Grant Thornton

Consolidated Financial Statements

British Columbia Institute of Technology

March 31, 2014

Contents

Independent Auditor's Report

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To the Board of Governors of
British Columbia Institute of Technology
To the Minister of Advanced Education of
the Province of British Columbia

We have audited the accompanying consolidated financial statements of British Columbia Institute of Technology (the "Institute"), which comprise the consolidated statement of financial position as at March 31, 2014, the consolidated statements of operations and accumulated surplus, remeasurement gains, changes in net debt, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the consolidated 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 Institute'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements of the Institute for the year ended March 31, 2014 are prepared, in all material respects, in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Grant Thornton LLP

Vancouver, Canada
May 27, 2014

Chartered Accountants

British Columbia Institute of Technology
Consolidated Statement of Financial Position

(in thousands of dollars)

March 31		2014		2013
Financial assets				
Cash and cash equivalents	**$**	**36,961**	$	46,130
Accounts receivable (Note 3)		**7,207**		6,523
Inventories for resale		**1,404**		1,415
Due from government and other government organizations (Note 4)		**8,114**		4,022
Portfolio investments (Note 5)		**5,709**		3,889
Debt sinking funds (Note 6)		**4,283**		4,145
Investments in government business enterprises (Note 7)		**15,749**		14,253
		79,427		80,377
Liabilities				
Accounts payable and accrued liabilities (Note 8)		**22,406**		28,220
Due to government and other government organizations (Note 4)		**4,123**		5,501
Employee future benefits (Note 9)		**20,842**		20,108
Deferred tuition fees		**21,167**		20,720
Deferred revenue - other		**7,216**		9,243
Deferred contributions (Note 10)		**26,077**		11,182
Deferred capital contributions (Note 11)		**198,379**		202,458
Asset retirement obligation (Note 12)		**15,946**		16,825
Debt (Note 13)		**62,948**		66,316
Obligations under capital lease (Note 14)		**2,482**		4,413
		381,586		384,986
Net debt		**(302,159)**		(304,609)
Non-financial assets				
Tangible capital assets (Note 15)		**379,710**		380,007
Endowment investments (Note 5 and 16)		**20,559**		19,639
Inventories held for use		**87**		82
Prepaid expenses		**1,068**		505
		401,424		400,233
Accumulated surplus	**$**	**99,265**	$	95,624
Accumulated surplus is comprised of:				
Accumulated operating surplus	**$**	**96,423**	$	94,708
Accumulated remeasurement gains		**2,842**		916
	$	**99,265**	$	95,624

Contingencies (Note 17)

On behalf of the Board

_________________ Governor _________________ Governor

See accompanying notes to the consolidated financial statements.

British Columbia Institute of Technology
Consolidated Statement of Operations and Accumulated Surplus

(in thousands of dollars)

Year ended March 31	Budget	**2014**	2013
Revenue			
Province of British Columbia grants	$ 135,385	**$ 134,256**	$ 135,152
Government of Canada grants	-	**236**	555
Other government grants	-	**92**	301
Tuition fees	90,289	**94,494**	90,179
Sales and ancillary revenue	12,891	**12,703**	12,445
Industry services	9,895	**9,095**	9,502
Facilities rental, cost recoveries and other income	9,086	**6,307**	6,563
Investment income	675	**2,241**	1,975
Gifts and donations	2,450	**1,830**	1,229
Income from government business enterprises	44	**(20)**	1,543
Amortization of deferred contributions (Note 10)	4,338	**6,190**	5,486
Amortization of deferred capital contributions (Note 11)	12,044	**12,416**	12,987
	277,097	**279,840**	277,917
Expenses (Note 20)			
Academic and student support	39,589	**41,088**	42,011
Administrative support	43,430	**43,100**	46,181
Ancillary	14,100	**12,573**	12,995
Instruction	172,947	**169,363**	159,986
Externally funded and related entities	7,531	**12,921**	12,931
	277,597	**279,045**	274,104
Operating surplus before endowment contributions	(500)	**795**	3,813
Endowment contributions	500	**920**	764
Operating surplus	$ -	**1,715**	4,577
Accumulated operating surplus, beginning of year		**94,708**	90,131
Accumulated operating surplus, end of year		**$ 96,423**	$ 94,708

See accompanying notes to the consolidated financial statements.

