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| SUBJECT | 2017-2018 SECOND QUARTER FINANCIAL REPORT |
| MEETING DATE | DECEMBER 5, 2017 |

Forwarded to the Board of Governors on the Recommendation of the President

**APPROVED FOR
SUBMISSION**



Santa J. Ono, President and Vice-Chancellor

| | |
|-------------------------------|--|
| DECISION REQUESTED | For Information |
| Report Date | November 14, 2017 |
| Presented By | Andrew Simpson, Vice-President Finance & Operations Ian Burgess, Comptroller Stuart Mackenzie, Director, Financial Reporting and Budgeting |

EXECUTIVE SUMMARY

The 2017-2018 Second Quarter Financial Report for The University of British Columbia is presented for information to the Board of Governors.

The Q2 consolidated results reflect a year to date deficit of \$62m. This is slightly ahead of last year and is normal at this point in the year as revenues are higher for the period from September to March, when the majority of tuition revenue is recognized, while operating costs of the University are more evenly spread throughout the year.

The consolidated forecast for the year is a surplus of \$51m, compared to a budget of \$33m. This is in line with UBC’s fiscal strategy, which calls for a consolidated surplus in the range of 1-3% of total revenues, or between \$24m and \$72m.

This forecast includes drawdowns of operating reserves totaling \$11m across the university, which includes one-time expenditures relating to the development of campus-wide information technology (“IT”) infrastructure. The improvement in the full year forecast surplus compared to budget is the result of stronger than expected international tuition revenue (estimated 16% FTE growth compared to 9% budgeted growth) and revenue generated from conference accommodation.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

- Learning
 Research
 Innovation
 Engagement
 International
 (Internal / External)

or Operational

2017/18 Second Quarter Financial Report

Financial Reporting and Budgeting
December 2017



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1. Executive Summary

Overview

The 2017/18 Second Quarter Financial Report for the University of British Columbia is presented for information to the Board of Governors.

The Q2 consolidated results reflect a year to date deficit of \$62m. This is in line with last year and is normal at this point in the year as revenues are higher for the period from September to March, when the majority of tuition revenue is recognized, while operating costs of the University are more evenly spread throughout the year.

The consolidated forecast for the year is a surplus of \$51m, compared to a budget of \$33m. This is in line with our fiscal strategy, which calls for a consolidated surplus in the range of 1-3% of total revenues, or between \$24m and \$72m.

This forecast includes drawdowns of operating reserves totaling \$11m across the university, which includes one-time expenditures relating to the development of campus-wide information technology ("IT") infrastructure. The improvement in the full year forecast surplus compared to budget is the result of stronger than expected international tuition revenue (estimated 16% FTE growth compared to 9% budgeted growth) and revenue generated from conference accommodation.

The forecast surplus also includes:

- Expected income from endowments which is being recapitalized to ensure the principal maintains its purchasing power over time;
- Income recognized from long-term lease revenues which have been endowed; and
- Amounts invested to maintain our investments in capital assets.

The UBC Excellence fund, derived from recent international tuition increases, is forecasted at \$24m in 2017/18. This will be used to support recruiting and retaining faculty, students and staff, supporting research, and improving the student experience. Details of the planned use of these funds are in Appendix I: "UBC Excellence Fund."

The forecast reflects estimates made by faculties and operating units, which by nature tend to be conservative. Over the past several years, the final year-end drawdowns have proven to be less than estimated at Q2. While it is difficult to predict the actual result, we would expect an improvement over these estimates.

