CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012

THE UNIVERSITY OF BRITISH COLUMBIA

Vancouver, B.C. V6T 1Z1

Statement of Management Responsibility

The consolidated financial statements of the University of British Columbia (the University) have been prepared by management in conformity with Canadian generally accepted accounting principles for not-for-profit organizations. The financial statements present fairly the financial position of the University as at March 31, 2012, and the results of its operations and the changes in its financial position for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements.

The Board of Governors is responsible for reviewing and approving the financial statements, and overseeing management's performance of its financial reporting responsibilities.

The Board of Governors carries out its responsibility for review of the financial statements principally through its Audit Committee. No members of the Audit Committee are officers or employees of the University. The Audit Committee meets with management, the external auditors and the internal auditors to discuss the results of audit examinations and financial reporting matters. The external and internal auditors have full access to the Audit Committee, with and without the presence of management.

The financial statements for the year ended March 31, 2012 have been reported on by KPMG. The Auditor's Report outlines the scope of the audit and provides the audit opinion on the fairness of presentation of the information in the financial statements.

Stephen J. Toope
President

Pierre Ouillet
Vice President Finance, Resources and Operations

June 1, 2012

KPMG LLP
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the University of British Columbia, and
To the Minister of Advanced Education, Province of British Columbia

We have audited the accompanying consolidated financial statements of the University of British Columbia, which comprise the consolidated statement of financial position as at March 31, 2012, the consolidated statements of operations, and changes in net operating assets, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University of British Columbia as at March 31, 2012, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
June 12, 2012
Burnaby, Canada

THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31
(thousands of dollars)

		2012	2011 (Recasted - Note 3)
ASSETS			
Current assets			
Cash and short-term investments	(Note 4)	$ 187,208	$ 156,032
Restricted cash	(Note 5)	10,238	11,225
Accounts receivable		140,507	131,785
Inventories	(Note 6)	9,848	8,940
Prepaid expenses		5,395	5,082
		353,196	313,064
Long term receivables		24,904	24,870
Investments	(Note 7)		
Operating investments		343,985	361,406
Endowment investments		1,096,586	1,113,744
Sinking fund investments		31,865	51,053
		1,472,436	1,526,203
Investments in equity-accounted organizations	(Note 8)	36,741	15,287
Capital assets	(Note 10)	2,599,916	2,433,553
		$ 4,487,193	$ 4,312,977
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities		$ 192,858	$ 231,908
Current portion of long-term debt		6,702	33,063
		199,560	264,971
Employee future benefits	(Note 12)	8,280	5,830
Deferred contributions	(Note 14)	566,640	514,034
Deferred capital contributions	(Note 15)	1,420,560	1,370,918
Deferred land lease revenue	(Note 16)	379,956	303,787
Long-term debt	(Note 13)	408,412	409,162
		2,983,408	2,868,702
Net assets			
Unrestricted operating	(Note 17)	(40,971)	49,120
Endowment fund	(Note 18)	734,714	708,890
Related organizations		13,935	14,802
Invested in capital assets	(Note 11)	796,107	671,463
		1,503,785	1,444,275
		$ 4,487,193	$ 4,312,977

Contractual obligations and contingent liabilities

Approved on behalf of the Board of Governors:

Chair, Board of Governors

Chair, Audit Committee

Vice President, Finance, Resources & Operations

(See accompanying notes to the consolidated financial statements)

THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET OPERATING ASSETS
YEAR ENDED MARCH 31
(thousands of dollars)

		2012	2011 (Recasted - Note 3)
Revenues			
Government grants and contracts	(Note 19)	$ 1,005,242	$ 1,019,989
Student fees		411,595	386,996
Non-government grants, contracts and donations		150,719	164,956
Investment income	(Note 9)	62,106	103,115
Income from equity-accounted organizations		5,230	3,131
Sales and services		281,996	264,371
Amortization of deferred capital contributions	(Notes 11 and 15)	97,416	92,259
		2,014,304	2,034,817
Expenses			
Salaries		1,026,957	998,721
Employee benefits		153,388	149,096
Supplies and sundries		206,053	200,169
Amortization	(Note 11)	202,463	188,968
Cost of goods sold		33,533	31,119
Scholarships, fellowships and bursaries		60,765	65,880
Travel and field trips		47,391	45,889
Professional and consulting fees		67,131	68,388
Grants and reimbursements to other agencies	(Note 20)	122,091	139,590
Utilities		30,673	29,308
Interest on long-term debt		24,162	25,988
		1,974,607	1,943,116
Excess of revenues over expenses		$ 39,697	$ 91,701

	2012	2011
Allocation of excess of revenues over expenses		
Increase in invested in capital assets	$ (124,644)	$ (89,337)
Increase in endowment fund	(6,011)	(44,456)
Decrease in equity of related organizations	867	191
Change in unrestricted net operating assets	(90,091)	(41,901)
Unrestricted net operating assets, beginning of year	49,120	91,021
Unrestricted net operating assets (deficit), end of year	$ (40,971)	$ 49,120

(See accompanying notes to the consolidated financial statements)

THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31
(thousands of dollars)

	Unrestricted Operating	Endowment Fund	Related Organizations	Invested in Capital Assets	Total 2012	Total 2011 (Recasted - Note 3)
Opening balance, as previously reported	$ 67,266	$ 708,890	$ 20,246	$ 677,906	$ 1,474,308	$ 1,351,938
Recast - IIC's accounting (Note 3)	(18,146)	-	(5,444)	(6,443)	(30,033)	(24,651)
Opening balance, recasted	49,120	708,890	14,802	671,463	1,444,275	1,327,287
Excess (deficiency) of revenues over expenses	135,477	3,934	5,333	(105,047)	39,697	91,701
Interfund transfers	3,489	2,711	(6,200)	-	-	-
Net change in invested in capital assets	(229,057)	(634)	-	229,691	-	-
Net change during the year	(90,091)	6,011	(867)	124,644	39,697	91,701
External endowment donations	-	19,813	-	-	19,813	25,287
Balance, end of year	$ (40,971)	734,714	$ 13,935	$ 796,107	$ 1,503,785	$ 1,444,275

(See accompanying notes to the consolidated financial statements)

THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31
(thousands of dollars)

		2012	2011 (Recasted - Note 3)
Cash provided from operating activities			
Excess of revenues over expenses		$ 39,697	$ 91,701
Add non-cash items:			
Fair value adjustment		(3,017)	(79,199)
Amortization of capital assets		202,463	188,968
Amortization of deferred capital contributions		(97,416)	(92,259)
Amortization of deferred land lease revenue		(3,663)	(2,833)
Employee future benefits		2,450	518
		140,514	106,896
Increase in non-cash current assets		(17,268)	(19,889)
Increase (decrease) in accounts payable and accrued liabilities		(39,050)	36,880
		84,196	123,887
Cash used in investing activities			
Increase in long term receivable		(34)	(20,718)
Capital asset acquisitions		(368,826)	(437,742)
Decrease in restricted cash		987	8,376
Increase in investment in equity-accounted organizations		(21,454)	(14,015)
Net dispositions in investments		16,430	104,004
		(372,897)	(360,095)
Cash provided from financing activities			
Net (decrease) increase in deferred contributions		92,960	(36,020)
Net decrease in long-term debt		(27,111)	(735)
Increase in deferred land lease revenue		79,832	70,717
Increase in deferred capital contributions		147,058	257,522
Endowment contributions		19,813	25,287
		312,552	316,771
Increase in cash and cash equivalents		23,851	80,563
Cash and cash equivalents, beginning of year		85,120	4,557
Cash and cash equivalents, end of year	(Note 4)	$ 108,971	$ 85,120
Supplemental cash flow information			
Cash paid for Interest		25,699	25,753

(See accompanying notes to the consolidated financial statements)

Notes to the Consolidated Financial Statements

1 Authority and Purpose

The University of British Columbia (UBC or the University) operates under the authority of the *University Act* of British Columbia. UBC is a comprehensive research university offering a full range of undergraduate, graduate and continuing studies programs. The academic governance of the University is vested in the Senate. As a not-for-profit entity, UBC is governed by a Board of Governors, the majority of whom are appointed by the provincial government of British Columbia. UBC is also a registered charity and is therefore exempt from income taxes under section 149 of the *Income Tax Act*.

2 Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(a) Basis of Presentation

The University reports its operations on a consolidated basis, which includes activities from various funds within the University and external entities (Note 2(b)).

The unrestricted operating funds of the University relate to the University's academic program delivery, service and administrative activities.

(b) Consolidation

(i) The financial statements consolidate the accounts of the following not-for-profit organizations whose activities are intended to benefit UBC:

- UBC Foundation, a not-for-profit foundation formed to develop public awareness and encourage financial support for the University.

- American Foundation for UBC, an American charitable foundation that encourages financial support of the University.

- Hong Kong Foundation for UBC, a not-for-profit organization incorporated in Hong Kong that promotes and advances all matters concerning education in Hong Kong and elsewhere.

- UK Foundation for the University of British Columbia, an official charitable organization in the United Kingdom that promotes and advances all matters concerning education in the UK and elsewhere in the world.

- 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 Limited, 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.

(ii) The financial statements include the accounts of the following for-profit entities using the equity method of accounting:

- UBC Properties Investments Ltd. (UBCPIL), the bare trustee for UBC Properties Trust, which was established to carry out real estate development activities for the benefit of the University.

- UBC Investment Management Trust, whose primary purpose is to manage the investment assets of the University's endowment fund and the staff pension plan.

- UBC Research Enterprises Inc., which promotes the creation, testing, development, production and commercialization of intellectual property owned by the University.

(iii) The financial statements include the accounts of the following joint ventures using the equity method of accounting:

- Tri-Universities Meson Facility (TRIUMF)

  These financial statements include the University's 9.09% (2011 – 9.09%) interest in TRIUMF. TRIUMF is a joint venture amongst the University and ten other universities, which was established to operate a facility for research in sub-atomic physics. TRIUMF operates on the UBC campus and elsewhere.

