



Financial Analysis

**For the Year Ended
March 31, 2012**

Executive Summary

The University of Alberta ended the 2012 fiscal year with a \$4.1 million excess of revenue over expense (2011: \$75.2 excess) and an unrestricted net assets deficit of \$15.6 million (2011: \$3.5 deficit). The small surplus is a reflection of the impact of the 0% grant increases over the past three years, the elimination of the enrolment planning envelope funding and the drawdown of balances in the faculties (spending amounts carried over from previous years). The prior year's excess of revenue over expense of \$75.2 million was mainly due to a decrease in the Universities Academic Pension Plan unfunded pension liability expense and spending lag in the operating fund.

Other financial highlights for 2012:

- For the 2012 fiscal year, the University did not receive an increase in the operating grant funding. The University has addressed this issue through a combination of revenue enhancements, cost containment measures and operating efficiencies. The Government of Alberta has committed to a 2% increase in the operating grant for each of the next three years. The University will continue to look at overall cost containment and administrative efficiencies.
- Unitized Endowment Pool (UEP) investments returned 3.0% (2011: 9.2%) and the Non-Endowed Investment Pool (NEIP) returned 2.1% (2011: 2.2%). The UEP return of 3.0% was not sufficient to cover the approved spending allocation; therefore a portion of the spending allocation was funded by endowment net assets (cumulative capitalized income).
- Total funding in support of the University's research activity for 2012 is \$460 million compared to \$536 million in 2011. The sponsored research revenue decrease is mainly due to reduced grants from the Government of Alberta and the Canada Foundation for Innovation (CFI). Because the funding for CFI comes in blocks and the major projects awarded in 2009 were completed, no new funding occurred in 2012. As a result, matching support from the Government of Alberta was not required. The next cycle of grants for CFI have just been submitted for initiation in 2014. Another major factor in the decrease in funding was the lower capital contributions for research primarily due to completion of the Edmonton Clinic Health Academy, Katz Group Centre for Pharmacy and Health Research, Li Ka Shing Centre for Health Research Innovation and the Centennial Centre for Interdisciplinary Science.
- The University's successful fund-raising initiatives support many activities across the University. For the 2012 year, new endowment contributions totaled \$24.7 million and expendable donations totaled \$26.5 million. The University also received a \$35.0 million in-kind contribution of a building (Saville Community Sports Centre).
- In support of the University's capital plan, the Government of Alberta provided \$56.1 million in funding for capital priorities. With the recent completion of large-scale capital projects, the University now has the opportunity to maintain, and where appropriate, repurpose aging assets and infrastructure. 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, 2012

Areas of significant financial risk:

- The Government of Alberta commitment of a 2% operating grant increase for each of the next three years has provided some stability
- investment income which can fluctuate significantly due to market performance
- uncertainty about utility costs due to the volatile energy markets
- deferred maintenance, which is estimated at over \$800 million; this places programs and initiatives at some risk (refer to later section in the financial analysis)

To assist in addressing the ongoing budgetary issues, the University will continue to seek opportunities to look at overall cost containment and administrative efficiencies.

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 2012 year and should be read in conjunction with the March 31, 2012 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:

- *click on Key Strategic Planning Documents*
 - *Dare to Discover: A Vision for a Great University*
 - *2012 Comprehensive Institutional Plan*
 - *2011-12 Annual Report*

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 (including Government of Alberta funding for the Faculty of Medicine Academic Alternate Relationship Plan), 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, 2012**

Excess of Revenue over Expense

The University of Alberta ended the 2012 fiscal year with a \$4.1 million excess of revenue over expense (2011: \$75.2 million excess) and an unrestricted net assets deficit of \$15.6 million (2011: \$3.5 million deficit). The small surplus is a reflection of the impact of the 0% grant increases over the past three years, the elimination of the enrolment planning envelope funding and the drawdown of balances in the faculties (spending amounts carried over from previous years). The prior year excess of revenue over expense of \$75.2 million was mainly due to a decrease in the Universities Academic Pension Plan unfunded pension liability expense and spending lag in the operating fund.

