The following Motions and Documents were considered by the Board of Governors during the Open Session of its Monday, May 31, 2021 meeting:

Agenda Title: **Management's Annual Audited Financial Statements (Draft) and review Financial Statement Discussion and Analysis (Draft)**

APPROVED MOTION: THAT the Board of Governors, on the recommendation of the Board Audit and Risk Committee, approve the Audited Consolidated Financial Statements for the year ended March 31, 2021, as set forth in Attachment 1, as revised.

Final Amended Item: 2.

Agenda Title: **2021-2022 Investment Management Agreement**

APPROVED MOTION: THAT the Board of Governors, on the recommendation of the Board Learning, Research and Student Experience Committee, approve the 2021-2022 Investment Management Agreement, as set-forth in Attachment 1.

Final Item: 3.

Item No. 2

Governance Executive Summary
Action Item

Agenda Title	**Management's Annual Audited Financial Statements (Draft) and review Financial Statement Discussion and Analysis (Draft)**

Motion

THAT the Board of Governors, on the recommendation of the Board Audit and Risk Committee, approve the Audited Consolidated Financial Statements for the year ended March 31, 2021, as set forth in Attachment 1.

Item

Action Requested	☒ Approval ☐ Recommendation
Proposed by	Todd Gilchrist, Vice-President (University Services and Finance)
Presenter(s)	Todd Gilchrist, Vice-President (University Services and Finance)

Details

Responsibility	University Services and Finance
The Purpose of the Proposal is (*please be specific*)	To approve the audited Consolidated Financial Statements as required by the *Post-Secondary Learning Act.*
Executive Summary (*outline the specific item – and remember your audience*)	Draft Financial Statements and Financial Statement Discussion and Analysis are provided for review. The university ended the year with an annual surplus of $53.7 million. Of this amount $18.2 million are donations directed to endowments and endowment capitalized investment income and therefore are not available for spending. The annual operating surplus was $35.5 million; 2.0% of total revenue (budget annual operating surplus: $1.0 million; 0.1% of total revenue). The increase of $75.7 million from the prior year annual operating deficit of $40.2 million was primarily due to an increase in investment income earned, lower salary expense due to a decrease in the number of support and temporary staff and lower materials and supplies expense due to staff working remotely. The decrease in these operating expenses can be attributed to both the Service Excellence Transformation (SET) administrative restructuring that the university has begun under the UofA for Tomorrow initiative, and the impact of the COVID-19 pandemic. These favorable results were partially offset by a reduction in the campus Alberta operating grant and lower sales revenue from parking and student residences due to the impact of the COVID-19 pandemic. Net assets of $2,407.9 million increased from the prior year (2020: $1,982.8). The increase is mainly due to an increase in the fair value of endowments along with the increase in the annual surplus.
Supplementary Notes / context	

Engagement and Routing (Include meeting dates)

Consultation and Stakeholder Participation (parties who have seen the	*Those who are actively **participating:*** • Todd Gilchrist, Vice-President (University Services and Finance) • Martin Coutts, Associate Vice-President, Finance, Procurement and Planning

proposal and in what capacity)	*Those who have been **consulted**:* • N/A
	*Those who have been **informed**:* • Board Audit and Risk Committee, May 31, 2021 (recommendation)
Approval Route (Governance) (including meeting dates)	Board Audit and Risk Committee, May 31, 2021 (recommendation) Board of Governors, May 31, 2021 (final approver)

Strategic Alignment

Alignment with *For the Public Good*	*For the Public Good (Sustain):* Sustain our people, our work, and the environment by attracting and stewarding the resources we need to deliver excellence to the benefit of all Albertans. OBJECTIVE 22: Secure and steward financial resources to sustain, enhance, promote, and facilitate the university's core mission and strategic goals. iii. Strategy: Ensure responsible and accountable stewardship of the university's resources and demonstrate to government, donors, alumni, and community members the efficient and careful use of public and donor funds.	
Alignment with Institutional Risk Indicator	Please note below the specific institutional risk(s) this proposal is addressing.	
	☐ Enrolment Management ☐ Faculty and Staff ☒ Funding and Resource Management ☐ IT Services, Software and Hardware ☐ Leadership and Change ☐ Physical Infrastructure	☐ Relationship with Stakeholders ☐ Reputation ☐ Research Enterprise ☐ Safety ☐ Student Success
Legislative Compliance and jurisdiction	Post- Secondary Learning Act, sections 70,71 and 79 Audit Committee Terms of Reference, sections 3 and 4	

Attachments (40 pages in total)

1. Financial Statement Discussion and Analysis (Draft) (pages 3 - 9)
   Consolidated Financial Statements (Draft) (pages 10 - 40)
   - Statement of Management Responsibility
   - Independent Auditor's Report
   - Consolidated Statement of Financial Position
   - Consolidated Statement of Operations
   - Consolidated Statement of Change in Net Financial Assets
   - Consolidated Statement of Remeasurement Gains and Losses
   - Consolidated Statement of Cash Flows
   - Notes to the Consolidated Financial Statements
2. Review of Financial Statements Presentation (9 pages)

Prepared by: Martin Coutts, Associate Vice-President, Finance, Procurement and Planning (martin.coutts@ualberta.ca)

Brian Boytang, University Chief Accountant and Associate Director, Financial Reporting & Accounting (brian.boytang@ualberta.ca)

DRAFT

Consolidated Financial Statements

For the Year Ended
March 31, 2021

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FINANCIAL REPORTING

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Website: www.ualberta.ca/finance-procurement-planning/financial-management

E-mail: fs.requests@ualberta.ca

The consolidated financial statement discussion and analysis should be read in conjunction with the University of Alberta audited financial statements. 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:
For the Public Good, Investment Reports, Annual Report, UofA for Tomorrow.
https://www.ualberta.ca/reporting
https://www.ualberta.ca/uofa-tomorrow/index.html

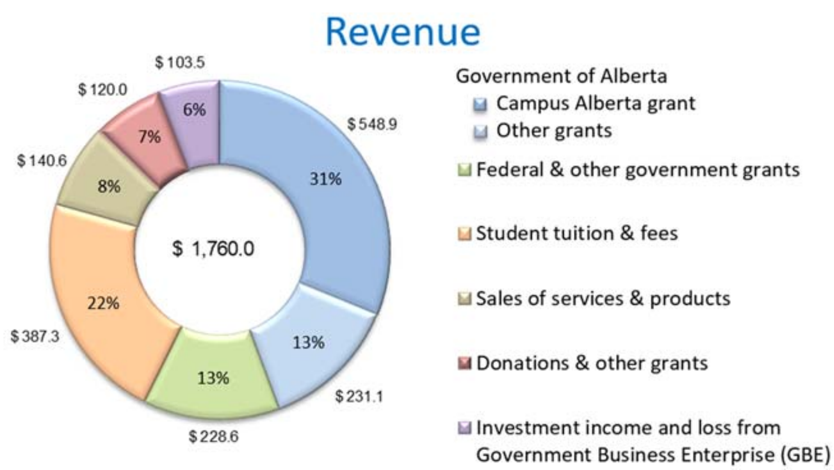
The consolidated financial statement discussion and analysis provides an overview of the university's:

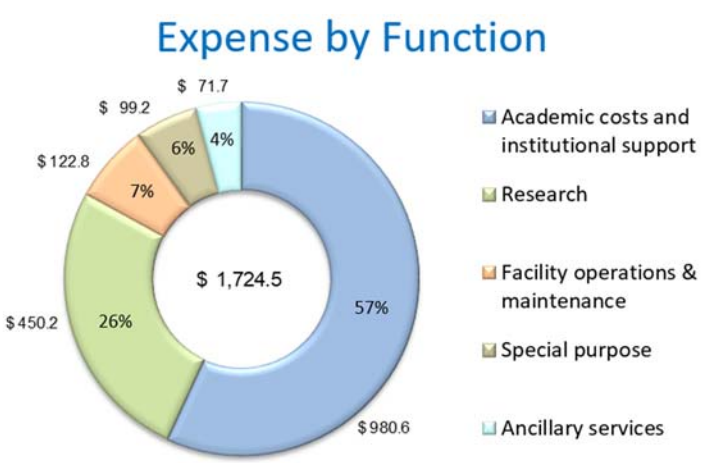
- Summary of Financial Results
- Revenue and Expense
- Capital Acquisitions
- Net Assets and Net Debt
- Areas of Significant Financial Risk

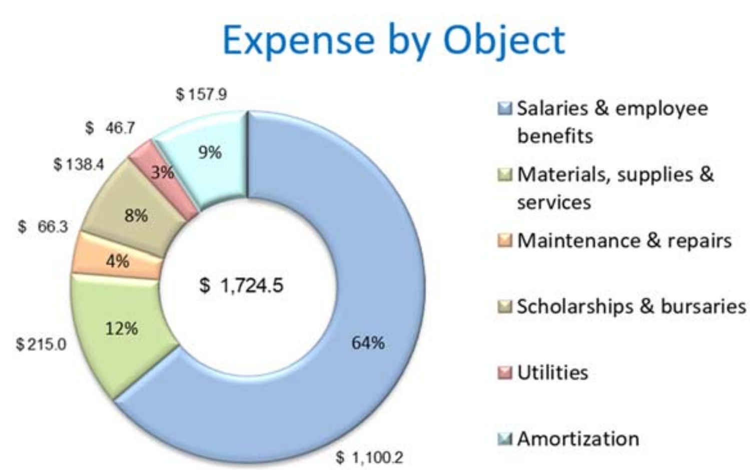
Summary of Financial Results

The university ended the year with an annual surplus of $53.7 million. Of this amount $18.2 million are donations directed to endowments and endowment capitalized investment income and therefore are not available for spending. The annual operating surplus was $35.5 million; 2.0% of total revenue (budget annual operating surplus: $1.0 million; 0.1% of total revenue). The increase of $75.7 million from the prior year annual operating deficit of $40.2 million was primarily due to an increase in investment income earned, lower salary expense due to a decrease in the number of support and temporary staff and lower materials and supplies expense due to staff working remotely. The decrease in these operating expenses can be attributed to both the Service Excellence Transformation (SET) administrative restructuring that the university has begun under the UofA for Tomorrow initiative, and the impact of the COVID-19 pandemic. These favorable results were partially offset by a reduction in the campus Alberta operating grant and lower sales revenue from parking and student residences due to the impact of the COVID-19 pandemic.

Net assets of $2,407.9 million increased from the prior year (2020: $1,982.8). The increase is mainly due to an increase in the fair value of endowments along with the increase in the annual surplus.

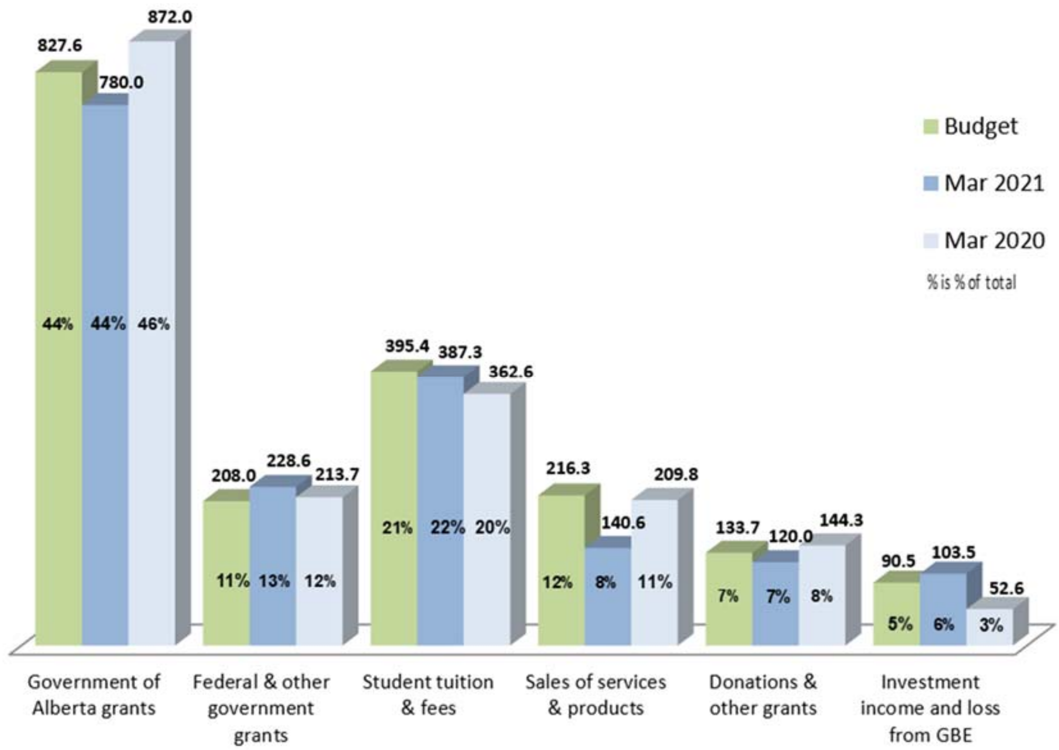






Revenue

Total revenue for the year was $1,760.0 million, a decrease of $95.0 million over the prior year and $111.5 million (6.0%) less than budget.



Government of Alberta grants

Government of Alberta grants (GoA) represent the single largest source of funding for university activities at 44% of total revenue. GoA grant revenue of $780.0 million was $92.0 million lower than prior year and $47.6 million lower than budget. The decrease over prior year is mainly due to a 10.5 percent reduction in the Campus Alberta operating grant ($65.9 million) and lower spending on restricted funded projects due to the COVID-19 pandemic ($68.3 million), partially offset by the resumption of the Infrastructure Maintenance Program grant ($34.9 million) and new restricted capital funding ($16.0 million). The decrease compared to budget is mainly due to lower spending on restricted funded projects due to the COVID-19 pandemic ($50.1 million), lower restricted grant project funding ($14.4 million) partially offset by unbudgeted new restricted capital funding ($16.0 million).