- Great Northern Way Campus Trust

  These financial statements include the University's 25% (2011 – 25%) interest in the Great Northern Way Campus Trust. The trust was formed on September 15, 2002 to include the lands and premises comprising the Great Northern Way Campus for the equal benefit of the University, Simon Fraser University, British Columbia Institute of Technology and the Emily Carr Institute of Art and Design.

- Western Canadian Universities Marine Sciences Society (WCUMSS)

  These financial statements include the University's 20% (2011 – 20%) interest in WCUMSS. The University is one of five university members of WCUMSS.

- CDRD Ventures Inc. (formerly DDI Drug Development Inc.), a development stage biotechnology enterprise.

  These financial statements include the University's 33% (2011 – 33%) interest in CDRD. The University is one of the three university members of CDRD.

(c) Cash and Short-Term Investments

Cash and short-term investments are defined to include highly liquid securities with terms to maturity of one year or less.

(d) Revenue Recognition

(i) Restricted Revenue

The University follows the deferral method of accounting for contributions. Some contributions, such as grants and donations for research or capital purposes, are restricted in use by the external contributor. Externally restricted contributions are recognized as revenue when the restrictions imposed by the contributors on the use of the monies are satisfied as follows:

- Non-capital contributions for specific purposes are recognized as revenue in the year in which the related expense is incurred.
- Contributions for the purchase of capital assets having a limited life are recognized as revenue over the same accounting periods as those in which the amortization expense related to the capital asset purchased is recorded, and on the same basis as the amortization expense. Where the capital asset involved has an unlimited life, the contribution is reported as a direct increase in invested in capital assets.

Some restricted contributions must be retained in perpetuity, allowing only the investment income earned thereon to be spent. These contributions are recorded as an increase in endowments.

(ii) Unrestricted Revenue

Unrestricted contributions are recorded as revenue when receivable if the amounts can be estimated and collection is reasonably assured. Government grants not restricted as to their use are recognized as revenue when receivable. Other unrestricted revenue, including tuition fees and sales of services and products, are reported as revenue at the time the services are substantially provided or the products are delivered. Tuition fees received in advance of courses being delivered are deferred and recognized when the courses are delivered.

(iii) Deferred Land Lease Revenue

The University leases certain properties to third parties for a period of 99 years. Cash received from land leases is deferred and recognized as revenue over the term of the lease.

(iv) Investment Income

Investment income includes interest recorded on an accrual basis and dividends recorded as declared, realized gains or losses on the sale of investments, writedowns on investments where the loss in value is determined to be other than temporary, and fair value adjustment of investments classified as held-for-trading. Investment transactions are recorded on a trade date basis. Transaction costs are expensed as incurred. To the extent that investment income relates to externally restricted endowments, income is recorded in the year in which the related expenses are incurred.

(e) Financial Instruments

(i) Classification, Disclosure and Presentation

Financial instruments are classified as loans and receivables, held-for-trading (HFT), or other financial liabilities. All financial instruments are recognized at fair value on initial recognition.

Subsequent to initial recognition, financial assets classified or designated as HFT are recorded at fair value. Gains and losses realized on disposal, unrealized gains and losses from market fluctuations and other investment income are reported in the statement of operations. For Endowment Funds, gains and losses realized on disposal, unrealized gains and losses from market fluctuations and other investment income are treated in the following ways:

- Unrestricted funds have their portion of income taken directly to the statement of operations.
- Restricted funds have their portion of income taken to deferred contributions and recognized as revenue in the year in which the related expense is incurred.

Subsequent to initial recognition, financial instruments classified as loans and receivables or other financial liabilities are measured at amortized cost using the effective interest rate method. The effective interest rate method is used for allocating the related interest income or interest expense of financial instruments measured at amortized cost, including amortization of transaction costs and fees as well as accretion of premiums or discounts over the expected life of the instrument.

Not-for-profit organizations may elect to continue to apply CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation in place of CICA Handbook Sections 3862, Financial Instruments – Disclosure, and 3863, Financial Instruments – Presentation. The University has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with CICA Handbook Section 3861.

(ii) Interest Rate Risk

The University is exposed to interest rate risk on fixed income investments held; the risk arises from fluctuations in interest rates and the degree of volatility of these rates. The University is not at risk for changes in interest rates on its long term debt obligations as all borrowings are at fixed rates of interest.

(iii) Foreign Exchange Risk

The University is exposed to foreign exchange risk on investments held in foreign currencies and may use foreign currency swaps to mitigate this risk.

(iv) Liquidity Risk

The University is exposed to liquidity risk which may arise from the possibility that the University is not able to meet its financial obligations as they become due, or can only do so at excessive costs. The University establishes budgets and cash flow projections to ensure it has the necessary funds, including access to a revolving line of credit to fulfill its obligations when due.

(v) Credit Risk

The University is exposed to credit risk if a counterparty to a financial instrument fails to meet its obligations. The University accounts for a specific bad debt provision when management considers that the expected recovery is less than the account receivable.

