# University of Victoria
# 2023 Management Discussion and Analysis
# (Unaudited)

University
of Victoria

## Introduction to Management Discussion and Analysis

The attached financial statements present the financial results of the university for the year ended March 31, 2023 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 12 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 to better understand the financial position and operating activities of the university for fiscal year March 31, 2023, 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 operations of the University have been guided by our teaching and research priorities and institutional plans such as Aspiration 2030: Research and Creative Works Plan, Equity Action Plan, Indigenous Plan, Campus Plan and the Climate and Sustainability Action Plan. The University's draft Strategic Plan articulates our revised vision, pledge and guiding principles that underpin our approach and priorities as a community and a university and that will guide our decision making in the coming years

The university annually develops a Planning and Budget Framework (P&BF), which is informed by these institutional plans. The P&BF and associated financial models are developed within the context of a three-year planning cycle which provides a more realistic time frame for the development of university initiatives and allows for 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.

Along with many other post-secondary institutions in BC and Canada, the effects of the recent pandemic and other national and global factors continue to impact our enrolment levels and budget outlook. A potential shortfall of revenue over expenditures was initially projected during fiscal 2022/23, due to lower than budgeted tuition revenue. A shortfall was mitigated by the implementing cost containment measures such as a hiring hold and review process that was implemented in fall 2023.

Rebounding from the pandemic has had significant impacts on the university and its students, staff, faculty, and the broader community. The notable impacts, from a financial perspective, were to revenue generating areas such as housing, food, athletics and recreation and continuing studies whose services and programs rely heavily on face-to-face interactions. The return to more normal levels of campus activity resulted in increased revenue from sales and services, for the period ended March 31, 2023, compared to prior year. While overall tuition revenue decreased as international enrolment was lower than anticipated, non credit tuition increased due to strong enrolments. Overall expenses increased year over year mostly due to salaries and associated benefits but also reflecting a return to pre-pandemic activity levels for certain expenses such as travel, supplies, utilities and cost of goods sold. Overall, the University ended the year with a modest positive operating result which is slightly higher than the prior year. Through this challenging financial year we are grateful for work undertaken by our campus leaders to respond to the enrolment challenge and to the dedication, creativity and resilience of our faculty, staff and students.

## Financial Highlights

### Financial Statement Summary

The university ended the year with a modest consolidated operating surplus before donations and other adjustments related to the endowment of $10.5 million (M) or 1.5% of total revenues, up from $0.8 million (restated) in the prior year.

Consolidated revenue increased by 9% to $701M. This increase reflects a $33.7M increase in investment income mostly due to the settlement of an interest rate swap derivative on debt related to the student housing and dining (SHD) project. Sales, mainly within ancillary operations, increased by $15.9M due to the return to pre-pandemic levels of activity on campus.

Consolidated Expenses increased by 8% to $691M reflecting increased salaries and benefits, supplies and services, travel, and costs of goods.

Consolidated assets total $1.9 billion, consistent with prior year, mainly as a result of $58.2M growth in tangible capital assets resulting from investments in new buildings and infrastructure renewal offset by a $48.7M decrease in portfolio investments due to weak financial markets.

Debt decreased by $31.4M as a result of converting $104M of short-term commercial paper loans to a 30-year bond during the year. The bond has a face value of $104M and a debt discount of $28.5M which will be amortized over the life of the loan.

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. The University received approval to restrict $40M of provincial grants for capital expenditures to provide for better matching of revenues and amortization. This restriction only reflects a portion of total capital spending and therefore the year's operating surplus is higher as capital expenditures are not reflected in the operating surplus.

### Government Grants

Revenue from the Government in the form of grants decreased by 1.5% over the previous year. Annual grants received from the Province for capital purposes including routine capital and specific project funding were $20.8M.

### Tuition and Enrolment

Overall, credit tuition decreased by 4.0% to $164.2M. This increase reflects a decrease in international enrolment, offset by a 2% increase in domestic fees (Provincial Government policy limits annual domestic increases to 2%) and graduate international fees, and a 3.75% increase in undergraduate international fees. Non-credit tuition increased by 33.1% to $22.6M due to increased enrolment as a result of the return to face-to-face non-credit instruction.

### Adoption of Asset Retirement Obligation Standard

The university adopted the Canadian Public Sector Accounting Standard PS 3280, Asset Retirement Obligations (ARO). The new standard requires the university to recognize a liability when there is a legal obligation associated with the retirement of a tangible capital asset, such as the removal of asbestos and other hazardous materials. The future costs of removing asbestos and other hazardous materials on certain buildings owned by the university were estimated using the expected date of removal and discounted back to the date of adoption. The ARO standard was adopted April 1, 2021, using the modified retrospective approach which resulted in the restatement of the 2021/22 financial statements. The effect of the restatement is detailed in Note 3 of the financial statements. The university's asset retirement obligation liability at March 31, 2023 is $48.8M (2021/22 - $47.3M).

### 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 $524M. The endowments had a return of 3.8% for the year (2021/22 – return of 1.1%) across its eight investment mandates. Working capital investments held within the university generated a return of 2.2% for the year (2021/22 – loss of 0.4%).

### Major Capital Activity

In 2018/19, the university received approval from the Province to borrow $123M to partially finance a 620 bed expansion as part of a student housing and dining project. Construction activity started in 2019/20 with the first building, Cheko'nien House, which opened in fall 2022. The second building, Sngequ House, is scheduled for completion in summer 2023. Cheko'nien House and Sngequ House are the first passive house buildings on campus, reflecting the university's commitment to sustainability and carbon reduction. They are also the first buildings to be gifted an indigenous name by the Songhees and Esquimalt Nations. The approved budget for the project is $234M. As of March 31, 2023 total spending on the student housing and dining project is $215M.

## Financial Information

### Financial Assets

Financial assets are defined as assets available to discharge existing liabilities or finance future operations. During the year, they decreased 10.9% to $480M.

| *In thousands of dollars* | **2023** | **2022** |
|---|---|---|
| Cash and cash equivalents | 146,757 | 162,900 |
| Accounts receivable | 15,693 | 13,918 |
| Due from governments | 32,272 | 19,284 |
| Inventories for resale | 1,275 | 1,364 |
| Portfolio investments | 209,869 | 258,551 |
| Derivatives | 4,893 | 25,808 |
| Loans receivable | 33,594 | 24,495 |
| Employee future benefits | 32,738 | 24,303 |
| Investments in gov't business enterprises | 3,370 | 8,536 |
| Total Financial Assets | 480,461 | 539,159 |

Cash and cash equivalents decreased by $16.1M, as a result of the SHD project. Accounts receivable decreased by $1.8M and due from governments increased by $13M, reflecting timing differences and year end funding. Portfolio investments, which include the university's working capital, investments underlying endowment expendable funds, investments related to sinking funds held for provincial debt, and supplemental pension obligations, decreased by $48.7M due largely to losses within the UVic Foundation's endowment investments and the university's working capital that were impacted by weak market performance. In 2020/21, the university entered into two interest rate swaps for the debt related to the SHD project in order to reduce the risk of higher interest rates and subsequent higher debt payments. Interest rates have risen across 5-, 10- and 30-year terms and the swaps have performed as expected. During 2022/23, the University settled one interest rate swap derivative which resulted in a $34.7M gain. As of March 31, 2023, the market value of the university's derivatives is $4.9M (2022 - $25.8M).

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 (VITP) Trust, and GSB Executive Education Inc.

### Liabilities

Liabilities increased by 1.4% to $1,005M.

| *In thousands of dollars* | **2023** | **2022 restated** |
|---|---|---|
| Accounts payable | 58,737 | 54,744 |
| Due to governments | 8,120 | 7,540 |
| Deferred revenue | 22,866 | 24,571 |
| Deferred contributions | 239,460 | 256,792 |
| Deferred capital contributions | 494,607 | 436,373 |
| Debt | 132,914 | 164,272 |
| Asset retirement obligations | 48,829 | 47,347 |
| Total Liabilities | 1,005,533 | 991,639 |

Deferred contributions are externally restricted revenue that is not recognized until related expenses are incurred (e.g. research grants). Deferred contributions decreased by $17.3M. Deferred capital contributions are externally restricted contributions for investment in capital assets amortized over the life of the related tangible capital assets. During the year, deferred capital contributions increased by a net $58.2M resulting from contributions of $74.6M and transfers of $10.6M less amortization of $27.0M. Debt decreased by $31.3M resulting from the conversion of $104M of short-term loans for the SHD project to a 30-year $104M face value bond with a debt discount of $28.5M (debt proceeds of $75.3M). The debt discount is amortized over the term of the bond. Scheduled debt repayments were $2.9M during the year. Asset retirement obligations related to buildings containing asbestos and other hazardous materials increased by $1.5M due to accretion expense.

### Non-financial Assets

Non-financial assets increased by 6.4% to $1,437M.

| *In thousands of dollars* | **2023** | **2022 restated** |
|---|---|---|
| Tangible capital assets | 976,296 | 918,146 |
| Restricted endowment investments | 436144 | 418,237 |
| Inventories held for use | 3,151 | 2,809 |
| Prepaid expense | 21,849 | 17,225 |
| Total Non-Financial Assets | 1,437,440 | 1,350,413 |

Tangible capital assets include land, buildings, site improvements, library holdings, computers, equipment and furnishings but excludes $11.8M of artwork and collections, as these are expensed under PSAS accounting. The net increase in tangible capital assets of $58.2M is due to additions of $109.8M less amortization of $47.7M and the removal of Broad Street properties with a net book value of $3.9M which were transferred to VITP during the year. The largest single capital asset addition was related to the SHD Project.

Restricted endowment investments represent the portion of endowment investments related to the restricted principal funds (i.e., original donations) plus capitalized inflation. During the year, they increased $17.9M due to donations of $5.5M and capitalized investment income of $12.4M. In November 2022, the Foundation Board approved a new endowment spending policy to respond to high inflation and to preserve the intergenerational equity of endowed gifts. The new policy caps the annual inflation adjustment to endowment principal at 3% and introduces a new spending distribution rate of 3% for endowments with a market value of less than 100% of inflation adjusted principal. 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.

### Accumulated surplus

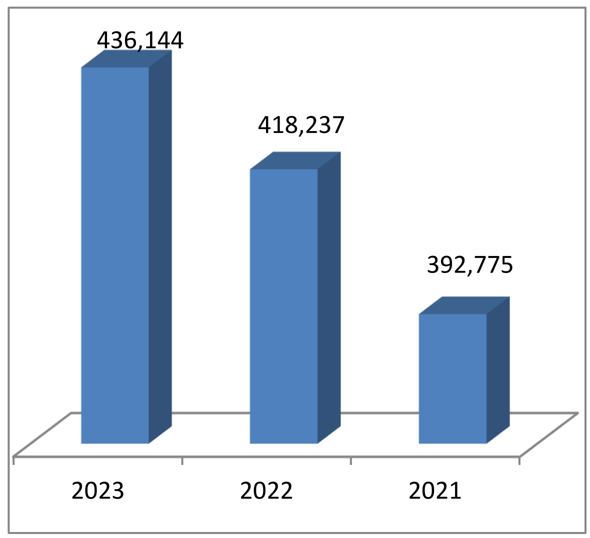
Accumulated surplus represents the university's residual interest in its assets after deducting liabilities (net assets). It increased by $8.4M to $912M.

| *In thousands of dollars* | **2023** | **2022 restated** |
|---|---|---|
| Endowments | 436,144 | 418,237 |
| Invested in capital assets | 318,977 | 289,661 |
| Internally restricted | 111,705 | 140,897 |
| Unrestricted | 39,346 | 28,964 |
| Remeasurement gains | 6,196 | 26,178 |
| Accumulated surplus | 912,368 | 903,937 |

The majority of accumulated surplus is unavailable to fund operations as it is either restricted or has already been used to invest in buildings, equipment and other capital assets. Endowment, Invested in capital assets, and internally restricted are described in the following sections. Unrestricted surplus consists primarily of balances arising from ancillary operations such as student housing and other entities that are consolidated in the Financial Statements (see related entities below). Remeasurement gains represent unrealized gains on university unrestricted or quasi endowment funds and the university's working capital arising after April 1, 2012 (the effective date of the new Public Sector Accounting Standard financial instrument standard).

### Accumulated Surplus – Endowment

Endowments increased by 4.3% to $436M.



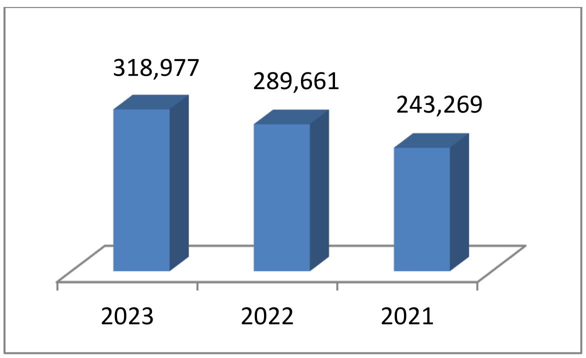

The university's endowments are held by the UVic Foundation. Accumulated surplus-endowment consists of restricted donations and capitalized investment income, which is required to be maintained intact in perpetuity in order to support donor specified activities. The investment earnings generated from endowments must be used in accordance with the various purposes stipulated by the donors. At March 31, 2023 there were 1,565 individual endowment funds providing $18.8M (2021/22 - $17.6M) in annual funding.

Per donor wishes and UVic Foundation policies, 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 31, 2023 the stabilization account balance is $78.5M (2021/22 - $94.5M) or 18% of endowment principal.

### Accumulated Surplus – Invested in Capital Assets (restated)

Accumulated surplus invested in capital assets increased by 10% to $319M.

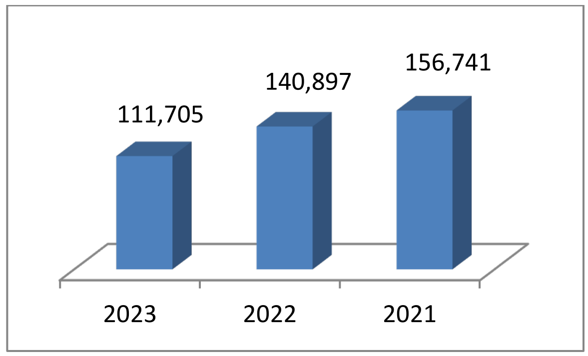



Accumulated surplus invested in capital assets is the amount of internal university funds used for the acquisition of capital assets less amortization of those capital assets and future asset retirement obligations. The following comprises the balance of accumulated surplus invested in capital assets:

| *(in thousands of dollars)* | **2023** | **2022 restated** |
|---|---|---|
| Land | 20,364 | 22,582 |
| Site development | 12,316 | 10,248 |
| Buildings | 411,610 | 410,475 |
| Equipment | 26,055 | 25,333 |
| Computer equipment | 2,080 | 2,844 |
| Library acquisitions | 9,264 | 10,291 |
| Sinking funds | 12,290 | 11,997 |
| Less debt | (126,173) | (156,762) |
| Less asset retirement obligations | (48,829) | (47,347) |
| Invested in capital assets | 318,977 | 289,661 |

### Accumulated Surplus – Internally Restricted

Accumulated surplus – internally restricted decreased by 20.7% to $112M.



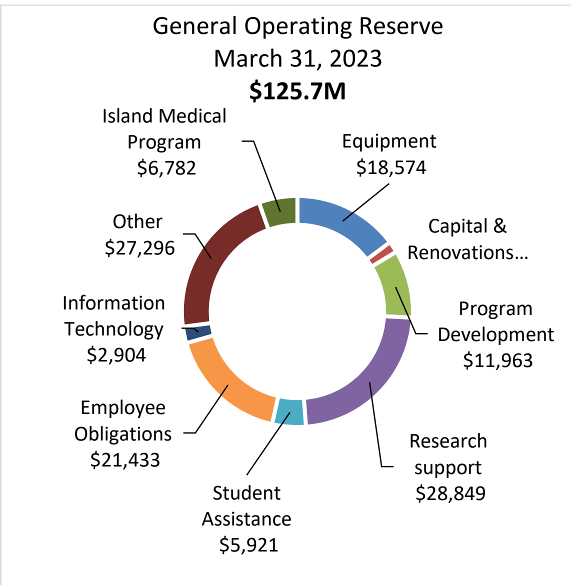

Accumulated surplus – internally restricted consists of balances appropriated by the university Board of Governors for employee commitments, equipment replacement, capital improvements, program development, research support and other non-recurring expenditures. Due to Provincial Government restrictions on external borrowing by the university, these funds are used on a temporary basis to finance capital projects that will generate future revenues. The reserves are also offset by future liabilities for certain employee benefits. The overall decrease in accumulated surplus – internally restricted is a result of SHD project expenditures exceeding the external loan amount resulting in a decrease of $48M in the capital fund. These decreases were offset by a $8M positive actuarial valuation for the staff pension and an increase of $5M in ancillary reserves.

Balances are made up as follows:

| *(in thousands of dollars)* | **2023** | **2022** |
|---|---|---|
| General operating | 125,703 | 119,793 |
| Ancillary enterprises | 21,956 | 17,402 |
| Capital | (68,808) | (21,554) |
| Less: Vacation pay | (11,897) | (11,793) |
| Add: Staff pension | 44,751 | 37,049 |
| Total internally restricted | 111,705 | 140,897 |

General operating reserves increased by 4.9% to $125.7M.

General operating funds consist of:




Operating Surplus

The operating surplus was $10.5M or 1.5% of total revenues ($0.8M or 0.1% for the prior year). The main reasons for the surplus, with comparison to the prior year, are as follows:

| *(in thousands of dollars)* | **2023** | **2022 restated** |
|---|---|---|
| Designated Items | | |
| Staff Pension actuarial gain | 7,702 | 8,860 |
| Ancillary fund surplus | 5,332 | 2,413 |
| Invested in tangible capital assets | 8,029 | 9,219 |
| Non-Designated Items | | |
| Operating fund (deficit) | (1,903) | (4,599) |
| Gain from settlement of derivative | 34,662 | - |
| Operating fund restriction for capital | (40,000) | (10,000) |
| Other | (5,219) | (5,089) |
| Operating surplus | 10,506 | 804 |

## Revenue

Revenue increased by 9.1% to $701M.

| *(in thousands of dollars)* | **2023** | **2022** |
|---|---|---|
| Government grants & contracts | 321,348 | 326,373 |
| Tuition & student fees | 186,834 | 188,006 |
| Donations, non-government grants & contracts | 26,375 | 13,588 |
| Sales of services & products | 70,552 | 54,618 |
| Investment income | 59,959 | 26,237 |
| Income/(loss) from business enterprises | (48) | 524 |
| Amortization of deferred capital contributions | 27,015 | 27,802 |
| Other revenue | 9,060 | 6,571 |
| Loss on disposal of assets | - | (1,003) |
| Total Revenue | 701,105 | 642,716 |

Government grants and contracts revenue is received from the Province of B.C. (67%), the Government of Canada (27%), and other governments (6%). Revenue from the Province decreased by $14.1M overall, due mainly to an increase in amount of operating grant restricted for capital purposes. This reduction was offset by increases in funding for program growth in several faculties and funding related to salary increases resulting from collective bargaining. Tuition and student fees decreased by $1.2M, or 0.6%. Credit tuition decreased by $6.8M mostly as a result of a 15% decrease in international enrolment. This decrease was offset by fee increases (2% for domestic and graduate international and 3.75% for undergraduate international). Non-credit tuition increased by $5.6M and sales of services & products increased by $15.9M due to increased on-campus.

### Expenses

Expenses increased by 7.6% to $690.6M. Expenses reported by object were as follows:

| *(in thousands of dollars)* | **2023** | **2022 restated** |
|---|---|---|
| Salaries and benefits | 455,077 | 423,598 |
| Travel | 13,276 | 4,134 |
| Supplies and services | 92,611 | 85,461 |
| Utilities | 8,358 | 8,353 |
| Scholarships and bursaries | 51,070 | 50,953 |
| Cost of goods sold | 10,615 | 8,581 |
| Interest on long term debt | 3,231 | 2,334 |
| Amortization | 47,722 | 47,770 |
| Total Expenses | 690,599 | 641,914 |

Salaries and benefits represent 66% of total expenses and increased by $31.5M due to progression through the ranks, negotiated settlements and hiring during the year. Travel, supplies and services, and cost of goods sold all increased as on-campus activities normalized.

Expenses reported by function were as follows:

| *(in thousands of dollars)* | **2023** | **2022 restated** |
|---|---|---|
| Instruction and non-sponsored research | 283,714 | 267,791 |
| Academic and student support | 166,675 | 156,693 |
| Administrative support and general expenses | 28,801 | 27,411 |
| Facilities operations and maintenance | 63,651 | 57,648 |
| Sponsored Research | 129,051 | 117,289 |
| External engagement | 18,707 | 15,082 |
| Total Expenses | 690,599 | 641,914 |

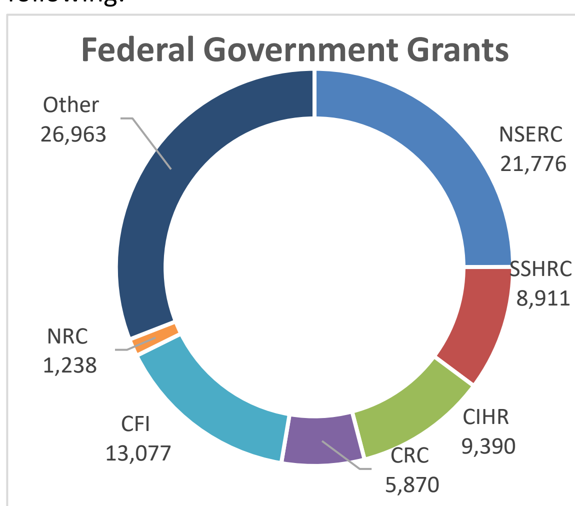
### Sponsored Research Contributions

Sponsored research revenue increased by 12.2% to $128.5M.

| *(in thousands of dollars)* | **2023** | **2022** |
|---|---|---|
| Province of B.C. | 15,432 | 16,265 |
| Federal government | 87,215 | 90,800 |
| Other governments | 10,766 | 12,900 |
| Gifts, grants & bequests | 15,178 | 13,930 |
| Sales of services | 2,381 | 3,849 |
| Other revenue | 1,658 | 1,970 |
| Total contributions | 132,630 | 139,714 |
| Transfer to deferred contributions | (4,075) | (25,562) |
| Sponsored research revenue | 128,555 | 114,152 |

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

Federal government grants are comprised of the following:



## Operating Environment

This year has been difficult from an enrolment perspective with both domestic and international undergraduate enrolments below levels from the previous year. While we met targets as set out by the Ministry of Post-Secondary Education and Future Skills, during the year we were about 800 students below our budget level. International enrolment levels, always difficult to predict as they are impacted by world events, are particularly so this coming year due to study permit processing times, international government policy changes, economic conditions and other geopolitical disruptions such as the war in Ukraine. This past year, undergraduate international enrolments decreased 15% due to these challenges.

A pragmatic enrolment target scenario was supported by the Board. With this approach, enrolments are projected to be higher than actual enrolment in 2022/23 by 3% overall but lower than were budgeted in 2022/23. Significant work has been put into recruitment for the coming year with a focus on international recruitment. While best efforts are being made in order to provide some protection in the continued enrolment risk environment the 2023/24 budget includes a $7.2M enrolment contingency. We are also carefully monitoring student enrolment levels throughout the year so we can respond to enrolment changes and minimize institutional impacts.

Ancillary operations largely returned to pre-pandemic results, with residence services, parking services and childcare ending the 2022/23 year with modest surpluses while food services and the bookstore had small deficits which will be covered by existing reserves or future unappropriated funds.

UVic has completed bargaining with all employee unions save for CUPE 917. The province is funding the shared recovery mandate which runs into 2025. The current high inflation environment will put additional pressure on budgets as there is no annual lift from the Province to meet other inflationary pressures.

UVic's physical infrastructure requires further renewal and enhancement. While the SDH project is nearing completion two other significant capital projects are just underway – the National Centre for Indigenous Laws (NCIL) and the Addition to the Engineering and Computer Science Building. Both projects will provide key space to support teaching and research capacity. Future capital priorities have been identified in the Capital Plan and include addressing deferred maintenance, increasing student housing, enhance or repurpose current spaces 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 important funding sources for these infrastructure priorities.

A new strategic plan is anticipated to be approved in May 2023. The plan outlines articles a new vision for UVic - *Inspired by and honouring place, we are a community-minded, globally engaged university where we transform ideas into meaningful impact.* It also includes for the first time a pledge to hold ourselves accountable to ʔetal nəwəl | ÁTOL,NEUEL | showing respect for the rights of one another and all things — and for upholding the rights of Indigenous Peoples. We will deliver on this vision and pledge through four strategic priorities of ʔetal nəwəl | ÁTOL,NEUEL | (showing respect for the rights of one another and all things), People. Place and Planet, Cultivating a Culture of Change and Transformation and Partnering for a Shared Future. We look to all faculty, staff and students to engage with the plan and see how they can help us fulfill these commitments.

## 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. 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" that 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, 2023 is $(525M) but includes $494M 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 $912M, representing the university's net assets. A breakdown of this balance is disclosed on the Statement of Financial Position, and in the notes, to communicate to readers of the financial statements that this figure mostly represents restricted, spent or committed funds.

The Statement of Operations reports revenues, functional expenses and budget figures for the university's consolidated operations. Endowment donations and investment income capitalized to endowment principal, that used to be recorded as direct increases in net assets, are recorded on the Statement of Operations as Restricted Endowment Contributions and included in Annual Operating Surplus, even though they are not available to fund operational expenses.

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

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

## Risks and Uncertainties

The university operates in an increasingly more complex environment with many factors that are outside of the control of the university. The university uses an Enterprise Risk Management approach and develops risk mitigation strategies to reduce the impact where possible. The major risks that can affect the university from a financial perspective are as shown below. The university has institutional risk appetite statements that help guide decision making across all areas of campus.

### Student recruitment and retention

The top institutional risk continues to be enrolment management. Our priority, as we rebuild enrolments is to ensure faculty, instructors, staff, and students are well supported. There are limited investments in the 2023/24 budget includes and they are focused on meeting our student recruitment and retention goals. Our financial approach to managing the risk of revenue loss due to an enrolment decline (as noted above) is an enrolment contingency budget of $7.2M. We have developed enrolment plans to rebuild international enrolments and we will continue to carefully monitor student enrolment throughout the year so we can respond to enrolment changes, minimize institutional impacts and allocate the enrolment contingency if enrolments exceed the budgeted levels.

### 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 uncertainty year to year with respect to the university's operating funding.

### Inflation

The pandemic stressed global supply chains and the war in Ukraine has further exacerbated existing issues. As a result, inflation in Canada is at its highest level since 1991 and is affecting countries globally with many countries experiencing inflations significantly in excess of central bank target rates. This is driving up costs of goods and services which has resulted in further escalation in operating and capital costs. This is being closely monitored for institutional impacts. The most significant inflation risk is with respect increasing costs of capital and the impact that could have on the National Centre for Indigenous Laws and the Engineering expansion projects.

### 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, 2021, shows that the Plan is fully funded. The last valuation for the Staff Pension Plan was December 31, 2019, which resulted in a going concern surplus funded ratio of 117% of liabilities but a solvency funded ratio of 78%. The Pension Benefits Standards Regulation was amended effective December 31, 2019, introducing new going concern and funding methodologies. The solvency funding target is now 85%, and a letter of credit may be secured in lieu of making payments. The university has arranged a letter of credit to secure the solvency deficiency payment. Rising interest rates are negatively affecting fixed income investment returns. However, rates are to a greater extent reducing the present value of the pension payment liabilities which will improve the solvency ratio.

While many other post-secondary institutions in B.C. and in other provinces are not required to meet a solvency test, this requirement for the university resulted in a cost of $693,000 for 2022/23 (2021/22 - $663,000). The next valuation date is December 31, 2022, with a filing requirement of September 2023.

### Deferred Maintenance

As the university ages, the risk related to deferred maintenance increases. Priority projects to address deferred maintenance include renewal and seismic upgrading of some of our older buildings. Some priority deferred maintenance projects are addressed annually, but these budgets are limited. Significant major capital renewal funding is needed as outlined in the university's 5-year capital plan.

## 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.

### WCUMSS

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 this government partnership 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.

### 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.

### 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.

### 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.