



UNIVERSITY OF VICTORIA
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STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University is responsible for the preparation of financial statements and has prepared them in accordance with Canadian generally accepted accounting principles prescribed for not-for-profit organizations by the Canadian Institute of Chartered Accountants. The consolidated financial statements present fairly the financial position of the University as at March 31, 2008, and the results of its operations and cash flows and the changes in its net assets for the year then ended.

In fulfilling its responsibilities 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 University assets are safeguarded from loss and that the accounting records are a reliable basis for preparation of financial statements. The system of internal controls is monitored by the University's internal auditor.

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

The consolidated financial statements have been examined by KPMG LLP, Chartered Accountants, the external auditors appointed by the University's Board of Governors. The Auditors' report outlines the nature of their examination and expresses an opinion on the fair presentation of the consolidated financial statements of the University for the year ended March 31, 2008.

Dr. David H. Turpin
President and Vice-Chancellor

Ms. Gayle Gorrill
Vice-President, Finance & Operations

May 20, 2008



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AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF THE UNIVERSITY OF VICTORIA

We have audited the consolidated balance sheet of the University of Victoria as at March 31, 2008 and the consolidated statements of changes in net assets, revenue and expense and changes in unrestricted net assets, and cash flows for the year then ended. These financial statements are the responsibility of the University's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, stylized font.

Chartered Accountants

Victoria, Canada

May 20, 2008

UNIVERSITY OF VICTORIA
CONSOLIDATED BALANCE SHEET

As at March 31, 2008

(In thousands of dollars)

Statement 1

	<u>2008</u>	<u>2007</u>	
ASSETS			
Current assets			
Cash and short term investments (note 3)	159,191	140,979	
Accounts receivable	20,895	16,041	
Inventories	3,830	3,629	
Prepaid expenses	8,190	6,774	
	192,106	167,423	
Long term receivables (note 4)	31,751	31,299	
Endowment and other investments (note 5)	284,626	196,745	
Capital assets (note 6)	524,122	437,626	
	1,032,605	833,093	
 LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities	50,377	42,824	
Current portion of long term debt	1,464	1,107	
	51,841	43,931	
Deferred contributions (note 8)	101,146	114,900	
Employee future benefits (note 9)	9,024	7,030	
Long term debt (note 10)	47,383	38,470	
Unamortized deferred capital contributions (note 11)	335,543	264,008	
Contingent liabilities (note 18)	-	-	
	544,937	468,339	
Net Assets			
Invested in capital assets	154,739	149,405	
Endowment	211,647	112,495	
Internally restricted	108,234	93,111	
Unrestricted	13,048	9,743	
	487,668	364,754	
	1,032,605	833,093	

Approved on behalf of
the Board of Governors

Murray Farmer
Chair,
Board of Governors

Gayle Gorrill
Vice-President,
Finance and Operations

UNIVERSITY OF VICTORIA
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the Year ended March 31, 2008

(In thousands of dollars)

	Invested in Capital <u>Assets</u>	<u>Endowment</u> (note 14)	Internally <u>Restricted</u> (note 15)	<u>Unrestricted</u> (statement 3)	<u>Total</u> <u>2008</u>	<u>Total</u> <u>2007</u> (restated, note 20)
Balance, beginning of year, as restated (note 20)	149,405	112,495	93,111	9,743	364,754	323,222
Excess of revenue over expense				23,190	23,190	28,403
Changes in investment in capital assets						
Land, collections, works of art and other	572				572	194
Other assets acquired with unrestricted net assets	28,126			(28,126)	-	-
Depreciation on assets acquired with unrestricted net assets	(13,736)			13,736	-	-
Debt acquired less debt retired with unrestricted net assets	(9,628)			9,628	-	-
Changes in internally restricted net assets						
Appropriations			40,000	(40,000)	-	-
Released to meet expenses			(24,877)	24,877	-	-
Changes in endowment net assets						
Contributions received		94,758			94,758	10,666
Investment income and donations capitalized		4,394			4,394	2,269
Balance, end of year	<u>154,739</u>	<u>211,647</u>	<u>108,234</u>	<u>13,048</u>	<u>487,668</u>	<u>364,754</u>

UNIVERSITY OF VICTORIA
CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE AND CHANGES IN UNRESTRICTED NET ASSETS

For the Year ended March 31, 2008

(In thousands of dollars)

