

**UNIVERSITY OF VICTORIA FOUNDATION  
FINANCIAL STATEMENTS  
MARCH 31, 2013 and 2012**

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## UNIVERSITY OF VICTORIA FOUNDATION

### STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University of Victoria is responsible for the preparation of the financial statements of the University of Victoria Foundation. The statements have been prepared in accordance with Canadian Public Sector Accounting Standards for government not-for-profit organizations and present fairly the financial position of the Foundation as at March 31, 2013, March 31, 2012 and April 1, 2011 and the results of its operations for the years then ended March 31, 2013 and March 31, 2012.

In fulfilling its responsibility and recognizing the limits inherent in all systems, the University's Administration has developed and maintains a system of internal control designed to provide reasonable assurance that the Foundation's assets are safeguarded from loss and that the accounting records are a reliable basis for preparation of the financial statements.

The financial statements have been examined by KPMG LLP, Chartered Accountants, the independent auditors appointed by the Foundation's Board of Directors. The Independent Auditors' Report outlines the nature of their examination and provides their opinion on the fair presentation of the financial statements of the Foundation for the years ended March 31, 2013 and March 31, 2012.

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Lisa Hill  
Chair

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Andrew Coward  
Treasurer

June 21, 2013

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Chartered Accountants  
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**UNIVERSITY OF VICTORIA FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
as at March 31, 2013, March 31, 2012 and April 1, 2011

	2013	2012	2011
<b>ASSETS</b>			
Cash on deposit	\$ 629,767	\$ 1,903,388	\$ 3,195,567
Accrued interest and other receivables	3,437,473	1,648,609	1,382,515
Investments (note 3)	321,015,231	300,852,475	298,858,023
	325,082,471	304,404,472	303,436,105
<b>LIABILITIES</b>			
Accounts payable	3,042,765	1,088,938	657,558
Amount due to the University of Victoria (note 6)	2,730,222	1,728,064	3,064,259
Loan payable to the University of Victoria (note 7)	-	-	1,602,502
	5,772,987	2,817,002	5,324,319
<b>FUND BALANCES</b>			
Endowment Principal balances (Statement 2):			
Restricted endowment	269,530,001	262,199,189	246,315,852
Restricted quasi-endowment	7,885,312	7,778,556	7,582,237
Designated endowment	17,397,950	17,094,481	16,600,446
Designated quasi-endowment	1,376,920	1,356,572	1,318,343
Unrestricted endowment	2,298,256	2,221,600	2,006,928
Unrestricted quasi-endowment	2,754,105	2,738,035	2,619,033
	301,242,544	293,388,433	276,442,839
Expendable fund balances (Statement 2)	18,066,940	8,199,037	21,668,947
	\$ 325,082,471	\$ 304,404,472	\$ 303,436,105
On behalf of the Board of Directors:			

	Endowment Principal		Expendable Funds	
	2013	2012	2013	2012
<b>REVENUE</b>				
Donations	\$ 2,790,988	\$ 8,667,176	\$ 234,613	\$ 368,130
University of Victoria matching funds	397,500	-	-	-
Interest and dividend income	-	-	9,725,607	10,446,776
Realized gains, less losses	-	-	2,125,690	3,137,569
Unrealized gains, less losses	-	-	-	(4,857,274)
	3,188,488	8,667,176	12,085,910	9,095,201
<b>EXPENSE</b>				
Scholarships, bursaries and other distributions (note 6)	-	-	11,499,775	12,297,041
Administration fees (note 6)	-	-	574,714	662,355
Investment management fees	-	-	1,394,295	1,327,297
	-	-	13,468,784	14,286,693
<b>Excess (deficiency) of revenue over expense</b>	3,188,488	8,667,176	(1,382,874)	(5,191,492)
<b>Fund balances at beginning of year</b>	293,388,433	276,442,839	8,199,037	21,668,947
<b>Interfund transfers - encroachment on quasi-endowments (note 8)</b>	(38,455)	(55,973)	38,455	55,973
<b>Capitalizations to endowment principal (note 5)</b>	4,704,078	8,334,391	(4,704,078)	(8,334,391)
<b>Fund balances, before accumulated remeasurement gains</b>	301,242,544	293,388,433	2,150,540	8,199,037
<b>Accumulated remeasurement gains</b>	-	-	15,916,400	-
<b>Fund balances, at year end</b>	\$ 301,242,544	\$ 293,388,433	\$ 18,066,940	\$ 8,199,037

