CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

THE UNIVERSITY OF BRITISH COLUMBIA

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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, 2010 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Burnaby, Canada

May 14, 2010

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

		2010	2009
ASSETS			
Current assets			
Cash and short-term investments	(Note 4)	$ 97,690	$ 363,855
Restricted cash	(Note 5)	19,601	21,968
Accounts receivable		93,273	71,206
Inventories	(Note 6)	9,310	10,067
Prepaid expenses		5,266	5,052
		225,140	472,148
Investments	(Note 7)		
Operating investments		461,220	177,564
Endowment investments		969,557	867,963
Sinking fund investments		45,962	41,843
		1,476,739	1,087,370
Investments in equity-accounted organizations	(Note 8)	6,289	7,864
Capital assets	(Note 10)	2,190,190	2,055,923
		$ 3,898,358	$ 3,623,305
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities		$ 195,028	$ 205,376
Current portion of long-term debt	(Note 13)	7,522	7,484
		202,550	212,860
Employee future benefits	(Note 12)	5,312	4,829
Deferred contributions	(Note 14)	402,968	370,665
Deferred capital contributions	(Note 15)	1,205,655	1,113,610
Deferred land lease revenue	(Note 16)	221,680	223,118
Long-term debt	(Note 13)	435,438	436,169
		2,473,603	2,361,251
Net assets			
Unrestricted operating		-	8,431
Internally restricted	(Note 17)	105,245	77,912
Endowment fund	(Note 18)	711,964	616,191
Related organizations		20,009	19,017
Invested in capital assets	(Note 11)	587,537	540,503
		1,424,755	1,262,054
		$ 3,898,358	$ 3,623,305

Contractual obligations and contingent liabilities (Note 21)

Approved on behalf of the Board of Governors:

Chair, Board of Governors

Chair, Audit Committee

Vice President, Finance, Resources and 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)

		2010	2009
Revenues			
Government grants and contracts	(Note 19)	$ 967,114	$ 870,343
Student fees		357,947	326,425
Non-government grants, contracts and donations		157,155	136,130
Investment income	(Note 9)	141,395	(188,903)
Income from equity-accounted organizations		(19)	2,106
Sales and services		257,527	253,578
Amortization of deferred capital contributions	(Notes 11 and 15)	83,465	76,336
		1,964,584	1,476,015
Expenses			
Salaries		961,601	878,701
Employee benefits		140,037	127,143
Supplies and sundries		183,495	177,924
Amortization	(Note 11)	172,564	159,368
Cost of goods sold		35,838	34,253
Scholarships, fellowships and bursaries		66,040	58,397
Travel and field trips		42,912	43,412
Professional and consulting fees		69,191	63,867
Grants and reimbursements to other agencies	(Note 20)	104,547	93,486
Utilities		27,178	28,581
Interest on long-term debt		26,015	25,923
		1,829,418	1,691,055
Excess (deficiency) of revenues over expenses		**$ 135,166**	**$ (215,040)**

Allocation of excess (deficiency) of revenues over expenses			
(Increase) in invested in capital assets	(Note 11)	$ (47,034)	$ (125,639)
(Increase) decrease in endowment fund	(Note 18)	(68,238)	223,019
(Increase) decrease in internally restricted net assets		(27,333)	118,204
(Increase) in equity of related organizations		(992)	(4,280)
Change in unrestricted net operating assets		(8,431)	(3,736)
Unrestricted net operating assets, beginning of year		8,431	12,167
Unrestricted net operating assets, end of year		**$ -**	**$ 8,431**

(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	Internally Restricted	Endowment Fund	Related Organizations	Invested in Capital Assets	Total 2010	Total 2009
Opening balance	$ 8,431	$ 77,912	$ 616,191	$ 19,017	$ 540,503	$ 1,262,054	$ 1,456,688
Excess (deficiency) of revenues over expenses	93,698	60,075	69,500	992	(89,099)	135,166	(215,040)
Interfund transfers	(66,402)	66,511	(109)	-	-	-	-
Net change in invested in capital assets	(35,727)	(99,253)	(1,153)	-	136,133	-	-
Net change during the year	(8,431)	27,333	68,238	992	47,034	135,166	(215,040)
External endowment donations (Note 18)	-	-	27,535	-	-	27,535	20,406
Balance, end of year	$ -	$ 105,245	$ 711,964	$ 20,009	$ 587,537	$ 1,424,755	$ 1,262,054

(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)

