

# Review of the Financial Results 2018-2019





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This review of the 2018-2019 financial results should be read in conjunction with the University's audited consolidated financial statements and related notes.

# 2018-2019 in Numbers

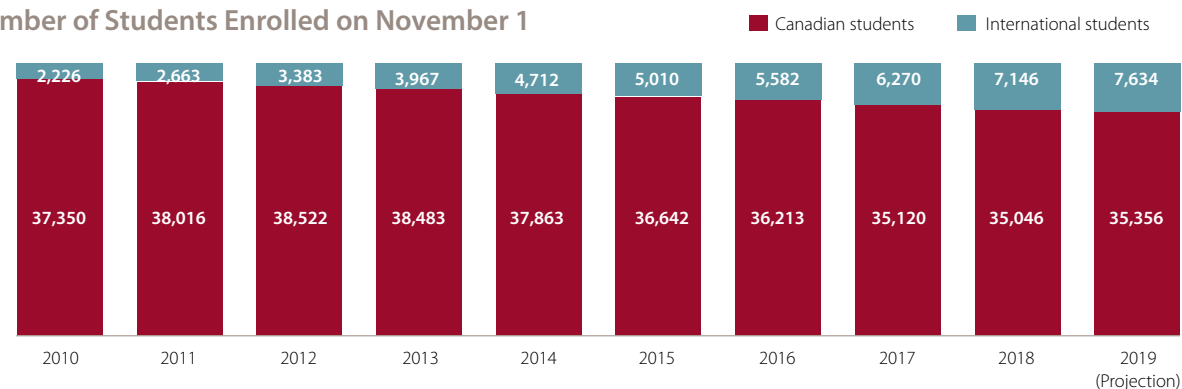
(in thousands of dollars)

	2019 (\$)	2018 (\$)	Variance (%)
<b>Consolidated Statement of Operations</b>			
Revenue	1,126,063	1,099,819	2.4
Expenses	1,044,346	1,022,982	2.1
Excess of revenue over expenses before the undernoted	81,717	76,837	6.4
Change in fair value of investments measured at fair value	10,113	(7,065)	243.1
<b>Excess of revenue over expenses</b>	<b>91,830</b>	<b>69,772</b>	<b>31.6</b>

<b>Consolidated Statement of Financial Position</b>			
Assets	3,220,854	3,294,783	-2.2
Liabilities	1,199,914	1,209,316	-0.8
Net assets	2,020,940	2,085,467	-3.1

<b>Composition of Net Assets</b>			
Unrestricted	24	123	-80.5
Internally restricted	1,726,919	1,805,687	-4.4
Endowments	293,997	279,657	5.1
<b>Total</b>	<b>2,020,940</b>	<b>2,085,467</b>	<b>-3.1</b>

## Number of Students Enrolled on November 1



- Over the past 10 years, the student population has increased by 8.6% and is expected to be 42,990 on November 1, 2019.
- The proportion of international students has risen from 6.0% in 2010 to a projected 18.0% on November 1, 2019.
- The proportion of graduate students has remained stable over these years, ranging between 15.0% and 16.0%.
- Following the partial fee waiver for international doctoral students, the number of international doctoral students rose from 78 in the fall of 2017 to 125 in the fall of 2018, an increase of 60.3%.



# Summary

The information contained in this document presents a financial overview of the past year in comparison with the previous year and in light of the budget adopted for the 2018-2019 fiscal year.

Overall, the 2018-2019 fiscal year had positive financial results. Over the past few years, the University of Ottawa has implemented cost control measures and a new internal funding formula. These initiatives have been successful and have resulted in an operating fund surplus that will be available to fund incentives that encourage faculties and services to more quickly achieve their priority goals, create a strategic fund, or allow the institution to better face the economic challenges that are expected in the coming years.

The 2019-2020 budget, which the Board of Governors approved last May, anticipates an operating fund deficit of approximately \$17.4M, most notably due to the 10.0% reduction in tuition fees announced in January 2019. The 2018-2019 financial results will allow the University to absorb this reduction and give itself some manoeuvrability to face the challenges that will arise in future years.

The University of Ottawa's consolidated financial statements for the year ended April 2019 show an excess of revenue over expenses of \$91.8M, compared to \$69.8M reported in 2017-2018.

This excess is largely attributable to the operating fund, reflective of increased revenues resulting from a rise in tuition fees and in numbers of international students, combined with positive financial market performance. These increases were partially offset by increases in expenditures caused by economic increases in the market as well as initiatives that began during the course of the fiscal year. For a second year in a row, the University succeeded in mitigating the impact of inflation on its expenditures given several control measures implemented over the past few years, such as a new budget model.



Most of the income generated in the investment portfolio is the result of increases in fair market values. To hedge against potential financial market fluctuations, the University has created a stabilization reserve, and has contributed \$8.3M of its annual surplus to this reserve. Moreover, approximately \$18.6M of the remaining surplus was committed to certain strategic and faculty projects, and nearly \$50.0M was earmarked for research and capital projects. The University has also set aside an additional contingency fund of \$10.0M, which will help absorb the impact of the 2019-2020 reduction in Canadian student tuition fees. Several factors affected the 2018-2019 financial results, most notably:

- Sustained efforts to recruit international students resulted in an increase in international student enrolment to offset the demographic decrease in Canadian students.
- Under Bill 177, the Ontario government revised the rules on minimum funding for defined benefit pension plans. These measures, which took effect on May 1, 2018, included a new provision for adverse deviation (PfAD) and eliminated the University's special payments to the pension plan. Although this bill is financially advantageous in the short-term, it will present challenges in the medium term.
- This was the first year of operations for several major capital projects, such as the Learning Crossroads, the STEM Complex and the LabO.
- Current facilities require maintenance and renovations to reduce deferred maintenance costs for buildings and Information Technology systems.
- The Ontario government implemented a regulatory framework for Canadian student tuition fees that capped the average maximum tuition fee increase at 3.0% for 2018-2019.
- Financial market volatility directly affects the University's investment income and the financial health of its pension plans.

The challenge of balancing the budget remains and will continue to be one of the University's priorities. This year's results will help the University fulfill the academic mission, as set out in its *Transformation 2030* strategic plan, and will help it meet the challenges that will arise in the coming years.

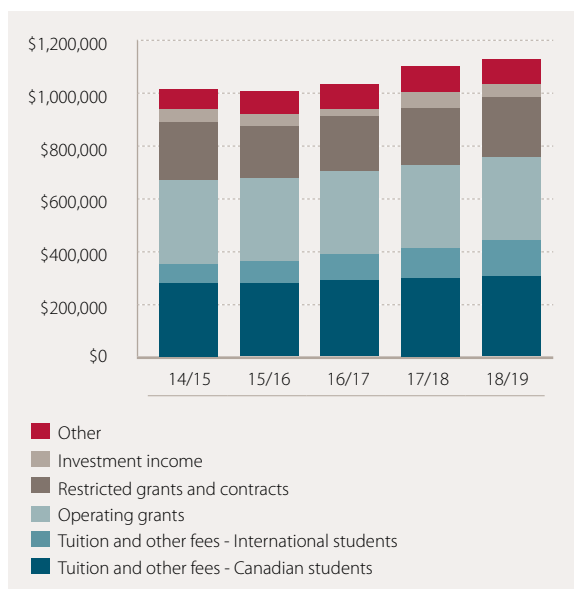
Post-secondary education sector in Ontario and Canada is evolving. The University faces significant challenges that pose risks for the University and its development in the coming years. Some of these challenges are: the level of uncertainty surrounding provincial grants, demographic decline, increasingly ferocious competition for students coupled with geopolitical uncertainty, increased spending, and increased costs associated with pension plans and with deferred maintenance on buildings and technology.

