Victoria University

Financial Statements
April 30, 2014

Victoria University

Financial Statements

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October 9, 2014

Independent Auditor's Report

To the Board of Regents of
Victoria University

We have audited the accompanying financial statements of Victoria University, which comprise the statement of financial position as at April 30, 2014 and the statements of operations, changes in net assets and cash flows for the year then ended, and the related notes, which comprise 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 not-for-profit organizations, 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 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 from 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 auditor's 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Victoria University as at April 30, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Victoria University

Statement of Financial Position

Statement 1

As at April 30, 2014

(in thousands of dollars)

	2014 $	2013 $
Assets		
Current assets		
Cash	6,653	-
Short-term investments	452	983
Accounts receivable	544	827
Inventories	54	64
Prepaid expenses	214	279
	7,917	2,153
Deferred lease costs (note 14(c))	4,396	3,961
Deferred lease receivable	-	781
Investments in marketable securities (note 3(a))	144,670	108,876
Investments in revenue-producing properties (note 3(b))	306,017	306,815
Endowment assets held by outside trustees (note 5)	63	63
Property and equipment (note 4)	64,763	64,986
	527,826	487,635
Liabilities		
Current liabilities		
Bank overdraft	-	1,332
Accounts payable and accrued liabilities	4,172	6,484
Current portion of long-term debt (note 6)	2,778	16,449
	6,950	24,265
Interim real estate settlement (note 14(c))	20,317	-
Accrued pension benefit liability (note 15)	1,706	7,031
Other post-employment benefits (note 15)	10,628	14,121
Deferred contributions for restricted purposes (note 8)	4,269	4,750
Deferred revenue	400	511
Deferred capital contributions (note 9)	18,232	18,269
Long-term debt (note 6)	15,702	3,874
	78,204	72,821
Net Assets		
Endowments (note 5)		
Externally restricted	101,235	81,626
Internally restricted	335,638	329,700
	436,873	411,326
Unrestricted	(16,097)	(25,580)
Investment in property and equipment (note 10)	28,846	29,068
	449,622	414,814
	527,826	487,635

Contingency (note 14(c))

Approved by the Board of Regents

____________________________ President ____________________________ Chair of Audit Committee

The accompanying notes are an integral part of these financial statements.

Victoria University

Statement of Operations — Statement 2

For the year ended April 30, 2014

(in thousands of dollars)

	2014 $	2013 $
Revenues		
Student fees	9,979	9,931
Grants from the University of Toronto	5,725	5,001
Grants from the Toronto School of Theology	359	474
United Church grant	397	418
Government grants	320	186
Other grants	33	501
Donations (note 7)	1,267	1,568
Investment income (note 11)	6,248	1,819
Sales, services and sundry	4,802	3,381
Amortization of deferred capital contributions (note 9)	963	787
Real estate	9,321	10,000
	39,414	34,066
Expenses		
Salaries	15,139	14,556
Pension and OPEB expense (recovery)	(6,035)	2,592
Other benefits	1,896	2,011
Supplies and other	3,430	4,022
Repairs and maintenance	1,266	1,170
Utilities	1,827	1,669
Amortization of property and equipment and revenue-producing properties	5,232	4,439
Scholarships and bursaries	2,434	2,650
Cost of sales and services	1,560	1,362
Interest	926	601
	27,675	35,072
Excess (deficiency) of revenues over expenses before the undernoted	11,739	(1,006)
Fair value adjustment in investments (note 11)	3,601	5,535
Excess of revenues over expenses for the year	15,340	4,529

The accompanying notes are an integral part of these financial statements.

Victoria University

Statement of Changes in Net Assets

For the year ended April 30, 2014

Statement 3

(in thousands of dollars)

	Externally restricted endowments $	Internally restricted endowments $	Unrestricted $	Investment in property and equipment $	Total $
Balance - April 30, 2012	70,872	326,619	(26,673)	28,854	399,672
Excess (deficiency) of revenues over expenses for the year	141	(657)	7,138	(2,093)	4,529
Amortization of mineral rights	(141)	-	-	-	(141)
Investment in property and equipment, net of amounts financed by long-term debt and deferred capital contributions	-	1,783	(4,090)	2,307	-
Gifts of endowment principal	4,291	-	-	-	4,291
Investment income (note 11)	1,580	-	-	-	1,580
Net excess of capital draw over realized investment income (note 11)	(2,035)	-	-	-	(2,035)
Unrealized gain on investments - marketable securities	6,918	-	-	-	6,918
Transfer to (from) endowments (note 5)	-	1,955	(1,955)	-	-
Balance - April 30, 2013	81,626	329,700	(25,580)	29,068	414,814
Excess (deficiency) of revenues over expenses for the year	141	(657)	19,455	(3,599)	15,340
Amortization of mineral rights	(141)	-	-	-	(141)
Investment in property and equipment, net of amounts financed by long-term debt and deferred capital contributions	-	1,785	(5,162)	3,377	-
Gifts of endowment principal	3,555	-	-	-	3,555
Investment income (note 11)	(367)	-	-	-	(367)
Net excess of capital draw over realized investment loss (note 11)	(4,171)	-	-	-	(4,171)
Unrealized gain on investments - marketable securities	20,592	-	-	-	20,592
Transfer to (from) endowments (note 5)	-	4,810	(4,810)	-	-
Balance - April 30, 2014	101,235	335,638	(16,097)	28,846	449,622