(f) Inventories

Inventories, including inventory held for resale and supplies inventories, are stated at lower of cost (determined largely using the weighted average basis) and net realizable value. Inventories are written down to net realizable value when the cost of inventories is estimated not to be recoverable. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of writedown previously recorded is reversed.

(g) Capital Assets

Capital asset acquisitions are recorded at cost. Donated assets from unrelated parties are recorded at fair value at the date of donation, except in circumstances where fair value cannot be reasonably determined. Transfers of capital assets from related parties are recorded at carrying value.

Capital assets are amortized on a straight-line basis over their estimated useful life as shown below. Land is not amortized as it is deemed to have a permanent value.

Site improvements	25-80 years
Buildings	10-50 years
Building renovations	5-10 years
Furnishings, equipment and systems	3-10 years
Library books	10 years

(h) Gifts-in-Kind

Gifts-in-kind include securities, furnishings, equipment, books, manuscripts, artwork and artifacts. Only securities are recorded in the financial statements, and are valued as described in (e) above.

(i) Pledges and Contributed Services

Pledges from donors are recorded when payment is received by the University or the transfer of property is completed. The University benefits from services provided by volunteers in assisting the institution in carrying out its activities. The fair value of these services is not determinable and accordingly is not included in the financial statements.

(j) Employee Future Benefits

(i) Pension Plans

The University has two pension plans and a supplemental arrangement plan providing pension and other benefits to its employees. The assets and liabilities of these plans are not included in the University's financial statements.

Faculty Pension Plan

The Faculty Pension Plan is a defined contribution plan providing benefits on a money purchase basis. The cost of pension benefits includes the current service cost based on 10% of salary, less a fixed offsetting amount relating to Canada Pension Plan contributory earnings. The University expenses contributions to this plan in the year the contributions are related to.

Staff Pension Plan

The Staff Pension Plan provides benefits based on 1.8% of the average best three years' basic salary multiplied by the number of years of contributory service. The University's contribution for the Staff Pension Plan is 10% of salary, less a fixed offsetting amount relating to Canada Pension Plan contributory earnings. In the event of funding deficiencies, the University's contributions remain fixed and benefits for members may be reduced. Accordingly, the University expenses contributions to this plan in the year the contributions are related to. Benefits security for employees is improved by the plan maintaining a contingency reserve. The contingency reserve ceiling recommended by the plan's actuary and approved by the pension board and Canada Revenue Agency is 40% of liabilities.

Supplemental Arrangement

The Supplemental Arrangement has been established for those Faculty Pension Plan members whose aggregate annual pension contributions exceed the contribution limit allowed under the Income Tax Act for registered plans. Excess University contributions are deposited into notional accounts established for each member in the Supplemental Arrangement account. No payments are made out of the Supplemental Arrangement account before the earliest of the member's termination, retirement or death.

(ii) Income Replacement Plan

The income replacement plan provides income for disabled employees. The income replacement plan commences after a qualifying period of six months disability. When an employee is in receipt of income replacement benefits, the University continues to pay the costs of certain member benefits. The costs of the plan are employee funded. The University is not required to contribute to the plan nor is it responsible for any deficit that the plan may incur.

(k) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of useful lives of capital assets for amortization and the amortization of related deferred capital contributions, valuation of financial instruments, and provisions for contingencies. Actual results could differ from those estimates.

(l) Debt Issue Costs

The underwriting discount along with consulting fees relating to the debenture issuances are capitalized and amortized to match the term of the long-term debenture. Amortization is calculated based on the effective interest rate method.

(m) Asset Retirement Obligation

The University recognizes asset retirement obligations in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset including leased premises resulting from the acquisition, construction, development, and/or normal use of the asset. The fair value of the asset retirement cost is capitalized as part of the carrying value of the related long-lived asset and is depreciated over the life of the asset. The liability may be changed to reflect the passage of time and changes in the fair value assessment of the retirement obligation.

(n) Future Accounting Changes

Effective April 1, 2012, the University will transition to a new accounting framework which will include Public Sector Accounting Standards ("PSAB") supplemented by directives from the Government of British Columbia Treasury Board. The transition to the new framework will be applied on a retroactive basis. The University is reviewing the impact of these standards on the financial statements.

3 Recast of Comparative Financial Statements

The University levies an Infrastructure Impact Charge ("IIC") on non-academic developments on campus to recover the cost of campus infrastructure upgrades as a result of the developments. Upon further review of the accounting for IIC's, it was determined that these charges should be eliminated on consolidation where they relate to the University's own capital projects or developments associated with deferred land sales.

This change in accounting treatment has been accounted for retrospectively and resulted in adjustments to prior years' revenue, capital assets, investments in equity accounted organizations, and deferred land lease revenue. The comparative statements for 2011 have been recasted as follows:

	2011 (thousands of dollars)		
	As previously reported	Infrastructure impact charges adjustments	As recasted
Assets	$ 4,324,865	$ (11,888)	$ 4,312,977
Liabilities	2,850,557	18,145	2,868,702
Net Assets	$ 1,474,308	$ (30,033)	$ 1,444,275
Revenue	$ 2,040,314	$ (5,497)	$ 2,034,817
Expenses	1,943,231	(115)	1,943,116
Surplus of Revenues over Expenses	$ 97,083	$ (5,382)	$ 91,701

All notes to the consolidated financial statements have been recast to reflect the above changes.

