VANCOUVER ISLAND UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012

VANCOUVER ISLAND UNIVERSITY

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Statement of Administrative Responsibility for Financial Statements

Administrative management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

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 include employees of the University. The Audit Committee meets with management and with the 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 management.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the Board to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically with, both the Audit Committee and management to discuss their audit findings.

On behalf of the University:

Mike Brown, Board Chair

Pat Eagar, Vice President Administration & Finance

Independent Auditors' Report

To the Board of Governors of Vancouver Island University and the Minister of Advanced Education:

We have audited the accompanying consolidated financial statements of Vancouver Island University, which comprise the consolidated statement of financial position as at March 31, 2012, and the consolidated statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vancouver Island University as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Nanaimo, British Columbia

May 24, 2011

MNP LLP

Chartered Accountants

VANCOUVER ISLAND UNIVERSITY

Consolidated Statement of Financial Position

As at March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current Assets:		
Cash and marketable securities (note 3)	$ 23,404,830	$ 19,267,105
Accounts receivable	3,990,975	9,473,431
Current portion of note receivable	-	466,000
Short term investments (note 3)	1,121,011	-
Inventories	1,119,951	1,208,591
Prepaid expenses	1,321,908	1,061,802
	30,958,675	31,476,929
Restricted Cash (note 3)	2,010,150	955,167
Endowment & other investments (note 4)	30,187,610	30,508,896
Interest rate swap derivative	97,985	115,402
Capital assets (note 5)	151,389,235	154,586,570
	$ 214,643,655	$ 217,642,964
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 7,864,780	$ 12,336,981
Current portion of long term debt (note 6)	781,000	736,000
Current portion of employee future benefits (note 7)	7,136,739	6,983,557
Current portion of deferred contributions (note 8)	2,640,076	5,795,073
Deferred revenue (note 8)	11,614,250	14,231,852
	30,036,845	40,083,463
Long-term Liabilities		
Long term debt (note 6)	13,048,784	13,830,049
Employee future benefits (note 7)	4,530,041	4,322,356
Deferred Contributions (note 8)	101,196,748	103,183,100
	118,775,573	121,335,505
Total Liabilities	148,812,418	161,418,968
Contingencies (Note 9)		
Net Assets		
Invested in capital assets	36,460,688	36,952,823
Endowment (note 10)	11,300,777	11,114,955
Externally restricted (note 11)	17,674	24,705
Internally restricted (note 12)	12,794,598	6,913,044
Unrestricted	5,257,500	1,218,469
	65,831,237	56,223,996
	$ 214,643,655	$ 217,642,964

The notes form an integral part of these financial statements.

On behalf of the Board:

Board Chair

Vice-President Administration and Finance

VANCOUVER ISLAND UNIVERSITY
Consolidated Statement of Changes in Net Assets

Year ended March 31, 2012, with comparative figures for 2011

	Invested in capital assets	Endowment	Externally restricted	Internally restricted	Unrestricted	**2012**	**2011**
Net assets, beginning of year	$36,952,823	$11,114,955	$ 24,705	$ 6,913,044	$ 1,218,469	$56,223,996	$ 52,727,706
Excess (deficiency) of revenue over expenses	(3,553,149)	-	30,372	(1,189,289)	14,027,185	9,315,119	3,138,352
Capital assets purchased, net of assets purchased through deferred capital contributions	2,218,166	-	-	1,980,808	(4,198,974)	-	-
Repayment of long-term debt	736,265	-	-	(736,265)	-	-	-
Increase (decrease) in interest rate swap derivative asset	(17,417)	-	-	17,417	-	-	-
Endowment contributions	-	168,122	-	-	-	168,122	357,938
Grant for land purchase	124,000	-	-	-	-	124,000	-
Faculties and departmental carryforwards	-	-	-	5,396,249	(5,396,249)	-	-
Internal funding transfers	-	17,700	(37,403)	412,634	(392,931)	-	-
Balance, end of year	$36,460,688	$11,300,777	$ 17,674	$12,794,598	$ 5,257,500	$65,831,237	$ 56,223,996

The notes form an integral part of these financial statements.