The accompanying notes are an integral part of these financial statements.

Victoria University

Statement of Cash Flows

Statement 4

For the year ended April 30, 2014

(in thousands of dollars)

	2014 $	2013 $
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for the year	15,340	4,529
Adjustments for non-cash and non-operating items		
Other investment loss (income)	2,347	(1,760)
Amortization of property and equipment and revenue-producing properties	5,220	4,439
Amortization of deferred capital contributions	(963)	(787)
Unrealized gain on interest rate swap contract (note 11)	(94)	(172)
Unrealized gain on short-term investments (note 11)	(82)	(30)
Unrealized gain on investments - marketable securities (note 11)	(5,771)	(3,573)
Pension and post-employment (recovery) expense	(6,035)	2,592
Increase (decrease) in deferred revenue and deferred contributions for restricted purposes	(592)	1,950
Interim real estate settlement	20,317	-
	29,687	7,188
Pension and post-employment contributions	(2,783)	(2,720)
Net change in non-cash working capital balances	(1,608)	(564)
	25,296	3,904
Financing activities		
Endowment contributions	(983)	3,836
Acquisition (repayment) of long-term debt	(1,749)	8,206
Capital contributions	926	619
	(1,806)	12,661
Investing activities		
Net purchases of marketable securities	(11,696)	(1,630)
Purchase of property and equipment	(4,340)	(13,689)
Additions to revenue-producing properties	-	(130)
	(16,036)	(15,449)
Increase in cash and cash equivalents during the year	7,454	1,116
Bank overdraft - Beginning of year	(349)	(1,465)
Cash and cash equivalents (bank overdraft) - End of year	7,105	(349)
Comprising		
Cash (bank overdraft)	6,653	(1,332)
Short-term investments	452	983
	7,105	(349)
Supplementary information		
Interest paid	572	797
Capitalized interest included in the paid interest amount	-	201

The accompanying notes are an integral part of these financial statements.

(in thousands of dollars)

1 The University

Victoria University, comprising Victoria College and Emmanuel College (collectively the University), is a university in federation with the University of Toronto. Degrees from Emmanuel College are awarded conjointly with the University of Toronto. Degrees from Victoria College are awarded, under the terms of federation, by the University of Toronto.

The University is a registered charity in both Canada and the United States of America and is thereby able to issue donation receipts for income tax purposes.

2 Summary of significant accounting policies

These financial statements have been prepared in accordance with Part III of the Chartered Professional Accountants of Canada (CPA Canada) Handbook - Canadian Accounting Standards for Not-for-profit Organizations (ASNPO), which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

Contributions

The University follows the deferral method of accounting for contributions, which include donations and government grants. Contributions externally restricted for purposes other than endowments are recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Contributions received for the purchase of property and equipment are recorded as deferred capital contributions. Capitalized contributed assets are recorded as property and equipment with a corresponding balance in deferred capital contributions. Amortization of deferred capital contributions is on the same basis as the amortization of related property and equipment and is recorded as revenues in the statement of operations. Unrestricted contributions are recorded as revenues when received.

Real estate revenue

The University owns several revenue-producing properties, which are rented out for rental income. Rental income is recognized on an accrual basis.

Deferred revenue

Student fees are recognized as revenues when courses and seminars are held. Sales and services revenues are recognized at the point of sale or when the service has been provided. Monies received in advance are recorded as deferred revenue.

(in thousands of dollars)

Financial instruments

The University adopted the provisions of the CPA Canada Handbook Section 3856, Financial Instruments.

Investments and investment income

Investments are carried at fair value except for the real estate directly held by the University. Fair value amounts represent estimates of the consideration that would be agreed on between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. The value of investments recorded in the financial statements is determined as follows:

- Short-term notes and treasury bills are valued at cost, which approximates fair value.
- Investments in pooled funds are valued at their reported net asset value per unit.
- Real estate held by the University is originally valued at cost and, when donated, at the fair value determined through an appraisal process at the date of donation. Subsequently, real estate is valued at cost less any provision for impairment. Revenue-producing land is not amortized. Amortization of revenue-producing buildings and mineral rights is provided on a straight-line basis over periods ranging from 10 to 35 years.
- Deferred lease costs are amortized over the term of the respective lease.

