

UNIVERSITY OF VICTORIA

2018 - 2019 Management Discussion and Analysis (Unaudited)

2018 – 2019 Audited Financial Statements



University of Victoria

2019 Management Discussion and Analysis

(Unaudited)



University
of Victoria



Introduction to Management Discussion and Analysis

The attached financial statements present the financial results of the university for the year ended March 31, 2019 in accordance with Public Sector Accounting Standards, supplemented by directives set out by the Province of British Columbia and consistent with Section 23.1 of the *Budget Transparency and Accountability Act* (BTAA) of the Province of British Columbia. These statements are the consolidation of all university operations, including the results of general operations, ancillary operations, capital projects, endowment returns and spending, research grants and expenditures, etc. As required by Public Sector Accounting Standards, they also include the financial results of each of the university's 13 external entities as well as the staff pension plan. While required to be included in the financial statements, the assets and their use are restricted for specific purposes (e.g., pension) and therefore are not available to management to support general operations.

The objective of this Management Discussion and Analysis (MD&A) document is to assist readers of the university's financial statements better understand the financial position and operating activities of the university for fiscal year March 31, 2019, as presented in accordance with the above reporting framework. This discussion should be read in conjunction with the annual audited financial statements and accompanying notes.

The University of Victoria's new Strategic Framework for the University of Victoria 2018-2023 articulates our shared understanding of our vision, values and priorities in fulfilling our commitment to contributing to a better future for people, places and the planet. The framework's objective is to serve as a guide to our future—setting out priorities and high-reaching goals in six key areas and articulating strategies to realize them. The six priority areas are:

to “cultivate an extraordinary academic environment to be recognized internationally as a university of choice for talented students, faculty and staff;

advance research excellence and impact: to heighten our place in the top tier of the world's research universities;

intensify dynamic learning: to be Canada's leader in research-enriched and experiential learning;

foster respect and reconciliation: to be a global leader in creating better opportunities for Indigenous students, entering respectful educational and research partnerships with Indigenous communities;

promote sustainable futures: to be a global leader in environmental, social and institutional sustainability;

and engage locally and globally: to be a preferred partner and a leader in local and global engagement.”

The priority areas in the Strategic Framework are reflected in the UVic Edge through the powerful fusion of three ingredients: Dynamic Learning, Vital Impact and Extraordinary Environment.

The Strategic Framework provides a structure for our ongoing planning and serves as a reference for making strategic choices among the many possible initiatives that could move us forward. Creating a shared understanding of our goals and priorities enables us to coordinate our efforts and work together to achieve maximum impact. Guided by the Strategic Framework, the university develops an institutional budget to ensure that financial resources are aligned with the institution's priorities and areas of strategic focus. The university has developed its annual budget framework, financial models and plans within the context of a three-year planning cycle. A three-year planning horizon provides a more realistic time frame for the development of university initiatives and provides greater flexibility than permitted within an annual process.

The MD&A provides an overview of the university's:

- Financial Highlights;
- Financial Information;
- Operating environment;
- Financial Reporting Environment ;
- Risks and Uncertainties; and
- Related Entities.

Financial Highlights

Financial Statement Summary

The university ended the year with total consolidated assets of \$1.6 billion and consolidated revenue of \$593 million (M). The consolidated surplus prior to inclusion of donations to the university's endowment fund was \$23.6M or 4.0% of total revenues (\$34.2M or 5.9% for the prior year). The \$10.6M decrease in the surplus resulted from expenses increasing 4%, whereas revenue increased only 1.9%. The surplus exceeded budget by \$20.9M, (\$26.1M for the prior year). The majority off the operating surplus and budget variance is due to one time events (e.g., reduction of benefits expense as result of removing the LTD Trust from the financial statements) and transactions that do not increase the resources available to the university (e.g., actuarial adjustments and accounting treatment).

Each year the University is required to invest in capital expenditures. While these expenditures are made each year, for accounting purposes the expenditures are not shown as an expense in the year made. Instead, the expenditure is expensed, or amortized, over the future life of the asset. As a result, there appears to be surplus in the year as capital expenditures are not included. Previously, the university has received approval to restrict a portion of its provincial grant for capital purposes. If approved this would more accurately reflect the university's operating surplus as the revenue and expenditures for capital would be the treated in the same way for accounting purposes. The university requested but did not receive approval in 2018/19 to restrict \$10.5M of the provincial operating grant for capital. During the year, the university invested \$10.5M in capital

projects that would have been eligible for provincial funding had funding been available. Accordingly, the surplus includes \$10.5M that was required to fund capital.

The surplus applicable to operations, after adjusting for the \$10.5M investment in capital assets, is \$13.1M. After removal of the actuarial adjustment and the impact of the change in reporting of the LTD trust, the surplus would be \$5.3M.

Government Grants

Revenue from the Provincial Government in the form of grants increased by 5.8% over the previous year, due primarily to funding of compensation increases. Annual grants received from the Province for capital purposes are up slightly at \$28.0M, from the \$26.5M received last year, related to routine maintenance and specific project funding.

Tuition and Enrolment

Overall, credit tuition increased by 5.7% to \$144.0M. This increase was due to a 2% increase in domestic fees (the increase to domestic tuition fees is limited to 2% by provincial government policy), consistent domestic enrolment, approved increases in international fees and a small increase in international enrolment. Non-credit tuition increased by \$1.9M due to higher enrolments in international programs in Continuing Studies.

Investments

Investment income is comprised of both returns on endowments and returns on short-term investments. The university's endowment investments are held in the University of Victoria Foundation and have a fair value of \$467M. The endowments earned a return of 8.4% for the year (2018 – 7.0%) across its six investment

mandates. Short-term investments held within the university returned 2.9% for the year (2018 – 1.4%).

Major Capital Activity

During the year, work was completed on a \$9.5M renovation to one building at the Queenswood Campus to provide office and research space for UVic’s ocean and climate hub. Construction continued on the \$20M District Energy Plant that will replace the university’s aging energy heating infrastructure.

The university received approval from the Province to borrow \$123M to partially finance a new, 620 bed student housing project together with renewed conference and food services. The total planned project cost is \$197M. Planning is underway with early construction activity starting in 2019/20.

Financial Information

Financial Assets

Financial assets are defined as assets available to discharge existing liabilities or finance future operations. During the year, they increased 6.2% to \$412M.

<i>In thousands of dollars</i>	2019	2018
Cash and cash equivalents	136,433	117,425
Accounts receivable	17,214	18,437
Due from governments	9,000	10,739
Inventories for resale	1,657	1,474
Portfolio investments	204,266	206,890
Loans receivable	25,035	26,118
Employee future benefits	10,877	-
Investments in government business enterprises	7,816	7,252
Total Financial Assets	412,298	388,335

Cash and cash equivalents increased by \$19.0M, reflecting funding received in advance of expenditures. Also contributing to the increase in cash and cash equivalents is the one-time transfer to the university of unexpended distributions from endowments from the Foundation. Accounts receivable decreased by \$1.2M and Due from governments decreased by \$1.7M, reflecting timing and year end funding. Portfolio investments, which include the university’s long-term working capital, investments underlying endowment expendable funds, investments related to sinking funds held for provincial debt, and supplemental pension obligations, decreased by \$2.6M due largely to the removal of the LTD Trust plan assets from the financial statements. This decrease is offset by investment returns on the UVic Foundation’s endowment funds. Employee future benefits represent a future asset for the Staff Pension Plan and liabilities for supplemental pension obligations, vested sick leave entitlements, and group life insurance plans. The overall liability for employee future benefits became a financial asset this year due to the removal of the LTD Trust accrued benefit obligation and an actuarial gain in the Staff Pension Plan. Investments in government business enterprises represent the equity held in controlled business operations of Heritage Realty Properties Ltd. and the Vancouver Island Technology Park Trust.

Liabilities

Liabilities increased by 3.1% to \$729M.

<i>In thousands of dollars</i>	2019	2018
Accounts payable	33,802	35,534
Derivatives	875	853
Due to governments	6,685	4,616
Employee future benefits	-	12,009
Deferred revenue	19,801	17,823
Deferred contributions	198,665	185,699
Deferred capital contributions	421,352	402,919
Long term debt	47,833	49,824
Total Liabilities	729,003	707,277

Deferred contributions are externally restricted revenue that is not recognized until related expenses are incurred. Deferred contributions increased \$13.0M due to endowment income and sponsored research funding received in excess of current year expenditures. Deferred capital contributions are externally restricted capital contributions amortized over the life of related tangible capital assets. During the year, deferred capital contributions increased by a net \$18.4M resulting from contributions of \$43.6M less amortization of \$25.2M. Long-term debt decreased by \$2.0M resulting from scheduled debt repayments.

Non-financial Assets

Non-financial assets increased by 3.5% to \$1,142M.

<i>In thousands of dollars</i>	2019	2018
Tangible capital assets	765,139	740,838
Restricted endowment investments	359,117	343,144
Inventories held for use	2,167	1,918
Prepaid expense	16,271	17,726
Total Non-Financial Assets	1,142,694	1,103,626

Tangible capital assets include land, buildings, site improvements, library holdings, computers,

equipment and furnishings but do not include \$13.1M of artwork and collections, as these are expensed under PSAS accounting. The net increase in tangible capital assets of \$24.3M is due to additions of \$69.0M less amortization of \$44.7M. The largest single capital asset addition was related to the District Energy Plant Project. Restricted endowment investments represent the portion of endowment investments related to the restricted principal funds. During the year, they increased \$16.0M due to donations of \$9.2M and capitalized investment income of \$6.8M. Restricted endowment assets are considered "non-financial," as the funds have a restricted purpose and cannot be used to meet the liabilities of the university as they become due.

Accumulated surplus

Accumulated surplus increased by 5.3% to \$826M.

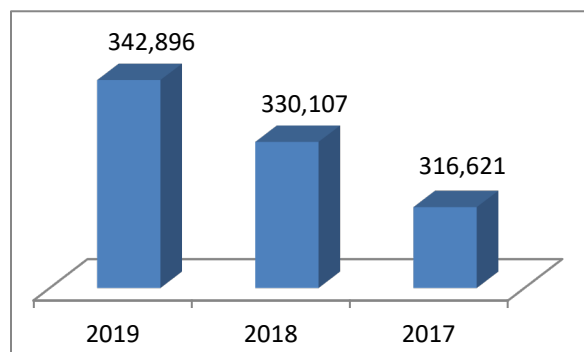
<i>In thousands of dollars</i>	2019	2018
Endowment	342,896	330,107
Invested in capital assets	315,541	306,996
Internally restricted	120,401	99,155
Unrestricted	24,938	31,171
Remeasurement gains	22,213	17,255
Accumulated surplus	825,989	784,684

Accumulated surplus represents the university's residual interest in its assets after deducting liabilities (net assets). Most of this balance is unavailable to fund operations as it is either restricted or has already been used to invest in buildings, equipment and other capital assets. Endowment, Invested in capital assets, and Internally Restricted are described in the following sections. Unrestricted surplus consists primarily of balances arising from ancillary operations such as student housing, and other entities that are consolidated in the Financial

Statements. Remeasurement gains represent unrealized gains on university endowment funds and working capital arising after April 1, 2012, the effective date of the new Public Sector Accounting Standard financial instrument standard.