	<u>General Operating</u>	<u>Ancillary Enterprises</u>	<u>Specific Purposes</u>	<u>Sponsored Research</u>	<u>Capital</u>	<u>Total 2008</u>	<u>Total 2007</u>
							(restated, note 20)
REVENUE							
Government grants and contracts (note 12) - provincial	153,086	1,852	2,157	14,257	1,100	172,452	157,541
- federal	5,946		867	32,094		38,907	42,012
- other	5,292		40	4,520		9,852	10,818
Student tuition - credit courses	83,759		3			83,762	84,760
- non credit courses and other	14,478		617			15,095	14,418
Donations, non government grants and contracts	584	37	2,495	6,561	215	9,892	12,640
Sales of services and products	8,583	46,882	2,308	1,219	68	59,060	55,430
Investment income (note 13)	7,534	1,049	6,394	1,656		16,633	13,032
Other revenue	2,459	346	2,373	753	1,513	7,444	5,335
Amortization of deferred capital contributions	786	542	292	11,728	5,324	18,672	16,299
	<u>282,507</u>	<u>50,708</u>	<u>17,546</u>	<u>72,788</u>	<u>8,220</u>	<u>431,769</u>	<u>412,285</u>
EXPENSE							
Salaries - academic	76,920		1,538	5,834		84,292	80,651
- other instruction and research	12,775		2,188	16,419		31,382	32,434
- support staff	78,809	13,646	1,456	2,862		96,773	92,095
	<u>168,504</u>	<u>13,646</u>	<u>5,182</u>	<u>25,115</u>	<u>-</u>	<u>212,447</u>	<u>205,180</u>
Employee benefits	28,242	2,158	574	2,681		33,655	30,521
Travel	6,088	40	1,262	5,048		12,438	12,350
Supplies and services	33,154	3,888	6,773	16,586	501	60,902	54,276
Equipment rental and maintenance	3,423	257	47	301		4,028	3,651
Utilities	5,038	1,954	17	121		7,130	6,538
Scholarships, fellowships and bursaries	10,616		4,472	9,263		24,351	22,929
Cost of goods sold		16,283				16,283	14,758
Interest on long term debt	432	2,201			766	3,399	2,683
Renovations	379	598	5	371		1,353	1,919
Internal cost allocations	(6,336)	3,875	436	1,811	214	-	-
Depreciation	9,997	2,878	420	11,750	7,548	32,593	29,077
	<u>259,537</u>	<u>47,778</u>	<u>19,188</u>	<u>73,047</u>	<u>9,029</u>	<u>408,579</u>	<u>383,882</u>
Excess (deficiency) of revenue over expense	<u>22,970</u>	<u>2,930</u>	<u>(1,642)</u>	<u>(259)</u>	<u>(809)</u>	<u>23,190</u>	<u>28,403</u>
Transfer (to) from internally restricted funds	(19,058)	(3,850)			7,785	(15,123)	(26,731)
Interfund transfers	(5,769)	(665)	2,163	237	4,034	-	-
Investment in capital assets, net of depreciation	2,605	193	18	22	(7,600)	(4,762)	(13,436)
Changes in unrestricted net assets	748	(1,392)	539	-	3,410	3,305	(11,764)
Balance, beginning of year, as restated (note 20)	(3,222)	227	1,772	-	10,966	9,743	21,507
Balance, end of year	<u>(2,474)</u>	<u>(1,165)</u>	<u>2,311</u>	<u>-</u>	<u>14,376</u>	<u>13,048</u>	<u>9,743</u>

See accompanying notes to the consolidated financial statements

UNIVERSITY OF VICTORIA
CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended March 31, 2008

(In thousands of dollars)

Statement 4

	<u>2008</u>	<u>2007</u>
Cash provided by (used in) operating activities		
Excess of revenue over expense	23,190	28,403
Items not affecting cash:		
Depreciation	32,593	29,077
Amortization of deferred capital contributions	(18,672)	(16,299)
Increase (decrease) in employee future benefits	1,994	(255)
Changes in non-cash working capital items:		
Net (increase) decrease in current assets	(6,471)	12,778
Net increase (decrease) in current liabilities	7,553	(13,428)
	40,187	40,276
Cash provided by (used in) investing activities		
(Increase) decrease in long term receivables	(452)	516
Increase in endowment and other investments	(87,881)	(10,445)
Net decrease in deferred contributions	(13,754)	-
Capital asset acquisitions and construction	(118,517)	(85,010)
	(220,604)	(94,939)
Cash provided by (used in) financing activities		
Increase in long term debt	10,800	5,000
Repayment of long term debt	(1,530)	(1,820)
Net increase in deferred contributions	-	8,298
Capital contributions received	90,207	55,266
Endowment donations received	99,152	12,935
	198,629	79,679
Increase in cash and short term investments	18,212	25,016
Cash and short term investments, beginning of year	140,979	115,963
Cash and short term investments, end of year	159,191	140,979
Supplemental cash flow information		
Cash paid for interest	2,758	2,592

UNIVERSITY OF VICTORIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 AUTHORITY AND PURPOSE

The University of Victoria operates under the authority of the University Act of British Columbia. It is a comprehensive research university offering a wide range of undergraduate, graduate and continuing studies programs. The University is governed by a 15 member Board of Governors, eight of whom are appointed by the provincial government of British Columbia including two on the recommendation of the Alumni Association. The academic governance of the University is vested in the Senate. The University is a registered charity and is therefore exempt from income taxes under Section 149 of the Income Tax Act.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) General

These financial statements are prepared in accordance with Canadian generally accepted accounting principles using the not-for-profit organization reporting standards recommended by the Canadian Institute of Chartered Accountants (CICA). The University has adopted the deferral method of accounting for contributions and presents its activities in these financial statements by major groups of funds, as described in paragraph (c) below.