Federal and other government grants

Federal and other government grants primarily support the university's research activities. Federal and other government grants revenue of $228.6 million was $15.4 million higher than prior year and $20.6 million higher than budget. The increase over prior year and the budget is due to increased research funding from the Government of Canada, mainly funding for research on COVID-19.

Student tuition and fees

Student tuition and fees includes instructional fees, market modifiers, program differential fees, international student fees, and mandatory non-instructional fees. Student tuition and other fees revenue of $387.3 million was $24.7 million higher than prior year but $8.1 million lower than budget. The increase over prior year was mainly due to an increase of 7.0% in domestic tuition along with an increase of 4.0% in international differential tuition fees. The decrease compared to budget is mainly due to an increase in the tuition deferral due to the winter term starting one week later in January resulting in an increase in the number of teaching days for the winter term occurring in fiscal year 2022.

Sales of services and products

Sales of services and products revenues are generated by ancillary services and faculties and administrative units to both individuals and external organizations to support university activities. Sales of services and products revenue of $140.6 million was $69.2 million lower than prior year and $75.7 million lower than budget. The decrease over prior year and to the budget was mainly due to lower revenues from parking and student residences as a result of the COVID-19 pandemic.

Donations and other grants

Donations and other grants support many university activities. Donations and other grants revenue of $120.0 million was $24.3 million less than prior year and $13.7 million less than budget. The decrease over prior year and when compared to budget is mainly due to lower spending on restricted funding projects due to the COVID-19 pandemic, and therefore less revenue recognized.

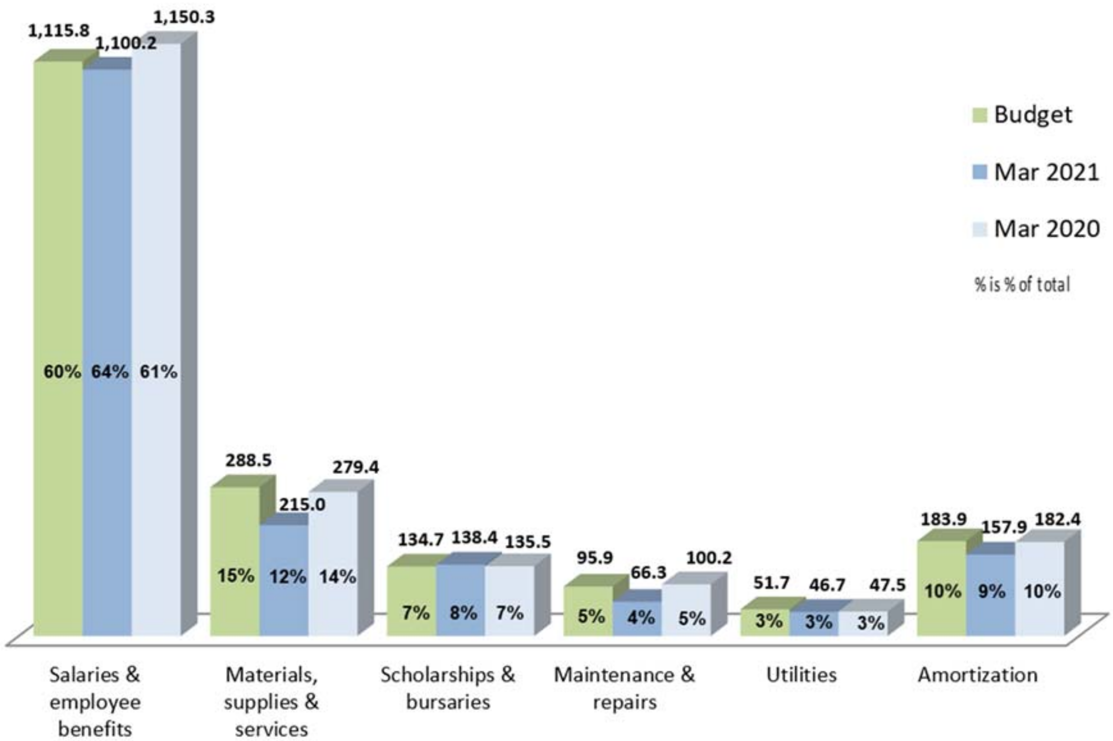
Investment income and loss from Government Business Enterprises (GBE)

Investment income supports many university activities. Investment income revenue, including the loss from GBE, of $103.5 million was $50.9 million higher than prior year and $13.0 million higher than budget. The increase over prior year and the favorable to budget was due to higher realized gains on disposal of investments and higher bond returns. Investments fall into two categories, the University Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP). The UEP had a return of 27.7% (2020: 10.2% loss) and represents the majority of the university's long-term investment strategy. The NEIP investments which are allocated to short-term, mid-term and long-term investment strategies had a return of 12.4% (2020: 1.3% loss). In 2015 the university established a wholly owned government business enterprise, University of Alberta Properties Trust Inc. (UAPTI) to act as trustee for the University of Alberta Properties Trust. During the year, the trust commenced operations and recorded a loss of $0.2 million.

Expense

Total expense for the year was $1,724.5 million, a decrease of $170.8 million over the prior year and $146.0 million (7.8%) less than budget. Salaries and employee benefits are the single largest expense representing 64% of total expense. Overall, the decrease in expenses can be attributed to administrative changes under the SET program of the UofA for Tomorrow initiative along with the COVID-19 pandemic.

Expense by Object



Salaries and employee benefits

Salaries and employee benefits of $1,100.2 million was $50.1 million less than prior year and $15.6 million less than budget. The decrease over prior year is mainly due to a decrease in the number of support staff and temporary academic staff can be attributed to the funding cut in the Campus Alberta base operating grant. The decrease compared to budget is mainly due to lower than budgeted severance costs.

Materials, supplies and services

Materials, supplies and services of $215.0 million was $64.4 million less than prior year and $73.5 million less than budget. The decrease over prior year and when compared to budget is mainly due to lower travel and lower supplies required due to staff working remotely due to the COVID-19 pandemic.

Maintenance and repairs

Maintenance and repairs of $66.3 million was $33.9 million less than prior year and $29.6 million less than budget. The decrease over prior year was mainly due to a reduction in the environmental liability for the remediation of the Ellerslie Waste Management site along with reduced janitorial and cleaning costs due to staff working remotely and lower residence occupancy. Maintenance and repairs was less than budget due to lower maintenance work on parking and residence facilities and the reduction in the environmental liability on the Ellerslie Waste Management site, which was not budgeted.

Scholarships and bursaries

Scholarships and bursaries of $138.4 million was $2.9 million more than prior year and $3.7 million more than budget. The increase over prior year and increase over budget was due to funding from endowments and GoA grants for both undergraduate and graduate awards. It needs to be noted that while other areas of the university faced significant cost reductions due to the decrease in the Campus Alberta grant, scholarships to students saw a slight increase. This aligns with the University's goal to attract and support undergraduate and graduate students.

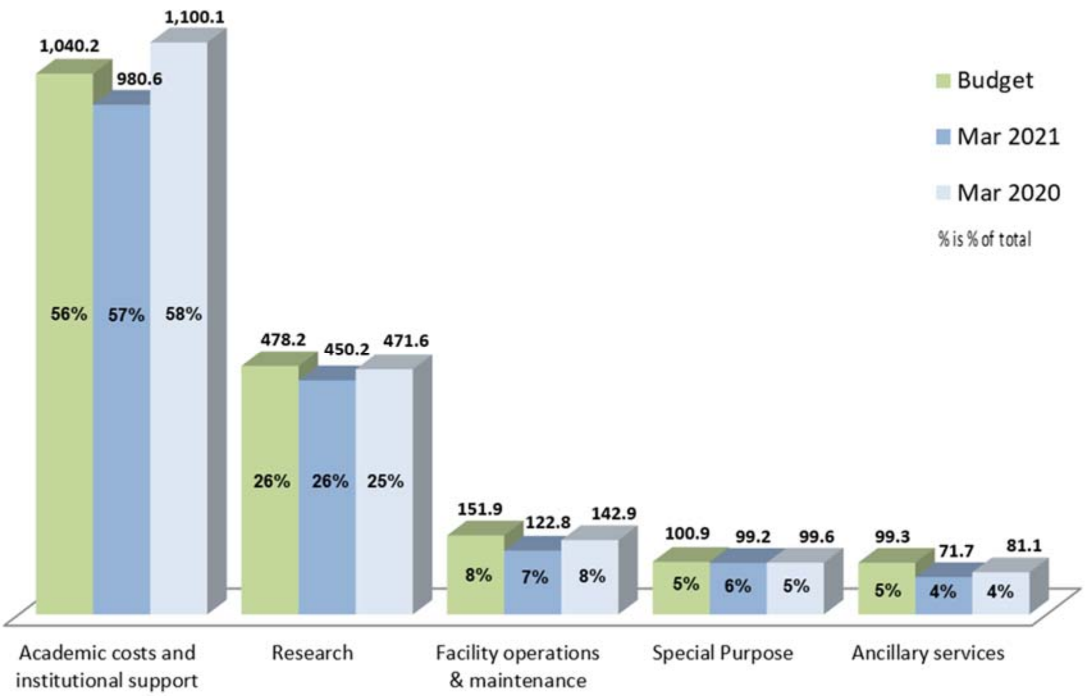
Utilities

Utilities of $46.7 million was $0.8 million less than prior year and $5.0 less than budget. The decrease over prior year and the decrease over budget was due to lower heating and cooling costs of buildings due to staff working remotely.

Amortization

Amortization of $157.9 million was $24.5 million less than prior year and $26.0 million less than budget. The decrease over prior year and the decrease over budget was due to a change in the assessment of the useful life of buildings from 40 years to 50 years.

Expense by Function



Academic costs and institutional support

Academic costs and institutional support expenses effectively represents the operating activities of the university. A significant component of this category is salary and employee benefit costs. Expenses for this category of $980.6 million was $119.5 million less than prior year and $59.6 million less than budget. The decrease over prior year and the decrease over budget can be contributed to a decrease in salaries due to a funding cut in the Campus Alberta base operating grant, a decrease in travel due to the COVID-19 pandemic, and a decrease in amortization expense due to the change in the useful life of buildings from 40 to 50 years.

Research

Research expenses are funded by restricted grants and donations along with internal funds designated for research related activities. Research expenses of $450.2 was $21.4 million less than prior year and was $28.0 million less than budget. The decrease over prior year and the decrease over budget is mainly due to reduced travel due to the COVID-19 pandemic.

Facility operations and maintenance

Facility operations and maintenance represents the cost of maintaining university facilities and grounds. Facility operations and maintenance expense of $122.8 million was $20.1 million less than prior year and $21.9 million less than budget. The decrease over prior year is mainly due to a decrease in environmental liabilities. The decrease over budget was mainly due the decrease in environmental liabilities (which was not budgeted) along with lower maintenance and repairs due to the COVID-19 pandemic.

Special purpose

Special purpose expenses are for student awards and bursaries and other programs involving teaching and learning, and community service specifically funded by restricted grants and donations. Special purpose expense of $99.2 million was $0.4 million less than prior year and $1.7 million less than budget. No one individually significant item is accountable for these variances.

Ancillary services

Ancillary services include the university bookstore, parking services, utilities and student residences. Ancillary services expense of $71.7 million was $9.4 million less than prior year and was $27.6 million less than budget. The decrease over prior year is mainly due to lower maintenance costs for residences due to the COVID-19 pandemic. The decrease over budget can also be attributed to lower maintenance costs for residences, along with lower maintenance costs in parking services.

Capital Acquisitions

The university expended $187.7 million (2020: $157.6) on construction and other tangible capital asset acquisitions.

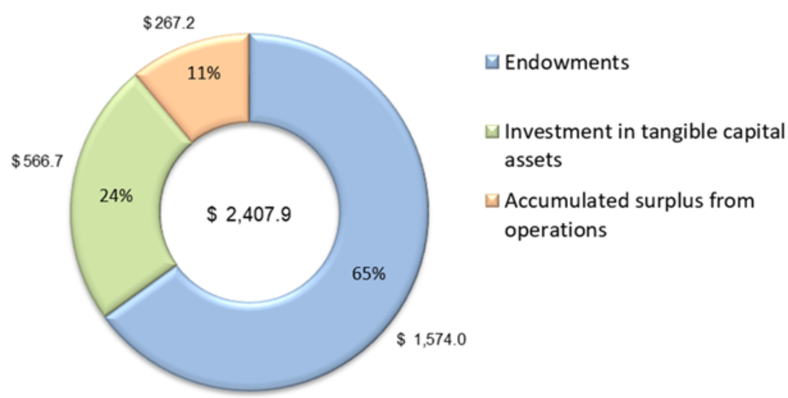
The most significant construction and capital asset acquisitions in 2021 are:

- Dentistry and Pharmacy Renewal and Repurpose - a multi-year project to renovate the Dentistry Pharmacy building.
- Lister Centre renewal – a multi-year project to upgrade three residence towers in the Lister Centre complex.

Net Assets and Net Debt

Net assets

The net asset balance is an important indicator of financial health for the university. The net assets measure provides the economic position of the university from all years of operations. The university's net assets include endowments of $1,574.0 million. Endowments represent contributions from donors that are required to be maintained in perpetuity, as well as capitalized investment income that is also required to be maintained in perpetuity to protect the economic value of the endowment. Endowments are not available for spending. Of the remaining $833.9 million in net assets, $566.7 million represents funds invested in tangible capital assets.



