

**UNIVERSITY OF VICTORIA
FINANCIAL STATEMENTS
MARCH 31, 2006**

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University of Victoria

2005/06 FINANCIAL REVIEW

Financial Highlights of the Year

The University's priorities for achievement and continuous improvement are guided by its Strategic Plan, *A Vision for the Future*. The Plan sets out goals in four strategic areas: People, Quality, Community and Resources. One of the six values and principles in fulfilling this vision is a commitment to public and internal accountability. The following financial review, audited financial statements and detailed fund accounting schedules for the year ended March 31, 2006 are prepared in the context of this commitment. The separation of internally and externally restricted funds from our unrestricted funding honors the University's commitment to funding sponsors and recipients that monies are spent for the purposes intended.

In the past year, the University's total revenues increased by \$76.6 million (19%) to \$471.7 million while total expenditures increased by \$61.5 million (17%) to \$367.2 million (Page 31). General operating revenues increased \$23 million of which \$10.9 million was due to provincial government funding of contract settlements for most of the University's employee and \$6.7 million was due to a 2% increase in credit course fees and growth in FTE students. The University's general operating expenditures increased \$19.7 million (8.9%), including increases of \$11 million to the Faculties and other academic units and \$8.7 million for additional student awards and services, facilities, library and other infra-structure support (Page 39).

UVic's faculty have had another very successful year in attracting research grants and other support with a \$22.7 million (38%) increase in externally sponsored research grants and contracts.

During the year, the University acquired the Vancouver Island Technology Park for \$20.2 million consisting of 14.2 hectares of land and recently renovated buildings providing commercial space to emerging technology companies. University of Victoria Properties Investments Inc, a newly created subsidiary of the University oversees the Vancouver Island Technology Park Trust which operates the technology park.

Construction is close to completion on the \$22 million Computer Science and Engineering building required for the provincial Double the Opportunity initiative. A major capital expansion is underway with the commencement of the \$66.6 million Science building, a \$38.6 million Social Sciences and Mathematics building, and the development of plans for a \$17 million expansion to the Library for the Mearns Centre for Learning and \$17.3 million Support Services Building.

Presentation of Financial Information

The University's audited financial statements (Pages 11 to 26) are prepared in accordance with Canadian generally accepted accounting principles and the reporting standards for not-for-profit organizations set by the Canadian Institute of Chartered Accountants. These audited Statements present the financial results in a format similar to that of a business, with buildings, equipment and library holdings depreciated over their useful lives. A characteristic of not-for-profit organization deferral accounting is that grants and other revenues with restrictions set by external providers of funds are matched each year with corresponding costs consumed in that year's operations. This results in large deferred contributions and deferred capital contributions appearing as liabilities on the balance sheet awaiting amortization as revenues in future years to match corresponding expenses, including depreciation of capital assets. The University's year-end equity (i.e. Net Assets) has four components: amounts which are invested in capital assets, endowed, internally restricted by governing boards and unrestricted. The activity during the year in each component is shown on Statement 2 (Page 12).

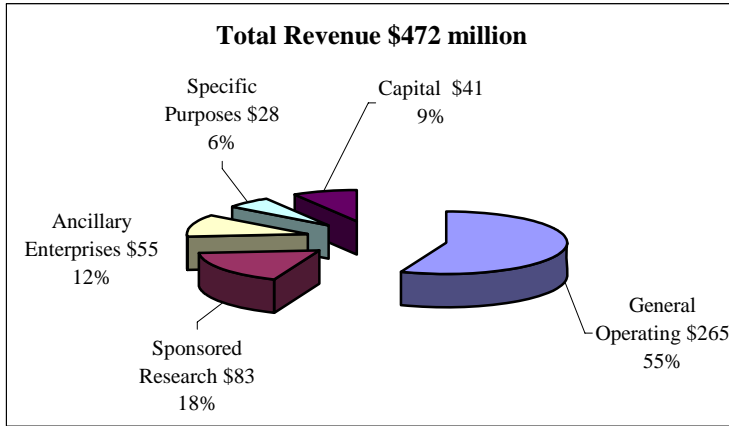
Useful and more detailed financial information is set out in the Notes to the audited financial statements on pages 15 to 26. This year there were two significant changes in the application of generally accepted accounting principles. Firstly, the University of Victoria Foundation, which holds the majority of the University's endowments, changed its accounting policy for unrealized gains and losses which are now recorded in distributable earnings and secondly, the University early adopted the new accounting standard for financial instruments which provides for their recording at fair value as detailed in Note 17 to the financial statements.

The University has developed regular interim financial reporting to the Board of Governors. Quarterly statements are prepared with a summary commentary of any significant issues, trends or variances from budget in each of the fund groups.

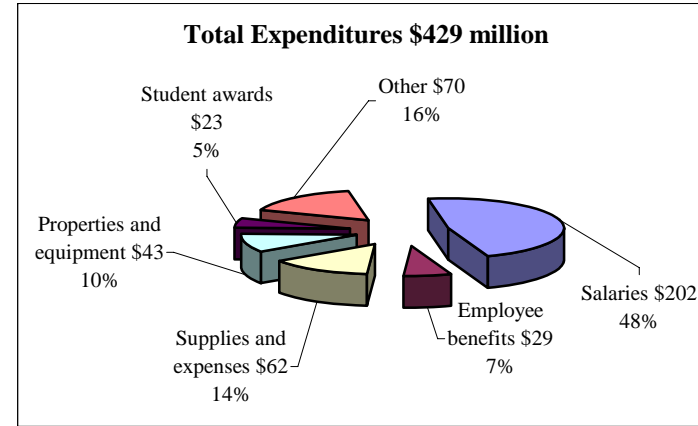
The Balance Sheet on Page 11 shows Net Assets, being the University's equity, of \$324.1 million. Internally restricted net assets are primarily the appropriations made by the Board of Governors from general operations and the ancillaries less the internal loans for capital additions set out on Page 30. These appropriations are required for the replacement of computers and other equipment, and the carry-over by departments and the general University of budgetary savings for non-recurring expenditures in the future. By permitting departments to carry-over unspent budget, they have the ability to make fiscal plans across multiple years in support of departmental strategic initiatives and for replacement of departmental assets such as equipment.