(b) Consolidated Operations

The University conducts certain activities through related entities. These financial statements consolidate the accounts of three wholly owned subsidiaries of the University:

- University of Victoria Innovation and Development Corporation which promotes the commercialization of research discoveries.
- 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.

The financial statements consolidate the accounts of the University of Victoria Long Term Disability Trust which administers an employee benefit plan on behalf of the University's faculty and administrative professional staff.

The financial statements consolidate the accounts of related not-for profit organizations whose activities benefit the University:

- 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.
- Island Pacific Institute Foundation which operates the University's off-campus Dunsmuir Lodge conference and training centre.

The operations of the Island Pacific Institute Foundation and the University of Victoria Properties Investments Inc. are reported in Statement 3 as Ancillary Enterprises, Ocean Networks Canada is reported under Sponsored Research, while the operations of the other five entities are reported as Specific Purposes.

The financial statements include the accounts of the University's two profit-oriented subsidiaries using the equity method of accounting:

- 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.

The financial statements include the accounts of the following joint ventures using the equity method of accounting:

- 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 16.7% interest.

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

All entities have a fiscal year end of March 31 with the exception of Heritage Realty Properties which has a December 31 year end.

(c) Deferral Method and Fund Accounting

The University follows the deferral method of accounting for contributions, and reports its operating results using fund accounting. The fund accounting procedures are employed primarily to recognize external restrictions placed on the use of resources by donors and granting agencies and to recognize appropriations and other internal restrictions placed by governing boards. Separate accounts are maintained for each fund, and for financial reporting purposes, funds with similar characteristics are grouped together as described below.

The Statement of Revenue and Expense and Changes in Unrestricted Net Assets shows, in a multi-column format, the annual operating results of each unrestricted fund and the changes in unrestricted net assets for the year after accounting for the use of unrestricted resources for capital and other internally restricted purposes. The Balance Sheet presents, in a single-column format, the assets, liabilities and net assets of the University as a whole.

The General Operating Fund reports revenue and expense related to the general operations of the University.

The Ancillary Enterprises Fund reports revenue and expense related to service operations that are expected to function on a self-supporting basis. These operations comprise the bookstore, food services, student residences, Dunsmuir Lodge conference and training centre, parking services, child care services, computer store, donated property rental, hotel and brew-pub operations and the Vancouver Island Technology Park.

The Specific Purposes Fund accounts for revenue (including endowment income) and expense relating to contract services and special projects.

The Sponsored Research Fund accounts for monies designated for support of research.

The Capital Fund accounts for monies designated for the acquisition of capital assets and major renovations. Where monies designated for capital use are received as part of the resources for general operations, ancillary enterprises, specific purposes and sponsored research activities - generally for equipment, furnishings, computer equipment and library holdings - the revenue and expense related to those assets are accounted for in those respective funds.

The Endowment assets, held as invested principal, comprise the accumulation of endowment contributions and the portion of investment income that is required by the donors and the Board to be added to the fund to offset the eroding effect of inflation.

(d) Revenue Recognition

Operating government grants that are not restricted as to their use are recognized as revenue when receivable. Such grants, if received for a future period, are deferred and reported as Deferred Contributions until that future period. Other unrestricted revenue, including tuition fees and sales of services and products are reported as revenue at the time the services are provided or the products are delivered.

Externally restricted contributions - grants and donations - are reported as revenue depending on the nature of restrictions imposed by the contributors on the use of the monies:

- Non-capital contributions for specific purposes or research activity are recognized as revenue in the year in which the related expense is incurred.
- Contributions of or for the purchase of capital assets having a limited life are recognized as revenue over the same accounting periods as those in which the depreciation expense related to the capital asset purchased is recorded, and on the same basis as the depreciation expense. Where the capital asset involved is land, works of art or special collections of the Library to be held for use by the University, the contribution is reported as a direct increase in net assets invested in capital assets rather than as revenue.

- Endowment contributions are reported as direct increases to net assets held as endowment principal.

Unrestricted investment income is recognized as revenue when it is earned. Investment income earned on endowment principal is recognized as a direct increase to net assets held as endowment principal to the extent it is stipulated or agreed by donors to be added to the principal amounts, essentially to protect the economic value of the endowments. The remaining investment income from the endowment principal is recognized as revenue of the Specific Purposes Fund, in the current year if unrestricted, or deferred to the year in which the related expense is incurred where the use of income is stipulated by the donor. Investment income, which is recorded on the accrual basis, includes interest income, dividends, net realized and unrealized gains (losses) on securities.

(e) Cash and Short Term Investments

Cash and short term investments consist primarily of externally managed money market funds which together with accrued interest income approximates fair value given the short-term nature of these investments.

(f) Inventories

Inventories of supplies are recorded at cost. Inventories of merchandise held for resale are recorded at the lower of cost and net realizable value.

