

Consolidated financial statements of

**B.C. Government and
Service Employees' Union**

December 31, 2019

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF B.C. GOVERNMENT AND SERVICE EMPLOYEES' UNION

Opinion

We have audited the consolidated financial statements of B.C. Government and Service Employees' Union (the "Union"), which comprise:

- the consolidated balance sheet as at December 31, 2019;
- the consolidated statement of revenues and expenses for the year then ended;
- the consolidated statement of changes in fund balances for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Union as at December 31, 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 Consolidated Financial Statements* section of our report. We are independent of the Union in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated 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 consolidated 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 Union'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 Union'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 consolidated 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 Union to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ♦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Union to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Union's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Smythe LLP

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Vancouver, British Columbia
May 13, 2020

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B.C. Government and Service Employees' Union

Consolidated balance sheet

As at December 31

	Consolidated 2019	Consolidated 2018
	\$	\$
Assets		
Current assets		
Cash	8,185,370	1,708,515
Accounts receivable	6,641,863	6,916,775
Prepaid expenses	820,737	775,243
Marketable securities (Note 3)	98,427,338	80,366,961
Deposits (Note 4 and 23)	332,668	-
	114,407,976	89,767,494
Investment (Note 5)	15,250	15,250
Investment property (Note 6)	10,206,729	10,487,557
Amounts held in trust (Note 7)	2,636,020	2,891,337
Equipment under capital lease (Note 8)	663,814	870,920
Property and equipment (Notes 9 and 19)	35,815,805	37,273,169
	163,745,594	141,305,727
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	6,095,721	4,656,454
CH EDMP funding held in trust (Note 11)	204,000	-
Due to components (Note 12)	371,099	271,869
Current portion of capital lease obligations (Note 13)	329,942	290,493
	7,000,762	5,218,816
Capital lease obligations (Note 13)	373,165	611,594
Amounts held in trust (Note 7)	2,636,020	2,891,337
Supplemental leave benefits liability (Note 14)	5,452,942	5,950,630
	15,462,889	14,672,377
Fund balances		
Invested in property and equipment	35,776,512	37,242,002
Unrestricted	500,000	4,019,948
Internally restricted (Note 15)		
Fightback and campaign reserve	5,835,721	2,827,136
Area office, land and building reserve	6,046,877	1,016,832
Bargaining reserve	3,408,585	400,000
Contingency reserve	3,382,811	2,800,000
Convention reserve	1,400,000	700,000
Restricted – Defence Fund	91,932,199	77,627,432
	148,282,705	126,633,350
	163,745,594	141,305,727

Commitments (Note 16); Contingencies (Note 17); Subsequent events (Note 23)

Approved on behalf of the Provincial Executive

Stephani Smith

President



Treasurer

B.C. Government and Service Employees' Union

Consolidated statement of revenues and expenses

Year ended December 31

	Operations (General Fund and Solidarity Holdings Ltd.)	Restricted Defence Fund	Consolidated 2019	Consolidated 2018
	\$	\$	\$	\$
Revenues				
Members' dues	67,382,027	-	67,382,027	63,200,192
Less:				
Allocations to components, 6.50% of dues revenue	(4,379,832)	-	(4,379,832)	(4,108,013)
	63,002,195	-	63,002,195	59,092,179
Investment income, net	3,090,497	14,610,131	17,700,628	117,038
Rent, net (Schedule)	542,155	-	542,155	525,444
Affiliation remittances and other	139,631	-	139,631	123,409
Gain on donation of property	-	-	-	31,682
	66,774,478	14,610,131	81,384,609	59,889,752
Expenses				
Salaries and employee benefits (Note 14)	35,854,420	-	35,854,420	32,991,885
Building and administration (Schedule)	9,455,099	280,855	9,735,954	9,181,564
Affiliation fees	2,439,060	-	2,439,060	2,492,202
Education	1,805,659	-	1,805,659	1,767,081
Campaigns, strategic partnerships, communications and donations (Schedule)	1,502,532	-	1,502,532	1,980,886
Travel and relocation	1,390,867	-	1,390,867	1,353,371
Bargaining	1,337,836	-	1,337,836	2,659,277
Hearings, arbitration and legal	1,214,164	-	1,214,164	913,502
Provincial executive and committees	1,179,563	-	1,179,563	904,622
Other member services (Note 18 and Schedule)	1,037,832	-	1,037,832	935,159
Conventions and conferences	685,738	-	685,738	568,697
Automobile	623,103	-	623,103	619,661
Professional fees	302,841	-	302,841	218,938
Joint committee meetings	286,559	-	286,559	284,936
Supplemental leave benefits (Note 14)	217,965	-	217,965	229,275
Strike expenses	-	24,509	24,509	7,526,666
	59,333,238	305,364	59,638,602	64,627,722
Excess (Deficiency) of revenues over expenses	7,441,240	14,304,767	21,746,007	(4,737,970)

