



UNIVERSITY OF VICTORIA
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STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University is responsible for the preparation of financial statements and has prepared them in accordance with Canadian generally accepted accounting principles prescribed for not-for-profit organizations by the Canadian Institute of Chartered Accountants. The financial statements present fairly the financial position of the University as at March 31, 2007, 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, 2007.

Dr. David H. Turpin
President and Vice-Chancellor

Ms. Gayle Gorrill
Vice-President, Finance & Operations

May 23, 2007



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

We have audited the balance sheet of the University of Victoria as at March 31, 2007 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, 2007 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, stylized font.

Chartered Accountants

Victoria, Canada

May 23, 2007

UNIVERSITY OF VICTORIA
BALANCE SHEET
As at March 31, 2007
(In thousands of dollars)

Statement 1

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and short term investments (Note 3)	142,352	117,336
Accounts receivable	19,191	30,802
Inventories	3,629	3,393
Prepaid expenses	1,899	1,929
	167,071	153,460
Long term receivables (Note 4)	31,299	31,815
Endowment and other investments (Note 5)	196,745	186,300
Capital assets (Note 6)	437,626	381,499
	832,741	753,074
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	40,210	51,529
Funds held in trust (Note 7)	1,373	2,119
Current portion of long term debt	1,107	1,810
	42,690	55,458
Deferred contributions (Note 8)	114,900	106,602
Insurance liabilities (Note 9)	7,030	7,285
Long term debt (Note 10)	38,470	34,577
Unamortized deferred capital contributions (Note 11)	264,008	225,041
	467,098	428,963
Net Assets		
Invested in capital assets	149,405	135,775
Endowment	112,495	99,560
Internally restricted	91,386	66,380
Unrestricted	12,357	22,396
	365,643	324,111
	832,741	753,074

Approved on behalf of
the Board of Governors

Trudi Brown
Chair,
Board of Governors

Gayle Gorrill
Vice-President,
Finance and Operations

UNIVERSITY OF VICTORIA
STATEMENT OF CHANGES IN NET ASSETS

For the Year ended March 31, 2007

(In thousands of dollars)

	Invested in Capital <u>Assets</u>	<u>Endowment</u> (note 13)	Internally <u>Restricted</u> (note 14)	<u>Unrestricted</u> (statement 3)	<u>Total</u> <u>2007</u>	<u>Total</u> <u>2006</u> (restated, note 19)
Balance, beginning of year	135,775	99,560	66,380	22,396	324,111	289,125
Excess of revenue over expense				28,403	28,403	27,678
Changes in investment in capital assets						
Land, collections, works of art and other	760			(566)	194	229
Other assets acquired with unrestricted net assets	29,178			(29,178)	-	-
Depreciation on assets acquired with unrestricted net assets	(12,779)			12,779	-	-
Debt acquired less debt retired with unrestricted net assets	(3,529)			3,529	-	-
Changes in internally restricted net assets						
Appropriations			47,506	(47,506)	-	-
Released to meet expenses			(22,500)	22,500	-	-
Changes in endowment net assets						
Contributions received		10,666			10,666	7,079
Investment income capitalized		2,269			2,269	-
Balance, end of year	<u>149,405</u>	<u>112,495</u>	<u>91,386</u>	<u>12,357</u>	<u>365,643</u>	<u>324,111</u>

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

For the Year ended March 31, 2007

(In thousands of dollars)

