



UNIVERSITY OF ALBERTA

FINANCIAL STATEMENTS

for the Year Ended March 31, 2011

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FINANCIAL SERVICES

3rd Floor Administration Building • University of Alberta • Edmonton • Canada • T6G 2M7

Telephone: (780) 492-3000 • Fax: (780) 492-2846

Website: www.financial.ualberta.ca

E-mail: fs.requests@ualberta.ca

Executive Summary

The University of Alberta has reported a \$75.2 million excess of revenue over expense for the year ended March 31, 2011 compared to a \$13.5 million excess reported last year. The unrestricted net assets deficit is \$3.5 million as compared to last year's deficit of \$60.6 million.

The \$75.2 million excess of revenue over expense is due to a number of positive factors:

- decrease in the Universities Academic Pension Plan (UAPP) unfunded pension liability expense (\$25.6 million)
- higher than budgeted investment income related to asset-backed commercial paper (ABCP) investments (\$9 million)
- lower than budgeted utility costs (\$8.1 million)
- additional funding from the Government of Alberta (\$5.7 million one-time transition grant)
- the remainder is primarily due to the spending lag in the operating fund

It is important to note that the favorable variances from UAPP and investment income related to ABCP are non-cash items and therefore are not available for spending as the decrease in the unfunded pension liability expense is due to a slowdown in the growth of the unfunded liability and the investment income represents a recovery of previously written down ABCP.

Other financial highlights for 2011:

- For the 2011 fiscal year, the University did not receive an increase in the operating grant funding (from the 2010 operating grants funding levels) and the enrolment planning envelope grant program was eliminated. These changes in provincial funding have created a significant budget gap that the University is addressing through a combination of revenue enhancements, cost containment measures and operating efficiencies across the University. Some of these initiatives had an impact on the current year, such as:
 - \$19.5 million reduction in salary expense from the mandatory furlough and the optional personal leave programs (days off without pay)
 - \$10.9 million increase in revenue from the Common Student Space, Sustainability and Safety fee. This new fee helps fund a range of student support services.
- UEP investments earned a more moderate return compared to the strong gains last year. The United Endowment Pool (UEP) returned 9.2% (2010: 23.7%) and the Non-Endowed Investment Pool (NEIP) returned 2.2% (2010: 3.4%).
- Total funding in support of the University's research activity for 2011 is \$536 million compared to \$513.5 million in 2010. Sponsored research revenue increased across a variety of funding sources and programs. The University is among the top three institutions in Canada in attracting research support from the whole range of Canadian and international sponsors.
- The University's successful fund-raising initiatives support many activities across the University. For the 2011 year, new endowment contributions totaled \$34.8 million (includes the provincial matching grant of \$5 million) and expendable donations totaled \$33.6 million. The University also received in-kind donations of \$34.2 million which includes the Soaring Estates property (\$29.3 million acquisition value of which \$22.3 million was an in-kind donation) and Mattheis Ranch (\$12 million acquisition value of which \$9.4 million was an in-kind donation).
- In support of the University's capital plan, the Government of Alberta provided \$174.1 million in funding for several key capital priorities. The Edmonton Clinic Health Academy project received \$116 million in funding and various upgrade and renovation projects received \$22.1 million. The provincial government also provided \$31.1 million of Canada - Alberta Knowledge Infrastructure Program (KIP) funding for various capital projects. The University, with assistance from the Government of Alberta, has also made progress in reducing the overall amount of deferred maintenance.

FINANCIAL ANALYSIS YEAR ENDED MARCH 31, 2011

Areas of significant financial risk:

- Government of Alberta operating grant:
In fiscal 2011, the Government of Alberta has combined all of the operating grants previously awarded into one single grant ("Campus Alberta"). The University has been advised that there will be no operating grant increase for fiscal 2012. The grant change for 2011 and the 0% grant increase for 2012 has placed a significant risk on the University's ability to support enrolment growth and to maintain the quality of University programs.
- deferred maintenance, which is estimated at over \$900 million; this places programs and initiatives at some risk (refer to later section in the financial analysis)
- an academic staff salary settlement which does not align with provincial government operating grant commitments
- uncertainty about utility costs due to the volatile energy markets
- investment income which can fluctuate significantly due to market performance

To assist in addressing the ongoing budgetary issues that the University is facing, a committee was formed in 2010 to look at overall cost containment and administrative efficiencies. This committee is engaged with the University community in identifying and implementing balanced strategies in response to the evolving budgetary issues.

The University is wholly committed to addressing these risks and will work closely with the Government of Alberta on a long-term strategy that minimizes the University's exposure to these risks while maintaining its forward momentum.

The Financial Analysis is intended to provide the reader with the financial highlights for the 2011 year and should be read in conjunction with the March 31, 2011 audited Financial Statements.

- *click on Annual Financial Statements*

Other documents the reader can refer to for a more in-depth discussion and analysis of the University's goals and objectives are as follows:

- *click on Key Strategic Planning Documents*
 - *Dare to Discover: A Vision for a Great University*
 - *2011 Comprehensive Institutional Plan*

Other information the reader may find useful:

- *click on Investment Reports*

website link: <http://www.financial.ualberta.ca>

Introduction

To reflect the nature and restrictions on use, the University classifies its revenues into separate categories. The major classification distinction is whether the revenues represent unrestricted or restricted contributions. Unrestricted contributions are flexible in that they are available to the University's Board of Governors to allocate for spending, as it deems appropriate. Such contributions are recognized as revenue immediately. The University, on the other hand, can only expend restricted contributions for the specific purposes defined by the external sponsor or donor. Such contributions are deferred and recognized as revenue when conditions of the contributions are met. Contributions to acquire capital assets with limited life are amortized to revenue over the useful life of the asset.

The University segregates its financial activity into the following separate funds to further enhance accountability, budgetary control and stewardship of resources:

Unrestricted funds:

- Operating - includes the provincial government operating grant, student tuition and fee revenue, investment income available for general spending and any new revenues generated by faculties and administrative units.
- Ancillary enterprises - these University business enterprises provide services and products to the University community and to individuals, companies and organizations external to the University. These units are expected to operate on either a break-even basis, covering their full operating and capital costs, or on a profit basis.

Restricted funds:

- Research - funds provided by grants and contracts from external sponsors, donations and endowment investment income available for spending.
- Special purpose - funds provided by grants and contracts from external sponsors, donations and endowment investment income available for spending. Expenditures include scholarships and bursaries, and other programs involving teaching and community service.
- Capital - funds provided by provincial, federal and other government grants and donations. Funds are primarily designated for the acquisition of buildings and major renovations.

For financial statement reporting purposes, the Statement of Financial Position, Statement of Operations, and Statement of Changes in Net Assets combine the assets, liabilities, equity, revenues and expenses of all funds.

FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2011

Excess of Revenue over Expense

The University ended the 2011 year with a \$75.2 million excess of revenue over expense (2010: \$13.5 excess) and an unrestricted net assets deficit of \$3.5 million (2010: \$60.6 deficit).

The \$75.2 million excess of revenue over expense is due to a number of positive factors:

- decrease in the Universities Academic Pension Plan (UAPP) unfunded pension liability expense (\$25.6 million)
- higher than budgeted investment income related to asset-backed commercial paper (ABCP) investments (\$9.0 million)
- lower than budgeted utility costs (\$8.1 million)
- additional funding from the Government of Alberta (\$5.7 million one-time transition grant)
- the remainder is primarily due to the spending lag in the operating fund

It is important to note that the favorable variances from UAPP and investment income related to ABCP are non-cash items and therefore are not available for spending as the decrease in the unfunded pension liability expense is due to a slowdown in the growth of the unfunded liability and the investment income represents a recovery of previously written down ABCP.

Revenue

The following highlights revenue before and after deferrals:

	<u>2011</u>		<u>2010</u>	
	(000's)	(000's)	(000's)	(000's)
	<u>Revenue per Financial Statements</u>	<u>Revenue before Deferrals</u>	<u>Revenue per Financial Statements</u>	<u>Revenue before Deferrals</u>
Government of Alberta grants	\$ 744,460	\$ 992,020	\$ 733,854	\$ 1,086,515
Federal and other government grants	184,507	216,329	185,158	195,508
Student tuition and fees	253,897	253,897	235,799	235,799
Sales of services and products	210,698	210,698	201,375	201,375
Donations and other grants	112,998	139,709	112,460	127,920
Investment income	56,475	63,829	48,991	77,280
Amortization of deferred capital contributions	81,705	-	89,054	-
Revenue	<u>\$ 1,644,740</u>	<u>\$ 1,876,482</u>	<u>\$ 1,606,691</u>	<u>\$ 1,924,397</u>

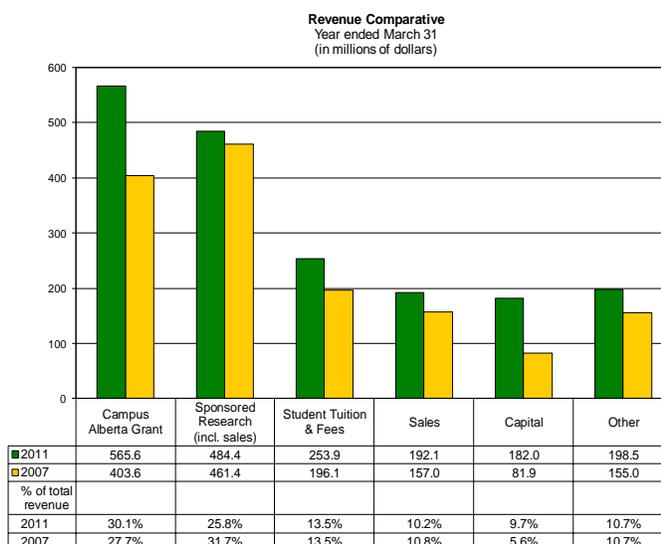
**FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2011**

Revenue (before deferrals)

Revenue (before deferrals) decreased by \$47.9 million (2.5%) from \$1,924.4 million in 2010 to \$1,876.5 million in 2011.

The University's major operating funding comes from the Government of Alberta operating grant, student tuition and fees and sales. The University also receives restricted funding for sponsored research, infrastructure and specific academic programs.

Other is mainly comprised of grants and donations for specific academic programs.



Government of Alberta Grants

Government of Alberta revenue (before deferrals) amounted to \$992.0 million, representing a decrease of \$94.5 million (8.7%) compared to last year.

