

UNIVERSITY OF VICTORIA

2013 – 2014 AUDITED FINANCIAL STATEMENTS



University of Victoria
2014 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, 2014 in accordance with Public Sector Accounting Standards supplemented by directives set out by the Province of British Columbia. The objective of this Management Discussion and Analysis (MD&A) document is to assist readers of the university's financial statements better understand the financial position and operating activities of the university for fiscal year March 31, 2014, as presented in accordance with Public Sector Accounting Standards. This discussion should be read in conjunction with the annual audited financial statements and accompanying notes.

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

Flowing from the Strategic Plan, and with the increased focus as contained in the report from the President of the University in his "Report to the university community on campus conversations" (<https://www.uvic.ca/president/activities/talks/ConversationsReport2014.pdf>), the University develops an institutional budget to ensure that financial resources are aligned with the institution's priorities and areas of strategic focus. Commencing with 2006/07, the university has developed its annual budget framework, financial models and plans within the context of a three-year planning cycle. A three-year planning horizon provides a more realistic time-frame for the development of university initiatives and provides greater flexibility than permitted within an annual process.

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

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

Financial Highlights

Financial Statement Summary

The university ended the year with total assets of \$1.3 billion and consolidated revenue of \$524 million. Total consolidated revenue and total expenses increased by 2.4% respectively from the prior year. The annual surplus prior to inclusion of donations to the university's endowment fund was \$10M or 1.9% of total revenues (\$9.6M or 1.9% for the prior year). Of this amount, \$2.1M has been internally restricted to meet future commitments and priorities. Growth in revenue was primarily the result of strong international enrollments.

Government Grants

Revenue from the Provincial Government in the form of grants declined 1.8% over previous years. While the operating grant declined slightly, there was a larger decline in sponsored research funding (British Columbia Knowledge Development Fund "BCKDF") due to timing of large research projects. Annual grants from the Province for capital purposes increased with receipt of \$6M of routine maintenance funding, up from \$2.2M received last year, related to cyclical maintenance and specific project funding.

Tuition and Enrolment

Credit course tuition increased by \$7.8M, or 7.6%, to \$109.9M due to a 2% increase in fees (tuition fees can increase by no more than inflation according to provincial government policy) and a significant growth in international student enrolment. Non-credit tuition increased by \$2.7M due to growth in international

programs in Continuing Studies and Business executive programs.

Investments

The university's endowment investments are held in the University of Victoria Foundation and have a fair value of \$356M. The endowments experienced a 13.5% return for the year across its six investment mandates resulting in the largest dollar return in the Foundation's history of \$45.1M. Short term investments held within the University had returned 1.5% for the year.

Capital Activity

The university commenced construction of the new \$77M Centre for Athletics, Recreation and Special Abilities (CARSA) and attached parking structure expected to be completed in spring 2015.

Financial Information

Financial Assets

Financial assets are defined as assets available to discharge existing liabilities or finance future operations. During the year they increased 6.8% to \$316M.

<i>In thousands of dollars</i>	2014	2013
Cash and cash equivalents	117,127	107,506
Accounts Receivable	15,357	10,232
Due from governments	11,618	9,585
Inventories for resale	1,744	2,191
Portfolio investments	134,009	129,976
Loans receivable	29,671	30,674
Investments in government business enterprises	6,756	6,106
Total Financial Assets	316,282	296,270

Cash and cash equivalents increased by \$9.6M reflecting the restructuring of university working capital investments from long to shorter term to temporarily fund the CARSA building project. Portfolio investments include the university's long term working capital, investments underlying endowment expendable funds, investments related to sinking funds held for provincial debt and long term disability plan and supplemental pension obligations. Even though some long term working capital was transferred to cash, investments still increased by \$4.0M due to strong investment returns on the UVic Foundation's endowment funds. Investments in government business enterprises represent the equity held in controlled business operations of Heritage Realty Properties Ltd. and the Vancouver Island Technology Park Trust.

Liabilities

Liabilities increased by 4.7% to \$645M.

<i>In thousands of dollars</i>	2014	2013
Accounts payable	36,507	33,990
Derivatives	1,331	2,319
Due to governments	3,933	4,220
Employee future benefits	21,725	20,229
Deferred revenue	16,271	10,702
Deferred contributions	113,624	96,118
Deferred capital contributions	394,933	399,873
Long term debt	56,574	48,228
Total Liabilities	644,898	615,679

Employee future benefits represent liabilities for employee benefit plans including the Staff Pension Plan, supplemental pension obligations, vested sick leave entitlements, long term disability and group life insurance plans. Deferred contributions are externally restricted revenue that is not recognized until related expenses are incurred. Deferred contributions increased \$17.5M due to earnings on restricted endowments. Deferred capital contributions are externally restricted capital contributions to be amortized over the life of related tangible capital assets. During the year deferred capital contributions decreased by a net \$4.9M resulting from contributions of \$24.1M less amortization of \$29M. Long term debt increased by \$8.3M resulting from \$10M of new borrowing for the CARSA parking structure less scheduled debt repayments.

Non-financial Assets

Non-financial assets increased by 3.3% to \$991M.

<i>In thousands of dollars</i>	2014	2013
Tangible capital assets	674,562	652,967
Restricted endowment investments	298,074	289,226
Inventories held for use	1,694	1,656
Prepaid expense	16,869	16,041
Total Non-Financial Assets	991,199	959,890

Tangible capital assets include land, buildings, site improvements, library holdings, computers, equipment and furnishings but do not include \$10.1M of artwork and collections. The net increase in tangible capital assets of \$21.6M is due to additions of \$68.9M less amortization of \$47.3M. The largest single capital asset addition was related to CARSA building project. Restricted endowment investments represent the portion of endowment investments related to the restricted principal funds. During the year they increased \$8.8M due to donations of \$4.2M and capitalized investment income of \$4.6M. Restricted endowment assets are considered “non-financial” as the funds principal have a restricted purpose and cannot be used to meet the liabilities of the University as they become due.

Accumulated surplus

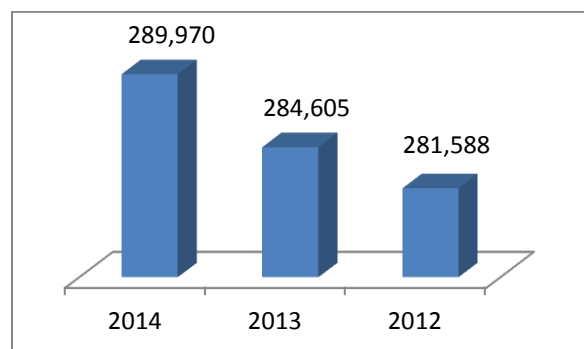
Accumulated surplus increased by 3.5% to \$663M.