(g) Endowment and Other Investments

Endowment and other investments are classified as held for trading and stated at fair value. In determining fair values, adjustments have not been made for transaction costs. The change in the fair value of investments at the beginning and end of each year is reflected in the statement of revenue and expense and changes in unrestricted net assets or in the balance sheet in deferred contributions if the income is externally restricted. Fair values of investments are determined as follows: fixed income securities, equities and pooled funds are valued at year-end quoted closing market prices where available. Where quoted prices are not available investments are carried at cost. Security acquisitions and disposals are recorded as of the date traded.

(h) Capital Assets

Capital assets acquired and constructed by the University are recorded at cost. Donated capital assets are recorded at their fair market value on the date of donation. Capital assets subject to depreciation in their value are depreciated on a straight-line basis over their estimated useful lives as shown in the schedule below. Depreciation is not provided on projects in progress until the assets are in use. Land, works of art, and the Library's Special Collections are not depreciated as they are deemed to have permanent value. The cost and accumulated depreciation of equipment, furnishings and library holdings are removed from the accounts in the year following their becoming fully depreciated. The cost and any related accumulated depreciation of other capital assets are removed from the accounts upon disposal or demolition.

Buildings - Concrete	50 years
- Woodframe	30 years
- Heritage	35 years
Site improvements	30 years
Equipment - Computing	3 years
- Other	8 years
Information systems	8 years
Furnishings	8 years
Library holdings	10 years

(i) Asset Retirement Obligations

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the life of the asset. At this time, the University has determined that there are no significant retirement obligations with respect to its assets.

(j) Pledges 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. The University acknowledges the substantial and significant services provided by its many volunteers. The value of these services is not recorded in the financial statements.

(k) Pension and Other Future Employee 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 19.

(l) Long term debt

Long term debt is recorded on the amortized cost basis, as it is the University's intent to repay these loans in accordance with their scheduled maturity dates.

(m) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of capital assets; valuation allowances for receivables and inventories; the valuation of financial instruments; and assets and obligations related to employee future benefits. Actual results could differ from those estimates.

(n) Financial Instruments

The University's financial instruments are classified into three categories. Cash and short-term investments, long term receivables with the exception of receivables from related parties, and endowment and other investments are classified as held-for-trading and carried at fair value. Accounts receivable and related party long term receivables are classified as other loans and receivables; accounts payable, accrued liabilities and long term debt are classified as other financial liabilities; both categories are carried at amortized cost. It is management's opinion that the University is not exposed to significant currency or credit risk arising from these instruments. The University is exposed to interest rate risk as outlined in Notes 5 and 10.

(o) Future Accounting Changes

The following Handbook Sections have not yet been adopted by the University:

Section 3031 "Inventories" becomes effective for the University beginning April 1, 2008. This section prescribes the accounting treatment for inventories, particularly the determination of inventory cost and its subsequent recognition as an expense, including any write-down to net realizable value. The adoption of this section is not expected to significantly impact the University's financial statements.

Section 1535 "Capital Disclosures" becomes effective for the University beginning April 1, 2008. This section establishes standards for the disclosure of qualitative information about the University's objectives, policies and processes for managing capital. This includes, but is not limited to what is managed as capital, how the University is meeting its objectives for capital management and the details regarding the nature of any externally imposed capital requirements and how these requirements are incorporated into the management of capital.

Section 3862 "Financial Instruments – Disclosure" becomes effective for the University beginning April 1, 2008. This section requires disclosure, by class of financial instruments, which will enable users to evaluate the significance of financial instruments for the University's financial position and performance, including disclosures about fair value.

In addition, disclosure is required of risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk, and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of financial market risk to which an entity is exposed, showing how net earnings and other comprehensive income would have been affected by reasonable possible changes in the relevant risk variable.

Section 3863 "Financial Instruments – Presentation" becomes effective for the University beginning April 1, 2008. Under this new section,

the existing requirements on presentation of financial instruments are carried forward unchanged and, accordingly, the University does not expect application of this section to have any impact on the financial statements.

NOTE 3 CASH AND SHORT TERM INVESTMENTS

Cash and short term investments are carried at fair value and invested primarily in two money market fund pools with an average term to maturity of 89 and 236 days respectively.

(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Cash	9,479	19,077
Short term investments	<u>149,712</u>	<u>121,902</u>
	<u>159,191</u>	<u>140,979</u>

NOTE 4 LONG TERM RECEIVABLES

Long term receivables comprise the following:

	March 31 (in thousands of dollars)	
	<u>2008</u>	<u>2007</u>
Various faculty and senior administrators	4,361	4,034
Home relocation loans receivable interest free for 5 years, with an option for further renewal unless employment ceases, generally secured by a second mortgage		
Heritage Realty Properties Ltd.	9,258	8,527
Promissory note receivable, interest at 5.0% payable annually, with principal repayment due May 1, 2011, secured by an unregistered equitable mortgage		
Vancouver Island Technology Park Trust		
Loans Receivable		
interest at 5.13%, monthly principal and interest payments of \$94,750, due April 2030, unsecured	15,007	15,365
interest at 6.13%, monthly principal and interest payments of \$24,682, due April 2030, unsecured	3,579	3,654
	<u>32,205</u>	<u>31,580</u>
Less current portion	<u>(454)</u>	<u>(281)</u>
	<u>31,751</u>	<u>31,299</u>

