UNIVERSITY OF VICTORIA

2019 - 2020 Management Discussion and Analysis (Unaudited)

2019 – 2020 Audited Financial Statements

University of Victoria
2020 Management Discussion and Analysis
(Unaudited)

Introduction to Management Discussion and Analysis

The attached financial statements present the financial results of the university for the year ended March 31, 2020 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 these entities are required to be included in the financial statements, their assets are restricted for specific purposes (e.g. pension) and therefore are not available to support general operations of the university.

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, 2020, 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 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 serves 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. Creating a shared understanding of our goals and priorities enables us to coordinate 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 develops 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.

COVID-19 has had and will continue to have implications on the university and its faculty, staff, students and other stakeholders. For the period to March 31, 2020 the financial implications for the university were relatively minor. However, the situation is dynamic with several variables affecting the ultimate duration and magnitude of the impact on the economy. The financial effect on the university is not known at this time, but is expected to be significant. Additional information on the implications of COVID-19 are included in the MD&A.

Financial Highlights

Financial Statement Summary

The university ended the year with total consolidated assets of $1.6 billion and consolidated revenue of $639 million (M). The consolidated operating surplus which is prior to inclusion of donations and other adjustments related to the university's endowment fund was $32.5M or 5.1% of total revenues ($23.6M or 4.0% for the prior year). The $8.9M increase in the operating surplus resulted from revenues increasing 7.7%, whereas expenses increased only 6.5%. The operating surplus is reflects positive results within ancillary operations, new program revenue exceeding incremental costs (e.g. timing of hiring), higher than expected enrolment 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 to meet program requirements and/or address deferred maintenance. 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, the operating surplus in the year appears higher than if capital expenditures were fully expensed in the year in which they were made. 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 treated in the same way for accounting purposes. The university requested but did not receive approval in 2019/20 to restrict a portion of the provincial operating grant for capital. During the year, the university invested $22.3 in capital projects that would have been eligible for provincial funding had funding been available. Accordingly, the surplus includes $22.3M that was required to fund capital.

The surplus applicable to operations, after adjusting for the $22.3M investment in capital assets and the pension actuarial adjustment, is $7.5M, which represents 1.2% of total revenues for 2019/20.

Government Grants

Revenue from the Provincial Government in the form of grants increased by 9.6% over the previous year, due to funding for program growth in the Faculties of Engineering, Law and Human and Social Development and funding for compensation increases related to collective bargaining. Annual grants received from the Province for capital purposes including routine capital and specific project funding are $28.0M consistent with the prior years.

Tuition and Enrolment

Overall, credit tuition increased by 10.6% to $159.2M. This increase reflects a 2% increase in domestic fees (provincial government policy limits domestic increases to 2%), approved increases in international fees and an increase in international enrolment.

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 $446M. The endowments had a loss of 3.8% for the year

(2019 – gain of 8.4%) across its six investment mandates. Short-term investments held within the university returned 2.5% for the year (2019 – 2.9%).

Major Capital Activity

During the year, work began on phase two of the Queenswood Campus to provide space for two Government of Canada tenants which will help to create the ocean and climate hub envisioned for the Queenswood campus. Construction was completed on the $20M District Energy Plant, replacing the university's aging energy heating infrastructure.

In 2018/19, the university received approval from the Province to borrow $123M to partially finance a new, 620 bed student housing and dining project. Construction activity started in 2019/20 with the first building scheduled for completion in 2022 and the second in 2023. The project will be the first Passive House construction on campus, reflecting the universities' commitment to sustainability and carbon reduction. The approved budget for the project is $228.8M.

Financial Implications of COVID-19 Novel Virus

In the last quarter of 2019/20 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The financial impacts of this pandemic have been felt by governments, businesses and institutions around the world through stock market instability, loss of revenue, distribution of financial supports to individuals and sectors, and increased costs to address health and safety requirements.

For 2019/20 there is limited impact on operating revenue of the university. However endowment investments were impacted by the downturn in the market. In accordance with Public Sector Accounting Standards, unrealized gains and losses are not usually reflected in the surplus for the year, but instead are included in deferred contributions until they are realized. The unrealized loss on endowment investments in 2019/20 resulted in a decrease of accumulated remeasurement gains which were previously allocated to endowment inflation adjustments. The university added $14.8M of investment income that had previously been deferred into accumulated surplus so that amount is equal to the full value of endowment principal (i.e. donations plus inflation adjustments).

While the impacts of COVID-19 are not yet known for 2020/21 potential impacts include reduced revenue from tuition, both credits and non-credit, and ancillary services such as housing, food services, etc. and increased costs to support on-line learning and address health and safety requirements.

Financial Information

Financial Assets

Financial assets are defined as assets available to discharge existing liabilities or finance future operations. During the year, they decreased 3.2% to $399M.

In thousands of dollars	**2020**	**2019**
Cash and cash equivalents	148,780	136,433
Accounts receivable	20,394	17,214
Due from governments	13,790	9,000
Inventories for resale	1,604	1,657
Portfolio investments	166,319	204,266
Loans receivable	24,610	25,035
Employee future benefits	14,082	10,877
Investments in gov't business enterprises	9,195	7,816
Total Financial Assets	398,774	412,298

Cash and cash equivalents increased by $12.3M, reflecting funding received in advance of expenditures. Accounts receivable increased by $3.2M and Due from governments increased by $4.8M, reflecting timing differences 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 $37.9M due largely to the UVic Foundation's endowment investments which were negatively impacted by the market downturn in March 2020. This decrease is offset by realized 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. Investments in government business enterprises represent the equity held in controlled business operations of Heritage Realty Properties Ltd, the Vancouver Island Technology Park Trust, and GSB Executive Education Inc.

Liabilities

Liabilities decreased by 2.8% to $708M.