Investment income, consisting of interest, dividends and income distributions from pooled funds, is recognized directly in the statement of operations, except for income earned on externally restricted endowments, for which only the amount made available for spending is recorded as revenue. Gains and losses related to realized and unrealized gains and losses are recorded in the statement of operations as the change in fair value of investments. In years where the investment income earned is in excess of the amount made available for spending, the excess is recorded as a direct increase in the endowments. In years where the investment income earned is below the amount made available for spending, the shortfall is recorded as a direct decrease in endowments.

Derivative financial instruments

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University's debt financing. Derivative financial instruments that may be employed include debt, equity and currency futures, options, swaps and forward contracts. These contracts are generally supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

(in thousands of dollars)

Hedge accounting

Where the requirements for hedge accounting are met, the University designates and documents interest rate swap contracts as hedges of anticipated interest rate risk. The documentation identifies the anticipated transaction being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in offsetting changes in the anticipated cash flows both at inception and throughout the life of the instrument. Hedge accounting is discontinued prospectively if it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated, or upon the sale or early termination of the hedge.

The University uses an interest rate swap as a hedging strategy to manage its exposure to interest rate risk on the Goldring Student Centre (GSC) loan. In accordance with ASFNPO, the GSC interest rate swap held by the University is not presented on the year-end balance sheet at fair value.

Other financial instruments

Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value and are not subsequently revalued and continue to be carried at this value, which represents cost net of any provisions for impairment.

Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and investments in money market funds. Cash and investments meeting the definition of cash and cash equivalents held for investing rather than liquidity purposes are classified as investments.

Inventories

Retail inventories are carried at the lower of cost, determined using the first-in, first-out method, and net realizable value.

Property and equipment

Purchased property and equipment are recorded at cost. Contributed property and equipment are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis using the following periods:

New buildings	35 years
Renovated buildings	25 years
Renovations to buildings	10 to 25 years
Equipment and furnishings	5 to 15 years
Gardens	40 years

Library books are amortized on a declining balance basis at 5% per annum.

(in thousands of dollars)

Employee benefit plans

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for substantially all of its employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the accrued obligation net of the fair value of plan assets in the statement of financial position. Actuarial gains and losses and past service costs are included in the cost for the year. The accrued liability for the pension plan is determined based on an actuarial valuation report prepared for funding purposes. This report is required to be prepared at least on a three-year basis by the applicable regulations. The pension plan's assets are measured at fair value at the date of the statement of financial position. The accrued liability for employee future benefits other than the pension plan is determined based on an actuarial valuation using funding assumptions that are prepared at least every three years. In years where an actuarial valuation is not prepared, the University uses a roll-forward technique to estimate the accrued liability using assumptions from the most recent actuarial valuation report.

Endowments

Endowment contributions for designated purposes are reflected as a direct addition to externally restricted endowment net assets. Income therefrom is expended as required by the terms of these gifts.

Endowment net assets held by outside trustees are recorded at original values established under the terms of the trusts when valuations of the trusts become available.

The University attempts to preserve the capital value of endowment net assets by ensuring the rate of growth in the capital value matches or exceeds the rate of inflation over time and by matching the amortization of mineral rights. To achieve this, only a portion of investment income from endowment net assets is used in operations and the remainder is credited to endowment net assets to preserve its capital value. The calculation of the amount used in operations is reviewed annually.

Collections

Collections consist of archival materials, works of art and silver and are not recorded in the financial statements. Costs related to archival material is expensed as incurred. Donation receipts are issued for fair value in accordance with the guidelines of the Canada Revenue Agency.

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of the assets, until such time as the assets are substantially ready for their intended use. Qualifying assets are those assets that necessarily take a substantial period of time to prepare for their intended use or sale. All other borrowing costs are recognized as interest expense in the statement of operations in the year in which they are incurred.

(in thousands of dollars)

3 Investments

a) Investments in marketable securities

An analysis of the University's investments in marketable securities is set out below:

	2014			2013		
	Cost $	Fair value $	Unrealized gain $	Cost $	Fair value $	Unrealized gain (loss) $
Cash and short-term investments	72	72	-	26	25	(1)
Canadian fixed income pooled funds	25,103	25,901	798	20,552	20,552	-
Canadian equity pooled funds	22,278	29,228	6,950	21,052	23,291	2,239
International equity pooled funds	69,190	89,599	20,409	65,579	65,065	(514)
Eccles Trust	401	425	24	401	413	12
Trade payable	(103)	(103)	-	(100)	(100)	-
Funds held in trust	(507)	(452)	55	(507)	(370)	137
	116,434	144,670	28,236	107,003	108,876	1,873

All of the above funds are held in investment pools with regularly calculated market prices.