To enhance accountability, budgetary control and stewardship of resources, the University maintains separate funds of assets, liabilities, revenues and expenditures for its many activities. Fund accounting is used by the University for its operating budget allocations and to ensure that restricted grants, donations and other contributions are spent only for the purposes intended. These funds are grouped as General Operating, Ancillary Enterprises, Specific Purposes, Sponsored Research, Capital and Endowment funds with definitions of each in Note 2(c) on pages 15-16. Unaudited management Schedules detailing these funds are shown on Pages 29 to 47 for the years ended March 31, 2006 and 2005. In fact, most revenue and expense lines are the same in both the audited Statements and unaudited Schedules. A summary reconciliation of the two presentations is shown on Page 27 with a brief explanation of the differences on Page 28. Both the audited Statements and the unaudited management Schedules are accurate and useful in presenting the operating results and financial position of the University of Victoria. Most of the charts, analysis and commentary in the remainder of this financial review are based on the unaudited management schedules.

University of Victoria – All Funds

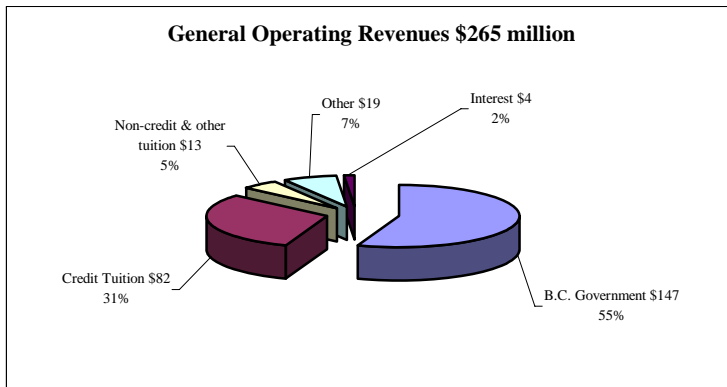


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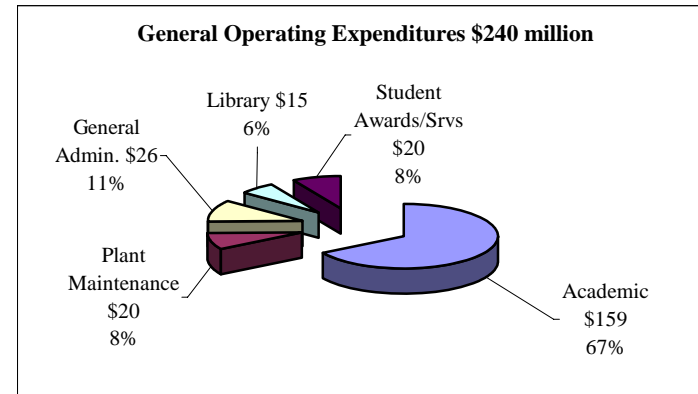


Source Page 30

The General Operating Fund represents 56% of the University's activities.



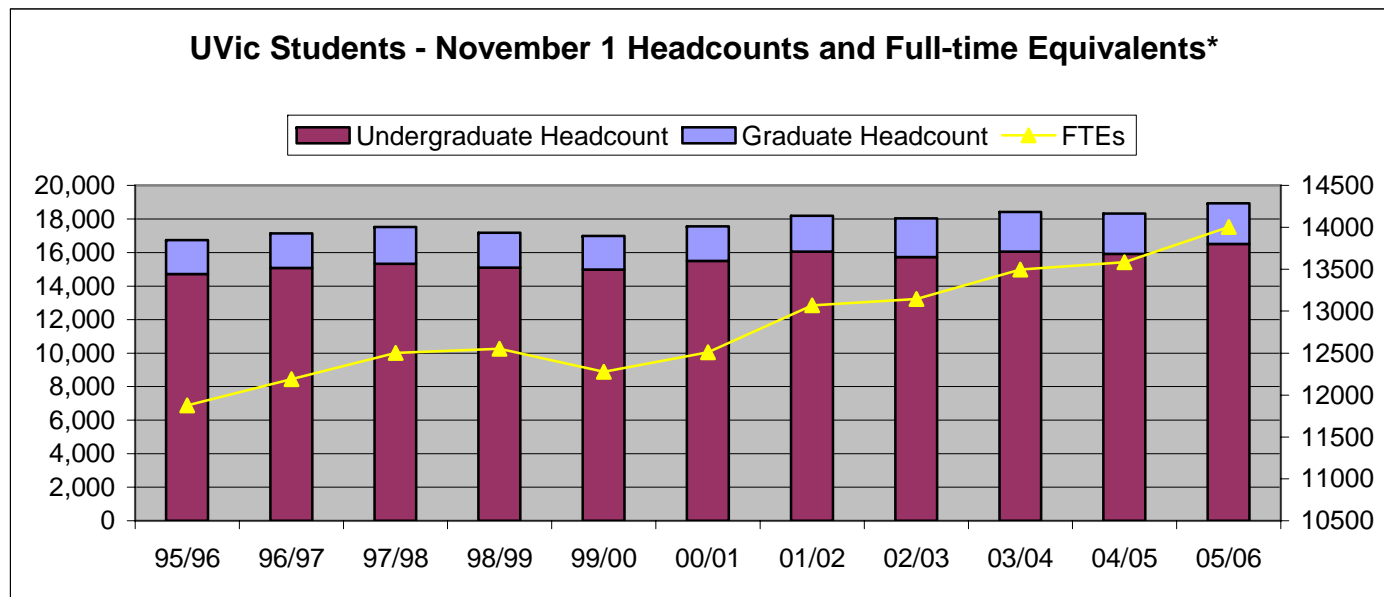
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Source: Page 38

Over the past year in the General Operating Fund (page 34):

- Revenues for operations included a \$17.3 million increase in provincial operating funding of which \$10.9 million related to employee contract settlements and \$3.5 million related to capacity growth, the recurring \$4.7 million federal funding for the indirect costs of research and the \$6.7 million credit course tuition increase resulting from a 2% increase in fees (limited to inflation) and student FTE growth.
- Salaries and benefits included the accrual of \$10.9 million of signing bonuses and retroactive pay arising from the employee contract settlements made at March 31, 2006.
- Investment income increased by \$546,000 as short term interest rates increased slightly and because the short-term investment portfolio increased \$40 million over the year. The portfolio is professionally managed in three pools providing daily liquidity along with enhanced returns from a larger portion being invested with a longer duration.
- Library acquisition expense increased by \$1.3 million and benefited from the strengthening of the Canadian dollar for U.S. and other foreign book and journal purchases.