B.C. Government and Service Employees' Union

Consolidated statement of changes in fund balances

Year ended December 31

	Operations (General Fund and Solidarity Holdings Ltd.)				Consolidated 2019	Consolidated 2018
	Invested in property and equipment	Unrestricted	Internally restricted	Restricted Defence Fund		
	\$	\$	\$	\$	\$	\$
			(Note 15)			
Fund balances, beginning of year	37,242,002	4,019,948	7,743,968	77,627,432	126,633,350	131,286,321
Excess (deficiency) of revenues over expenses	-	7,441,240	-	14,304,767	21,746,007	(4,737,970)
Actuarial (loss) gain (Note 14)	-	(96,652)	-	-	(96,652)	84,999
Amortization of property and equipment	(3,004,000)	3,004,000	-	-	-	-
Purchase of property and equipment	1,227,250	(1,227,250)	-	-	-	-
Principal repayments, capital lease obligations	311,260	(311,260)	-	-	-	-
Interfund transfers (Note 15)	-	-	-	-	-	-
2019 Operating budget	-	(2,721,460)	2,721,460	-	-	-
2019 Unrestricted fund balance	-	(9,608,566)	9,608,566	-	-	-
Fund balances, end of year	35,776,512	500,000	20,073,994	91,932,199	148,282,705	126,633,350

B.C. Government and Service Employees' Union

Consolidated statement of cash flows

Year ended December 31

	Consolidated 2019	Consolidated 2018
	\$	\$
Operating activities		
Excess (deficiency) of revenues over expenses	21,746,007	(4,737,970)
Items not involving the outlay of funds		
Amortization	3,284,828	3,065,495
Supplemental leave benefits expense (Note 14)	217,965	229,275
Donation of property	-	112,000
Gain on donation of property	-	(31,682)
Unrealized loss (gain) on investments	(16,817,658)	2,569,893
	8,431,142	1,207,011
Net changes in operating working capital		
Accounts receivable	274,912	(763,322)
Prepaid expenses	(45,494)	(201,540)
Accounts payable and accrued liabilities	1,439,267	501,449
CH EDMP funding held in trust (Note 11)	204,000	-
Due to components	99,230	308,376
Supplemental leave benefits paid	(812,305)	(1,141,177)
	9,590,752	(89,203)
Investing activities		
Deposits paid on purchase of land and building (Note 4)	(332,668)	-
Proceeds on sale (purchase) of marketable securities	(1,242,719)	12,878,570
Purchase of land and building	-	(10,631,571)
Purchase of property and equipment	(1,227,250)	(5,368,567)
	(2,802,637)	(3,121,568)
Financing activity		
Principal repayments, capital lease obligations	(311,260)	(290,780)
Net cash inflow (outflow)	6,476,855	(3,501,551)
Cash position, beginning of year	1,708,515	5,210,066
Cash position, end of year	8,185,370	1,708,515
Supplemental cash flow information		
Purchase of equipment by capital lease	112,280	419,233
Interest paid on capital lease obligations	53,706	56,887

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

1. Nature of organization

The B.C. Government and Service Employees' Union (the "Union") is a democratic union providing services to its members who work for the government of the Province of British Columbia, or its boards, agencies, commissions and Crown corporations, or in the broader public and private sectors. B.C. government workers formed a precursor organization in 1919. The Union was founded in 1942 and gained full bargaining rights under the *Labour Relations Code* of British Columbia in 1974. As a labour organization, the Union is exempt from income taxes under section 149(1)(k) of the *Income Tax Act*.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") and reflect the following significant accounting policies.