British Columbia Institute of Technology
Consolidated Statement of Remeasurement Gains

(in thousands of dollars)

Year ended March 31	2014	2013
Other comprehensive income from government business enterprises	**$ 413**	$ 201
Unrealized gains	**1,691**	715
Realized gains on investment, reclassified to statement of operations	**(178)**	-
Net remeasurement gains	**1,926**	916
Accumulated remeasurement gains, beginning of year	**916**	-
Accumulated remeasurement gains, end of year	**$ 2,842**	$ 916

See accompanying notes to the consolidated financial statements.

British Columbia Institute of Technology
Consolidated Statement of Changes in Net Debt

(in thousands of dollars)

Year ended March 31	Budget	**2014**	2013
Operating surplus	$ -	**$ 1,715**	$ 4,577
Additions of tangible capital assets	(22,479)	**(24,524)**	(25,394)
Amortization of tangible capital assets	24,367	**24,218**	23,879
Loss on disposition of tangible capital assets	-	**603**	1,209
	1,888	**297**	(306)
Additions of endowment investments	(500)	**(920)**	(764)
Change in inventories held for use	-	**(5)**	62
Change in prepaid expense	-	**(563)**	(62)
	(500)	**(1,488)**	(764)
Net remeasurement gains	-	**1,926**	916
Decrease in net debt	$ 1,388	**2,450**	4,423
Net debt, beginning of year		**(304,609)**	(309,032)
Net debt, end of year		**$ (302,159)**	$ (304,609)

British Columbia Institute of Technology
Consolidated Statement of Cash Flows

(in thousands of dollars)

Year ended March 31		2014		2013
Cash provided by (used in):				
Operations				
Operating surplus	$	**1,715**	$	4,577
Items not involving cash				
Income from government business enterprises		**20**		(1,543)
Amortization of tangible capital assets		**24,218**		23,879
Employee future benefits		**734**		1,206
Asset retirement obligation accretion expense		**450**		441
Loss on disposition of tangible capital assets		**603**		1,209
Amortization of deferred contributions				
Capital		**(12,416)**		(12,987)
Other externally restricted funds		**(6,190)**		(5,486)
		9,134		11,296
Change in non-cash operating working capital (Note 18)		**(14,105)**		13,500
		(4,971)		24,796
Investments				
Purchases of tangible capital assets		**(25,145)**		(23,915)
Changes in investments, net		**(1,227)**		(804)
Contribution (to) from government business enterprises		**(1,103)**		1,260
Asset retirement obligation liabilities settled		**(708)**		(110)
		(28,183)		(23,569)
Financing				
Capital contributions received		**8,337**		11,495
Other contributions received		**21,085**		5,444
Debt sinking funds		**(138)**		(421)
Capital lease payments		**(1,931)**		(2,016)
Debt repayments		**(3,368)**		(1,911)
		23,985		12,591
Net (decrease) increase in cash and cash equivalents		**(9,169)**		13,818
Cash and cash equivalents, beginning of year		**46,130**		32,312
Cash and cash equivalents, end of year	**$**	**36,961**	$	46,130

Supplemental cash flow information (Note 18)

1. General

British Columbia Institute of Technology (the "Institute") is an agent of the Crown and operates under the College and Institute Act, R.S.B.C. 1996. The Act is administered by the Minister of Advanced Education. As an agent of the government, the Institute is not liable to taxation except to the extent the government is liable.

The purpose of the Institute is to provide courses of instruction in advanced technological and vocational fields.

