



Report of the Office of the Auditor General
of British Columbia

To the Members of the Board of Governors of
The University of British Columbia, and
To the Minister of Advanced Education,
Province of British Columbia:

We have audited the consolidated statement of financial position of *The University of British Columbia* as at March 31, 2007 and the consolidated statement of operations and changes in net operating assets, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of *The University of British Columbia* as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 22, 2007

Errol S. Price, CA
Deputy Auditor General




THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousands of dollars)

		MARCH 2007	Restated (note 3) MARCH 2006
ASSETS			
Current assets			
Cash and short-term investments	(Note 5)	\$ 187,907	\$ 294,825
Accounts receivable		82,354	107,391
Inventory		9,531	9,231
Prepaid expenses		<u>4,575</u>	<u>3,252</u>
		284,367	414,699
Investments	(Note 6)	1,111,261	949,784
(fair value - \$1,250,926; March 2006 - \$1,049,633)			
Investments in equity accounted organizations	(Note 7)	15,694	9,844
Property, plant and equipment	(Note 9)	<u>1,806,008</u>	<u>1,652,021</u>
		<u>\$ 3,217,330</u>	<u>\$ 3,026,348</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities		\$ 107,836	\$ 148,921
Current portion of long-term debt	(Note 12)	<u>1,863</u>	<u>3,493</u>
		109,699	152,414
Employee future benefits	(Note 11)	4,607	4,749
Deferred contributions	(Note 13)	267,956	273,219
Deferred capital contributions	(Note 14)	1,021,243	974,454
Deferred land lease revenue	(Note 15)	152,439	98,695
Long-term debt	(Note 12)	<u>280,574</u>	<u>281,421</u>
		1,836,518	1,784,952
Net assets			
Unrestricted operating		7,144	5,224
Internally restricted reserves	(Note 16)	100,491	141,826
Endowment fund	(Note 17)	751,038	690,609
Related organizations		17,948	12,825
Invested in property, plant and equipment	(Note 10)	<u>504,191</u>	<u>390,912</u>
		<u>1,380,812</u>	<u>1,241,396</u>
		<u>\$ 3,217,330</u>	<u>\$ 3,026,348</u>

Approved:


Chair, Board of Governors


Chair, Audit Committee


Vice President,
Administration and Finance

(See accompanying notes to the consolidated financial statements)



THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET OPERATING ASSETS
YEAR ENDED MARCH 31
(thousands of dollars)

		2007	Restated (note 3) 2006
Revenues			
Government grants and contracts	(Note 18)	\$ 764,704	\$ 760,902
Student fees		283,913	265,649
Non-government grants, contracts and donations		124,025	114,485
Investment income	(Note 8)	79,159	118,636
Income from equity-accounted organizations		1,636	2,180
Sales and services		273,797	254,502
Amortization of deferred capital contributions	(Notes 10 and 14)	66,429	55,737
		<u>1,593,663</u>	<u>1,572,091</u>
Expenses			
Salaries		764,384	750,109
Employee benefits		116,842	107,692
Supplies and sundries		181,069	159,949
Depreciation		132,879	116,648
Cost of goods sold		40,525	42,772
Scholarships, fellowships and bursaries		55,992	51,722
Travel and field trips		39,722	36,950
Professional and consulting fees		45,407	46,717
Grants and reimbursements to other agencies	(Note 19)	74,692	61,314
Utilities		24,858	25,970
Interest on long-term debt		20,162	32,827
		<u>1,496,532</u>	<u>1,432,670</u>
Excess of revenues over expenses		\$ 97,131	\$ 139,421
 Allocation of excess of revenues over expenses			
Increase in invested in property, plant and equipment	(Note 10)	\$ (113,279)	\$ (52,177)
Transfers to endowment fund	(Note 17)	(22,394)	(58,320)
Transfers from (to) internally restricted reserves	(Note 16)	41,335	(26,752)
Increase in equity of related organizations		<u>(873)</u>	<u>(1,859)</u>
Change in unrestricted net operating assets		1,920	313
Unrestricted net operating assets, beginning of year		5,224	4,911
Unrestricted net operating assets, end of year		\$ 7,144	\$ 5,224

(See accompanying notes to the consolidated financial statements)



THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(thousands of dollars)

