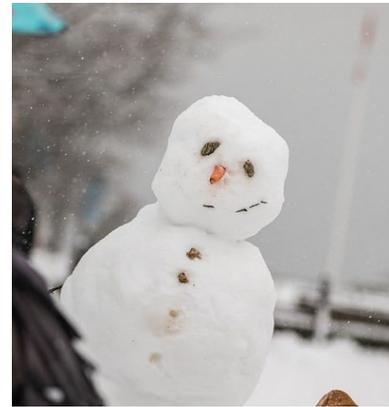


# 2018/19 Third Quarter Financial Report

Financial Reporting and Budgeting  
March 2019



THE UNIVERSITY OF BRITISH COLUMBIA



## Table of Contents

1. Executive Summary .....	1
Overview .....	1
2. Consolidated Forecast .....	2
Consolidated Statement of Operations .....	2
Income Statement Analysis .....	3
Consolidated Statement of Financial Position (unaudited) .....	5
3. Liquidity .....	7
Projected Liquidity .....	7
Sources of Financing .....	7
Foreign Currency Exchange .....	8
4. Capital .....	9
Major buildings .....	10
Building renovations and additions / Capital infrastructure .....	10
Information technology (IT) .....	10
Funding sources .....	10
Net investments in capital .....	11
5. Research .....	12
Financial Results .....	12
Awards .....	12
6. Endowment .....	14
Endowment Investments .....	14

# 1. Executive Summary

## Overview

---

The 2018/19 Third Quarter Financial Report for the University of British Columbia is presented for information to the Board of Governors.

The Q3 consolidated results for nine months ending December 31, 2018 reflect a year-to-date surplus of \$5m against a budgeted deficit of \$104m. The favourable variance is largely a function of timing related to the seasonal spread of the budget, delays in hiring staff and faculty, and better than expected Vancouver Summer programs. The variance is consistent with previous Q3 results.

The consolidated forecast for the year is projecting a surplus of \$96m, compared to a budget of \$35m and \$121m actual surplus in 2017/18. At 3.6% of total revenues, this falls just outside of our fiscal strategy, which calls for a consolidated surplus in the range of 1-3% of total revenues, or between \$26m and \$80m.

The year end consolidated forecast includes an operating surplus of \$4m across the university, which is a result of operating surpluses within the faculties and business units offset by one-time expenditures relating to the development of campus-wide IT infrastructure. The balance of the \$96m surplus mainly relates to investment in capital (\$40m), endowment surpluses (\$25m) and internal research funding to be spent the subsequent year (\$20m).

The favourable variance of \$61m in the forecasted year end consolidated surplus is comprised of:

- Improved operating surplus of \$31m, primarily due to stronger than expected tuition revenue, and delayed spending in the UBC Excellence Fund (EF). Offsetting the improvement in operating was an increase in one-time expenditures relating to the development of the campus-wide IT infrastructure, although total project costs of the IT initiative remain under budget for the fiscal year.
- Endowment projected surplus, based on realized gains, known transactions, dividends and earnings. The projected surplus exceeds the budget by \$18m, mainly due to a realized gain from the sale of one of the funds managed by IMANT and the transfer of funds from the EF for the matching of the Blue & Gold campaign. However, investment returns may vary from forecast for the balance of the fiscal year.
- Surplus from research and other funds, forecast to be higher than plan by \$15m, primarily due to the allocation of internally funded 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, in excess of depreciation.

Funding for the UBC Excellence Fund, derived from recent international tuition increases, is forecast 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.

