



VANCOUVER ISLAND UNIVERSITY  
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**VANCOUVER ISLAND UNIVERSITY**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2013**

# 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 Treasury Board Regulation 198/2011. 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.

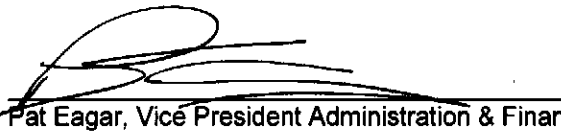
The Board of Governors carries out its responsibility for review of the financial statements principally through its Audit Committee. The members of the Audit Committee include employees of the University. The Audit Committee meets with management and with the external auditors to discuss the results 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

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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, 2013, March 31, 2012 and April 1, 2011, and the consolidated statements of changes in net debt, operations and accumulated surplus, cash flows and remeasurement gains and losses for the years ended March 31, 2013 and March 31, 2012, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for Financial Statements*

Management is responsible for the preparation and presentation of these consolidated financial statements in accordance with the financial reporting framework specified in Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia and Treasury Board Regulation 198/2011, 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 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 the financial position of Vancouver Island University as at March 31, 2013, March 31, 2012 and April 1, 2011 and the results of its operations, changes in net debt, cash flows and remeasurement gains and losses for the years ended March 31, 2013 and March 31, 2012 in compliance with, in all material respects, the financial reporting framework specified in Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia and Treasury Board Regulation 198/2011.

### *Emphasis of Matter*

We draw attention to Note 1a which describes the financial reporting framework being followed by Vancouver Island University.

Nanaimo, British Columbia

May 23, 2013

*MNP* LLP

Chartered Accountants

# VANCOUVER ISLAND UNIVERSITY

## Consolidated Statement of Financial Position

As at March 31, 2013, with comparative figures for March 31, 2012 and April 1, 2011

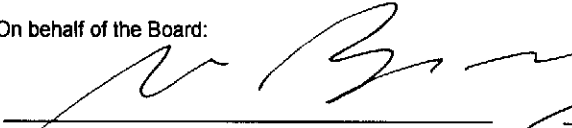

		March 31, 2013	March 31, 2012 <i>(restated)</i>	April 1, 2011 <i>(restated - Note 2)</i>
<b>Financial assets</b>				
Cash and cash equivalents	(note 4)	\$ 36,921,843	\$ 25,479,503	\$ 20,395,528
Accounts receivable	(note 5)	3,192,613	3,783,791	9,436,771
Inventories for resale		1,237,225	1,119,951	1,208,591
Note receivable		-	-	466,000
Investments	(note 6)	35,335,103	32,273,620	31,488,863
Interest Rate Swap Derivative		100,140	97,985	115,402
		<u>76,786,924</u>	<u>62,754,850</u>	<u>63,111,155</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	(note 7)	10,414,520	7,555,696	12,177,832
Employee future benefits	(note 8)	11,007,275	10,951,723	10,399,148
Deferred revenue	(note 9)	16,877,976	13,631,606	16,059,224
Deferred contributions	(note 10)	4,376,524	2,640,076	5,795,072
Deferred capital contributions	(note 11)	103,130,900	101,196,748	103,183,101
Debt	(note 12)	13,078,328	13,829,784	14,566,049
		<u>158,885,523</u>	<u>149,805,633</u>	<u>162,180,426</u>
Net financial assets (debt)		<u>(82,098,599)</u>	<u>(87,050,783)</u>	<u>(99,069,271)</u>
<b>Non-financial assets</b>				
Tangible capital assets	(note 13)	151,591,877	151,039,235	154,236,570
Prepaid expenses		1,237,075	1,346,742	1,088,839
		<u>152,828,952</u>	<u>152,385,977</u>	<u>155,325,409</u>
Accumulated surplus		<u>\$ 70,730,353</u>	<u>\$ 65,335,194</u>	<u>\$ 56,256,138</u>
Accumulated surplus is comprised of:				
Accumulated operating surplus	(note 14)	70,955,382	65,530,801	56,534,148
Accumulated remeasurement gains (losses)		(225,029)	(195,607)	(278,010)
		<u>\$ 70,730,353</u>	<u>\$ 65,335,194</u>	<u>\$ 56,256,138</u>

