred revenue	17,823	14,673
Deferred contributions	185,699	167,023
Deferred capital contributions	402,919	384,497
Long term debt	49,824	50,799
Total Liabilities	707,277	673,734

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. Liability for employee future benefits decreased due to actuarial gains in both the Staff Pension Plan and self-insured long term disability plan. Deferred contributions are externally restricted revenue that is not recognized until related expenses are incurred. Deferred contributions increased $18.7M due to endowment income and sponsored research funding received in excess of current year expenditures. Deferred capital contributions are externally restricted capital contributions to be amortized over the life of related tangible capital assets. During the year deferred capital contributions increased by a net $18.4M resulting from contributions of $46.5M less amortization of $28.1M. Long-term debt decreased by $1.0M resulting from scheduled debt repayments.

Non-financial Assets

Non-financial assets increased by 4.2% to $1,104M.

In thousands of dollars	2018	2017
Tangible capital assets	740,838	710,970
Restricted endowment investments	343,144	329,614
Inventories held for use	1,918	1,806
Prepaid expense	17,726	16,991
Total Non-Financial Assets	1,103,626	1,059,381

Tangible capital assets include land, buildings, site improvements, library holdings, computers, equipment and furnishings but do not include $13.0M of artwork and collections as these are expensed under PSAS accounting. The net increase in tangible capital assets of $29.9M is due to additions of $78.6M less disposal of $3.7M and amortization of $45.0M. The largest single capital asset addition was related to the District Energy Plant Project. Restricted endowment investments represent the portion of endowment investments related to the restricted principal funds. During the year, they increased $13.5M due to donations of $7.7M and capitalized investment income of $5.8M. Restricted endowment assets are considered "non-financial" as the funds have a restricted purpose and cannot be used to meet the liabilities of the University as they become due.

Accumulated surplus

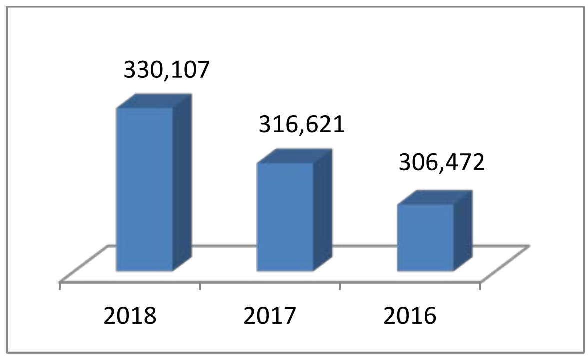
Accumulated surplus increased by 6.67% to $785M.

In thousands of dollars	2018	2017
Endowment	330,107	316,621
Invested in capital assets	306,996	292,622
Internally restricted	99,155	88,598
Unrestricted	31,171	21,913
Remeasurement gains	17,255	16,321
Accumulated surplus	784,684	736,075

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 student housing, 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

Endowments increased by 4.3% to $330M.



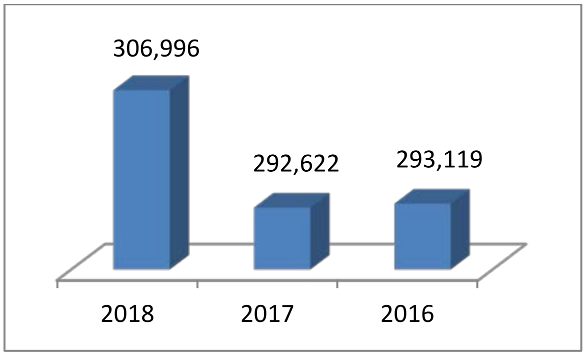
The University's endowments are held by the UVic Foundation. Accumulated surplus-endowment consists of restricted donations and capitalized investment income which is required to be maintained intact in perpetuity in order to support donor specified activities. The investment income generated from endowments must be used in accordance with the various purposes stipulated by the donors. At March 31, 2018 there were 1,316 individual endowment funds providing $14.7M (2017:$14.1M) 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 4.9% to $307M.

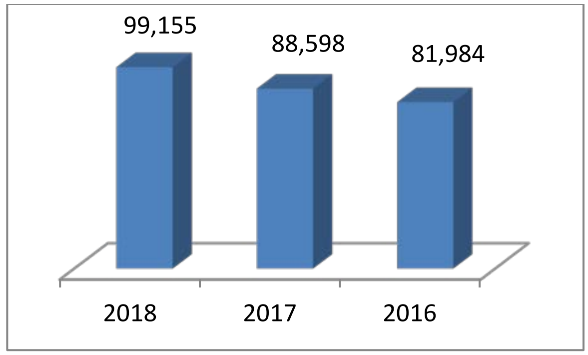


Accumulated surplus invested in capital assets is the amount of internal University funds used for the acquisition of capital assets less amortization of internally financed capital assets. The following comprises the balance of accumulated surplus invested in capital assets:

(in thousands of dollars)	**2018**	**2017**
Land	22,582	23,133
Site development	9,399	9,063
Buildings	262,147	253,724
Equipment	29,872	25,241
Library acquisitions	13,898	15,233
Software	24	82
Sinking funds	8,674	6,125
Less debt repayments	(39,600)	(39,979)
Invested in capital assets	306,996	292,622

Accumulated Surplus – Internally Restricted

Accumulated surplus-internally restricted increased by 11.9% to $99.2M.

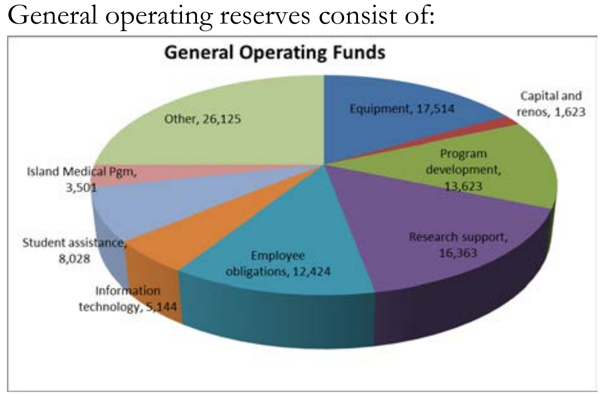


Accumulated surplus - internally restricted consists of balances appropriated by the University Board of Governors for employee commitments, equipment replacement, capital improvements, program development, research support and other non-recurring expenditures. Due to Provincial Government restrictions on 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. All of the balances are similar to the prior year with one exception. Staff pension and LTD increased by $4M and $3.3M respectively as a result of positive actuarial valuations.

