



2011-2012 ANNUAL REPORT

FOR SUBMISSION TO THE GOVERNMENT OF ALBERTA



DARE TO DISCOVER: A VISION FOR A GREAT UNIVERSITY

QUAECUMQUE VERA — WHATSOEVER THINGS ARE TRUE

University of Alberta Vision, Mission, Cornerstones, and Values

The University of Alberta *vision* is to inspire the human spirit through outstanding achievements in learning, discovery, and citizenship in a creative community, building one of the world's great universities for the public good. Our mission is, "within a vibrant and supportive learning environment, the University discovers, disseminates, and applies new knowledge through teaching and learning, research and creative activity, community involvement, and partnerships." The University of Alberta gives a national and international voice to innovation in our province, taking a lead role in placing Canada at the global forefront. The U of A aspires to become one of the top public universities in the world by 2020 by focusing academic planning and strategic decision-making on *four cornerstones*:

1. Talented People
2. Learning, Discovery, and Citizenship
3. Connecting Communities
4. Transformative Organization and Support

Our values: The U of A community of students, faculty, staff, and alumni rely on shared, deeply held values that guide behaviour and actions. These values are drawn from the principles on which the University of Alberta was founded in 1908 and reflect a dynamic, modern institution of higher learning, leading change nationally and internationally.

Excellence: Excellence in teaching that promotes learning; outstanding research and creative activity that fuel discovery and advance knowledge; and enlightened service that builds citizenship.

Student Experience: The centrality of our students and our responsibility to provide an intellectually superior educational environment.

Integrity and Academic Freedom: Integrity, fairness, and principles of ethical conduct built on the foundation of academic freedom, open inquiry, and the pursuit of truth.

Diversity and Creativity: A diverse, yet inclusive, dynamic collegial community that welcomes change and seizes opportunity with passion and creativity.

Pride: Pride in our history and traditions, including contributions from Aboriginal people and other groups, which enrich and distinguish the university.

*“The people demand that knowledge shall not be the concern of scholars alone.
The uplifting of the whole people shall be its final goal.”*

- Henry Marshall Tory, September, 1908

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Message from the Chair

On behalf of my colleagues on the University of Alberta Board of Governors, I present this Annual Report 2011-12 as a record of the University's continued progress towards achieving the goals outlined in its Comprehensive Institutional Plan and academic plan, *Dare to Deliver 2011-2015*. This report for the year ending March 31, 2012 has been prepared under the Board's direction in accordance with the Government Accountability Act, the Post-Secondary Learning Act and associated ministerial guidelines. All economic, environmental, or fiscal implications of which we are aware have been considered in the preparation of this report. You will find a financial report drawn from the University's financial statements and a discussion of the key challenges, risks and opportunities faced by the university over the past year.

As Board Chair, I would like to thank the Alberta government for its continued support of postsecondary education and commitment to lifelong learning, research and innovation. This commitment and support is based on 21st century realities: knowledge, creativity, innovation, and entrepreneurialism are now the main global currency, highly skilled people are the pre-eminent natural resource, and education is the foundational attribute of every prosperous society. Strong investment in a diverse talent base today is vital — indeed essential — to ensuring Alberta's economic, social and cultural diversity and prosperity tomorrow.

The Government of Alberta's support of research, innovation and commercialization results in many benefits to the province. Researchers have the means to make discoveries, advance and transfer knowledge, and create new products, methods and industries. These help to diversify and expand the knowledge economy in the province and secure prosperity for future generations. With major infrastructure support that has been provided over the last several years, the University of Alberta has maintained and updated older facilities while opening new state-of-the-art facilities such as the Centennial Centre for Interdisciplinary Science and the Edmonton Clinic Health Academy. These types of facilities, and others that are now under construction, attract and retain world-class educators, researchers and students and ensure that our own Alberta students have opportunities that are second to none.

The University of Alberta's capacity to deliver internationally competitive education across the sciences, humanities, health sciences, fine arts, engineering, and social sciences is the result of bold decisions made by the provincial government and the university administrators since its founding more than 100 years ago. Now in its second century, the U of A is a top-3 university in Canada and is in position to be a top public university in the world. As such, the U of A connects Alberta, Campus Alberta and Alberta Innovates with Canada and the world, through the development of national and international research and teaching consortia involving other academic institutions, industries, governments, foundations, and/or community organizations.

As I begin my term as Chair of the Board of Governors, I look forward to playing my part in advancing the promise and delivering on the mission of the University of Alberta. I am confident that this outstanding institution of teaching, learning and research will continue to be the source of the talent, ideas, innovation and creativity Alberta needs in the years ahead.

Sincerely yours,

Original signed by Douglas O. Goss, Q.C.

Chair, Board of Governors

2011-12 Board of Governors

| BOARD MEMBER | CONSTITUENCY |
|--------------------------|--------------------------------|
| Campanot, Robert | Association of Academic Staff |
| Clanachan, Gordon, | Public (Vice-Chair) |
| Coulthard, Roy | Graduate Students' Association |
| de La Bruyère, Marc | Public |
| Fleming, Don | Alumni |
| Francescutti, Louis Hugo | General Faculties Council |
| Goss, Douglas | Public (Chair) |
| Hole, Jim | Alumni |
| Hoveland, Agnes | Public |
| Hughes, Linda | Chancellor (Statutory Member) |
| Jeraj, Shenaz | Public |
| Lepage Fortin, Raphael | Students' Union Nominee |
| Martelle, Tanya | Non-Academic Support Staff |
| Matthew, Don | Public |
| Mingos, Ove | Public |
| Naqvi, Jerry | Public |
| Reuscher, Bernd Michael | Senate |
| Samarasekera, Indira | President (Statutory Member) |
| Teskey, Robert | Public |
| Tighe, Rory | Students' Union President |
| Wilson, Richard | Public |

Overview from the President

The global landscape for advanced education and research is shifting. Institutions around the world are grappling with changing demographic trends, increased competition for talent, new demands for flexibility in the delivery of education and continuously evolving technology. The recent worldwide recession and its aftermath have only heightened the importance of education and innovation to citizens and their governments around the world. Public expectations for universities to educate the leaders and innovators of the future, to push the boundaries of scholarship and to demonstrate efficient use of public funds will be high – as they should be.