In thousands of dollars	**2020**	**2019**
Accounts payable	35,902	33,802
Derivatives	1,151	875
Due to governments	6,370	6,685
Deferred revenue	17,017	19,801
Deferred contributions	173,404	198,655
Deferred capital contributions	428,738	421,352
Long term debt	45,747	47,833
Total Liabilities	708,329	729,003

Deferred contributions are externally restricted revenue that is not recognized until related expenses are incurred. Deferred contributions decreased $25.3M due to unrealized endowment investment losses which were offset by realized endowment income and increases in 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 $7.4M resulting from contributions of $33.4M less amortization of $26.0M. Long-term debt decreased by $2.1M resulting from scheduled debt repayments.

Non-financial Assets

Non-financial assets increased by 3.5% to $1,182M.

In thousands of dollars	**2020**	**2019**
Tangible capital assets	785,843	765,139
Restricted endowment investments	375,802	359,117
Inventories held for use	2,338	2,167
Prepaid expense	18,285	16,271
Total Non-Financial Assets	1,182,268	1,142,694

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 $20.7M is due to additions of $66.4M less amortization of $45.7M. The largest single capital asset addition was related to the Student Housing Project. Restricted endowment investments represent the portion of endowment investments related to the restricted principal funds and capitalized inflation. During the year, they increased $16.7M due to donations of $8.7M and capitalized investment income of $8.0M. 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

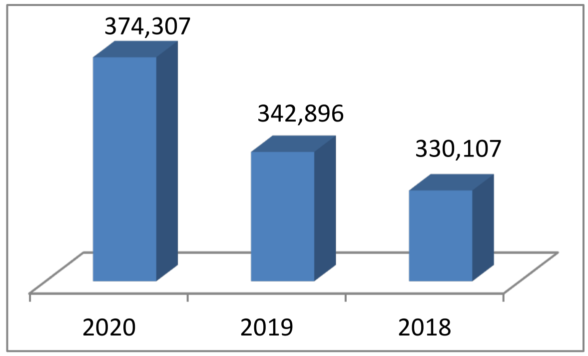
Accumulated surplus increased by 5.7% to $873M.

In thousands of dollars	**2020**	**2019**
Endowment	374,307	342,896
Invested in capital assets	331,604	315,541
Internally restricted	131,997	120,401
Unrestricted	29,776	24,938
Remeasurement gains	5,029	22,213
Accumulated surplus	872,713	825,989

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. Endowments, 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 Public Sector Accounting Standard financial instrument standard.

Accumulated Surplus – Endowments

Endowments increased by 9.2% to $374M.



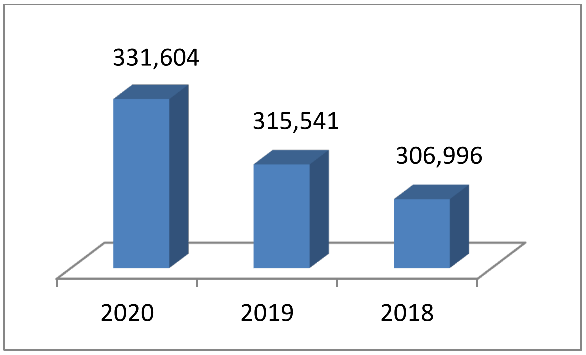
The university's endowments are held by the UVic Foundation. Accumulated surplus-endowment consists of restricted donations and capitalized investment income, which is required to be maintained intact in perpetuity in order to support donor specified activities. The investment income generated from endowments must be used in accordance with the various purposes stipulated by the donors. At March 31, 2020 there were 1,410 individual endowment funds providing $15.9M (2019 - $14.5M) 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. At March 31st the stabilization account balance is $60.5M or 16% of endowment principal.

Accumulated Surplus – Invested in Capital Assets

Accumulated surplus invested in capital assets increased by 5.0% to $332M.

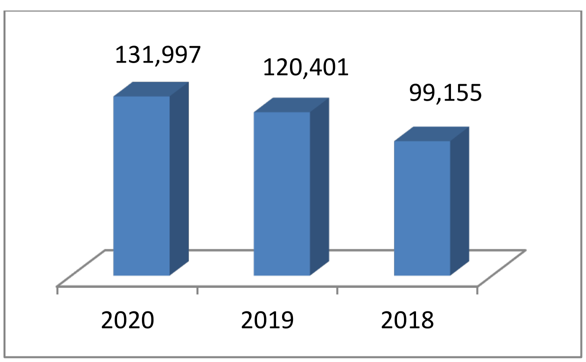


Accumulated surplus invested in capital assets is the amount of internal university funds used for the acquisition of capital assets less amortization of internally financed capital assets. The following comprises the balance of accumulated surplus invested in capital assets:

(in thousands of dollars)	**2020**	**2019**
Land	22,582	22,582
Site development	11,125	10,394
Buildings	280,915	267,336
Equipment	29,865	30,319
Library acquisitions	12,619	13,159
Sinking funds	11,308	9,987
Less debt repayments	(36,810)	(38,236)
Invested in capital assets	331,604	315,541

Accumulated Surplus – Internally Restricted

Accumulated surplus - internally restricted increased by 9.6% to $132M.