Accumulated Surplus – Endowment

Endowments increased by 3.9% to \$343M.



The university's endowments are held by the UVic Foundation. Accumulated surplus-endowment consists of restricted donations and capitalized investment income, which is required to be maintained intact in perpetuity in order to support donor specified activities. The investment income generated from endowments must be used in accordance with the various purposes stipulated by the donors. At March 31, 2019 there were 1,358 individual endowment funds providing \$14.5M (2018 - \$14.7M) in annual funding support.

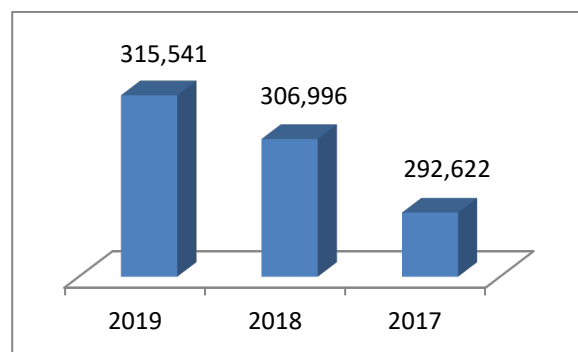
Donors, as well as UVic Foundation policy, stipulate that the economic value of the endowments must be protected by restricting the amounts that can be expended and capitalizing a portion of investment income in order to maintain purchasing power against inflation.

Each endowment has an income stabilization account which is recorded as deferred

contributions in order to provide a cushion against market fluctuations.

Accumulated Surplus – Invested in Capital Assets

Accumulated surplus invested in capital assets increased by 2.8% to \$316M.

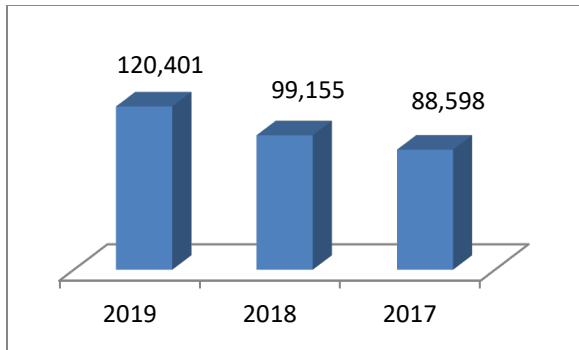


Accumulated surplus invested in capital assets is the amount of internal university funds used for the acquisition of capital assets less amortization of internally financed capital assets. The following comprises the balance of accumulated surplus invested in capital assets:

<i>(in thousands of dollars)</i>	2019	2018
Land	22,582	22,582
Site development	10,394	9,399
Buildings	267,336	262,147
Equipment	30,319	29,872
Library acquisitions	13,159	13,898
Software	-	24
Sinking funds	9,987	8,674
Less debt repayments	(38,236)	(39,600)
Invested in capital assets	315,541	306,996

Accumulated Surplus – Internally Restricted

Accumulated surplus-internally restricted increased by 21.4% to \$120M.



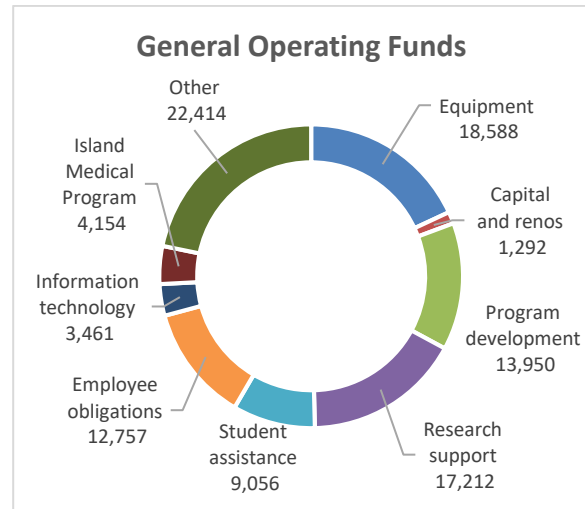
Accumulated surplus - internally restricted consists of balances appropriated by the university Board of Governors for employee commitments, equipment replacement, capital improvements, program development, research support and other non-recurring expenditures. Due to Provincial Government restrictions on the ability of the university to borrow externally, these funds are used on a temporary basis to fund capital projects that will generate future revenues. The reserves are also offset by future liabilities for certain employee benefits. The overall increase in accumulated surplus is a result of a \$4M positive actuarial valuation for the staff pension increase, the removal of the LTD Trust accrued benefit obligation of \$3M and an \$11M the change in appropriated capital. The appropriated capital is for priorities such as the Engineering addition - \$4.4M, the Student Health and Wellness Centre - \$2.4M and other smaller value priorities such as classroom renewal.

Balances are made up as follows:

<i>(in thousands of dollars)</i>	2019	2018
General operating	102,883	104,345
Ancillary enterprises	16,276	12,705
Less: Capital	(12,348)	(23,637)
Less: Vacation pay	(8,516)	(8,598)
Add: Staff pension	22,106	17,699
Less: LTD Trust	-	(3,359)
Total internally restricted	120,401	99,155

General operating reserves decreased by 1.1% to \$102.9M.

General operating reserves consist of:



Surplus before Restricted Funding

The surplus prior to inclusion of donations to the university's endowment fund was \$23.6M or 4.0% of total revenues (\$34.2M or 5.9% for the prior year). The main reasons for the surplus, with comparison to the prior year are as follows:

<i>(in thousands of dollars)</i>	2019	2018
<u>Designated Items</u>		
Dunsmuir Lodge sale	-	6,543
Impact of LTD actuarial gain and removal Staff Pension Plan actuarial gain	3,359	3,252
	<u>4,407</u>	<u>3,999</u>
	7,766	13,794
Ancillary fund surplus	6,273	7,266
<u>Non-Designated Items</u>		
Operating fund surplus	8,578	9,796
Other	<u>941</u>	<u>3,333</u>
	9,519	13,129
Surplus before restricted funding	23,558	34,189

There is a requirement to have a surplus to be able to invest in capital assets. In a prior year, the university requested, and received approval, to restrict funds for capital investments during the year that were considered eligible capital expenditures. For the current year, a request to restrict \$10.5M was not approved and as a result is reflected in the surplus although these funds are not available for future investment as they have already been invested in capital improvements that are, for the most part, addressing deferred maintenance.

Revenue

Revenue increased by 1.9% to \$593M.

<i>(in thousands of dollars)</i>	2019	2018
Government grants & contracts	285,317	273,638
Tuition & student fees	165,762	156,128
Donations, non-government grants & contracts	17,993	15,640
Sales of services & products	67,648	68,518
Investment income	22,426	22,338
Income from business enterprises	1,171	1,751
Amortization of deferred capital contributions	25,182	28,215
Other revenue	7,612	15,561
Total Revenue	593,111	581,789

Government grants and contracts revenue is received from the Province of B.C. (71%), the Government of Canada (23%), and other governments (6%). Revenue recorded from the Province increased by \$11.1M overall, due mainly to increased funding related to salary increases resulting from collective bargaining. Federal grants increased by \$1.2M, and other government grants declined by \$0.7M. Tuition and student fees increased by \$9.6M, or 6.2%, due primarily to credit tuition. Credit tuition

increased due to a 2% increase in domestic fees, an increase in international fees of 4% graduate student and undergraduates students enrolled before April 2018 and 20% for those undergraduate students enrolled after April 2018 plus a modest increase in international enrolment. Investment income does not include unrealized gains, which have been recorded through the Statement of Remeasurement. When remeasurement gains of \$5.0M are included, overall investment income increased by \$4.1M compared to 2018 results. Other revenue decreased by \$7.9M resulting primarily from the \$4.4M gain on sale of the Dunsmuir Lodge property, which occurred in 2018.

Expenses

Expenses increased by 4.0% to \$570M. Expenses reported by object were as follows:

<i>(in thousands of dollars)</i>	2019	2018
Salaries and benefits	363,460	347,112
Travel	15,022	13,363
Supplies and services	86,897	82,464
Utilities	9,039	8,384
Scholarships and bursaries	36,092	36,358
Cost of goods sold	12,107	12,430
Interest on long term debt	2,249	2,480
Depreciation	44,687	45,009
Total Expenses	569,553	547,600

Salaries and benefits represent 64% of total expenses. Salaries increased by \$14.6M due to progression through the ranks and negotiated settlements with the university's faculty, professional and support staff. Benefits increased overall by \$1.7M due increases in benefits commensurate with higher salaries offset somewhat by large actuarial gains on the Staff Pension Plan.

Expenses reported by function were as follows:

<i>(in thousands of dollars)</i>	2019	2018
Instruction and non-sponsored research	235,817	222,945
Academic and student support	142,622	137,000
Administrative support	21,772	19,507
Facilities operations and maintenance	49,338	49,241
Sponsored Research	106,262	106,014
External engagement	13,742	12,893
Total Expenses	569,553	547,600

Changes in functional expenses included instruction (+5.7%) and Academic and Student Support (+4.1%) Administration (+11.6%), Facilities (+0.2%), Sponsored research (+0.2%) and External engagement (+6.6%).

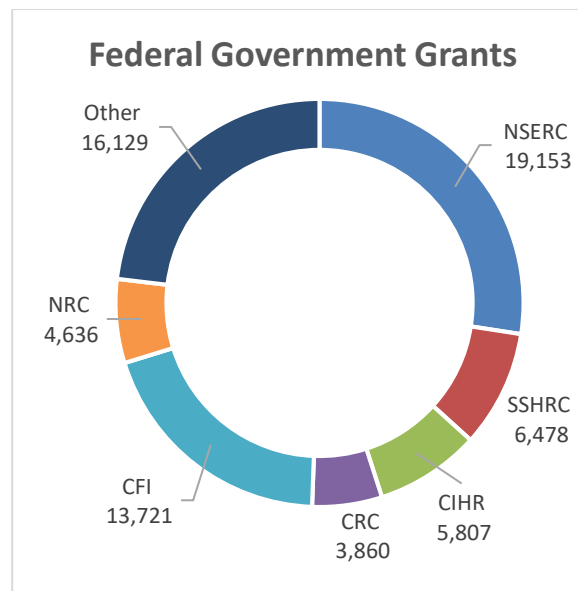
Sponsored Research Contributions

Sponsored research revenue increased by 5.2% to \$106.0M.