The Institute receives a significant portion of its revenue and capital funding from the Province of British Columbia (the "Province").

The Institute is a registered charity under the Income Tax Act.

2. Summary of significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia which requires accounting policies which are consistent with Canadian public sector accounting standards except in regard to the accounting for restricted capital contributions.

Under Section 23.1 of the Budget Transparency and Accountability Act and its related regulations, the Institute is required to recognize restricted capital contributions as a liability and recognize them into revenue on the same basis as the related amortization expense.

Under Canadian public sector accounting standards, those transfers with stipulations that have been met or that do not contain stipulations that create a liability, are fully recognized into revenue.

The impact of this difference on the financial statements of the Institute would be a decrease in deferred capital contributions, an increase in accumulated surplus, and a change in revenues and annual surplus for each year.

Basis of consolidation

Consolidated entities
The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of organizations which are controlled by the Institute. Controlled organizations are consolidated except for government business enterprises which are accounted for by the modified equity method. All balances and transactions between the Institute and the consolidated entities have been eliminated on consolidation.

2. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Consolidated entities (continued)
The following organization is controlled by the Institute and fully consolidated in these financial statements:

- BCIT Foundation, which is a controlled not-for-profit organization, was incorporated March 30, 1999, under the Society Act (British Columbia). The purpose of BCIT Foundation is to raise funds in order to further the goals, objectives and strategic interests of the Institute; stimulate and provide financial support for the development and expansion of educational programs, services, capital projects and other initiatives as recommended by the Institute; and to provide financial support to enable students to participate in learning at the Institute.

Investment in government business enterprises
Government business enterprises are accounted for by the modified equity method. Under this method, the Institute's investment in the business enterprise and its net income and other changes in equity are recorded. No adjustment is made to conform the accounting policies of the government business enterprise to those of the Institute's other than if other comprehensive income exists, it is accounted for as an adjustment to accumulated surplus (deficit) of the Institute. Inter-organizational transactions and balances have not been eliminated, except for any profit or loss on transactions between entities on assets that remain within the entities controlled by the Institute.

The following organizations are controlled government business enterprises and are accounted for by the modified equity method:

- Great Northern Way Campus Trust (the "Trust") – the Trust is an equal share joint venture between the Institute, Simon Fraser University, University of British Columbia, and Emily Carr University of Art + Design. The purpose of the Trust is to develop an integrated, learning-centred campus with a high-technology focus, supported by new media and telecommunication technologies. The Trust's activities currently comprise two distinct business activities: property management & site development activities and educational activities.

- TTA Technology Training Associates Ltd. ("TTA") – TTA is a wholly-owned corporation which was incorporated July 12, 1999 under the Business Corporations Act (British Columbia). The purpose of TTA is to provide international delivery and/or management of technical training and educational programs to public and private organizations, business development and marketing for the Institute in overseas markets.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid securities with original terms to maturity of three months or less when purchased.

Inventories for resale and held for use

Inventories of merchandise held for resale are recorded at the lower of cost and net realizable value. Inventories held for use are recorded at the lower of cost and replacement cost. Cost is determined using the first-in, first-out method for all inventories.

2. Summary of significant accounting policies (continued)

Tangible capital assets

Capital asset acquisitions are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Donated assets are recorded at fair market value at the date of acquisition.

Capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Buildings	40 years
Computer hardware and software	4 years
Furniture and equipment	6 years
Library holdings	10 years

Computers and equipment under capital lease are amortized on a straight-line basis over the lesser of their estimated useful lives and the term of the lease.

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

Tangible capital assets are written-down when conditions indicate that they no longer contribute to the Institute's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

Employee future benefits

The Institute and its employees make contributions to the College Pension Plan and the Municipal Pension Plan which are multi-employer joint trusteed plans. These plans are defined benefit plans, providing pension on retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. As the assets and liabilities of the plans are not segregated by institution, the plans are accounted for as defined contribution plans and any Institute contributions to the plans are expensed as incurred.