(in millions of dollars)

	Unrestricted	Internally restricted	Investment in tangible capital assets	Endowments	Total
Net assets, beginning of year	$ 89.1	$ 40.1	$ 569.1	$ 1,284.5	$ 1,982.8
Annual operating surplus	35.5	-	-	-	35.5
Endowments contributions and capitalized income	-	-	-	18.3	18.3
Transfer to endowment	(1.3)	-	-	1.3	-
Transfer from endowments	0.7	-	-	(0.7)	-
Tangible capital assets	2.4	-	(2.4)	-	-
Transfer to internally restricted	(14.9)	14.9	-	-	-
Change in accumulated remeasurement gains	100.7	-	-	270.6	371.3
Increase (decrease)	123.1	14.9	(2.4)	289.5	425.1
Net assets, end of year	**$ 212.2**	**$ 55.0**	**$ 566.7**	**$ 1,574.0**	**$ 2,407.9**

The increase in accumulated surplus from operations is mainly due to the annual operating surplus ($35.5) and to an increase in the fair value of portfolio investments causing an increase in the unrealized remeasurement gains ($100.7). The university also transferred $1.3 million from accumulated surplus to endowments for capitalization of unrestricted income and transferred $0.7 million from endowments to accumulated surplus for unfunded endowment expenditures.

The university has an internally restricted investment income reserve ($55.0). The purpose of the reserve is to create a buffer for risk management purposes; that is, to ensure that future financial obligations can be fulfilled in the event of significant investment losses. The reserve target is 17% of the underlying obligations (investment cost), currently $132 million, which allows for fluctuations in capital and equity markets to the degree experienced during the financial crisis in 2008-09. As at March 31, 2021 the market value of the yield and return seeking investments exceed their underlying obligations (cost) by $153 million. Of this amount, $55 million in realized gains have been set aside in an internally restricted investment reserve, the remainder represents unrealized investment gains. Once the reserve target is met, allocations will be made to a Strategic Initiatives Fund that will be used to support long-term institutional goals.

The decrease in investment in tangible capital assets of $2.4 million consists of additions ($76.9) and debt repayments ($16.2), less financing allocation ($34.1) and amortization ($61.4). These additions include construction projects, equipment, furnishings, computer hardware/software and library resources.

The university's endowment spending policy provides for an annual spending allocation (2021: $55.8; 2020: $53.0) to support a variety of key initiatives in the areas of academic programs, chairs and professorships, scholarships, bursaries and research. The increase in endowments of $289.5 million is due to an increase in fair value ($270.6), new contributions ($18.3) and a transfer of miscellaneous sales revenue from unrestricted net assets ($1.3), partially offset by a transfer of endowment principal to unrestricted net assets to cover unfunded endowment expenditures ($0.7). During the year the university's investment income earned from endowment investments was not sufficient to fund the annual spending allocation of $55.8 million (2020 - $53.0) along with the investment management and administration fees of $19.4 million (2020 - $18.8). Total investment income was $70.7 million (2020 - $13.8) leaving an unfunded allocation of $4.5 million (2020 - $58.0). Of this amount, $0.7 million (2020 - $30.5) was spent by the endowment holders and was funded by a transfer from endowments net assets to unrestricted net assets. The remaining $3.8 million (2020 - $27.5) represents unspent allocation per the University Endowment Pool (UEP) Spending policy and is being managed by the university as a future commitment. This brings the total unspent allocation to $31.3 million.

Net debt

The university's liquidity needs are met primarily through operating cash flows, working capital balances and capital expansion funding received through grants or long-term debt. Net financial assets (net debt) is a measure of an organization's ability to use its financial assets to cover liabilities and fund future operations.

The net debt (excluding portfolio investments restricted for endowments) indicates that the university has a $48.8 million deficiency (2020: $168.6). The deficiency can be attributed to the incurrence of prepaid expenses $9.6 (2020 - $9.3), tangible capital assets acquired by debt financing $306.3 (2020 - $288.5), partially offset by the accumulated operating surplus $267.1 (2020 - $129.2). Net debt has decreased mainly due to the annual surplus and unrealized gains on investments.

Areas of Significant Financial Risk

Fiscal Uncertainty

The Campus Alberta grant is the primary source of funding for the university's day-to-day operating activities. Government support continues to be under pressure given the impacts of COVID-19, the drop in oil prices and the province's fiscal outlook. Grants, tuition and other revenue generation initiatives are largely under government control, which puts significant pressure on university finances. The impact to university revenue of a 1% change to the Campus Alberta base operating grant is $5.5 million and a 1% change to domestic tuition is $2.0 million.

In response to the pressures on provincial funding, during the year the university started the implementation of a major structural reorganization under the U of A for Tomorrow initiative. This two pronged reorganization strategy consists of both academic and administrative restructuring. It is anticipated that once restructuring has been completed overall cost savings of approximately $130 million will be realized.

The COVID-19 pandemic has a large impact in how the university conducts its operations. The major operational change was the change to on-line delivery of instructional courses to students and the majority of staff working remotely. The university saw significant negative impact on its ancillary revenues – mainly in residences and parking services. This reduction in revenue was partially offset by a reduction in travel, materials and supplies, and reduced maintenance due to health restrictions in place. The university is planning and hopeful to be able to return to in-person learning and to have staff working on campus in the fall of 2021. The liquidity position of the university remains strong so there are no immediate cash flow concerns.

Unfunded Pension Liability

The university participates with other Alberta post-secondary institutions in the Universities Academic Pension Plan (UAPP) to provide pensions for the university's participating employees. The unfunded deficiency in the UAPP is currently being funded by a combination of employee and employer contributions and the Government of Alberta. The deficiency is required to be eliminated by 2043. At March 31, 2021, based on actuarial assumptions, the university has recorded a UAPP employee future benefit liability of approximately $127 million.

The impact to the university's share of the unfunded liability of a 1% increase in the inflation rate assumption would be an increase of approximately $76 million, a 1% increase in the salary escalation assumption would be an increase of approximately $17 million, while a decrease of 1% in the discount rate assumption would lead to an increase of approximately $169 million.

Deferred Maintenance

As the largest and oldest post-secondary institution in the province, the university's deferred maintenance obligations continue to increase. As of December 2020, the liability stood at $385 million and is estimated to increase to approximately $1.038 billion over the next five years. As part of the fiscal 2021 budget, the government re-established the Infrastructure Maintenance Program (IMP) grant ($35 million) which is a main source of funding in dealing with the deferred maintenance issue. The university continues to identify and address priority deferred maintenance issues through joint renewal and repurposing projects to maintain the functionality of our building inventory.

STATEMENT OF MANAGEMENT RESPONSIBILITY - DRAFT
YEAR ENDED MARCH 31, 2021

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, 2021 and the results of its operations, remeasurement gains and losses, changes in net financial assets and cash flows 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 and Risk Committee. With the exception of the President, all members of the Audit and Risk Committee are not employees of the university. The Audit and Risk 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 and Risk Committee, with and without the presence of management.

These consolidated financial statements have been reported on by the Auditor General 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 Bill Flanagan

President and Vice-Chancellor

Original signed by Todd Gilchrist

Vice-President (University Services and Finance)

DRAFT

Independent Auditor's Report

To the Board of Governors of University of Alberta

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of University of Alberta (the Group), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of operations, change in net financial assets, remeasurement gains and losses, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of my report. I am independent of the Group in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the consolidated financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit

evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 31, 2021
Edmonton, Alberta

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION - DRAFT
AS AT MARCH 31, 2021
(thousands of dollars)

	Note	2021	2020
Financial assets excluding portfolio investments restricted for endowments			
Cash and cash equivalents	3	**$ 96,308**	$ 75,343
Portfolio investments - non-endowment	4	**1,220,291**	989,681
Accounts receivable		**136,446**	145,435
Inventories held for sale		**3,325**	1,994
Investment in government business enterprise	7	**(214)**	-
		1,456,156	1,212,453
Liabilities			
Accounts payable and accrued liabilities	8	**190,626**	188,720
Employee future benefit liabilities	9	**233,669**	219,057
Debt	10	**386,084**	403,550
Deferred revenue	11	**694,549**	569,742
		1,504,928	1,381,069
Net debt excluding portfolio investments restricted for endowments		**(48,772)**	(168,616)
Portfolio investments - restricted for endowments	4	**1,573,993**	1,284,568
Net financial assets		**1,525,221**	1,115,952
Non-financial assets			
Tangible capital assets	12	**2,680,949**	2,657,080
Prepaid expenses		**9,614**	9,287
		2,690,563	2,666,367
Net assets before spent deferred capital contributions		**4,215,784**	3,782,319
Spent deferred capital contributions	13	**1,807,927**	1,799,471
Net assets	14	**$ 2,407,857**	$ 1,982,848

Net assets is comprised of:		
Accumulated surplus	**$ 1,967,594**	$ 1,913,944
Accumulated remeasurement gains	**440,263**	68,904
	$ 2,407,857	$ 1,982,848

Contingent assets and contractual rights (note 16 and 18)

Contingent liabilities and contractual obligations (note 17 and 19)

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF OPERATIONS - DRAFT
YEAR ENDED MARCH 31, 2021
(thousands of dollars)

	Note	Budget (Note 21)	2021	2020
Revenue				
Government of Alberta grants	22	$ 827,563	**$ 779,987**	$ 872,029
Federal and other government grants	22	208,037	**228,655**	213,653
Student tuition and fees		395,417	**387,315**	362,593
Sales of services and products		216,284	**140,635**	209,786
Donations and other grants		133,676	**119,957**	144,367
Investment income		90,519	**103,685**	52,596
Investment loss from government business enterprise	7		**(214)**	-
		1,871,496	**1,760,020**	1,855,024
Expense				
Academic costs and institutional support		1,040,163	**980,618**	1,100,086
Research		478,245	**450,162**	471,604
Facility operations and maintenance		151,877	**122,764**	142,927
Special purpose		100,914	**99,235**	99,546
Ancillary services		99,312	**71,748**	81,107
		1,870,511	**1,724,527**	1,895,270
Annual operating surplus (deficit)		$ 985	**35,493**	(40,246)
Endowment contributions	14		**18,059**	25,506
Endowment capitalized investment income	14		**98**	84
			18,157	25,590
Annual surplus (deficit)		$ 985	**53,650**	(14,656)
Accumulated surplus, beginning of year			**1,913,944**	1,928,600
Accumulated surplus, end of year	14		**$ 1,967,594**	$ 1,913,944

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS - DRAFT
YEAR ENDED MARCH 31, 2021
(thousands of dollars)

	Budget (Note 21)	**2021**	2020
Annual surplus (deficit)	$ 985	**$ 53,650**	$ (14,656)
Acquisition of tangible capital assets	(225,201)	**(187,659)**	(157,590)
Proceeds on disposal of tangible capital assets		**5,159**	257
Amortization of tangible capital assets	183,871	**157,883**	182,376
Loss on disposal of tangible capital assets	-	**748**	1,967
Change in prepaid expenses	(166)	**(327)**	(1,169)
Change in spent deferred capital contributions	4,550	**8,456**	(47,716)
Change in accumulated remeasurement gains	58,788	**371,359**	(182,010)
Increase (decrease) in net financial assets	22,827	**409,269**	(218,541)
Net financial assets, beginning of year	1,115,952	**1,115,952**	1,334,493
Net financial assets, end of year	$ 1,138,779	**$ 1,525,221**	$ 1,115,952

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES - DRAFT
YEAR ENDED MARCH 31, 2021
(thousands of dollars)

	Note	2021	2020
Accumulated remeasurement gains, beginning of year		**$ 68,904**	$ 250,914
Unrealized gains (losses) attributable to:			
Portfolio investments - non-endowment:			
Quoted in an active market		**70,446**	(15,794)
Designated at fair value		**48,092**	(25,427)
Portfolio investments - restricted for endowments:			
Quoted in an active market		**273,632**	(38,002)
Designated at fair value		**43,483**	(123,096)
Amounts reclassified to consolidated statement of operations:			
Portfolio investments - non-endowment:			
Quoted in an active market		**(15,058)**	683
Designated at fair value		**(2,747)**	3,659
Portfolio investments - restricted for endowments:			
Quoted in an active market		**(40,114)**	3,767
Designated at fair value		**(6,375)**	12,200
Net change for the year		**371,359**	(182,010)
Accumulated remeasurement gains, end of year	14	**$ 440,263**	$ 68,904

Accumulated remeasurement gains is comprised of:		
Portfolio investments - non-endowment	**$ 105,734**	$ 5,001
Portfolio investments - restricted for endowments	**334,529**	63,903
	$ 440,263	$ 68,904

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF ALBERTA
CONSOLIDATED STATEMENT OF CASH FLOWS - DRAFT
YEAR ENDED MARCH 31, 2021
(thousands of dollars)

	2021	2020
Operating transactions		
Annual surplus (deficit)	**$ 53,650**	$ (14,656)
Add (deduct) non-cash items:		
Amortization of tangible capital assets	**157,883**	182,376
Expended capital recognized as revenue	**(96,455)**	(115,828)
Investment loss from government business enterprise	**214**	-
(Gain) loss on sale of portfolio investments	**(64,294)**	20,309
Loss on disposal of tangible capital assets	**748**	1,967
Increase in employee future benefit liabilities	**14,612**	1,283
Change in non-cash items	**12,708**	90,107
Decrease (increase) in accounts receivable	**12,524**	(341)
(Increase) decrease in inventories held for sale	**(1,331)**	139
Increase in accounts payable and accrued liabilities	**802**	17,177
Increase (decrease) in deferred revenue	**124,807**	(9,016)
Increase in prepaid expenses	**(327)**	(1,169)
Cash provided by operating transactions	**202,833**	82,241
Capital transactions		
Acquisition of tangible capital assets, less in-kind donations	**(183,746)**	(150,112)
Proceeds on disposal of tangible capital assets	**5,159**	257
Cash applied to capital transactions	**(178,587)**	(149,855)
Investing transactions		
Purchases of portfolio investments	**(343,403)**	(403,015)
Proceeds on sale of portfolio investments	**256,590**	398,004
Cash applied to investing transactions	**(86,813)**	(5,011)
Financing transactions		
Debt repayment	**(17,466)**	(15,747)
Debt - new financing		83,500
Increase in spent deferred capital contributions, less in-kind donations	**100,998**	60,634
Cash provided by financing transactions	**83,532**	128,387
Increase in cash and cash equivalents	**20,965**	55,762
Cash and cash equivalents, beginning of year	**75,343**	19,581
Cash and cash equivalents, end of year	**$ 96,308**	$ 75,343

The accompanying notes are an integral part of these consolidated financial statements.

