



# **Consolidated Financial Statements**

**For the Year Ended  
March 31, 2014**

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### FINANCIAL SERVICES

3<sup>rd</sup> Floor Administration Building • University of Alberta • Edmonton • Canada • T6G 2M7

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

Website: [www.financial.ualberta.ca](http://www.financial.ualberta.ca)

E-mail: [fs.requests@ualberta.ca](mailto:fs.requests@ualberta.ca)

## FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2014

The financial statement discussion and analysis should be read in conjunction with the University of Alberta annual audited financial statements. The discussion and analysis and the audited financial statements are reviewed and approved by the University of Alberta Board of Governors on the recommendation of the University of Alberta Audit Committee. The university's financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards.

For more in-depth discussion and analysis of the university's goals and objectives please refer to the following documents: 2013-14 Annual Report, 2014 Comprehensive Institutional Plan, Dare to Discover: A Vision for a Great University, Investment Reports.

Website link, click on Key Strategic Planning Documents or Investment Reports:

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

The discussion and analysis provides an overview of the university's:

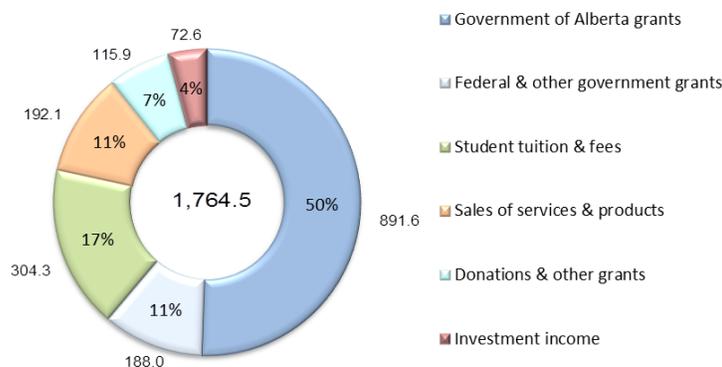
- Financial Results
- Net Assets
- Capital Planning
- Areas of Significant Financial Risk

### Financial Results

From total revenue of \$1,764.5 million, the university ended the year with an excess of revenue over expense of \$18.4 million. Net assets increased by \$156.3 million with increases in endowments (\$113.8), investment in tangible capital assets (\$31.4) and unrealized investment gains (\$24.1). The increase in investment in tangible capital assets was funded by the excess of revenue over expense and an increase to the accumulated deficit from operations of \$13.0 million.

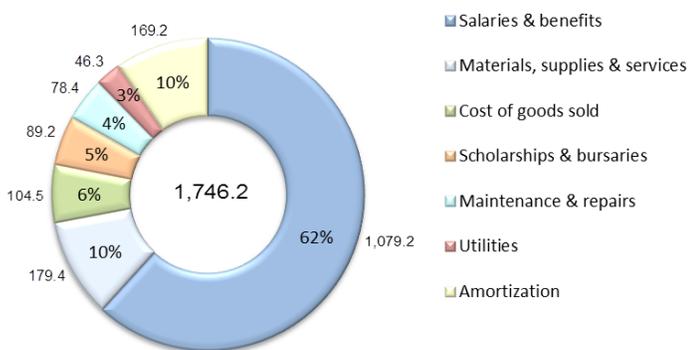
#### 2014 Revenue

\$ millions



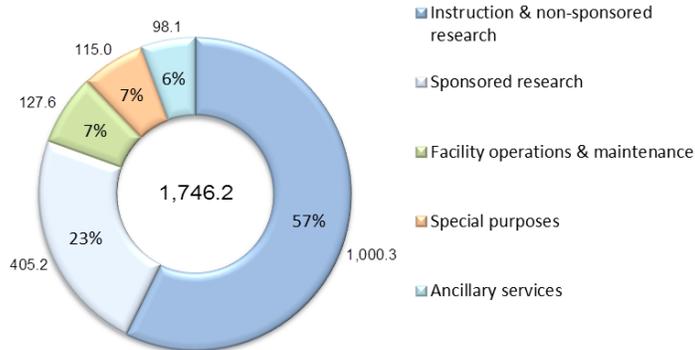
#### 2014 Expense By Object

\$ millions



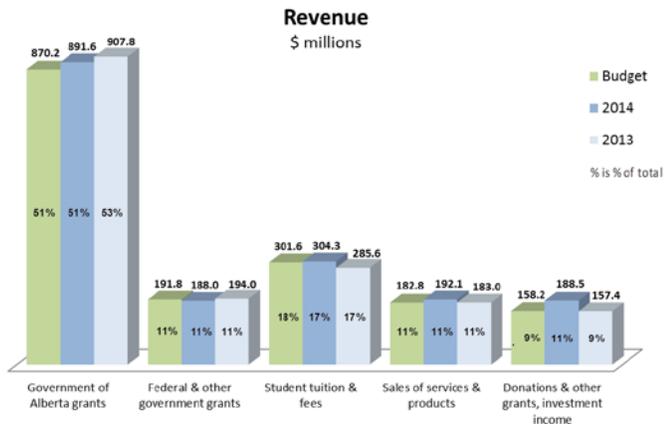
#### 2014 Expense By Function

\$ millions



**FINANCIAL STATEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED MARCH 31, 2014**

**Revenue**



Total revenue amounted to \$1,764.5 million and has increased by \$36.7 million over the prior year.

**Government of Alberta (GoA) Grants**

Grants from GoA represent the university's single largest source of funding for university activities. GoA grants decreased as compared to prior year due to the decrease in the Campus Alberta operating grant (\$24.2). GoA grants are \$21.4 million more than budget mainly due to the Campus Alberta grant adjustment (\$14.4) that was announced mid-year and a one-time tuition fee regulation grant (\$3.9).

**Federal and other government grants**

Federal and other government grants primarily support the university's research activities. There are no significant differences compared to prior year or to budget.

**Student tuition and fees**

Enrollment is comparable to last year and will remain relatively stable over the next few years. The annual budgeted increase is due to the increase in instructional fees, which is based upon the increase to the annual CPI.

**Sales of services and products**

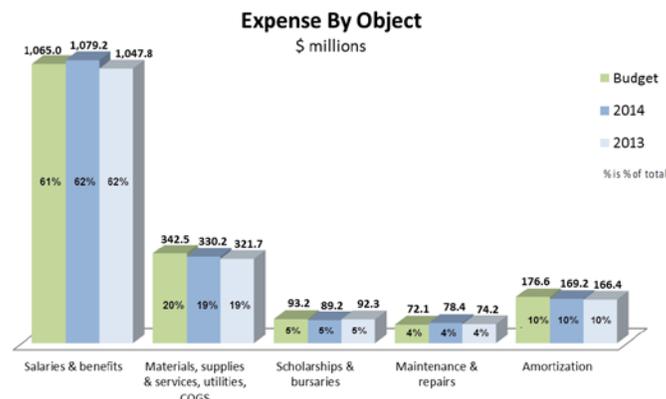
Ancillary services and academic and administrative units generate revenue thorough the sale of services and products to individuals and organizations external to the university. Ancillary services generated sales of \$96.6 million and academic and administrative units generated sales of \$95.5 million. Sales revenue is \$9.2 million more than budget due to a general increase across many academic and administrative units.

**Donations and other grants, investment income**

Donations and other grants support many university activities; a significant portion of this funding is in support of research activities. There were no significant differences compared to prior year or to budget.

Investment income increased by \$31.6 million compared to prior year and is \$33.3 million more than budget. Investments primarily fall into two categories, the Unitized Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP). The UEP returned 15.4% (2013: 12.2%) and represents the majority of the university's long-term investment strategy. In fiscal 2013-14 several investment managers in the long-term strategy were replaced. This necessitated the sale of investments that had appreciated in value and resulted in significant realized capital gains. The NEIP investments which are allocated to the short-term, mid-term and long-term investment strategies returned 6.0% (2013: 3.5%). During fiscal 2013-14 the allocation to the long-term investment strategy was increased which benefited the aggregate return.