<i>(in thousands of dollars)</i>	2019	2018
Province of B.C.	9,130	9,880
Federal government	69,784	72,548
Other governments	11,094	10,756
Gifts, grants & bequests	12,640	14,085
Sales of services	4,028	4,380
Other revenue	<u>507</u>	<u>224</u>
Total contributions	107,183	111,873
Transfer (to)/from deferred contributions	(1,151)	(11,113)
Sponsored research revenue	106,032	100,760

In addition to the above, the university also received \$6.9M from the Tri-council for research support funds, which is recorded in the general operating fund.

Federal government grants are comprised of the following:



In 2018, the university ranked second amongst Canadian comprehensive research-intensive universities in total research funding, first in NSERC/CIHR grants and fourth in SSHRC grants.

Operating Environment

Our vision at the University of Victoria is to be the Canadian research university that best integrates outstanding scholarship, engaged learning and real-life involvement to contribute to a better future for people and the planet.

We are in a period of rapid change, with growth in the number of universities around the world and rising expectations for how these institutions will contribute to individual and collective well-being. To meet the challenges and opportunities of globalization and the social, environmental and technological change faced by our students, communities and university, we must align our efforts and focus our activities.

The financial environment for post-secondary education in BC and Canada continues to be tightly constrained. Cost pressures come from annual inflation, which at educational institutions is higher than general cost of living increases, measured by the Consumer Price Index (CPI). They also arise from new expenditures driven by our ambition for innovation and quality enhancement, new obligations, and increased organizational complexity. Revenues from traditional sources are insufficient to meet those cost pressures. The challenge is to achieve financial sustainability and to continue to enhance quality within these constrained circumstances.

The environment and financial model for post-secondary education in BC remains consistent with the past several years. Provincial operating grants for post-secondary institutions have increased in the current year (and are expected to further increase in the next year) to fund negotiated compensation increases; however, there is no additional lift to meet other inflationary pressures. Funding was received to support student growth in engineering and computer science, part of a 4-year expansion commitment from the Province. Expansion also occurred in the law with the university's, first in North America, joint JD/JID degree. Interim measures for space for these programs is required until funding approval is secured for additions to buildings to support expansion of these programs. For the past decade, domestic tuition fee increases couldn't exceed inflation (2%). This is about the rate of the general cost of living inflation, but lower than the actual rate of cost increases at the university, which, on average, are in the 3% - 5% range.

As the tuition limit policy does not apply to international students, starting May 2017, the

university implemented a policy to increase international fees to reflect actual costs of inflation. The university has inflation rates higher than inflation in a number of areas including compensation, capital-related costs, information technology, utilities and library. For this year, the inflation rate used was 4%.

The university undertook a comprehensive review of international tuition during 2017/18. The objective of the review was to develop a fee structure guided by principles including reflecting the quality of the degree, comparability to peer institutions, supporting delivery of quality programs and services, providing for enhanced student financial assistance for fees and contributing to enhanced quality and the long-term financial sustainability of UVic. The approved increase of 15% for undergraduates in 2019/20 reflect these principles and will be assessed only for international students enrolled after April 2018.

For domestic students, enrolment is sensitive to BC population trends for the 18-24 year olds. UVic used population segment projections provided by Statistics Canada and BC Stats which are updated every few years. The last projection (2014) called for a decline of the 18-24 segment starting in 2014/15 and declining until 2022-23 at which point the trend was expected to reverse. The current projection (2018) has the decline beginning in 2017/18 and continuing to 2025-26. As the 18-24 cohort is the traditional age group associated with undergraduate enrolments and, historically, UVic's largest demographic segment. Competition continues to intensify for new students, both domestic and international, and UVic is responding by maintaining its focus on recruiting the best students and enhancing its unique, high quality student experience. Retention and engagement

of existing students are key focus areas of our Strategic Enrolment Management Plan.

Contractual obligations related to salaries and rising costs associated with library acquisitions and the impact of the lower value of the Canadian dollar relative to the US dollar are examples of pressures that continue to constrain financial planning. These pressures have had a negative budgetary impact on a number of areas including information technology, research infrastructure and, most visibly, the Library's acquisitions budget. Rising costs of serial subscriptions has further eroded the Library's ability to maintain the comprehensiveness and competitiveness of its holdings.

UVic's physical infrastructure requires further renewal and enhancement – priorities have been identified in the Capital Plan to address deferred maintenance and increase academic and research space for those areas with the greatest pressures. Student residences are also in need of expansion and renewal. Government funding for capital projects is limited and therefore fundraising as well as increased university resources will be important funding sources for these infrastructure priorities.

Guided by the Strategic Framework, UVic will deliver on our commitments to our people, our partners and our local and global communities, and will ensure that UVic is the Canadian research university that best integrates outstanding scholarship, engaged learning and real-life involvement to contribute to a better future for people and the planet.

Financial Reporting Environment

The university is part of the Government Reporting Entity (GRE) of the Province of B.C.

and, as such, is required to present its financial statements in accordance with Section 23.1 of the Budget Transparency and Accountability Act supplemented by directives set out by the Province of British Columbia. The Province has directed that PSAS be adopted without the PS4200 not-for-profit elections and that all restricted contributions received for acquiring tangible capital assets be deferred as Deferred Capital Contributions and recognized in revenue at the same rate that the amortization of the related tangible capital asset is recorded. As this Provincial directive supplements the requirements of PSAS, the Office of the Auditor General has provided a qualified audit opinion on a fair presentation basis for the last three years, even though financial reporting has complied with the requirements set out by the Province. Some highlights of the reporting framework presentations are as follows:

The Statement of Financial Position reflects a "Net Debt model" and presents Net Debt as the difference between liabilities and financial assets and is intended to measure the university's future revenue requirements or its ability to finance its activities. Net debt at March 31, 2019 is \$(317M) but includes \$421M of Deferred Capital Contribution liabilities that would likely never be repaid, thus bringing into question its relevance. The Statement of Financial Position also presents an Accumulated Surplus of \$826M, representing the university's net assets. A breakdown of this balance is disclosed on the Statement of Financial Position, and in the notes, to communicate to readers of the financial statements that this figure mostly represents restricted, spent or committed funds.

The Statement of Operations reports revenues, functional expenses and budget figures for the university's consolidated operations.

Endowment donations and investment income capitalized to endowment principal, that used to be recorded as direct increases in net assets, are recorded on the Statement of Operations as Restricted Endowment Contributions and included in Annual Operating Surplus, even though they are not available to fund operational expenses.

Remeasurement gains and losses, representing unrealized gains and losses on investments, derivatives and foreign currency, are reported on a separate statement and as a separate category of Accumulated Surplus rather than being included with the other components of investment income on the Statement of Operations. This effectively limits the ability to fund expenses from unrealized gains. Accumulated remeasurement gains commenced as of April 1, 2012 onward, reflecting the prospective implementation of the PSAS financial instrument standard, which has created a requirement to track unrealized gains and losses in investment portfolios pre and post April 1, 2012.

A Statement of Changes in Net Debt summarizes the key changes in Net Debt and provides information on how net debt is impacted by expenditures for, and amortization of, capital assets, changes in other non-financial assets, net remeasurement gains/losses and the annual surplus.

Risks and Uncertainties

The university operates in an increasingly more complex environment with many factors that are outside of the control of the university. The university uses an Enterprise Risk Management approach and develops risk mitigation strategies to reduce the impact where possible. The major

risks that can affect the university from a financial perspective are as shown below. Over the past year, the university developed and approved institutional risk appetite statements that will help guide decision making across all areas of campus.

Provincial funding

Provincial government grants are a significant component of revenue in the university's operating budget. Funding for this source is not guaranteed year to year and provincial policy changes can significantly affect institutional budgets. Examples in the past include provincial policy to cap domestic tuition, unexpected grants reductions and the introduction of the employer health tax in 2018. As operating grants are provided and approved for one year only, there is significant uncertainty year to year with respect to the university's operating funding.

Student recruitment and retention

Enrolment levels can be affected by the economy, competition and the world economic environment. Changes in these conditions can affect enrolment revenues should, for example, international students choose to stay in their home country for post-secondary education. International enrolment has increased and UVic has a greater reliance on international students in order to achieve expected tuition revenues.

Pensions and Employee Future Benefits

The university has two pension plans for its faculty, Professional Employee Association members, management exempt and executive (Combination Plan and Money Purchase Plan) and one plan for members of CUPE and exempt clerical staff (Staff Plan). The actuarial valuation of the Combination Plan, with an effective date of December 31, 2015, shows that the Plan is fully funded. The next valuation date is December 31, 2018 but the valuation results

won't be available until September 2019. The last valuation for the Staff Pension Plan was December 31, 2016. As at that valuation date, there was a going concern surplus of 122% of liabilities but a solvency deficiency of 20%. While many other post-secondary institutions in BC and in other provinces are not required to meet a solvency test, this requirement for the university resulted in a cost of \$467,000 for 2018/19. The next valuation date is December 31, 2019 with a filing requirement of September 2020.

Deferred Maintenance

As the university ages, the risk related to deferred maintenance increases. One of the highest priority projects, replacing the heating system, commenced during the past year and will be completed over the next year. Other priority projects include renewal seismic upgrading of some of our older buildings. We continue to plan for our priority deferred maintenance projects and work closely with the Provincial Government to obtain funding. Funding from the province has increased over the last several years.

Related Entities

The university's consolidated financial statements include the following related entities:

University Foundations

The University of Victoria Foundation, Foundation for the University of Victoria and U.S. Foundation for the University of Victoria receive and manage the university's endowment funds. The Foundations are tax exempt as a registered charity, agent of the Crown or charitable organization, respectively. They are consolidated in the university's financial statements.

TRIUMF and WCUMSS

The university participates in two non-profit research joint ventures with other universities. TRIUMF is Canada's national laboratory for particle and nuclear physics. The university is one of twelve members. The Western Canadian Universities Marine Sciences Society (WCUMSS) operates a marine research facility located at Bamfield, B.C. The university is one of five members. The university's interest in these two government partnerships is proportionately consolidated in the university's financial statements.

Heritage Realty Properties and VITP Trust

The university controls three taxable business enterprises. Heritage Realty Properties Ltd. manages the rental properties, hotel and brew-pub operation donated by the late Michael C. Williams. The Vancouver Island Technology Park Trust (VITP) provides leased space to high-technology companies on Vancouver Island. Both enterprises are accounted for in the university's financial statements on the modified equity basis.

