

Consolidated Financial Statements of

UNIVERSITY OF VICTORIA

Year ended March 31, 2017



University
of Victoria



STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards and Treasury Board direction outlined in note 2 (a). This responsibility includes selecting appropriate accounting principles and methods and making decisions affecting measurement of transactions in which objective judgment is required. In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University's management has developed and maintains a system of internal controls designed to provide reasonable assurance that the University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements. The system of internal controls is monitored by the University's management.

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

The consolidated financial statements have been examined by the Office of the Auditor General of British Columbia. The Independent Auditors' Report outlines the nature of the examination and the opinion on the consolidated financial statements of the University for the year ended March 31, 2017.

On behalf of the University:

 Chair, Board of Governors

 Vice-President Finance and Operations



University
of Victoria



INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying consolidated financial statements of the University of Victoria (“the entity”), which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of operations and accumulated surplus, changes in net debt, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As described in Note 23 to the consolidated financial statements, the entity's accounting treatment for contributions received from governments and for externally restricted contributions received from non-government sources is to initially record them as deferred contributions (a liability) and then recognize revenue in the statement of operations and accumulated surplus either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to recognize revenue on the same basis as the related assets are amortized. The entity was required to adopt this accounting policy as prescribed by Province of British Columbia Treasury Board Regulation 198/2011.

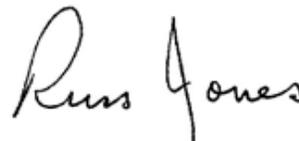
Under Canadian Public Sector Accounting Standards, the entity's method of accounting for contributions is only appropriate in circumstances where the funding meets the definition of a liability. Otherwise, the appropriate accounting treatment is to record contributions as revenue when they are received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

This departure has existed since the inception of the standard, which applies to periods beginning on or after April 1, 2012. When the cumulative effects of this departure to date are adjusted through opening accumulated surplus, the entity's records indicate that the effects of this departure on the current year consolidated financial statements is an overstatement of the liability for deferred contributions of \$385 million, an understatement of opening accumulated surplus of \$371 million, and a current year understatement of revenue of \$14 million. Accordingly, the current year surplus is understated by \$14 million and net debt is overstated by \$385 million.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the University of Victoria as at March 31, 2017, and the results of its operations, changes in its net debt, remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Victoria, British Columbia
July 6, 2017



Russ Jones, FCPA, FCA
Deputy Auditor General



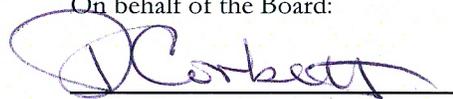
UNIVERSITY OF VICTORIA
Consolidated Statement of Financial Position

As at March 31, 2017
(in thousands of dollars)

		2017	2016
Financial Assets			
Cash and cash equivalents	(Note 3)	\$ 91,913	\$ 87,422
Accounts receivable		20,106	15,740
Due from governments	(Note 4)	5,921	1,420
Inventories for resale		1,678	1,444
Portfolio investments	(Note 6)	197,905	160,771
Loans receivable	(Note 5)	26,610	27,793
Investments in government business enterprises	(Note 7)	6,295	6,536
		350,428	301,126
Liabilities			
Accounts payable and accrued liabilities	(Note 9)	31,625	28,860
Derivatives	(Note 6)	1,913	2,444
Due to governments		4,871	4,566
Employee future benefits	(Note 10)	18,333	18,431
Deferred revenue		14,673	13,351
Deferred contributions	(Note 11)	167,023	129,100
Deferred capital contributions	(Note 12)	384,497	371,232
Long-term debt	(Note 13)	50,799	52,829
		673,734	620,813
Net debt		(323,306)	(319,687)
Non-financial Assets			
Tangible capital assets	(Note 14)	710,970	700,295
Restricted endowment investments	(Note 6)	329,614	319,353
Inventories held for use		1,806	1,078
Prepaid expense		16,991	15,325
		1,059,381	1,036,051
Accumulated surplus	(Note 16)	\$ 736,075	\$ 716,364
Accumulated surplus is comprised of:			
Endowments	(Note 17)	\$ 316,621	\$ 306,472
Invested in capital assets		292,622	293,119
Internally restricted		88,598	81,984
Unrestricted		21,913	20,627
Accumulated operating surplus		719,754	702,202
Accumulated remeasurement gains		16,321	14,162
Accumulated surplus		\$ 736,075	\$ 716,364

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

On behalf of the Board:


Chair, Board of Governors


Vice President, Finance and Operations

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



UNIVERSITY OF VICTORIA

Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2017

(in thousands of dollars)

	Budget <i>(Note 2(m))</i>	2017	2016
Revenue:			
Province of British Columbia grants	\$ 184,700	\$ 178,174	\$ 184,604
Government of Canada grants	58,000	58,755	61,606
Other government grants	19,000	20,921	18,414
Student tuition - credit courses	132,747	136,369	130,935
Student tuition - non-credit courses	19,253	19,052	19,821
Donations, non-government grants and contracts	19,000	18,670	15,371
Sales of services and products	68,161	70,527	66,661
Investment income	19,400	19,846	21,717
Income from business enterprises	600	486	958
Other revenue	6,000	7,953	5,917
Revenue recognized from deferred capital contributions	26,556	26,473	31,299
	553,417	557,226	557,303
Expenses: <i>(Note 20)</i>			
Instruction and non-sponsored research	213,911	223,785	212,017
Academic and student support	135,418	139,453	134,219
Administrative support	18,225	19,139	18,064
Facility operations and maintenance	50,679	47,139	50,230
Sponsored research	113,947	107,104	112,938
External engagement	11,048	13,203	10,950
	543,228	549,823	538,418
Operating surplus before restricted funding	10,189	7,403	18,885
Restricted endowment contributions			
Endowment principal donations	4,000	5,285	6,708
Net investment income & donations capitalized		4,864	4,232
Net restricted endowment contributions	4,000	10,149	10,940
Annual operating surplus	14,189	17,552	29,825
Accumulated operating surplus, beginning of year	702,202	702,202	672,377
Accumulated operating surplus, end of year	\$ 716,391	\$ 719,754	\$ 702,202

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



UNIVERSITY OF VICTORIA
Consolidated Statement of Changes in Net Debt

Year ended March 31, 2017
(in thousands of dollars)

	Budget <i>(Note 2(m))</i>	2017	2016
Annual surplus	\$ 14,189	\$ 17,552	\$ 29,825
Acquisition of tangible capital assets	(52,436)	(56,164)	(56,994)
Amortization of tangible capital assets	46,058	45,536	51,378
	(6,378)	(10,628)	(5,616)
Restricted endowment investments		(10,261)	(10,822)
Acquisition of inventories held for use		(2,578)	(2,528)
Acquisition of prepaid expense		(16,826)	(11,568)
Consumption of inventories held for use		1,850	3,144
Use of prepaid expense		15,113	11,614
		(12,702)	(10,160)
Net remeasurement gains (losses)		2,159	(3,162)
Decrease (increase) in net debt	7,811	(3,619)	10,887
Net debt, beginning of year	(319,687)	(319,687)	(330,574)
Net debt, end of year	\$ (311,876)	\$ (323,306)	\$ (319,687)

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



UNIVERSITY OF VICTORIA

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2017

(in thousands of dollars)

	2017	2016
Accumulated remeasurement gains, beginning	\$ 14,162	\$ 17,324
Unrealized gains (losses) attributed to:		
Portfolio investments	1,134	(3,332)
Derivatives	531	(34)
Foreign currency translation	494	204
Net remeasurement gains (losses) for the year	2,159	(3,162)
Accumulated remeasurement gains, end of year	\$ 16,321	\$ 14,162

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



UNIVERSITY OF VICTORIA

Consolidated Statement of Cash Flows

Year ended March 31, 2017

(in thousands of dollars)

	2017	2016
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 17,552	\$ 29,825
Items not involving cash		
Amortization of tangible capital assets	45,536	51,378
Revenue recognized from deferred capital contributions	(26,473)	(31,299)
Change in deferred contributions	37,923	(17,062)
Change in employee future benefits	(98)	(1,815)
Equity in (income) losses of government business enterprises	241	(246)
Unrealized foreign exchange gain	494	204
Changes in non-cash operating working capital:		
Increase in accounts receivable	(4,366)	(6,028)
Decrease in loans receivable	1,183	783
Decrease (increase) in inventories	(962)	660
Decrease (increase) in prepaid expenses	(1,666)	47
Increase (decrease) in accounts payable and accrued liabilities	2,765	(5,487)
Decrease (increase) in due to/from government organizations	(4,196)	7,087
Increase (decrease) in deferred revenue	1,322	(1,527)
Net change from operating activities	69,255	26,520
Capital activities:		
Cash used to acquire tangible capital assets	(56,211)	(56,995)
Investing activities:		
Purchase of portfolio investments	(10,467)	(5,223)
Disposal (acquisition) of endowment investments	(35,794)	1,200
Net change from investing activities	(46,261)	(4,023)
Financing activities:		
Repayment of long-term debt	(2,030)	(1,910)
Cash proceeds from deferred capital contributions	39,738	23,105
Net change from financing activities	37,708	21,195
Net change in cash and cash equivalents	4,491	(13,303)
Cash and cash equivalents, beginning of year	87,422	100,725
Cash and cash equivalents, end of year	\$ 91,913	\$ 87,422