1. Authority and purpose

The Governors of The University of Alberta is a corporation that manages and operates the University of Alberta (the university) under the *Post-secondary Learning Act* (Alberta). All members of the Board of Governors are appointed by either the Lieutenant Governor in Council or the Minister of Advanced Education, with the exception of the Chancellor and President, who are *ex officio* members. Under the *Post-secondary Learning Act*, 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. This tax exemption does not extend to its wholly-owned subsidiary, University of Alberta Properties Trust Inc.

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, amortization of tangible capital assets, and valuation of level 3 portfolio investments 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) Valuation of financial assets and liabilities

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

Cash and cash equivalents - cost
Portfolio investments - fair value and amortized cost
Accounts receivable - lower of cost and net recoverable value
Inventories held for sale - lower of cost and expected net realizable value
Accounts payable and accrued liabilities- cost
Debt - amortized cost
Derivatives - fair value

Unrealized gains and losses from changes in the fair value of financial assets and liabilities are recognized in the consolidated statement of remeasurement gains and losses. When the restricted nature of a financial instrument and any related changes in fair value create a liability, unrealized gains and losses are recognized as deferred revenue.

All financial assets are assessed annually for impairment. Impairment losses are recognized in the consolidated statement of operations. A write-down of a financial asset to reflect a loss that is other than temporary 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. Investment management fees are expensed as incurred. The purchase and sale of cash and cash equivalents and portfolio investments are accounted for using trade-date accounting.

Derivatives are recorded at fair value in the consolidated statement of financial position. Derivatives with a positive or negative fair value are recognized as financial assets or liabilities. Unrealized gains and losses from changes in the fair value of derivatives are recognized in the consolidated statement of remeasurement gains and losses. Upon settlement, the realized gains and losses are reclassified as revenue or expense in the consolidated statement of operations.

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.

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

(c) Revenue recognition

All revenue is 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. If the grants and donations are used to acquire or construct tangible capital assets, revenue will be recognized over the useful life of the tangible capital assets.

Government grants without terms for the use of the grant are recognized as revenue when the university is eligible to receive the funds. Non-government grants and donations with no restrictions 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, materials, and tangible capital assets are recognized at fair value when a fair value can be reasonably determined. Transfers of tangible capital assets from related parties are recognized at the carrying value.

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 recognized at nominal value.

Endowment contributions
Endowment contributions are recognized as revenue in the consolidated statement of operations in the year in which they are received, and are required by donors to be maintained intact in perpetuity.

Investment income
Investment income includes dividends, interest income and realized gains and losses on the sale of portfolio investments. 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.

The endowment spending allocation portion of investment income earned by endowments is recognized as deferred revenue when the terms for use by the endowment create a liability. Investment income earned by endowments in excess of the endowment spending allocation is recognized as revenue in the consolidated statement of operations (realized income) and the consolidated statement of remeasurement gains and losses (unrealized gains and losses), and is capitalized and maintained intact in perpetuity.

(d) Endowments

Endowments consist of:

- Externally restricted contributions 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 (excluding unrealized income) by the endowments in excess of the amount required for spending allocation, which is capitalized to maintain and grow the real value of the endowments. 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.

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

(d) Endowments (continued)

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

- Investment income earned by the endowments to be withheld from distribution to avoid fluctuations in the amounts distributed, generally to regulate the distribution of income earned by the endowments.
- Encroachment on the capital of the endowments to avoid fluctuations in the amounts distributed and generally to regulate the distribution of investment income earned by the endowments 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 accumulated capitalized investment income. However, for individual endowments without sufficient accumulated capitalized investment income, endowment principal is used in that year and is expected to be recovered by future investment income.

(e) Inventories held for sale

Inventories held for sale are measured using the weighted average method.

(f) Tangible capital assets

Tangible capital asset acquisitions are recognized at cost, which includes amounts that are directly related, such as design, construction, development, improvement or betterment of the assets, and costs associated with asset retirement obligations. Cost includes overhead directly attributable to construction and development. Construction in progress is not amortized until after the project is complete and the asset is in service.

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 - 50 years
Equipment, furnishings and systems	5 - 10 years
Learning resources	10 years

In accordance with PSAS, the university reviews on a regular basis the estimated useful life of the remaining unamortized portion of tangible capital assets. During the year the university conducted a review of the estimated useful life of its core buildings and parkades. The review concluded that the useful life for buildings and parkades can be extended from 40 to 50 years and from 18 to 30 years respectively. This change in estimate was applied prospectively and resulted in an approximate $19.7 million reduction in amortization expense in the current year.

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

Intangible assets, works of art, historical treasures and collections are expensed when acquired and not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made.

(g) Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities and non-monetary items included in the fair value category reflect the exchange rates at the consolidated statement of financial position date. Unrealized foreign exchange gains and losses are recognized in the consolidated statement of remeasurement gains and losses.

In the period of settlement, foreign exchange gains and losses are reclassified to the consolidated statement of operations, and the cumulative amount of remeasurement gains and losses is reversed in the consolidated statement of remeasurement gains and losses.

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

(h) 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. The UAPP activity and financial position are 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 recognized 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 plan is charged to expense in full when the event occurs which obligates the university to provide the benefits. The cost of this benefit 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 benefit 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 the executive staff based on years of service and earnings. The expense for this plan 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 executive, academic, and management and professional staff based on years of service and earnings. The expense for these plans 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 staff to accrue a paid leave of absence at the end of their executive appointment. The expense for this plan 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 plan is charged to expense in full when the event occurs which obligates the university to provide the benefit. The cost of this benefit is actuarially determined using the accumulated benefit method and management's best estimate of the period of employee disability.

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

(i) Investment in government partnerships

Proportionate consolidation is used to recognize 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) (7.14% interest) - a joint venture with thirteen 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.

(j) Investment in government business enterprises

Effective March 11, 2015, the university established the University of Alberta Properties Trust Inc. (UAPTI), a wholly-owned government business enterprise (GBE). During the year, UAPTI commenced operations. GBEs are included in the consolidated financial statements using the modified equity method, with equity being computed in accordance with accounting standards applicable to those entities. Under the modified equity method, the accounting policies of the GBEs are not adjusted to conform to those of the university. Thus, the university’s investment in the entity is recorded at acquisition cost and is increased for the proportionate share of post acquisition earnings and decreased by post acquisition losses and distributions received.

(k) Liability for contaminated sites

Contaminated sites are a result of contamination of a chemical, organic or radioactive material, or live organism that exceeds an environmental standard being introduced into soil, water or sediment. Contaminated sites occur when an environmental standard exists and contamination exceeds the environmental standard.

A liability for remediation of contaminated sites from an operation in productive use is recognized net of any expected recoveries when all of the following criteria are met:

- the university has a duty or responsibility to others, leaving little or no discretion to avoid the obligation;
- the duty or responsibility to others entails settlement by future transfer or use of assets, or a provision of services at a specified or determinable date, or on demand; and
- the transaction or events obligating the institution have already occurred.

A liability for remediation of contaminated sites from an operation no longer in productive use, and/or an unexpected event occurs resulting in contamination, is recognized net of any expected recoveries when all of the following criteria are met:

- the university is directly responsible or accepts responsibility;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

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

(l) Expense by function

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

Academic costs and institutional support
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 activities and learning administrative services.

Research
Expenses for research activities funded by externally sponsored research funds intended for specific research purposes as well as internal funds designated for research related spending. Other expenses associated with this function include costs such as research administration and research related amortization.

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.

(m) Funds and reserves

Certain amounts, as approved by the Board of Governors, are set aside in accumulated surplus for future operating and capital purposes. Transfers to/from funds and reserves are an adjustment to the respective fund when approved.

(n) Future accounting changes

In August 2018, the Public Sector Accounting Board (PSAB) issued PS 3280 Asset retirement obligations. This accounting standard has been deferred by PSAB, and is effective for fiscal years starting on or after April 1, 2022. Asset retirement obligations provides guidance on how to account for and report a liability for retirement of a tangible capital asset.

In November 2018, PSAB issued PS 3400 Revenue. This accounting standard has been deferred by PSAB, and is effective for fiscal years starting on or after April 1, 2023. Revenue provides guidance on how to account for and report on revenue, specifically addressing revenue arising from exchange transactions and unilateral transactions.

In November 2020, PSAB issued PSG-8 Purchased intangibles. This accounting guideline is effective for fiscal years starting on or after April 1, 2023. Purchased intangibles provides guidance on how to recognize intangibles as non-financial assets.

Management has not yet adopted these standards, and is currently assessing the impact of these new standards on the consolidated financial statements.

(thousands of dollars)

3. Cash and cash equivalents

	2021	2020
Cash	$ 3,271	$ 26,917
Money market holdings	93,037	48,426
	$ 96,308	$ 75,343

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

4. Portfolio investments

	2021	2020
Portfolio investments - non-endowment	$ 1,220,291	$ 989,681
Portfolio investments - restricted for endowments	1,573,993	1,284,568
	$ 2,794,284	$ 2,274,249

The composition of portfolio investments measured at fair value is as follows:

	2021				2020			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Cash and money market holdings	$ 98,086	$ 309,478	$ -	$ 407,564	$ 81,686	$ 469,590	$ -	$ 551,276
Canadian bonds	-	110,120	-	110,120	-	120,910	-	120,910
Foreign bonds	-	274,499	-	274,499	-	253,630	-	253,630
Canadian equity	357,794	-	-	357,794	204,758	-	-	204,758
Foreign equity	1,074,053	-	-	1,074,053	776,892	-	-	776,892
Hedge funds	-	270,654	-	270,654	-	179,703	-	179,703
Private equity	-	-	156,772	156,772	-	-	92,085	92,085
Private credit	-	-	42,149	42,149	-	-	9,190	9,190
Private real estate	-	-	100,637	100,637	-	-	84,772	84,772
	1,529,933	964,751	299,558	2,794,242	1,063,336	1,023,833	186,047	2,273,216
Other at amortized cost				42				1,033
	$ 1,529,933	$ 964,751	$ 299,558	$ 2,794,284	$ 1,063,336	$ 1,023,833	$ 186,047	$ 2,274,249

The fair value measurements are those derived from:
(1) Quoted prices in active markets for identical assets.
(2) 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).
(3) Valuation techniques that include inputs for the assets that are not based on observable market data.

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

	2021	2020
Balance, beginning of year	$ 186,047	$ 166,803
Unrealized gains (losses)	12,034	(14,008)
Purchases	112,905	52,250
Proceeds on sale	(11,428)	(18,998)
	$ 299,558	$ 186,047

(thousands of dollars)

5. Derivatives

Derivative financial instruments are used by the university to manage its commodity exposure with respect to portfolio investments. All outstanding contracts have a remaining term to maturity of one year or less. As at March 31, 2021, the university held commodity futures contracts for settlement between May 2021 and March 2022, with a notional amount of $38,845 (2020 - no contracts). The fair value of outstanding commodity futures contracts receivable is $3,535 (2020 - $nil) and of commodity futures contracts payables is $1,104 (2020 - $nil).

6. Financial risk management

The university is exposed to the following risks:

Market price risk
Market price 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 standing committee of the Board of Governors, has the delegated authority for oversight of the university's portfolio investments. The university's management of this 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 University Endowment Pool over a five year period as determined by the university's investment performance measurement service provider. At March 31, 2021, if market prices had a 9.0% (2020 - 8.4%) increase or decrease, with all other variables held constant, the increase or decrease in accumulated remeasurement gains for the year would be $176,819 (2020 - $127,531). The economic uncertainty experienced in March 2020 with regards to markets surrounding COVID-19 has abated. Most markets, as measured by major capital market indices, have recovered. Management continues to monitor the situation as uncertainties related to the pandemic and economy continue.

Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The university is exposed to foreign exchange risk on portfolio investments that are denominated in foreign currencies. The university does not hedge its foreign currency exposure with currency forward contracts or any other type of derivative financial instruments. Approximately 82% of the university's foreign currency exposure is in USD (2020 - 77%).

The impact of a change in value of the Canadian dollar against foreign currencies is as follows:

Currency	Fair Value	2.5% decrease	1.0% decrease	1.0% increase	2.5% increase
Foreign currency exposure	$ 1,265,664	$ (31,642)	$ (12,657)	$ 12,657	$ 31,642

Credit risk
Counterparty credit risk is the risk of loss arising from the failure of a counterparty, debtor or issuer to fully honor its financial obligations with the university. The university is exposed to credit risk on investments and has established an investment policy with required minimum credit quality standards and issuer limits to manage this risk. The university's exposure, based on the risk rating of money market holdings and bonds, has not changed significantly year over year.

The credit risk from accounts receivable is low as the majority of balances are due from government agencies and corporate sponsors with small amounts due from students and various vendors. Management has established a provision for receivables and assesses it annually to address any new concerns that may arise. Given the nature of the university's accounts receivable balances, management has assessed that, based on current economic outlook and the impact of COVID-19 over the past year, the change to expected credit losses is not considered material. Management continues to monitor the situation.

The distribution of money market holdings and bonds by risk rating is as follows:
- Money market holdings: R-1(high) 80.4% (2020 - 72.9%); R-1(mid) 16.4% (2020 - 27.1%); R-1(low) 3.2% (2020 - 0.0%).
- Bonds: AAA 46.8% (2020 - 54.3%); AA 6.2% (2020 - 5.2%); A 10.8% (2020 - 10.3%); BBB 18.8% (2020 - 19.9%); below BBB and not rated 17.4% (2020 - 10.3%).