	<u>General</u> <u>Operating</u>	<u>Ancillary</u> <u>Enterprises</u>	<u>Specific</u> <u>Purposes</u>	<u>Sponsored</u> <u>Research</u>	<u>Capital</u>	<u>Total</u> <u>2007</u>	<u>Total</u> <u>2006</u>
							(restated, note 19)
REVENUE							
Government grants and contracts (Note 12) - provincial	146,535	1,728	2,124	6,718	436	157,541	160,169
- federal	4,712		903	36,397		42,012	38,426
- other	4,361		107	6,350		10,818	8,686
Student tuition - credit courses	84,758		2			84,760	82,241
- non credit courses and other	13,104		1,314			14,418	13,718
Donations, non government grants and contracts	1,580	57	5,097	5,885	21	12,640	7,873
Sales of services and products	7,835	43,987	2,888	717	3	55,430	50,859
Investment income	6,237	590	5,714	500	1	13,042	8,629
Equity in earnings of long term investments		(10)				(10)	110
Other revenue	2,824	671	419	609	14	4,537	4,533
Amortization of deferred capital contributions	925	542	281	9,849	4,702	16,299	14,552
	<u>272,871</u>	<u>47,565</u>	<u>18,849</u>	<u>67,025</u>	<u>5,177</u>	<u>411,487</u>	<u>389,796</u>
EXPENSE							
Salaries - academic	73,997		1,481	5,173		80,651	80,134
- other instruction and research	13,741		2,254	16,439		32,434	29,271
- support staff	75,061	12,811	1,613	2,610		92,095	90,200
	<u>162,799</u>	<u>12,811</u>	<u>5,348</u>	<u>24,222</u>	<u>-</u>	<u>205,180</u>	<u>199,605</u>
Employee benefits	25,448	1,833	603	2,540	97	30,521	30,417
Travel	5,830	62	1,378	5,080		12,350	11,004
Supplies and services	29,653	4,799	5,936	15,322	485	56,195	45,968
Equipment rental and maintenance	2,957	200	56	438		3,651	3,055
Utilities	4,503	1,928	1	106		6,538	6,456
Scholarships, fellowships and bursaries	10,469		4,198	8,262		22,929	22,476
Cost of goods sold		14,758				14,758	13,959
Interest on long term debt		1,351			534	1,885	1,882
Renovations						-	553
Internal cost allocations	(6,201)	4,154	376	1,533	138	-	-
Depreciation	9,666	2,708	419	9,871	6,413	29,077	26,743
	<u>245,124</u>	<u>44,604</u>	<u>18,315</u>	<u>67,374</u>	<u>7,667</u>	<u>383,084</u>	<u>362,118</u>
Excess (deficiency) of revenue over expense	27,747	2,961	534	(349)	(2,490)	28,403	27,678
Increase in internally restricted funds	(16,736)	(3,141)			(5,129)	(25,006)	(7,093)
Interfund transfers	(9,935)	(45)	158	327	9,495	-	-
Investment in capital assets, net of depreciation	(1,764)	303	62	22	(12,059)	(13,436)	(8,655)
Changes in unrestricted net assets	(688)	78	754	-	(10,183)	(10,039)	11,930
Balance, beginning of year	80	149	1,018	-	21,149	22,396	10,466
	<u>(608)</u>	<u>227</u>	<u>1,772</u>	<u>-</u>	<u>10,966</u>	<u>12,357</u>	<u>22,396</u>

UNIVERSITY OF VICTORIA
STATEMENT OF CASH FLOWS
For the Year ended March 31, 2007
(In thousands of dollars)

Statement 4

	<u>2007</u>	<u>2006</u> (restated, note 19)
Cash provided by (used in) operating activities		
Excess of revenue over expense	28,403	27,678
Items not affecting cash:		
Depreciation	29,077	26,743
Amortization of deferred capital contributions	(16,299)	(14,552)
Changes in non-cash working capital items:		
Net (increase) decrease in current assets	11,405	(6,268)
Net increase (decrease) in current liabilities	(12,768)	14,386
	<u>39,818</u>	<u>47,987</u>
Cash provided by (used in) investing activities		
(Increase) decrease in long term receivables	516	(28,159)
Increase in endowment and other investments	(10,445)	(21,651)
Capital asset acquisitions and construction	(85,010)	(63,748)
	<u>(94,939)</u>	<u>(113,558)</u>
Cash provided by (used in) financing activities		
Increase in long term debt	3,893	13,975
Increase (decrease) in insurance liabilities	(255)	1,575
Net increase in deferred contributions	8,298	26,014
Capital contributions received	55,266	43,831
Endowment donations received	12,935	1,025
	<u>80,137</u>	<u>86,420</u>
Increase in cash and short term investments	25,016	20,849
Cash and short term investments, beginning of year	<u>117,336</u>	<u>96,487</u>
Cash and short term investments, end of year	<u><u>142,352</u></u>	<u><u>117,336</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 two wholly owned subsidiaries of the University:

- University of Victoria Innovation and Development Corporation which promotes the commercialization of research discoveries.
- University of Victoria Properties Investments Inc. which manages the University's real estate holdings including the Vancouver Island Technology Park Trust.