Contractual obligations (note 15)

Contingent liabilities (note 16)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Board Chair

Vice-President Administration and Finance

# VANCOUVER ISLAND UNIVERSITY

Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2013, with comparative figures for 2012

	<b>Budget</b> <i>(note 1)</i>	<b>2013</b>	<b>2012</b> <i>(restated)</i>
<b>Revenue</b>			
Province of British Columbia grants	\$ 58,013,778	\$ 59,821,620	\$ 61,339,559
Government of Canada grants	1,335,968	1,402,032	1,587,127
Other grants and contracts	4,051,295	3,389,740	4,883,389
Tuition and student fees	43,398,113	44,324,798	45,041,702
Sales of goods and services	10,186,376	9,265,058	8,748,230
Investment income	1,001,317	1,308,806	1,163,773
Gifts, grants and bequests	956,540	1,041,668	1,269,947
Gain (loss) on interest rate swap derivative	-	(3,312)	(4,373)
Revenue recognized from deferred capital contributions (note 11)	3,965,850	4,171,097	3,726,700
Other	978,172	915,376	1,340,463
	<u>123,887,409</u>	<u>125,636,883</u>	<u>129,096,517</u>
<b>Expenses (note 18)</b>			
Instruction & Student Support	111,553,624	108,790,299	109,549,007
Ancillary	12,333,785	11,572,776	10,736,679
	<u>123,887,409</u>	<u>120,363,075</u>	<u>120,285,686</u>
Annual operating surplus	-	5,273,808	8,810,831
Endowment contributions (note 17)	-	150,773	185,822
Annual surplus	-	5,424,581	8,996,653
Accumulated operating surplus, beginning of year		65,530,801	56,534,148
Accumulated operating surplus, end of year	\$ -	\$ 70,955,382	\$ 65,530,801

See accompanying notes to consolidated financial statements.

# VANCOUVER ISLAND UNIVERSITY

## Consolidated Statement of Changes in Net Debt

Year ended March 31, 2013, with comparative figures for 2012

	Budget (note 1)	2013	2012 (restated)
Annual surplus	\$ -	\$ 5,424,581	\$ 8,996,653
Tangible capital assets:			
Acquisition of tangible capital assets	-	(7,880,201)	(4,082,514)
Amortization of tangible capital assets	7,018,049	7,327,559	7,279,849
Proceeds on sale of tangible capital assets	-	-	-
	7,018,049	(552,642)	3,197,335
Prepaid expenses:			
Acquisition of prepaid expense	-	109,667	(257,903)
Changes in net remeasurement gains (losses)	-	(29,422)	82,403
Decrease in net debt	7,018,049	4,952,184	12,018,488
Net debt, beginning of year	(87,050,783)	(87,050,783)	(99,069,271)
Net debt, end of year	\$ (80,032,734)	\$ (82,098,599)	\$ (87,050,783)

See accompanying notes to consolidated financial statements.