VANCOUVER ISLAND UNIVERSITY

Consolidated Statement of Operations

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Revenues		
Government Grants & Contracts - Provincial	$ 61,300,922	$ 55,969,450
Government Grants & Contracts - Federal	1,587,127	1,522,261
Instructional Contracts	2,720,263	2,835,838
Tuition and other fees	44,085,892	39,162,464
Sales of goods & services	9,259,376	10,105,170
Amortization of deferred contributions	3,726,700	3,503,448
Interest and other investment income	1,196,982	900,199
Gifts, grants and bequests	1,074,867	939,517
Loss on interest rate swap derivative	(17,417)	(61,956)
Other	3,459,810	2,767,304
	128,394,522	117,643,695
Expenses		
Salaries & Benefits	84,169,043	81,089,991
Fees & Purchased Services	7,960,265	7,767,330
Travel & Training	2,478,128	2,184,552
Scholarships & Bursaries	1,360,201	1,307,541
Equipment Rental & Maintenance	1,795,205	1,121,226
Utilities, Insurance & Taxes	2,377,277	2,330,894
Materials & Supplies	6,767,417	6,161,305
Amortization of capital assets	7,279,849	7,710,790
Cost of goods sold	4,405,561	4,643,530
Interest on long term debt	884,402	925,187
	119,477,348	115,242,346
Excess of revenue over expenses before unrealized gain	8,917,174	2,401,349
Unrealized gain on endowment & other investments	397,945	737,003
Excess of revenue over expenses	$ 9,315,119	$ 3,138,352

The notes form an integral part of these financial statements.

VANCOUVER ISLAND UNIVERSITY

Consolidated Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	$ 9,315,119	$ 3,138,352
Adjustments for items not affecting cash:		
Amortization of capital assets	7,279,849	7,710,790
Amortization of deferred capital contributions	(3,726,700)	(3,503,448)
Unrealized gain on endowment & other investments	(397,945)	(737,003)
Loss on interest rate swap derivative	17,417	61,956
	3,172,621	3,532,295
Changes in non-cash working capital items:		
Accounts receivable	5,525,456	(2,741,481)
Inventory	88,640	2,288
Accounts payable and accrued liabilities	(4,472,201)	(2,304,437)
Employee future benefits	360,867	(266,533)
Prepaid expense	(260,106)	168,590
Note receivable	466,000	390,856
Deferred revenue	(2,617,602)	1,871,392
Deferred contributions	(3,154,996)	2,115,132
	(4,063,942)	(764,193)
Total cash from operations	8,423,798	5,906,454
Financing:		
Repayment of long term debt	(736,265)	(724,869)
Increase in endowments	168,122	357,938
Proceeds from deferred capital contributions	1,697,347	24,257,360
Grant for land purchase	124,000	-
	1,253,204	23,890,429
Investing:		
Restricted cash	(1,054,983)	226,356
Purchase of capital assets	(4,082,514)	(27,539,744)
Net draw (purchase) of investments	719,231	(4,632,755)
Short term investments	(1,121,011)	1,073,872
	(5,539,277)	(30,872,271)
Increase (decrease) in cash and marketable securities	4,137,725	(1,075,388)
Cash and marketable securities, beginning of year	19,267,105	20,342,493
Cash and marketable securities, end of year	$ 23,404,830	$ 19,267,105
Supplemental information		
Interest received	$ 700,523	$ 681,998
Interest paid	$ (884,667)	$ (954,056)

The notes form an integral part of these financial statements.

Vancouver Island University (the "University") is a post-secondary educational institution incorporated under the amended University Act (Bill 34 was enacted on September 1, 2008). The University is a registered charity, governed by a Board of Governors, the majority of which are appointed by the Provincial Government of British Columbia. The University offers a broad range of program options including undergraduate, graduate degree, career diplomas, and trades training at its Nanaimo, Cowichan, Parksville and Powell River campuses.

1. Significant Accounting Policies

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles using not-for-profit organization reporting standards.

a. Accounting Methods

The University records accounting transactions using fund accounting methods generally in use for not-for-profit- organizations and follows deferral method of accounting for contributions.

The University has consolidated the assets, liabilities, revenues and expenses of all funds and certain controlled entities after the elimination of inter-entity transactions and balances. The consolidated financial statements include the accounts of the University, its wholly owned subsidiary, Western Student Housing Ltd., and its controlled entity, Vancouver Island University Foundation (the "Foundation"). Western Student Housing Ltd. manages real-estate holdings of the University used for student residences. The Foundation is a registered charity incorporated under the Society Act (British Columbia). The main purpose of the Foundation is fundraising in order to further the interests of the University and administering the University's endowment funds.

