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AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF GOVERNORS OF THE UNIVERSITY OF BRITISH COLUMBIA

We have audited the consolidated statement of financial position of The University of British Columbia as at March 31, 2008 and the consolidated statements of operations and changes in net operating assets, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The prior year comparatives were audited by another firm of chartered accountants.

KPMG LLP

Chartered Accountants

Burnaby, Canada

May 9, 2008

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

THE UNIVERSITY OF BRITISH COLUMBIA

Vancouver, B.C. V6T 1Z1

THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousands of dollars)

		MARCH 2008	MARCH 2007
ASSETS			
Current assets			
Cash and short-term investments	(Note 4)	$ 289,857	$ 187,907
Accounts receivable		59,451	82,354
Inventory		10,331	9,531
Prepaid expenses		4,676	4,575
		364,315	284,367
Investments	(Note 5)	1,366,114	1,157,400
Investments in equity accounted organizations	(Note 6)	11,588	15,694
Capital assets	(Note 8)	1,987,603	1,806,008
		$ 3,729,620	$ 3,263,469
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities		$ 138,566	$ 122,837
Current portion of long-term debt	(Note 11)	739	695
		139,305	123,532
Employee future benefits	(Note 10)	4,957	4,607
Deferred contributions	(Note 12)	330,431	267,956
Deferred capital contributions	(Note 13)	1,125,644	1,021,243
Deferred land lease revenue	(Note 14)	196,759	152,439
Long-term debt	(Note 11)	443,596	312,880
		2,240,692	1,882,657
Net assets			
Unrestricted operating		12,167	7,144
Internally restricted reserves	(Note 15)	215,582	100,491
Endowment fund	(Note 16)	791,834	751,038
Externally restricted related organizations		14,737	17,948
Invested in capital assets	(Note 9)	454,608	504,191
		1,488,928	1,380,812
		$ 3,729,620	$ 3,263,469

Contractual obligations and contingent liabilities (Note 19)
Subsequent event (Note 22)

Approved:

Chair, Board of Governors

Chair, Audit Committee

Acting Vice President, Administration and Finance

(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)

			2008		2007
Revenues					
Government grants and contracts	(Note 17)	$	832,780	$	764,704
Student fees			302,573		283,913
Non-government grants, contracts and donations			136,364		124,027
Investment income	(Note 7)		(51,234)		81,309
Income from equity-accounted organizations			864		1,636
Sales and services			249,485		273,796
Amortization of deferred capital contributions	(Notes 9 and 13)		69,997		66,429
			1,540,829		1,595,814
Expenses					
Salaries			809,500		764,384
Employee benefits			118,501		116,840
Supplies and sundries			162,945		181,069
Amortization			145,265		132,879
Cost of goods sold			43,519		40,526
Scholarships, fellowships and bursaries			57,970		55,992
Travel and field trips			40,105		39,723
Professional and consulting fees			46,978		45,407
Grants and reimbursements to other agencies	(Note 18)		82,957		74,692
Utilities			23,403		24,858
Interest on long-term debt			21,965		22,313
			1,553,108		1,498,683
(Deficiency) excess of revenues over expenses		**$**	**(12,279)**	**$**	**97,131**

Allocation of (deficiency) excess of revenues over expenses					
Decrease (increase) in invested in capital assets	(Note 9)	$	49,911	$	(113,279)
Decrease (increase) in endowment fund	(Note 16)		74,735		(22,394)
(Increase) decrease in internally restricted reserves			(110,326)		41,335
Decrease (increase) in equity of externally restricted related organizations			3,211		(873)
Change in unrestricted net operating assets			5,252		1,920
Unrestricted net operating assets, beginning of year			7,144		5,224
Change in accounting policy - Financial Instruments			(229)		-
Unrestricted net operating assets, end of year		**$**	**12,167**	**$**	**7,144**

(See accompanying notes to the consolidated financial statements)

THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(thousands of dollars)