Revenue

The following highlights revenue before and after deferrals:

	2012		2011	
	(000's)	(000's)	(000's)	(000's)
	Revenue per financial statements	Revenue before deferrals	Revenue per financial statements	Revenue before deferrals
Government of Alberta grants	\$ 763,600	\$ 841,464	\$ 744,460	\$ 992,020
Federal and other government grants	184,386	204,291	184,507	216,329
Student tuition and fees	269,355	269,355	253,897	253,897
Sales of services and products	200,875	200,875	210,698	210,698
Donations and other grants	124,543	146,190	112,998	139,709
Investment income	42,067	43,415	56,475	63,829
Amortization of deferred capital contributions	104,540	-	81,705	-
Revenue	<u>\$ 1,689,366</u>	<u>\$ 1,705,590</u>	<u>\$ 1,644,740</u>	<u>\$ 1,876,482</u>

FINANCIAL ANALYSIS YEAR ENDED MARCH 31, 2012

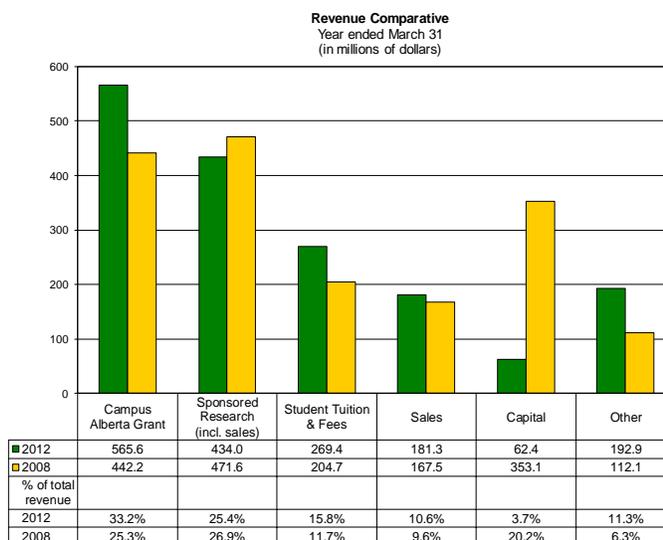
Revenue (before deferrals)

Revenue (before deferrals) decreased by \$170.9 million (9.1%) from \$1,876.5 million in 2011 to \$1,705.6 million in 2012.

The University's major operating funding comes from the Government of Alberta Campus Alberta operating grant, student tuition and fees and from sales activities. The University also receives restricted funding for sponsored research, capital infrastructure and specific academic programs. Other is mainly comprised of grants and donations for specific academic programs.

The decrease is mainly due to:

- capital grant funding decrease of approximately \$97 million is due to a large capital grant received in 2011 towards the construction of Edmonton Clinic Health Academy
- research grant funding decrease of approximately \$44 million is mainly due to a reduction in funding from the Government of Canada (approx. \$12 million) and from the Government of Alberta (approx. \$26 million).
- special purpose grant funding decrease of approximately \$24 million is mainly due to the Priority Health Graduates Initiative grant received in 2011
- investment income shortfall results in a portion of the endowment spending allocation being funded from endowment net assets (approx. \$10 million)



Government of Alberta Grants

Government of Alberta revenue (before deferrals) amounted to \$841.5 million, representing a decrease of \$150.6 million (15.2%) compared to last year.

	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
	<u>(000's)</u>	<u>(000's)</u>	<u>(000's)</u>
Operating fund grants:			
Campus Alberta (operating grant)	\$ 565,647	\$ 565,647	\$ -
Other grants	<u>34,635</u>	<u>11,271</u>	<u>23,364</u>
	<u>600,282</u>	<u>576,918</u>	<u>23,364</u>
Restricted grants:			
Capital	<u>56,073</u>	174,141	(118,068)
Research	<u>119,479</u>	145,590	(26,111)
Special purpose	<u>65,630</u>	<u>95,371</u>	<u>(29,741)</u>
	<u>241,182</u>	<u>415,102</u>	<u>(173,920)</u>
Revenue (before deferrals)	<u>\$ 841,464</u>	<u>\$ 992,020</u>	<u>\$ (150,556)</u>

Other grants increased by \$23.4 million and includes a new grant to support medical education (\$11.1) (which was previously funded by an Alberta Health Services fee for service arrangement), new lights on funding for specific buildings (\$12.7) and additional funding for enrolment pressures (\$3.5).

Capital grants decreased primarily due to the funding last year for the Edmonton Clinic Health Academy. The 2012 capital grants total includes funding for the annual infrastructure maintenance grant (\$22.8), Balmoral (a facility to house the Edmonton Radiopharmaceutical Centre and a cyclotron (medical isotopes)) (\$12.0) and the completion of funding for Edmonton Clinic Health Academy (\$12.0). Research grants decreased across various programs due to a decrease in CFI matching grants and also due to funding received last year for specific projects. Special purpose grants decreased due to the funding received last year for the new Priority Health Graduates Initiative.

**FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2012**

Research Revenue

Research revenue (before deferrals) amounted to \$460.1 million (2011: \$536.0). The University remains among the top three institutions in Canada overall in amount of funding received.

	2012 (000's)	2011 (000's)	Increase (decrease) (000's)
Sponsored research revenue (before deferrals):			
Government of Alberta grants	\$ 119,479	\$ 145,670	\$ (26,191)
Federal and other government grants	187,974	205,730	(17,756)
Donations and other grants	91,131	90,879	252
Investment income	15,822	23,533	(7,711)
Sales of services and products	19,547	18,607	940
	<u>433,953</u>	<u>484,419</u>	<u>(50,466)</u>
Other research related funding:			
Endowment income spending allocation ⁽¹⁾	7,621	-	7,621
Capital fund infrastructure grants ⁽²⁾	4,462	30,472	(26,010)
Entities not consolidated ⁽³⁾	14,018	21,070	(7,052)
	<u>26,101</u>	<u>51,542</u>	<u>(25,441)</u>
Total research funding	<u>\$ 460,054</u>	<u>\$ 535,961</u>	<u>\$ (75,907)</u>

⁽¹⁾ Due to endowment investment income shortfall, a portion of the endowment spending allocation was funded from endowment net assets (cumulative capitalized income).

⁽²⁾ 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.

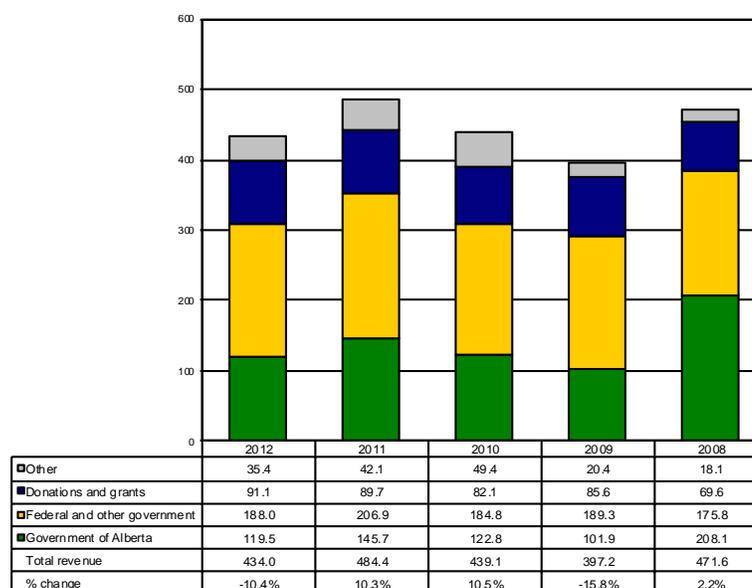
⁽³⁾ Entities not consolidated include clinical trial and related research funding with Alberta Health Services. These contributions are not reflected in the University's audited financial statements.

The Government of Alberta maintained or increased its funding across a variety of programs. The net overall decrease is due to a decrease in CFI matching grants and also due to funding received last year for specific projects.

Federal and other government maintained or increased its funding across a variety of programs. The net overall decrease is mainly due to a decrease in CFI (\$8.8). Grants from Western Economic Diversification decreased (\$4.5) due to large grants received in 2011.

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, 2012

Student Tuition and Fees

Student tuition and fees (comprised of both credit and non-credit tuition) amounted to \$269.4 million (2011: \$253.9). An increase in tuition fees (\$2.2) and differential fees for international students (\$7.0) were mainly due to higher student enrolment. Market modifier fees (\$3.4) were implemented in 2012 for specific programs. The tuition fees (instructional fees only) for an Arts or Science student with a full time course load in 2012 were \$5,195 as compared to \$5,177 in 2011 (an increase of 0.35%).

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 \$200.9 million (2011: \$210.7).

The ancillary services units generated sales of \$93.0 million (2011: \$95.9). The units with the largest sales are: Residences, Hospitality and Facility Services (\$28.8), Bookstore (\$23.4), Utilities (\$15.6) and Parking Services (\$14.1).

