LONG TERM DISABILITY TRUST
FINANCIAL STATEMENTS
MARCH 31, 2014

LONG TERM DISABILITY TRUST

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University of Victoria is responsible for the preparation of the financial statements of the Long Term Disability Trust. The statements have been prepared in accordance with Canadian accounting standards for pension plans and present fairly the financial position of the Long Term Disability Trust as at March 31, 2014 and the results of its operations for the year then ended.

In fulfilling its responsibility and recognizing the limits inherent in all systems, the University's Administration has developed and maintains a system of internal controls designed to provide reasonable assurance that the Trust's assets are safeguarded from loss and that the accounting records are a reliable basis for preparation of the financial statements.

The financial statements have been examined by Grant Thornton LLP, the independent auditors appointed by the Trustees. The Independent Auditors' Report outlines the nature of their examination and expresses an opinion on the financial statements of the Trust for the year ended March 31, 2014.

Murray Griffith

Trustee

Trustee

May 20, 2014

Independent Auditors' Report

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To the board of trustees of the Long Term Disability Trust

We have audited the accompanying financial statements of the Long Term Disability Trust, which comprise the statement of financial position as at March 31, 2014, and the statement of changes in net assets available for benefits, and the statement of changes in benefit obligations for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Long Term Disability Trust as at March 31, 2014, and its financial performance for the year then ended in accordance with Canadian accounting standards for pension plans.

Grant Thornton LLP

Victoria, Canada
May 20, 2014

Chartered accountants

LONG TERM DISABILITY TRUST
STATEMENT OF FINANCIAL POSITION
As at March 31, 2014

	2014	2013
Assets		
Cash and cash equivalents	$ 199,876	$ 231,614
Cash held on deposit with benefit carrier	141,000	141,000
Income taxes receivable (note 7)	2,920	5,743
Due from University of Victoria	259,342	227,147
Investments (note 3)	9,702,879	8,592,150
	10,306,017	9,197,654
Liabilities		
Accounts payable and accruals	173,757	172,310
Net assets available for benefits	10,132,260	9,025,344
Accrued benefit obligations (note 4)	14,097,159	13,056,159
Deficit	$ (3,964,899)	$ (4,030,815)

On behalf of the board:

Trustee

Trustee

See accompanying notes to the financial statements

LONG TERM DISABILITY TRUST
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
For the Year ended March 31, 2014

	2014	2013
Net return on investments		
Interest income	$ 324,009	$ 296,830
Realized gains	18,578	116,850
Unrealized losses	(189,253)	(43,953)
	153,334	369,727
Contributions		
Employee contributions	3,040,684	2,751,386
Payments to or on behalf of members		
Benefit carrier claims	1,895,773	1,936,679
Operating expenses		
Actuarial fees	3,825	9,123
Audit expense	7,918	9,374
Benefit carrier administration fees	67,376	76,914
Custodial fees	5,043	5,760
Interest expense	4,381	5,979
Investment management fees	15,417	14,893
Financial administration fees (note 8)	1,000	1,000
Legal fees	130	10,664
Total operating expenses	105,090	133,707
Increase in net assets available for benefits, before taxes	1,193,155	1,050,727
Income taxes (note 7)	86,239	94,811
Increase in net assets available for benefits	1,106,916	955,916
Net assets available for benefits, beginning of year	9,025,344	8,069,428
Net assets available for benefits, end of year	$ 10,132,260	$ 9,025,344

See accompanying notes to the financial statements

LONG TERM DISABILITY TRUST
STATEMENT OF CHANGES IN BENEFIT OBLIGATIONS
For the Year ended March 31, 2014

	2014	2013
Beginning balance, accrued benefit obligation	$ 13,056,159	$ 12,728,159
Change in actuarial assumptions	(1,518,000)	285,000
Benefit accrued	4,560,000	2,113,000
Benefit paid	(2,001,000)	(2,070,000)
	1,041,000	328,000
Ending balance, accrued benefit obligation	$ 14,097,159	$ 13,056,159

See accompanying notes to the financial statements

LONG TERM DISABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

1. Description of Plan

The following is a summary of the Long Term Disability Trust (the Trust).

a) General

The Trust was established in July 2007 to administer a self-funded long term disability plan covering all faculty, administrative and academic professional staff holding regular appointments of 50%, or more, of full time at the University of Victoria.

b) Funding Policy

Members contribute 2.09% of basic salary, which is deducted by the University semi-monthly, and remitted to the Trust. The Trust holds these contributions, and pays the plan benefit carrier for benefit payments made to qualifying employees. The contribution rate is set by the Trustees referencing actuarial valuations, and covers the normal cost of providing benefits, plus an amount required to build a reserve against estimated future liabilities of the plan.

c) Plan Benefits

Long term disability benefits are calculated at 80% of monthly "net earnings", plus the amount required to maintain employee and University Pension Plan contributions. Benefits are indexed to the lower of (1) the annual increase in the Canada CPI index, and (2) the most recent annual across-the-board general salary adjustment.