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

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(tabular figures in thousands of dollars)

1. Authority and Purpose

The University of Victoria (the “University”) operates under the authority of the *University Act* of British Columbia. The University is a not-for-profit entity governed by a 15 member Board of Governors, eight of whom are appointed by the government of British Columbia including two on the recommendation of the Alumni Association. The University is a registered charity and is exempt from income taxes under section 149 of the *Income Tax Act*.

2. Summary of significant accounting policies

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

(a) Basis of accounting

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

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

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards without any PS4200 elections related to not-for-profit accounting standards.

Regulation 198/2011 requires that restricted contributions received or receivable for acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are to be deferred and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded.

For British Columbia tax-payer supported organizations, these contributions include government transfers and externally restricted contributions.

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

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with public sector accounting standard PS3410; and

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(a) Basis of accounting (continued)

- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with public sector accounting standard PS3100.

As a result, revenue recognized in the statement of operations and certain related deferred capital contributions would be recorded differently under Canadian public sector accounting standards. (See note 23)

(b) Basis of consolidation

(i) Consolidated entities

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

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

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

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

(ii) Investment in government business enterprises

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

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

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

(iii) Investment in government partnerships

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

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

- Tri-Universities Meson Facility (TRIUMF) which operates a research facility for sub-atomic physics located at the University of British Columbia. These financial statements include the University's 8.33% interest.
- Western Canadian Universities Marine Sciences Society (WCUMSS) which operates a marine research facility at Bamfield on the west coast of Vancouver Island. These financial statements include the University's 20% interest.

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2017

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

(iv) Funds held in trust

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

(c) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short term cash commitments rather than investing.

(d) Financial instruments

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

(i) Fair value category

Portfolio instruments that are quoted in an active market and derivative instruments are reflected at fair value as at the reporting date. Other financial instruments designated to be recorded at fair value are endowment and portfolio investments. Transaction costs related to the acquisition of investments are recorded as an expense. Sales and purchases of investments are recorded at trade date. Unrealized gains and losses on financial assets are recognized in the statement of remeasurement gains and losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the statement of operations and accumulated surplus and related balances reversed from the statement of remeasurement gains and losses. Unrealized gains and losses in endowment investments, where earnings are restricted as to use, are recorded as deferred contributions and recognized in revenue when disposed and when related expenses are incurred. Restricted unrealized gains spent to meet current year endowment expenses or capitalization transfers are recorded in the statement of remeasurement gains and losses.

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

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

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Cost category

Gains and losses are recognized in the statement of operations when the financial asset is derecognized due to disposal or impairment and the gains and losses are recognized at amortized cost using the effective interest method; accounts payable and accrued liabilities and long-term debt are measured at amortized cost using the effective interest method.

(e) Short term investments

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

(f) Inventories for resale

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

(g) Non-financial assets

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

(i) Tangible capital assets

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

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

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2017

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(g) Non-financial assets (continued)

(i) Tangible capital assets (continued)

Asset	Straight line Rate
Buildings - Concrete	50 years
Buildings - Woodframe	30 years
Buildings - Heritage	35 years
Site Improvements	30 years
Equipment - Computing	3 years
Equipment - Other	8 years
Information Systems	8 years
Furnishings	8 years
Library Holdings	10 years
Ships/Vessels	25 years

Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the University's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

(ii) Works of art and historic assets

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

(iii) Leased capital assets

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

(iv) Inventories held for use

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

(h) Employee future benefits

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



UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(i) Revenue recognition

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

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

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

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

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

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

Pledges from donors are recorded when payment is received by the University or the transfer of property is completed since their ultimate collection cannot be reasonably assured until that time. Gifts-in-kind include securities and equipment which are recorded in the financial statements at their fair market value at the time of donation.

