

SUBJECT	2017-2018 THIRD QUARTER FINANCIAL REPORT
MEETING DATE	APRIL 19, 2018

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

**APPROVED FOR
SUBMISSION**



Santa J. Ono, President and Vice-Chancellor

FOR INFORMATION	
Report Date	March 23, 2018
Presented By	Peter Smailes, Interim Vice-President Finance & Operations Ian Burgess, Comptroller Stuart Mackenzie, Director, Financial Reporting and Budgeting

EXECUTIVE SUMMARY

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

The Q3 consolidated results reflect a year-to-date surplus of \$13m. The majority of this surplus is derived from the use of current revenues to support capital spending, whereby the expense is reflected over the life of the asset. This surplus is offset in part by a decrease in cash reserves, primarily in the operating units due to increased expenditures relating to the pre-development of campus-wide information technology (“IT”) infrastructure.

The consolidated forecast for the year is a surplus of \$87m, compared to a budget of \$33m. At 3.4% of total revenues, this slightly exceeds 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 \$10m across the University, which includes one-time expenditures relating to the development of campus-wide 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

2017-2018 Third Quarter Financial Report

Financial Reporting and Budgeting
December 2017



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1. Executive Summary

Overview

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The consolidated forecast for the year is a surplus of \$87m, compared to a budget of \$33m. At 3.4% of total revenues, this slightly exceeds 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 \$10m across the university, which includes one-time expenditures relating to the development of campus-wide 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 2017-2018. This will be used to support recruiting and retaining faculty, students and staff, supporting research, and improving the student experience.

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 Q3. While it is difficult to predict the actual result, we could expect an improvement over these estimates.

2. Consolidated Forecast

Consolidated Statement of Operations

(in \$millions)	Q3 Year to date			Full Year			2016/17
	Actual	Budget	Variance	Forecast	Budget	Variance	Actual
Revenues							
Government grants and contracts							
Government of Canada	203	206	(3)	279	274	5	254
Province of British Columbia	580	593	(13)	794	792	2	781
Other governments	13	14	(1)	19	18	1	23
Other contributions	130	132	(2)	170	176	(6)	169
Student fees	429	405	24	717	681	36	630
Investment income	48	58	(10)	76	82	(6)	70
Income from Gov't Business Enterprises	11	2	9	8	2	6	11
Sales and services	265	256	9	380	367	13	373
Amortization of deferred capital contributions	61	64	(3)	86	85	1	77
	<u>1,740</u>	<u>1,730</u>	<u>10</u>	<u>2,529</u>	<u>2,477</u>	<u>52</u>	<u>2,388</u>
Expenses							
Salaries & benefits	1,067	1,087	20	1,460	1,452	(8)	1,391
Operating costs - other	290	332	42	443	452	9	420
Capital asset amortization	150	152	2	196	202	6	185
Cost of goods sold	30	32	2	42	41	(1)	38
Scholarships, fellowships and bursaries	75	84	9	133	133	-	116
Grants to third parties	99	108	9	147	144	(3)	126
Debt service costs	16	15	(1)	21	20	(1)	21
	<u>1,727</u>	<u>1,810</u>	<u>83</u>	<u>2,442</u>	<u>2,444</u>	<u>2</u>	<u>2,297</u>
Surplus/(Deficit) from operations	<u>13</u>	<u>(80)</u>	<u>93</u>	<u>87</u>	<u>33</u>	<u>54</u>	<u>91</u>

The full-year consolidated surplus forecast is \$87m, a \$54m 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 surplus of \$13m is favourable to budget mainly due to timing differences in salaries and benefits and other operating costs that are expected to reverse in part by year end, other operating costs and capital expenditures that are expected to reverse in part by year end as Q4 spending is anticipated to be higher than previous quarters.

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 and non-credit programs from Sauder, Education and Medicine.

- 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. Year to date and full year forecasts are unfavourable due to a liquidation of core investments in Q3, resulting in a capital loss being realized.
- 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. This unfavourable variance is offset by some permanent savings in salaries and benefits in VP Academic, IT, Arts and Medicine.
- Operating costs – Year to date budgeted expenditures assume even recognition of expenses where operating costs are expected to be higher in Q4 due to increased IT project activity. Full year forecast is favourable due to delayed spending in Excellence Fund, VP Research and Innovation and Medicine strategic projects. This favourable variance is offset by one-time period specific expenditures relating to IT projects, which were considered capital in nature during the budget process.

Income Statement Analysis

<i>(in \$millions)</i>	Full Year			2016/17
	Forecast	Budget	Variance	Actual
UBC Vancouver faculties	14	4	10	23
UBC Vancouver administrative units	(23)	(12)	(11)	(22)
UBC Okanagan	(1)	(1)	-	7
Sub-total Operating Units	(10)	(9)	(1)	8
Deferred land lease revenue	8	7	1	7
Endowment surplus	15	8	7	13
Research and other funds	5	-	5	8
Related organizations	(4)	-	(4)	6
Net investment in capital	73	27	46	49
Surplus	87	33	54	91

- The net result from Operating Units includes an increase in reserves of Faculties, which are forecasting a favourable 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.
- 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.