	Unrestricted Operating	Internally Restricted Reserves	Endowment Fund	Externally Restricted Related Organizations	Invested in Capital Assets	Total MARCH 2008	Total MARCH 2007
Opening balance as previously reported	$ 7,144	$ 100,491	$ 751,038	$ 17,948	$ 504,191	$ 1,380,812	$ 1,241,396
Accounting policy change (Note 3)	(229)	4,765	86,516	-	328	91,380	-
Opening balance, restated	6,915	105,256	837,554	17,948	504,519	1,472,192	1,241,396
Excess (deficiency) of revenues over expenses	68,582	66,089	(73,971)	2,289	(75,268)	(12,279)	97,131
Interfund transfers	(53,019)	62,113	(3,594)	(5,500)	-	-	-
Net change in invested in capital assets	(10,292)	(14,333)	(732)	-	25,357	-	-
Transfers to endowment principal	(19)	(3,543)	3,562	-	-	-	-
Net change during the year	5,252	110,326	(74,735)	(3,211)	(49,911)	(12,279)	97,131
External endowment donations (Note 16)	-	-	29,015	-	-	29,015	42,285
Balance, end of year	$ 12,167	$ 215,582	$ 791,834	$ 14,737	$ 454,608	$ 1,488,928	$ 1,380,812

(See accompanying notes to the consolidated financial statements)

THE UNIVERSITY OF BRITISH COLUMBIA
CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of dollars)

	MARCH 2008	MARCH 2007
Cash provided from operating activities		
(Deficiency) Excess of revenues over expenses	$ (12,279)	$ 97,131
Add non-cash items:		
Fair value adjustment of investments	97,073	-
Fair value adjustment in deferred contributions	29,682	-
Amortization of capital assets	145,265	132,879
Amortization of deferred capital contributions	(69,997)	(66,429)
Amortization of deferred land lease revenue	(1,543)	(880)
Employee future benefits	409	446
	188,610	163,147
Decrease in non-cash current assets	69,083	52,410
Decrease (increase) in investment in equity accounted entities	4,106	(1,600)
Increase (decrease) in current liabilities excluding current portion of long-term debt	22,467	(41,084)
Payments of employee future benefits	(59)	(589)
	284,207	172,284
Cash used in investing activities		
Capital asset acquisitions	(326,860)	(286,868)
Net increase in investments	(214,407)	(145,381)
	(541,267)	(432,249)
Cash provided from financing activities		
Net increase (decrease) in deferred contributions	32,793	(5,263)
Net increase (decrease) in long-term debt	124,022	(18,573)
Proceeds from land leases	45,863	54,626
Increase in deferred capital contributions	174,398	113,218
Endowment contributions	29,015	38,035
	406,091	182,043
Increase (decrease) in cash and cash equivalents	149,031	(77,922)
Cash and cash equivalents, beginning of year	78,549	156,471
Cash and cash equivalents, end of year	$ 227,580	$ 78,549

(See accompanying 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. 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 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 for not-for-profit organizations.

(a) Basis of Presentation

The University reports its operations on a consolidated basis, which includes activities from various funds.

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

Internally restricted reserves are funds that have been restricted, subject to approval by the Board of Governors (Note 15).

(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, which was 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, which is incorporated in Hong Kong as a not-for-profit organization, to promote and advance all matters concerning education in Hong Kong and elsewhere.
- UK Foundation for the University of British Columbia, an official charitable organization in the UK that promotes and advances all matters concerning education in the United Kingdom and elsewhere in the world.
- UBC Society for the Education of Young Children, which maintains and operates an educational program for young children.

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

- UBC Properties Investments Ltd., 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.

- DDI Drug Development Inc, a development stage biotechnology enterprise.

(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 16.7% interest in TRIUMF. TRIUMF is a joint venture, amongst the University and five 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% 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% interest in WCUMSS. The University is one of five university members of WCUMSS.

(c) Cash and short-term investments

Cash and short-term investments are defined to include highly liquid securities with original 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, realised gains or losses on the sale of investments, write downs 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) 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, whereby the amount recognized in expenses varies over the life of the instrument based on principal outstanding.

ii) Interest Rate Risk

The University is not at risk for changes in interest rates 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.

(f) Inventory

Inventory held for resale is recorded at the lower of cost and net realizable value. Supplies inventories are recorded at cost.

(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. Land granted to the University is recorded at nominal value. Transfers of capital assets from related parties are recorded at carrying value.

Library books and periodicals are recorded at cost.

Capital assets are amortized on a straight-line basis over their estimated useful life as shown below with no charge in the year of acquisition and a full charge in the year of disposal. 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 providing pension and other benefits to its employees.

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 made.