**Expense**



Total expense amounted to \$1,746.2 million and has increased by \$43.8 million over the prior year.

**Salaries and benefits**

Salaries and benefits are the university's largest expense representing 62% of total expense. Salaries increased \$22.9 million (3%) and benefits increased \$8.5 million. The salary expense budget included negotiated salary increases (1.65%) and merit increases for eligible employees. Salary expense is \$11.2 million more than budget due to the accrual for the voluntary severance program (\$14.7) announced in fiscal 2013-14. Benefits expense is comparable to budget.

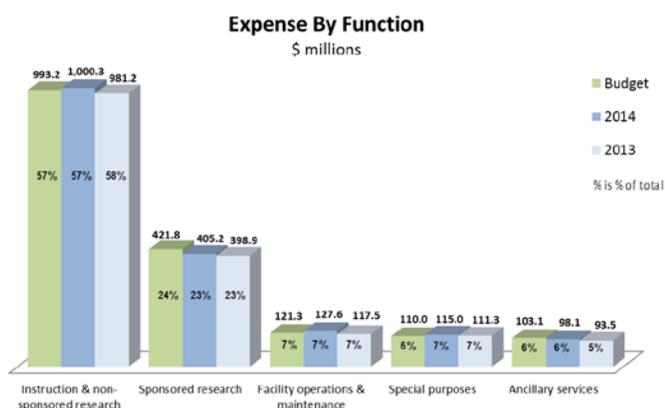
**Materials, supplies and services, utilities, cost of goods sold (COGS)**

Materials, supplies and services expenses are \$16.1 million less than budget due to lower than anticipated expenditures in the research fund. Utilities are \$3.2 million more than budget due to a higher than budgeted natural gas rate. COGS is comparable to budget.

## FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2014

### Other expenses

Maintenance and repairs is \$6.3 million (9%) more than budget mainly due to projects that are ahead of schedule. Scholarships and bursaries are \$4.0 million (4%) less than budget. This category was budgeted to increase over prior year, however due to the sudden change in the GoA operating grant, which created uncertainty with respect to the university operating funds, some restraint was being exercised at all expenditure levels, including scholarships and bursaries.



### Instruction and non-sponsored research

Instruction and non-sponsored research effectively represents the operating activities of the university and therefore a significant component of this category is staff salary and benefit costs. This expense is comparable to budget.

### Sponsored research

Expenses for sponsored research activities are specifically funded by restricted grants and donations. This expense is comparable to budget.

### Facility operations and maintenance

The cost of maintaining university facilities and grounds is comparable to budget.

### Special purpose

Special purpose is non-research activity that is funded through restricted grants and donations and includes student scholarships and bursaries, teaching and learning programs and community service. This expense is comparable to budget.

### Ancillary services

Ancillary services include the university bookstore, parking services, utilities and student residences. Ancillary services is \$5.0 million less than budget mainly due to lower than planned sales in the bookstore, therefore lower than planned cost of goods sold.

## Sponsored Research Contributions

	2014	2013
<i>(in thousands of dollars)</i>		
Government of Alberta grants	\$ 133,212	\$ 78,585
Federal and other government grants	173,000	164,396
Donations and other grants	86,264	92,476
Investment income	26,012	27,657
Sales of services and products	5,554	6,356
	424,042	369,470
Other research related funding	21,977	20,360
Tri-council indirect cost grant	16,764	16,882
	\$ 462,783	\$ 406,712

Sponsored research contributions increased by \$56.1 million. The increase was mainly due to an increase in GoA grants from Alberta Innovates (Health Solutions, Technology Futures and Bio Solutions).

Other research related funding includes clinical trial funding with Alberta Health Services, this revenue is not reflected in the university's consolidated financial statements.

## Net Assets

	2014	2013
<i>(in thousands of dollars)</i>		
Investment in tangible capital assets	\$ 493,634	\$ 462,233
Accumulated deficit from operations	(89,173)	(76,132)
Accumulated operating surplus	404,461	386,101
Endowments	993,688	879,861
Accumulated rereasurement gains	38,897	14,830
	\$ 1,437,046	\$ 1,280,792

The university's net asset balance is an important indicator of financial health for the institution. Net assets increased by \$156.3 million compared to the prior year. The majority of this increase is due to an increase in endowments and to the university's investment in tangible capital assets.

### Endowments

Endowments consist of restricted donations and capitalized investment income which is required to be maintained intact in perpetuity to support donor specified activities. Endowments support a variety of key initiatives in the areas of academic programs, chairs and professorships, research and scholarships. Donations of \$20.5 million and capitalizing \$93.3 million of investment income are the drivers behind the \$113.8 million increase to endowments. Endowment investments generated \$137.2 million of income, of which \$43.9 million was allocated for program spending and administrative fees.

## Capital Planning

The university expended \$179.2 million (2013: \$178.9) on construction and other capital asset acquisitions. With the recent completion of several large-scale capital projects, the university now has the opportunity to sustainably maintain and, where appropriate, repurpose aging assets and infrastructure as new funding is made available.

The most significant construction and capital asset acquisitions in 2014 are:

- A Pedway connecting various health buildings and the Health Sciences LRT station (in kind grant)
- Physical Activity and Wellness Centre
- East Campus Village for a student residence
- Innovation Centre for Engineering
- Purchase of the Federal Archives Building to house the Book and Record Depository (BARD)

## Areas of Significant Financial Risk

The university operates in a complex environment and must deal with a variety of risks which it manages through its integrated enterprise risk management framework. The major risks that can affect the university from a financial perspective are as follows:

### Provincial Funding

In fiscal 2013-14 the GoA Campus Alberta grant was reduced by 7.2% (\$43 million). Coupled with the anticipated 2% grant increase the net effect was a \$55 million reduction in anticipated provincial funding. The Campus Alberta grant was increased mid-year by 2.6% (\$14.4 million). The GoA has announced there will be no change to the grant for fiscal 2014-15. GoA grants represent the university's single largest source of funding for university activities, any reduction in the Campus Alberta grant results in significant budgetary pressure.

The university has developed detailed plans and strategies that will achieve a consolidated balanced budget for fiscal 2014-15. With the reduction in operating grant funding, the university will need to generate new sources of revenue and reduce costs.

### Pension and Employee Future Benefits

The university currently carries a liability of approximately \$250 million for employee future benefits, representing probable future payments to be made for benefits earned to date. This balance can change for many reasons outside the university's control, including inflation and investment returns.

On the whole, the university's cost of benefits is expected to increase by between 5% and 7% per year in the upcoming years and this is not sustainable. Approximately 65% of the university's non-pension benefit costs relate to programs the university and its staff co-operatively manage and which could be changed through negotiation.

The largest of the unfunded liabilities is the university's share of the UAPP, which is approximately \$170 million. Both the UAPP and PSPP deficiencies are expected to be eliminated within 15 years, based on conditions at the time of the last actuarial valuations when the new contribution rates were set. However, without structural reforms to the pension plans, the level of pension plan contributions as a percentage of total benefit costs will not be sustainable.

### Deferred Maintenance

The university's deferred maintenance is estimated at over \$800 million. While the university is making progress on deferred maintenance on its older facilities, the overall amount of deferred maintenance remains relatively unchanged. This area remains a high priority as deferred maintenance puts some risk on the university's programs and initiatives. The continuation of appropriate levels of Infrastructure Maintenance Program funding is needed to avoid a return to increasing amounts of deferred maintenance.

## STATEMENT OF MANAGEMENT RESPONSIBILITY YEAR ENDED MARCH 31, 2014

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The consolidated financial statements of the University of Alberta have been prepared by management in accordance with Canadian Public Sector Accounting Standards. The consolidated financial statements present fairly the financial position of the university as at March 31, 2014 and the results of its operations for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management 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 the consolidated financial statements.

