



Submission to the University of British Columbia
Board of Governors

2016/2017 Budget



April 5, 2016

The University of British Columbia



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1. Executive Summary

Overview

The 2016/17 Budget for the University of British Columbia is presented for approval to the Board of Governors.

The Operating Budget is balanced, reflecting that the core revenues received by UBC for academic operations have been fully allocated towards the cost of maintaining current programmes and activities, as well as investing in new strategic initiatives.

The University's consolidated budget (which includes the Operating Budget, in addition to revenues from the external research grants, the endowment, donors and related entities) reflects a small surplus, noting that this follows accounting standards and includes a number of non-cash elements (e.g. depreciation).

Strategic Context

"As one of the world's leading universities, The University of British Columbia creates an exceptional learning environment that fosters global citizenship, advances a civil and sustainable society, and supports outstanding research to serve the people of British Columbia, Canada, and the world."

Place and Promise; The UBC Plan

UBC is placed among the top 20 public universities in the world, creating an exceptional learning environment and contributing research outcomes of global, national, and regional significance. The 2016/17 Budget reflects a strong outlook for the University, balancing the need for maintaining the quality of current teaching, learning, research and community programmes, as well as investing in new initiatives to advance the University's position amongst the finest public universities in the world.

To ensure that UBC continues to progress towards its strategic vision, the 2016/17 Budget includes the establishment of the UBC Excellence Fund (\$6m in 2016/17) to support the University's ambition to become the best university in Canada. In addition, the Budget includes further strategic investments of over \$9m from centrally available funds, and there are other strategic investments that Faculties are making from within their budget allocations.

Operating Context

The University remains in a constrained financial environment. The base Provincial Operating Grant is expected to be largely unchanged for 2016/2017; the government is providing additional support to cover the costs associated with general wages increases (GWI) for collective agreements that fall within the government's mandate. The other major source of revenue, domestic undergraduate tuition of \$218m, as well as the majority of graduate tuition of \$70m, is subject to a policy cap of 2%, restricting the revenue available to maintain the quality of UBC's programmes.

As a consequence, the University has been focused on diversifying the revenue base. This has led to the successful development and implementation of a wide number of professional and community-based programmes across many faculties.

During the past year, the University has conducted a detailed review of the tuition levels for international undergraduate students. As a result, UBC has announced increases in tuition levels for entering classes for the next 3 years to align tuition levels with peer universities and to reflect the value of a UBC degree. The majority of the additional revenue generated is being targeted to the newly established UBC Excellence Fund.



Operating Budget

The Operating Budget, covering the core academic operations of the University, is balanced and includes elements of new investments in programmes and services, as well as providing resources necessary to maintain current activities.

Operating Budget			
Fiscal Year 2016/17		UBC Total	
<i>(In \$ Millions)</i>	Actual	Forecast	Budget
	2014/15	2015/16	2016/17
Operating Revenues			
Provincial government grants	586	585	590
Tuition	420	464	505
Investment income	39	39	41
Research indirects	41	38	37
Business revenues	17	22	24
Land development proceeds	13	16	18
Faculty revenues	168	175	175
Central unit revenues	340	355	371
Total Operating Revenues	1,625	1,695	1,763
Operating Expenses			
Salaries & benefits	1,032	1,057	1,102
Operating costs - other	323	364	370
Cost of goods sold	29	30	31
Grants to third parties	72	86	90
Interest expense	39	40	51
Use of land development proceeds	13	16	18
Total Operating Expenses	1,509	1,593	1,661
Capital spending	(103)	(117)	(120)
Interfund transfers	(18)	(11)	(6)
Transfers from reserves	5	26	24
Surplus/(deficit)	-	-	-

(Note: Key assumptions are included in Appendix I)

Projections arising from the recent Provincial Budget indicate that the Provincial Operating Grant will increase to cover negotiated wage increases up to the Provincial mandate. This is welcome news following the recent years of cuts, but nonetheless it presents a challenging environment as costs to maintain current programmes and services continue to rise.



Growth in international student numbers as well as increases in international students' tuition are the most important factors in building the capacity for new investments, which includes the establishment of the UBC Excellence Fund.

Savings from efficiencies continue to make an important contribution to providing the capacity for both new investments and maintaining current activity levels. The University will need to continue to focus on the delivery of ongoing efficiencies to optimize its teaching, learning and research outcomes.

In 2016/17, we are projecting a \$68m increase in operating revenues across both campuses. \$22m is allocated directly to the Faculties, in addition to funding for general wage increases (GWI). \$3m is set aside for student financial aid and \$6m is allocated for a new Excellence Fund. A further \$16m is generated by the central units' operations, primarily ancillaries, such as Student Housing and Hospitality Services, reflecting the growth in these areas.

With the inclusion of one-time items and ongoing cost savings, \$31m is available to be allocated to meet a range of important needs and initiatives, including:

- Commitments (e.g. new building operating costs)
- Strategic Investments
- Teaching and Learning Excellence
- Research Excellence
- Student Support
- Faculty and Staff Engagement
- Risk Issues (e.g. IT Security, emergency response)
- Maintaining Core Resources and Services (e.g. Library collections, Faculty stabilization)

UBC Excellence Fund

The University established the UBC Excellence Fund in February 2016 to support its ambition to become Canada's best university over the next decade. The anticipated funding envelope for FY 16/17 across both campuses is \$6m and will increase to approximately \$35m by FY 18/19. The funds will be protected within the University budget and the allocations proposed from the funds will be presented to the Board of Governors annually, as part of the budget approval process.

Capital Expenditure

The Capital programme for 2016/17 continues to be extensive, with \$367m of total expenditure budgeted. A notable feature in the year ahead is the expansion of funding from the Provincial Government for routine capital. This is expenditure principally focused on the deferred maintenance associated with our teaching and learning facilities, and is budgeted to grow to \$59m in 2016/17 from \$31m in 2015/16 and \$17m in 2014/15. (Note that this expenditure includes a 25% contribution from UBC).

Major building projects under development include Undergraduate Life Sciences Teaching Labs, the Stewart Blusson Quantum Matter Institute, the new Aquatic Centre, student housing, and seismic upgrades.

Federal Budget

The federal government's budget of March 22, 2016, included several important announcements that will positively contribute to universities. These include additional funding for the research granting councils, support for the indirect costs of federally sponsored research, and infrastructure investments. This is welcome news, although it is unknown at the time of writing what impact this will have on the UBC budget for the years ahead.



Conclusion

The Budget for UBC for the next fiscal year remains constrained in many ways, but contains capacity for important strategic investments. That said, there is ongoing financial risk arising from the continued constraints of the operating grant from the Province, in addition to the restrictions over domestic tuition levels.



2. Introduction

The University's Budget is presented for the approval of the Board of Governors, and covers the fiscal year from April 1, 2016 to March 31, 2017.

The Budget represents the financial plan for the University and is based on a wide number of projections including:

- Government funding
- Tuition levels
- Student numbers
- Revenue forecasts from other sources
- Salary and benefit increases
- Other cost increases, based on changes to the consumer price index (CPI) and exchange rates

Details on assumptions are summarized in Appendix 1.

The operating projections include all proposed budget allocations, as well as projections made by faculties and units across campus about expected results for the year, including any plans for drawdowns on reserves.

The primary focus of the Budget is on the Operating Budget, which covers the core academic operations of UBC, however, this year's Budget Report also covers all other areas comprising the consolidated financial statements of the University, including research, endowment, and all capital expenditure.

Plans for capital expenditure are summarized in Section 8, which includes projections for major projects approved separately by the Board, as well as a wide range of other capital expenditure.

The budget process followed this year has combined university-wide projections and analysis with faculty and unit plans, and included widespread consultation and engagement about resourcing and strategic priorities. Key assumptions are detailed in Appendix I. A key part of this year's process was the inclusion of a Budget Retreat on each campus with the Executive and Deans, which included presentations of budget plans for all Faculties and VP portfolios. Separate budget meetings and discussions also have been held with:

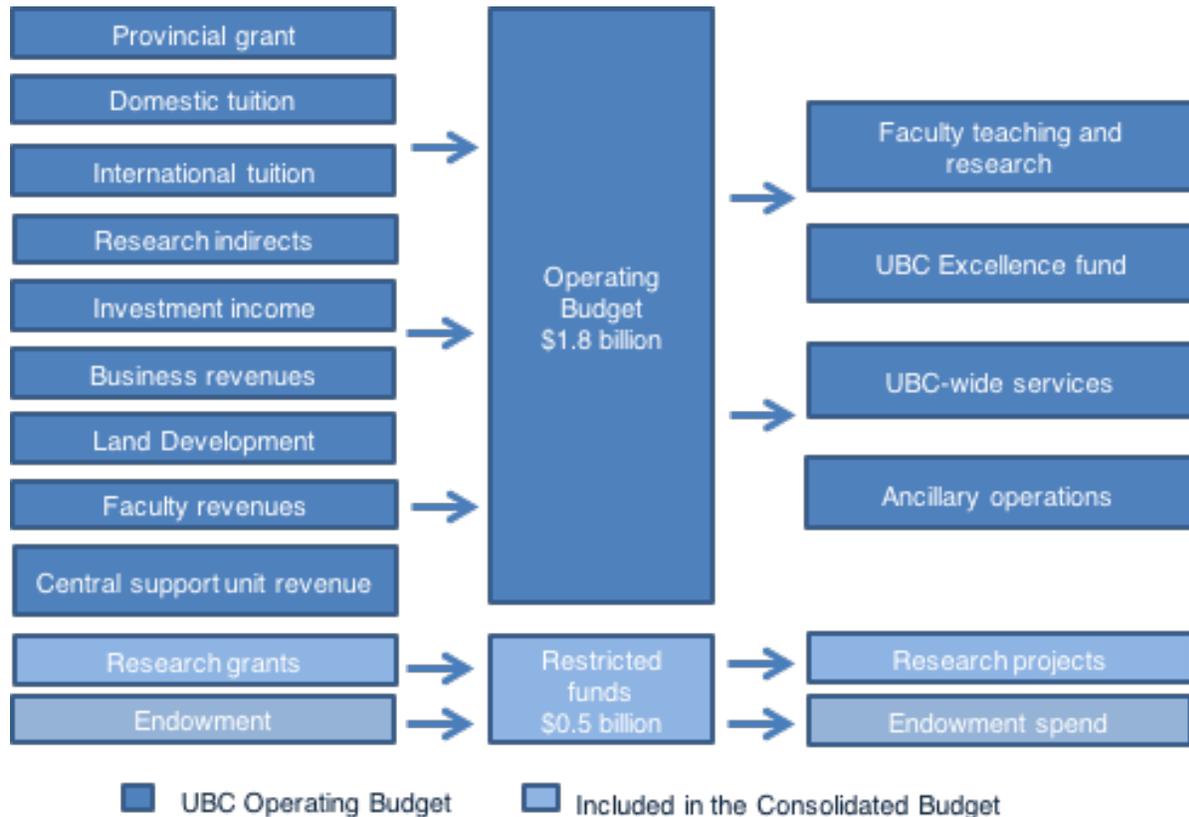
- Deans
- Senate Budget Committee for each campus
- Academic heads of department
- Associate Vice-Presidents (and equivalent)
- Executive

The final Budget is submitted for approval to the Board of Governors on April 14, 2016.

3. Budget Framework

The University's Consolidated Budget contains a number of components, with the most significant being the Operating Budget. This report provides detail of how these components link, as well as the financial targets for each.

The following chart illustrates the key components of the University's Consolidated Budget:



The Operating Budget includes income received by the University to support the core academic operations of the University. These revenues include the Provincial Operating Grant, Domestic and International tuition, investment income earned on cash and investments, research overheads and indirect costs of research funds received from the federal government, and proceeds from land development. It also includes business and other revenues generated by central units and ancillaries across campus that directly support those operations. These include student housing, food services, bookstore, and museums. Many Faculties also receive funding directly from non-core activities, which are managed locally to directly support their operations.

The financial target for the Operating Budget is to achieve a balanced result. This means that operating revenues and expenditures (which include ongoing capital costs and internal loans for capital projects) are at equivalent levels.

The Province provides an operating grant totaling \$590m to the University to support the teaching of domestic undergraduate and graduate students. Of this, \$524m is designated for the Vancouver campus and \$66m for the Okanagan. In return, the Province expects the University to enroll 29,524 domestic undergraduates and 5,905 graduate students in Vancouver, and 6,971 students overall in the Okanagan. Many of these are targeted, primarily in the health sector and, starting in 2014/15, in line with the Province's Skills for Jobs Blueprint. The majority of this funding is untargeted and can be used as the University chooses, as long as the enrolment targets set by the



Province are met. UBC has consistently exceeded its targets, by as many as 1,000 domestic undergraduate students and 2,000 graduate students.

The University allocates tuition received via a formula to Faculties and to Student Financial Aid (SFA). In Vancouver, 5% of base and 15% of above the base tuition, for domestic students, is allocated for a bursary program. Another 2.25% is allocated for needs-based/merit awards, such as major entrance scholarships, Aboriginal scholarships, and the new Centennial Scholars Entrance Awards. For international students, 7.47% of tuition is allocated to international SFA. After holding 1% for "bad debt", the remainder is allocated as follows: 75% of domestic undergraduate and graduate tuition is allocated to the Faculty in which the students are enrolled and taught. For international undergraduates, 65% is allocated to the Faculties. The remainder is allocated for strategic priorities and support services. In the Okanagan, 60% of domestic and 50% of international tuition flows to the Faculties. Starting in 2015/16, two-thirds of the international tuition rate increases are being set aside to support the UBC Excellence Fund, which is described in Section 5.



4. Operating Budget

The Operating Budget is balanced as summarized in the statement below.

Operating Budget Fiscal Year 2016/17 <i>(In \$ Millions)</i>	UBC Total		
	Actual FY 14/15	Forecast FY 15/16	Budget FY 16/17
Revenues			
Provincial government grants	586	585	590
Tuition	420	464	505
Domestic undergraduate	206	214	218
International undergraduate	152	187	217
Graduate	62	63	70
Investment income	39	39	41
Research indirects	41	38	37
Business revenues	17	22	24
Land development proceeds	13	16	18
Faculty revenues	168	175	175
Central support unit revenues	340	355	371
Total Operating Revenues	1,625	1,695	1,763
Expenses			
Salaries & benefits	1,032	1,057	1,102
Operating costs - other	323	364	370
Cost of goods sold	29	30	31
Grants to third parties	72	86	90
Interest expense	39	40	50
Use of land development proceeds	13	16	18
Total Operating Expenses	1,509	1,593	1,661
Excess of revenue over expenses	116	101	102
Capital spending	(103)	(117)	(120)
Interfund transfers	(18)	(11)	(6)
Transfers from reserves	5	26	24
Surplus/(deficit)	-	-	-

Total revenue is budgeted to increase by \$68m (4%) with the most significant increase arising from International Tuition. Costs are expected to increase also by approximately 4%, with a range of factors including salary settlements, merit and progression obligations.