4 Cash and Short-Term Investments

	2012	2011
	(thousands of dollars)	
Cash and outstanding cheques	$ (1,980)	$ 20,072
Cash equivalents	110,951	65,048
Cash and cash equivalents	108,971	85,120
Short term investments maturing in less than 90 days	14,097	12,572
Investments maturing between 90 days and one year	64,140	58,340
	$ 187,208	$ 156,032

The University has a $30 million revolving line of credit and a US $5 million line of credit.

Investments maturing between 90 days and one year include promissory notes of $22.2 million (2011 – $31.9 million) with a related party, UBC Properties Trust (Note 8(c)). The promissory notes are unsecured with floating interest rates set at the greater of either prime rate less 1.0% or a floor rate of 2.5% per annum.

5 Restricted Cash

Restricted cash of $10.2 million (2011 – $11.2 million) is held in trust for the Medical School Expansion program.

6 Inventories

Cost of inventory recognized as an expense during the period is $33.5 million (2011 – $31.1 million), which includes $0.8 million (2011 – $0.6 million) for the writedown of inventory to net realizable value. During the period, there was no reversal of inventory previously written down.

7 Investments

Operating investments consist of research, capital, and other funds received and held in advance for future expenditures. Endowment investments consist of donations held in perpetuity and land lease revenues received by the University to benefit current and future generations. Sinking fund investments are managed by the provincial government and will be applied against repayment of provincial debentures on maturity (Note 13).

(a) Analysis of Investments

	2012	2011
	(thousands of dollars)	
Government and corporate bonds		
Maturity		
Less than 1 year	-	-
1 - 5 years	$ 242,215	$ 249,394
Greater than 5 years	102,789	90,084
Various - pooled	223,012	225,407
	568,016	564,885
Short-term notes and treasury bills	9,416	3,800
Canadian equities	130,130	117,261
Canadian pooled funds	218,618	260,590
United States equities and pooled funds	138,696	150,177
Other international pooled funds	338,868	373,710
Other	68,692	55,780
	$ 1,472,436	$ 1,526,203

Other investments include cash and short-term investments related to endowments and real estate investments, promissory notes issued by unrelated parties, and Long Term Floating Notes (LTFN).

(b) Long Term Floating Notes

At March 31, 2011, the University held within its operating investment portfolio impaired Canadian LTFN with an original cost of $36.8 million. The estimated fair value of these investments at this date was $26.2 million. These instruments are designated as held-for-trading.

During the year, LTFN with an original cost of $7.5 million was redeemed at par, and LTFN with an original cost of $19.0 million was sold for $14.3 million, thus incurring realized capital losses of $4.7 million. Accordingly, the book cost of the remaining notes is $10.3 million at March 31, 2012.

At March 31, 2012, the University estimates the fair value of its LTFN at $6.5 million (2011 – $16.2 million).

The University had loan facilities with a Canadian chartered bank originally worth $16.6 million. The facilities were secured by some of the LTFN notes held by the University. The facilities contained options that allowed the University to transfer notes to the bank at maturity of this facility in full satisfaction of the loan. The amount of the facilities available decline as the underlying notes are redeemed and the facility ceased to be available once said dispositions exceed the loan value. As at March 31, 2011, UBC held two such facilities. The University estimated the fair value of the facilities described above to be $10.0 million at March 31, 2011. During the year these facilities were closed out.

The Canadian LTFN held by the University fall into four broad categories with fair values at March 31, 2012 as follows:

	2012	2011
	(thousands of dollars)	
Leveraged super senior notes	$ 4,794	$ 6,400
US residential mortgage-backed securities	231	4,000
Cash collateralized debt obligations (CDOs)	16	300
Commercial real estate backed notes	1,427	5,500
Fair value of LTFN	$ 6,468	16,200
Fair value of the option	-	10,000
	$ 6,468	26,200

The statement of operations includes $2.1 million in investment income relating to the change in fair value of the investments, realized loss on the sale of securities, investment income received during the year, and losses on foreign exchange translation.

The contractual maturity of LTFN securities is as follows:

	2012	2011
	(thousands of dollars)	
Less than 5 years	$ 4,794	$ 5,700
5 - 10 years	16	1,900
More than 10 years	1,658	8,600
	$ 6,468	$ 16,200

Valuations were calculated for the University by an independent advisory firm with specialist expertise in this area using industry standard valuation models and methodologies. Some of the prices are not however directly supported by observable market prices or rates. The valuation methodologies applied to derive fair values are as follows:

- Leveraged super senior notes: The fair value was calculated using a valuation model, typical for this type of investment, called the 'Gaussian Copula' model, coupled with an accepted method for mapping correlation of bespoke synthetic CDOs. One note within this category, with a par value of $3.0 million, has not been restructured and the final form of restructuring is uncertain. As such, the note was valued separately from the remaining leveraged super senior notes. This note was valued by proxying the average credit quality and leverage of the University's other leveraged super senior notes, weighted by a 50% probability that the note will be restructured. A zero value has been assigned in the case of unsuccessful restructuring.

