



# **Financial Analysis**

**For the Year Ended  
March 31, 2013**

## **FINANCIAL ANALYSIS YEAR ENDED MARCH 31, 2013**

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### **Executive Summary**

The University of Alberta ended the 2013 fiscal year with a \$25.4 million operating surplus (2012: \$11.8 surplus) and an accumulated deficit from operations of \$76.1 million (2012: \$87.1 deficit). The \$25.4 million operating surplus is mainly due to savings at the unit level which have occurred as units reduce spending to assist in meeting their 2013-14 operating budget reductions.

### **Financial highlights for 2013**

- The university received a 2% increase in the operating grant funding.
- Unitized Endowment Pool (UEP) investments returned 12.2% (2012: 3.0%) and the Non-Endowed Investment Pool (NEIP) returned 3.5% (2012: 2.1%).
- Total funding in support of the university's research activity for 2013 is \$423 million compared to \$460 million in 2012. Government of Alberta grants decreased by \$39 million due to several large research projects ending last year. In addition, some Government of Alberta sponsored research activities were significantly reduced in scope.
- The university's successful fund-raising initiatives support many activities across the university. For the 2013 year, new endowment donations totaled \$30 million and expendable donations totaled \$40 million.
- Capital funding from the Government of Alberta has been decreasing over the past few years with the completion of large-scale projects. This past year, in support of the university's capital plan, the Government of Alberta provided \$23 million in funding for infrastructure maintenance and approved the repurposing of positive variances from these large-scale projects to other capital priorities.

### **Areas of significant financial risk**

- Government of Alberta grants - in 2013-14 the university's Campus Alberta grant is reduced by 7.2% (\$43 million). Coupled with the anticipated 2% grant increase the net effect is a \$55 million reduction in anticipated provincial funding. Prior to the cuts, the university had already demonstrated that a 2% grant increase was insufficient to offset its expenditure increases.
- Tuition revenue - the Government of Alberta has frozen tuition fees at the 2012-13 levels. Although the government has announced one-time funding will be provided to the university in 2013-14 to compensate for the loss of tuition fees, this creates a funding shortfall in 2014-15.
- Investment income - can fluctuate significantly due to market performance. Investment income in the immediate to midterm is forecast to remain at historically low levels due to economic conditions.
- Pension plan contribution rates - without structural reforms to the pension plans, the level of pension plan contributions as a percentage of total benefit costs will not be sustainable.
- Utilities expense - uncertainty about utility costs due to the volatile energy markets.
- Deferred maintenance - estimated at over \$800 million; places programs and initiatives at some risk (refer to deferred maintenance section).

To address the magnitude of the cuts to the Campus Alberta grant and the other areas of significant risk, the university has developed a three-year plan to increase revenue and reduce expenditures. For further details on the university's plan please refer to the 2013 Comprehensive Institutional Plan.

### **Adoption of New Accounting Standards**

In 2011, the Public Sector Accounting Board issued a framework of financial reporting for government not-for-profit organizations. Effective April 1, 2012, the university adopted Canadian Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board. Certain 2012 comparatives in financial analysis have been adjusted to conform to PSAS. For more detailed information refer to note 2 (Conversion to Public Sector Accounting Standards) and schedule 1 (Transition to Public Sector Accounting Standards) in the March 31, 2013 audited financial statements. The most significant changes are:

- In the statement of operations, expenses are now categorized by function (previously categorized by object), in financial analysis, expenses are categorized by object.
- The statement of operations no longer includes unrealized investment income. Unrealized income is now reflected in a new financial statement (statement of remeasurement gains and losses) and once realized are flowed through the statement of operations as investment income. Unrealized income for endowments is included in endowment net assets. If the spending allocation is fully funded by realized income, the income will be flowed through the statement of operations as investment income. If the spending allocation is partially funded by unrealized income, that portion will be flowed through the statement of operations as a transfer from endowments.
- Permanent collections are no longer capitalized. Information on the amount of the current year expense is included in the financial analysis (refer to acquisition of capital assets section).
- The university elected to retroactively recognize retirement and post-employment liability cumulative unamortized gains and losses to accumulated surplus. The adjustment of a \$79.7 million unamortized loss to the April 1, 2011 employee future benefit liabilities is mainly due to the Universities Academic Pension Plan.