## 2. Consolidated Forecast

### Consolidated Statement of Operations

(in \$millions)	Q3 Year to date			Full Year			2017/18
	Actual	Budget	Variance	Forecast	Budget	Variance	Actual
<b>Revenues</b>							
Government grants and contracts							
Government of Canada	198	206	(8)	283	292	(9)	273
Province of British Columbia	616	591	25	825	809	16	785
Other governments	13	13	-	18	20	(2)	19
Other contributions	124	120	4	172	173	(1)	182
Student fees	486	469	17	815	786	29	725
Investment income	43	56	(13)	82	87	(5)	82
Income from Gov't Business Enterprises	12	5	7	7	5	2	14
Sales and services	287	279	8	407	393	14	400
Amortization of deferred capital contributions	64	64	-	91	85	6	82
	<b>1,843</b>	<b>1,803</b>	<b>40</b>	<b>2,700</b>	<b>2,650</b>	<b>50</b>	<b>2,562</b>
<b>Expenses</b>							
Salaries & benefits	1,140	1,164	24	1,584	1,579	(5)	1,463
Operating costs - other	319	333	14	462	463	1	446
Capital asset amortization	161	165	4	217	214	(3)	198
Cost of goods sold	27	33	6	45	44	(1)	46
Scholarships, fellowships and bursaries	85	94	9	150	148	(2)	131
Grants to third parties	90	103	13	125	147	22	136
Debt service costs	16	15	(1)	21	20	(1)	21
	<b>1,838</b>	<b>1,907</b>	<b>69</b>	<b>2,604</b>	<b>2,615</b>	<b>11</b>	<b>2,441</b>
Surplus/(Deficit) from operations	<b>5</b>	<b>(104)</b>	<b>109</b>	<b>96</b>	<b>35</b>	<b>61</b>	<b>121</b>

The full year consolidated surplus forecast is \$96m, a \$61m 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 provided internally. Also contributing to the forecasted surplus is increased revenue from student fees and from sales and services.

The year-to-date surplus of \$5m 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 will 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 due to timing related to research activities.
- **Other Contributions** – This revenue is generated from research grants and donations received from 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 will deviate from budget as research project plans change.
- **Student Fees** – This category includes tuition and mandatory fees for undergraduate and graduate students, both international and domestic. Full year forecast is higher than budget, to reflect higher than anticipated International and graduate enrolment at both campuses, as well as Vantage College, Sauder’s professional programs, and Vancouver Summer Program.

- **Investment Income** – The consolidated investment income is derived from realized gains on endowment funds, excluding any internal loans, as well as the investment returns on the university's core operating funds. The budget assumes a total long-term annual rate of return for endowment investments of 6.65%, of which 75% is planned to be realized. The forecast is slightly lower than budget due to a higher than planned adjustment for internal loans, with the investment income from core operating funds 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 some salaries (such as sessional lecturers, teaching assistants, temporary staff, research assistants, etc.) which are typically incurred during the academic year. In addition, some faculties have experienced a delay in hiring. However, full year expenses are higher than budget due to higher costs related to the IRP project that were budgeted to be capitalized, which are now being expensed.
- **Operating costs - other** – Year-to-date and full year favourable variance is mainly due to delayed spending for research projects as well as reduced spending in the EF.
- **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	31	9	22	22
UBC Vancouver administrative units	(32)	(32)	(0)	(1)
UBC Okanagan	5	(4)	9	2
Operating surplus/(deficit)	4	(27)	31	23
Deferred land lease revenue	9	9	-	8
Endowment surplus	25	7	18	21
Research and other funds	19	5	14	9
Related organizations	(1)	(2)	1	1
Net investment in capital	40	43	(3)	59
<b>Surplus</b>	<b>96</b>	<b>35</b>	<b>61</b>	<b>121</b>