2. Consolidated Forecast

Consolidated Statement of Operations

| (in \$millions) | Q2 Year to date | | | Full Year | | | 2016/17 |
|--|--------------------|---------------------|-------------------|------------------|------------------|------------------|------------------|
| | Actual | Budget | Variance | Forecast | Budget | Variance | Actual |
| Revenues | | | | | | | |
| Government grants and contracts | | | | | | | |
| Government of Canada | 132 | 137 | (5) | 255 | 274 | (19) | 254 |
| Province of British Columbia | 388 | 396 | (8) | 791 | 792 | (1) | 781 |
| Other governments | 11 | 9 | 2 | 24 | 18 | 6 | 23 |
| Other contributions | 89 | 88 | 1 | 174 | 176 | (2) | 169 |
| Student fees | 193 | 169 | 24 | 716 | 681 | 35 | 630 |
| Investment income | 39 | 40 | (1) | 82 | 82 | - | 70 |
| Income from Gov't Business Enterprises | 8 | 1 | 7 | 11 | 2 | 9 | 11 |
| Sales and services | 173 | 156 | 17 | 387 | 367 | 20 | 373 |
| Amortization of deferred capital contributions | 40 | 43 | (3) | 77 | 85 | (8) | 77 |
| | <u>1,073</u> | <u>1,039</u> | <u>34</u> | <u>2,517</u> | <u>2,477</u> | <u>40</u> | <u>2,388</u> |
| | | | 0 | | | | |
| Expenses | | | | | | | |
| Salaries & benefits | 706 | 726 | 20 | 1,474 | 1,452 | (22) | 1,391 |
| Operating costs - other | 183 | 219 | 36 | 458 | 452 | (6) | 420 |
| Capital asset amortization | 98 | 101 | 3 | 196 | 202 | 6 | 185 |
| Cost of goods sold | 18 | 22 | 4 | 43 | 41 | (2) | 38 |
| Scholarships, fellowships and bursaries | 54 | 54 | - | 133 | 133 | - | 116 |
| Grants to third parties | 65 | 72 | 7 | 142 | 144 | 2 | 126 |
| Debt service costs | 11 | 11 | - | 20 | 20 | - | 21 |
| | <u>1,135</u> | <u>1,205</u> | <u>70</u> | <u>2,466</u> | <u>2,444</u> | <u>(22)</u> | <u>2,297</u> |
| Surplus/(Deficit) from operations | <u>(62)</u> | <u>(166)</u> | <u>104</u> | <u>51</u> | <u>33</u> | <u>18</u> | <u>91</u> |

The full year consolidated surplus forecast is \$51m, an \$18m increase from a budgeted surplus of \$33m. The increase is attributed to higher than expected international tuition revenue, higher demand in non-credit programs than anticipated, and increased revenue generated from conference accommodation.

The year to date deficit of \$62m is normal at this point in the year, because revenues are higher for the period from September to March, when the majority of tuition revenue is recognized.

Consolidated Revenue

- **Government of Canada** – This revenue is mainly attributed to research activities. A portion of the federal funds received go towards indirect costs of research, but most revenue pertains to Tri-council grants, recognized to the extent expenses are incurred in associated research projects. Further details on accounting treatment are included in "5. Research". Year to date and full year forecast would deviate from budget as research project plans change. In most cases, such activity has no impact on the bottom line.
- **Province of British Columbia** – This revenue is mainly operating grants. Full year forecast includes additional funding for salary increases within the provincial mandate.
- **Other contributions** – This revenue is generated from research grants and donations received by associations, businesses and industry, and individuals, mainly for restricted purposes. Thus, revenue is recognized to the extent that expenses have been incurred. Year to date and full year forecast would deviate from budget as research project plans change. In most cases, any such charge would have no impact on the bottom line.
- **Student fees** – This category includes tuition and mandatory fees for undergraduate and graduate students, international and domestic. Year to date and full year forecasts are favourable due to higher than expected international tuition revenues (9% student increase in budget compared to 16% in forecast), and higher demand for professional programs.

- **Investment income** – Current accounting standards require recognition of all realized gains and losses on the Statement of Operations. The budget assumes a total long-term annual rate of return for endowment investments of 6.65%, which is set by IMANT.
- **Sales and services** – This category includes ancillary operating revenue in housing and conferences, food services, bookstore, parking and fee for service activities across campus. Full year and year to date favourable variances are largely due to better than expected growth in housing and conference operations.