*as distinct from Audited Annualized FTEs as reported through the University Presidents' Council (TUPC)

Schedules F to K on Pages 39 to 47 compare departmental expenditures between 2004-05 and 2005-2006. The level of expenditures can vary from year to year for reasons such as the purchase of a significant item of equipment using appropriated funds from prior years.

Since General Operating Fund revenues are primarily unrestricted as to their spending, the University employs a detailed budgeting system to direct and control expenditures. Salaries and benefits comprise 76% of operating expenditures. Each continuing faculty and support staff position requires senior executive approval to be established and all staffing actions require the approval of the Dean/Director and a Vice-President. The annual budget allocation process is very thorough, requiring each department to analyze its opportunities for expanded revenues as well as plan and defend its levels of expenditures. Each year certain new initiatives are approved for recurring annual funding. As well, some unavoidable cost increases, such as property and liability insurance premiums, are recognized in setting the operating budget.

For over 30 years, departments purchasing computing and other equipment from operating funds have been requested to save (i.e. to appropriate) from their annual budgets sufficient funds to replace those assets at the end of their expected useful lives. Schedule 2 on Page 30 summarizes these replacement appropriations. The University also has a carry-over policy whereby departments who do not spend all of their base General Operating Fund allocation in a year have it appropriated at the Faculty level for spending in future years. These two policies permit departments to plan with confidence that funds will be available for new projects, restructuring, and equipment needs over a longer timeframe. Should a department incur a deficit for a fiscal year, that deficit becomes a first charge on its operating budget for the following year. Academic departments will be contributing \$6.2 million from their carry over to help support the capital expansion projects currently underway.

Pursuant to section 29 of the *University Act*, the Board of Governors approves an annual operating budget of revenues which cannot indicate expenses greater than revenue. The University's accounting system provides account holders of all University funds with current, on-line WEB access to their revenues, expenditures to date, and most committed costs. Using the EASY financial system, those responsible for single funds, departments and overall University operations have the means from their PC or Mac computer to identify situations and take timely corrective actions where expenditures are otherwise likely to exceed revenues.

Ancillary Enterprises Fund

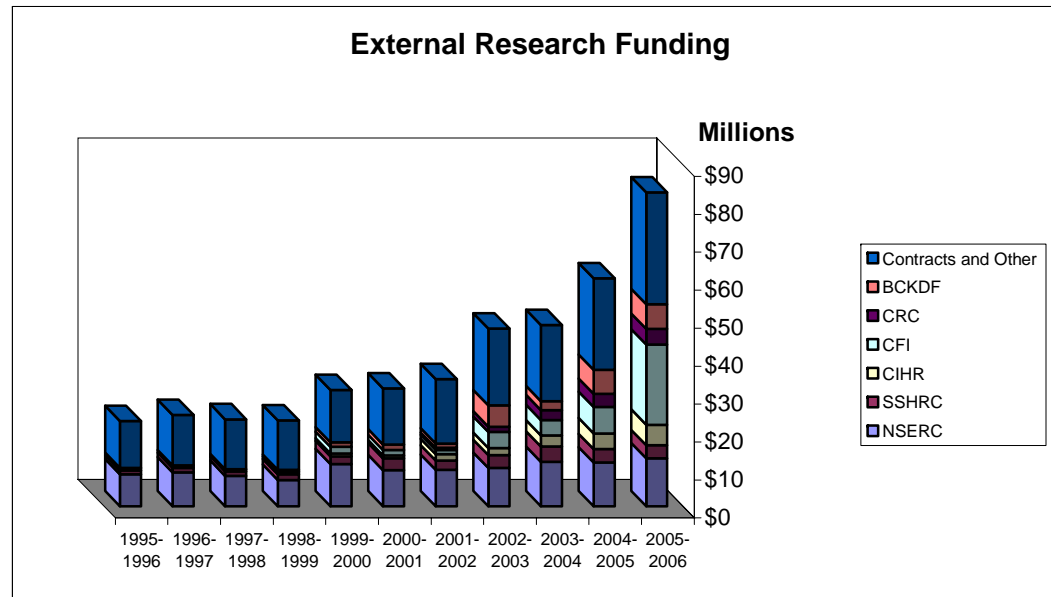
The revenues, expenditures and appropriations for facilities and equipment renewal of the Bookstore, Food Services, Residences, Dunsmuir Lodge Executive Training and Conference Centre, Parking Services, Child Care and Computer Store are set out on Page 35. Since the University's provincial operating grant and tuition fees should not subsidize such operations, each ancillary enterprise must budget to break even, including a provision for the periodic renovation and replacement of its facilities.

Off-campus Business Enterprises includes the commercial/residential property rental and hotel operations from the Michael C. Williams' estate properties owned by the University and its wholly-owned subsidiary, Heritage Realty Properties Ltd. A strategic plan is being followed focusing on the core Swans Hotel and six Johnson and Broad Street properties which provide a large and sustainable cash flow.

Off-campus Business Enterprises also includes the operations of the Vancouver Island Technology Park Trust and the University of Victoria Properties Investments Inc., which acts as trustee for the Trust and manages the University's real estate holdings. The Vancouver Island Technology Park was originally developed by B.C. Buildings Corporation to facilitate the growth of technology on Vancouver Island. This acquisition will allow UVic to continue fostering the start-up and growth of high-tech companies on Vancouver Island and provide a range of commercial space for UVic research-generated spin-off businesses and outside high-tech companies. The operations of the Park are intended to be self funding and are therefore included in the Ancillary Enterprises fund.

Sponsored Research

Sponsored research funding increased by \$22.7 million (38%) this year to \$82.7 million (page 37). Of this total, \$28.7 million (35%) was received in the form of competitively adjudicated grants from the federal tri-Council Natural Science and Engineering Council (NSERC), Social Science and Humanities Council (SSHRC) and Canadian Institute of Health Research (CIHR). UVic ranks first among Canadian comprehensive universities in NSERC grants and sixth in SSHRC grants. Over the past five years, sponsored research revenue has grown a remarkable 166% from \$31.1 million in 2000/01 to \$82.7 million in 2005/06.



During the year, UVic researchers have received another \$21.1 million from the Canada Foundation for Innovation (CFI) and \$6.5 million from the B.C. Knowledge Development Fund (BCKDF). These grants, together with generally 20% matching support from non-government sources, provide funding for major research equipment and the development of research facilities. This included \$2 million for the VENUS project which successfully installed the first array of a cabled seafloor observatory in the Saanich Inlet in February 2006. It also includes \$16.1 million for the NEPTUNE project which signed a \$39 million contract in October 2005 with Alcatel Submarine Networks Inc. to design, manufacture and install the infrastructure for the larger, 800 kilometre, cabled ocean observatory off Vancouver Island.