The Board of Governors is responsible for reviewing and approving the consolidated financial statements, and overseeing management's performance of its financial reporting responsibilities.

The Board of Governors carries out its responsibility for review of the consolidated financial statements principally through its Audit Committee. With the exception of the President, all members of the Audit Committee are not employees of the university. The Audit Committee meets with management and the external auditors and internal auditors to discuss the results of audit examinations and financial reporting matters. The external and internal auditors have full access to the Audit Committee, with and without the presence of management.

These consolidated financial statements have been reported on by the Auditor General of the Province of Alberta, the auditor appointed under the *Post-secondary Learning Act*. The Independent Auditor's Report outlines the scope of the audit and provides the audit opinion on the fairness of presentation of the information in the consolidated financial statements.

*Original signed by Dr. Indira V. Samarasekera*  
President

*Original signed by Phyllis Clark*  
Vice-President (Finance & Administration)  
Chief Financial Officer

**INDEPENDENT AUDITOR'S REPORT  
YEAR ENDED MARCH 31, 2014**

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Independent Auditor's Report

To the Board of Governors of the University of Alberta

**Report on the Consolidated Financial Statements**

I have audited the accompanying consolidated financial statements of the University of Alberta, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of operations, remeasurement gains and losses, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the University of Alberta as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*[Original signed by Merwan N. Saher, FCA]*

Auditor General

June 2, 2014

Edmonton, Alberta

**UNIVERSITY OF ALBERTA**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT MARCH 31, 2014**  
*(thousands of dollars)*

	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents (note 3)	\$ 25,188	\$ 17,156
Portfolio investments (note 4)	1,883,164	1,696,984
Accounts receivable	110,461	122,722
Inventories and prepaid expenses	15,825	13,005
Tangible capital assets (note 7)	2,739,548	2,730,905
	<b>\$ 4,774,186</b>	<b>\$ 4,580,772</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 251,036	\$ 194,549
Employee future benefit liabilities (note 8)	250,303	239,695
Debt (note 9)	202,023	175,822
Deferred revenue (note 10)	2,633,778	2,689,914
	<b>3,337,140</b>	<b>3,299,980</b>
<b>NET ASSETS</b>		
Endowments (note 11)	993,688	879,861
Accumulated operating surplus (note 12)	404,461	386,101
Accumulated remeasurement gains and losses	38,897	14,830
	<b>1,437,046</b>	<b>1,280,792</b>
	<b>\$ 4,774,186</b>	<b>\$ 4,580,772</b>

Contingent liabilities and contractual obligations (note 13 and 14)

**UNIVERSITY OF ALBERTA**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**YEAR ENDED MARCH 31, 2014**  
*(thousands of dollars)*

	Budget (note 15)	2014	2013
<b>REVENUE</b>			
Government of Alberta grants (note 16)	\$ 870,228	\$ 891,613	\$ 907,806
Federal and other government grants	191,807	188,057	193,937
Student tuition and fees	301,629	304,321	285,629
Sales of services and products	182,838	192,081	183,034
Donations and other grants	118,835	115,862	116,441
Investment income	39,336	72,601	40,952
	1,704,673	1,764,535	1,727,799
<b>EXPENSE</b>			
Instruction and non-sponsored research	993,213	1,000,228	981,192
Sponsored research	421,822	405,199	398,923
Facility operations and maintenance	121,287	127,624	117,527
Special purpose	109,953	115,025	111,230
Ancillary services	103,089	98,085	93,515
	1,749,364	1,746,161	1,702,387
<b>Excess of revenue over expense</b>	(44,691)	18,374	25,412
Transfer (to) from endowments (note 11)	10,000	(14)	8,095
Change in accumulated operating surplus	(34,691)	18,360	33,507
Accumulated operating surplus, beginning of year	386,101	386,101	352,594
<b>Accumulated operating surplus, end of year (note 12)</b>	\$ 351,410	\$ 404,461	\$ 386,101

**UNIVERSITY OF ALBERTA**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED MARCH 31, 2014**  
*(thousands of dollars)*

	2014	2013
<b>OPERATING TRANSACTIONS</b>		
Excess of revenue over expense	\$ 18,374	\$ 25,412
Add (deduct) non-cash items:		
Amortization of tangible capital assets	169,151	166,387
Expended capital recognized as revenue	(114,226)	(112,697)
Losses on disposal of tangible capital assets	1,386	964
Inventory writedown	547	300
Increase in employee future benefit liabilities	10,608	9,252
Decrease in accounts receivable	12,261	41,135
Increase in inventories and prepaid expenses	(3,367)	(32)
Increase (decrease) in accounts payable and accrued liabilities	46,150	(25,050)
Increase in deferred revenue, less expended capital recognized as revenue	29,875	31,820
<b>Cash provided by operating transactions</b>	<b>170,759</b>	<b>137,491</b>
<b>CAPITAL TRANSACTIONS</b>		
Acquisition of tangible capital assets, net of proceeds on disposals	(150,965)	(171,726)
<b>Cash applied to capital transactions</b>	<b>(150,965)</b>	<b>(171,726)</b>
<b>INVESTING TRANSACTIONS</b>		
Purchases of portfolio investments, net of sales	(118,665)	9,052
Endowment investment gains (losses)	60,227	(1,191)
<b>Cash (applied to) provided by investing transactions</b>	<b>(58,438)</b>	<b>7,861</b>
<b>FINANCING TRANSACTIONS</b>		
Endowment donations	20,475	30,096
Debt repayment	(11,874)	(10,991)
Debt - new financing	38,075	3,500
<b>Cash provided by financing transactions</b>	<b>46,676</b>	<b>22,605</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>8,032</b>	<b>(3,769)</b>
Cash and cash equivalents, beginning of year	17,156	20,925
<b>Cash and cash equivalents, end of year (note 3)</b>	<b>\$ 25,188</b>	<b>\$ 17,156</b>

**UNIVERSITY OF ALBERTA**  
**CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES**  
**YEAR ENDED MARCH 31, 2014**  
*(thousands of dollars)*

	2014	2013
<b>Accumulated remeasurement gains, beginning of year</b>	<b>\$ 14,830</b>	\$ -
Unrealized gains (losses) attributable to:		
Portfolio investments	<b>38,573</b>	14,830
Derivatives	<b>(1,292)</b>	-
Amounts reclassified to consolidated statement of operations:		
Portfolio investments	<b>(13,214)</b>	-
<b>Accumulated remeasurement gains, end of year</b>	<b>\$ 38,897</b>	\$ 14,830

**UNIVERSITY OF ALBERTA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2014**

*(thousands of dollars)*

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**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 Innovation and Advanced Education, 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 – Canadian Public Sector Accounting Standards (PSAS) and use of estimates**

These consolidated financial statements have been prepared in accordance with PSAS. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. Management uses judgment to determine such estimates. Employee future benefit liabilities and amortization of tangible capital assets are the most significant items based on estimates. In management'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 consolidated financial statements and, together with the following notes, should be considered an integral part of the consolidated financial statements.

**(b) Net debt model presentation**

PSAS require a net debt presentation for the consolidated statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as net debt or net financial assets as an indicator of future revenues required to pay for past transactions and events. The university operates within the government reporting entity and does not finance all its expenditures by independently raising revenues. Accordingly, these consolidated financial statements do not report a net debt indicator.

**(c) Valuation of financial assets and liabilities**

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

Cash and cash equivalents, Portfolio investments, Derivatives - fair value  
Accounts receivable, Accounts payable and accrued liabilities, Debt - amortized cost

Unrealized gains and losses from changes in the fair value of financial assets and liabilities are recognized in accumulated remeasurement gains and losses, except for the restricted amount which is recognized as deferred revenue or endowment net assets. Upon settlement, the gains and losses are reclassified from accumulated remeasurement gains and losses and recognized as revenue or expense.