	<u>2011</u>	2010	Increase (decrease)
	(000's)	(000's)	(000's)
Operating fund grants:			
Campus Alberta (operating grant)	\$ 565,647	\$ 518,146	\$ 47,501
Enrolment planning envelope	-	58,968	(58,968)
Transition	5,700	-	5,700
Other grants	5,571	4,331	1,240
	576,918	581,445	(4,527)
Restricted grants:			
Capital	174,141	318,410	(144,269)
Research	145,590	122,644	22,946
Special purpose	95,371	64,016	31,355
	415,102	505,070	(89,968)
Revenue (before deferrals)	<u>\$ 992,020</u>	<u>\$ 1,086,515</u>	<u>\$ (94,495)</u>

In 2011, the University did not receive an increase in operating grant funding (from the 2010 operating grants funding levels). The Government of Alberta has combined all of the operating grants previously awarded into one single grant ("Campus Alberta"). A one-time transition grant was provided to address the budget challenges arising from the elimination of the enrolment planning envelope funding.

Capital grants decreased primarily due to the completion of funding last year for the Centennial Centre for Interdisciplinary Science. The 2011 capital grants total includes funding for the Edmonton Clinic Health Academy (\$116.0). The research grants increase is comprised of increases and decreases across a variety of programs. The most significant increases were from Alberta Innovates (Technology Futures (\$6.6), Bio Solutions (\$3.1)), Alberta Health Services (\$8.3) and Alberta Environment (\$3.8). Special purpose funding increased due to the new Priority Health Graduates initiative to increase health graduates over the next four years (\$32.0).

The University also received \$5.0 million in Access to the Future Fund (matching grant) which is included in endowments (and therefore not reflected in the above table).

**FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2011**

Research Revenue

Research revenue (before deferrals) amounted to \$536.0 million (2010: \$513.5). The University of Alberta continues to increase its level of sponsored research funding in all areas of scholarly activity. The University remains in the top three institutions in Canada overall in amount of funding received.

	2011 (000's)	2010 (000's)	Increase (decrease) (000's)
Sponsored research revenue (before deferrals):			
Government of Alberta grants	\$ 145,670	\$ 122,800	\$ 22,870
Federal and other government grants	205,730	184,797	20,933
Donations and other grants	90,879	82,069	8,810
Investment income	23,533	32,865	(9,332)
Sales of services and products	18,607	16,567	2,040
	<u>484,419</u>	<u>439,098</u>	<u>45,321</u>
Other research related funding:			
Capital fund infrastructure grants ⁽¹⁾	30,472	57,620	(27,148)
Entities not consolidated ⁽²⁾	21,070	16,755	4,315
	<u>51,542</u>	<u>74,375</u>	<u>(22,833)</u>
 Total research funding	 <u>\$ 535,961</u>	 <u>\$ 513,473</u>	 <u>\$ 22,488</u>

⁽¹⁾ Capital research infrastructure funding is recorded as a contribution in the capital fund. These amounts represent the portion of the capital funding that was utilized for research designated buildings or research designated space within buildings.

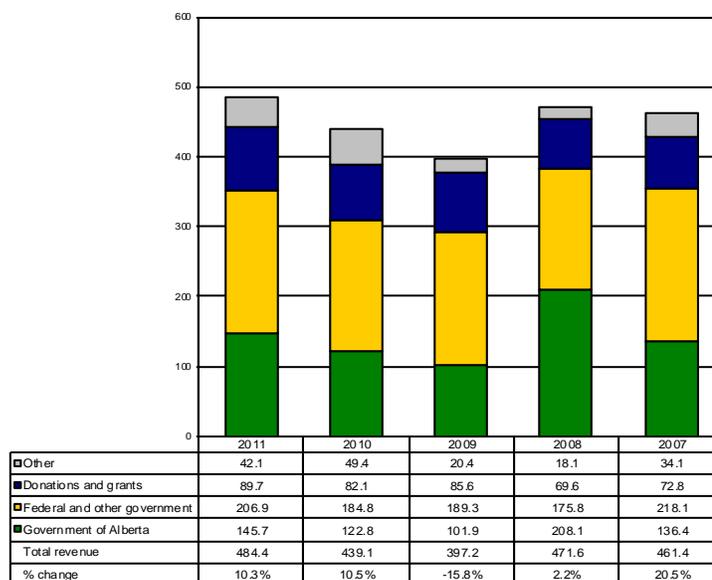
⁽²⁾ Entities not consolidated include clinical trial and related research funding with Alberta Health Services. These contributions are not reflected in the University's audited financial statements.

The Government of Alberta increased its funding across a variety of restricted programs including Alberta Innovates (Technology Futures (\$6.6), Bio Solutions (\$3.1)), Alberta Health Services (\$8.3) and Alberta Environment (\$3.8). The Alberta Health Services increase was mainly due to an increase in funding for research laboratories.

Federal and other government increase includes Canada Foundation for Innovation (\$5.8), Western Economic Diversification (\$5.7), Canada Excellence Research Chairs (\$5.1) and NSERC (\$2.6). The Canada Excellence Research Chairs are first time awards under this new federal program.

Donations and other grants are comparable to last year. Other sources include associations, foundations, institutes and individuals.

Sponsored Research Revenue by Source
Year ended March 31
(in millions of dollars)



FINANCIAL ANALYSIS

YEAR ENDED MARCH 31, 2011

Student Tuition and Fees

Student tuition and fees amounted to \$253.9 million (2010: \$235.8). This increase is mainly due to the new Common Student Space, Sustainability and Safety (CoSSS) fee (\$10.9). The CoSSS fee is a new mandatory non-instructional fee that supports a range of student support services. To assist the University in addressing a forecasted budget deficit the CoSSS fee was introduced for the 2011 year and this fee will be evaluated on an annual basis. Student tuition also increased due to enrolment increases for international students (\$5.3).

The tuition fees (instructional fees only) for an Arts or Science student with a full time course load in 2011 were \$5,177 as compared to \$5,101 in 2010 (an increase of 1.48%).

Sales of Services and Products

Ancillary services units and academic and administrative units generate revenues through the sale of services and products to individuals, companies and organizations external to the University. Also included in sales are miscellaneous types of revenues received by the University. Sales of services and products amounted to \$210.7 million (2010: \$201.4).

The ancillary services units generated sales of \$95.9 million (2010: \$93.5). The units with the largest sales are: Residences, Hospitality and Facility Services (\$27.6), Bookstore (\$24.5), Utilities (\$18.6) and Parking Services (\$14.1).

Academic and administrative units generated sales of \$114.8 million (2010: \$107.9), with the most significant activity as follows: Faculty of Medicine and Dentistry (\$66.6) which is mainly revenue from Alberta Health Services and the practice plans in support of positions that provide an interaction between the academic environment and the clinical services environment; Physical Education and Recreation revenue generated by athletic teams, sport camps and rentals of facilities (\$10.3) and Agriculture, Life and Environmental Sciences (\$5.5) which is mainly from the sale of animal, plant and related products. The \$114.8 million in academic and administrative unit sales represents an overall \$6.9 million increase spread across many units.

Investment Income

Investment income (before deferrals) was \$63.8 million (2010: \$77.3). Investments primarily fall into two categories, the Unitized Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP).

The UEP had a return of 9.2% (2010: 23.7%). Capital markets posted more moderate returns during the year after having strong gains last year. The Morgan Stanley Capital International World Index returned 9.3% (2010: 23.6%). Canadian equities, with their heavy weighting to the cyclical commodity based sectors, continue to perform well as the S&P/TSX Composite Index returned 20.4% (2010: 42.2%) and the DEX Bond Universe Index returned 5.1% (2010: 5.1%). Collectively the conservative strategies employed by the UEP's managers failed to capture all the upward movement in the market, under-performing by 1.1% as the UEP's benchmark posted a return of 10.3% (2010: 25.9%). The primary long-term objective of the UEP is to maintain its real value while providing for a sustainable level of program support.

The NEIP, comprised of three distinct strategies (short-term, mid-term and long-term), recorded an overall return of 2.2% for the year (2010: 3.4%). The short-term money market investments had a return of 0.9% (2010: 1.1%); this compares favourably with the benchmark DEX 91 Day Treasury Bill return of 0.8% (2010: 0.3%) and is primarily attributable to the portfolio's longer duration.

The mid-term bond portfolio returned 5.8% (2010: 7.8%); this exceeded the benchmark DEX Short Term Bond Index return of 3.4% (2010: 3.3%), and is primarily attributable to valuation adjustments on the restructured asset-backed commercial paper (ABCP). The University holds \$141.5 million (2010: \$147.3) of ABCP and has recorded a write-down of \$49.1 million representing 34.7% of the total value (2010: \$58.1 representing 39.5% of the total value). The decrease in the write-down reflects the passage of time and an improvement in credit conditions that resulted in a narrowing of credit spreads. The majority of the ABCP notes mature within the next six years and the University intends to hold these notes to maturity.

The long-term portion of the NEIP, which is invested in the UEP, added to performance with a return of 9.2% (2010: 23.7%).

**FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2011**

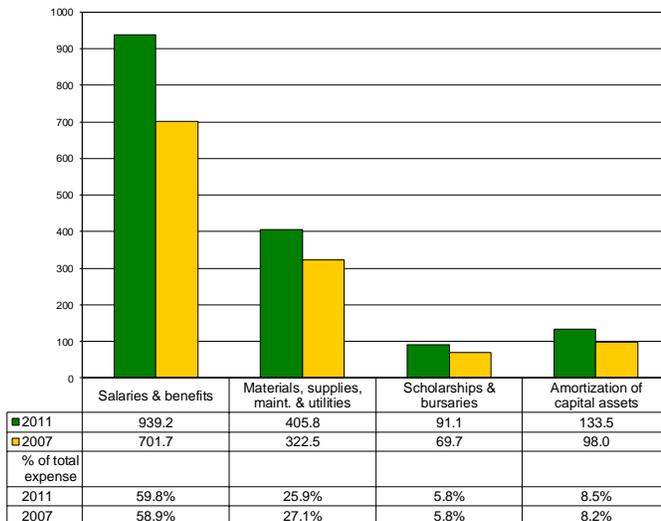
Expenses

Expenses decreased by \$23.6 million (1.5%) from \$1,593.2 million in 2010 to \$1,569.6 million in 2011. The main components of this decrease are:

Salaries expense decreased by \$7.8 million (1.0%) and is comprised of:

- \$27.8 million increase in salaries
The collective bargaining process resulted in negotiated salary increases for both academic staff (4.75%) and support staff (3.08%) and, in addition, eligible staff received merit increases (averaging approximately 2%). In 2011 total staff count is approximately 11,150, (unchanged from last year). An increase in new hires was offset by staff retiring under the Voluntary Retirement Incentive Program. Included in the staff count is approximately 1,283 academic staff granted tenure.
- \$19.5 million decrease due to the University's mandatory furlough (six days for academic staff, eight days for support staff) and the optional personal leave (five days) programs.
- \$16.1 million decrease due the Voluntary Retirement Incentive Program expense recorded in 2010.

