LONG TERM DISABILITY TRUST
FINANCIAL STATEMENTS
MARCH 31, 2022

LONG TERM DISABILITY TRUST

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University of Victoria is responsible for the preparation of the financial statements of the Long Term Disability Trust. The statements have been prepared in accordance with Canadian accounting standards for pension plans and present fairly the financial position of the Long Term Disability Trust as at March 31, 2022 and the results of its operations for the year then ended.

In fulfilling its responsibility and recognizing the limits inherent in all systems, the University's Administration has developed and maintains a system of internal controls designed to provide reasonable assurance that the Trust's assets are safeguarded from loss and that the accounting records are a reliable basis for preparation of the financial statements.

The financial statements have been examined by Grant Thornton LLP, the independent auditors appointed by the Trustees. The Independent Auditors' Report outlines the nature of their examination and expresses an opinion on the financial statements of the Trust for the year ended March 31, 2022.

Trustee

June 22, 2022

Trustee

Grant Thornton

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Independent Auditors' Report

To the Board of Trustees of the Long Term Disability Trust

Opinion

We have audited the financial statements of the Long Term Disability Trust ("The Trust"), which comprise the statement of financial position as at March 31, 2022, and the statements of changes in net assets available for benefits and changes in accrued benefit obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Long Term Disability Trust as at March 31, 2022, and its changes in net assets available for benefits and its changes in accrued benefit obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Trust 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.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Trust'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 Trust or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 these 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 Trust'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 Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

Grant Thornton LLP

Victoria, Canada
DATE

Chartered Professional Accountants

LONG TERM DISABILITY TRUST
STATEMENT OF FINANCIAL POSITION
As at March 31, 2022

		2022		2021
Assets				
Cash and cash equivalents	$	49,567	$	74,226
Accrued interest and other receivables		346,873		-
Cash held on deposit with benefit carrier		195,300		186,100
Investments (note 3)		20,141,342		20,694,778
Due from University of Victoria		419,649		362,151
		21,152,731		21,317,255
Liabilities				
Accounts payable and accruals		449,798		364,810
		449,798		364,810
Net assets available for benefits		20,702,933		20,952,445
Accrued benefit obligations (note 4)		26,582,159		21,398,159
(Deficit)	$	(5,879,226)	$	(445,714)

On behalf of the board:

Trustee

Trustee

See accompanying notes to the financial statements

LONG TERM DISABILITY TRUST
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
For the Year ended March 31, 2022

	2022	2021
Net return on investments		
Interest income	$ 572,774	$ 611,091
Realized gains	23,874	937,412
Unrealized losses	(1,384,048)	(465,524)
	(787,400)	1,082,979
Contributions		
Employee contributions	4,519,489	4,463,648
Total increase in assets	3,732,089	5,546,627
Payments to or on behalf of members		
Benefit carrier claims	3,671,842	2,615,657
Operating expenses		
Actuarial fees	15,750	33,600
Audit expense	11,930	10,372
Benefit carrier administration fees	152,658	81,911
Custodial fees	3,935	4,800
Interest expense	1,953	1,156
Investment management fees	52,365	53,649
Financial administration fees (note 8)	1,000	1,000
Total operating expenses	239,591	186,488
Total decrease in assets	3,911,433	2,802,145
(Decrease) increase in net assets available for benefits, before taxes	(179,344)	2,744,482
Income taxes (note 7)	70,168	566,087
(Decrease) increase in net assets available for benefits	(249,512)	2,178,395
Net assets available for benefits, beginning of year	20,952,445	18,774,050
Net assets available for benefits, end of year	$ 20,702,933	$ 20,952,445

See accompanying notes to the financial statements

LONG TERM DISABILITY TRUST
STATEMENT OF CHANGES IN ACCRUED BENEFIT OBLIGATIONS
For the Year ended March 31, 2022

	2022	2021
Beginning balance, accrued benefit obligation	$ 21,398,159	$ 18,720,159
Experience gains	(1,299,000)	(2,452,000)
Current service cost	10,036,000	7,008,000
Interest cost	358,000	261,000
Benefit paid	(3,911,000)	(2,139,000)
	5,184,000	2,678,000
Ending balance, accrued benefit obligation	$ 26,582,159	$ 21,398,159

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See accompanying notes to the financial statements

LONG TERM DISABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
March 31, 2022

1. **Description of Plan**

The following is a summary of the Long Term Disability Trust (the Trust).