UVic Properties Investments Inc.

University of Victoria Properties Investments Inc. manages the university's real estate holdings including the Marine Technology Centre and the Queenswood Campus, and acts as trustee for the Vancouver Island Technology Park Trust. UVic Properties is consolidated in the university's financial statements.

UVic Industry Partnerships

UVic Industry Partnerships is a taxable corporation that facilitates research partnerships between the private sector and the university by assisting with intellectual property management and commercialization of research discoveries. It is consolidated in the university's financial statements.

Oceans Network Canada Society

Oceans Network Canada Society is a non-profit society that manages the University's two ocean observatories VENUS and NEPTUNE. It is consolidated in the university's financial statements.

Pacific Climate Impacts Consortium

The Pacific Climate Impacts Consortium is a non-profit organization that furthers the understanding of the climate system, its variability and potential for change and the application of that understanding to decision making in both the public and private sectors. It is consolidated in the university's financial statements.

GSB Executive Education Inc.

This taxable business enterprise was created to deliver executive education services by the UVic Gustavson School of Business. It is accounted for in the university's financial statements on the modified equity basis.

Byron Price & Associates Ltd.

Byron Price and Associates Ltd. is a taxable business enterprise donated to the University, which holds land located in North Saanich. It is consolidated in the university's financial statements.

Consolidated Financial Statements of

UNIVERSITY OF VICTORIA

Year ended March 31, 2019



University
of Victoria



STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards and Treasury Board direction outlined in note 2 (a). This responsibility includes selecting appropriate accounting principles and methods and making decisions affecting measurement of transactions in which objective judgment is required. In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University's management has developed and maintains a system of internal controls designed to provide reasonable assurance that the University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements. The system of internal controls is monitored by the University's management.

The Board of Governors carries out its responsibility for review of the financial statements principally through its audit committee. The members of the Audit Committee are not officers or employees of the University. The Audit Committee meets with management and with the internal and external auditors to discuss the results of audit examinations and financial reporting matters. The auditors have full access to the Audit Committee, with and without the presence of management.

The consolidated financial statements have been examined by the Office of the Auditor General of British Columbia. The Independent Auditors' Report outlines the nature of the examination and the opinion on the consolidated financial statements of the University for the year ended March 31, 2019.

On behalf of the University:

_____ Chair, Board of Governors

_____ Vice-President Finance and Operations



**University
of Victoria**



INDEPENDENT AUDITOR'S REPORT

*To the Board of Governors of the University of Victoria, and
To the Minister of Advanced Education, Skills and Training, Province of British Columbia*

Qualified Opinion

I have audited the accompanying consolidated financial statements of the *University of Victoria* (“the entity”) which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statements of operations and accumulated surplus, changes in net debt, cash flows, and remeasurement gains and losses for the year then ended, and a summary of significant accounting policies and other explanatory information.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the consolidated financial statements present fairly, in all material respects, the financial position of the entity as at March 31, 2019, and the results of its operations, change in its net debt, remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Basis for Qualified Opinion

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

As described in Note 26 to the consolidated financial statements, the entity’s accounting treatment for contributions received from governments and for externally restricted contributions received from non-government sources is to initially record them as deferred revenue (a liability) and then recognize revenue in the statement of operations either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to recognize revenue on the same basis as the related assets are amortized. The entity was required to adopt this accounting policy as prescribed by Province of British Columbia Treasury Board Regulation 198/2011.

Under Canadian Public Sector Accounting Standards, the entity’s method of accounting for contributions is only appropriate in circumstances where the funding meets the definition of a liability. Otherwise, the appropriate accounting treatment is to record contributions as revenue when they are received or receivable. In my opinion, certain contributions of the entity do not meet the definition of a liability, and as such, the entity’s method of accounting for those contributions represents a departure from Canadian Public Sector Accounting Standards.

This departure has existed since the inception of the standard, which applies to periods beginning on or after April 1, 2012. Had the entity made an adjustment for this departure in the current year, the liability for deferred revenue as at March 31, 2019 would have been lower by \$421 million, revenue and accumulated surplus would have been higher by \$421 million and net debt would have been lower by \$421 million.

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the entity in accordance with the ethical requirements that are relevant to my audit of the entity's financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

Other Accompanying Information

Management is responsible for the other information accompanying the financial statements. The other information comprises the information included in Management Discussion and Analysis but does not include the consolidated financial statements and my auditor's report thereon.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information that I have obtained prior to the date of my auditor's report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained during the audit or otherwise appears to be materially misstated.

Prior to the date of my auditor's report, I obtained the Management Discussion and Analysis. If, based on the work I have performed on this other information, I conclude that there is a material misstatement therein, I am required to report that fact in this auditor's report.

As described in the Basis for Qualified Opinion section above, the entity has inappropriately deferred certain of its revenues from government transfers. I have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Management Discussion and Analysis affected by this departure from Canadian Public Sector Accounting Standards.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements.

Those charged with governance are responsible for the oversight of the financial reporting process. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting when the entity will continue its operations for the foreseeable future.

Auditor's Responsibilities for the Audit of Financial Statements

My objectives are to obtain reasonable assurance about whether the entity's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the University of Victoria to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the University of Victoria audit and I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Stuart Newton, CPA, CA
Deputy Auditor General

Victoria, British Columbia, Canada
June 17, 2019



UNIVERSITY OF VICTORIA
Consolidated Statement of Financial Position

As at March 31, 2019
(in thousands of dollars)

		2019	2018
Financial Assets			
Cash and cash equivalents	<i>(Note 3)</i>	\$ 136,433	\$ 117,425
Accounts receivable	<i>(Note 4)</i>	17,214	18,437
Due from governments	<i>(Note 5)</i>	9,000	10,739
Inventories for resale		1,657	1,474
Portfolio investments	<i>(Note 6)</i>	204,266	206,890
Loans receivable	<i>(Note 7)</i>	25,035	26,118
Employee future benefits	<i>(Note 8)</i>	10,877	-
Investments in government business enterprises	<i>(Note 9)</i>	7,816	7,252
		412,298	388,335
Liabilities			
Accounts payable and accrued liabilities	<i>(Note 11)</i>	33,802	33,534
Derivatives	<i>(Note 6)</i>	875	853
Due to governments		6,685	4,616
Employee future benefits	<i>(Note 8)</i>	-	12,009
Deferred revenue		19,801	17,823
Deferred contributions	<i>(Note 12)</i>	198,655	185,699
Deferred capital contributions	<i>(Note 13)</i>	421,352	402,919
Long-term debt	<i>(Note 14)</i>	47,833	49,824
		729,003	707,277
Net debt		(316,705)	(318,942)
Non-financial Assets			
Tangible capital assets	<i>(Note 15)</i>	765,139	740,838
Restricted endowment investments	<i>(Note 6)</i>	359,117	343,144
Inventories held for use		2,167	1,918
Prepaid expense		16,271	17,726
		1,142,694	1,103,626
Accumulated surplus	<i>(Note 17)</i>	\$ 825,989	\$ 784,684
Accumulated surplus is comprised of:			
Endowments	<i>(Note 18)</i>	\$ 342,896	\$ 330,107
Invested in capital assets		315,541	306,996
Internally restricted		120,401	99,155
Unrestricted		24,938	31,171
Accumulated operating surplus		803,776	767,429
Accumulated remeasurement gains		22,213	17,255
Accumulated surplus		\$ 825,989	\$ 784,684

Contractual rights *(Note 19)*
 Contractual obligations *(Note 20)*

Contingent liabilities *(Note 21)*

On behalf of the Board:

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



UNIVERSITY OF VICTORIA

Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2019

(in thousands of dollars)

	Budget <i>(Note 2(a))</i>	2019	2018
Revenue:			
Province of British Columbia grants	\$ 195,040	\$ 203,684	\$ 192,523
Government of Canada grants	61,000	66,035	64,860
Other government grants	19,800	15,598	16,255
Student tuition - credit courses	142,000	143,994	136,275
Student tuition - non-credit courses	21,000	21,768	19,853
Donations, non-government grants and contracts	17,800	17,993	15,640
Sales of services and products	69,870	67,648	68,518
Investment income	22,400	22,426	22,338
Income from business enterprises	600	1,171	1,751
Other revenue	7,500	7,612	11,118
Revenue recognized from deferred capital contributions	25,210	25,182	28,215
Gain on disposal of assets	-	-	4,443
	582,220	593,111	581,789
Expenses: <i>(Note 22)</i>			
Instruction and non-sponsored research	235,886	235,817	222,945
Academic and student support	146,994	142,622	137,000
Administrative support	20,174	21,772	19,507
Facility operations and maintenance	49,688	49,338	49,241
Sponsored research	112,896	106,262	106,014
External engagement	13,917	13,742	12,893
	579,555	569,553	547,600
Operating surplus before restricted funding	2,665	23,558	34,189
Restricted endowment contributions			
Endowment principal donations	4,000	9,172	7,702
Net investment income & donations capitalized	4,000	3,617	5,784
Net restricted endowment contributions	8,000	12,789	13,486
Annual operating surplus	10,665	36,347	47,675
Accumulated operating surplus, beginning of year	767,429	767,429	719,754
Accumulated operating surplus, end of year	\$ 778,094	\$ 803,776	\$ 767,429

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



UNIVERSITY OF VICTORIA
Consolidated Statement of Changes in Net Debt

Year ended March 31, 2019
(in thousands of dollars)

	Budget <i>(Note 2(o))</i>	2019	2018
Annual surplus	\$ 10,665	\$ 36,347	\$ 47,675
Acquisition of tangible capital assets	(71,360)	(68,988)	(78,578)
Proceeds from disposal of tangible capital assets		-	8,144
Gain on disposal of tangible capital assets		-	(4,443)
Amortization of tangible capital assets	45,185	44,687	45,009
	(26,175)	(24,301)	(29,868)
Restricted endowment investments		(15,973)	(13,530)
Acquisition of inventories held for use		(1,499)	(1,669)
Acquisition of prepaid expense		(15,873)	(17,206)
Consumption of inventories held for use		1,250	1,557
Use of prepaid expense		17,328	16,471
		(14,767)	(14,377)
Net remeasurement gains		4,958	934
Decrease (increase) in net debt	(15,510)	2,237	4,364
Net debt, beginning of year	(318,942)	(318,942)	(323,306)
Net debt, end of year	\$ (334,452)	\$ (316,705)	\$ (318,942)

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



UNIVERSITY OF VICTORIA

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2019

(in thousands of dollars)

	2019	2018
Accumulated remeasurement gains, beginning	\$ 17,255	\$ 16,321
Unrealized gains (losses) attributed to:		
Portfolio investments	4,656	(315)
Derivatives	(22)	815
Foreign currency translation	324	434
Net remeasurement gains for the year	4,958	934
Accumulated remeasurement gains, end of year	\$ 22,213	\$ 17,255