The University has formal policies and procedures in place governing the asset mix among fixed income, equity and marketable alternative investments, requiring diversification and setting limits on the size of exposure to individual investments by asset category to manage risk.

b) Investments in revenue-producing properties

An analysis of the University's investments in revenue-producing properties is set out below:

	2014			2013		
	Cost $	Accumulated amortization $	Net amortized cost $	Cost $	Accumulated amortization $	Net amortized cost $
Land	294,076	-	294,076	294,076	-	294,076
Buildings	23,649	12,167	11,482	23,649	11,510	12,139
Mineral rights	1,915	1,456	459	1,915	1,315	600
	319,640	13,623	306,017	319,640	12,825	306,815

(in thousands of dollars)

Revenue-producing properties consist of income-producing real estate assets (land and buildings), which are effectively being treated as endowment realty and whose net revenues contribute to the University's operating cash flows. These properties are classified as internally restricted endowments. On May 30, 2003, the University received a donation of a farm in Weyburn, Saskatchewan that has revenue-producing surface rights and mineral rights. This gift has been classified as an externally restricted endowment and its net revenues also contribute to the University's operating cash flows.

In 2012, the University commissioned professional appraisal studies of the land to determine its current market value. The study, using valuation techniques appropriate for each property, placed a current market value of $320,783 on these holdings as at April 30, 2012. Management intends to update this valuation on a three-year basis. In 2013, the University commissioned a professional appraisal of the Weyburn property to determine its market value with respect to both the surface rights and mineral rights. The appraisal study placed a value of $3,900 on this property. Management intends to update this valuation on a three-year basis.

4 Property and equipment

	2014			2013		
	Cost $	Accumulated amortization $	Net amortized cost $	Cost $	Accumulated amortization $	Net amortized cost $
Buildings	102,713	48,039	54,674	99,432	44,168	55,264
Equipment and furnishings	4,466	3,379	1,087	4,137	3,122	1,015
Library books	13,947	4,945	9,002	13,217	4,510	8,707
	121,126	56,363	64,763	116,786	51,800	64,986

During the year, fully amortized property and equipment in the amount of $12 (2013-$902) was written off. The total amount of capitalized interest related to the GSC construction is $nil (2013 - $216).

(in thousands of dollars)

5 Endowments

Net assets restricted for endowments consist of externally restricted donations received by the University and internally restricted amounts transferred by the Board of Regents in the exercise of its discretion. The Board of Regents has the right in future to remove such internal restrictions it has imposed. The investment income generated from endowments is used in accordance with the various purposes established by the donors or the Board of Regents. During the year, an amount of $4,810 (2013 - $1,955) was transferred to internally restricted endowments from unrestricted net assets.

	2014 $	2013 $
Externally restricted	101,235	81,626
Internally restricted	335,638	329,700
	436,873	411,326
Marketable securities	144,670	108,876
Revenue-producing properties, net of associated long-term debt	305,231	304,244
Assets held by outside trustees	63	63
Net accounts payable	(13,091)	(1,857)
	436,873	411,326

6 Long-term debt

Long-term debt as at April 30 consists of the following balances:

	2014 $	2013 $
Burwash loan A #6156-273 (a)	461	647
Burwash loan B #6001-159 (b)	389	539
McKinsey loan #6005-037 (c)	786	2,571
McKinsey loan interest rate swap (c)	10	105
Operating loan A #6160-440 (d)	436	621
Operating loan B #6162-585 (e)	561	746
Rowell-Jackman Hall loan A #6121-660 (f)	1,167	1,381
Rowell-Jackman Hall loan B #6121-038 (g)	2,088	2,501
GSC loan # 6987-587 (h)	-	11,212
GSC loan #6973-943 (i)	6,716	-
GSC loan #6973-994 (j)	5,866	-
	18,480	20,323
Less: Current portion	2,778	16,449
Long-term portion	15,702	3,874

(in thousands of dollars)

a) The Burwash loan A is payable in monthly instalments of $17 (2013 - $17) including interest at 3.22% (2013 - 3.22%) per annum, with the balance due on August 9, 2016.

b) This loan matured on September 16, 2013 and was subsequently refinanced. The Burwash loan B is payable in monthly instalments of $14 (2013 - $14), including interest at 2.98% (2013 - 5.01%) per annum, with the balance due on September 30, 2016.

c) The McKinsey loan is payable in variable monthly instalments with the balance due on September 1, 2014. This loan bears a floating rate of interest at the Canadian dollar offering rate plus 1.178% per annum. A related interest swap transaction was entered into on August 24, 1999 with the lender to swap the floating interest rate for a fixed interest rate of 7.77% per annum on the same principal amount over the same period as the loan.