(a) Principles of consolidation

These consolidated financial statements include the accounts of the General and Defence Funds of the Union and the Union's wholly owned companies, Solidarity Holdings Ltd., Workers' Capital (LMAO) Holding Corp., Workers Capital (Norland) Holding Corp., Workers' Capital (Terrace) Holding Corp., and Solidarity's subsidiary, Northern Workers United Holding Corp. All transactions and balances between the Union, Solidarity Holdings Ltd. and the subsidiaries have been eliminated.

These consolidated financial statements do not include the assets, liabilities, revenues and expenses of the components and locals.

(b) Fund accounting

The Union prepares its consolidated financial statements using the concept of fund accounting. A description of each fund is as follows:

The Operations Fund reports the Union's unrestricted resources, the balances and transactions of the Union's General Fund, Solidarity Holdings Ltd., Workers' Capital (LMAO) Holding Corp., Workers Capital (Norland) Holding Corp., Workers' Capital (Terrace) Holding Corp., and Northern Workers United Holding Corp., and the following internally restricted reserves:

- Fightback and campaign reserve;
- Area office, land and building reserve – for the purchase of area office land and buildings;
- Bargaining reserve – for renegotiating sectoral collective agreements;
- Contingency reserve – for contingencies; and
- Convention reserve – for triennial constitutional conventions, next one postponed from 2020 to 2021 as a result of the COVID-19 pandemic (Note 23(a)).

The Defence Fund reports restricted resources to be used in the event of job action and holds investments for future appreciation.

(c) Investment

The investment where the Union exerts significant influence is accounted for using the cost method.

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

2. Significant accounting policies (continued)

(d) *Investment property*

The investment property is recorded at cost less accumulated amortization using the declining balance basis at 5% per annum for the building.

(e) *Property and equipment*

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated at the following annual rates:

Buildings	Declining-balance basis	5%
Furniture and equipment	Straight-line basis	7 years
Computer equipment	Straight-line basis	3 years
Parking lot and road	Declining-balance basis	4%
Vehicle	Declining-balance basis	30%

Equipment under capital lease is amortized on the straight-line basis over a term of three to five years, based on the terms of the lease.

Leasehold improvements are amortized on the straight-line basis over the initial term of the lease (five years) and one renewal period (five years).

(f) *Impairment of long-lived assets*

The Union reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable as compared to the sum of expected undiscounted future cash flows resulting from its use and eventual disposition.

The Union records an impairment loss in the period when it is determined that the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset. Any impairment loss is measured as the difference between the carrying amount and estimated fair value of the asset.

(g) *Revenue recognition*

Members' dues are recognized in the period to which they relate and are treated as unrestricted revenue.

The Union follows the deferral method and restricted contributions are recognized as revenue in the same year in which the related expenses are recognized. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Rent, interest and investment income is recognized in the period earned. Realized gains and losses on the sale of investments are included in the determination of investment income.

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

2. Significant accounting policies (continued)

(h) *Supplemental leave benefits*

The Union provides supplemental leave benefits under a defined benefit plan and accrues its liability under the plan. The plan is unfunded and actuarial valuations are prepared for accounting purposes. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the consolidated statement of changes in fund balances in the period incurred. The last actuarial valuation prepared by the actuary was at December 31, 2017. Actuarial valuations are performed every three years with an accounting update annually.

(i) *Multi-employer pension plan*

The Union accounts for its participation in the Public Service Pension Plan, a multiemployer contributory defined benefit plan, as if it was a defined contribution plan. This is due to the fact that the Plan records accrued liabilities and accrued assets for the Plan in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

(j) *Income taxes*

As a not-for-profit organization, the Union is not subject to income taxes under section 149(1)(k) of the *Income Tax Act*. However, its wholly owned company follows the taxes payable method of accounting for income taxes. Under this method, current income taxes are recognized as incurred and payable in the current year.