Staff Pension Plan

The Staff Pension Plan provides benefits based on 2% of the average best three years' basic salary multiplied by the number of years of contributory service, less an adjustment for Canada Pension Plan contributory earnings. The University 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 made. Benefits security for employees is improved by the plan maintaining a contingency reserve. The contingency reserve recommended by the plan's actuary and approved by the pension board and Canada Revenue Agency is 40% of liabilities.

ii) Early Termination Arrangements and Income Replacement Plan

Early termination arrangements were available to tenured or tenure-track faculty members who had applied to the program prior to November 30, 2002. Effective November 30, 2002, the program was discontinued. An actuary determines the cost of employee future benefits and the cost is recognized over the service life of the employees. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations.

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, 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 on a straight line basis.

(m) Comparative Figures

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

(n) Future accounting and reporting changes

(i) Financial Instruments – Presentation and Disclosure

CICA Handbook Section 3862, *Financial Instruments – Disclosure*, and Section 3863, *Financial Instruments – Presentation*, both issued in December 2006, establish comprehensive disclosure and presentation requirements related to financial instruments. The standards revise the current disclosure requirements of CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and place an increased emphasis on disclosures regarding the risks associated with financial instruments and how these risks are managed.

CICA Handbook Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

These standards will impact the University's note disclosures and allow users to further evaluate the University's policies and processes for managing capital and the risks related to the University's financial instruments.

The University will implement these standards in 2009.

(ii) Inventories

CICA Handbook Section 3031, *Inventories* requires inventory to be measured at lower of cost and net realizable value. The standard also provides guidance on the costs that can be capitalized. In addition, previous inventory write-downs must be reversed if the economic circumstances have changed to support an increase in inventory value. The impact of the adoption of this standard is not yet known or reasonably estimable.

The University will implement this standard in 2009.

3 CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2007, the University adopted the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges.*

Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. The University has designated substantially all of its investments as held for trading. Held for trading financial investments are measured at fair value and their unrealized gains and losses from market fluctuations are treated as per Note 2e(i). Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

A summary of the impact from adopting the new standards on opening net assets is as follows:

		(thousands of dollars)
Loans and receivables and other financial liabilities	$	(1,655)
Investments held for trading		93,035
Total increase in opening net assets	$	91,380

The initial impact of adopting the new standards on all other financial instruments was not material.

4 CASH AND SHORT-TERM INVESTMENTS

	2008 (thousands of dollars)	2007 (thousands of dollars)	
		Cost	Fair Value
Cash and unpresented cheques	$ 17,190	$ (13,480)	$ (13,480)
Cash equivalents	210,390	92,029	92,029
Cash and cash equivalents	227,580	78,549	78,549
Short term investments maturing in less than 90 days	31,418	82,306	82,190
Bonds maturing between 90 days and one year	30,859	27,052	26,820
	$ 289,857	$ 187,907	$ 187,559

The University has a $30.0 million revolving line of credit and a US $5.0 million line of credit secured by certain investments.

5 INVESTMENTS

(a) Analysis of Investments

	2008 (thousands of dollars)	2007 (thousands of dollars)	
		Cost	Fair Value
Government and corporate bonds			
Maturity			
Less than 1 year	$ 2,768	$ 13,194	$ 13,188
1 - 5 years	73,935	123,022	122,572
Greater than 5 years	102,926	100,681	101,502
Various - pooled	147,126	122,289	122,730
	326,755	359,186	359,992
Short-term notes and treasury bills	7,856	13,040	13,021
Canadian equities	135,462	93,842	160,532
Canadian pooled funds	139,103	118,505	132,359
United States equities	2,932	1,816	1,896
United Stated pooled funds	80,498	86,761	88,383
Other international pooled funds	464,164	382,224	438,036
Other	209,344	102,026	105,823
	$ 1,366,114	$ 1,157,400	$ 1,300,042

Other investments include promissory notes of $54.1 million (2007 – $34.2 million) with a related party, UBC Properties Trust. The promissory notes are unsecured with floating interest rates at prime less 1%. The settlement periods extend to March 2010.

Other investments also include the UBC golf course, real estate investments and promissory notes issued to unrelated parties.

(b) Asset Backed Commercial Paper (ABCP)

At March 31, 2008, the University held within its working capital investment portfolio impaired Canadian ABCP issued by a number of trusts with an original cost of $130.6 million. As a result of liquidity issues in the ABCP market, these investments did not settle during the year. The University re-classified its ABCP as long-term investments after initially classifying them as cash and cash equivalents.