The University previously held an additional wholly owned subsidiary, Venture Leasing Ltd., which held the lease for the old Cowichan campus. This lease expired on March 31, 2011. The VIU Board of Governors passed a resolution to wind up Venture Leasing Ltd on Sept 1, 2011.

b. Revenue recognition

Revenue is recognized when amounts can be reasonably estimated and when collection is reasonably assured as follows:

Operating government grants not restricted in use are recognized when received or receivable. Such grants, if contributed for a future period, are deferred and reported as deferred contributions until that future period.

Other unrestricted revenue, including student fees, interest, and sales of goods and services, are reported as revenue at the time the services or products are provided.

Contributions for specific purposes other than endowment or the acquisition of capital assets are recorded as deferred contributions and recognized as revenue in the year the related expenses are incurred.

1. Significant Accounting Policies (continued)

Contributions restricted for capital purposes are recorded as deferred contributions until the amount is invested in capital assets. If the capital asset is land, property rights or a special collection item, the amount is recorded as a direct increase to net assets invested in capital assets. If the capital asset has a limited life, the amount invested is recorded as a deferred capital contribution and amortized over the useful life of the asset to net assets invested in capital asset. Amortization of deferred capital contributions for capital assets is recorded on a straight-line basis over the estimated life of the related asset and commences in the year of purchase or substantial completion of construction.

Endowment contributions are recognized as direct increases in net assets held for endowments in the period in which they are received or earned.

Gifts-in-kind are only recorded if the University would have otherwise have paid for them. Gifts-in-kind are recorded at fair market value on the date of the donation or at a nominal value when fair value cannot be reasonably determined.

Pledges from donors are recorded when payment is received or when the transfer of property is compete.

Volunteers contribute service to assist the University in carrying out its mission. Such contributions of services are not recognized in these financial statements.

c. Cash and marketable securities

Marketable securities with a maturity of 30 days or less are included in cash and marketable securities.

d. Capital assets

Capital asset acquisitions are recorded at cost. Donated assets are recorded at fair value. Amortization of capital assets is recorded on a straight line basis over the estimated life of the asset, commencing with a half year amortization in the year of acquisition or substantial completion of construction, as follows:

Asset	Years
Buildings	40
Library books	10
Site Improvements	10
Computing equipment & software	5
Furniture and equipment	5
Vehicles	5
Leasehold improvements	Term of Lease

No amortization is taken on land or property rights as they are considered to have an unlimited useful life.

1. Significant Accounting Policies (continued)

e. Inventories

Inventories are valued at the lower of cost or net realizable value. The amount of inventories recognized as expense in cost of goods sold for the year is $3,951,241 (2011 - $4,303,699).

f. Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities in a foreign currency are translated using the exchange rates at the statement of financial position date. Translation gains and losses are included in current earnings.

g. Interest rate swap

An interest rate swap is a derivative financial contract between two parties who agree to exchange fixed rate interest payments for floating rate payments on a predetermined notional amount and term. The University has entered into swap agreements with the Royal Bank of Canada to manage the interest rate exposure associated with debt obligations. Because long-term swap agreements effectively and completely hedge the underlying short-term obligations, the University reflects the obligation as long-term debt in the financial statements.

h. Investments

Investments are carried at market value. Unrealized gains and losses on investments are recognized in income during the year, based upon changes in market value. Valuation of publicly traded securities are based on quoted market bid prices at the close of business on the statement of financial position date.

i. Employee future benefits

Accrued employee benefits are recorded based on the estimated actuarial determined present value of the expected use of the entitlements. Accrued employee future benefits for sick leave and severance have been calculated by an actuary using the projected benefit method prorated on services. Actuarial gains and losses in excess of 10 percent of the accrued benefit obligation are amortized over the average remaining service lives of employees. The University participates with other employers in two pension plans. These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees, based upon years of service and earnings.

The impact of employee future benefits is reflected in unrestricted net assets with the exception of the accrued vacation liability for the Vancouver Island University Faculty Association instructional faculty (the "VIUFA instructional faculty"). The VIUFA instructional faculty vacation liability is reflected in the internally restricted net assets.