	2013	2012
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenue over expense	\$ 1,805,614	\$ 3,475,684
Items not involving cash		
Realized gains, less losses on investments	(2,125,690)	(3,137,569)
Unrealized gains, less losses on investments	-	4,857,274
Changes in non-cash working capital balances (net)		
Net increase in current assets	(1,788,864)	(266,094)
Net increase in current liabilities	1,953,827	431,380
Increase (decrease) in due to the University of Victoria	1,002,158	(1,336,195)
	847,045	4,024,480
<b>Investing activities</b>		
Increase in investments	(2,120,666)	(3,714,157)
<b>Financing activities</b>		
Loan payable	-	(1,602,502)
<b>Decrease in cash during the year</b>	<b>(1,273,621)</b>	<b>(1,292,179)</b>
<b>Cash, beginning of year</b>	<b>1,903,388</b>	<b>3,195,567</b>

**UNIVERSITY OF VICTORIA FOUNDATION**  
**STATEMENT OF REMEASUREMENT GAINS AND LOSSES**  
**For the Year ended March 31, 2013**

STATEMENT 4

	<u>2013</u>
Accumulated remeasurement gains (losses), beginning of the year	-
Unrealized gains attributable to equity instruments	15,916,400
Realized gains (losses), reclassified to the statement of operations: Equity instruments	-
Net remeasurement gains for the year	<u>15,916,400</u>
Accumulated remeasurement gains, end of the year	<u>\$ 15,916,400</u>

**UNIVERSITY OF VICTORIA FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2013 and 2012**

Note 1. Purpose and Status of University of Victoria Foundation

The purpose of the Foundation is to encourage and administrate financial support of the University through donations from individuals,



Note 2. Significant Accounting Policies (continued)

c) Investments

The assets underlying the endowment principal and expendable funds, with the exception of the Kenneth and Joy Williams Trust, (see Note 3) are held in an investment pool. This investment pool is recorded at market value. The principal and expendable portion of



Note 3. Investments

(a) Foundation investments recorded at fair value and cost are comprised of the following:

(in thousands of dollars)	Fair Value Hierarchy	Fair Value	Original Cost	2012 Fair Value	2011 Fair Value
Investments at fair value:					
Bonds	Level 2	\$ 31,091,634	\$ 30,300,895	\$ 28,491,463	\$ 27,651,561
Various pooled bond funds	Level 1	49,906,989	49,696,285	55,173,386	51,056,192
Canadian equities	Level 1	80,163,194	63,467,126	71,829,407	84,088,978
Global equities	Level 1	114,664,883	96,436,358	107,493,242	100,659,103
Infrastructure and real estate	Level 3	39,438,701	34,862,508	31,770,847	29,852,329
		315,265,401	274,763,172	294,758,345	293,308,163
Investments at cost:					
Short term investments		5,749,830	5,749,830	6,094,130	5,549,860
Total investments		\$321,015,231	\$280,513,002	\$ 300,852,475	\$ 298,858,023

Note 4.



(b) Price Risk

Price risk includes market risk and interest rate risk.

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

<u>Asset Class</u>		<u>Estimated Volatility % Change</u>
Canadian equities	+/-	19.80%
Foreign equities	+/-	18.30%
Real estate	+/-	8.60%
Bonds	+/-	5.10%
Infrastructure	+/-	13.0%
<b>†</b>		
<u>Benchmark for Investments</u>		<u>(in \$)</u>
DEX Universe Bond Index	+/-	\$ 8,666
S&P/TSX Composite Index	+/-	16,177
MSCI World Index	+/-	21,068
Canadian Consumer Price Index (Real Estate)	+/-	2,880
Canadian Consumer Price Index (Infrastructure)	+/-	786

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

It is management's opinion that the Foundation is exposed to market or interest rate risk arising from its financial instruments. Duration is an appropriate measure of interest rate risk for fixed income funds as a rise (fall) in interest rates will cause a decrease (increase) in bond prices - the longer the duration, the greater the effect. Duration is managed by the investment manager at the fund level. At March 31, 2013, the modified duration of all fixed income in aggregate was 6.2 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 6.2%, contrarily if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 6.2%.

(c) Liquidity risk

Liquidity risk is the risk that the Foundation will not be able to meet its financial obligations as they become due.

The Foundation manages liquidity risk by continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Foundation's reputation.

(d) Foreign currency risk:

The Foundation has entered into agreements and purchases for foreign currency hedging made through various investment portfolios. Management has assessed that the foreign exchange risk derived from currency conversions is not significant to the Foundation.