	Unrestricted Operating	Internally Restricted Reserves	Endowment Fund	Related Organizations	Invested in Property, Plant and Equipment	Total	
						MARCH 2007	Restated (note 3) MARCH 2006
Opening balance as previously reported	\$ 5,224	\$ 138,698	\$ 684,522	\$ 4,625	\$ 390,912	1,223,981	\$ 1,065,241
Restatement (note 3)		3,128	6,087	8,200		17,415	
Opening balance, restated	5,224	141,826	690,609	12,825	390,912	1,241,396	1,065,241
Excess (deficiency) of revenues over expenses	68,308	16,447	11,503	873	-	97,131	139,421
Interfund transfers	(54,027)	48,513	5,514	-	-	-	-
Net change in invested in property, plant & equipment	(12,137)	(101,372)	230	-	113,279	-	-
Transfers to endowment principal	(224)	(4,923)	5,147	-	-	-	-
Net change during the year	1,920	(41,335)	22,394	873	113,279	97,131	139,421
Donated land						-	2,598
External endowment donations (note 17)	-	-	38,035	4,250	-	42,285	34,136
Balance, end of year	\$ 7,144	\$ 100,491	\$ 751,038	\$ 17,948	\$ 504,191	1,380,812	\$ 1,241,396

(See accompanying notes to the consolidated financial statements)



THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of dollars)

	<u>MARCH 2007</u>	<u>Restated MARCH 2006</u>
Cash provided from operating activities		
Excess of revenues over expenses	\$ 97,131	\$ 139,421
Add non-cash items:		
Depreciation	132,879	116,648
Amortization of deferred capital contributions	(66,429)	(55,737)
Amortization of deferred land lease revenue	(880)	(545)
Employee future benefits	446	(717)
	<u>163,147</u>	<u>199,070</u>
(Decrease)/increase in non-cash current assets	72,954	(75,580)
Increase in investment in equity accounted entities	(1,600)	(2,177)
Increase/(decrease) in current liabilities excluding current portion of long-term debt and employee future benefits	(41,084)	75,259
Payments of employee future benefits	(589)	(1,690)
	<u>192,828</u>	<u>194,882</u>
Cash used in investing activities		
Property, plant and equipment acquisitions	(286,868)	(328,160)
Net increase in investments	(161,477)	(128,106)
	<u>(448,345)</u>	<u>(456,266)</u>
Cash provided from financing activities		
Net increase/(decrease) in deferred contributions	(5,263)	64,854
Net increase/(decrease) in long-term debt	(2,477)	119,158
Proceeds from land leases	54,626	22,360
Increase in deferred capital contributions	113,218	105,852
Endowment contributions	38,035	34,135
	<u>198,139</u>	<u>346,359</u>
Increase/(decrease) in cash and short-term investments	(57,378)	84,975
Cash and cash equivalents, beginning of year	218,233	133,258
Cash and cash equivalents, end of period	<u>\$ 160,855</u>	<u>\$ 218,233</u>

(See accompanying notes to the consolidated financial statements)



1 AUTHORITY AND PURPOSE

The University of British Columbia (UBC or the University) operates under the authority of the *University Act* of British Columbia. UBC is a comprehensive research university offering a full range of undergraduate, graduate and continuing studies programs. The academic governance of the university is vested in the Senate. A not-for-profit entity, UBC is governed by a Board of Governors, the majority of whom are appointed by the provincial government of British Columbia. UBC is also a registered charity and therefore exempt from income taxes under section 149 of the *Income Tax Act*.

2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

(a) Basis of Presentation

The University reports its operations on a combined basis, which includes activities from various funds.

The unrestricted operating funds of the University relate to the University's academic program delivery, service and administrative activities.

Internally restricted reserves are funds that have been restricted, subject to approval by the Board of Governors (Note 16).

(b) Consolidation (see also note 3)

(i) The financial statements consolidate the accounts of the following not-for-profit organizations whose activities are intended to benefit UBC:

- UBC Foundation, which was formed to develop public awareness and encourage financial support for the University.
- American Foundation for UBC, an American charitable foundation that encourages financial support of the University.
- Hong Kong Foundation for UBC, which is incorporated in Hong Kong as a not-for-profit organization, to promote and advance all matters concerning education in Hong Kong and elsewhere.
- San Rafael Research Foundation, which operates as a fund-raising vehicle for the University.
- UK Foundation for the University of British Columbia, an official charitable organization in the UK that promotes and advances all matters concerning education in the United Kingdom and elsewhere in the world.
- UBC Society for the Education of Young Children, which maintains and operates an educational program for young children.

(ii) The financial statements include the accounts of the following for-profit entities using the equity method of accounting:

- UBC Properties Trust, which was established to carry out real estate development activities for the benefit of the University.



**THE UNIVERSITY OF BRITISH COLUMBIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2007**

- UBC Investment Management Trust, whose primary purpose is to manage the investment assets of the University's endowment fund and the staff pension plan.
- UBC Research Enterprises Inc., which promotes the creation, testing, development, production and commercialization of intellectual property owned by the University.
- DDI Drug Development Inc, a development stage biotechnology enterprise.