During the year, two Canada Research Chairs (CRC) were added to the thirty previously named at the University. In total, 34 Canada Research Chairs will be named at UVic. The CRC program is a federally funded initiative supporting Canada's need for university research by funding salaries and support for exceptional scholars in all areas of knowledge.

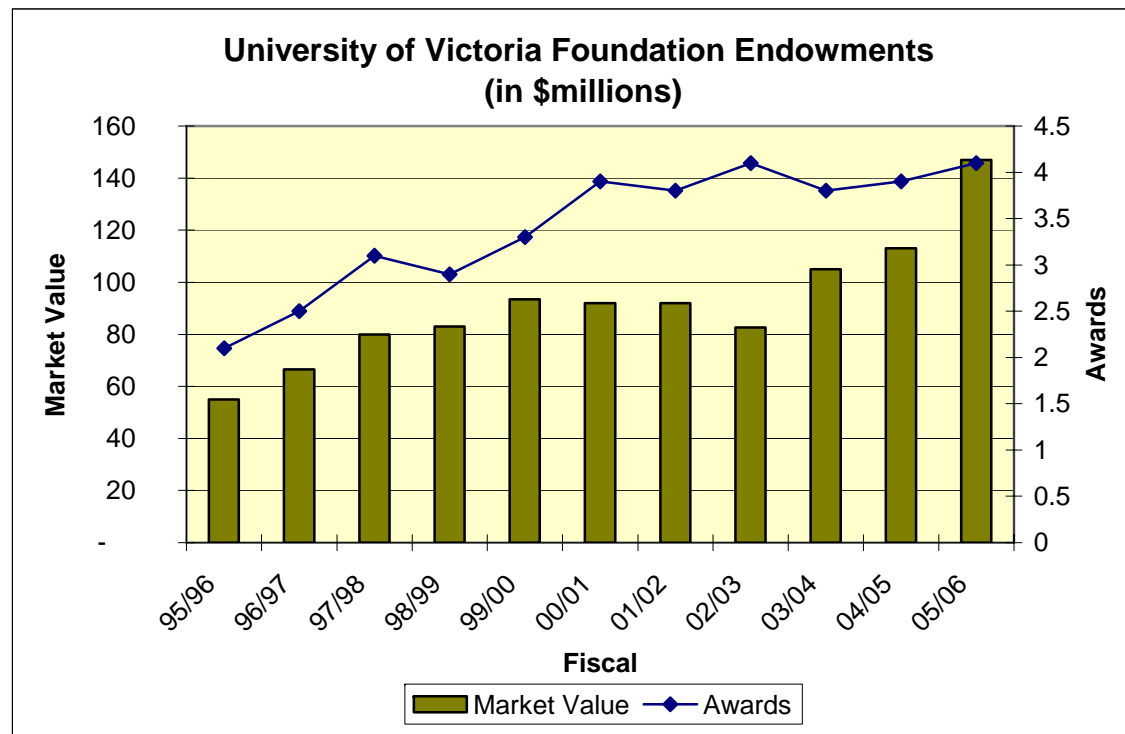
Specific Purposes Fund

In addition to the grants and contracts received for sponsored research, the University receives grants, undertakes contracts and distributes earnings from its endowment funds for teaching, lecture series, student awards and other academic purposes as detailed on Pages 36 and 47.

Endowment Fund

Most endowment funds benefiting the University and its students are held by the University of Victoria Foundation. Foundation investments improved this past year for the third straight year following three years of falling Canadian and global equity markets which bottomed in March 2003. The improvement was significant as realized and unrealized capital gains exceeded losses by \$10.6 million (2005- \$2.5 million). With \$22.3 million of endowment donations, of which \$11.8 million was transferred from the University related to the B.C. Addictions Research Fund, the market value of the UVic Foundation endowment fund increased from \$113.5 to \$147.1 million.

The endowment funds have been professionally managed by Phillips, Hager and North in a balanced fund of bonds and commercial paper and both domestic and U.S. equities, and by the B.C. Investment Management Corporation in U.S., European and Asian equities. An asset mix of 40% fixed income bonds and 20% Canadian, 20% U.S. and 20% EAFE equities was maintained during the year. Towers Perrin are the investment consultants assisting the Foundation's Board and Investment Committee in monitoring performance and considering an appropriate asset mix which may in future include certain alternative investments.



With the recent change in the Foundation's accounting policy to a "total-return" approach, awards are now based on 4.5% of the December 31 inflation adjusted balance of the funds principal. In March, the Foundation Board and Investment Committee approved a change to the investment policy based on a review that determined an asset mix of 65% equity/45% fixed income can sustain the level of distribution while funding 0.55% of investment management and administrative costs and offsetting the eroding impact of inflation.

Risk Factors and Management

Welcoming and seizing upon new opportunities is a defining characteristic of a vibrant university, but most such undertakings introduce new elements of risk. UVic recognizes this and attempts to identify, analyse and either mitigate or avoid such risks, as appropriate. The Risk Management Steering Committee has been active during the year elevating risk management beyond the already competently managed areas of campus and workplace health and safety, emergency response, insurance and indemnification. This is particularly important with the University's unprecedented rate of retirement of faculty and administrators and the number, size and complexity of such initiatives as:

- The \$62.4 million NEPTUNE under-water cable, instrument and WEB networking project together with smaller but significant and increasingly complex research projects.
- Project NOVA, being the five-year plan which will cost \$20 million to renew each of the major university administrative systems including its Student, Human Resource, Finance, Donor/Alumni and Facilities Management systems.
- Major capital expansion totaling over \$160 million including the proposed Science building, Social Sciences and Mathematics building, Mearns Centre for Learning, First Nations House of Learning and the Support Services Building.

In Summary

The University of Victoria has celebrated over 100 years of post-secondary education, beginning in 1903 as Victoria College and as a degree-granting university at its present location in 1963. In this relatively short time, the University has become one of Canada's finest comprehensive universities. It is increasingly recognized for outstanding and expanding scholarly achievement in teaching, research and creative work and valuable community service, with a structure to ensure sound fiscal stewardship and broadening sources of funding.

As the University concludes another year, over 4,200 graduates will join the more than 72,000 alumni now living throughout the world. The University is prepared for and welcomes the opportunity and challenge to continue to implement *A Vision for the Future*, identifying UVic's strengths, aspirations and goals set out with clear objectives and actions for accountable achievement.