   The loan is collateralized by various documents held by the lender, a general assignment of rents receivable under that lease and an assignment of proceeds of certain insurance policies.

d) The Operating loan A is payable in monthly instalments of $17 (2013 - $17), including interest of 4.20% (2012 - 4.20%) per annum, with the balance due on June 30, 2016.

e) This loan matured on February 28, 2014 and was subsequently refinanced. The Operating loan B is payable in monthly instalments of $18 (2013 - $17), including interest at 2.50% (2013 - 3.86%) per annum, with the balance due on January 31, 2017.

f) This loan matured on January 28, 2014 and was subsequently refinanced. The Rowell-Jackman Hall loan A is payable in monthly instalments of $22 (2013 - $22), including interest of 3.13% (2013 - 4.94%) per annum, with the balance due on January 28, 2019.

g) The Rowell-Jackman Hall loan B is payable in monthly instalments of $44 (2013 - $43), including interest of 4.92% (2013 - 4.92%) per annum, with the balance due on September 30, 2015.

h) The GSC construction loan is incurring interest only. The final amount is expected to reach $14,500. Two related interest rate commitments were entered into on February 1, 2013 - $6,000 with the lender to swap the floating interest rate of 3.39% per annum and $7,000 with the lender to swap the floating interest rate for a fixed interest rate of 3.3% per annum, both on the same principal amount over the same period as the loan, which was effective on the date of conversion of the construction loan on July 2, 2013. The two aforementioned loans have expired.

i) The GSC loan is payable in variable monthly instalments with a balance due on February 1, 2028. This loan bears a floating rate of interest at the Canadian dollar offering rate plus 1.22% per annum. A related interest rate swap transaction was entered into on February 1, 2013 for $7,000 with the lender to swap the floating interest rate for a fixed interest rate of 3.3% per annum on the same principal amount over the same period as the loan effective July 2, 2013.

(in thousands of dollars)

j) The GSC loan is payable in variable monthly instalments with a balance due on February 1, 2036. This loan bears a floating rate of interest at the Canadian dollar offering rate plus 1.22% per annum. A related interest rate swap transaction was entered into on February 1, 2013 for $6,000 with the lender to swap the floating interest rate for a fixed interest rate of 3.39% per annum on the same principal amount over the same period as the loan effective July 2, 2013.

The expected aggregate amount of principal payments required on the long-term debt is as follows:

	$
2015	2,778
2016	3,253
2017	1,199
2018	889
2019 and thereafter	10,362
	18,481

7 Donations

Donations credited to revenues/net assets during the year are as follows:

	2014 $	2013 $
Endowment	3,555	4,291
Amortization of deferred capital contributions	963	787
Unrestricted for operations	1,267	1,568
	5,785	6,646

8 Deferred contributions for restricted purposes

Deferred contributions represent the unused amount of donations and grants received for restricted purposes other than for the purchase of property and equipment. Deferred contributions are included in revenues in the year in which the related expense is made.

	2014 $	2013 $
Balance - Beginning of year	4,750	2,712
Grants and donations	1,350	2,993
Contributions utilized	(1,831)	(955)
Balance - End of year	4,269	4,750

(in thousands of dollars)

The deferred contributions will be spent as follows:

	2014 $	2013 $
Specific campaigns	1,696	2,236
Other restricted purposes	1,430	1,435
Research	681	716
Library - collections, development and maintenance	390	321
Conferences/lectures	64	34
Scholarships	8	8
	4,269	4,750

9 Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of property and equipment and capitalized contributed assets. The amortization of capital contributions is on the same basis as the amortization of the related property and equipment and is recorded as revenues in the statement of operations.

	2014 $	2013 $
Deferred capital contributions used to purchase property and equipment		
Balance - Beginning of year	18,269	18,437
Capital contributions	515	452
Transfer	-	-
Spending of capital contributions on GSC project	411	167
Less: Amortization of deferred capital contributions	(963)	(787)
Balance - End of year	18,232	18,269
Unutilized deferred capital contributions		
Balance - Beginning of year	-	-
Capital contributions	411	167
Spending of capital contribution on GSC project	(411)	(167)
Balance - End of year	-	-
	18,232	18,269

(in thousands of dollars)

Deferred capital contributions have been allocated to the following projects:

	2014 $	2013 $
GSC project	5,469	5,219
Residences	971	1,044
Bader Theatre	4,234	4,426
Library of the Future	3,626	3,928
Library books	2,920	2,741
Other	226	27
Campus Renewal Program	786	884
	18,232	18,269

In January 2011, the University issued an irrevocable line of credit in the amount of $1,122 to the City of Toronto to secure the landscaping requirement of the GSC project.