# VANCOUVER ISLAND UNIVERSITY

## Consolidated Statement of Cash Flows

Year ended March 31, 2013, with comparative figures for 2012

	2013	2012 <i>(restated)</i>
Cash provided by (used in):		
Operations:		
Annual operating surplus	\$ 5,273,808	\$ 8,810,831
Items not involving cash:		
Amortization of tangible capital assets	7,327,559	7,279,849
Revenue recognized from deferred capital contributions	(4,171,097)	(3,726,700)
Change in employee future benefits	55,552	552,575
(Gain) loss on interest rate swap derivative	(2,155)	17,417
Unrealized (Gain) loss on endowment and other investments	(29,422)	82,403
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	591,178	5,695,980
Decrease (increase) in prepaid expenses	109,667	(257,903)
Decrease (increase) in note receivable	-	466,000
Decrease (increase) in inventories held for sale	(117,274)	88,640
Increase (decrease) in accounts payable and accrued liabilities	2,858,824	(4,622,136)
Increase (decrease) in deferred contributions	1,736,448	(3,154,996)
Increase (decrease) in deferred revenue	3,246,370	(2,427,618)
	<u>16,879,458</u>	<u>8,804,342</u>
Capital activities:		
Cash used to acquire tangible capital assets	(7,487,201)	(4,082,514)
Financing activities:		
Repayment of long-term debt	(751,456)	(736,265)
Increase in endowments	150,773	185,822
Proceeds from deferred capital contributions	5,712,249	1,697,347
	<u>5,111,566</u>	<u>1,146,904</u>
Investing activities:		
Net draw (purchase) of investments	(3,061,483)	(784,757)
Net change in cash	11,442,340	5,083,975
Cash, beginning of year	25,479,503	20,395,528
Cash, end of year	<u>\$ 36,921,843</u>	<u>\$ 25,479,503</u>

Cash is comprised of cash and cash equivalents.

See accompanying notes to consolidated financial statements.



# VANCOUVER ISLAND UNIVERSITY

## Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2013, with comparative figures for 2012

	2013	2012
Unrealized gains (losses) attributed to:		
Derivatives	\$ 5,467	\$ (13,044)
Long term bonds	(247,809)	79,414
Equity investments	213,505	9,358
Foreign currency translation	2,111	2,066
Short-term bonds		630
	(26,726)	78,424
Amounts reclassified to the statement of operations:		
Equity investments	(630)	-
Foreign currency translation	(2,066)	3,979
	(2,696)	3,979
Net remeasurement gains (losses) for the year	(29,422)	82,403
Accumulated remeasurement gains, beginning of year	(195,607)	(278,010)
Accumulated remeasurement gains (losses), end of year	\$ (225,029)	\$ (195,607)

See accompanying notes to consolidated financial statements.

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

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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 and graduate degrees, 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 the following principles:

### a. Basis of accounting

In 2010, a directive was provided by the Province of British Columbia Treasury Board ("Treasury Board") through Government Organization Accounting Standards Regulation 257/2010 requiring the University to adopt Public Sector Accounting Board (PSAB) standards of the Canadian Institute of Chartered Accountants (CICA) without any PS4200 elections from their first fiscal year commencing after January 1, 2012.

In March 2011, PSAB released a new Public Sector Accounting Standard PS 3410 "Government Transfers". In November 2011, Treasury Board provided a directive through Restricted Contributions Regulation 198/2011 providing direction for the reporting of restricted contributions whether they are received or receivable by the University before or after this regulation was in effect. The Treasury Board direction on the accounting treatment of restricted contributions is as described in Note 1c.

These consolidated financial statements have been prepared in accordance with the financial reporting framework described above.

### b. Basis of consolidation

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 entities, Vancouver Island University Foundation (the "Foundation"), Malaspina International High School and Malaspina High School (collectively "the High Schools"), and Milner Gardens and Woodland Society ("Milner Gardens").

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 High Schools are registered charities incorporated under the Society Act (British Columbia). They jointly operate a private high school for local and international students. The High Schools' fiscal year-end of June 30, 2012 have been consolidated into these financial statements. No material transactions or events have occurred between July 1, 2012 and March 31, 2013.

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

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## 1. Significant Accounting Policies (continued)

Milner Gardens and Woodland Society manage donated funds and operate fundraising events specifically in support of Milner Gardens. The Society's fiscal year-end of March 31, 2012 has been consolidated into these financial statements. Material transactions between April 1, 2012 and March 31, 2013 have been incorporated into the financial statements.

### c. Revenue recognition

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

Operating government grants with or without eligibility criteria stipulations are recognized when received or receivable. Grants, containing stipulations as to their use, are recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to an obligation and meets the definition of a liability.