Expenses

- **Salaries and benefits** – Year to date expenses are lower than budget as the budget generally assumes even recognition of salaries throughout the year, whereas there are some salaries (such as sessional lecturers, teaching assistants, temporary staff, research assistants, etc.) which are typically incurred during the academic year. Full year expenses are higher than budget due to one-time expenditures relating to IT projects, and salary increases that were not included in the budget, such as trades wages and AAPS compensation review for ancillary units.
- **Operating Costs** – Year to date budgeted expenditures assume even recognition of expenses. Full year forecast includes one-time period specific expenditures relating to information technology projects, which were considered capital in nature during the budget process.

Income Statement Analysis

| (in \$millions) | Full Year | | | 2016/17 |
|------------------------------------|-----------|-----------|-----------|-----------|
| | Forecast | Budget | Variance | Actual |
| UBC Vancouver faculties | 29 | 4 | 25 | 23 |
| UBC Vancouver administrative units | (36) | (12) | (24) | (22) |
| UBC Okanagan | (4) | (1) | (3) | 7 |
| Sub-total Operating Units | (11) | (9) | (2) | 8 |
| Deferred land lease revenue | 8 | 7 | 1 | 7 |
| Endowment surplus | 8 | 8 | - | 13 |
| Research and other funds | 5 | - | 5 | 9 |
| Related organizations | 5 | - | 5 | 6 |
| Net investment in capital | 36 | 27 | 9 | 49 |
| Surplus | 51 | 33 | 18 | 92 |

- The net result from Operating Units includes an increase in reserves of Faculties, which are forecasting a favorable variance to budget as a result of better than expected growth in international tuition revenues. Offsetting this are largely one-time expenditures towards campus-wide information technology infrastructure that was originally assumed as capital, as well as an increase in drawdowns by Administrative Units towards various strategic projects and staffing investments.
- Endowment surplus of \$8m: This represents net income that is being added to the endowment principal to ensure that the spending allocation increases in future years to keep up with inflation.
- Deferred land lease income of \$8m: Proceeds from leasing land for development is allocated to the endowment as it is received, and the revenue is recognized in the Statement of Operations over the period of the lease, 99 years.
- Surplus from net investment in capital: This represents the operating funds spent on capital assets during the year from current revenues or accumulated surpluses held by faculties or other operating units. Refer to “4. Capital” for further details.

Consolidated Statement of Financial Position (unaudited)

Presented in classified format:

| (in \$ millions) | Sept 30, 2017 | 2018 As at March 31 | | 2017 As at March 31 |
|--|---------------|------------------------|--------------|------------------------|
| | Actual | Forecast | Budget | Actual |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | 124 | 110 | 101 | 87 |
| Accounts receivable | 513 | 211 | 180 | 224 |
| Operating investments | 650 | 481 | 397 | 512 |
| Investments in government business enterprises | 54 | 51 | 17 | 46 |
| Other current assets | 13 | 14 | 18 | 14 |
| | <u>1,354</u> | <u>867</u> | <u>713</u> | <u>883</u> |
| Non- Current Assets | | | | |
| Endowment investments | 1,567 | 1,657 | 1,533 | 1,538 |
| Capital assets | 3,234 | 3,432 | 3,483 | 3,249 |
| | <u>4,801</u> | <u>5,089</u> | <u>5,016</u> | <u>4,787</u> |
| TOTAL ASSETS | <u>6,155</u> | <u>5,956</u> | <u>5,729</u> | <u>5,670</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities | 752 | 296 | 291 | 291 |
| Current portion of debt | 6 | 6 | 8 | 6 |
| | <u>758</u> | <u>302</u> | <u>299</u> | <u>297</u> |
| Non-Current Liabilities | | | | |
| Employee future benefits | 12 | 12 | 12 | 12 |
| Deferred other restricted contributions | 429 | 348 | 320 | 344 |
| Non-current portion of debt | 352 | 351 | 347 | 355 |
| | <u>793</u> | <u>711</u> | <u>679</u> | <u>711</u> |
| Total Liabilities | 1,551 | 1,013 | 978 | 1,008 |
| Net Assets | | | | |
| Accumulated surplus | 1,828 | 1,952 | 1,915 | 1,885 |
| Deferred capital contributions | 1,451 | 1,517 | 1,515 | 1,464 |
| Deferred land lease revenues | 688 | 823 | 714 | 690 |
| Deferred endowment contributions | 637 | 651 | 607 | 623 |
| | <u>4,604</u> | <u>4,943</u> | <u>4,751</u> | <u>4,663</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>6,155</u> | <u>5,956</u> | <u>5,729</u> | <u>5,670</u> |