Expense Comparative
Year ended March 31
(in millions of dollars)



Benefits expense decreased by \$15.8 million (9.4%). The Universities Academic Pension Plan (UAPP) unfunded pension liability expense decreased by \$25.6 million due to investment returns in the UAPP (2011: \$1.3 expense; 2010: \$26.9 expense). This decrease was somewhat offset by pension plan rate increases to both the UAPP and the Public Service Pension Plan (PSPP) (\$9.6).

Materials, supplies and services expense is comparable to last year with an increase of \$3.5 million (1.2%), spread across all funds. Maintenance expense is also comparable to last year with an increase of \$3.2 million (4.7%) mainly due to renovation projects. Utilities expense increased by \$1.5 million (3.8%) due to higher consumption which is partially offset by a lower natural gas rate. The University has managed some of its exposure to volatility in the electrical industry by entering into contracts to fix a portion of its electrical costs.

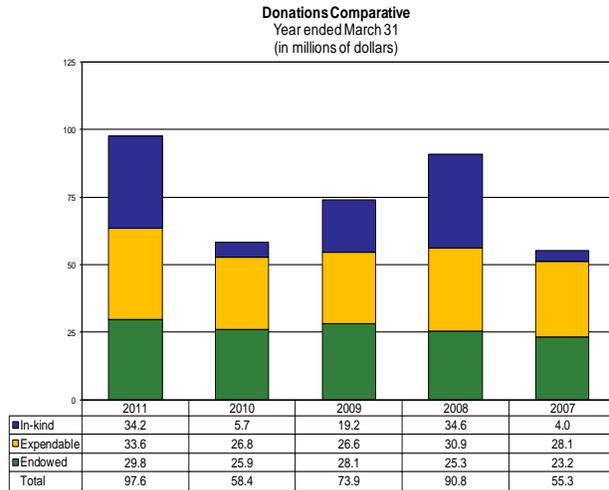
Scholarships and bursaries expense increased by \$1.6 million (1.7%). This increase was spread throughout a number of initiatives and programs and is primarily funded by research and special purpose grants and donations.

**FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2011**

Donations Received

Donations (before deferrals) received in the year totaled \$97.6 million as compared to \$58.4 million in 2010 and are comprised of:

- \$29.8 million endowed donations
 - \$33.6 million expendable donations
 - \$34.2 million in-kind donations
- In-kind donations include the Soaring Estates property (\$22.3) and Mattheis Ranch (\$9.4)



In 2011, the University received \$5.0 million from the Access to the Future Fund (provincial matching grant) (2010: \$5.0), which is recorded as an endowment contribution. This Government of Alberta grant is not included in the above endowed donation amount.

Donor pledges outstanding at March 31, 2011 are \$145.0 million (2010: \$152.1) and are not reflected in the University's financial statements. These pledges are expected to be honoured over the next several years.

FINANCIAL ANALYSIS YEAR ENDED MARCH 31, 2011

Financial Position

The University's net assets position increased by \$166.2 million due to a \$65.8 million increase in endowments, an increase in investment in capital assets and collections of \$43.4 million and a decrease in the unrestricted net assets deficiency of \$57.0 million.

Endowments

Endowments consist of restricted donations to the University and internal allocations by the University's Board of Governors, the principal of which is required to be maintained intact in perpetuity. The investment income earned on endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. The endowment investment policy which is long term in nature is designed to meet the funding objectives of the University by maximizing returns with an acceptable level of risk, while maintaining the real capital value of the endowment and providing for an appropriate level of spending. The University has long recognized the value of permanent funding support and through successful fund raising efforts over the years, ranks fourth overall amongst Canadian universities in terms of total endowment funds.

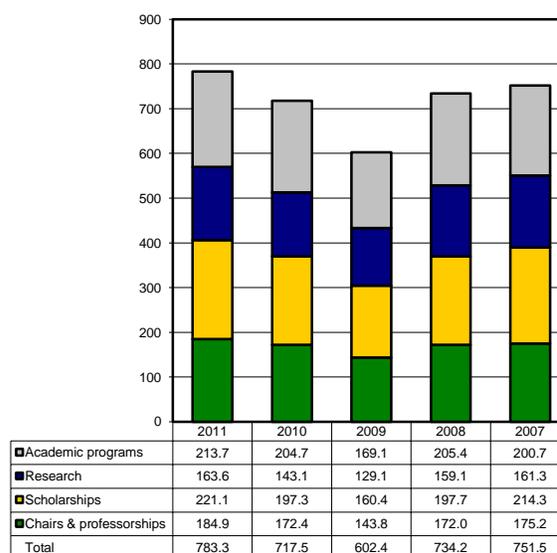
Endowment investments earned a return of 9.2% for the year ended March 31, 2011 (2010: 23.7%) and averaged 2.5% on a five-year annualized basis.

The University has 2,384 individual endowments with a total value of \$783.3 million (2010: \$717.5), a net increase of \$65.8 million which is comprised of:

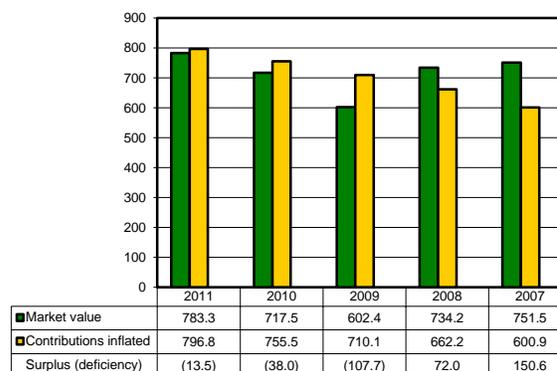
- \$34.8 endowed donations (includes \$5.0 provincial matching grant)
- \$2.3 capitalization from expendable funds
- \$66.7 investment income
- (\$38.0) allocated for total spending (includes program spending allocation, and administrative and external management fees)

Endowment funding supports a variety of key initiatives in the areas of scholarships, professorships, chairs, visiting speakers, research and many other activities. The spending allocation for these programs in 2011 is \$30.4 million (2010: \$28.7). In 2010 an additional \$18.3 million was allocated for program spending; this amount had not been allocated in the previous two years due to investment losses. The program spending allocation rate is 3.80% (2010: 3.50%) and is based on a moving average of the endowment's fair value.

Endowments by Category
Year ended March 31
(in millions of dollars)



Endowment Growth versus Inflation
Year ended March 31
(in millions of dollars)



At March 31, 2011 the market value of the UEP assets are lower than the cumulative endowed contributions indexed for inflation by \$13.5 million. Due to investment losses in 2007 and 2008, the Board of Governors approved a temporary one year reduction in the 2010 spending rate from 4.25% to 3.50%. The new spending policy transitions the spending rate back to 4.25% over the next two years, after which the spending allocation will be indexed annually by inflation, subject to certain provisions that are designed to restore and maintain the real value of the endowment.

FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2011

Acquisition of Capital Assets and Collections

	<u>2011</u>	<u>2010</u>	Increase (decrease)
	(000's)	(000's)	(000's)
Buildings and utilities	\$ 354,867	\$ 382,422	\$ (27,555)
Equipment and furnishings	90,000	75,775	14,225
Learning resources	20,532	20,075	457
Permanent collections	908	4,158	(3,250)
Land	<u>32,167</u>	<u>-</u>	<u>32,167</u>
Total acquisitions	<u>\$ 498,474</u>	<u>\$ 482,430</u>	<u>\$ 16,044</u>

The additions to buildings and utilities are distributed amongst many different University structures and facilities on the North campus, South campus, Enterprise Square, Augustana campus and Campus St. Jean. The most significant additions to individual buildings in 2011 were as follows (in millions of dollars):

- construction of:
 - Edmonton Clinic Health Academy (\$113.0)
 - Centennial Centre for Interdisciplinary Science (\$81.1)
 - Katz Group Centre for Health Research Innovation (\$52.9)
 - Chemical Materials Engineering Building Functional Renewal (\$25.4)
 - Li Ka Shing Center for Health Research Innovation (\$18.2)
 - East Campus Village (\$14.3)
 - Augustana Library and Forum (\$2.1)
- major renovations on various buildings: Chemistry West Building (\$5.7), HUB Mall skylight (\$7.7), Tory Building (\$1.5), South Campus (\$1.5)

The increase in equipment and furnishings is due to acquisitions of research equipment.

In 2011 the University acquired the Soaring Estates property in Edmonton (\$29.3 million) and the Mattheis Ranch in southern Alberta (\$12.0 million). The Soaring Estates acquisition was funded through an in-kind contribution (\$22.3) and University funds (\$7.0) and is comprised of land (\$21.8) and buildings (\$7.5). The Mattheis Ranch acquisition was funded through an in-kind contribution (\$9.4) and University funds (\$2.6) and is comprised of land (\$10.4) and buildings (\$1.6).

Deferred Maintenance

The University's deferred maintenance liability is estimated at over \$900 million as at December 31, 2009 which is the most recent estimate available (December 31, 2008: estimated at over \$1 billion). The University has received significant and continued funding from the Government of Alberta that has assisted in reducing the deferred maintenance liability. This area remains a high priority as deferred maintenance puts some risk on the University's programs and initiatives. Deferred maintenance requirements are not reflected in the University's financial statements since they are not liabilities or commitments for accounting purposes.

**FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2011**

Unrestricted Net Assets

The unrestricted net assets deficit is summarized as follows:

	<u>2011</u>	<u>2010</u>	<u>Increase</u>
	<u>(000's)</u>	<u>(000's)</u>	<u>(decrease)</u>
			<u>(000's)</u>
Unexpended (over expended) funds:			
Operating (includes enrolment planning envelope funds)	\$ 34,791	\$ (19,114)	\$ 53,905
Ancillary enterprises	40,617	29,222	11,395
Capital (internally funded)	24,217	20,140	4,077
Special purpose (operating)	6,619	14,015	(7,396)
Research (internally funded)	34,715	35,112	(397)
	<u>140,959</u>	<u>79,375</u>	<u>61,584</u>
Employee future benefit liabilities	<u>(144,497)</u>	<u>(139,929)</u>	<u>(4,568)</u>
Unrestricted net assets (deficit)	<u>\$ (3,538)</u>	<u>\$ (60,554)</u>	<u>\$ 57,016</u>

The most significant changes are:

- Operating - refer to excess of revenue over expense section
- Ancillary enterprises - primarily in the Utilities Ancillary and is due to lower bulk purchase costs
- Special purpose (operating) - transfer of activities to operating fund

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL REPORTING YEAR ENDED MARCH 31, 2011

The administration of the University is responsible for the preparation and for the integrity and objectivity of the accompanying financial statements and the notes thereto. The administration believes that the financial statements present fairly the University's financial position as at March 31, 2011 and the results of its operations for the year then ended.