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.

In accordance with Regulation 198/2011, contributions restricted for the purpose of acquiring or developing a depreciable tangible capital asset are recorded as deferred contributions until the amount is invested in tangible capital assets. If the tangible 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. Amortization of deferred capital contributions for tangible 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.

Investment income includes interest recorded on an accrual basis and dividends recorded as declared and realized gains and losses on the sale of investments.

Endowment contributions are recognized in the period in which they are received or earned. Investment income earned on externally restricted contributions is deferred until needed for the specific purpose.

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.

Unrestricted donations and grants are recorded as revenue when receivable if the amounts can be estimated and collection is reasonable assured. Pledges from donors are recorded when payment is received or when the transfer of property is complete.

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

### d. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with a maturity of 90 days or less at the date of purchase.

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

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## 1. Significant Accounting Policies (continued)

### e. Inventories for resale

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

### f. Interest rate swap derivative

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 debt in the financial statements.

### g. Employee future benefits

The University and its employees make contributions to two multi-employer joint trustee plans. These plans are defined benefit plans, providing a pension on retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. Inflation adjustments are contingent upon available funding. As the assets and liabilities of the plans are not segregated by institution, the plans are accounted for as defined contribution plans and any contributions of the University to the plans are expensed as incurred.

Sick leave benefits and retirement severance benefits are also available to the University's employees. The costs of these benefits are actuarially determined based on service and best estimates of retirement ages and expected future salary and wage increases. The obligation under these benefit plans are accrued based on projected benefits as the employees render services necessary to earn the future benefits. Actuarial gains and losses are amortized over the expected average remaining service life of the employees.

### h. Non-financial assets

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

#### (i) Tangible capital assets

Tangible capital asset acquisitions are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Interest is not capitalized whenever external debt is issued to finance the construction of tangible capital assets. Donated assets are recorded at fair value as of the date of donation. 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 shown below. Land is not amortized as it is deemed to have a permanent value:

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

## 1. Significant Accounting Policies (continued)

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

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

(a) Land use rights

Land use rights are not recognized as assets in the financial statements

(b) Works of art and historic treasures

Works of art and historic treasures are not recognized as assets in the financial statements

i. 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. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or balance sheet date is recognized in the Statement of Remeasurement Gains and Losses. In the period of settlement, the related cumulative remeasurement gain or loss is reversed in the Statement of Remeasurement Gains and Losses and the exchange gain or loss in relation to the exchange rate at the date of the item's initial recognition is recognized in the Statement of Operations.

j. Use of estimates

The preparation of financial statements in conformity with Treasury Board regulations 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 tangible capital assets and deferred capital contributions, 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.

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

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## 1. Significant Accounting Policies (continued)

### k. Financial instruments

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

- (i) Fair value category: Cash and cash equivalents are recorded at fair value due to the short term nature of the instrument. Investments that are managed and evaluated as a group and derivative instruments are reflected at fair value as at the reporting date. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are recorded as an expense. Unrealized gains and losses on financial assets are recognized in the Statement of Remeasurement Gains and Losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the Statement of Operations and Accumulated Surplus and related balances reversed from the Statement of Remeasurement Gains and Losses.
- (ii) Cost category: Gains and losses are recognized in the Statement of Operations and Accumulated Surplus when the financial asset is derecognized due to disposal or impairment. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are included in the cost of the related investments.
  - (a) Accounts receivable and due from government/other government organizations are measured at amortized cost using the effective interest method.
  - (b) Accounts payable and accrued liabilities are measured at amortized cost. Any gains, losses or interest expense is recorded on the Statement of Operations and Accumulated Surplus depending on the nature of the financial liability that gave rise to the gain, loss or expense

### l. Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2012-2013 Consolidated Resource Plan approved by the Board of Governors of the University on May 24, 2012. The budget is reflected in the Statement of Operations and Accumulated Surplus and the Statement of Changes in Net Financial Debt.