As of December 2018, the University's total deferred maintenance cost is estimated at over \$387.5M. Of this amount, \$292.2M is related to facilities used for teaching and research, \$80.9M for student residences, and \$14.4M for ancillary enterprise facilities. In September 2018, the University had to close its Brooks Residence and is now exploring alternative solutions. Other residences and academic facilities are nearing their end-of-life; the cost of these future requirements is estimated at over \$500.0M.

As a University, we face a major challenge: we intend to expand, both internationally and in research areas, while harnessing our financial capabilities to address our material and academic requirements in an environment characterized by uncertain government support and increased competition from other universities. The financial results of 2018-2019 will solidify our financial position and allow us to seize the opportunities that will arise in the coming years.

# Financial Overview

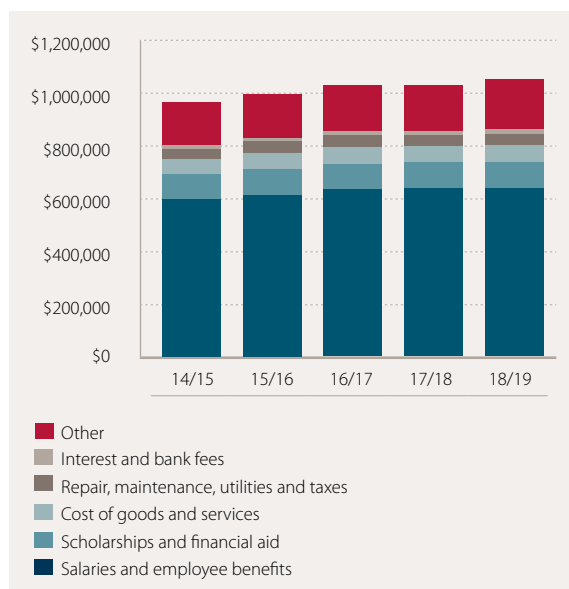
## Total Revenue: \$1,126.1M



- Revenue from tuition and other fees paid by Canadian students increased by \$10.0M (3.4%)
- Revenue from tuition and other fees paid by international students increased by \$25.1M (22.6%), notably due to fee indexation and an increase in the number of international students
- Revenue from operating grants decreased slightly, from \$323.4M to \$320.0M, a difference of 1.1%
- Revenue from restricted grants and contracts increased by \$12.5M (5.9%) from \$215.2M to \$227.7M, as a result of increases in funding amounts over the fiscal year and research intensity.
- Investment income, including unrealized gains, increased by \$2.6M (4.7%) from \$54.3M to \$56.9M.

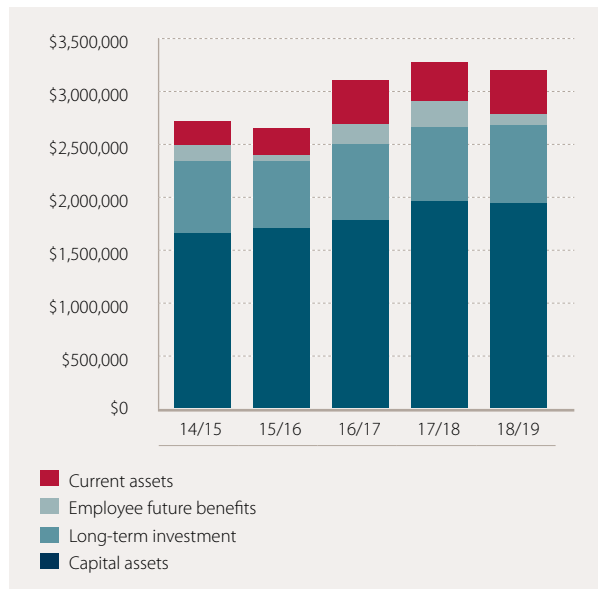
*The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year.*

## Total Expenses: \$1,044.3M



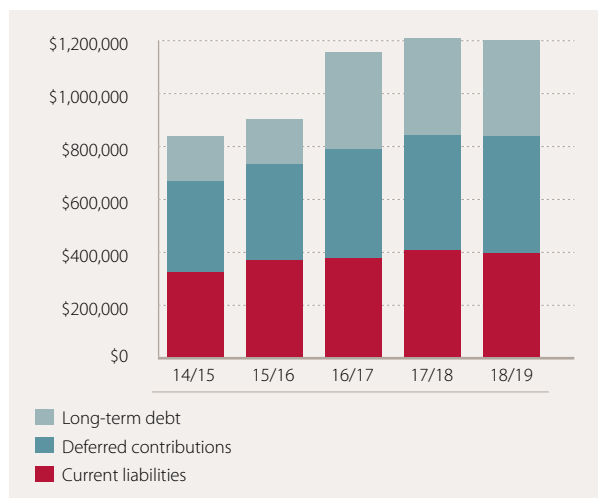
- Expenses increased by \$21.4M, from \$1,022.9M to \$1,044.3M, an increase of 2.1%.
- Salaries and employee benefits expenses saw a net decrease of \$1.5M: the \$2.9M increase in salaries was offset by a \$4.4M decrease in benefits.
  - Salaries increased by \$2.9M (0.5%), rising from \$550.9M to \$553.8M due to economic increases but partially offset by an increasing number of currently posted positions that remain unfilled.
  - Benefits decreased by \$4.4M (5.2%) from \$85.7M to \$81.3M. This change reflects both a \$1.3M increase in benefits and a \$5.7M decrease in employee future benefits.
- Expenses for scholarships and financial aid increased by \$3.0M (3.2%) from \$95.1M to \$98.1M, in line with the 3.0% increase in tuition fees.

### Total Assets: \$3,220.9M



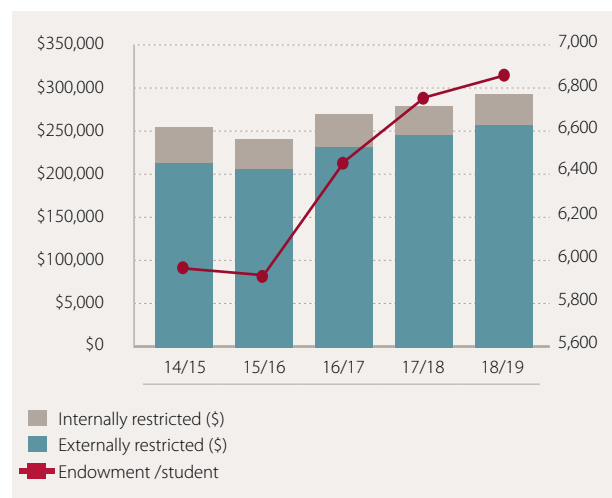
- Total asset value decreased by \$73.9M.
- The value of capital assets decreased by \$14.7M, mainly due to \$67.8M in amortization and a \$7.0M partial write-off of a residence. This decrease was partially offset by acquisitions of \$60.1M.
- Assets for employee future benefits decreased by \$146.2M, largely due to the introduction of a \$186.3M provision for adverse deviation (PfAD) for the pension plan.
- Short- and long-term investment values increased by \$89.0M due to market returns of 8.5%.

### Total Liabilities: \$1,199.9M



- Total liabilities decreased by \$9.4M (0.8%) from \$1,209.3M to \$1,199.9M.
- Accounts payable and accrued liabilities decreased by \$37.6M (28.9%), mainly due to a decrease in construction activities over the course of the fiscal year.
- Deferred revenues increased by \$26.4M (9.6%). These revenues will be recognized in the financial results of future fiscal years when the expenditures are incurred.