<i>In thousands of dollars</i>	2014	2013
Endowment	289,970	284,605
Invested in capital assets	239,705	221,396
Internally restricted	101,974	110,273
Unrestricted	18,738	18,792
Remeasurement gains	12,196	5,415
Accumulated surplus	662,583	640,481

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

Accumulated Surplus – Endowment

Endowment surplus increased by 1.9%



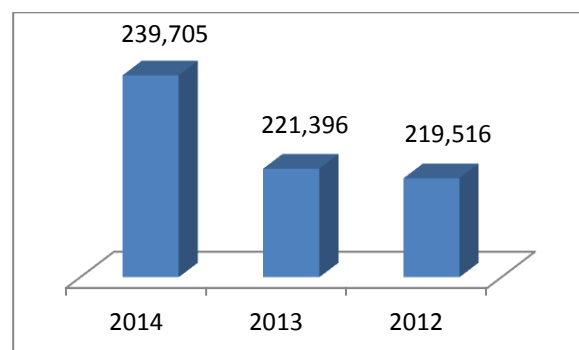
The university's endowments are primarily held by the UVic Foundation. Accumulated surplus-endowment consists of restricted donations and capitalized investment income which is required to be maintained intact in perpetuity to support donor specified activities. During the year \$3.7M of unrealized gains capitalized to endowment principal were recorded through the Statement of Remeasurement and are not included in this number. The investment income generated from endowments must be used in accordance with the various purposes stipulated by the donors. At March 31, 2014 there were 1,162 individual endowment funds providing \$11.4M (2013:\$11.5M) 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 8.3%

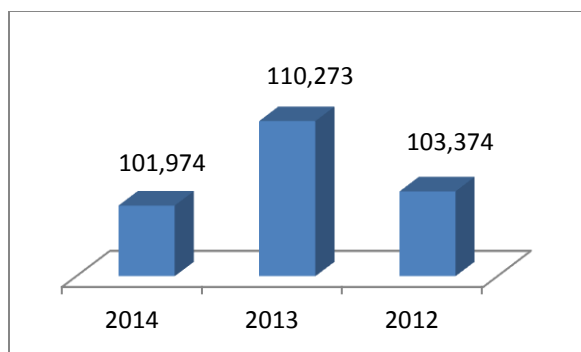


Accumulated surplus invested in capital assets arises when the university funds the acquisition of capital assets from internal resources less amortization of internally financed capital assets. The following comprises the balance of accumulated surplus invested in capital assets:

<i>(in thousands of dollars)</i>	2014	2013
Land	21,768	21,768
Site development	9,143	8,674
Buildings	203,336	173,223
Equipment	25,925	25,376
Library acquisitions	17,160	17,746
Software	4,296	6,308
Sinking funds	4,238	3,609
Less debt repayments	(44,161)	(35,308)
Invested in capital assets	239,705	221,396

Accumulated Surplus – Internally Restricted

Accumulated surplus internally restricted decreased by 7.8% to \$102M.

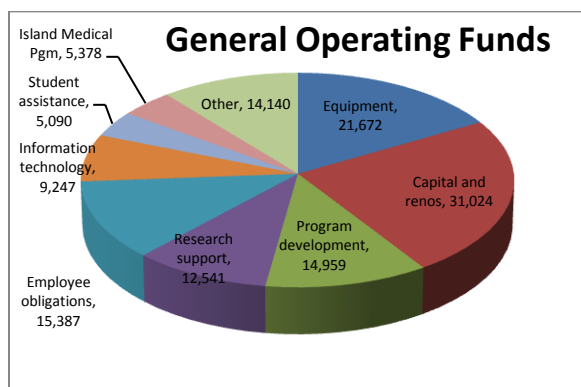


Accumulated surplus internally restricted consists of balances appropriated by the university Board of Governors for employee commitments, equipment replacement, capital improvements, program development, research support and other non-recurring expenditures. Due to restrictions in the ability of the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

Balances are made up as follows:

<i>(in thousands of dollars)</i>	2014	2013
General operating	129,438	127,316
Ancillary enterprises	17,688	15,006
Less Capital	(36,941)	(23,552)
Less vacation pay, LTD and staff pension	(8,211)	(8,497)
Total internally restricted	101,974	110,273

General operating reserves consist of:



Revenue

Revenue increased 2.4% to \$524M.

<i>(in thousands of dollars)</i>	2014	2013
Government grants and contracts	262,373	264,107
Tuition & student fees	131,630	121,207
Donations, non-government grants & contracts	15,439	13,958
Sales of services and products	60,448	58,549
Investment income	17,904	18,163
Income from business enterprises	753	482
Amortization of deferred capital contributions	29,296	29,706
Other revenue	5,867	5,135
Total Revenue	523,692	511,307

Government grants and contracts revenue is received from the Province of B.C. (73%), the Government of Canada (21%), and other governments (6%). Revenue from the Province decreased by \$3.5M overall due to research grant funding while the university's operating grant declined by \$0.3%. Tuition and student fees increased by \$10.4M, or 8.6%, as a result of a 2% increase in domestic fees, \$5.6M increase in international fees and \$2.3M in non-credit fees. Investment income for 2014 does not include unrealized gains which have been recorded through the Statement of Remeasurement. When remeasurement gains of \$6.8M are included, overall investment income increased by \$1.1M over 2013 results.

Expenses

Expenses increased by 2.4% to \$514M.

Expenses reported by object were as follows:

<i>(in thousands of dollars)</i>	2014	2013
Salaries and benefits	319,367	308,003
Travel	13,186	12,952
Supplies and services	70,695	73,355
Utilities	9,232	9,232
Scholarships and bursaries	35,925	33,500
Cost of goods sold	14,386	13,972
Interest on long term debt	2,993	2,143
Depreciation	47,313	48,570
Total Expenses	513,736	501,730

Salaries and benefits represent 62.2% of total expenses. Compensation increased by \$11.4M, the majority of which was due to retroactive pay for the university's faculty resulting from an arbitration award and progression through the ranks, and negotiated increases for the university's unionized staff. Supplies and services declined by \$2.7M as the university reduced expenditures to meet budgetary pressures. Scholarships and bursaries increased by \$2.4M reflecting the enhancement of the undergraduate entrance scholarship program.

Expenses reported by function were as follows:

<i>(in thousands of dollars)</i>	2014	2013
Instruction and non-sponsored research	205,491	198,939
Academic and student support	124,375	120,163
Administrative support	18,253	17,994
Facilities operations and maintenance	46,780	46,732
Sponsored Research	107,303	106,540
External engagement	11,534	11,362
Total Expenses	513,736	501,730

Increases in instruction (3.3%) and Academic and Student Support (3.5%) were relatively higher than Administration (1.4%), Facilities

(0.1%), Sponsored research (0.7%) and External engagement (1.5%).

Sponsored Research Contributions

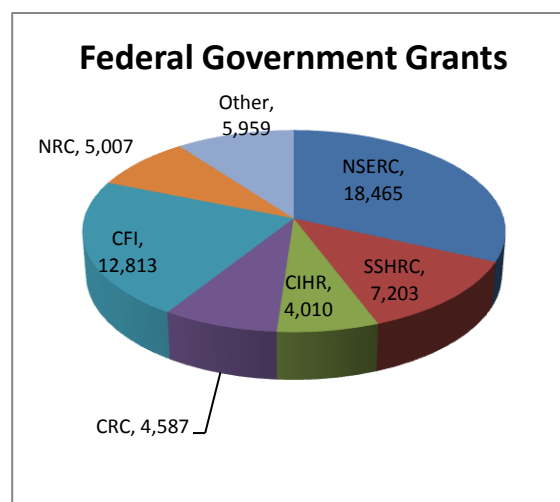
Sponsored research revenue decreased by 19.4% to \$81M.