(thousands of dollars)

6. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the university will encounter difficulty in meeting obligations associated with its financial liabilities. 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 of $20,000 (2020 - $20,000) to ensure that funds are available to meet current and forecasted financial requirements. In 2021, the line of credit was not drawn upon (2020 - not drawn upon). The university believes, based on its assessment of future cash flows that have incorporated the effects of COVID-19, it will have access to sufficient capital through internally generated cash flows, external sources and the undrawn short-term line of credit to meet current spending forecasts. Management continues to monitor the university's liquidity position on a regular basis.

Interest rate risk

Interest rate risk is the risk that the university's earnings will be affected by the fluctuation and degree of volatility in interest rates. This risk is managed by investment policies that limit the term to maturity of certain fixed income instruments that the university holds. If interest rates increase by 0.25% (2020 - 0.25%), and all variables are held constant, the potential loss in fair value to the university would be approximately $5,053 (2020 - $5,420). Interest rate risk on the university's debt is managed through fixed rate agreements with the Department of Treasury Board and Finance (note 10).

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

	< 1 year	**1 - 5 years**	**> 5 years**	**Average effective market yield**
	%	%	%	%
Money market holdings	100.0	-	-	0.5
Canadian government, corporate and foreign bonds	21.5	33.5	45.0	2.4

7. Investment in government business enterprises

UAPTI is a wholly-owned subsidiary of the university. UAPTI operates as a trustee of the University of Alberta Properties Trust ("the trust"), which will lease land to developers for the purpose of residential and commercial development. The university is the beneficiary of the trust and will receive distributions from the trust once leases are in place with developers and net proceeds are available.

The following table provides condensed supplementary financial information for the investment in government business enterprise owned by the university as at December 31.

Statement of Financial Position:

	2020	2019
Liabilities		
Accounts payable and accrued liabilities	**$ 7**	$ -
Amount due to the University of Alberta	**207**	-
	214	-
Equity		
Deficit	**(214)**	-
	$ -	$ -

Statement of Operations:

	2020	2019
Revenue	**$ -**	$ -
Expense	**214**	-
Net loss	**$ (214)**	$ -

(thousands of dollars)

8. Accounts payable and accrued liabilities

	2021	2020
Trade payables	**$ 85,877**	$ 89,555
Accrued liabilities	**64,672**	55,381
Vacation liability	**32,534**	30,510
Environmental liability	**6,500**	13,274
Contaminated sites	**1,043**	-
	$ 190,626	$ 188,720

9. Employee future benefit liabilities

	2021			2020		
	Academic staff	**Support staff**	**Total**	Academic staff	Support staff	Total
Universities Academic Pension Plan	**$ 127,066**	**$ -**	**$ 127,066**	$ 115,671	$ -	$ 115,671
Long-term disability	**10,814**	**27,419**	**38,233**	10,708	27,203	37,911
Early retirement	**-**	**26,924**	**26,924**	-	26,728	26,728
SRP (defined contribution)	**33,829**	**-**	**33,829**	29,688	-	29,688
SRP (defined benefit)	**5,615**	**-**	**5,615**	6,328	-	6,328
Administrative/professional leave	**914**	**-**	**914**	1,194	-	1,194
General illness	**560**	**528**	**1,088**	716	821	1,537
	$ 178,798	**$ 54,871**	**$ 233,669**	$ 164,305	$ 54,752	$ 219,057

(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, 2018 and was then extrapolated to March 31, 2021, resulting in a UAPP deficit of $817,447 (2020 - $1,304,243) consisting of a pre-1992 deficit of $832,342 (2020 - $885,533) and a post-1991 surplus of $14,895 (2020 - deficit of $418,710). 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 deficiency for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2020 - 1.25%) of salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 3.04% (2020 - 2.90%) of salaries required to eliminate the unfunded deficiency by December 31, 2043. The Government of Alberta's obligation for the future additional contributions is $249,339 (2020 - $267,201) at March 31, 2021.

The following special payments apply to the post-1991 period, and are shared equally between employees and employers:

- 3.24% of salaries until December 31, 2021 (2020 - 3.38% of salaries until June 30, 2020, then 3.24% of salaries until December 31, 2021)
- 1.71% (2020 - 1.71%) of salaries for 2022 and 2023
- 0.70% (2020 - 0.70%) of salaries for 2024 and 2025
- 0.25% (2020 - 0.25%) of salaries for 2026 and 2027

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. An actuarial valuation of these benefits was carried out as at March 31, 2021. The long-term disability plan provides 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).

(thousands of dollars)

9. Employee future benefit liabilities (continued)

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

Early retirement
The early retirement benefits for support staff include a bridge benefit (2021 - $19,117; 2020 - $19,204) and a retirement allowance (2021 - $7,807; 2020 - $7,524). An actuarial valuation of these benefits was carried out as at March 31, 2021. The bridge benefit allows eligible employees who retire early to continue participating in several staff benefit programs between the date of early retirement and the end of the month in which the former 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.

Supplementary retirement plan (SRP)
The university provides a non-contributory defined benefit supplementary retirement benefit to executive. The SRP obligation is calculated based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries, which management has adopted as their best estimate. An actuarial valuation of these benefits was carried out as at March 31, 2021. The SRP was closed to new members effective June 30, 2014, as part of the approval of the new defined contribution SRP for executives.

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, which management has adopted as their best estimate. An actuarial valuation of these benefits was carried out as at March 31, 2021.

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

	2021				2020			
	UAPP	**LTD, GI** (1)	**Early retirement** (1)	**SRP, leave** (1)	UAPP	LTD,GI (1)	Early retirement (1)	SRP, leave (1)
Expense								
Current service cost	**$ 48,434**	**$ 15,384**	**$ 969**	**$ 184**	$ 48,489	$ 17,815	$ 929	$ 349
Interest cost, net of earnings	**15,198**	**1,881**	**771**	**252**	10,955	1,812	749	317
Amortization of actuarial losses (gains)	**13,207**	**794**	**(547)**	**(4)**	6,019	328	(588)	79
	$ 76,839	**$ 18,059**	**$ 1,193**	**$ 432**	$ 65,463	$ 19,955	$ 1,090	$ 745
Liability								
Accrued benefit obligation								
Balance, beginning of year	**$ 1,396,194**	**$ 42,653**	**$ 19,618**	**$ 7,034**	$ 1,327,412	$ 38,136	$ 19,095	$ 9,564
Current service cost	**48,434**	**15,384**	**969**	**184**	48,489	17,815	929	349
Interest cost	**79,065**	**1,881**	**771**	**252**	75,406	1,812	749	317
Benefits paid	**(65,516)**	**(18,186)**	**(997)**	**(1,425)**	(58,743)	(17,854)	(1,110)	(3,162)
Actuarial losses (gains)	**79,891**	**(210)**	**(3,609)**	**(36)**	3,630	2,744	(45)	(34)
Balance, end of year	**1,538,068**	**41,522**	**16,752**	**6,009**	1,396,194	42,653	19,618	7,034
Plan assets	**(1,398,043)**	**-**	**-**	**-**	(1,140,526)	-	-	-
Plan deficit	**140,025**	**41,522**	**16,752**	**6,009**	255,668	42,653	19,618	7,034
Unamortized actuarial (losses) gains	**(12,959)**	**(2,201)**	**10,172**	**520**	(139,997)	(3,205)	7,110	488
Accrued benefit liability	**$ 127,066**	**$ 39,321**	**$ 26,924**	**$ 6,529**	$ 115,671	$ 39,448	$ 26,728	$ 7,522

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

(thousands of dollars)

9. Employee future benefit liabilities (continued)

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

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

	2021			2020		
	UAPP	**SRP, leave**	**LTD, GI, early retirement**	UAPP	SRP, leave	LTD, GI, early retirement
	%	%	%	%	%	%
Accrued benefit obligation						
Discount rate	**5.2**	**3.6**	**3.6**	5.6	3.8	3.8
Long-term average compensation increase	**3.0**	**2.0**	**2.0**	3.0	3.0	3.0
Benefit cost						
Discount rate	**5.6**	**3.8**	**3.6**	5.6	3.9	3.8
Long-term average compensation increase	**3.0**	**3.0**	**2.0**	3.0	3.0	3.0
Alberta inflation (long-term)	**2.0**	**2.0**	**2.0**	2.0	2.0	2.0
Estimated average remaining service life	**10.6 yrs**	**Note(1)**	**1 - 9 yrs**	10.6 yrs	Note(1)	1 - 13 yrs

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

(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 recognized in these consolidated financial statements is $27,278 (2020 - $29,602).

An actuarial valuation of the PSPP was carried out as at December 31, 2019 and was then extrapolated to December 31, 2020. At December 31, 2020, the PSPP reported an actuarial surplus of $2,223,582 (2019 - surplus of $2,759,320). For the year ended December 31, 2020 PSPP reported employer contributions of $323,497 (2019 - $321,306). For the 2020 calendar year, the university's employer contributions were $27,932 (2019 calendar year - $29,728).

(c) Defined contribution plans

Supplementary retirement plans (SRP)
The university provides non-contributory defined contribution supplementary retirement benefits to eligible executive and academic staff members. The expense recognized in these consolidated financial statements is $6,685 (2020 - $4,680).

(thousands of dollars)

10. Debt

The following debt is with the Department of Treasury Board and Finance:

	Maturity Date	Weighted average interest rate %		2021		2020
Collateral						
Title to land, building	August 2024 - March 2048	3.726	**$**	**178,689**	$	185,918
Cash flows from facility	September 2028 - December 2047	5.011		**39,194**		41,988
General Security Agreement	December 2028 - June 2049	2.922		**155,238**		161,470
None	December 2025 - September 2036	4.733		**12,963**		14,174
Balance, end of year			**$**	**386,084**	$	403,550

Interest expense on debt recognized in these consolidated financial statements is $13,199 (2020 - $13,380).

Land and buildings pledged as collateral have a net book value of $274,701 (2020 - $283,262).

Principal and interest payments are as follows:

		Principal		Interest		Total
2022	$	16,678	$	13,650	$	30,328
2023		17,336		12,991		30,327
2024		18,024		12,304		30,328
2025		18,741		11,587		30,328
2026		18,024		10,839		28,863
Thereafter		297,281		97,732		395,013
	$	386,084	$	159,103	$	545,187

11. Deferred revenue

		2021						2020
		Unspent externally restricted grants and donations		**Student tuition and other revenue**		**Total**		Total
Balance, beginning of year	**$**	**536,542**	**$**	**33,200**	**$**	**569,742**	$	578,758
Net change for the year								
Grants, donations, endowment spending allocation and tuition		**703,444**		**421,115**		**1,124,559**		910,337
Transfers to spent deferred capital contributions		**(104,911)**		**-**		**(104,911)**		(68,112)
Recognized as revenue		**(501,599)**		**(393,242)**		**(894,841)**		(851,241)
Net change for the year		**96,934**		**27,873**		**124,807**		(9,016)
Balance, end of year	**$**	**633,476**	**$**	**61,073**	**$**	**694,549**	$	569,742

(thousands of dollars)

12. Tangible capital assets

	2021					2020
	Buildings and utilities	**Equipment, furnishings and systems**	**Learning resources**	**Land**	**Total**	Total
Cost						
Beginning of year	**$ 3,701,957**	**$ 1,339,177**	**$ 490,165**	**$ 84,027**	**$ 5,615,326**	$ 5,493,009
Acquisitions	**108,930**	**57,783**	**20,946**	**-**	**187,659**	157,590
Disposals	**(3,993)**	**(6,326)**	**(7,235)**	**(2,420)**	**(19,974)**	(35,273)
	3,806,894	**1,390,634**	**503,876**	**81,607**	**5,783,011**	5,615,326
Accumulated amortization						
Beginning of year	**1,511,283**	**1,075,069**	**371,894**	**-**	**2,958,246**	2,808,919
Amortization expense	**74,625**	**61,435**	**21,823**	**-**	**157,883**	182,376
Disposals	**(890)**	**(5,942)**	**(7,235)**	**-**	**(14,067)**	(33,049)
	1,585,018	**1,130,562**	**386,482**	**-**	**3,102,062**	2,958,246
Net book value, March 31, 2021	**$ 2,221,876**	**$ 260,072**	**$ 117,394**	**$ 81,607**	**$ 2,680,949**	$ 2,657,080
Net book value, March 31, 2020	$ 2,190,674	$ 264,108	$ 118,271	$ 84,027	$ 2,657,080	

Included in buildings and utilities is $152,633 (2020 - $68,683) recognized as construction-in-progress, which is not amortized as the assets are not in service.

Acquisitions include in-kind donations in the amount of $3,913 (2020 - $7,478).

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

13. Spent deferred capital contributions

Spent deferred capital contributions is comprised of externally restricted grants and donations spent on tangible capital assets, less amortization recognized as revenue.