The valuation model used by the University to estimate the fair value of its investment in ABCP, at March 31, 2008, incorporates probability weighted discounted cash flows considering the best available information regarding market conditions and other factors that a market participant would consider for such investments. Where there is no observable market data, the University has used estimates that it believed to be reasonable. Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the nature and timing of the restructuring process could give rise to a further change in the value of the University's investment in ABCP.

The estimated fair value of the investment in ABCP is $92.7 million at March 31, 2008. The reduction in the fair value of $37.9 million, or 29% of the original cost of the ABCP, has been recorded as a reduction in investment income.

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, 2008.

6 INVESTMENTS IN EQUITY ACCOUNTED ORGANIZATIONS

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

	UBC Properties Inv Ltd (thousands of dollars)		Great Northern Way (thousands of dollars)		TRIUMF (thousands of dollars)	
	2008	2007	2008	2007	2008	2007
Assets	$ 248,803	$ 144,163	$ 24,530	$ 20,478	$ 2,720	$ 1,443
Liabilities	243,525	130,350	11,989	8,579	1,866	883
Equity	$ 5,278	$ 13,813	$ 12,541	$ 11,899	$ 854	$ 560
Revenue	$ 68,764	$ 73,815	$ 2,568	$ 338	$ 11,433	$ 10,100
Expenses	27,285	25,980	1,303	588	11,219	9,922
Net Income	$ 41,479	$ 47,835	$ 1,265	$ (250)	$ 214	$ 178
Cash Flows:						
Operating	$ 52,101	$ 34,887	$ (2,258)	$ (155)		
Financing	$ 21,308	$ (60,566)	$ 3,276	$ 7,399		
Investing	$ (68,457)	$ 17,947	$ (54)	$ 6,683		

(a) UBC Properties Trust recognizes revenue from sales of 99 year leases in its income statement in the year that the transaction is completed. UBC defers these revenues on the balance sheet and amortizes the balance to the statement of operations over the duration of the lease (Note 14).

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

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

UBC Properties Trust invoiced UBC $3.2 million for project management fees. This is recorded as a supplies and sundries expense.

UBC issued promissory notes to UBC Properties Trust amounting to $54.1 million (2007 – $34.2 million). This is reflected within investments (Note 5a).

7 INVESTMENT INCOME

	2008	2007
	(thousands of dollars)	
Interest and dividend income	$ 63,400	$ 52,144
Capital gains and losses	11,799	23,190
Fair value adjustments	(126,755)	-
Foreign exchange	(274)	1,279
Other	596	4,696
	$ (51,234)	$ 81,309

The fair value adjustments primarily comprise market fluctuations relating to the working capital investment portfolio (including ABCP – Note 5b) and the endowment. These adjustments result from implementation of the new accounting guideline on Financial Instruments as detailed in Note 2d(iv).

8 CAPITAL ASSETS

	2008			2007
	(thousands of dollars)			(thousands of dollars)
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 18,972	$ -	$ 18,972	$ 18,972
Site improvements	63,592	16,557	47,035	41,503
Buildings and renovations	2,137,072	561,590	1,575,482	1,398,379
Furnishings, equipment and systems	447,323	180,928	266,395	267,073
Library books	139,603	59,884	79,719	80,081
	$ 2,806,562	$ 818,959	$ 1,987,603	$ 1,806,008

9 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 capital contributions.

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

	2008	2007
	(thousands of dollars)	
Total capital asets (Note 8)	$ 1,987,603	$ 1,806,008
Less amounts financed by:		
Deferred capital contributions (Note 13)	(1,125,644)	(1,021,243)
Long-term debt, excluding related organizations debt	(445,139)	(311,713)
Sinking fund investments	37,788	31,139
Invested in capital assets	$ 454,608	$ 504,191

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

	2008	2007
	(thousands of dollars)	
Amortization of deferred capital contributions	$ 69,997	$ 66,429
Less amortization of capital assets	(145,265)	(132,879)
Deficiency of revenue over expenses	(75,268)	(66,450)
Acquisition of capital assets	326,860	286,868
(Increase) decrease in long-term debt used for the purchase of capital assets	(127,105)	6,079
Amounts funded by deferred capital contributions	(174,398)	(113,218)
Increase in invested in capital assets	25,357	179,729
Net change in invested in capital assets	$ (49,911)	$ 113,279