The University's Statement of Financial Position remains strong, with healthy working capital and funding to support ongoing investment in key strategic projects, which includes capital projects outlined in "4. Capital."

- The university cash position is defined as cash and cash equivalents and operating investments. Operating investments include tuition payments and residence fees received. Refer to "3. Liquidity" for further details.

- Accounts receivable as at September 30, 2017 is significantly higher than year-end as the balance includes tuition fees receivable.
- Government business enterprises are accounted for such that the business entity's changes in equity are recorded as an investment to the extent it is not declared as a distribution. UBC Properties Investment Ltd. (UBCPIL) and Great Northern Way Campus Trust (GNW) are recorded in this manner. Land proceeds relating to UBCPIL are distributed to UBC, which are then invested into the endowment.
- Endowment investments consist of donations held in perpetuity and land lease revenues received by the University to benefit current and future generations.
- Changes in capital expenditures are presented in "4. Capital"
- Accounts payable as at September 30, 2017 is significantly higher than year-end as the balance includes tuition payments received in advance, to be recognized as revenue throughout the winter term.
- Contributions received for research, trust, endowment and capital and not yet spent are recorded as deferred contributions.
- Contributions expended on capital are referred to as deferred capital contributions.

3. Liquidity

The University requires approval from the Ministry of Advanced Education and of Finance to borrow. UBC has been unable to borrow since 2007 because any additional borrowing by UBC would impact the provincial Debt to GDP ratio and provincial borrowing costs. In 2007, UBC Treasury contracted a US investment bank to provide an assessment of UBC's capacity to invest working capital in longer-term capital projects. The recommendation was to establish an "internal bank" and to lend excess working capital to help finance capital priorities.

All funds are invested in liquid instruments. The short-term investments are banker's acceptances and government money market paper and the core working capital invested by IMANT is in government backed bonds and money market paper. In addition, the University has a line of credit of \$40m from September to June and \$60m from July and August when balances are at their low point. Past Board policy defines minimum liquidity as \$100m in liquid investments and \$25m excess line of credit in July and August. Throughout the rest of the year, liquidity is much higher.

Projected Liquidity

UBC Treasury regularly provides a liquidity update to the Board of Governors. The presentation historically was based on projections of liquidity the August low point. Going forward, liquidity reported to the Board of Governors will use the fiscal strategy metrics as at March 31, a higher liquidity position, with a five-year projection.

Forecasted liquidity at March 31, 2018 is \$591m, which is \$93m higher than budget. One of the main reasons for this favourable variance is the budget had assumed a lower beginning cash balance than the final ending cash position at March 31, 2017, a positive difference of \$76m (\$523m forecasted versus \$599m actual). This difference was primarily driven by higher surpluses and lower capital spending than anticipated at the time the budget was prepared. This favourable change is in part offset by higher expected capital expenditures this fiscal year. Based on historical spending patterns and the University's current cash balances, there is potential that the liquidity will be higher than currently forecasted. Overall, there is sufficient liquidity to meet future spending requirements.

With a March 31 2018 projected Liquidity position of \$591m, together with a \$40m line of credit, there is sufficient liquidity to meet future spending requirements and withstand financial shocks. \$630m of liquidity would cover over 90 days of operating outflows should incoming funds cease. This is well above the fiscal strategy target of 45 days.