		2010	2009
Cash provided from operating activities			
Excess (deficiency) of revenues over expenses		$ 135,166	$ (215,040)
Add non-cash items:			
Fair value adjustment		(77,134)	131,958
Amortization of capital assets		172,564	159,368
Amortization of deferred capital contributions		(83,465)	(76,336)
Amortization of deferred land lease revenue		(3,471)	(2,021)
Employee future benefits		492	(97)
		144,152	(2,168)
Decrease (increase) in non-cash current assets		5,456	(8,112)
Increase (decrease) in accounts payable and accrued liabilities		(10,348)	47,344
Payments of employee future benefits		(9)	(31)
		139,251	37,033
Cash used in investing activities			
Capital asset acquisitions		(306,831)	(333,712)
Decrease (increase) in restricted cash		2,367	(2,502)
Decrease (increase) in investment in equity-accounted organizations		1,575	(939)
Net (acquisitions) dispositions in investments		(282,213)	140,854
		(585,102)	(196,299)
Cash provided from financing activities			
Net increase in deferred contributions		2,281	31,266
Net (decrease) in long-term debt		(693)	(682)
Increase in deferred land lease revenue		2,033	13,322
Increase in deferred capital contributions		175,510	130,582
Endowment contributions		27,535	20,406
		206,666	194,894
(Decrease) increase in cash and cash equivalents		(239,185)	35,628
Cash and cash equivalents, beginning of year		243,742	208,114
Cash and cash equivalents, end of year	(Note 4)	$ 4,557	$ 243,742

(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 for not-for-profit organizations.

(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.

Internally restricted net assets are funds that have been restricted, subject to approval by the Board of Governors (Note 17).

(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., 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% (2009 – 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% (2009 – 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% (2009 – 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 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, 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 system	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 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'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 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

The University is currently classified as a government not-for-profit organization. Under the direction of the Public Sector Accounting Standards Board (PSAB), the University adheres to the standards for not-for-profit (NPO) organizations in the Canadian Institute of Chartered Accountants (CICA) Handbook.

PSAB proposes to incorporate into the Public Sector Accounting Handbook the current NPO Sections (4400 Standards) of the CICA Handbook to deal with areas not currently addressed by the PSAB framework. PSAB has decided not to make any further substantive changes to the Sections at this time. The exposure draft proposes to amend the Introduction so that the PSAB standards will be applicable to all government not-for-profit organizations, for fiscal periods beginning on or after January 1, 2012.

The University intends to continue applying the existing NPO standards and is awaiting the finalization of the new standards. Once the new standards are finalized, the University will determine the impact to the financial statements.

3 Adoption of Accounting Standards

(a) Revisions to Not-for-Profit accounting standards

Effective April 1, 2009, the University adopted the amendments to CICA Handbook Sections 4400, Financial Statement Presentation by Not-for-Profit Organizations, and 4470, Disclosure of Allocated Expenses by Not-for-Profit Organizations. The amendments removed the requirement to disclose net assets invested in capital assets, clarify capital asset recognition criteria and amortization, expand interim financial statement requirements to not-for-profit organizations that prepare interim financial statements, and added a requirement for disclosure of allocated fundraising and general support expenses by not-for-profit organizations, and a requirement to follow Handbook Section 1540, Cash Flow Statements. The application of these amendments did not have any impact on the University's financial statements.

(b) Amendments to Section 1000, Financial Statement Concepts

Effective April 1, 2009, the University adopted the amendments in Section 1000 Financial Statement Concepts. The amendments clarify the relationship between incurring expenditures and creating assets and clarify that items which do not meet the definition of assets or liabilities, are not eligible for recognition. The implementation of the amendments did not have an impact on the financial statements.

4 Cash and Short-Term Investments

	2010	2009
	(thousands of dollars)	
Cash and outstanding cheques	$ (706)	$ (12,127)
Cash equivalents	5,263	255,869
Cash and cash equivalents	4,557	243,742
Short term investments maturing in less than 90 days	14,331	31,045
Investments maturing between 90 days and one year	78,802	89,068
	$ 97,690	$ 363,855

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 $65.2 million (2009 – $69.0 million) and short term investments maturing in less than 90 days include promissory notes of $1.5 million (2009 – nil) 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 $19.6 million (2009 – $22.0 million) is held in trust for the Medical School Expansion program.

6 Inventories

Cost of inventory recognized as an expense during the period is $35.8 million (2009 – $34.3 million), which includes $0.7 million (2009 – $0.5 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 of 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

	2010	2009
	(thousands of dollars)	
Government and corporate bonds		
Maturity		
1 - 5 years	$ 306,085	$ 95,671
Greater than 5 years	97,299	23,396
Various - pooled	200,234	173,442
	603,618	292,509
Short-term notes and treasury bills	13,882	2,740
Canadian equities	134,127	88,751
Canadian pooled funds	120,553	99,971
United States equities	131	2,463
United Stated pooled funds	90,003	43,816
Other international pooled funds	426,696	456,957
Other	87,729	100,163
	$ 1,476,739	$ 1,087,370

Other investments include real estate investments, promissory notes issued by unrelated parties, and Long Term Floating Notes (LTFN), previously Asset Backed Commercial Paper (ABCP).