10 EMPLOYEE FUTURE BENEFITS

(a) Contributions to Pension Plans

University contributions made to each of the pension plans were:

	2008	2007
	(thousands of dollars)	
Faculty Pension Plan	$ 27,866	$ 26,149
Staff Pension Plan	24,268	23,320
	$ 52,134	$ 49,469

(b) Early Termination Arrangements and Income Replacement Plan

The accrued benefit obligation as at March 31, 2008 is based on an actuarial valuation prepared as of March 31, 2006 with projections to 2008/09 and is calculated as follows:

	2008	2007
	(thousands of dollars)	
Balance, beginning of year	$ 4,607	$ 4,750
Current costs or recoveries and interest on benefit obligation	409	446
Less payments during the year	(59)	(589)
Balance, end of year	$ 4,957	$ 4,607

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

	2008	2007
Discount rate	5.25%	5.25%
Expected future inflation rate	2.50%	2.50%
Expected wage and salary inflation	3.00%	3.00%
Expected wage and salary increases	3.00%	3.00%

11 LONG-TERM DEBT

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

	Maturity Date	Interest Rate	2008 (thousands of dollars)	2007 (thousands of dollars)
Series A Debentures Unsecured, to be repaid at maturity	2031	6.65%	$ 126,345	$ 123,751
Series B Debentures Unsecured, to be repaid at maturity	2035	4.817%	125,349	124,284
Canada Mortgage and Housing Corporation Mortgages Unsecured, $758,277 paid semi-annually	2012 to 2023	5.125% to 7.875%	11,873	12,370
Province of BC Unsecured Debentures to be repaid at maturity	2011 to 2037	4.70% to 10.04%	180,768	53,170
Total long-term debt			444,335	313,575
Less current portion			(739)	(695)
Balance, end of year			$ 443,596	$ 312,880

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

	(thousands of dollars)
2009	739
2010	787
2011	837
2012	891
2013	873

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, 2008 is $37.8 million (Note 5) and are invested in government and corporate bonds. The University will make sinking fund payments over the next five years as follows:

	(thousands of dollars)
2009	1,168
2010	3,173
2011	3,173
2012	3,173
2013	2,616

12 DEFERRED CONTRIBUTIONS

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

	2008	2007
	(thousands of dollars)	
Balance, beginning of year	$ 267,956	$ 273,219
Grants, contributions, donations and endowment income	817,866	630,646
Transferred to deferred capital contributions (Note 13)	(174,398)	(113,218)
Transferred to revenue	(580,993)	(522,691)
Balance, end of year	$ 330,431	$ 267,956

The balances consist of funds restricted for:

	2008	2007
	(thousands of dollars)	
Research	$ 147,885	$ 160,755
Capital	28,021	28,500
Trust	99,751	57,598
Endowment	23,658	21,103
Related Organizations	31,116	-
Balance, end of year	$ 330,431	$ 267,956

13 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.

	2008	2007
	(thousands of dollars)	
Balance, beginning of year	$ 1,021,243	$ 974,454
Grants, contributions and donations spent (Note 12)	174,398	113,218
Current year amortization	(69,997)	(66,429)
Balance, end of year	$ 1,125,644	$ 1,021,243

14 DEFERRED LAND LEASE REVENUE

	2008	2007
	(thousands of dollars)	
Balance, beginning of year	$ 152,439	$ 98,695
Net proceeds	45,863	54,626
Recognition of revenue	(1,543)	(882)
Balance, end of year	$ 196,759	$ 152,439

The proceeds were paid to the University by a related party, UBC Properties Trust.

15 INTERNALLY RESTRICTED RESERVES

Funds that are internally restricted include employee benefits, faculty and department carry-forwards, specific purpose, ancillary and research reserves and are made up of the following amounts:

	2008	2007
	(thousands of dollars)	
Faculty and department carry-forwards	$ 63,238	$ 50,105
Specific purpose reserves	92,646	(25,992)
Ancillary reserves	34,570	28,073
Research reserves	62,835	48,640
Other reserves	(37,707)	(335)
	$ 215,582	$ 100,491

The purpose of these internally restricted reserves are as follows:

(a) Faculty and Department Carry-forwards

These reserves include unspent general purpose operating fund allocations that faculties and departments are permitted to carry forward at the end of each year.