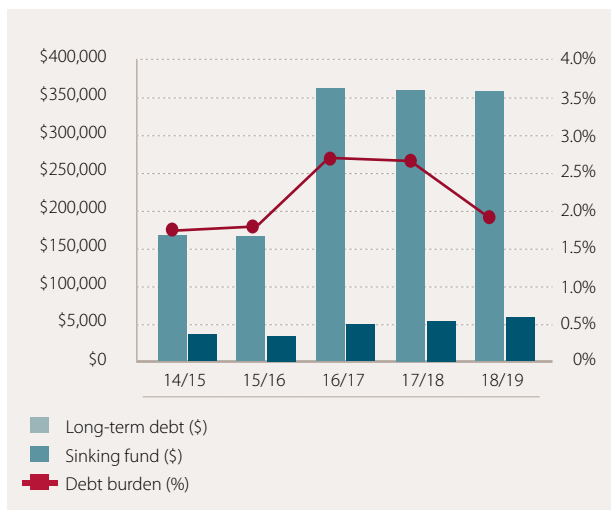
### Endowments: \$294.0M



- Endowments increased by \$14.3M (5.1%) during the fiscal year due to an 8.5% return on long-term investments. On average, 3.5% of this fund is distributed annually, in accordance with the terms of the endowments.
- Endowment funds per student increased from \$6,757 to \$6,968.

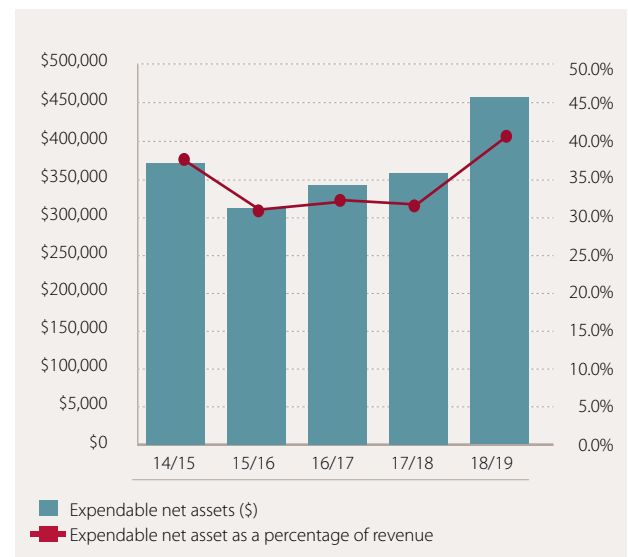


### Long-Term Debt: \$363.6M



- The debt burden ratio improved due to an increase in revenue.
- The long-term debt decreased as a result of a \$1.5M repayment of the fixed-rate loan, a \$15.2M loan that will be retired in 2026.
- The series A and B unsecured debentures, worth a total of \$350.0M, will mature in 2043 and 2056 respectively. No payments of capital are required until then.
- The University has created a sinking fund to accumulate the funds needed to retire these debentures when they mature. As of April 30, 2019, the balance of the sinking fund was \$58.6M. We estimate that the balance in the sinking fund allocated to the unsecured series A debenture will be sufficient to meet the total obligation of \$150.0M in 2043. In October 2021, we expect to begin contributing to the sinking fund to pay out the unsecured series B debenture. An initial \$10.0M contribution was made when the debt was issued in 2016.

### Expendable Net Assets



- Expendable net assets include amounts that are unaffected by external factors, such as unrestricted net assets, internally restricted endowments, the sinking fund and internally restricted net assets.
- The \$94.7M increase is largely due to the \$91.8M annual excess, of which \$80.0M is earmarked for future projects, faculty requirements and research, and for meeting some of the University's contractual obligations.





# Revenue

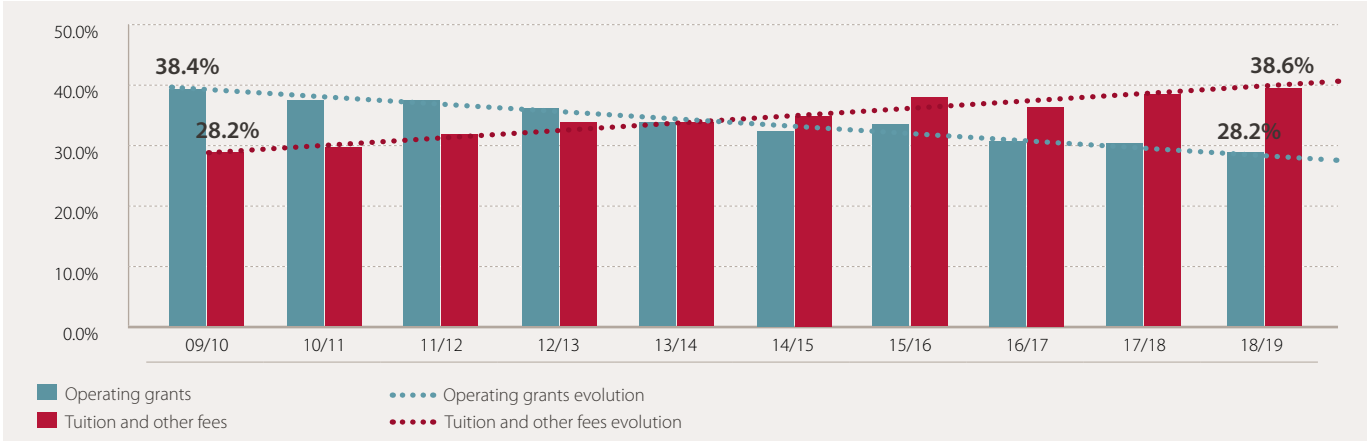
In 2018-2019, revenue increased by \$26.2M (2.4%) to reach \$1,126M, compared to \$1,099M in 2017-2018. This increase was mainly due to an increase in tuition fee revenues, which in turn is due to an increase in the number of international students.

## Revenue by Category (in thousands of dollars)

	2018-2019	2017-2018	Variance 2018-2019 vs 2017-2018	
			(\$)	(%)
Tuition and other fees — Canadian students	302,734	292,703	10,031	3.4
Tuition and other fees — International students	136,095	111,000	25,095	22.6
Operating grants	319,954	323,406	(3,452)	-1.1
Restricted grants and contracts	227,671	215,237	12,434	5.8
Sales of goods and services	27,274	25,043	2,231	8.9
Student housing	24,961	27,970	(3,009)	-10.8
Donations	12,968	14,293	(1,325)	-9.3
Investment income	46,745	61,389	(14,644)	-23.9
Other	27,661	28,778	(1,117)	-3.9
<b>Total of revenue</b>	<b>1,126,063</b>	<b>1,099,819</b>	<b>26,244</b>	<b>2.4</b>



### Evolution in Operating Grant Revenue and Tuition and Other Fees as a Percentage of Total Revenue



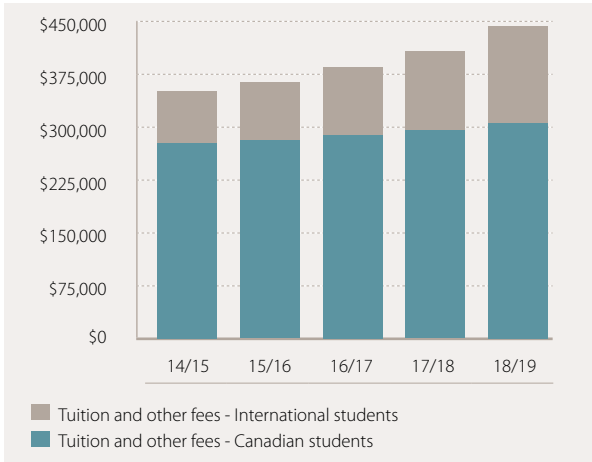
The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year.

Tuition and other fees, along with grant revenues, accounted for approximately 66.8% of total revenues<sup>1</sup> for the 2018-2019 fiscal year, compared to 66.5% in 2017-2018. For several years, we have noted a decline in the proportion of our revenues derived from grants, and a corresponding increase in the proportion of revenues from tuition and other fees. In fact, for a second consecutive year, revenues from grants account for less than 30.0% of total revenue.