The financial statements have been prepared in accordance with generally accepted accounting principles. Where alternative accounting methods exist, those deemed most appropriate in the circumstances have been chosen. Financial statements are not precise, since they include certain amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the administration has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements. The integrity of internal controls is reviewed on an ongoing basis by the Internal Audit Department.

The Board of Governors carries out its responsibility for review of the financial statements principally through its Audit Committee. The majority of the members of the Committee are not officers or employees of the University. This committee meets regularly with administration and with external and internal auditors to discuss the results of audit examinations and financial reporting matters. The external and internal auditors have full access to the Board Audit Committee with and without the presence of the administration. The Board of Governors of the University of Alberta has approved the financial statements.

The financial statements for the year ended March 31, 2011 have been audited and reported on by the Auditor General for the Province of Alberta whose report outlines the scope of his audit and presents his opinion on the financial statements.

Original signed by Indira V. Samarasekera

Indira V. Samarasekera, OC
President

Original signed by Phyllis Clark

Phyllis Clark
Vice-President (Finance & Administration) and
Chief Financial Officer



Independent Auditor's Report

To the Board of Governors of the University of Alberta

Report on the Financial Statements

I have audited the accompanying financial statements of the University of Alberta, which comprise the statement of financial position as at March 31, 2011 and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained in my audit is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the University of Alberta as at March 31, 2011, and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Merwan N. Saher, CA
Auditor General

June 17, 2011

Edmonton, Alberta

UNIVERSITY OF ALBERTA
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2011
(thousands of dollars)

	<u>2011</u>	<u>2010</u>
ASSETS		
Current		
Cash and cash equivalents (note 3)	\$ 122,800	\$ 99,229
Short-term investments (note 4)	663,337	718,415
Accounts receivable	177,119	168,677
Inventories and prepaid expenses	<u>21,125</u>	<u>21,608</u>
	984,381	1,007,929
Long-term investments (note 4)	969,485	877,156
Capital assets and collections (note 5)	<u>2,670,255</u>	<u>2,309,290</u>
	<u>\$ 4,624,121</u>	<u>\$ 4,194,375</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 215,801	\$ 217,385
Current portion of employee future benefit liabilities (note 6)	8,667	8,392
Current portion of long-term liabilities (note 7)	12,659	10,656
Deferred contributions, research and other (note 8)	412,671	315,411
Deferred revenue	<u>21,140</u>	<u>16,897</u>
	670,938	568,741
Employee future benefit liabilities (note 6)	135,830	131,537
Long-term liabilities (note 7)	197,170	179,765
Deferred contributions, research and other (note 8)	90,000	90,000
Deferred contributions, capital (note 8)	275,916	437,617
Unamortized deferred capital contributions (note 9)	<u>1,964,182</u>	<u>1,662,878</u>
	3,334,036	3,070,538
Net Assets		
Endowments (note 10)	783,340	717,495
Investment in capital assets and collections (note 11)	510,283	466,896
Unrestricted (deficit)	<u>(3,538)</u>	<u>(60,554)</u>
	1,290,085	1,123,837
	<u>\$ 4,624,121</u>	<u>\$ 4,194,375</u>

Contingent liabilities and contractual obligations (note 12 and 13)

Approved by the Board of Governors:

Original signed by Brian Heidecker

Chair, Board of Governors

Original signed by Indira Samarasekera

President

----- The accompanying notes are part of these financial statements. -----

UNIVERSITY OF ALBERTA
STATEMENT OF OPERATIONS AND CHANGE IN UNRESTRICTED NET ASSETS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

	<u>2011</u>	<u>2010</u>
REVENUE		
Government of Alberta grants (note 16)	\$ 744,460	\$ 733,854
Federal and other government grants	184,507	185,158
Student tuition and fees	253,897	235,799
Sales of services and products	210,698	201,375
Donations and other grants	112,998	112,460
Investment income (note 15)	56,475	48,991
Amortization of deferred capital contributions (note 9)	81,705	89,054
	<u>1,644,740</u>	<u>1,606,691</u>
EXPENSE		
Salaries	786,797	794,643
Employee benefits	152,382	168,189
Materials, supplies and services	293,711	290,201
Scholarships and bursaries	91,109	89,547
Maintenance and repairs	71,658	68,433
Utilities	40,382	38,908
Amortization of capital assets	133,548	143,277
	<u>1,569,587</u>	<u>1,593,198</u>
EXCESS OF REVENUE OVER EXPENSE	75,153	13,493
NET TRANSFERS TO ENDOWMENTS (note 10)	(175)	(34)
NET CHANGE IN INVESTMENT IN CAPITAL ASSETS (note 11)	<u>(17,962)</u>	<u>(13,478)</u>
Change in unrestricted net assets for the year	57,016	(19)
UNRESTRICTED NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(60,554)</u>	<u>(60,535)</u>
UNRESTRICTED NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (3,538)</u>	<u>\$ (60,554)</u>

----- The accompanying notes are part of these financial statements. -----

UNIVERSITY OF ALBERTA
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

	<u>Endowments</u>	<u>Investment in Capital Assets and Collections</u>	<u>Unrestricted Net Assets (deficit)</u>
NET ASSETS, March 31, 2009	\$ 602,414	\$ 450,023	\$ (60,535)
Excess of revenue over expense	-	-	13,493
Investment income (note 15)	80,029	-	-
Endowment contributions (note 10)	35,018	-	-
Net transfers (note 10)	34	-	(34)
Net change in investment in capital assets (note 11)	-	13,478	(13,478)
Contributions of assets not subject to amortization (note 11)	-	3,395	-
NET ASSETS, March 31, 2010	<u>\$ 717,495</u>	<u>\$ 466,896</u>	<u>\$ (60,554)</u>
Excess of revenue over expense	-	-	75,153
Investment income (note 15)	28,767	-	-
Endowment contributions (note 10)	36,903	-	-
Net transfers (note 10)	175	-	(175)
Net change in investment in capital assets (note 11)	-	17,962	(17,962)
Contributions of assets not subject to amortization (note 11)	-	25,425	-
NET ASSETS, March 31, 2011	<u><u>\$ 783,340</u></u>	<u><u>\$ 510,283</u></u>	<u><u>\$ (3,538)</u></u>

-----The accompanying notes are part of these financial statements-----

**UNIVERSITY OF ALBERTA
STATEMENT OF CASH FLOW
YEAR ENDED MARCH 31, 2011**
(thousands of dollars)

	2011	2010
CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES		
Excess of revenue over expense	\$ 75,153	\$ 13,493
Add (deduct) non-cash items:		
Amortization of capital assets	133,548	143,277
Amortization of deferred capital contributions	(81,705)	(89,054)
Change in employee future benefit liabilities	4,568	32,133
Change in unrealized (gain) loss on investments	(11,210)	(7,059)
Total non-cash items	45,201	79,297
Net change in non-cash working capital (*)	147,038	(20,332)
	<u>267,392</u>	<u>72,458</u>
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES		
Purchases of capital assets and collections, net of proceeds on disposals	(469,088)	(478,407)
Purchases of long-term investments, net of sales	3,417	1,146
Endowment investment loss	(55,767)	(886)
	<u>(521,438)</u>	<u>(478,147)</u>
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES		
Endowment contributions	36,903	35,018
Capital contributions	221,306	364,193
Long-term liabilities - new financing, net of repayments	19,408	(13,914)
	<u>277,617</u>	<u>385,297</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,571	(20,392)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	99,229	119,621
CASH AND CASH EQUIVALENTS, END OF YEAR (note 3)	<u>\$ 122,800</u>	<u>\$ 99,229</u>
(¹) Net change in non-cash working capital:		
Decrease in short-term investments	\$ 55,078	\$ 1,543
Increase in accounts receivable	(8,442)	(50,836)
Decrease (increase) in inventories and prepaid expenses	483	(4,299)
Decrease in accounts payable and accrued liabilities	(1,584)	(14,253)
Increase in deferred contributions, research and other	97,260	45,967
Increase in deferred revenue	4,243	1,546
	<u>\$ 147,038</u>	<u>\$ (20,332)</u>

-----The accompanying notes are part of these financial statements-----

UNIVERSITY OF ALBERTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

1. Authority and purpose

"The Governors of The University of Alberta" is a corporation which manages and operates the University of Alberta ("the University") under the *Post-Secondary Learning Act* (Alberta). All members of the Board of Governors are appointed by either the Lieutenant Governor in Council or the Minister of Advanced Education and Technology, with the exception of the Chancellor and President, who are *ex officio* members. Under the *Post-Secondary Learning Act*, Campus Alberta Sector Regulation, the University is a comprehensive academic and research institution offering undergraduate and graduate degree programs as well as a full range of continuing education programs and activities. The University is a registered charity, and under section 149 of the *Income Tax Act* (Canada), is exempt from the payment of income tax.

2. Summary of significant accounting policies and reporting practices

(a) General - GAAP and use of estimates

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. University administration uses judgment to determine such estimates. Employee future benefit liabilities, amortization of capital assets and valuation of asset-backed commercial paper investments are the most significant items based on estimates. In administration's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

(b) Interest in joint ventures

The financial statements use the proportionate consolidation method to record the University's proportionate share of each financial statement component of the following joint ventures:

- Canada School of Energy and Environment (46.2% interest) - a joint venture with two other universities to promote coordination and collaboration in research and education related to the implementation of Alberta's energy and environment strategies.
- Northern Alberta Clinical Trials and Research Centre (50% interest) - a joint venture with Alberta Health Services to support the shared missions of Alberta Health Services and the University for collaborative clinical research.
- TEC Edmonton (50% interest) - a joint venture with Edmonton Economic Development Corporation to stimulate entrepreneurialism, advance corporate development and accelerate commercialization of new ideas and technologies that benefit society.
- Tri-University Meson Facility (TRIUMF) (9.09% interest) - a joint venture with ten other universities to operate a sub-atomic physics research facility.

These joint ventures are not material to the University's financial statements, and therefore, separate condensed financial information is not presented.

(c) Financial instruments

The University's financial assets and liabilities are generally classified and measured as follows:

<u>Financial Statement Components</u>	<u>Classification</u>	<u>Measurement</u>
Cash and cash equivalents	Held for trading	Fair value
Investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Other long-term assets	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term liabilities	Other liabilities	Amortized cost

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

The University's financial instruments are recognized on their trade date. Transaction costs related to all financial instruments are expensed as incurred. The value of the investments recorded in the financial statements is determined as follows:

- Short-term investments are valued based on cost plus accrued income, which approximates fair value. When a loss in value of such investments occurs that is other than temporary, the investment is written down to recognize the loss.
- Publicly traded securities are valued based on the latest bid price on quoted markets.
- Securities that are infrequently traded or where market quotes are not available are valued using estimation techniques. These techniques include discounted cash flows, internal models that utilize observable market data, or comparisons with other securities that are substantially the same.
- Investments in pooled funds are valued at their net asset value per unit.
- Real estate directly held by the University which is not for operational use is recorded at cost.