### **Other information**

*The Financial Analysis is intended to provide the reader with the financial highlights for the 2013 year and should be read in conjunction with the March 31, 2013 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*
  - *2013 Comprehensive Institutional Plan*
  - *2012-13 Annual Report to the Government of Alberta*

*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 grants and donations. Unrestricted grants and donations are flexible in that they are available to the university's Board of Governors to allocate for spending, as it deems appropriate. Unrestricted grants and donations are recognized as revenue immediately. The university, on the other hand, can only expend restricted grants and donations for the specific purposes defined by the sponsor or donor. Restricted grants and donations are deferred and recognized as revenue when the sponsor or donor terms are met. Grants and donations used to acquire capital assets with limited life are recognized as 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 Government of Alberta operating grant, student tuition and fee revenue, investment income available for general spending and sales 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 from sponsors, donations and endowment investment income available for spending.
- Special purposes - funds provided by grants from sponsors, donations and endowment investment income available for spending. Expenditures include Faculty of Medicine Academic Alternate Relationship Plans (AARP), scholarships and bursaries, and other programs involving teaching and community service.
- Capital - funds provided by government grants and donations, primarily designated for the acquisition of buildings, major renovations and infrastructure maintenance.

**FINANCIAL ANALYSIS  
YEAR ENDED MARCH 31, 2013**

**Operating Surplus**

The University of Alberta ended the 2013 fiscal year with a \$25.4 million operating surplus (2012: \$11.8 surplus) and an accumulated deficit from operations of \$76.1 million (2012: \$87.1 deficit). The \$25.4 million operating surplus is mainly due to savings at the unit level which have occurred as units reduce spending to assist in meeting their 2013-14 operating budget reductions.

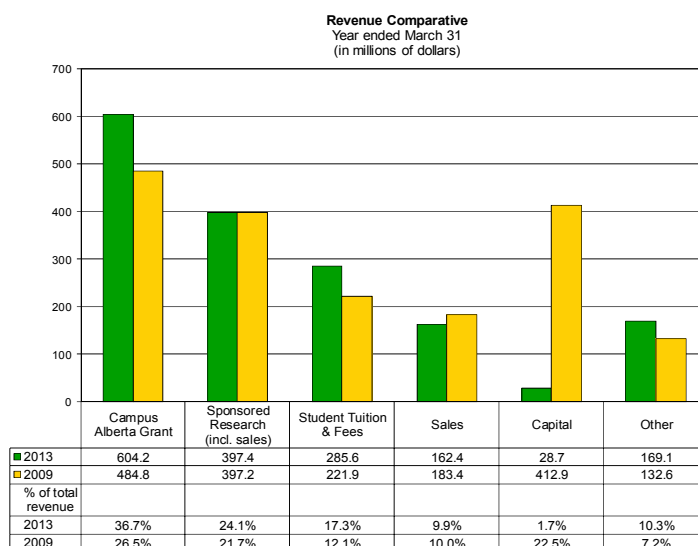
**Revenue**

Revenue (before deferrals) decreased by \$51.3 million (2.8%). The university's major operating funding comes from the Government of Alberta Campus Alberta operating grant, student tuition and fees, and sales activities. The university also receives restricted funding for sponsored research, capital infrastructure and other special purposes. The following highlights revenue before and after deferrals:

	2013		2012	
	(000's) Revenue per financial statements	(000's) Revenue before deferrals	(000's) Revenue per financial statements	(000's) Revenue before deferrals
Government of Alberta grants	\$ 907,806	\$ 903,559	\$ 879,623	\$ 935,362
Federal and other government grants	193,937	206,029	189,834	208,473
Student tuition and fees	285,629	285,629	269,355	269,355
Sales of services and products	183,034	183,034	200,875	200,875
Donations and other grants	116,441	125,660	108,278	153,039
Investment income	40,952	56,188	42,970	44,318
	<b>\$ 1,727,799</b>	<b>\$ 1,760,099</b>	<b>\$ 1,690,935</b>	<b>\$ 1,811,422</b>

There were increases in the operating fund for the Campus Alberta grant (2% increase) and tuition increased mainly due to higher enrolment. However, there was a net overall decrease due to the following decreases:

- \$34 million in capital grants due to grants received last year.
- \$37 million in sponsored research grants mainly due to the decrease in Government of Alberta grants.
- \$25 million in other due to a large in kind donation received last year.
- Sales decreased however this decrease is offset in other categories (refer to sales section).