(iii) The financial statements include the accounts of the following joint ventures using the equity method of accounting:

- Tri-Universities Meson Facility (TRIUMF)

These financial statements include the University's 16.7% interest in TRIUMF. TRIUMF is a joint venture, amongst the University and five other universities, which was established to operate a facility for research in sub-atomic physics. TRIUMF operates on the UBC campus and elsewhere.

- Great Northern Way Campus Trust

These financial statements include the University's 25% interest in the Great Northern Way Campus Trust. The trust was formed on September 15, 2002 to include the lands and premises comprising the Great Northern Way Campus for the equal benefit of the University, Simon Fraser University, British Columbia Institute of Technology and the Emily Carr Institute of Art and Design.

- Western Canadian Universities Marine Sciences Society (WCUMSS)

These financial statements include the University's 20% interest in WCUMSS. The University is one of five university members of WCUMSS.

(c) Revenue Recognition

i) Restricted Revenues

The University follows the deferral method of accounting for contributions. Some contributions, such as grants and donations for research or capital purposes, are restricted in use by the external contributor. These restricted contributions are recognized as revenue in the year in which the related expenses are incurred. In the case of contributions received for the purchase of property, plant and equipment having a limited life, an amount equivalent to the depreciation expense is reported as revenue each year. Those contributions with an unlimited life are treated as a direct increase in invested in property, plant and equipment.

Some restricted contributions must be retained in perpetuity, allowing only the investment income earned thereon to be spent. These contributions are recorded as an increase in endowments.

ii) Unrestricted Revenues

Revenues received without restrictions include tuition fees and sales of services and products. Monies received from these sources are reported as revenue at the time the product is delivered or the services are substantially provided. The operating grant from the Province of British Columbia is also considered unrestricted and is recorded in the period to which the operating funds relate.



**THE UNIVERSITY OF BRITISH COLUMBIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2007**

iii) Deferred Land Lease Revenue

The University leases certain properties to third parties for a period of 99 years. Cash received from land leases is deferred and recognized as revenue over the term of the lease.

iv) Investment Income

Investment income includes interest recorded on an accrual basis and dividends recorded as declared, realised gains or losses on the sale of investments, and write downs on investments where the loss in value is determined to be other than temporary. Investment transactions are recorded on a trade date basis. To the extent that investment income relates to externally restricted endowments, income is recorded in the year in which the related expenses are incurred. Transaction costs are expensed as incurred.

(d) Investments

Short-term investments are recorded at the lower of cost and fair value.

Long-term investments are recorded at cost or, where donated, at fair value on the date of donation. Investment value is written down when there has been impairment in value considered other than temporary.

(e) Inventory

Inventory held for resale is recorded at the lower of cost and net realizable value. Supplies inventories are recorded at cost.

(f) Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost, except for donated assets from unrelated parties, which are recorded at fair value at the date of acquisition. Land granted to the University is recorded at nominal value. Transfers of property, plant and equipment from related parties are recorded at carrying value.

Library books and periodicals are recorded at cost.

Museum and art collections are recorded at nominal value.

The following property, plant and equipment are amortized on a straight-line basis over their estimated useful life with no charge in the year of acquisition and a full charge in the year of disposal:

Site improvements	25-80 years
Buildings	10-50 years
Building renovations	5-10 years
Furnishings, equipment and systems	3-10 years
Library books	10 years

(g) Gifts-in-Kind

Gifts-in-kind include securities, furnishings, equipment, books, manuscripts, artwork and artifacts. Only securities are recorded in the financial statements, and are valued as described in (c) above.



(h) Contributed Services

The University benefits from services provided by volunteers in assisting the institution in carrying out its activities. The fair value of these services is not determinable and accordingly is not included in the financial statements.

(i) Employee Future Benefits

i) Pension Plans

The University has two pension plans providing pension and other benefits to its employees.

Faculty Pension Plan

The Faculty Pension Plan is a defined contribution plan providing benefits on a money purchase basis. The cost of pension benefits includes the current service cost based on 10% of salary, less a fixed offsetting amount relating to Canada Pension Plan contributory earnings. The University expenses contributions to this plan in the year the contributions are made.