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

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(k) Use of estimates

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

(l) Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities which were designated in the fair value category under the financial instrument standard are reflected in the financial statements in equivalent Canadian dollars at the exchange rate in effect on the statement of financial position date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or statement of financial position date is recognized in the statement of remeasurement gains and losses. In the period of settlement, any exchange gain or loss is reversed out of the statement of remeasurement gains and losses, and reflected in the statement of operations and accumulated surplus.

(m) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2016/2017 to 2018/2019 Planning and Budget Framework approved by the Board of Governors of the University on March 30, 2016 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.



UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2017

(tabular figures in thousands of dollars)

3. Cash and cash equivalents

	2017	2016
Cash	\$ 14,273	\$ 8,562
Short term investments	76,723	77,956
Restricted cash	917	904
	\$ 91,913	\$ 87,422

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

4. Due from governments

	2017	2016
Federal government	\$ 3,466	\$ 640
Provincial government	2,368	743
Other	87	37
	\$ 5,921	\$ 1,420

5. Loans receivable

	2017	2016
BCNET		
Interest at 4.5%, due April 2019, unsecured	\$ 237	\$ 348
Various faculty and senior administrators		
Home relocation loans, interest free for 5 years with option for further renewal unless employment ceases, secured by second mortgages	3,285	3,662
Heritage Realty Properties Ltd.		
Promissory note receivable, interest at Royal Bank Prime + 5.0%, due May 31, 2021, secured by an unregistered equitable mortgage	9,608	9,608
Vancouver Island Technology Park Trust loans receivable		
Interest at 5.13%, due April 2030, unsecured	10,819	11,386
Interest at 6.13%, due April 2030, unsecured	2,661	2,789
	\$ 26,610	\$ 27,793

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2017

(tabular figures in thousands of dollars)

6. Financial instruments

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

(a) Portfolio investments

	Fair Value Hierarchy	2017	2016
Portfolio investments carried at fair value:			
Bonds	Level 2	\$ 12,351	\$ 8,635
Various pooled bond and mortgage funds	Level 1	102,349	92,554
Canadian equities	Level 1	28,196	20,937
Global equities	Level 1	33,896	25,457
Infrastructure and real estate	Level 3	19,022	11,143
		195,814	158,726
Portfolio investments at cost:			
Short-term investments		1,659	1,656
Cash		343	301
Other		89	88
Total portfolio investments		\$ 197,905	\$ 160,771

(b) Restricted endowment investments

	Fair Value Hierarchy	2017	2016
Restricted endowment investments carried at fair value:			
Bonds	Level 2	\$ 40,398	\$ 36,678
Various pooled bond and mortgage funds	Level 1	30,042	44,297
Canadian equities	Level 1	88,107	84,122
Global equities	Level 1	102,361	98,545
Infrastructure and real estate	Level 3	62,157	47,330
		323,065	310,972
Restricted endowment investments at cost:			
Short-term investments		5,427	7,033
Cash		1,122	1,277
Other			70
Total restricted endowment investments		\$ 329,614	\$ 319,352



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Notes to Consolidated Financial Statements

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6. Financial instruments (continued)

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

(c) Derivatives

	Fair Value Hierarchy	2017	2016
Derivatives - interest rate swaps on long-term debt quoted at fair value:			
BC Immigrant Investment Fund interest rate swap fixed at 5.14% commencing in 2017	Level 1	\$ -	\$ (621)
Province of BC interest rate swap fixed at 5.14% commencing in 2017 through 2027	Level 1	(573)	-
Royal Bank of Canada floating interest rate fixed at 5.38%, through an interest rate swap due in 2024, unsecured	Level 1	(1,108)	(1,549)
BC Immigrant Investment Fund floating interest rate fixed at 3.56%, commencing 2023 through 2033, unsecured	Level 1	(232)	(274)
Total derivatives		\$ (1,913)	\$ (2,444)

7. Investments in government business enterprises

The University controls two profit oriented subsidiaries which are recorded using the modified equity method of accounting. The two entities are Heritage Realty Properties and Vancouver Island Technology Park.