<i>(in thousands of dollars)</i>	2014	2013
Province of B.C.	10,266	31,926
Federal government	58,044	66,033
Other governments	8,427	9,370
Gifts, grants & bequests	9,764	8,163
Sales of services	2,381	2,381
Other revenue	2,061	765
Total contributions	88,562	118,638
Transfer to/from deferred contributions	(7,666)	(18,273)
Sponsored research revenue	80,896	100,365

In addition to the above, the university also received \$6.3M from the Tri-council for the indirect costs of research which is recorded in the general operating fund.

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

Federal government grants are comprised of the following:



In 2013, the university ranked second amongst Canadian comprehensive research intensive universities in total research funding, third in NSERC/CIHR grants and third in SSHRC grants.

Operating Environment

While asserting our commitment to the highest standards of excellence and reaffirming our vision to be a university of choice, the Strategic Plan recognizes that the environment for post-secondary education has entered a period of dramatic economic, demographic and social changes at home and around the world. The external conditions under which universities find themselves operating reflect the impact of a variety of factors such as: the growing importance of post-secondary education internationally, the increased globalization and mobilization of the student population, and altered demographic and labour market trends in Canada and British Columbia. These factors exist within an overall environment of continued global economic uncertainty resulting in fiscal constraint internationally, nationally and provincially. The imperative to recruit the best and the brightest students in order to meet our goals in an environment of financial constraints, is all the more critical in view of the creation of a number of new universities in this province during the past decade which has led to a sharp drop in the number of transfer students to UVic. We are being further challenged to enhance our recruitment activities and to differentiate our institution from others—not only locally, but nationally and internationally as well. In the past year, we exceeded our goals for expanding our international students. With this growth, our

international students represent 11.8% of our total graduate and undergraduate student population. For the near future, we will look to retain this ratio of international students but recognize that in order for all of our students to be successful, and to continue to ensure our students are provided with the support they need to be successful, we will need to make investments in student support. For the foreseeable future any growth across the campus will have to be even more strategically aligned with our research strengths, with emerging societal needs and with special opportunities as they arise. With respect to research strength, the university has emerged as one of Canada's premier research institutions and is now consistently ranked amongst the best in the world in a number of areas of global significance. Sustainable research infrastructure and support programs will have to be maintained in order to ensure our internationally competitive standing.

We need to deploy our existing resources more effectively, ensuring that we choose carefully where we place emphasis, how we optimize our investments, and how we grow our revenues from other sources. In the upcoming year, we will make use of our existing planning process at UVic to undertake the exercise of making choices within the focused priorities laid out in the strategic plan. And while this is the case, we will improve upon planning processes by ensuring greater transparency and enhancing the requisite tools to Faculties, Departments and Schools to assist them in making choices. There will also be a parallel process to explore whether there are opportunities to improve our current budget allocation model in order to best support the choices we will need to make for our university now and in the future.

New funding sources will be needed to allow us greater flexibility: in the recruitment of outstanding faculty; in the pursuit of innovative cutting-edge research; in the deployment of innovative teaching and research programs; in setting up scholarships and incentive programs to attract top students; and in procuring world-class research equipment. New funding is essential in order to maintain our national and international reputation for the quality of our academic programs and research.

While UVic has had positive revenue growth from international undergraduate students, revenue growth from student enrollment will be constrained as previous government-funded growth programs have ended and tuition increases are limited to inflation. For 2013/14, the provincial government implemented the first of a three year, total sector, grant reduction of \$5M, \$20M and \$25M for 2013/14, 2014/15 and 2015/16. Our share of the reduction in 2013/14 is \$0.44 Million. The allocation of the \$20 Million and \$25 Million has not yet been determined.

The Provincial Government had previously indicated that the grant reductions would be achieved through shared services and administrative savings. Significant action has been taken to reduce administrative expenses, as shown in the reduction in supplies and services and lower rate of growth non-academic costs, and it will be difficult to continue to absorb both the announced provincial grant reductions and other cost pressures. The largest cost pressure is related to salaries. Recent settlements in the public sector have been funded by the provincial government. Consistent treatment for post-secondary institutions will alleviate somewhat the cost pressures but is not expected to eliminate the

impact of costs increasing faster than revenues. With the slightly improved financial position that has resulted from the greater than expected growth in international students and the potential for provincial funding of negotiated salary settlements, the University is not implementing budget reductions for 2014/15. This follows reductions of across-the-board budget reductions in four of the past five years (2.0% for 2009-10, 1.5% in each of 2011-12, 2012-13 and 4% in 2013/14). With a change in the implementation of the provincial reduction (from \$20M in 2013/14 to \$5M in 2014/15) and the greater than expected growth in international students, the full amount of the reduction was not required and is available to offset what would have otherwise been budget shortfalls in 2014/15. For future years we will be looking to use enhanced planning tools and information to most effectively invest our resources.

Financial Reporting Environment

Accounting standards in Canada have undergone substantial change in recent years which impacted the university's consolidated financial statements commencing in 2013. Accounting standards are anticipated to continue evolving as gaps in the conceptual framework are addressed.

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

coordinated the elections of other options upon transition.

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

The reporting framework (PSAS supplemented with the Province of B.C. directives) was adopted retroactively by adjusting balances at April 1, 2011 and March 31, 2012.

PSAS adopted a financial instruments standard last year which was implemented prospectively as of April 1, 2012. This new standard allowed financial instruments to be recorded at fair value and created the Statement of Remeasurement to report unrealized gains and losses.

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

The Statement of Financial Position reflects a "Net Debt model" and presents Net Debt as the difference between liabilities and financial

assets and is intended to measure the university's future revenue requirements and its ability to finance its activities. Net debt at March 31, 2014 is \$(329M) but includes \$395M of Deferred Capital Contribution liabilities that would likely never be repaid, thus bringing into question its relevance. The Statement of Financial Position also presents an Accumulated Operating Surplus of \$663M representing the university's net assets. A breakdown of this balance is disclosed on the Statement of Financial Position, and in the notes, to communicate to readers of the financial statements that this figure mostly represents restricted, spent or committed funds.

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

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

gains and losses in investment portfolios pre and post April 1, 2012.

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

Risks and Uncertainties

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

Provincial funding

The Province previously announced grant reductions to the sector of \$5M in 2013/14, \$20M in 2014/15 and \$25M in 2015/16. The reduction for 2013/14 was allocated on a pro-rata basis to all post-secondary institutions. There is risk that the remaining reductions, assuming they continue to be reflected in approved provincial budgets, will not be allocated on a pro-rata basis to post-secondary institutions. Given the difficult financial conditions, there is also the risk that reductions are greater than projected. There is also a risk that the recently announced “BC Skills for Jobs Blueprint” may have an impact on future grant funding.

In addition to the reduction in grant funding, the University is also facing risks because of the moratorium placed on new external borrowing even where the repayment of borrowing will be

with incremental funds that do not rely on student tuition or government funding.

Recruitment and retention

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

Negotiations with Faculty & Staff

While the budget reflects projected increases for salaries and benefits, a financial risk still exists that salaries and benefit costs could be even greater. The 2014/15 financial statements include the impact of the increase in faculty salaries for the current year as well as the previous year as the agreement with faculty remained unsettled at the previous fiscal year end.