(k) *Measurement uncertainty*

The preparation of consolidated financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Areas requiring the use of estimates include the recoverability of accounts receivable, the estimated useful lives of property and equipment, net recoverable amount of property and equipment, valuation of investments, accrued liabilities and supplemental leave benefits liability. The Union believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

2. Significant accounting policies (continued)

(l) Financial instruments

The Union initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The Union subsequently measures all its financial assets and liabilities at amortized cost, except for any investment in equity instruments and fixed income investments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the consolidated statement of revenues and expenses.

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in the statement of changes in net assets available for benefits. In the event a previously recognized impairment loss should be reversed, the amount of the reversal is recognized in the statement of changes in net assets available for benefits provided it is not greater than the original amount prior to write-down.

For any financial instrument that is measured at amortized cost, the instrument's cost is adjusted by the transaction costs that are directly attributable to their origination. These transaction costs are amortized into the consolidated statement of changes in revenue and expenses on a straight-line method over the term of the instrument. All other transaction costs are recognized in the consolidated statement of changes in revenue and expenses in the period incurred.

3. Marketable securities

The Union's investments are comprised of equity and debt securities and are carried at their fair value based on the quoted market prices of the securities at December 31, 2019. The composition of marketable securities, classified as current assets, is as follows:

	2019		2018	
	Fair value	Cost	Fair value	Cost
	\$	\$	\$	\$
Short-term investments	777,574	778,361	587,766	589,059
Fixed income funds	17,528,479	16,907,725	13,519,722	13,812,886
Equity funds	79,421,026	39,955,609	66,844,528	41,997,612
Foreign currency hedge (Note 19(e))	700,259	-	(585,055)	-
	98,427,338	57,641,695	80,366,961	56,399,557
Represented by				
General Fund	16,573,745	9,527,646	11,051,655	6,478,795
Defence Fund	81,853,593	48,114,049	69,315,306	49,920,762
	98,427,338	57,641,695	80,366,961	56,399,557

For the year ended December 31, 2019, the total realized gain on the sale of marketable securities was \$511,813 (2018 - \$2,367,988).

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

4. Deposits

- (a) In 2019, the Union entered into a contract to purchase land and a building in Burnaby, British Columbia, for \$4,800,000 plus taxes which completed on January 13, 2020. As at December 31, 2019, a total of \$255,000 in deposits were paid and included in Deposits in the consolidated balance sheet. Also included in deposits are other acquisition related costs.
- (b) Subsequent to the year-end, the Union completed the purchase of four additional properties, land and buildings in Burnaby, British Columbia, for \$15,810,000 plus taxes.

5. Investment

The investment noted below does not have a quoted market price in an active market and is recorded at cost.

	2019	2018
	\$	\$
Investment with Significant Influence		
West Kootenay Labour Centre Holding Society (37.5%)	15,250	15,250

6. Investment property

	2019	2018
	\$	\$
Investment Property – Defence Fund		
Norland Avenue Property Cost	10,631,571	10,631,571
Norland Avenue Property Accumulated Amortization	(424,842)	(144,014)
	10,206,729	10,487,557

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

7. Amounts held in trust

	2019	2018
	\$	\$
Health Science Professionals Professional Development Funds For professional development of members covered by the Health Sciences Professionals collective agreement.	103,491	330,577
Deferred Salary Leave Plan To afford employees the opportunity of taking a one-year leave of absence with partial pay by deferring salary for four years and taking leave in the fifth year.	260,358	154,877
Joint Community Social Services Retraining Fund For retraining and providing professional development support for laid-off employees.	30,510	73,786
Vancouver Talmud Torah Association Trust To subsidize BCGEU union dues payable by and for the benefit of the instructors at the Vancouver Talmud Torah Association.	191,272	203,381
Joint Community Health Retraining Fund For retraining members of the labour organizations consisting of the Community Bargaining Association, of which the Union is a member.	2,050,389	2,128,716
	2,636,020	2,891,337

Assets held in trust are liquid assets held with Canadian financial institution.