## 2. Adoption of New Financial Reporting Framework

Effective April 1, 2012, the University adopted the financial reporting framework described in note 1(a). These financial statements are the first financial statements for which the University has applied this financial reporting framework.

The impact of the adoption of this financial reporting framework on the University's accumulated surplus (deficit) position at the date of transition and the comparative annual surplus is presented below. These accounting changes have been applied retroactively with restatement of prior periods.

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

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## 2. Adoption of new financial reporting framework (continued)

The University has elected to use the Retirement and Post-Employment Benefits exemption allowed upon first-time adoption. Under this election the University is permitted to delay application of the new discount rate until the sooner of date of the next actuarial valuation or three years from the date of transition. The University has also elected to record all cumulative gains and losses from inception to date of transition into accumulated surplus.

Key adjustments on the University's financial statements resulting from the adoption of this accounting standard are as follows:

### (a) Employee Future Benefits

- i. Previously, the University was not required to record an accrued benefit obligation related to sick leave benefits as the benefits do not vest. Canadian Public Sector Accounting Standards require that a liability and an expense be recognized for post-employment benefits and compensated absences that vest or accumulate in the period in which employees render services to the University in return for the benefits.
- ii. The corridor method previously used required that only differences greater than 10% between the actuarial liability for employee future benefits and the actual liability needed to be amortized to income in a systematic and rational manner over the remaining average service period of the related employees. This provision has now been removed resulting in a requirement to amortize all differences between the actuarial liability for employee future benefits and the actual liability to income.

An adjustment was made to recognize a liability and an expense related to the employee future benefit changes described above. The resulting adjustment to the liability for employee future benefits at April 1, 2011 was \$(906,765). An additional expense of \$191,708 was recognized in the 2012 fiscal year. The liability for employee future benefits recorded at March 31, 2012 was decreased to \$10,951,723 as a result of these adjustments.

- (b) Usage rights are not included in the definition of a tangible capital asset under Canadian Public Sector Accounting Standards. The 2012 opening balances have been revised to exclude usage rights of \$350,000, previously recorded as a capital asset.
- (c) Canadian Public Sector Accounting Standards require consolidation of organizations controlled by the University. Previously, the High Schools and Milner Gardens were not consolidated. The resulting adjustments resulted in a net increase to opening surplus of \$944,633 and a decrease in the annual surplus of \$97,357 for the 2012 comparative figures.
- (d) Canadian Public Sector Accounting Standards requires that income earned on endowments be deferred until such time as it is utilized for the specific purpose dictated by the terms of the endowment. Previously, income earned on endowment contributions was recognized as earned. This change resulted in a decrease in the opening surplus of \$1,301,284 and a decrease in the annual surplus of \$251,307 for the 2012 comparative figures ,

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

## 2. Adoption of new financial reporting framework (continued)

### Summary of adjustments

#### April 1, 2011 continuity

Accumulated surplus, as previously reported	\$ 56,223,996
April 1, 2011 adjustments	
Write-off Land usage rights	(350,000)
Consolidation of previously unconsolidated entities	944,633
Defer endowment revenue	(1,301,284)
Employee Future benefits and compensated absences	906,765
Other deferral and accrual adjustments	(167,972)
	32,142
Accumulated surplus, as restated	\$ 56,256,138

#### March 31, 2012 continuity

Accumulated surplus, as previously reported	\$ 65,831,237
April 1, 2011 adjustments (as above)	32,142
March 31, 2012 adjustments	
Consolidation of previously unconsolidated entities	(97,357)
Defer endowment revenue	(276,330)
Employee Future benefits and compensated absences	(191,708)
Other deferral and accrual adjustments	37,210
Accumulated surplus, as restated	\$ 65,335,194

## 3. Financial Instruments

### Fair Value of Financial Instruments

Public Sector Accounting Standards define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The University uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Statement of Financial Position under the following captions:

- Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments



# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

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## 3. Financial Instruments (continued)

- Investments and the interest rate swap derivative fair value is determined by published price quotations in an active market
- Long term debt is recorded at amortized cost

### 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 carried at fair value. Accordingly, the University has compared the carrying value of each of these financial assets to its fair value as at March 31, 2013. 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.