All derivative financial instruments of the University are classified as held for trading. The University does not use foreign currency forward contracts or any other type of derivative financial instruments for trading or speculative purposes. Forward contracts are marked to market at the end of each reporting period with any changes in the market value recorded in the statement of operations when the changes occur. As permitted for not-for-profit organizations, the University has elected to not apply the standards on derivatives embedded in non-financial contracts, and the University has elected to continue to follow CICA 3861: *Disclosure and Presentation*.

The University is exposed to the following risks:

Market risk

The University is exposed to market risk - the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, its issuer or general market factors affecting all securities. To manage this risk, the University has established an investment policy with a target asset mix that is diversified by asset class with individual issuer limits and is designed to achieve a long-term rate of return that in real terms equals or exceeds total endowment expenditures with an acceptable level of risk. Further details can be found in note 4 and note 10.

Foreign currency risk

The University is exposed to foreign exchange risk on investments that are denominated in foreign currencies and uses forward contracts to manage this risk. The University does not use foreign currency forward contracts or any other type of derivative financial instruments for trading or speculative purposes.

Liquidity risk

The University maintains a short-term line of credit that is designed to ensure that funds are available to meet current and forecasted financial requirements in the most cost effective manner.

Credit risk

The University is exposed to credit risk on investments arising from the potential failure of a counterparty, debtor or issuer to honor its contractual obligations. To manage this risk the University has established an investment policy with required minimum credit quality standards and issuer limits. The credit risk from accounts receivable is low as the majority of balances are due from government agencies and corporate sponsors.

Interest rate risk

Interest rate risk is the risk to the University's earnings that arise from the fluctuations in interest rates and the degree of volatility of these rates. This risk is managed by investment policies that limit the term to maturity of certain fixed income securities that the University holds. Interest risk on the University's long-term liabilities is managed through fixed-risk agreements with Alberta Capital Finance Authority (note 7).

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

(d) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at cost. Cost is determined by weighted average.

(e) Capital assets and collections

Capital assets purchased are recorded at cost. In-kind contributions are recorded at fair value when a fair value can be reasonably determined. Permanent collections are not amortized and include the portion of library assets with permanent value, museum specimens, archival materials, maps and works of art held for education, research and public exhibition purposes.

Capital assets, once placed into service, are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

Buildings and utilities	10 - 40 years
Equipment and furnishings	3 - 10 years
Learning resources	10 years

(f) Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recognized in the period incurred if a reasonable estimate of fair value based on the present value of estimated future cash flows can be made. The associated asset retirement costs are capitalized as part of the net book value of the asset and amortized over its estimated useful life.

(g) Revenue recognition

The financial statements record the following items as revenue - at the following times:

- Unrestricted contributions - when received, or receivable, if the amount can be reasonably estimated and collection is reasonably assured.
- Unrestricted investment income - when earned; this includes interest, dividends, realized and unrealized gains and losses.
- Pledges - when collected.
- Revenues received for services and products - when the services or products are substantially provided and collection is reasonably assured.
- Tuition fees - when the instruction is delivered.
- Restricted contributions - based on the deferral method.

Deferral method

Contributions, including investment income on the contributions, which are restricted for purposes other than endowment or capital asset acquisitions, are deferred and recognized as revenue when the conditions of the contribution are met.

Contributions to acquire capital assets with limited life are first recorded as deferred contributions, capital when received, and when expended, they are transferred to unamortized deferred capital contributions and amortized to revenue over the useful lives of the related assets.

Endowment contributions are recognized as direct increases in endowment net assets. Investment earnings, under agreements with benefactors or the *Post-Secondary Learning Act* allocated to endowment principal, are also recognized as direct increases in endowment net assets. Endowment investment earnings that are allocated for spending are deferred and recognized as revenue when the conditions of the endowment are met.

Contributions restricted to the acquisition of land and permanent collections are first recorded as deferred contributions when received, and when expended, they are recognized as direct increases in investment in capital assets and collections.

(h) Foreign currency translation

Financial assets and liabilities recorded in foreign currencies are translated to Canadian dollars at the year-end exchange rate. Revenues and expenses are translated at average weekly exchange rates. Gains or losses from these translations are included in investment income.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

(i) Employee future benefits

Pension

The University participates with other employers in the Public Service Pension Plan (PSPP) and the Universities Academic Pension Plan (UAPP). These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees based on years of service and earnings.

Pension expense for the UAPP is actuarially determined using the projected benefit method prorated on service and is allocated to each participant based on their respective percentage of pensionable earnings. Actuarial gains or losses on the accrued benefit obligation are amortized over the expected average remaining service life.

The University does not have sufficient plan information on the PSPP to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the PSPP is comprised of employer contributions to the plan that are required for its employees during the year; which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits.

Supplementary retirement plans (SRP)

The University provides non-contributory defined benefit supplementary retirement benefits to executives based on years of service and earnings. The expense for these plans is actuarially determined using the projected benefit method prorated on service. Actuarial gains or losses on the accrued benefit obligation are amortized over the expected average remaining service life.

The University provides non-contributory defined contribution supplementary retirement benefits to eligible academic staff members based on years of service and earnings. The expense for this plan is the employer's current year contribution to the plan.

Long-term disability

The cost of providing non-vesting and non-accumulating employee future benefits for compensated absences under the University's long-term disability plans is charged to expense in full when the event occurs which obligates the University to provide the benefits. The cost of these benefits is actuarially determined using the accumulated benefit method, a market interest rate and administration's best estimate of the retirement ages of employees, expected health care costs and the period of employee disability. Actuarial gains or losses on the accrued benefit obligation are amortized over the average expected period the benefits will be paid.

Early retirement

The cost of providing accumulating post employment benefits under the University's early retirement plans is charged to expense over the period of service provided by the employee. The cost of these benefits is actuarially determined using the projected benefit method pro rated on services, a market interest rate and administration's best estimate of expected health care, dental care, life insurance costs and the period of benefit coverage. The excess of net actuarial gains or losses over 10% of the benefit obligation is amortized over the average remaining service period of active employees expected to receive benefits under the plans.

(j) Capital disclosures

The University defines its capital as the amounts included in deferred contributions (note 8), endowment net assets (note 10) and unrestricted net assets. A significant portion of the University's capital is externally restricted and the University's unrestricted capital is funded primarily by Alberta Advanced Education and Technology and other government funding agencies. The University has investment policies (note 4), spending policies and cash management procedures to ensure the University can meet its capital obligations.

Under the *Post-Secondary Learning Act*, the University must receive ministerial or Lieutenant Governor in Council approval for a deficit budget, mortgage and debenture borrowing and the sale of any land, other than donated land, that is held by and being used for the purposes of the University.

(k) Contributed services

Volunteers as well as members of the staff of the University contribute an indeterminable number of hours per year to assist the institution in carrying out its mission. Such contributed services are not recognized in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

(l) Future accounting changes

The Public Sector Accounting Board (PSAB) has issued a framework for financial reporting by government not-for-profit organizations. The framework includes CICA 4400: *Not-For-Profit Organizations*, which has been incorporated into the Public Sector Accounting (PSA) handbook as the PS 4200 series of standards. This framework will be effective for fiscal years beginning on or after January 1, 2012. Government not-for-profit organizations have been given the choice to apply either PS 4200 series of standards plus the PSA Handbook; or PSA handbook without the PS 4200 series of standards. The Government of Alberta has not yet made a decision on which option Alberta Public Post-Secondary Institutions, as government not-for-profit entities, will adopt. Therefore the University cannot determine the impact of this change on its financial statements. When the decision is made the University will identify the differences in the standards that will impact the financial statements and quantify the differences. The University will also determine whether any specific exemptions and exceptions applicable to the first time adoption of PSA standards by government not-for-profit organizations will be applicable to the University.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

3. Cash and cash equivalents

Cash and cash equivalents have a maximum maturity of 90 days at date of purchase and are as follows:

	<u>2011</u>	<u>2010</u>
Cash	\$ 1,118	\$ 4,596
Money market funds, short-term notes and treasury bills	<u>121,682</u>	<u>94,633</u>
	<u>\$ 122,800</u>	<u>\$ 99,229</u>

4. Investments

	<u>2011</u>	<u>2010</u>
Cash, money market funds, short-term notes and treasury bills	\$ 676,370	\$ 726,579
Asset-backed commercial paper	92,367	89,118
Canadian government and corporate bonds	252,323	252,006
Canadian equity	190,507	126,583
Foreign equity	395,472	376,875
Pooled hedge funds	24,711	23,335
Annuities	86	89
Real estate	986	986
	<u>\$ 1,632,822</u>	<u>\$ 1,595,571</u>
Short-term investments	\$ 663,337	\$ 718,415
Long-term investments	<u>969,485</u>	<u>877,156</u>
	<u>\$ 1,632,822</u>	<u>\$ 1,595,571</u>

As at March 31, 2011, the average effective yields and the terms to maturity are as follows:

- Money market funds, short-term notes and treasury bills: 1.32% (2010 - 0.54%); term to maturity: less than one year.
- Canadian government and corporate bonds: 2.72% (2010 - 2.75%); terms to maturity: range from less than one year to more than 10 years.

The University's investments are managed using two pools, the Non-Endowed Investment Pool (NEIP) with investment holdings of \$794,242 (2010 - \$850,118) and the Unitized Endowment Pool (UEP) with investment holdings of \$838,580 (2010 - \$745,453). The primary objective for the NEIP is to earn a rate of return that exceeds the DEX 91 day T-Bill return with an emphasis on liquidity and the preservation of capital. The primary objective for the UEP is to earn a long-term rate of return that, in real terms, exceeds total endowment spending at an acceptable level of risk. The UEP also includes non-endowed assets that will not be required for spending in the next five years.

Derivative financial instruments are used to manage currency exposures primarily with respect to the University's investments. The University uses foreign currency forward contracts to manage its foreign exchange currency exposure on certain investments, and has entered into foreign currency forward contracts to minimize exchange rate fluctuations. All outstanding contracts have a remaining term to maturity of less than one year. The University has contracts outstanding held in US dollars, Euro, Japanese yen and the British pound among others. The fair value of net outstanding foreign currency forward contracts receivable is \$1,552 (2010 - \$7,510).