a) General
The Trust was established in July 2007 to administer a self-funded long term disability plan covering all faculty, administrative and academic professional staff holding regular appointments of 50%, or more, of full time at the University of Victoria.

b) Funding Policy
Members contribute 2.20% of basic salary, which is deducted by the University semi-monthly, and remitted to the Trust. The Trust holds these contributions, and pays the plan benefit carrier for benefit payments made to qualifying employees.The contribution rate is set by the Trustees referencing actuarial valuations, and covers the normal cost of providing benefits, plus an amount required to build a reserve against estimated future liabilities of the plan.

c) Plan Benefits
Long term disability benefits are calculated at 80% of monthly "net earnings", plus the amount required to maintain employee and University Pension Plan contributions. Benefits are indexed to the lower of (1) the annual increase in the Canada CPI index, and (2) the most recent annual across-the-board general salary adjustment.

As this is an employee-pay-all plan benefits paid to qualifying employees are tax-free.

d) Commencement and Duration of Benefits
If approved, LTD benefit payments commence following completion of six months of continuous disability, and following receipt of proof of total disability. Benefits continue until the earliest of the following:
- no longer considered to be totally disabled,
- start work at any occupation for wage or profit except as permitted under the Plan,
- fail to furnish proof of continuous disability,
- no longer under the care of a qualified physician, or fail to follow prescribed medical treatment, or participate in a recommended rehabilitation program,
- death,
- normal retirement date.

e) Investments
The assets of the Trust are invested in a Phillips, Hager and North Bond Fund.

2. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian accounting standards for pension plans.

Accounting standards for pension plans apply to all pension plans as well as benefit plans with characteristics similar to pension plans (such as long term disability plans) and require entities to select accounting policies for accounts that do not relate to its investment portfolio or accrued benefit obligations in accordance with either Part I International Financial Reporting Standards (IFRS) or Part II Canadian Accounting Standards for Private Enterprises (ASPE) of the CICA Handbook. The Trust selected to apply Part II for such accounts on a consistent basis and to the extent that these standards do not conflict with the requirements of the accounting standards for pension plans. Under Canadian accounting standards for pension plans the Trust is required to follow IFRS 7 and 13 with respect to Financial Instruments.

a) Financial Instruments

Financial assets and financial liabilities are recognized when the Plan becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

All financial assets and financial liabilities are initially measured at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

Financial assets and financial liabilities are subsequently measured as described below.

b) Cash and cash equivalents
Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash within three months, have been classified as held for trading and recorded at fair value.

c) Investment assets and investment liabilities
All investment assets and investment liabilities are measured at fair value at the date of the statement of financial position in accordance with IFRS 13 Fair Value Measurement, International Financial Reporting Standards in Part 1 of the CICA Handbook.

Pooled funds are valued at the unit value supplied by the pooled fund administrator and which represent the Plan's proportionate share of underlying net assets at fair value determined using closing bid prices.

Transaction costs are not included in the fair value of investment assets and investment liabilities either on initial recognition or on subsequent re-measurement. Transaction costs are included in the statement of changes in net assets available for benefits as part of expenses incurred in the period.

2. **Significant Accounting Policies (continued)**

d) Investment Income
Income from investments is recognized on an accrual basis and includes interest income.

e) Realized and Unrealized Gains and Losses on Investments
Realized gains or losses on sale of investments are the difference between the proceeds received and the average cost of investments sold.

Unrealized gains or losses on investments represent the differences between carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognized unrealized gains and losses in respect of disposals during the year.

f) Contributions
Contributions from the members are recorded on an accrual basis.

g) Net assets available for benefits
Net assets available for benefits are amounts available for the servicing of future claims under the Trust agreement, and terms of the Plan.

h) Income taxes
The Trust has elected to account for income taxes using the taxes payable method. The taxes payable and provision for income taxes are based on the corporate income tax returns filed. There is no adjustment for income taxes related to temporary differences and no recognition of the benefit of income tax losses carried forward.

h) Estimation Uncertainty
When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Fair value of financial instruments: management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far a possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Accrued benefit obligation: management estimates the accrued benefit obligation with the assistance of an independent actuary; however, the actual outcome may vary due to estimation uncertainties. The estimate of its accrued benefit obligation is based on assumptions as outlined in Note 4 to these financial statements.

LONG TERM DISABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
March 31, 2022

3. **Investments**

Investments are reported at fair value and are as follows:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Phillips Hager and North				
Core Plus Bond Fund, Series O	21,690,491	20,141,342	20,859,877	20,694,778

4. **Accrued Benefit Obligations**

An actuarial valuation was made as of June 30, 2020 by Mercer Human Resource Consulting, a firm of consulting actuaries. Salary figures used in the actuarial analysis are based on annual salary increases effective July 1, 2021.

The actuarial liability is the actuarial present value of the disability benefits expected to be paid in the future to members who were disabled at the valuation date. This liability is divided into two components: the Disabled Life Reserve (DLR) for individuals in receipt of benefits at the valuation date, and the Incurred But Not Reported (IBNR) reserve for individuals who are disabled but not reported at the valuation date and who have not completed the six month elimination period. The estimated liability as at March 31, 2022 has been calculated by Mercer using updated data and assumptions consistent with the 2020 actuary report.

The financial position of the Plan as at March 31 is as follows:

		2022	2021
Net Assets		$ 20,702,933	$ 20,952,445
Liabilities	- Disability Life Reserve	25,246,000	20,047,000
	- Incurred But Not Reported	1,336,000	1,351,000
		26,582,000	21,398,000
Unfunded Liability		$ (5,879,067)	$ (445,555)
Funded ratio		78%	98%

4. **Accrued Benefit Obligations (continued)**

The assumptions used in determining the actuarial value of accrued disability benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used were:

	2022	2021
Discount rate	2.20%	1.70%
Cost of living adjustment	1.44%	1.48%
Retirement age assumption	65	65

5. **Risk Management**

The Trust's assets are invested in Phillips, Hager & North's Core Plus Bond Fund and the RBC Institutional Cash Fund. All assets are recorded at fair value. The main investment risks are interest rate risk, liquidity risk and credit risk.

Interest rate risk

Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. 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. At March 31, 2022, the modified duration of the bond portfolio was 7.86 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 7.86%, contrarily if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 7.86%.

Liquidity risk

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost effective manner in order to meet commitments as they come due. The primary liabilities in the Trust are future benefit obligations and operating expenses. Liquidity requirements are managed through income generated by contributions and investing in sufficiently liquid assets and other easily marketable instruments.

Credit risk

The value of fixed income and debt securities depends, in part, on the perceived ability of the issuer that issued the securities to pay the interest and to repay the original investments. Credit risk relates to the possibility that a loss may occur from failure of a fixed income security issuer to meet its debt obligations. At March 31, 2022, the maximum risk exposure for this type of investment is $20,141,342.

5. **Risk Management (continued)**

The credit risk is also mitigated by the credit rating and issuer analysis. Table 1 below shows the percentage of fixed income holdings in the portfolio by credit rating as of March 31, 2022 and compared to March 31, 2021. Table 2 below shows the percentage of fixed income holdings by type of issuer as of March 31, 2022 and compared to March 31, 2021.

Table 1

Ratings Summary	2022 %	2021 %
AAA	23.0	12.8
AA	28.4	28.7
A	18.5	17.4
BBB	12.7	14.7
BB	7.6	9.4
Unrated	1.0	0
Mortgages	2.8	3.0
Foreign Exchange	0.9	1.2
Cash	5.0	12.7

Table 2

Issuer Analysis	2022 %	2021 %
Federal bonds	22.9	12.8
Provincial bonds	31.5	32.3
Corporate bonds	34.2	34.8
Emerging markets	3.5	4.8
Mortgages	2.8	3.0
Cash and short term	5.0	12.4

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the inputs used in making the measurements. The fair value hierarchy is made up of the following levels:

Level 1 - valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable data on the market each time such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Trust's portfolio consists of bonds and mortgages and are pooled into a combined mutual fund. The lowest level of the hierarchy for the portfolio is a level 2.

LONG TERM DISABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
March 31, 2022

6. **Capital Disclosures**

The purpose of the Trust is to provide benefits to members on long term disability. The Trust's objectives when managing its capital are to protect the value of the funds against inflation and provide stability in benefit distributions. With the assistance of an investment consultant, the Trust's Board of Directors regularly monitors the Trust's investments to ensure that immediate and long-term obligations can be met within an acceptable level of risk.

7. **Income Tax**

Income taxes are paid on a calendar basis and are based on the difference between income earned on investment funds less plan expenses exclusive of employee contributions and benefit carrier claims.

8. **Related Party Transaction**

The Trust receives accounting and administrative services from the University of Victoria and was charged a fee of $1,000 for the year.