NOTE 5 ENDOWMENT AND OTHER INVESTMENTS

(in thousands of dollars)	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash	91,686	91,686	-	-
Fixed income	92,641	92,423	81,392	81,562
Canadian equities	30,856	36,459	27,895	39,555
US equities	22,757	20,079	9,811	10,728
Foreign equities	40,380	37,633	49,657	54,208
Short term investments	733	734	6,508	6,508
Other	4,584	5,612	2,899	4,184
Total	<u>283,637</u>	<u>284,626</u>	<u>178,162</u>	<u>196,745</u>

NOTE 6 CAPITAL ASSETS

March 31 (in thousands of dollars)

	<u>Cost</u>			<u>Accumulated Depreciation</u>				<u>Net Book Value</u>		
	<u>2007</u>	<u>Additions for year</u>	<u>Adjustments</u>	<u>2008</u>	<u>2007</u>	<u>Depreciation for year</u>	<u>Adjustments</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Land	14,339			14,339	-			-	14,339	14,339
Site improvements	24,798	1,869		26,667	10,177	764		10,941	14,621	15,726
Buildings	384,974	69,287		454,261	101,641	8,026		109,667	283,333	344,594
Equipment and furnishings	99,354	38,766	(3,531)	134,589	30,718	12,186	(3,531)	39,373	68,636	95,216
Information systems	12,969	2,945		15,914	-			-	12,969	15,914
Computer equipment	28,461	3,708	(6,072)	26,097	14,912	7,463	(6,072)	16,303	13,549	9,794
Library holdings	45,342	1,942	(3,805)	43,479	22,679	4,154	(3,805)	23,028	22,663	20,451
Collection, not depreciated	7,516	572		8,088	-			-	7,516	8,088
	<u>617,753</u>	<u>119,089</u>	<u>(13,408)</u>	<u>723,434</u>	<u>180,127</u>	<u>32,593</u>	<u>(13,408)</u>	<u>199,312</u>	<u>437,626</u>	<u>524,122</u>

NOTE 7 FUNDS HELD IN TRUST

Funds held in trust are funds held on behalf of autonomous organizations, agencies, and student societies having close connections with the University. As at March 31, 2008 these funds are no longer included on the university's balance sheet (2008 - \$723,000; 2007 - \$1,373,000).

NOTE 8 DEFERRED CONTRIBUTIONS

Deferred contributions represent externally restricted contributions received relating to a future period or that have not yet been spent for research, capital asset acquisition or other specific purposes. Changes in the deferred contributions balances are as follows:

	March 31	
	(in thousands of dollars)	
	2008	2007
Balance, beginning of year	114,900	106,602
Contributions received	<u>90,368</u>	<u>93,085</u>
	<u>205,268</u>	<u>199,687</u>
Deduct: Transfers to		
Revenue	(87,231)	(78,894)
Unamortized deferred capital contributions	<u>(16,891)</u>	<u>(5,893)</u>
	<u>(104,122)</u>	<u>(84,787)</u>
Balance, end of year	<u><u>101,146</u></u>	<u><u>114,900</u></u>
The deferred contribution balance consists of the following:		
General Operating	342	1,613
Specific Purposes	38,102	53,639
Sponsored Research	48,806	36,414
Capital	<u>13,896</u>	<u>23,234</u>
	<u><u>101,146</u></u>	<u><u>114,900</u></u>

NOTE 9 EMPLOYEE FUTURE BENEFITS

Employee future benefit liabilities arise in connection with the University's self-funded employee benefit plans including long-term disability plans as per Note 19 (c).

NOTE 10 LONG TERM DEBT

	March 31	
	(in thousands of dollars)	
	2008	2007
<u>Related to Student Residences</u>		
Canada Mortgage and Housing Corporation		
5.125% to 9.5% debentures due 2015 to 2029	3,088	3,174

Province of British Columbia		
7.875% bond due 2023	9,749	9,749
Less sinking fund	<u>(8,022)</u>	<u>(7,567)</u>
	1,727	2,182
Royal Bank of Canada		
Term loan with floating interest rate fixed at 5.38%, to 2014, through an interest rate swap due November 2024	13,388	13,856
<u>Related to Technology Enterprise Facility</u>		
British Columbia Immigrant Investment Fund		
4.75% term loan due February 2017	4,837	5,000
<u>Related to Science, Social Science & Math and Support Service Buildings</u>		
Province of British Columbia		
4.820% bond due 2027	10,800	-
<u>Related to Off-campus Business Enterprises - Vancouver Island Technology Park</u>		
Great West Life Assurance Company		
5.13% term loan due April 2030	<u>15,007</u>	<u>15,365</u>
Total debt (fair value 2008 - \$51,982, 2007 - \$41,633)	48,847	39,577
Less current portion of long term debt including the full amount of those mortgages and loans subject to refinancing in the following year	<u>(1,464)</u>	<u>(1,107)</u>
Total long term debt	<u><u>47,383</u></u>	<u><u>38,470</u></u>

The debentures issued under Orders-in-Council to the Canada Mortgage and Housing Corporation are secured by a floating charge and mortgage on certain student residences and dining facilities. The bond issued to the Province of British Columbia under the University Act is unsecured.

