

Financial Statements of

**THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN**

December 31, 2007

**THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN**

December 31, 2007

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Auditors' Report

To the Members of
The University of British Columbia Staff Pension Plan

We have audited the statement of net assets available for benefits of The University of British Columbia Staff Pension Plan as at December 31, 2007 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan'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 financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2007 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 25, 2008

THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN

Statement of Net Assets Available for Benefits

December 31, 2007

(Expressed in thousands of dollars)

	2007	2006
ASSETS		
Assets held by RBC Dexia Investor Services Trust		
Investments (Note 4)		
Short-term notes	\$ 520	\$ 50
Bonds	241,116	215,007
Equities	466,271	479,422
Real estate	100,952	90,710
	808,859	785,189
Cash	7,953	5,342
Investment income receivable	522	346
	817,334	790,877
Contributions receivable		
University	134	2,006
Members	67	857
	201	2,863
Accounts receivable	15	12
Deferred costs	-	94
	\$ 817,550	\$ 793,846
LIABILITIES		
Benefits payable	\$ 3,724	\$ 1,774
Accounts payable and accrued liabilities	873	623
	4,597	2,397
NET ASSETS AVAILABLE FOR BENEFITS (Note 5)	\$ 812,953	\$ 791,449

COMMITMENTS (Note 8)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS



 Chair



 Vice-Chair

See accompanying notes to the financial statements.

THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN
Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2007
(Expressed in thousands of dollars)

	2007	2006
INCREASE IN NET ASSETS		
Members' required contributions	\$ 10,298	\$ 9,630
University's required contributions	24,092	22,611
Transfers from other plans	128	102
Members' additional voluntary contributions	33	35
	34,551	32,378
Return on investments, including changes in fair value (Notes 3 and 6)	22,325	91,372
	56,876	123,750
DECREASE IN NET ASSETS		
Payments to or on behalf of members		
Pensions to retired members	14,858	13,881
Members' accounts transferred or refunded	15,524	14,379
Death benefits	396	1,711
	30,778	29,971
Operations		
Actuarial and consulting services	429	282
Office and administration costs	695	650
Legal, audit and custodian services	97	107
Professional services	29	34
	1,250	1,073
Investment transaction and administration fees (Note 3)	3,344	1,772
	35,372	32,816
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	21,504	90,934
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	791,449	700,515
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$ 812,953	\$ 791,449

See accompanying notes to the financial statements.

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2007

(Expressed in thousands of dollars)

1. DESCRIPTION OF PLAN

The following description of The University of British Columbia Staff Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan text, which is available from The University of British Columbia (the "University" or the "Sponsor") Pension Administration Office.

(a) *General*

The Plan is a defined benefit plan with fixed member and employer contributions. The Plan provides that benefits may be adjusted depending on the Plan's funded status. The Plan is open to all eligible full-time and part-time monthly-paid staff, and compulsory for all eligible employees over age 30 who have completed three years of service following their first date of eligibility.

(b) *Funding policy*

The Plan text requires members and the University to make contributions of 5% and 10%, respectively, of basic salary up to the YBE, 3.2% and 8.2%, respectively, of basic salary between the YBE and the YMPE, and 5% and 10%, respectively, of basic salary over the YMPE. YBE is the "year's basic exemption" and the YMPE is the "year's maximum pensionable earnings" under the Canada Pension Plan requirements. University contributions received by the Plan are net of benefits paid by the University in accordance with a related supplemental retirement arrangement.

Members are permitted to make additional voluntary contributions, if they elected to do so before January 1, 2000 and have not subsequently withdrawn the full balance. Additional voluntary contributions can be withdrawn only if the full balance is withdrawn.

(c) *Benefits*

Pension benefits are calculated using the following formula:

2% times the average of the member's three best years' pensionable earnings times pensionable service less a Canada Pension Plan benefit offset equal to 0.7% of the YMPE times the pensionable service. Calculated benefits in excess of Canada Revenue Agency's allowable eligible maximum benefit are paid in accordance with a supplemental retirement arrangement, if the member is eligible. Cost of living increases are calculated each year based on the Consumer Price Index for Canada and added to pension benefits, subject to the Plan's ability to pay.

Additional voluntary contributions will be paid as a lump sum on the date the member's pension commences.

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2007

(Expressed in thousands of dollars)

1. DESCRIPTION OF PLAN (Continued)

(c) *Benefits (continued)*

Termination benefits are payable on retirement or termination of employment, and death benefits are paid in the event of death prior to retirement.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation*

The financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Sponsor and Plan members. The financial statements are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal year. The statement of net assets available for benefits shows the assets under control of the Trustee of the Plan, and does not purport to show their adequacy to meet the obligations of the Plan. The obligations for pension benefits are not presented in the statement of net assets available for benefits but are disclosed in Note 5.

(b) *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 the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of increases and decreases in net assets available for benefits for the reporting period. The most significant estimates relate to the fair value of investments, as described in Note 2 (c) and the obligation for pension benefits. Actual results could differ from those estimates.