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 cash and cash equivalents, accounts receivable, the interest rate swap derivative financial instrument, and investments in other than equity investments. The maximum credit risk exposure is \$56,946,709 (2012 - \$45,678,393).

11% of the accounts receivable balance is due from the Provincial government and is thought to be fully collectible. 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 \$259,467 (2012 - \$148,548).

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

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## 3. Risk Management Policy (continued)

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.

### 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 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 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.

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

## 4. Cash and cash equivalents

Vancouver Island University cash balances held on deposit in a single Chartered Bank are in excess of the \$100,000 insured by the Canadian Deposit Insurance Corporation. Vancouver Island University Foundation cash balances are held on deposit in a single Credit Union and are fully insured. Restricted cash balances are externally restricted for scholarships and bursaries or to support Milner Gardens.

	2013	2012 (restated)
Restricted cash	\$ 1,327,817	\$ 2,027,510
Unrestricted cash and demand deposits	35,594,026	23,451,993
Balance, end of year	\$ 36,921,843	\$ 25,479,503

## 5. Accounts receivable

	2013	2012 (restated)
Trade accounts receivable	\$ 2,112,921	\$ 2,050,312
Due from Federal government	397,219	819,816
Due from Provincial government	422,510	643,854
Due from Other government organizations	259,964	269,809
Balance, end of year	\$ 3,192,613	\$ 3,783,791

## 6. Investments

	2013	2012 (restated)
Endowment	\$ 11,156,696	\$ 11,005,922
Investments	23,178,407	20,267,698
Internally restricted investments	1,000,000	1,000,000
Balance, end of year	\$ 35,335,103	\$ 32,273,620

Fixed term investments mature between December 2013 - December 2017 and have a total maturity/face value of \$16,419,725 (2012 - \$15,842,196). Interest rates range between 2.1% and 4.9%.

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

## 7. Accounts payable and accrued liabilities

	2013	2012 <i>(restated)</i>
Trade payables and accrued liabilities	\$ 6,476,461	\$ 5,619,480
Salaries and benefits payable	2,126,060	1,860,396
Payable to other government agencies	1,811,999	75,820
	<b>\$ 10,414,520</b>	<b>\$ 7,555,696</b>

## 8. Employee future benefits

### a. Vacation, termination benefits, and compensated absences

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.

	2013	2012 <i>(restated)</i>
Accrued benefit obligation, beginning of year	\$ 10,589,462	\$ 10,399,149
Unamortized actuarial gains (losses), beginning of year	362,261	-
	<b>10,951,723</b>	<b>10,399,149</b>
Current service cost	399,821	398,637
Interest cost	224,031	223,494
Benefits paid	(453,085)	(317,739)
Amortization of actuarial (gain) loss	(36,226)	-
Increase (decrease) in vacation liability	(78,989)	248,182
Accrued benefit obligation, end of year	<b>\$ 11,007,275</b>	<b>\$ 10,951,723</b>

Accrued benefit obligation, end of year consists of:

Accrued liability, end of year	\$ 10,548,325	\$ 10,589,462
Unamortized actuarial gains (losses), end of year	458,950	362,261
Accrued benefit obligation, end of year	<b>\$ 11,007,275</b>	<b>\$ 10,951,723</b>

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

	2013	2012
Discount rate for termination benefits	5.80%	5.80%
Discount rate for compensated absences	3.75	3.75
Expected future inflation rates	2.00	2.00
Expected wage and salary increases	2.75	2.75

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

## 8. Employee future benefits (continued)

### b. Pension liability

The University and its employees contribute to College Pension Plan and Municipal Pension Plan, jointly trustee 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 \$5,738,328 (2012 - \$5,377,748) for employer contributions to the Plans during the fiscal year.