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



UNIVERSITY OF VICTORIA

Consolidated Statement of Cash Flows

Year ended March 31, 2019

(in thousands of dollars)

	2019	2018
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 36,347	\$ 47,675
Items not involving cash		
Amortization of tangible capital assets	44,687	45,009
Revenue recognized from deferred capital contributions	(25,182)	(28,215)
Change in employee future benefits	(22,886)	(6,324)
Gain on sale of tangible capital assets	-	(4,443)
Equity in income of government business enterprises	(564)	(957)
Unrealized remeasurement gains	324	189
Changes in non-cash operating working capital:		
Decrease in accounts receivable	1,223	1,669
Decrease in loans receivable	1,083	492
Decrease (increase) in inventories	(432)	92
Decrease (increase) in prepaid expenses	1,455	(735)
Increase in accounts payable and accrued liabilities	268	1,909
Decrease (increase) in due to/from government organizations	3,808	(5,073)
Increase in deferred revenue	1,978	3,150
Increase in deferred contributions	12,956	18,676
Net change from operating activities	55,065	73,114
Capital activities:		
Proceeds from sale of tangible capital assets	-	8,144
Cash used to acquire tangible capital assets	(68,988)	(78,578)
Net change from capital activities	(68,988)	(70,434)
Investing activities:		
Sale (acquisition) of portfolio investments	1,384	328
Acquisition of endowment investments	(10,077)	(23,158)
Net change from investing activities	(8,693)	(22,830)
Financing activities:		
Repayment of long-term debt	(1,991)	(975)
Cash proceeds from deferred capital contributions	43,615	46,637
Net change from financing activities	41,624	45,662
Net change in cash and cash equivalents	19,008	25,512
Cash and cash equivalents, beginning of year	117,425	91,913
Cash and cash equivalents, end of year	\$ 136,433	\$ 117,425

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

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

1. Authority and Purpose

The University of Victoria (the “University”) operates under the authority of the *University Act* of British Columbia. The University is a not-for-profit entity governed by a 15 member Board of Governors, eight of whom are appointed by the government of British Columbia including two on the recommendation of the Alumni Association. The University is a registered charity and is exempt from income taxes under section 149 of the *Income Tax Act*.

2. Summary of significant accounting policies

The consolidated financial statements of the University are prepared by management in accordance with the basis of accounting described below. Significant accounting policies of the University are as follows:

(a) Basis of accounting

The 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 supplemented by Regulations 257/2010 and 198/2011 issued by the Province of British Columbia Treasury Board.

The *Budget Transparency and Accountability Act* requires that the consolidated financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Regulation 257/2010 requires all taxpayer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards without any PS4200 elections related to not-for-profit accounting standards.

Regulation 198/2011 requires that restricted contributions received or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds as follows:

- Contributions for the purposes acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are to be deferred and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded.
- Contributions restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the period in which the stipulation or restriction on the contributions have been met.

For British Columbia taxpayer supported organizations, these contributions include government transfers and externally restricted contributions.

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(a) Basis of accounting (continued)

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of Canadian public sector accounting standards which requires that:

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with public sector accounting standard PS3410; and
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with public sector accounting standard PS3100.

As a result, revenue recognized in the statement of operations and certain related deferred capital contributions would be recorded differently under Canadian public sector accounting standards. (See note 26)

(b) Basis of consolidation

(i) Consolidated entities

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of organizations which are controlled by the University. Controlled organizations are consolidated except for government business enterprises which are accounted for by the modified equity method. Inter-organizational transactions, balances, and activities have been eliminated on consolidation.

The following organizations are controlled by the University and fully consolidated in these financial statements:

- UVic Industry Partnerships (formerly University of Victoria Innovation and Development Corporation) which facilitates research partnerships between the private sector and the University.
- University of Victoria Properties Investments Inc. which manages the University's real estate holdings including the Vancouver Island Technology Park Trust.
- Ocean Networks Canada Society which manages the University's VENUS and NEPTUNE ocean observatories.
- Pacific Climate Impacts Consortium which stimulates collaboration to produce climate information for education, policy and decision making.

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

(i) Consolidated entities (continued)

- University of Victoria Foundation, the Foundation for the University of Victoria, and the U.S. Foundation for the University of Victoria which encourage the financial support of the University and administer the University's endowment funds.
- Byron Price & Associates Ltd. which holds land in North Saanich.

Prior to March 12, 2019, the consolidated financial statements included the University of Victoria Long-Term Disability Trust as an organization controlled by the University. On March 12, 2019, the Board of Governors approved an amendment to the Long Term Disability Trust Agreement which resulted in the University of Victoria Long-Term Disability Trust no longer being controlled by the University. The impact of this is detailed in Note 8(c)(i).

(ii) Investment in government business enterprises

Government business enterprises are accounted for by the modified equity method. Under this method, the University'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 University other than if other comprehensive income exists, it is accounted for as an adjustment to accumulated surplus (deficit). Inter-organizational transactions and balances have not been eliminated, except for any profit or loss on transactions between entities of assets that remain within the entities controlled by the University.

The following organizations are controlled by the University and consolidated in these financial statements using the modified equity basis:

- Heritage Realty Properties Ltd. which manages the property rental and downtown hotel and brew-pub operation donated by the late Michael C. Williams.
- Vancouver Island Technology Park Trust which provides leased space to high-technology companies on Vancouver Island.
- GSB Executive Education Inc. provides executive training and other non-credit education.

(iii) Investment in government partnerships

Government partnerships that are business partnerships are accounted for by the modified equity method. Accounting policies of the business partnership are not conformed to those of the partners before the equity pick-up. The University is not party to any government business partnerships.

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

(iii) Investment in government partnerships (continued)

Government partnerships that are not wholly controlled business partnerships are accounted for under the proportionate consolidation method. The University accounts for its share of the partnership on a line by line basis on the financial statements and eliminates any inter-organizational transactions and balances. Accounting policies of the partnership, which is not a business partnership, are conformed to those of the University before it is proportionately consolidated.

The following organizations are government partnerships and are proportionately consolidated in these financial statements:

- Tri-Universities Meson Facility (TRIUMF) which operates a research facility for sub-atomic physics located at the University of British Columbia. These financial statements include the University's 7.14% interest.
- Western Canadian Universities Marine Sciences Society (WCUMSS) which operates a marine research facility at Bamfield on the west coast of Vancouver Island. These financial statements include the University's 20% interest.

(iv) Trusts under administration

Trusts administered by the University are not consolidated in the financial statements as the assets are not held for the benefit of the University.

(v) Funds held in trust

Funds held in trust by the University as directed by agreement or statute for certain beneficiaries are not included in the University's consolidated financial statements.

(c) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than investing.

(d) Loans receivable

Loans receivable are recorded at amortized cost. Interest is accrued on loans receivable to the extent it is deemed collectable.

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(e) Financial instruments

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

(i) Fair value category

Portfolio instruments that are quoted in an active market and derivative instruments are reflected at fair value as at the reporting date. Other financial instruments designated to be recorded at fair value are endowment and portfolio investments. Transaction costs related to the acquisition of investments are recorded as an expense. Sales and purchases of investments are recorded at trade date. Unrealized gains and losses on financial assets are recognized in the statement of remeasurement gains and losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the statement of operations and accumulated surplus and related balances reversed from the statement of remeasurement gains and losses. Unrealized gains and losses in endowment investments, where earnings are restricted as to use, are recorded as deferred contributions and recognized in revenue when disposed and when related expenses are incurred. Restricted unrealized gains spent to meet current year endowment expenses or capitalization transfers are recorded in the statement of remeasurement gains and losses.

Canadian public sector accounting standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in an active market for identical assets or liabilities;
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in active markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(ii) Cost category

Gains and losses are recognized in the statement of operations when the financial asset is derecognized due to disposal or impairment and the gains and losses are recognized at amortized cost using the effective interest method; accounts payable and accrued liabilities and long-term debt are measured at amortized cost using the effective interest method.

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(f) Short-term investments

Short-term investments are comprised of money market securities and other investments with maturities that are capable of prompt liquidation. Short-term investments are cashable on demand and are recorded at cost based on the transaction price on the trade date. All interest income, gains and losses are recognized in the period in which they arise.

(g) Inventories for resale

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

(h) Non-financial assets

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

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Interest is not capitalized whenever external debt is issued to finance the construction of tangible capital assets. The cost, less residual value of the tangible capital assets, are amortized on a straight line basis over their estimated useful lives. Land is not amortized as it is deemed to have a permanent value.

Asset	Straight line Rate
Buildings - Concrete	50 years
Buildings - Woodframe	30 years
Buildings - Heritage	35 years
Site Improvements	30 years
Equipment - Computing	3 years
Equipment - Other	8 years
Information Systems	8 years
Furnishings	8 years
Library Holdings	10 years
Ships/Vessels	25 years

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(h) Non-financial assets (continued)

(i) Tangible capital assets (continued)

Donated assets are recorded at fair value at the date of donation. In unusual circumstances where fair value cannot be reasonably determined, the tangible capital asset would be recorded at a nominal value.

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 University'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.

(ii) Works of art and historic assets

Works of art and historic assets are not recorded as assets in these financial statements.

(iii) Leased capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(iv) Inventories held for use

Inventories held for use are recorded at the lower of cost and replacement cost.

(i) Employee future benefits

The costs of pension and other future employee benefits are recognized on an accrual basis over the working lives of employees as detailed in Note 8.

(j) Revenue recognition

Tuition and student fees and sales of goods and services are reported as revenue at the time the services are provided or the products are delivered, and collection is reasonably assured.

Unrestricted donations and grants are recorded as revenue when receivable if the amounts can be estimated and collection is reasonably assured.



UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(j) Revenue recognition (continued)

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.
- (iii) Contributions restricted to be retained in perpetuity, allowing only the investment income earned thereon to be spent are recorded as restricted endowment contributions in the statement of operations and accumulated surplus for the portion to be held in perpetuity and as deferred contributions for any restricted investment income earned thereon.

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

(k) Pledges, gifts-in-kind and contributed services

Pledges from donors are recorded when payment is received by the University or the transfer of property is completed since their ultimate collection cannot be reasonably assured until that time. Gifts-in-kind include securities and equipment which are recorded in the financial statements at their fair market value at the time of donation. The value of contributed services is not determinable and is not recorded in the financial statements.



UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(l) Use of estimates

Preparation of the financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, and related disclosures. Key areas where management has made estimates and assumptions include those related to the amortization period of tangible capital assets, valuation allowances for receivables and inventories, the valuation of financial instruments and assets and obligations related to employee future benefits. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

(m) Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities which were designated in the fair value category under the financial instrument standard are reflected in the financial statements in equivalent Canadian dollars at the exchange rate in effect on the statement of financial position date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or statement of financial position date is recognized in the statement of remeasurement gains and losses. In the period of settlement, any exchange gain or loss is reversed out of the statement of remeasurement gains and losses, and reflected in the statement of operations and accumulated surplus.

(n) Functional Classification of Expenses

Expenses on the Consolidated Statement of Operations and Accumulated Surplus have been classified based on functional lines of service provided by the University. The outline of services provided by each function is as follows:

- (i) Instruction and non-sponsored research - This function includes expenses related to all direct educational delivery within the institution. This would include credit and non-credit courses, diploma, certificate and degree granting programs; continuing education; developmental education and on-line delivery. Costs associated with this function include the Deans, Directors and Chairs; instructional administration; and support staff and support costs related to these activities. Non-sponsored research is research activity funded by the university and includes faculty research start-ups; the Office of the Vice President of Research and associated research projects; and research centres.

UNIVERSITY OF VICTORIA

Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

2. Summary of significant accounting policies (continued)

(n) Functional Classification of Expenses (continued)

- (ii) Academic and student support - This function includes activities that directly support the academic functions of the university as well as centralized functions that support individual students or groups of students. These include: libraries; records and admissions; scheduling; student service administration; student recruitment; co-op programming; counseling and career services; financial aid administration; scholarships and bursaries; student social development and recreation; Office of Indigenous Affairs; student computer labs. Also included are costs associated with Ancillary Operations (including interest and amortization) such as the bookstore and regalia; residence housing, food, conference and child care services.
- (iii) Administrative support - This function includes activities that support the institution as a whole such as the Office of the President; the University Secretary and the Board of Governors; finance and financial operations; internal audit; budget and planning; human resources; general counsel; institutional research; and a portion of informational technology and telecommunications.
- (iv) Facility operations and maintenance - This function includes the operations and maintenance of the physical plant and plant equipment for all institutional activities; capital asset amortization expense for building, site and plant equipment; utilities; facilities administration; custodial services; landscaping and grounds keeping; major repairs and renovations; security services and capital-related interest. This function also includes the ancillary operations of parking services and the University of Victoria Broad St. properties; Heritage Realty Properties Ltd.; and University of Victoria Properties Investments Inc.
- (v) Sponsored research - This function includes research activities specifically funded by contracts with and/or grants from external organizations and undertaken within the institution to produce research outcomes. Also included are joint ventures such as TRIUMF and WCUMSS and subsidiaries such as the Pacific Climate Impacts Consortium and Ocean Networks Canada Society, solely incorporated for sponsored research.
- (vi) External engagement - This function includes all activities provided in support of ongoing external relations. These activities include advancement and development (fundraising); alumni relations; community and government relations; corporate relations; marketing and communications; ceremonies; and art galleries.

(o) Budget figures

Budget figures have been provided for comparative purposes and have been derived from the 2018/2019 to 2020/2021 Planning and Budget Framework approved by the Board of Governors of the University on March 27, 2018 and the University's first quarter forecast provided to the Province. The budget is reflected in the statement of operations and accumulated surplus and the statement of changes in net debt.

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

3. Cash and cash equivalents

	2019	2018
Cash	\$ 16,794	\$ 6,215
Short-term investments	118,815	110,351
Restricted cash	824	859
	\$ 136,433	\$ 117,425

Restricted cash is comprised of an escrow account balance related to TRIUMF's asset retirement obligations.

4. Accounts receivable

	2019	2018
Revenues receivable	\$ 20,456	\$ 21,884
Accrued interest receivable	1,142	782
Less: provision for doubtful accounts	(4,384)	(4,229)
	\$ 17,214	\$ 18,437

5. Due from governments

	2019	2018
Federal government	\$ 6,722	\$ 8,743
Provincial government	2,213	1,996
Other	65	-
	\$ 9,000	\$ 10,739



UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

6. Financial instruments

Financial assets and liabilities recorded at fair value are comprised of the following:

(a) Portfolio investments

	Fair Value Hierarchy	2019	2018
Portfolio investments carried at fair value:			
Bonds	Level 2	\$ 17,155	\$ 17,487
Various pooled bond and mortgage funds	Level 1	100,863	101,505
Canadian equities	Level 1	17,177	23,457
Global equities	Level 1	44,907	41,757
Infrastructure and real estate	Level 3	20,765	21,239
		200,867	205,445
Portfolio investments at cost which approximates fair value:			
Short-term investments		2,638	853
Cash		695	472
Other		66	120
Total portfolio investments		\$ 204,266	\$ 206,890

(b) Restricted endowment investments

	Fair Value Hierarchy	2019	2018
Restricted endowment investments carried at fair value:			
Bonds	Level 2	\$ 49,407	\$ 54,549
Various pooled bond and mortgage funds	Level 1	37,971	27,041
Canadian equities	Level 1	52,659	69,141
Global equities	Level 1	140,789	122,029
Infrastructure and real estate	Level 3	69,409	66,252
		350,235	339,012
Restricted endowment investments at cost which approximates fair value:			
Short-term investments		6,562	2,658
Cash		2,320	1,474
Total restricted endowment investments		\$ 359,117	\$ 343,144



UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

6. Financial instruments (continued)

(c) Derivatives (See note 14 for breakdown of debt related to derivatives):

	Fair Value Hierarchy	2019	2018
Derivatives - interest rate swaps on long-term debt quoted at fair value:			
Royal Bank of Canada floating interest rate fixed at 5.38%, through an interest rate swap due in 2024, unsecured	Level 1	\$ (540)	\$ (639)
BC Immigrant Investment Fund floating interest rate fixed at 3.56%, commencing 2023 through 2033, unsecured	Level 1	(335)	(214)
Total derivatives		\$ (875)	\$ (853)

7. Loans receivable

	2019	2018
BCNET		
Interest at 4.5%, due April 2019, unsecured, repaid in March 2019	\$ -	\$ 121
Various faculty and senior administrators		
Home relocation loans, interest free for 5 years with option for further renewal unless employment ceases, secured by second mortgages	3,452	3,641
Heritage Realty Properties Ltd.		
Promissory note receivable, interest at Royal Bank Prime + 5.0%, due May 31, 2021, secured by an unregistered equitable mortgage	9,608	9,608
Vancouver Island Technology Park Trust loans receivable		
Interest at 5.13%, due April 2030, unsecured	9,597	10,224
Interest at 6.13%, due April 2030, unsecured	2,378	2,524
	\$ 25,035	\$ 26,118



UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

8. Employee future benefits

Employee future benefits arise in connection with the University's group life insurance, long-term disability plans and accumulated sick leave plans. The University also maintains pension plans, and other retirement and supplementary benefit arrangements for substantially all of its continuing employees.

Summary of employee future benefit obligations/(assets):

	2019	2018
Staff pension plan	\$ (22,106)	\$ (17,699)
Supplemental pension obligations	7,556	7,180
Special accumulated sick leave	2,830	2,975
Long term disability benefits	-	17,941
Basic group life insurance plan	843	1,612
	\$ (10,877)	\$ 12,009

(a) Pension benefits

(i) Combination plan

The pension fund for full-time continuing faculty and administrative and academic professional staff is referred to as the Combination Plan. The plan's benefits are derived primarily from defined contributions with a defined benefit minimum. The plan has been accounted for as a defined contribution plan. The employees make contributions equal to 4.35% of salary up to the year's maximum pensionable earnings ("YMPE") plus 6.35% of salary in excess of the YMPE. The university makes contributions equal to 6.02% of salary up to the YMPE plus 7.65% of salary in excess of the YMPE. The university also contributes 5.05% of salary to fund the defined benefit minimum. The latest actuarial valuation for funding purposes as at December 31, 2015 showed that the accrued formula pension benefit liabilities of the Combination Plan were fully funded. The next valuation will be as at December 31, 2018 and is expected to be completed in September 2019. A solely defined contribution plan is available for part-time faculty and administrative and academic professional staff who meet certain eligibility criteria. The University has made contributions to these two plans during the year of \$22,926,000 (2018 - \$22,014,000) and recorded them as a pension expense.

The University provides supplemental pensions in excess of those provided under registered plans. They are fully funded out of the general assets of the University. The accrued liabilities of these arrangements total \$7,556,000 as at March 31, 2019 (2018 - \$7,180,000). The University paid supplemental benefits of \$187,000 in the year (2018 - \$225,000) and recorded employee benefit expense of \$147,000 (2018 - \$135,000).



UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

8. Employee future benefits (continued)

(a) Pension benefits (continued)

(ii) Staff plan

The Staff Pension Plan (the "Plan") is a contributory defined benefit pension plan made available to regular staff employees that are eligible to join the Plan. The Plan provides pensions based on credited service and final average salary. Based on membership data as at the last actuarial valuation as at December 31, 2016, the average age of the 1,221 active employees covered by the Plan is 47.8. In addition, there are 476 former employees who are entitled to deferred pension benefits averaging \$294 per month. At December 31, 2016, there were 736 pensioners receiving an average monthly pension of \$901. The employees make contributions equal to 4.53% of salary that does not exceed the YMPE plus 6.28% of salary in excess of the YMPE. A separate pension fund is maintained. The University makes contributions to the plan in line with recommendations contained in the actuarial valuation. Though the University and the employees both contribute to the pension fund, the University retains the full risk of the accrued benefit obligation. The pension fund assets are invested primarily in Universe bonds and equities.

The University has made contributions to the Plan during the year of \$5,969,000 (2018 – \$5,817,000). The Plan paid benefits in the year of \$10,880,000 (2018 – \$10,651,000).

The pension asset at March 31 includes the following components:

	2019	2018
Accrued benefit obligation	\$ 231,971	\$ 221,823
Pension fund assets	(259,566)	(258,702)
	(27,595)	(36,879)
Unamortized actuarial gains	5,489	19,180
Net asset	\$ (22,106)	\$ (17,699)

Actuarial valuations are performed triennially using the projected benefit prorate method. The latest triennial actuarial valuation completed as at December 31, 2016 reported a going concern surplus and a solvency deficiency (i.e. if the plan were to be wound up on that date) of \$64,803,000. The *Pension Benefits Standards Act* of British Columbia requires minimum annual contributions or the use of letters of credit to fund a solvency deficiency. The University has chosen to arrange a letter of credit in the amount of \$51.1 million at March 31, 2019 (2018 - \$47.5 million) to satisfy the contribution requirements through 2018. This letter of credit will be reassessed in conjunction with the next plan valuation and updated solvency funding level. The accrued benefit obligation shown for 2018 is based on an extrapolation of that 2016 valuation. There is an unamortized gain to be amortized on a straight-line basis over the expected average remaining service life of the related employee group (10 years).