10 Investment in property and equipment

	2014 $	2013 $
Property and equipment	64,763	64,986
Less		
Long-term debt used to purchase property and equipment	17,685	17,649
Deferred capital contributions used to purchase property and equipment	18,232	18,269
	28,846	29,068

11 Investment income

	2014 $	2013 $
Sources of investment income		
Investment income from endowment net assets	1,671	1,336
Investment income from unrestricted non-endowment assets	39	28
Realized loss on foreign currency	(1,205)	(1,586)
Realized (loss) gain on sales of investments in endowment net assets	(1,142)	3,346
Total investment (loss) income	(637)	3,124
Investment income reported as follows		
Amount credited directly to externally restricted endowments	(367)	1,580
Net excess of capital draw over realized investment income	(4,171)	(2,035)
Revenues in statement of operations	6,248	1,819
Realized loss on foreign currency	(1,205)	(1,586)
Realized (loss) gain on sales of investments in endowment net assets	(1,142)	3,346
	(637)	3,124

(in thousands of dollars)

The amount of investment income from endowment net assets and unrestricted net assets is included either in revenues in the statement of operations and used in operations or recorded directly in the statement of changes in net assets. The amount made available for spending (the draw) is calculated using the banded inflation method and must normally fall between a range of 3% to 5% of the previous year's opening fair value of the applicable assets.

	2014 $	2013 $
Unrealized gain on interest rate swap contract	95	172
Unrealized gain on short-term investments	82	30
Unrealized gain on investments - marketable securities	5,771	3,573
Realized loss on foreign currency	(1,205)	(1,586)
Realized (loss) gain on sales of investments in endowment net assets	(1,142)	3,346
Fair value adjustment in investments	3,601	5,535

12 Externally restricted endowments

a) Ontario Student Opportunity Trust Fund Program (OSOTF)

Externally restricted endowments include funds established under the OSOTF, whereby endowed donations received for student aid are matched by both the Government of Ontario and the University of Toronto. The expendable portion of these funds is included in unrestricted net assets.

	2014			2013
	Victoria College $	Emmanuel College $	Total $	Total $
Endowment balance - Beginning of year	10,784	467	11,251	11,275
Recapitalized funds	75	-	75	-
Preservation of capital	(363)	(15)	(378)	(24)
Endowment balance - End of year	10,496	452	10,948	11,251
Expendable funds available for awards - Beginning of year	121	55	176	153
Investment income	436	19	455	468
Bursaries awarded	(381)	(22)	(403)	(445)
Recapitalization	(75)	-	(75)	-
Expendable funds available for awards - End of year	101	52	153	176
Fair value	11,990	499	12,489	9,880

(in thousands of dollars)

During the year, Victoria College awarded 222 (2013 - 208) bursaries and Emmanuel College awarded 12 (2013 - 12) bursaries under the OSOTF.

b) Ontario Student Opportunity Trust Fund II Program (OSOTF II)

Externally restricted endowments also include funds established under the OSOTF II, whereby endowed donations received for student aid were matched by the Government of Ontario. The expendable portion of these funds is included in unrestricted net assets.

			2014	2013
	Victoria College $	Emmanuel College $	Total $	Total $
Endowment balance - Beginning of year	1,416	77	1,493	1,497
Recapitalized funds	7	-	7	-
Preservation of capital	(49)	(3)	(52)	(4)
Endowment balance - End of year	1,374	74	1,448	1,493
Expendable funds available for awards - Beginning of year	28	13	41	54
Investment income	60	3	63	65
Bursaries awarded	(72)	(2)	(74)	(78)
Recapitalization	(7)	-	(7)	-
Expendable funds available for awards - End of year	9	14	23	41
Fair value	1,597	87	1,684	1,374

During the year, Victoria College awarded 61 (2013 - 56) bursaries and Emmanuel College awarded 2 (2013 - 2) bursaries under the OSOTF II.

(in thousands of dollars)

c) Ontario Trust for Student Support (OTSS)

	2014			2013
	Victoria College $	Emmanuel College $	Total $	Total $
Endowment balance - Beginning of year	3,596	231	3,827	3,838
Donations	-	-	-	-
Matching funds	-	-	-	-
Recapitalization	-	-	-	-
Transfers between colleges	-	-	-	-
Preservation of capital	(140)	(10)	(150)	(11)
Endowment balance - End of year	3,456	221	3,677	3,827
Expendable funds available for awards - Beginning of year	37	8	45	40
Investment income	149	11	160	110
Bursaries awarded	(161)	(9)	(170)	(105)
Donations	-	-	-	-
Recapitalization	-	-	-	-
Expendable funds available for awards - End of year	25	10	35	45
Fair value	4,563	328	4,891	4,002

During the year, Victoria College awarded 112 (2013 - 83) bursaries and Emmanuel College awarded 9 (2013 - 4) bursaries under the OTSS program.