## Tuition and Other Fees

Revenue from tuition and other fees was \$438.8M in 2018-2019, compared to \$403.7M in 2017-2018. The variance of \$35.1M includes a \$10.0M (3.4%) increase in tuition fees from Canadian students and a \$25.1M (22.6%) increase in tuition fees from international students.

### Evolution in Canadian and International Student Tuition and Other Fees (in thousands of dollars)



The tuition fees framework complies with the Ontario government regulations that cap Canadian student tuition fee increases at 3.0%, as stated in the 2018-2019 budget.

The increase in tuition fees’ revenue generated by international student is due to both an increase in tuition fees per student and an increased number of international students. Hence, the proportion of tuition fee revenues generated by international students increased from 27.5% to 31.0% over the course of this fiscal year.

<sup>1</sup> For accounting purposes, total revenue includes the fair value of investments measured at fair value. This favourable variance of \$10.1M (a loss of \$7.1M in 2017-2018) is reported separately in the consolidated statement of operations.



## Operating grants

As stated in the 2017-2020 Strategic Mandate Agreement, operating grants from the Ministry of Training, Colleges, and Universities (MTCU) remained stable.

## Restricted grants and contracts

### Restricted Grants and Contracts (in thousands of dollars)

	2018-2019	2017-2018
Research	141,407	134,812
Trust	75,484	70,876
Capital	10,780	9,549
<b>Total</b>	<b>227,671</b>	<b>215,237</b>

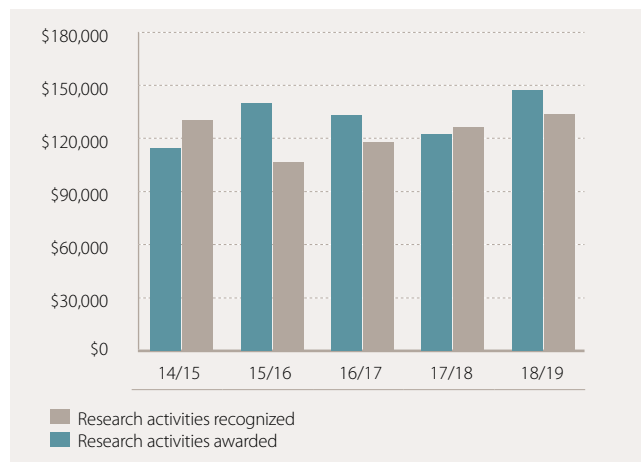
*Note 15 of the consolidated financial statements*

Revenue from restricted grants and contracts rose to \$227.7M in 2018-2019, compared to \$215.2M in 2017-2018. These amounts are earmarked for research activities, trusts and capital assets.

The University uses the deferral method to account for this revenue. Accordingly, revenue received but not spent within the year it is received is excluded from that year's financial results and recorded as deferred revenue or deferred contributions under liabilities. Therefore, the amount recognized as research revenue is directly tied to the intensity of research activities, or other specified activities, carried out during the fiscal year.



### Research Activities Awarded and Recognized (in thousands of dollars)



*Note 15 of the audited financial statements*



This funding is contributed by several granting agencies, specifically the three Canada research councils (NSERC, SSHRC and CIHR), along with the Canada Foundation for Innovation (CFI), the Canada Research Chair program, the federal and provincial governments, and industry.

#### Source of Research Fund Awarded (in thousands of dollars)

	2018-2019	2017-2018	Variance (\$)
CIHR, NSERC and SSHRC	56,258	52,652	3,606
CFI	13,164	6,128	7,036
Other federal grants	35,786	28,897	6,889
<b>Total federal grants</b>	<b>105,208</b>	<b>87,677</b>	<b>17,531</b>
Provincial grants	12,483	13,777	(1,294)
Third parties	33,607	29,525	4,082
<b>Total fund awarded</b>	<b>151,298</b>	<b>130,979</b>	<b>20,319</b>
Amortization of deferred revenue and contributions	(9,891)	3,833	(13,724)
<b>Restricted grants and contracts related to research activities</b>	<b>141,407</b>	<b>134,812</b>	<b>6,595</b>

The increase in funding of \$20.3M is primarily due to an increase in federal grants, including funding from the CFI.

During 2018-2019, more than \$13.0M was contributed by the CFI. Of this amount, a little more than \$7.1M was associated with CFI 2017 projects, including oncolytic virus therapy (\$3.3M) and Earth sciences and environment projects (\$3.8M). The remainder was principally associated with 14 projects funded under the John R Evans Leaders Fund (JELF) and the Major Science Initiatives fund.

In terms of other federal funding, the University of Ottawa and the National Research Council of Canada signed a \$3.6M strategic partnership agreement to conduct joint research in light-matter interaction. This funding will be spent in the coming years.

Moreover, in 2013, the Government of Canada introduced the Indirect Costs Program (ICP), which provides annual grants to Canadian colleges and universities to help absorb some of the indirect costs of research that are not directly tied to specific research projects. In 2018-2019, the University received a \$15.1M grant from the Indirect Costs Program (up from \$13.8M in 2017-2018) to reduce the indirect costs of its research.

In accordance with pre-existing agreements, a portion of this ICP funding, namely \$5.1M for 2018-2019, was distributed to affiliated institutes and can be found under the caption "Inter-institutional Research and Other Agreements". The remaining \$10.0M was recorded as revenue and represents approximately 13.0% of actual indirect costs incurred.

# Investment Income

Investment income, which include unrealized gains of \$10.1M, was \$56.9M in 2018-2019, compared to \$54.3M in 2017-2018.

## Investment Income (in thousands of dollars)

	2018-2019	2017-2018
Dividends, interest and other	38,980	11,289
Realized gains (losses) on investments	(1,860)	40,993
Endowment income made available for disbursements	9,625	9,107
	<b>46,745</b>	<b>61,389</b>
Change in fair value of investments measured at fair value	10,113	(7,065)
	<b>56,858</b>	<b>54,324</b>

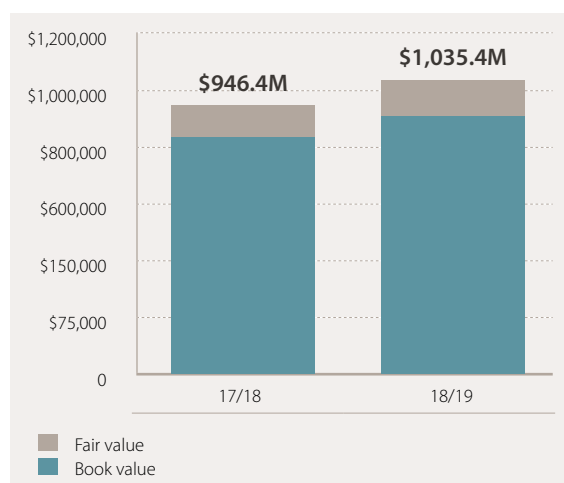
### Note 5 of the consolidated financial statements

On April 30, 2019, the value of the University's short- and long-term investments was estimated at \$1,035.4M, compared to \$946.4M on April 30, 2018. The increase in value of \$89.0M includes a \$14.2M change in fair market value of investments, of which \$10.1M was reported as such in the consolidated statement of operations and \$4.1M was reported as an increase in endowment's net assets. The remaining variance of \$74.8M was largely due to a reinvestment of investment income previously realized over the course of the 2017-2018 fiscal year.

Over the past decade, the University has increased its long-term investment ratio from 40.0% to 75.0% to optimize its investment income. The annualized rate of return of its long-term investments is 8.5% over 1 year, 7.4% over 4 years and 9.8% over 10 years.