The 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 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.

The University's two profit-oriented subsidiaries are recorded on the equity basis as described in Note 19:

- 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 provides leased space to high-technology companies on Vancouver Island.

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

(c) Deferral Method and Fund Accounting

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

The Statement of Revenue and Expense and Changes in Unrestricted Net Assets shows, in a multi-column format, the annual operating

results of each unrestricted fund and the changes in unrestricted net assets for the year after accounting for the use of unrestricted resources for capital and other internally restricted purposes. The Balance Sheet presents, in a single-column format, the assets, liabilities and net assets of the University as a whole.

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

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

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

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

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

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

(d) Revenue Recognition

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

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

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

(e) Cash and Short Term Investments

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

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

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

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

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

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

(j) Pledges and Contributed Services
 Pledges from donors are recorded when payment is received by the University or the transfer of property is completed since their ultimate collection cannot be reasonably assured until that time. The University acknowledges the substantial and significant services provided by its many volunteers. The value of these services is not recorded in the financial statements.

(k) Pension Benefits
 The costs of pension benefits are recognized on an accrual basis over the working lives of employees as detailed in Note 18.

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

(m) Use of Estimates

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

(n) Financial Instruments

The University's financial instruments 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 currency or credit risk arising from these instruments. The University is exposed to interest rate risk as outlined in Notes 5 and 10.

On April 1, 2005, the University 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 policy 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.

NOTE 3 CASH AND SHORT TERM INVESTMENTS

(thousands of dollars)	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ 20,450	\$ 20,450	\$ 1,990	\$ 1,990
Short term investments	121,902	121,902	115,346	115,346
	<u>\$ 142,352</u>	<u>\$ 142,352</u>	<u>\$ 117,336</u>	<u>\$ 117,336</u>

NOTE 4 LONG TERM RECEIVABLES

Long term receivables comprise the following:

	March 31 (in thousands of dollars)	
	<u>2007</u>	<u>2006</u>
Various faculty and senior administrators	\$ 4,034	\$ 4,119
Home relocation loans receivable interest free for 5 years, with an option for further renewal unless employment ceases, generally secured by a second mortgage		

Heritage Realty Properties Ltd.	8,527	8,677
Promissory note receivable, interest at 5.0% payable annually, with principal repayment due May 1, 2011, secured by an unregistered equitable mortgage		
Vancouver Island Technology Park Trust		
Loans Receivable		
interest at 5.13%, monthly principal and interest payments of \$94,750, due April 2030, unsecured	15,365	15,704
interest at 6.13%, monthly principal and interest payments of \$24,682, due April 2030, unsecured	3,654	3,724
	<u>31,580</u>	<u>32,224</u>
Less current portion	<u>(281)</u>	<u>(409)</u>
	<u>\$ 31,299</u>	<u>\$ 31,815</u>

NOTE 5 ENDOWMENT AND OTHER INVESTMENTS

(thousands of dollars)	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed income (4.0% to 8.0% securities due 2009 to 2032)	\$ 81,392	\$ 81,562	\$ 91,704	\$ 91,743
Canadian equities	27,895	39,555	21,654	31,171
US equities	9,811	10,728	32,152	29,370
Foreign equities	49,657	54,208	27,533	26,597
Short term investments	6,508	6,508	3,693	3,693
Other	2,899	4,184	3,117	3,726
	<u>\$ 178,162</u>	<u>\$ 196,745</u>	<u>\$ 179,853</u>	<u>\$ 186,300</u>