Operating Revenues

The Operating Budget includes all unrestricted revenue received by the University. The majority of this income is managed and allocated through the budget process, but some revenues are generated directly by Faculties and central support units. The total revenues managed through the budget process in 16/17 are \$1,217m, with an additional \$546m of operating revenues generated directly by units.

Operating Budget - Revenue Report UBC Vancouver and Okanagan Fiscal Year 2016/17												
Operating Revenues (in \$millions)	UBC Vancouver				UBC Okanagan				UBC Total			
	Actual FY 14/15	Forecast FY 15/16	Budget FY 16/17	Budget vs. Forecast	Actual FY 14/15	Forecast FY 15/16	Budget FY 16/17	Budget vs. Forecast	Actual FY 14/15	Forecast FY 15/16	Budget FY 16/17	Budget vs. Forecast
Provincial government grants	520	519	524	5	67	66	66	-	586	585	590	5
Tuition	370	410	447	37	50	54	58	4	420	464	505	41
Domestic undergraduate	175	182	185	3	31	32	33	1	206	214	218	4
International undergraduate	136	168	196	28	16	19	21	2	152	187	217	30
Graduate	59	60	66	6	3	3	4	1	62	63	70	7
Investment income	39	38	40	2	-	1	1	-	39	39	41	2
Research indirects	40	37	36	(1)	1	1	1	-	41	38	37	(1)
Business revenues	16	22	24	2	1	-	-	-	17	22	24	2
Land development proceeds	13	16	18	2	-	-	-	-	13	16	18	2
Subtotal	998	1,043	1,090	47	119	122	126	4	1,117	1,165	1,216	51
Faculty revenues	167	174	174	-	1	1	1	-	168	175	175	-
Central support unit revenues	333	347	363	16	7	8	8	-	340	355	371	16
Total Operating Revenues	1,498	1,564	1,628	64	127	131	135	4	1,625	1,695	1,763	68

Provincial government grant

The government grant is the primary source of funding for domestic graduate and undergraduate teaching. Revenue is up \$5m in 16/17 largely due to General Wage Increase (GWI) funding from the Province, although there is also a modest increase in targeted funding for Speech-Language Pathology and Midwifery. The GWI funding includes funding for all bargaining units that have negotiated settlements. Outstanding at this time is the agreement with the Faculty Association, which is currently awaiting the arbitration board's decision.

Student enrolment

The University is projecting a total credit enrolment of 54,422 student FTEs in 2016/17 across both campuses, details as follows:

Projected Student FTE	Fiscal 15/16			Fiscal 16/17		
	UBC	Vancouver	Okanagan	UBC	Vancouver	Okanagan
Undergraduate	44,678	37,896	6,782	45,419	38,284	7,135
Domestic	37,105	31,066	6,039	37,182	30,848	6,334
International	7,573	6,830	743	8,237	7,436	801
Graduate	8,766	8,145	621	9,003	8,382	621
Total	53,444	46,041	7,403	54,422	46,666	7,756



Domestic undergraduate tuition

The Vancouver campus enrolled 31,066 FTE in 15/16. This number is budgeted to remain relatively constant. The budget reflects a 2% increase in tuition rates.

The Okanagan campus enrolled 6,039 FTE in 15/16. The 16/17 budget assumes a 2% increase in tuition rates and a 2% increase in FTE. For 2015/16, the Okanagan campus was at 95% of the Ministry-funded domestic target.

International undergraduate tuition

Feedback that was received from Faculties as part of the annual enrolment planning process suggests that our total international enrolment will increase, which, in combination with increases in international student tuition (approximately 15% for new undergraduate students, with some exceptions), will result in an increase of \$30m across both campuses. Intake for 2016/17 is expected to approximate the intake for 2015/16.

Graduate tuition

The Vancouver budget reflects a 2% tuition increase for domestic students and higher increases in certain professional programs for international students. It also includes growth in professional programs, largely in the Faculty of Arts and Sauder School of Business. The Okanagan budget reflects a 2% rate increase and no FTE growth.

Investment income

This represents investment income earned on UBC's cash balances and short-term investment portfolio.

Research indirects

Research revenue included in the Operating Budget includes the federal Research Support Fund (which contributes to the overhead or indirect costs of Tri-Council grants and calculated as a percentage of total federal research funding, based on a formula), a share of royalty revenues, and cost recoveries from corporate research funding. The decrease reflects the indirect costs from Canada Research Chair funding being transferred to the Faculties and now reflected in the Faculties' revenue. Research revenue received to support research projects is included in the Research Fund (Section 9).

Business revenue

Business revenue primarily includes the net return to the University from ancillaries, as well as lease income and the General Municipal Service Levy (GMSL) charged to businesses on campus. Ancillaries are expected to be self-sustaining (including setting aside funds for capital renewal) and to provide a modest return to the University to be invested in important strategic priorities. The operating revenues of ancillaries is included under "Central support unit revenues," and includes Student Housing and Hospitality Services, Bookstore, and Parking.

Land development proceeds

The proceeds from land development are derived from long-term leases and from the net proceeds of market rental activities. This enterprise is managed by the UBC Properties Trust. Revenues received from long-term leases are held in perpetuity in our endowments (invested at IMANT and in our Student Housing Financing Endowment), which pay out 3.5% of the principal to support strategic investments. This is expected to generate \$12m in 2016/17 and the net proceeds of rental activities are expected to generate \$6m.

Faculty revenues

This represents operating revenues generated by Faculties, which flow directly to them (rather than being allocated via the tuition model or the budget process). Examples include revenue generated by Executive



Education, Sauder School of Business as well as analytical and core services that Faculties bill on a fee-for-service basis.

Central support unit revenues

Vancouver central support unit revenues include: Continuing Studies, Vantage College, Information Technology, Building Operations, Energy and Water Services, and ancillary unit revenues. The increase arises in Student Housing due to additional residences, in Vantage College due to increased enrolment and a tuition increase, and in Energy and Water Services as a result of increased costs passed onto third parties.

Okanagan central support unit revenues primarily include Parking, Food Services, and Athletics. The Athletics revenue includes a fee-for-service component as well as the fee assessed to each student.

Operating Expenses <i>\$Millions</i>	UBC Vancouver				UBC Okanagan				UBC Total			
	Actuals	Forecast	Budget	Budget	Actuals	Forecast	Budget	Budget	Actuals	Forecast	Budget	Budget
	Fiscal 14/15	Fiscal 15/16	Fiscal 16/17	vs. Forecast	Fiscal 14/15	Fiscal 15/16	Fiscal 16/17	vs. Forecast	Fiscal 14/15	Fiscal 15/16	Fiscal 16/17	vs. Forecast
Salaries & benefits	946	968	1,008	40	87	89	94	5	1,032	1,057	1,102	45
Operating costs - other	308	342	348	6	15	22	22	0	323	364	370	6
Cost of goods sold	29	30	31	1	0	0	-	(0)	29	30	31	1
Grants to third parties	66	78	81	3	7	8	9	1	72	86	90	4
Interest expense	37	38	48	10	2	2	2	(0)	39	40	50	10
Use of land development proceeds	13	16	18	2	-	-	-	-	13	16	18	2
Total operating expenses	1,398	1,472	1,534	62	111	121	127	6	1,509	1,593	1,661	68
Capital spending	103	109	114	5	-	8	6	(1)	103	117	120	3
Interfund transfers	12	9	2	(6)	7	2	4	2	18	11	6	(4)
Total	1,513	1,591	1,651	60	117	130	137	7	1,630	1,721	1,788	67

Operating Expenditures

Salaries and benefits

The increase in salaries and benefits includes general wage increases (GWI) of 1.5%, progress through the ranks (PTR) for faculty, and merit increases for staff. This amounts to roughly one-third of the increase, with the remainder planning to support new faculty and staff including expenditures arising from the UBC Excellence Fund. This will largely be invested in staff and faculty committed to research, teaching, and student support, and in building maintenance as we add to our residence and academic facilities.

The Province has committed to funding salary increases that fall within the Public Sector Employers' Council mandate. The University has agreed to renewed collective agreements with eight of the nine staff bargaining units on its campuses, aside from the Faculty Association, which is subject to interest arbitration.

Interest expense

The increase in interest expense is due primarily to internal loans for new projects in student housing (\$7m), utilities (\$1.5m), and faculties (\$1.4m).



Use of land development proceeds

The proceeds from land development are derived from long-term leases and from the net proceeds of market rental activities. All such funds derived are discretionary in nature and, as a result, can help support the strategic investment priorities of the University.

In the past, the majority of these funds were used to support the costs of priority building investments. Aside from these long-term commitments, \$4m is being allocated to support a portion of strategic investments in 2016/17.

Capital spending

The amounts identified as capital spending in this budget have been identified at the departmental level across the University. These are largely funded from current revenues, though, in some cases, units have reserve funds to support this spending. It does not include any spending on major capital buildings, except to the extent that portions of those costs are coming from accumulated reserves. This includes Library acquisitions, routine equipment and furnishings, and minor renovations funded locally. It also includes the principal payments on any internal loans that will be repaid during the year.

Interfund transfers

The Operating Budget includes interfund transfers to and from other University funds that form part of the Consolidated Budget, including Research and Endowment (e.g. the provision of support for research projects contained in the Research Fund (per Section 9)).

Operating Allocations

UBC Vancouver

For the Vancouver campus, an increase of \$47m is projected in revenue available for allocation from 2015/16 to 2016/17, adjusted by \$3.5m for one-off grants contained in 2015/16. This includes amounts that are formulaically distributed before arriving at an amount available for discretionary allocation. In 2016/17, \$20m flows directly to Faculties as their share of increased tuition revenues, \$7m represents funding from the Province to cover salary increases in the Faculties and administrative units, \$6m is set aside for the UBC Excellence Fund (see Section 5), and \$3m is set aside for SFA. \$16m is available for discretionary allocation, together with \$4m of unspent budget available from 15/16, and existing funding allocations of \$7m, which are being repurposed. In total, \$27m is available for discretionary allocation in 16/17. The allocation of this \$27m is shown on the next page, and is summarized into the following categories:

Prior commitments

Includes the Aboriginal Engagement plan, matching funding for two large research initiatives, and funding for the maintenance of new buildings.

Strategic investments

Includes funding to support Research, classrooms, IT strategic projects (including the student information system), Flexible Learning, Innovation, and some new positions in Enrolment Services and Student Development and Services to support students.

Risk areas

Major allocations are to stabilize the IT network and focus on IT security, and to plan for an emergency response to a major adverse event on campus.



Maintaining core services

The major components within this category are funding for the Library's collections budget, which has been adversely affected by the change in US dollar exchange rates, and support for second-entry faculties, which have no access to inflationary revenues in meeting the costs of progress through the ranks (faculty salary increases).

Other

Includes a provision to fund anticipated salary increases for market adjustments as well as a modest contingency.

The following table summarizes the calculation of the discretionary revenue available for allocation and the proposed allocations for the Vancouver campus:

<i>(In \$ Thousands)</i>	
UBC at Vancouver - Operating Budget - Fiscal 2016/17	
Fiscal 2016/17 Budget on a Differential Basis	
Growth in Operating revenue	
Increase in 16/17 revenue	47,368
Adjust for one-time revenue in 15/16	3,503
Total incremental revenue	50,871
General Wage Increase (GWI) funding	(6,941)
Faculty share of tuition growth	(20,062)
Excellence fund allocation	(5,483)
Student financial aid	(2,652)
Share of total operating revenues for discretionary allocations	15,732
Available for allocation 2016/17	
Incremental revenue - as above	15,732
Redirection of existing funding allocations	7,396
	23,129
Surplus from 15/16 contingency	3,672
Total available for allocations	26,801
Proposed allocations	
Prior Commitments	4,612
Strategic Investments	
Teaching and learning excellence	2,974
Research excellence	900
Student engagement	1,840
Faculty and staff engagement	675
Other strategic investments	1,863
Total Strategic Investments	8,252
Risk areas	1,938
Maintaining Core Services	
Library collections	2,000
Faculty stabilization	4,072
Other	3,407
Total Core Services	9,479
Other	2,519
Total allocations	26,801
Net of revenues and allocations (balanced)	0



UBC Okanagan

For the Okanagan campus, operating revenue increased by \$3.9m, which includes amounts that are formulaically distributed from revenue before arriving at an amount available for allocation. In 16/17, \$1.8m of the \$3.9m flows directly to Faculties as their share of tuition increases, \$0.4m to the Excellence Fund and \$0.1m to Student Financial Aid and a further \$0.1m represents funding from the Province to cover salary increases. This leaves \$1.5m in revenue available for discretionary allocation (these figures are rounded and the table on page 14 provides more detail)

In addition, \$1.1m was recovered from non-Faculty unspent balances in the prior year and a further \$1.1m was added from the central contingency surplus to allow a total discretionary allocation of \$3.7m.

The allocation of this \$3.7m is shown on the next page, and is summarized into the categories, prior commitments, areas of risk, strategic investments, and funding required to maintain core services.

Prior commitments

The campus previously entered into several commitments. These include the campus MITACS/MTICS partnerships, research initiatives, and maintenance service contract escalations.

Strategic investments

These investments were heavily focused on the campus "Aspire" themes and allocating resources in key areas to help move the campus closer to realizing its collective vision. This included funding for flexible learning, research facilitations, student supports, Aboriginal outreach, recruiting, student health and wellness, leveraging third-party investment for energy savings initiatives, and alumni engagement.

Maintaining core services

Several pressures still exist on the Okanagan campus as many units have absorbed salary increases without additional funding over the last three years. Funding still needs to be directed to address the continued operation of fundamental components of the campus or the University may jeopardize its ability to maintain adequate core services and key personnel. The major components within this category are funding for potential salary escalation due to upcoming salary reviews, facilities operations and deferred maintenance, and formalizing the computer replacement program.



The following table summarizes the calculation of the discretionary revenue available for allocation and the proposed allocations for the Okanagan campus:

<i>(In \$ Thousands)</i>	
UBC at Okanagan - Operating Budget - Fiscal 2016/17	
Fiscal 2016/17 Budget on a Differential Basis	
<i>Growth in Operating revenue</i>	
Total incremental revenue	3,857
GWI funding from Province distributed to units	(113)
Faculty share of tuition growth	(1,755)
ISI SFA	(141)
Excellence fund allocation set aside from revenue	(400)
Share of total operating revenues for discretionary allocations	<u>1,449</u>
Available for allocation 2016/17	
Incremental revenue - as above	1,449
Redistribution of unspent administrative surplus	1,131
Surplus from 15/16 central contingency	1,112
Total available for allocations	3,692
<i>Proposed allocations</i>	
Prior commitments	676
Risk areas	31
Strategic investments	
Teaching and learning excellence	394
Research excellence	185
Student engagement	505
Campus innovation	626
Community engagement	94
Other strategic investments	200
Total strategic	<u>2,003</u>
Maintaining Core Services	982
Total allocations	3,692
<i>Net of revenues and allocations (balanced)</i>	0



5. UBC Excellence Fund

UBC is a globally recognized centre of research and educational excellence, and our goal is to enhance this excellence through targeted strategic investments on both campuses. The Excellence Fund was established in February 2016 to support the University's ambition to become Canada's best university over the next decade.