Certain funds are restricted in their use. Such funds include the sinking fund, endowments, reserves for unfunded employee future benefits and the investment stabilization reserve. Moreover, short-and long-term investments also include funds granted by third parties that have not yet been spent. These amounts, shown as deferred revenues in the consolidated statement of financial position, must be set aside for the purposes specified by the donors.

## Change in Short-Term and Long-Term Investments (in thousands of dollars)





# Expenses

## Salaries and Benefits

The University offers salaries and various benefit plans to its academic and support staff at different stages in their careers and upon retirement. The University manages the current and future costs of these benefit plans.

Current costs include the employer's portion of salary deductions, such as unemployment insurance, Canada Pension Plan, disability insurance and other types of leave. Future costs include the employer portion of the pension plan, costs associated with life, health and dental insurance, along with severance pay costs.

### Expenses for Salaries and Benefits

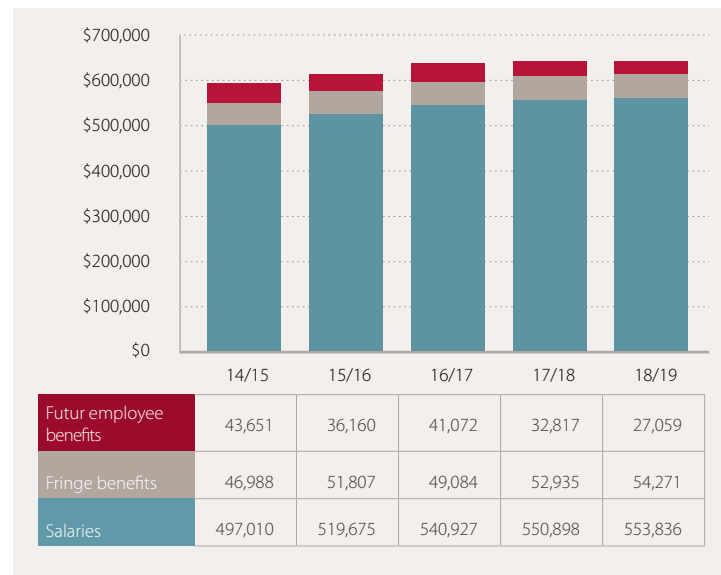
Salaries and benefits represent 60.8% of the total expenses on the consolidated financial statements.

Salaries for academic and support staff are funded primarily from the operating fund, which covers approximately 78.3% of all University salaries.

The growth of the University and of its student population over the past decade has directly affected compensation costs, including benefits, cost of which have increased by 34.5% over this period. However, since 2016, this increase has levelled off due to the retirement of several employees, which temporarily reduced the number of positions occupied. Following these retirements, the University has recruited replacements and many of these positions were filled over the course of the year. Even so, several remain unfilled, thus explaining an increase of 0.5% below inflation level.

In addition to providing scholarships and financial aid, the University continues to invest in its students by funding research and teaching assistantships, and the Work-Study program. These student salaries amounts to \$88.6M, which is a slight increase of 0.6% over the previous year.

**Salaries and Benefits for Fiscal Year Ending April 30  
(in thousands of dollars)**



## Employee Future Benefits (Pension Plans and Other Benefits)

Total assets for employee future benefits are \$100.3M (\$246.5M in 2018). This includes defined benefit pension plans as well as post-employment and post-retirement benefits, such as retirement allowances, life insurance, and health and dental benefits. Not all these post-retirement benefits are funded and approximately \$90.6M has been provided for in the University's consolidated statement of financial position. Every year, the University contributes an amount from its surplus to ensure the future funding of these obligations. On April 30, 2019, the total amount earmarked for these expenses was \$94.0M (\$94.2M on April 30, 2018), which includes a \$33.6M reserve restricted for financial market stabilization.

Obligations related to pension plans and other benefits continue to account for a significant portion of the University's resources. Over the past few years, several cost balancing measures have been adopted, including certain changes to the design and financing of these benefit plans.

Pension plan costs could be reduced over the coming years if central bank rates increase. However, longer life expectancies will change the mortality tables used to measure liabilities, resulting in continuous and permanent increases to the University's future obligations in this regard.

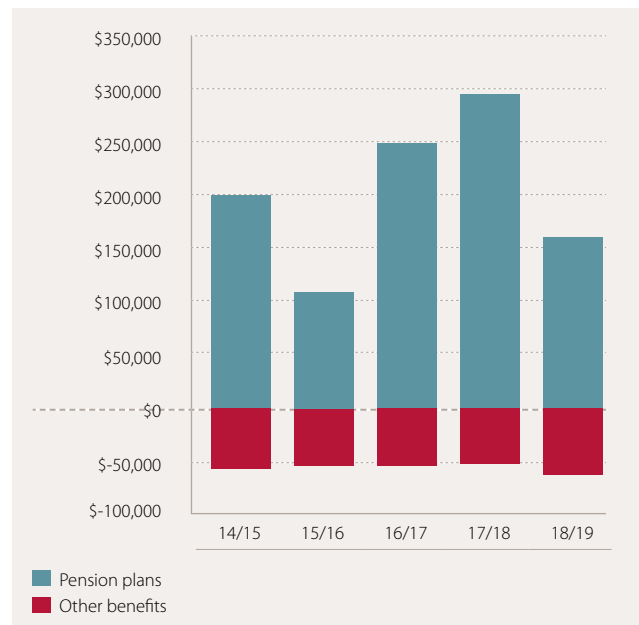
Management continues to closely monitor the University's pension plans and other benefits, which are the subject of strategic long-term planning.

### Pension Plans

New regulations now apply to Ontario pension plans for valuations filed in 2018 or later. An actuarial valuation report must be filed with regulators at least once every three years. The most recent actuarial valuation, filed with the Canada Revenue Agency and the Financial Services Commission of Ontario and dated January 1, 2018, reflects changes to the Ontario Pension Benefits Act (PBA) and related regulations that affect the funding of pension plans.

The new funding framework changed minimum funding requirements from both going-concern and solvency perspectives by emphasizing the going-concern position of the pension plan and introducing the concept of provisions for adverse deviation (PfAD). Under these new regulations, additional payments are required when the funding ratio for a pension plan drops to 85.0% or below. The University's pension plan funding ratio is 114.0% before PfAD and 106.0% after PfAD, with a solvency deficit of 98.0%. Consequently, in light of the January 1, 2018 actuarial valuation, the University is not required to contribute any annual special payments.

**Composition of Employee Future Benefits for the Year Ending April 30 (in thousands of dollars)**





According to accounting standards for not-for-profit organizations in Canada, annual re-measurement, gains and losses on investments, provisions for adverse deviations and other items specifically linked to future benefits are recognized in the consolidated statement of changes in net assets.

The table below summarizes changes in funding for the University's pension plans. Pension expenditures have dropped by 22.0%, from \$27.3M to \$21.3M, due to a reduction in the net financing cost and a reduction in employer contributions, as negotiated in certain collective agreements. The employer contribution was reduced by the elimination of the \$8.6M special payment, a decrease that was partially offset by the introduction of an annual PfAD of \$5.3M, which the University fully absorbed.

Changes in re-measurements and other items recorded in the consolidated statement of changes in net assets are largely due to the introduction of the PfAD on April 30, 2019.

