



Financial Statements

University of Victoria ~~Combination~~ Pension Plan

December 31, 2013

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Independent Auditor's Report

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To the Trustees of University of Victoria Combination Pension Plan

We have audited the accompanying financial statements of the University of Victoria Combination Pension Plan, which comprise the statement of financial position as at December 31, 2013, the statement of changes in net assets available for benefits and the statement of changes in obligations for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, 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.

Auditors' re

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 financial statements present fairly, in all material respects, the financial position of the University of Victoria Combination Pension Plans as at December 31, 2013 and financial performance for the year then ended in accordance with Canadian accounting standards for pension plans.

Victoria, Canada
March 4 2014

A handwritten signature in black ink, which appears to read "Grant Thornton LLP", written over a horizontal line.

Chartered Accountants

University of Victoria Combination Pension Plan

Statement of Financial Position

December 31	2013	2012
Assets		
Cash	\$ <u>1,824,219</u>	\$ 1,723,076
Investments (Note 4)		
Short-term	12,861,989	18,708,896
Canadian bonds	204,427,647	201,698,219
Foreign bonds	1,903,880	-
Mortgages	14,291,306	16,351,831
Canadian equities	252,747,535	223,305,579
Foreign equities	275,034,486	193,959,503
Currency hedges	475,529	715,377
Real estate	<u>97,374,979</u>	89,399,543
	<u>859,117,351</u>	744,138,948
Receivables		
Accrued interest and dividend income	629,846	749,943
Miscellaneous	<u>46,638</u>	653,035
	<u>676,484</u>	1,402,978
	<u>861,618,054</u>	747,265,002
Liabilities		
Accounts payable and accrued liabilities	<u>1,386,116</u>	103,530
Net assets available for benefits		
Available for defined contribution benefits	751,263,063	658,827,844
Available for defined benefit pensions and supplements	108,968,875	88,333,628
	<u>860,231,938</u>	747,161,472
Obligations for benefits		
Defined contribution benefits	751,263,063	658,827,844
Accrued defined benefit pensions and supplements (Note 6)	42,308,000	51,288,000
Net assets available for benefits less obligations for benefits	\$ 66,660,875	\$ 37,045,628

University of Victoria Combination Pension Plan

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31

2013

2012

Change in net assets

Net return on investments (Note 5)

Interest income	\$ 10,088,598	\$ 9,306,051
Mortgage income	695,003	797,897
Dividend income	3,330,634	5,199,317
Net realized and unrealized gain on investments	100,173,083	52,600,755
Investment administration costs	(1,822,941)	(1,563,150)
	112,464,377	66,340,870

Contributions (Note 1)

Members' required	7,896,944	7,716,152
Members' additional voluntary	147,541	124,060
University's required		
Combined contribution accounts	9,579,975	9,317,204
Defined retirement benefit account	7,383,633	7,186,895
Transfers from other plans	1,658,433	1,421,061
	26,666,526	25,765,372

Payments to or on behalf of members

Pensions to retired members or beneficiaries	(18,283,298)	
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University of Victoria Combination Pension Plan

Statement of Changes in Obligations for Benefits

Year Ended December 31

2013

2012

Change in obligations for benefits - defined contribution

Beginning balance, obligations for defined contribution benefits	\$ <u>658,827,844</u>	\$ <u>605,887,364</u>
Net investment returns	98,218,373	58,461,915
Contributions	19,282,893	18,578,477
Benefits paid	(17,788,188)	(16,500,752)
Accounts transferred or refunded	<u>(7,277,859)</u>	<u>(7,599,160)</u>
Change in obligations for benefits	<u>92,435,219</u>	<u>52,940,480</u>
Ending balance	\$ <u>751,263,063</u>	\$ <u>658,827,844</u>

Change in obligations for benefits - defined benefit

Beginning balance, obligations for accrued defined benefit pensions and supplements	\$ <u>51,288,000</u>	\$ <u>62,590,000</u>
Actual plan experience and changes in actuarial assumptions	(1,108,000)	(16,119,000)
Interest accrued on benefits	3,432,000	4,216,000
Experience (gains) and losses	(14,334,000)	(3,950,000)
Benefits accrued	3,525,000	4,988,000
Benefits paid	<u>(495,000)</u>	<u>(437,000)</u>
Change in obligations for benefits	<u>(8,980,000)</u>	<u>(11,302,000)</u>
Ending balance	\$ <u>42,308,000</u>	\$ <u>51,288,000</u>

See accompanying notes to the financial statements.

University of Victoria Combination Pension Plan

Notes to the Financial Statements

December 31, 2013

1. Description of plan

University of Victoria Combination Pension Plan

Notes to the Financial Statements

December 31, 2013

1. Description of plan (continued)

(d) Retirement

All members are eligible for a retirement benefit. Normal retirement is the end of the month in which the member attains age 65. Members may elect early retirement any time after attaining the age of 55, or postpone retirement benefits until December 1st of the calendar year in which the member attains age 71.

(e) Retirement options

At retirement, members can apply the balance in their combined contribution accounts to one or a combination of the following forms of benefits:

- Internal variable annuity with, subject to eligibility, a defined benefit supplement. The defined benefit supplement is the amount, if any, by which the defined benefit minimum exceeds the internal variable annuity. The defined benefit minimum at normal retirement is 1.3% of the member's final average earnings up to the three year average YMPE, multiplied by years of service; plus 2% of the member's final average earnings that are in excess of the three year average YMPE, multiplied by years of service. The final average earnings are calculated as the member's average for the highest consecutive five years. The defined benefit minimum is limited to \$2,770.00 per year of service credited after 1990 and is actuarially reduced for early retirement.
- External annuity from a life insurance company.
- Variable benefit.
- Transfer to (locked-in) registered retirement savings plans.
- Transfer to a combination of registered retirement income funds and life income funds.