Change in equity in government business enterprises:

	2017	2016
Equity at beginning of year	\$ 4,385	\$ 4,458
Dividends/distributions paid	(1,226)	(1,031)
Net earnings	486	958
Equity at end of year	3,645	4,385
Dividends/distributions payable	2,650	2,151
Investment in government business enterprises	\$ 6,295	\$ 6,536

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(tabular figures in thousands of dollars)

7. Investments in government business enterprises (continued)

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

Consolidated Statement of Financial Position

	2017	2016
Assets	\$ 35,378	\$ 36,447
Liabilities	(31,733)	(32,062)
Equity	\$ 3,645	\$ 4,385

Consolidated Statement of Operations

	2017	2016
Revenue	\$ 12,778	\$ 12,838
Expenses	(12,292)	(11,880)
Surplus for the year	\$ 486	\$ 958

8. Investments in government partnerships

The University is one of twelve university members of a consortium which manages the Tri-Universities Meson Facility (TRIUMF) for research in sub-atomic physics. The facility is funded by federal government grants and the University makes no direct financial contribution. TRIUMF's financial results are proportionately consolidated with those of the University based upon the University's share of its total ownership of 8.33% (2016 – 8.33%).

The University is one of five university members of the Western Canadian Universities Marine Sciences Society (WCUMSS) for marine field research. The University provided a grant to the Society in 2017 of \$273,400 (2016 – \$273,400). WCUMSS financial results are proportionately consolidated with those of the University based upon the University's share of its total contributions of 20% (2016 – 20%).

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

Consolidated Statement of Financial Position

	2017	2016
Financial assets	\$ 4,406	\$ 2,837
Liabilities	2,023	1,098
Net assets	2,383	1,739
Non-financial assets	1,172	1,103
Accumulated surplus	\$ 3,555	\$ 2,842

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8. Investments in government partnerships (continued)

Consolidated Statement of Operations

	2017	2016
Revenue	\$ 7,360	\$ 6,724
Expenses	6,647	6,383
Surplus for the year	\$ 713	\$ 341

9. Accounts payable and accrued liabilities

	2017	2016
Accounts payable and accrued liabilities	\$ 18,371	\$ 17,021
Salaries and benefits payable	3,905	4,242
Accrued vacation pay	9,349	7,597
	\$ 31,625	\$ 28,860

10. Employee future benefits

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

Summary of employee future benefit obligations:

	2017	2016
Staff pension plan	\$ (13,700)	\$ (9,333)
Supplemental pension obligations	6,829	6,145
Special accumulated sick leave	3,164	3,149
Long term disability benefits	20,480	16,936
Basic group life insurance plan	1,560	1,534
	\$ 18,333	\$ 18,431



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Notes to Consolidated Financial Statements

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10. Employee future benefits (continued)

(a) Pension benefits

(i) Combination plan

The pension fund for full-time continuing faculty and administrative and academic professional staff is referred to as the Combination Plan. The plan's benefits are derived primarily from defined contributions with a defined benefit minimum. The plan has been accounted for as a defined contribution plan. The employees make contributions equal to 4.35% of salary up to the year's maximum pensionable earnings ("YMPE") plus 6.35% of salary in excess of the YMPE. The university makes contributions equal to 6.02% of salary up to the YMPE plus 7.65% of salary in excess of the YPME. The university also contributes 5.05% of salary to fund the defined benefit minimum. The latest actuarial valuation for funding purposes as at December 31, 2015 showed that the accrued formula pension benefit liabilities of the Combination Plan were fully funded. The next valuation will be as at December 31, 2018. A solely defined contribution plan is available for part-time faculty and administrative and academic professional staff who meet certain eligibility criteria. The University has made contributions to these two plans during the year of \$21,195,000 (2016 - \$20,486,000) and recorded them as a pension expense.

The University provides supplemental pensions in excess of those provided under registered plans. They are fully funded out of the general assets of the University. The accrued liabilities of these arrangements total \$6,829,000 as at March 31, 2017 (2016 - \$6,145,000). The University paid supplemental benefits of \$89,000 in the year (2016 - \$105,000) and recorded employee benefit expense of \$102,000 (2016 - \$115,000).

(ii) Staff plan

The Staff Pension Plan (the "Plan") is a contributory defined benefit pension plan made available to regular staff employees that are eligible to join the Plan. The Plan provides pensions based on credited service and final average salary. Based on membership data as at the last actuarial valuation as at December 31, 2013, the average age of the 1,152 active employees covered by the Plan is 47.8. In addition, there are 419 former employees who are entitled to deferred pension benefits averaging \$289 per month. At December 31, 2013, there were 639 pensioners receiving an average monthly pension of \$826. The employees make contributions equal to 4.53% of salary that does not exceed the YMPE plus 6.28% of salary in excess of the YMPE. A separate pension fund is maintained. The University makes contributions to the plan in line with recommendations contained in the actuarial valuation. Though the University and the employees both contribute to the pension fund, the University retains the full risk of the accrued benefit obligation. The pension fund assets are invested primarily in Universe bonds and equities.