The fund supports strategic initiatives that will enhance and amplify current efforts in key areas, to ensure UBC is:

- a) Recruiting and retaining exemplary faculty members, students and staff
- b) Building and supporting world class research infrastructure to enable innovative, cutting-edge research
- c) Providing an excellent student learning experience for domestic and international students, at the graduate and undergraduate levels, both inside and outside the classroom

The key principles underlying the allocation of the funds are:

Excellence - funds must support UBC's goal of being Canada's pre-eminent university

Sustainability - funds may not be invested in permanently recurring expenditures

Strategic nimbleness - the allocation process will recognize the need to capitalize on new opportunities and changing circumstances

Effectiveness - funds may be used to leverage additional funding - for example, donations or grants that require matching funds

Openness - members of the academic community will be invited to attend forums to provide advice to the Provosts on strategic uses of the funds and prioritization of initiatives

Accountability - metrics will be developed to measure the impact and outcomes of all allocations

Transparency - the Provosts will report annually to the University community and especially to the Board of Governors and Senate Budget Committees on the impact and outcomes of the funds.

The anticipated funding envelope for FY 16/17 for both campuses is \$6m and will increase to approximately \$35m by FY 18/19. The funds will be protected within the University budget and the allocations proposed from the funds will be presented to the Board of Governors annually, as part of the budget approval process. Some funding may not be allocated, to capitalize on opportunities as they arise, in keeping with the principle of nimbleness. This latter category of funding will not exceed \$2.5m in Years 1 and 2, and will be re-specified in Year 3 (18/19) when evaluation data are available.

The investments from this fund will enable the University to leverage its existing intellectual and fiscal strengths. Combining these strengths with its inspiring locations, UBC has the potential to become the preeminent university in the country. Planning discussions were held on both campuses and included academic leaders, faculty members and students.

The nature of academic hiring and student recruitment means that expenditures must be planned more than a year ahead. For example, for graduate student recruitment, financial aid for students who would begin studies (and draw down funding) in September 2017 must be offered in December 2016/January 2017. Similarly, for faculty members who would take a position in July 2017, advertising would begin in August 2016. This structure constrains our allocations for 2016/17 and also implies that we must approve many of the funding allocations for fiscal 2017/8 in the summer of 2017. That said, the funding ramps up sharply over the next 3 years so that the constraint is less binding than otherwise.



Recruiting and retaining exemplary faculty members, students and staff

Student recruitment: A major determinant of the student's experience is their peer group, and UBC aspires to attract the very best students from across Canada. We have not marketed the UBC experience aggressively, nor prioritized efforts to recruit and support diverse students from within BC. We will expand our marketing efforts across the country. We will also build capacity for recruiting exceptional students through (a) offering research assistantships to outstanding applicants and (b) supporting a 'scholars community' that, as with our international scholars community, provides both (needs-based) financial support and a community home for these scholars.

Allocation: \$0.5m

Student retention: Provide resources for enhancing student wellbeing, including (a) planning and consultation to implement the commitments in the Okanagan Charter, an international charter for health promoting universities and colleges and (b) development of resources that are available on an on-going basis. The planning process will identify areas for investment over the subsequent years. **Allocation: \$0.4m**

Faculty recruitment and retention: Funds will be reserved to enable the Provost to support Faculties that have exceptional hiring opportunities. In addition, it is critical that we provide recognition and support to our very best researchers, in order to retain them. We propose to use a small amount of the Excellence Fund to support Distinguished Scholar awards, at both the early career level and for established researchers. **Allocation: \$2.4m**

Building and supporting world-class research infrastructure

Research clusters: The research action plan developed by the VP Research identifies support for research clusters as the major initiative for the campus. Our goal is to support clusters at a range of levels of development – with Tier 1 clusters being those that are world-leading, while others are close and have the potential to reach that status with targeted investments, while yet others show promise, are nationally ranked, and must be supported to produce the next generation of leaders.

Through the (externally validated) search for a CFREF applicant, Tier 1 and 2 clusters in the STEM disciplines have been identified. The VP Research will initiate a similar process for non-STEM disciplines this summer.

- Tier 1 clusters – these are the areas that have received significant federal funds or international sponsorship and for which matching funds are required. The Stewart Blusson Quantum Matter Institute, which has strategically assembled a strong cluster of research scientists, is in the forefront here and we have committed to hire four faculty members as well as to provide infrastructure support.
- Tier 2 clusters – these are internationally recognized research areas that require significant support to scaffold their success as a Tier 1 cluster.
- Tier 3 clusters – support for research groups getting under way (e.g. Indigenous Research Support unit; Water research)

Allocation: \$2.0m

Providing an excellent student learning experience

Support for experiential learning: Funding will be available for undergraduate programs to support experiential learning opportunities in the form of capstone seminars. Many of these opportunities will involve working with UBC community relations and facilities such as the Bamfield Marine Sciences Centre. We will also build resources for students to navigate the currently available opportunities, and to understand how their experiences at UBC have developed their ability to succeed in their post-undergraduate academic or employment careers. **Allocation: \$0.5m**

6. Faculties and Departments

The following tables show the 16/17 projected funding and expenses by unit, including both allocations from the government grant and tuition, as well as revenues generated directly by Faculties and central support units.

Vancouver Faculties

UBC Vancouver (In \$ Thousands)	Funding Allocations	Unit Revenues	Total Funding	Total Expenses	Total Interfunds	Reserve (drawdowns)/ additions
Faculties	625,131	173,902	799,034	797,236	(6,939)	(5,141)
Faculty of Applied Sciences	72,269	4,196	76,465	73,622	(4,800)	(1,957)
Faculty of Arts	137,928	7,148	145,076	144,559	(481)	37
Sauder School of Business	52,701	24,393	77,094	73,507	(1,550)	2,036
Faculty of Dentistry	11,927	18,450	30,377	29,435	-	942
Faculty of Education	42,528	3,081	45,609	46,573	-	(964)
Faculty of Forestry	14,310	4,270	18,580	18,217	(615)	(252)
Graduate & Postdoctoral Studies	2,362	1,291	3,652	3,839	-	(187)
Faculty of Land & Food Systems	13,212	3,975	17,187	16,471	(195)	521
Peter A. Allard School of Law	12,859	988	13,848	14,615	-	(767)
Faculty of Medicine	140,391	92,367	232,758	240,718	2,466	(5,494)
Faculty of Pharmaceutical Sciences	16,723	2,224	18,947	19,346	631	231
Faculty of Science	107,922	11,521	119,442	116,333	(2,395)	714

Faculty budgets remain constrained; the overall financial position is projected to improve in FY 16/17. This is largely the result of the growth in undergraduate international student enrolment and tuition rate increases of approximately 15% for international undergraduate students entering UBC in 2016/17. Additionally, opportunities related to the development of professional programs and enhanced summer programming have allowed many Faculties to grow and diversify their revenue base. The Province's funding of mandated general wage increases has also provided an important lift and is greatly appreciated.

Faculties are continually examining their cost structures by finding more effective ways to deliver their core academic programs while enhancing the quality of teaching, research and student support. For example, the Faculties of Medicine and Education have undergone intensive reviews of their academic and non-academic programs and found opportunities that have considerably improved their budget outlook without compromising quality.

However, these and other professional Faculties (Law, Pharmaceutical Sciences and Dentistry) are constrained because of their inability to enroll international students and, in the cases of Law and Medicine, tuition fees are considerably below market. This complicates the path forward for those Faculties, as they do not have the revenue opportunities to offset the annual costs of merit and career progression that our direct-entry Faculties have.

A number of Faculties are utilizing carry-forward reserves to cover projected operating deficits in 2016/17.

Student Financial Aid

Student Financial Aid						
UBC Vancouver (In \$ Thousands)	Funding Allocations	Unit Revenues	Total Funding	Total Expenses	Total Interfunds	Reserve (drawdowns)/ additions
Student Financial Aid	65,096	-	65,096	66,516	-	(1,420)
SFA Graduate	21,937	-	21,937	22,295	-	(358)
SFA Undergraduate Domestic	17,131	-	17,131	17,138	-	(7)
SFA Undergraduate International	14,590	-	14,590	14,823	-	(233)
Workstudy, Go Global - SFA, Int. Tuition Aw	11,437	-	11,437	12,259	-	(822)

Student financial aid for both domestic and international undergraduate students is allocated formulaically to increase in line with tuition revenues. Graduate financial aid is currently under review, although discretionary increases have been allocated in the 2016/17 budget. The Work Study program is also currently under review and has been allocated increased funding in 2016/17; this program pays part of the salaries of students employed by ancillary and other units on campus. The drawdowns in 2016/17 represent the use of reserves.

Central Support Units (including ancillaries)

UBC Vancouver (In \$ Thousands)	Funding Allocation	Unit Revenues	Total Funding	Total Expenses	Total Interfunds	Reserve (drawdown)
Total Central Support Units (including ancillaries)	381,592	363,438	745,030	766,131	4,462	(16,639)
Provost and VP Academic	125,970	66,301	192,271	203,709	7,363	(4,075)
Library	39,363	1,564	40,928	41,489	-	(561)
Information Technology	43,121	31,746	74,867	82,391	7,524	-
Continuing Studies	90	19,719	19,808	20,076	-	(268)
Enrolment Services	10,844	307	11,151	11,188	-	(36)
International Student Initiative	7,524	-	7,524	7,511	-	13
Vantage College	-	9,400	9,400	10,400	-	(1,000)
Centre for Teaching, Learning & Technology	7,472	793	8,265	8,692	-	(427)
Other units	17,556	2,772	20,328	21,963	(161)	(1,796)
VP Students	25,774	225,517	251,290	257,690	(2)	(6,401)
Athletics & Recreation Units	2,027	26,950	28,977	29,105	129	2
Housing & Hospitality Services	734	156,639	157,373	162,695	(189)	(5,511)
Student Development & Services	15,108	4,295	19,403	20,110	58	(649)
Other VP Students Units	1,506	-	1,506	1,606	-	(100)
University Community Services	6,398	37,633	44,032	44,175	-	(143)
Resources & Operations	87,555	41,460	129,015	130,313	50	(1,248)
Energy and Water	26,613	29,299	55,912	56,449	-	(537)
Building and Infrastructure Services	60,942	12,161	73,103	73,864	50	(712)
Office of the President and associated units	7,419	63	7,481	7,628	-	(147)
VP Finance	23,589	1,851	25,440	26,953	189	(1,324)
VP Development and Alumni Engagement	24,853	118	24,971	26,358	-	(1,387)
VP External Relations	13,767	1,987	15,754	17,700	-	(1,947)
VP Research & International	22,681	19,297	41,978	39,518	(3,138)	(678)
VP Human Resources	10,708	6,766	17,474	17,599	-	(125)
Campus Wide Expenses	39,278	78	39,356	38,663	-	693



Central support units receive 36% of the allocation of operating funds (\$382m), and generate an additional \$363m in revenues from their individual operations. This revenue is mostly driven by ancillary services, including Housing and Hospitality Services and Athletics and Recreation.

The central units have undergone a significant review of their operations in the past year to identify cost savings that can be applied to University priorities. Approximately \$7m of these savings have been applied this year.

Drawdowns in the central support units are expected to total \$17m during the year, as units plan to utilize a portion of their accumulated surpluses. These are committed to one-time items and do not reflect ongoing commitments.

The VP Academic office plans to use a portion of their surplus funds to support bridge funding for new faculty hires. As well, Vantage College, which is in the VP Academic portfolio, is projecting a shortfall during the continuing start-up phase of its operation, and is projected to generate positive cash flows the following year.

The large amount identified in Housing and Hospitality Services (\$5.5m) relates to the use of cash expenditures to support their capital renewal program. SHHS has a robust annual capital renewal plan, which annually renews a component of their inventory. This year is higher than normal as they undergo a major capital investment in the renewal of Acadia Park tower.

Summary

UBC Vancouver (In \$ Thousands)	Funding Allocations	Unit Revenues	Total Funding	Total Expenses	Total Interfunds	Reserve (drawdowns) /additions
Faculties	625,131	173,902	799,034	797,236	(6,939)	(5,141)
Student Financial Aid	65,096	-	65,096	66,516	-	(1,420)
Central support units (including ancillaries)	381,592	363,438	745,030	766,131	4,462	(16,639)
Total UBC Vancouver	1,071,819	537,341	1,609,160	1,629,882	(2,477)	(23,200)

Of the funding allocations made for the 2016/17 Budget, 58% have been made to Faculties, 6% to student financial aid, and 36% to central support units.

Total reserve drawdowns for the Vancouver campus are \$23m. Aside from the Faculties, almost all of the drawdowns represent the use of opening surpluses set aside for capital projects. This position has been reviewed as part of the budget process to ensure all drawdowns are affordable within the limits of the Consolidated Budget of the University.



Okanagan Faculties/School/College

UBC Okanagan (In \$ Thousands)	Funding Allocations	Unit Revenues	Total Funding	Total Expenses	Total Interfunds	Reserve (drawdowns)/ additions
Faculties/School/College	65,406	747	66,153	65,789	(1,201)	(838)
Arts and Sciences	26,873	166	27,039	26,688	(364)	(13)
Applied Science	9,607	289	9,896	9,675	(363)	(141)
Creative and Critical Studies	9,362	66	9,428	9,485	(50)	(106)
Education	3,261	70	3,331	3,471	(15)	(155)
Graduate Studies	811	-	811	705	-	107
Health and Social Development	10,970	135	11,105	11,345	(378)	(617)
Management	4,522	20	4,542	4,421	(31)	89

The Okanagan financial position is generally stable. The Irving K. Barber School of Arts and Sciences, the Faculty of Creative and Critical Studies, and the Faculty of Health and Social Development are planning for modest growth of about 2% when compared with the prior year. The School of Engineering is projecting an increase in tuition revenue of 11% over the prior year, and 47% over the past five years, based on continued strong enrolment growth in many of its programs. International enrolment and Vantage College represent 69% of this five-year increase in Engineering. The Faculty of Management is expecting a slight decrease of about 2%, year over year. However, this decline follows four previous years of increases, which totals a 26% increase over this period.