1. Significant Accounting Policies (continued)

j. 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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the impairment of assets (provisions are made for slow moving and obsolete inventory), provision for doubtful accounts, amortization period for capital assets, and actuarial assumptions for employee future benefits. Actual results could differ from management's best estimates as additional information becomes available in future years. As adjustments to estimates become necessary they are reported in earnings in the period in which they become known.

k. Financial instruments

Classification for financial assets and liabilities include:

i) Held for trading – These instruments are initially recognized at their fair value determined by published price quotations in an active market. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized in excess of revenues over expenses. Net gains and losses arising from changes in fair value are recognized immediately in excess of revenues over expenses. Fees incurred on an exchange of financial liabilities or a modification of the terms of financial liabilities that is accounted for as an extinguishment are included as part of the gain or loss on extinguishment, while any related other costs incurred are recognized in excess of revenues over expenses.

Held for trading financial instruments are subsequently measured at their fair value, without any deduction for transactions costs incurred on sale or other disposal

ii) Held to maturity – This asset is initially recognized at its fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell this item are recorded on the trade date, and transaction costs are immediately recognized in excess of revenues over expenses. Total interest income calculated using the effective interest rate method, is recognized in excess of revenues over expenses.

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in excess of revenues over expenses.

1. Significant Accounting Policies (continued)

iii) Loans and receivables – These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in excess of revenues over expenses. Total interest income, calculated using the effective interest rate method, is recognized in excess of revenues over expenses.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in excess of revenues over expenses upon derecognition or impairment.

iv) Other liabilities – These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost. Transactions to purchase or sell these items are recorded on the trade date and transaction costs are immediately recognized in excess of revenues over expenses.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in excess of revenues over expenses upon derecognition or impairment.

In accordance with the standard, the University's financial assets and liabilities are classified and measured as follows:

Financial Statement Component	Classification	Measurement
Cash and Marketable Securities	Held for Trading	Fair Value
Short Term Investments	Held for Trading	Fair Value
Interest Rate Swap Derivative	Held for Trading	Fair Value
Endowment and Other Investments	Held for Trading	Fair Value
Accounts Receivable	Loans and Receivables	Amortized Cost
Note Receivable	Held to maturity	Amortized Cost
Accounts Payable and Accrued Liabilities	Other Liabilities	Amortized Cost
Accrued Vacation Pay (included in Future Employee Benefits)	Other Liabilities	Amortized Cost
Long- term debt	Other Liabilities	Amortized Cost

The University's financial instruments are recognized on their trade date and fair values have been recorded for all assets in transit. Transaction costs related to all financial instruments are expensed as incurred.

1. Significant Accounting Policies (continued)

The University assesses impairment on all its financial assets, except those classified as held for trading. Management considers whether the issuer is having significant financial difficultly or whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in excess of revenues over expenses.

Derivative financial instruments are financial contracts whose value changes in response to a change in an underlying variable, such as specified interest rate. The University enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. The University does not use derivative financial instruments for trading or speculative purposes. As permitted for Not-for-Profit Organizations under the standard, the University has elected to not apply the standards on non-financial contracts or derivatives embedded in non-financial contracts, leases and insurance contracts.

2. Financial Instruments

Fair Value of Financial Instruments
The carrying value of all financial instruments approximate fair value.

Financial asset impairment
At each year-end date, the University is required to evaluate and record any other-than-temporary impairment of its financial assets, other than those classified as held for trading. Accordingly, the University has compared the carrying value of each of these financial assets to its fair value as at March 31, 2012. No provision for impairment was recorded in the current year, as the fair value of all financial assets exceeded or did not differ significantly from their carrying value.

Risk Management Policy
The University, as part of its operations, has established objectives (i.e., hedging of risk exposures and avoidance of undue concentrations of risk) to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the University has entered into long-term interest rate swap agreements to manage interest rate exposure associated on debt obligations. By setting interest rates on a long-term basis the University has completely hedged the underlying short-term obligations.

All significant financial assets and financial liabilities of the University are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

2. Financial Instruments (continued)

Financial instruments are exposed to risk through the normal course of operation. These risks are managed through the University's collection procedures, investment guidelines and other internal policies and procedures. These risks include:

a. Foreign currency risk

Foreign currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign currency rates. The University has no material exposure to changes in foreign currency rates.

b. Credit risk

Financial instruments that potentially subject the University to concentrations of credit include marketable securities, accounts receivable, the interest rate swap derivative financial instrument, note receivable and investments in other than equity investments. The maximum credit risk exposure is $45,821,054 (2011 - $45,865,632).