Jack Falk
Vice-President Finance & Operations



Murray Griffith
Executive Director, Financial Services



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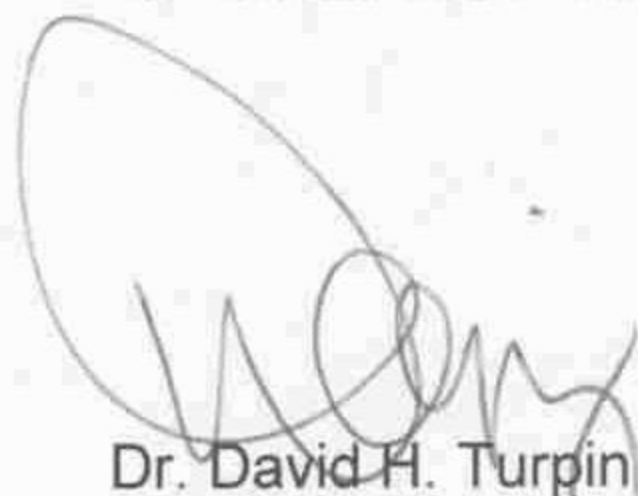
STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 financial statements present fairly the financial position of the University as at March 31, 2006, and the results of its operations 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 financial statements have been examined by KPMG LLP, Chartered Accountants, the external auditors appointed by the University's Board of Governors. The Auditor's report outlines the nature of their examination and expresses an opinion on the financial statements of the University for the year ended March 31, 2006.



Dr. David H. Turpin
President and Vice-Chancellor



Mr. Jack Falk
Vice-President, Finance & Operations

May 17, 2006



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Chartered Accountants
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AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF GOVERNORS OF THE UNIVERSITY OF VICTORIA

We have audited the balance sheet of the University of Victoria as at March 31, 2006 and the 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 financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2006 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'. The signature is written in a cursive, slightly stylized font.

Chartered Accountants

Victoria, Canada
May 17, 2006

UNIVERSITY OF VICTORIA

BALANCE SHEET

As at March 31, 2006

(In thousands of dollars)

Statement 1

	<u>2006</u>	<u>2005</u> (restated, Note 17)
ASSETS		
Current assets		
Cash and short term investments	118,949	96,708
Accounts receivable	29,971	12,929
Inventories	3,562	3,691
Prepaid expenses	2,130	4,218
	<u>154,612</u>	<u>117,546</u>
Long term receivables (Note 3)	4,119	3,868
Endowment and other investments	185,987	158,922
(2006 cost \$179,540; 2005 fair value - \$155,552)		
Capital assets (Note 4)	<u>414,047</u>	<u>358,182</u>
	<u><u>758,765</u></u>	<u><u>638,518</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	52,589	37,886
Funds held in trust (Note 5)	2,119	2,301
Current portion of long term debt	2,084	1,595
	<u>56,792</u>	<u>41,782</u>
Deferred contributions (Note 6)	106,602	79,787
Insurance liabilities (Note 7)	7,285	5,710
Long term debt (Note 8)	38,934	25,427
Unamortized deferred capital contributions (Note 9)	<u>225,041</u>	<u>195,762</u>
	<u>434,654</u>	<u>348,468</u>
Net Assets		
Invested in capital assets	147,987	135,397
Endowment	99,560	92,811
Internally restricted	66,380	59,287
Unrestricted	10,184	2,555
	<u>324,111</u>	<u>290,050</u>
	<u><u>758,765</u></u>	<u><u>638,518</u></u>

Approved on behalf of
the Board of Governors



Trudi Brown
Chair,
Board of Governors



Jack Falk
Vice-President,
Finance and Operations

UNIVERSITY OF VICTORIA
STATEMENT OF CHANGES IN NET ASSETS

For the Year ended March 31, 2006

(In thousands of dollars)

	Invested in Capital <u>Assets</u>	<u>Endowment</u> (Note 11)	Internally <u>Restricted</u> (Note 12)	<u>Unrestricted</u> (Statement 3)	<u>Total</u> <u>2006</u>	<u>Total</u> <u>2005</u>
Balance, beginning of year	135,397	92,811	59,287	2,555	290,050	264,716
Accounting Policy Changes (Note 17)		(330)		(596)	(926)	(5,724)
Balance, beginning of year, as restated	135,397	92,481	59,287	1,959	289,124	258,992
Excess of revenue over expense				27,679	27,679	23,439
Changes in investment in capital assets						
Disposition of land and buildings	(1,716)			1,716	-	-
Land, collections, works of art and other	6,729			(6,500)	229	587
Other assets acquired with unrestricted net assets	34,524			(34,524)	-	(11)
Depreciation on assets acquired with unrestricted net assets	(12,950)			12,950	-	-
Debt acquired less debt retired with unrestricted net assets	(13,997)			13,997	-	-
Changes in internally restricted net assets						
Appropriations			35,813	(35,813)	-	-
Released to meet expenses			(28,720)	28,720	-	-
Changes in endowment net assets						
Contributions received		7,079			7,079	7,043
Balance, end of year	147,987	99,560	66,380	10,184	324,111	290,050

UNIVERSITY OF VICTORIA
STATEMENT OF REVENUE AND EXPENSE AND CHANGES IN UNRESTRICTED NET ASSETS
For the Year ended March 31, 2006
(In thousands of dollars)