### Evolution in Pension Plan Funding as at April 30 (in thousands of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
<b>Long-term investments, restricted for employee future benefits</b>	<b>52,906</b>	<b>57,310</b>	<b>58,943</b>	<b>60,659</b>	<b>58,826</b>
Balance, beginning of year, employee future benefits assets	115,312	203,605	111,329	252,361	299,045
Expenses	(38,090)	(30,367)	(35,590)	(27,252)	(21,314)
Employer contributions	44,848	48,105	44,332	48,171	45,160
Provision for adverse deviations					(180,501)
Remeasurement and other items	81,535	(110,014)	132,290	25,765	20,842
<b>Balance at end of year, employee future benefits assets</b>	<b>203,605</b>	<b>111,329</b>	<b>252,361</b>	<b>299,045</b>	<b>163,232</b>
<b>Internally restricted net assets for employee future benefits</b>	<b>256,511</b>	<b>168,639</b>	<b>311,304</b>	<b>359,704</b>	<b>222,058</b>

*Note 6 of the consolidated financial statements*

### Other Benefits

As of April 30, 2019, the cost of funding other benefits increased the deficit of the previous fiscal year by \$10.4M. Note that these plans are not funded; the long-term financing strategy for these obligations includes annual contributions to a restricted reserve for which the University holds equivalent long-term investments and which, as of April 30, 2019, amounted to \$35.2M.

As of April 30, 2019, total cost of other benefits was \$5.7M, compared to \$5.6M as of April 30, 2018. Changes in re-measurement and other items recorded in the consolidated statement of changes in net assets are largely due to the introduction of the PfAD on April 30, 2019.

## Évolution de la capitalisation des autres avantages au 30 avril (en milliers de dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
<b>Long-term investments, restricted for employee future benefits</b>	<b>35,340</b>	<b>30,885</b>	<b>34,116</b>	<b>33,567</b>	<b>35,158</b>
Balance, beginning of year, accrued benefit obligation	(55,245)	(57,137)	(53,934)	(54,548)	(52,557)
Expenses	(5,561)	(5,793)	(5,482)	(5,565)	(5,745)
Employer contributions	4,081	5,300	5,294	7,167	5,518
Provision for adverse deviations					(5,823)
Remeasurement and other items	(412)	3,696	(426)	389	(4,318)
<b>Balance at end of year, accrued benefit obligation</b>	<b>(57,137)</b>	<b>(53,934)</b>	<b>(54,548)</b>	<b>(52,557)</b>	<b>(62,925)</b>
<b>Internally restricted net assets for employee future benefits</b>	<b>(21,797)</b>	<b>(23,049)</b>	<b>(20,432)</b>	<b>(18,990)</b>	<b>(27,767)</b>

Note 6 of the consolidated financial statements

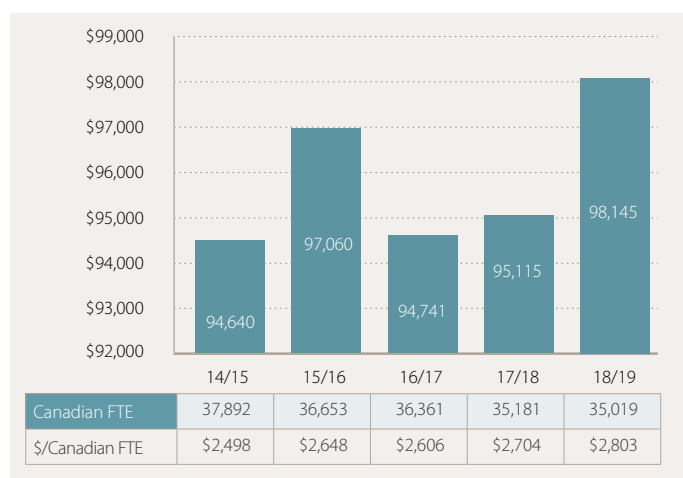
## Scholarship and Financial Aid

During the 2018-2019 fiscal year, the University awarded \$98.1M (\$95.1M in 2017-2018) in scholarships and financial aid, a 3.2% increase over the previous year.

In 2018-2019, the total amount awarded from all funds corresponds to approximately \$2,803 per full-time equivalent (FTE) student, compared to \$2,704 in 2017-2018. The amount of scholarship funding per FTE student has remained relatively constant for several years (see Figure 6).

In 2018-2019, some newly admitted international students were awarded scholarships worth up to \$2,500 per year. Moreover, international doctoral students were granted a scholarship to bring their tuition fees down to the level of those paid by Canadian doctoral students. Scholarships awarded to international students are estimated at \$6.3M.

### History of Scholarships and Financial Aid Awarded During Fiscal Year Ending on April 30 (in thousands of dollars)



# Investments in Capital Projects

The University continues to invest in its campus to provide its students, professors and researchers with modern facilities that meet their educational, teaching and research needs. However, despite these investments, uOttawa, like many similar institutions, faces the challenge of deferred maintenance. Each year, the University tries to invest more in maintenance in order to reduce its need to make such repairs, the cost of which is now over \$387.5M.

Total capital acquisitions totaled \$60.1M in 2018-2019, compared to \$238.0M for 2017-2018. The fiscal year 2018-2019 was dedicated to planning future projects, such as a project to refurbish the spaces occupied by Animal Care and Veterinary Services, which will break ground in 2020-2021. In contrast, 2017-2018, and the early part of 2018-2019, saw the completion of several major projects, such as the Learning Crossroads, the LabO and the STEM Complex.



## Capital Assets Acquisitions (in thousands of dollars)

	2018-2019	2017-2018
Land	-	1,821
Buildings	27,264	32,433
Leasehold improvements	10	920
Construction in progress	(863)	177,750
Books	5,062	6,195
Equipment and furniture	22,270	16,704
Computer hardware and software	6,308	2,167
<b>Total</b>	<b>60,051</b>	<b>237,990</b>

*Note 7 of the consolidated financial statements*

The acquisition of these capital assets was funded in the following ways:

## Capital Asset Funding (in thousands of dollars)

	2018-2019	2017-2018
Government grants	28,743	48,905
Internal resources	19,009	68,269
Debentures	8,681	117,946
Donations of capital assets	3,618	2,870
<b>Total</b>	<b>60,051</b>	<b>237,990</b>

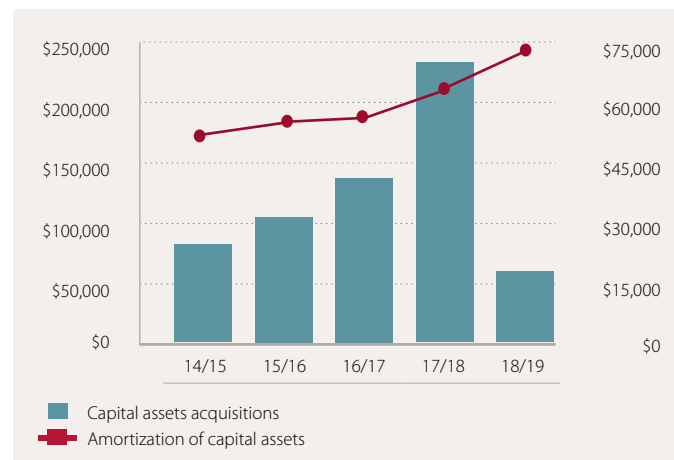
*Note 7 of the consolidated financial statements*

With the completion and launch of major capital projects over the past few years, we have seen an increase in amortization expenses.

In addition, over the past year, the University recorded an impairment loss resulting from the partial discontinued use of its Brooks Residence in light of the decision to partially cease using this building.

Several planning activities are underway to continue to reduce the level of deferred maintenance that the University's physical and technological infrastructure require.

**Change in Capital Assets Acquisitions and Amortization Expenses (in thousands of dollars)**



# Internally Restricted Net Assets

The composition and nature of the University's internally restricted net assets are described in detail in Note 12 of the consolidated financial statements and summarized below:

## Internally Restricted Net Assets (in thousands of dollars)

	2018-2019	2017-2018
Investment in capital assets and related reserves	1,347,716	1,336,906
Employee benefits	194,291	340,714
Sinking fund	58,645	54,035
Stabilization reserves	52,146	43,885
Restricted research and other	58,024	54,654
Operating contingencies	74,087	38,029
Internally financed capital projects	(57,450)	(62,536)
<b>Total</b>	<b>1,726,919</b>	<b>1,805,687</b>

### Note 12 of the consolidated financial statements

for major capital projects currently in the planning stages, as well as funds reserved to pay for some planned deferred maintenance.