Balances are made up as follows:

(in thousands of dollars)	**2018**	**2017**
General operating	104,345	104,123
Ancillary enterprises	12,705	11,050
Less Capital	(23,637)	(24,794)
Plus (less) vacation pay, LTD and staff pension	5,742	(1,781)
Total internally restricted	99,155	88,598

General operating reserves consist of:



Surplus before Restricted Funding

The surplus prior to inclusion of donations to the University's endowment fund was $34.2M or 5.9% of total revenues ($7.4M or 1.3% for the prior year). The main reasons for the surplus, with comparison to the prior year are as follows:

(in thousands of dollars)	**2018**	**2017**
Designated Items		
Dunsmuir Lodge sale	6,543	-
LTD actuarial gain (loss)	3,252	(2,658)
Staff Pension Plan actuarial gain	3,999	4,367
	13,794	1,709
Ancillary fund surplus	7,266	3,809
Non-Designated Items		
Operating fund surplus	9,796	9,532
Operating fund restriction for capital	(10,700)	(9,411)
Other	3,333	1,764
	2,429	1,885
Add back denied request for Operating fund restriction for capital	10,700	-
Surplus before restricted funding	34,189	7,403

There is a requirement to have a surplus to be able in invest in capital assets. For the prior year, the University requested, and received approval, to restrict funds of $9.4M to fund capital investments during the year that were considered eligible capital expenditures. For the current year, a request to restrict $10.7M was not approved and as a result is reflected in the surplus although these funds are not available for future investment as they have already been invested in capital improvements that are, for the most part, addressing deferred maintenance.

Revenue

Revenue increased by 4.41% to $582M.

(in thousands of dollars)	**2018**	**2017**
Government grants & contracts	273,638	257,850
Tuition & student fees	156,128	155,421
Donations, non-government grants & contracts	15,640	18,670
Sales of services & products	68,518	70,527
Investment income	22,338	19,846
Income from business enterprises	1,751	486
Amortization of deferred capital contributions	28,215	26,473
Other revenue	15,561	7,953
Total Revenue	581,789	557,226

Government grants and contracts revenue is received from the Province of B.C. (70%), the Government of Canada (24%), and other governments (6%). Revenue recorded from the Province increased by $14.3M overall due to no restriction of the operating grant for capital purposes and increased funding related to salary increases resulting from collective bargaining. Federal grants increased by $6.1M, and other government grants declined by $4.7M. Tuition and student fees increased by $0.7M, or 0.5%, due primarily to non-credit tuition. Credit tuition remained flat due to a 2% increase in domestic fees less a modest reduction in domestic enrolment and 4% increase in international fees plus a modest increase in international enrolment offset by differences in timing of revenue recognition. Investment income does not include unrealized gains, which have been recorded through the Statement of Remeasurement. When remeasurement gains of $0.9M are included, overall investment income increased by $3.4M compared to 2017 results. Other revenue increased by $7.6M resulting primarily from the $4.4M gain on sale of the Dunsmuir Lodge property.

Expenses

Expenses decreased by 0.4% to $548M. Expenses reported by object were as follows:

(in thousands of dollars)	**2018**	**2017**
Salaries and benefits	347,112	346,196
Travel	13,363	13,393
Supplies and services	82,464	84,726
Utilities	8,384	8,711
Scholarships and bursaries	36,358	35,873
Cost of goods sold	12,430	13,017
Interest on long term debt	2,480	2,371
Depreciation	45,009	45,536
Total Expenses	547,600	549,823

Salaries and benefits represent 63% of total expenses. Salaries increased by $8.3M due to progression through the ranks and negotiated settlements with the University's faculty, professional and support staff. Benefits decreased overall by $7.4M due to large actuarial gains on the Staff Pension Plan and the Faculty and Administrative and Academic Professional Long Term Disability Plan, offset by increases in benefits commensurate with higher salaries.

Expenses reported by function were as follows:

(in thousands of dollars)	**2018**	**2017**
Instruction and non-sponsored research	222,945	223,785
Academic and student support	137,000	139,453
Administrative support	19,507	19,139
Facilities operations and maintenance	49,241	47,139
Sponsored Research	106,014	107,104
External engagement	12,893	13,203
Total Expenses	547,600	549,823

Changes in functional expenses included instruction (-0.4%) and Academic and Student Support (-1.8%) Administration (+1.9%), Facilities (+4.5%), Sponsored research (-1.0%) and External engagement (-2.4%).

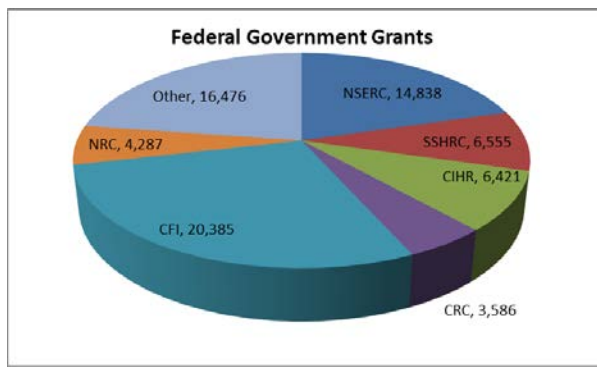
Sponsored Research Contributions

Sponsored research revenue decreased by 1.4% to $100.8M.

(in thousands of dollars)	**2018**	**2017**
Province of B.C.	9,880	14,328
Federal government	72,548	61,441
Other governments	10,756	15,415
Gifts, grants & bequests	14,085	11,622
Sales of services	4,380	3,872
Other revenue	224	1,465
Total contributions	111,873	108,143
Transfer (to)/from deferred contributions	(11,113)	(6,004)
Sponsored research revenue	100,760	102,139

In addition to the above, the University also received $6.7M from the Tri-council for research support funds, which is recorded in the general operating fund.

Federal government grants are comprised of the following:



In 2017, the University ranked third amongst Canadian comprehensive research-intensive universities in total research funding, first in NSERC/CIHR grants and fifth in SSHRC grants.

Operating Environment

Our vision at the University of Victoria is to be the Canadian research University that best integrates outstanding scholarship, engaged learning and real-life involvement to contribute to a better future for people and the planet.