Staff Pension Plan

The Staff Pension Plan provides benefits based on 2% of the average best three years' basic salary multiplied by the number of years of contributory service, less an adjustment for Canada Pension Plan contributory earnings. The University contribution for the Staff Pension Plan is 10% of salary, less a fixed offsetting amount relating to Canada Pension Plan contributory earnings. In the event of funding deficiencies, the University's contributions remain fixed and benefits for members may be reduced. Accordingly, the University expenses contributions to this plan in the year the contributions are made. Benefits security for employees is improved by the plan maintaining a contingency reserve. The contingency reserve recommended by the plan's actuary and approved by the pension board and Canada Revenue Agency is 40% of liabilities.

ii) Early Termination Arrangements and Income Replacement Plan

Early termination arrangements were available to tenured or tenure-track faculty members who had applied to the program prior to November 30, 2002. Effective November 30, 2002, the program was discontinued. An actuary determines the cost of employee future benefits and the cost is recognized over the service life of the employees. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations.

The income replacement plan provides income for disabled employees. The income replacement plan commences after a qualifying period of six months disability. When an employee is in receipt of income replacement benefits, the University continues to pay the costs of certain member benefits. The costs of the plan are employee funded. The University is not required to contribute to the plan nor is it responsible for any deficit that the plan may incur.

(j) Derivative Financial Instruments

The University may enter into interest rate swaps to manage its exposure to the impact of changes in interest rates and foreign currency derivative contracts to manage its exposure to the impact of changes in exchange rates.

Where derivative financial instruments meet specified criteria to be designated as hedges for accounting purposes, income and expenses are recognized in the Consolidated Statement of Operations in the same period as the related hedged item. Derivative financial instruments that do not qualify for hedge accounting are carried at fair value on the Consolidated Statement of Financial



Position and subsequent changes in fair values are recorded in the Consolidated Statement of Operations.

(k) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates, as additional information becomes available in the future.

(l) Comparative Figures

Comparative figures have been reclassified where necessary to be consistent with the presentation adopted in the current year.

(m) Debt issue costs

The underwriting discount along with consulting fees relating to the debenture issuances are capitalized and amortized to match the term of the long-term debenture. Amortization is calculated on a straight line basis.

(n) Future accounting changes – Financial Instruments

In 2005, the Canadian Institute of Chartered Accountants issued new accounting standards comprising handbook sections 3855 “Financial Instruments – Recognition and Measurement”, 3865 “Hedges” and 3251 “Equity”, which will become effective for UBC for the year beginning April 1, 2007.

The standards require that organizations elect to designate each financial asset as trading, available for sale, held to maturity or loans and receivables. UBC has designated its investments as held for trading, with realized and unrealized gains and losses being recorded in the statement of operations.

In addition, the standards require that all financial assets be measured at fair value on the statement of financial position with the exception of loans, receivables and investments classified as held-to-maturity, which will be measured at amortized cost.

Similarly, the standards require that all financial liabilities be measured at fair value on the statement of financial position when they are held for trading. Other financial liabilities should be measured at amortized cost.

3 RESTATEMENT OF COMPARATIVE FINANCIAL STATEMENTS

- (a) During the year, the university changed its accounting policy on consolidation. In previous years, the university consolidated its wholly owned subsidiaries and related not-for-profit organizations, and proportionately consolidated its share in joint ventures.

Under the new accounting policy, UBC has included its controlled for-profit entities and its share of the joint ventures in these financial statements using the equity method of accounting. The activities of these entities are not considered core to the mandate of UBC and management believes that the use of the equity method is more representative of both the relationship and business purpose of these organizations. The controlled not-for-profit organizations continue to be consolidated.

This change in accounting policy had no impact on net assets or excess of revenues over expenses for the current or prior year.



**THE UNIVERSITY OF BRITISH COLUMBIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2007**

- (b) During the year, the University identified certain items that had previously been deferred on the statement of financial position but which should have been recognized in the net assets of the University. The opening net assets for the current year have been adjusted accordingly, and the impact on the 2006 statement of operations and changes in net operating assets has been to increase the excess of revenues over expenses for that year by \$17.4 million.

The effect of the above accounting changes on the 2006 consolidated financial statements was as follows:

	As previously stated	Consolidation change (note 3a)	Other changes (note 3b)	Restated
		(thousands of dollars)		
Assets	3,065,865	(45,604)	6,087	3,026,348
Liabilities	1,841,884	(45,604)	(11,328)	1,784,952
Equity	<u>\$ 1,223,981</u>	<u>\$ 0</u>	<u>\$ 17,415</u>	<u>\$ 1,241,396</u>
Revenues	1,569,762	(15,086)	17,415	1,572,091
Expenses	1,447,755	(15,086)	0	1,432,669
Excess of Revenues over Expenses	<u>\$ 122,007</u>	<u>\$ 0</u>	<u>\$ 17,415</u>	<u>\$ 139,422</u>

All notes to the Financial Statements have been restated to reflect the above changes.