Borrowing approval from the Province would further improve liquidity but has not been built into the FY18 projection.

Sources of Financing

There are four sources of internal financing currently available to the University: working capital, the Student Housing Financing Endowment (SHFE), the Faculty Housing Financing Endowment (FHAFE) and investment from the endowment.

- Working capital is composed of Faculty, department and central reserves, and research monies and funds on hand that result from a delay from receipt to disbursement.
- In 2011, the Board of Governors established an endowment called the Student Housing Financing Endowment (SHFE) to deposit net land proceeds generated by the University through UBC Properties Trust (UBCPT). SHFE is currently financing the expansion of the University's student housing.
- In December 2016, the Board of Governors additionally established the Faculty Housing Financing Endowment (FHAFE), to finance UBC's housing assistance program to facilitate recruitment and retention of outstanding faculty members.

- In May 2014, the UBC Board of Governors approved a \$100m investment from the endowment into the Orchard Commons student housing project. The funds were transferred in August 2016.
- UBC has provided UBC Properties Trust with a revolving loan of \$20m to enable efficient cash management in the Trust. This is expected to continue for at least the next several years.

Foreign Currency Exchange

The University primarily operates in Canadian funds but also has US dollar, Euro and Rupee bank accounts. US funds are deposited to the US bank account and US payments are made in the same currency. University depositors are credited with the Canadian dollar equivalent of the US funds received and payments are debited at the Canadian equivalent of the US dollars.

For FY2018 Q2 YTD, \$44m was received in US dollars, \$17m was paid out, and UBC Treasury sold \$12m of US funds, leading to net US cash balance increase of \$15m. The majority of US funds received are from MasterCard Foundation, research grants and donations.

The Library is the largest payer of US funds, but researchers also purchase equipment in US funds. Of the 5,054 US dollar denominated payments that have been made year to date, only 39 were greater than CAD \$100,000. Treasury provides a foreign exchange hedging service (all currencies), but decisions are made at the Faculty or department level. As of September 30 2017, Treasury has USD 9.4m outstanding internal forward contracts.

At Q2 the university had USD holdings of \$23.4m. This position was being held to cover upcoming expenditures of \$9.4m internal forward contracts, \$6m for upcoming major IT spend, \$5m float for smaller expenses. The plan is to sell the remaining \$3m gradually during Q3 and Q4.

4. Capital

The University makes significant ongoing capital investments to support its learning and research mission, and to create an outstanding student experience. Below is a summary of forecast capital expenditures for 2017/18:

Capital expenditure by asset category (in \$millions):

| (in \$millions) | Full Year | | | 2016/17 |
|--|------------|------------|------------|------------|
| | Forecast | Budget | Variance | Actuals |
| Building and property: | | | | |
| Major buildings | 161 | 153 | (8) | 133 |
| Building renovations & additions | 84 | 64 | (20) | 96 |
| Capital infrastructure | 10 | 30 | 20 | 11 |
| | <u>255</u> | <u>247</u> | <u>(8)</u> | <u>240</u> |
| Research equipment | 39 | 37 | (2) | 42 |
| Other equipment & furnishings | 42 | 42 | - | 21 |
| Information technology | 28 | 33 | 5 | 13 |
| Library | 15 | 18 | 3 | 18 |
| | <u>379</u> | <u>377</u> | <u>(2)</u> | <u>334</u> |

Funding of capital expenditure (in \$millions):

| (in \$millions) | Full Year | | | 2016/17 |
|----------------------------|------------|------------|------------|------------|
| | Forecast | Budget | Variance | Actuals |
| Funding source: | | | | |
| Ministry (KDF/COA) | 36 | 38 | (2) | 32 |
| Ministry - Routine capital | 38 | 38 | - | 33 |
| Federal - CFI | 14 | 18 | (4) | 28 |
| Federal - SIF | 27 | 28 | (1) | 6 |
| Donations | 14 | 9 | 5 | 30 |
| | <u>129</u> | <u>131</u> | <u>(2)</u> | <u>129</u> |
| Internal sources | | | | |
| Unit/Central | 114 | 107 | 7 | 110 |
| IIC's | 10 | 8 | 2 | 6 |
| Internal loans | 126 | 131 | (5) | 89 |
| | <u>250</u> | <u>246</u> | <u>4</u> | <u>205</u> |
| | <u>379</u> | <u>377</u> | <u>2</u> | <u>334</u> |