All financial assets except derivatives are assessed annually for impairment. Impaired financial losses are recognized as a decrease in revenue, except for the restricted amount which is recognized as a decrease in deferred revenue or a decrease in endowment net assets. A write-down of an investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial assets and liabilities measured at amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial assets and liabilities that are measured at amortized cost and expensed when measured at fair value.

Derivatives are recorded at fair value in the consolidated statement of financial position. Derivatives with a positive or negative fair value are recognized as assets or liabilities. Unrealized gains and losses from changes in the fair value of derivatives are recognized in accumulated remeasurement gains and losses, except for the restricted amount which is recognized as deferred revenue or endowment net assets. Upon settlement, the gains and losses are reclassified from accumulated remeasurement gains and losses and recognized as revenue or expense.

Management evaluates contractual obligations for the existence of embedded derivatives and elects to either measure the entire contract at fair value or separately measure the value of the derivative component when characteristics of the derivative are not closely related to the economic characteristics and risks of the contract itself. Contracts to buy or sell non-financial items for the university's normal course of business are not recognized as financial assets or liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED MARCH 31, 2014

(thousands of dollars)

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### 2. Summary of significant accounting policies and reporting practices (continued)

#### (d) Revenue recognition

Revenues are reported on an accrual basis. Cash received for which services and products have not been provided is recognized as deferred revenue.

#### Government grants, non-government grants and donations

Government transfers are referred to as government grants.

Restricted grants and donations are recognized as deferred revenue if the terms for use, or the terms along with the university's actions and communications as to the use, create a liability. These grants and donations are recognized as revenue when the terms are met.

Government grants without terms for the use of the grant are recognized as revenue when the university is eligible to receive the funds. Unrestricted non-government grants and donations are recognized as revenue in the year received or in the year the funds are committed to the university if the amount can be reasonably estimated and collection is reasonably assured.

In kind donations of services and materials are recognized at fair value when a fair value can be reasonably determined. Volunteers as well as university staff contribute an indeterminable number of hours per year to assist the university in carrying out its mission; such contributed services are not recognized in these consolidated financial statements.

#### Grants and donations related to land

Grants and donations for the purchase of land are recognized as deferred revenue when received and recognized as revenue when the land is purchased. An in kind grant or donation of land is recognized as revenue at the fair value of the land when a fair value can be reasonably determined. When the fair value cannot be reasonably determined, the in kind grant or donation is recorded at nominal value.

#### Endowments

Donations that must be maintained in perpetuity are recognized as a direct increase in endowment net assets when received or receivable. Investment income and unrealized gains and losses that also must be maintained in perpetuity are recognized as endowment net assets when received or receivable.

#### Investment income

Investment income includes dividends, interest income and realized gains and losses on the sale of portfolio investments. Unrealized gains and losses on portfolio investments from unrestricted grants and donations are recognized in accumulated remeasurement gains and losses until settlement. Once realized, these gains and losses are recognized as investment income. Investment income from restricted grants and donations is recognized as deferred revenue when the terms for use create a liability, and is recognized as revenue when the terms of the grant or donation are met.

#### (e) Inventories

Inventories held for resale are valued at the lower of cost and expected net realizable value and are determined using the weighted average method. Inventories held for consumption are valued at cost.

#### (f) Tangible capital assets

Tangible capital asset acquisitions are recorded at cost, which includes amounts that are directly related, such as design, construction, development, improvement or betterment of the asset. Cost includes overhead directly attributable to construction and development.

The cost less residual value of the tangible capital assets, excluding land, is amortized on a straight-line basis over the estimated useful lives as follows:

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

Tangible capital asset write-downs are recorded when conditions indicate they no longer contribute to the university's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. Net write-downs are recognized as expense.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED MARCH 31, 2014

(thousands of dollars)

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### 2. Summary of significant accounting policies and reporting practices (continued)

#### (g) 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 participating employer based on their respective percentage of employer contributions. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

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, along with investment income, to provide the plan's future benefits.

##### **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 discount rate based on the university's cost of borrowing and management's best estimate of the retirement ages of employees, expected health care costs and the period of employee disability. Actuarial gains and 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 prorated on services, a discount rate based on the university's cost of borrowing and management's best estimate of expected health care, dental care, life insurance costs and the period of benefit coverage. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

##### **Supplementary retirement plans**

The university provides non-contributory defined benefit supplementary retirement benefits to executive 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 and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

The university provides non-contributory defined contribution supplementary retirement benefits to eligible academic staff based on years of service and earnings. The expense for this plan is the employer's current year contribution to the plan as calculated in accordance with the plan rules.

##### **Administrative/professional leave**

The university provides for certain executive to accrue a paid leave of absence at the end of their executive appointment. The expense for these plans is actuarially determined using the projected benefit method prorated on service. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

##### **General illness**

The cost of providing non-vesting and non-accumulating compensated absences to a maximum of 26 weeks (academic staff) or 120 days (support staff) under the university's general illness 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 and management's best estimate of the period of employee disability.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED MARCH 31, 2014

(thousands of dollars)

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### 2. Summary of significant accounting policies and reporting practices (continued)

#### (h) Investment in government partnerships

Proportionate consolidation is used to record the university's share of the following government partnerships:

- 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.
- Western Canadian Universities Marine Sciences Society (20% interest) - provides research infrastructure in the marine sciences for member universities and the world-wide scientific community.

These government partnerships are not material to the university's consolidated financial statements; therefore, separate condensed financial information is not presented.

#### (i) Expense by function

The university uses the following categories of functions on its consolidated statement of operations:

##### **Instruction and non-sponsored research**

Expenses relating to support for the academic functions of the university both directly and indirectly. This function includes expenses incurred by faculties for their scholarly and non-sponsored research activities and by institutional wide administrative services.

##### **Sponsored research**

Expenses for all sponsored research activities specifically funded by restricted grants and donations.

##### **Facility operations and maintenance**

Expenses relating to maintenance and renewal of facilities that house the teaching, research and administrative activities within the university. These include utilities, facilities administration, building maintenance, custodial services, landscaping and grounds keeping, as well as major repairs and renovations.

##### **Special purpose**

Expenses for student awards and bursaries and other programs involving teaching and learning, and community service specifically funded by restricted grants and donations.

##### **Ancillary services**

Expenses relating to services and products provided to the university community and to external individuals and organizations. Services include the university bookstore, parking services, utilities and student residences.

#### (j) Future accounting changes

In June 2010, the Public Sector Accounting Board issued PS 3260 (Liability for Contaminated Sites). This accounting standard is effective for fiscal years starting on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into air, soil, water, sediment of material (chemical, organic, radioactive) or live organism that exceeds an environmental standard. The university will be required to recognize a liability related to the remediation of such contaminated sites subject to certain recognition criteria. Management is currently performing an assessment of this accounting change and has not yet determined the impact on the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2014**

(thousands of dollars)

**3. Cash and cash equivalents**

	2014	2013
Cash	\$ 20,202	\$ 17,156
Money market funds	4,986	-
	<b>\$ 25,188</b>	<b>\$ 17,156</b>

Money market funds also include short-term notes and treasury bills with a maturity less than three months from the date of acquisition.

**4. Portfolio investments**

	2014	2013
<b>Fair value</b>		
Cash and money market funds	\$ 601,750	\$ 625,905
Floating rate notes	115,317	101,720
Canadian government and corporate bonds	175,505	157,981
Canadian equity	283,084	242,166
Foreign equity	574,741	447,865
Pooled hedge funds	64,516	62,213
Real estate funds	65,113	56,029
	<b>1,880,026</b>	<b>1,693,879</b>
Other at amortized cost	3,138	3,105
	<b>\$ 1,883,164</b>	<b>\$ 1,696,984</b>

As at March 31, 2014, the average effective yields and the terms to maturity are as follows:

- Money market funds: 1.29% (2013 - 1.23%); term to maturity: less than one year.
- Canadian government and corporate bonds: 1.99% (2013 - 1.85%); terms to maturity: range from less than one year to more than 10 years.