(c) *Investments*

Investments are recorded on a settlement basis and at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2007

(Expressed in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Investments (continued)*

Fair values for investments are determined using the following methods:

- (i) Short-term notes, bonds and publicly traded equities are valued using published market quotations.
- (ii) Investments in private equities are recorded at cost for one year from the date the investment is made, unless there is a transaction within that year which establishes a different value for the investment or there is a significant change within that year in the Plan's expectations. After one year from the date of the investment, private equities are recorded at estimated fair value. Estimated fair values are determined using appropriate valuation techniques and/or appraiser's best estimates.
- (iii) Real estate equities and real estate investment trusts are valued using published market quotations. The investments in partnerships are valued quarterly using a combination of internal and external appraisals to establish current market values.

Adjustments to investments due to the fluctuation of fair values are reflected as part of the return on investments in the statement of changes in net assets available for benefits. Investment transactions are recognized in the financial statements based on the settlement date. Realized gains and losses are calculated based on the average cost of the investments. Investment income is recognized on an accrual basis.

(d) *Members' accounts transferred or refunded*

Members' accounts transferred or refunded are recognized as a decrease in net assets on the accrual basis.

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2007

(Expressed in thousands of dollars)

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2007, the Plan adopted the new recommendations of the CICA Emerging Issues Committee Abstract - 168 ("EIC-168"), *Accounting for Transaction Costs by Pension Plans*.

The Committee reached a consensus that pension plans should not include transaction costs in the fair value of investments either on initial recognition or on subsequent re-measurement. Transaction costs should be included in the statement of changes in net assets available for benefits in the period incurred.

The change in accounting policy has been applied retrospectively, without restatement of prior periods.

The impact of this accounting change was to increase investment transaction and administration fees by \$115 and to increase the return on investment by \$115 for the year ended December 31, 2007. There is no impact on the net assets available for benefits at December 31, 2007.

4. INVESTMENTS

The Plan is exposed to market risk due to changing market conditions for short-term notes, bonds and equities. The Plan's investment managers are selected and overseen by UBC Investment Management Trust Inc. ("IMANT"), an entity wholly-owned by the Sponsor. IMANT manages the Plan's market risk by diversifying its investments across 30 (2006 - 28) investment managers, with differing investment styles and mandates. As well, IMANT establishes and monitors specific asset investment policies for each investment manager outlining, in general terms, the types and limits of investments to be held.

Details of significant terms, conditions and exposures to interest rate risk and credit risk of investments are as follows:

(a) Short-term notes

Funds invested in short-term notes in 2007 were primarily securities issued by either Canadian chartered banks or the Bank of Canada that will mature at various dates in 2008.

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Year ended December 31, 2007

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(b) Bonds

Based on the Plan's proportionate interest in the bond funds, the Plan's investments are represented by bonds with the following characteristics:

Term to maturity	2007	2006
Government of Canada		
Less than one year	\$ 5,306	\$ 20,745
After one year through five years	53,072	27,012
After five years	33,130	62,705
Canadian provincial, municipal and public authorities		
Less than one year	5,484	634
After one year through five years	7,383	15,100
After five years	63,945	42,019
Canadian corporate		
Less than one year	3,130	4,389
After one year through five years	46,853	17,522
After five years	22,813	18,383
Government of USA		
After five years	-	6,498
Market value	\$ 241,116	\$ 215,007
Face value	\$ 228,338	\$ 189,496

The range of effective interest rates was 1.91% to 8.47% (2006 - 1.75% to 8.41%).

THE UNIVERSITY OF BRITISH COLUMBIA
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Notes to the Financial Statements

Year ended December 31, 2007

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(c) Equities

The fair value of the equity investments, by category, is summarized as follows:

	<u>2007</u>	<u>2006</u>
Publicly traded equities		
Canadian equities		
Equities (i)	\$ 46,218	\$ 45,914
Pooled equities (ii)	94,946	101,042
Foreign		
Pooled and common shares - global equities (iii)	206,399	236,138
Pooled - hedge funds (iv)	81,932	77,348
	<u>429,495</u>	<u>460,442</u>
Private equities		
Foreign		
Private equities (v)	36,776	18,980
	<u>\$ 466,271</u>	<u>\$ 479,422</u>

(i) Canadian equities

These comprise shares and units of investment trusts listed on the Toronto Stock Exchange.

(ii) Canadian pooled equities

These comprise mainly of Canadian equities included in the TSX Composite.

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Year ended December 31, 2007

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(c) Equities (continued)

(iii) Foreign pooled and common shares - global equities

The composition of the global equity pooled investments, by country, is summarized as follows:

	<u>2007</u>	<u>2006</u>
United States	53%	54%
United Kingdom	8%	8%
Japan	5%	6%
Russia	5%	4%
France	4%	3%
Switzerland	3%	4%
Germany	3%	2%
Italy	2%	1%
Netherlands	- %	2%
Other	17%	16%
	<u>100%</u>	<u>100%</u>

(iv) Foreign pooled - hedge funds

The Plan has investments in nine hedge funds with six hedge fund managers. The managers invest in a number of individual hedge funds with different strategies.