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

Pensions and Employee Future Benefits

The University has one pension plan for its faculty, Professional Employee Association members, management exempt and executive (Combination Plan) and one plan for members of CUPE and exempt clerical staff (Staff Plan). The latest actuarial valuation of the Combination Plan, with an effective date of December 31, 2012, shows that the Plan is fully funded. At the last valuation effective December 31, 2009, there was a need to increase pension contribution rates resulting in an increase of \$3M in the University's pension expense. The next valuation date is December 31, 2015. . The next valuation for the Staff Pension Plan as at December 31, 2013 is expected to be completed in mid-2014. The

Staff Pension plan was last valued effective December 31, 2010. At that time there was a going concern surplus but a solvency deficiency. While many other post-secondary institutions in BC and in other provinces are not required to meet a solvency test, this requirement for the University resulted in an annual cost of \$450K for 2013/14.

Funding to support Research

Funding has been secured from the federal government for 40% of operating costs for the NEPTUNE and VENUS projects for 5 years ending March 31, 2017. Provincial matching funding of 40% was secured for 2 years ending March 31, 2014. Interim funding has been secured to support operations to June 30, 2014 and there is a risk that the ongoing operating costs will not be funded after June 30, 2014.

Deferred Maintenance

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

Related Entities

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

University Foundations

The University of Victoria Foundation, Foundation for the University of Victoria and U.S. Foundation for the University of Victoria receive and manage the university's endowment funds. The Foundations are tax exempt as a registered charity, agent of the

Crown or charitable organization, respectively. They are consolidated in the university's financial statements.

TRIUMF and WCUMSS

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

Heritage Realty Properties and VITP Trust

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

UVic Properties Investments Inc.

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

UVic Industry Partnerships

UVic Industry Partnerships is a taxable corporation that facilitates research partnerships between the private sector and

the university by assisting with intellectual property management and commercialization of research discoveries. It is consolidated in the university's financial statements.

Oceans Network Canada Society

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

Pacific Climate Impacts Consortium

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

UVic Long Term Disability Trust

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

Consolidated Financial Statements of

UNIVERSITY OF VICTORIA

Year ended March 31, 2014

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 financial statements have been examined by KPMG LLP, Chartered Accountants, the external auditors appointed by the University's Board of Governors. The Independent Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the University for the year ended March 31, 2014.

On behalf of the University:

_____ Chair, Board of Governors

_____ Vice-President Finance and Operations



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the University of Victoria, which comprise the consolidated statement of financial position as at March 31, 2014, the consolidated statements of operations and accumulated surplus, changes in net debt, cash flows and remeasurement gains and losses for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements of the University of Victoria as at March 31, 2014, are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

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

KPMG LLP

Chartered Accountants

May 27, 2014
Victoria, Canada

UNIVERSITY OF VICTORIA

Consolidated Statement of Financial Position

As at March 31, 2014 with comparative information for March 31, 2013
(in thousands of dollars)

		March 31, 2014	March 31, 2013 (restated - Note 6)
Financial Assets			
Cash and cash equivalents	(Note 3)	\$117,127	\$107,506
Accounts receivable		15,357	10,232
Due from governments	(Note 4)	11,618	9,585
Inventories for resale		1,744	2,191
Portfolio investments	(Note 6)	134,009	129,976
Loans receivable	(Note 5)	29,671	30,674
Investments in government business enterprises	(Note 7)	6,756	6,106
		316,282	296,270
Liabilities			
Accounts payable and accrued liabilities	(Note 9)	36,507	33,990
Derivatives	(Note 6)	1,331	2,319
Due to governments		3,933	4,220
Employee future benefits	(Note 10)	21,725	20,229
Deferred revenue		16,271	10,702
Deferred contributions	(Note 11)	113,624	96,118
Deferred capital contributions	(Note 12)	394,933	399,873
Long-term debt	(Note 13)	56,574	48,228
		644,898	615,679
Net debt		(328,616)	(319,409)
Non-financial assets			
Tangible capital assets	(Note 14)	674,562	652,967
Restricted endowment investments	(Note 6)	298,074	289,226
Inventories held for use		1,694	1,656
Prepaid expense		16,869	16,041
		991,199	959,890
Accumulated surplus	(Note 16)	\$662,583	\$640,481
Accumulated surplus is comprised of:			
Endowments	(Note 17)	\$289,970	\$284,605
Invested in capital assets		239,705	221,396
Internally restricted		101,974	110,273
Unrestricted		18,738	18,792
Accumulated surplus		650,387	635,066
Accumulated remeasurement gains		12,196	5,415
		\$662,583	\$640,481

Contractual obligations (Note 18)

Contingent liabilities (Note 19)

See accompanying notes to consolidated financial statements

On behalf of the Board:

Chair, Board of Governors

Vice-President Finance and Operations

UNIVERSITY OF VICTORIA

Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2014 with comparative information for 2013
(in thousands of dollars)

	Budget	2014	2013
	(Note 2(m))		
Revenue:			
Province of British Columbia grants	\$192,000	\$190,439	\$193,939
Government of Canada grants	56,000	54,522	55,174
Other government grants	22,250	17,412	14,994
Student tuition – credit courses	123,000	109,903	102,138
Student tuition – non-credit courses	-	21,727	19,069
Donations, non-government grants and contracts	22,250	15,439	13,958
Sales of services and products	60,150	60,448	58,549
Investment income	3,900	17,904	18,163
Income from business enterprises	800	753	482
Other revenue	6,000	5,867	5,135
Revenue recognized from deferred capital contributions	29,548	29,278	29,706
	515,898	523,692	511,307
Expenses: (Note 20)			
Instruction and non-sponsored research	202,220	205,491	198,939
Academic and student support	122,145	124,375	120,163
Administrative support	18,291	18,253	17,994
Facility operations and maintenance	47,503	46,780	46,732
Sponsored research	108,297	107,303	106,540
External engagement	11,549	11,534	11,362
	510,005	513,736	501,730
Operating surplus before restricted funding	5,893	9,956	9,577
Restricted endowment contributions			
Endowment principal donations	5,000	4,297	3,198
Net investment income and donations capitalized	3,000	1,068	(181)
Net restricted endowment contributions	8,000	5,365	3,017
Annual operating surplus	13,893	15,321	12,594
Accumulated operating surplus, beginning of year	635,066	635,066	622,472
Accumulated operating surplus, end of year	\$648,959	\$650,387	\$635,066

See accompanying notes to consolidated financial statements

UNIVERSITY OF VICTORIA

Consolidated Statement of Changes in Net Debt

Year ended March 31, 2014 with comparative information for 2013
(in thousands of dollars)

	Budget	2014	2013 (restated - Note 6)
	(Note 2(m))		
Annual surplus	\$13,893	\$15,321	\$12,594
Acquisition and disposition of tangible capital assets	(64,922)	(68,908)	(60,015)
Amortization of tangible capital assets	47,534	47,313	48,570
	(17,388)	(21,595)	(11,445)
Endowment donations and transfers		(8,848)	(7,712)
Acquisition of inventories held for use		(1,749)	(1,677)
Acquisition of prepaid expense		(7,418)	(15,270)
Consumption of inventories held for use		1,711	1,693
Use of prepaid expense		6,590	14,294
		(9,714)	(8,672)
Net remeasurement gains		6,781	5,415
Increase in net debt	(3,495)	(9,207)	(2,108)
Net debt, beginning of year	(319,409)	(319,409)	(317,301)
Net debt, end of year	\$(322,904)	\$(328,616)	\$(319,409)