Other is mainly comprised of grants and donations restricted for special purposes and include the Faculty of Medicine Academic Alternate Relationship Plans (AARP).

**FINANCIAL ANALYSIS**  
**YEAR ENDED MARCH 31, 2013**

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**Government of Alberta Grants**

Government of Alberta grants amounted to \$903.6 million, representing a decrease of \$31.8 million (3.4%) compared to last year.

	<u>2013</u>	<u>2012</u>	<u>Increase</u> <u>(decrease)</u>
	<u>(000's)</u>	<u>(000's)</u>	<u>(000's)</u>
<b>Operating fund grants</b>			
Campus Alberta (operating grant)	\$ 604,157	\$ 565,647	\$ 38,510
Other grants	<u>10,793</u>	<u>34,635</u>	<u>(23,842)</u>
	<b>614,950</b>	600,282	14,668
<b>Restricted grants</b>			
Capital	23,512	56,073	(32,561)
Research	80,058	119,479	(39,421)
Special purposes	<u>91,006</u>	<u>65,630</u>	<u>25,376</u>
	<b>194,576</b>	241,182	(46,606)
<b>Total grants received</b>	<b>809,526</b>	841,464	(31,938)
Expended capital recognized as revenue	<u>94,033</u>	<u>93,898</u>	<u>135</u>
Revenue (before deferrals)	<b>\$ 903,559</b>	<b>\$ 935,362</b>	<b>\$ (31,803)</b>

The Campus Alberta grant increased by 6.8% which is comprised of a 2% base operating grant increase and various grants which were included in other grants in 2012.

Capital grants decreased primarily due to the funding received last year for the Edmonton Clinic Health Academy and the Medical Isotope and Cyclotron Facility. The 2013 capital grant funding of \$23.5 million is for infrastructure maintenance (2012: \$22.8).

Research grants decreased due to several large research projects ending last year. In addition, some Government of Alberta sponsored research activities were significantly reduced in scope.

Special purposes grants increased due to one-time funding for enterprise resource planning (\$10.0) and Campus Alberta strategic initiatives (\$10.0).

**Student Tuition and Fees**

Student tuition and fees (comprised of both credit and non-credit tuition) amounted to \$285.6 million (2012: \$269.4). An increase in tuition fees (\$4.9) and differential fees for international students (\$5.2) were mainly due to higher student enrolment. Market modifier fees (\$2.1) increased for specific programs due to both enrolment and fee increases. The tuition fees (instructional fees only) for an Arts or Science student with a full time course load in 2013 were \$5,269 as compared to \$5,195 in 2012 (an increase of 1.44%).

**FINANCIAL ANALYSIS**  
**YEAR ENDED MARCH 31, 2013**

**Research Revenue**

Research revenue (before deferrals) amounted to \$422.6 million (2012: \$460.1). The university remains among the top three institutions in Canada overall in amount of research funding received.

	<b>2013</b>	2012	Increase (decrease)
	<b>(000's)</b>	(000's)	(000's)
Sponsored research revenue (before deferrals):			
Government of Alberta grants	<b>\$ 80,058</b>	\$ 119,479	\$ (39,421)
Federal and other government grants	<b>181,147</b>	187,974	(6,827)
Donations and other grants	<b>92,701</b>	91,131	1,570
Investment income	<b>22,820</b>	15,822	6,998
Sales of services and products	<b>20,671</b>	19,547	1,124
	<b>397,397</b>	433,953	(36,556)
Other research related funding:			
Endowment income spending allocation <sup>(1)</sup>	<b>4,847</b>	7,621	(2,774)
Capital fund infrastructure grants <sup>(2)</sup>	<b>2,031</b>	4,462	(2,431)
Entities not consolidated <sup>(3)</sup>	<b>18,329</b>	14,018	4,311
	<b>25,207</b>	26,101	(894)
<b>Total research funding</b>	<b>\$ 422,604</b>	\$ 460,054	\$ (37,450)

<sup>(1)</sup> A portion of the spending allocation is funded from endowment cumulative capitalized income.