Major buildings

Forecasted major building expenditures are in line with budget. Notable forecasted expenditures relating to major building projects include:

- Undergrad Teaching Labs (\$40m)
- UBCO Teaching and Learning Centre (\$26m)
- Gage South Student Residence (\$25m)
- Totem Park Residence (\$11m)
- MacInnes Field Underground Parkade (\$5m)

Building renovations and additions / Capital infrastructure

Forecast capital expenditures for Building Renovations and Additions are higher than budget and forecasted expenditures for capital infrastructure are lower than budget because routine capital costs originally anticipated for capital infrastructure (e.g., roads, sewers, utilities) are now to be spent on building renovations.

Information technology (IT)

Forecast capital expenditures on IT include \$10m for Student Academic System Initiative (SASI), \$8m for information security, and \$2m for HR Finance System Renewal.

Funding sources

Forecasted funding for capital expenditures is in line with budgeted funding.

Net investments in capital

When UBC acquires tangible capital assets, the spending appears as a surplus in the Statement of Operations in the year of acquisition although the cash is spent. This is referred to as net investment in capital. The 2017/18 forecast net investment in capital is \$36m, a \$9m increase from budget, mainly driven by higher capital additions.

| (in \$ millions) | Full Year | | | 2016/17 |
|---|-----------|-----------|----------|-----------|
| | Forecast | Budget | Variance | Actual |
| Capital assest additions | 379 | 377 | (2) | 334 |
| Less funded externally | (129) | (131) | (2) | (129) |
| Less funded from internal loans, net of repayments | (95) | (102) | (7) | (48) |
| Capital additions funded from operations | 155 | 144 | (11) | 157 |
| Depreciation | (196) | (202) | 6 | (185) |
| Less amortization of deferred capital contributions | 77 | 85 | (8) | 77 |
| Net depreciation | (119) | (117) | (2) | (108) |
| Net investment in capital | 36 | 27 | 9 | 49 |

5. Research

The Sponsored Research Fund accounts for all research transactions, the majority of which are funded externally. The use of these funds is restricted by the sponsor, donor or granting agency and is intended to support the research activities of principal investigators in their areas of expertise. The fund also includes some unrestricted activities funded from internal sources. These activities are typically for start-up purposes or represent residual balances from expired research projects, which are retained by the principal investigators.

Financial Results

There are over 10,000 active research projects as at August 2017. The vast majority of these projects are restricted in nature. Restricted funds are only recognized as income when the funding received is spent in accordance with the restrictions stipulated by the granting agency so that revenues match expenditures, resulting in a neutral bottom line. For this reason, the research revenues reported in our consolidated statements will vary considerably from the amounts awarded to UBC during any given year. Unrestricted research will have an immediate impact on the reported bottom line each year to the extent the funding has not been spent.

The table below presents the financial forecast for fiscal 2017/18.