The University has made contributions to the Plan during the year of \$5,739,000 (2016 - \$5,668,000). The Plan paid benefits in the year of \$10,130,000 (2016 - \$8,700,000).

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10. Employee future benefits (continued)

(a) Pension benefits (continued)

(ii) Staff plan (continued)

The pension asset at March 31 includes the following components:

	2017	2016
Accrued benefit obligation	\$ 210,816	\$ 201,388
Pension fund assets	(244,027)	(231,799)
	(33,211)	(30,411)
Unamortized actuarial gains	19,511	21,078
Net asset	\$ (13,700)	\$ (9,333)

Actuarial valuations are performed triennially using the projected benefit prorate method. The latest triennial actuarial valuation completed as at December 31, 2013 reported a going concern surplus and a solvency deficiency (i.e. if the plan were to be wound up on that date) of \$41,866,000. The B.C. Pension Benefits Standards Act requires minimum annual contributions or the use of letters of credit to fund a solvency deficiency. The University has chosen to arrange a letter of credit in the amount of \$43.8 million at March 31, 2017 (2016 - \$40.8 million) to satisfy the contribution requirements through 2017. This letter of credit will be reassessed in conjunction with the December 31, 2016 plan valuation and updated solvency funding level. The accrued benefit obligation shown for 2017 is based on an extrapolation of that 2013 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%. The discount rate used to determine the accrued benefit obligation is 6%. Pension fund assets are valued at market value.



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10. Employee future benefits (continued)

(a) Pension benefits (continued)

(ii) Staff plan (continued)

The expected rate of return on pension fund assets is 6%. The actual rate of return on Plan assets in 2016 was 6%. The total expenses related to pensions for the fiscal year ending, include the following components:

	2017	2016
Current period benefit cost	\$ 7,365	\$ 7,042
Amortization of actuarial gains (losses)	(1,987)	(1,785)
	5,378	5,257
Less: Employee contributions	(2,117)	(2,086)
Pension benefit expense	3,261	3,171
Interest cost on the average accrued benefit obligation	11,962	11,391
Expected return on average pension plan assets	(13,623)	(12,792)
Pension interest income	(1,661)	(1,401)
Total pension expense	\$ 1,600	\$ 1,770

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 \$120,000 (2016 – \$118,000).

(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, 2017 the balance of this special accumulated sick leave was \$3,164,000 (2016 – \$3,149,000).



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(tabular figures in thousands of dollars)

10. Employee future benefits (continued)

(c) Long-term disability benefits

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

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

	2017	2016
Accrued benefit obligation:		
Beginning of year	\$ 16,936	\$ 14,765
Current service cost	7,433	7,637
Interest cost	318	252
Benefits paid	(2,764)	(2,365)
Actuarial loss	(1,443)	(3,353)
Accrued benefit obligation, end of year	\$ 20,480	\$ 16,936

	2017	2016
Accrued benefit obligation:		
Plan assets	\$ 13,870	\$ 12,984
Accrued benefit obligation, end of year	(20,480)	(16,936)
Unfunded liability, end of year	\$ (6,610)	\$ (3,952)

Components of net benefit expense:

	2017	2016
Service cost	\$ 7,433	\$ 7,637
Interest cost	318	252
Expected return on assets	(248)	(211)
Amortization of net actuarial gain	(1,507)	(3,110)
Net benefit expense	\$ 5,996	\$ 4,568



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Notes to Consolidated Financial Statements

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(tabular figures in thousands of dollars)

10. Employee future benefits (continued)

(c) Long-term disability benefits (continued)

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

	2017	2016
Discount rates	1.9%	1.9%
Expected future inflation rates	2.0%	2.0%
Salary increase assumption	2.0%	2.0%
Retirement age assumption	65	65

An insured long-term disability plan funded entirely by the University was commenced for other staff on July 1, 2000. The University contribution for the year ending March 31, 2017 was \$1,153,000 (2016 - \$1,138,000).