- The Operating results show a forecast surplus of \$4m against a planned deficit of \$27m. The faculties are forecasting a favourable variance of \$22m, combined with a favourable projection from UBCO of \$9m. The deficit forecast by the administrative units is due to an increase in drawdowns for various strategic projects and staffing investments, as well as one-time expenditures towards campus-wide IT infrastructure that was originally assumed as capital, although the project remains on plan.
- Deferred land lease income of \$9m: 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 \$25m: The university plans an endowment surplus by limiting the amount of spending allocated to operations from the earnings on the unrestricted endowment funds and the UBCPT rental distributions. The surplus is intended to grow the endowment principal in order to maintain its purchasing power with a budgeted surplus of \$7m. The favourable variance to budget is due to higher investment income of \$4m and a reduction in the spending allocation funded through TREK of \$4m. In addition, the faculties also transferred \$9m to establish new endowments that is recorded as income. Note that endowment income is based on realized returns, with unrealized gains recorded in the Statement of Remeasurement
- Research and other funds income of \$20m: this represents \$17m of internally committed funding for research projects that faculties do not expect to complete in the current 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 in excess of depreciation 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)	Dec 31, 2018	2019 as at March 31	2018 as at March 31
	Actual	Forecast	Actual
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	143	100	231
Accounts receivable	446	169	167
Operating investments	598	634	526
Investments in government business enterprises	18	26	26
Other current assets	24	31	30
	1,228	960	980
<b>Non- Current Assets</b>			
Endowment investments	1,793	1,822	1,722
Capital assets	3,416	3,507	3,376
	5,209	5,329	5,098
<b>TOTAL ASSETS</b>	6,437	6,289	6,077
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	562	303	297
Current portion of debt	6	6	6
	568	309	303
<b>Non-Current Liabilities</b>			
Employee future benefits	9	9	9
Deferred other restricted contributions	291	328	336
Non-current portion of debt	344	344	350
	644	681	695
<b>Total Liabilities</b>	1,211	990	998
<b>Net Assets</b>			
Accumulated surplus	2,053	2,250	2,030
Deferred capital contributions	1,513	1,420	1,510
Deferred land lease revenues	830	840	758
Deferred endowment contributions	829	789	780
	5,226	5,299	5,079
<b>TOTAL LIABILITIES AND NET ASSETS</b>	6,437	6,289	6,077

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 the university and then invested into the endowment.

- Endowment investments consist of donations held in perpetuity and endowed 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 which are not yet spent are recorded as deferred contributions.
- Contributions received for and expended on capital are referred to as deferred capital contributions.

### 3. Liquidity

The university requires approval from the Ministries of Advanced Education and of Finance to borrow. The university has been unable to borrow since 2007 because any additional borrowing by the university 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 the university'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

---

The UBC Treasury regularly provides a liquidity update to the Board of Governors. The Q3 projected liquidity at March 2019 is \$737m, which is increased by \$4m as compared to the Q2 forecast. This is mainly the result of the following factors during Q3:

- +\$21m, being an increase in net operating cash flow due increased cash receipts from Research offset by lower than anticipated cash receipts from Donations
- -\$30m, being a decrease in net capital cash flow due to an adjustment to IRP spending and postponement of receipts related to the Transit Terminal project
- +\$12m, being an increase in net investing cash flow due to slower than expected Faculty Housing Loan issuances and an adjustment to reflect higher investment returns

#### 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 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 the university's housing assistance program to facilitate recruitment and retention of outstanding faculty members.

The university 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 9 months ended December 2018, USD \$30.8m had been received, USD \$10m had been purchased and USD \$34.7m had been paid, resulting in a closing position of USD \$15.5m to manage upcoming USD contracts.

UBC Treasury provides a foreign exchange hedging service (all currencies), but decisions are made at the faculty or department level. As of December 31, 2018, UBC Treasury has arranged USD \$9.3m of internal forward contracts (mostly with the Library and IT). Of the 8,332 USD-denominated payments that have been made year-to-date, only 69 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 forecasted capital expenditures for Fiscal 2018/19:

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

(in \$millions)	Full Year			2017/18
	Forecast	Budget	Variance	Actuals
<b>Building and Property:</b>				
Major Buildings	120	100	(20)	131
Building Renovations & Additions	67	91	24	77
Capital Infrastructure	13	11	(2)	13
	<u>200</u>	<u>202</u>	<u>1</u>	<u>221</u>
<b>Research equipment</b>	62	26	(36)	30
<b>Other equipment &amp; furnishings</b>	52	41	(11)	51
<b>Information Technology</b>	18	46	28	6
<b>Library</b>	16	16	-	16
	<u>348</u>	<u>331</u>	<u>(17)</u>	<u>324</u>
<b>Total Capital Expenditure</b>	<b>348</b>	<b>331</b>	<b>(17)</b>	<b>324</b>

Funding of capital expenditure (in \$millions):