13 Agreements with the University of Toronto and the Toronto School of Theology

The relationship between the University of Toronto and Victoria University is governed by a Memorandum of Agreement (the Agreement). Under the Agreement, the University of Toronto records as income all government grants and tuition fees in respect of students of Victoria College. The Agreement also provides for Victoria University to receive a block grant, which covers certain administrative and operating expenses, and an instructional grant, which supports part of the cost of Victoria University's programs.

As of April 30, 2014, the University of Toronto owed Victoria University $91 (2013 - $62); Victoria University owed the University of Toronto $156 (2013 - $820).

(in thousands of dollars)

A separate agreement between the University of Toronto, the Toronto School of Theology (T.S.T.) and its member institutions establishes the financial arrangements for Emmanuel College. All government grants for divinity students flow through the University of Toronto to the T.S.T. where they are distributed to each member institution according to a formula. Tuition fees for Emmanuel College students are received and recorded as income by Victoria University.

As of April 30, 2014, T.S.T. owed Victoria University $36.

14 Contingencies

a) The University participates in a reciprocal exchange of insurance risks in association with 61 other Canadian universities. This self-insurance co-operative is named the Canadian Universities Reciprocal Insurance Exchange (CURIE) and involves a contractual agreement to share the property and liability insurance risks of member universities for a term, which expires on December 31, 2017.

The projected cost of claims is funded through members' premiums based on actuarial projections. CURIE has obtained reinsurance from commercial insurers to cover claims in excess of $5 million a maximum of $1 billion per occurrence for property losses and claims in excess of $5 million to a maximum of $25 million per occurrence for liability and errors and omissions losses.

In the event premiums are not sufficient to cover claim settlements, the member universities would be subject to assessments in proportion to their participation. As at December 31, 2013, CURIE had a surplus of $71,331 (2012 - $60,500), of which the University's pro rata share was approximately 0.43% (2012 - 0.52%) on an ongoing basis. The amount of loss, if any, cannot be determined at this time.

b) From time to time, the University is subject to litigation. With respect to claims as at April 30, 2014, the University believes it has valid defences and/or appropriate insurance coverage in place. The amount of loss, if any, cannot be determined at this time.

c) The University earns revenue through its holding of land and buildings in mid-town Toronto. Two ground leases have 100 year terms (expiring on June 30, 2060) with reset periods established at June 30, 2010; 2030 and 2050. The rent is calculated at 6% of the fair value of the land as established at the reset periods. Since the lessees and the University were not able to reach an agreement on the fair value of the land on the last scheduled reset date of July 1, 2010, the matter was referred to an Arbitration Tribunal (the Arbitrators). On June 21, 2013, the Arbitrators awarded their decision and concluded on a land value that resulted in the annual rent increasing from $2,779 to $10,962 on the land known as 131 Bloor, and from $875 to $2,240 on the land known as 151 Bloor.

The lessees have appealed the Arbitrators' decision. However, pending the outcome of the appeal, the lessees agreed to pay the University increased annual rents in the amount of $7,306 for 131 Bloor and $1,557 for 151 Bloor. As at April 30th, 2014, an amount of $20,317 was received for increased rents retroactive to July 1, 2010, which the University is not recognizing in revenues until the appeal is settled.

(in thousands of dollars)

In addition, the recovery of certain costs incurred in connection with the arbitration amounting to approximately $3,100 are included in deferred lease costs, and are also subject to appeal. The amount of the loss, if any, cannot be determined at this time.

15 Pension and other post-employment benefits

The University maintains several defined benefit plans providing pension, other retirement and post-employment benefits to its employees. The University measured its accrued benefit obligations and the fair value of pension plan assets for accounting purposes as at April 30, 2014. The most recent actuarial valuation of the pension plan for funding purposes was performed as at June 30, 2011 and the next required valuation will be as at June 30, 2014. Information about the University's defined benefit plans is as follows:

	2014		2013	
	Pension and other retirement benefits $	Other benefits $	Pension and other retirement benefits $	Other benefits $
Changes in benefit obligation				
Benefit obligation - Beginning of year	47,881	14,121	44,972	12,179
Current service cost	2,117	722	1,995	619
Interest cost	2,858	588	2,684	559
Benefits paid	(1,809)	(173)	(1,967)	(183)
Actuarial loss (gain)	(276)	(4,630)	197	947
Benefit obligation - End of year	50,771	10,628	47,881	14,121
Changes in plan assets				
Fair value - Beginning of year	40,850	-	35,871	-
Actual return on plan assets	6,734	-	3,819	-
Benefits paid	(1,809)	(173)	(1,967)	(183)
Contributions	3,290	173	3,127	183
Fair value - End of year	49,065	-	40,850	-
Accrued liability - End of year	(1,706)	(10,628)	(7,031)	(14,121)

An amount of $2,210 (2013 - $2,138) has been established in the internally restricted endowment of the University for a portion of the costs of other benefits.