(b) Long Term Floating Notes

At March 31, 2009, the University held within its operating investment portfolio impaired Canadian LTFN with an original cost of $127.8 million. The estimated fair value of these investments at this date was $62.5 million. These instruments are designated as held-for-trading.

During the year, LTFN with an original cost of $22.8 million was redeemed at par, and LTFN with an original cost of $1.5 million defaulted. In addition, LTFN with an original cost of $22.3 million was sold for $11.1 million, thus incurring realized capital losses of $11.2 million. Accordingly, the book cost of the remaining notes is $81.2 million at March 31, 2010.

The University has a loan facility with a Canadian chartered bank for $34.1 million (Note 13). The facility is secured by some of the LTFN notes held by the University. The facility contains an option that allows the University to transfer these notes to the bank at maturity of the credit facility in full satisfaction of the loan. The amount of the facility available declines in an equivalent amount to the disposition or redemption proceeds of any of these notes and the facility ceases to be available once all these notes have been disposed of or have matured. As at March 31, 2010, the credit facility available is $25.8 million. Under the terms of the agreement, the University's losses on these notes used as security for the credit facility would be limited.

At March 31, 2010, the University estimates the fair value of its LTFN at $39.3 million (2009 – $62.5 million) and estimates the fair value of the option described above at $10.7 million. The fair value of the option is included in operating investments at March 31, 2010.

The Canadian LTFN held by the University fall into five broad categories with fair values at March 31, 2010 as follows:

		2010		2009
		(thousands of dollars)		
Leveraged super senior notes	$	23,200	$	16,300
US Residential mortgage-backed securities		4,200		13,800
Cash collateralized debt obligations (CDOs)		300		5,500
Commercial real estate backed notes		11,600		26,500
Other		-		400
Fair value of LTFN	$	39,300		62,500
Fair value of the option		10,700		-
	$	50,000		62,500

The statement of operations includes $24.2 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:

		2010		2009
		(thousands of dollars)		
Less than 5 years	$	6,800	$	10,000
5 - 10 years		5,800		3,600
More than 10 years		26,700		48,900
	$	39,300	$	62,500

For Master Asset Vehicle II notes, Classes A-1, A-2, B and C, the bid-side of the market is used in the valuation where over $1.0 billion of these notes have traded in the over-the-counter (OTC) markets in the past six months, and multiple dealers make regular two-way markets with 1-2 point bid-ask spreads. This market can reasonably be deemed liquid in the context of OTC fixed income structured credit instruments. All other LTFN securities could not reasonably be deemed to have liquid markets, and their 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. The report for these securities has become well-defined over the past few months as liquidity has returned to the market and purchases by end accounts have motivated price discovery.

- 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.

- Other: The remaining notes at March 31, 2009 are Government of Canada securities. Accordingly, the current market value is a reasonable approximation of fair value.

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, 2010.

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. 2010	UBC Properties Investments Ltd. 2009	Great Northern Way 2010	Great Northern Way 2009	TRIUMF 2010	TRIUMF 2009
	(thousands of dollars)		(thousands of dollars)		(thousands of dollars)	
Assets	$ 309,656	$ 251,919	$ 20,605	$ 20,640	$ 2,386	$ 2,440
Liabilities	303,492	244,674	10,057	10,091	1,960	1,960
Equity	$ 6,164	$ 7,245	$ 10,548	$ 10,549	$ 426	$ 480
Revenue	$ 18,865	$ 32,675	$ 1,742	$ 473	$ 9,050	$ 8,550
Expenses	16,508	19,351	1,743	2,096	9,104	8,804
Net Income	$ 2,357	$ 13,324	$ (1)	$ (1,623)	$ (54)	$ (254)
Cash Flows:						
Operating	$ (38,611)	$ (49,503)	$ (273)	$ (471)		
Financing	$ 37,101	$ 21,576	$ 153	$ (2,052)		
Investing	$ (14,154)	$ 41,462	$ 117	$ 1,399		

(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 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 $3.7 million (2009 – $3.2 million) for project management fees.

UBC Properties Trust issued promissory notes in favour of the University amounting to $66.7 million (2009 – $69.0 million). This is reflected within cash and short-term investments (Note 4). The University charged UBC Properties Trust interest in the amount of $1.7 million (2009 – $2.1 million).