NOTE 6 CAPITAL ASSETS

	March 31 (in thousands of dollars)									
	<u>Cost</u>			<u>Accumulated Depreciation</u>				<u>Net Book Value</u>		
	<u>2006</u>	<u>Additions for year</u>	<u>Adjustments</u>	<u>2007</u>	<u>2006</u>	<u>Depreciation for year</u>	<u>Adjustments</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Land	13,773	566		14,339	-			-	13,773	14,339
Site improvements	23,463	1,335		24,798	9,452	725		10,177	14,011	14,621
Buildings	339,814	45,160		384,974	94,265	7,376		101,641	245,549	283,333
Equipment and furnishings	80,338	23,759	(4,743)	99,354	25,988	9,473	(4,743)	30,718	54,350	68,636
Information systems	9,197	3,772		12,969	-			-	9,197	12,969
Computer equipment	28,563	6,324	(6,426)	28,461	13,959	7,379	(6,426)	14,912	14,604	13,549
Library holdings	44,738	4,094	(3,490)	45,342	22,045	4,124	(3,490)	22,679	22,693	22,663
Collection, not depreciated	7,322	194		7,516	-			-	7,322	7,516
	<u>547,208</u>	<u>85,204</u>	<u>(14,659)</u>	<u>617,753</u>	<u>165,709</u>	<u>29,077</u>	<u>(14,659)</u>	<u>180,127</u>	<u>381,499</u>	<u>437,626</u>

NOTE 7 FUNDS HELD IN TRUST

Funds held in trust are funds held on behalf of autonomous organizations, agencies, and student societies having close connections with the University.

NOTE 8 DEFERRED CONTRIBUTIONS

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

	March 31	
	(in thousands of dollars)	
	2007	2006
Balance, beginning of year	106,602	79,787
Contributions received	<u>93,085</u>	<u>101,625</u>
	<u>199,687</u>	<u>181,412</u>
Deduct: Transfers to		
Revenue	(78,894)	(69,072)
Unamortized deferred capital contributions	<u>(5,893)</u>	<u>(5,738)</u>
	<u>(84,787)</u>	<u>(74,810)</u>
Balance, end of year	<u><u>114,900</u></u>	<u><u>106,602</u></u>
The deferred contribution balance consists of the following:		
General Operating	1,613	2,154
Specific Purposes	63,639	51,648
Sponsored Research	36,414	41,990
Capital	<u>13,234</u>	<u>10,810</u>
	<u><u>114,900</u></u>	<u><u>106,602</u></u>

NOTE 9 INSURANCE LIABILITIES

Insurance liabilities arise in connection with the University's self-funded employee benefit plans.

NOTE 10 LONG TERM DEBT

	March 31 (in thousands of dollars)	
	2007	2006
<u>Related to Student Residences</u>		
Canada Mortgage and Housing Corporation 5.125% to 9.5% debentures due 2015 to 2029	3,174	3,255
Province of British Columbia 7.875% bond due 2024 Less sinking fund	9,749 <u>(7,567)</u>	9,749 <u>(7,141)</u>
	<u>2,182</u>	<u>2,608</u>
Royal Bank of Canada Term loan with floating interest rate fixed at 5.38%, to 2014, through an interest rate swap due November 2024	13,856	14,315
<u>Related to Technology Enterprise Facility</u>		
British Columbia Immigrant Investment Fund 4.75% term loan due February 2017	5,000	-
<u>Related to Dunsmuir Lodge Conference Centre</u>		
Province of British Columbia	-	505
<u>Related to Off-campus Business Enterprises - Vancouver Island Technology Park</u>		
Great West Life Assurance Company 5.13% term loan due April 2030	<u>15,365</u>	<u>15,704</u>
Total debt (fair value 2007 - \$41,633, 2006 - \$45,052)	39,577	36,387
Less current portion of long term debt including the full amount of those mortgages and loans subject to refinancing in the following year	<u>(1,107)</u>	<u>(1,810)</u>
Total long term debt	<u><u>38,470</u></u>	<u><u>34,577</u></u>

The debentures issued under Orders-in-Council to the Canada Mortgage and Housing Corporation are secured by a floating charge and mortgage on certain student residences and dining facilities. The bonds issued to the Province of British Columbia under the University Act are secured by a floating charge on certain student residence 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, 2007 was (\$489,000) (2006 – (\$431,000)).

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

In the current year, the University entered into an agreement with the British Columbia Immigrant Investment Fund to finance \$5 million for the acquisition of the Technology Enterprise Facility building on campus. The term loan is unsecured and bears interest at 4.75% for 10 years to be amortized over a 20 year period. Subsequent to March 31, 2007, the University entered into an interest rate swap contract with the Toronto Dominion Bank which fixed the effective interest rate at 5.138% for an additional 10 years commencing in 2017.