The University's credit exposure is limited due to the large customer base, regular monitoring of the receivables and it provides allowances for potentially uncollectable amounts.

Total financial instruments that are past-due, but not considered to be impaired, are $148,548 (2011 - $985,176).

The University believes there is minimal credit risk associated with its marketable securities, accounts receivable, interest rate swap derivative financial instrument or note receivable as the University expects that its counterparties will meet their obligation because they consist of the Federal and Provincial governments and highly rated financial institutions that have strong credit ratings.

c. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. In seeking to minimize the risks from interest rate fluctuations, the University manages exposure on its marketable securities, note receivables, short term investments, and endowment and other investments which have fixed interest rates by varying the maturity dates. The University manages exposure on the interest-bearing investments by investing in a widely diversified portfolio with varying fixed and variable interest rates and maturity dates.

Exposure on its long-term debt is managed by using declining balance interest rate swaps. The University entered into two interest rate swap agreements. The agreements were entered into in November 2003 and June 2004 for initial amounts of $4,900,000 and $13,200,000 to fix the interest rates on the Royal Bank of Canada term loans. The first swap agreement stipulates that the University receives a floating rate equal to the three month Canadian Banker's Acceptance plus a spread of 0.35% and pays interest on the swap at 5.79%. The second swap agreement stipulates that the University receives a floating rate equal to the three month Canadian Banker's

2. Financial Instruments (continued)

Acceptance plus a spread of 0.30% and pays interest on the swap at 6.31%. The swaps mature on February 2017 and August 2030 matching the maturity date of the underlying debt. The University did not elect to use hedge accounting for these agreements.

d. Liquidity risk

Liquidity risk is the risk that the University will encounter difficulty in meeting obligations associated with financial liabilities. The University enters into transactions to purchase goods and services, lease premises and to borrow funds from financial institutions to finance capital projects for which payments are required at various dates. Liquidity risk is measured by reviewing the University's future net cash flows for the possibility of a negative net cash flow.

e. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The University enters into transactions to purchase investments, for which the market price fluctuates. The University manages this risk through its investment policy which prescribes the maximum amount of investments that can be made in any one investment type.

3. Cash and Marketable Securities, Short Term Investments and Restricted Cash

Cash balances held on deposit in a single Chartered Bank are in excess of the $100,000 insured by the Canadian Deposit Insurance Corporation. Restricted cash balances are externally restricted for scholarships and bursaries.

As at March 31, 2012, the University had short term investments and marketable securities of $1,121,011 (2011 - $nil) maturing in March 2012 with an interest rate of 2.47%. These investments have a total maturity/face value of $1,087,824.

4. Endowment and Other Investments

	2012	2011
Endowment	$ 11,300,777	$ 11,114,955
Investments	17,886,833	18,393,941
Internally restricted investments	1,000,000	1,000,000
Balance, end of year	$ 30,187,610	$ 30,508,896

Fixed term investments mature between March 2013 - December 2017 and have a total maturity/face value of $15,787,891 (2011 - $15,294,536). Interest rates range between 2.5% and 4.9%.

5. Capital Assets

	Cost	Accumulated amortization	2012 Net Book Value	2011 Net Book Value
Land	$ 12,401,247	$ -	$ 12,401,247	$ 12,277,247
Buildings	184,793,870	52,610,094	132,183,776	110,512,521
Work In Progress	103,818	-	103,818	24,406,396
Site improvements	7,500,187	6,763,336	736,851	1,169,286
Leasehold improvements	447,213	447,213	-	-
Furniture and equipment	21,842,012	18,678,852	3,163,160	3,180,891
Computing equipment and software	8,393,860	7,583,555	810,305	1,169,215
Library books	3,565,833	2,325,414	1,240,419	1,419,727
Vehicles	494,479	94,820	399,659	101,287
Property usage rights	350,000	-	350,000	350,000
	$ 239,892,519	$ 88,503,284	$ 151,389,235	$ 154,586,570

The University has no direct insurance coverage against loss of any of its capital assets except vehicles. The insurance on University property is the responsibility of the Province of British Columbia. Claims for loss are submitted to the Province of British Columbia for consideration for compensation.