4 FINANCIAL INSTRUMENTS

(a) Fair Value Disclosure

The fair values of cash and short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their carrying values because of the short-term maturity of these instruments.

The fair values of investments are estimated to be market values as disclosed in Note 6. The fair value of long term debt is disclosed in Note 12. The fair value of derivative financial instruments is disclosed in Note 20.

b) Interest Rate Risk

The University is not at risk for changes in interest rates as all borrowings are at fixed rates of interest.

c) Foreign Exchange Risk

The University is exposed to foreign exchange risk on investments held in foreign currencies and may use foreign currency swaps to mitigate this risk (note 20c).



THE UNIVERSITY OF BRITISH COLUMBIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2007

5 **CASH AND SHORT-TERM INVESTMENTS**

	<u>2007</u>		<u>2006</u>	
	Cost (thousands of dollars)	Fair value	Cost (thousands of dollars)	Fair value
Cash and unrepresented cheques	\$ (13,480)	\$ (13,480)	\$ (22,872)	\$ (22,872)
Short term investments maturing in less than 90 days	174,335	174,219	241,105	241,141
Cash and cash equivalents	160,855	160,739	218,233	218,269
Bonds maturing between 90 days and one year	27,052	26,820	76,592	75,876
	<u>\$ 187,907</u>	<u>\$ 187,559</u>	<u>\$ 294,825</u>	<u>\$ 294,145</u>

The university has a \$20 million revolving line of credit and a US \$5 million line of credit secured by certain investments.

6 **INVESTMENTS**

	<u>2007</u>		<u>2006</u>	
	Cost (thousands of dollars)	Fair value	Cost (thousands of dollars)	Fair value
Government and corporate bonds				
<u>Maturity</u>				
< 1 year	\$ 13,473	\$ 13,485	\$ 7,519	\$ 7,520
2 – 5 years	123,022	122,572	111,070	110,447
> 5 year	101,228	102,096	86,955	89,007
Various - Pooled	120,532	118,374	103,329	100,380
	<u>358,255</u>	<u>356,527</u>	<u>308,873</u>	<u>307,354</u>
Short-term notes and treasury bills	10,704	10,701	7,510	7,441
Canadian equities	249,851	329,252	306,936	384,233
United States equities	110,508	128,002	109,238	118,811
Other international equities	303,822	347,201	149,187	157,412
Other	78,121	79,243	68,040	74,382
	<u>\$ 1,111,261</u>	<u>\$ 1,250,926</u>	<u>\$ 949,784</u>	<u>\$ 1,049,633</u>

Other investments include promissory notes of \$19.2 million with a related party, UBC Properties Trust. The promissory notes are unsecured with floating interest rates at prime less 1%. The settlement periods extend to March 2010.

Other investments also includes the UBC golf course, real estate investments and promissory notes issued to unrelated parties.



7 INVESTMENTS IN EQUITY ACCOUNTED ORGANIZATIONS

UBC includes seven entities using the equity method of accounting (note 2b). Financial information in respect of UBC's share of the significant entities is disclosed below.

	UBC Properties Trust		Great Northern Way		TRIUMF	
	2007 (thousands of dollars)	2006 (thousands of dollars)	2007 (thousands of dollars)	2006 (thousands of dollars)	2007 (thousands of dollars)	2006 (thousands of dollars)
Assets	144,163	89,068	20,478	13,289	1,443	1,014
Liabilities	130,350	67,568	8,579	5,389	883	632
Equity	<u>\$ 13,813</u>	<u>\$ 21,500</u>	<u>\$ 11,899</u>	<u>\$ 7,900</u>	<u>\$ 560</u>	<u>\$ 382</u>
Revenue	73,815	44,274	338	93	10,100	9,700
Expenses	25,980	14,414	588	457	9,922	9,726
Net income	<u>\$ 47,835</u>	<u>\$ 29,860</u>	<u>\$ (250)</u>	<u>\$ (364)</u>	<u>\$ 178</u>	<u>\$ (26)</u>
Cash Flows:						
Operating	\$ 34,887	17,691	(155)	(309)		
Financing	\$ (60,566)	(30,444)	7,399	1,899		
Investing	\$ 17,947	12,844	6,683	(1,622)		

No cashflow information is provided in TRIUMF's financial statements on the basis that this would not provide any additional useful information to the user. Significant differences in accounting policies between these entities and UBC are as follows:

- (i) UBC Properties Trust recognizes revenue from sales of 99 year leases in its income statement in the year that the transaction is completed. UBC defers these revenues on the balance sheet and amortizes the balance to the statement of operations over the duration of the lease (note 2 c (iii)).
- (ii) TRIUMF expenses all capital assets in its income statement as acquired; UBC capitalizes the assets and depreciates them over the useful lives (note 2 f). TRIUMF recognizes revenue in the year it is received, whereas UBC follows the deferral method of accounting for contributions (note 2 c (i)).
- (iii) During the year, the following significant related party transactions occurred:

UBC Properties Trust invoiced UBC \$3.3 million for project management fees. This is recorded as a supplies and sundries expense.