(v) Foreign - private equities

Private equities consist of investments in limited liability partnerships that have invested in global private equities.

(d) Real estate

Real estate investments consist of investments in equities, real estate investment trusts and limited liability partnerships investing in real estate. Real estate investments are primarily in North American and Asian properties.

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Notes to the Financial Statements

Year ended December 31, 2007

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(e) *Securities lending*

The Plan participates in a security lending program whereby it lends securities it owns to others. For securities lent, the Plan receives a fee as well as receiving, as collateral, securities with a minimum market value of 105% of the market value of the securities lent. The program is managed by a federally regulated financial institution, which also guarantees the Plan's exposure under the program. At December 31, 2007, the Plan had securities with an estimated market value of \$7,359 (2006 - \$7,280) on loan and it held, as collateral, securities with an estimated market value of \$7,911 (2006 - \$7,764).

5. OBLIGATIONS FOR PENSION BENEFITS

An actuarial valuation was made as of January 1, 2005 by Aon Consulting Inc., a firm of consulting actuaries, and was then extrapolated to December 31, 2007. The present value of accrued pension benefits was determined using the projected benefit method prorated on service, and was based on economic assumptions as of January 1, 2005 which forecast economic patterns for the next few years, gradually modifying into the long-term, and making allowance for contingent indexation at the National Consumer Price Index rate.

The actuarial present value of benefits as at December 31 and the principal components of changes in the actuarial present value during the year were as follows:

	<u>2007</u>	<u>2006</u>
Actuarial present value of accrued pension benefits, beginning of year	\$ 536,519	\$ 506,826
Interest accrued on benefits	34,767	32,841
Benefits accrued	27,496	26,825
Benefits paid to or on behalf of members	(30,778)	(29,973)
Actuarial present value of accrued pension benefits, end of year	\$ 568,004	\$ 536,519

The accrued pension benefits noted above do not include supplemental benefits in excess of Canada Revenue Agency's eligible maximum benefits, which are payable by the University in accordance with a related supplemental retirement arrangement.

The actuarial present value of accrued pension benefits as at December 31, 2007 includes \$416 (2006 - \$385) in respect of additional voluntary contributions.

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Year ended December 31, 2007

(Expressed in thousands of dollars)

5. OBLIGATIONS FOR PENSION BENEFITS (Continued)

Significant actuarial assumptions used in the valuation were as follows:

	2005-2007	2008 and later
Annual interest rates	6.50%	6.75%
Annual rates of inflation	2.00%	2.50%
Annual salary escalation rates	2.50%	3.00%

The excess of net assets available for benefits over the actuarial present value of accrued pension benefits is retained by the Plan as a contingency reserve in accordance with the Plan's funding policy. The contingency reserve is designed to protect the Plan from adverse funding effects arising from potential future contribution shortfalls and to make provision for possible adverse Plan experience.

6. RETURN ON INVESTMENTS

	2007	2006
Interest income	\$ 19,159	\$ 16,872
Dividend income	22,683	24,384
Real estate income	455	408
Net realized gains on sale of investments	25,245	20,108
Unrealized (losses) gains on investments	(45,217)	29,600
	\$ 22,325	\$ 91,372

7. RELATED PARTY TRANSACTIONS

The Plan reimburses IMANT for its proportionate share of IMANT's operating costs. Costs for the year ended December 31, 2007, which are included in investment transaction and administration fees, totalled \$542 (2006 - \$634). At December 31, 2007, \$Nil (2006 - \$213) of these costs is included in accounts payable and accrued liabilities.

THE UNIVERSITY OF BRITISH COLUMBIA

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Notes to the Financial Statements

Year ended December 31, 2007

(Expressed in thousands of dollars)

8. COMMITMENTS

In addition to investments already made in the following asset classes, the Plan is committed to invest the following amounts as at December 31:

	2007		2006		2007		2006	
	€	€	US\$	US\$	Cdn\$	Cdn\$		
Real estate	€ 4,768	€ 7,600	\$ 11,821	\$ 19,803	\$ 14,452	\$ 24,119		
Private equities	-	-	37,467	38,513	13,365	19,659		
Hedge funds	-	-	7,541	1,288	-	-		
	€ 4,768	€ 7,600	\$ 56,829	\$ 59,604	\$ 27,817	\$ 43,778		

9. FINANCIAL INSTRUMENTS

The fair values of the Plan's cash, investment income receivable, contributions receivable, accounts receivable, benefits payable and accounts payable are considered by management to approximate their carrying values due to the short-term nature of these financial instruments.

The Plan's investments are carried at fair value in accordance with the significant accounting policy disclosed in Note 2 (c).

10. FUTURE ACCOUNTING CHANGES

The Canadian Institute of Chartered Accountants has issued CICA Handbook Section 3862, *Financial Instruments - Disclosures* ("HB3862") and Section 3863, *Financial Instruments - Presentation* ("HB-3863"). These new sections establish standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments and for presentation of financial instruments and non-financial derivatives. These new standards supersede Handbook Section 3861.

Both sections are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These new standards relate to disclosure only and will not impact the net assets available for benefits of the Plan.