(in thousands of dollars)

Pension plan assets consist of:

	2014		2013	
Asset category	**Fair value $**	**Percentage of plan assets %**	**Fair value $**	**Percentage of plan assets %**
Cash	969	2.0	8,596	21.0
Canadian mutual funds	13,209	26.9	12,445	30.5
Canadian bond funds	16,450	33.5	11,227	27.5
Global equity funds	17,524	35.7	7,732	18.9
Standard Life funds	912	1.9	850	2.1
	49,064	100.0	40,850	100.0

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

	2014		2013	
	Pension benefit plan %	**Other benefit plans %**	**Pension benefit plan %**	**Other benefit plans %**
Discount rate	6.0	6.0	6.0	4.0
Expected long-term rate of return on plan assets	6.0	n/a	6.0	n/a
Rate of compensation increase	3.5	3.5	3.5	3.5

For measurement purposes, a 9.3% annual rate of increase in the per capita cost of covered drug benefits was assumed for 2014. The rate was assumed to decrease gradually to 4.5% by 2027 and remain at that level thereafter. Covered extended health, hospital and dental care benefits were assumed to have a 4%, 4.5% and 5% rate of increase, respectively.

(in thousands of dollars)

The University's net benefit plan expense for the year ended April 30, 2014 and a reconciliation of the change in the accrued benefit asset (liability) are as follows:

	2014		2013	
	Pension and other retirement benefits $	**Other benefits $**	**Pension and other retirement benefits $**	**Other benefits $**
Benefit plan expense				
Current service cost, net of employee contributions	1,437	722	1,405	619
Interest cost	2,858	588	2,684	559
Expected return on plan assets	(2,444)	-	(2,138)	-
Difference between actual and expected gain for plan assets	(4,290)	-	(1,681)	-
Actuarial (gain) loss	(276)	(4,630)	197	947
Net benefit plan (revenue) expense	(2,715)	(3,320)	467	2,125
Accrued benefit asset (liability)				
Balance - Beginning of year	(7,031)	(14,121)	(9,101)	(12,179)
Plan revenue (expense) for the year	2,715	3,320	(467)	(2,125)
Contributions by the University	2,610	173	2,537	183
Remeasurement adjustment	-	-	-	-
Balance - End of year	(1,706)	(10,628)	(7,031)	(14,121)

16 Risk management

Market risk

Market risk arises from the possibility that changes in the market prices will affect the value of the financial instruments. Cash, short-term deposits, receivables and payables are not subject to significant market risk. The University manages the risk of its investment portfolio by investing in pooled funds in a widely diversified group of asset classes managed by external investment managers. The University monitors the performance of investment managers and their compliance with investment policies on a regular basis.

Credit risk

Credit risk is the risk a counterparty to a financial instrument may fail to honour an obligation. The University is exposed to credit risk in cash, short-term deposits, loans and accounts receivable. The University's credit risk exposure is considered to be low.

(in thousands of dollars)

Liquidity risk

Liquidity risk is the risk an entity will have difficulty raising funds to meet commitments in a timely manner. The University manages liquidity risk by investing a sufficient amount to meet foreseeable needs in a highly liquid short-term investment pool. In addition, a large proportion of its investment portfolio is in pooled funds that can be redeemed in a reasonable period should the need arise.

Currency risk

The University is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

Interest rate risk

The University is exposed to interest rate risk with respect to its investments in fixed income securities and a pooled fund that holds fixed income securities because the fair value will fluctuate due to changes in market interest rates. The University is also exposed to interest rate risk through its borrowings. However, management has mitigated this risk through the use of interest rate swaps and takes a laddered approach to debt renewals.

17 Government remittances

Government remittances consist of amounts (such as property taxes, sales taxes and payroll withholding taxes) required to be paid to government authorities and are recognized when the amounts come due. In respect of government remittances, $55 (2013 - $31) is included within amounts payable and accrued liabilities. Within accounts receivable, the University included a receivable (payable) for HST of $(84) (2013 - $121).

18 Bank overdraft

The University has a revolving line of credit of $4,000 (2013 - $4,000) to assist with its temporary operating cash needs. Interest is payable at the bank’s prime rate plus 1.0% floating, payable monthly in arrears.