(in \$millions)	Full Year			2017/18
	Forecast	Budget	Variance	Actuals
<b>Funding Source:</b>				
Ministry (KDF/COA)	31	19	12	29
Ministry -Routine capital	38	44	(6)	33
Federal - CFI	18	5	13	32
Federal - SIF	8	33	(25)	23
Donations	19	6	13	11
	<u>114</u>	<u>107</u>	<u>6</u>	<u>128</u>
<b>Internal Sources</b>				
Unit/Central	119	117	2	117
IIC's	7	7	-	6
Internal Loans	108	100	8	73
	<u>234</u>	<u>225</u>	<u>10</u>	<u>196</u>
	<u>348</u>	<u>331</u>	<u>16</u>	<u>324</u>
<b>Total Funding</b>	<b>348</b>	<b>331</b>	<b>16</b>	<b>324</b>

## Major buildings

---

Forecasted major building expenditures are slightly higher than budget mainly due to several new smaller projects being added after the budget was finalized. Notable forecasted expenditures in Fiscal 2018/19 relating to major building projects include:

- Undergrad Teaching Labs (\$40m)
- UBCO Teaching and Learning Centre (\$17m)
- Gage South Student Residence (\$28m)
- UBCO Housing Commons & Skeena Residence (\$4m)
- New Transit Terminal (\$3m)
- MacInnes Field Underground Parkade (\$8m)

## 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 student union building renovation.

## Information technology (IT)

---

Forecasted capital expenditures on IT include \$9m for the Integrated Renewal Program and \$9m for information security. Forecasted capital expenditures are lower than budget primarily due to a revaluation of the phases of the Integrated Renewal Program that are able to be capitalized.

## 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

The university is forecasting to spend \$348m in tangible capital assets in Fiscal 2018/19 (breakdown in table above), of which \$166m is financed from operations. Adjusting for the timing impact through net depreciation, the net investment in capital for the year is forecast at \$40m, which is in line with the budget.

(in \$ millions)	Full Year			2017/18
	Forecast	Budget	Variance	Actual
Capital asset additions	348	331	17	324
Less funded externally	(114)	(107)	(7)	(128)
Less funded from internal loans	(108)	(100)	(8)	(73)
Plus internal loan repayments	40	47	(7)	53
Capital additions funded from operations	166	171	(5)	176
Depreciation	(217)	(213)	(4)	(199)
Less amortization of deferred capital contributions	91	85	6	82
Net depreciation	(126)	(128)	2	(117)
<b>Net investment in capital</b>	<b>40</b>	<b>43</b>	<b>(3)</b>	<b>59</b>

## 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 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 the university 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 resulting in a surplus in fiscal 2018/19.

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

(in \$Millions)	Q3 Year to Date			Full Year			2017/18
	Actual	Budget	Variance	Forecast	Budget	Variance	Actual
<b>Revenues</b>							
Government grants and contracts	213	220	(7)	290	294	(4)	277
Non-government grants, contracts and donations	89	90	(1)	121	120	1	125
Sales and services	2	3	(1)	4	4	-	4
Transfers into research	22	29	(7)	33	38	(5)	33
	<u>326</u>	<u>342</u>	<u>(16)</u>	<u>448</u>	<u>456</u>	<u>(8)</u>	<u>439</u>
<b>Expenses</b>							
Salaries and benefits	190	194	4	254	259	5	245
Grants and reimbursements to other agencies	21	28	7	33	37	4	38
Operating costs	96	105	9	127	140	13	133
	<u>307</u>	<u>327</u>	<u>20</u>	<u>414</u>	<u>436</u>	<u>22</u>	<u>416</u>
Excess (deficiency) of revenues over expenses	19	15	4	34	20	14	23
Capital Investments	(16)	(11)	(5)	(18)	(15)	(3)	(12)
Net change in fund balances during the year	<u>3</u>	<u>4</u>	<u>(1)</u>	<u>16</u>	<u>5</u>	<u>11</u>	<u>11</u>

### Awards

The research funding landscape is complex and fast evolving. The university is investing in capacity that promotes research funding success, 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 three quarters of Fiscal 2018/19, compared to the same period in the previous fiscal year, total funding increased by \$40m, an 8.7% increase. These strong gains were concentrated in Tri-Agency funding and CFI Innovation Fund projects announced in Fiscal 2017/18 and released this year.