(f) Termination and portability benefits

Upon termination of employment, members may retain the balance in their combined contribution account or transfer it to (locked-in) registered retirement savings plans or to another registered pension plan that will accept the transfer.

Members may transfer pension entitlements from other registered pension plans to a voluntary account in the University of Victoria Combination Pension Plan.

(g) Survivor benefits

The survivor benefit of a member, who dies before commencing a benefit, is the total in the member's combined contribution account and additional voluntary contribution account, if any. The beneficiary is the member's spouse (if the member has a spouse) unless the spouse has completed and filed a Spouse's Waiver of Pre-Retirement Benefits with the Pension Office. If the member does not have a spouse or the spouse has completed a waiver, the beneficiary is the member's estate unless the member has designated another beneficiary. A surviving spouse may choose an immediate or deferred pension from the Plan or transfer the survivor benefit to another registered vehicle.

The survivor benefit for a pensioner on the variable benefit is the total in the member's variable benefit account.

University of Victoria Combination Pension Plan

Notes to the Financial Statements

December 31, 2013

1. Description of plan (continued)

(g) Survivor benefits (continued)

The survivor benefit for a pensioner in receipt of an annuity from the plan is determined by the optional form selected by the member immediately prior to commencement of the annuity. The optional forms available for internal annuities are as follows:

- Joint and last survivor where 66.7%, 75% or 100% of the benefit will continue to the spouse, if pre-

University of Victoria Combination Pension Plan

Notes to the Financial Statements

December 31, 2013

3. Summary of significant accounting policies

As indicated in Note 2, these financial statements have been prepared in accordance with Canadian accounting standards for pension plans. Accounting standards for pension plans require entities to select accounting policies for accounts that do not relate to its investment portfolio or pension obligations in accordance with either International Financial Reporting Standards ("IFRS") or Canadian Accounting Standards for Private Enterprises ("ASPE").

University of Victoria Combination Pension Plan

Notes to the Financial Statements

December 31, 2013

4. Investments (fair value)

University of Victoria Combination Pension Plan

Notes to the Financial Statements

December 31, 2013

5. Net return on investments

Net investment returns (losses) less operating expenses are distributed to members' combined contribution accounts, variable benefit accounts and additional voluntary contribution accounts at the end of each month.

The Balanced Fund earned a gross return of 15.31% (2012: 9.98%) and a net return of 15.01% (2012: 9.71%). The Defined Retirement Benefit Account incurred a net return of 15.03% (2012: 9.74%). Net investment returns by fund are as follows:

	2013			2012
	Balanced Fund	DRBA	Total	Total
Interest				
Cash and short-term notes	\$ 99,339	\$ 49,095	\$ 148,434	\$ 160,604
Bonds	9,036,388	896,041	9,932,429	9,145,379
Mortgages	578,688	116,315	695,003	797,897
Other	6,816	919	7,735	68
Dividends				
Canadian equities	2,404,593	926,041	3,330,634	5,199,317
Net realized gains	34,040,069	6,097,776	40,137,845	48,747,980
Net unrealized gains	54,031,606	6,003,632	60,035,238	3,852,775
	100,197,499	14,089,819	114,287,318	67,904,020
Investment costs				
Management fees	1,504,646	159,444	1,664,090	1,318,890
Custodial fees	65,887	20,406	86,293	99,044
Other	72,558	-	72,558	145,216
	1,643,091	179,850	1,822,941	1,563,150
Total net investment return	\$ 98,554,408	\$ 13,909,969	\$ 112,464,377	\$ 66,340,870

University of Victoria Combination Pension Plan Notes to the Financial Statements

December 31, 2013

6. Obligations for pension benefits

University of Victoria Combination Pension Plan

Notes to the Financial Statements

December 31, 2013

6. Obligations for pension benefits – defined benefit minimum (continued)

Other assumptions used for calculations at December 31, 2013 and December 31, 2012 are based on the valuation bases for the December 31, 2012 actuarial valuation, as set out in Appendix C of the Report on the Actuarial Valuation for Funding Purposes as at December 31, 2012 (the "Funding Report").

7. Net assets available for benefits

The net assets available for benefits as at December 31 are allocated as follows:

	<u>2013</u>	<u>2012</u>
Combined contribution accounts ("CCA")	\$ 421,087,504	\$ 371,569,594
Variable benefit accounts ("VBA")	274,068,521	241,844,803
Additional voluntary contribution accounts ("AVC")	12,245,231	9,951,123
Defined retirement benefit account ("DRBA")	108,968,875	88,333,628
Internal variable annuity account ("IVAA")	<u>43,861,807</u>	<u>35,462,324</u>
	<u>\$ 860,231,938</u>	<u>\$ 747,161,472</u>

8. Combined contribution accounts ("CCA")

Each member of the plan has a CCA which is reported annually to the member. CCAs

University of Victoria Combination Pension Plan

Notes to the Financial Statements

December 31, 2013

13. Risk management (continued)

Credit risk

Credit risk relates to the possibility that a loss may occur from failure of a fixed income security issuer to meet its debt obligations. At December 31, 2013, the maximum risk exposure for this type of investment is \$211.1 million (2012: \$214.0 million) in the Balanced Fund and \$22.4 million (2012: \$19.1 million) in the Defined Retirement Benefit Fund.

The Plan limits credit risk by investing only in short term debt rated R1 or higher and other debt rated BBB or higher, as rated by the Dominion Bond Rating Service or equivalent. Debt rated below BBB is only permitted in the case of a high yield bond fund which has been specifically approved for investment by the Board of Pension Trustees.

The following shows the percentage of bond holdings in the portfolio by credit rating.