We are in a period of rapid change, with growth in the number of universities around the world and rising expectations for how theses institutions will contribute to individual and collective well-being. To meet the challenges and opportunities of globalization and the social, environmental and technological change faced by our students, communities and University, we must align our efforts and focus our activities.

The financial environment for post-secondary education in BC and Canada continues to be tightly constrained, with increasing cost pressure and no or little growth in revenue from traditional sources. Cost pressures come from annual inflation, which at educational institutions is higher than general cost of living increases, measured by the Consumer Price Index (CPI). They also arise from new expenditures driven by our ambition for innovation and quality enhancement, new obligations, and increased organizational complexity. Revenues from traditional sources are insufficient to meet those cost pressures. The challenge is to achieve financial sustainability and to continue to enhance quality within these constrained circumstances.

The environment and financial model for post-secondary education in BC remains consistent with the past several years. Provincial operating grants for post-secondary institutions have increased in the current year (and are expected to further increase in the next year) to fund negotiated compensation increases following earlier years of grant reductions, however there is no additional lift to meet other inflationary pressures. For the first time since 2011, funding was received to fund student growth. Funding was received to support student growth in computer science and engineering, part of a 4-year expansion. This support, together with the support that will be received in 2019/20 for the University's, first in North America, joint JD/JID academic program, is very much appreciated although there will be short term cost pressures related to start up and interim measures for space until funding approval is secured for new space and this space is completed. For the past decade, domestic tuition fee increases cannot exceed inflation (2%). This is about the rate of the general cost of living inflation, but lower than the actual rate of cost increases at the University, which, on average, are in the 3% - 5% range.

As the tuition limit policy does not apply to international students, starting May 2017, the University implemented a policy to increase international fees to reflect actual costs of inflation. The University has inflation rates higher than inflation in a number of areas including compensation, capital-related costs, information technology, utilities and library. For this year, the inflation rate used was 4%. The University is committed to re-investing incremental fees paid by international graduate students into graduate student support.

The University undertook a comprehensive review of international tuition during the past year. The objective of the review was to develop a fee structure guided by principles including reflecting the quality of the degree, comparability to peer institutions, supporting delivery of quality programs and services, providing for enhanced student financial assistance for fees and contributing to enhanced quality and the long-term financial sustainability of UVic. The approved increases for 2018/19 reflect these principles and will be assessed only for new international students. All existing students will not be impacted by the increased fees beyond inflation.

Within BC a fifteen-year demographic trough, which saw decreasing numbers of 18-24 year olds, is gradually ending. This is the traditional age group associated with undergraduate enrolments and, historically, UVic's largest demographic segment. Competition continues to intensify for new students, both domestic and international and UVic is responding by maintaining its focus on recruiting the best students and enhancing its unique, high quality student experience. Retention and engagement of existing students are key focus areas of our Strategic Enrolment Management initiative. For the past several decades, the main strategy employed by Canadian universities to meet financial challenges has been growth. Growth in domestic enrolments and, more recently, in international enrolments, has brought substantial new revenues, which has permitted universities to meet cost pressures and make new investments (and to some extent has disguised the erosion of the purchasing power of the operating budget).

From a strategic point of view, there is widespread consensus on campus that UVic is about the right size—large enough to offer programs of education and research across many disciplines and to be highly regarded in national and international stature, yet small enough to offer a more human-scale academic environment. We are not assuming that there will be any further growth in international or domestic students as a solution to our financial challenge. The focus will be on quality of students and the student experience.

International student demand has been very strong and while it would not be prudent to expect that such growth continues, it is expected that a higher than historical average of international students will continue to enroll. This enrolment is from a limited range of countries and is not distributed uniformly across the University. Our ongoing international recruitment tiering strategy has been successful in diversifying the range of students' countries of origin. Faculties are actively engaged in building pathway and laddering opportunities to increase the visibility and options for a wider range of program opportunities.

There exists uncertainty in future budgets as the post-secondary sector in BC learns more about the implementation of the Employer Health Tax. Contractual obligations related to salaries and rising costs associated with library acquisitions and the impact of the lower value of the Canadian dollar relative to the US dollar are examples of pressures that continue to constrain financial planning. These pressures have had a negative budgetary impact on a number of areas including information technology, research infrastructure and, most visibly, the Library's acquisitions budget. Rising costs of serial subscriptions has further eroded the Library's ability to maintain the comprehensiveness and competitiveness of its holdings.

UVic's physical infrastructure requires further renewal and enhancement – priorities have been identified in the Capital Plan to address deferred maintenance and increase academic and research space for those areas with the greatest pressures. Student residences are also in need of expansion and renewal. Government funding for capital projects is limited and therefore fundraising as well as increased University resources will be important funding sources for these infrastructure priorities.

Guided by the Strategic Framework, UVic will deliver on our commitments to our people, our partners and our local and global communities, and will ensure that UVic is the Canadian research University that best integrates outstanding scholarship, engaged learning and real-life involvement to contribute to a better future for people and the planet.

Financial Reporting Environment

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. As this Provincial directive supplements the requirements of PSAS, the Office of the Auditor General has provided a qualified audit opinion on a fair presentation basis for the last three years, even though financial reporting has complied with the requirements set out by the Province. Some highlights of the reporting framework 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 or its ability to finance its activities. Net debt at March 31, 2018 is $(319M) but includes $403M 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 Surplus of $785M 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 net debt is impacted by expenditures for, and amortization of, capital assets, changes in other non-financial assets, net remeasurement gains/losses and the annual surplus.

During the year, the University adopted several new PSAS accounting standards related to Related Party Disclosures, Assets, Contingent Assets, Contractual Rights and Inter-Entity Transactions with no significant impact on the financial statements other than additional note disclosure.

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 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. Provincial funding to offset the financial implications of collective agreements has been provided. While it is expected that provincial funding for upcoming collective bargaining, this has not been confirmed.

The Province announced a 1.95% Employer Health Tax in February 2018. If fully applied to UVic, without any offsetting compensation, this would be the equivalent of a 2.6% reduction in the annual Provincial Grant to UVic. UVic and the broader post-secondary sector is continuing to have conversations with the Provincial Government with respect to mitigating the impact at least somewhat.