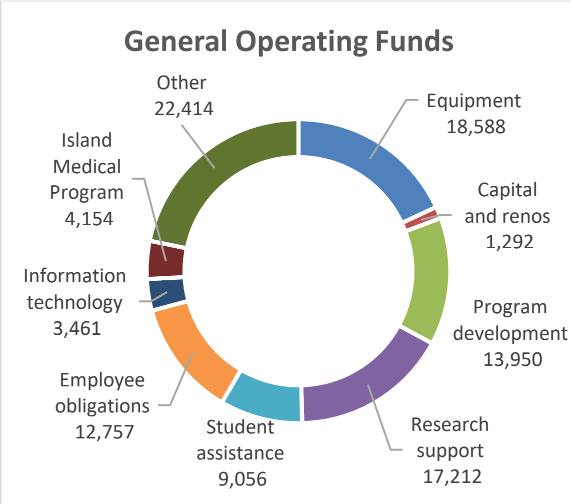
Accumulated surplus - internally restricted consists of balances appropriated by the university Board of Governors for employee commitments, equipment replacement, capital improvements, program development, research support and other non-recurring expenditures. Due to Provincial Government restrictions 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 mainly a result of a $9M increase in general operating reserves and $3M positive actuarial valuation for the staff pension plan.

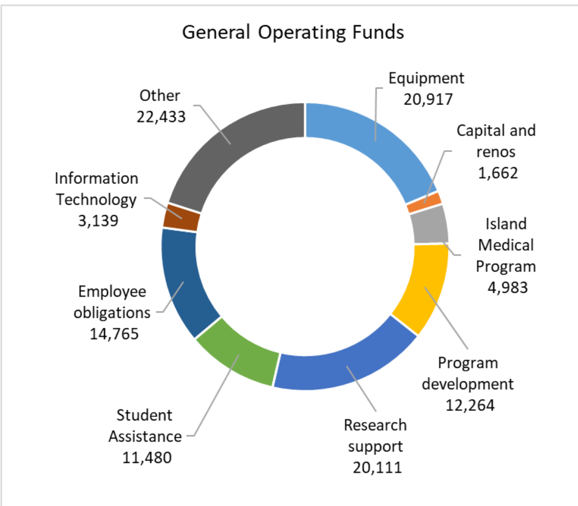
Balances are made up as follows:

(in thousands of dollars)	**2020**	**2019**
General operating	111,755	102,883
Ancillary enterprises	18,783	16,276
Less: Capital	(13,943)	(12,348)
Less: Vacation pay	(9,371)	(8,516)
Add: Staff pension	24,773	22,106
Total internally restricted	131,997	120,401

General operating reserves increased by 8.6% to $111.8M.

General operating funds consist of:





Operating Surplus

The operating surplus was $32.5M or 5.1% of total revenues ($23.6M or 4.0% for the prior year). The main reasons for the surplus, with comparison to the prior year are as follows:

(in thousands of dollars)	**2020**	**2019**
Designated Items		
Impact of LTD actuarial gain and removal	-	3,359
Staff Pension Plan actuarial gain	2,667	4,407
	2,667	7,766
Ancillary fund surplus	6,250	6,273
Invested in tangible capital assets	22,300	10,500
Non-Designated Items		
Operating fund surplus/ (deficit)	2,621	(1,922)
Other	(1,341)	941
	1,280	(981)
Operating Surplus	32,497	23,558

As noted above the operating surplus was mainly a result of higher than anticipated enrolment and net program revenues. This result does not reflect the university's requirement to annually invest in capital assets as revenues utilized to purchase or construct assets are recorded in the year received whereas the costs of these assets are expensed or amortized over their useful life. In a prior year, the university requested, and received approval, to restrict funds for capital investments to provide for better matching of revenue and expenses. For the current year our request was not approved and as a result $22.3M in capital investments is reflected in the surplus although these funds are not available for future investment as they have already been invested in capital improvements.

Revenue

Revenue increased by 7.7% to $638.9M.

(in thousands of dollars)	**2020**	**2019**
Government grants & contracts	309,238	285,317
Tuition & student fees	180,968	165,762
Donations, non-government grants & contracts	19,141	17,993
Sales of services & products	70,244	67,648
Investment income	23,834	22,426
Income from business enterprises	2,055	1,171

Amortization of deferred capital contributions	26,037	25,182
Other revenue	7,408	7,612
Total Revenue	638,925	593,111

Government grants and contracts revenue is received from the Province of B.C. (72%), the Government of Canada (23%), and other governments (5%). Revenue recorded from the Province increased by $19.6M overall, due mainly to funding for program growth in several faculties and funding related to salary increases resulting from collective bargaining. Federal grants increased by $3.6M, and other government grants increased by $0.8M. Tuition and student fees increased by $15.2M, or 9.2%, due primarily to credit tuition. Credit tuition increased due to a 2% increase in domestic fees, an increase in international fees of 4% for graduate and undergraduates students, higher rates approved in 2018-19 for new international students as part of the strategy to grand parent returning students and overall higher enrolment levels. Investment income increased by $1.4M or 6.3%. This does not include unrealized gains/losses, which are included in deferred contributions. Net Remeasurement losses for the year were $17.2M ($5.0M net remeasurement gains for the prior year).

Expenses

Expenses increased by 6.5% to $606M. Expenses reported by object were as follows:

(in thousands of dollars)	**2020**	**2019**
Salaries and benefits	393,512	363,460
Travel	15,267	15,022
Supplies and services	88,150	86,897
Utilities	8,780	9,039
Scholarships and bursaries	40,908	36,092
Cost of goods sold	12,122	12,107
Interest on long term debt	1,975	2,249
Amortization	45,714	44,687
Total Expenses	606,428	569,553

Salaries and benefits represent 65% of total expenses. Salary costs increased by $16.8M due to progression through the ranks, negotiated settlements with the university's faculty, professional and support staff and increased faculty and staff to support growth. Benefits increased overall by $13.3M. This increase was a result of higher benefits costs commensurate with higher salaries, offset somewhat by a reduction in the total actuarial gain on the Staff Pension Plan) and the removal of the Long-term Disability Plan from the university's financial statements in the prior year.