## Capital Assets

Funds invested in capital assets represents the amount of net assets that is not available for other purposes because it has been used to fund the purchase of capital assets, net of outstanding debt. It consists of unamortized capital assets purchased with unrestricted resources plus the carrying amount of capital assets purchased with unrestricted resources that will not be amortized. It excludes those assets funded through capital contributions.

Related reserves include funding for projects that are currently in various stages of planning, design, and construction, as well as funding for capital projects and renovations currently underway, funds reserved

## Sinking Fund

The sinking fund was created to accrue the capital needed to retire the University's long-term debt, specifically the \$150.0M debenture due in 2043 and the \$200.0M debenture due in 2056. The annual change in the sinking fund corresponds to the accrual of returns on long-term investments earmarked for this purpose as well as related restricted contributions.

Given the projections of future returns on long-term investments earmarked to reimburse the debt, the current balance of the sinking fund should be sufficient to retire the \$150.0M debenture. A similar analysis was conducted when the \$200.0M debenture was issued. An initial \$10.0M was transferred to the sinking fund in 2016 when this debt was issued and additional contributions are planned to begin during the fiscal year ending on April 30, 2022. As of April 30, 2019, the balance of the sinking fund was \$58.6M and the University holds long-term investments equivalent to this amount.

## Stabilization Reserves

The University has established stabilization reserves to reduce risks associated with volatility in certain sectors, specifically fluctuations in financial market performance, increases in public utility rates, and rising insurance costs. This reserve was assessed at \$52.1M as of April 30, 2019 (\$43.9M in 2018), and approximately \$42.7M is included in the investment stabilization reserve.

## Internally Funded Capital Projects

These amounts are internal loans to complete major capital projects, which will be repaid over time. These internal loans will be recovered by the operating fund's budget and the activities of the faculties or services concerned.

## Operational Contingencies

### Operational Contingencies (in thousands of dollars)

	2018-2019	2017-2018
Faculties and services	29,302	10,674
Strategic fund	33,914	23,914
Commitments	8,314	9,461
Replacement of SIS	(5,000)	(10,632)
Information Technology	2,172	2,172
Ancillary enterprises	5,385	2,440
<b>Operational contingencies</b>	<b>74,087</b>	<b>38,029</b>

The University allows faculties and services to keep some operational surpluses to invest in future strategic initiatives. The University also earmarks certain surplus amounts for strategic purposes and for operational contingencies.

On April 30, 2019, a portion of the surplus was restricted for faculties and services, as well as for the establishment of a strategic fund, which will enable the financing of departmental initiatives. These initiatives will help the University meet the objectives stated in its *Transformation 2030* strategic plan.





# Additional Information

The University's audited consolidated financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (Part III of the CPA Canada Handbook). According to these standards, the University applies the deferral method to account for some of its revenues and, for presentation purposes, report the statement of operations as a single column.

To manage its finances, the University uses fund accounting, meaning that each fund is assigned a budget comprised of both revenue and expenses.

The fund accounting method improves accountability for resources while ensuring that restricted grants and contributions are only used for their intended purposes. The University of Ottawa uses the following funds:

- Operating fund
- Ancillary enterprises
- Restricted fund — research
- Restricted fund — other, which includes endowments; and
- Capital fund

The University's budget model prioritizes resource allocation within the operating fund, which alone accounts for about 80% of the 2018-2019 consolidated budget.

The next section of this document reconciles the audited consolidated financial statements with the final budget results, and then compares the operating fund's final budget results with its approved budget.

## Reconciling the Audited Consolidated Results and the Final Budget Results

The audited consolidated results and the final budget results are essentially the same except for the following items:

- the difference between capitalization and amortization of capital assets such as books, equipment, buildings, hardware and software; and
- the difference between cash disbursements for the pension plan and other employee future benefits and actuarial measurements of expenditures used in the consolidated financial statements.

These difference help explain the divergence between the results reported in the audited consolidated financial statements and those in the final budget results. Under the audited consolidated financial statements, the University ends the year with an excess of revenue over expenses of \$91.8M, while the final budget results reports an excess of \$93.5M before appropriations.

**Reconciliation Between Consolidated Financial Statement and Budget (in thousands of dollars)**

	Actual 2018-2019 (\$)	Projected 2018-2019 (\$)	Actual 2017-2018
Excess of revenue over expenses	91,830	48,158	69,772
Change in net assets invested in capital assets <sup>1</sup>	25,262	10,224	(32,693)
Adjustment related to employee futur benefits <sup>2</sup>	(23,619)	(27,572)	(22,521)
<b>Budget surplus (deficit) before appropriations</b>	<b>93,473</b>	<b>30,810</b>	<b>14,558</b>



1. The details of the change in net assets invested in capital assets can be found in note 14 of the consolidated financial statements.
2. The details of the change in the adjustment related to employee future benefits can be found in note 6 of the financial statements and correspond to the difference between the expenses and the employer's contributions for the pension plans and the other benefits.

# Final Budget Results by Fund

## Final Budget Results by Fund 2018-2019 (in thousands of dollars)

	Operating fund	Ancillary enterprises	Restricted fund - research	Restricted fund - other	Capital fund	Total
Tuition and other fees	437,737	1,092	-	-	-	438,829
Operating grants	319,764	190	-	-	-	319,954
Research grants and contracts	-	-	142,722	73,062	-	215,784
Capital grants	-	-	-	275	15,693	15,968
Sale of goods and services	9,110	11,987	2,754	3,423	-	27,274
Student housing	-	24,961	-	-	-	24,961
Donations	596	-	2,304	6,259	-	9,159
Investment income	37,483	5	1,152	10,109	8,109	56,858
Other	14,540	5,300	1,136	6,799	1,076	29,051
Use of debentures	-	-	-	-	8,681	8,681
<b>Total revenue</b>	<b>819,230</b>	<b>43,535</b>	<b>150,268</b>	<b>99,927</b>	<b>33,559</b>	<b>1,146,519</b>
Salaries	427,915	7,162	44,459	69,687	-	549,223
Benefits	87,976	1,353	5,059	10,131	-	104,519
Scholarships and financial aid	68,863	11	24,891	9,424	-	103,189
Cost of goods and services	86,939	15,499	35,609	4,667	-	142,714
Library acquisitions	15,808	-	64	115	-	15,987
Construction and renovations	1,348	191	-	-	33,604	35,143
Professional fees	1,517	12	-	(49)	-	1,480
Inter-institutional research and other agreements	1,306	-	28,764	1,473	-	31,543
Travel	7,171	195	9,022	1,885	-	18,273
Interest and bank fees	15,723	4,374	7	12	-	20,116
Other	17,775	8,345	2,192	2,547	-	30,859
<b>Total expenditures</b>	<b>732,341</b>	<b>37,142</b>	<b>150,067</b>	<b>99,892</b>	<b>33,604</b>	<b>1,053,046</b>
<b>Interfund transfers</b>	<b>(37,216)</b>	<b>(3,448)</b>	<b>5,307</b>	<b>(1,105)</b>	<b>36,462</b>	<b>-</b>
<b>Budget surplus before appropriations</b>	<b>49,673</b>	<b>2,945</b>	<b>5,508</b>	<b>(1,070)</b>	<b>36,417</b>	<b>93,473</b>

# Operating Fund

Operating Fund (in thousands of dollars)