The Faculty of Education is undergoing a significant change in the format of its Elementary Education Program, which has led to conservative enrolment estimates for the upcoming transition year. Over the past two fiscal years, the Faculty of Education has decreased its overall cost to reflect previous declines in its program enrolments. The recurring funding related to this decrease will be used to support areas of academic growth.

Consistent with the Vancouver campus, the deficits being budgeted for by the Okanagan Faculties, in the current year, represent the use of opening surpluses set aside for capital projects.

Central Support Units (including ancillaries)

UBC Okanagan (In \$ Thousands)	Funding Allocations	Unit Revenues	Total Funding	Total Expenses	Total Interfunds	Reserve (drawdowns)/ additions
Provost and Vice-Principal Academic	11,668	440	12,108	10,806	(686)	615
Vice-Principal Research	2,815	247	3,062	2,859	(12)	190
Deputy Vice-Chancellor and Principal	2,672	17	2,690	2,678	(12)	-
Finance and Operations	19,122	5,524	24,646	24,121	168	693
Students	5,849	2,526	8,376	8,513	-	(137)
Academic	130	(10)	120	110	-	10
Development and Alumni Engagement	1,636	4	1,640	1,640	-	-
Human Resources	1,207	9	1,216	1,216	-	-
Campus Wide Expenses	7,560	-	7,560	7,414	(2,056)	(1,911)
Total Central support units (including ancillaries)	52,659	8,757	61,416	59,357	(2,598)	(539)



Central support units have been experiencing increasing pressure due to recent constraints on government funding. The Students portfolio, Development and Alumni Engagement, and certain areas of the Provost, such as the Library, Enrolment Services, and the Centre for Teaching and Learning have had virtually no increases over the past three years. Staff merit increases and other cost escalations must be absorbed within current funding levels.

Student Financial Aid received a 4% increase over the prior year. Increasing demand placed on these funds, in recent years, has been putting pressure on the available funds.

The Excellence Fund for the Okanagan campus is contained within the Provost and Vice-Principal Academic budget.

The Vice-Principal Research area received an increase in budget for the upcoming year reflecting enhanced capacity to support research, including the hiring of the new Associate Vice-President Research & Vice-Principal Research.

Summary

UBC Okanagan (In \$ Thousands)	Funding Allocations	Unit Revenues	Total Funding	Total Expenses	Total Interfunds	Reserve (drawdowns)/ additions
Faculties	65,406	747	66,153	65,789	(1,201)	(838)
Student Financial Aid	7,590	-	7,590	8,193	(130)	(734)
Central support units (including ancillaries)	52,659	8,757	61,416	59,357	(2,598)	(539)
Total UBC Okanagan	125,655	9,504	135,159	133,340	(3,929)	(2,110)

The Okanagan Academic Leadership held a Strategic Budget Retreat in the fall of 2015. Key themes arose from that meeting that will be used in future planning and budgeting processes to help ensure that the resources available are deployed to priority activities. Some of the key themes included strategic hiring of research faculty, effective space management and planning as well as increased domestic and international student recruitment.



7. Consolidated Financial Budget and Liquidity

The Consolidated Statement of Operations (by function) and the Consolidated Statement of Net Debt require formal Board approval because these components are required for inclusion in the financial statements under Public Sector Accounting Board guidelines (see Section 16). The Consolidated Statement of Operations (by object) and Consolidated Statement of Financial position are provided below for information only.

CONSOLIDATED STATEMENT OF OPERATIONS (By Object)				
(In \$ Millions)				
Consolidated Total				
	Forecast	Budget	Variance	
	2015/16	2016/17		
Revenues				
Government grants and contracts				
Government of Canada	\$ 331	335		4
Province of British Columbia	757	766		9
Other governments	20	20		-
Other contributions	119	120		1
Student fees	564	613		49
Investment income	67	61		(6)
Income from Gov't Business Enterprises	-	-		-
Sales and services	316	339		23
Amortization of deferred capital contributions	81	80		(1)
	<u>\$ 2,255</u>	<u>2,334</u>		<u>79</u>
Expenses				
Salaries & benefits	\$ 1,193	1,238		45
Operating costs - other	586	614		28
Capital asset amortization	188	197		9
Cost of goods sold	36	40		4
Grants to third parties	205	211		6
Debt service costs	19	19		-
	<u>2,227</u>	<u>2,319</u>		<u>92</u>
Annual surplus from operations	<u>\$ 28</u>	<u>15</u>		<u>(13)</u>

The consolidated statement of operations reflects a 16/17 surplus of \$15m. This is an accounting surplus only and does not reflect funds available for spending. The components are as follows:

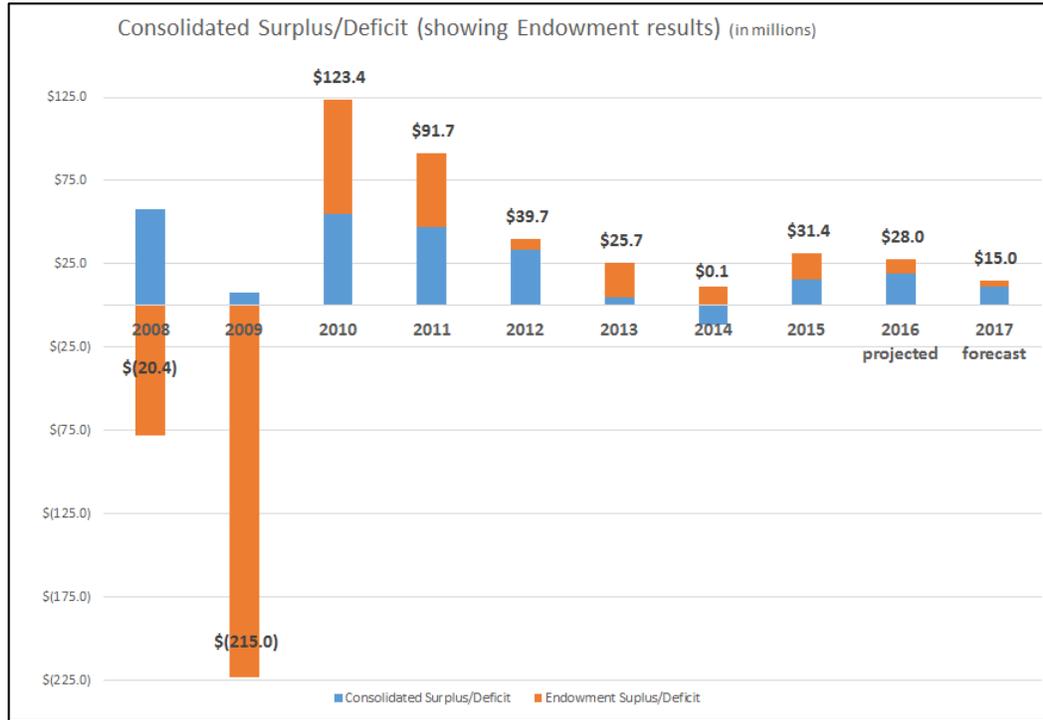


Income Statement Analysis <i>(In \$ Millions)</i>	2016/17
Reserve drawdowns	(25)
Non-cash expenses	3
Deferred land sales	7
Endowment surplus	8
Net investment in capital	<u>22</u>
Surplus	<u><u>15</u></u>

- Reserve drawdowns, apart from certain Faculties which are in a structural deficit, represent spending by units from reserves on capital projects
- Non-cash expenses are budgetary items that require a funding allocation but do not result in an expense in the consolidated financial statements
- Endowment surplus \$8m. This represents amounts that will never be spent, but are added to the principal of endowments to ensure that the spending allocation increases in future years to keep up with inflation
- Deferred land lease income \$7m. Proceeds from leasing land for development is allocated to the endowment as it is received, and the revenue is recognized in the Statement of Operations over the period of the lease, 99 years
- Surplus from net investment in capital: when UBC acquires tangible assets, this spending appears as a surplus in the Statement of Operations in the year of acquisition (although the cash is spent), and the expense flows through as depreciation in subsequent years. The breakdown is as follows:

<i>(In \$ Millions)</i>	2016/17 Budget
Capital additions from operations	109
Internal loan principal repayments	31
Depreciation	(198)
Amortization of deferred capital contributions	<u>80</u>
Net depreciation	<u>(118)</u>
Net investment in capital	<u><u>22</u></u>

Over the past 8 years UBC has reported consolidated results as follows:



Results reported in 2008 and 2009 reflect losses on our endowment investments. During the following years, the endowment made strong recoveries resulting in consolidated surpluses. By 2014, they had largely fully recovered and most endowment gains were being deferred.

Accounting standards require UBC to record endowment returns as income until the point the endowment reaches the amount of the original contribution. Any additional gains, above the level of the original contribution, are recorded as deferred endowment contributions on the statement of financial position.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

Presented in Classified Statement of Financial Position Format

(In \$ Millions)

	Forecast	Budget
	Mar 31, 2016	Mar 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 121	\$ 156
Accounts receivable	158	185
Short term operating investments	32	29
Short term expendable endowment investments	64	58
Inventories for resale	7	7
Inventories held for use	3	3
Prepaid expenses	8	8
	392	446
Non-Current Assets		
Long term receivables	17	21
Long term operating investments	166	151
Long term expendable endowment investments	572	523
Endowment investments (original contribution)	868	888
Investments in government business enterprises	2	-
Capital assets	3,165	3,319
	4,790	4,902
TOTAL ASSETS	5,182	5,348
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current accounts payable and accrued liabilities	247	251
Current portion of debt	8	8
	255	259
Non-Current Liabilities		
Employee future benefits	12	12
Deferred other restricted contributions	195	290
Debt	354	350
	560	652
Total Liabilities	815	910
Net Assets		
Accumulated surplus	1,731	1,776
Deferred capital contributions	1,451	1,454
Deferred land lease revenue	549	626
Deferred endowment contributions	636	581
	4,367	4,438
TOTAL LIABILITIES AND NET ASSETS	5,182	5,348



Liquidity

The University requires approval from the Ministers of Advanced Education and 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.

UBC Treasury regularly provides a liquidity update to the Board of Governors. The presentation includes a projection of liquidity to the August low point, which is significantly lower than the March 31 projection. Liquidity is defined as cash and short-term investments, including:

1. Cash at bank (HSBC)
2. Short term investments managed by UBC Treasury
3. Funds on deposit with the Province of BC Central Deposit Program
4. Callable UBC Properties Trust loans
5. Core working capital invested by IMANT

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

Liquidity to financial statement reconciliation

The reconciliation between the Financial Statements and the available liquidity includes restricted funds, liquidity provided to UBC Properties Trust, and illiquid investments. In the last published financial statements, as at March 31, 2015, available liquidity (before the line of credit) was \$379m. The financial statements include “cash and cash equivalents” and “operating investments,” which totaled \$415m as at March 31, 2015.

Cash and Investment Reconciliation	
March 31 2015	
<i>(In \$ Millions)</i>	
Cash and investments per Treasury	
Cash at bank	15
Short term operating investments	10
Central deposit program	27
UBC Properties Trust loans	25
Core working capital (IMANT)	301
Total liquidity at March 31 per Treasury	379
Adjustments	
Restricted funds	11
UBC Properties Trust liquidity	20
Illiquid holdings	5
	37
Total	415
Per financial statements	
Cash and cash equivalents	80
Operating investments	335
Total	415



Sources of financing

There are three sources of internal financing currently available to the University: working capital, the Student Housing Financing Endowment (SHFE), and investment from the endowment. Working capital is composed of Faculty, department and central reserves, and research monies and funds on hand that result from a delay from receipt to disbursement. In 2011, the Board of Governors established an endowment called the Student Housing Financing Endowment (SHFE) to deposit net land proceeds generated by the University through UBC Properties Trust (UBCPT). SHFE is currently financing the expansion of the University's student housing. It is expected that the land proceeds will flow into SHFE until all student housing needs are financed or until another source of financing is available. In May 2014, the UBC Board of Governors approved a \$100m investment from the endowment into the Orchard Commons student housing project. Construction costs are currently funded from working capital and when construction is completed in summer 2016, the liquidity will be replenished from the Endowment. UBC has provided UBC Properties Trust with a revolving loan of \$20m to enable efficient cash management in the Trust. This is expected to continue for at least the next several years.

Projected liquidity

Projected liquidity for 2016/17 is higher than originally anticipated due to slower spending on capital projects, additional unanticipated funds from the Province for deferred maintenance that will be spent in the coming year, and an increase in liquidity available from UBC Properties Trust. The external financing of \$60m of the AMS's portion of the Nest (Student Union Building) and borrowing approval from the Province would improve liquidity.

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. Year to date, \$56m was received in US dollars and \$40 million was paid out. During the year, UBC Treasury sold \$12 million of US funds and US cash increased by \$4 million. The majority of US funds received are from research grants and donations. The Library is the largest payer of US funds, but researchers also purchase equipment in US funds on a fairly regular basis. Of the 6,000 US dollar payments that have been made year to date, only 77 were greater than \$100,000. Treasury provides a foreign exchange hedging service (all currencies), but decisions are made at the Faculty or department level. Year to date, Treasury has arranged \$11.6 million of forward currency contracts (\$4.6 million for the Library), all in US dollars.



8. Capital Expenditure

The University makes significant on-going capital investments to support its learning and research mission, and to create an outstanding student experience.

These capital investments are broken into the following main categories:

- Buildings and property
- Information technology
- Research equipment
- Library, museum and gallery collections

Capital Expenditure for 2016/17 is budgeted as follows:

Capital Expenditure (In \$ Millions)	2014/15 Actual	2015/16 Forecast	2016/17 Budget
Building and property			
Major buildings	182	259	180
Routine capital	17	31	59
Infrastructure Impact Charges	11	13	8
Student housing	19	22	18
	229	325	265
Information technology services			
Major projects	19	19	16
Lifecycle	7	7	8
	26	26	24
Research	40	39	28
Faculties and central units	57	36	33
Library	17	17	17
Total capital expenditure	369	443	367

Buildings and Property

The majority of buildings and property capital expenditure is under the management and control of Infrastructure Development, with additional capital expenditures overseen by Student Housing & Hospitality Services and by Athletics & Recreation. Faculties and administrative departments also commission other buildings projects, normally of a minor nature. The design and construction of all buildings and property projects is project managed by either UBC Properties Trust or UBC Project Services (Infrastructure Development).

Projects are organized according to type, scope and required approval level:

- Major buildings - new building or major renewal projects greater than \$2.5m, approved by the Board of Governors
- Routine capital - core maintenance projects funded in part by the Ministry of Advanced Education, projects typically less than or equal to \$2.5m, program approved by the Board of Governors
- Infrastructure Impact Charge (IIC) and Community Amenity Charge (CAC) Program - utility, public and community infrastructure projects funded through charges on campus development, program approved by the Board of Governors
- Department-funded capital - renovation and upgrade projects less than or equal to \$2.5m commissioned and funded by faculties and administrative departments. This work is recorded under "Faculties and central units."