	General Operating	Ancillary Enterprises	Specific Purposes	Sponsored Research	Capital	Total 2006	Total 2005
REVENUE							
Government grants and contracts (Note 10) - provincial	146,857	2,442	2,334	6,009	2,527	160,169	140,625
- federal	4,149		1,694	32,583		38,426	34,168
- other	3,239		285	5,162		8,686	8,350
Student tuition - credit courses	82,238		3			82,241	75,598
- non credit courses and other	13,164		554			13,718	14,888
Donations, non government grants and contracts	618	38	3,268	3,948	1	7,873	7,429
Sales of services and products	7,315	50,632	2,029	447	83	60,506	53,547
Investment income	3,473	173	4,983			8,629	8,323
Other revenue	2,843	301	598	308		4,050	4,646
Amortization of deferred capital contributions	1,238	540	295	8,048	4,431	14,552	11,889
	<u>265,134</u>	<u>54,126</u>	<u>16,043</u>	<u>56,505</u>	<u>7,042</u>	<u>398,850</u>	<u>359,463</u>
EXPENSE							
Salaries - academic	73,665		1,156	5,313		80,134	73,632
- other instruction and research	12,065		2,019	15,187		29,271	26,971
- support staff	73,746	14,889	1,499	1,951		92,085	79,467
	<u>159,476</u>	<u>14,889</u>	<u>4,674</u>	<u>22,451</u>	<u>-</u>	<u>201,490</u>	<u>180,070</u>
Employee benefits	25,567	2,199	512	2,300		30,578	30,702
Travel	5,142	82	1,138	4,673	211	11,246	10,406
Supplies and services	29,060	6,073	3,659	9,901		48,693	43,246
Equipment rental and maintenance	2,616	232	52	174	2	3,076	2,451
Utilities	4,539	2,044	19	27		6,629	6,308
Scholarships, fellowships and bursaries	10,395		4,459	7,622		22,476	20,733
Cost of goods sold		15,695				15,695	14,523
Interest on long term debt		3,215			16	3,231	1,948
Renovations	404		91	58		553	2,304
Internal cost allocations	(5,518)	4,410	667	1,222	(781)	-	-
Depreciation	9,646	3,292	434	8,070	6,062	27,504	23,333
	<u>241,327</u>	<u>52,131</u>	<u>15,705</u>	<u>56,498</u>	<u>5,510</u>	<u>371,171</u>	<u>336,024</u>
Excess of revenue over expense	23,807	1,995	338	7	1,532	27,679	23,439
Increase in internally restricted funds	(3,105)	(867)			(3,121)	(7,093)	(19,435)
Interfund transfers	(19,570)	356	590	(29)	18,653	-	-
Investment in capital assets, net of depreciation	(507)	1,829	(39)	22	(13,666)	(12,361)	(1,329)
Changes in unrestricted net assets	625	3,313	889	-	3,398	8,225	2,675
Balance, beginning of year,	(333)	2,726	129	-	33	2,555	(120)
Accounting Policy Change (Note 17)	(212)	(384)				(596)	-
Balance, beginning of year, as restated	<u>(545)</u>	<u>2,342</u>	<u>129</u>	<u>-</u>	<u>33</u>	<u>1,959</u>	<u>(120)</u>
Balance, end of year	<u>80</u>	<u>5,655</u>	<u>1,018</u>	<u>-</u>	<u>3,431</u>	<u>10,184</u>	<u>2,555</u>

UNIVERSITY OF VICTORIA
STATEMENT OF CASH FLOWS
For the Year ended March 31, 2006
(In thousands of dollars)

Statement 4

	<u>2006</u>	<u>2005</u>
Cash provided by (used in) operating activities		
Excess of revenue over expense	27,679	23,439
Items not affecting cash:		
Depreciation	27,504	23,333
Amortization of deferred capital contributions	(14,552)	(11,889)
Changes in non-cash working capital items:		
Net increase in current assets	(14,825)	(3,276)
Net increase (decrease) in current liabilities	14,626	(3,311)
	<u>40,432</u>	<u>28,296</u>
Cash provided by (used in) investing activities		
Increase in long term receivables	(463)	(889)
Increase in endowment and other investments	(20,540)	(14,910)
Capital asset acquisitions and construction	(83,140)	(56,906)
	<u>(104,143)</u>	<u>(72,705)</u>
Cash provided by (used in) financing activities		
Increase in long term debt	13,507	16,163
Increase in insurance liabilities	1,575	1,739
Net increase in deferred contributions	20,290	2,475
Capital contributions	43,831	34,689
Other contributions	-	500
Endowment donations	6,749	7,043
	<u>85,952</u>	<u>62,609</u>
Increase in cash and short term investments	22,241	18,200
Cash and short term investments, beginning of year	<u>96,708</u>	<u>78,508</u>
Cash and short term investments, end of year	<u><u>118,949</u></u>	<u><u>96,708</u></u>

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) Combined Operations

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

- University of Victoria Innovation and Development Corporation which promotes the commercialization of research discoveries.
- Heritage Realty Properties Ltd. which manages the property rental and downtown hotel and brew-pub operation donated by the late Michael C. Williams.
- University of Victoria Properties Investments Inc. which oversees the operation of the Vancouver Island Technology Park Trust providing leased space to emerging high-tech companies on Vancouver Island.

These financial statements also include 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, Heritage Realty Properties Ltd. and the University of Victoria Properties Investments Inc. are reported in Statement 3 as Ancillary Enterprises while the operations of the other four entities are reported as Specific Purposes. 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 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 a 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 the sale of 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
 Effective April 1, 2005, endowment and other investments are classified as held for trading and stated at fair value (see Note 17). In determining fair values, adjustments have not been made for transaction costs as they are not considered to be significant. The change in the difference between the fair value and the cost 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 market prices where available. Where quoted prices are not available, estimated fair values are calculated using comparable or underlying securities.

(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
 On April 1, 2004, the University adopted the new standard on accounting for asset retirement obligations which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is 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 Benefits
 The costs of pension benefits are recognized on an accrual basis over the working lives of employees as detailed in Note 16.

(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 revenues and expenses 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 consist of cash and short-term investments, accounts receivable, long term receivables, endowment and other investments, accounts payable and accrued liabilities and long term debt. It is management's opinion that the University is not exposed to significant interest, currency or credit risk arising from these instruments.

NOTE 3 LONG TERM RECEIVABLES

To assist in the recruitment of faculty and senior administrators, the University provides relocation loans without interest which are repayable in 10 years unless employment ceases at an earlier date. These loans are generally \$25,000 each and secured by second mortgages.

NOTE 4 CAPITAL ASSETS

	March 31 (in thousands of dollars)								Net Book Value	
	2005	Additions for year	Cost Adjustments	2006	2005	Accumulated Depreciation Depreciation for year	Adjustments	2006	2005	2006
Land	19,092	5,106		24,198	-	-		-	19,092	24,198
Site Improvements	21,266	2,217		23,483	8,800	652		9,452	12,466	14,031
Buildings	323,528	38,979		362,507	87,839	7,697		95,536	235,689	266,971
Equipment and furnishings	62,810	21,590	(3,050)	81,350	21,907	7,483	(3,050)	26,340	40,903	55,010
Information Systems	4,187	5,010		9,197	-	-		-	4,187	9,197
Computer equipment	26,963	5,616	(3,985)	28,594	10,296	7,659	(3,985)	13,970	16,667	14,624
Library holdings	43,676	4,621	(3,557)	44,740	21,591	4,012	(3,557)	22,046	22,085	22,694
Collection, not depreciated	7,093	229		7,322	-	-		-	7,093	7,322
	<u>508,615</u>	<u>83,368</u>	<u>(10,592)</u>	<u>581,391</u>	<u>150,433</u>	<u>27,503</u>	<u>(10,592)</u>	<u>167,344</u>	<u>358,182</u>	<u>414,047</u>

NOTE 5 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.