As this is an employee-pay-all plan benefits paid to qualifying employees are tax-free.

d) Commencement and Duration of Benefits

If approved, LTD benefit payments commence following completion of six months of continuous disability, and following receipt of proof of total disability. Benefits continue until the earliest of the following:

- no longer considered to be totally disabled,
- start work at any occupation for wage or profit except as permitted under the Plan,
- fail to furnish proof of continuous disability,
- no longer under the care of a qualified physician, or fail to follow prescribed medical treatment, or participate in a recommended rehabilitation program,
- death,
- normal retirement date.

e) Investments

The assets of the Trust are invested in a Phillips, Hager and North Bond Fund.

2. **Significant Accounting Policies**

The financial statements have been prepared in accordance with Canadian accounting standards for pension plans.

Accounting standards for pension plans apply to all pension plans as well as benefit plans with characteristics similar to pension plans (such as long term disability plans) and require entities to select accounting policies for accounts that do not relate to its investment portfolio or accrued benefit obligations in accordance with either Part I International Financial Reporting Standards (IFRS) or Part II Canadian Accounting Standards for Private Enterprises (ASPE) of the CICA Handbook. The Trust selected to apply Part II for such accounts on a consistent basis and to the extent that these standards do not conflict with the requirements of the accounting standards for pension plans. Under Canadian accounting standards for pension plans the Trus is required to follow IFRS 7 and 13 with respect to Financial Instruments.

a) Financial Instruments

Financial assets and financial liabilities are recognized when the Plan becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

All financial assets and financial liabilities are initially measured at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

Financial assets and financial liabilities are subsequently measured as described below.

b) Cash and cash equivalents
Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash within three months, have been classified as held for trading and recorded at fair value.

c) Investment assets and investment liabilities
All investment assets and investment liabilities are measured at fair value at the date of the statement of financial position in accordance with IFRS 7 Financial Instruments, International Financial Reporting Standards in Part 1 of the CICA Handbook.

Pooled funds are valued at the unit value supplied by the pooled fund administrator and which represent the Plan's proportionate share of underlying net assets at fair value determined using closing bid prices.

Transaction costs are not included in the fair value of investment assets and investment liabilities either on initial recognition or on subsequent re-measurement. Transaction costs are included in the statement of changes in net assets available for benefits as part of expenses incurred in the period.

2. **<u>Significant Accounting Policies (continued)</u>**

d) <u>Investment Income</u>
Income from investments is recognized on an accrual basis and includes interest income.

e) <u>Realized and Unrealized Gains and Losses on Investments</u>
Realized gains or losses on sale of investments are the difference between the proceeds received and the average cost of investments sold.

Unrealized gains or losses on investments represent the differences between carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognized unrealized gains and losses in respect of disposals during the year.

f) <u>Contributions</u>
Contributions from the members are recorded on an accrual basis.

g) <u>Net assets available for benefits</u>
Net assets available for benefits are amounts available for the servicing of future claims under the Trust agreement, and terms of the Plan.

h) <u>Estimation Uncertainty</u>
When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Fair value of financial instruments: management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far a possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Accrued benefit obligation: management estimates the accrued benefit obligation with the assistance of an independent actuary; however, the actual outcome may vary due to estimation uncertainties. The estimate of its accrued benefit obligation is based on assumptions as outlined in Note 4 to these financial statements.

3. Investments

Investments are reported at fair value and are as follows:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Phillips Hager and North Bond Fund, Series 0	$ 9,724,102	$ 9,702,879	$ 8,424,119	$ 8,592,150
RBC Institutional Cash	$ 199,876	$ 199,876	$ 231,614	$ 231,614

4. Obligations for Plan Benefits

An actuarial valuation was made as of June 30, 2011 by Mercer Human Resource Consulting, a firm of consulting actuaries. Salary figures used in the actuarial analysis are based on annual salary increases effective July 1, 2011.