The categorization of portfolio investments measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable is as follows:

	2014				2013			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Cash and money market funds	\$ 26,983	\$ 574,767	\$ -	\$ 601,750	\$ -	\$ 625,905	\$ -	\$ 625,905
Floating rate notes <sup>(4)</sup>	-	108,725	6,592	115,317	-	-	101,720	101,720
Canadian government and corporate bonds	-	175,505	-	175,505	-	157,981	-	157,981
Canadian equity	277,305	-	5,779	283,084	237,911	-	4,255	242,166
Foreign equity	574,741	-	-	574,741	447,865	-	-	447,865
Pooled hedge funds	-	64,516	-	64,516	-	62,213	-	62,213
Real estate funds	8,574	-	56,539	65,113	8,570	-	47,459	56,029
	<b>\$ 887,603</b>	<b>\$ 923,513</b>	<b>\$ 68,910</b>	<b>\$ 1,880,026</b>	<b>\$ 694,346</b>	<b>\$ 846,099</b>	<b>\$ 153,434</b>	<b>\$ 1,693,879</b>

The fair value measurements are those derived from:

<sup>(1)</sup> Quoted prices in active markets for identical assets.

<sup>(2)</sup> Inputs other than quoted prices included within level 1 that are observable for the assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

<sup>(3)</sup> Valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

<sup>(4)</sup> The categorization of floating rate notes has changed from level 3 to level 2 due to a change in valuation method from an estimated model to observable market prices.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2014**

*(thousands of dollars)*

**4. Portfolio investments (continued)**

The changes in fair value of level 3 portfolio investments are as follows:

	2014	2013
<b>Balance, beginning of year</b>	<b>\$ 153,434</b>	\$ 125,287
Unrealized gains	<b>24,059</b>	16,901
Purchases	<b>2,904</b>	19,208
Proceeds on sale	<b>(3,620)</b>	(7,067)
Floating rate notes from level 3 to level 2	<b>(108,725)</b>	-
Other	<b>858</b>	(895)
	<b>\$ 68,910</b>	\$ 153,434

**5. Derivatives**

Derivative financial instruments are used by the university to manage currency exposure primarily with respect to portfolio investments. The university uses foreign currency forward contracts to manage its foreign exchange currency exposure on certain portfolio 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. As at March 31, 2014 the university held foreign currency forward contracts for settlement on April 16, 2014, with a notional amount of \$279,534 (2013 - \$229,478). The fair value of outstanding foreign currency forward contracts receivable is \$8,384 (2013 - \$12,076) and of foreign currency forward contracts payable is \$18,645 (2013 - \$11,880). The fair value measurement of derivative financial instruments is categorized into level 1 as described in (note 4).

**6. Financial risk management**

The university is exposed to the following risks:

**Market risk**

Market risk is 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 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 portfolio investments. The university's management for risk has not changed from prior year.

The university assesses its portfolio sensitivity to a percentage increase or decrease in the market prices. The sensitivity rate is determined using the historical annualized standard deviation for the total Unitized Endowment Pool over a four year period as determined by the BNY Mellon Asset Servicing consulting report. At March 31, 2014, if market prices had a 7.7% (2013 - 8.7%) increase or decrease, with all other variables held constant, the increase or decrease in accumulated remeasurement gains and losses and endowment net assets for the year would be \$76,917 (2013 - \$76,320).

**Foreign exchange risk**

Foreign exchange risk on portfolio investments is the risk that the value of a financial instrument will fluctuate as a result of changes in foreign currencies. The university 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.

**Credit risk**

The university is exposed to credit risk on portfolio 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.

The credit risk on money market funds and bonds (including floating rate notes) are as follows:

- Money market funds: R-1(high) 76.9% (2013 - 69.2%); R-1(mid) 23.1% (2013 - 30.6%); not rated 0.0% (2013 - 0.2%).
- Bonds: AAA 25.4% (2013 - 25.8%); AA 35.5% (2013 - 29.3%); A 32.9% (2013 - 22.2%); BBB 1.4% (2013 - 15.5%); not rated 4.8% (2013 - 7.2%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2014**

*(thousands of dollars)*

**6. Financial risk management (continued)**

**Liquidity risk**

The university maintains a portfolio of short-term investments with rolling maturity dates to manage short-term cash requirements. The university maintains a short-term line of credit to ensure that funds are available to meet current and forecasted financial requirements. In 2014, the line of credit was not drawn upon.

**Interest rate risk**

Interest rate risk is the risk to the university's earnings that arise from the fluctuation and degree of volatility in those rates. This risk is managed by investment policies that limit the term to maturity of certain fixed income instruments that the university holds. Interest rate risk on the university's debt is managed through fixed interest rate agreements with Alberta Capital Finance Authority (note 9).

The maturity and effective market yield of interest bearing investments are as follows:

	<b>&lt; 1 year</b>	<b>1 - 5 years</b>	<b>&gt; 5 years</b>	<b>Average effective market yield</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Money market funds	100.0	-	-	1.3
Canadian government and corporate bonds	1.6	44.2	54.2	2.8
Floating rate notes	1.3	3.2	95.5	0.7

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2014**

*(thousands of dollars)*

**7. Tangible capital assets**

	2014				
	Buildings and utilities	Equipment, furnishings and systems	Learning resources	Land	Total
<b>Cost</b>					
Beginning of year	\$ 3,115,848	\$ 1,197,978	\$ 339,854	\$ 85,463	\$ 4,739,143
Acquisitions	111,642	44,003	20,465	3,070	179,180
Disposals	-	(11,231)	-	-	(11,231)
	<b>3,227,490</b>	<b>1,230,750</b>	<b>360,319</b>	<b>88,533</b>	<b>4,907,092</b>
<b>Accumulated amortization</b>					
Beginning of year	931,481	835,467	241,290	-	2,008,238
Amortization expense	77,148	72,185	19,818	-	169,151
Disposals	-	(9,845)	-	-	(9,845)
	<b>1,008,629</b>	<b>897,807</b>	<b>261,108</b>	<b>-</b>	<b>2,167,544</b>
	<b>\$ 2,218,861</b>	<b>\$ 332,943</b>	<b>\$ 99,211</b>	<b>\$ 88,533</b>	<b>\$ 2,739,548</b>
	2013				
	Buildings and utilities	Equipment, furnishings and systems	Learning resources	Land	Total
<b>Cost</b>					
Beginning of year	\$ 3,020,539	\$ 1,143,342	\$ 319,513	\$ 85,463	\$ 4,568,857
Acquisitions	95,309	63,203	20,341	-	178,853
Disposals	-	(8,567)	-	-	(8,567)
	<b>3,115,848</b>	<b>1,197,978</b>	<b>339,854</b>	<b>85,463</b>	<b>4,739,143</b>
<b>Accumulated amortization</b>					
Beginning of year	857,045	770,817	221,429	-	1,849,291
Amortization expense	74,436	72,090	19,861	-	166,387
Disposals	-	(7,440)	-	-	(7,440)
	<b>931,481</b>	<b>835,467</b>	<b>241,290</b>	<b>-</b>	<b>2,008,238</b>
	<b>\$ 2,184,367</b>	<b>\$ 362,511</b>	<b>\$ 98,564</b>	<b>\$ 85,463</b>	<b>\$ 2,730,905</b>

Included in buildings and utilities is \$145,612 (2013 - \$129,732) recorded as construction in progress, which is not amortized as the assets are not in service.

Acquisitions include in kind donations in the amount of \$28,215 (2013 - \$6,964).