	2021	2020
Balance, beginning of year	**$ 1,799,471**	$ 1,847,187
Net change for the year		
Transfers from unspent externally restricted grants and donations	**104,911**	68,112
Expended capital recognized as revenue	**(96,455)**	(115,828)
Net change for the year	**8,456**	(47,716)
Balance, end of year	**$ 1,807,927**	$ 1,799,471

(thousands of dollars)

14. Net assets

	Unrestricted	Investment in tangible capital assets	Internally restricted	Endowments	Total
Net assets, March 31, 2019	$ 138,328	$ 553,831	$ 55,051	$ 1,432,304	$ 2,179,514
Annual operating deficit	(40,246)	-	-	-	(40,246)
Transfer from internally restricted	15,000	-	(15,000)	-	-
Endowments					
New contributions	-	-	-	25,506	25,506
Capitalized investment income	-	-	-	84	84
Transfer to endowments	(2,327)	-	-	2,327	-
Transfer from endowments	30,522	-	-	(30,522)	-
Tangible capital assets					
Acquisitions	(87,313)	87,313	-	-	-
Debt repayment	(14,564)	14,564	-	-	-
Debt - financing allocation	20,024	(20,024)	-	-	-
Amortization	66,548	(66,548)	-	-	-
Change in accumulated remeasurement gains	(36,879)	-	-	(145,131)	(182,010)
Net assets, March 31, 2020	**$ 89,093**	**$ 569,136**	**$ 40,051**	**$ 1,284,568**	**$ 1,982,848**
Annual operating surplus	**35,493**	**-**	**-**	**-**	**35,493**
Transfer to internally restricted	**(14,949)**	**-**	**14,949**	**-**	**-**
Endowments					
New contributions	**-**	**-**	**-**	**18,059**	**18,059**
Capitalized investment income	**-**	**-**	**-**	**98**	**98**
Transfer to endowments	**(1,308)**	**-**	**-**	**1,308**	**-**
Transfer from endowments	**666**	**-**	**-**	**(666)**	**-**
Tangible capital assets					
Acquisitions	**(76,902)**	**76,902**	**-**	**-**	**-**
Debt repayment	**(16,233)**	**16,233**	**-**	**-**	**-**
Debt - financing allocation	**34,125**	**(34,125)**	**-**	**-**	**-**
Amortization	**61,428**	**(61,428)**	**-**	**-**	**-**
Change in accumulated remeasurement gains	**100,733**	**-**	**-**	**270,626**	**371,359**
Net assets, March 31, 2021	**$ 212,146**	**$ 566,718**	**$ 55,000**	**$ 1,573,993**	**$ 2,407,857**

Net assets is comprised of:

	Unrestricted	Investment in tangible capital assets	Internally restricted	Endowments	Total
Accumulated surplus	$ 106,412	$ 566,718	$ 55,000	$ 1,239,464	$ 1,967,594
Accumulated remeasurement gains [1]	105,734	-	-	334,529	440,263
	$ 212,146	**$ 566,718**	**$ 55,000**	**$ 1,573,993**	**$ 2,407,857**

(1) Accumulated remeasurement gains are unrealized gains which are not recognized as revenue until realized.

(thousands of dollars)

14. Net assets (continued)

Internally restricted net assets

Internally restricted net assets represent amounts set aside by the university's Board of Governors for an investment income reserve to ensure that future obligations can be fulfilled in the event of significant investment losses. This amount is not available for other purposes without the approval of the Board and does not have interest allocated to it.

	2021	2020
Investment income reserve	**$ 55,000**	$ 40,051

The university's investment income earned from endowment investments was not sufficient to fund the current year's endowment spending allocation. Investment income earned was $70,682 (2020 - $13,822) leaving an unfunded allocation of $4,514 (2020 - $58,044). Of that amount, $666 (2020 - $30,522) was spent by endowment holders. As such, the university recorded a temporary encroachment on its endowment net assets of $666 (2020 - $30,522). As at March 31, 2021, the university has a cumulative temporary encroachment balance of $31,188 (2020 - $30,522).

The university also has a cumulative future commitment of $31,370 (2020 - $27,522) representing the unspent allocation provided per the University Endowment Pool (UEP) Spending policy. Since this $31,370 represents a future commitment at March 31, 2021, it has not been recorded in the consolidated financial statements.

15. Liability for contaminated sites

The university recognized an estimated liability of $1,043 (2020 - $nil) for the remediation and monitoring of hydrocarbon and salt contaminants on a contaminated site resulting from a liner leak in a wastewater pond. The estimate was determined based on professional assessment of the clean-up required for the site. The balance is recorded in accounts payable and accrued liabilities. The site’s remediation cost was previously recorded as an environmental liability but during the current year was no longer considered to be in productive use. No additional contaminated sites were identified in the year.

16. Contingent assets

The university has initiated a number of insurance claims arising in the normal course of business in which the outcomes may result in assets in the future. While the outcomes of these claims cannot be reasonably estimated at this time, the university believes that any settlement will not have a material effect on the financial position or the results of operations of the university. These contingent assets are not recognized in the consolidated financial statements.

17. 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 recognizing 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 facilities will be recognized 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.

(thousands of dollars)

18. Contractual rights

Contractual rights are rights of the university to economic resources arising from contracts or agreements that will result in both assets and revenues in the future when the terms of those contracts or agreements are met.

Estimated amounts that will be received or receivable for each of the next five years and thereafter are as follows:

	Operating leases	Other contracts	Total
2022	$ 1,793	$ 2,863	**$ 4,656**
2023	1,150	2,815	**3,965**
2024	697	2,761	**3,458**
2025	465	2,276	**2,741**
2026	204	742	**946**
Thereafter	159	3,776	**3,935**
	$ 4,468	**$ 15,233**	**$ 19,701**
Total at March 31, 2020	$ 4,896	$ 15,244	$ 20,140

In the prior year, the university entered into a 25 year lease to provide space to an entity under common control for a nominal amount. The remaining fair value over the lease term is estimated to be $6,520 (2020 - $6,797).

The university also has contractual rights which cannot be reasonably estimated due to the nature of the individual agreements. The total of these rights is not material.

19. 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 is as follows:

	Capital projects	Service contracts	Long-term leases	Total
2022	$ 191,920	$ 81,798	$ 2,374	**$ 276,092**
2023	83,677	23,841	2,080	**109,598**
2024	57,261	13,706	1,977	**72,944**
2025	-	12,129	1,324	**13,453**
2026	-	4,530	789	**5,319**
Thereafter	-	156	1,029	**1,185**
	$ 332,858	**$ 136,160**	**$ 9,573**	**$ 478,591**
Total at March 31, 2020	$ 415,707	$ 96,267	$ 13,081	$ 525,055

19. Contractual obligations (continued)

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 three contracts (2020 - two contracts) with expenditures totaling $10,472 (2020 - $7,199) expire over the next two years.

- Effective August 1, 2020, the university entered into an agreement with an external party for dining and catering services. The agreement has four years remaining with a total estimated cost of $44,990 (2020 - $3,467).

- The university entered into agreements with two external parties for information technology support. The first agreement, effective July 1, 2020 for infrastructure management services, has two months remaining with a cost of $664 (2020 - $934, three months remaining). The second agreement, effective July 1, 2019 for application management services, has three months remaining with a cost of $734 (2020 - $3,667). One external party will be used for infrastructure (renewal effective June 1, 2021) and application management services (new agreement is effective July 1, 2021).

- Effective August 1, 2019, the university entered into an agreement with an external party for custodial services. The agreement has four months remaining with a cost of $2,373 (2020 - $13,032). The agreement will be renewed effective August 1, 2021.

(b) The university is one of 64 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, 2020, CURIE had an accumulated surplus of $99,449 (2019 - $90,185), of which the university's pro rata share is approximately 7.36% (2020 - 7.33%). This accumulated surplus is not recognized in the consolidated financial statements.

20. Related parties

The university is a related party to organizations within the Government of Alberta reporting entity. Related parties also include key management personnel, including the Board of Governors, and their close family members. Transactions with these entities and individuals are considered to be in the normal course of operations and are recorded at the exchange amount.

The university utilizes space provided by other related parties, mainly Alberta Health Services. This space is provided at a nominal cost. Due to the unique physical and operating arrangements in place, the specialized nature of the space and the integrated nature of operations, the fair value of these lease arrangements cannot be reasonably determined.

The university has debt with the Department of Treasury Board and Finance as described in note 10.

21. Budget

The university's 2020-21 budget was approved by the Board of Governors and submitted to the Minister of Advanced Education.

(thousands of dollars)

22. Government transfers

	2021	2020
Government of Alberta grants		
Advanced Education - Campus Alberta grant	**$ 560,964**	$ 626,861
Advanced Education - other grants	**129,191**	80,648
Alberta Health Services - Academic Medicine and Health Sciences Program	**55,476**	60,429
Alberta Health Services - other grants	**5,320**	6,642
Jobs, Economy, and Innovation	**44,410**	44,844
Health	**25,331**	25,081
Other departments and agencies	**9,367**	9,336
	830,059	853,841
Expended capital recognized as revenue	**53,700**	68,147
Deferred revenue	**(103,772)**	(49,959)
	$ 779,987	$ 872,029
Federal and other government grants		
Natural Sciences and Engineering Research Council	**$ 67,620**	$ 55,793
Canadian Institutes of Health Research	**64,691**	38,992
Social Sciences and Humanities Research Council	**33,962**	30,468
Tri-agency Institutional Programs Secretariat	**18,257**	2,953
Canada Research Chairs	**17,352**	15,497
Canadian Foundation for Innovation	**16,888**	13,156
Canada First Research Excellence Fund	**12,139**	12,264
Other	**44,735**	41,097
	275,644	210,220
Expended capital recognized as revenue	**19,499**	19,927
Deferred revenue	**(66,488)**	(16,494)
	$ 228,655	$ 213,653

The university currently holds $11,500 (2020 - $11,553) on behalf of federal and other government agencies. These amounts are not recognized in the university's consolidated financial statements.

23. Expense by object

	2021 Budget (Note 21)	2021	2020
Salaries	$ 916,911	**$ 891,502**	$ 941,083
Employee benefits	198,992	**208,711**	209,241
Materials, supplies and services	288,450	**215,026**	279,345
Scholarships and bursaries	134,735	**138,443**	135,461
Maintenance and repairs	95,881	**66,264**	100,243
Utilities	51,671	**46,698**	47,521
Amortization of tangible capital assets	183,871	**157,883**	182,376
	$ 1,870,511	**$ 1,724,527**	$ 1,895,270

Salaries and employee benefits include accrued termination benefits of $4,331 (2020 - $6,247) and $212 (2020 - $408) respectively.

(thousands of dollars)

24. Salaries and employee benefits

	2021						
	Base salary [7]	**Other cash benefits** [8]	**Non-cash benefits** [9]	**Non-cash benefits (DB SRP)** [10]	**Non-cash benefits (DC SRP)** [11]	**Non-cash benefits (leave)** [12]	**Total**
Governance [1]							
Board of Governors	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Executive							
President [2]	**449**	**47**	**49**	**-**	**51**	**88**	**684**
Provost and Vice-President (Academic) [13]	**415**	**(12)**	**44**	**-**	**52**	**-**	**499**
Vice-President (Research and Innovation) [3]	**283**	**11**	**41**	**-**	**16**	**-**	**351**
Vice-President (Facilities and Operations)	**370**	**9**	**43**	**-**	**33**	**44**	**499**
Vice-President (University Services and Finance) [4]	**402**	**13**	**57**	**-**	**22**	**59**	**553**
Vice-President (External Relations)	**83**	**1**	**14**	**-**	**3**	**10**	**111**
Vice-President (University Relations) [5]	**105**	**59**	**22**	**-**	**5**	**-**	**191**
Vice-President (Advancement) [6]	**154**	**44**	**27**	**-**	**11**	**-**	**236**

	2020						
	Base salary [7]	Other cash benefits [8]	Non-cash benefits [9]	Non-cash benefits (DB SRP) [10]	Non-cash benefits (DC SRP) [11]	Non-cash benefits (leave) [12]	Total
Governance [1]							
Board of Governors	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Executive							
President	500	250	52	31	64	63	960
Provost and Vice-President (Academic) [13]	415	-	44	-	50	-	509
Vice-President (Research and Innovation)	375	10	42	-	26	77	530
Vice-President (Facilities and Operations)	370	9	43	-	28	30	480
Vice-President (Finance and Administration)	375	9	52	-	30	32	498
Vice-President (University Relations) [5]	230	476	34	-	15	13	768
Vice-President (Advancement)	206	74	39	-	16	-	335

During the year, as part of the university's overall U of A for Tomorrow reorganization strategy, changes were made to the senior leadership team. These changes were announced under the Service Excellence Transformation (SET) part of the U of A for Tomorrow strategy. Under this initiative the following changes were announced:

- On July 24, 2020, the university created the new role of Vice-President, External Relations. This role was filled on January 1, 2021.
- On November 3, 2020, the name of the role of Vice-President, Finance and Administration changed to Vice-President, University Services and Finance. During the year three individuals occupied this role, one for the first 6 months, a second for 1 month (in an acting capacity) and the third for the final 5 months of the year.
- On January 1, 2021, the roles of Vice-President, Advancement and Vice-President, University Relations were abolished. The accountabilities of these two positions were moved to the Vice-President, External Relations.

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

(2) In 2021, two individuals held this position for 3 months and 9 months respectively.

(3) In 2021, two individuals held this position, the current one on an interim basis for 11 months. The interim Vice-President did not participate in any executive benefit programs except the DC SRP.

(4) The acting Vice-President did not participate in any executive benefit programs except the DC SRP.

(5) The interim Vice-President, who served in this role on a part-time basis, did not participate in any executive benefit programs except the DC SRP. In 2020, two individuals held this position for 6 months and 4.5 months respectively.

(6) The interim Vice-President did not participate in any executive benefit programs except the DC SRP.

(7) Base salary includes pensionable base pay for all executive.

(8) Other cash benefits include academic executive allowances, salary supplements, performance pay, market supplements, vacation payouts, car allowances, mobile allowances, administrative supplements and personal leave plan. Other cash benefits in 2020 also includes severance payments (salary continuance and lump sum payment) and a vacation payout for the former Vice-President (University Relations).

(9) 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 supplemental life insurance and forgivable housing loans.

(thousands of dollars)

24. Salaries and employee benefits (continued)

(10) Under the terms of the Defined Benefit Supplementary Retirement Plan (DB SRP), the executive may receive supplemental 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 DB 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 DB SRP was closed to new members effective June 30, 2014.

The DB SRP current service cost and accrued benefit obligation is as follows:

		2020	**2021**			
	Years of eligible University of Alberta service	Accrued benefit obligation	**Service costs**	**Interest and other costs** (10b)	**Actuarial (gain) loss**	**Accrued benefit obligation** (10c)
Former President (10a)	5	$ 124	**$ -**	**$ (141)**	**$ 17**	**$ -**

(10a) Includes service to June 30, 2020 and the DB SRP obligation shown is at June 30, 2020. The DB SRP was closed to new members effective June 30, 2014. However, a portion of the supplementary retirement benefit for the former President is calculated on a defined benefit basis, and the liability will be disclosed on this basis as service is provided.