The actuarial liability is the actuarial present value of the disability benefits expected to be paid in the future to members who were disabled at the valuation date. This liability is divided into two components: the Disabled Life Reserve (DLR) for individuals in receipt of benefits at the valuation date, and the Incurred But Not Reported (IBNR) reserve for individuals who are disabled but not reported at the valuation date and who have not completed the six month elimination period. The next actuarial valuation is expected to commence as of July 1, 2014. The estimated liability as at March 31, 2014 has been calculated by Mercer using updated data and assumptions consistent with the 2011 actuary report.

The financial position of the Plan as at March 31 is as follows:

		2014	2013
Net Assets		$ 10,132,260	$ 9,025,344
Liabilities	- Disability Life Reserve	12,779,159	11,750,159
	- Incurred But Not Reported	1,318,000	1,306,000
		14,097,159	13,056,159
Unfunded Liability		$ (3,964,899)	$ (4,030,815)
Funded ratio		72%	69%

4. **Obligations for Plan Benefits (continued)**

The assumptions used in determining the actuarial value of accrued disability benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were:

	2014	**2013**
Discount rate	1.7%	1.5%
Cost of living adjustment	2%	2%
Retirement age assumption	65	65

5. **Risk Management**

The Trust's assets are invested in Phillips, Hager & North's Bond Fund and the RBC Institutional Cash Fund. All assets are recorded at fair value. The main investment risks are interest rate risk, liquidity risk and credit risk.

Interest rate risk

Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. 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. At March 31, 2014, the modified duration of the bond portfolio was 6.4 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 6.4%, contrarily if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 6.4%.

Liquidity risk

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost effective manner in order to meet commitments as they come due. The primary liabilities in the Trust are future benefit obligations and operating expenses. Liquidity requirements are managed through income generated by contributions and investing in sufficiently liquid assets and other easily marketable instruments.

Credit risk

The value of fixed income and debt securities depends, in part, on the perceived ability of the issuer that issued the securities to pay the interest and to repay the original investments. Credit risk relates to the possibility that a loss may occur from failure of a fixed income security issuer to meet its debt obligations. At March 31, 2014, the maximum risk exposure for this type of investment is $9,902,775. This risk is reduced by the investment constraints of the fund which calls for the fund to provide relatively high yields and stability of capital by investing primarily in a well-diversified portfolio of high quality Canadian corporate and government bonds. The credit risk is mitigated in that no one issuer must exceed 10% of the fund except for federal or provincial bonds and a max of 30% of the portfolio will be invested in bonds rated BBB and lower at the time of purchase.

LONG TERM DISABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

5. **Risk Management (continued)**

The credit risk is also mitigated by the credit rating and issuer analysis. Table 1 below shows the percentage of fixed income holdings in the portfolio by credit rating as of March 31, 2014 and compared to March 31, 2013. Table 2 below shows the percentage of fixed income holdings by type of issuer as of March 31, 2014 and compared to March 31, 2013.

Table 1

Ratings Summary	2014 %	2013 %
AAA	11.8	9.9
AA	41.8	38.4
A	18.5	22
BBB	12.8	9.4
BB	0	0
CMHC mortgages	0.6	0.7
Conventional mortgages	0.0	0.0

Table 2

Issuer Analysis	2014 %	2013 %
Federal bonds	9.2	8.2
Provincial bonds	34	32
Corporate bonds	41.0	39.5
Mortgages	0.6	0.7
Cash and short term	14.6	19.6

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the inputs used in making the measurements. The fair value hierarchy is made up of the following levels:

Level 1 - valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable data on the market each time such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Trust's portfolio consists of bonds and mortgages and are pooled into a combined mutual fund. The lowest level of the hierarchy for the portfolio is a level 2.

6. **Capital Disclosures**

The purpose of the Trust is to provide benefits to members on long term disability. The Trust's objectives when managing its capital are to protect the value of the funds against inflation and provide stability in benefit distributions. With the assistance of an investment consultant, the Trust's Board of Directors regularly monitors the Trust's investments to ensure that immediate and long-term obligations can be met within an acceptable level of risk.

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NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

7. **Income Tax**

Income taxes are paid on a calendar basis and are based on the difference between income earned on investment funds less plan expenses exclusive of employee contributions and benefit carrier claims.

The Trust pays quarterly tax instalments and at March 31, 2014 had a receivable balance of $2,920 for the difference between the amount paid and the estimated tax owing.

8. **Related Party Transaction**

The Trust receives accounting and administrative services from the University of Victoria and was charged a fee of $1,000 for the year.