9 Investment Income

	2010	2009
	(thousands of dollars)	
Interest and dividend income	$ 43,224	$ 42,678
Realized gains and losses	21,844	(104,157)
Change in fair value adjustments	77,134	(131,958)
Foreign exchange	(807)	4,417
Other	-	117
	$ 141,395	$ (188,903)

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

	2010			2009
	(thousands of dollars)			(thousands of dollars)
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 18,972	-	18,972	18,972
Site improvements	85,291	20,349	64,942	58,427
Buildings and renovations	2,503,691	732,636	1,771,055	1,667,911
Furnishings, equipment and systems	490,058	230,362	259,696	235,481
Library books	146,506	70,981	75,525	75,132
	$ 3,244,518	$ 1,054,328	$ 2,190,190	$ 2,055,923

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:

	2010	2009
	(thousands of dollars)	
Total capital assets (Note 10)	$ 2,190,190	$ 2,055,923
Less amounts financed by:		
Deferred capital contributions (Note 15)	(1,205,655)	(1,113,610)
Long-term debt (Note 13)	(442,960)	(443,653)
Sinking fund investments	45,962	41,843
Invested in capital assets	$ 587,537	$ 540,503

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

	2010	2009
	(thousands of dollars)	
Amortization of deferred capital contributions	$ 83,465	$ 76,336
Less amortization of capital assets	(172,564)	(159,368)
Deficiency of revenue over expenses	(89,099)	(83,032)
Acquisition of capital assets	306,831	333,712
Decrease in long-term debt used for the purchase of capital assets	693	1,486
Increase in sinking fund investments	4,119	4,055
Amounts funded by deferred capital contributions	(175,510)	(130,582)
Increase in invested in capital assets	136,133	208,671
Net change in invested in capital assets	$ 47,034	$ 125,639

12 Employee Future Benefits

(a) Contributions to Pension Plans

University contributions made to each of the pension plans were:

	2010	2009
	(thousands of dollars)	
Faculty Pension Plan	$ 32,353	$ 29,940
Staff Pension Plan	29,340	26,356
Supplemental Arrangement	3,208	3,091
	$ 64,901	$ 59,387

(b) Income Replacement Plan

The accrued benefit obligation as at March 31, 2010 is based on an actuarial valuation prepared as of March 31, 2009 with projections to fiscal year 2010/11 and is calculated as follows:

	2010	2009
	(thousands of dollars)	
Balance, beginning of year	$ 4,829	$ 4,957
Current costs or recoveries and interest on benefit obligation	492	(97)
Less payments during the year	(9)	(31)
Balance, end of year	$ 5,312	$ 4,829

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

	2010	2009
Discount rate	5.75%	5.75%
Expected future inflation rate	2.50%	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	2010 (thousands of dollars)	2009 (thousands of dollars)
Series A Debentures Unsecured, to be repaid at maturity	2031	6.65%	$ 126,401	$ 126,372
Series B Debentures Unsecured, to be repaid at maturity	2035	4.817%	125,377	125,362
Canada Mortgage and Housing Corporation Mortgages Unsecured, $758,277 paid semi-annually	2012 to 2023	5.125% to 7.875%	10,322	11,122
Province of BC Unsecured Debentures to be repaid at maturity	2011 to 2037	4.70% to 10.04%	180,860	180,797
Total long-term debt			442,960	443,653
Less current portion			(7,522)	(7,484)
Balance, end of year			$ 435,438	$ 436,169

The current portion of long-term debt includes accrued interest payable of $6.7 million (2009 – $6.7 million).

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

	(thousands of dollars)
2011	837
2012	891
2013	873
2014	930
2015	991

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, 2010 is $46.0 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)
2011	3,173
2012	3,173
2013	2,616
2014	2,616
2015	2,006

The University has also entered into four credit facilities with a Canadian chartered bank totaling \$34.1 million. The facilities expire on June 29, 2012 with options to renew all facilities annually until June 29, 2016. The facilities are secured with LTFN (Note 7 (b)). The University is in compliance with the credit facility covenants as at March 31, 2010. As at March 31, 2010, no amount has been drawn against these facilities, and the credit facility available is \$25.8 million.

14 Deferred Contributions

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

	2010	2009
	(thousands of dollars)	
Balance, beginning of year	$ 370,665	$ 332,243
Grants, contributions, donations and endowment income	721,189	485,630
Transferred to deferred capital contributions (Note 15)	(175,510)	(130,582)
Recognized to revenue	(513,376)	(316,626)
Balance, end of year	$ 402,968	$ 370,665

The balance consists of funds restricted for:

	2010	2009
	(thousands of dollars)	
Research	$ 191,348	$ 167,453
Capital	46,017	76,278
Trust	82,292	83,006
Endowment	83,311	43,928
Balance, end of year	$ 402,968	$ 370,665

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.