NOTE 6 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)	
	2006	2005
Balance, beginning of year	79,787	71,588
Contributions received	<u>101,625</u>	<u>77,864</u>
	<u>181,412</u>	<u>149,452</u>
Deduct: Transfers to		
Revenue	(69,072)	(55,789)
Unamortized deferred capital contributions	<u>(5,738)</u>	<u>(13,876)</u>
	<u>(74,810)</u>	<u>(69,665)</u>
Balance, end of year	<u><u>106,602</u></u>	<u><u>79,787</u></u>
The deferred contribution balance consists of the following:		
General Operating	2,154	2,304
Specific Purposes	51,648	39,086
Sponsored Research	41,990	27,325
Capital	<u>10,810</u>	<u>11,072</u>
	<u><u>106,602</u></u>	<u><u>79,787</u></u>

NOTE 7 INSURANCE LIABILITIES

Insurance liabilities arise in connection with: (i) the University's self-funded employee benefit plans, and (ii) both the self-funded deductible for property insurance and the University's participation in the Canadian Universities Reciprocal Insurance Exchange (CURIE). 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

NOTE 8 LONG TERM DEBT

	March 31	
	(in thousands of dollars)	
	2006	2005
<u>Related to Student Residences</u>		
Canada Mortgage and Housing Corporation 5.125% to 9.5% debentures due 2015 to 2029	3,255	3,330
Province of British Columbia 7.875% bond due 2024 Less sinking fund	9,749 <u>(7,141)</u>	9,749 <u>(6,734)</u>
Royal Bank of Canada Term Loan with floating interest rate fixed at 5.38% through an interest rate swap due November 2024	2,608	3,015
	14,315	14,762
<u>Related to Dunsmuir Lodge Conference Centre</u>		
Province of British Columbia Loan payable at floating provincial short-term rate	505	506
<u>Related to Off-campus Business Enterprises - Heritage Realty</u>		
Various lending institutions 5.7% to 6.38% mortgages due in 2009	4,631	5,409
<u>Related to Off-campus Business Enterprises - Van Island Tech Park</u>		
Great West Life Assurance Company 5.13% term loan due April 2030	15,704	-
Total debt (fair value 2006 - \$45,052, 2005 - \$30,726)	41,018	27,022
Less current portion of long term debt including the full amount of those mortgages and loans subject to refinancing in the following year	<u>(2,084)</u>	<u>(1,595)</u>
Total long term debt	<u>38,934</u>	<u>25,427</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 bonds, issued to the Province of British Columbia under the University Act, are secured by a floating charge on certain student residence buildings. The mortgages are owed by Heritage Realty Properties Ltd. and secured by off-campus land and buildings.

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, 2006 was (\$431,000) (2005 – (\$384,000)).

This year, 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 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.

Principal and interest payments of these debt instruments are made from the Ancillary Enterprises Fund.

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

Year Ended March 31	Annual Payments (in thousands of dollars)
2007	2,084
2008	1,638
2009	1,672
2010	5,138
2011	1,396
	<u>11,928</u>

NOTE 9 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>2006</u>	<u>2005</u>
Balance, beginning of year	195,762	172,951
Contributions received	38,093	20,824
Transfers from deferred contributions	<u>5,738</u>	<u>13,876</u>
	239,593	207,651
Transferred to revenue	<u>(14,552)</u>	<u>(11,889)</u>
Balance, end of year	<u>225,041</u>	<u>195,762</u>

The unamortized deferred capital contribution balance consists of the following:

General Operating	3,340	3,706
Ancillary Enterprises	13,765	14,247
Specific Purposes	1,331	1,313
Sponsored Research	43,245	31,698
Capital	<u>163,360</u>	<u>144,798</u>
	<u>225,041</u>	<u>195,762</u>

NOTE 10 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)	
	2006	2005
Province of British Columbia -		
General Operating	146,857	129,577
Ancillary Enterprises	2,500	1,346
Specific Purposes	2,784	1,816
Sponsored Research	13,882	10,364
Capital Funding	25,226	21,208
Recorded as deferred contributions	<u>(31,080)</u>	<u>(23,686)</u>
	<u>160,169</u>	<u>140,625</u>
Government of Canada -		
General Operating	4,871	4,861
Specific Purposes	1,930	878
Sponsored Research	55,278	38,217
Recorded as deferred contributions	<u>(23,653)</u>	<u>(9,788)</u>
	<u>38,426</u>	<u>34,168</u>
Municipal and Other Governments -		
General Operating	3,239	2,869
Specific Purposes	343	222
Sponsored Research	6,945	5,800
Recorded as deferred contributions	<u>(1,841)</u>	<u>(541)</u>
	<u>8,686</u>	<u>8,350</u>
	<u>207,281</u>	<u>183,143</u>

At March 31, 2006, the University had a receivable of \$11,241,000 (2005 – \$0) from the Province of British Columbia for signing bonuses arising from the settlement of contract negotiations with all of the University's employee groups.

NOTE 11 ENDOWMENT NET ASSETS

The balance shown does not include endowment principal of \$4,820,000 (2005 - \$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 12 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)	
	2006	2005
<u>General Operating Fund</u>		
Equipment replacement and capital improvements	42,756	42,971
Budgetary savings available for non-recurring expenditures (i.e. carryovers)	40,522	35,738
Less vacation pay, long-term disability and pension expense liabilities	<u>(10,315)</u>	<u>(8,207)</u>
	72,963	70,502
<u>Ancillary Enterprises Fund</u>		
Equipment replacement and capital improvements	12,759	11,681
Less vacation pay, long-term disability and pension expense liabilities	<u>(1,601)</u>	<u>(2,034)</u>
	11,158	9,647
<u>Capital Fund</u>		
Capital assets (primarily buildings) funded by advances from appropriations	<u>(17,741)</u>	<u>(20,862)</u>
	<u>66,380</u>	<u>59,287</u>

NOTE 13 DONATION PLEDGES AND GIFTS IN KIND

The total donations which have been pledged but not received as at March 31, 2006 are \$3,689,000 (2005 - \$2,104,000). These pledges are not recorded in the financial statements (Note 2 (j)).