The university holds library permanent collections and other permanent collections which include works of art, museum specimens, archival materials and maps. These collections are not included in tangible capital assets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2014**

*(thousands of dollars)*

**8. Employee future benefit liabilities**

	2014			2013		
	Academic staff	Support staff	Total	Academic staff	Support staff	Total
UAPP	\$ 170,303	\$ -	\$ 170,303	\$ 165,855	\$ -	\$ 165,855
Long-term disability	8,166	19,529	27,695	8,459	18,971	27,430
Early retirement	28	24,485	24,513	102	23,662	23,764
SRP (defined contribution)	13,663	-	13,663	10,759	-	10,759
SRP (defined benefit)	8,528	-	8,528	7,094	-	7,094
Administrative/professional leave	4,340	-	4,340	3,518	-	3,518
General illness	742	519	1,261	726	549	1,275
	\$ 205,770	\$ 44,533	\$ 250,303	\$ 196,513	\$ 43,182	\$ 239,695

**(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, 2012 and was then extrapolated to March 31, 2014, resulting in a UAPP deficit of \$1,056,921 (2013 - \$1,149,175) consisting of a pre-1992 deficit (\$845,077) and a post-1991 deficit (\$211,844). The university's portion of the UAPP deficit has been allocated based on its percentage of the plan's total employer contributions for the year.

The unfunded deficit for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2013 - 1.25%) of salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 2.87% (2013 - 2.34%) of salaries required to eliminate the unfunded deficit by December 31, 2043. The Government of Alberta's obligation for the future additional contributions is \$310,693 at March 31, 2014. The unfunded deficit for service after December 31, 1991 is financed by special payments of 5.54% (2013 - 5.54%) of pensionable earnings shared equally between employees and employers until December 31, 2025.

**Long-term disability (LTD) and general illness (GI)**

The university provides long-term disability and general illness defined benefits to its academic and support staff. The most recent actuarial valuation for these benefits was as at March 31, 2014. The long-term disability plans provide pension and non-pension benefits after employment, but before the employee's normal retirement date. The general illness plan provides similar benefits but for a maximum of 26 weeks (academic staff) or 120 days (support staff).

**Early retirement**

The early retirement benefits for support staff include bridge benefits and a retirement allowance. Bridge benefits allow 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 (those with 20 years of pensionable service at retirement date) 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. An actuarial valuation of these benefits was carried out as at March 31, 2014.

**Supplementary retirement plans (SRP)**

The university provides non-contributory defined benefit supplementary retirement benefits to executive. The SRP obligation is calculated based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries. An actuarial valuation of these benefits was carried out as at March 31, 2014.

**Administrative/professional leave (leave)**

The university provides for certain executive to accrue a paid leave at the end of their executive appointment. Upon completing their term of service, the individual's salary and benefits in effect at the end of the service are paid for the duration of the leave. The leave obligation is calculated based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries. An actuarial valuation of these benefits was carried out as at March 31, 2014.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2014**

(thousands of dollars)

**8. Employee future benefit liabilities (continued)**

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

The expense and liability of these defined benefit plans are as follows:

	2014				2013			
	UAPP	LTD, GI <sup>(1)</sup>	Early retirement <sup>(1)</sup>	SRP, leave <sup>(1)</sup>	UAPP	LTD, GI <sup>(1)</sup>	Early Retirement <sup>(1)</sup>	SRP, leave <sup>(1)</sup>
<b>Expense</b>								
Current service cost	\$ 38,731	\$ 12,272	\$ 1,100	\$ 1,756	\$ 33,208	\$ 14,505	\$ 1,469	\$ 1,334
Interest cost	13,437	1,878	1,210	593	13,610	1,823	1,125	542
Amortization of actuarial (gains) losses	4,444	579	(64)	(16)	3,473	441	(135)	171
	\$ 56,612	\$ 14,729	\$ 2,246	\$ 2,333	\$ 50,291	\$ 16,769	\$ 2,459	\$ 2,047
<b>Liability</b>								
<b>Accrued benefit obligation</b>								
Balance, beginning of year	\$ 864,438	\$ 31,042	\$ 22,925	\$ 10,099	\$ 763,083	\$ 27,166	\$ 20,877	\$ 9,174
Current service cost	38,731	12,272	1,100	1,756	33,208	14,505	1,469	1,334
Interest cost	54,835	1,878	1,210	593	50,644	1,823	1,125	542
Benefits paid	(37,458)	(14,478)	(1,497)	(77)	(34,317)	(13,258)	(1,408)	(77)
Actuarial (gains) losses	42,173	266	(1,231)	(1,949)	51,820	806	862	(874)
Balance, end of year	962,719	30,980	22,507	10,422	864,438	31,042	22,925	10,099
Plan assets	(776,681)	-	-	-	(660,361)	-	-	-
Plan deficit	186,038	30,980	22,507	10,422	204,077	31,042	22,925	10,099
Unamortized actuarial gains (losses)	(15,735)	(2,024)	2,006	2,446	(38,222)	(2,337)	839	513
	\$ 170,303	\$ 28,956	\$ 24,513	\$ 12,868	\$ 165,855	\$ 28,705	\$ 23,764	\$ 10,612

<sup>(1)</sup> The university plans to use its working capital to finance these future obligations.

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

	2014		2013	
	UAPP, SRP, leave	LTD, GI, early retirement	UAPP, SRP, leave	LTD, GI, early retirement
	%	%	%	%
<b>Accrued benefit obligation</b>				
Discount rate	5.1 - 6.2	5.1	5.2 - 6.2	5.2
Long-term average compensation increase	0.0 - 3.5	3.0	2.0 - 3.5	3.0
<b>Benefit cost</b>				
Discount rate	5.2 - 6.6	5.1	5.2 - 6.5	5.2
Long-term average compensation increase	2.0 - 3.5	3.0	3.0 - 3.5	3.0
Alberta inflation (long-term)	2.25	2.5	2.25	2.5
Estimated average remaining service life <sup>(1)</sup>	8.6 yrs	4 - 11 yrs	10.2 yrs	4 - 13 yrs

<sup>(1)</sup> SRP actuarial gains and losses are amortized over the remaining contract terms of the participants.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2014**

*(thousands of dollars)*

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**8. Employee future benefit liabilities (continued)**

**(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 consolidated financial statements is \$31,984 (2013 - \$28,759).

An actuarial valuation of the PSPP was carried out as at December 31, 2012 and was then extrapolated to December 31, 2013. At December 31, 2013, the PSPP reported an actuarial deficit of \$1,254,678 (2012 - \$1,645,141). For the year ended December 31, 2013 PSPP reported employer contributions of \$315,830 (2012 - \$257,350). For the 2013 calendar year, the university's employer contributions were \$32,101 (2012 calendar year - \$27,473). PSPP's deficit is being discharged through additional contributions from both employees and employers until 2028 (2012 - 2026). Other than the requirement to make increased contributions, the university does not bear any risk related to the PSPP deficit.