The Institute also provides certain benefits, including accumulated sick and vacation pay, retirement allowance, group benefits and life insurance, for certain employees pursuant to certain contracts and union agreements. The costs of these benefits are actuarially determined based on service and management's best estimate of salary escalation, retirement ages of employees and expected plan benefits costs. The obligation under these benefit plans is 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.

2. Summary of significant accounting policies (continued)

Asset retirement obligation

The Institute recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a statutory, contractual, or legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Institute concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the useful life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation or the discount rate. Changes in the obligation due to the passage of time are recognized in the statement of operations as accretion expense. Changes in the obligation due to changes in estimated cash flows or discount rates are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

Revenue recognition

Tuition fees and receipts from sales of services and products are recognized as revenue at the time the products are delivered or the services are substantially provided.

Rental revenue is recognized over the period earned.

Revenue related to fees or services received in advance of the fee being earned or the service performed is deferred and recognized when the fee is earned or service performed.

Investment income includes interest recorded on an accrual basis and dividends recorded as declared, realized gains and losses on the sale of investments, and write-downs on investments where the loss in value is determined to be other-than-temporary.

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

Restricted donations and grants are reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

(i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or in the form of a depreciable tangible capital asset, in each case for use in providing services, are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

(ii) Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contribution have been met.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

(iii) Contributions to be retained in perpetuity are reported as revenue when received. Investment income earned on endowment principal is recorded as deferred revenue if it meets the definition of a liability and is recognized as revenue in the year related expenses are incurred. If the investment income earned does not meet the definition of a liability, it is recognized as revenue in the year it is earned.

Financial instruments

Financial instruments consist of cash and cash equivalents, account receivable, portfolio investments, debt sinking funds, accounts payable and accrued liabilities, debt and endowment investments.

Investments are measured at fair value. All other financial instruments are measured at cost or amortized cost.

Transaction costs are expensed for financial instruments measured at fair value. Transaction costs are added to the cost of the financial instruments for financial instruments measured at cost or amortized cost.

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses until such time that the financial instrument 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.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

Interest and dividends attributable to financial instruments are reported in the statement of operations.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

Functional classification of expenses

The Institute has identified the following segments and associated groups of activities based upon the functional areas of service as provided by various departments within the Institute:

Academic and student support
Academic and student support includes expenses related to the direct support of academic functions, as well as centralized functions that support students and groups of students. This would include Foundation & Alumni, VP ERI, Student Services, Research & Planning, International Education, Learner Services, Learning & Teaching Centre, Library, Marketing & Communication, Print Services, Registrar's Office, and Technology Centre administration. Costs associated with this function would include VP's, management, administration, support staff and related support costs.

2. Summary of significant accounting policies (continued)

Functional classification of expenses (continued)

Administrative support
Administrative support includes expenses related to activities that support the institution as a whole. This would include Financial Services, Human Resources, Internal Auditing, President's Office, Board of Governors, Purchasing & Supply Management, Safety and Security, Facilities, Amortization and IT & Communications. Costs associated with the function would include VP's, management, administration, support staff and related support costs.

Ancillary
Ancillary includes expenses related to business activities outside of instruction and research that provide goods and services to students, staff and others external to the organization. This would include Bookstore, Room Rentals, Leases, Food Services, Parking and Residences. Costs associated with this function would include management, administration, support staff and related support costs.

Instruction
Instruction includes expenses related to the direct business of delivering education. This would include full-time studies, part time studies, and training supported by industry services. Costs associated with this function would include instructors, contract expenses, deans, instructional administration, support staff, and related support costs.

Externally funded and related entities
Externally funded and related entities includes expenses related to research and non-research activities funded by external contracts and/or grants, trust activities, and subsidiaries. This would include Restricted Funds, Applied Research Grants, Student Awards, and BCIT Foundation. Costs associated with this function would include Dean's, management, administration, support staff and related support costs.

Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2013/2014 Fiscal Plan approved by the Board of Governors of the Institute on February 12, 2013.

Use of estimates

The preparation of financial statements 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 revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of the useful lives for amortization of tangible capital assets and deferred capital contributions, the valuation of employee future benefit obligations, future cash flows associated with asset retirement obligations, the provision for uncollectible accounts and the provision for contingencies. Actual amounts may ultimately differ from these estimates.

Comparative figures

Certain of the prior year comparative figures have been reclassified to conform to the current year presentation.

(in thousands of dollars)

3. Accounts receivable

		2014		2013
Student	**$**	**2,666**	$	2,925
Trade and other		**4,866**		4,498
Allowance for doubtful accounts		**(325)**		(900)
	$	**7,207**	$	6,523

4. Balances with government and other government organizations

Due from government and other government organizations

		2014		2013
Federal government	**$**	**471**	$	1,943
Provincial government		**7,139**		197
Other government organizations		**504**		1,882
	$	**8,114**	$	4,022

Due to government and other government organizations

		2014		2013
Federal government	**$**	**566**	$	1,338
Provincial government		**2,613**		3,371
Other government organizations		**944**		792
	$	**4,123**	$	5,501

5. Investments

Investments consist of:

		2014		2013
Portfolio investments	**$**	**5,709**	$	3,889
Endowment investments		**20,559**		19,639
	$	**26,268**	$	23,528

(in thousands of dollars)

5. Investments (continued)

The underlying investments consist of:

	Fair Value Hierarchy Level	2014	2013
Equities	Level 1	**$ 13,730**	$ 11,392
Fixed income	Level 2	**12,538**	12,136
		$ 26,268	$ 23,528
Historical cost		**$ 24,332**	$ 23,166

6. Debt sinking funds

Contributions to the sinking funds are made for certain long-term debt obligations with the Province. Investments held in the sinking funds, including interest earned, are used to repay the related debt at maturity. The Institute makes annual principal and interest payments towards the sinking funds to the Province using revenue proceeds from the Downtown training centre. The sinking funds are held and invested by the Province to provide for the retirement of the bond.

Aggregate payments for the next five fiscal years and thereafter to meet sinking fund instalments on externally restricted sinking funds and retirement provisions on notes, bonds and debentures are:

2015	$ 113
2016	113
2017	113
2018	113
2019	113
Thereafter	342
	$ 907

7. Investments in government business enterprises

	Balance, beginning of year	Contributions Paid	Net Earnings	Other Comprehensive Income	**Balance, end of year**
Investment in Trust	$ 13,922	$ 1,103	$ (25)	$ 413	**$ 15,413**
Investment in TTA	331	-	5	-	**336**
	$ 14,253	$ 1,103	$ (20)	$ 413	**$ 15,749**

(in thousands of dollars)

7. Investments in government business enterprises (continued)

Condensed financial information of government business enterprises that are part of the Institute's reporting entity are as follows:

Great Northern Way Campus Trust

Statement of financial position	**25% share 2014**	25% share 2013
Total assets	**$ 20,861**	$ 21,445
Total liabilities	**5,448**	7,523
Equity	**15,413**	13,922

Statement of operations	**2014**	2013
Revenue	**$ 1,715**	$ 8,109
Expenses	**(1,740)**	(6,573)
Net earnings	**(25)**	1,536
Other comprehensive income	**413**	201
Net earnings and comprehensive income	**$ 388**	$ 1,737

Total liabilities include $157 (2013: $1,260) payable to the Institute.

Revenue includes $1,059 (2013: $1,061) of rent and common area expense recoveries from the Institute.

TTA Technology Training Associates Ltd.

