



SUBJECT 2018-2019 SECOND QUARTER FINANCIAL REPORT

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Forwarded on the Recommendation of the President

**APPROVED FOR
SUBMISSION**

Santa J. Ono, President and Vice-Chancellor

FOR INFORMATION

Report Date October 31, 2018

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EXECUTIVE SUMMARY

The 2018-2019 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 \$96m and is consistent with prior years given that tuition revenue is higher in the second half of the fiscal year in alignment with academic activities.

The consolidated forecast for the year is a surplus of \$69m, compared to a budget of \$35m and a prior year surplus of \$121m. At 2.5% of total revenues, this within the fiscal strategy, which calls for a consolidated surplus in the range of 1-3% of total revenues, or between \$27m and \$81m.

This forecast includes drawdowns of operating reserves totaling \$2m 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 tuition revenue, revenue generated from Vantage College, earnings from Endowments, as well as timing on spending for Research awards and faculty and staff hires.

Attachments

- 1. FY1819 Consolidated Q2 Financial Report

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

- Learning
- Research
- Innovation
- Engagement (Internal / External)
- International

or a **Operational**

2018/19 Second Quarter Financial Report

Financial Reporting and Budgeting
November 2018



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1. Executive Summary

Overview

The 2018/19 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 \$96m against a budgeted deficit of \$150m. The majority of the favourable variance is a result of delays in hiring staff and faculty, and is in line with Q2 deficits in prior years. The revenues in the second half of the fiscal year are also forecast to be higher than the first half, and in line with the academic activities.

The consolidated forecast for the year is a surplus of \$69m, compared to a budget of \$35m and \$68m forecast in Q1. At 2.5% of total revenues, this falls within our fiscal strategy, which calls for a consolidated surplus in the range of 1-3% of total revenues, or between \$26m and \$80m.

This forecast includes drawdowns of operating reserves totaling \$2m 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 includes the impact of University wide timing differences in salaries and benefits and other operating costs.

The favourable variance in the forecast surplus is comprised of:

- Improved operating surplus of \$25m, primarily due to;
 - Stronger than expected tuition revenue, and delayed spending in the Strategic Academic Fund.
 - Offsetting the improvement in operating was the increase in one-time expenditures relating to the development of the campus-wide information technology infrastructure. Total project costs of the IT initiative remains under budget for the fiscal year.
- Endowment project surplus, based on realized gains, known transactions, dividends and earnings. The projected surplus exceeds the budget by \$4m, although investment returns may vary for the balance of the fiscal year.
- Research is forecast to be higher than plan, primarily due to the allocation of research awards, which will be awarded in early 2019 and spent in the next fiscal year.
- Income recognized from long-term lease revenues which have been endowed; and
- Amounts invested to maintain our investments in capital assets.

Funding for the UBC Excellence Fund, derived from recent international tuition increases, is forecasted at \$45.2m in 2018/19 plus \$14.7m carry forward. This will be used to support recruiting and retaining faculty, students and staff, supporting research, and improving the student experience.

The forecast also reflects estimates made by faculties and operating units, which by nature tend to be conservative. While it is difficult to predict the actual result, we have included an estimate of timing differences within the forecast of Campus Wide expenses to offset the conservatism and reflect prior years.

2. Consolidated Forecast

Consolidated Statement of Operations

(in \$Millions)	Q2 Year to date			Full Year			2017/18
	Actual	Budget	Variance	Forecast	Budget	Variance	Actual
Revenues							
Government grants and contracts							
Government of Canada	133	140	(7)	280	292	(12)	273
Province of British Columbia	409	396	13	808	809	(1)	785
Other governments	10	9	1	33	20	13	19
Other contributions	86	80	6	167	173	(6)	182
Student fees	221	210	11	813	786	27	725
Investment income	29	38	(9)	80	87	(7)	82
Income from Gov't Business Enterprises	4	4	-	7	5	2	14
Sales and services	180	181	(1)	401	393	8	400
Amortization of deferred capital contributions	43	43	-	91	85	6	82
	1,115	1,101	14	2,680	2,649	30	2,562
Expenses							
Salaries & benefits	747	781	34	1,572	1,579	7	1,463
Operating costs - other	203	183	(20)	474	463	(11)	446
Capital asset amortization	107	110	3	217	214	(3)	198
Cost of goods sold	18	36	18	45	44	(1)	46
Scholarships, fellowships and bursaries	62	49	(13)	150	148	(2)	131
Grants to third parties	64	71	7	132	147	15	136
Debt service costs	10	21	11	21	20	(1)	21
	1,211	1,251	40	2,611	2,615	4	2,441
Surplus/(Deficit) from operations	(96)	(150)	54	69	35	34	121

The full year consolidated surplus forecast is \$69m, a \$34m increase from a budgeted surplus of \$35m. The increase in surplus is attributable to the delay of Excellence Fund spending, higher cost-recoveries and delayed hires in the faculty of Medicine, as well as the delay in spending of research support funding from operating. Also contributing to the forecast surplus is increased revenue from student fee and sales and services.