<sup>(2)</sup> Capital research infrastructure revenue is recorded in the capital fund. These amounts represent the portion of capital revenue attributed to designated space within buildings.

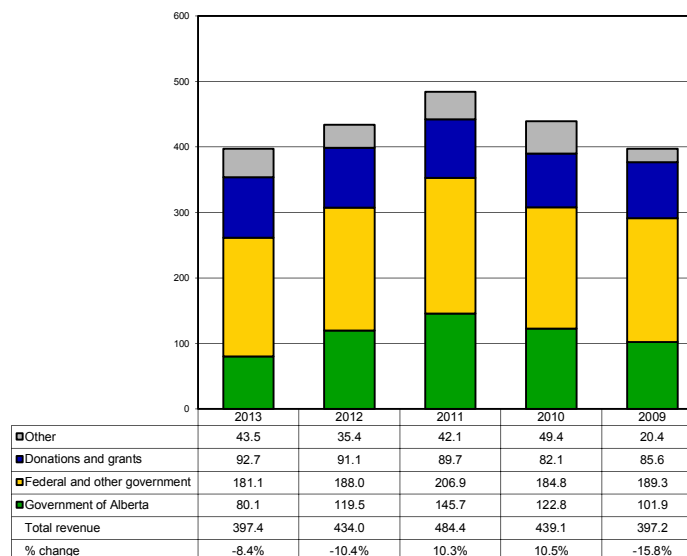
<sup>(3)</sup> Entities not consolidated include clinical trial and related research funding with Alberta Health Services. This revenue is not reflected in the university's financial statements.

Government of Alberta grants decreased by \$39.4 due to several large research projects ending last year. In addition, some Government of Alberta sponsored research activities were significantly reduced in scope.

Federal and other government grants are down slightly from last year.

Donations and other grants are comparable to last year. Other grants 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, 2013**

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#### **Sales of Services and Products**

Ancillary services units and academic and administrative units generate revenue through the sale of services and products to individuals, companies and organizations external to the university. Sales of services and products amounted to \$183.0 million (2012: \$200.9). The \$17.9 net decrease in sales is due to the change in the AARP funding model; sales across all other activities are comparable or slightly increased over last year.

The ancillary services units generated sales of \$93.6 million (2012: \$93.0). The units with the largest sales are: Residences, Hospitality and Facility Services (\$30.2), Bookstore (\$22.2), Utilities (\$16.6) and Parking Services (\$13.7).

Academic and administrative units generated sales of \$89.4 million (2012: \$107.9), with the most significant activity as follows: Faculty of Medicine and Dentistry (\$31.8) includes revenue from Alberta Health Services in support of positions that interact between the academic and clinical environment to train new physicians, from physicians to support academic activities and from dental clinic fees; Physical Education and Recreation (\$11.9) revenue generated by athletic teams, sport camps and rentals of facilities; and Agricultural, Life and Environmental Sciences (\$7.9) which is mainly from the sale of animal, plant and related products. The overall net decrease in sales is due to a change in funding for the Faculty of Medicine. In previous years the faculty sub-granted a portion of the Alberta Health and Wellness grant to the Medicine Practice Plans (external) and then subsequently billed the external plans back on a fee for service basis. Under the new agreement, this process is no longer required. The \$17.9 net decrease is comprised of \$28 million due to the AARP funding model change (offset for this variance is in materials, supplies and services); offset by a one-time AARP fee for service arrangement (\$6.1) and an increase in various other sales activities (\$4.0).