11. Deferred contributions

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

	2017	2016
Specific purpose: (including endowment earnings)	\$ 108,233	\$ 80,896
Research	56,170	46,402
Capital	2,620	1,802
	\$ 167,023	\$ 129,100

	2017			Total	2016
	Specific Purpose	Research	Capital		
Balance, beginning of year	\$ 80,896	\$ 46,402	\$ 1,802	\$ 129,100	\$ 146,162
Contributions and endowment investment income	59,678	89,522	824	150,024	89,698
Revenue recognized from deferred contributions	(32,341)	(79,754)	(6)	(112,101)	(106,760)
Balance, end of year	\$ 108,233	\$ 56,170	\$ 2,620	\$ 167,023	\$ 129,100



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Notes to Consolidated Financial Statements

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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:

	2017	2016
Balance, beginning of year	\$ 371,231	\$ 379,426
Contributions received during the year	39,739	23,105
Revenue from amortization of deferred capital contributions	(26,473)	(31,300)
Balance, end of year	\$ 384,497	\$ 371,231

13. Long-term debt

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

	2017	2016
Royal Bank of Canada		
5.38% term loan due 2024, unsecured	\$ 7,630	\$ 8,428
Province of British Columbia		
5.14% term loan due 2027, unsecured	3,066	-
British Columbia Immigrant Investment Fund		
4.75% term loan due 2017, unsecured	-	3,315
British Columbia Immigrant Investment Fund		
2.48% term loan due 2023, unsecured	8,483	8,902
Province of British Columbia		
4.82% bond due 2027, unsecured, with annual sinking fund payments of \$327,000	10,800	10,800
Province of British Columbia		
4.74% bond due 2038, unsecured, with annual sinking fund payments of \$302,000	10,000	10,000
Great West Life Insurance Company		
5.13% term loan due 2030, unsecured	10,820	11,386
Long-term debt	\$ 50,799	\$ 52,829
Accumulated sinking fund payments	(6,125)	(5,496)
Remaining long-term debt principal repayments	\$ 44,674	\$ 47,333

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13. Long-term debt (continued)

(a) Principal repayments

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

	2017		
	Sinking Fund	Other	Total
2018	\$ 629	\$ 2,106	\$ 2,735
2019	629	2,208	2,837
2020	629	2,314	2,943
2021	629	2,425	3,054
2022	629	2,542	3,171
Thereafter	11,530	18,404	29,934
	\$ 14,675	\$ 29,999	\$ 44,674



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Year ended March 31, 2017

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14. Tangible capital assets

Cost	Balance at March 31, 2016	Additions	Disposals	Balance as at March 31, 2017
Land	\$ 23,134	\$ -	\$ -	\$ 23,134
Site Improvements	34,402	5,774		40,176
Buildings	763,378	24,934		788,312
Equipment and furnishings	209,206	19,413	(38,581)	190,038
Information systems	18,441			18,441
Computer equipment	16,982	3,431	(3,895)	16,518
Library holdings	40,384	2,659	(4,621)	38,422
Total	\$ 1,105,927	\$ 56,211	\$ (47,097)	\$ 1,115,041

Accumulated amortization	Balance at March 31, 2016	Disposals	Amortization	Balance as at March 31, 2017
Land	\$ -	\$ -	\$ -	\$ -
Site Improvements	17,942		943	18,885
Buildings	210,207		15,909	226,116
Equipment and furnishings	126,487	(38,581)	20,612	108,518
Information systems	18,168		192	18,360
Computer equipment	10,578	(3,895)	4,170	10,853
Library holdings	22,250	(4,621)	3,710	21,339
Total	\$ 405,632	\$ (47,097)	\$ 45,536	\$ 404,071

Net book value	March 31, 2017	March 31, 2016
Land	\$ 23,134	\$ 23,134
Site improvements	21,291	16,460
Buildings	562,196	553,171
Equipment and furnishings	81,520	82,719
Information systems	81	273
Computer equipment	5,665	6,404
Library holdings	17,083	18,134
Total	\$ 710,970	\$ 700,295

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14. Tangible capital assets (continued)

Contributed tangible capital assets:

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

	2017	2016
Equipment and furnishings	\$ 104	\$ 23

(a) Assets under construction

Assets under construction having a value of \$ 5,187,000 (2016 – \$ nil) comprised of buildings have not been amortized. Amortization of these assets will commence when the asset is available for productive use.

(b) De-recognition of tangible capital assets

The de-recognition of tangible capital assets during the year was \$ 47,097,000 (2016 – \$31,851,000) related to fully amortized assets with a net book value of \$ nil (2016 – \$ 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. The credit risk of the University investments at March 31, 2017 is \$262,137,000 (2016 – \$261,323,000).



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15. Financial risk management (continued)

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

Credit Rating	%
AAA	16.5%
AA	16.3%
A	7.8%
BBB	8.1%
BB and below	0.9%
Mortgages	14.8%
Cash and short term	
R1 high	33.8%
R1 mid	0.7%
R1 low	1.2%
	100.0%

(b) Price risk

Price risk includes market risk and interest rate risk.