In addition to the reduction in grant funding, the University is also facing risks because of the restrictions 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 as well as adding additional student housing capacity are imperative if we are to provide housing for our students in an increasing challenging environment of low vacancy and high rental rates. UVic can also contribute to the broader housing shortages by freeing up rental space in the community if there is expanded capacity on campus. We are very encouraged by the announcement in the February 2018 Provincial budget for $450M in debt capacity for student housing. UVic has been planning additional capacity for many years and is well-positioned to commence building should debt approval be given.

Student 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.

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 actuarial valuation of the Combination Plan, with an effective date of December 31, 2015, shows that the Plan is fully funded. The next valuation date is December 31, 2018. The last valuation for the Staff Pension Plan was December 31, 2016. As at that valuation date, there was a going concern surplus of 122% of liabilities but a solvency deficiency of 20%. While many other post-secondary institutions in BC and in other provinces are not required to meet a solvency test, this requirement for the University resulted in a cost of $462,000 for 2017/18. The next valuation date is December 31, 2019 with a filing requirement of September 2020.

Funding to support Research

Funding has been secured for operating costs of NEPTUNE and VENUS projects from the Canada Foundation for Innovation for 40% of the funding for five years and funding from other sources for the six months ended September 30, 2018. Work is underway to identify funding sources for the remaining funding for the period after September 30, 2018.

Deferred Maintenance

As the University ages, the risk related to deferred maintenance increase. One of the highest priority projects, replacing the heating system, commenced during the past year and will be completed over the next year. Other priority projects include renewal seismic upgrading of some our older buildings. We continue to plan for our priority deferred maintenance projects and work closely with the Provincial Government to obtain funding.

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 the Queenswood Campus, 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.

GSB Executive Education Inc.

This taxable business enterprise was created to deliver executive education services by the UVic Gustavson School of Business. 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, 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, 2018

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, 2018.

On behalf of the University:

______________________________ Chair, Board of Governors

______________________________ Vice-President Finance and Operations

University of Victoria

OFFICE OF THE
Auditor General
of British Columbia

INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of the University of Victoria, and
To the Minister of Advanced Education, Skills and Training, 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, 2018, and the consolidated statements of operations and accumulated surplus, changes in net debt, remeasurement gains and losses, and cash flows 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 and fair presentation of these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 qualified audit opinion.

Basis for Qualified Opinion

As described in Note 25 to the consolidated financial statements, the entity's accounting treatment for contributions received from governments and for externally restricted contributions received from non-government sources is to initially record them as deferred contributions (a liability) and then recognize revenue in the consolidated statement of operations and accumulated surplus either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to recognize revenue on the same basis as the related assets are amortized. The entity was required to adopt this accounting policy as prescribed by Province of British Columbia Treasury Board Regulation 198/2011.

Under Canadian Public Sector Accounting Standards, the entity's method of accounting for contributions is only appropriate in circumstances where the funding meets the definition of a liability. Otherwise, the appropriate accounting treatment is to record contributions as revenue when they are received or receivable. In our opinion certain contributions of the entity do not meet the definition of a liability, and as such the entity's method of accounting for those contributions represents a departure from Canadian Public Sector Accounting Standards.

This departure has existed since the inception of the standard, which applies to periods beginning on or after April 1, 2012. When the cumulative effects of this departure to date are adjusted through opening accumulated surplus, the entity's records indicate that the effects of this departure on the current year consolidated financial statements is an overstatement of the liability for deferred revenue of $403 million, an understatement of accumulated surplus of $385 million, and a current year understatement of revenue of $18 million. Accordingly, the current year surplus is understated by $18 million and net debt is overstated by $403 million.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the University of Victoria as at March 31, 2018, and the results of its operations, changes in its net debt, remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Russ Jones

Victoria, British Columbia
June 18, 2018

Russ Jones, FCPA, FCA
Deputy Auditor General

UNIVERSITY OF VICTORIA
Consolidated Statement of Financial Position

As at March 31, 2018
(in thousands of dollars)

			2018		2017
Financial Assets					
Cash and cash equivalents	*(Note 3)*	$	117,425	$	91,913
Accounts receivable			18,437		20,106
Due from governments	*(Note 4)*		10,739		5,921
Inventories for resale			1,474		1,678
Portfolio investments	*(Note 6)*		206,890		197,905
Loans receivable	*(Note 5)*		26,118		26,610
Investments in government business enterprises	*(Note 7)*		7,252		6,295
			388,335		350,428
Liabilities					
Accounts payable and accrued liabilities	*(Note 9)*		33,534		31,625
Derivatives	*(Note 6)*		853		1,913
Due to governments			4,616		4,871
Employee future benefits	*(Note 10)*		12,009		18,333
Deferred revenue			17,823		14,673
Deferred contributions	*(Note 11)*		185,699		167,023
Deferred capital contributions	*(Note 12)*		402,919		384,497
Long-term debt	*(Note 13)*		49,824		50,799
			707,277		673,734
Net debt			(318,942)		(323,306)
Non-financial Assets					
Tangible capital assets	*(Note 14)*		740,838		710,970
Restricted endowment investments	*(Note 6)*		343,144		329,614
Inventories held for use			1,918		1,806
Prepaid expense			17,726		16,991
			1,103,626		1,059,381
Accumulated surplus	*(Note 16)*	$	784,684	$	736,075
Accumulated surplus is comprised of:					
Endowments	*(Note 17)*	$	330,107	$	316,621
Invested in capital assets			306,996		292,622
Internally restricted			99,155		88,598
Unrestricted			31,171		21,913
Accumulated operating surplus			767,429		719,754
Accumulated remeasurement gains			17,255		16,321
Accumulated surplus		$	784,684	$	736,075

Contractual Rights *(Note 18)*
Contractual Obligations *(Note 19)*

Contingent Liabilities *(Note 20)*

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, 2018
(in thousands of dollars)