- Endowment surplus of \$15m: 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. The favourable variance to budget is due to returns on endowment investments in the current fiscal year projected to be higher than the budgeted long-term rate.
- Related organizations deficit of \$4m: The unfavourable variance is due to distributions received from Great Northern Way Campus Trust (GNW) not previously budgeted for, and is partially offset by forecasted surplus in government business enterprises.
- 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. The positive variance to budget reflects unbudgeted investments in capital, notably by the Faculty of Arts with an \$11m lump sum repayment of debt principal and \$8m contributed by the Faculty of Science to the QMI Building project. Refer to “4. Capital” for further details.

Consolidated Statement of Financial Position (unaudited)

Presented in classified format:

(in \$ millions)	Dec 31, 2017	2018 As at March 31	2017 As at March 31
	Actual	Forecast	Actual
ASSETS			
Current Assets			
Cash and cash equivalents	101	100	87
Accounts receivable	385	163	224
Operating investments	507	512	512
Investments in government business enterprises	96	42	46
Other current assets	15	14	14
	1,104	831	883
Non- Current Assets			
Endowment investments	1,708	1,785	1,538
Capital assets	3,270	3,417	3,249
	4,978	5,202	4,787
TOTAL ASSETS	6,082	6,033	5,670
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable and accrued liabilities	514	297	291
Current portion of debt	6	6	6
	520	303	297
Non-Current Liabilities			
Employee future benefits	12	12	12
Deferred other restricted contributions	300	265	344
Non-current portion of debt	349	351	355
	661	628	711
Total Liabilities	1,181	931	1,008
Net Assets			
Accumulated surplus	1,923	2,001	1,885
Deferred capital contributions	1,463	1,503	1,464
Deferred land lease revenues	742	820	690
Deferred endowment contributions	773	778	623
	4,901	5,102	4,663
TOTAL LIABILITIES AND NET ASSETS	6,082	6,033	5,670

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. Refer to "3. Liquidity" for further details.
- Accounts receivable as at December 31, 2017 are significantly higher than year-end as the balance relates to outstanding 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 December 31, 2017 are significantly higher than year-end as the balance relates to 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, commercial mortgages and money market paper. In addition, the University has a line of credit of \$40 million from September to June and \$60 million from July and August when balances are at their low point. Minimum liquidity at the March year end is defined by the fiscal strategy as 45 days of expenditure. This translates to around \$250 million before the line of credit. At the seasonal low point of liquidity the corresponding minimum balance would be approximately \$180 million.

Projected Liquidity

March 31, 2018 liquidity is forecasted at \$612 million before the line of credit. This would cover 100 days of expenses should incoming funds cease. This is well above the fiscal strategy target of 45 days.

The forecasted liquidity at \$612 million is slightly higher than the prior year end liquidity of \$599 million. The increase comprises \$98 million from operating activities (net of minor capital expenditure and changes in working capital) and land lease proceeds of \$72 million; less \$129 million of major capital expenditure and debt service of \$21 million.

The FY18 forecast is based on projected cashflows. If operating or capital spending lags behind the projections, March liquidity could be higher.

Borrowing approval from the Province would further improve Liquidity. No new external borrowing has been incorporated into the FY18 projection.

Sources of Financing

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

- Core 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 May 2014, the UBC Board of Governors approved a \$100 million investment from the endowment into the Orchard Commons student housing project. The funds were transferred in August 2016.
- 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.
- UBC has provided UBC Properties Trust with a revolving loan facility of \$20 million 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.

By the end of Q3 of FY18, USD \$54 million had been received and USD \$29 million had been paid. The majority of USD funds received are from research grants and donations. The Library is single largest payer of amounts in USD, but researchers also use USD for equipment purchases. Of the 7,697 USD-denominated payments that have been made year to date, only 53 were greater than CAD \$100,000.

Treasury provides a foreign exchange hedging service (all currencies). Quotes are provided by Treasury and decisions are made at the Faculty or department level. As of December 31, 2017, Treasury has USD \$8 million outstanding internal forward contracts.

By the end of Q3, Treasury had sold USD \$17 million leading to net US cash balance increase of USD \$8 million on the USD \$8 million opening position. This USD \$16 million balance will be required for approximately USD \$10 million in payments for IT infrastructure and USD \$8 million of internal forward contracts. Therefore, the university may need to purchase USD in 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 2017-2018:

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

<i>(in \$millions)</i>	Full Year			2016/17
	Forecast	Budget	Variance	Actuals
Building and Property:				
Major Buildings	153	153	-	133
Building Renovations & Additions	89	64	(25)	96
Capital Infrastructure	10	30	20	11
	<u>252</u>	<u>247</u>	<u>(5)</u>	<u>240</u>
Research equipment	35	37	2	42
Other equipment & furnishings	42	28	(14)	21
Information technology	19	47	28	13
Library	15	18	3	18
Total Capital Expenditure	<u>363</u>	<u>377</u>	<u>14</u>	<u>334</u>