Expenses reported by function were as follows:

(in thousands of dollars)	**2020**	**2019**
Instruction and non-sponsored research	249,911	235,817
Academic and student support	154,227	142,622
Administrative support	22,663	21,772
Facilities operations and maintenance	54,354	49,338
Sponsored Research	111,956	106,262
External engagement	13,242	13,742
Total Expenses	606,428	569,553

Changes in functional expenses included instruction (+6.0%) and Academic and Student Support (+8.1%) Administration (+4.1%), Facilities (+10.2%), Sponsored research (5.4%) and External engagement (-3.6%).

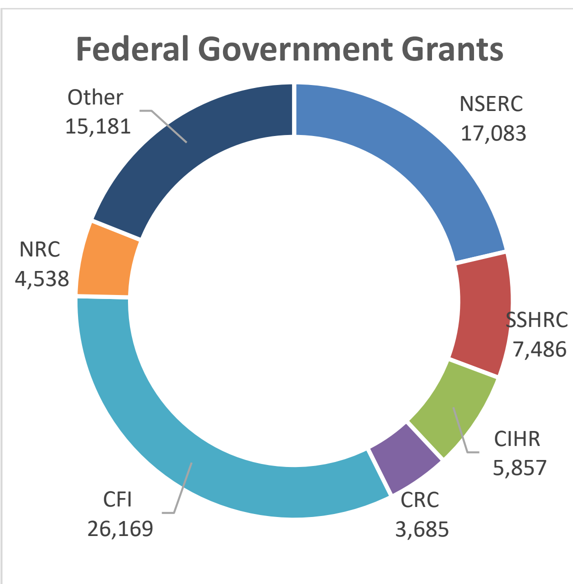
Sponsored Research Contributions

Sponsored research revenue increased by 3.7% to $110.0M.

(in thousands of dollars)	**2020**	**2019**
Province of B.C.	11,280	9,130
Federal government	79,999	69,784
Other governments	9,117	11,094
Gifts, grants & bequests	12,355	12,640
Sales of services	4,072	4,028
Other revenue	1,247	507
Total contributions	118,072	107,183
Transfer (to)/from deferred contributions	(8,099)	(1,151)
Sponsored research revenue	109,973	106,032

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 2020, the university ranked third amongst Canadian comprehensive research-intensive universities in total research funding, first in NSERC/CIHR grants and third 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.

Over the last few years significant investments have been made to advance our research excellence and impact, continue to improve the quality of our learning experience, promote sustainable futures, provide supports for students and engage locally and globally. With these investments the university is well positioned to respond to the new realities of the COVID-19 novel pandemic.

The university has a long tradition of providing quality on-line delivery for some programs. Our experience in these programs enabled us to quickly transition from face to face in March 2020 and to continue to a full on-line environment for our summer term, as required to maintain health and safety during this pandemic. With fall 2020 planned as mainly on-line, the infrastructure and resources (investments in teaching capacity including sessionals and teaching assistants) in place to support on-line learning will continue to be enhanced as we learn from our summer experience of being fully on-line. The summer experience will not only help to inform the supports that are required in the classroom but those essential to supporting and engaging students outside the class. Our goal is to provide students a quality, engaged, and connected university experience in fall 2020.

The financial situation for post-secondary education within this pandemic environment will be challenging. University campuses are a microcosm of society in that a campus is more than what happens in a classroom or laboratory.

A campus encompasses much of what a city contains including housing, dining, athletics and recreation facilities and fields, retail operations and more. Transitioning learning and all these services to a new operating model will be challenging and will have significant financial implications.

The extent of these implications are difficult to predict as there are many variables that will impact our revenues including the extent and length of social distancing requirements, in Canada and international travel restrictions, family concerns over travel, students desire to engage in on-line learning, learning models adopted by other universities and more.

Depending on the results of the above variables, revenue from tuition and the sales of services and products could be significantly reduced.

As a destination university the impact to UVic could be larger than those institutions that can draw from a large urban area.

The University annually faces cost pressures from higher inflation costs than the standard Consumer Price Index (CPI). This coming year costs will increase as a result of health and safety requirements and the additional resources required to ensure a quality learning and student experience.

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. Government contributes towards these capital costs however fundraising and university resources are an important funding sources for these infrastructure priorities.

Budget plans are being developed that contemplate the above revenue and cost pressures while ensuring sufficient flexibility to return to full on campus operations once full face to face can resume. The university is actively engaged with its primary funder, the provincial government, to develop plans for the safe resumption of operations and managing financial pressures.

The university is dedicated to continuing to meet the needs of our students, staff and faculty during this global challenge. We are committed to continuing to provide high-quality academic programs and services while keeping the health and safety of our students, faculty and staff at the centre of decision making.

In this way UVic will continue to 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. 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, 2020 is $(310M) but includes $429M 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 $873M, 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 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. With the losses experienced this year, prior year deferred contributions for endowment were reclassified to endowment accumulated surplus. 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 current global pandemic is such a factor. 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. The university has institutional risk appetite statements that 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. As noted above the current global pandemic brings significant uncertainty with respect to student recruitment and retention. Students may choose a gap year due to on-line instruction or another university if more face to face programming is offered. International students may choose to stay in their home country for post-secondary education, may be restricted from travel or taking on-line courses or may not be able to write the standardized testing required. 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, 2018, shows that the Plan is fully funded. 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 $532,000 for 2019/20. The next valuation date is December 31, 2019 with a filing requirement of September 2020. Given the timing of the valuation the results will not be impacted by recent market volatility.

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 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, 2020

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 KPMG, LLP, an independent firm of Chartered Professional Accountants. 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, 2020.