	Budget	2018	2017
	(Note 2(n))		
Revenue:			
Province of British Columbia grants	$ 190,200	$ 192,523	$ 178,174
Government of Canada grants	60,000	64,860	58,755
Other government grants	20,000	16,255	20,921
Student tuition - credit courses	135,123	136,275	136,369
Student tuition - non-credit courses	18,877	19,853	19,052
Donations, non-government grants and contracts	18,000	15,640	18,670
Sales of services and products	71,941	68,518	70,527
Investment income	21,400	22,338	19,846
Income from business enterprises	600	1,751	486
Other revenue	7,500	11,118	7,953
Revenue recognized from deferred capital contributions	26,520	28,215	26,473
Gain on disposal of assets	4,000	4,443	-
	574,161	581,789	557,226
Expenses: *(Note 21)*			
Instruction and non-sponsored research	230,402	222,945	223,785
Academic and student support	143,576	137,000	139,453
Administrative support	19,705	19,507	19,139
Facility operations and maintenance	48,533	49,241	47,139
Sponsored research	110,271	106,014	107,104
External engagement	13,593	12,893	13,203
	566,080	547,600	549,823
Operating surplus before restricted funding	8,081	34,189	7,403
Restricted endowment contributions			
Endowment principal donations	4,000	7,702	5,285
Net investment income & donations capitalized	4,000	5,784	4,864
Net restricted endowment contributions	8,000	13,486	10,149
Annual operating surplus	16,081	47,675	17,552
Accumulated operating surplus, beginning of year	719,754	719,754	702,202
Accumulated operating surplus, end of year	$ 735,835	$ 767,429	$ 719,754

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, 2018
(in thousands of dollars)

	Budget	2018	2017
	(Note 2(n))		
Annual surplus	$ 16,081	$ 47,675	$ 17,552
Acquisition of tangible capital assets	(84,857)	(78,578)	(56,164)
Proceeds from disposal of tangible capital assets	8,500	8,144	-
Gain on disposal of tangible capital assets	(4,000)	(4,443)	-
Amortization of tangible capital assets	45,810	45,009	45,536
	(34,547)	(29,868)	(10,628)
Restricted endowment investments		(13,530)	(10,261)
Acquisition of inventories held for use		(1,669)	(2,578)
Acquisition of prepaid expense		(17,206)	(16,826)
Consumption of inventories held for use		1,557	1,850
Use of prepaid expense		16,471	15,113
		(14,377)	(12,702)
Net remeasurement gains		934	2,159
Decrease (increase) in net debt	(18,466)	4,364	(3,619)
Net debt, beginning of year	(323,306)	(323,306)	(319,687)
Net debt, end of year	$ (341,772)	$ (318,942)	$ (323,306)

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

UNIVERSITY OF VICTORIA

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2018
(in thousands of dollars)

	2018	2017
Accumulated remeasurement gains, beginning	$ 16,321	$ 14,162
Unrealized gains (losses) attributed to:		
Portfolio investments	(315)	1,134
Derivatives	815	531
Foreign currency translation	434	494
Net remeasurement gains for the year	934	2,159
Accumulated remeasurement gains, end of year	$ 17,255	$ 16,321

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

UNIVERSITY OF VICTORIA
Consolidated Statement of Cash Flows

Year ended March 31, 2018
(in thousands of dollars)

		2018		2017
Cash provided by (used in):				
Operations:				
Annual surplus	$	47,675	$	17,552
Items not involving cash				
Amortization of tangible capital assets		45,009		45,536
Revenue recognized from deferred capital contributions		(28,215)		(26,473)
Change in deferred contributions		18,676		37,923
Change in employee future benefits		(6,324)		(98)
Gain on sale of tangible capital assets		(4,443)		-
Equity in (income) losses of government business enterprises		(957)		241
Unrealized remeasurement gains		189		494
Changes in non-cash operating working capital:				
Decrease (increase) in accounts receivable		1,669		(4,366)
Decrease in loans receivable		492		1,183
Decrease (increase) in inventories		92		(962)
Increase in prepaid expenses		(735)		(1,666)
Increase in accounts payable and accrued liabilities		1,909		2,765
Increase in due to/from government organizations		(5,073)		(4,196)
Increase in deferred revenue		3,150		1,322
Net change from operating activities		73,114		69,255
Capital activities:				
Proceeds from sale of tangible capital assets		8,144		-
Cash used to acquire tangible capital assets		(78,578)		(56,211)
Net change from capital activities		(70,434)		(56,211)
Investing activities:				
Sale (acquisition) of portfolio investments		328		(10,467)
Acquisition of endowment investments		(23,158)		(35,794)
Net change from investing activities		(22,830)		(46,261)
Financing activities:				
Repayment of long-term debt		(975)		(2,030)
Cash proceeds from deferred capital contributions		46,637		39,738
Net change from financing activities		45,662		37,708
Net change in cash and cash equivalents		25,512		4,491
Cash and cash equivalents, beginning of year		91,913		87,422
Cash and cash equivalents, end of year	$	117,425	$	91,913

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 taxpayer 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 25)

(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.

- GSB 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 7.69% 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 readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than investing.

(d) Loans receivable

Loans receivable are recorded at amortized cost. Interest is accrued on loans receivable to the extent it is deemed collectable.

(e) 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.

Canadian public sector accounting 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;

2. Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

- 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 ofthe assets or liabilities; and

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

(ii) Cost category

Gains and losses are recognized in the statement of 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.

(f) 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.

(g) 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.

(h) 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.

2. Summary of significant accounting policies (continued)

(h) Non-financial assets (continued)

(i) Tangible capital assets (continued)

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.

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.

2. Summary of significant accounting policies (continued)

(i) 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.

(j) 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 and accumulated surplus for the portion to be held in perpetuity and as deferred contributions for any restricted investment income earned thereon.

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

(k) 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)

(l) 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.

(m) 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 the statement of remeasurement gains and losses, and reflected in the statement of operations and accumulated surplus.

(n) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2017/2018 to 2019/2020 Planning and Budget Framework approved by the Board of Governors of the University on March 28, 2017 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.

