



VANCOUVER ISLAND UNIVERSITY
EXPLORE. DISCOVER. EXCEL.

VANCOUVER ISLAND UNIVERSITY
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

Statement of Administrative Responsibility for Financial Statements

Administrative management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with the financial reporting provisions of Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

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 include employees of the University. The Audit Committee meets with management and with the external auditors to discuss the results of audit examinations and financial reporting matters.

KPMG LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically with, both the Audit Committee and management to discuss their audit findings.

On behalf of the University:



Manley McLachlan
Board Chair



Marlene Kowalski
Interim Chief Financial Officer and Vice President Administration



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of Vancouver Island University, and
To the Minister of the Ministry of Advanced Education, Skills and Training, Province of
British Columbia

Opinion

We have audited the consolidated financial statements of Vancouver Island University (the Entity), which comprise:

- the consolidated statement of financial position as at March 31, 2020
- the consolidated statement of operations and accumulated operating surplus for the year then ended
- the consolidated statement of changes in net debt for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of rereasurement gains and losses 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 1(a) 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.

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 28, 2020

VANCOUVER ISLAND UNIVERSITY

Consolidated Statement of Financial Position

As at March 31, 2020, with comparative information for March 31, 2019

		2020	2019
Financial assets			
Cash and cash equivalents		\$ 25,528,619	\$ 37,143,849
Accounts receivable	(note 3)	5,101,754	12,149,286
Inventories for resale		912,241	972,045
Portfolio investments	(note 4)	38,205,639	30,139,815
Loan receivable	(note 5)	460,383	150,102
		<u>70,208,636</u>	<u>80,555,097</u>
Liabilities			
Accounts payable and accrued liabilities	(note 6)	25,515,620	23,779,486
Employee future benefits	(note 7)	5,711,050	5,795,929
Deferred revenue	(note 8)	19,098,433	23,757,399
Deferred contributions	(note 9)	5,345,959	6,356,038
Deferred capital contributions	(note 10)	165,781,752	166,348,143
		<u>221,452,814</u>	<u>226,036,995</u>
Net debt		(151,244,178)	(145,481,898)
Non-financial assets			
Tangible capital assets	(note 11)	213,989,210	210,592,729
Restricted endowment investments	(note 4)	4,018,389	4,018,389
Prepaid expenses		2,214,662	2,106,385
		<u>220,222,261</u>	<u>216,717,503</u>
Accumulated surplus		\$ 68,978,083	\$ 71,235,605
Accumulated surplus is comprised of:			
Accumulated operating surplus	(note 12)	\$ 68,479,468	\$ 70,767,315
Accumulated remeasurement gains		498,615	468,290
		<u>\$ 68,978,083</u>	<u>\$ 71,235,605</u>

Contractual obligations (note 13)


Contingencies (note 14)

Subsequent events (note 21)

See accompanying notes to consolidated financial statements.

On behalf of the Board:


Board Chair


Interim Chief Financial Officer and Vice President Administration

VANCOUVER ISLAND UNIVERSITY

Consolidated Statement of Operations and Accumulated Operating Surplus

For the year ended March 31, 2020, with comparative information for March 31, 2019

	Budget (Notes 1(k) and 18)	2020	2019
Revenue			
Province of British Columbia grants	\$ 61,241,173	\$ 67,968,920	\$ 66,426,650
Government of Canada grants	961,346	1,188,157	948,401
Other grants and contracts	5,441,666	5,897,072	5,531,300
Tuition and student fees	65,360,379	67,218,188	65,781,438
Sales of goods and services	9,947,607	8,456,981	8,982,201
Rental income	2,934,831	3,011,353	3,114,318
Revenue recognized from deferred capital contributions (note 10)	6,602,000	6,968,708	5,886,388
Investment income	962,544	1,680,504	1,516,261
Gifts, grants and bequests	419,600	879,019	1,117,712
Actuarial plan benefit continuation gain (note 7(a))	-	19,900	935,400
Gain on sale of tangible capital assets	-	15,141	7,681
Other	1,222,965	1,401,610	1,793,333
	155,094,111	164,705,553	162,041,083
Expenses (note 16)			
Instruction and student support	141,817,863	152,271,351	142,103,232
Ancillary	13,213,148	14,722,049	13,264,636
	155,031,011	166,993,400	155,367,868
Annual surplus (deficit)	63,100	(2,287,847)	6,673,215
Accumulated operating surplus, beginning of year	70,767,315	70,767,315	64,094,100
Accumulated operating surplus, end of year	\$ 70,830,415	\$ 68,479,468	\$ 70,767,315

See accompanying notes to consolidated financial statements.

VANCOUVER ISLAND UNIVERSITY

Consolidated Statement of Changes in Net Debt

For the year ended March 31, 2020, with comparative information for March 31, 2019

	Budget (note 1(k) and 18)	2020	2019
Annual surplus	\$ 63,100	\$ (2,287,847)	\$ 6,673,215
Acquisition of tangible capital assets	-	(13,635,511)	(35,198,937)
Amortization of tangible capital assets	10,711,500	10,239,030	9,318,958
Proceeds on sale of tangible capital assets	-	15,141	7,681
Write-off of tangible capital assets	-	-	42,992
Gain on sale of tangible capital assets	-	(15,141)	(7,681)
	10,711,500	(3,396,481)	(25,836,987)
Acquisition of prepaid expense	-	(108,277)	(48,502)
Net effect of remeasurement gains	-	30,325	304,316
	-	(77,952)	255,814
Decrease (increase) in net debt	10,774,600	(5,762,280)	(18,907,958)
Net debt, beginning of year	(145,481,898)	(145,481,898)	(126,573,940)
Net debt, end of year	\$ (134,707,298)	\$ (151,244,178)	\$ (145,481,898)

See accompanying notes to consolidated financial statements.

VANCOUVER ISLAND UNIVERSITY

Consolidated Statement of Cash Flows

For the year ended March 31, 2020, with comparative information for March 31, 2019

	2020	2019
Cash provided by (used in):		
Operations:		
Annual surplus	\$ (2,287,847)	\$ 6,673,215
Items not involving cash:		
Amortization of tangible capital assets	10,239,030	9,318,958
Revenue recognized from deferred capital contributions	(6,968,708)	(5,886,388)
Change in employee future benefits	(84,879)	(942,313)
Gain on sale of tangible capital assets	(15,141)	(7,681)
Write-off of tangible capital assets	-	42,992
Change in non-cash operating working capital:		
Increase (decrease) in accounts receivable	7,047,532	(8,450,072)
Increase in prepaid expenses	(108,277)	(48,502)
Decrease in inventories for resale	59,804	429
Increase (decrease) in accounts payable and accrued liabilities	1,736,134	(3,506,153)
Increase (decrease) in deferred contributions	(1,010,079)	838,579
Increase (decrease) in deferred revenue	(4,658,966)	1,270,129
	3,948,603	(696,807)
Capital activities:		
Cash used to acquire tangible capital assets	(13,635,511)	(34,771,759)
Proceeds on sale of tangible capital assets	15,141	7,681
	(13,620,370)	(34,764,078)
Financing activities:		
Loan receivable	(310,281)	(150,102)
Receipt of deferred capital contributions	6,402,317	38,091,202
	6,092,036	37,941,100
Investing activities:		
Net purchase of investments	(8,035,499)	(855,096)
Net change in cash and cash equivalents	(11,615,230)	1,625,119
Cash and cash equivalents, beginning of year	37,143,849	35,518,730
Cash and cash equivalents, end of year	\$ 25,528,619	\$ 37,143,849

See accompanying notes to consolidated financial statements.

VANCOUVER ISLAND UNIVERSITY

Consolidated Statement of Remeasurement Gains and Losses

For the year ended March 31, 2020, with comparative information for March 31, 2019

	2020	2019
Unrealized gains (losses) attributed to:		
Long term bonds	\$ 150,976	\$ 307,096
Equity investments	(120,651)	(2,780)
Net remeasurement gains for the year	30,325	304,316
Accumulated remeasurement gains, beginning of year	468,290	163,974
Accumulated remeasurement gains, end of year	\$ 498,615	\$ 468,290

See accompanying notes to consolidated financial statements.

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

Vancouver Island University (the "University") is a post-secondary educational institution incorporated under the University Act. The University is a registered charity, governed by a Board of Governors, the majority of which are appointed by the Provincial Government of British Columbia. The University offers a broad range of program options including undergraduate and graduate degrees, career diplomas, and trades training at its Nanaimo, Cowichan, Parksville and Powell River campuses.

1. Significant accounting policies

These consolidated financial statements are prepared in accordance with the following principles:

(a) Basis of accounting

Budget Transparency and Accountability Act

These consolidated financial statements have been prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia supplemented by certain 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.

The issued regulations require all taxpayer supported organizations in the school, university, college and hospital sectors to adopt Canadian public sector accounting standards without any PS4200 elections, effective their first fiscal year commencing after January 1, 2012.

The regulations require 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 by the contributors as follows:

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are recorded and, referred to as deferred capital contributions, recognized in revenue at the same rate that amortization of the related 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 those for 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 contributions have been met.

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

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

1. Significant accounting policies (continued)

(a) Basis of accounting (continued)

Public sector accounting standards

The accounting policy requirements under the regulations are significantly different from the requirements of Canadian public sector accounting standards which require that:

- (i) 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 certain eligibility criteria have been met, and
- (ii) Externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified.

As a result, revenue recognized in the Consolidated Statement of Operations and certain related deferred capital contributions would be recorded differently under Canadian public sector accounting standards.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the University, and its controlled entities: The International High School at Vancouver Island University Association and The High School at Vancouver Island University Association – (collectively “the High Schools”), Milner Gardens and Woodland Society (“Milner Gardens”), Vancouver Island University Initiatives Corporation (“VIUIC”) and Vancouver Island University Initiatives Trust (“VIUIT”).

The High Schools are registered charities incorporated under the Societies Act (British Columbia). They jointly operate a private high school for local and international students. The High Schools’ fiscal year-end of June 30, 2019 have been consolidated into these financial statements. No material transactions or events have occurred between July 1, 2019 and March 31, 2020.

Milner Gardens manages donated funds and operates fundraising events specifically in support of Milner Gardens.

VIUIC is incorporated under the Business Corporations Act of the Province of British Columbia and is 100% owned by the University. Its sole purpose is to act as trustee of VIUIT- an entity in the startup stage with as of yet no significant transactions. VIUIC’s fiscal year-end of Dec 31, 2019 has been consolidated into these financial statements. No material transactions or events have occurred between Jan 1, 2020 and March 31, 2020.

The VIUIT was established on August 1, 2018 as a vehicle to undertake business ventures that are planned to generate income. VIUIT is a taxable business trust and must pay income taxes on any taxable income not allocated to beneficiaries. The beneficiaries of VIUIT are the University and the Vancouver Island University Foundation. Activity in VIUIT is planned to cease in 2020 but may subsequently resume at a later date.

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

(c) Revenue recognition

Revenue is recognized when amounts can be reasonably estimated and when collection is reasonably assured as follows:

Operating government grants with or without eligibility criteria stipulations are recognized when received or receivable. Operating government grants, containing stipulations as to their use, are recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to an obligation and meets the definition of a liability.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred.

Other revenue, including student fees, interest, and sales of goods and services, are reported as revenue at the time the services or products are provided.

As discussed above, contributions restricted for the purpose of acquiring or developing a depreciable tangible capital asset are recorded as deferred capital contributions and amortized over the remaining useful life of the related tangible capital assets.

Investment income includes interest recorded on an accrual basis and dividends recorded as declared and realized gains and losses on the sale of investments.

Endowment contributions are recognized in the statement of operations in the period in which they are received or earned. Investment income earned on externally restricted endowment contributions is deferred until used for the specific purpose.

Gifts-in-kind are only recorded if the University would have otherwise have paid for them. Gifts-in-kind are recorded at fair market value on the date of the donation or at a nominal value when fair value cannot be reasonably determined.

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

Volunteers contribute service to assist the University in carrying out its mission. Such contributions of services are not recognized in these financial statements.

(d) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with a maturity of 90 days or less at the date of purchase.

(e) Inventories for resale

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

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

1. Significant accounting policies (continued)

(f) Employee future benefits

The University and its employees make contributions to two multi-employer joint trustee plans. These plans are defined benefit plans, providing a pension on retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. Inflation adjustments are contingent upon available funding. As the assets and liabilities of the plans are not segregated by institution, the plans are accounted for as defined contribution plans and any contributions of the University to the plans are expensed as incurred.

Sick leave benefits and retirement severance benefits are also available to the University's employees. The costs of these benefits are actuarially determined based on service and best estimates of retirement ages and expected future salary and wage increases. The obligation under these benefit plans are accrued based on projected benefits method as the employees render services necessary to earn the future benefits. Actuarial gains and losses are amortized over the expected average remaining service life of the employees except gains and losses associated with event driven benefits which are recognized immediately.

Vacation entitlements earned by employees for future use are valued at the fiscal year end and accrued as a liability.

(g) 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 asset acquisitions are initially recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Interest is not capitalized whenever external debt is issued to finance the construction of tangible capital assets. Donated assets are recorded at fair value as of the date of donation. Amortization of capital assets is recorded on a straight line basis over the estimated life of the asset, as shown below. Land is not amortized as it is deemed to have a permanent value:

Asset	Years
Buildings	5 - 60
Library books	10
Site improvements	5 - 20
Computing equipment and software	5
Furniture and equipment	5 - 15
Vehicles	5
Leasehold improvements	Term of Lease

Work in progress is not amortized until the asset is available for productive use. Land use rights are not recognized as assets in these financial statements. Works of art and historic treasures are not recognized as assets in these financial statements.

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

1. Significant accounting policies (continued)

(h) Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities denominated in a foreign currency are translated using the exchange rates at the Statement of Financial Position date. Any gain or loss resulting from a change in rates between the transaction date and Statement of Financial Position date is recognized in the Statement of Remeasurement Gains and Losses. In the period of settlement, the related cumulative remeasurement gain or loss is reversed in the Statement of Remeasurement Gains and Losses and the exchange gain or loss in relation to the exchange rate at the date of the item's initial recognition is recognized in the Statement of Operations and Accumulated Operating Surplus.

(i) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the impairment of assets (provisions are made for slow moving and obsolete inventory), provision for doubtful accounts, amortization period for tangible capital assets and deferred capital contributions, and actuarial assumptions for employee future benefits. Actual results could differ from management's best estimates as additional information becomes available in future years. As adjustments to estimates become necessary they are reported in earnings in the period in which they become known.

(j) Financial instruments

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

(i) Fair value category: Cash and cash equivalents are recorded at fair value due to the short term nature of the instrument. Investments that are managed and evaluated as a group and derivative instruments are reflected at fair value as at the reporting date. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are recorded as an expense. Unrealized gains and losses on financial assets are recognized in the Statement of Remeasurement Gains and Losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the Statement of Operations and Accumulated Operating Surplus and related balances reversed from the Statement of Remeasurement Gains and Losses.

(ii) Cost category: Gains and losses are recognized in the Statement of Operations and Accumulated Operating Surplus when the financial asset is derecognized due to disposal or impairment.

(a) Accounts receivable are measured at amortized cost using the effective interest method.

(b) Accounts payable and accrued liabilities are measured at amortized cost. Any gains, losses or interest expense is recorded on the Statement of Operations and Accumulated Operating Surplus depending on the nature of the financial liability that gave rise to the gain, loss or expense.

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

1. Significant accounting policies (continued)

(k) Budget figures

The original budget was approved by the Board of Governors of the University on March 28, 2019. The budget reflected in the Statement of Operations and Accumulated Operating Surplus and the Statement of Changes in Net Debt has been restated to remove the budgetary impact of a 2018 prior period adjustment described in Note 18.

Note 18 reconciles the approved budget to the budget information presented in these financial statements.

2. Financial instruments

(a) Fair value of financial instruments

Public Sector Accounting Standards define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The University uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Statement of Financial Position:

- (i) Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments
- (ii) The 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 inactive 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.

Bonds and fixed term instruments and pooled funds are classified as level 2 in the fair value hierarchy.

(b) Financial asset impairment

At each year-end date, the University is required to evaluate and record any other-than-temporary impairment of its financial assets, other than those carried at fair value. Accordingly, the University has compared the carrying value of each of these financial assets to its fair value as at March 31, 2020. No provision for impairment was recorded in the current year, as the fair value of all financial assets exceeded or did not differ significantly from their carrying value.

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

2. Financial instruments (continued)

(c) Risk management policy

The University, as part of its operations, has established objectives to mitigate risk related to financial instruments as risk management objectives.

All significant financial assets and financial liabilities of the University are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

Financial instruments are exposed to risk through the normal course of operation. These risks are managed through the University's collection procedures, investment guidelines and other internal policies and procedures. These risks include:

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign currency rates. The University has no material exposure to changes in foreign currency rates.

(ii) Credit risk

Financial instruments that potentially subject the University to concentrations of credit risk include cash and cash equivalents, accounts receivable, and investments in other than equity investments. The maximum credit risk exposure is \$63,540,547 (2019 - \$73,639,494).

The University's credit exposure is limited due to the large customer base, regular monitoring of the receivables and providing allowances for potentially uncollectable amounts.

Total financial instruments that are past-due, but not considered to be impaired, are \$203,680 (2019 - \$39,547).

The University believes there is minimal credit risk associated with its marketable securities and accounts receivable as the University expects that its counterparties will meet their obligations.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument might be adversely affected by a change in interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. In seeking to minimize the risks from interest rate fluctuations, the University manages exposure on its marketable securities, short term investments, and endowment and other investments which have fixed interest rates by varying the maturity dates. The University manages exposure on the interest-bearing investments by investing in a widely diversified portfolio with varying interest rates and maturity dates.

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

2. Financial instruments (continued)

(c) Risk management policy (continued)

(iv) Liquidity risk

Liquidity risk is the risk that the University will encounter difficulty in meeting obligations associated with financial liabilities. The University enters into transactions to purchase goods and services, lease premises and to borrow funds from financial institutions to finance capital projects for which payments are required at various dates. Liquidity risk is measured by reviewing the University's future net cash flows for the possibility of a negative net cash flow.

(v) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The University enters into transactions to purchase investments, for which the market price fluctuates. The University manages this risk through its investment policy which prescribes the maximum amount of investments that can be made in any one investment type. Additional exposure due to COVID-19 is unknown.

3. Accounts receivable

	2020	2019
Trade accounts receivable	\$ 3,667,459	\$ 4,069,356
Due from Federal government	25,649	2,984,407
Due from Provincial government	1,119,335	4,864,088
Due from other government organizations	289,311	231,435
	\$ 5,101,754	\$ 12,149,286

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

4. Investments

	2020	2019
Cash and cash equivalents	\$ 314,916	\$ 212,840
Bonds and fixed term instruments – at fair value	25,621,201	24,088,448
Pooled funds – at fair value	16,287,911	9,856,916
	<u>\$ 42,224,028</u>	<u>\$ 34,158,204</u>
Classified as:		
Portfolio investments	\$ 38,205,639	\$ 30,139,815
Restricted endowment investments	4,018,389	4,018,389
	<u>\$ 42,224,028</u>	<u>\$ 34,158,204</u>

Fixed term investments mature between Nov 2020 and May 2028 (2019 – June 2019 and May 2028) and have a total maturity/face value of \$22,755,870 (2019 - \$23,733,294). Interest rates range between 1.15% and 4.89% (2019 – 1.15% and 5.0%).

5. Loan receivable

The University has entered into a capital financing loan agreement with VIUIT. This agreement was amended Dec 2, 2019. The loan bears interest at 3.95% per annum to Dec 2, 2019 (Bank of Canada prime lending rate plus 1 percent per annum) and 3.20% per annum thereafter (Bank of Canada prime lending rate plus 0.25% per annum) calculated yearly, not in advance, beginning March 31, 2020 and adjusted annually on the anniversary date. No interim payments are required and the loan is required to be repaid in full by March 11, 2024. The loan is unsecured, drawn to a maximum of \$1,000,000, and is repayable March 11, 2024. \$450,000 has been drawn against this agreement.

6. Accounts payable and accrued liabilities

	2020	2019
Accounts payables and accrued liabilities	\$ 10,105,923	\$ 11,731,434
Salaries and benefits payable	7,850,607	4,857,450
Accrued vacation pay	7,559,090	7,190,602
	<u>\$ 25,515,620</u>	<u>\$ 23,779,486</u>

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

7. Employee future benefits

(a) Termination benefits, and compensated absences

Employees with ten or more years of service are entitled to receive special payments upon retirement or termination as specified by collective and administrator agreements. These payments are based upon accumulated sick credits and entitlements for each year of service.

	2020	2019
Accrued benefit obligation, beginning of year	\$ 4,955,100	\$ 5,591,600
Unamortized actuarial gains, beginning of year	840,829	1,146,642
	5,795,929	6,738,242
Current service cost	642,446	673,417
Interest cost	155,000	155,400
Benefits paid	(778,342)	(721,066)
Gain on event driven liabilities	(19,900)	(935,400)
Amortization of actuarial gain	(84,083)	(114,664)
Accrued benefit obligation, end of year	\$ 5,711,050	\$ 5,795,929

Accrued benefit obligation, end of year consists of:

	2020	2019
Accrued liability, end of year	\$ 4,857,000	\$ 4,955,100
Unamortized actuarial gains, end of year	854,050	840,829
Accrued benefit obligation, end of year	\$ 5,711,050	\$ 5,795,929

Actuarial gains and losses are amortized over 10 years (2019 – 10 years), being the expected average remaining service life of the employees. The total net expense (recovery) recorded in the financial statements in respect of obligations under this plan amounts to \$693,463 (2019 – (\$221,247)).

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

	2020	2019
Discount rate for termination benefits	3.50%	3.00%
Expected future inflation rate	2.20%	2.20%

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

7. Employee future benefits (continued)

(b) Pension liability

The University and its employees contribute to the College Pension Plan and Municipal Pension Plan (jointly trustee pension plans). The boards of trustees for these plans, representing plan members and employers, are responsible for administering the pension plans, including investing assets and administering benefits. The plans are multi-employer defined benefit pension plans. Basic pension benefits provided are based on a formula. As at August 31, 2019, the College Pension Plan has about 15,000 active members, and approximately 8,000 retired members. As at December 31, 2018, the Municipal Pension Plan has about 205,000 active members, including approximately 6,000 from colleges and universities.

Every three years, an actuarial valuation is performed to assess the financial position of the plans and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plans. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plans. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2018, indicated a \$303 million surplus for basic pension benefits on a going concern basis.

The most recent valuation for the Municipal Pension Plan as at December 31, 2018, indicated a \$2,866 million funding surplus for basic pension benefits on a going concern basis.

The University paid \$8,548,824 (2019 - \$8,207,258) for employer contributions to the plans in fiscal 2019-20.

The next valuation for the College Pension Plan will be as at August 31, 2021, with results available in 2022. The next valuation for the Municipal Pension Plan will be December 31, 2021, with results available in 2022.

Employers participating in the plans record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plans record accrued liabilities and accrued assets for each plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

8. Deferred revenue

Deferred revenue includes unspent funds externally restricted for non-capital purposes from all sources except Federal and Provincial government reporting entities. The main components are tuition, grant and contract service funding as listed below.

	2020	2019
Tuition	\$ 14,126,491	\$ 17,389,299
Grant and contract service funding	4,938,636	5,997,241
Other	33,306	370,859
	<u>\$ 19,098,433</u>	<u>\$ 23,757,399</u>

9. Deferred contributions

Deferred contributions include unspent grant and contract services contributions externally restricted for non-capital purposes from Federal and Provincial government reporting entities. Changes in deferred contributions are as follows:

	2020	2019
Balance, beginning of year	\$ 6,356,038	\$ 5,371,940
Contributions received during the year	13,396,976	16,677,525
Revenue recognized from deferred contributions	(14,407,055)	(15,693,427)
Balance, end of year	<u>\$ 5,345,959</u>	<u>\$ 6,356,038</u>

10. Deferred capital contributions

Contributions restricted for the purpose of acquiring or developing depreciable tangible capital assets are recorded as deferred capital contributions. Amounts are recognized into revenue over the useful life of the related tangible capital asset. Treasury Board provided direction on accounting treatment as disclosed in note 1. Changes in the deferred capital contributions balance are as follows:

	2020	2019
Balance, beginning of year	\$ 166,348,143	\$ 133,716,151
Contributions received during the year – cash	6,402,317	38,091,202
Contributions received during the year – in kind	-	427,178
Revenue recognized from deferred capital contributions	(6,968,708)	(5,886,388)
Balance, end of year	<u>\$ 165,781,752</u>	<u>\$ 166,348,143</u>

Deferred capital contributions as at March 31, 2020 include \$5,795,620 (2019 - \$8,567,342) of contributions used to purchase assets that have yet to commence being amortized and contributions that have yet to be spent of \$4,239,911 (2019 - \$2,714,948).

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

11. Tangible capital assets

Cost	Balance at March 31, 2019	Additions & WIP Transfers	Disposals & Write-offs	Balance at March 31, 2020
Land	\$ 12,090,647	\$ -	\$ -	\$ 12,090,647
Buildings	262,243,601	4,084,976	-	266,328,577
Work In Progress ("WIP")	9,095,514	3,523,210	-	12,618,724
Site improvements	7,178,824	479,506	389,394	7,268,936
Leasehold improvements	400,236	102,054	-	502,290
Furniture and equipment	26,693,563	1,676,342	1,952,402	26,417,503
Computing equipment and software	5,567,989	3,486,488	465,195	8,589,282
Library books	2,138,439	155,442	371,378	1,922,503
Vehicles	1,362,055	127,493	-	1,489,548
	\$ 326,770,868	\$ 13,635,511	\$ 3,178,369	\$ 337,228,010

Accumulated amortization	Balance at March 31, 2019	Disposals and Write-offs	Amortization expense	Balance at March 31, 2020
Buildings	\$ 87,008,853	\$ -	\$ 6,477,534	\$ 93,486,387
Site improvements	5,915,605	389,394	144,116	5,670,327
Leasehold improvements	220,132	-	42,576	262,708
Furniture and equipment	16,153,650	1,952,402	2,541,589	16,742,837
Computing equipment and software	4,652,177	465,195	702,450	4,889,432
Library books	1,248,561	371,378	175,425	1,052,608
Vehicles	979,161	-	155,340	1,134,501
	\$ 116,178,139	\$ 3,178,369	\$ 10,239,030	\$ 123,238,800

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

11. Tangible capital assets (continued)

	Net book value March 31, 2020	Net book value March 31, 2019
Land	\$ 12,090,647	\$ 12,090,647
Buildings	172,842,190	175,234,748
Work In Progress	12,618,724	9,095,514
Site improvements	1,598,609	1,263,219
Leasehold Improvements	239,582	180,104
Furniture and equipment	9,674,666	10,539,913
Computing equipment and software	3,699,850	915,812
Library books	869,895	889,878
Vehicles	355,047	382,894
	<u>\$ 213,989,210</u>	<u>\$ 210,592,729</u>

(a) Contributed tangible capital assets

During the year there were no contributions of equipment included in tangible capital asset additions (2019 - \$427,178).

(b) Works of art and historical treasures

The University manages and controls various works of art and non-operational historical cultural assets including artifacts, paintings and sculptures located at University sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

(c) Write-off of tangible capital assets

During the year, fully amortized tangible capital assets with an original cost of \$3,178,369 (2019 - \$4,123,771) were written off. These writedowns were applied to fully depreciated tangible capital assets that have reached pre-established age thresholds set beyond their useful lives. No work in progress was written off (2019 - \$42,992).

The University has no direct insurance coverage against loss on any of its capital assets except vehicles. The insurance on University property is the responsibility of the Province of British Columbia. Claims for loss are submitted to the Province of British Columbia for consideration for compensation.

During the year ending March 31, 1999, a building was constructed by the Malaspina Students' Union Society on the campus owned by the University in Nanaimo. The cost of this building has been financed by the Student Union, however, title to the building remains with the University. The University has entered into a lease agreement with the Student Union in the amount of \$1 per annum for a period of 50 years. The building is not recorded as an asset in the financial statements of the University.

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

12. Accumulated operating surplus

The accumulated operating surplus is comprised of the following:

	2020	2019
Investment in tangible capital assets	\$ 52,447,369	\$ 46,959,534
Endowments (note 15)	4,018,389	4,018,389
Internally restricted	12,013,710	19,789,392
	\$ 68,479,468	\$ 70,767,315

13. 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. Currently the University has \$11,216,101 in contractual obligations related to operations that extend beyond the 2019-20 fiscal year.

14. Contingencies

(a) Letters of credit

The University had a total of \$322,311 in letters of credit outstanding at March 31, 2020 for a bond posted on behalf of the High Schools to the Ministry of Finance. These letters of credit can be drawn upon to refund tuition to students if the High Schools fail to provide or complete the related academic program. No provision has been made for this contingency in the financial statements.

(b) Legal claims

The nature of the University's activities is such that there is usually litigation pending or in process at any time. Liabilities on any litigation are recognized in the consolidated financial statements when the outcome becomes reasonably determinable. With respect to unsettled claims at March 31, 2020, management believes the University has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the University's financial position.

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

15. Endowments

Endowments form part of the accumulated surplus balance and consist of externally restricted donations, the principal of which is required to be maintained in perpetuity. The endowment fund balance is restricted to support two BC Regional Innovation Chairs (Tourism and Sustainable Rural Development & Aboriginal and Early Childhood Education). Investments are managed by an external fund management company. On March 15, 2012, the University Board of Governors passed policy 42.11 granting full authority to the Foundation to manage the University's endowment funds consistent with the Foundation policy.

16. Expenses by object

The following is a summary of expenses by object:

	2020	2019
Salaries and benefits	\$ 118,707,112	\$ 108,367,869
Fees and purchased services	12,849,136	12,709,007
Travel and training	3,488,407	3,280,006
Scholarships and bursaries	3,822,223	3,617,826
Equipment rental and maintenance	1,499,438	1,351,708
Utilities, insurance and taxes	3,095,934	3,220,970
Materials and supplies	8,933,488	8,964,894
Amortization of tangible capital assets	10,239,030	9,318,958
Cost of goods sold	4,358,632	4,536,630
	\$ 166,993,400	\$ 155,367,868

Under the University Act, the University has been designated a special purpose teaching university. As such, the University's primary purpose is the delivery of educational services. Segmented reporting has not been provided as it would not provide additional material information to users of the financial statements.

17. Contractual rights

The University has entered into a multi-year contract to partner in the delivery of services related to increasing the numbers of Indigenous youth enrolling in and completing tertiary education, and successfully transitioning to employment with a total contract value over 5 years of \$13,415,800. The contract commenced on August 1, 2017 and the final quarterly payment will be received on May 1, 2022.

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

18. Budget

In 2018, the control relationship between the University and the Foundation was assessed. The assessment found that University does not control the Foundation and that the Foundation does not meet the criteria to be consolidated in the University's financial statements. The University's budget approved by the Board of Governors and amounts disclosed in these statements has been revised to remove the impact of the Foundation as follows:

	2020 Approved Budget	Deconsolidation of Foundation	Internal transfers reclassified	2020 Budget
Revenue				
Province of British Columbia grants	\$ 61,446,173	\$ (205,000)	\$ -	\$ 61,241,173
Government of Canada grants	961,346	-	-	961,346
Other grants and contracts	5,441,666	-	-	5,441,666
Tuition and student fees	65,360,379	-	-	65,360,379
Sales of goods and services	9,947,607	-	-	9,947,607
Rental income	2,934,831	-	-	2,934,831
Deferred capital contributions	6,602,000	-	-	6,602,000
Investment income	1,609,844	(647,300)	-	962,544
Gifts, grants and bequests	3,274,100	(3,104,200)	249,700	419,600
Other	1,222,965	-	-	1,222,965
	158,800,911	(3,956,500)	249,700	155,094,111
Expenses				
Salaries and benefits	110,805,452	-	-	110,805,452
Fees and purchased services	11,039,733	(92,000)	-	10,947,733
Travel and training	2,688,720	-	-	2,688,720
Scholarships and bursaries	5,949,769	(4,664,000)	1,024,100	2,309,869
Equipment rental and maintenance	1,337,276	-	-	1,337,276
Utilities, insurance and taxes	3,009,061	-	-	3,009,061
Materials and supplies	8,314,924	(38,000)	-	8,276,924
Amortization of capital assets	10,711,500	-	-	10,711,500
Cost of goods sold	4,944,476	-	-	4,944,476
	158,800,911	(4,794,000)	1,024,100	155,031,011
Annual surplus (deficit)	-	837,500	(774,400)	63,100
Internal Transfers	-	(774,400)	774,400	-
	\$ -	\$ 63,100	\$ -	\$ 63,100

VANCOUVER ISLAND UNIVERSITY

Notes to Consolidated Financial Statements

Year ended March 31, 2020

19. Related party transactions

(a) Other Provincial entities:

The University is related through common control to all Province of British Columbia ministries, agencies, Crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(b) Vancouver Island University Foundation:

The University has an “economic interest” in the Vancouver Island University Foundation (the “Foundation”). The fund balances and results of operations of the Foundation have not been included in these financial statements. The Foundation is incorporated under the Societies Act (British Columbia), is a registered charity and its purpose is to help the University with its student programs and services by developing strong ties to the communities and by raising funds. The University provides services of administration, personnel, supplies and facilities and equipment to the Foundation at no charge. Included in scholarships and bursaries expense is \$2,922,405 (2019 - \$2,497,314) paid to the Foundation. The University received \$774,401 (2019 - \$1,468,448) in contributions from the Foundation. As at March 31, 2020, the Foundation owed the University \$681,247 (2019 - \$1,643,900).

(c) Key management personnel:

During the year ended March 31, 2020, there have been no material transactions between the University and its key management personnel, Board of Governors or their close family members.

20. Comparative figures

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

21. Subsequent events

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. This situation presents uncertainty over the University’s future cash flows, and may have a significant impact on the University’s future operations. Potential impacts on the University’s operations could include future decreases in revenue, future increases in expenses, impairment of receivables, or impairment of investments.