The year to date deficit of \$96m is favourable to budget, mainly due to timing differences in salaries and benefits and other operating costs.

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 consists of operating grants and research related grants. Year to date variance is mainly timing, related to research activities.
- **Other government** – The full year favourable is related to bill-backs and costs recoveries from health authority partners in Faculty of Medicine, which was not in the budget.
- **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. Full year forecast is higher than budget, to reflect anticipated higher International

and graduate enrolment at both campuses, as well as Vantage, Sauder's professional programs, and Vancouver Summer Program.

- **Investment Income** – The budget assumes a total long-term annual rate of return for endowment investments of 6.65%, where the actual rate of return for April to August 2018 was approximately 2.7% (annualized 6.5%). Operating investment income is in line with the budget.
- **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 favourable variances are from higher bill-back and various service revenues in Medicine, Forestry, and related organizations.

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 lower than budget as some faculties are experiencing a delay in hiring, offset slightly by an increase in higher cost related to the IRP project.
- **Operating costs - other** – Year to date and full year unfavourable variance is mainly due to an increase in operating costs for the IRP that are expensed where the budget had these costs as capital cost.
- **Grant to third parties** – Full year and year to date favourable variance is due to the Medical Expansion program whereby based on the auditor's recommendation the grant transferred to other universities is now being recorded for actuals and forecasting purposes as contra grant revenue.

Income Statement Analysis

(in \$millions)	Full Year			2017/18
	Forecast	Budget	Variance	Actual
UBC Vancouver faculties	22	9	13	22
UBC Vancouver administrative units	(25)	(32)	7	(1)
UBC Okanagan	1	(4)	5	2
Sub-total Operating Units	(2)	(27)	25	23
Deferred land lease revenue	8	9	(1)	8
Endowment surplus	11	7	4	21
Research and other funds	12	5	7	9
Related organizations	1	(2)	3	1
Net investment in capital	39	43	(4)	59
Surplus	69	35	34	121

- The net result from Operating Units shows a forecast deficit of \$2m against a planned deficit of \$27m. The planned and forecast deficits mainly relate to the investment in strategic IT infrastructure funded from operations. The Faculties are forecasting a favourable variance of \$13m, combined with a favourable projection from UBCO of \$5m. The deficit forecast by the Administrative Units is largely due 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. Partially offsetting this are University wide timing impacts from staffing and other costs.

- 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 \$11m: 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, combined with lower spending needs than originally budgeted.
- Research and other funds income of \$12m: this represents \$9m unrestricted but committed funding from the Excellence fund to promote a research competition, Awarding of the funds is expected to occur in January whereas the majority of costs will be incurred in the next fiscal year. \$3M represents unspent capital funding for a new Integrated Health Facility to be completed in the next fiscal year.
- 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)	Sep 30, 2018	2019 as at March 31	2018 as at March 31
	Actual	Forecast	Actual
ASSETS			
Current Assets			
Cash and cash equivalents	392	100	231
Accounts receivable	566	130	167
Operating investments	432	622	526
Investments in government business enterprises	29	26	26
Other current assets	26	31	30
	<u>1,445</u>	<u>909</u>	<u>980</u>
Non- Current Assets			
Endowment investments	1,870	1,895	1,722
Capital assets	3,365	3,503	3,376
	<u>5,235</u>	<u>5,398</u>	<u>5,098</u>
TOTAL ASSETS	<u>6,679</u>	<u>6,308</u>	<u>6,077</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable and accrued liabilities	835	303	297
Current portion of debt	6	6	6
	<u>841</u>	<u>309</u>	<u>303</u>
Non-Current Liabilities			
Employee future benefits	9	9	9
Deferred other restricted contributions	274	315	336
Non-current portion of debt	346	344	350
	<u>629</u>	<u>668</u>	<u>695</u>
Total Liabilities	1,470	977	998
Net Assets			
Accumulated surplus	1,954	2,136	2,030
Deferred capital contributions	1,509	1,536	1,510
Deferred land lease revenues	832	799	758
Deferred endowment contributions	914	861	780
	<u>5,209</u>	<u>5,332</u>	<u>5,079</u>
TOTAL LIABILITIES AND NET ASSETS	<u>6,679</u>	<u>6,308</u>	<u>6,077</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. Refer to "3. Liquidity" for further details.
- Higher balances in year to date accounts receivable and accounts payable, is due to an increase in tuition receivable and deferred tuition related to an increase in tuition rates and number of students registered.
- 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."
- 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 working capital not required for daily operations is invested in liquid instruments. The short-term investments are banker's acceptances and government money market paper. The medium term investments are managed by IMANT and invested in government backed bonds, commercial mortgages and money market paper. In addition, the University has a line of credit of \$40m from September to June and \$60m in 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. Before the line of credit, minimum liquidity is around \$250m at the end of March and around \$180m at the seasonal low point.