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 as follows;

<u>Year Ended March 31</u>	<u>Annual Payments (in thousands of dollars)</u>
2008	1,107
2009	1,134
2010	1,192
2011	1,253
2012	<u>1,315</u>
	<u><u>6,001</u></u>

NOTE 11 UNAMORTIZED DEFERRED CAPITAL CONTRIBUTIONS

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

	March 31 (in thousands of dollars)	
	<u>2007</u>	<u>2006</u>
Balance, beginning of year	225,041	195,762
Contributions received	49,373	38,093
Transfers from deferred contributions	<u>5,893</u>	<u>5,738</u>
	<u>280,307</u>	<u>239,593</u>
Transferred to revenue	<u>(16,299)</u>	<u>(14,552)</u>
Balance, end of year	<u><u>264,008</u></u>	<u><u>225,041</u></u>

follows:

The unamortized deferred capital contribution balance consists of the following:

General Operating	3,655	3,340
Ancillary Enterprises	13,229	13,765
Specific Purposes	1,470	1,331
Sponsored Research	52,975	43,245
Capital	<u>192,679</u>	<u>163,360</u>
	<u>264,008</u>	<u>225,041</u>

NOTE 12 GOVERNMENT GRANTS AND CONTRACTS

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

	Year ended March 31 (in thousands of dollars)	
	<u>2007</u>	<u>2006</u>
Province of British Columbia -		
General Operating	146,535	146,857
Ancillary Enterprises	1,734	2,500
Specific Purposes	5,357	2,784
Sponsored Research	17,877	13,882
Capital Funding	36,752	25,226
Recorded as deferred contributions	<u>(50,714)</u>	<u>(31,080)</u>
	<u>157,541</u>	<u>160,169</u>
Government of Canada -		
General Operating	5,411	4,871
Specific Purposes	1,300	1,930
Sponsored Research	39,629	55,278
Recorded as deferred contributions	<u>(4,328)</u>	<u>(23,653)</u>
	<u>42,012</u>	<u>38,426</u>
Municipal and Other Governments -		
General Operating	4,361	3,239
Specific Purposes	258	343
Sponsored Research	5,832	6,945
Recorded as deferred contributions	<u>367</u>	<u>(1,841)</u>
	<u>10,818</u>	<u>8,686</u>
	<u>210,371</u>	<u>207,281</u>

NOTE 13 ENDOWMENT NET ASSETS

The balance shown does not include endowment principal of \$4,820,000 (2006 - \$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 14 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)	
	2007	2006
<u>General Operating Fund</u>		
Equipment replacement and capital improvements	52,920	42,756
Budgetary savings available for non-recurring expenditures (i.e. carryovers)	46,529	40,522
Less vacation pay, long-term disability and pension expense liabilities	<u>(9,774)</u>	<u>(10,315)</u>
	89,675	72,963
<u>Ancillary Enterprises Fund</u>		
Equipment replacement and capital improvements	15,722	12,759
Less vacation pay, long-term disability and pension expense liabilities	<u>(1,399)</u>	<u>(1,601)</u>
	14,323	11,158
<u>Capital Fund</u>		
Capital assets (primarily buildings) funded by advances from appropriations	<u>(12,612)</u>	<u>(17,741)</u>
	<u>91,386</u>	<u>66,380</u>

NOTE 15 DONATION PLEDGES AND GIFTS IN KIND

The total donations which have been pledged but not received as at March 31, 2007 are \$3,076,000 (2006 - \$3,689,000). These pledges are not recorded in the financial statements (Note 2 (j)).

During the year ended March 31, 2007, the University recorded donated gifts-in-kind with an estimated value at the date of receipt totalling \$647,000 (2006 - \$363,000). Gifts in kind include equipment, books, manuscripts, and artwork.

NOTE 16 JOINT VENTURES AND RELATED PARTIES THAT ARE NOT CONSOLIDATED

The University is a member of the three joint ventures described below which are recorded on the equity basis. No monetary gain is expected from these entities.

- (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 \$262,000 (2006 - \$436,000) 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, \$363,000 (2006 - \$423,000), 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 17 COMMITMENTS AND CONTINGENT LIABILITIES

There were \$82,937,000 of commitments in regard to construction contracts at March 31, 2007 (2006 – \$57,799,000).