As a component of its research development strategy, VPRI offers a unique service to researchers through a dedicated interdisciplinary team that provides individual consultations as well as workshops and specialized

proposal evaluation. Through these services, Support Programs to Advance Research Capacity (SPARC) guides researchers in funding criteria including project governance, student training and equity and diversity. The success of SPARC's services is evidenced by the university's results from recent national funding competitions such as the *Partnership Engage Grant* (SSHRC), which realized a 75% UBC success rate compared to a 58% national rate, and the *Discovery Grant* (NSERC), which realized an 80% UBC success rate compared to a 66% national average.

In Fiscal 2018/19 the University-Industry Liaison Office's (UILO) 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 the university.

Below is a summary of research awards projected for Fiscal 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
<b>Total</b>	<b>206,609</b>	<b>213,431</b>	<b>155,297</b>	<b>53,527</b>	<b>628,864</b>

## 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 FHAFF)		IMANT Invested Funds (excluding TREK & TREK IMPACT)		Land Lease Proceeds ( TREK, TREK IMPACT, SHFE & FHAFF)		Others	
	2018/2019 Forecast	2018/2019 Budget	2018/2019 Forecast	2018/2019 Budget	2018/2019 Forecast	2018/2019 Budget	2018/2019 Forecast	2018/2019 Budget
	<b>Endowment market value</b>							
Endowment capital account <sup>1</sup>	2,072	2,011	1,166	1,148	706	675	200	188
Stabilization account <sup>2</sup>	235	293	185	228	40	55	10	10
<b>Balance</b>	<b>2,307</b>	<b>2,304</b>	<b>1,351</b>	<b>1,376</b>	<b>746</b>	<b>730</b>	<b>210</b>	<b>198</b>
<b>Endowment spending</b>								
Investment income <sup>3</sup>	93	89	53	52	37	34	3	3
UBCPT rental distributions	9	8	0	0	9	8	0	0
Internal transfers to endowment capital <sup>4</sup>	9	0	9	0	0	0	0	0
Operating expenses <sup>5</sup>	(86)	(90)	(51)	(51)	(32)	(36)	(3)	(3)
<b>Surplus (deficit)</b>	<b>25</b>	<b>7</b>	<b>11</b>	<b>1</b>	<b>14</b>	<b>6</b>	<b>0</b>	<b>0</b>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> Internal transfers to endowment capital represent internal contributions to endowment capital including \$5m relating to the Blue & Gold Campaign, \$2m in Forestry, \$1m in science plus \$1m contributed from other units.

<sup>5</sup> 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 \$388m relating to TREK and TREK Impact, is forecast to be \$1.7b at March 31, 2019. The long-term target rates of return of 6.65% for the Main Pool, and 6.15% for the Sustainable Future Pool, were 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 total rate of return (both realized and unrealized) for the Main Pool from April to December 2018 was approximately 0.3% and for the Sustainable Future Pool 0.7%. The rate of return used to forecast investment income for the remaining three months, January 2019 to March 2019, was 1.7% (6.65% x 3/12 months remaining in the fiscal year) for the Main Pool and 1.5% (6.15% x 3/12 months) for the Sustainable Future Pool.

### Land Proceeds Endowments (TREK, TREK Impact, SHFE and FHAFF)

The market value of the land lease proceeds endowment is forecast to be \$746m at March 31, 2019.

Prior to 2012, land lease proceeds were directed to the TREK Endowment, an unrestricted endowment, invested by IMANT. The purpose of TREK is to support the mission of the university.

Between 2012 and late 2017, all land lease proceeds were recorded in the Student Housing Financing Endowment (SHFE). The idea was to direct land development proceeds into a discrete endowment fund and to invest the endowed funds in interest-bearing loans that would fund student housing related capital projects. The interest generated from these loans would be partially capitalized to maintain the value of the endowment fund over time, and the balance of the interest would support university priorities.

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 \$14.3m was contributed to FHAFE including \$6m of land lease proceeds plus \$8.3m approved by the Board on February 15, 2018 to support 14 extraordinary hires.

### **Other Investments**

At March 31, 2019 the market value of "other investments" balances are forecast to be:

- Peter Wall Endowment \$176m;
- Vancouver Foundation investments \$28m;
- Merilees Chair \$4m; and
- Promissory notes receivable of \$2m

---