See accompanying notes to consolidated financial statements

UNIVERSITY OF VICTORIA

Consolidated Statement of Cash Flows

Year ended March 31, 2014 with comparative information for 2013
(in thousands of dollars)

	2014	2013 (restated – Note 6)
Cash provided by (used in):		
Operations:		
Annual surplus	\$15,321	\$12,594
Items not involving cash:		
Amortization of tangible capital assets	47,313	48,570
Revenue recognized from deferred capital contributions	(29,278)	(29,706)
Change in deferred contributions	17,506	12,172
Change in employee future benefits	1,496	738
Equity in income of government business enterprises	(650)	(70)
Unrealized foreign exchange loss	(60)	(8)
Loss on disposal of tangible capital assets	-	1,062
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	(5,125)	440
Decrease in loans receivable	1,003	830
Decrease (increase) in inventories	409	(540)
Increase in prepaid expenses	(828)	(976)
Increase (decrease) in accounts payable and accrued liabilities	2,517	(1,563)
Increase in due to/from government organizations	(2,320)	(1,374)
Increase in deferred revenue	5,569	44
Net change from operating activities	52,873	42,213
Capital activities:		
Cash used to acquire tangible capital assets	(68,908)	(61,248)
Proceeds on sale of tangible capital assets	-	171
Net change from capital activities	(68,908)	(61,077)
Investing activities:		
Portfolio investments	24,909	170
Endowment investments	(31,937)	(14,185)
Net change from investing activities	(7,028)	(14,015)
Financing activities:		
Proceeds from (repayment of) long-term debt	8,346	(1,291)
Cash proceeds from deferred capital contributions	24,338	40,730
Net change from financing activities	32,684	39,439
Net change in cash and cash equivalents	9,621	6,560
Cash and cash equivalents, beginning of year	107,506	100,946
Cash and cash equivalents, end of year	\$117,127	\$107,506

See accompanying notes to consolidated financial statements

UNIVERSITY OF VICTORIA

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2014 with comparative information for 2013
(in thousands of dollars)

	2014	2013
Accumulated remeasurement gains (losses), beginning of year (Note 6)	\$5,415	\$-
Unrealized gains (losses) attributed to:		
Portfolio investments	5,853	5,442
Derivatives	988	(19)
Foreign currency translation	(60)	(8)
Net remeasurement gains for the year	6,781	5,415
Accumulated remeasurement gains, end of year	\$12,196	\$5,415

See accompanying notes to consolidated financial statements

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

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*.

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

2. Summary of significant accounting policies

The consolidated financial statements of the University are prepared by management in accordance with the basis of accounting described below. Significant accounting policies of the University are as follows:

(a) Basis of accounting:

The consolidated financial statements have been prepared in accordance with Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia supplemented by Regulations 257/2010 and 198/2011 issued by the Province of British Columbia Treasury Board.

The *Budget Transparency and Accountability Act* requires that the consolidated financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards without any PS4200 elections 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.

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

2. Summary of significant accounting policies (continued)

(a) Basis of accounting (continued):

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of Canadian public sector accounting standards which requires that:

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with public sector accounting standard PS3410; and
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with public sector accounting standard PS3100.

As a result, revenue recognized in the statement of operations and certain related deferred capital contributions would be recorded differently under Canadian public sector accounting standards.

(b) Basis of consolidation:

(i) Consolidated entities

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of organizations which are controlled by the University. Controlled organizations are consolidated except for government business enterprises which are accounted for by the modified equity method. Inter-organizational transactions, balances, and activities have been eliminated on consolidation.

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

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

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued):

(ii) Investment in government business enterprises

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

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

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

(iii) Investment in government partnerships

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

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

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

(iv) Funds held in trust

Funds held in trust by the University as directed by agreement or statute for certain beneficiaries are not included in the University's consolidated financial statements.

(c) Cash and cash equivalents:

Cash and cash equivalents include highly liquid investments with a term to maturity of three months or less at the date of purchase.

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

2. Summary of significant accounting policies (continued)

(d) Financial instruments:

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

- (i) Fair value category: Portfolio instruments that are quoted in an active market and derivative instruments are reflected at fair value as at the reporting date. Other financial instruments which the University has designated to be recorded at fair value include endowment and portfolio investments. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are recorded as an expense. Unrealized gains and losses on financial assets are recognized in the statement of remeasurement gains and losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the statement of operations and accumulated surplus and related balances reversed from the statement of remeasurement gains and losses. Unrealized gains and losses in endowment investments, where earnings are restricted as to use, are recorded as deferred contributions and recognized in revenue when disposed and when related expenses are incurred. Restricted unrealized gains spent to meet current year endowment expenses or capitalization transfers are recorded in the statement of remeasurement gains and losses.
- (ii) Cost category: Gains and losses are recognized in the statement of operations when the financial asset is derecognized due to disposal or impairment. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are included in the cost of the related investments. Accounts receivable and due to/from governments are measured at amortized cost using the effective interest method; accounts payable and accrued liabilities and long-term debt are measured at amortized cost using the effective interest method. Any gains, losses or interest expense is recorded in the annual surplus (deficit) depending on the nature of the financial liability that gave rise to the gain, loss or expense; loans receivable are recorded at cost, or amortized cost using the effective interest method, less any amount for valuation allowance. Valuation allowances are made when collection is in doubt. Interest is accrued on loans receivable to the extent it is deemed collectible.

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

- Level 1 – Unadjusted quoted market prices in an active market for identical assets or liabilities,
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

2. Summary of significant accounting policies (continued)

(e) Short-term investments:

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

(f) Inventories for resale

Inventories held for resale, including books, merchandise and food are recorded at the lower of cost or net realizable value. Cost includes the original purchase cost, plus shipping and applicable duties. Net realizable value is the estimated selling price less any costs to sell.

(g) Non-financial assets:

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

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Interest is not capitalized whenever external debt is issued to finance the construction of tangible capital assets. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are amortized on a straight line basis over their estimated useful lives shown below. Land is not amortized as it is deemed to have a permanent value.

Donated assets are recorded at fair value 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.

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

2. Summary of significant accounting policies (continued)

(ii) Works of art and historic assets

Works of art and historic assets are not recorded as assets in these financial statements.

(g) Non-financial assets:

(iii) Leased tangible capital assets

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

(iv) Inventories held for use

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

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

(h) Employee future benefits:

The costs of pension and other future employee benefits are recognized on an accrual basis over the working lives of employees as detailed in Note 10.

(i) Revenue recognition:

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

Unrestricted donations and grants are recorded as revenue when receivable if the amounts can be estimated and collection is reasonably assured.

Restricted donations and grants are reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or in the form of a depreciable tangible capital asset, in each case for use in providing services are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.
- (ii) Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contribution have been met.

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

2. Summary of significant accounting policies (continued)

(i) Revenue recognition:

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

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

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

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

(k) Use of estimates:

Preparation of the financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, and related disclosures. Key areas where management has made estimates and assumptions include those related to the amortization period of tangible capital assets, valuation allowances for receivables and inventories, the valuation of financial instruments and assets and obligations related to employee future benefits. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

(l) Foreign currency translation:

The University's functional currency is the Canadian dollar. Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities which were designated in the fair value category under the financial instrument standard are reflected in the financial statements in equivalent Canadian dollars at the exchange rate in effect on the 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, the related cumulative remeasurement gain/loss is reversed in the statement of remeasurement gains and losses and the exchange gain or loss in relation to the exchange rate at the date of the item's initial recognition is recognized in the statement of operations.