(tabular figures in thousands of dollars)

3. Cash and cash equivalents

	2018	2017
Cash	$ 6,215	$ 14,273
Short-term investments	110,351	76,723
Restricted cash	859	917
	$ 117,425	$ 91,913

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

4. Due from governments

	2018	2017
Federal government	$ 8,743	$ 3,466
Provincial government	1,996	2,368
Other	-	87
	$ 10,739	$ 5,921

5. Loans receivable

	2018	2017
BCNET		
Interest at 4.5%, due April 2019, unsecured	$ 121	$ 237
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	3,641	3,285
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	10,224	10,819
Interest at 6.13%, due April 2030, unsecured	2,524	2,661
	$ 26,118	$ 26,610

(tabular figures 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	2018	2017
Portfolio investments carried at fair value:			
Bonds	Level 2	$ 17,487	$ 12,351
Various pooled bond and mortgage funds	Level 1	101,505	102,349
Canadian equities	Level 1	23,457	28,196
Global equities	Level 1	41,757	33,896
Infrastructure and real estate	Level 3	21,239	19,022
		205,445	195,814
Portfolio investments at cost:			
Short-term investments		852	1,659
Cash		472	343
Other		120	89
Total portfolio investments		$ 206,890	$ 197,905

(b) Restricted endowment investments

	Fair Value Hierarchy	2018	2017
Restricted endowment investments carried at fair value:			
Bonds	Level 2	$ 54,549	$ 40,398
Various pooled bond and mortgage funds	Level 1	27,041	30,042
Canadian equities	Level 1	69,141	88,107
Global equities	Level 1	122,029	102,361
Infrastructure and real estate	Level 3	66,252	62,157
		339,012	323,065
Restricted endowment investments at cost:			
Short-term investments		2,658	5,427
Cash		1,474	1,122
Total restricted endowment investments		$ 343,144	$ 329,614

(tabular figures 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	2018	2017
Derivatives - interest rate swaps on long-term debt quoted at fair value:			
Province of BC interest rate swap fixed at 5.14% commencing in 2017 through 2027	Level 1	$ -	$ (573)
Royal Bank of Canada floating interest rate fixed at 5.38%, through an interest rate swap due in 2024, unsecured	Level 1	(639)	(1,108)
BC Immigrant Investment Fund floating interest rate fixed at 3.56%, commencing 2023 through 2033, unsecured	Level 1	(214)	(232)
Total derivatives		$ (853)	$ (1,913)

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 Ltd., Vancouver Island Technology Park Trust and GSB Executive Education Inc.

Change in equity in government business enterprises:

	2018	2017
Equity at beginning of year	$ 3,605	$ 4,385
Dividends/distributions paid	(1,629)	(1,226)
Net earnings	1,751	486
Equity at end of year	3,727	3,645
Dividends/distributions payable	3,525	2,650
Investment in government business enterprises	$ 7,252	$ 6,295

(tabular figures 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

		2018		2017
Assets	$	35,619	$	35,378
Liabilities		(31,892)		(31,733)
Equity	$	3,727	$	3,645

Consolidated Statement of Operations

		2018		2017
Revenue	$	17,110	$	12,778
Expenses		(15,359)		(12,292)
Surplus for the year	$	1,751	$	486

(a) Change in status of GSB Executive Education Inc. to a government business enterprise

Effective April 1, 2017, the status of GSB Executive Education Inc. changed from a fully consolidated entity to a government business enterprise due to its ability to maintain operations and meet liabilities from revenues received from sources outside the university. This change resulted in the consolidation of GSB Executive Education Inc. using the modified equity method. The financial position and results of prior periods have not been adjusted to reflect the change in consolidation method. The effect of the change in status of GSB Executive Education Inc. on the opening balances of the financial statement items of the university are as follows:

Decrease in accounts receivable	$	812
Decrease in prepaid expenses		1
Decrease in inventories		5
Decrease in investments in government business enterprises		40
Total decrease in assets		858
Decrease in accounts payable		122
Decrease in deferred revenue		736
Total decrease in liabilities		858

(tabular figures in thousands of dollars)

8. Investments in government partnerships

The University is one of thirteen 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 7.69% (2017 – 8.33%).

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 2018 of $273,400 (2017 – $273,400). WCUMSS financial results are proportionately consolidated with those of the University based upon the University's share of its total contributions of 20% (2017 – 20%).

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

Consolidated Statement of Financial Position

	2018	2017
Financial assets	$ 4,014	$ 4,406
Liabilities	907	2,023
Net assets	3,107	2,383
Non-financial assets	1,491	1,172
Accumulated surplus	$ 4,598	$ 3,555

Consolidated Statement of Operations

	2018	2017
Revenue	$ 8,403	$ 7,360
Expenses	7,360	6,647
Surplus for the year	$ 1,043	$ 713

9. Accounts payable and accrued liabilities

	2018	2017
Accounts payable and accrued liabilities	$ 21,126	$ 18,371
Salaries and benefits payable	3,348	3,905
Accrued vacation pay	9,060	9,349
	$ 33,534	$ 31,625

(tabular figures in thousands of dollars)

10. Employee future benefits

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

Summary of employee future benefit obligations:

	2018	2017
Staff pension plan	$ (17,699)	$ (13,700)
Supplemental pension obligations	7,180	6,829
Special accumulated sick leave	2,975	3,164
Long term disability benefits	17,941	20,480
Basic group life insurance plan	1,612	1,560
	$ 12,009	$ 18,333

(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. The plan's benefits are derived primarily from defined contributions with a defined benefit minimum. The plan has been accounted for as a defined contribution plan. The employees make contributions equal to 4.35% of salary up to the year's maximum pensionable earnings ("YMPE") plus 6.35% of salary in excess of the YMPE. The university makes contributions equal to 6.02% of salary up to the YMPE plus 7.65% of salary in excess of the YPME. The university also contributes 5.05% of salary to fund the defined benefit minimum. The latest actuarial valuation for funding purposes as at December 31, 2015 showed that the accrued formula pension benefit liabilities of the Combination Plan were fully funded. The next valuation will be as at December 31, 2018. A solely defined contribution plan is available for part-time faculty and administrative and academic professional staff who meet certain eligibility criteria. The University has made contributions to these two plans during the year of $22,014,000 (2017 - $21,195,000) 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 $7,180,000 as at March 31, 2018 (2017 – $6,829,000). The University paid supplemental benefits of $225,000 in the year (2017 – $89,000) and recorded employee benefit expense of $135,000 (2017 – $102,000).

(tabular figures in thousands of dollars)

10. Employee future benefits (continued)

(a) Pension benefits (continued)

(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 as at December 31, 2016, the average age of the 1,221 active employees covered by the Plan is 47.8. In addition, there are 476 former employees who are entitled to deferred pension benefits averaging $294 per month. At December 31, 2016, there were 736 pensioners receiving an average monthly pension of $901. The employees make contributions equal to 4.53% of salary that does not exceed the 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. 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 University has made contributions to the Plan during the year of $5,817,000 (2017 – $5,739,000). The Plan paid benefits in the year of $10,651,000 (2017 – $10,130,000).