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

8. Employee future benefits (continued)

(a) Pension benefits (continued)

(ii) Staff plan (continued)

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases and employee turnover and mortality. The assumptions used reflect the University's best estimates. The expected inflation rate is 2%. The discount rate used to determine the accrued benefit obligation is 6%. Pension fund assets are valued at market value.

The expected rate of return on pension fund assets is 6%. The actual rate of return on Plan assets in 2018 was 1%. The total expenses related to pensions for the fiscal year ending, include the following components:

	2019	2018
Current period benefit cost	\$ 8,011	\$ 7,699
Amortization of actuarial gains	(2,181)	(1,851)
	5,830	5,848
Less: Employee contributions	(2,198)	(2,148)
Pension benefit expense	3,632	3,700
Interest cost on the average accrued benefit obligation	12,627	12,087
Expected return on average pension plan assets	(14,555)	(13,721)
Pension interest income	(1,928)	(1,634)
Total pension expense	\$ 1,704	\$ 2,066

The Supplementary Retirement Benefit Account is a separate fund available to provide pensioners over the age of 65 with supplemental indexing against inflation beyond that provided by the basic plan above. It is accounted for as a defined contribution plan, with University contributions during the year of \$124,000 (2018 – \$121,000).

(b) Special accumulated sick leave benefit liability

Certain unionized employees of the University are entitled to a special vested sick leave benefit in accordance with the terms and conditions of their collective agreements. Employees who accumulate and maintain a minimum balance of regular sick leave may opt to transfer sick days into this special accumulating and vested benefit. The University recognizes a liability and an expense as days are transferred into this benefit. At March 31, 2019 the balance of this special accumulated sick leave was \$2,830,000 (2018 – \$2,975,000).

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

8. Employee future benefits (continued)

(c) Long-term disability benefits

(i) University of Victoria Long-Term Disability Trust

The University administers an employee-funded long-term disability plan for faculty and administrative and academic professional staff. Prior to March 12, 2019, the University of Victoria Long-Term Disability Trust was controlled by the University and fully consolidated. On March 12, 2019, the Board of Governors approved an amendment to the Long Term Disability Trust Agreement which resulted in the University of Victoria Long-Term Disability Trust no longer being controlled by the University. The long-term disability plan's assets and liabilities have not been included in the consolidated statement of financial position as at March 31, 2019 (see Note 23). The unfunded liability before removal of the University of Victoria Long-Term Disability Trust on March 12, 2019, was \$1,620,000. The removal resulted in a reduction of employee benefits expense of \$1,620,000 included in the consolidated statement of operations for the year ended March 31, 2019. As of March 31, 2019, the impact of removing the University of Victoria Long-Term Disability Trust from the consolidated financial statements is as follows:

	2019	2018
Accrued benefit obligation:		
Beginning of year	\$ 17,941	\$ 20,480
Current service cost	6,276	5,491
Interest cost	355	398
Benefits paid	(2,270)	(2,806)
Actuarial gain	(3,915)	(5,622)
Accrued benefit obligation, before removal	\$ 18,387	\$ 17,941
Removal of University of Victoria Long-Term Disability Trust	(18,387)	-
Accrued benefit obligation, end of year	\$ -	\$ 17,941
	2019	2018
Plan assets:		
Plan assets, before removal	\$ 16,767	\$ 14,582
Removal of University of Victoria Long-Term Disability Trust	(16,767)	-
Plan assets, end of year	\$ -	\$ 14,582
Accrued benefit obligation, end of year	-	(17,941)
Unfunded liability, end of year	\$ -	\$ (3,359)



UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

8. Employee future benefits (continued)

(c) Long-term disability benefits (continued)

(ii) Other long-term disability plan

An insured long-term disability plan funded entirely by the University was commenced for other staff on July 1, 2000. The University contribution for the year ending March 31, 2019 was \$1,247,000 (2018 - \$1,166,000).

9. Investments in government business enterprises

The University controls three profit oriented subsidiaries which are recorded using the modified equity method of accounting. The three entities are Heritage Realty Properties Ltd., Vancouver Island Technology Park Trust and GSB Executive Education Inc.

Change in equity in government business enterprises:

	2019	2018
Equity at beginning of year	\$ 3,727	\$ 3,605
Dividends/distributions paid	(1,794)	(1,629)
Net earnings	1,171	1,751
Equity at end of year	3,104	3,727
Dividends/distributions payable	4,712	3,525
Investment in government business enterprises	\$ 7,816	\$ 7,252

Condensed financial information of these government business enterprises are as follows:

Consolidated Statement of Financial Position

	2019	2018
Assets	\$ 37,126	\$ 35,619
Liabilities	(34,022)	(31,892)
Equity	\$ 3,104	\$ 3,727



UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

9. Investments in government business enterprises (continued)

Consolidated Statement of Operations

	2019	2018
Revenue	\$ 17,210	\$ 17,110
Expenses	(16,039)	(15,359)
Surplus for the year	\$ 1,171	\$ 1,751

10. Investments in government partnerships

The University is one of thirteen university members of a consortium which manages the Tri-Universities Meson Facility (TRIUMF) for research in sub-atomic physics. The facility is funded by federal government grants and the University makes no direct financial contribution. TRIUMF's financial results are proportionately consolidated with those of the University based upon the University's share of its total ownership of 7.14% (2018 – 7.69%).

The University is one of five university members of the Western Canadian Universities Marine Sciences Society (WCUMSS) for marine field research. The University provided a grant to the Society in 2019 of \$273,400 (2018 – \$273,400). WCUMSS financial results are proportionately consolidated with those of the University based upon the University's share of its total contributions of 20% (2018 – 20%).

The proportionate amounts included in these consolidated financial statements are as follows:

Consolidated Statement of Financial Position

	2019	2018
Financial assets	\$ 4,042	\$ 4,014
Liabilities	(915)	(907)
Net assets	3,127	3,107
Non-financial assets	1,469	1,491
Accumulated surplus	\$ 4,596	\$ 4,598

Consolidated Statement of Operations

	2019	2018
Revenue	\$ 7,050	\$ 8,403
Expenses	(7,052)	(7,360)
(Deficit)/Surplus for the year	\$ (2)	\$ 1,043

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

11. Accounts payable and accrued liabilities

	2019	2018
Accounts payable and accrued liabilities	\$ 20,419	\$ 21,126
Salaries and benefits payable	4,359	3,348
Accrued vacation pay	9,024	9,060
	\$ 33,802	\$ 33,534

12. Deferred Contributions

Deferred contributions are comprised of funds restricted for the following purposes:

	2019	2018
Specific purpose: (including endowment earnings)	\$ 133,015	\$ 117,897
Research	64,553	65,964
Capital	1,087	1,838
	\$ 198,655	\$ 185,699

	2019			Total	2018
	Specific Purpose	Research	Capital		
Balance, beginning of year	\$ 117,897	\$ 65,964	\$ 1,838	\$ 185,699	\$ 167,023
Contributions and endowment investment income	46,956	85,607	124	132,687	129,934
Revenue recognized from deferred contributions	(31,838)	(87,018)	(875)	(119,731)	(111,016)
Transfer to deferred capital contributions				-	(242)
Balance, end of year	\$ 133,015	\$ 64,553	\$ 1,087	\$ 198,655	\$ 185,699



UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

13. Deferred capital contributions

Contributions that are restricted for capital 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 (a). Changes in the deferred capital contributions balance are as follows:

	2019	2018
Balance, beginning of year	\$ 402,919	\$ 384,497
Contributions received during the year	43,615	46,395
Transfers from deferred contributions	-	242
Revenue from amortization of deferred capital contributions	(25,182)	(28,215)
Balance, end of year	\$ 421,352	\$ 402,919

14. Long-term debt

Long-term debt reported on the consolidated statement of financial position is comprised of the following (see note 6(c) for related derivative information):

	2019	2018
Royal Bank of Canada		
5.38% term loan due 2024, unsecured	\$ 5,894	\$ 6,785
Province of British Columbia		
2.28% bond due 2023, unsecured	3,928	3,961
British Columbia Immigrant Investment Fund		
2.48% term loan due 2023, unsecured	7,615	8,054
Province of British Columbia		
4.82% bond due 2027, unsecured, with annual sinking fund payments of \$327,000	10,800	10,800
Province of British Columbia		
4.74% bond due 2038, unsecured, with annual sinking fund payments of \$302,000	10,000	10,000
Great West Life Insurance Company		
5.13% term loan due 2030, unsecured	9,596	10,224
Long-term debt	\$ 47,833	\$ 49,824



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Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

14. Long-term debt (continued)

(a) Principal repayments

Anticipated annual principal repayments, including sinking fund instalments and maturities, due over the next five years and thereafter are as follows:

	Sinking Fund	Other	Total
2019	\$ 629	\$ 2,082	\$ 2,711
2020	629	2,179	2,808
2021	629	2,283	2,912
2022	629	2,391	3,020
2023	629	6,234	6,863
Thereafter	2,819	11,864	14,683
	\$ 5,964	\$ 27,033	\$ 32,997

(b) Sinking Fund Investments

Sinking fund investments are held and invested by the Province of British Columbia. These funds totaling \$9,987,000 (2018 – \$8,674,000) will provide for the retirement at maturity of \$20,800,000 of long-term debt issued to the Province. The amount forms part of the portfolio investments balance shown on the Consolidated Statement of Financial Position.



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Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

15. Tangible capital assets

Cost	Balance as at March 31, 2018	Additions	Disposals	Balance as at March 31, 2019
Land	\$ 22,582	\$ -	\$ -	\$ 22,582
Site improvements	42,074	2,438		44,512
Buildings	825,146	37,767		862,913
Equipment and furnishings	185,148	21,450	(23,142)	183,456
Information systems	18,441	-	-	18,441
Computer equipment	15,471	4,550	(4,332)	15,689
Library holdings	37,196	2,783	(1,942)	38,037
Total	\$ 1,146,058	\$ 68,988	\$ (29,416)	\$ 1,185,630

Accumulated amortization	Balance as at March 31, 2018	Disposals	Amortization	Balance as at March 31, 2019
Land	\$ -	\$ -	\$ -	\$ -
Site improvements	19,818		1,138	20,956
Buildings	239,041		17,426	256,467
Equipment and furnishings	97,012	(23,142)	18,910	92,780
Information systems	18,417	-	24	18,441
Computer equipment	10,112	(4,332)	3,776	9,556
Library holdings	20,820	(1,942)	3,413	22,291
Total	\$ 405,220	\$ (29,416)	\$ 44,687	\$ 420,491

Net book value	March 31, 2019	March 31, 2018
Land	\$ 22,582	\$ 22,582
Site improvements	23,556	22,256
Buildings	606,446	586,105
Equipment and furnishings	90,676	88,136
Information systems	-	24
Computer equipment	6,133	5,359
Library holdings	15,746	16,376
Total	\$ 765,139	\$ 740,838

UNIVERSITY OF VICTORIA
Notes to Consolidated Financial Statements

Year ended March 31, 2019

(tabular figures in thousands of dollars)

15. Tangible capital assets (continued)

(a) Contributed tangible capital assets:

Additions to equipment and furnishings and computers include the following contributed tangible capital assets:

	2019	2018
Equipment and furnishings	\$ 23	\$ 169

(b) Assets under construction

Assets under construction comprised of buildings having a value of \$20,752,000 (2018 – \$17,512,000) and equipment having a value of \$14,647,000 (2018 – \$9,419,000) have not been amortized. Amortization of these assets will commence when the asset is available for productive use.