(10b) On April 1, 2020, the balance of the DB SRP accrued benefit obligation was transferred to the former President's DC SRP.

(10c) The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed note 9.

(11) Under the terms of the executive Defined Contribution Supplementary Retirement Plan (DC SRP), the executive may receive supplemental 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 cost to provide supplementary retirement benefits. The DC SRP provides future benefits to participants based on the value of the contributions at the end of their service. The cost of these benefits is calculated based on pensionable salary multiplied by a factor based on age and service. The DC SRP was introduced effective July 1, 2014, for all executives commencing employment on or after that date.

The DC SRP current service cost and obligation is as follows:

		2020	**2021**		
	Years of eligible University of Alberta service	DC SRP obligation	**Service costs** (11f)	**Interest and investment earnings** (11g)	**DC SRP obligation**
Former President (11a)	5.0	$ 244	**$ 150**	**$ 17**	**$ 411**
President	0.8	-	**25**	**-**	**25**
Provost and Vice-President (Academic)	5.8	176	**39**	**13**	**228**
Former Vice-President (Research and Innovation) (11b)	2.0	50	**2**	**(1)**	**51**
Interim Vice-President (Research and Innovation)	1.7	13	**13**	**2**	**28**
Vice-President (Facilities and Operations)	4.6	82	**24**	**9**	**115**
Former Vice-President (Finance and Administration) (11c)	4.0	92	**14**	**(1)**	**105**
Acting Vice-President (Finance and Administration) (11d)	0.1	-	**1**	**-**	**1**
Vice-President (University Services and Finance)	0.4	-	**8**	**-**	**8**
Vice-President (External Relations)	0.3	-	**3**	**-**	**3**
Former Interim Vice-President (University Relations) (11e)	1.2	1	**4**	**1**	**6**
Former Interim Vice-President (Advancement) (11e)	2.2	22	**8**	**3**	**33**

(11a) Includes service to June 30, 2020 and the DC SRP obligation shown is at June 30, 2020.

(11b) Includes service to April 30, 2020 and the DC SRP obligation shown is at April 30, 2020.

(11c) Includes service to October 31, 2020 and the DC SRP obligation shown is at October 31, 2020.

(11d) Includes service from October 3 to October 25, 2020 and the DC SRP obligation shown is at October 25, 2020.

(11e) Includes service to December 31, 2020 and the DC SRP obligation shown is at December 31, 2020.

(11f) Service costs for the former President include the balance of the DB SRP accrued benefit obligation, which was transferred to the DC SRP on April 1, 2020. This amount is not a current year expense.

(11g) Contributions are made on an annual basis at the end of the plan (calendar) year. Interest is paid in lieu of contributions being made every month. Investment earnings are distributed to each plan participant based on the overall return of the plan's investments.

(thousands of dollars)

24. Salaries and employee benefits (continued)

(12) The administrative/professional leave (leave) plan current service cost and accrued benefit obligation is as follows:

		2020	**2021**			
	Years of eligible University of Alberta service	Accrued benefit obligation	**Service costs**	**Interest and other costs**	**Actuarial (gain) loss**	**Accrued benefit obligation** (12c)
Former President (12a)	5.0	$ 445	**$ 23**	**$ 5**	**$ -**	**$ 473**
President	0.8	-	**59**	**1**	**1**	**61**
Vice-President (Facilities and Operations)	4.6	133	**37**	**7**	**(5)**	**172**
Former Vice-President (Finance and Administration) (12b)	4.0	133	**23**	**3**	**(159)**	**-**
Vice-President (University Services and Finance)	0.4	-	**32**	**1**	**(1)**	**32**
Vice-President (External Relations)	0.3	-	**10**	**-**	**-**	**10**

(12a) Includes service to June 30, 2020 and the accrued benefit obligation shown is at June 30, 2020.

(12b) Includes service to October 31, 2020 and the accrued benefit obligation shown is at October 31, 2020. Based on the relevant employment agreement, no leave benefit will need to be paid out, so the accrued benefit obligation has been reduced to $0.

(12c) The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in note 9.

(13) The Provost and Vice-President (Academic) participates in the administrative leave program available to faculty members in eligible administrative positions. Under that administrative leave program, an individual must apply for and receive approval for a leave; therefore, there is no leave accrual.

25. Approval of financial statements

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

26. Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.

Board of Governors
May 31, 2021

Review of Annual Audited Financial Statements

UNIVERSITY OF ALBERTA

2020-2021 In Context

The 2020-21 fiscal year has been a period of transition and transformation at the University of Alberta.

- COVID-19 pandemic
- Sector changes to PSE
- SET and U of A for Tomorrow

UNIVERSITY OF ALBERTA

2020-21: Financial Results

- Consolidated expenses were reduced by $146.0M versus the approved budget:
  - $104.5M in unrestricted funds (mainly in salaries, materials and supplies), of which about $40M was due to the impact of COVID-19 and the remainder was largely due to planned reductions
  - $41.5M in restricted funds

- Unanticipated operating surplus variance to budget of $34.5M
  - Actual operating surplus $35.5M
  - Budgeted $1.0M

The Operating Variance: 2020-21 Net Assets ($ millions)

	Unrestricted	Internally restricted	Investment in tangible capital assets	Endowments	Total
Net assets, beginning of year	$ 89.1	$ 40.1	$ 569.1	$ 1,284.5	$ 1,982.8
Annual operating surplus	35.5	-	-	-	35.5
Endowments contributions and capitalized income	-	-	-	18.3	18.3
Transfer to endowment	(1.3)	-	-	1.3	-
Transfer from endowments	0.7	-	-	(0.7)	-
Tangible capital assets	2.4	-	(2.4)	-	-
Transfer from internally restricted	(14.9)	14.9	-	-	-
Change in accumulated remeasurement gains	100.7	-	-	270.6	371.3
Increase (decrease)	123.1	14.9	(2.4)	289.5	425.1
Net assets, end of year	**$ 212.2**	**$ 55.0**	**$ 566.7**	**$ 1,574.0**	**$ 2,407.9**

Internally restricted net assets

Internally restricted net assets represent amounts set aside by the university's Board of Governors for an investment income reserve to ensure that future obligations can be fulfilled in the event of significant investment losses. This amount is not available for other purposes without the approval of the Board and does not have interest allocated to it.

UNIVERSITY OF ALBERTA

2020-2021 Net Assets Observations

Unrestricted
- Increase is mainly attributable to the annual operating surplus and unrealized gains on investments held in the Non-Endowed Investment Pool.

Internally restricted
- Increase is attributable to realized investment income as determined by policy

Investment in tangible capital assets
- Change is attributable to new capital acquisitions with unrestricted funds offset by amortization expense

Endowments
- Increase is mainly attributable to unrealized gains on investments held in the University Endowment Pool and new endowment contributions.

UNIVERSITY OF ALBERTA

The Operating Variance: 2020-2021 Analysis of operating results to budget ($ millions)

Annual operating surplus variance to budget (Actual - $35.5; Budget - $1.0)	$ 34.5
Variance component consist of:	
Salaries - severances *	18.4
Salaries - lower casual and temp staff *	12.2
Reduction of environmental liability *	5.7
Sale of parking lot investment *	4.6
Student tuition higher deferral *	(7.4)
UAPP - unrealized loss amortization	(15.1)
Investment income - higher realized gains	12.7
Other net variances	3.4
	$ 34.5

*indicates that item is a one time occurence

UNIVERSITY OF ALBERTA

Year-end Audit Observations

- No financial errors were noted by the auditors, resulting in no adjusted or unadjusted differences in the audit report.

- No audit recommendations were presented.

- All reporting deadlines to government and the auditors were met by the university.

Questions?

Appendix:
Notes to the Consolidated Financial Statements Highlights

Investment in government business enterprises (Note 7)

- Disclosure of UA Property Trust financial information included in the consolidated financial statements.

Accounts payable and accrued liabilities (Note 8)

- Additional detail provided on what makes up our Accounts payable and accrued liabilities balance.

Net Assets (Note 14)

- $14.9m transfer to internally restricted to unrestricted net assets.
- $0.6m transfer from endowments to unrestricted net assets

Liability for Contaminated Sites (Note 15)

- Detailed disclosure for Ellerslie site (no longer in productive use)

COVID-19

- Various COVID-19 disclosures required in prior year have been removed.

Item No. 3

Governance Executive Summary
Action Item

Agenda Title	**2021-2022 Investment Management Agreement**

Motion

THAT the Board of Governors, on the recommendation of the Board Learning, Research and Student Experience Committee, approve the 2021-2022 Investment Management Agreement, as set-forth in Attachment 1.

Item

Action Requested	☒ Approval ☐ Recommendation
Proposed by	Provost and Vice-President (Academic), Vice-President (University Services and Finance)
Presenter	Steven Dew, Provost and Vice-President (Academic), Todd Gilchrist, Vice-President (University Services and Finance)

Details

Responsibility	Provost and Vice-President (Academic), Vice-President (University Services and Finance)
The Purpose of the Proposal is (please be specific)	This proposal is before the committee to seek approval of the 2021/2022 Investment Management Agreement from BLRSEC to the Board.
Executive Summary (*outline the specific item – and remember your audience*)	In the spring of 2020, the Government of Alberta introduced performance-based funding for post-secondary institutions in the form of an Investment Management Agreement (IMA). Implementation of the IMAs was to begin in fiscal 2020-21, however, this was delayed due to the COVID pandemic. The IMAs are being instituted for 2021-22 with one measure; 5% of funding will be tied to performance on this one metric (Work Integrated Learning). The University's baseline has been calculated at 62% of approved programs that have work-placements identified as part of the program. At this time, we have suggested a Year 1 target of 78% of approved programs that have work-placements identified as part of the program, with a tolerance threshold of 4%. Our long-term goal is to achieve a target of 100%, over three years. Note that the information in the Mandate section of the document was approved by the Board of Governors in March, 2020, before last year's IMA process was suspended.
Supplementary Notes / context	The Government of Alberta has made a small number of minor, editorial changes to the Investment Management Agreement template - the revised version is attached below.

Engagement and Routing (Include proposed plan)

Consultation and Stakeholder Participation	• Office of the Provost and Vice-President (Academic) • Office of the Vice-President (University Services and Finance) • Office of Disclosure, Assurance, and Institutional Research • Academic Planning Committee • Board Learning, Research, and Student Experience Committee • Board of Governors

Item No. 3

Approval Route (Governance) (including meeting dates)	Board Learning, Research and Student Experience Committee , May 28, 2021 (recommendation) Board of Governors, May 31, 2021 (final approver)

Strategic Alignment

Alignment with *For the Public Good*	For the Public Good, Sustain	
Alignment with Core Risk Area	Please note below the specific institutional risk(s) this proposal is addressing.	
	☐ Enrolment Management ☐ Faculty and Staff ☒ Funding and Resource Management ☐ IT Services, Software and Hardware ☐ Leadership and Change ☐ Physical Infrastructure	☐ Relationship with Stakeholders ☐ Reputation ☐ Research Enterprise ☐ Safety ☐ Student Success
Legislative Compliance and jurisdiction	Academic Planning Committee Terms of Reference BLRSEC Terms of Reference	

Attachments:

1. REVISED 2021-2022 Investment Management Agreement (13 pages)

Prepared by: Kathleen Brough, Chief of Staff, Office of the Provost and Vice-President (Academic)

Investment Management Agreement for Public Post-Secondary Institutions

University of Alberta
Department of Advanced Education
2021-2022

Her Majesty the Queen in right of Alberta, as represented by the Minister of Advanced Education	SIGNED for and on behalf of The Board of Governors of the University of Alberta
Minister	Board Chair
Date	Date

Table of Contents

Intent of Investment Management Agreement (IMA)

Alberta's twenty-six publicly funded post-secondary institutions provide a variety of learning opportunities to people from within Alberta, across Canada, and abroad. These institutions are often world-class organizations which excel in teaching and research. They prepare graduates for fulfilling careers and additional learning, while contributing to Alberta's economic and community development through skill development, research and innovation.

To support system coordination and optimize the allocation of public investments in adult education, each of these institutions is designated to a sector based on its programming, research and scholarly activity, and collaboration initiatives.

For 2021-2022, each institution will also have an Investment Management Agreement with government. This agreement will include the institution's mandate, the 2021-22 Operating and Program Support Grant Amount from government, mutual priorities, and a performance metric to facilitate the allocation of outcomes-based funding, to ensure government and institutions are focused on meeting the needs of the province. Specifically, the Investment Management Agreement:

- Identifies and explains the shared objectives and priorities between the Alberta government and the institutions; and
- Describes the agreed upon investment framework that includes the key performance metric in a priority area.

While the IMA was originally designed to be a 3 year agreement between each institution and the government, this year's IMA is serving as a pilot. Therefore its term is one year, from April 1, 2021 to March 31, 2022, with performance evaluated at the end of the fiscal year to provide learnings and identify improvements that could be incorporated into a three year IMA.

The Investment Management Agreement is not intended to be the sole element of the relationship between the institution and the government, nor to include all decisions and issues in the post-secondary system. Government will continue to work closely with institutions and other stakeholders in a number of areas, and provide many aspects of system direction through legislation, regulation, policy, and other processes.

Investment Management Agreements may be amended in the event of substantive policy or program changes that would significantly affect joint commitments made in the agreement. Any such amendment would be mutually agreed to in writing, dated, and signed by both signatories.

Legislative and Policy Requirements

Post-secondary Learning Act

Section 78 of the Post-secondary Learning Act requires the boards of all 21 public post-secondary institutions, and Independent Academic Institutions, to enter into an Investment Management Agreement with the Minister of Advanced Education, which must include: the mandate of the institution (not applicable to Independent Academic Institutions), a performance metric(s) for the institution, and anything else determined by the Minister. The Minister may specify the form of the agreement, and the date by which it must be in effect. The boards of the 21 public post-secondary institutions are also required to prepare, approve and submit to the Minister a budget and a capital plan. The budget submitted by an institution may not project consolidated operating expenses exceeding consolidated operating revenues, unless the board has the written approval of the Minister.

