

Auditors' Report and Financial Statements of

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

December 31, 2006

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

December 31, 2006

Table of contents

Auditors' report	1
Statement of net assets available for benefits	2
Statement of changes in net assets available for benefits	3
Notes to the financial statements	4-12



Deloitte & Touche LLP
2800 - 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada

Tel: 604-669-4466
Fax: 604-685-0395
www.deloitte.ca

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, 2006 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, 2006 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Chartered Accountants
Vancouver, British Columbia
February 23, 2007

THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN

Statement of Net Assets Available for Benefits

December 31, 2006

(Expressed in thousands of dollars)

	2006	2005
ASSETS		
Assets held by RBC Dexia Investor Services Trust		
Investments (Note 3)		
Short-term notes	\$ 50	\$ 1,592
Bonds	215,007	206,134
Equities	479,422	438,925
Real estate	90,710	52,157
	785,189	698,808
Cash	5,342	1,421
Income receivable	346	286
	790,877	700,515
Contributions receivable		
University	2,006	1,800
Members	857	764
	2,863	2,564
Accounts receivable	12	28
Deferred costs (Note 4)	94	195
	\$ 793,846	\$ 703,302
LIABILITIES		
Benefits payable	\$ 1,774	\$ 2,294
Accounts payable and accrued liabilities	623	493
	2,397	2,787
NET ASSETS AVAILABLE FOR BENEFITS (Note 5)	\$ 791,449	\$ 700,515

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, 2006
(Expressed in thousands of dollars)

	2006	2005
INCREASE IN NET ASSETS		
Members' required contributions	\$ 9,630	\$ 8,622
University's required contributions	22,611	20,359
Transfers from other plans	102	71
Members' additional voluntary contributions	35	34
	32,378	29,086
Return on investments, including changes in fair value (Note 6)	91,372	75,670
	123,750	104,756
DECREASE IN NET ASSETS		
Payments to or on behalf of members		
Pensions to retired members	13,881	12,419
Members' accounts transferred or refunded	14,379	12,818
Death benefits	1,711	437
	29,971	25,674
Operations		
Actuarial and consulting services	282	228
Office and administration costs	650	634
Legal, audit and custodian services	107	96
Professional services	34	37
	1,073	995
Investment administration fees	1,772	2,283
	32,816	28,952
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	90,934	75,804
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	700,515	624,711
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$ 791,449	\$ 700,515

See accompanying notes to the financial statements.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2006

(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 open to all full-time and part-time monthly-paid staff, and compulsory for all 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 only be withdrawn 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 eligible maximum benefit are paid in accordance with a supplemental retirement arrangement. 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.

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

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2006

(Expressed in thousands of dollars)

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. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period. 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 for the reporting period. Actual results could differ from those estimates.

(c) *Investments*

Investments are recorded 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. Fair values of investments are determined as follows:

- (i) Short-term notes, bonds and publicly traded equities are valued using published market quotations.
- (ii) Private equities are valued based on estimated fair values 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 in the period earned.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2006

(Expressed in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) *Deferred costs*

Deferred costs are associated with an actuarial valuation, and an experience study and plan amendment. These costs are amortized on a straight-line basis over a period of three years.

(e) *Members' accounts transferred or refunded*

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

3. 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 28 (2005 - 22) 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 2006 were primarily securities issued by either Canadian chartered banks or the Bank of Canada that will mature at various dates in 2006.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2006

(Expressed in thousands of dollars)

3. INVESTMENTS (Continued)

(b) Bonds

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

Term to maturity	2006	2005
Government of Canada		
Less than one year	\$ 20,745	\$ 11,192
After one year through five years	27,012	22,572
After five years	62,705	64,042
Canadian provincial, municipal and public authorities		
Less than one year	634	2,031
After one year through five years	15,100	5,198
After five years	42,019	37,079
Canadian corporate		
Less than one year	4,389	9,263
After one year through five years	17,522	31,991
After five years	18,383	22,766
Government of USA		
After five years	6,498	-
Market value	\$ 215,007	\$ 206,134
Face value	\$ 189,496	\$ 186,537

The range of effective interest rates was 1.75% to 8.41% (2005 - 2.99% to 10.83%).