| (in \$millions) | Q2 Year to Date | | | Full Year | | | 2016/17 |
|--|-----------------|------------|----------|------------|------------|----------|------------|
| | Actual | Budget | Variance | Forecast | Budget | Variance | Actual |
| Revenues | | | | | | | |
| Government grants and contracts | 137 | 133 | 4 | 269 | 265 | 4 | 268 |
| Non-government grants, contracts and donations | 57 | 60 | (3) | 117 | 121 | (4) | 116 |
| Sales and services | 2 | 2 | - | 4 | 4 | - | 7 |
| Transfers into research | 15 | 13 | 2 | 28 | 25 | 3 | 27 |
| | <u>211</u> | <u>208</u> | <u>3</u> | <u>418</u> | <u>415</u> | <u>3</u> | <u>418</u> |
| Expenses | | | | | | | |
| Salaries and benefits | 123 | 119 | (4) | 242 | 238 | (4) | 237 |
| Grants and reimbursements to other agencies | 17 | 18 | 1 | 35 | 36 | 1 | 34 |
| Operating costs | 59 | 65 | 6 | 124 | 129 | 5 | 126 |
| | <u>199</u> | <u>202</u> | <u>3</u> | <u>401</u> | <u>403</u> | <u>2</u> | <u>397</u> |
| Excess (deficiency) of revenues over expenses | 12 | 6 | 6 | 17 | 12 | 5 | 21 |
| Capital Investments | (5) | (6) | 1 | (11) | (12) | 1 | (16) |
| Net change in fund balances during the year | 7 | - | 7 | 6 | - | 6 | 5 |

Awards

The research funding landscape is complex and fast evolving. Significant re-investment in Canada Foundation for Innovation (CFI) is expected to benefit UBC by more research dollars flowing to researchers. New programs, such as the Canada 150 Chairs, will bring support for new faculty members and new operating money for those faculty.

Over the past few years, we have seen significant decreases in national funding success rates for the Tri-Council programs, in particular the Canadian Institutes of Health Research program (CIHR). The university is investing in capacity that helps the institution become more competitive, and early signs are very positive.

In the first two quarters of fiscal year 2018, compared to the same period in the previous fiscal year, Tri-Council funding decreased in value by 1.8%, Government (non-Tri-Council) increased by 7.9%, Industry decreased by 8.5% and Non-Profit increased by 2.1%.

Funding announcements by CIHR delayed from Q1 to Q2 due to program changes helped offset much of the earlier funding decreases in Q1 for the Tri-Councils. Government funding has increased overall with larger

increases in Federal CFI and Provincial BCKDF funding this through the Innovation Fund program. Non-Profit funding remains steady with a small increase.

Industry projects receiving funding have increased by 64% in the first two quarters compared to the same period in the previous fiscal year.

Below is a revised summary of research awards projected for fiscal year 2017/18 based on successful CFI awards. Total research awards are expected to increase from the initial projection by \$22M from \$568M to \$590M.

| (in \$thousands) | Government (Tri-Council) | Government (Other agencies) | Non-Profit | Industry | Total |
|---------------------------|-------------------------------------|--|-------------------|-----------------|----------------|
| Applied Science | 25,263 | 24,852 | 5,736 | 8,499 | 64,350 |
| Arts | 14,112 | 5,756 | 3,758 | 82 | 23,708 |
| Dentistry | 2,596 | 531 | 703 | 111 | 3,941 |
| Education | 3,107 | 752 | 1,176 | 54 | 5,089 |
| Forestry | 3,814 | 4,672 | 1,334 | 557 | 10,377 |
| Land and Food Systems | 2,150 | 1,634 | 1,118 | 1,053 | 5,955 |
| Law | 514 | 110 | 344 | 27 | 995 |
| Medicine | 94,400 | 87,542 | 108,787 | 31,476 | 322,205 |
| Pharmaceutical Sciences | 2,044 | 1,028 | 2,412 | 358 | 5,842 |
| Sauder School of Business | 1,970 | 544 | 589 | 84 | 3,187 |
| Science | 48,385 | 33,847 | 16,687 | 9,378 | 108,297 |
| UBC Okanagan | 5,071 | 2,949 | 2,962 | 620 | 11,602 |
| Other Faculties | 827 | 18,946 | 4,177 | 742 | 24,692 |
| Total | 204,253 | 183,163 | 149,783 | 53,041 | 590,240 |

6. Endowment

The Endowment funds at the University consist of endowed gifts, bequests, donations and land lease proceeds.