Academic and administrative units generated sales of \$107.9 million (2011: \$114.8), with the most significant activity as follows: Faculty of Medicine and Dentistry (\$56.7) 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 (\$11.3) and Agriculture, Life and Environmental Sciences (\$6.8) which is mainly from the sale of animal, plant and related products. Academic and administrative unit sales decreased by \$7.0 million due to a change in funding for the Faculty of Medicine and Dentistry (refer to Government of Alberta grants).

Investment Income

Investment income (before deferrals) was \$43.4 million (2011: \$63.8). Investments primarily fall into two categories, the Unitized Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP).

The UEP had a return of 3.0% (2011: 9.2%). The global economic rebound that started in 2010 was negatively impacted by the European sovereign debt crisis in 2011. Equity markets sold off sharply on concerns that fiscal austerity measures in one of the world's largest economic zones could lead to a protracted global economic slowdown or recession. European governments and monetary authorities were successful in temporarily averting the crisis. This coupled with signs of sustained economic growth in the US resulted in strong gains from equity markets in early 2012. For the year ended March 31, 2012 US equity markets returned 11.5% (2011: 10.9%) while Non-North American equity markets lost 2.7% (2011: 6.3% return). Amidst this uncertain and volatile environment, Canadian equities, dominated by the highly cyclical resource sectors, performed poorly, posting a loss of 9.8% for the year (2011: 20.4% return). Canadian fixed income returned 9.7% (2011: 5.1%). Collectively the strategies employed by the UEP's managers out-performed the UEP's benchmark by 0.5%, which posted a return of 2.5% (2011: 10.3%). 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 2.1% for the year (2011: 2.2%). The short-term money market investments had a return of 1.3% (2011: 0.9%); this compares favorably with the benchmark DEX 91 Day Treasury Bill return of 0.9% (2011: 0.8%) and is primarily attributable to the portfolio's longer duration.

The mid-term bond portfolio returned 6.3% (2011: 5.8%); this exceeded the benchmark DEX Short Term Bond Index return of 4.4% (2011: 3.4%), and is primarily attributable to valuation adjustments on the restructured asset-backed commercial paper (ABCP). The University holds \$140.0 million (2011: \$141.5) of ABCP and has recorded a write-down of \$44.2 million representing 31.6% of the total value (2011: \$49.1 representing 34.7% of the total value). The decrease in the write-down primarily reflects the passage of time as credit conditions did not change materially during the year. The majority of the ABCP notes mature within the next five 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 3.0% (2011: 9.2%).

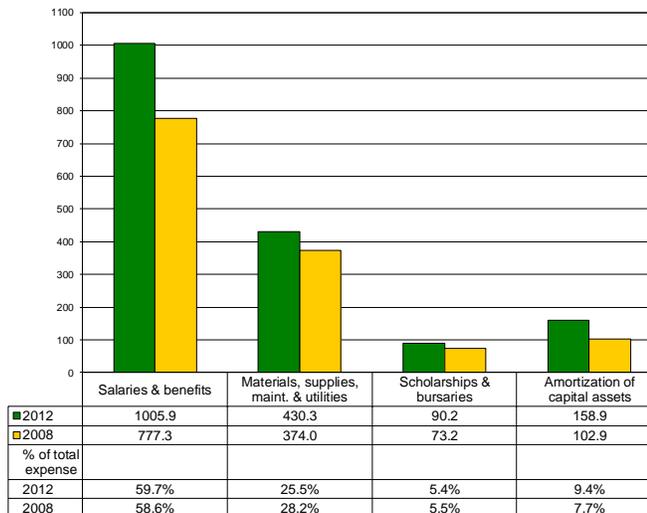
**FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2012**

Expenses

Expenses increased by \$115.7 million (7.4%) from \$1,569.6 million in 2011 to \$1,685.3 million in 2012. The main components of this increase are:

Salaries expense increased by \$51.8 million (6.6%). The collective bargaining process resulted in negotiated salary increases for both academic employees (July 1, 2011 - 1.75%; July 1, 2012 - 2.0%) and support employees (April 1, 2011 - 1.75%) and, in addition, eligible employees received merit increases (averaging approximately 2%). There was also a net increase in new hires (approximately 300 net) relating to the increased level of activity (2012 approx. - 11,450; 2011 - approx. 11,150). Included in the staff count is approximately 1,323 academic staff granted tenure.