## 9. Deferred revenue

Deferred revenue includes unspent funds externally restricted for non-capital purposes from all sources except Federal and Provincial government reporting entities. The main components are tuition, grant and contract service funding, and donations as listed below.

	2013	2012 (restated)
Tuition	\$ 11,456,610	\$ 9,366,901
Donations	3,391,434	2,099,430
Grant and contract service funding	1,686,344	1,820,315
Other	343,588	344,960
	\$ 16,877,976	\$ 13,631,606

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

## 10. Deferred contributions

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 contributions are as follows:

	2013	2012 (restated)
Balance, beginning of year	\$ 2,640,076	\$ 5,795,072
Contributions received during the year	4,772,594	2,681,160
Revenue recognized from deferred contributions	(3,036,146)	(5,836,156)
Balance, end of year	\$ 4,376,524	\$ 2,640,076

## 11. Deferred capital contributions

Contributions for capital that meet the definition of a liability are referred to as deferred capital contributions. Amounts are recognized into revenue as the liability is extinguished over the useful life of the asset. Treasury Board provided direction on accounting treatment as disclosed in note 1. Changes in the deferred capital contributions balance are as follows:

	2013	2012 (restated)
Deferred contributions, beginning of year	\$ 101,196,748	\$ 103,183,101
Contributions received during the year - cash	5,712,249	1,740,347
Contributions received during the year - in-kind	393,000	-
Revenue recognized from deferred capital contributions	(4,171,097)	(3,726,700)
Deferred contributions, end of year	\$ 103,130,900	\$ 101,196,748

## 12. Debt

	2013	2012 (restated)
Royal Bank of Canada Term loan with blended quarterly payments bearing interest fixed at 6.31% through an interest rate swap, due August 2030.	\$ 11,074,000	\$ 11,417,000
Royal Bank of Canada Term loan with blended monthly payments bearing interest fixed at 5.79% through an interest rate swap, due February 2017.	1,958,000	2,396,000
Accrued interest	46,328	16,784
	\$ 13,078,328	\$ 13,829,784
Interest expense for the year on outstanding debt	\$ 868,020	\$ 884,402

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

## 12. Debt (continued)

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

2014	\$ 827,000
2015	874,000
2016	927,000
2017	932,000
2018	466,000
<i>thereafter</i>	9,006,000
	<b>\$ 13,032,000</b>

## 13. Tangible capital assets

Cost	Balance at March 31, 2012	Additions & WIP Transfers	Writedowns	Balance at March 31, 2013
Land	\$ 12,401,247	-	-	12,401,247
Buildings	184,793,870	3,878,944	-	188,672,814
Work In Progress ("WIP")	103,818	391,962	-	495,780
Site improvements	7,500,187	-	308,184	7,192,003
Leasehold improvements	447,213	-	447,213	-
Furniture and equipment	21,842,012	3,195,092	1,803,691	23,233,413
Computing equipment and software	8,393,860	171,787	1,019,686	7,545,961
Library books	3,565,833	211,983	598,850	3,178,966
Vehicles	494,479	30,434	-	524,913
	<b>\$ 239,542,519</b>	<b>\$ 7,880,202</b>	<b>\$ 4,177,624</b>	<b>\$ 243,245,097</b>

Accumulated amortization	Balance at March 31, 2012	Writedowns	Amortization expense	Balance at March 31, 2013
Land	\$ -	\$ -	\$ -	\$ -
Buildings	52,610,094	-	4,668,335	57,278,429
Work In Progress	-	-	-	-
Site improvements	6,763,336	308,184	331,037	6,786,189
Leasehold improvements	447,213	447,213	-	-
Furniture and equipment	18,678,852	1,803,691	1,559,314	18,434,475
Computing equipment and software	7,583,555	1,019,686	384,114	6,947,983
Library books	2,325,414	598,850	282,819	2,009,383
Vehicles	94,820	-	101,941	196,761
	<b>\$ 88,503,284</b>	<b>\$ 4,177,624</b>	<b>\$ 7,327,560</b>	<b>\$ 91,653,920</b>