Major Buildings

In 2015/16, eight major building projects were completed including the New Student Union Building (the “Nest”), Robert H. Lee Alumni Centre, Library Preservation and Archives (PARC), Engineering Student Centre, Bentley Family Dining Hall at Loon Lake Lodge and Retreat Centre (Maple Ridge), Baseball Indoor Training Centre, Dairy Education and Research Centre Student Residence Building (Agassiz), and Iona Building acquisition and renovation for the Vancouver School of Economics.

There are currently 15 major building projects in design or construction and for which capital expenditures will be incurred in 2016/17. These include:

- Ponderosa Commons Phase 2 (\$77m, partially occupied, Jun 2016 final completion)
- Academic District Energy System - Steam to Hot Water Conversion (\$88m, Jun 2016 final completion)
- Orchard Commons - Vantage College (\$128m, July 2016)
- Henry Angus Building Seismic Upgrades (\$4m, Sep 2016)
- Stewart Blusson Quantum Matter Institute (\$30m, Oct 2016)
- New Aquatic Centre (\$40m, Nov 2016)
- National Soccer Development Centre - UBC Athletics/Vancouver Whitecaps (\$27m, Feb 2017)
- Museum of Anthropology | Northwest Coast Masterworks Gallery (\$5m, Jun 2017)
- Brock Commons Student Residence (\$52m, Aug 2017)
- Totem Park Residence Infill Phase 2 (\$30m, Aug 2017)
- Sports Medicine Centre - Chan Gunn Pavilion (\$11m, Sep 2017)
- Indian Residential School History & Dialogue Centre (\$6m, Jul 2018)
- Undergraduate Life Sciences Teaching Labs (\$80m, Jul 2018)
- UBC Bus Exchange (\$22m, Nov 2018)
- Gage South Student Residence (\$77m, Aug 2019)

These projects provide renewed or expanded infrastructure to address the following needs:

- Academic program changes and enrolment growth
- Research activity and grant awards
- Student housing demand
- Deferred maintenance and seismic upgrade requirements to ensure safe and reliable facilities
- Transportation and utility infrastructure capacity requirements

Further details on major building projects are provided in the Capital Projects Update report, which is included in the docket for each meeting of the Board of Governors.

Routine Capital - Core Building Maintenance

The Ministry of Advanced Education (AVED) has advised UBC that increased Routine Capital funding will be provided over the next 3 fiscal years to address much needed capital maintenance in campus buildings. Amounts indicated are \$40m in 2016/17 followed by \$42m in 2017/18 and \$60m in 2018/19. AVED has specified that these funds are to be directed toward the reduction of deferred maintenance in core academic facilities and that the overall package of projects in each year must be cost-shared between AVED and UBC on a 75%/25% basis.

Infrastructure Development has prepared a plan in consultation with stakeholders including Building Operations, Energy & Water Services, Risk Management Services and individual faculties. Specific projects have been identified based on facility condition assessment and input from department administrators on building user priorities.

The plan for the first fiscal year (2016/17) consists of projects that address a broad range of campus needs. The work will focus on two areas: 1) projects that have a reduced level of disruption, reflecting the shorter than normal



planning phase and 2) development of swing space to allow for more comprehensive projects in the subsequent two fiscal years.

The first category includes campus wide maintenance and rehabilitation projects consisting of roof and envelope repairs, elevator retrofits, electrical infrastructure projects, fire and life safety system retrofits and minor interior refit projects, such as flooring replacements and washroom refurbishments. Individual projects in this category will cost less than the \$2.5m Board approval threshold.

Example projects in this category for 2016/17 include:

- Scarfe Complex roof replacement \$705k
- Koerner Library fire alarm renewal \$513k
- Chan Centre chiller renewal \$441k
- School of Population and Public Health elevator renewal \$645k
- Mathematics and Mathematics Annex washroom refurbishment \$500k

The second category will focus on the development of swing space at Old SUB to enable future, whole-building renewal projects that will address the full range of deferred maintenance items in targeted buildings. The first of these buildings, starting in 2017/18, will be the Hebb Building. The Hebb teaching spaces will need swing space to allow for the renewal of the building. The best identified option for that swing space is the second floor of the Old SUB.

Renewal of the building systems in Old SUB to facilitate swing space use will reduce the backlog of deferred maintenance. Addressing the significant deferred maintenance and seismic risk in the Hebb Building will improve the safety, extend the useful life, and improve the system reliability of this core academic building.

These swing space and whole building renewal projects are larger in scope and will fall above the \$2.5m threshold. The Old SUB swing space project, for example, is estimated at approximately \$20m. Given the necessity to plan and execute these projects in very tight timelines it is proposed that they be approved by the Board, as part of the annual University Budget approval process.

The following table provides a high level breakdown of the 2016/17 AVED-supported Routine Capital program for the UBC Vancouver and Okanagan campuses. AVED has allocated funding using a formula based on the amount of deferred maintenance at each campus.

2016/17 Routine Capital Projects (\$m) – Vancouver Campus	AVED 75%	UBC 25%	TOTAL
Major Maintenance & Rehabilitation Projects	\$23.5	\$7.8	\$31.3
Old SUB Building Renewal to Develop Swing Space	15.0	5.0	20.0
Design for 2017/18 and 2018/19 Routine Capital Projects	1.5	0.5	2.0
Routine Capital Total	\$40.0	\$13.3	\$53.3
Additional Routine Capital Work not Eligible for AVED Funding		\$4.3	\$4.3
Grand Total - Vancouver Campus	\$40.0	\$17.6	\$57.6

2016/17 Routine Capital Projects (\$m) – Okanagan Campus	AVED 75%	UBC 25%	TOTAL
Major Maintenance & Rehabilitation Projects	\$0.2	\$0.1	\$0.3
Additional Routine Capital Work		0.9	0.9
Grand Total - Okanagan Campus	\$0.2	\$1.0	\$1.2

2016/17 Routine Capital Projects (\$m) UBC Total	AVED 75%	UBC 25%	TOTAL
Grand Total - UBC	\$40.2	\$18.6	\$58.8



The UBC matching funding is available from existing sources identified in the operating budget. UBC Vancouver matching funding of \$13m for 2016/17 consists of the following existing operating budget allocations: \$10m capital maintenance, \$2m classroom upgrades, and \$930k seismic upgrades. The classroom upgrade and seismic upgrade work will be undertaken as part of the routine capital plan. The \$4m for additional work on the UBC Vancouver campus not eligible for AVED-funding will be internally financed and repaid from the operating budget. UBC Okanagan total capital funding will continue at \$1m as in previous years.

The above strategy has been reviewed and endorsed by the UBC Executive. Board approval is requested for the Routine Capital - Core Building Maintenance Plan as part of the 2016/17 University Budget approval.

Student Housing

Upgrade, Renovation and Asset Replacement Plan, 2012 - 2017 (\$m)

Capital Maintenance	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Cyclical Renovations	\$7.7	\$13.7	\$17.0	\$15.0	\$10.3	\$12.3
Building Refurbishments	-	-	-	3.7	11.3	6.1
Total	\$7.7	\$13.7	\$17.0	\$18.7	\$21.6	\$18.4

Student Housing & Hospitality Services (SHHS) continues to invest in the older existing housing stock to meet the needs of today's students and to prudently manage the assets. Normal cyclical renovations averaging \$12.7M annually can involve some combination of mechanical, electrical, plumbing, bathroom, building envelope, and life system or suite upgrades to modernize existing student housing facilities. Cyclical renovations with costs above \$1M include:

- 2011-12: Walter Gage Commonsblock renovation and East Tower electrical, plumbing, and elevators for \$6m
- 2012-13: Totem Park phase 1 of house renovation for \$6m. Walter Gage studios and roof for \$3m
- 2013-14: Totem Park phase 2 of house renovation for \$5m. Ritsumeikan-UBC house envelope, window and roof replacement for \$5m. University Apartments envelope and window replacement for \$3m
- 2014-15: Totem Park 3rd and final phase of house renovation for \$6m
- 2015-16: Acadia Park townhouse renovation phase 2 for \$3m
- 2016-17: Thunderbird residence refurbishment of all blocks for \$4m

To address the significant demand for on-campus housing at UBC Vancouver, SHHS initiated 5-year growth plans in 2010 and 2015. These combined growth plans span a 10-year period and will see the construction of over 4,000 new student bed spaces. As the housing inventory grows so will the requirement for increased annual capital investment in cyclical maintenance.

Information Technology

The Major Systems Project line item represents UBC's capital investments in systems either to create new capabilities or upgrade existing systems to extend useful life. The major cost items over the period are: a) the program of activity to replace the Student Information System (SIS) and b) planning and improvements to the University's administrative systems (i.e. accounting and HR system). To date, under the auspices of the Student Academic System Initiative (SASI), two systems have been implemented to support graduate admissions, as well as a Student Information System for non-degree credit programs. The SASI program is estimated to require an envelope of \$100m, with the exact timing of costs incurred to be adjusted as the procurement process completes, and the implementation plan is finalized, prior to Board 3 approval. While changes in approach have occurred over the past year and procurement activity is extended to a competitive process, the funding envelope is unchanged.



In fiscal year 14/15, business analytics capability was implemented, as well as activities related to planning and enhancing administrative systems. The 16/17 fiscal year system enhancements include the student system replacement, as well as an undergraduate student recruitment oriented Customer Relationship Management (CRM) system, and substantial facilities improvements in the University Data Centre. Planning for the eventual replacement of the Learning Management System as well as a data analytics initiative will also be undertaken in the coming budget year.

Research

Research projects contain a wide range of capital expenditure commitments, primarily related to major and minor equipment needs, and also IT equipment and software. Some major projects include building adaptations/renovations. Further explanation of Research is contained in the following section (Section 9).

Faculties and central units

The operating budgets of Faculties and central support units contain a wide variety of capital expenditure, including equipment, IT, and building renovations.

Library

The Library collections are integral to the past and future success of UBC, and underpin the academic mission of world-leading learning, teaching and research. Because the majority of the University's collections are purchased in US currency, recent Canadian currency depreciation has placed pressure on the Library's ability to maintain its collection acquisition levels. Consequently, an additional \$2m has been allocated to maintain the current collection.



9. 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 each principal investigator's research activities in his/her area of expertise. The Sponsored Research Fund also includes some unrestricted activities funded from internal sources. These activities are typically for startup purposes or represent residual balances from expired research projects, which are retained by the principal investigators.

We project a \$0.4m surplus in Research for 16/17. This includes revenues of \$429.4m and expenses of \$429m (including capital investments). There are over 10,000 active research projects as at February 2016 and approximately 75% of these projects are restricted in nature; the funds can only be used for the purposes noted by the granting agency. Restricted funds are only recognized as income when the funding received is spent in accordance with the restrictions imposed by the granting agency, so that revenues match expenditures for these awards. Since it can often take two or more years to complete a research project, accounting revenues reflected in our financial statements will lag behind the actual award date.

Further, research funds received specifically for the purpose of capital expenditures, such as from the Canada Foundation for Innovation, will not be taken into research income since these revenues are deferred as capital contributions to be matched against the future depreciation of the related asset purchased or constructed.

For these reasons, the research revenues reported in our consolidated statements will vary considerably from the amounts awarded to UBC during any given year.

Approximately 25% of the activities in the Sponsored Research Fund are not restricted in nature, such as start-up funds provided by the Faculty to support new faculty members. The related revenues and operating expenditures are recognized into income when incurred and therefore will have an immediate impact on the reported surplus each year. Changes in these activities may result in small variances in the reported surplus year over year.

For the purpose of our consolidated budget, we have estimated the future research surplus (deficit) based on prior year results.

STATEMENT OF OPERATIONS - RESEARCH FUND			
<i>(In \$Millions)</i>			
	Fiscal 14/15	Fiscal 15/16	Fiscal 16/17
	Actual	Forecast	Budget
Revenues			
Government grants and contracts	320	339	343
Non-government grants, contracts and donations	61	62	62
Sales and services	4	4	4
Interfund transfers	23	20	20
	<u>408</u>	<u>425</u>	<u>429</u>
Expenses			
Salaries & benefits	236	217	219
Operating costs - other	127	156	157
Grants and reimbursements to other agencies	37	37	37
	<u>400</u>	<u>410</u>	<u>414</u>
Investment in capital assets	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>
Net surplus (deficit)	<u>(7)</u>	<u>-</u>	<u>(0)</u>



Research success is best measured by the research awards received. For information purposes, below is a summary of research awards to be received and expected by the University.

<i>(In \$ Millions)</i>	Actual 14/15	Forecast 2015/16	Budget 2016/17
Government (Tri-Council)	194	198	204
Government (Other agencies)	142	134	141
Non-Profit	138	145	145
Industry	58	55	54
Total	531	532	544

The University is investing in capacity that helps the institution become more competitive. SPARC (Support Program to Advance Research Capacity) is an important unit that assists researchers with grant writing, internal peer reviews, and full proposal reviews. This support is already helping the University attract a larger share of available research funds.

The University is now applying SPARC support to all major award programs in order to increase UBC’s market share. Furthermore, the University is currently supporting Canada Foundation for Innovation fund applicants, as well as areas of research funding where we could perform more strongly, such as the US National Institutes of Health and Canadian Institutes of Health Research strategic funding. As the University supports researchers to apply for more funding opportunities, an improvement is expected in research funding, particularly in light of recent federal government commitments to the national funding agencies.

10. Endowment

The Endowment funds of the University consist of endowed gifts, bequests, donations, and land lease proceeds. Before 2012, land proceeds were directed to the TREK Endowment (an unrestricted endowment, held by IMANT, to support University priorities). Since 2012, land proceeds have been placed into the Student Housing Financing Endowment (SHFE) to invest in new student residences. Other gifts, including the Peter Wall Endowment, are not invested by IMANT.

Endowment Funds (In \$ Millions)	Total (including SHFE)		IMANT Invested Funds (excluding TREK)		Land Proceeds (TREK and SHFE)		Others	
	2015/16 Forecast	2016/17 Budget	2015/16 Forecast	2016/17 Budget	2015/16 Forecast	2016/17 Budget	2015/16 Forecast	2016/17 Budget
	Endowment capital							
Endowment principal	1,455	1,552	1,016	1,040	408	480	31	32
Stabilization balance	240	256	126	145	31	32	83	79
	<u>1,695</u>	<u>1,808</u>	<u>1,142</u>	<u>1,185</u>	<u>439</u>	<u>512</u>	<u>114</u>	<u>111</u>
Endowment spending								
Investment income	55	62	38	41	15	18	2	3
UBCPT rental distributions	5	6	0	0	5	6	0	0
Operating expenditures	(52)	(60)	(34)	(39)	(16)	(18)	(2)	(3)
Surplus/(Deficit)	<u>8</u>	<u>8</u>	<u>4</u>	<u>2</u>	<u>4</u>	<u>6</u>	<u>0</u>	<u>0</u>

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 a protection against future market downturns.