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

2. Summary of significant accounting policies (continued)

(m) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the 2013/14 to 2015/16 Planning and Budget Framework approved by the Board of Governors of the University on March 26, 2013 and the University's first quarter forecast provided to the Province. The budget is reflected in the statement of operations and accumulated surplus and the statement of changes in net debt.

3. Cash and cash equivalents

<i>(in thousands of dollars)</i>	2014	2013
Cash	\$8,351	\$16,114
Short-term investments	107,816	90,450
Restricted cash	960	942
	\$117,127	\$107,506

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

4. Due from governments

<i>(in thousands of dollars)</i>	2014	2013
Federal government	\$7,161	\$6,325
Provincial government	4,437	3,175
Other	20	85
	\$11,618	\$9,585

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

5. Loans receivable

<i>(in thousands of dollars)</i>	2014	2013
BCNET interest at 4.5%, due April 2019, unsecured	\$555	\$652
Various faculty and senior administrators Home relocation loans, interest free for 5 years with option for further renewal unless employment ceases, secured by second mortgages	4,050	4,362
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	12,434	12,920
Interest at 6.13%, due April 2030, unsecured	3,024	3,132
	\$29,671	\$30,674

6. Financial instruments

- (a) PSAB standards require that investments be externally restricted to be classified as restricted endowment investments. In 2014, the University corrected the classification of \$12,017,000 of internally restricted assets from restricted endowment investments to portfolio investments. 2013 comparative information has been restated for this reclassification. This change in classification had no impact on the statement of operations in 2014 or 2013.

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

<i>(in thousands of dollars)</i>	Fair Value Hierarchy	2014	2013 (restated)
Portfolio investments carried at fair value:			
Bonds	Level 2	\$5,482	\$3,157
Various pooled bond funds	Level 1	77,604	94,477
Canadian equities	Level 1	18,764	8,265
US equities	Level 1	11,091	2,289
Non-North American equities	Level 1	9,737	9,277
Infrastructure and real estate	Level 3	6,092	4,014
Other	Level 1	4,238	8,037
		133,008	129,516
Portfolio investments at cost:			
Short-term investments		719	364
Cash		220	85
Other		62	11
Total portfolio investments		\$134,009	\$129,976

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

6. Financial instruments (continued)

<i>(in thousands of dollars)</i>	Fair Value Hierarchy	2014	2013 (restated)
Restricted endowment investments carried at fair value:			
Bonds	Level 2	\$27,691	\$27,935
Various pooled bonds	Level 1	45,416	44,840
Canadian equities	Level 1	84,412	72,707
US equities	Level 1	55,895	20,251
Non-North American equities	Level 1	49,173	82,087
Infrastructure and real estate	Level 3	30,767	35,521
		293,354	283,341
Restricted endowment investments at cost:			
Short-term investments		3,630	5,385
Cash		1,090	500
Total restricted endowment investments		\$298,074	\$289,226

<i>(in thousands of dollars)</i>	Fair Value Hierarchy	2014	2013
Derivatives – interest rate swaps on long-term debt quoted at fair value:			
BC Immigrant Investment Fund interest rate swap fixed at 5.138%, commencing in 2017	Level 1	\$(122)	\$(335)
Royal Bank of Canada floating interest rate fixed at 5.38%, through an interest rate swap due Nov 2024, unsecured	Level 1	(1,480)	(1,984)
Royal Bank of Canada floating interest rate fixed at 3.56%, commencing 2023 through 2033, unsecured	Level 1	271	-
Total derivatives		\$(1,331)	\$(2,319)

7. Investments in government business enterprises

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

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

7. Investments in government business enterprises (continued)

Change in equity in government business enterprises

<i>(in thousands of dollars)</i>	2014	2013
Equity at beginning of year	\$3,637	\$3,926
Dividends/distributions paid	(642)	(771)
Net earnings	753	482
Equity at end of year	3,748	3,637
Dividends/distributions payable	3,008	2,469
Investment in government business enterprises	\$6,756	\$6,106

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

Consolidated Statement of Financial Position

<i>(in thousands of dollars)</i>	2014	2013
Assets	\$38,225	\$38,671
Liabilities	34,477	35,034
Equity	\$3,748	\$3,637

Consolidated Statement of Operations:

<i>(in thousands of dollars)</i>	2014	2013
Revenue	\$11,665	\$11,681
Expenses	10,912	11,199
Net income	\$753	\$482

8. Investments in government partnerships

The University is one of eleven university members of a consortium which manages the Tri-Universities Meson Facility (TRIUMF) for research in sub-atomic physics. The facility is funded by federal government grants and the University makes no direct financial contribution. TRIUMF's financial results are proportionately consolidated with those of the University based upon the University's share of its total contributions of 9.09% (2013 – 9.09%).

The University is one of five university members of the Western Canadian Universities Marine Sciences Society (WCUMSS) for marine field research. The University provided a grant to the Society in 2014 of \$253,000 (2013 – \$253,000). WCUMSS financial results are proportionately consolidated with those of the University based upon the University's share of its total contributions of 20% (2013 – 20%).

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

8. Investments in government partnerships (continued)

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

Consolidated Statement of Financial Position

<i>(in thousands of dollars)</i>	2014	2013
Financial assets	\$2,526	\$2,769
Liabilities	1,111	2,255
Net assets	1,415	514
Non-financial assets	1,079	1,110
Accumulated surplus	\$2,494	\$1,624

Consolidated Statement of Operations

<i>(in thousands of dollars)</i>	2014	2013
Revenue	\$8,078	\$8,737
Expenses	7,208	8,751
Surplus (deficit) for the year	\$870	\$(14)

9. Accounts payable and accrued liabilities

<i>(in thousands of dollars)</i>	2014	2013
Accounts payables and accrued liabilities	\$25,423	\$23,032
Salaries and benefits payable	3,969	3,787
Accrued vacation pay	7,115	7,171
	\$36,507	\$33,990

10. Employee future benefits

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

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

10. Employee future benefits (continued)

Summary of employee future benefit obligations:

<i>(in thousands of dollars)</i>	2014	2013
Staff pension plan	\$(2,581)	\$(2,463)
Supplemental pension obligations	5,370	4,697
Special accumulated sick leave	3,373	3,496
Long-term disability benefits	14,097	13,056
Basic group life insurance plan	1,466	1,443
	\$21,725	\$20,229

(a) Pension benefits:

- (i) The pension fund for full-time continuing faculty and administrative and academic professional staff is referred to as the Combination Plan. This plan's benefits are derived primarily from defined contributions. If a retiring member selects an internal annuity with the defined contribution account, the annuity may be supplemented from a defined benefit provision to bring total benefits up to a defined benefit minimum. Most members qualify for little or no supplement because the defined contribution benefits usually exceed 90% of the defined benefit minimum. Since 1991, only ninety-five members have received a defined benefit supplement. At December 31, 2013, eighty-nine were receiving supplements that totalled \$30,116 of a total pension payroll of \$1.54 million per month. As a result, this plan has been accounted for as a defined contribution plan. The latest actuarial valuation as at December 31, 2012 showed that the accrued formula pension benefit liabilities of the Combination Plan were fully funded. The next valuation will be as at December 31, 2015. A pure defined contribution plan is available for part-time faculty and administrative and academic professional staff who meet certain eligibility criteria. The University has made contributions to these two plans during the year of \$18,800,000 (2013 – \$18,400,000) 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 \$5,370,000 as at March 31, 2014 (2013 – \$4,697,000). The University paid supplemental benefits of \$209,000 in the year (2013 – \$299,000) and recorded employee benefit expense of \$129,000 (2013 – \$114,000).