- US residential mortgage-backed securities and Cash CDOs: The fair value of these assets was calculated using prices published by BlackRock, the restructuring administrator.

- Commercial real estate backed notes: Due to the private nature of the original trusts and the lack of publicly available information, the fair value was calculated using prices published by BlackRock who has access to collateral information and trust documentation.

The fair value recorded in the financial statements reflects the estimated value of the assets in the current market. The University may hold these securities to maturity as it has the capacity and ability to hold them without any material disruption to its day-to-day activities. Amounts ultimately realized may differ materially from the estimate of fair values at March 31, 2012.

8 Investments in Equity Accounted Organizations

The University includes seven entities using the equity method of accounting (Note 2(b)(ii) and (iii)). Financial information in respect of the University's share of the significant entities is disclosed below.

	UBC Properties Investments Ltd.		Great Northern Way		TRIUMF	
	2012	2011	2012	2011	2012	2011
	(thousands of dollars)		(thousands of dollars)		(thousands of dollars)	
Assets	$ 311,448	$ 296,767	$ 20,298	$ 17,012	$ 2,523	$ 2,207
Liabilities	269,375	277,021	7,059	5,566	1,714	1,482
Equity	$ 42,073	$ 19,746	$ 13,239	$ 11,446	$ 809	$ 725
Revenue	$ 123,951	$ 145,099	$ 4,969	$ 1,452	$ 7,036	$ 6,288
Expenses	58,864	75,141	3,034	1,234	6,955	5,964
Net Income	$ 65,087	$ 69,958	$ 1,935	$ 218	$ 81	$ 324
Cash Flows:						
Operating	$ 68,159	$ 95,829	$ (64)	$ 80		
Financing	$ (20,985)	$ (90,095)	$ 1,282	$ (3,904)		
Investing	$ (42,168)	$ (9,728)	$ 942	$ 3,874		

(a) UBC Properties Investments Ltd. recognizes revenue from sales of 99-year leases in its income statement in the year that the transaction is completed. The University defers these revenues on the balance sheet and amortizes the balance to the statement of operations over the duration of the lease (Note 16).

(b) TRIUMF expenses all capital assets in its income statement as acquired; the University capitalizes the capital assets and depreciates them over the useful lives (Note 2(g)). TRIUMF recognizes revenue in the year it is received, whereas the University follows the deferral method of accounting for contributions (Note 2(d)(i)).

(c) During the year, the following significant related party transactions occurred:

UBC Properties Trust, a subsidiary of UBC Properties Investment Ltd, invoiced the University $6.4 million (2011 – $6.1 million) for project management fees.

UBC Properties Trust issued promissory notes in favour of the University amounting to $22.2 million (2011 – $31.9 million). This is reflected within cash and short-term investments (Note 4). The University charged UBC Properties Trust interest in the amount of $0.6 million (2011 – $1.5 million).

The University invoiced UBC Properties Trust $14.6 million (2011 - $5.7 million) for infrastructure impact charges. These charges have been eliminated in the consolidated financial statements.

9 Investment Income

	2012	2011
	(thousands of dollars)	
Interest and dividend income	$ 55,877	$ 45,921
Realized gains and losses	1,812	(22,433)
Change in fair value adjustments	3,017	79,199
Foreign exchange	1,400	428
	$ 62,106	$ 103,115

The change in fair value adjustments primarily comprise market fluctuations relating to the operating investment portfolio (including LTFN – Note 7(b)) and the endowment investments.

10 Capital Assets

	2012			2011
				(Recasted - Note 3)
	(thousands of dollars)			(thousands of dollars)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 28,045	-	28,045	28,045
Site improvements	93,667	24,794	68,873	65,144
Buildings and renovations	2,981,953	875,617	2,106,336	1,962,410
Furnishings, equipment and systems	574,670	255,045	319,625	301,930
Library books	151,478	74,441	77,037	76,024
	$ 3,829,813	$ 1,229,897	$ 2,599,916	$ 2,433,553

11 Invested in Capital Assets

Invested in capital assets represents the unamortized value of capital assets funded by the University, net of outstanding debt. It excludes those assets funded through external capital contributions.