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2006

(Expressed in thousands of dollars)

3. INVESTMENTS (Continued)

(c) *Equities*

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

	<u>2006</u>	<u>2005</u>
Publicly traded equities		
Canadian equities		
Equities (i)	\$ 45,914	\$ 41,214
Pooled equities (ii)	101,042	128,788
Foreign		
Pooled - global equities (iii)	236,138	187,995
Pooled - hedge funds (iv)	77,348	75,690
	<u>460,442</u>	<u>433,687</u>
Private equities		
Foreign		
Private equities (v)	18,980	5,238
	<u>\$ 479,422</u>	<u>\$ 438,925</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.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2006

(Expressed in thousands of dollars)

3. INVESTMENTS (Continued)

(c) *Equities (continued)*

(iii) *Foreign pooled - global equities*

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

	<u>2006</u>	<u>2005</u>
United States	54%	47%
Japan	6%	9%
United Kingdom	8%	8%
Russia	4%	5%
Switzerland	4%	4%
France	3%	3%
Germany	2%	2%
Netherlands	2%	2%
Italy	1%	1%
Finland	- %	1%
Other	16%	18%
	100%	100%

(iv) *Foreign pooled - hedge funds*

The Plan has investments in eight hedge funds with five 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.

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2006

(Expressed in thousands of dollars)

3. 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 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, 2006, the Plan had securities with an estimated market value of \$7,280 (2005 - \$4,836) on loan and it held, as collateral, securities with an estimated market value of \$7,764 (2005 - \$5,150).

4. DEFERRED COSTS

	2006			2005
	Cost	Accumulated amortization	Net book value	Net book value
Actuarial valuation	\$ 219	\$ 146	\$ 73	\$ 146
Experience study and plan amendment	29	8	21	49
	\$ 248	\$ 154	\$ 94	\$ 195

In the current year, \$131 (2005 - \$123) of costs were amortized.

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, 2006. 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 valuation at January 1, 2005 resulted in an increase of \$48,566 to the actuarial present value of accrued pension benefits at the beginning of 2005. The extrapolation was based on the January 1, 2005 assumptions, and does not take into account actual experience since that date, which will not be measured until the next actuarial valuation, which is to be conducted as of January 1, 2008.

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2006

(Expressed in thousands of dollars)

5. OBLIGATIONS FOR PENSION BENEFITS (Continued)

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>2006</u>	<u>2005</u>
Actuarial present value of accrued pension benefits, beginning of year	\$ 506,826	\$ 426,845
Valuation adjustment	-	48,566
Interest accrued on benefits	32,841	30,918
Benefits accrued	26,825	26,171
Benefits paid to or on behalf of members	(29,973)	(25,674)
Actuarial present value of accrued pension benefits, end of year	<u>\$ 536,519</u>	<u>\$ 506,826</u>

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, 2006 includes \$385 (2005 - \$311) in respect of additional voluntary contributions.

Significant actuarial assumptions used in the valuation were as follows:

	<u>2006-2007</u>	<u>2008 and later</u>
Annual interest rates	6.50%	6.75%
Annual rates of inflation	2.00%	2.50%
Annual salary escalation rates	2.50%	3.00%

In accordance with the provisions of the Plan text, the excess of net assets available for benefits over the actuarial present value of accrued pension benefits must be retained by the Plan as a contingency reserve until the next actuarial valuation. The contingency reserve is designed to protect the Plan from adverse funding effects arising from potential future contribution shortfalls, and to make provision for other Plan experience.

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2006

(Expressed in thousands of dollars)

6. RETURN ON INVESTMENTS

	<u>2006</u>	<u>2005</u>
Interest income	\$ 16,872	\$ 10,278
Dividend income	24,384	24,304
Real estate income	408	876
Realized gains on sale of investments	20,108	21,021
Unrealized gains on investments	29,600	19,191
	<u>\$ 91,372</u>	<u>\$ 75,670</u>

7. RELATED PARTY TRANSACTIONS

The Plan reimburses IMANT for its proportionate share of IMANT's operating costs. Costs for the year ended December 31, 2006, which are included in investment administration fees, totalled \$634 (2005 - \$572). At December 31, 2006, \$213 (2005 - \$172) in respect of these costs is included in accounts payable and accrued liabilities.

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:

	<u>2006</u>		<u>2005</u>		<u>2006</u>		<u>2005</u>
	€		€		US\$		US\$
					Cdn\$		Cdn\$
Real estate	€ 7,600	€ -	\$ 19,803	\$ 24,661	\$ 24,119	\$ 21,177	
Private equities	-	-	38,513	47,139	19,659	8,950	
Hedge funds	-	-	1,288	1,812	-	-	
	<u>€ 7,600</u>	<u>€ -</u>	<u>\$ 59,604</u>	<u>\$ 73,612</u>	<u>\$ 43,778</u>	<u>\$ 30,127</u>	

9. FINANCIAL INSTRUMENTS

The fair values of the Plan's cash, 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).