During the year ended March 31, 2006, the University recorded donated gifts-in-kind with an estimated value at the date of receipt totalling \$363,000 (2005 - \$310,000). Gifts in kind include equipment, books, manuscripts, artwork and artefacts.

NOTE 14 UNIVERSITY INTERESTS IN JOINT VENTURES AND RELATED PARTIES

The University is a member of the three joint ventures described below. As no monetary gain is expected from these joint ventures, their accounts are excluded from these statements.

- (a) The University is one of five university members of a consortium which manages the Tri-Universities Meson Facility (TRIUMF), a research facility at the University of British Columbia. 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) which operates a research station at Bamfield, British Columbia. The University's annual grant to the Society of \$236,000 (2005 - \$195,000) and a special assessment of \$200,000 is recorded as an expense in the General Operating Fund.
- (c) The University is one of five members of BCNET Networking Society which provides networking services to the research and education community in British Columbia. The University contributes an annual membership fee and pays a service usage fee. The total of these fees, \$423,000 (2005 - \$407,000), is recorded as an expense in the General Operating Fund.

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

NOTE 15 COMMITMENTS AND CONTINGENT LIABILITIES

There were \$57,799,000 of commitments in regard to construction contracts at March 31, 2006 (2005 – \$13,917,000).

The University's commitments for various operating leases for the next five years are as follows: 2007- \$ 523,000; 2008- \$173,000; 2009- \$48,000; 2010- \$20,000; 2011- \$0.

In 2005, the University embarked on a three-year project to renew its administrative information systems. As at March 31, 2006, the estimated cost to complete the \$20 million project is \$10,702,000.

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, 2006, there was a commitment of \$33,000,000 outstanding on the \$40,000,000 contract.

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 16 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 fifteen members have received a defined benefit supplement. At December 31, 2005, there were eight supplements aggregating under \$1,000 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, 2003 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 \$9,706,000 (2005 - \$9,050,000) 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 \$19,000 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 \$2,111 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, 2003 showed that they are in aggregate fully funded. These financial statements include the SBA's assets of \$2,961,000 at market value (cost \$2,270,000) as at March 31, 2006, and the University contributions of \$376,000 for the year then ended (2005 - \$439,000). 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 accounting standards of the Canadian Institute of Chartered Accountants with

updated valuations and liability estimates by management to December 31, 2005:

	(in thousands of dollars)	
	<u>2006</u>	<u>2005</u>
Accrued pension benefit obligations:		
Benefit obligation, beginning of year	109,449	99,434
Plan amendment	(3,171)	-
Net actuarial loss	(630)	-
Current service cost	4,240	4,832
Interest cost	6,803	7,227
Employee contributions	1,721	1,693
Benefit payments	<u>(3,796)</u>	<u>(3,737)</u>
Benefit obligation, end of year	<u>114,616</u>	<u>109,449</u>
Plan Assets		
Fair value of plan assets, beginning of year	111,778	101,059
Actual return on plan assets	11,256	9,706
Contributions by the University	3,180	3,057
Contributions by employees	1,721	1,693
Benefit payments	<u>(3,796)</u>	<u>(3,737)</u>
Fair value of plan assets, end of year	<u>124,139</u>	<u>111,778</u>
Plan surplus, end of year	9,523	2,328
Unamortized net actuarial loss	(3,809)	1,057
Unamortized past service costs	(2,906)	-
Unamortized transitional asset	<u>(6,458)</u>	<u>(7,506)</u>
Accrued benefit liability, end of year	<u>(3,650)</u>	<u>(4,121)</u>

Significant assumptions adopted and used by the actuary 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% in 2005, 3.25% in 2006, 3.5% in 2007, 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, 2005 was \$2,709,000 (2004 - \$3,970,000).

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 \$91,000 (2004 - \$87,000).

- (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 7).

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, 2006 was \$204,000 (2005- \$304,000).

NOTE 17 ACCOUNTING POLICY CHANGES

The following accounting policy changes, which impact the financial statements, were made during the year:

- (a) The University of Victoria Foundation, which holds most of the University's endowments, amended its accounting policy to include unrealized capital gains in distributable earnings along with realized capital gains, interest and dividends. As a result, realized capital gains which were allocated to endowment principal prior to 1996 have been transferred to distributable earnings. The impact of this change, which has been applied retroactively, is to reduce prior year endowment net assets as at April 1, 2004 by \$5,724,000 on the statement of changes in net assets and balance sheet and to increase deferred contributions by the same amount. The amount transferred which would otherwise be included in investment income on the statement of revenue and expense and changes in net assets has been deferred until used to fund distributions for scholarships and other awards. This change has no effect on 2006 revenue and expense.
- (b) The University has adopted Section 3855, *Financial Instruments - Recognition and Measurement* and related sections of the CICA Handbook which provides for the recording of financial instruments at their fair value. This change in policy, which has been adopted prospectively as of April 1, 2005, affects long term receivables, endowment and other investments and derivative financial instruments. Long term debt continues to be carried at amortized cost and for all other financial instruments book value approximates fair value.

The impact of this change as at April 1, 2005 is as follows: (i) reduce long term receivables and unrestricted net assets by \$212,000 representing the fair value adjustment to the long term receivables referred to in Note 3, ii) decrease endowment and other investments by \$3,370,000, deferred contributions by \$3,440,000, endowment fund net assets by \$330,000 and increase accounts payable and accrued liabilities by \$400,000 for net unrealized capital losses. Consistent with the change in policy noted in (a), the unrealized losses of \$3,440,000 with respect to endowment investments, which would otherwise be included in investment income on the statement of revenue and expense and changes in net assets, have been deferred along with current year unrealized gains. (iii) increase accrued liabilities and reduce unrestricted net assets by \$384,000 representing the fair value adjustment to the interest rate swap referred to in Note 8.

The impact of this change during the year ended March 31, 2006 is as follows: (i) reduce general operating revenue and unrestricted net assets by \$27,000 representing the fair value adjustment to the long term receivables referred to in Note 3, (ii) increase accounts payable and accrued liabilities by \$691,000, increase deferred contributions by \$9,615,000 and reduce operating investment income and unrestricted net assets by \$439,000. Consistent with the change in policy noted in (a), the unrealized gain of \$9,615,000 with respect to endowment investments, which would otherwise be included in investment income on the statement of revenue and expense and changes in net assets, have been deferred until used to fund distributions. (iii) increase interest expense by \$47,000 representing the fair value adjustment to the interest rate swap referred to in Note 8.