#### **Investment Income**

Investment income (before deferrals) amounted to \$56.2 million (2012: \$44.3). Investments primarily fall into two categories, the Unitized Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP).

The UEP had a return of 12.2% (2012: 3.0%). Continued monetary stimulus by most central banks and a strengthening US economy resulted in strong returns for most equity markets. For the year ended March 31, 2013 US equity markets returned 15.8% (2012: 11.5%) while Non-North American equity markets returned 13.6% (2012: 2.7% loss). Concerns over long-term global growth prospects held back returns in more cyclical commodity based economies such as Canada where Canadian equities returned 6.1% (2012: 9.8% loss). Canadian fixed income as measured by the DEX Bond Universe returned 4.5% (2012: 9.7%). Collectively the strategies employed by the UEP's managers outperformed the UEP's benchmark by 1.9%, which posted a return of 10.3% (2012: 2.5%). 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 3.5% for the year (2012: 2.1%). The primary objective for the NEIP is to earn a rate of return that exceeds the DEX 91 day T-Bill return with an emphasis on liquidity and the preservation of capital.

The short-term money market investments had a return of 1.2% (2012: 1.3%); this compares favorably with the benchmark DEX 91 Day Treasury Bill return of 1.0% (2012: 0.9%) and is primarily attributable to the portfolio's longer duration.

The mid-term bond portfolio returned 10.8% (2012: 6.3%); this exceeded the benchmark DEX Short Term Bond Index return of 2.9% (2012: 4.4%), and is primarily attributable to valuation adjustments on the floating rate notes (formerly asset-backed commercial paper). The university holds \$134.6 million (2012: \$140.0) of floating rate notes and has recorded a write-down of \$32.9 million representing 24.4% of the total value (2012: \$44.2 representing 31.6% 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 floating rate notes mature within the next four 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 12.2% (2012: 3.0%).



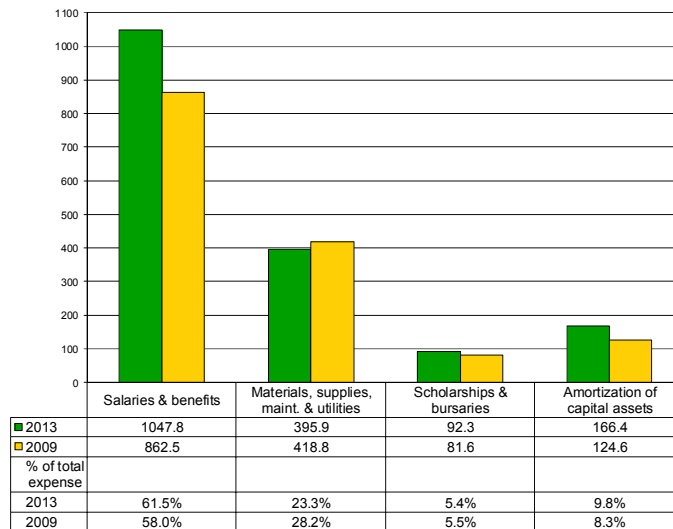
**FINANCIAL ANALYSIS  
YEAR ENDED MARCH 31, 2013**

**Expense**

Expense is comparable to last year, per the financial statements (note 18) the breakdown of expense by object is as follows:

	<u>2013</u>	<u>2012</u>	<u>Increase (decrease)</u>
	(000's)	(000's)	(000's)
Salaries	\$ 873,406	\$ 838,600	\$ 34,806
Employee benefits	174,377	159,129	15,248
Materials, supplies and services	278,738	315,041	(36,303)
Scholarships and bursaries	92,323	90,183	2,140
Maintenance and repairs	74,239	78,118	(3,879)
Utilities	42,917	39,184	3,733
Amortization of capital assets	166,387	158,881	7,506
	<u>\$ 1,702,387</u>	<u>\$ 1,679,136</u>	<u>\$ 23,251</u>

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



Salaries expense increased by \$34.8 million (4.2%). The collective bargaining process resulted in negotiated salary increases for both academic employees (July 1, 2011 - 1.75%; July 1, 2012 - 2%) and support employees (April 1, 2012 - 2%) and, in addition, eligible employees received merit increases (averaging approx. 2%). The total number of staff increased by approx. 300 (2013: approx. 10,750; 2012: approx. 10,450). Included in the staff count is approx. 1,359 academic staff granted tenure.