8. Equipment under capital lease

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Equipment under capital lease	1,418,878	755,064	663,814	870,920

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

9. Property and equipment

	2019			2018
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	9,047,188	-	9,047,188	9,047,188
Buildings	32,831,804	12,242,107	20,589,697	21,673,366
Furniture and equipment	8,793,120	7,352,165	1,440,955	1,920,911
Computer equipment	3,239,812	2,558,510	681,302	784,194
Parking lot and road	412,906	99,145	313,761	310,092
Vehicle	167,657	133,441	34,216	48,880
Leasehold improvements	10,195,968	6,487,282	3,708,686	3,488,538
	64,688,455	28,872,650	35,815,805	37,273,169

No impairment losses have been identified by the Union for the years ended December 31, 2019 and 2018.

10. Government remittances

Included in accounts payable and accrued liabilities are government remittances payable of \$137,417 (2018 - \$22,868).

11. Community Health Enhanced Disability Management Program (CH EDMP) funding held in trust

The Union administers the Community Health Enhanced Disability Management Program (CH EDMP) on behalf of the Community Bargaining Association and the employers of community health members covered under the Health Services and Support Community Subsector collective agreement. Jointly developed, and administered by the Union, the purpose of the program is to facilitate an employee-centred, proactive, appropriate and customized disability management program for members with occupational and non-occupational illness or injury.

CH EDMP is fully funded by the employers through the Health Employers Association of British Columbia (HEABC). Program expenditures for 2019 and 2018 are documented in the following table.

	Consolidated 2019	Consolidated 2018
	\$	\$
Expenditures		
Membership advocate activities	815,338	406,005
Salaries and benefits	391,506	371,691
Building and administration	18,952	15,450
Office and equipment expenses	17,646	23,875
Staff travel and auto	15,234	16,904
	1,258,676	833,925

Total remaining funding received from HEABC for CH EDMP amounts to \$204,000 (2018 - \$nil) recorded as funding held in trust and is held as cash as at year-end.

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

12. Due from (to) components

	2019	2018
	\$	\$
Dues allocations payable	(624,101)	(991,193)
Advances to cover expenses, non-interest-bearing	253,002	719,324
	(371,099)	(271,869)

13. Capital lease obligations

Future minimum lease payments on capital lease obligations are as follows:

	\$
2020	366,683
2021	246,898
2022	127,895
2023	24,548
Total minimum lease payments	766,024
Imputed interest at 5.7%	62,917
	703,107
Current obligation	329,942
Long-term obligation	373,165

Interest of \$53,706 (2018 - \$56,887) on account of capital leases was recognized during the year and is included in office expense (Schedule). The Union's capital lease obligations have maturity dates ranging from January 2020 to June 2023.

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

14. Supplemental leave benefits liability

The Union is committed to provide certain supplemental leave benefits under a defined benefit plan. The benefits are based on length of service and final earnings.

An actuarial report prepared in May 2018 provided the Union with a valuation of the total benefits liability at December 31, 2017 and a projection of the current service costs for 2018 and total benefits obligation as at December 31, 2018.

In February 2019, the actuaries revised their projection of the December 31, 2018 obligation to reflect a discount rate of 3.50%, as compared to the rate of 3.10% used in their earlier report. The resulting actuarial gain of \$84,999 in 2018 was recognized as a separate component within the consolidated statement of changes in fund balances.

In March 2020, the actuaries further revised their projection of the December 31, 2019 obligation to reflect a discount rate of 3.00%, as compared to the rate of 3.50% used in their earlier report. The resulting actuarial loss of \$96,652 is recognized as a separate component within the consolidated statement of changes in fund balances.

The Plan is unfunded as no assets have been allocated to the plan. As a result, the Plan's obligation of \$5,452,942 (2018 - \$5,950,630) is also the plan's deficit.