Funding of capital expenditure (in \$millions):

<i>(in \$millions)</i>	Full Year			2016/17
	Forecast	Budget	Variance	Actuals
Funding Source:				
Ministry (KDF/COA)	32	38	(6)	32
Ministry -Routine capital	38	38	-	33
Federal - CFI	15	18	(3)	28
Federal - SIF	27	28	(1)	6
Donations	12	9	3	30
	<u>124</u>	<u>131</u>	<u>(7)</u>	<u>129</u>
Internal Sources				
Unit/Central	125	107	18	110
IIC's	10	8	2	6
Internal Loans	104	131	(27)	89
	<u>239</u>	<u>246</u>	<u>(7)</u>	<u>205</u>
Total Funding	<u>363</u>	<u>377</u>	<u>(14)</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)
- Sports Medicine Centre (\$7m)
- Tall Woods Student Residence (\$8m)

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 \$9m for the Integrated Program and \$10m for information security. The forecast variance to budget is the result of expensing pre-development costs which were originally planned to be capitalized.

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 2017-2018 forecast net investment in capital is \$73m, which is a \$46m increase from budget.

The main variance is in internal loans, net of repayments (\$45m) mainly driven by \$19m in principal payments from reserves (Arts - \$11m, and Science - \$8m), and a reduction of planned IT internal loans of \$11m. The remaining \$14m variance is a result of timing difference of completed building costs, resulting in less internal loans being added.

(in \$ millions)	Full Year			2016/17
	Forecast	Budget	Variance	Actual
Capital asset additions	363	377	(14)	334
Less funded externally	(123)	(131)	8	(129)
Less funded from internal loans, net of repayments	(57)	(102)	45	(48)
Capital additions funded from operations	183	144	39	157
Depreciation	(196)	(202)	6	(185)
Less amortization of deferred capital contributions	86	85	1	77
Net depreciation	(110)	(117)	7	(108)
Net investment in capital	73	27	46	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 close to 10,000 active research projects as at December 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 2017-2018. Management forecasts higher research spending than originally anticipated, which will not impact consolidated surplus.

(in \$millions)	Q3 Year to Date			Full Year			2016/17
	Actual	Budget	Variance	Forecast	Budget	Variance	Actual
Revenues							
Government grants and contracts	211	199	12	288	265	23	268
Non-government grants, contracts and donations	86	90	(4)	117	121	(4)	116
Sales and services	3	3	-	3	4	(1)	7
Transfers into research	19	19	-	30	25	5	27
	<u>319</u>	<u>311</u>	<u>8</u>	<u>438</u>	<u>415</u>	<u>23</u>	<u>418</u>
Expenses							
Salaries and benefits	180	178	(2)	249	238	(11)	237
Grants and reimbursements to other agencies	30	27	(3)	43	36	(7)	34
Operating costs	90	97	7	127	129	2	126
	<u>300</u>	<u>302</u>	<u>2</u>	<u>419</u>	<u>403</u>	<u>(16)</u>	<u>397</u>
Excess (deficiency) of revenues over expenses	19	9	10	19	12	7	21
Capital Investments	(11)	(9)	(2)	(14)	(12)	(2)	(16)
Net change in fund balances during the year	<u>8</u>	<u>-</u>	<u>8</u>	<u>5</u>	<u>-</u>	<u>5</u>	<u>5</u>

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 three quarters of fiscal year 2018, compared to the same period in the previous fiscal year, Tri-Council funding decreased in value by 1.9%, Government (non-Tri-Council) increased by 0.4%, Industry decreased by 11.7% and Non-Profit increased by 4%.

Tri-Council funding in Q4 should offset the slight decline in the first three quarters with success in recent competitions. Government funding will see larger increases in Q4 with success 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 23% in the first three quarters compared to the same period in the previous fiscal year.

Below is a summary of research awards projected for fiscal year 2017-2018 which was revised in Q3 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 Forecast	2017/2018 Budget	2017/2018 Forecast	2017/2018 Budget	2017/2018 Forecast	2017/2018 Budget	2017/2018 Forecast	2017/2018 Budget
	Endowment market value							
Endowment capital account	1,955	1,852	1,099	1,078	668	600	188	174
Stabilization account	280	216	218	168	53	40	9	8
Balance	2,235	2,068	1,317	1,246	721	640	197	182
Endowment spending								
Investment income	83	78	48	47	32	28	3	3
UBCPT rental distributions	6	6	0	0	6	6	0	0
Operating expenses	(74)	(76)	(46)	(46)	(25)	(27)	(3)	(3)
Surplus (deficit)	15	8	2	1	13	7	0	0

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 \$1,317m 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 November 2017 was approximately 5.8%.

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 \$721m at March 31, 2018.

Other Investments

The forecast for fiscal 2017-2018 “other investments” category include:

- Peter Wall Endowment valued at \$164m;
- Vancouver Foundation investments, valued at \$28m;
- Other donated securities of \$1m;
- Merilees Chair, valued at \$4m; and
- Promissory notes receivable of \$2m.