(c) De-recognition of tangible capital assets

The de-recognition of tangible capital assets during the year was \$29,416,000 (2018 – \$39,373,000) related to fully amortized assets with a net book value of \$nil (2018 – \$nil).

16. Financial risk management

The University has exposure to the following risks from its use of financial instruments: credit risk, price risk and liquidity risk. The Board of Governors ensures that the University has identified major risks and management monitors and controls them.

(a) Credit risk

Credit risk is the risk of financial loss to the University if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from the amounts receivable and from fixed income assets held by the University.

The University manages amounts receivable by using a specific bad debt provision when management considers that the expected recovery is less than the account receivable.

The entity is exposed to credit risk through its accounts receivable from students. This risk is managed by limiting the extent of credit granted to students and by monitoring the collection of receivables.

The University limits the risk in the event of non-performance related to fixed income holdings by dealing principally with counter-parties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent. The credit risk of the University investments at March 31, 2019 is \$320,027,000 (2018 – \$299,268,000).



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(tabular figures in thousands of dollars)

16. Financial risk management (continued)

(a) Credit risk (continued)

The following shows the percentage of fixed income holdings in the portfolio by credit rating:

Credit Rating	%
AAA	13.4%
AA	14.9%
A	7.6%
BBB	5.8%
BB and below	0.2%
Mortgages	15.6%
Cash and short-term	
R1 high	19.2%
R1 mid	0.6%
R1 low	22.7%
	100.0%

(b) Price risk

Price risk includes market risk and interest rate risk.

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



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16. Financial risk management (continued)

(b) Price risk (continued)

Based on the volatility of the University's current asset class holdings, the net impact on market value of each asset class is shown below.

Asset Class	+/-	Estimated Volatility (% change)
Canadian equities	+/-	21.0%
Foreign equities	+/-	18.0%
Real estate	+/-	10.1%
Bonds	+/-	5.1%
Infrastructure	+/-	17.7%
		Net Impact on
Benchmark for Investments		Market Value
DEX Universe Bond index	+/-	\$ 9,794
S&P/TSX Composite index	+/-	13,955
MSCI World Index	+/-	33,276
Canadian Consumer Price Index (Real Estate)	+/-	4,590
Canadian Consumer Price Index (Infrastructure)	+/-	7,917

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

It is management's opinion that the University is exposed to market or interest rate risk arising from its financial instruments. Duration is an appropriate measure of interest rate risk for fixed income funds as a rise (fall) in interest rates will cause a decrease (increase) in bond prices; the longer the duration, the greater the effect. Duration is managed by the investment manager at the fund level. At March 31, 2019, the modified duration of all fixed income in aggregate was 3.5 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 3.5%; contrarily, if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 3.5%.

The entity's long-term debt is fixed rate debt; accordingly, changes in interest rates do not impact interest payments but may impact the fair value of such long-term debt.



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(tabular figures in thousands of dollars)

16. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the University will not be able to meet its financial obligations as they become due. The University manages liquidity risk by continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the University's reputation.

17. Accumulated surplus

Accumulated surplus is comprised of the following:

	2019	2018
Endowments	\$ 342,896	\$ 330,107
Invested in capital assets	315,541	306,996
Internally restricted	120,401	99,155
Unrestricted	24,938	31,171
Accumulated remeasurement gains	22,213	17,255
	\$ 825,989	\$ 784,684

Endowments consist of restricted donations and capitalized investment income to be held in perpetuity.

Invested in capital assets consist of unrestricted funds previously spent on capital assets and debt repayment.

Internally restricted funds consist of balances set aside or appropriated by the Board of Governors for equipment replacement, capital improvements and other non-recurring expenditures.

Unrestricted funds consist primarily of balances arising from the University's ancillary and specific purpose funds, and consolidated entities.



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(tabular figures in thousands of dollars)

18. Endowments

Changes to the endowment principal balances, not including remeasurement gains/losses, are as follows:

	2019	2018
Balance, beginning of year	\$ 330,107	\$ 316,621
Contributions received during the year	9,172	7,702
Invested income and donations capitalized	3,617	5,784
Balance, end of year	\$ 342,896	\$ 330,107

The balance shown does not include endowment principal with fair value of \$7,569,000 (2018 – \$7,443,000) and book value of \$4,820,000 (2018 – \$4,820,000) held by the Vancouver Foundation. The excluded principal is not owned or controlled by the University, but income from it is paid to the University to be used for specific purposes.

19. Contractual rights

The university may, from time to time, enter into contracts or agreements in the normal course of operations that result in future assets or revenue. One example of such agreements is multi-year research funding agreements, whereby the university has the opportunity to earn revenue in future years by incurring qualified expenditures. These funding agreements do not abnormally impact the university's financial position and do not guarantee the university the right to future funding.

20. Contractual obligations

The nature of the University's activities can result in multiyear contracts and obligations whereby the University will be committed to make future payments. Significant contractual obligations related to operations that can be reasonably estimated are as follows:

	2020	2021	2022	2023	2024
Construction contracts	\$ 5,725	\$ 2,817	\$ 6,590	\$ 6,605	\$ 958
Operating leases	359	186	35	7	7
Total	\$ 6,084	\$ 3,003	\$ 6,625	\$ 6,612	\$ 965

21. Contingent liabilities

The University may, from time to time, be involved in legal proceedings, claims, and litigation that arise in the normal course of business. It is management's opinion that the aggregate amount of any potential liability is not expected to have a material adverse effect on the University's financial position or results.



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21. Contingent liabilities (continued)

The University is one of 58 Canadian university subscribers to CURIE, which has provided property and liability insurance coverage to most campuses other than Quebec and Prince Edward Island since 1988. The anticipated cost of claims based on actuarial projections is funded through member premiums. Subscribers to CURIE have exposure to premium retro-assessments should the premiums be insufficient to cover losses and expenses.

22. Expenses by object

The following is a summary of expenses by object:

	2019	2018
Salaries and wages	\$ 315,157	\$ 300,548
Employee benefits	48,303	46,564
Travel	15,022	13,363
Supplies and services	78,328	73,894
Equipment rental and maintenance	8,569	8,570
Utilities	9,039	8,384
Scholarships, fellowships and bursaries	36,092	36,358
Cost of goods sold	12,107	12,430
Interest on long-term debt	2,249	2,480
Amortization of tangible capital assets	44,687	45,009
	\$ 569,553	\$ 547,600

23. Trusts under Administration

(a) University of Victoria Long-Term Disability Trust

The University administers an employee-funded long-term disability plan for faculty and administrative and academic professional staff. The University does not contribute to or control the plan (see Note 8(c)). The long-term disability plan's assets and liabilities have not been included in the consolidated statement of financial position. Except for the removal of the plan (see Note 8(c)(i)), which resulted in a reduction to employee benefits expense of \$1,620,000, the plan's operations have not been included in the consolidated statement of operations.



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23. Trusts under Administration (continued)

- (a) University of Victoria Long-Term Disability Trust (continued)

As of March 31, 2019, the balances of the long-term disability plan are as follows:

	2019	2018
Assets	\$ 16,767	\$ -
Accrued benefit obligation	(18,387)	-
	\$ (1,620)	\$ -

- (b) Funds held in trust

Funds held in trust are funds held on behalf of autonomous organizations, agencies, and student societies having a close relationship with the University. These funds are not reported on the University's consolidated statement of financial position (2019 – \$1,461,000; 2018 – \$1,707,000).

24. Supplemental cash flow information

	2019	2018
Cash paid for interest	\$ 2,135	\$ 2,451

25. Related party transactions

The University is related through common ownership to all Province of British Columbia ministries, agencies, school districts, health authorities, colleges, universities, and crown corporations. Transactions with these entities, unless disclosed separately, are considered to be in the normal course of operations and are recorded at the exchange amount. The university accounts for its controlled entities, government business enterprises and government partnerships as outlined in Note 2 (b). During the year ended March 31, 2019, there have been no material transactions between the university and its key management personnel or their close family members.

26. Differences between Financial Reporting Framework (FRF) and PSAS

As noted in the significant accounting policies, per the *Budget Transparency and Accountability Act* of the Province of British Columbia and the Restricted Contribution Regulation 198/2011 issued pursuant to it, the university is required to account for government funding of tangible capital assets by deferring and amortizing deferred capital contributions to income on the same basis as the related amortization expense. If restricted government funding for tangible capital assets does not contain stipulations that create a liability, then PSAS requires it to be reported as income immediately.



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26. Differences between Financial Reporting Framework (FRF) and PSAS (continued)

The impact of this difference on the consolidated financial statements of the university would be as follows:

	2019		
	FRF	PSAS	Difference
Liabilities			
Deferred capital contributions	\$ 421,352	\$ -	\$ 421,352
Accumulated surplus	825,846	1,247,198	(421,352)
Revenue			
Government grants and contracts	285,317	327,267	(41,950)
Donations, non-government grants and contracts	17,993	19,007	(1,014)
Amortization of deferred capital contributions	25,182	-	25,182
Annual operating surplus			
Annual operating surplus (after restricted endowment contributions)	\$ 36,347	\$ 54,129	\$ (17,782)

	2018		
	FRF	PSAS	Difference
Liabilities			
Deferred capital contributions	\$ 402,919	\$ -	\$ 402,919
Accumulated surplus	784,684	1,187,603	(402,919)
Revenue			
Government grants and contracts	273,638	317,101	(43,463)
Donations, non-government grants and contracts	15,640	18,032	(2,392)
Amortization of deferred capital contributions	28,215	-	28,215
Annual operating surplus			
Annual operating surplus (after restricted endowment contributions)	\$ 47,675	\$ 65,315	\$ (17,640)