On behalf of the University:

______________________________ Chair, Board of Governors

______________________________ Vice-President Finance and Operations

University of Victoria

KPMG LLP
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7
Canada
Telephone 250-480-3500
Fax 250-480-3539

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of the University of Victoria

(the "Entity"), which comprise:

- the consolidated statement of financial position as at March 31, 2020
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of changes in net debt for the year then ended
- the consolidated statement of remeasurement gains and losses for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements as at and for the year ended March 31, 2020 of the Entity are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of Matter - Financial Reporting Framework

We draw attention to note 2 to the financial statements which describes the applicable financial reporting framework and the significant differences between that financial reporting framework and Canadian public sector accounting standards.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- Information, other than the financial statements and the auditors' report thereon, included in the Management Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Information, other than the financial statements and the auditors' report thereon, included in the Management Discussion and Analysis as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Other Matter – Comparative Information

The financial statements for the year ended March 31, 2019 were audited by another auditor who expressed a qualified opinion on those financial statements on June 17, 2019 because those financial statements were not prepared in accordance with Canadian public sector accounting standards.

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

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the 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 our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- 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 we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
May 26, 2020

UNIVERSITY OF VICTORIA

Consolidated Statement of Financial Position

As at March 31, 2020
(in thousands of dollars)

			2020		2019
Financial Assets					
Cash and cash equivalents	*(Note 3)*	$	148,780	$	136,433
Accounts receivable	*(Note 4)*		20,394		17,214
Due from governments	*(Note 5)*		13,790		9,000
Inventories for resale			1,604		1,657
Portfolio investments	*(Note 6)*		166,319		204,266
Loans receivable	*(Note 7)*		24,610		25,035
Employee future benefits	*(Note 8)*		14,082		10,877
Investments in government business enterprises	*(Note 9)*		9,195		7,816
			398,774		412,298
Liabilities					
Accounts payable and accrued liabilities	*(Note 11)*		35,902		33,802
Derivatives	*(Note 6)*		1,151		875
Due to governments			6,370		6,685
Deferred revenue			17,017		19,801
Deferred contributions	*(Note 12)*		173,404		198,655
Deferred capital contributions	*(Note 13)*		428,738		421,352
Long-term debt	*(Note 14)*		45,747		47,833
			708,329		729,003
Net debt			(309,555)		(316,705)
Non-financial Assets					
Tangible capital assets	*(Note 15)*		785,843		765,139
Restricted endowment investments	*(Note 6)*		375,802		359,117
Inventories held for use			2,338		2,167
Prepaid expenses			18,285		16,271
			1,182,268		1,142,694
Accumulated surplus	*(Note 17)*	$	872,713	$	825,989
Accumulated surplus is comprised of:					
Endowments	*(Note 18)*	$	374,307	$	342,896
Invested in capital assets			331,604		315,541
Internally restricted			131,997		120,401
Unrestricted			29,776		24,938
Accumulated operating surplus			867,684		803,776
Accumulated remeasurement gains			5,029		22,213
Accumulated surplus		$	872,713	$	825,989

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, 2020
(in thousands of dollars)

	Budget	2020	2019
	(Note 2(o))		
Revenue:			
Province of British Columbia grants	$ 210,040	$ 223,274	$ 203,684
Government of Canada grants	63,000	69,593	66,035
Other government grants	17,300	16,371	15,598
Student tuition - credit courses	154,967	159,228	143,994
Student tuition - non-credit courses	22,000	21,740	21,768
Donations, non-government grants and contracts	17,300	19,141	17,993
Sales of services and products	68,989	70,244	67,648
Investment income	22,400	23,834	22,426
Income from business enterprises	600	2,055	1,171
Other revenue	7,368	7,408	7,612
Revenue recognized from deferred capital contributions	26,699	26,037	25,182
	610,663	638,925	593,111
Expenses: *(Note 22)*			
Instruction and non-sponsored research	250,522	249,911	235,817
Academic and student support	151,516	153,735	142,622
Administrative support	23,130	22,738	21,772
Facility operations and maintenance	52,415	54,846	49,338
Sponsored research	112,888	111,956	106,262
External engagement	14,599	13,242	13,742
	605,770	606,428	569,553
Annual operating surplus	5,593	32,497	23,558
Restricted endowment contributions			
Endowment principal donations	5,000	8,730	9,172
Donations capitalized	5,000	7,880	3,617
	10,000	16,610	12,789
Funding of previous years capitalizations to endowment	-	14,801	-
Annual surplus	15,593	63,908	36,347
Accumulated operating surplus, beginning of year	803,776	803,776	767,429
Accumulated operating surplus, end of year	$ 819,369	$ 867,684	$ 803,776

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, 2020
(in thousands of dollars)

	Budget *(Note 2(o))*	2020	2019
Annual surplus	$ 15,593	$ 63,908	$ 36,347
Acquisition of tangible capital assets	(62,640)	(66,418)	(68,988)
Amortization of tangible capital assets	46,706	45,714	44,687
	(15,934)	(20,704)	(24,301)
Restricted endowment investments		(16,685)	(15,973)
Acquisition of inventories held for use		(1,352)	(1,499)
Acquisition of prepaid expense		(17,945)	(15,873)
Consumption of inventories held for use		1,181	1,250
Use of prepaid expense		15,931	17,328
		(18,870)	(14,767)
Net remeasurement gains (losses)		(17,184)	4,958
Decrease (increase) in net debt	(341)	7,150	2,237
Net debt, beginning of year	(316,705)	(316,705)	(318,942)
Net debt, end of year	$ (317,046)	$ (309,555)	$ (316,705)

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, 2020
(in thousands of dollars)

	2020	2019
Accumulated remeasurement gains, beginning	$ 22,213	$ 17,255
Unrealized gains (losses) attributed to:		
Portfolio investments	(17,318)	4,656
Derivatives	(276)	(22)
Foreign currency translation	410	324
Net remeasurement gains for the year	(17,184)	4,958
Accumulated remeasurement gains, end of year	$ 5,029	$ 22,213