Statement of financial position	**2014**	2013
Total assets	**$ 922**	$ 1,088
Total liabilities	**586**	757
Equity	**336**	331

Statement of operations	**2014**	2013
Revenue	**$ 1,230**	$ 933
Expenses	**(1,222)**	(927)
Earnings before income taxes	**8**	6
Income taxes	**3**	(1)
Net earnings	**$ 5**	$ 7

Revenue includes $158 (2013: $146) of project fees and project expense recoveries from the Institute.

(in thousands of dollars)

8. Accounts payable and accrued liabilities

		2014		2013
Trade payables	**$**	**8,423**	$	14,685
Salaries and benefits payable		**9,852**		9,463
Other		**4,131**		4,072
	$	**22,406**	$	28,220

9. Pension plans and employee future benefits

Pension plans

The Institute and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trusteed pension plans. The boards of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of the assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are based on a formula. The College Pension Plan has about 13,000 active members from college senior administration and instructional staff and approximately 6,000 retired members. The Municipal Pension Plan has about 179,000 active members, with approximately 5,700 from colleges.

The most recent valuation for the College Pension Plan as at August 31, 2012 indicated a $105 million funding deficit for basic pension benefits. The next valuation will be as at August 31, 2015, with results available in 2016. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2012 indicated a $1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016. 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 Institute paid $13,371 for employer contributions to the plans in fiscal 2014 (2013: $12,527).

(in thousands of dollars)

9. Pension plans and employee future benefits (continued)

Employee future benefits

The Institute also provides certain benefits, including accumulated sick and vacation pay, retirement allowance, group benefits and life insurance, for certain employees pursuant to certain contracts and union agreements.

Information about these employee future benefits is as follows:

	2014	2013
Accrued benefit obligation	$ 17,264	$ 19,604
Fair value of plan assets	-	-
Funded status	(17,264)	(19,604)
Balance of unamortized amounts	(2,271)	920
Accrued benefit liability	(19,535)	(18,684)
Employer's share of benefits (EI, CPP, pension)	(1,307)	(1,424)
Total liability	$ (20,842)	$ (20,108)

The obligation is not presently funded.

The significant assumptions used are as follows:

	2014	2013
Accrued benefit obligations as of March 31		
Discount rate	3.4%	2.7%
Benefit cost for year ended March 31		
Discount rate	3.4%	2.7%
Assumed health care cost trend rates at March 31	4.5% - 6.8%	4.5% - 8.5%

Other information regarding the Institute's benefits are as follows:

	2014	2013
Employer contributions	$ 714	$ 581
Components of net benefit expense		
Service cost	$ 1,266	$ 1,347
Interest cost	474	427
Long-term disability experience	(261)	(88)
Amortization of net actuarial loss (gain)	86	(57)
Net benefit expense	$ 1,565	$ 1,629

(in thousands of dollars)

10. Deferred contributions

Deferred contributions related to expenses of future periods represent unspent externally restricted grants and donations. Deferred contributions are primarily restricted for research purposes.

	2014	2013
Balance, beginning of year	**$ 11,182**	$ 11,224
Add: contributions received during the year relating to future periods	**21,085**	5,444
Less: amounts recognized as revenue	**(6,190)**	(5,486)
Balance, end of year	**$ 26,077**	$ 11,182

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 2.

Changes in the deferred capital contributions balance are as follows:

	2014	2013
Balance, beginning of year	**$ 202,458**	$ 203,950
Add: contributions received during the year	**8,337**	11,495
Less: amounts amortized to revenue	**(12,416)**	(12,987)
Balance, end of year	**$ 198,379**	$ 202,458

The balance of unamortized capital contributions related to capital assets consists of the following:

	2014	2013
Unamortized capital contributions used to purchase assets	**$ 198,124**	$ 201,750
Unspent capital funding	**255**	708
	$ 198,379	$ 202,458

(in thousands of dollars)

12. Asset retirement obligation

The Institute has recorded an asset retirement obligation for the estimated costs of asbestos removal from certain facilities. The following is a reconciliation of the changes in the asset retirement obligation during the year:

		2014		2013
Balance, beginning of year	**$**	**16,825**	$	16,384
Add: accretion expense		**450**		441
Add: adjustment for change in discount rate		**(621)**		-
Add: revision in estimated cash flows		**-**		110
Less: liabilities settled		**(708)**		(110)
Balance, end of year	**$**	**15,946**	$	16,825

The accretion expense is included in interest expense. The undiscounted estimated cash flows required to settle the obligation are approximately $23,670 to be paid during the fiscal years 2015 to 2038. The estimated cash flows were discounted using the credit-adjusted risk-free rates of 3.35% (2013: 2.69%).

13. Debt		**2014**		2013
BC Immigrant Investment Fund, 2.70% due August 2017 (i)	**$**	**50,060**	$	51,917
Province of British Columbia, 8% bond, due September 2023 (ii)		**12,888**		12,888
Royal Bank of Canada, 5.55% mortgage, due August 2013 (iii)		**-**		1,511
	$	**62,948**	$	66,316

(i) Principal and interest payments are made to the BC Immigrant Investment Fund at $809 per quarter. The debt is unsecured.

(ii) Interest payments are made to the Province of British Columbia semi-annually. The Institute makes contributions to the sinking fund each year to repay the bond at maturity (Note 6). The bond is unsecured.

(iii) Principal and interest payments are made to Royal Bank of Canada at $16 per month. The mortgage is secured by a charge against a portion of the student residences.

(in thousands of dollars)

13. Debt (continued)

Principal payments for the next five years and thereafter are as follows:

	BC Immigrant Investment Fund	Province of British Columbia	Total
2015	$ 1,908	$ -	$ 1,908
2016	1,959	-	1,959
2017	2,013	-	2,013
2018	44,180	-	44,180
2019	-	-	-
Thereafter	-	12,888	12,888
	$ 50,060	$ 12,888	$ 62,948

14. Obligations under capital lease

Capital lease payments, including principal and interest, are as follows:

2015	$ 1,447
2016	1,027
2017	103
	2,577
Less interest	95
Present value of minimum lease payments	$ 2,482

(in thousands of dollars)

15. Tangible capital assets

Cost

	2013	Additions	Disposals	**2014**
Land	$ 44,808	$ -	$ -	**$ 44,808**
Buildings	420,667	9,290	(194)	**429,763**
Furniture and equipment	118,709	9,965	(4,560)	**124,114**
Computer hardware and software	26,429	4,918	(421)	**30,926**
Equipment under capital lease	9,489	-	(1,291)	**8,198**
Library holdings	4,752	351	-	**5,103**
	$ 624,854	$ 24,524	$ (6,466)	**$ 642,912**

Accumulated amortization

	2013	Amortization	Accumulated Amortization on Disposals	**2014**
Land	$ -	$ -	$ -	**$ -**
Buildings	122,184	12,415	(32)	**134,567**
Furniture and equipment	92,808	6,742	(4,077)	**95,473**
Computer hardware and software	21,725	2,896	(524)	**24,097**
Equipment under capital lease	5,281	1,772	(1,230)	**5,823**
Library holdings	2,849	393	-	**3,242**
	$ 244,847	$ 24,218	$ (5,863)	**$ 263,202**

Net book value

	2014	2013
Land	**$ 44,808**	$ 44,808
Buildings	**295,196**	298,483
Furniture and equipment	**28,641**	25,901
Computer hardware and software	**6,829**	4,704
Equipment under capital lease	**2,375**	4,208
Library holdings	**1,861**	1,903
	$ 379,710	$ 380,007

Included in buildings is $2,622 (2013: $Nil) of assets under construction.