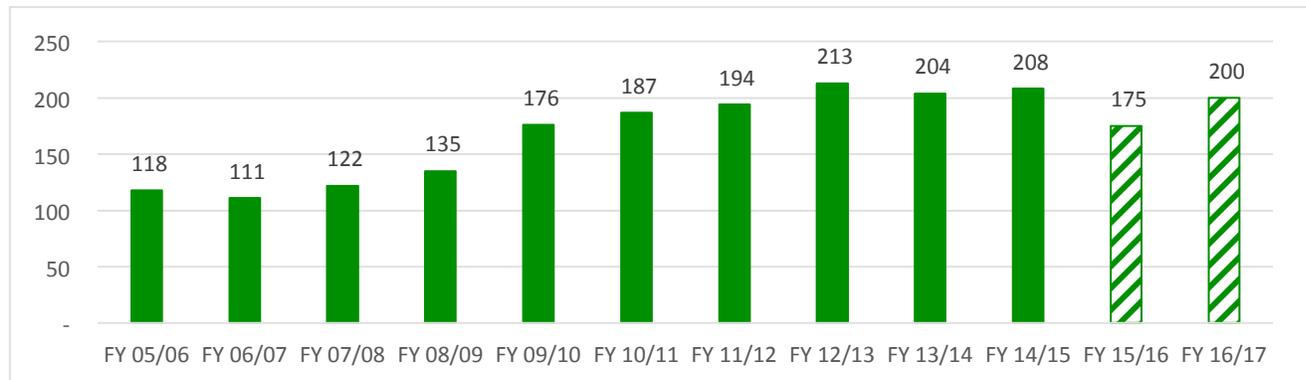
Investment Income includes only the realized returns and returns available for spending, which are included in the consolidated financial statements of the University. Consequently, this does not reflect any unrealized returns, which are retained for the purposes of maintaining the principal value of the endowment.

The land proceeds endowments show a total \$18m of expenditures. Of this total, \$14m has been designated to support debt servicing on various academic and student projects. A total of 17 projects have been supported with these funds, including the Irving K. Barber Learning Centre, the new student Nest building, Life Sciences Centre, and Allard Hall. An additional \$4m is being allocated as part of this budget process and is being included in this year's allocations. This includes incremental revenues available this year and revenues from 15/16, which were allocated on a one-time basis. These amounts have been allocated to research matching support (\$1m), student classroom upgrades (\$2m) as well as smaller amounts for e@UBC and research innovation.

11. Philanthropy

Over the course of the *start an evolution* campaign, which concluded in September 2015, UBC received more than 200,000 gifts and engaged more than 130,000 alumni. In addition to exceeding the goals of \$1.5 billion overall and the annual target of 50,000 engaged alumni, the campaign raised UBC to new levels of fundraising and alumni engagement, effectively doubling UBC’s achievement in these areas – and on a sustainable basis.

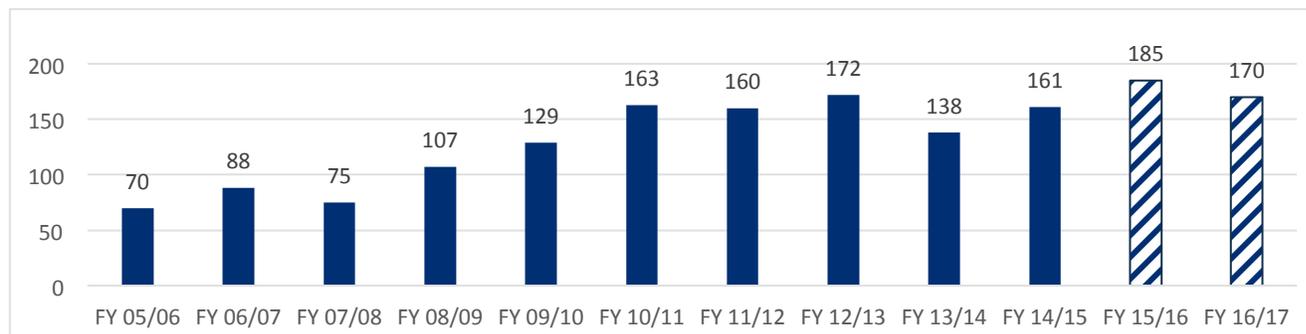
Funds Raised (\$millions)



Funds raised include outright gifts and commitments made to UBC with multi-year payment schedules that may extend beyond the current fiscal year:

- There are future payments totaling \$330 million scheduled
- UBC has a pledge fulfillment rate in excess of 98%

Funds Received (\$millions)

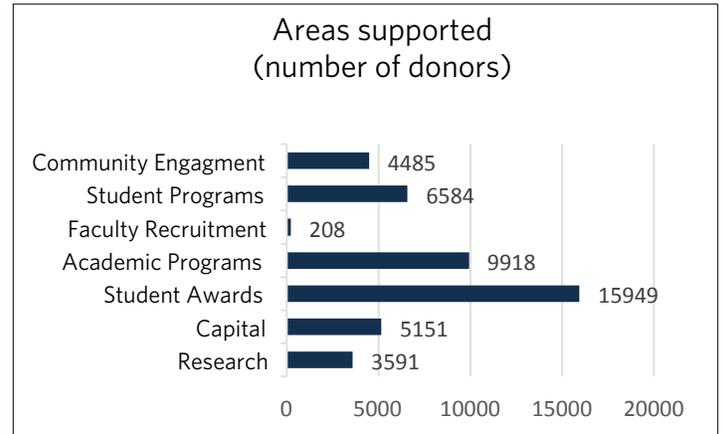
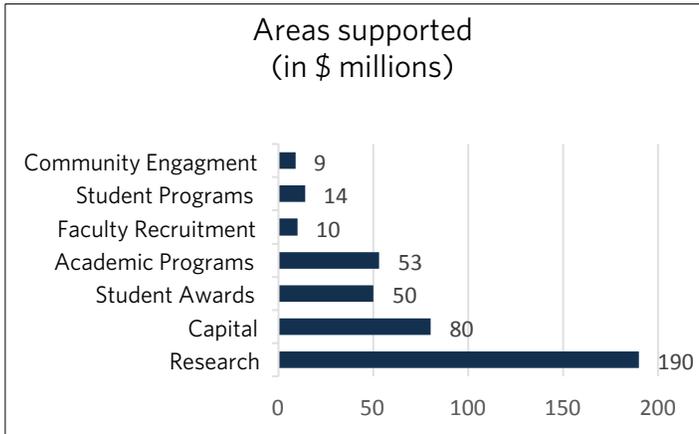


Funds received include payments from commitments made in previous years:

- Over the same period, philanthropic contributions to the endowment have exceeded \$220m and \$45m in contributions to the endowment is projected over the next two years FY16/17 and FY17/18.

In addition to funds raised and funds received, more than \$400 million of future estate gifts have been identified.

Areas Supported by Philanthropy FY13 - FY15



Philanthropic contributions do not directly appear as a separate item in the financial statements. The majority of donations are restricted in nature, so are reported on the balance sheet as deferred revenue. They are taken into income when spent to match the reported expense. Capital contributions are moved from deferred revenue to deferred capital contributions on the balance sheet when spent. Endowment contributions are added to endowment principal.

The following chart is an estimate of the cash receipts for 16/17 by areas of support:

Cash Receipts from Philanthropy

Projected cash receipts from Philanthropy
Fiscal 16/17
(In \$ Millions)

Area	Endowment	Non-Endowment	Total
Research	9	79	88
Capital	0	20	20
Student awards	4	19	23
Academic programs	3	16	19
Faculty recruitment	8	1	9
Student programs	0	7	7
Community engagement	0	4	4
Total projected cash receipts	24	146	170



12. Related Entities

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of organizations that are controlled by UBC. Controlled organizations are consolidated except for government business enterprises, which are accounted for by the modified equity method. Inter-organizational transactions, balances, and activities have been eliminated on consolidation. All related organizations are consolidated, other than for UBC Properties Trust (UBCPT) and Great Northern Way Campus Trust, which are reported using the modified equity method.

The organizations which are fully consolidated into the financial statements of the University are:

- UBC Foundation - established to encourage philanthropic support for the University;
- American Foundation - established to encourage philanthropic support of the University;
- Hong Kong Foundation - established to encourage philanthropic support of the University;
- UK Foundation - established to encourage philanthropic support of the University;
- UBC Society for the Education of Young Children, a not-for-profit organization that maintains and operates an educational program for young children;
- UBC Asia Pacific Regional Office, a Hong-Kong based association formed to promote and advance the academic and research interests of the University and its partners in the Asia Pacific region;
- UBC Investment Management Trust, whose primary purpose is to manage the investment assets of the University's endowment fund and operating fund, and the staff pension plan; and
- UBC Research Enterprises Inc., which promotes the creation, testing, development, production and commercialization of intellectual property owned by the University.

UBCPT is the most significant subsidiary of the University. In addition to managing a portfolio of rental assets and providing project management services on capital projects, UBCPT was established to carry out real estate development activities for the benefit of the University. Through UBCPT, the University leases certain properties to third parties for a period of 99 years. The proceeds from land lease have historically been directed to an internal endowment fund (TREK) and used to support University priorities.



13. Financial Risks

Provincial Operating Grant

For the first year in many years, the Operating grant is expected to increase to cover negotiated general wage increases that fall within the Province's mandate. While we have no reason to believe that the amount of the grant might vary from this, until we receive their official funding letter, the amount of the grant may change.

International Student Registration

We have been increasing the number of international undergraduate students over the past 6 years. We have also started to increase international tuition to better align with Canadian peers, resulting in a roughly 15% rate increase starting 2016/17. A significant component of our projected revenue increase is derived from the increases in international students. Should the enrolment targets not be met, we may see a shortfall in our revenues. That said, early indications are the reverse, with our applications up 18% from 2015/16. In addition, we need to invest to ensure that we achieve a diverse student population.

Faculty Arbitration

Pursuant to the collective agreement with the Faculty Association, we have recently completed an arbitration process and are awaiting the arbitrator's decision. The Faculty Association has requested a two-year agreement at 3% a year, while the University has offered 5.5% over 5 years, in line with the provincial mandate. There is risk as to the term of the agreement, as a longer-term agreement will give us more certainty for our long-term planning. In addition, the arbitrator may award more than the mandate. An award 1% over the mandate would cost \$4m annually.

Staff Pension Contributions

The Staff Pension Plan is currently healthy on a going concern basis but the latest estimate shows that the Plan has a small shortfall on a solvency basis. The next actuarial valuation will occur as at December 31, 2016, and the report will be completed by September 2017. This valuation may have implications for the contribution and benefit levels for the Plan, in the future, which could have a minor impact on the University's operating budget.

Foreign Exchange Risk

The drop in the Canadian dollar in comparison to the US and other currencies puts financial stress in numerous areas. These include Library acquisitions, which are purchased primarily from the US, faculty recruitment, since we compete internationally for the best faculty, research equipment, construction costs, and IT systems development and maintenance costs.

At the same time, the lower Canadian dollar has made us more affordable to international students. While recent applications suggest that our tuition increases have not had a negative impact on applications, we need to track this carefully as the full impact of the approved increases are implemented, and we need to be prepared to manage potential future enrolment reductions that may occur should the Canadian dollar strengthen significantly.

14. Documents Requiring Board Approval

Under Public Sector Accounting Board guidelines, certain approved budget information is required for inclusion in the year-end financial statements. These two documents are the Consolidated Statement of Operations and Accumulated surplus and the Consolidated Statement of Changes in Net debt.

The Consolidated Statement of Operations and Accumulated surplus below reflects the same Consolidated income statement included in Section 7, although the expenses are reflected by function, rather than by object. This mirrors the way that the information is presented in the financial statements. To derive the information by function, the University makes various assumptions about which operating units should be reflected within each category, as we do not manage the data in this way in the financial system. The biggest drawback to point out is that the majority of faculty salaries are charged to the Operating fund, rather than the Research fund, regardless of whether faculty members are primarily conducting research or teaching. To that extent, it is likely that Research expense by function is understated and Learning is overstated.

CONSOLIDATED STATEMENT OF OPERATIONS (By Function)			
<i>(In \$ Millions)</i>			
	Consolidated Total		
	Forecast 2015/16	Budget 2016/17	Budget vs. Forecast
Revenues			
Government grants and contracts			
Government of Canada	\$ 331	335	4
Province of British Columbia	757	766	9
Other governments	20	20	-
Other contributions	119	120	1
Student fees	564	613	49
Investment income	67	61	(6)
Sales and services	316	339	23
Amortization of deferred capital contributions	81	80	(1)
	\$ 2,255	2,334	79
Expenses			
Learning	1,174	1,228	54
Research	435	447	12
Facilities	143	158	15
Students	314	320	6
Community engagement	57	58	1
Administration	104	108	4
	2,227	2,319	92
Annual surplus from operations	\$ 28	15	(13)
External endowment donations	20	30	10
Annual surplus	48	45	(3)
Accumulated Surplus, beginning of period	1,683	1,731	48
Accumulated Surplus, end of period	1,731	1,776	45



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31

(in \$ Millions)

	Forecast 2015/16	Budget 2016/17
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 121	156
Accounts receivable	175	211
Inventories for resale	7	7
Investments	833	761
Investments in government business enterprises	2	(5)
Sinking fund investments	22	25
	1,160	1,155
LIABILITIES		
Accounts payable and accrued liabilities	\$ 247	251
Employee future benefits	12	12
Deferred contributions	830	871
Deferred capital contributions	1,451	1,454
Deferred land lease revenue	549	626
Long-term debt	384	382
	3,473	3,597
Net debt	(2,313)	(2,442)
NON-FINANCIAL ASSETS		
Tangible capital assets	3,165	3,319
Investments		
Endowment (original contribution)	868	888
Inventories held for use	3	3
Prepaid expenses	8	8
	4,044	4,218
Accumulated surplus	\$ 1,731	1,776



CONSOLIDATED STATEMENT OF CHANGES IN NET DEBT
YEAR END MARCH 31
(In \$ Millions)

	Forecast 2015/16	Budget 2016/17	Change	
Annual surplus	\$ 48	\$ 36	\$ 12	
Exclude items not affecting net debt:				
Endowment donations and transfers	(20)	(20)	-	
	28	16	12	
Acquisition of tangible capital assets	(453)	(352)	(101)	
Amortization of tangible capital assets	198	197	1	
	(255)	(155)	(100)	
Acquisition of inventories held for use	-	-	-	1
Acquisition of prepaid expense	-	-	-	1
Consumption of inventories held for use	-	-	-	1
Use of prepaid expense	-	-	-	1
	(227)	(139)	(88)	
Net remeasurement gains	(5)	9	(14)	2
Self-supported subsidiary other comprehensive income	-	-	-	2
Increase in net debt	(232)	(130)	(102)	
Net debt, beginning of year	(2,081)	(2,313)	232	
Net debt, end of year	\$ (2,313)	\$ (2,442)	\$ 130	

Notes

1. UBC does not manage inventory and prepaids at a consolidated level or budget activity for these items.
2. The budget for investment income is prepared using high level assumptions around management of investment balances; this does not extend to detailed forecasts around individual investment holdings.