Employee benefits expense increased by \$15.2 million (9.6%). The increase is comprised of long-term disability and bridge plans due to an increase in the number of staff eligible as well as an increase in the costs of these plans (\$3.4), pension contributions due to contribution rate increases (\$6.6) and there were increases across various other benefit plans.

Materials, supplies and services expense decreased by \$36.3 million (11.5%). Expense activity is comparable to last year. The overall decrease is due to a funding model change for the AARP (\$28.0) and last year the university Bookstore recorded an \$8.8 million inventory write-down.

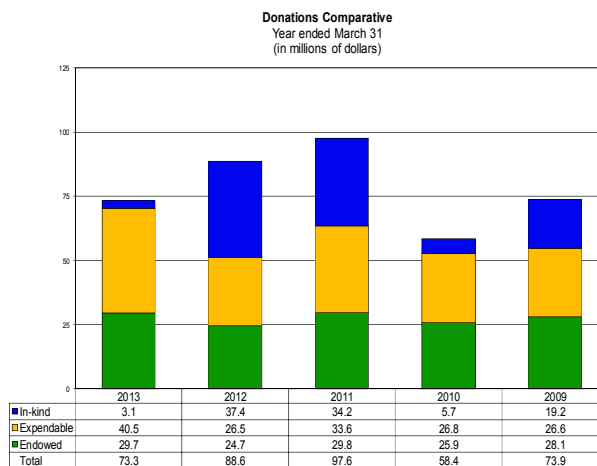
All other remaining expenses are comparable to prior year.

**FINANCIAL ANALYSIS  
YEAR ENDED MARCH 31, 2013**

**Donations Received**

Donations (before deferrals) received in the year totaled \$73.3 million as compared to \$88.6 million in 2012 and are comprised of:

- \$29.7 million endowed
- \$40.5 million expendable
- \$3.1 million in kind



Donor pledges outstanding at March 31, 2013 are \$252.1 million (2012: \$218.5) and are not reflected in the university's financial statements. These pledges are expected to be honoured over the next several years.

2012 In kind donations included the Saville Community Sports Centre (\$35.0).

## FINANCIAL ANALYSIS YEAR ENDED MARCH 31, 2013

### Financial Position

The university's net assets position increased by \$127.8 million due to:

- \$79.5 million increase in endowments
- \$22.5 million increase in investment in capital assets
- \$11.0 million decrease in accumulated deficit from operations
- \$14.8 million increase in remeasurement gains

### 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 is designed to maintain the real value of the endowment while providing for a sustainable level of program support. 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.

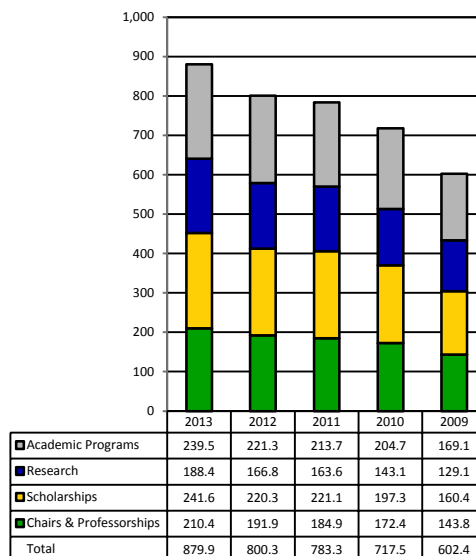
Endowment investments earned a return of 12.2% for the year ended March 31, 2013 (2012: 3%) and averaged 7% on a ten-year annualized basis.