Projected Liquidity

UBC Treasury regularly provides a liquidity update to the Board of Governors. The Q2 projected liquidity at March 2019 is \$733m, which remains unchanged as compared to the Q1 forecast. This is mainly the result of the following factors during Q2:

- \$30m increase in cash flow due to an unexpected UBCPT distribution of profit share
- \$30m decrease in cash flow due to less than expected cash receipts from Donation and Research.

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, 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 \$100m 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 to enable efficient cash management in the Trust. This is expected to continue for at least the next several years and is 'callable'.

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. The majority of USD funds received are from research grants and donations. The Library and IT are the two largest payers of amounts in USD, but researchers also use USD for equipment purchases.

For the 6 months ended September 2018, USD \$20m had been received, USD \$9.9m had been purchased and USD \$20m had been paid, resulting in a closing position of USD \$19.4m to manage upcoming USD contracts. By the end of September 30, 2018, Treasury has completed the purchase of USD to achieve the target float of \$5m USD.

Treasury provides a foreign exchange hedging service (all currencies), but decisions are made at the Faculty or department level. As of September 30, 2018, Treasury has arranged USD \$12.6m of internal forward contracts (mostly with the Library and IT). In addition, Treasury has arranged EUR €0.03 m of internal forward contracts. Of the 5,550 USD-denominated payments that have been made year to date, only 42 were greater than CAD \$100,000.

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 fiscal year 2018/19:

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

(in \$millions)	Full Year			2017/18
	Forecast	Budget	Variance	Actuals
Building and Property:				
Major Buildings	109	100	(9)	98
Building Renovations & Additions	67	91	24	110
Capital Infrastructure	13	11	(2)	13
	<u>189</u>	<u>202</u>	<u>13</u>	<u>221</u>
Research equipment	65	26	(39)	30
Other equipment & furnishings	52	41	(11)	51
Information Technology	23	46	23	6
Library	16	16	-	16
	<u>345</u>	<u>331</u>	<u>(14)</u>	<u>324</u>

Funding of capital expenditure (in \$millions):

(in \$millions)	Full Year			2017/18
	Forecast	Budget	Variance	Actuals
Funding Source:				
Ministry (KDF/COA)	34	19	15	29
Ministry -Routine capital	38	44	(6)	33
Federal - CFI	14	5	9	32
Federal - SIF	8	33	(25)	23
Donations	21	6	15	11
	<u>115</u>	<u>107</u>	<u>8</u>	<u>128</u>
Internal Sources				
Unit/Central	118	117	1	117
IIC's	7	7	-	6
Internal Loans	105	100	5	73
	<u>230</u>	<u>225</u>	<u>6</u>	<u>196</u>
	<u>345</u>	<u>331</u>	<u>14</u>	<u>324</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 (\$15m)
- Gage South Student Residence (\$27m)
- New Transit Terminal (\$3m)
- MacInnes Field Underground Parkade (\$4m)

Building renovations and additions / Capital infrastructure

Forecasted capital expenditures for Building Renovations and Additions are lower than Budget due to the budget being based on prior year costs which included one-time costs of \$24m for the old sub renovation

Information technology (IT)

Forecasted funding for capital expenditures is higher than budgeted mainly due to more external funding (governmental, donations), as well as from internal loans. Governmental funding experienced a shift of funding from federal sources, to provincial sources for major projects that have multiple funding sources.