(a) Invested in capital assets is calculated as follows:

		2012		2011
				(Recasted - Note 3)
		(thousands of dollars)		
Total capital assets (Note 10)	$	2,599,916	$	2,433,553
Less amounts financed by:				
Deferred capital contributions (Note 15)		(1,420,560)		(1,370,918)
Long-term debt (Note 13)		(415,114)		(442,225)
Sinking fund investments (Note 13)		31,865		51,053
Invested in capital assets	$	796,107	$	671,463

(b) The net change in invested in capital assets is calculated as follows:

		2012		2011
				(Recasted - Note 3)
		(thousands of dollars)		
Amortization of deferred capital contributions	$	97,416	$	92,259
Less amortization of capital assets		(202,463)		(188,968)
Deficiency of revenue over expenses		(105,047)		(96,709)
Acquisition of capital assets		368,826		437,742
Decrease in long-term debt used for the purchase of capital assets		27,111		735
Decrease in sinking fund investments		(19,188)		5,091
Amounts funded by deferred capital contributions		(147,058)		(257,522)
Increase in invested in capital assets		229,691		186,046
Net change in invested in capital assets	$	124,644	$	89,337

12 Employee Future Benefits

(a) Contributions to Pension Plans

University contributions made to each of the pension plans were:

		2012		2011
		(thousands of dollars)		
Faculty Pension Plan	$	34,344	$	33,625
Staff Pension Plan		31,184		30,245
Supplemental Arrangement		3,287		3,291
	$	68,815	$	67,161

(b) Income Replacement Plan

The accrued benefit obligation as at March 31, 2012 is based on an actuarial valuation prepared as of March 31, 2012 and is calculated as follows:

	2012	2011
	(thousands of dollars)	
Balance, beginning of year	$ 5,830	$ 5,312
Current costs or recoveries and interest on benefit obligation	2,665	725
Less payments during the year	(215)	(207)
Balance, end of year	$ 8,280	$ 5,830

Actuarial assumptions used to determine the University's accrued benefit obligation are as follows:

	2012	2011
Discount rate	3.75%	5.75%
Expected future inflation rate	2.00%	2.50%
Expected wage and salary increases	3.00%	3.00%

13 Long-Term Debt

Long-term debt is measured at amortized cost as follows:

	Maturity Date	Interest Rate	2012	2011
			(thousands of dollars)	
Series A Debentures Unsecured, to be repaid at maturity	2031	6.65%	$ 126,464	$ 126,432
Series B Debentures Unsecured, to be repaid at maturity	2035	4.817%	125,408	125,392
Canada Mortgage and Housing Corporation Mortgages, $758,277 paid semi-annually	2015 to 2023	5.125% to 7.875%	8,567	9,472
Province of BC Unsecured Debentures to be repaid at maturity	2013 to 2037	4.70% to 8.50%	154,675	180,929
Total long-term debt (fair value 2012 - $500.4 million, 2011 - $477.7 million)			415,114	442,225
Less current portion			(6,702)	(33,063)
Balance, end of year			$ 408,412	$ 409,162

During the year, $25.5 million of the Province of BC Unsecured Debentures matured and were repaid from sinking fund investments.

The current portion of long-term debt includes accrued interest payable of $5.8 million (2011 – $6.7 million).

The principal portion of long-term debt repayments over the next five years is:

	(thousands of dollars)
2013	873
2014	28,860
2015	991
2016	800
2017	856

In addition to principal repayments, sinking fund payments are made into government invested funds, to be applied against repayment of provincial debentures on maturity. The market value of sinking fund investments as at March 31, 2012 is $31.9 million (Note 7) and is invested in government and corporate bonds. The University will make sinking fund payments over the next five years as follows:

	(thousands of dollars)
2013	2,616
2014	2,616
2015	2,006
2016	2,006
2017	2,006

14 Deferred Contributions

Deferred contributions represent unspent externally restricted grants, donations, contributions and endowment investment income. Changes in deferred contributions are as follows:

	2012	2011
	(thousands of dollars)	
Balance, beginning of year	$ 514,034	$ 475,785
Grants, contributions, donations and endowment income	677,881	817,846
Transferred to deferred capital contributions (Note 15)	(147,058)	(257,522)
Recognized to revenue	(478,217)	(522,075)
Balance, end of year	$ 566,640	$ 514,034

The balance consists of funds restricted for:

	2012	2011
	(thousands of dollars)	
Research	$ 211,546	$ 168,203
Capital	57,835	18,076
Trust	103,186	89,849
Endowment	194,073	237,906
Balance, end of year	$ 566,640	$ 514,034

15 Deferred Capital Contributions

Deferred capital contributions represent the unamortized amount used to purchase capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations as the related assets are amortized.

	2012	2011
	(thousands of dollars)	
Balance, beginning of year	$ 1,370,918	$ 1,205,655
Grants, contributions and donations spent (Note 14)	147,058	257,522
Current year amortization	(97,416)	(92,259)
Balance, end of year	$ 1,420,560	$ 1,370,918

16 Deferred Land Lease Revenue

	2012	2011
		(Recasted - Note 3)
	(thousands of dollars)	
Balance, beginning of year	$ 303,787	$ 235,904
Lease additions during the year	79,832	70,716
Recognized to revenue	(3,663)	(2,833)
Balance, end of year	$ 379,956	$ 303,787

17 Unrestricted Operating Net Assets

The unrestricted operating deficit includes unspent operating and other unrestricted surpluses, offset by the use of available cash resources to support capital construction costs. The University plans to fund these capital projects from future revenues.