(in thousands of dollars)

16. Endowments

Endowment contributions form part of accumulated surplus. Changes to the endowment balances are as follows:

	2014	2013
Balance, beginning of year	**$ 19,639**	$ 18,875
Contributions received during the year	**920**	764
Balance, end of year	**$ 20,559**	$ 19,639

17. Contingencies

There are lawsuits pending in which the Institute is involved arising in the ordinary course of business. It is considered that the potential claims against the Institute resulting from such litigation would not materially affect the consolidated financial statements of the Institute. Any difference between the liability accrued by the Institute related to the lawsuits and the amounts ultimately settled will be recorded in the period in which the claim is resolved.

18. Supplemental cash flow information

	2014	2013
Change in non-cash operating working capital		
Accounts receivable	**$ (684)**	$ 4,571
Inventories	**6**	282
Prepaid expenses	**(563)**	(62)
Due from government and other government organizations	**(4,092)**	(1,373)
Accounts payable and accrued liabilities	**(5,814)**	5,002
Due to government and other government organizations	**(1,378)**	204
Deferred tuition fees	**447**	1,629
Deferred revenue - other	**(2,027)**	3,247
	$ (14,105)	$ 13,500

During the year, interest of $2,572 was paid (2013: $2,782).

	2014	2013
Non-cash transactions		
Receipt of donated capital assets	**$ 2,595**	$ 873
Equipment under capital lease	**-**	1,369
(Decrease) increase in asset retirement obligation and capital assets	**(621)**	110

(in thousands of dollars)

19. Financial instruments

The Institute's financial instruments include cash and cash equivalents, portfolio investments, endowment investments, debt sinking funds, accounts receivable, accounts payable and accrued liabilities, and debt.

Fair value

The following classification system is used to describe the basis of the inputs used to measure the fair value of investments:

Level 1
Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2
Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly

Level 3
Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's-length transaction

The classification of portfolio investments is disclosed in Note 5.

Risk management

The Institute has exposure to the following risks from its use of financial instruments.

Credit risk
The Institute is exposed to the risk that the counterparty defaults or becomes insolvent. The Institute's investments in pooled funds that hold debt securities are exposed to such risk. Credit risk also arises from the possibility that student, trade and other receivables may not be collected.

This risk is mitigated by proactive credit management and investment policies that include regular monitoring of each debtor's payment history and performance.

As at March 31, 2014, accounts receivable is comprised of:

	Under 90 days	Over 90 days	Total
Student	$ 2,629	$ 37	$ 2,666
Trade and other	4,170	696	4,866
Allowance for doubtful accounts	(134)	(191)	(325)
	$ 6,665	$ 542	$ 7,207

(in thousands of dollars)

19. Financial instruments (continued)

Risk management (continued)

Market risk
There is a risk that fluctuations in market prices will affect the Institute's net assets and the value of holdings in investments. Market risk is comprised of the following:

Interest rate risk
Interest rate risk refers to the effect on the market value of the Institute's assets due to fluctuations in interest rates. The market value of the Institute's investments in fixed income pooled funds is also affected by fluctuations in interest rates.

Foreign currency risk
Foreign currency exposure arises from the Institute's foreign currency denominated investments. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of investments.

The Institute manages its credit risk and market risks on its investments by investing in funds that have a well-diversified portfolio of securities.

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

The Institute 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 meets its liabilities when due.

20 Expenses by object	**2014**	2013
Salaries and wages	**$ 157,482**	$ 149,676
Employee benefits	**32,367**	30,527
Amortization of tangible capital assets	**24,218**	23,879
Repairs and maintenance	**11,826**	12,461
Fees for service	**11,637**	12,197
Supplies and general	**11,166**	13,734
Professional development	**7,027**	7,373
Cost of sales	**5,478**	5,756
Utilities	**5,009**	5,050
Student awards	**4,363**	3,425
Interest	**3,022**	3,318
Printing and advertising	**2,194**	1,759
Equipment and facilities leases	**1,794**	1,833
Telecommunications	**1,167**	1,135
Banking and insurance	**295**	1,981
	$ 279,045	$ 274,104