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

UNIVERSITY OF VICTORIA

Consolidated Statement of Cash Flows

Year ended March 31, 2020
(in thousands of dollars)

	2020	2019
Cash provided by (used in):		
Operations:		
Annual surplus	$ 63,908	$ 36,347
Items not involving cash		
Amortization of tangible capital assets	45,714	44,687
Revenue recognized from deferred capital contributions	(26,037)	(25,182)
Change in employee future benefits	(3,205)	(22,886)
Equity in income of government business enterprises	(1,379)	(564)
Unrealized remeasurement gains	410	324
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	(3,180)	1,223
Decrease in loans receivable	425	1,083
Decrease (increase) in inventories	(118)	(432)
Decrease (increase) in prepaid expenses	(2,014)	1,455
Increase in accounts payable and accrued liabilities	2,100	268
Decrease (increase) in due to/from government organizations	(5,105)	3,808
Increase (decrease) in deferred revenue	(2,784)	1,978
Increase (decrease) in deferred contributions	(25,251)	12,956
Net change from operating activities	43,484	55,065
Capital activities:		
Cash used to acquire tangible capital assets	(66,418)	(68,988)
Net change from capital activities	(66,418)	(68,988)
Investing activities:		
Sale of portfolio investments	20,629	1,384
Acquisition of endowment investments	(16,685)	(10,077)
Net change from investing activities	3,944	(8,693)
Financing activities:		
Repayment of long-term debt	(2,086)	(1,991)
Cash proceeds from deferred capital contributions	33,423	43,615
Net change from financing activities	31,337	41,624
Net change in cash and cash equivalents	12,347	19,008
Cash and cash equivalents, beginning of year	136,433	117,425
Cash and cash equivalents, end of year	$ 148,780	$ 136,433

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

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 of 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.

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 consolidated statement of operations and accumulated surplus and certain related deferred capital contributions would be recorded differently under Canadian public sector accounting standards.

(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.

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.

(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.

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.

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 consolidated 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 consolidated statement of operations and accumulated surplus and related balances reversed from the consolidated 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 consolidated 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 consolidated statement of operations and accumulated surplus 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.

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 capitalized during construction 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

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.

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.

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 consolidated statement of remeasurement gains and losses. In the period of settlement, any exchange gain or loss is reversed out of the consolidated statement of remeasurement gains and losses, and reflected in the consolidated 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.

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 programing; 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 2019/ 2020 to 2021/2022 Planning and Budget Framework approved by the Board of Governors of the University on March 26, 2019 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.

(tabular figures in thousands of dollars)

3. Cash and cash equivalents

	2020	2019
Cash	$ 10,069	$ 16,794
Short-term investments	137,873	118,815
Restricted cash	838	824
	$ 148,780	$ 136,433

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

4. Accounts receivable

	2020	2019
Revenues receivable	$ 23,558	$ 20,456
Accrued interest receivable	1,246	1,142
Less: provision for doubtful accounts	(4,410)	(4,384)
	$ 20,394	$ 17,214

5. Due from governments

	2020	2019
Federal government	$ 12,894	$ 6,722
Provincial government	783	2,213
Other	113	65
	$ 13,790	$ 9,000

(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	2020	2019
Portfolio investments carried at fair value:			
Bonds	Level 2	$ 11,460	$ 17,155
Various pooled bond and mortgage funds	Level 1	102,167	100,863
Canadian equities	Level 1	8,978	17,177
Global equities	Level 1	27,869	44,907
Infrastructure and real estate	Level 3	14,804	20,765
		165,278	200,867
Portfolio investments at cost which approximates fair value:			
Short-term investments		512	2,638
Cash		474	695
Other		55	66
Total portfolio investments		$ 166,319	$ 204,266

(b) Restricted endowment investments

	Fair Value Hierarchy	2020	2019
Restricted endowment investments carried at fair value:			
Bonds	Level 2	$ 52,364	$ 49,407
Various pooled bond and mortgage funds	Level 1	52,483	37,971
Canadian equities	Level 1	42,455	52,659
Global equities	Level 1	140,323	140,789
Infrastructure and real estate	Level 3	82,676	69,409
		370,301	350,235
Restricted endowment investments at cost which approximates fair value:			
Short-term investments		2,862	6,562
Cash		2,639	2,320
Total restricted endowment investments		$ 375,802	$ 359,117

(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	2020	2019
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 2025, unsecured	Level 1	$ (499)	$ (540)
BC Immigrant Investment Fund floating interest rate fixed at 3.56%, commencing 2023 through 2033, unsecured	Level 1	(652)	(335)
Total derivatives		$ (1,151)	$ (875)

7. Loans receivable

	2020	2019
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	$ 3,842	$ 3,452
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	8,936	9,597
Interest at 6.13%, due April 2030, unsecured	2,224	2,378
	$ 24,610	$ 25,035

(tabular figures in thousands of dollars)

8. Employee future benefits

Employee future benefits arise in connection with the University's group life insurance 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):

			2020		2019
Staff pension plan	*(Note 8(a)(ii))*	$	(24,773)	$	(22,106)
Supplemental pension obligations	*(Note 8(a))*		7,191		7,556
Special accumulated sick leave	*(Note 8(b))*		2,627		2,830
Basic group life insurance plan	*(Note 8(c))*		873		843
		$	(14,082)	$	(10,877)

(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 4.00% of salary up to the year's maximum pensionable earnings ("YMPE") plus 6.00% of salary in excess of the YMPE. The University makes contributions equal to 6.37% of salary up to the YMPE plus 8.00% of salary in excess of the YMPE. The university also contributes 4.00% of salary to fund the defined benefit minimum. The latest actuarial valuation for funding purposes as at December 31, 2018 showed that the accrued formula pension benefit liabilities of the Combination Plan were fully funded. The next valuation will be as at December 31, 2021 and is expected to be completed in September 2022. 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 $23,731,000 (2019 - $22,926,000) 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 $7,191,000 as at March 31, 2020 (2019 – $7,556,000). The University paid supplemental benefits of $272,000 in the year (2019 – $187,000) and recorded employee benefit expense of $169,000 (2019 – $147,000).