18 Endowment Fund

The endowment fund consists of restricted donations to the University and internal allocations by the University. The fair value of endowments held by the University is as follows:

	2012	2011
	(thousands of dollars)	
Balance, beginning of year	$ 708,890	$ 639,147
Donations	19,813	25,287
Transfers to endowment fund:		
Internal transfers to endowments	4,370	3,197
Investment income	46,591	17,502
Use of endowment funds	(33,322)	(35,426)
Change in fair value adjustment	(11,628)	59,183
	6,011	44,456
Balance, end of year	$ 734,714	$ 708,890

(a) Endowment equity does not include $237.5 million (2011 – $171.5 million) which is reflected within deferred land lease revenue on the statement of financial position and will be amortized to endowment income over the period of the 99-year leases. This amount is, however, included within endowment investments, and generates a return to investment income for the endowment.

(b) The fair value of endowment investments is $1,096.6 million (2011 – $1,113.7 million), and this is included in Investments.

(c) Endowments with a fair value of $18.9 million (2011 – $19.3 million) are held by the Vancouver Foundation in perpetuity for the benefit of the University and are not included in the University's financial statements. The capital of these endowment funds are held permanently by Vancouver Foundation and invested in accordance with the provisions of the Vancouver Foundations Act.

(d) Endowments with a fair value of $20.8 million (2011 – $21.2 million) are held and managed by Vancouver Foundation and are included in the University's financial statements. The University has the discretion to direct Vancouver Foundation to transfer the whole or any part of the capital of these endowment funds to the University.

19 Government Grants and Contracts

	2012	2011
	(thousands of dollars)	
Province of British Columbia		
Core Academic Funding	$ 575,189	$ 578,755
Post Graduate Medical Education Program	106,312	97,491
Other funding	47,045	65,987
Total Province of British Columbia	728,546	742,233
Government of Canada	254,607	256,540
Other governments	22,089	21,216
	$ 1,005,242	$ 1,019,989

During the year, the University received operating and capital funding from the Province of British Columbia in the amount of $810.8 million (2011 – $824.4 million). Of this amount, $728.5 million (2011 – $742.2 million) has been recognized as revenue and the remaining amount represents restricted contributions and is deferred on the statement of financial position.

20 Grants and Reimbursements to Other Agencies

During the year, the University distributed research and other funds to agencies totalling $122.1 million (2011 – $139.6 million). These funds were distributed under agreements with granting agencies, whereby the University is the administrative head and a portion of the research is undertaken at other agencies.

Reimbursements of $77.3 million (2011 - $74.4 million) were made to the Health Authorities for payments made on behalf of the University for the postgraduate medical education program.

21 Contractual Obligations and Contingent Liabilities

Contractual obligations and contingent liabilities are as follows:

(a) Capital Projects

(i) At March 31, 2012, outstanding commitments totalled $133.5 million (2011 – $204.1 million) for capital projects. These commitments are payable in subsequent years, and are funded by provincial contributions, private donations and earnings from sales and services.

(ii) In its capacity as development manager, UBC Properties Investment Ltd. has provided letters of guarantee of $5.9 million (2011 – $0.2 million).

(b) Litigation

The University is involved from time to time in litigation, which arises in the normal course of operations. Liabilities on any litigation are recognized in the financial statements when the outcome becomes reasonably determinable. In management's judgement, no material exposure exists at this time on the eventual settlement of any existing litigation.

(c) Derivative Financial Instruments

At March 31, 2012 the University had outstanding forward currency contracts with notional values of $203.3 million (2011 – $202.3 million) whose settlements extend to April 5, 2012 and May 7, 2012. The unrealized loss at March 31, 2012 was $1.3 million (2011 – loss of $0.01 million) and has been reflected in the statement of operations and in the fair value of investments.

(d) Self Insurance

The University is a member of a self-insurance co-operative in association with other Canadian universities that provides property and general liability insurance coverage. Under this arrangement, referred to as the Canadian University Reciprocal Insurance Exchange (C.U.R.I.E.), the University is required to share in any net losses experienced by C.U.R.I.E. However, the University also receives periodic return premium distributions when C.U.R.I.E. is in an acceptable surplus position.

(e) Funding Commitments

Under its endowment investment strategy, the University has outstanding commitments to fund private equity and real estate investments totalling approximately $24.6 million (2011 – $33.4 million) and $12.0 million (2011 – $6.7 million), respectively. In addition, the University has outstanding commitments to previous hedge fund investments of approximately $3.9 million (2011 – $3.8 million).

22 Donation Pledges and Gifts-in-Kind

The estimated value of donations, which have been pledged but not received as at March 31, 2012, was approximately $311.5 million (2011 – $288.9 million). These amounts are not reflected in the financial statements of the University.

For the fiscal year 2012, gifts-in-kind with an estimated value of $18.3 million were received (2011 – $16.3 million), of which $8.7 million (2011 – $9.2 million) is not recorded in the financial statements.

23 Capital Management

The University receives its principal source of capital through funding received from provincial government, tuition fees, and external donors. The University defines capital to be net assets and long-term debt.

The University's objective when managing capital is to fund its operations and capital asset additions. The University manages capital at the fund level. The University has complied with all the terms of its debt covenants.

24 Comparative Figures

Comparative figures have been reclassified where necessary to be consistent with the presentation adopted in the current year.