The University has policies and procedures in place governing asset mix, diversification, exposure limits, credit quality and performance measurement. The University's Investment Committee, a subcommittee of the Board of Governors, has the delegated authority for oversight of the University's investments. The Investment Committee meets regularly to monitor investments, to review investment manager performance, to ensure compliance with the University's investment policies and to evaluate the continued appropriateness of the University's investment policies.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

Asset-backed commercial paper

The University holds \$132,848 (2010 - \$138,602) in "New Restructured Notes" that were received on January 21, 2009 in exchange for asset-backed commercial paper (ABCP) formerly held by the University. The ABCP had been restructured under the restructuring agreement of the Pan-Canadian Investments Committee (known as the Montreal Accord). Certain notes, classified as Other ABCP, were not part of the Montreal Accord and were restructured directly with the sponsors or remain subject to ongoing legal proceedings.

The composition and fair value of the ABCP investments are as follows:

Note type	2010		2011			
	Estimated fair value	Cost	Note cancellations	Redemptions	Cost	Estimated fair value
Traditional assets ⁽¹⁾	\$ 3,743	\$ 4,303	\$ -	\$ (1,760)	\$ 2,543	\$ 2,410
Synthetic assets ⁽²⁾	75,570	117,575	-	-	117,575	80,061
IA tracking notes ⁽³⁾	3,752	16,724	(3,617)	(377)	12,730	3,705
	83,065	138,602	(3,617)	(2,137)	132,848	86,176
Other ABCP ⁽⁴⁾	6,053	8,660	-	-	8,660	6,191
	<u>\$ 89,118</u>	<u>\$ 147,262</u>	<u>\$ (3,617)</u>	<u>\$ (2,137)</u>	<u>\$ 141,508</u>	<u>\$ 92,367</u>

- (1) Primarily rated as AA+ or higher by DBRS, with a yield based upon the income generated by the underlying assets. Anticipated yield is Bankers Acceptance (BA) plus 0.40%. Scheduled repayment dates are between 4 and 6 years with legal maturity dates between 11 and 25 years.
- (2) Primarily rated as A and BBB (low) by DBRS, with a yield of BA minus 0.50%. Scheduled repayment date is January 2017 with a legal maturity date of July 2056.
- (3) No stated amount, interest paid will be based on income generated by underlying assets. Scheduled repayment and legal maturity dates are between 2 and 29 years.
- (4) Stated yield ranges from BA to Canadian Deposit Offering Rate plus 0.33%. Scheduled repayment and legal maturity dates are between 3 and 6 years.

Valuation

ABCP restructured under the Montreal Accord:

The University has estimated the fair value of these investments as at March 31, 2011 using a discounted cash flow valuation model. This model incorporates administration's best estimates of multiple factors, updated to reflect market-related and other additional information.

The valuation also involves assumptions regarding the difference between the yield the University expects to earn from the restructured floating rate notes and the appropriate market-discount attributable to such investments. The estimated investment yields were determined based on available information. The estimated market-discount rates for the floating rate notes were determined by reference to market rates for other investments and appropriate forward-credit indices. They were then adjusted to include an estimated premium to reflect the expected lack of liquidity in the restructured floating rate notes together with the leveraged nature of the underlying assets and were adjusted for subordination where appropriate. The shortfall between the expected yield and the estimated discount rate for notes in the synthetic assets ranges from 424 to 1,094 basis points. An increase of 100 basis points in the estimated discount rate would decrease the fair value by approximately \$6,600.

Other ABCP:

In the absence of an active market for these investments, the University has estimated their fair value as at March 31, 2011, using a discounted cash flow valuation model similar to the approach used for the ABCP restructured under the Montreal Accord.

Measurement uncertainty

Since the eventual timing and amount of future cash flows attributable to these assets may vary significantly from administration's current best estimates, it is possible that the ultimate fair value of these assets may vary significantly from current estimates and that the magnitude of any such difference could be material to the financial results.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

5. Capital assets and collections

	2011			2010		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Buildings and utilities	\$ 2,831,320	\$ 792,577	\$ 2,038,743	\$ 2,476,454	\$ 748,376	\$ 1,728,078
Equipment and furnishings	1,059,594	712,401	347,193	984,646	653,704	330,942
Learning resources	298,859	201,578	97,281	278,328	182,020	96,308
Land	85,464	-	85,464	53,296	-	53,296
Library permanent collections	35,776	-	35,776	35,490	-	35,490
Other permanent collections	65,798	-	65,798	65,176	-	65,176
	\$ 4,376,811	\$ 1,706,556	\$ 2,670,255	\$ 3,893,390	\$ 1,584,100	\$ 2,309,290

Included in buildings and utilities is \$925,994 (2010 - \$657,974) recorded as construction in progress, which is not amortized as the assets are not yet available for use.

Acquisitions include in-kind contributions in the amount of \$39,060 (2010 - \$12,081).

NOTES TO THE FINANCIAL STATEMENTS
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6. Employee future benefit liabilities

	2011			2010		
	Academic staff	Support staff	Total	Academic staff	Support staff	Total
UAPP	\$ 82,349	\$ -	\$ 82,349	\$ 81,004	\$ -	\$ 81,004
Long-term disability	6,229	21,803	28,032	7,253	21,825	29,078
Early retirement	327	24,507	24,834	540	23,517	24,057
SRP (defined benefit)	4,163	-	4,163	3,350	-	3,350
SRP (defined contribution)	5,119	-	5,119	2,440	-	2,440
	98,187	46,310	144,497	94,587	45,342	139,929
Less current portion	2,872	5,795	8,667	2,598	5,794	8,392
	\$ 95,315	\$ 40,515	\$ 135,830	\$ 91,989	\$ 39,548	\$ 131,537

(a) Defined benefit plans accounted for on a defined benefit basis

Universities Academic Pension Plan (UAPP)

The UAPP is a multi-employer contributory joint defined benefit pension plan for academic staff members. An actuarial valuation of the UAPP was carried out as at December 31, 2008 and was then extrapolated to March 31, 2011, resulting in a UAPP deficiency of \$992,933 (2010 - \$924,067) consisting of a pre-1992 deficiency (\$700,812) and a post-1991 deficiency (\$292,121). The University's portion of the UAPP deficiency has been allocated based on its percentage of the plan's total employer contributions for the year.

The unfunded deficiency for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2009 - 1.25%) of salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 2.03% (2009 - 2.03%) of salaries required to eliminate the unfunded deficiency by December 31, 2043. The actuarial valuation shows that the present value of the Government of Alberta's obligation for the future additional contributions was \$315,424 at March 31, 2011. The unfunded deficiency for service after December 31, 1991 is financed by special payments of 5.09% (2009 - 4.08%) of pensionable earnings shared equally between employees and employers until December 31, 2023.

Long-term disability and early retirement

The University provides long-term disability (academic and support staff) and early retirement (support staff) defined benefits to its employees. The most recent actuarial valuation for these benefits was as at March 31, 2011.

The long-term disability plans provide pension and non-pension benefits after employment, but before the employee's normal retirement date.

The early retirement benefits for support staff include bridge benefits and a retirement allowance. Bridge benefits allows eligible employees who retire early, to continue participating in several staff benefit programs between the date of early retirement and the end of the month in which the employee turns 65. Benefits include group life insurance, employee family assistance program, supplementary health care and dental care. The support staff retirement allowance provides eligible employees one week's base pay per full year of employment to a maximum 25 days pay. The early retirement benefit for academic staff was for bridge benefits and was terminated in 2004. Participants already receiving these benefits, when the benefit was terminated, will continue to receive bridge benefits under the original terms.

Supplementary retirement plans (SRP)

The University provides non-contributory defined benefit supplementary retirement benefits to executives. An actuarial valuation of these benefits was carried out as at March 31, 2011.

NOTES TO THE FINANCIAL STATEMENTS
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The expense and financial position of these defined benefit plans are as follows:

	2011				2010			
	UAPP	Long-term disability ⁽¹⁾	Early retirement ⁽¹⁾	SRP ⁽¹⁾	UAPP	Long-term disability ⁽¹⁾	Early retirement ⁽¹⁾	SRP ⁽¹⁾
Expense								
Current service cost	\$ 28,613	\$ 4,537	\$ 1,229	\$ 683	\$ 31,005	\$ 6,159	\$ 1,323	\$ 516
Interest cost	10,941	1,484	1,251	286	17,527	1,528	1,474	212
Amortization of net actuarial (gain) loss	6,301	(970)	(90)	-	17,343	(1,495)	11	(81)
Amortization of past service cost	-	-	-	54	-	-	-	41
Total expense	<u>\$ 45,855</u>	<u>\$ 5,051</u>	<u>\$ 2,390</u>	<u>\$ 1,023</u>	<u>\$ 65,875</u>	<u>\$ 6,192</u>	<u>\$ 2,808</u>	<u>\$ 688</u>
Financial Position								
Accrued benefit obligation:								
Balance, beginning of year	\$ 620,025	\$ 24,551	\$ 21,524	\$ 3,533	\$ 667,510	\$ 20,934	\$ 23,074	\$ 2,054
Current service cost	28,613	4,537	1,229	683	31,005	6,159	1,323	516
Interest cost	43,757	1,484	1,251	286	45,775	1,528	1,474	212
Recognition of past service	-	-	-	-	-	-	-	434
Benefits paid	(28,924)	(6,097)	(1,613)	(210)	(30,389)	(5,294)	(1,614)	-
Actuarial (gain) loss	44,684	55	(3)	210	(93,876)	1,224	(2,733)	317
Balance, end of year	<u>708,155</u>	<u>24,530</u>	<u>22,388</u>	<u>4,502</u>	<u>620,025</u>	<u>24,551</u>	<u>21,524</u>	<u>3,533</u>
Plan assets	<u>(540,931)</u>	-	-	-	<u>(467,820)</u>	-	-	-
Plan deficit	<u>167,224</u>	<u>24,530</u>	<u>22,388</u>	<u>4,502</u>	<u>152,205</u>	<u>24,551</u>	<u>21,524</u>	<u>3,533</u>
Unamortized net actuarial gain (loss)	(84,875)	3,502	2,446	-	(71,201)	4,527	2,533	210
Unamortized past service cost	-	-	-	(339)	-	-	-	(393)
Accrued benefit liability	<u>\$ 82,349</u>	<u>\$ 28,032</u>	<u>\$ 24,834</u>	<u>\$ 4,163</u>	<u>\$ 81,004</u>	<u>\$ 29,078</u>	<u>\$ 24,057</u>	<u>\$ 3,350</u>

⁽¹⁾ The University plans to use its working capital to finance these future obligations.

The significant actuarial assumptions used to measure the accrued benefit obligations are as follows:

	2011		2010	
	UAPP and SRP	LTD and early retirement	UAPP and SRP	LTD and early retirement
Accrued benefit obligation:				
Discount rate	6.50% to 6.80%	4.80%	6.80% to 6.90%	5.70%
Long-term average compensation increase ⁽¹⁾	3.00% to 3.50%	3.00%	3.00% to 3.50%	3.00%
Benefit cost:				
Discount rate	5.80% to 6.50%	5.70%	6.70% to 6.80%	5.70%
Long-term average compensation increase ⁽¹⁾	3.00% to 3.50%	3.00%	3.00%	3.00%
Alberta inflation (long-term) ⁽²⁾	2.25%	2.50%	2.25%	3.00%
Estimated average remaining service life (years) ⁽³⁾	11.3	5.0 to 13.0	11.3	5.0 to 12.0

⁽¹⁾ Compensation increases are not applicable for long-term disability.