During the year ending March 31, 1999, a building was constructed by the Malaspina Students' Union Society on the campus owned by the University in Nanaimo. The cost of this building has been financed by the Student Union, however, title to the building remains with the University. The University has entered into a lease agreement with the Student Union in the amount of $1 per annum for a period of 50 years. The building is not recorded as an asset in the financial statements of the University.

6. Long Term Debt

	2012	2011
Royal Bank of Canada Term loan with the interest rate fixed at 6.31% through an interest rate swap, due August 2030.	$ 11,430,930	$ 11,752,619
Royal Bank of Canada Term loan with interest rate fixed at 5.79% through an interest rate swap, due February 2017.	2,398,854	2,813,430
	13,829,784	14,566,049
Current portion	(781,000)	(736,000)
Long-term portion	$ 13,048,784	$ 13,830,049

Minimum principal payments required over the next five years are as follows:

2013	$ 781,000
2014	827,000
2015	874,000
2016	927,000
2017	932,000

7. Employee Future Benefits

a. Vacation and termination benefits

Employees with ten or more years of service are entitled to receive special payments upon retirement or termination as specified by collective and administrator agreements. These payments are based upon accumulated sick credits and entitlements for each year of service.

Information about employee’s vacation, sick, and termination benefits are as follows:

	2012	2011
Vacation pay	$ 6,590,738	$ 6,342,557
Sick leave paid out on termination	2,192,548	2,117,748
Termination benefits	2,883,494	2,845,608
	11,666,780	11,305,913
Current portion	(7,136,739)	(6,983,557)
Long-term portion	$ 4,530,041	$ 4,322,356

For sick leave paid out on termination and termination benefits, the liability is determined by an actuary.

7. Employee Future Benefits (continued)

The expense for these items is as follows:

	2012	2011
Projected service cost	$ 258,660	$ 259,740
Interest	220,340	221,260
Total expense	$ 479,000	$ 481,000

The payout for sick leave paid on termination and severance pay is as follows:

	2012	2011
Payouts charged against liability	$ 278,738	$ 464,580
Amortization of experience gain	87,577	76,294
Total payout and amortization	$ 366,315	$ 540,874

b. Pension liability

The University and its employees contribute to College Pension Plan and Municipal Pension Plan, jointly trusteed pension plans. The boards of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are defined. The College Pension plan has about 13,000 active members from senior administration and instructional staff and approximately 5,000 retired members. The Municipal Pension Plan has about 173,000 active members, with approximately 5,600 from post secondary institutes.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2009 indicated a $28 million deficit for basic pension benefits. The next valuation will be as at August 31, 2012 with results available in 2013. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2009 indicated a $1.024 billion deficit for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. Defined contribution plan accounting is applied to the plan as the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.

The University paid $5,377,748 (2011 - $5,592,673) for employer contributions to the Plans during the fiscal year. The University has 1,006 members enrolled in these two Plans.

8. Deferred Revenue and Contributions

a. Deferred revenue:

Deferred revenue includes unspent contributions externally restricted for non-capital purposes from all sources except Federal and Provincial government reporting entities. The main components are tuition, grant and contract services contributions, and externally restricted donations. Changes in deferred revenue are as follows:

	2012	2011
Deferred revenue, beginning of year	$ 14,231,852	$ 12,360,460
Amounts received	114,962,054	104,268,418
Transferred to revenue	(117,579,656)	(102,397,026)
Deferred revenue, end of year	$ 11,614,250	$ 14,231,852

b. Deferred Contributions:

Deferred capital contributions represent the unamortized external funding used to purchase capital assets, which will be recognized as revenue in future periods.

Deferred operating and special purpose contributions include unspent grant and contract services contributions externally restricted for non-capital purposes from Federal and Provincial government reporting entities. Changes in deferred revenue are as follows:

	2012	2011
Capital Assets		
Balance, beginning of year	$ 103,183,100	$ 78,107,737
Donation	596,925	2,936,698
Capital advances	1,143,422	25,721,800
Amortized to revenue	(3,726,700)	(3,503,446)
Other revenue	-	(79,689)
	101,196,747	103,183,100
Operating fund	2,579,286	5,751,559
Special purpose fund	60,791	43,514
	103,836,824	108,978,173
Current portion	(2,640,076)	(5,795,073)
Long term portion	$ 101,196,748	$ 103,183,100

9. Contingencies

a. Letters of credit:

The University had a total of $510,163 in letters of credit outstanding at March 31, 2012 for a bond posted on behalf of Malaspina International High School (the “High School”) to the Ministry of Finance and Corporate Relations. These letters of credit can be drawn upon to refund tuition to students if the High School fails to provide or complete the related academic program. No provision has been made for this contingency in the financial statements.

b. Legal claims:

The nature of the University’s activities is such that there is usually litigation pending or in process at any time. With respect to unsettled claims at March 31, 2012, management believes the University has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the University’s financial position.