(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 $5,961,000 (2019 – $5,969,000). The Plan paid benefits in the year of $11,410,000 (2019 – $10,880,000).

The pension asset at March 31 includes the following components:

	2020	2019
Accrued benefit obligation	$ 242,132	$ 231,971
Pension fund assets	(276,276)	(259,566)
	(34,144)	(27,595)
Unamortized actuarial gains	9,371	5,489
Net asset	$ (24,773)	$ (22,106)

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 next required valuation will be as at December 31, 2019, which will be completed in the summer of 2020. 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 $55.2 million at March 31, 2020 (2019 – $51.1 million) to satisfy the contribution requirements through 2019.

(tabular figures in thousands of dollars)

8. Employee future benefits (continued)

(a) Pension benefits (continued)

(ii) Staff plan (continued)

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 2019 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).

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 as at March 31, 2020.

The expected rate of return on pension fund assets is 6%. The actual rate of return on Plan assets in 2019 was 14%. The total expenses related to pensions for the fiscal year ending, include the following components:

	2020	2019
Current period benefit cost	$ 8,071	$ 8,011
Amortization of actuarial gains	(1,030)	(2,181)
	7,041	5,830
Less: Employee contributions	(2,215)	(2,198)
Pension benefit expense	4,826	3,632
Interest cost on the average accrued benefit obligation	13,186	12,627
Expected return on average pension plan assets	(14,587)	(14,555)
Pension interest income	(1,401)	(1,928)
Total pension expense	$ 3,425	$ 1,704

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 (2019 – $124,000).

(tabular figures in thousands of dollars)

8. Employee future benefits (continued)

(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, 2020 the balance of this special accumulated sick leave was $2,627,000 (2019 – $2,830,000).

(c) 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, 2020 was $1,261,000 (2019 – $1,247,000).

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.

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

	2020	2019
Equity at beginning of year	$ 3,104	$ 3,727
Dividends/distributions paid	(1,914)	(1,794)
Net earnings	2,055	1,171
Equity at end of year	3,245	3,104
Dividends/distributions payable	5,950	4,712
Investment in government business enterprises	$ 9,195	$ 7,816

Change in equity in government business enterprises:

	2020	2019
Assets	$ 38,553	$ 37,126
Liabilities	(35,308)	(34,022)
Equity	$ 3,245	$ 3,104

(tabular figures in thousands of dollars)

9. Investments in government business enterprises (continued)

Consolidated Statement of Operations

		2020		2019
Revenue	$	22,609	$	17,210
Expenses		(20,554)		(16,039)
Surplus for the year	$	2,055	$	1,171

10. Investments in government partnerships

The University is one of fourteen 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% (2019 – 7.14%). TRIUMF expenses all capital assets in its income statement as acquired; the University capitalizes the capital assets and amortizes them over their useful lives. TRIUMF recognizes revenue in the year it is received, whereas the University follows the deferral method of accounting for contributions.

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 2020 of $273,400 (2019 – $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% (2019 – 20%).

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

Consolidated Statement of Financial Position

		2020		2019
Financial assets	$	4,040	$	4,042
Liabilities		(894)		(915)
Net assets		3,146		3,127
Non-financial assets		1,368		1,469
Accumulated surplus	$	4,514	$	4,596

(tabular figures in thousands of dollars)

10. Investments in government partnerships (continued)

Consolidated Statement of Operations

	2020	2019
Revenue	$ 6,739	$ 7,050
Expenses	(6,821)	(7,052)
Deficit for the year	$ (82)	$ (2)

11. Accounts payable and accrued liabilities

	2020	2019
Accounts payable and accrued liabilities	$ 19,356	$ 20,419
Salaries and benefits payable	6,292	4,359
Accrued vacation pay	10,254	9,024
	$ 35,902	$ 33,802

12. Deferred Contributions

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

	2020	2019
Specific purpose (including endowment earnings)	$ 105,431	$ 133,015
Research	66,904	64,553
Capital	1,069	1,087
	$ 173,404	$ 198,655

	2020				
	Specific Purpose	Research	Capital	Total	2019
Balance, beginning of year	$ 133,015	$ 64,553	$ 1,087	$ 198,655	$ 185,699
Contributions and endowment investment income	12,080	92,350	662	105,092	132,687
Revenue recognized from deferred contributions	(39,664)	(89,999)	(680)	(130,343)	(119,731)
Balance, end of year	$ 105,431	$ 66,904	$ 1,069	$ 173,404	$ 198,655

(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:

	2020	2019
Balance, beginning of year	$ 421,352	$ 402,919
Contributions received during the year	33,423	43,615
Revenue from amortization of deferred capital contributions	(26,037)	(25,182)
Balance, end of year	$ 428,738	$ 421,352

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):

	2020	2019
Royal Bank of Canada		
5.38% term loan due 2024, unsecured	$ 4,954	$ 5,894
Province of British Columbia		
2.28% bond due 2023, unsecured	3,893	3,928
British Columbia Immigrant Investment Fund		
2.48% term loan due 2023, unsecured	7,163	7,615
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	8,937	9,596
Long-term debt	$ 45,747	$ 47,833

(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**
2021	$ 629	$ 1,759	$ 2,388
2022	629	2,271	2,900
2023	629	2,381	3,010
2024	629	6,227	6,856
2025	629	2,458	3,087
Thereafter	2,190	9,851	12,041
	$ 5,335	$ 24,947	$ 30,282

(b) Sinking Fund Investments

Sinking fund investments are held and invested by the Province of British Columbia. These funds totaling $11,308,000 (2019 – $9,987,000) 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.

(tabular figures in thousands of dollars)

15. Tangible capital assets

Cost	Balance as at March 31, 2019	Additions	Disposals	Balance as at March 31, 2020
Land	$ 22,582	$ -	$ -	$ 22,582
Site improvements	44,512	2,511	-	47,023
Buildings	862,913	30,731	-	893,644
Equipment and furnishings	183,456	26,365	(18,830)	190,991
Information systems	18,441	-	-	18,441
Computer equipment	15,689	3,721	(4,168)	15,242
Library holdings	38,037	3,090	(5,042)	36,085
Total	$ 1,185,630	$ 66,418	$ (28,040)	$ 1,224,008

Accumulated amortization	Balance as at March 31, 2019	Disposals	Amortization	Balance as at March 31, 2020
Site improvements	$ 20,956	$ -	$ 1,296	$ 22,252
Buildings	256,467	-	18,048	274,515
Equipment and furnishings	92,780	(18,830)	19,203	93,153
Information systems	18,441	-	-	18,441
Computer equipment	9,556	(4,168)	3,888	9,276
Library holdings	22,291	(5,042)	3,279	20,528
Total	$ 420,491	$ (28,040)	$ 45,714	$ 438,165

Net book value	March 31, 2020	March 31, 2019
Land	$ 22,582	$ 22,582
Site improvements	24,771	23,556
Buildings	619,129	606,446
Equipment and furnishings	97,838	90,676
Information systems	-	-
Computer equipment	5,966	6,133
Library holdings	15,557	15,746
Total	$ 785,843	$ 765,139

(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:

	2020	2019
Equipment and furnishings	$ 78	$ 23

(b) Assets under construction

Assets under construction comprised of buildings having a value of $21,150,000 (2019 – $20,752,000) and equipment having a value of $18,747,000 (2019 – $14,647,000) 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 $28,040,000 (2019 – $29,416,000) related to fully amortized assets with a net book value of $nil (2019 – $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, 2020 is $341,895,000 (2019 – $320,027,000).

(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	9.3%
AA	14.3%
A	10.0%
BBB	6.8%
BB and below	0.6%
Mortgages	16.3%
Cash and short-term	
R1 high	11.5%
R1 mid	0.3%
R1 low	31.0%
	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.

(tabular figures in thousands of dollars)

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	+/-		5.4%
Infrastructure	+/-		17.7%
Benchmark for Investments			**Net Impact on Market Value**
FTSE Canada Universe Bond index	+/-	$	11,019
S&P/TSX Composite index	+/-		10,512
MSCI All Country World Index	+/-		29,781
Canadian Consumer Price Index (Real Estate)	+/-		4,930
Canadian Consumer Price Index (Infrastructure)	+/-		8,615

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, 2020, the modified duration of all fixed income in aggregate was 3.6 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 3.6%; contrarily, if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 3.6%.

The University'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 and the fair value of related derivatives (interest rate swaps on long-term debt).

(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:

	2020	2019
Endowments	$ 374,307	$ 342,896
Invested in capital assets	331,604	315,541
Internally restricted	131,997	120,401
Unrestricted	29,776	24,938
Accumulated remeasurement gains	5,029	22,213
	$ 872,713	$ 825,989

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.

(tabular figures in thousands of dollars)

18. **Endowments**

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

		2020		2019
Balance, beginning of year	$	342,896	$	330,107
Contributions received during the year		8,730		9,172
Invested income and donations capitalized		7,880		3,617
Funding of previous years capitalization to endowment		14,801		-
Balance, end of year	$	374,307	$	342,896

The balance shown does not include endowment principal with fair value of $6,886,000 (2019 – $7,569,000) and book value of $4,820,000 (2019 – $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:

		2021		2022		2023		2024		2025
Construction contracts	$	43,410	$	132,912	$	66,812	$	212	$	-
Operating leases		299		70		33		7		7
Total	$	43,709	$	132,982	$	66,845	$	219	$	7

(tabular figures in thousands of dollars)

21. Contingent liabilities

The University has been named as a defendant in a class action case in which damages have been sought. These matters may give rise to future liabilities. The outcome of this case is not determinable as at May 19, 2020 and accordingly, no provision has been made in these financial statements for any liability that may result.

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:

	2020	2019
Salaries and wages	$ 331,909	$ 315,157
Employee benefits	61,603	48,303
Travel	15,267	15,022
Supplies and services	79,039	78,328
Equipment rental and maintenance	9,111	8,569
Utilities	8,780	9,039
Scholarships, fellowships and bursaries	40,908	36,092
Cost of goods sold	12,122	12,107
Interest on long-term debt	1,975	2,249
Amortization of tangible capital assets	45,714	44,687
	$ 606,428	$ 569,553

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. The long-term disability plan's assets and liabilities have not been included in the consolidated statement of financial position. The plan's operations have not been included in the consolidated statement of operations and accumulated surplus

(tabular figures in thousands of dollars)

23. Trusts under Administration (continued)

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

As of March 31, 2020, the balances of the long-term disability plan are as follows:

	2020	2019
Assets	$ 18,774	$ 16,767
Accrued benefit obligation	(18,720)	(18,387)
	$ 54	$ (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 (2020 – $1,824,000; 2019 – $1,461,000).

24. Supplemental cash flow information

	2020	2019
Cash paid for interest	$ 2,041	$ 2,135

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, 2020, there have been no material transactions between the university and its key management personnel or their close family members.

26. Subsequent event

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the University is not known at this time. These impacts could include an impairment of investments, impairments in the value of the University's long-lived assets, or potential future decreases in tuition and other revenue or the increases in expenses related to the University's ongoing operations.