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

## 13. Tangible Capital Assets (continued)

	Net book value March 31, 2013	Net book value March 31, 2012
Land	\$ 12,401,247	\$ 12,401,247
Buildings	131,394,385	132,183,776
Work In Progress	495,780	103,818
Site improvements	405,814	736,851
Furniture and equipment	4,798,938	3,163,160
Computing equipment and software	597,978	810,305
Library books	1,169,583	1,240,419
Vehicles	328,152	399,659
	<b>\$ 151,591,877</b>	<b>\$ 151,039,235</b>

### (a) Contributed tangible capital assets

Additions to land, buildings, and equipment include the following contributed tangible capital assets:

	2013	2012
Land for the benefit of Milner Gardens	\$ -	\$ 124,000
Buildings for the benefit of Milner Gardens	-	133,000
Equipment	393,000	-
	<b>\$ 393,000</b>	<b>\$ 257,000</b>

### (b) Works of art and historical treasures

The Institution manages and controls various works of art and non-operational historical cultural assets including artifacts, paintings and sculptures located at University sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

### (c) Writedown of tangible capital assets

The writedown of tangible capital assets during the year was \$4,177,624 (2012 - \$4,616,526). Writedowns were only applied to fully depreciated tangible capital assets that have reached pre-established age thresholds set beyond their useful lives.

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.



# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

## 14. Accumulated operating surplus

The accumulated operating surplus is comprised of the following:

	2013	2012 <i>(restated)</i>
Investment in tangible capital assets	\$ 35,524,422	\$ 36,157,788
Endowments (note 17)	11,156,695	11,005,922
Internally restricted surplus	17,344,962	12,703,808
Unrestricted surplus	6,929,303	5,663,283
Total accumulated operating surplus	\$ 70,955,382	\$ 65,530,801

## 15. Contractual obligations

The nature of the University's activities can result in multiyear contracts and obligations whereby the University will be committed to make future payments. Currently the University has no significant contractual obligations related to operations that extend beyond the 2013-14 fiscal year.

## 16. Contingencies

### a. Letters of credit:

The University had a total of \$506,518 in letters of credit outstanding at March 31, 2013 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, 2013, 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.

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

## 17. Endowments

Endowments form part of the accumulated surplus balance and consist of externally restricted donations, the principal of which is required to be maintained in perpetuity. The endowment fund balance is 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.

Endowments included as part of accumulated surplus is as follows:

	2013	2012 (restated)
Balance, beginning of year	\$ 11,005,922	\$ 10,820,100
Contributions	150,773	185,822
Balance, end of year	\$ 11,156,695	\$ 11,005,922

## 18. Expenses by object

The following is a summary of expenses by object:

	2013	2012 (restated)
Salaries & benefits	\$ 85,860,134	\$ 85,239,632
Fees & purchased services	8,288,674	8,095,579
Travel & training	2,329,246	2,520,992
Scholarships & bursaries	1,758,554	1,360,201
Equipment rental & maintenance	1,325,926	1,795,205
Utilities, insurance & taxes	2,545,051	2,377,277
Materials & supplies	6,025,683	6,708,232
Amortization of capital assets	7,327,559	7,279,849
Cost of goods sold	4,034,228	4,024,317
Interest on long term debt	868,020	884,402
	\$ 120,363,075	\$ 120,285,686

Under the University Act, the University has been designated a special purpose teaching university. As such, the University's primary purpose is the delivery of educational services. Segmented reporting has not been provided as it would not provide additional material information to users of the financial statements.

# VANCOUVER ISLAND UNIVERSITY

Notes to consolidated financial statements  
Year Ended March 31, 2013

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## 19. Comparative Figures

Certain comparative figures have been restated to conform to current year presentation.