UBC issued promissory notes to UBC Properties Trust amounting to \$19 million. This is reflected within investments (note 6).



8 INVESTMENT INCOME

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Interest and dividend income	\$ 49,994	\$ 32,176
Capital gains and losses	23,190	79,664
Foreign exchange	1,279	770
Other	4,696	6,026
	<u>\$ 79,159</u>	<u>\$ 118,636</u>

9 PROPERTY, PLANT AND EQUIPMENT

	<u>2007</u>		<u>2006</u>	
	(thousands of dollars)			
	<u>Cost</u>	Less <u>Accumulated Depreciation</u>	Net <u>Book Value</u>	Net <u>Book Value</u>
Land	\$ 18,972	\$ -	\$ 18,972	\$ 18,972
Site improvements	56,778	15,275	41,503	35,852
Buildings and renovations	1,893,180	494,801	1,398,379	1,260,377
Furnishings, equipment and systems	416,392	149,319	267,073	258,918
Library books	<u>138,038</u>	<u>57,957</u>	<u>80,081</u>	<u>77,902</u>
	<u>\$ 2,523,360</u>	<u>\$ 717,352</u>	<u>\$ 1,806,008</u>	<u>\$ 1,652,021</u>

10 INVESTED IN PROPERTY, PLANT AND EQUIPMENT

Invested in property, plant and equipment represents the unamortized value of property, plant and equipment funded by the University, net of outstanding debt. It excludes those assets funded through capital contributions. Invested in property, plant and equipment is made up of the following:

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Total property, plant and equipment (Note 9)	\$ 1,806,008	\$ 1,652,021
Less:		
Deferred capital contributions (Note 14)	(1,021,243)	(974,454)
Long-term debt, excluding related organizations debt	<u>(280,574)</u>	<u>(286,655)</u>
Invested in property, plant and equipment	<u>\$ 504,191</u>	<u>\$ 390,912</u>



THE UNIVERSITY OF BRITISH COLUMBIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2007

The net change in invested in property, plant and equipment is calculated as follows:

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Acquisition of property, plant and equipment	\$ 286,868	\$ 392,809
Decrease in debt used for the purchase of property, plant and equipment	6,079	(132,485)
Depreciation expense	(132,879)	(116,648)
Amortization of deferred capital contributions (Note 14)	66,429	55,737
Property, plant and equipment purchased with restricted contributions (Note 14)	(113,218)	(147,236)
Increase in invested in property, plant and equipment	<u>\$ 113,279</u>	<u>\$ 52,177</u>

11 EMPLOYEE FUTURE BENEFITS

(a) Contributions to Pension Plans

University contributions made to each of the pension plans were:

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Faculty Pension Plan	\$ 26,149	\$ 23,975
Staff Pension Plan	23,320	20,739
	<u>\$ 49,469</u>	<u>\$ 44,714</u>

(b) Early Termination Arrangements and Income Replacement Plan

At March 31, 2007, the accrued benefit obligation for employee future benefits was actuarially valued at \$4.61 million. The accrued benefit obligation as at March 31, 2007 is calculated as follows:

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Balance, beginning of year	\$ 4,750	\$ 7,157
Current costs or recoveries and interest on benefit obligation	446	(718)
Less actual payments during the year	(589)	(1,690)
Balance, end of year	<u>\$ 4,607</u>	<u>\$ 4,749</u>



THE UNIVERSITY OF BRITISH COLUMBIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2007