In 2004, the University entered into agreements with the Royal Bank of Canada to finance \$15 million of construction for a 596 bed expansion to student residences. A revolving credit facility was converted into a 10-year term loan (to be amortized over 20 years) with a corresponding interest rate swap contract which fixed the effective interest rate at 5.38% for the first 10 years. In 2014, the credit risk of the University and the acceptance fee will be subject to renegotiation for a further ten-year term. The fair value of the swap arrangement at March 31, 2008 was (\$921,000) (2007 – (\$489,000)).

In 2005, the University entered into an agreement with the Great West Life Assurance Company to finance \$16 million for the acquisition of the Vancouver Island Technology Park. The term loan is unsecured and bears interest at 5.13% over 25 years. The University has, in turn, loaned \$16 million to the Vancouver Island Technology Park Trust on the same terms.

In 2007, the University entered into an agreement with the British Columbia Immigrant Investment Fund to finance \$5 million for the acquisition of the Technology Enterprise Facility building on campus. The term loan is unsecured and bears interest at 4.75% for 10 years to be

amortized over a 20 year period. In the current year, the University entered into an interest rate swap contract with the Toronto Dominion Bank which fixed the effective interest rate at 5.138% for an additional 10 years commencing in 2017. The fair value of the swap arrangement at March 31, 2008 was \$14,000.

During the current year a second bond was issued to the Province of British Columbia under the University Act to finance \$10.8 million related to the construction of the Science, Social Science and Mathematics and Support Services buildings. Debt repayment includes annual payments of \$327,000 starting November 13, 2008 to be paid over the next 20 years and held in a sinking fund. This bond is unsecured.

Principal and interest payments of these debt instruments are made primarily from the Ancillary Enterprises Fund except for the Technology Enterprise Facility debt and the Science, Social Science and Support Building debt whose principal is paid from the Capital Fund and interest paid from the General Operating Fund.

Annual payments of principal due in each of the next five fiscal years are as follows;

Year Ended March 31	Annual Payments (in thousands of dollars)
2009	1,464
2010	1,539
2011	1,617
2012	1,697
2013	1,779
	<u>8,096</u>

NOTE 11 UNAMORTIZED DEFERRED CAPITAL CONTRIBUTIONS

Unamortized deferred capital contributions represent the externally restricted portion of capital contributions which will be recognized as revenue in future periods corresponding to or offsetting the depreciation expense of the related capital assets. No such offset is applicable to depreciable capital assets for which the University has not received specific funding and which are acquired out of unrestricted government grants or other revenue, as is the case with most library holdings and teaching equipment. Changes in unamortized deferred capital contributions are as follows:

	March 31 (in thousands of dollars)	
	<u>2008</u>	<u>2007</u>
Balance, beginning of year	264,008	225,041
Contributions received	73,316	49,373
Transfers from deferred contributions	<u>16,891</u>	<u>5,893</u>
	354,215	280,307
Amortization	<u>(18,672)</u>	<u>(16,299)</u>
Balance, end of year	<u>335,543</u>	<u>264,008</u>

The unamortized deferred capital contribution balance consists of the following:

General Operating	3,690	3,655
Ancillary Enterprises	12,704	13,229
Specific Purposes	1,727	1,470
Sponsored Research	74,479	52,975
Capital	<u>242,943</u>	<u>192,679</u>
	<u><u>335,543</u></u>	<u><u>264,008</u></u>

NOTE 12 GOVERNMENT GRANTS AND CONTRACTS

During the year, the University recorded the following government grants and contracts as they became receivable in accordance with the deferral method of accounting for contributions as described in Note 2 (d):

	Year ended March 31 (in thousands of dollars)	
	<u>2008</u>	<u>2007</u>
Province of British Columbia -		
General Operating	153,026	146,535
Ancillary Enterprises	1,869	1,734
Specific Purposes	2,694	5,357
Sponsored Research	35,560	17,877
Capital Funding	46,932	36,752
Recorded as deferred contributions (net)	<u>(67,629)</u>	<u>(50,714)</u>
	<u>172,452</u>	<u>157,541</u>
Government of Canada -		
General Operating	5,825	5,411
Specific Purposes	944	1,300
Sponsored Research	53,239	39,629
Recorded as deferred contributions (net)	<u>(21,101)</u>	<u>(4,328)</u>
	<u>38,907</u>	<u>42,012</u>
Municipal and Other Governments -		
General Operating	5,292	4,361
Specific Purposes	52	258
Sponsored Research	5,539	5,832
Recorded as deferred contributions (net)	<u>(1,031)</u>	<u>367</u>
	<u>9,852</u>	<u>10,818</u>
	<u><u>221,211</u></u>	<u><u>210,371</u></u>

NOTE 13 INVESTMENT INCOME

	Year Ended March 31 (in thousands of dollars)	
	<u>2008</u>	<u>2007</u>
Interest and dividend income	14,552	11,948
Net realized gains (losses)	5,631	(1,864)
Net unrealized gains(losses)	(17,336)	12,127
Other	17	(12)
Transfer from (to) deferred contributions	13,769	(9,167)
	<u>16,633</u>	<u>13,032</u>

NOTE 14 ENDOWMENT NET ASSETS

The balance shown does not include endowment principal of \$4,820,000 (2007 - \$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.