⁽²⁾ SRP lump-sum payments upon retirement are based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries, and as such, those assumptions are not set by the University.

⁽³⁾ SRP actuarial gain and past service cost are amortized over the remaining contract terms of the affected participants.

NOTES TO THE FINANCIAL STATEMENTS
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(b) Defined benefit plan accounted for on a defined contribution basis

Public Service Pension Plan (PSPP)

The PSPP is a multi-employer contributory defined benefit pension plan for support staff members. As the University does not have sufficient information to follow the accounting standards for defined benefit plans, it is accounted for on a defined contribution basis. The pension expense recorded in these financial statements is \$23,842 (2010 - \$18,294).

An actuarial valuation of the PSPP was carried out as at December 31, 2008 and was then extrapolated to December 31, 2010. At December 31, 2010, the PSPP reported an actuarial deficiency of \$2,067,151 (2009 - \$1,729,196).

(c) Defined contribution plan

Supplementary retirement plan (SRP)

The University provides non-contributory defined contribution supplementary retirement benefits to eligible academic staff members. The expense recorded in these statements is \$2,679 (2010 - \$2,440).

NOTES TO THE FINANCIAL STATEMENTS
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7. Long-term liabilities

	Collateral	Maturity date	Fixed interest rate %	Amount outstanding	
				2011	2010
Debtures payable to Alberta Capital Finance Authority:					
Health Research Innovation Facility	(1)	June 2011	5.030	\$ 1,000	\$ 1,000
Enterprise Square	(2)	October 2011	4.162	1,301	2,549
Natural Resources Engineering Facility	(3)	June 2014	4.974	6,512	8,176
Energy Management Program, Year 1	(1)	September 2014	4.551	1,408	1,771
Energy Management Program, Year 2	(1)	March 2016	4.525	2,181	2,562
Natural Resources Engineering Facility	(3)	June 2017	5.056	5,641	6,358
Health Research Innovation Facility	(1)	June 2017	5.053	11,493	12,953
Extension Centre	(1)	October 2017	8.750	1,616	1,778
Energy Management Program, Year 3	(1)	December 2017	4.493	2,608	2,919
Energy Management Program, Year 4	(1)	March 2019	3.718	2,899	3,205
Steam Turbine Generator	(3)	May 2020	6.250	10,970	11,744
Newton Place	(2)	August 2024	6.000	11,616	12,137
Newton Place Renovation	(2)	August 2024	6.000	2,008	2,099
Energy Management Program, Year 5	(1)	December 2025	3.885	3,500	-
Lister Residence II	(2)	November 2027	5.875	17,723	18,323
Windsor Car Park	(3)	September 2028	6.000	5,844	6,023
Saville Centre	(3)	December 2028	5.875	3,844	3,963
East Campus Village	(2)	March 2029	4.960	7,883	8,149
Centennial Centre for Interdisciplinary Science Phase I	(1)	September 2029	5.353	8,508	8,772
Centennial Centre for Interdisciplinary Science Phase I	(1)	June 2030	4.518	1,867	1,926
Health Research Innovation Facility	(1)	June 2032	5.191	5,269	5,400
Killam Centre	(1)	September 2036	4.810	1,931	1,968
Enterprise Square	(2)	September 2036	4.627	39,697	40,500
East Campus Village - Graduate Housing	(3)	September 2040	4.886	24,812	-
Jubilee Carpark	(3)	December 2047	4.814	15,704	15,855
				197,835	180,130
Liabilities under capital leases				165	163
Other long-term liabilities (includes asset retirements and liabilities for site restoration)				11,829	10,128
				209,829	190,421
Less current portion				12,659	10,656
				\$ 197,170	\$ 179,765

(1) none; (2) title to land, building; (3) cash flows from facility

The principal portion of long-term debt repayments required over the next five years is as follows:
2012 - \$12,659; 2013 - \$10,959; 2014 - \$11,532; 2015 - \$10,890; 2016 - \$10,188; and thereafter - \$153,601.

Interest expense on long-term liabilities is \$10,926 (2010 - \$11,177) and is included in materials, supplies and services.

The University has recorded a liability for an asset retirement obligation of \$3,230 (2010 - \$1,128). The asset retirement obligation represents the legal obligation associated with the eventual decommissioning of a research reactor.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
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8. Deferred contributions

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balances are as follows:

	2011		2010	
	Capital	Research and other	Capital	Research and other
Balance, beginning of the year	\$ 437,617	\$ 405,411	\$ 495,632	\$ 359,444
Grants and donations received	166,949	514,440	321,269	483,314
Recognized as revenue	-	(365,699)	-	(397,169)
Transferred to unamortized deferred capital contributions (note 9)	(328,650)	(51,481)	(379,284)	(40,178)
Balance, end of the year	275,916	502,671	437,617	405,411
Less amounts included in current liabilities	-	412,671	-	315,411
	<u>\$ 275,916</u>	<u>\$ 90,000</u>	<u>\$ 437,617</u>	<u>\$ 90,000</u>

9. Unamortized deferred capital contributions

Unamortized deferred capital contributions represent the unamortized grants and donations received to fund capital acquisitions. The amortization of unamortized deferred capital contributions is recorded as revenue in the statement of operations. Changes in the unamortized deferred capital contributions balance are as follows:

	2011	2010
Balance, beginning of the year	\$ 1,662,878	\$ 1,329,723
Additions from deferred contributions, capital (note 8)	328,650	379,284
Additions from deferred contributions, research and other (note 8)	51,481	40,178
Long-term liabilities repayment	2,878	2,747
Amortization to revenue	(81,705)	(89,054)
Balance, end of the year	<u>\$ 1,964,182</u>	<u>\$ 1,662,878</u>

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
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10. Endowments

Endowments consist of externally restricted donations received by the University and internal allocations by the University's Board of Governors, the principal of which is required to be maintained intact in perpetuity.

Investment income earned on endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. Benefactors as well as University policy stipulate that the economic value of the endowments must be protected by limiting the amount of income that may be expended and by reinvesting unexpended income.

Under the *Post-Secondary Learning Act*, the University has the authority to alter the terms and conditions of endowments to enable:

- income earned by the endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.
- encroachment on the capital of the endowment to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment if, in the opinion of the Board of Governors, the encroachment benefits the University and does not impair the long-term value of the fund.

In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, the spending allocation is funded from the cumulative capitalized income. However, for individual endowment funds without sufficient cumulative capitalized income, endowment principal is used in that year. This amount is expected to be recovered by future investment income.

The composition of endowments is as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 717,495	\$ 602,414
Endowment contributions	36,903	35,018
Net transfers to endowments	175	34
Investment income	<u>28,767</u>	<u>80,029</u>
Balance, end of year	<u>\$ 783,340</u>	<u>\$ 717,495</u>
Cumulative contributions	\$ 567,793	\$ 530,715
Cumulative capitalized income	<u>215,547</u>	<u>186,780</u>
	<u>\$ 783,340</u>	<u>\$ 717,495</u>

During the year, the University capitalized \$28,767 (2010 - \$80,029) of investment income. A portion of this amount was added to endowments through the authority provided to the University under the *Post-Secondary Learning Act*. The University intends that this portion be maintained in perpetuity.

The Board of Governors approved the permanent endowment of certain unrestricted funds and transferred \$175 (2010 - \$131) from unrestricted net assets to endowments. In 2010, in accordance with the terms and conditions of specific endowments, \$97 was decapitalized for spending purposes.

Gifts of endowment principal include matching grant funds of \$5,000 (2010 - \$5,000) from the Government of Alberta's Access to the Future Fund.

NOTES TO THE FINANCIAL STATEMENTS
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11. Investment in capital assets and collections

Net assets invested in capital assets and collections represent the net book value of capital assets and collections less unamortized deferred capital contributions and any related debt.

	<u>2011</u>	<u>2010</u>
Capital assets and collections at net book value (note 5)	\$ 2,670,255	\$ 2,309,290
Less amounts financed by:		
Unamortized deferred capital contributions (note 9)	(1,964,182)	(1,662,878)
Long-term liabilities related to capital expenditures	(195,790)	(179,516)
Investment in capital assets and collections, end of year	<u>\$ 510,283</u>	<u>\$ 466,896</u>

	<u>2011</u>	<u>2010</u>
The changes during the year are as follows:		
Investment in capital assets and collections, beginning of year	<u>\$ 466,896</u>	<u>\$ 450,023</u>
Acquisition of capital assets and collections	90,668	59,277
Long-term liabilities repayment	8,124	11,437
Long-term liabilities new financing	(27,275)	(2,680)
Net book value of asset disposals	(1,712)	(333)
Amortization of investment in capital assets	(51,843)	(54,223)
Net change in investment in capital assets	<u>17,962</u>	<u>13,478</u>
Contributions of assets not subject to amortization	<u>25,425</u>	<u>3,395</u>
Increase for the year	<u>43,387</u>	<u>16,873</u>
Investment in capital assets and collections, end of year	<u>\$ 510,283</u>	<u>\$ 466,896</u>

NOTES TO THE FINANCIAL STATEMENTS
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12. Contingent liabilities

- (a) The University is a defendant in a number of legal proceedings arising in the normal course of business. While the ultimate outcome and liability of these proceedings cannot be reasonably estimated at this time, the University believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the University. Administration has concluded that none of the claims meet the criteria for recording an accrued liability under GAAP.
- (b) The University has identified potential asset retirement obligations related to the existence of asbestos in a number of its facilities. Although not a current health hazard, upon renovation or demolition of these facilities, the University may be required to take appropriate remediation procedures to remove the asbestos. As the University has no legal obligation to remove the asbestos in these facilities as long as the asbestos is contained and does not pose a public health risk, the fair value of the obligation cannot be reasonably estimated due to the indeterminate timing and scope of the removal. The asset retirement obligations for these assets will be recorded in the period in which there is certainty that the capital project will proceed and there is sufficient information to estimate fair value of the obligation.

13. Contractual obligations

- (a) The University has contractual obligations which are commitments that will become liabilities in the future when the terms of the contracts or agreements are met.