12 LONG-TERM DEBT

	Maturity Date	Interest Rate	2007 (thousands of dollars)	2006 (thousands of dollars)
Series A Debentures Unsecured	2031	6.65%	\$ 125,000	\$ 125,000
Unamortized debt issue cost and discounts			(1,249)	(1,300)
Net outstanding			<u>123,751</u>	<u>123,700</u>
Series B Debentures Unsecured	2035	4.817%	125,000	125,000
Unamortized debt issue cost			(716)	(611)
Net outstanding			<u>124,284</u>	<u>124,389</u>
Canada Mortgage and Housing Corporation Mortgages Unsecured	2012 to 2023	5.125% to 7.875%	<u>12,370</u>	<u>13,024</u>
Province of BC Unsecured Debentures	2011 to 2013	8.5% to 10.04%	53,430	69,930
Sinking Funds (market value \$34,120)			(31,139)	(47,235)
Unamortized discounts			(259)	(300)
Net outstanding			<u>22,032</u>	<u>22,395</u>
Secured Mortgages			0	1,406
Total long-term debt			<u>282,437</u>	<u>284,914</u>
Less current portion			<u>(1,863)</u>	<u>(3,493)</u>
Balance, end of year			<u>\$ 280,574</u>	<u>\$ 281,421</u>

The principal portion of long-term debt repayments over the next five years is:

2008	1,863
2009	1,907
2010	1,954
2011	2,005
2012	2,058

The above figures include sinking fund payments of \$1.2 million per year. Sinking fund payments are made into government invested funds, to be applied against repayment of provincial debentures on maturity. Earnings on the sinking fund during the year were \$2.1 million.

The current portion of the long-term debt does not reflect these sinking fund earnings. The fair value of the long-term debt at March 31, 2007 is \$331,394,000 (2006: \$332,369,000).



13 DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants, donations and contributions. Changes in deferred contributions are as follows:

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Balance, beginning of year	\$ 273,219	\$ 208,366
Grants, contributions, and donations received	630,646	611,037
Transferred to deferred capital contributions (Note 14)	(113,218)	(147,236)
Transferred to revenue	<u>(522,691)</u>	<u>(398,948)</u>
Balance, end of year	<u>\$ 267,956</u>	<u>\$ 273,219</u>

The balances consist of funds restricted for:

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Research	\$ 160,755	\$ 175,292
Capital	28,500	42,139
Other specific purposes	<u>78,701</u>	<u>55,788</u>
Balance, end of year	<u>\$ 267,956</u>	<u>\$ 273,219</u>

14 DEFERRED CAPITAL CONTRIBUTIONS

Capital contributions received to purchase property, plant and equipment are deferred and recognized as revenue as related assets are amortized.

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Balance, beginning of year	\$ 974,454	\$ 882,955
Grants, contributions and donations received (note 13)	113,218	147,236
Current year amortization	<u>(66,429)</u>	<u>(55,737)</u>
Balance, end of year	<u>\$ 1,021,243</u>	<u>\$ 974,454</u>

15 DEFERRED LAND LEASE REVENUE

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Balance, beginning of year	\$ 98,695	\$ 76,880
Net proceeds	54,626	22,360
Recognition of revenue	<u>(882)</u>	<u>(545)</u>
Balance, end of year	<u>\$ 152,439</u>	<u>\$ 98,695</u>

The proceeds were paid to the University by a related party, UBC Properties trust.



16 INTERNALLY RESTRICTED RESERVES

Funds that are internally restricted include employee benefits, faculty and department carry-forwards, specific purpose, ancillary and research reserves. These internally restricted reserves are described in more detail below:

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Employee benefits	\$ (335)	\$ 265
Faculty and department carry-forwards	50,105	41,823
Specific purpose reserves	(25,992)	31,445
Ancillary reserves	28,073	19,936
Research reserves	48,640	48,357
	<u>\$ 100,491</u>	<u>\$ 141,826</u>

(a) Employee Benefits

This amount represents the funding of the future obligations of the early termination arrangements, vacation pay and the benefit liabilities related to the income replacement plan.

(b) Faculty and Department Carry-forwards

These reserves are the unspent general purpose operating fund budgets that faculties and departments are permitted to carry forward at the end of each year.

(c) Specific Purpose Reserves

These reserves are set aside to fund future obligations for continuing education and fee for service operations that are expected to be self-sustaining and fund their operations on an ongoing basis. The reserve balance relates to internally funded capital projects.

(d) Ancillary Reserves

These reserves represent the net assets set aside related to the operations of the ancillary units. Ancillary enterprises are expected to operate on a financially sustainable basis and, as such, funds need to be set aside for future maintenance, renovations and reinvestment in the business.

(e) Research Reserves

These reserves represent the commitments made to fund future overhead costs of research and internally funded research projects.