Appendix 1 – Key Budget Assumptions

1. Provincial funding is assumed to increase from 2015/16 levels by an amount equal to the general wage increase for faculty and staff groups that have ratified contracts, to date, to the extent that they fall within the Provincial mandate. We also include an amount expected from the Province to support modest expansion of the Speech-Language Pathology and Midwifery programmes.
2. Bargaining Units that have yet to ratify contracts are the Faculty Association and IUOE 882. These groups are expected to be funded, but have not been included in this forecast. The University and Faculty Association went to interest arbitration in February 2016 to finalize the compensation increases. The Faculty Association is seeking a 2-year agreement at 3% per year, whereas UBC is proposing a 5-year agreement, including 0% and 1% for the first two years (consistent with the PSEC mandate). A 1% increase in award equates to \$3.5m. We expect this to be resolved by the end of April 2016.
3. Undergraduate domestic and most graduate tuition rates are budgeted to increase by 2%. International undergraduate and some international professional tuition rates will increase by greater amounts in line with the board mandate. Enrolment is projected as follows:

Student Enrolment						
Projected Student FTE	Fiscal 15/16			Fiscal 16/17		
	UBC	Vancouver	Okanagan	UBC	Vancouver	Okanagan
Undergraduate	44,678	37,896	6,782	45,419	38,284	7,135
Domestic	37,105	31,066	6,039	37,182	30,848	6,334
International	7,573	6,830	743	8,237	7,436	801
Graduate	8,766	8,145	621	9,003	8,382	621
Total	53,444	46,041	7,403	54,422	46,666	7,756

4. The budget for endowment returns reflects the target return of 6.15% of which 50% is projected to be realized, and 50% is projected to be unrealized. The target is based upon our spend rate of 3.5%, administrative fees to support operations of 0.65%, and an allowance for inflation of 2%. The inflation amount is added to the endowment principal each year to protect the purchasing power of the endowment. There is potential for significant volatility in the markets, and changes of fund manager by IMANT could trigger significant realized gains.
5. Land development proceeds to be added to SHFE are projected to total \$64m during the year. As well, the distribution of rental income from UBC Properties Trust is projected to be \$6m.
6. Capital asset additions are based on the construction completion schedule of Board-approved capital projects, as well as the planned capital priorities. General additions (computers and equipment) are as projected by units across both campuses.
7. Operating investments includes the proceeds of a \$100m loan from the endowment to finance Orchard Commons.
8. The budget includes Routine Maintenance funding from the provincial government of \$40m.

2016/2017 BUDGET



Submission to the Board of Governors

APRIL 2016

AGENDA

- Executive summary
- Budget framework
- Consolidated budget
- Operating budget
 - Vancouver
 - Okanagan
- UBC Excellence fund
- Capital expenditure
- Budget Risks
- Approval

EXECUTIVE SUMMARY



EXECUTIVE SUMMARY



Overview

- New approach, consolidated view
- Budget derived after lengthy consultation with constituents

Consolidated Budget

- Budget meets Provincial requirements to be balanced
- Modest surplus is budgeted, which is not available for spending, representing additions to endowment principal and accounting timing differences

Operating Budget

- Budget is balanced in both Vancouver and Okanagan – incremental funding allocations are covered by new revenue
- Some faculties and units are drawing down reserves – in most cases this represents spending of amounts set aside previously for a specific purpose (largely capital)

EXECUTIVE SUMMARY – FACULTY INTEREST ARBITRATION

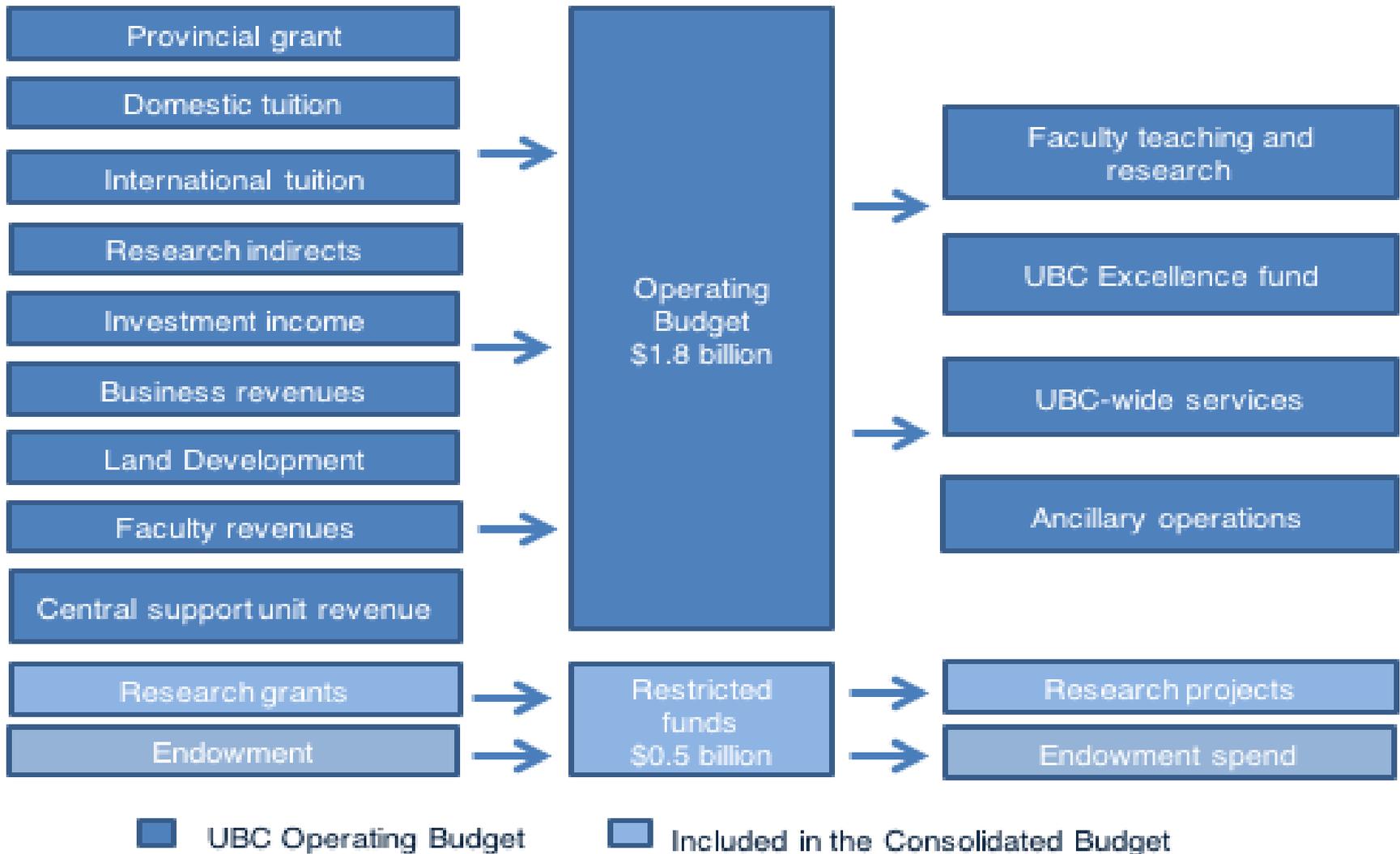


- The budget circulated to the Finance Committee assumed that any general wage increase awarded to faculty members (as a result of the interest arbitration that took place in mid-February) would fall within the PSEC mandate and therefore be fully funded by government.
- The ruling by the arbitration board was issued on March 31, 2016.
- The arbitration board awarded increases of 2% effective July 2014 and 2% effective July 2015, as well as an award for a retention fund of \$500,000 as of 1 July 2015, in a two-year award. These increases exceed the provincial mandate and the estimated cost of this is a net \$17m in the 2015/16 fiscal year and \$12m in the 2016/17 year. This does not include any net cost for any increase effective July 2016.

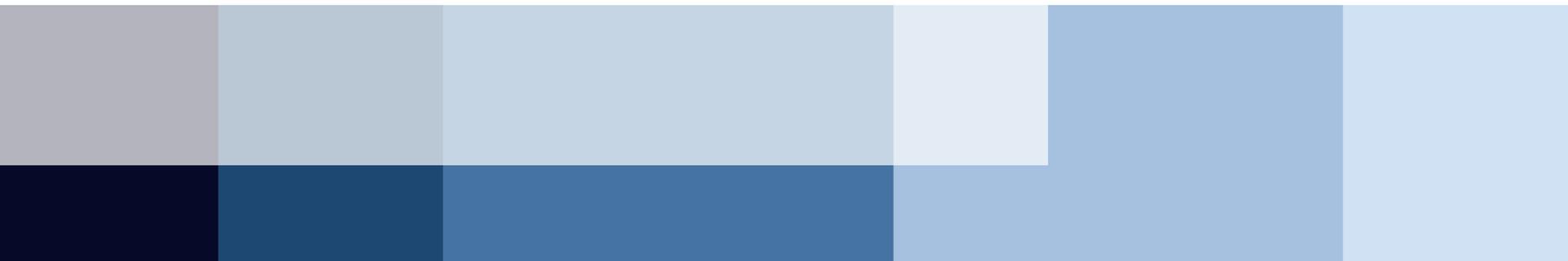
BUDGET FRAMEWORK



BUDGET FRAMEWORK



CONSOLIDATED BUDGET



CONSOLIDATED BUDGET



CONSOLIDATED STATEMENT OF OPERATIONS (By Object)

(In \$ Millions)

	Consolidated Total		
	Forecast 2015/16	Budget 2016/17	Variance
Revenues			
Government grants and contracts			
Government of Canada	\$ 331	335	4
Province of British Columbia	757	766	9
Other governments	20	20	-
Other contributions	119	120	1
Student fees	564	613	49
Investment income	67	61	(6)
Income from Gov't Business Enterprises	-	-	-
Sales and services	316	339	23
Amortization of deferred capital contributions	81	80	(1)
	<u>\$ 2,255</u>	<u>2,334</u>	<u>79</u>
Expenses			
Salaries & benefits	\$ 1,193	1,238	45
Operating costs - other	586	614	28
Capital asset amortization	188	197	9
Cost of goods sold	36	40	4
Grants to third parties	205	211	6
Debt service costs	19	19	-
	<u>2,227</u>	<u>2,319</u>	<u>92</u>
Annual surplus from operations	<u>\$ 28</u>	<u>15</u>	<u>(13)</u>

Note: these figures do not include the result of the Faculty Association interest arbitration: \$20m cost less \$3m government funding for 15/16 and \$16m cost less \$4m government funding for 16/17. Both revenue and expenses exclude any faculty salary increases beyond July 2016, which were not covered under the interest arbitration

CONSOLIDATED BUDGET *(continued)*



The consolidated statement of operations reflects a 16/17 surplus of \$15m. This is an accounting surplus only and does not reflect funds available for spending. The components are as follows:

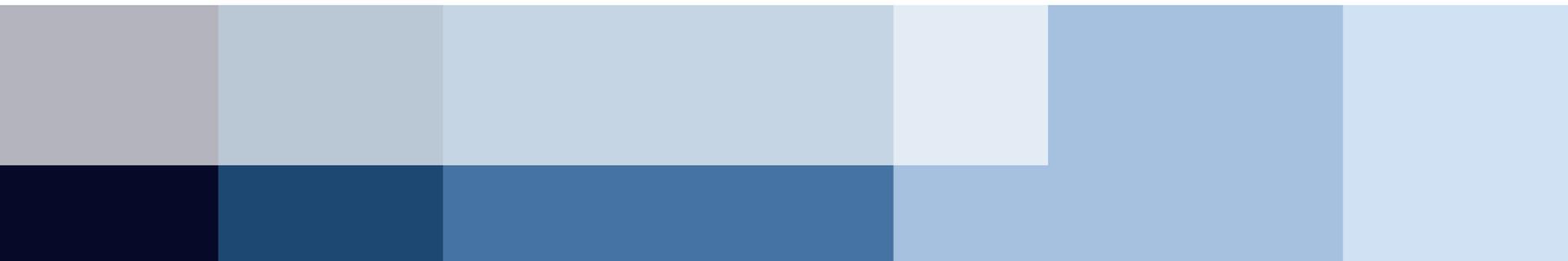
Income Statement Analysis *(In \$ Millions)*

2016/17

Reserve drawdowns	(25)
Non-cash expenses	3
Deferred land sales	7
Endowment surplus	8
Net investment in capital	22
Surplus	<u>15</u>

Reserve drawdowns are derived from individual operating unit projections, and tend to be conservative, as seen on the following slide:

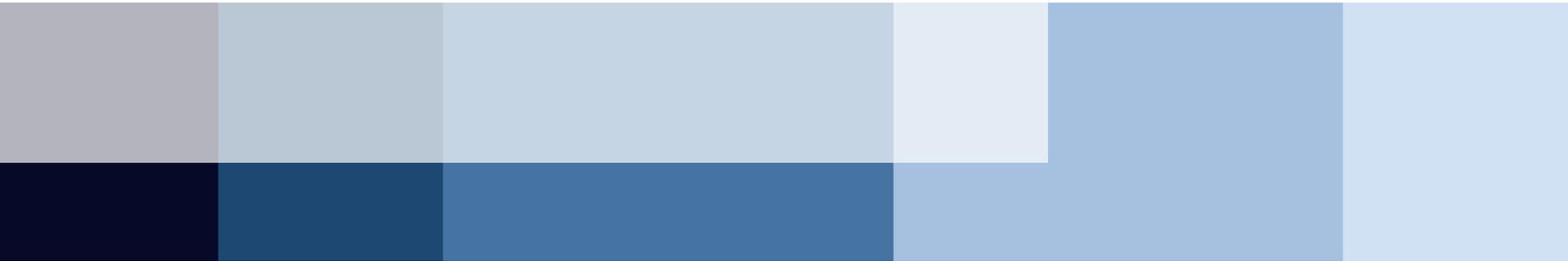
OPERATING BUDGET



OPERATING BUDGET

- Remains in a very constrained environment
- No funding to support merit or non-GWI salary costs borne by the Central support units
- Faculties with limited or no access to International students are struggling with managing PTR costs
- International rate increases will provide some much needed strategic funding, starting next year, but will take a few years to be fully realised.
- Base Operating grant anticipated to be flat but General Wage increases are expected to be funded, and there is increasing funding for Routine Capital