The valuation and projection were based on the following assumptions regarding discount rates and employees' compensation levels during their active period of employment:

	2019	2018
	%	%
Discount rate	3.00	3.50
Rate of compensation and benefits increase	1.40	1.40
	2019	2018
	\$	\$
Supplemental leave benefits expense consists of the following:		
Current service cost	34,979	35,811
Interest cost on accrued benefit obligation	182,986	193,464
Supplemental leave benefits expense	217,965	229,275

Total benefits paid in the year were \$812,305 (2018 - \$1,141,177).

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

15. Internally restricted fund balances

						2019	2018
	Fightback and campaign reserve	Area office, land and building reserve	Bargaining reserve	Contingency reserve	Convention reserve	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Fund balance, beginning of year	2,827,136	1,016,832	400,000	2,800,000	700,000	7,743,968	7,937,058
Purchase of property and equipment	-	-	-	-	-	-	(4,989,096)
Operating expenditures	-	-	-	-	-	-	(800,000)
Transfers:							
2019 operating budget	-	2,021,460	-	-	700,000	2,721,460	2,596,006
2019 unrestricted fund balance	3,008,585	3,008,585	3,008,585	582,811	-	9,608,566	3,000,000
Fund balance, end of year	5,835,721	6,046,877	3,408,585	3,382,811	1,400,000	20,073,994	7,743,968

In 2019, the Provincial Executive approved transferring all but \$500,000 of what would otherwise be the Union's unrestricted fund balance as of December 31, 2019 to make the contingency reserve equal to 5% of 2020 budgeted members' dues revenue and to evenly split the remaining amount between the bargaining reserve, the fightback and campaign reserve, and the area office land and building reserve.

16. Commitments

The Union is committed to operating lease payments for premises and office equipment over the next five years and thereafter as follows:

	\$
2020	522,722
2021	458,007
2022	457,982
2023	472,854
2024 and thereafter	347,515
	2,259,080

The leases have maturity dates up to January 2025.

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

17. Multi-employer pension plan and contingencies

Employees of the Union are members of the Public Service Pension Plan ("PSPP"), a multi-employer contributory defined benefit plan. The regular employer contribution for 2019 was \$2,543,034 (2018 - \$2,415,635) and is included in salaries and employee benefits expense.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The most recent actuarial valuation for the Plan at March 31, 2017 indicated a surplus of approximately \$1.895 billion. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 57,000 active employees, of which approximately 280 are employees of the Union.

The Union has identified that it has PSPP contribution arrears for certain temporary staff and that it may have PSPP contribution arrears for certain other temporary staff. The Union has notified the PSPP and is compiling earnings data for both groups of temporary staff to submit to the PSPP so that it can determine contribution arrears. Until the earnings data is compiled and the PSPP makes its determination it is not possible to estimate the amount of the arrears payable.

18. BCGEU Diane L. Wood International Solidarity and Humanity Fund

The Union committed \$241,869 (2018 - \$237,525) to its BCGEU Diane L. Wood International Solidarity and Humanity Fund for international solidarity and development projects. As at December 31, 2019, \$53,133 (2018 - \$50,864) of committed funds have yet to be spent.

19. Credit facility

The Union has an available credit facility up to a maximum of \$8,500,000 with interest per annum charged at prime rate of 3.95% (2018 - 3.95%). When drawn, security for this facility is provided by way of a charge over certain of the Union's land and buildings, with a carrying value of \$6,516,899 (2018 - \$6,775,429). As at December 31, 2019, the amount outstanding was \$nil (2018 - \$nil).

20. Financial instruments

(a) *Liquidity risk*

Liquidity risk is the risk that the Union will encounter difficulty in meeting obligations associated with financial liabilities.

The Union is exposed to liquidity risk with respect to its accounts payable and supplemental leave benefits liability. The Union's cash on hand and cash flow from operations provides a substantial portion of the Union's cash requirements. Additional cash requirements can be met with the sale of marketable securities, or use of the available credit facility, if required.