	<u>2011</u>	<u>2010</u>
Significant service contracts	\$ 167,971	\$ 162,599
Capital projects	368,818	357,604
	<u>\$ 536,789</u>	<u>\$ 520,203</u>

Significant service contracts consist of the following:

- In order to manage its exposure to the volatility in the electrical industry, the University has entered into contracts to fix a portion of its electrical cost at an average of \$65.82 (2010 - \$64.85) per megawatt hour. The five contracts (2010 - five contracts) with expenditures totaling \$107,430 (2010 - \$137,614) expire over the next six years.
 - Effective November 1, 2010, the University entered into an agreement with an external party for dining and catering services. Dining services includes the preparation, sale and distribution of food and beverages. Catering services includes providing food and beverages for third parties or for the University. The agreement's term is five years with an estimated cost of \$50,000. At March 31, 2010 the prior agreement had seven months remaining, with an approximate cost of \$5,800.
 - Effective July 1, 2010, the University entered into agreements with two external parties for information technology support. The agreement for infrastructure management services has four years remaining with a cost of \$10,123 (2010 - \$12,630). The agreement for application management services has two years remaining with a cost of \$4,585 (2010 - \$6,522).
- (b) The University is one of 58 members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability, and errors and omissions risks of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through members' premiums. As at December 31, 2010 CURIE had a surplus of \$43,288 (2009 - \$32,032). This surplus is an accumulation of five different underwriting periods. The University participates in four of the underwriting periods, which have an accumulated surplus of \$39,738 (2009 - \$28,647) of which the University's pro rata share is approximately 6.83% (2009 - 6.78%). This surplus is not recorded in the financial statements.
- (c) The University has invested in a partnership agreement with iNovia Investment Fund II-B, Limited Partnership, which invests in the technology, energy, life sciences and applied sciences sectors. The partnership will continue until April 17, 2017, extendable for up to three additional years. The University subscribed to five million partnership units at a price of \$1.00 per unit of which the University has purchased 2.5 million units. The remaining commitment of \$2,500 (2010 - \$3,250) is due at such times and in such amounts as the General Partner may determine.

NOTES TO THE FINANCIAL STATEMENTS
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14. Budget comparison

The University's 2010-11 budget was approved by the Board of Governors and was presented to the Minister of Advanced Education and Technology as part of the University's submission of its 2010-2011 Business Plan.

	Actual	Budget (unaudited)	Variance
Revenue			
Government	\$ 928,967	\$ 916,685	\$ 12,282
Student tuition and fees	253,897	242,647	11,250
Sales of services and products	210,698	205,132	5,566
Grants, donations and investment income	169,473	146,383	23,090
Amortization of deferred capital contributions	81,705	84,689	(2,984)
	<u>1,644,740</u>	<u>1,595,536</u>	<u>49,204</u>
Expense			
Salaries	786,797	774,582	12,215
Employee benefits	152,382	179,399	(27,017)
Materials, supplies, services and other expenses	496,860	508,606	(11,746)
Amortization of capital assets	133,548	138,395	(4,847)
	<u>1,569,587</u>	<u>1,600,982</u>	<u>(31,395)</u>
Excess (deficiency) of revenue over expense	<u>\$ 75,153</u>	<u>\$ (5,446)</u>	<u>\$ 80,599</u>

In 2011 the University reclassified non-credit tuition fees from sales of services and products to student tuition and fees; therefore the budget for non-credit tuition fees of \$26,656 has been reclassified from sales of services and products to student tuition and fees for comparative purposes.

15. Investment income

	2011	2010
Income on investments held for endowment	\$ 66,776	\$ 134,213
Income on other investments	16,817	9,130
Asset-backed commercial paper recovery	9,004	13,966
	<u>92,597</u>	157,309
Amounts deferred	(7,355)	(28,289)
Endowment income capitalized (note 10)	(28,767)	(80,029)
	<u>\$ 56,475</u>	<u>\$ 48,991</u>

NOTES TO THE FINANCIAL STATEMENTS
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16. Related party transactions and balances

The University operates under the authority and statutes of the Province of Alberta. Transactions and balances between the University and the Government of Alberta (GOA) are measured at the exchange amount and are as follows:

	<u>2011</u>	<u>2010</u>
Grants from GOA:		
Advanced Education and Technology:		
Operating:		
Campus Alberta (operating grant)	\$ 565,647	\$ 518,146
Enrolment Planning Envelope	-	58,968
Total operating	<u>565,647</u>	<u>577,114</u>
Capital	<u>174,439</u>	<u>313,180</u>
Research:		
Alberta Innovates Bio Solutions	5,697	2,615
Alberta Innovates Health Solutions	30,974	34,707
Alberta Innovates Technology Futures	27,493	24,670
Other research	<u>26,210</u>	<u>24,166</u>
Total research	<u>90,374</u>	<u>86,158</u>
Other	<u>46,879</u>	<u>8,511</u>
Total Advanced Education and Technology	<u>877,339</u>	<u>984,963</u>
Other GOA departments and agencies:		
Alberta Education	6,074	5,957
Alberta Environment	10,377	6,614
Alberta Health and Wellness	66,138	59,102
Alberta Health Services	16,689	12,687
Other	<u>15,403</u>	<u>17,192</u>
Total other GOA departments and agencies	<u>114,681</u>	<u>101,552</u>
Total contributions received	<u>992,020</u>	1,086,515
Less deferred contributions	<u>(247,560)</u>	<u>(352,661)</u>
	<u>\$ 744,460</u>	<u>\$ 733,854</u>
Accounts receivable:		
Advanced Education and Technology	\$ 9,530	\$ 24,923
Other GOA departments and agencies	<u>4,204</u>	<u>11,742</u>
	<u>\$ 13,734</u>	<u>\$ 36,665</u>
Accounts payable:		
Advanced Education and Technology	\$ 1,021	\$ 746
Other GOA departments and agencies	<u>1,061</u>	<u>1,154</u>
	<u>\$ 2,082</u>	<u>\$ 1,900</u>

The GOA's Access to the Future Fund has provided \$5,000 (2010 - \$5,000) in matching grant funds, which is included in endowments.

The University has long-term liabilities with Alberta Capital Finance Authority as disclosed in note 7.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

17. Salary and employee benefits

Treasury Board Directive 12-98 under the *Financial Administration Act* of the Province of Alberta requires the disclosure of certain salary and employee benefits information.

	2011			2010	
	Base salary ⁽⁴⁾	Non-cash benefits ⁽⁵⁾	Non-cash benefits (SRP) ⁽⁶⁾	Total	Total
Governance ⁽¹⁾					
Chair of the Board of Governors	\$ -	\$ -	\$ -	\$ -	\$ -
Members of the Board of Governors	-	-	-	-	-
Executive					
President	481	183	341	1,005	936
Provost and Vice-President Academic	462	36	149	647	598
Vice-President Research	432	84	96	612	587
Vice-President Facilities and Operations	415	62	111	588	551
Vice-President Finance and Administration	415	49	107	571	538
Vice-President University Relations ⁽²⁾	314	37	47	398	286
Chief Advancement Officer ⁽³⁾	183	61	18	262	-

⁽¹⁾ The Chair and Members of the Board of Governors receive no remuneration for participation on the Board.

⁽²⁾ The incumbent served in an interim role from September 2009 to June 2010 and assumed the role on a continuing basis in July 2010. Prior to September 2009 the position was vacant for approximately two months.

⁽³⁾ This is a new position established effective August 15, 2010.

⁽⁴⁾ Base salary includes pensionable base pay and an administrative honorarium for the Provost and Vice-President Academic. Also included for 2011 are reductions for the mandatory furlough and optional personal leave programs (days off without pay) for all executive with the exception of the Chief Advancement Officer who has only the mandatory furlough. The mandatory furlough and optional personal leave reductions are as follows: President - \$21; Provost and Vice-President Academic - \$21; Vice-President Research - \$19; Vice-President Facilities and Operations - \$18; Vice-President Finance and Administration - \$18; Vice-President University Relations - \$15; Chief Advancement Officer - \$6.

⁽⁵⁾ Non-cash benefits include the University's share of all employee benefits and contributions or payments made on behalf of employees including pension, group life insurance, employee and family assistance program, critical illness, supplementary health care, short and long-term disability plans and dental plan. Benefits for some of the executive also include professional leave, car allowance, parking, supplemental life insurance, forgivable housing loans and housing allowances. Additional non-cash benefits for the President include administrative leave and expenses related to the personal use portion of the residence which the President rents from the University.

⁽⁶⁾ Under the terms of the SRP, the executive may receive supplementary retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expenses for the rights to future compensation. Costs shown reflect the total estimated cost to provide supplementary retirement benefits. The SRP provides future benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method pro rated on service, a market interest rate, and other assumptions included in the Canadian Institute of Actuaries' lump-sum commuted value standard. Net actuarial gains and losses of the benefit obligations are amortized over the remaining contract terms of the participants. Current service cost is the actuarial present value of the benefits earned in the current year. Prior service and other costs include amortization of past service costs, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
(thousands of dollars)

The current service cost and accrued obligation for each executive under the SRP is as follows:

	Years of eligible University of Alberta service	Accrued obligation March 31, 2010	2011			
			Service costs	Interest and other costs ^(6a)	Actuarial loss (gain)	Accrued obligation ^(6b) March 31, 2011
President	5.8	\$ 981	\$ 206	\$ 135	\$ (7)	\$ 1,315
Provost and Vice-President Academic	7.8	660	98	51	49	858
Vice-President Research	3.8	211	77	19	17	324
Vice-President Facilities and Operations	6.8	436	76	35	24	571
Vice-President Finance and Administration	6.8	420	73	34	24	551
Vice-President University Relations	0.7	-	45	2	2	49
Chief Advancement Officer	0.6	-	17	1	1	19

^(6a) Includes \$54 amortization of past service costs for the President.

^(6b) The accrued obligation is based on University of Alberta years of eligible service and other factors such as age, salary and actuarial assumptions.

The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in note 6.

18. Canada - Alberta Knowledge Infrastructure Program

The Canada - Alberta Knowledge Infrastructure Program (KIP) was established to provide funding in support of capital projects at post secondary institutions in order to offset the impact of the global economic recession by providing employment opportunities. Eligible KIP projects can receive up to 50% of their funding from Government of Canada contributions through direct payments made by the GOA. The remaining portion of funding for KIP projects is made up of internal resources, GOA contributions and research grants. The KIP program supports eligible costs incurred from February 24, 2009 to October 31, 2011. Amounts received from the GOA representing Government of Canada contributions and eligible costs incurred on KIP projects are as follows:

	2011	2010	2009	Total
Contributions	\$ 31,061	\$ 31,061	\$ -	\$ 62,122
Eligible costs	90,435	29,737	-	120,172

The remaining minimum contractual obligation to complete the projects at March 31, 2011 is \$17,872. This amount is included in the capital projects total in note 13.

19. Comparative figures

Certain 2010 figures have been reclassified to conform to the presentation adopted in the 2011 financial statements.