OPERATING BUDGET - VANCOUVER



OPERATING ALLOCATIONS

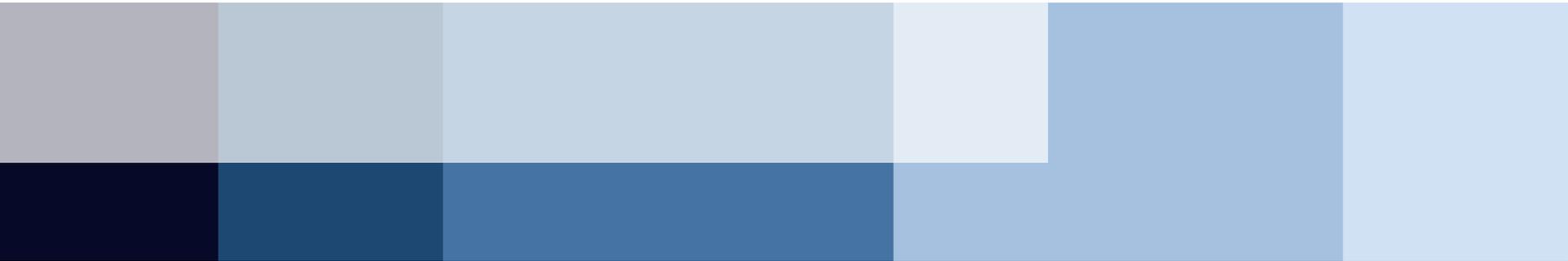
- Majority of increased operating revenues are allocated formulaically through the tuition model - \$20m to faculties, \$6m to the Excellence Fund and \$3m for student financial aid
- Additionally, \$7m of the increased revenue represents funding from the Province for general wage increases, which is flowed down to operating units
- Allowing for unspent revenue from 15/16, funding available for discretionary allocation in 16/17 is \$27m. Proposed allocation of this funding is summarized on the following slide

OPERATING ALLOCATIONS

Total requests for new funding amount to \$27m, which can be categorized as follows:

- **Allocations approved in previous budgets** (multi-year but not recurring) or at Board, \$5m. Includes operating funding for new buildings, Aboriginal Engagement plan, matching funding for various research projects
- **Maintaining core services**, \$9m. Includes funding to the Library to recognize the impact of exchange rates, increases in utility costs, budget support for second entry faculties
- **Strategic investments** \$8m. Includes classroom upgrades, funding for IT investment (SASI and Teaching and Learning), Innovation and e@UBC, Faculty and staff mental health and onboarding, investment in teaching and learning technology
- **Risk areas**, \$2m. Includes IT Security upgrades and investment in network stability, Emergency response plan
- **Other items**, \$3m. Includes central contingency

OPERATING BUDGET - OKANAGAN



OKANAGAN OPERATING ALLOCATIONS – STRATEGIC



Proposed allocations for the upcoming fiscal year focus on key areas aligned with overall University goals and campus vision including:

- Research – support of excellence and increased success with CFI
- Faculty retention and recruitment
- Student recruitment
- Wellness and student support
- Campus infrastructure innovation – energy conservation, whole systems integration, space planning

OKANAGAN OPERATING ALLOCATION

- Balanced Budget
- Operating budget projected to increase by 3.8m or 3%
- Increase driven by international and domestic student tuition increases - 2% and 15% respectively
- 60% of increased operating revenues allocated through tuition model - \$1.8m to faculties, \$0.4m to the Excellence Fund and \$0.1m for student financial aid
- 40% allocated to support units
- Allocations focus on strategic investments for teaching and learning, research, student engagement, campus innovation and core services
- Faculty drawdowns reflect minor capital expenditures, Student Financial Aid deficit represents increased demand on available bursary funds

UBC EXCELLENCE FUND



UBC EXCELLENCE FUND - PRINCIPLES

Anticipated funding envelope for FY 16/17 for both campuses is \$6m and will increase to approximately \$35m by FY 18/19. Key principles underlying funding allocations:

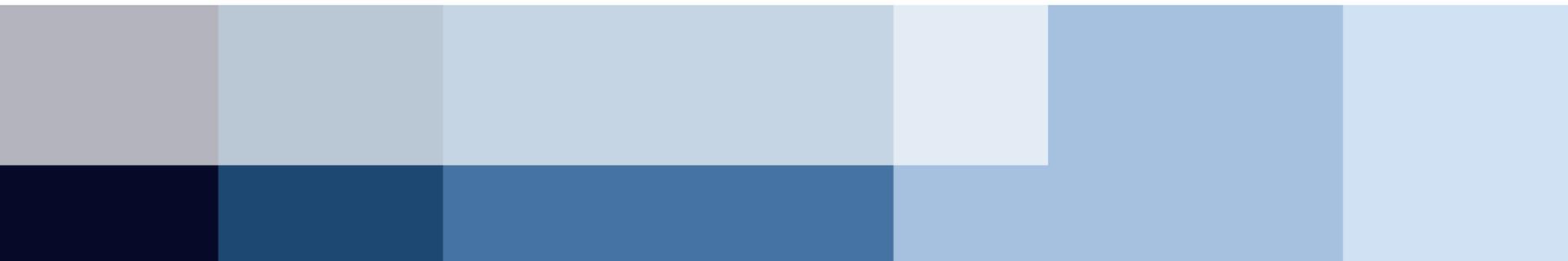
- Excellence
- Sustainability
- Strategic Nimbleness
- Effectiveness
- Openness
- Accountability
- Transparency

The funds will be protected within the University budget and the allocations proposed from the funds will be presented to the Board of Governors annually, as part of the budget approval process.

UBC EXCELLENCE FUND - ALLOCATIONS

- **Student recruitment \$0.5m** – increased marketing effort, offering research assistantships to outstanding applicants, supporting a ‘scholars community’ that provides both (needs-based) financial support and a community home for these scholars.
- **Student retention \$0.5m** - provide resources for enhancing student wellbeing
- **Faculty recruitment and retention \$2.4m** - enabling the Provost to support Faculties that have exceptional hiring opportunities and providing for recognition and support for our very best researchers, in order to retain them.
- **Research clusters \$2m** - through the (externally validated) search for a CFREF applicant, Tier 1 and 2 clusters in the STEM disciplines have been identified. The VP Research will initiate a similar process for non-STEM disciplines this summer.
- **Experiential learning \$0.5m** – providing undergraduate programs to support experiential learning opportunities in the form of capstone seminars. Many of these opportunities will involve working with UBC community relations and facilities such as the Bamfield Marine Sciences Centre.

CAPITAL EXPENDITURES



CAPITAL EXPENDITURES



Capital Expenditure <i>(In \$ Millions)</i>	2014/15 Actual	2015/16 Forecast	2016/17 Budget
Building and property			
Major buildings	182	259	180
Routine capital	17	31	59
Infrastructure Impact Charges	11	13	8
Student housing	19	22	18
	229	325	265
Information technology services			
Major projects	19	19	16
Lifecycle	7	7	8
	26	26	24
Research	40	39	28
Faculties and central units	57	36	33
Library	17	17	17
Total capital expenditure	369	443	367

CAPITAL EXPENDITURES ROUTINE CAPITAL



2016/17 Routine Capital Projects (\$m) – Vancouver Campus	AVED 75%	UBC 25%	TOTAL
Major Maintenance & Rehabilitation Projects	\$23.5	\$7.8	\$31.3
Old SUB Building Renewal to Develop Swing Space	15.0	5.0	20.0
Design for 2017/18 and 2018/19 Routine Capital Projects	1.5	0.5	2.0
Routine Capital Total	\$40.0	\$13.3	\$53.3
Additional Routine Capital Work not Eligible for AVED Funding		\$4.3	\$4.3
Grand Total – Vancouver Campus	\$40.0	\$17.6	\$57.6

2016/17 Routine Capital Projects (\$m) – Okanagan Campus	AVED 75%	UBC 25%	TOTAL
Major Maintenance & Rehabilitation Projects	\$0.2	\$0.1	\$0.3
Additional Routine Capital Work		0.9	0.9
Grand Total – Okanagan Campus	\$0.2	\$1.0	\$1.2

2016/17 Routine Capital Projects (\$m) UBC Total	AVED 75%	UBC 25%	TOTAL
Grand Total – UBC	\$40.2	\$18.6	\$58.8

BUDGET RISKS



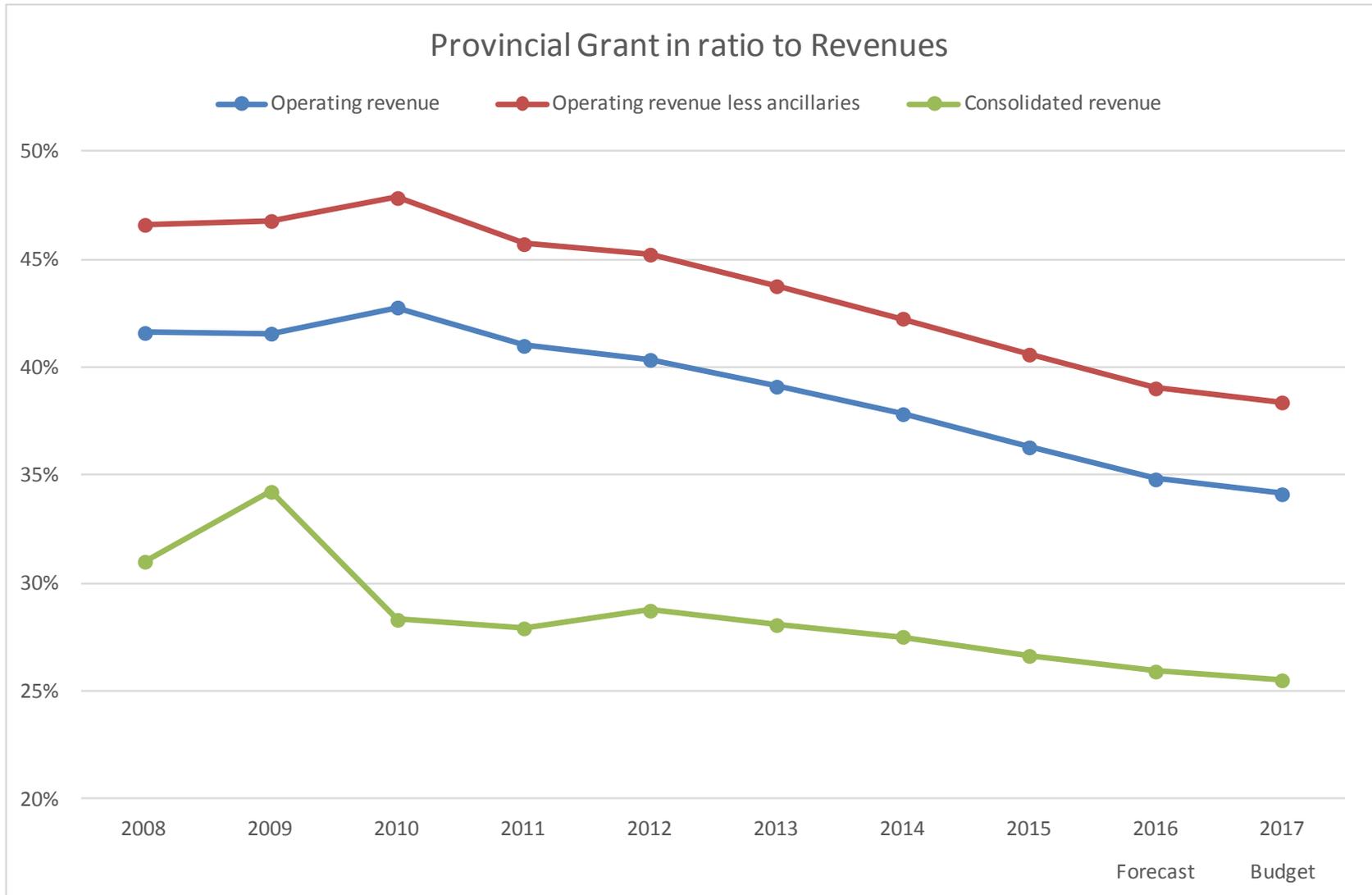
BUDGET RISKS

- **Provincial Operating Grant** – expected to cover general wage increases, and no cuts to base grant anticipated; but unconfirmed until receipt of funding letter (see next slide)
- **International Student Registration** – enrolments have been increasing steadily over the last 6 years, and tuition rates have been significantly increased in line with peer institutions. Applications are up for 16/17, but international tuition remains at risk from market competition, exchange rates, and economic conditions
- **Faculty Arbitration** – *Subsequent to Budget Report: increases of 2% effective July 2014 and 2% effective July 2015, as well as an award for a retention fund of \$500,000 as of 1 July 2015, in a two-year award. These increases exceed the provincial mandate which was budgeted for. The estimated cost of this is a net \$17m in the 2015/16 fiscal year and \$12m in the 2016/17 year. This does not include any net cost for any increase effective July 2016.*
- **Staff Pension Contributions** - The Staff Pension Plan is currently healthy on a going concern basis but the latest estimate shows that the Plan has a small shortfall on a solvency basis
- **Foreign exchange risk**

RISKS – PROVINCIAL OPERATING GRANT

- A significant reduction in the Provincial grant has been identified as one of UBC's major risks
- Although the grant has increased over the last 10 years, the increases were either to expand targeted seats or to fund increased wages; the base grant has been subject to cuts, and there has been no inflationary funding
- UBC has achieved significant diversification in revenue sources (as seen on the next slide): increased international student enrolment and tuitions, development of new professional and adult education programs, increased summer use of campus.
- FY2009/10 actual, the provincial grant was 48% of operating revenue less ancillaries, and 28% of consolidated revenue. FY2016/17 budget, these figures are 38% and 25%, respectively.
- Nevertheless, the grant is projected to be \$590m in 2016/17 and represents 34% of total operating revenues. As such, the level of the grant continues to be a risk area.
- Separate from operating funds, following several years of significant reductions in provincial support for capital maintenance, the Province has recently indicated substantial additional capital maintenance funding for the next three years.

BUDGET RISKS – PROVINCIAL OPERATING GRANT



REQUESTS FOR BOARD APPROVAL





IT IS HEREBY REQUESTED THAT

.....the UBC Board of Governors approves in principle the UBC 2016-17 consolidated and operating budget, including the allocation for routine capital of \$59m, and delegates to the Finance Committee approval of the final budget which will incorporate the outcomes of the Faculty Association interest arbitration decision dated March 31, 2016.