The \$879.9 million in endowments represent over 2,500 individual endowments. Endowments increased by \$79.5 million, comprised of:

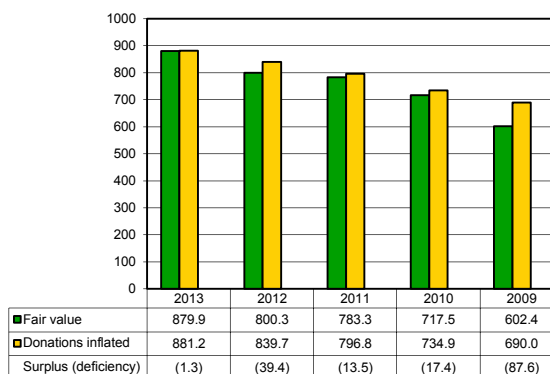
- \$29.7 endowed donations
- \$3.2 capitalization from expendable funds
- \$96.2 investment income
- (\$42.4) allocated for total spending (includes program spending allocation, administrative and external management fees)
- (\$7.2) transfer from endowment net assets (cumulative capitalized income) to fund the remainder of the 2012 spending allocation

Endowments support a variety of key initiatives in the areas of scholarships, professorships, chairs, visiting speakers, research and many other program activities. The spending allocation for these programs in 2013 is \$33.9 million (2012: \$25.5). In 2012, due to investment income shortfall, not all of the program spending was allocated; the remainder (\$7.2) was allocated in 2013. The program spending allocation rate is 4.25% (2012: 4.25%) and is based on an average of the endowment's fair value.

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



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



At March 31, 2013 the fair value of the endowment net assets is slightly lower than the real value. Positive investment returns for the past three years has significantly reduced the deficit to \$1 million. Going forward the elimination of this deficiency and the re-establishment of a surplus will be determined by future investment returns, inflation and the endowment spending allocation.

**FINANCIAL ANALYSIS**  
**YEAR ENDED MARCH 31, 2013**

**Capital Asset Acquisitions**

	<u>2013</u>	<u>2012</u>	<u>Increase</u>
	(000's)	(000's)	(decrease)
			(000's)
Buildings and utilities	<b>\$ 95,309</b>	\$ 189,220	\$ (93,911)
Equipment, furnishings and systems	<b>63,203</b>	100,005	(36,802)
Learning resources	<b>20,341</b>	20,653	(312)
	<b><u>\$ 178,853</u></b>	<b><u>\$ 309,878</u></b>	<b><u>\$ (131,025)</u></b>

The most significant building acquisitions in 2013 are:

- construction of:
  - East Campus Village (\$9.7)
  - Physical Activity and Wellness Centre (\$6.4)
  - Edmonton Clinic Health Academy (\$5.0)
- major renovations to various buildings: Medical Isotope and Cyclotron Facility (\$19.2), Innovation Centre for Engineering (\$19.0), Li Ka Shing fit out (\$10.2).

The decrease in equipment, furnishings and systems is due to significant equipment acquisitions in 2012 for newly completed buildings and for Canada Foundation for Innovation funded research projects.

The university holds library permanent collections and other permanent collections which include works of art, museum specimens, archival materials and maps, which are not included in capital assets. Collections expense for 2013 is \$1,653 (2012: \$1,134).

**Deferred Maintenance**

The university's deferred maintenance liability is estimated at over \$800 million as at December 2011 (the most recent estimate available). While the university is making progress on deferred maintenance on its older facilities, the overall liability remains relatively unchanged. 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.

**Accumulated Deficit from Operations**

	<u>2013</u>	<u>2012</u>	<u>Change</u>
	(000's)	(000's)	(000's)
Unexpended funds:			
Operating	<b>58,771</b>	67,757	(8,986)
Ancillary enterprises	<b>48,590</b>	36,946	11,644
Capital (internally funded)	<b>13,485</b>	3,007	10,478
Research (internally funded)	<b>42,717</b>	35,997	6,720
	<b><u>163,563</u></b>	143,707	19,856
Employee future benefit liabilities	<b><u>(239,695)</u></b>	<u>(230,827)</u>	<u>(8,868)</u>
	<b><u>\$ (76,132)</u></b>	<b><u>\$ (87,120)</u></b>	<b><u>\$ 10,988</u></b>