NOTE 15 INTERNALLY RESTRICTED NET ASSETS

Internally restricted fund balances represent the University's net assets set aside or appropriated by the Board of Governors for the following purposes:

	March 31 (in thousands of dollars)	
	<u>2008</u>	<u>2007</u>
<u>General Operating Fund</u>		(restated note 20)
Equipment replacement and capital improvements	63,193	51,811
Budgetary savings available for non-recurring expenditures (i.e. carryovers)	57,416	49,363
Less vacation pay, long-term disability and pension expense liabilities	<u>(10,030)</u>	<u>(9,653)</u>
	110,579	91,521
<u>Ancillary Enterprises Fund</u>		
Equipment replacement and capital improvements	19,622	15,722
Less vacation pay, long-term disability and pension expense liabilities	<u>(1,570)</u>	<u>(1,520)</u>
	18,052	14,202
<u>Capital Fund</u>		
Capital assets (primarily buildings) funded by advances from appropriations	<u>(20,397)</u>	<u>(12,612)</u>
	<u>108,234</u>	<u>93,111</u>

NOTE 16 DONATION PLEDGES AND GIFTS IN KIND

The total donations which have been pledged but not received as at March 31, 2008 are \$21,199,000 (2007 - \$3,076,000). These pledges are not recorded in the financial statements (Note 2 (j)).

During the year ended March 31, 2008, the University recorded donated gifts-in-kind with an estimated value at the date of receipt totalling \$908,000 (2007 - \$647,000). Gifts in kind include equipment, books, manuscripts, and artwork.

NOTE 17 JOINT VENTURES AND RELATED PARTIES THAT ARE NOT CONSOLIDATED

The University is a member of the two joint ventures described below which are recorded using the equity method of accounting. No monetary gain is expected from these entities.

- (a) The University is one of six university members of a consortium which manages the Tri-Universities Meson Facility (TRIUMF). The facility is funded by federal government grants and the University makes no direct financial contribution.
- (b) The University is one of five members of the Western Canadian Universities Marine Sciences Society (WCUMSS). The University's annual grant to the Society of \$238,000 (2007 - \$262,000) is recorded as an expense in the General Operating Fund.

The University controls two profit-oriented subsidiaries which are recorded using the equity basis method of accounting:

- (a) Heritage Realty Properties Ltd.
- (b) Vancouver Island Technology Park Trust

Financial information in respect to the University's share of the entities recorded on the equity basis is as follows:

Year Ended March 31 (in thousands of dollars)

	TRIUMF (16.7%)		WCUMSS (20%)		Heritage Realty (100%)		VITP Trust (100%)	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets	2,721	1,525	1,528	1,442	14,171	13,488	20,787	21,173
Liabilities	2,435	1,322	687	1,964	14,797	14,128	19,897	20,391
Equity	<u>\$ 286</u>	<u>\$ 203</u>	<u>\$ 841</u>	<u>\$ (522)</u>	<u>\$ (626)</u>	<u>\$ (640)</u>	<u>\$ 890</u>	<u>\$ 782</u>
Revenue	11,433	10,115	657	655	5,326	4,899	4,409	4,206
Expenses	11,219	9,940	703	721	5,252	4,847	4,302	4,070
Net Income	<u>\$ 214</u>	<u>\$ 175</u>	<u>\$ (46)</u>	<u>\$ (66)</u>	<u>\$ 74</u>	<u>\$ 52</u>	<u>\$ 107</u>	<u>\$ 136</u>

The University of Victoria Hong Kong Foundation Limited incorporated in November 2002 has had no material financial transactions to date.

NOTE 18 COMMITMENTS AND CONTINGENT LIABILITIES

There were \$32,505,000 of commitments in regard to construction contracts at March 31, 2008 (2007 – \$82,937,000).

The University's commitments for various operating leases for the next five years are as follows: 2009- \$ 274,000; 2010- \$159,000; 2011- \$54,000; 2012- \$12,000; 2013- \$0.

In 2005, the University embarked on a three-year project to renew its administrative information systems. As at March 31, 2008, the amount spent to date on the \$20 million project is \$16,559,000 which is expected to be completed on budget.

In 2005, the University signed an agreement with a vendor to supply and install fibre optic cable on the ocean floor as part of the NEPTUNE research project. At March 31, 2008 there was a commitment of \$12,765,000 outstanding on the \$47,708,000 contract.