Funding sources

Forecasted funding for capital expenditures is higher than budgeted mainly due to more external funding (governmental, donations), as well as from internal loans. Governmental funding experienced a shift of funding from federal sources, to provincial sources for major projects that have multiple funding sources.

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 fiscal year 2018/19 forecast net investment in capital is \$39m, which is in line with the budget.

(in \$ millions)	Full Year			2017/18
	Forecast	Budget	Variance	Actual
Capital asset additions	345	331	14	324
Less funded externally	(115)	(107)	(8)	(128)
Less funded from internal loans	(105)	(100)	(5)	(73)
Plus internal loan repayments	40	47	(7)	53
Capital additions funded from operations	165	171	(6)	176
Depreciation	(217)	(213)	(4)	(199)
Less amortization of deferred capital contributions	91	85	6	82
Net depreciation	(126)	(128)	2	(117)
Net investment in capital	39	43	(4)	59

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 September 2018. 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 full year forecast anticipates that the funding allocated from the Excellence Fund towards various research competitions, expected to be awarded in January, will have the majority of the related costs incurred in the next fiscal year.

The table below presents the financial forecast for fiscal 2018/19.

(in \$millions)	Q2 Year to Date			Full Year			2017/18
	Actual	Budget	Variance	Forecast	Budget	Variance	Actual
Revenues							
Government grants and contracts	144	147	(3)	303	294	9	277
Non-government grants, contracts and donations	56	59	(3)	117	120	(3)	125
Sales and services	2	2	-	4	4	-	4
Transfers into research	13	19	(6)	40	38	2	33
	<u>215</u>	<u>227</u>	<u>(12)</u>	<u>464</u>	<u>456</u>	<u>8</u>	<u>439</u>
Expenses							
Salaries and benefits	130	129	(1)	260	259	(1)	245
Grants and reimbursements to other agencies	16	19	3	37	37	-	38
Operating costs	61	70	9	140	140	-	133
	<u>207</u>	<u>218</u>	<u>11</u>	<u>437</u>	<u>436</u>	<u>(1)</u>	<u>416</u>
Excess (deficiency) of revenues over expenses	8	9	(1)	27	20	7	23
Capital Investments	(10)	(8)	(2)	(18)	(15)	(3)	(12)
Net change in fund balances during the year	<u>(2)</u>	<u>1</u>	<u>(3)</u>	<u>9</u>	<u>5</u>	<u>4</u>	<u>11</u>

Awards

The research funding landscape is complex and fast evolving. The University is investing in capacity that supports UBC researchers to be more successful in gaining research funds, which enables the generation of new impactful research results, the training of students and improvements to our local and global reputation. Successful proposals for Canada Foundation for Innovation (CFI) Innovation Fund, Genome Canada, and Canada 150 Research Chairs are expected to maintain momentum in realizing research funding gains seen in fiscal 2017/18.

In the first two quarters of fiscal 2018/19, compared to the same period in the previous fiscal year, total funding increased by \$19m, a 5.3% increase. These strong gains were concentrated in Tri-Agency funding and CFI Innovation Fund projects announced in fiscal 2017/18 and released this year.

Support Program to Advance Research Capacity (SPARC) is the VPRI unit that assists researchers in developing competitive grant proposals via cornerstone services (peer and editorial reviews) and new initiatives (e.g., grant

writing 'bootcamps', sex/gender reviews). Notably, in Q2 of fiscal 2018/19, NSERC announced the Collaborative Research & Training Experience (CREATE) program results, with one new award to UBC valued at \$1.7m. In this highly competitive competition, SPARC manages an internal selection process to meet the University's quota of six submissions, and provides comprehensive proposal development support to all applicants at all stages. The impact is notable since UBC leads the nation with the most CREATE applications funded (18) and the most funding received (\$29.7m).

In fiscal 2017/18 the University-Industry Liaison Office's Sponsored Research Group negotiated, drafted and administered 2,484 research contracts and clinical trial agreements, worth of \$151m, with Industry, Government, and Non-Profit partners (highest in Canada). This volume and amount of contracts represents a leveling off from record numbers in 2017. The University's nascent Innovation Strategy, coupled with the current federal emphasis on partnered and applied research funding, is expected to lead to continued growth in activity for this aspect of research funding at UBC.

Below is a summary of research awards projected for fiscal year 2018/19.