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

10. Employee future benefits (continued)

(a) Pension benefits (continued):

- (ii) The University sponsors the University of Victoria Staff Pension Plan (the "Plan") which is a contributory defined benefit pension plan made available to regular staff employees that are eligible to join the Plan. The Plan provides pensions based on credited service and final average salary. The next plan valuation as at December 31, 2013 is expected to be complete in mid-2014. Based on membership data as at the last actuarial valuation for funding purposes as at December 31, 2010, the average age of the 1,215 active employees covered by the Plan is 46.6. In addition, there are 407 former employees who are entitled to deferred pension benefits averaging \$275 per month. At December 31, 2010, there are 573 pensioners receiving an average monthly pension of \$743. The employees make contributions equal to 4.53% of salary that does not exceed the year's maximum pensionable earnings ("YMPE") plus 6.28% of salary in excess of the YMPE. A separate pension fund is maintained. The University makes contributions to the plan in line with recommendations contained in the actuarial valuation for funding purposes. Though the University and the employees both contribute to the pension fund, the University retains the full risk of the accrued benefit obligation. The pension fund assets are invested primarily in Universe bonds and equities. The pension asset at March 31 includes the following components:

<i>(in thousands of dollars)</i>	2014	2013
Accrued benefit obligation	\$184,477	\$174,846
Pension fund assets	(197,554)	(176,339)
	(13,077)	(1,493)
Unamortized actuarial gains (losses)	10,496	(970)
	\$(2,581)	\$(2,463)

Actuarial valuations for funding purposes are performed triennially using the projected benefit prorate method. The latest triennial actuarial valuation completed as at December 31, 2010 reported a going concern surplus and a solvency deficiency (i.e. if the plan were to be wound up on that date) of \$33,000,000. The B.C. Pension Benefits Standards Act requires minimum annual contributions or the use of letters of credit to fund a solvency deficiency. The University has chosen to arrange a letter of credit in the amount of \$6,975,000 annually to satisfy the contribution requirements through 2016. This letter of credit will be reassessed in conjunction with the December 31, 2013 plan valuation and updated solvency funding level. The accrued benefit obligation shown for 2014 is based on an extrapolation of that 2010 valuation. There is an unamortized gain to be amortized on a straight-line basis over the expected average remaining service life of the related employee group (12 years). The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases and employee turnover and mortality. The assumptions used reflect the University's best estimates. The expected inflation rate is 2.25%. The discount rate used to determine the accrued benefit obligation is 6%. Pension fund assets are valued at market value.

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Notes to Consolidated Financial Statements
Year ended March 31, 2014

10. Employee future benefits (continued)

(a) Pension benefits (continued):

The expected rate of return on pension fund assets is 6%. The actual gross return on Plan assets in 2013 was 12.5%. The total expenses related to pensions for the fiscal year ending, include the following components:

<i>(in thousands of dollars)</i>	2014	2013
Current period benefit cost	\$6,638	\$6,327
Amortization of actuarial gains	81	471
	6,719	6,798
Less: Employee contributions	(1,080)	(1,084)
Pension expense	5,639	5,714
Interest cost on the average accrued benefit obligation	10,628	10,078
Expected return on average pension plan assets	(10,559)	(9,756)
Pension interest expense	69	322
Total expenses related to pensions	\$5,708	\$6,036

The Supplementary Retirement Benefit Account is a separate fund available to provide pensioners over the age of 65 with supplemental indexing against inflation beyond that provided by the basic plan above. It is accounted for as a defined contribution plan, with University contributions during the year of \$114,000 (2013 – \$114,000).

(b) Special accumulated sick leave benefit liability:

Certain unionized employees of the University are entitled to a special vested sick leave benefit in accordance with the terms and conditions of their collective agreements. Employees who accumulate and maintain a minimum balance of regular sick leave may opt to transfer sick days into this special accumulating and vested benefit. The University recognizes a liability and an expense as days are transferred into this benefit. At March 31, 2014 the balance of this special accumulated sick leave was \$3,373,000 (2013 – \$3,496,000).

(c) Long-term disability benefits:

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

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements
Year ended March 31, 2014

10. Employee future benefits (continued)

(c) Long-term disability benefits (continued):

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

<i>(in thousands of dollars)</i>	2014	2013
Accrued benefit obligation:		
Balance, beginning of year	\$13,056	\$12,728
Current service cost	4,358	1,904
Interest cost	202	209
Benefits paid	(2,001)	(2,070)
Actuarial (gain) loss	(1,518)	285
Accrued benefit obligation, end of year	\$14,097	\$13,056

<i>(in thousands of dollars)</i>	2014	2013
Accrued benefit obligation:		
Plan assets	\$10,132	\$9,020
Liability, end of year	14,097	13,056
Accrued benefit liability, end of year	\$(3,965)	\$(4,036)

Components of net benefit expense

<i>(in thousands of dollars)</i>	2014	2013
Service cost	\$4,358	\$1,904
Interest cost	202	209
Expected return on assets	(144)	(134)
Amortization of net actuarial (gain)/loss	(1,441)	149
Net benefit expense	\$2,975	\$2,128

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

	2014	2013
Discount rates	1.7%	1.5%
Expected future inflation rates	2%	2%
Salary increase assumption	2%	2%
Retired age assumption	65	65

An insured long-term disability plan funded entirely by the University was commenced for other staff on July 1, 2000. The University contribution for the year ending March 31, 2014 was \$1,118,000 (2013 — \$1,008,000).

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Notes to Consolidated Financial Statements
Year ended March 31, 2014

11. Deferred contributions

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

<i>(in thousands of dollars)</i>	2014	2013
Specific Purpose (including earnings on endowment)	\$64,199	\$37,799
Research	47,092	56,010
Capital	2,333	2,309
	\$113,624	\$96,118

Changes in the deferred contribution balance are as follows:

<i>(in thousands of dollars)</i>	2014			
	Specific Purpose	Research	Capital	Total
Balance, beginning of year	\$37,799	\$56,010	\$2,309	\$96,118
Contributions received during the year	53,671	69,918	216	123,805
Revenue recognized from deferred contributions	(27,271)	(78,836)	(144)	(106,251)
Transfer to deferred capital contributions			(48)	(48)
Balance, end of year	\$64,199	\$47,092	\$2,333	\$113,624

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:

<i>(in thousands of dollars)</i>	2014	2013
Balance, beginning of year	\$399,873	\$388,849
Contributions received during the year	24,290	39,666
Transfers from deferred contributions	48	1,064
Revenue from amortization of deferred capital contributions	(29,278)	(29,706)
Balance, end of year	\$394,933	\$399,873

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Notes to Consolidated Financial Statements
Year ended March 31, 2014