The pension asset at March 31 includes the following components:

	2018	2017
Accrued benefit obligation	$ 221,823	$ 210,816
Pension fund assets	(258,702)	(244,027)
	(36,879)	(33,211)
Unamortized actuarial gains	19,180	19,511
Net asset	$ (17,699)	$ (13,700)

Actuarial valuations are performed triennially using the projected benefit prorate method. The latest triennial actuarial valuation completed as at December 31, 2016 reported a going concern surplus and a solvency deficiency (i.e. if the plan were to be wound up on that date) of $64,803,000. 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 $47.5 million at March 31, 2018 (2017 - $43.8 million) to satisfy the contribution requirements through 2018. This letter of credit will be reassessed in conjunction with the next plan valuation and updated solvency funding level. The accrued benefit obligation shown for 2018 is based on an extrapolation of that 2016 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 (10 years).

(tabular figures in thousands of dollars)

10. Employee future benefits (continued)

(a) Pension benefits (continued)

(ii) Staff plan (continued)

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%. 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 rate of return on Plan assets in 2017 was 7%. The total expenses related to pensions for the fiscal year ending, include the following components:

	2018	2017
Current period benefit cost	$ 7,699	$ 7,365
Amortization of actuarial gains	(1,851)	(1,987)
	5,848	5,378
Less: Employee contributions	(2,148)	(2,117)
Pension benefit expense	3,700	3,261
Interest cost on the average accrued benefit obligation	12,087	11,962
Expected return on average pension plan assets	(13,721)	(13,623)
Pension interest income	(1,634)	(1,661)
Total pension expense	$ 2,066	$ 1,600

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 $121,000 (2017 – $120,000).

(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, 2018 the balance of this special accumulated sick leave was $2,975,000 (2017 – $3,164,000).

(tabular figures 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:

	2018	2017
Accrued benefit obligation:		
Beginning of year	$ 20,480	$ 16,936
Current service cost	5,491	7,433
Interest cost	398	318
Benefits paid	(2,806)	(2,764)
Actuarial gain	(5,622)	(1,443)
Accrued benefit obligation, end of year	$ 17,941	$ 20,480

	2018	2017
Accrued benefit obligation:		
Plan assets	$ 14,582	$ 13,870
Accrued benefit obligation, end of year	(17,941)	(20,480)
Unfunded liability, end of year	$ (3,359)	$ (6,610)

Components of net benefit expense:

	2018	2017
Service cost	$ 5,491	$ 7,433
Interest cost	398	318
Expected return on assets	(266)	(248)
Amortization of net actuarial gain	(5,487)	(1,507)
Net benefit expense	$ 136	$ 5,996

(tabular figures 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:

	2018	2017
Discount rates	1.9%	1.9%
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, 2018 was $1,166,000 (2017 - $1,153,000).

11. Deferred contributions

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

	2018	2017
Specific purpose: (including endowment earnings)	$ 117,897	$ 108,233
Research	65,964	56,170
Capital	1,838	2,620
	$ 185,699	$ 167,023

	2018				
	Specific Purpose	Research	Capital	Total	2017
Balance, beginning of year	$ 108,233	$ 56,170	$ 2,620	$ 167,023	$ 129,100
Contributions and endowment investment income	39,093	90,702	139	129,934	150,024
Revenue recognized from deferred contributions	(29,429)	(80,908)	(679)	(111,016)	(112,101)
Transfer to deferred capital contributions			(242)	(242)	-
Balance, end of year	$ 117,897	$ 65,964	$ 1,838	$ 185,699	$ 167,023

(tabular figures 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:

	2018	2017
Balance, beginning of year	$ 384,497	$ 371,231
Contributions received during the year	46,395	39,739
Transfers from deferred contributions	242	-
Revenue from amortization of deferred capital contributions	(28,215)	(26,473)
Balance, end of year	$ 402,919	$ 384,497

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):

	2018	2017
Royal Bank of Canada		
5.38% term loan due 2024, unsecured	$ 6,785	$ 7,630
Province of British Columbia		
2.28% bond due 2023, unsecured	3,961	-
Province of British Columbia		
5.14% term loan due 2027, unsecured	-	3,066
British Columbia Immigrant Investment Fund		
2.48% term loan due 2023, unsecured	8,054	8,483
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	10,224	10,820
Long-term debt	$ 49,824	$ 50,799

(tabular figures in thousands of dollars)

13. Long-term debt (continued)

(a) Principal repayments

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

	2018		
	Sinking Fund	Other	**Total**
2019	$ 629	$ 1,987	$ 2,616
2020	629	2,082	2,711
2021	629	2,179	2,808
2022	629	2,283	2,912
2023	629	2,391	3,020
Thereafter	3,448	18,102	21,550
	$ 6,593	$ 29,024	$ 35,617

(b) Sinking Fund Investments

Sinking fund investments are held and invested by the Province of British Columbia. These funds totaling $8,674,000 (2017 – $7,566,000) will provide for the retirement at maturity of $20,800,000 of long-term debt issued to the Province. The amount forms part of the portfolio investments balance shown on the Consolidated Statement of Financial Position.

(tabular figures in thousands of dollars)

14. Tangible capital assets

Cost	Balance as at March 31, 2017	Additions	Disposals	Balance as at March 31, 2018
Land	$ 23,134	$ -	$ (552)	$ 22,582
Site improvements	40,176	1,951	(53)	42,074
Buildings	788,312	44,262	(7,428)	825,146
Equipment and furnishings	190,038	25,959	(30,849)	185,148
Information systems	18,441	-	-	18,441
Computer equipment	16,518	3,538	(4,585)	15,471
Library holdings	38,422	2,868	(4,094)	37,196
Total	$ 1,115,041	$ 78,578	$ (47,561)	$ 1,146,058

Accumulated amortization	Balance as at March 31, 2017	Disposals	Amortization	Balance as at March 31, 2018
Land	$ -	$ -	$ -	$ -
Site improvements	18,885	(48)	981	19,818
Buildings	226,116	(4,284)	17,209	239,041
Equipment and furnishings	108,518	(30,849)	19,343	97,012
Information systems	18,360	-	57	18,417
Computer equipment	10,853	(4,585)	3,844	10,112
Library holdings	21,339	(4,094)	3,575	20,820
Total	$ 404,071	$ (43,860)	$ 45,009	$ 405,220