	Actual	Budget	Actual	Variance			
	2018-2019	2018-2019	2017-2018	Actual vs Budget (\$)	(%)	Actual vs Actual (\$)	(%)
Tuition and other fees - Canadian	301,981	302,110	291,950	(129)	0.0	10,031	3.4
Tuition and other fees - International	135,756	142,170	110,714	(6,414)	-4.5	25,042	22.6
Operating grants	319,764	322,572	316,500	(2,808)	-0.9	3,264	1.0
Sale of goods and services	9,110	9,783	8,904	(673)	-6.9	206	2.3
Donations	596	555	653	41	7.4	(57)	-8.7
Investment income	37,483	21,695	37,382	15,788	72.8	101	0.3
Other	14,540	12,054	13,996	2,486	20.6	544	3.9
<b>Total revenue</b>	<b>819,230</b>	<b>810,939</b>	<b>780,099</b>	<b>8,291</b>	<b>1.0</b>	<b>39,131</b>	<b>5.0</b>
Salaries	427,915	450,011	426,619	(22,096)	-4.9	1,296	0.3
Benefits	87,976	95,762	91,492	(7,786)	-8.1	(3,516)	-3.8
Scholarships and financial aid	68,863	70,318	66,099	(1,455)	-2.1	2,764	4.2
Cost of goods and services	86,939	90,888	78,871	(3,949)	-4.3	8,068	10.2
Library acquisitions	15,808	16,225	15,242	(417)	-2.6	566	3.7
Construction and renovations	1,348	967	24,727	381	39.4	(23,379)	-94.5
Professional fees	1,517	1,658	1,582	(141)	-8.5	(65)	-4.1
Inter-institutional research and other agreements	1,306	700	738	606	86.6	568	77.0
Travel	7,171	7,775	6,841	(604)	-7.8	330	4.8
Interest and bank fees	15,723	16,112	14,212	(389)	-2.4	1,511	10.6
Other	17,775	18,082	12,848	(307)	-1.7	4,927	38.3
<b>Total expenses</b>	<b>732,341</b>	<b>768,498</b>	<b>739,271</b>	<b>(36,157)</b>	<b>-4.7</b>	<b>(6,930)</b>	<b>-0.9</b>
<b>Interfund transfers</b>	<b>(37,216)</b>	<b>(39,700)</b>	<b>(34,387)</b>	<b>2,484</b>	<b>-6.3</b>	<b>(2,829)</b>	<b>8.2</b>
<b>Surplus before appropriations</b>	<b>49,673</b>	<b>2,741</b>	<b>6,441</b>	<b>46,932</b>	<b>1 712.2</b>	<b>43,232</b>	<b>671.2</b>



The operating fund is composed of financial resources that can be used without external restrictions to achieve the University's teaching, research and community service objectives.

As a whole, this budget supported the differentiation objectives and other targeted programs set out in the strategic mandate agreement. The operating fund ended the 2018-2019 fiscal year more favourably than anticipated in the budget due to an increase in investment income, a high number of vacant administrative and academic positions currently being staffed, and the implementation of a new budget model that aims to incentivize and promote best financial practices.

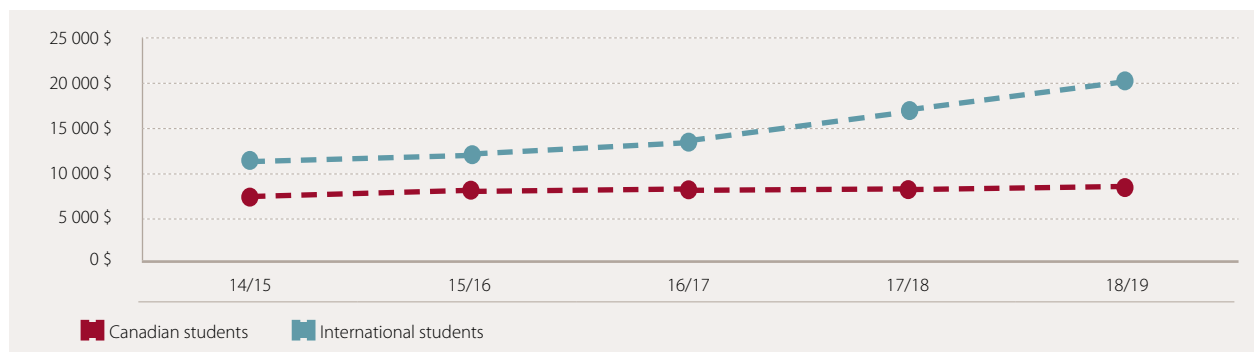
Although budget estimates for total operating fund revenue were \$810.9M, the actual total operating fund revenue reached \$819.2M. This difference was largely due to better-than-expected returns on investments (annual returns of 8.1%, compared to a budget of 5.5%).

## Tuition and Other Fees

In 2018-2019, revenues from tuition and other fees was \$437.7M, compared to the \$444.3M included in the budget. Revenues from tuition fees paid by Canadian and international students were less than expected by \$0.1M and \$6.4M, respectively, for a total of \$6.5M. This difference is a result of an increase in the number of full-time students who decided to take an additional course at no extra cost, as per current University policy.

On average, a Canadian student pays \$8,617 in tuition and other fees, compared to \$18,997 per year for an international student. The following table illustrates the evolution of tuition fees per student.

### Evolution of Tuitions Fees per Student



## Operating Grants

Grants amount to \$319.8M in the final results, which is consistent with the budget.

# Investment Income

For the fiscal year ending April 30, 2019, investment income was \$37.5M, compared to \$21.7M anticipated during the elaboration of the budget. The \$15.8M increase in income can be attributed to favourable financial market performance during the last quarter of the fiscal year.

Financial market volatility has a significant impact on the University's financial results, so to dampen this impact on its activities, the University has created a stabilization reserve. The investment stabilization reserve ensures that the operating fund can count on a stable return on investments every year, regardless of market performance. This year, the rate of return on long-term investments was 8.5% as compared to 5.5% planned in budget.

Over the course of 2018-2019, the University undertook an evaluation of the strategic asset mix within its long-term investment portfolio to reduce the volatility of its investments over time and to determine the optimal level of its reserve, while taking into account the institution's appetite for risk. While we wait for the new asset mix to be implemented and for a set of indicators to be defined for the reserve that will stabilize investment income, the University has contributed \$8.3M to its stabilization reserve, which corresponds to the difference between the budgeted 5.5% returns and the actual 8.5% returns. The balance of the investment stabilization reserve was \$42.7M as of April 30, 2019.

# Salaries and Benefits

In 2018-2019, actual salaries and benefits represented \$515.9M, while \$545.8M was budgeted for these costs. The variance of \$29.9M is partially explained by a high number of unfilled academic and administrative positions that are currently being staffed, as well as the impact of the new regulations governing pension plans, which had not been anticipated when the budget was being drafted.

# Scholarships and Financial Aid

Scholarships and Financial Aid by Fund (in millions of dollars)



## Reserves

The positive financial results of 2018-2019 allow the University to restrict certain surplus amounts to future fiscal years, whether for capital renovation projects or for Transformation 2030 strategic plan initiatives. For further details, please refer to the section in this document entitled “Internally Restricted Net Assets”.

## Capital Management

The University capital management’s objectives aims to preserve capital and optimize the investment income drawn from it. The University defines its capital as its unrestricted net assets, internally restricted net assets, endowment funds and its long-term debt.

The regulation on debt management, approved by the Board of Governors, stipulates that the University must meet two ratios, namely:

	Threshold	2018-2019	2017-2018
Unrestricted liquidity-to-debt	> 0.5x	1.3	1.0
Debt burden	< 5.0%	1.8%	2.6%

As of April 30, 2019, the University complied with this regulation.

The University continues to work to improve its financial results to meet these debt management ratios and maintain a healthy financial position.





CONSOLIDATED  
FINANCIAL  
STATEMENTS,  
APRIL 30, 2019