13. Long-term debt

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

<i>(in thousands of dollars)</i>	2014	2013
Royal Bank of Canada		
Term loan with floating interest rate fixed at 5.38%, to 2014, through an interest rate swap due November 2024, unsecured	\$9,888	\$10,561
British Columbia Immigrant Investment Fund		
4.75% term loan due February 2017, unsecured	3,742	3,947
British Columbia Immigrant Investment Fund		
2.48% term due 2023, unsecured	9,710	-
Province of British Columbia		
4.82% bond due 2027, unsecured, with annual sinking fund payments of \$327,000	10,800	10,800
Province of British Columbia		
4.74% bond due 2038, unsecured, with annual sinking fund payments of \$302,000	10,000	10,000
Great West Life Assurance Company		
5.13% term loan due April 2030, unsecured	12,434	12,920
	\$56,574	\$48,228

(a) Principal repayments:

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

<i>(in thousands of dollars)</i>	Sinking Fund	Other	Total
2015	\$629	\$1,837	\$2,466
2016	629	1,925	2,554
2017	629	2,017	2,646
2018	629	2,114	2,743
2019	629	2,215	2,844
Thereafter	13,417	29,904	43,321
	\$16,562	\$40,012	\$56,574

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Notes to Consolidated Financial Statements

Year ended March 31, 2014

14. Tangible capital assets

Cost (in thousands of dollars)	Balance at March 31, 2013	Additions	Disposals	Balance at March 31, 2014
Land	\$21,769	\$ -	\$ -	\$21,769
Site improvements	32,978	190	-	33,168
Buildings	641,364	44,835	-	686,199
Equipment and furnishings	219,709	15,969	(13,080)	222,598
Information systems	18,441	-	-	18,441
Computer equipment	18,650	4,585	(7,645)	15,590
Library holdings	40,969	3,329	(4,249)	40,049
Total	\$993,880	\$68,908	\$(24,974)	\$1,037,814

Accumulated amortization (in thousands of dollars)	Balance at March 31, 2013	Disposals	Amortization expense	Balance at March 31, 2014
Land	\$ -	\$ -	\$ -	\$ -
Site improvements	15,237	-	891	16,128
Buildings	168,793	-	12,715	181,508
Equipment and furnishings	111,115	(13,080)	23,610	121,645
Information systems	11,253	-	2,305	13,558
Computer equipment	12,807	(7,645)	3,953	9,115
Library holdings	21,708	(4,249)	3,839	21,298
Total	\$340,913	\$(24,974)	\$47,313	\$363,252

Net book value (in thousands of dollars)	March 31, 2014	March 31, 2013
Land	\$21,769	\$21,769
Site improvements	17,040	17,741
Buildings	504,691	472,571
Equipment and furnishings	100,953	108,594
Information systems	4,883	7,188
Computer equipment	6,475	5,843
Library holdings	18,751	19,261
Total	\$674,562	\$652,967

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Notes to Consolidated Financial Statements
Year ended March 31, 2014

14. Tangible capital assets (continued)

Contributed tangible capital assets:

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

<i>(in thousands of dollars)</i>	2014	2013
Equipment and furnishings	\$26	\$87

(a) Assets under construction:

Assets under construction having a value of \$78,438,000 (2013 – \$57,603,000) comprised of buildings of \$58,714,000 (2013 – \$35,061,000) and equipment of \$19,724,000 (2013 – \$22,542,000) have not been amortized. Amortization of these assets will commence when the asset is available for productive use.

(b) Works of art and historical treasures:

The University manages and controls various works of art and non-operational historical cultural assets including artifacts, paintings and sculptures located at University sites and public display areas. These assets are not recorded in these financial statements.

(c) Write-off of tangible capital assets:

The write-off of tangible capital assets during the year was \$24,974,000 (2013 – \$19,938,000) related to fully amortized assets with a net book value of \$ nil (2013 – \$ nil) related to asset disposals.

15. Financial risk management

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

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

(a) Credit risk

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

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

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

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Notes to Consolidated Financial Statements
Year ended March 31, 2014

15. Financial risk management (continued)

The maximum credit risk exposure of the University investments at March 31, 2014 is \$261,226,000. The following shows the percentage of fixed income holdings in the portfolio by credit rating:

Credit Rating	%
AAA	7.9%
AA	21.6%
A	10.2%
BBB	8.1%
BB and below	1.0%
Mortgages	4.3%
Cash and short-term	
R1 high	34.0%
R1 mid	11.5%
R1 low	1.4%
	100.0%

(b) Price risk

Price risk includes market risk and interest rate risk.

Market risk relates to the possibility that the investments will change in value due to fluctuations in market prices. The objective of market risk management is to mitigate market risk exposures 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.

(b) Price risk (continued):

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

Benchmark for Investments		Net Impact on Market Value (in thousands of dollars)
DEX Universe Bond Index	+/-	\$7,729
S&P/TSX Composite Index	+/-	20,107
MSCI World Index	+/-	23,464
Canadian Consumer Price Index (Real Estate)	+/-	7,730
Canadian Consumer Price Index (Infrastructure)	+/-	379

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Notes to Consolidated Financial Statements
Year ended March 31, 2014

15. Financial risk management (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, 2014, the modified duration of all fixed income in aggregate was 3.2 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 3.2%, contrarily if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 3.2%.

(c) Liquidity risk

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

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

16. Accumulated surplus

Accumulated surplus is comprised of the following:

<i>(in thousands of dollars)</i>	2014	2013
Endowments	\$289,970	\$284,605
Invested in capital assets	239,705	221,396
Internally restricted	101,974	110,273
Unrestricted	18,738	18,792
Accumulated remeasurement gains	12,196	5,415
	\$662,583	\$640,481

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.

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Notes to Consolidated Financial Statements
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17. Endowments

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

<i>(in thousands of dollars)</i>	2014	2013
Balance, beginning of year	284,605	\$281,588
Contributions received during the year	4,297	3,198
Investment income and donations capitalized	1,068	(181)
Balance, end of year	\$289,970	\$284,605

The balance shown does not include endowment principal with fair value of \$6,628,000 (2013 – \$5,923,000) and book value of \$4,820,000 (2013 – \$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.

18. Contractual obligations

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

<i>(in thousands of dollars)</i>	2015	2016	2017	2018	2019
Construction contracts	\$32,466	\$-	\$-	\$-	\$-
Operating leases	680	425	140	23	7
Total	\$33,146	\$425	\$140	\$23	\$7

19. Contingent liabilities

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

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

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Notes to Consolidated Financial Statements
Year ended March 31, 2014

20. Expenses by object

The following is a summary of expenses by object:

<i>(in thousands of dollars)</i>	2014	2013
Salaries and wages	\$270,134	\$260,698
Employee benefits	49,233	47,308
Travel	13,805	12,952
Supplies and services	65,688	68,305
Equipment rental and maintenance	5,007	5,050
Utilities	9,871	9,232
Scholarships, fellowships and bursaries	35,306	33,500
Cost of goods sold	14,386	13,972
Interest on long-term debt	2,495	2,447
Interest - other	498	(304)
Amortization of tangible capital assets	47,313	48,570
	\$513,736	\$501,730

21. Funds held in trust

Funds held in trust are funds held on behalf of autonomous organizations, agencies, and student societies having a close relationship with the University. These funds are not reported on the University's consolidated statement of financial position (2014 – \$2,119,000; 2013 – \$1,916,000).

22. Supplementary cash flow information

<i>(in thousands of dollars)</i>	2014	2013
Cash paid for interest	\$2,602	\$2,452