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



Employee benefits expense increased by \$14.9 million (9.8%)

- Employee future benefits expense increased by \$7.8 million
The increase is mainly due to a \$5.7 million increase in the Universities Academic Pension Plan (UAPP) unfunded pension liability expense due to unfavorable investment returns in the UAPP.
- Benefits expense increased by \$7.1 million
Pension contributions expense (mainly UAPP) increased by \$3.1 million mainly due to unfavorable investment returns in the UAPP. There were increases across various other benefit plans.

Materials, supplies and services expense increased by \$24.5 million (6.1%) mainly due to due to increased activity in the operating fund (\$14.7) and the ancillary fund (\$13.2). The ancillary fund increase includes a one-time inventory write-down. In 2012, the Bookstore undertook a review of their inventory practices and concluded the inventory was overvalued. The inventory was overvalued due to incorrect inventory item costs in the inventory system and obsolete inventory that had not been written down in prior years. The write-down of \$8.8 million represents an accumulation over many years. Maintenance expense increased by \$6.5 million (9.0%) primarily in the operating fund for renovations, and building maintenance. Utilities expense of \$39.2 is comparable to last year (\$40.4).

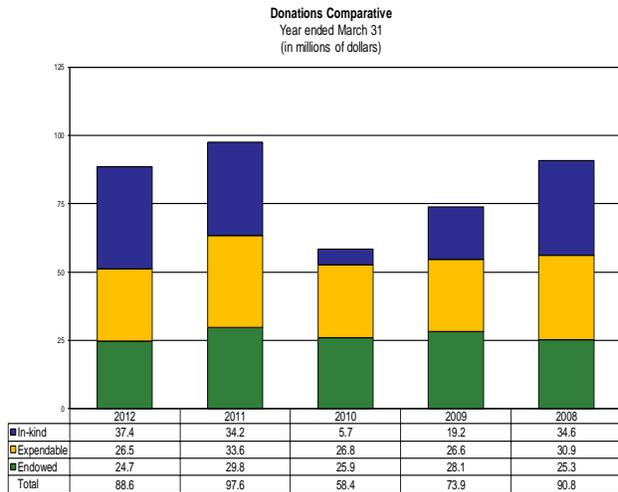
Scholarships and bursaries expense of \$90.2 million are comparable to last year (\$91.1). An increase in scholarships funded from operating funds (\$2.4) was offset by a decrease in the restricted funds (\$3.3).

**FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2012**

Donations Received

Donations (before deferrals) received in the year totaled \$88.6 million as compared to \$97.6 million in 2011 and are comprised of:

- \$24.7 million endowed donations
- \$26.5 million expendable donations
- \$37.4 million in-kind donations
In-kind donations include the Saville Community Sports Centre (\$35.0)



Donor pledges outstanding at March 31, 2012 are \$218.5 million (2011: \$145.0) 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, 2012

Financial Position

The University's net assets position increased by \$31.6 million due to a \$17.0 million increase in endowments, an increase in investment in capital assets and collections of \$26.7 million and an increase in the unrestricted net assets deficiency of \$12.1 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.

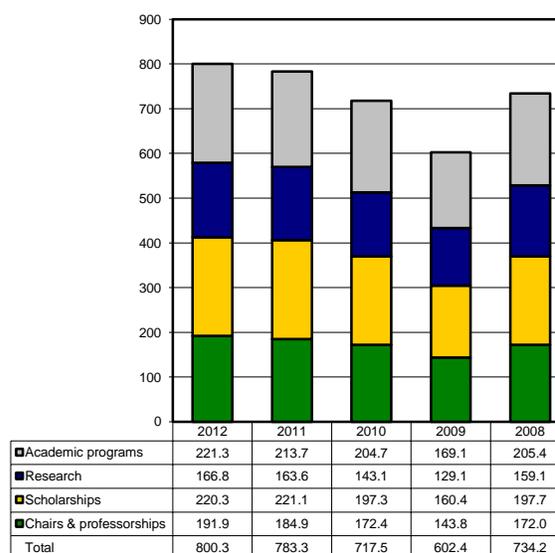
Endowment investments earned a return of 3.0% for the year ended March 31, 2012 (2011: 9.2%) and averaged 4.3% on a ten-year annualized basis.