**(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 \$2,904 (2013 - \$2,793).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2014**

*(thousands of dollars)*

**9. Debt**

The university has the following debt with Alberta Capital Finance Authority:

	<b>Collateral</b>	<b>Maturity Date</b>	<b>Interest rate %</b>	<b>2014</b>	<b>2013</b>
Natural Resources Engineering Facility	2	June 2014	4.974	\$ 1,000	\$ 2,928
Energy Management Program, Year 1	3	September 2014	4.551	215	630
Energy Management Program, Year 2	3	March 2016	4.525	931	1,367
Natural Resources Engineering Facility	2	June 2017	5.056	3,264	4,096
Health Research Innovation Facility	3	June 2017	5.053	6,649	8,345
Extension Centre	3	October 2017	8.750	1,037	1,246
Energy Management Program, Year 3	3	December 2017	4.493	1,589	1,944
Energy Management Program, Year 4	3	March 2019	3.718	1,911	2,252
Steam Turbine Generator	2	May 2020	6.250	8,345	9,273
Newton Place	1	August 2024	6.000	9,856	10,477
Newton Place Renovation	1	August 2024	6.000	1,704	1,812
Energy Management Program, Year 5	3	December 2025	3.885	2,952	3,142
Energy Management Program, Year 6	3	September 2027	2.599	3,208	3,404
Lister Residence II	1	November 2027	5.875	15,703	16,415
Windsor Car Park	2	September 2028	6.000	5,242	5,455
Saville Centre	2	December 2028	5.875	3,444	3,585
Energy Management Program, Year 7	4	December 2028	3.295	3,575	-
East Campus Village	1	March 2029	4.960	7,001	7,310
Centennial Centre for Interdisciplinary Science Phase I	3	September 2029	5.353	7,626	7,936
Health Research Innovation Facility	3	June 2032	5.191	4,834	4,986
Students' Union Building Renovations	4	December 2033	3.623	13,000	-
Killam Centre	3	September 2036	4.810	1,805	1,849
Enterprise Square	1	September 2036	4.627	37,056	37,977
East Campus Village - Graduate Housing	2	September 2040	4.886	23,586	24,015
East Campus Village - 2012	1	June 2043	3.273	21,287	-
Jubilee Carpark	2	December 2047	4.814	15,203	15,378
				<b>\$ 202,023</b>	<b>\$ 175,822</b>

1 - title to land, building; 2 - cash flows from facility; 3 - none; 4 - general security agreement

Interest expense on debt recorded in these consolidated financial statements is \$10,088 (2013 - \$10,303).

Principal and interest payments are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 12,099	\$ 9,549	\$ 21,648
2016	11,436	8,966	20,402
2017	11,520	8,390	19,910
2018	10,547	7,800	18,347
2019	8,725	7,303	16,028
Thereafter	147,696	66,902	214,598
	<b>\$ 202,023</b>	<b>\$ 108,910</b>	<b>\$ 310,933</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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*(thousands of dollars)*

**10. Deferred revenue**

Deferred revenue is comprised of restricted grants and donations spent on tangible capital acquisitions (not yet recognized as revenue), unspent externally restricted grants and donations and unearned tuition and other revenue.

2014					
	Restricted			Student tuition and other revenue	Total
	Research and special purpose	Capital	Total		
<b>Balance, beginning of year</b>	<b>\$ 450,066</b>	<b>\$ 2,215,497</b>	<b>\$ 2,665,563</b>	<b>\$ 24,351</b>	<b>\$ 2,689,914</b>
<b>Net change for the year</b>					
Grants, donations, tuition	526,710	(1,269)	525,441	305,434	830,875
Investment income	850	89	939	-	939
Unearned capital acquisition transfers	(56,647)	56,647	-	-	-
Debt repayment	(44)	44	-	-	-
Recognized as revenue	(467,695)	(114,226)	(581,921)	(306,029)	(887,950)
<b>Total net change for the year</b>	<b>3,174</b>	<b>(58,715)</b>	<b>(55,541)</b>	<b>(595)</b>	<b>(56,136)</b>
	<b>\$ 453,240</b>	<b>\$ 2,156,782</b>	<b>\$ 2,610,022</b>	<b>\$ 23,756</b>	<b>\$ 2,633,778</b>

2013					
	Restricted			Student tuition and other revenue	Total
	Research and special purpose	Capital	Total		
<b>Balance, beginning of year</b>	<b>\$ 477,215</b>	<b>\$ 2,266,444</b>	<b>\$ 2,743,659</b>	<b>\$ 20,168</b>	<b>\$ 2,763,827</b>
<b>Net change for the year</b>					
Grants, donations, tuition	533,227	17,750	550,977	289,353	840,330
Investment income	(14,214)	(1,033)	(15,247)	-	(15,247)
Unearned capital acquisition transfers	(44,991)	44,991	-	-	-
Debt repayment	(42)	42	-	-	-
Recognized as revenue	(501,129)	(112,697)	(613,826)	(285,170)	(898,996)
<b>Total net change for the year</b>	<b>(27,149)</b>	<b>(50,947)</b>	<b>(78,096)</b>	<b>4,183</b>	<b>(73,913)</b>
	<b>\$ 450,066</b>	<b>\$ 2,215,497</b>	<b>\$ 2,665,563</b>	<b>\$ 24,351</b>	<b>\$ 2,689,914</b>

Capital is comprised of \$2,060,596 (2013 - \$2,093,782) restricted grants and donations spent on tangible capital acquisitions and \$96,186 (2013 - \$121,715) of unspent restricted grants and donations. The expended capital is deferred and will be recognized as revenue when the terms are met.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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*(thousands of dollars)*

**11. 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 endowments 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 endowments without sufficient cumulative capitalized income, endowment principal is used in that year. This amount is expected to be recovered by future investment income.

	2014	2013
<b>Balance, beginning of year</b>	<b>\$ 879,861</b>	\$ 800,343
Donations	<b>20,475</b>	30,096
Investment - unrealized gains capitalized	<b>33,111</b>	57,517
Investment - realized gains capitalized	<b>60,227</b>	-
Transfer to (from) endowments	<b>14</b>	(8,095)
	<b>\$ 993,688</b>	\$ 879,861

Endowments are comprised of:

	2014	2013
Donations	<b>\$ 684,787</b>	\$ 664,312
Capitalized income	<b>308,901</b>	215,549
	<b>\$ 993,688</b>	\$ 879,861

Capitalized income includes cumulative investment unrealized gains of \$90,885 (2013 - \$57,774).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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*(thousands of dollars)*

**12. Accumulated operating surplus**

	Accumulated deficit from operations	Investment in tangible capital assets	Total accumulated operating surplus
<b>Balance as at March 31, 2012</b>	\$ (87,120)	\$ 439,714	\$ 352,594
Excess of revenue over expense	25,412	-	25,412
Transfer from endowments	8,095	-	8,095
Acquisition of tangible capital assets	(69,600)	69,600	-
Debt repayment	(9,290)	9,290	-
Debt - new financing	2,164	(2,164)	-
Net book value of asset disposals	793	(793)	-
Amortization of tangible capital assets	53,414	(53,414)	-
<b>Balance as at March 31, 2013</b>	\$ (76,132)	\$ 462,233	\$ 386,101
Excess of revenue over expense	18,374	-	18,374
Transfer to endowments	(14)	-	(14)
Acquisition of tangible capital assets	(99,354)	99,354	-
Debt repayment	(10,229)	10,229	-
Debt - new financing	22,274	(22,274)	-
Net book value of asset disposals	707	(707)	-
Amortization of tangible capital assets	55,201	(55,201)	-
<b>Balance as at March 31, 2014</b>	\$ (89,173)	\$ 493,634	\$ 404,461

**13. 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. Management has concluded that none of the claims meet the criteria for recording a liability.
- (b) The university has identified a potential liability 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 renovation or demolition project will proceed and there is sufficient information to estimate fair value of the obligation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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*(thousands of dollars)*

**14. Contractual Obligations**

- (a) The university has contractual obligations that will result in liabilities in the future when the terms of the contracts are met. The estimated aggregate amount payable for the unexpired terms of these contractual obligations are as follows:

	Service contracts	Capital projects	Long-term leases	Total
2015	\$ 71,184	\$ 207,667	\$ 5,359	\$ 284,210
2016	35,904	20,220	4,625	60,749
2017	23,028	3,095	3,995	30,118
2018	13,652	-	2,048	15,700
2019	5,351	-	1,248	6,599
Thereafter	136	-	4,626	4,762
	\$ 149,255	\$ 230,982	\$ 21,901	\$ 402,138

The significant service contracts are as follows:

- 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. The six contracts (2013 - six contracts) with expenditures totaling \$91,440 (2013 - \$97,889) expire over the next five years.
  - Effective November 1, 2010, the university entered into an agreement with an external party for dining and catering services. The agreement has two years remaining with a total estimated cost of \$14,000 (2013 - \$25,800).
  - Effective July 1, 2010, the university entered into agreements with two external parties for information technology support. The agreement for infrastructure management services has one year remaining with a cost of \$3,018 (2013 - \$5,392). Effective July 1, 2013 the university negotiated an extension to the agreement for application management services. The agreement has one year remaining with a cost of \$3,435 (2013 - \$476).
  - Effective August 1, 2011, the university entered into an agreement with an external party for custodial services. The agreement has four months remaining with a cost of \$2,000 (2013 - \$8,000). The university plans to negotiate an extension to this agreement which includes an initial extension term of three years.
- (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, 2013 CURIE had a surplus of \$71,331 (2012 - \$60,500). This surplus is an accumulation of six different underwriting periods. The university participates in five of the underwriting periods, which have an accumulated surplus of \$71,331 (2013 - \$60,500) of which the university's pro rata share is approximately 7.13% (2013 - 7.02%). This surplus is not recorded in the consolidated financial statements.

**15. Budget**

The university's 2013-14 budget was approved by the Board of Governors and was presented to the Minister of Innovation and Advanced Education as part of the university's submission of its 2013-14 Comprehensive Institutional Plan.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2014**

*(thousands of dollars)*

**16. Government of Alberta grants**

	2014	2013
Innovation and Advanced Education - Campus Alberta grant	\$ 579,924	\$ 604,157
Innovation and Advanced Education - other grants	94,273	112,685
Infrastructure	22,455	-
Health	127,232	69,100
Alberta Health Services	4,726	9,875
Other departments and agencies	18,773	13,709
	<b>847,383</b>	809,526
Restricted expended capital recognized as revenue	93,608	94,033
Deferred revenue	(49,378)	4,247
	<b>\$ 891,613</b>	<b>\$ 907,806</b>

The net amount receivable is \$1,041 (2013 - \$409 payable).

The university holds \$12,236 on behalf of government agencies (Innovation and Advanced Education - \$10,993; Alberta Health Services \$1,243) for various initiatives.

**17. Expense by object**

	2014 Budget	2014	2013
Salaries	\$ 885,029	\$ 896,266	\$ 873,406
Employee benefits	179,960	182,899	174,377
Materials, supplies and services	195,493	179,424	182,911
Cost of goods sold and recovered	103,912	104,502	95,827
Scholarships and bursaries	93,170	89,150	92,323
Maintenance and repairs	72,102	78,423	74,239
Utilities	43,143	46,346	42,917
Amortization of tangible capital assets	176,555	169,151	166,387
	<b>\$ 1,749,364</b>	<b>\$ 1,746,161</b>	<b>\$ 1,702,387</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**18. Salaries and employee benefits**

	2014				Total
	Base salary <sup>(3)</sup>	Non-cash benefits <sup>(5)</sup>	Non-cash benefits (SRP) <sup>(6)</sup>	Non-cash benefits (leave) <sup>(7)</sup>	
<b>Governance <sup>(1)</sup></b>					
Board of Governors	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Executive</b>					
President	544	47	426	127	1,144
Provost and Vice-President (Academic) <sup>(2)</sup>	420	36	40	206	702
Vice-President (Research)	496	95	104	109	804
Vice-President (Facilities and Operations)	472	41	166	99	778
Vice-President (Finance and Administration)	459	33	179	101	772
Vice-President (University Relations)	377	39	106	-	522
Vice-President (Advancement)	383	35	77	-	495

	2013				Total
	Base salary <sup>(3) (4)</sup>	Non-cash benefits <sup>(4) (5)</sup>	Non-cash benefits (SRP) <sup>(6)</sup>	Non-cash benefits (leave) <sup>(7)</sup>	
<b>Governance <sup>(1)</sup></b>					
Board of Governors	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Executive</b>					
President	547	46	437	142	1,172
Provost and Vice-President (Academic) <sup>(2)</sup>	430	36	58	-	524
Vice-President (Research)	485	94	117	133	829
Vice-President (Facilities and Operations)	467	41	167	129	804
Vice-President (Finance and Administration)	460	32	215	117	824
Vice-President (University Relations)	370	38	95	-	503
Vice-President (Advancement)	369	33	53	-	455

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

<sup>(2)</sup> The incumbent Provost and Vice-President (Academic) applied for and was approved for a one year administrative leave commencing July 1, 2012. This was extended to two years in February 2013. The incumbent Provost and Vice-President (Academic) requested and was granted permission to return from the administrative leave five months early (in February 2014). The acting Provost and Vice-President (Academic) did not participate in executive benefit programs. The 2014 salary and benefits includes the incumbent Provost and Vice-President (Academic)'s information for two months (2013 - three months) and the acting Provost and Vice-President (Academic)'s information for ten months (2013 - nine months).

<sup>(3)</sup> Base salary includes pensionable base pay for all executive, and an administrative stipend for the acting Provost and Vice-President (Academic) in 2013 and 2014, and for the incumbent in 2013. Certain base salary amounts also include a car allowance, a reduction for amounts recovered from workers' compensation, and a reduction for the optional personal leave program (days off without pay).

<sup>(4)</sup> The disclosure of certain benefits has been reclassified to base salary to more accurately reflect the nature of those benefits. The prior year disclosure has been updated to reflect this change, which does not change the the total compensation.

<sup>(5)</sup> 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 parking, supplemental life insurance, forgivable housing loans, and club dues. Additional non-cash benefits for the President include expenses related to the personal use portion of the residence which the President rents from the university.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2014**

*(thousands of dollars)*

**18. Salaries and employee benefits (continued)**

<sup>(6)</sup> 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 terms of the participants' contracts. Current service cost is the actuarial present value of the benefits earned in the current year.

The supplementary retirement plan accrued obligation for each executive is as follows:

	Years of eligible University of Alberta service	2013		2014		
		Accrued obligation	Service costs	Interest and other costs <sup>(6b)</sup>	Actuarial losses	Accrued obligation <sup>(6c)</sup>
President	8.8	\$ 2,158	\$ 278	\$ 126	\$ (402)	\$ 2,160
Provost and Vice-President (Academic) <sup>(6a)</sup>	10.8	1,408	144	80	(729)	903
Vice-President (Research)	6.8	426	74	26	(59)	467
Vice-President (Facilities and Operations) <sup>(6b)</sup>	10.5	685	118	41	(129)	715
Vice-President (Finance and Administration) <sup>(6b)</sup>	11.0	707	129	43	(139)	740
Vice-President (University Relations)	3.7	238	87	17	(36)	306
Vice-President (Advancement)	3.6	168	64	12	(50)	194

<sup>(6a)</sup> The incumbent Provost and Vice-President (Academic) continued to accrue pensionable service during the administrative leave period noted in (2) above.

<sup>(6b)</sup> Includes additional costs with respect to plan amendments.

<sup>(6c)</sup> The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in (note 8).

<sup>(7)</sup> The leave plan accrued obligation for each executive is as follows:

	Years of eligible University of Alberta service	2013		2014		
		Accrued obligation	Service costs	Interest and other costs	Actuarial losses	Accrued obligation <sup>(7a)</sup>
President	8.8	\$ 794	\$ 103	\$ 24	\$ (12)	\$ 909
Provost and Vice-President (Academic)	2.1	-	204	2	(23)	183
Vice-President (Research)	6.8	529	92	17	(36)	602
Vice-President (Facilities and Operations)	11.2	901	74	25	(63)	937
Vice-President (Finance and Administration)	11.9	955	74	27	(81)	975

<sup>(7a)</sup> The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in (note 8).

**19. Approval of financial statements**

The consolidated financial statements were approved by the Board of Governors.