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

20. Financial instruments (continued)

(b) *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Union's exposure to credit risk with respect to accounts receivable is minimal since over 97% of the accounts receivable as at December 31, 2019 (2018 - 89%) are receivable from well-established employers for members' dues deducted from members' wages. Members' dues are received from employers on a regular basis.

The Union's exposure to credit risk with respect to its cash and marketable securities is minimized since these items are held at well-capitalized Canadian financial institutions. In addition, the government of the Province of British Columbia, with its *Financial Institutions Act*, has, through the Credit Union Deposit Insurance Corporation, guaranteed the full value of the Union's cash, all of which is held at credit unions in British Columbia.

(c) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by the Union and accrued supplemental leave payable. The value of fixed income securities will generally rise when interest rates fall and decrease when market rates rise.

(d) *Other price risk*

Other price risk arises as a result of trading in equity securities and fixed income securities. Fluctuations in the market expose the Union to a risk of loss. The Union mitigates this risk through controls to monitor and limit concentration levels.

(e) *Foreign currency risk*

As of December 31, 2019, 33% (2018 - 32%) of the marketable securities are invested in U.S. equities with an additional 12% (2018 - 16%) invested in other non-Canadian equities. Foreign currency risk arises due to changes in foreign currency exchange rates on the Union's foreign securities. Effective January 20, 2017, the Union implemented a hedging strategy to reduce its exposure to foreign currency gains and losses with respect to its holdings of U.S. equities.

B.C. Government and Service Employees' Union

Notes to the consolidated financial statements

Year ended December 31, 2019

21. Income taxes

The Union's wholly owned company has non-capital losses of \$9,510,358 that may be applied to reduce taxable income in future years. The potential income tax benefit of these losses has not been recorded in these consolidated financial statements. The non-capital losses expire as follows:

	\$
2031	292,825
2032	842,626
2033	703,239
2034	842,337
2035	1,220,883
2036	1,182,708
2037	1,159,202
2038	1,455,985
2039	1,810,553
	<u>9,510,358</u>

22. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year.

23. Subsequent events

- (a) Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Union in future periods.
- (b) The Union plans to create a not-for-profit entity which would develop the properties referred to in Note 4 into office space for the Union and affordable housing. On April 14, 2020, the union entered into a \$1,620,000 contract with an architectural firm to design the buildings for this development.

B.C. Government and Service Employees' Union

Consolidated schedule of rent revenue, net and expenses

Year ended December 31, 2019

Schedule

	General Fund \$	Solidarity Holdings Ltd. \$	Consolidated 2019 \$	Consolidated 2018 \$
Rent	814,279	87,850	902,129	784,400
Expenses				
Repairs and maintenance	147,379	-	147,379	96,286
Utilities	76,596	-	76,596	71,270
Property taxes	69,756	-	69,756	61,927
Leasing Commissions	26,421	-	26,421	-
Management fees	39,822	-	39,822	29,473
	359,974	-	359,974	258,956
Rent, net	454,305	87,850	542,155	525,444
			Consolidated 2019 \$	Consolidated 2018 \$
Building and administration				
Building			2,062,510	1,877,082
Office (Note 13)			1,534,109	1,576,705
Information technology			994,201	729,151
Telephone and utilities			924,242	909,338
Rent			617,121	677,249
Postage			318,943	346,544
Amortization of property and equipment			2,684,614	2,615,519
Amortization of property and equipment under capital lease			319,387	305,962
Amortization of investment property			280,827	144,014
			9,735,954	9,181,564
Campaigns, strategic partnerships, communications and donations				
Campaigns, strategic partnerships and charitable donations			1,193,294	1,529,628
Internal and external communications			309,238	451,258
			1,502,532	1,980,886
Other member services				
Membership activities			109,994	106,582
Activist recognition events			278,281	253,511
BCGEU Diane L. Wood International Solidarity and Humanity Fund (Note 18)			239,600	244,210
Workplace leadership			150,390	144,377
Cross component committees			117,489	94,215
Scholarships and welfare			106,056	105,625
Union observers			54,154	47,755
Hospitality workers' health and welfare benefits plan (recovery)			(18,132)	(61,116)
			1,037,832	935,159