The \$800.3 million in endowments represent over 2,420 individual endowment funds. Endowments increased by \$17.0 million, comprised of:

- \$24.7 endowed donations
- \$2.6 capitalization from expendable funds
- \$23.1 investment income
- (\$22.8) allocated for total spending (includes program spending allocation, administrative and external management fees)
- (\$10.6) transfer from endowment net assets (cumulative capitalized income) to fund a portion of the spending allocation

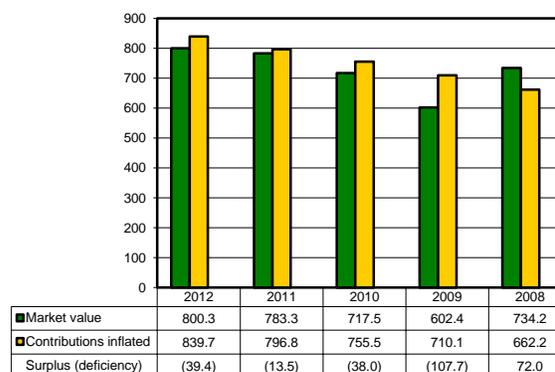
Endowments support a variety of key initiatives in the areas of scholarships, professorships, chairs, visiting speakers, research and many other activities. The spending allocation for these programs in 2012 is \$25.5 million (2011: \$30.4). In 2012, due to investment income shortfall, the transfer from endowments (\$10.6) is the amount required to cover the 2012 expenditures. It is anticipated that the difference between the amount allocated (\$25.5) and the approved spending allocation (\$32.8) will be allocated next year. The program spending allocation rate is 4.25% (2011: 3.80%) and is based on a moving average of the endowment's fair value.

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



At March 31, 2012 the market value of the UEP assets are lower than the cumulative endowed contributions indexed for inflation by \$39.4 million. The shortfall against this inflation indexed target is primarily due to investment losses in 2007 and 2008. The shortfall increased in 2012 as the investment return of 3.0% was lower than the total spending of 5.1% (includes program spending, external management fees and administration fees) and inflation of 1.9%. The new spending policy has transitioned the spending rate back to 4.25% and on a go forward basis 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.

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



FINANCIAL ANALYSIS
YEAR ENDED MARCH 31, 2012

Acquisition of Capital Assets and Collections

	<u>2012</u>	<u>2011</u>	Increase (decrease)
	(000's)	(000's)	(000's)
Buildings and utilities	\$ 189,219	\$ 354,867	\$ (165,648)
Equipment and furnishings	101,260	90,000	11,260
Learning resources	20,653	20,532	121
Permanent collections	1,133	908	225
Land	<u>-</u>	<u>32,137</u>	<u>(32,137)</u>
Total acquisitions	<u>\$ 312,265</u>	<u>\$ 498,444</u>	<u>\$ (186,179)</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 2012 were as follows (in millions of dollars):

- construction of:
 - Edmonton Clinic Health Academy (\$54.7)
 - Chemical Materials Engineering Building Functional Renewal (\$27.4)
 - Katz Group Centre for Health Research Innovation (\$16.6)
 - Centennial Centre for Interdisciplinary Science (\$14.3)
 - Utilities Expansion (\$6.3)
 - Li Ka Shing Center for Health Research Innovation (\$6.1)
- Saville Community Sports Centre (\$35.0 in-kind contribution of a building from the GO Community Centre)
- major renovations to various buildings: Balmoral (\$8.8), Chemistry West Building (\$6.5), Kinsella Ranch (\$2.3)

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

There were no additions to land in 2012. In 2011 the University acquired the Soaring Estates property in Edmonton and the Mattheis Ranch in southern Alberta.

Deferred Maintenance

The University's deferred maintenance liability is estimated at over \$800 million as at December 31, 2011 (previous most recent estimate available was December 2009 – estimated at over \$900 million). The University has received significant and continued funding from the Government of Alberta that has assisted in reducing the deferred maintenance liability. While the deferred maintenance remains high, it continues on a downward trend and the facility condition index for a number of buildings has improved significantly. 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, 2012

Unrestricted Net Assets

The unrestricted net assets deficit is summarized as follows:

	2012	2011	Increase (decrease)
	(000's)	(000's)	(000's)
Unexpended (over expended) funds:			
Operating	67,757	43,199	24,558
Ancillary enterprises	36,946	40,617	(3,671)
Capital (internally funded)	3,007	24,217	(21,210)
Research (internally funded)	35,997	34,715	1,282
	143,707	142,748	959
Employee future benefit liabilities	(159,319)	(146,286)	(13,033)
Unrestricted net assets (deficit)	\$ (15,612)	\$ (3,538)	\$ (12,074)