Market risk relates to the possibility that the investments will change in value due to fluctuations in market prices. The objective of market risk management is to mitigate market risk exposures within acceptable parameters while optimizing the return on risk. This risk is mitigated by the investment policies for the respective asset mixes to be followed by the investment managers, the requirements for diversification of investments within each asset class and credit quality constraints on fixed income investments. Market risk can be measured in terms of volatility, i.e., the standard deviation of change in the value of a financial instrument within a specific time horizon. Based on the volatility of the University's current asset class holdings, the net impact on market value of each asset class is shown below.

Asset Class		Estimated Volatility (% change)
Canadian equities	+/-	21.0%
Foreign equities	+/-	17.5%
Real estate	+/-	10.1%
Bonds	+/-	5.1%
Infrastructure	+/-	17.7%
Benchmark for Investments		
DEX Universe Bond index	+/-	\$ 9,226
S&P/TSX Composite index	+/-	24,159
MSCI World Index	+/-	23,389
Canadian Consumer Price Index (Real Estate)	+/-	3,760
Canadian Consumer Price Index (Infrastructure)	+/-	7,770

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15. Financial risk management (continued)

(b) Price risk (continued)

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

It is management's opinion that the University is exposed to market or interest rate risk arising from its financial instruments. Duration is an appropriate measure of interest rate risk for fixed income funds as a rise (fall) in interest rates will cause a decrease (increase) in bond prices; the longer the duration, the greater the effect. Duration is managed by the investment manager at the fund level. At March 31, 2017, the modified duration of all fixed income in aggregate was 3.8 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 3.8%; contrarily, if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 3.8%.

(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:

	2017	2016
Endowments	\$ 316,621	\$ 306,472
Invested in capital assets	292,622	293,119
Internally restricted	88,598	81,984
Unrestricted	21,913	20,627
Accumulated remeasurement gains	16,321	14,162
	\$ 736,075	\$ 716,364



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16. Accumulated surplus (continued)

Endowments consist of restricted donations and capitalized investment income to be held in perpetuity.

Invested in capital assets consist of unrestricted funds previously spent on capital assets and debt repayment.

Internally restricted funds consist of balances set aside or appropriated by the Board of Governors for equipment replacement, capital improvements and other non-recurring expenditures.

Unrestricted funds consist primarily of balances arising from the University's ancillary and specific purpose funds, and consolidated entities.

17. Endowments

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

	2017	2016
Balance, beginning of year	\$ 306,472	\$ 295,532
Contributions received during the year	5,285	6,708
Invested income and donations capitalized	4,864	4,232
Balance, end of year	\$ 316,621	\$ 306,472

The balance shown does not include endowment principal with fair value of \$7,459,000 (2016 – \$6,914,000) and book value of \$4,820,000 (2016 – \$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.

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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:

	2018	2019	2020	2021	2022
Construction contracts	\$ 2,321	\$ -	\$ -	\$ -	-
Operating leases	276	66	60	30	-
Total	\$ 2,597	\$ 66	\$ 60	\$ 30	-

19. Contingent liabilities

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

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

20. Expenses by object

The following is a summary of expenses by object:

	2017	2016
Salaries and wages	\$ 292,277	\$ 282,257
Employee benefits	53,919	49,689
Travel	13,393	14,396
Supplies and services	78,084	68,743
Equipment rental and maintenance	6,642	9,688
Utilities	8,711	8,905
Scholarships, fellowships and bursaries	35,873	37,157
Cost of goods sold	13,017	13,938
Interest on long-term debt	2,371	2,267
Amortization of tangible capital assets	45,536	51,378
	\$ 549,823	\$ 538,418

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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 (2017– \$2,019,000 ; 2016 – \$1,092,000).

22. Supplemental cash flow information

	2017	2016
Cash paid for interest	\$ 2,371	\$ 2,466

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

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

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



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

	2016		
	FRF	PSAS	Difference
Liabilities			
Deferred capital contributions	\$ 371,232	\$ -	\$ 371,232
Accumulated surplus	716,364	1,087,596	(371,232)
Revenue			
Government grants and contracts	264,623	284,391	(19,768)
Donations, non-government grants and contracts	15,369	18,429	(3,060)
Amortization of deferred capital contributions	31,299	-	31,299
Annual operating surplus			
Annual operating surplus (after restricted endowment contributions)	\$ 29,825	\$ 21,354	\$ 8,471