17 ENDOWMENT FUND

The endowment fund consists of restricted donations to the University and internal allocations by the University. The book value of endowments held by the University directly is as follows:

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Balance, beginning of year	\$ 690,609	\$ 598,154
Donations	38,035	34,135
Transfers to (from) endowment fund:		
Internal transfers to endowments	5,148	1,906
Investment income (loss)	52,005	96,101
Use of endowment funds	<u>(34,759)</u>	<u>(39,687)</u>
	<u>22,394</u>	<u>58,320</u>
Balance, end of year	<u>\$ 751,038</u>	<u>\$ 690,609</u>

- (i) The book value of the endowment does not include \$127.4 million which is reflected within deferred land sales revenue on the balance sheet and will be amortized to endowment income over the period of the 99 year leases. This amount is, however, included within endowment investments, and generates a return to investment income for the endowment.
- (ii) The fair value of endowment investments is \$993.9 million (2006: \$828.3 million).
- (iii) Endowments include unrestricted funds with a book value of \$25.8 million (2006 = \$25.6 million).
- (iv) Endowments with a book value of \$13.1 million (2006 = \$13.1 million) are held by the Vancouver Foundation for the benefit of UBC and are not included in the above figures. The fair value of these endowments is \$19.0 million (2006 = \$18.3 million).
- (v) Not included within the endowment fund itself was an endowment donation of \$4.25 million, being UBC's 25% share of an endowment received by Great Northern Way. This is included within related organization equity.

18 GOVERNMENT GRANTS AND CONTRACTS

	<u>2007</u>	<u>2006</u>
	(thousands of dollars)	
Province of British Columbia		
Core Academic Funding	\$ 435,842	\$ 420,877
Extraordinary mandate contract settlement	-	41,444
Post Graduate Medical Education Program	66,743	53,213
Other funding	<u>75,921</u>	<u>74,333</u>
Total Province of British Columbia	578,506	589,867
Government of Canada	174,264	161,187
Other governments	<u>11,934</u>	<u>9,848</u>
	<u>\$ 764,704</u>	<u>\$ 760,902</u>



19 GRANTS AND REIMBURSEMENTS TO OTHER AGENCIES

During the year, the University distributed research and other funds to agencies totalling \$74.7 million (2006 - \$61.3 million). These funds were distributed under agreements with granting agencies, whereby the University is the administrative head and a portion of the research is undertaken at other agencies.

Reimbursements were made to the Health Authorities for payments made on behalf of the University for the postgraduate medical education program.

20 CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

Contractual obligations and contingent liabilities are as follows:

(a) Capital Projects

- i) At March 31, 2007, outstanding commitments totalled \$62.6 million (2006 - \$55.6 million) for capital projects. These commitments are payable in subsequent years, and are funded by provincial contributions, private donations and earnings from sales and services.
- ii) In its capacity as development manager, UBC Properties Trust is committed to payment of any cost overruns on the Keenleyside project. To date, no cost overruns have occurred.
- iii) UBC is committed to build a flyover and reservoir on the UBC Okanagan campus at an estimated cost of \$6.5 million. The provincial government will provide related funding.

(b) Litigation

The University is involved from time to time in litigation, which arises in the normal course of operations. Liabilities on any litigation are recognized in the financial statements when the outcome becomes reasonably determinable. In management's judgement, no material exposure exists at this time on the eventual settlement of any existing litigation.

(c) Derivative Financial Instruments

At March 31, 2007 the University had outstanding US dollar forward currency contracts and index-linked swaps of \$187.5 million that mature in June 2007. The unrealized gain at March 31, 2007 was \$2.2 million and this has been reflected in the statement of operations and within investments.

(d) Self Insurance

The University is a member of a self-insurance co-operative in association with other Canadian universities that provides property and general liability insurance coverage. Under this arrangement, referred to as the Canadian University Reciprocal Insurance Exchange (C.U.R.I.E.), the University is required to share in any net losses experienced by C.U.R.I.E. However, the University also receives periodic return premium distributions when C.U.R.I.E. is in an acceptable surplus position.

(e) Investments

Under its endowment investment strategy, the University has outstanding commitments to fund private equity and real estate investments totalling approximately \$99 million (2006 - \$111 million) and \$86 million (2006 - \$79 million) over the following four years.



21 DONATION PLEDGES AND GIFTS-IN-KIND

The estimated value of donations, which have been pledged but not received as at March 31, 2007, was approximately \$176.5 million (2006 - \$163.6 million). These amounts are not reflected in the financial statements of the University.

For the fiscal year 2007, gifts-in-kind with an estimated value of \$21.6 million were received (2006 - \$11.6 million), of which \$3.3 million (2006 - \$7.0 million) is not recorded in the financial statements.

22 ASSETS HELD IN TRUST

The Rick Hansen Trust holds several endowments for the benefit of the Rick Hansen Institute at the University. The total assets held in the Rick Hansen Trust are \$25.8 million (2006 - \$25.6 million). These assets are not controlled by UBC and are therefore not included in the financial statements.