Fiscal Planning and Transparency Act

Section 10 of the Act requires the board of a public post-secondary institution to provide a business plan for each fiscal year to the Minister. This requirement is fulfilled by each institution entering into an Investment Management Agreement with the Minister, delivering a budget and capital plan in accordance with section 78 of the *Post-secondary Learning Act*.

Operating and Program Support Grant Agreement

Each institution's Investment Management Agreement is referenced in its respective Operating and Program Support Grant Agreement, with funds provided under the 2022-2023 Operating and Program Support Grant Agreement will be distributed in accordance with the institution's performance in meeting the target established in the Investment Management Agreement.

Mandate

This mandate statement has been developed by The Board of Governors of the University of Alberta in consultation with the Minister of Advanced Education pursuant to Section 78 of the *Post-secondary Learning Act* (PSLA).

1. Type of Institution, Sector, and Governance

The University of Alberta is a board-governed public post-secondary institution operating in Alberta as a comprehensive academic and research university (CARU) under the authority of the PSLA.

2. Outcomes

- Identify how the institution contributes to the coordinated post-secondary adult learning system.
- Identify how the activities of the institution benefit individual students, their communities and the province.

The University of Alberta's fundamental mandate is to offer a broad range of outstanding academic, research, creative and innovation activities to prepare citizens and leaders who will make a difference.

Its activities enhance student opportunities and build Alberta's capacity for long-term, knowledge-driven sustainable development at the global forefront.

The University community discovers, disseminates, and applies new knowledge through interrelated core activities.

3. Clients/Students

- Identify the specific groups of students served or targeted by the institution (e.g. adult learners, undergraduate or graduate students, life-long learners, learners preparing for entry-level careers in business and health).

The University of Alberta serves graduate and undergraduate students, and life-long learners in a dynamic and integrated learning research and innovation environment.

Post-doctoral fellows and academic visitors come to the University to refine their teaching, mentoring, research and innovation skills.

4. Geographic Service Area and Type of Delivery

- Identify where the institution's campuses are located and the communities served.
- Identify the approaches to educational delivery (face-to-face, distributed, blended etc.)
- Comprehensive Community Colleges to include reference to their responsibility to serve regional learners' needs through collaboration with other adult learning providers, program delivery and stewardship of community-based adult learning in their geographic service area.

The University provides instructional excellence through both on-campus and distance delivery in a vibrant and supportive learning, research and innovation environment. Its residential, multi-campus setting includes many research and field facilities.

5. Program Mandates and Credentials Offering

- Identify all range of program categories and credential options for learners.
- Description of credentials to align with Alberta Credential Framework.
- Reference program coordination and collaborating institutions, if applicable.

The University of Alberta gives students the opportunity to earn internationally respected credentials, including bachelors, masters and doctoral degrees, and university certificates and diplomas. It also offers French-language programs leading to university degrees, certificates and diplomas as well as college certificates and diplomas.

6. Special Program Areas/Areas of Specialization

- Identify approved program areas that are distinctive to the institution and contribute to its outcomes (e.g. institutions that focus on trades, artistic and creative development, institutions offer programs that lead to career preparation, etc.).

A number of the University of Alberta's programs are unique within Alberta.

The University of Alberta is a balanced academy, with strong arts and sciences programs featuring the Faculties of Agricultural, Life, and Environmental Sciences, Arts, Augustana, Extension, Native Studies, Kinesiology, Sport, and Recreation, Science and the Faculté Saint-Jean. These faculties are foundational to and interlinked with the University's network of strong professional faculties, including Business, Education, Engineering, Graduate Studies and Research, Law, Medicine and Dentistry, Nursing, Pharmacy and Pharmaceutical Sciences, Public Health, and Rehabilitation Medicine. In addition, all of our faculties are involved in professional development and continuing education.

7. System Collaboration and Partnerships

- Identify the institution's collaboration mandate (i.e. collaboration that is allowed, required, or both) and how they will work with other sectors and partners to ensure learner needs are met.
- Identify how the institution works within the system to enhance system accessibility and coordination across the province. This includes other adult learning providers in the systems (e.g. Indigenous adult learning providers).

- Describe the institution's role in regional stewardship and how this helps determine, prioritize and enable access to post-secondary opportunities.

The University of Alberta plays a leading role in Campus Alberta through collaboration with other Alberta institutions, responding to vital community relationships at every level and giving a national and international voice to Alberta innovation.

Transfer and collaborative degree completion agreements with partner institutions broaden student opportunities and provide rural, northern and Indigenous communities with access to University of Alberta credentials. Similar innovative arrangements centred at the University deliver information and knowledge resources to post-secondary and government communities through both inter-library and online access.

8. Research and Scholarly Activities

- Identify the range of research (discovery research, applied research) and activities related to innovation, scholarship of integration and scholarship of teaching and learning to be undertaken by the institution.
- Describe the scope of research, innovation and scholarly activities supporting the delivery of high quality credentials while also working to achieve Alberta's strategic research and innovation priorities.
- Identify how the institution's research and innovation activities align with the outcomes of the Alberta Research and Innovation Framework.

The University of Alberta's research and creative activities produce a dual impact through the preparation of highly qualified graduates and a continuous flow of innovation. The University attracts scholars of international reputation: undergraduate and graduate students, post-doctoral fellows, staff and faculty. Collectively, they foster, conduct and disseminate research and creative activity, both pure and applied, within and across all the major program areas at a nationally and internationally-recognized level of excellence.

University of Alberta faculties, centres and institutes combine resources and talents for collaborative advantage through research partnerships with other academic institutions, business, governments and public agencies. The University actively transfers new knowledge, innovation and creative works to Alberta, Canada and the world for community benefit, including commercial development of intellectual property when appropriate and feasible.

9. System Mandate

- Describe any other activities that have broader social, economic and/or environmental impact on the province.

- Include any initiatives related to international education, promotion of healthy learning environments, and learner pathways.

The University establishes and maintains an environment of inquiry-based learning anchored in strong academic programming and an array of co-curricular student life opportunities. Academic support, social/community enrichment, health and wellness, and career and life development are cornerstones of the University of Alberta student experience. The intellectual and creative diversity of the campus, including its international and multicultural population and exchange programs, makes for an engaging student experience. Fine arts displays, stage performances museum collections, athletic and recreational opportunities combine with residence life to present mult-dimensional possibilities. Experiential learning opportunities based in the community augment on-campus activities with real-life applications. Engagement in research and innovation prepares students for life-long learning and problem solving.

In every aspect of its mandate, the University of Alberta is a partner in social, cultural, and economic development, fostering and establishing the provincial, national and international connections and understandings that support leading global enterprise and citizenship for Alberta. University administrators, faculty, staff and students contribute regularly to public debate and to government and corporate examination of issues. Start-up companies and new technologies licensed to existing companies lead Alberta in new directions and employ graduates. The University continually moves out into its communities through its graduates, its creative and research advances, and its ongoing opportunities for experiential and life-long learning.

10. Other

Objectives and Priorities

Government of Alberta

The Government of Alberta is committed to post-secondary education as a cornerstone of employment, economic and social development, and overall prosperity for the province. As the province continues to recover from the many challenges caused by the pandemic, post-secondary institutions will play a pivotal role, not only through research, innovation and commercialization of leading edge technology, but also in providing highly-skilled and job-ready graduates for a recovering and dynamic labour market.

The initial goal of the GOA is to highlight the critical role post-secondary institutions play to prepare students for a future career. While this inaugural Investment Management Agreement reflects that goal, it is also meant to serve as a pilot to guide the development of future iterations that will be broader and more comprehensive for Alberta's post-secondary system. By focusing on students, innovation, efficiency, and accountability, and by working to improve system performance and outcomes, Investment Management Agreements will ensure institutions play a vital role in keeping Alberta competitive on the global stage.

University of Alberta

Within the context of our broad mandate as a global top 100 comprehensive and research intensive university; and in a situation where we are reducing our reliance on government funding by approximately one third, we will be focused on reducing expenditures, and reorganizing and restructuring to achieve efficiencies and continue to support our mission. The priorities for the U of A for the coming year are in alignment with the direction from the Government of Alberta, specifically in the MacKinnon Report, the Alberta 2030: Skills for Jobs Strategy, and the 2021-24 Advanced Education Business Plan.

The following are the priorities for 2021/2022:

<u>COVID-19:</u> The university will be focused in the coming year on transition out of the pandemic to a return to our normal primarily face-to-face learning environment. Specific objectives:

- Introducing an academic schedule for Fall 2021 that prioritizes face-to-face learning as much as possible but enables flexibility in modes of delivery in order to minimize impact on students who may not be able to come to our campuses physically, because of international travel restrictions or other pandemic-related causes.
- Continue to provide supports and resources for students and instructors impacted by the pandemic, particularly international students who may not be able to travel to Canada to study in person.

<u>Organizational transformation</u>: The university is focused on long-term transformation to build a more efficient and flexible organization to achieve excellence across our mandate. In alignment

with the analysis undertaken by the MacKinnon Panel, we believe our specific objectives will reduce our cost per FLE, through the following specific objectives:

- Review internal structures and processes to improve efficiency across administrative functions and the academic enterprise; pursue opportunities for process improvement, reorganization, workload management, class scheduling, and program structure.
- Apply findings from international exercise to benchmark administrative cost and quality against global comparators.

Enrolment growth: The university is committed to grow to satisfy unmet need within Alberta, enhance access to under-represented learners, and grow and diversify our international student body as a key element in providing a globally competitive education. Specific objectives:

- Meet or exceed increased domestic enrolment targets.
- Increase Indigenous student enrolment, supported by targeted outreach initiatives and partnerships with Indigenous communities.
- Increase international enrolment while diversifying source countries. Note: COVID-19 is having significant impact on international enrolments.

Student experience: In alignment with Alberta 2030: Skills for Jobs, within the context of a larger and more efficient institution, the university continues to prioritize student experience. Specific objectives:

- Support and maintain quality of teaching and learning as the university transitions to larger average class sizes by supporting use of technology and innovative pedagogy.
- Maintain and enhance supports for Indigenous learners
- Sustain supports for student mental health and continue implementation of resources and training related to prevention of and response to sexual violence.

Asset management: The university is prioritizing shifting its physical infrastructure to fewer, better maintained, flexible and adaptable buildings and physical facilities to support current and future learning and discovery. Specific objectives:

- Continue to transition out of leased space to reduce overall costs.
- Decommission buildings and facilities which no longer meet requirements.

Research enterprise: In support of the work of the Academic Research Working Group, the university prioritizes research and creative activity producing a continuous flow of innovation across all disciplinary areas. Specific objectives:

- Provide support to researchers in seeking external research funds.
- Provide institutional support to facilitate large-scale multidisciplinary collaboration, to drive innovation and increase competitiveness for major funding opportunities.
- Identify and provide support for commercialization opportunities

Program innovation: In alignment with Alberta 2030: Skills for Jobs, the university supports novel programming that responds to student demand and positions our graduates for strong employment outcomes. Specific objectives:

- Support expansion of work-integrated learning opportunities throughout a range of programs.
- Develop innovative program proposals, with special focus on online programs.
- Close programs that no longer achieve broad relevance and high impact.

Operating and Program Support and Performance Based Funding Allocations

Table 1: 2021-22 Allocations for University of Alberta

Total Operating and Program Support grant	$488,754,526
Proportion tied to Performance	5%
Performance based funding allocation	**$24,437,726**

Performance-based Funding Methodology

This inaugural Investment Management Agreement for University of Alberta and the performance based funding it represents, is based on one metric—the proportion of approved programs at University of Alberta that have a Work Integrated Learning component.

Table 2 below provides the specifics on the performance metric that will be used to calculate any funding impacts. A baseline result has been established at the beginning of the 2021-22 fiscal year using data housed in the Provider and Program Registry System (PAPRS). A target and tolerance band has been negotiated with University of Alberta.

Over the next 12 months, as University of Alberta prepares for the 2022-23 academic year, it will provide updates into PAPRS about new or existing programs that have a Work Integrated Learning component. The existing metric will be updated on March 31, 2022. If the result meets or exceeds the target, there will be no adjustments to 2022-23 OPS funding related to this performance metric.

If the result fails to meet the target, and is lower than the tolerance threshold, then an adjustment will be applied against the 2022-23 funding that is proportionate to the achievement from the expected result (to a maximum identified in Table 1).

Table 2: Performance Metric

Work integrated learning: Proportion of approved programs that have work-placements identified as part of the program.				
Core Area: **Skills and Labour Market Outcomes**	Baseline Established March 31, 2021	Baseline 62%	Target 78%	Tolerance Threshold 4%

The University's objective is to achieve 100% by Year 3. The target for Year 1 of the IMA is 78%, with a tolerance threshold of 4%. The University of Alberta is developing a strategy to increase opportunities for work-integrated learning for students on our campuses, across all Ministry-approved programs at the undergraduate and graduate levels. Whereas the University of Alberta has a well-developed foundation in work-integrated learning in the majority of its programs, there is a need to coordinate current activities and identify gaps in our offerings. To address these gaps and build upon the existing foundation, a Provost's Fellow in Experiential and Work-Integrated Learning will lead the following activities:

1. Identify programs that do not have a work integrated learning opportunity for students and work with program proponents to create work integrated learning activities (e.g., final year capstone projects, integrated work-placements at the individual course level)
2. Create an inventory of existing best practices in work integrated and share these through the WIL Community of Practice; develop resources that can be adapted by different programs to meet work-integrated learning goals
3. Write policy and procedures to support work-integrated learning activities to ensure needs of students, academics and community partners are met
4. Work with University of Alberta alumni to expand work-integrated learning placements in our communities
5. Include work integrated learning components in all new program proposals and substantive program changes