The University's commitments for various operating leases for the next five years are as follows: 2008- \$ 400,000; 2009- \$146,000; 2010- \$102,000; 2011- \$97,000; 2012- \$0.

In 2005, the University embarked on a three-year project to renew its administrative information systems. As at March 31, 2007, the estimated cost to complete the \$20 million project is \$6,650,000.

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, 2007 there was a commitment of \$30,298,000 outstanding on the \$47,708,000 contract.

The University is one of 56 Canadian University subscribers to CURIE, which has provided property and liability coverage to most campuses other than in Quebec and Prince Edward Island since 1988. The anticipated cost of claims based on actuarial projections is funded through member premiums. Subscribers to CURIE have exposure to premium retro-assessments should the premiums be insufficient to cover losses and expenses.

From time to time, the University is involved in litigation or proceedings relating to claims arising out of its operations in the ordinary course of business. It is the opinion of management that the aggregate amount of any potential liability is not expected to have a material adverse effect on the University's financial position or results.

NOTE 18 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 seventeen members have received a defined benefit supplement. At December 31, 2006, 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. Results of the December 31, 2006 valuation are to be reported in September 2007. A purely defined contribution plan is available for part-time faculty and administrative and academic professional staff who meet certain eligibility criteria. The University has made contributions to these two plans during the year of \$10,546,000 (2006 - \$9,706,000) 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 \$20,000 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 \$2,222 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 \$3,508,000 at market value (cost \$2,565,000) as at March 31, 2007, and the University contributions of \$403,000 for the year then ended (2006 - \$376,000). 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, 2006:

	(in thousands of dollars)	
	<u>2007</u>	<u>2006</u>
Accrued pension benefit obligations:		
Benefit obligation, beginning of year	114,616	109,449
Plan amendment	-	(3,171)
Net actuarial loss	-	(630)
Current service cost	4,505	4,240
Interest cost	7,359	6,803
Employee contributions	1,886	1,721
Benefit payments	<u>(4,630)</u>	<u>(3,796)</u>
Benefit obligation, end of year	<u>123,736</u>	<u>114,616</u>
Plan Assets		
Fair value of plan assets, beginning of year	124,139	111,778
Actual return on plan assets	14,275	11,256
Contributions by the University	3,881	3,180
Contributions by employees	1,886	1,721
Benefit payments	<u>(4,630)</u>	<u>(3,796)</u>
Fair value of plan assets, end of year	<u>139,551</u>	<u>124,139</u>
Plan surplus, end of year	15,815	9,523
Unamortized net actuarial loss	(10,290)	(3,809)
Unamortized past service costs	(2,642)	(2,906)
Unamortized transitional asset	<u>(5,335)</u>	<u>(6,458)</u>
Accrued benefit liability, end of year	<u>(2,452)</u>	<u>(3,650)</u>

Significant assumptions adopted and used by the actuary in 2007 (and 2006) 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 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, 2006 was \$2,683,000 (2005 - \$2,709,000).

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 \$98,000 (2006 - \$91,000).

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

An insured long-term disability plan funded entirely by the University was commenced for other staff on July 1, 2000. The University contribution for the year ending March 31, 2007 was \$733,000 (2006- \$204,000).

NOTE 19 ACCOUNTING POLICY CHANGE

During the year, the University changed its accounting policy for recording the activities of its controlled for-profit entities, Heritage Realty Properties Ltd. and the Vancouver Island Technology Park Trust, from full consolidation to the equity method. As a result, the entities assets and liabilities are no longer consolidated in the University's balance sheet and the University's investment in these entities are recorded under Endowment and Other Investments. The impact of this change, which has been applied retroactively, is to restate the April 1, 2006 balance sheet as follows: reduce cash and short term investments by \$1,613,000, increase accounts receivable by \$831,000, reduce inventories by \$169,000, reduce prepaid expenses by \$201,000, increase long-term receivables by \$27,696,000, increase Endowment and other investments by \$313,000, reduce capital assets by \$32,548,000, reduce accounts payable by \$1,060,000, reduce long term debt by \$4,631,000, reduce net assets invested in capital assets by \$12,212,000 and increase unrestricted net assets by \$12,212,000. There was no effect on excess of revenue over expense in 2006 or 2005.