(In \$thousands)	Government (Tri-Council)	Government (Other agencies)	Non-Profit	Industry	Total
Applied Science	23,681	23,866	6,109	8,299	61,955
Arts	15,247	11,701	4,257	163	31,368
Dentistry	2,444	626	742	59	3,871
Education	3,202	765	1,262	83	5,312
Forestry	4,512	5,216	1,921	477	12,126
Land and Food Systems	2,162	1,775	894	1,315	6,146
Law	390	70	334	21	815
Medicine	95,533	104,295	114,119	33,286	347,233
Pharmaceutical Sciences	1,754	775	2,849	421	5,799
Sauder School of Business	2,066	587	669	81	3,403
Science	48,745	39,511	15,067	7,855	111,178
UBC Okanagan	6,093	5,341	3,542	805	15,781
Other Faculties	780	18,903	3,532	662	23,877
Total	206,609	213,431	155,297	53,527	628,864

6. Endowment

The Endowment funds at the University include endowed gifts, bequests, donations and land lease proceeds. Approximately \$1.7b of endowed funds, including TREK and TREK Impact, are invested by UBC Investment Management Trust Inc. (IMANT). These endowment funds support the University's academic mission, student financial awards, academic and research initiatives, student housing and capital projects.

(in \$ millions)	Total (including SHFE and FHAFE)		IMANT Invested Funds (excluding TREK & TREK IMPACT)		Land Lease Proceeds (TREK, TREK IMPACT, SHFE & FHAFE)		Others	
	2018/19 Forecast	2018/19 Budget	2018/19 Forecast	2018/19 Budget	2018/19 Forecast	2018/19 Budget	2018/19 Forecast	2018/19 Budget
	Endowment market value							
Endowment capital account ¹	2,073	2,011	1,150	1,148	706	675	217	188
Stabilization account ²	292	293	229	228	53	55	10	10
Balance	2,365	2,304	1,379	1,376	759	730	227	198
Endowment spending								
Investment income ³	88	89	52	52	33	34	3	3
UBCPT rental distributions	8	8	0	0	8	8	0	0
Operating expenses ⁴	(85)	(90)	(50)	(51)	(32)	(36)	(3)	(3)
Surplus (deficit)	11	7	2	1	9	6	0	0

¹ The capital account balances represent external donor and internal University contributions plus inflation adjustments recorded to maintain the purchasing power of endowment capital over time.

² The stabilization account balances represent the health of the endowment fund and are expected to hover around zero over the long term. The balances show the degree to which the market value of the fund is greater or less than the inflation adjusted value of all capital contributions made to the endowment fund.

³ Investment income is recorded using the accrual basis of accounting. For unrestricted endowment funds, investment income only includes 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, including \$401m relating to TREK and TREK Impact, is forecasted to be \$1.8b at March 31, 2019. 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 from April to August 2018 was approximately 2.7% (annualized 6.5%).

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

The market value of the land lease proceeds endowment is forecasted to be \$759m at March 31, 2019.

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 Pool (SFP). Establishment of the SFP is consistent with the University's leadership in sustainability. Based on the Statement of Investment Policies & Procedures and IMANT's recommendations, the SFP will be invested in a global,

balanced, low carbon, ex-energy portfolio. In March 2017, the SFP and the TREK Impact endowment fund were established with a \$10m contribution from land lease revenues endowed by the Board of Governors. An additional \$5m was contributed in April 2018. TREK Impact supports the mission of the University.

In December 2016, the Board of Governors approved the establishment of the Faculty Housing Assistance Financing Endowment Fund (FHAFE) subject to the development of appropriate terms of reference. In February 2017, the Board approved the FHAFE terms of reference and an annual allocation of up to \$10m from land lease proceeds for the next fifteen years. FHAFE is a discrete endowment fund intended to finance the University's housing assistance program to facilitate the recruitment and retention of outstanding faculty members. FHAFE was established with a capital contribution of \$10.4m. During fiscal 2017/18, an additional \$14.25m was contributed to FHAFE including \$6m of land lease proceeds plus \$8.25m approved by the Board on February 15, 2018 to support 14 extraordinary hires.

Other Investments

At March 31, 2019 the forecasted market value of "other investments" balances are:

- Peter Wall Endowment \$193m;
- Vancouver Foundation investments \$28m;
- Merilees Chair \$4m; and
- Promissory notes receivable of \$2m. |