	2010	2009
	(thousands of dollars)	
Balance, beginning of year	$ 1,113,610	$ 1,059,364
Grants, contributions and donations spent (Note 14)	175,510	130,582
Current year amortization	(83,465)	(76,336)
Balance, end of year	$ 1,205,655	$ 1,113,610

16 Deferred Land Lease Revenue

		2010		2009
		(thousands of dollars)		
Balance, beginning of year	$	223,118	$	211,817
Lease additions during the year		2,033		13,322
Recognized to revenue		(3,471)		(2,021)
Balance, end of year	$	221,680	$	223,118

17 Internally Restricted Net Assets

Funds that are internally restricted include employee benefits, operating, trust, capital, ancillary and research funds and are made up of the following amounts:

		2010		2009
		(thousands of dollars)		
Operating	$	154,246	$	153,190
Trust		74,055		71,551
Capital		(187,006)		(164,524)
Ancillary		37,905		25,735
Research		72,690		63,498
Other		(46,645)		(71,538)
	$	105,245	$	77,912

The purpose of these internally restricted net assets is as follows:

(a) Operating

These include unspent operating fund allocations to faculties and departments, as well as recoveries and amounts set aside to fund future obligations for continuing education.

(b) Trust

These consist of external donations to faculties and units which are not externally restricted as to spending and internal funding for student support.

(c) Capital

These represent internal spending on capital projects.

(d) Ancillary

These 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.

(e) Research

These represent internal overhead recoveries and internally funded research projects.

(f) Other

These 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 LTFN (Note 7(b)). These also include future obligations of vacation pay, self-insurance reserves and benefit liabilities related to the income replacement plan.

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:

	2010	2009
	(thousands of dollars)	
Balance, beginning of year	$ 616,191	$ 818,804
Donations	27,535	20,406
Transfers to (from) endowment fund:		
Internal transfers to endowments	1,282	13,524
Investment income (loss)	60,673	(64,105)
Use of endowment funds	(36,176)	(53,710)
Change in fair value adjustment	42,459	(118,728)
	68,238	(223,019)
Balance, end of year	$ 711,964	$ 616,191

(a) Endowment equity does not include $173.0 million (2009 – $173.8 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 $969.6 million (2009 – $868.0 million), and this is included in Investments.

(c) Endowments with a fair value of $18.7 million (2009 – $15.2 million) are held by the Vancouver Foundation in perpetuity for the benefit of the University and are not included in the above figures. 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 $20.6 million (2009 – $17.8 million) are held and managed by Vancouver Foundation and are included in the above figures. 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

		2010		2009
		(thousands of dollars)		
Province of British Columbia				
Core Academic Funding	$	555,273	$	498,038
Post Graduate Medical Education Program		92,155		83,775
Other funding		80,617		68,928
Total Province of British Columbia		728,045		650,741
Government of Canada		223,856		203,680
Other governments		15,213		15,922
	$	967,114	$	870,343

During the year, the University received funding from the Province of British Columbia in the amount of $798.7 million (2009 – $716.2 million). Of this amount, $728.0 million (2009 – $650.7 million) has been recognized as revenue and the remaining amount represents restricted contributions and is deferred in the balance sheet.

20 Grants and Reimbursements to Other Agencies

During the year, the University distributed research and other funds to agencies totalling $104.5 million (2009 – $93.5 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 $70.4 million (2009 - $61.2 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, 2010, outstanding commitments totalled $146.2 million (2009 – $88.0 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 $0.6 million (2009 – $1.8 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, 2010 the University had outstanding forward currency contracts and index-linked swaps with notional values of $157.0 million (2009 – $233.4 million) whose settlements extend to May 19, 2010. The unrealized gain at March 31, 2010 was $8.7 million (2009 – $4.7 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 $45.3 million (2009 – $65.0 million) and $11.4 million (2009 – $23.4 million), respectively. In addition, the University has outstanding commitments to hedge fund investments of approximately $5.7 million (2009 – $9.0 million).

22 Donation Pledges and Gifts-in-Kind

The estimated value of donations, which have been pledged but not received as at March 31, 2010, was approximately $269.6 million (2009 – $222.7 million). These amounts are not reflected in the financial statements of the University.

For the fiscal year 2010, gifts-in-kind with an estimated value of $16.8 million were received (2009 – $13.9 million), of which $7.7 million (2009 – $7.4 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.