10. Endowment

Endowments consist of externally restricted donations, the principal of which is required to be maintained. The endowment fund balance is as follows: $11,300,777 (2011 - $11,114,955) restricted, for the payment of scholarships and bursaries, and the two BC Regional Innovation Chairs (Tourism and Sustainable Rural Development & Aboriginal and Early Childhood Education). Investments are managed by an external fund management company. Scholarships and bursaries are controlled by the Foundation and chairs are controlled by VIU. On March 15, 2012 the VIU Board of Governors passed policy 42.11 granting full authority to the VIU Foundation to manage VIU endowment funds consistent with VIU Foundation policy.

11. Externally Restricted Net Assets

Externally restricted net assets are restricted for various purposes.

	2012	2011
Foundation gaming	$ 17,674	$ 24,705
Balance, end of year	$ 17,674	$ 24,705

12. Internally Restricted Net Assets

Internally restricted net assets have been designated for various purposes.

	2012	2011
Faculties and departmental carryforwards	$ 11,088,310	$ 6,765,190
Foundation fundraising and scholarships	2,929,383	2,453,672
Capital	1,850,841	535,440
VIU Faculty Association unfunded vacation liability	(3,073,936)	(2,841,258)
Balance, end of year	$ 12,794,598	$ 6,913,044

13. Related Entities that are not consolidated

Malaspina International High School and Malaspina High School (the "High Schools") were incorporated under the Society Act of the Province of British Columbia on November 21, 1995 and March 10, 2006, respectively. They are controlled entities because of their constitutions. Both are exempt from income taxes as long as certain conditions are met. These two societies operate as high schools in Nanaimo, BC and are regulated by the Ministry of Education. The High School's significant accounting policies are not different from that of the University. Financial information for the High Schools for the year ended June 30, 2011 and June 30, 2010 is audited. At June 30, 2011 assets included $530,997 due from VIU. There were no significant events or transactions between July 1, 2011 and March 31, 2012 that are significant to their financial position or results of operation.

Milner Gardens and Woodland Society ("Milner Society") was incorporated on December 11, 2000 under the Society Act of the Province of British Columbia. Milner Society is a registered charity and therefore exempt from income taxes as long as certain conditions are met. The University has significant financial interest in the Society and its purpose is to fundraise for the benefit of the Milner Gardens and Woodland facility which is owned by the University. Significant Accounting policies of the Milner Society are not different from the University. Financial information for the Milner Society for the year ended March 31, 2012 is unavailable. Comparative financial information for the years ended March 31, 2011 and March 31, 2010 is audited. Revenue in 2011 includes unrealized gains of $39,124 (2010 - $133,258).

	High Schools		Milner Society	
	June 30, 2011	June 30, 2010	March 31, 2011	March 31, 2010
Assets	$ 560,331	$ 623,804	$ 1,023,024	$ 982,796
Liabilities	640,053	658,740	749	750
Net Assets	(79,722)	(34,936)	1,022,275	982,046
Revenue	1,068,226	895,614	163,111	254,955
Expenses	1,113,012	1,002,386	122,882	200,517
(Excess expenses over revenue) Excess revenue over expenses	(44,786)	(106,772)	40,229	54,438
Cash flows from activities:				
Operating	-	-	1,230	(78,946)
Investing	-	-		
Financing	-	-	-	-
Increase (decrease in cash flow)	$ -	$ -	$ 1,230	$ (78,946)

14. Canadian Accounting Standards for Government Not-for-Profit Organizations (“GNFPOs”)

Effective April 1, 2012, the University will transition to a new accounting framework which will include Public Sector Accounting Standards ("PSAB") supplemented by directives from the Government of British Columbia's Treasury Board.

The transition to the new accounting framework will be applied on a retrospective basis. The University is reviewing the impact of these changes on the financial statements.

15. Comparative Figures

Certain other comparative figures have been restated to conform with the current year's presentation.