(b) Specific Purpose Reserves

These reserves consist of: amounts set aside to fund future obligations for continuing education and fee for service operations that are expected to be self-sustaining; unrestricted donations received in the specific purpose fund; funding for capital projects.

(c) Ancillary Reserves

These reserves represent the net assets set aside related to the operations of the ancillary units. Ancillary enterprises are expected to operate on a financially sustainable basis and, as such, funds need to be set aside for future maintenance, renovations and reinvestment in the business.

(d) Research Reserves

These reserves represent the commitments made to fund future overhead costs of research and internally funded research projects.

(e) Other Reserves

These reserves relate to accounting adjustments which will be funded from operations in future years. These include certain adjustments relating to Financial Instruments, including fair value adjustments relating to ABCP (Note 5b). These also include future obligations of early termination agreements, vacation pay, self-insurance reserves and benefit liabilities related to the income replacement plan.

16 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 directly is as follows:

	2008	2007
	(thousands of dollars)	
Balance, beginning of year	$ 751,038	$ 690,609
Accounting Policy Change (Note 3)	86,516	-
Donations	29,015	38,035
Transfers to (from) endowment fund:		
Internal transfers to endowments	3,562	5,148
Investment income	60,320	52,005
Use of endowment funds	(48,019)	(34,759)
Unrealized losses	(90,598)	-
	(74,735)	22,394
Balance, end of year	$ 791,834	$ 751,038

(a) Endowment equity does not include $164.7 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 $1,015.2 million (2007 – $993.9 million), and this is included in Investments.

(c) Endowments include unrestricted funds with a fair value of $48.1 million.

(d) Endowments with a fair value of $17.3 million (2007 – $19.0 million) are held by the Vancouver Foundation for the benefit of UBC and are not included in the above figures.

17 GOVERNMENT GRANTS AND CONTRACTS

	2008	2007
	(thousands of dollars)	
Province of British Columbia		
Core Academic Funding	$ 482,864	$ 435,842
Post Graduate Medical Education Program	75,143	66,743
Other funding	86,035	75,921
Total Province of British Columbia	644,042	578,506
Government of Canada	177,762	174,264
Other governments	10,976	11,934
	$ 832,780	$ 764,704

18 GRANTS AND REIMBURSEMENTS TO OTHER AGENCIES

During the year, the University distributed research and other funds to agencies totalling $83.0 million (2007 - $74.7 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 were made to the Health Authorities for payments made on behalf of the University for the postgraduate medical education program.

19 CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

Contractual obligations and contingent liabilities are as follows:

(a) Capital Projects

(i) At March 31, 2008, outstanding commitments totalled $63.0 million (2007 – $62.6 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 Trust is committed to payment of any cost overruns on the Keenleyside project.

(iii) UBC is committed to build a flyover and reservoir on the UBC Okanagan campus at an estimated cost of $6.5 million. The provincial government will provide related funding.

(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, 2008 the University had outstanding forward currency contracts and index-linked swaps with notional values of $229.5 million that mature May, 2008. The unrealized loss at March 31, 2008 was $7.7 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 $81.8 million (2007 – $99.2 million) and $40.8 million (2007 – $85.7 million) over the following four years.

20 DONATION PLEDGES AND GIFTS-IN-KIND

The estimated value of donations, which have been pledged but not received as at March 31, 2008, was approximately $202.4 million (2007 – $176.5 million). These amounts are not reflected in the financial statements of the University.

For the fiscal year 2008, gifts-in-kind with an estimated value of $17.3 million were received (2007 – $21.6 million), of which $3.7 million (2007 – $3.3 million) is not recorded in the financial statements.

21 ASSETS HELD IN TRUST

The Rick Hansen Trust holds several endowments for the benefit of the Rick Hansen Institute at the University. The total assets held in the Rick Hansen Trust are $26.4 million (2007 – $25.8 million). These assets are not controlled by UBC and are therefore not included in the financial statements.

22 SUBSEQUENT EVENT

Her Majesty the Queen in right of the Province of British Columbia and the Musqueam Indian Band signed a Reconciliation, Settlement and Benefits Agreement providing for the Musqueam Indian Band to acquire ownership of the University Golf Course lands. On April 14, 2008, the University received $20.8 million as compensation for the vesting of its fee simple estate in the University Golf Course lands. The monies received have been endowed. This transaction will be recorded in the financial statements for 2008/09.