| (in \$millions) | Total (including SHFE and FHAFE) | | IMANT Invested Funds (excluding TREK AND TREK IMPACT) | | Land Lease Proceeds (TREK, TREK IMPACT, SHFE and FHAFE) | | Others | |
|-------------------------------|--|--------------|---|--------------|---|------------|------------|------------|
| | 2017/2018 | 2017/2018 | 2017/2018 | 2017/2018 | 2017/2018 | 2017/2018 | 2017/2018 | 2017/2018 |
| | Forecast | Budget | Forecast | Budget | Forecast | Budget | Forecast | Budget |
| Endowment market value | | | | | | | | |
| Endowment capital account | 1,943 | 1,852 | 1,080 | 1,078 | 673 | 600 | 190 | 174 |
| Stabilization account | 234 | 216 | 182 | 168 | 43 | 40 | 9 | 8 |
| Balance | 2,177 | 2,068 | 1,262 | 1,246 | 716 | 640 | 199 | 182 |
| Endowment spending | | | | | | | | |
| Investment income | 79 | 78 | 48 | 47 | 28 | 28 | 3 | 3 |
| UBCPT rental distributions | 6 | 6 | - | - | 6 | 6 | - | - |
| Operating expenses | (77) | (76) | (47) | (46) | (27) | (27) | (3) | (3) |
| Surplus (deficit) | 8 | 8 | 1 | 1 | 7 | 7 | - | - |

¹ The capital account reflects inflation adjusted capital contributions.

² The stabilization balance reflects the value of endowments that have been generated through returns that are above target levels. It is a measure of how much additional cover is currently contained in the endowment above the core principal balances as protection against future market downturns.

³ Investment income is recorded using the accrual basis of accounting. For unrestricted endowment funds investment income includes only realized returns. For restricted endowment funds, investment income includes total returns to the extent of expenses incurred; the excess is deferred and recorded on the Statement of Financial Position until the period in which the related expenses are incurred.

⁴ Endowment spending supports the University's academic mission, student financial awards, student housing, academic and research initiatives, as well as capital projects.

Endowment Investments

IMANT Invested Funds

The total market value of IMANT invested funds is forecast to be \$1.3b at March 31, 2018. The long-term target rate of return of 6.65% was established to produce a steady income stream to maintain the purchasing power of endowment capital and to support the awards and endowment programs in perpetuity. The rate of return for April to September 2017 was 2.1%.

Land Proceeds Endowments (TREK, TREK Impact, SHFE and FHAFE)

Prior to 2012, land lease proceeds were directed to the TREK Endowment (an unrestricted endowment, invested by IMANT, to support university priorities). Between 2012 and late 2017, all land lease proceeds were recorded in the Student Housing Financing Endowment (SHFE) to invest in new student residences.

In February 2016, the Board of Governors approved the establishment of the Sustainable Future Fund (SFF). At the October 2016 Endowment Responsible Investment Policy Committee meeting, MSCI (an independent risk and performance measurement provider for institutional investors) and UBCC350 presented their views on the potential investments for the SFF. Establishment of the SFF is consistent with the University's leadership in sustainability. Based on IMANT's recommendation, the SFF will be invested in a global, balanced, low carbon, ex-energy portfolio. In March 2017, the SFF was established with a \$10m contribution from land lease revenues endowed by the Board of Governors.

In December 2016, the Board of Governors approved the establishment of the Faculty Housing Assistance Financing Endowment Fund (FHAFE). FHAFE is a discrete endowment fund intended to finance UBC's housing assistance program to facilitate the recruitment and retention of outstanding faculty members. At their February 2017 meeting, the Board approved the FHAFE terms of reference, the establishment of FHAFE with \$10.4m of

capital contributions from land lease proceeds and an annual allocation of \$10m from land lease proceeds for the next fifteen years.

The market value of the land lease proceeds endowment is forecast to be \$716m at March 31, 2018.

Other Investments

The forecast for fiscal 2017/18 “other investments” category include:

- Peter Wall Endowment valued at \$157m;
- Vancouver Foundation investments, valued at \$28m;
- Other donated securities of \$8m;
- Merilees Chair, valued at \$4m; and
- Promissory notes receivable of \$2m.