Net book value	March 31, 2018	March 31, 2017
Land	$ 22,582	$ 23,134
Site improvements	22,256	21,291
Buildings	586,105	562,196
Equipment and furnishings	88,136	81,520
Information systems	24	81
Computer equipment	5,359	5,665
Library holdings	16,376	17,083
Total	$ 740,838	$ 710,970

(tabular figures 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:

	2018	2017
Equipment and furnishings	$ 169	$ 104

(a) Assets under construction

Assets under construction having a value of $ 17,512,000 (2017 – $5,187,000) comprised of buildings 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 $39,373,000 (2017 – $47,097,000) related to fully amortized assets with a net book value of $nil (2017 – $nil). The de-recognition of capital assets from the sale of the Dunsmuir lodge property was $8,188,000 related to assets with a net book value of $4,487,000.

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

The entity is exposed to credit risk through its accounts receivable from students. This risk is managed by limiting the extent of credit granted to students and by monitoring the collection of receivables.

The University limits the risk in the event of non-performance related to fixed income holdings by dealing principally with counter-parties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent. The credit risk of the University investments at March 31, 2018 is $299,268,000 (2017 – $262,137,000).

(tabular figures 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	20.4%
AA	12.4%
A	7.0%
BBB	4.8%
BB and below	0.4%
Mortgages	14.4%
Cash and short-term	
R1 high	39.6%
R1 mid	0.2%
R1 low	0.8%
	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	+/-	21.0%
Foreign equities	+/-	17.5%
Real estate	+/-	10.1%
Bonds	+/-	5.0%
Infrastructure	+/-	17.7%

Benchmark for Investments		Net Impact on
DEX Universe Bond index	+/-	$ 9,431
S&P/TSX Composite index	+/-	19,174
MSCI World Index	+/-	28,201
Canadian Consumer Price Index (Real Estate)	+/-	4,232
Canadian Consumer Price Index (Infrastructure)	+/-	8,068

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, 2018, the modified duration of all fixed income in aggregate was 3.7 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 3.7%; contrarily, if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 3.7%.

The entity's long-term debt is fixed rate debt; accordingly, changes in interest rates do not impact interest payments but may impact the fair value of such long-term debt.

(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.

(tabular figures in thousands of dollars)

16. Accumulated surplus

Accumulated surplus is comprised of the following:

	2018	2017
Endowments	$ 330,107	$ 316,621
Invested in capital assets	306,996	292,622
Internally restricted	99,155	88,598
Unrestricted	31,171	21,913
Accumulated remeasurement gains	17,255	16,321
	$ 784,684	$ 736,075

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:

	2018	2017
Balance, beginning of year	$ 316,621	$ 306,472
Contributions received during the year	7,702	5,285
Invested income and donations capitalized	5,784	4,864
Balance, end of year	$ 330,107	$ 316,621

The balance shown does not include endowment principal with fair value of $7,443,000 (2017 – $7,459,000) and book value of $4,820,000 (2017 – $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.

(tabular figures in thousands of dollars)

18. Contractual rights

The university may, from time to time, enter into contracts or agreements in the normal course of operations that result in future assets or revenue. One example of such agreements is multi-year research funding agreements, whereby the university has the opportunity to earn revenue in future years by incurring qualified expenditures. These funding agreements do not abnormally impact the university's financial position and do not guarantee the university the right to future funding.

19. Contractual obligations

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

	2019	2020	2021	2022	2023
Construction contracts	$ 14,016	$ -	$ -	$ -	$ -
Operating leases	304	166	38	7	-
Total	$ 14,320	$ 166	$ 38	$ 7	$ -

20. Contingent liabilities

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

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

(tabular figures in thousands of dollars)

21. Expenses by object

The following is a summary of expenses by object:

	2018	2017
Salaries and wages	$ 300,548	$ 292,277
Employee benefits	46,564	53,919
Travel	13,363	13,393
Supplies and services	73,894	78,084
Equipment rental and maintenance	8,570	6,642
Utilities	8,384	8,711
Scholarships, fellowships and bursaries	36,358	35,873
Cost of goods sold	12,430	13,017
Interest on long-term debt	2,480	2,371
Amortization of tangible capital assets	45,009	45,536
	$ 547,600	$ 549,823

22. Funds held in trust

Funds held in trust are funds held on behalf of autonomous organizations, agencies, and student societies having a close relationship with the University. These funds are not reported on the University's consolidated statement of financial position (2018 – $1,707,000; 2017 – $2,019,000).

23. Supplemental cash flow information

	2018	2017
Cash paid for interest	$ 2,451	$ 2,371

24. Related party transactions

The University is related through common ownership to all Province of British Columbia ministries, agencies, school districts, health authorities, colleges, universities, and crown corporations. Transactions with these entities, unless disclosed separately, are considered to be in the normal course of operations and are recorded at the exchange amount. The university accounts for its controlled entities, government business enterprises and government partnerships as outlined in Note 2 (b). During the year ended March 31, 2018, there have been no transactions between the university and its key management personnel or their close family members.

(tabular figures in thousands of dollars)

25. 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:

		2018	
	FRF	PSAS	Difference
Liabilities			
Deferred capital contributions	$ 402,919	$ -	$ 402,919
Accumulated surplus	784,684	1,187,603	(402,919)
Revenue			
Government grants and contracts	273,638	317,101	(43,463)
Donations, non-government grants and contracts	15,640	18,032	(2,392)
Amortization of deferred capital contributions	28,215	-	28,215
Annual operating surplus			
Annual operating surplus (after restricted endowment contributions)	$ 47,675	$ 65,315	$ (17,640)

		2017	
	FRF	PSAS	Difference
Liabilities			
Deferred capital contributions	$ 384,497	$ -	$ 384,497
Accumulated surplus	736,075	1,120,572	(384,497)
Revenue			
Government grants and contracts	257,850	296,810	(38,960)
Donations, non-government grants and contracts	18,670	20,266	(1,596)
Amortization of deferred capital contributions	26,473	-	26,473
Annual operating surplus			
Annual operating surplus (after restricted endowment contributions)	$ 17,552	$ 31,635	$ (14,083)