The University is one of 56 Canadian University subscribers to CURIE, which has provided property and liability coverage to most campuses other than in 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.

From time to time, the University is involved in litigation or proceedings relating to claims arising out of its operations in the ordinary course of business. It is the opinion of management 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.

NOTE 19 PENSION PLANS AND OTHER FUTURE EMPLOYEE BENEFITS

The University maintains pension plans, other retirement and supplementary benefit arrangements, and long term disability plans for substantially all of its continuing employees.

- a) 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 do not qualify for a supplement because the defined contribution benefits usually exceed the minimum defined benefit. Since 1991, only twenty-three members have received a defined benefit supplement. At December 31, 2007, there were thirteen supplements aggregating under \$1,500 per month being paid. As a result, this plan has been accounted for as a defined contribution plan. The latest actuarial valuation as at December 31, 2006 showed that the accrued formula pension benefit liabilities of the Combination Plan were fully funded. A purely 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 \$10,546,000 (2007 - \$10,546,000) and recorded them as a pension expense.

The University maintains a Supplemental Benefit Arrangement (SBA) providing benefits in excess of those permitted for registered plans under the Income Tax Act. It is funded by employer contributions. Where employer and employee contributions to the Combination Plan are capped by the \$21,000 ceiling, the excess employer contributions are directed to a defined contribution account under the SBA. Where defined benefits of a member are capped by the regulatory limit of \$2,333 per year of service after 1990, the excess benefit is available from the SBA for years of service after 1993. A valuation of the notionally combined pension plan and SBA as at December 31, 2006 showed that they are in aggregate fully funded. These financial statements include the SBA's assets of \$3,921,000 at market value (cost \$3,142,000) as at March 31, 2008, and the University contributions of \$292,000 for the year then ended (2007 - \$403,000). The SBA is complementary to the Combination Plan and as a result is similarly accounted for as a defined contribution arrangement.

- b) The pension plan for employees other than faculty and professional staff is a defined benefit pension plan. This plan provides pension benefits based on years of service. The cost of these benefits is determined using the projected benefit method prorated on employment

service and is expensed as the services are rendered. The latest triennial actuarial valuation was completed as at December 31, 2004. The following disclosure reflects on a prospective basis the updated valuations and liability estimates by management to December 31, 2007:

	(in thousands of dollars)	
	<u>2008</u>	<u>2007</u>
Accrued pension benefit obligations:		
Benefit obligation, beginning of year	123,737	114,616
Current service cost	4,786	4,505
Interest cost	7,946	7,359
Employee contributions	1,942	1,886
Benefit payments	<u>(4,729)</u>	<u>(4,630)</u>
Benefit obligation, end of year	<u>133,682</u>	<u>123,736</u>
Plan Assets		
Fair value of plan assets, beginning of year	139,551	124,139
Actual return on plan assets	3,175	14,275
Contributions by the University	4,049	3,881
Contributions by employees	1,942	1,886
Benefit payments	<u>(4,729)</u>	<u>(4,630)</u>
Fair value of plan assets, end of year	<u>143,988</u>	<u>139,551</u>
Plan surplus, end of year	10,308	15,815
Unamortized net actuarial loss	(4,703)	(10,290)
Unamortized past service costs	(2,378)	(2,642)
Unamortized transitional asset	<u>(4,133)</u>	<u>(5,335)</u>
Accrued benefit liability, end of year	<u>(906)</u>	<u>(2,452)</u>

Significant assumptions adopted and used by the actuary in 2008 and 2007 in prospectively measuring the pension benefit obligation are an expected long-term rate of return on plan assets of 6.25%, a discount rate of 6.25%, and salary increases of 3.5% in 2007 and 3.75% in 2008 and thereafter, each of which factors includes a cost of living increase assumption of 2.75%.

The net pension expense for the above staff pension plan for the year ended December 31, 2007 was \$2,504,000 (2006 - \$2,683,000).

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 \$99,000 (2007 - \$98,000).

- (c) The University administers an employee-funded long-term disability plan for faculty and administrative and academic professional staff. It is self-insured by the University and the liability for the discounted present value of estimated future payments to current claimants is recorded in insurance liabilities (Note 9).

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, 2008 was \$729,000 (2007- \$733,000).

NOTE 20 PRIOR PERIOD ADJUSTMENT

During the year, the University corrected misstatements with respect to the recording of certain library subscriptions and tuition revenue attributed to periods beyond the fiscal year. As a result, certain payments for library subscriptions have been recorded as pre-paid expenses and an amount of tuition revenue has been deferred. The impact of these changes, which have been applied retrospectively, is to restate the April 1, 2007 balance sheet as follows: library subscription prepayments increase prepaid expenses by \$1,725,000 and increase internally restricted net assets by \$1,725,000; deferred tuition revenue increases current liabilities by \$2,614,000 and decreases unrestricted net assets by \$2,614,000. There was no effect on excess of revenue over expense in 2007 or 2008.

NOTE 21 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation.