Financial Statements of

UNIVERSITY OF VICTORIA FOUNDATION

And Independent Auditors' Report thereon

Year ended March 31, 2021

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University of Victoria (the "University") is responsible for the preparation of the financial statements of the University of Victoria Foundation (the "Foundation"). The statements have been prepared in accordance with Canadian Public Sector Accounting Standards for government not-for-profit organizations and present fairly the financial position of the Foundation as at March 31, 2021 and the results of its operations for the year then ended.

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

The financial statements have been examined by KPMG LLP, Chartered Professional Accountants, the independent auditors appointed by the Foundation's Board of Directors. The Independent Auditors' Report outlines the nature of their examination and provides their opinion on the fair presentation of the financial statements of the Foundation for the year ended March 31, 2021.

Mary Garden	Andrew Coward
Chair	*Treasurer*

_________________, 2021

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of the University of Victoria Foundation

Opinion

We have audited the financial statements of University of Victoria Foundation (the Entity), which comprise:

- the statement of financial position as at March 31, 2021
- the statement of revenue, expense and changes in fund balances for the year then ended
- the statement of cash flows for the year then ended
- the statement of remeasurement gains and losses for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2021, and its results of operations, its changes in fund balances, its cash flows and its remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of 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.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
June 22, 2021

UNIVERSITY OF VICTORIA FOUNDATION

Statement of Financial Position

March 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 21,077,276	$ 6,485,723
Accrued interest and other receivables	1,412,670	6,692,868
Amount due from the University of Victoria (note 5)	971,076	1,561,402
Investments (note 3)	503,681,041	436,607,624
	$ 527,142,063	$ 451,347,617
Liabilities		
Accounts payable	$ 1,790,731	$ 4,996,387
Fund Balances		
Endowment Principal balances:		
Restricted endowment	369,983,219	353,195,371
Restricted quasi-endowment	8,544,324	8,482,446
Designated endowment	20,186,272	20,019,802
Designated quasi-endowment	1,562,236	1,551,377
Unrestricted endowment	2,605,199	2,587,088
Unrestricted quasi-endowment	59,124	58,713
	402,940,374	385,894,797
Expendable fund balances	122,410,958	60,456,433
	$ 527,142,063	$ 451,347,617

See accompanying notes to the financial statements.

On behalf of the Board of Directors:

Chair

Treasurer

UNIVERSITY OF VICTORIA FOUNDATION

Statement of Revenue and Expenses and Changes in Fund Balances

Year ended March 31, 2021, with comparative information for 2020

	Endowment Principal		Expendable Funds	
	2021	2020	2021	2020
Revenue:				
Donations	$ 14,327,867	$ 8,730,497	$ -	$ -
Interest and dividend income	-	-	10,310,471	17,051,258
Realized gains, less losses	-	-	(13,549,008)	8,352,181
	14,327,867	8,730,497	(3,238,537)	25,402,439
Expenses:				
Scholarships, bursaries and other distributions	-	-	15,807,905	15,879,255
Administration fees (note 5)	-	-	1,249,432	1,177,150
Investment management fees	-	-	2,145,729	1,877,436
	-	-	19,203,066	18,933,841
Excess (deficiency) of revenue over expenses	14,327,867	8,730,497	(22,441,603)	6,469,598
Fund balances, beginning of year	385,894,797	369,357,751	57,824,057	59,161,008
Interfund transfers - encroachment on quasi-endowments (note 6)	(258)	(304,460)	258	304,460
Capitalizations to endowment principal (note 4)	2,717,968	8,111,009	(2,717,968)	(8,111,009)
Fund balances, before accumulated remeasurement gains	402,940,374	385,498,797	32,664,744	57,824,057
Accumulated remeasurement gains	-	-	89,746,214	2,632,376
Fund balances, at end of year	$ 402,940,374	$ 385,894,797	$ 122,410,958	$ 60,456,433

See accompanying notes to the financial statements.

UNIVERSITY OF VICTORIA FOUNDATION

Statement of Cash Flows

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Excess (Deficiency) of revenue over expense	$ (8,113,736)	$ 15,200,095
Items not involving cash:		
Realized losses (gains) on investments	13,549,008	(8,352,181)
Changes in non-cash working capital balances (net):		
Net decrease (increase) in accrued interest and other receivables	5,280,198	(2,427,563)
Decrease (increase) in due from the University of Victoria	590,326	(867,957)
Net decrease (increase) in accounts payable	(3,205,656)	3,187,644
	8,100,140	6,740,038
Investing activities:		
Net sale (acquisition) of investments	6,491,413	(11,794,230)
Increase (decrease) in cash during the year	14,591,553	(5,054,192)
Cash and cash equivalents, beginning of year	6,485,723	11,539,915
Cash and cash equivalents, end of year	$ 21,077,276	$ 6,485,723

See accompanying notes to the financial statements.

UNIVERSITY OF VICTORIA FOUNDATION

Statement of Remeasurement Gains and Losses

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Accumulated remeasurement gains, beginning of the year	$ 2,632,376	$ 41,183,107
Unrealized gains (losses), including foreign exchange attributable to:		
Bonds and various bond pooled funds	572,953	1,798,160
Equities	69,259,467	(38,455,889)
Infrastructure and real estate	3,732,410	6,459,179
	73,564,830	(30,198,550)
Realized losses (gains) reclassified to the statement of operations, attributable to:		
Bonds and various bond pooled funds	(3,501,504)	(1,722,620)
Equities	21,759,597	(6,593,547)
Infrastructure and real estate	(4,709,085)	(36,014)
	13,549,008	(8,352,181)
Net change in remeasurement gains and losses for the year	87,113,838	(38,550,731)
Accumulated remeasurement gains, end of the year	$ 89,746,214	$ 2,632,376

See accompanying notes to the financial statements.

1. Purpose and status of University of Victoria Foundation:

The purpose of the Foundation is to encourage and administer financial support of the University through donations from individuals, corporations, and foundations to fund scholarships, bursaries and other university purposes; and to promote a continuing interest in the University and in higher education in general. The Foundation is incorporated in British Columbia under the *University of Victoria Foundation Act.* It is a charitable organization registered under the Income Tax Act and as such is exempt from income taxes.

The accounts of the Foundation are included in the consolidated financial statements of the University of Victoria.

2. Significant accounting policies:

(a) Basis of presentation:

The Foundation's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations using the restricted fund method of accounting and include the following significant accounting policies:

(b) Fund accounting:

The Foundation follows the restricted fund method of accounting for donations to recognize restrictions placed on the use of funds by donors, the University, or the Board of Directors of the Foundation.

The endowment principal of funds is classified into two groups:

(*i*) Endowment funds - where the principal is to be held intact in perpetuity,

(*ii*) Quasi-endowment funds - where the terms of the endowment permit the principal to be expended under certain circumstances.

The expendable income of funds is classified as follows:

(*i*) Restricted - by the donor to certain specific uses, e.g. scholarships, bursaries, library books, etc.

(*ii*) Designated - internally restricted by the Board of Directors of the Foundation for certain specific uses, usually at the time the gift or bequest is received,

(*iii*) Unrestricted - where no direction is given by the donor and the Board of Directors of the Foundation decides not to direct that the income be used for any specific purposes.

2. Significant accounting policies (continued):

(c) Investments:

The assets underlying the endowment principal and expendable funds are held in two investment pools. The investment pools are recorded at market value. The net investment income of each investment pool is distributed to the expendable funds according to the market value of funds in the prior month.

(d) Pledge revenue:

Pledges from donors are recorded as revenue when payment is received since their ultimate collection cannot be assured until that time.

(e) Use of estimates:

The preparation of the financial statements in conformity with Canadian Public Sector Accounting Standards, including the 4200 standards for government not-for-profit organizations, requires management to make estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported revenues and expenses during the reporting period. Actual results could differ from these estimates.

(f) Financial instruments:

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

(*i*) Fair value category: Investments that are quoted in an active market are reflected at fair value as at the reporting date. The category also includes investments the Foundation has elected to record at fair value. 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 Revenue and Expenses and Changes in Fund Balances and reversed from the Statement of Remeasurement Gains and Losses.

2. Significant accounting policies (continued):

(f) Financial instruments:

(*i*) Fair value category (continued):

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.

(*ii*) Cost category: Gains and losses are recognized in the Statement of Revenue and Expenses and Changes in Fund Balances and excess (deficiency) of revenue over expenses when the financial asset is derecognized due to disposal or impairment. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are included in the cost of the related investments.

(g) Foreign currency translation:

The Foundation's functional currency is the Canadian dollar. Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities which were designated in the fair value category under the financial instrument standard are reflected in the financial statements in equivalent Canadian dollars at the exchange rate in effect on the balance sheet date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or balance sheet date is recognized in the Statement of Remeasurement Gains and Losses. In the period of settlement, the related cumulative remeasurement gain/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 Revenue and Expenses and Changes in Fund Balances.

3. Investments:

Investments are comprised of the following:

	Fair value hierarchy	2021 Fair value	2021 Original cost	2020 Fair value	2020 Original cost
Investments at fair value:					
Bonds	Level 2	$ 54,694,677	$ 56,179,895	$ 61,739,392	$ 60,192,759
Various pooled bond funds	Level 1	61,793,180	62,122,493	61,881,026	62,315,492
Canadian equities	Level 1	57,551,712	49,762,258	50,056,898	67,368,872
Global equities	Level 1	242,889,018	174,003,329	165,450,076	161,933,441
Infrastructure and real estate	Level 3	86,752,454	66,979,779	97,480,232	76,730,882
Total investments		$ 503,681,041	$409,047,754	$ 436,607,624	$ 428,541,446

4. Endowment management policy:

The Foundation has an Endowment Management Policy which balances the intention to protect the value of the fund against inflation with the intention to maintain stability and predictability in the distribution of income. Consistent with this policy, a portion of the expendable fund of each endowment may be capitalized to endowment principal to provide a larger investment base for future years.

During the year ended March 31, 2021, $2,717,968 (2020 - $8,111,009) of expendable funds were capitalized.

5. Related party transaction:

The Foundation paid $941,670 (2020 - $917,970) in administration fees to the University of Victoria during the year ended March 31, 2021.

Amount due from (to) the University of Victoria relates to cash flows resulting from activities between the University of Victoria and the Foundation.

6. Interfund transfers:

The Foundation's policy allows for encroachment on the principal balance of quasi-endowments. This interfund transfer covers any deficit in expendable balances at year end. During the year ended March 31, 2021, $258 (2020 - $304,460) was transferred from principal to expendable.

7. Financial risk management:

The Foundation has exposure to the following risks from its use of financial instruments: credit risk, market risk, interest rate risk, liquidity risk, and foreign currency risk. The Foundation Board of Directors ensures that the Foundation has identified major risks and management monitors and controls them.

7. Financial risk management (continued):

(a) Credit risk:

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

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

The Foundation limits the risk in the event of non-performance related to fixed income holdings by dealing principally with counter-parties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

The credit risk of the Foundation investments at March 31, 2021 is $132,977,529. The following shows the percentage of fixed income holdings in the portfolio by credit rating:

Credit Rating	%
AAA	8.8%
AA	34.8%
A	20.3%
BBB	15.1%
BB and below	3.0%
Mortgages	3.7%
Cash and short terms:	
R1 high	7.6%
R1 mid	2.6%
R1 low	4.1%
	100%

(b) Price risk:

Price risk includes market risk and interest rate risk.

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

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

7. Financial risk management (continued):

(b) Price risk (continued):

Asset class		Estimated volatility (% change)
Canadian equities	+/-	20.0%
Foreign equities	+/-	18.0%
Real estate	+/-	12.5%
Bonds	+/-	6.0%
Infrastructure	+/-	12.5%

Benchmark for investments		Net impact on Foundation portfolio market value (thousands of dollars)
S&P/TSX Composite Index	+/-	$11,692
MSCI All Country World Index	+/-	44,318
FTSE TMX Canada Universe Bond Index	+/-	7,979
Canadian Consumer Price Index (Real Estate)	+/-	6,057
Canadian Consumer Price Index (Infrastructure)	+/-	4,788

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

It is management's opinion that the Foundation is exposed to market or interest rate risk arising from its financial instruments. Duration is an appropriate measure of interest rate risk for fixed income funds as a rise (fall) in interest rates will cause a decrease (increase) in bond prices - the longer the duration, the greater the effect. Duration is managed by the investment manager at the fund level. At March 31, 2021, the modified duration of all fixed income in aggregate was 7.7 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 7.7%, contrarily if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 7.7%.

7. Financial risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Foundation will not be able to meet its financial obligations as they become due.

The Foundation manages liquidity risk by continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Foundation's reputation.

(d) Foreign currency risk:

The Foundation has entered into agreements and purchases for foreign currency hedging made through various investment portfolios.

Management has assessed that the foreign exchange risk derived from currency conversions is not significant to the Foundation.