This is a challenge our founder, Henry Marshall Tory, understood so well 100 years ago. As he said at the U of A's first convocation address, "The people demand that knowledge shall not be the concern of scholars alone. The uplifting of the whole people shall be its final goal." Over a century later the University of Alberta, as our province's flagship institution and one of Canada's premier research-intensive institutions, remains inspired by Dr. Tory's words and committed to the vision of building one of the world's great universities for the public good.

As the contents of this Annual Report demonstrate, the year 2011-12 reflects tremendous progress in fulfilling our vision. Major new facilities – the Centennial Centre for Interdisciplinary Science and the Edmonton Clinic Health Academy – opened their doors over the past year, providing new collaborative research space and enriched learning conditions for students. The Undergraduate Research Initiative was launched in September 2011 to expand research opportunities for undergraduate students. Sponsored research funding remains high, and contributions from new and existing supporters have reached record numbers.

These achievements – and the many others described in the pages that follow – would not have been possible without the strong support of the provincial government for the University of Alberta and the wider post-secondary system. Looking forward, the Government of Alberta has committed to maintaining operating grant increases of two per cent for three years. These sustained investments will be critical in empowering the University of Alberta to recruit top faculty and students, invest in world-class infrastructure and seek out and engage with prominent domestic and international partners.

Prior to assuming his post as the first president of the University of Alberta, Henry Marshall Tory defined the purpose of education, and educators, as providing "the last full measure of devotion to whatsoever things are true." In today's global economic volatility and rapid social change, Dr. Tory's words remain highly relevant. Through the contributions of our students, staff and faculty members, as well as our government, industry and community partners, the University of Alberta will continue the pursuit of truth in order to address the pressing social, economic and environmental challenges facing Albertans, Canadians and communities around the globe.

Original signed by Indira V. Samarasekera, OC

President and Vice-Chancellor

The University in 2011-12

Alberta has built a strong foundation of excellence in education from kindergarten through post-secondary and today this province is recognized as a place where pioneering talent and innovation can flourish.

Albertans understand that we *need* outstanding schools and post-secondary institutions because knowledge, creativity, innovation, and entrepreneurialism are now the global currency. Highly skilled people are the pre-eminent natural resource, and education is essential to every prosperous society.

As has been the case for more than a century, the University of Alberta continues to deliver the talent, ideas, innovations, and highly-skilled graduates the province needs. We have a proven history of being a major contributor and creator of Alberta's competitiveness, productivity and economic diversity.

Providing excellent, comprehensive, and diverse academic choices across the sciences, humanities, health sciences, fine arts, engineering, and social sciences, the U of A provides the citizens of this province with the world-class university education that is vital to its social, economic and cultural well-being and prosperity. In the last decade, with strong provincial investment in capital and operating budgets, the U of A's national and international reputation has consistently risen — this is the only university in the province with the depth and breadth of research and teaching capacity, and reputation for excellence, to become a leader in Canada's post-secondary sector and one of the world's top public universities.

What does this mean for the province?

- connects Alberta to the world by attracting and retaining outstanding talent
- draws attention to Alberta's strengths as its alumni have an impact throughout Alberta, across Canada, and around the world through their leadership and accomplishments;

- elevates the province's national and global profile by building top-level international partnerships and by transferring made-in-Alberta ideas and innovations to the global community and marketplace;
- provides Albertans and the Campus Alberta system with shared state-of-the-art facilities, equipment and technologies for learning, research, health and wellness, and the arts; and
- creates increased access and targeted programming to serve the needs of all Albertans, including its rural, immigrant, Aboriginal, and Francophone populations.

Over the last year, the university has been able to maintain undergraduate and graduate programming; boost research capacity by attracting international funding into the province; open new, forward-looking teaching and research facilities, such as the Centennial Centre for Interdisciplinary Science; advance our reputation for world-class health sciences education with the opening of the Edmonton Clinic Health Academy; purchase essential equipment; and continue to recruit exceptional talent to our campuses. However, our forward momentum has slowed due to the fact that the Campus Alberta Grant remained static for the past two years.

With stable two percent increases over the next three years, the U of A will continue to seek opportunities for strategic, visionary growth and to think boldly about what we strive to accomplish and believe is possible in the service of the public good. Strong investment from our primary partners in the Government of Alberta in the mission of the U of A is vital — indeed essential — to ensuring Alberta's economic, social and cultural diversity and prosperity tomorrow.

For further details, please refer to the 2012 Comprehensive Institutional Plan at www.advancingalberta.ualberta.ca.

Summary Statistics

| | 2011-12 ACADEMIC YEAR | 2010-11 ACADEMIC YEAR |
|--|-----------------------|-----------------------|
| Students | 38,774 | 38,290 |
| Undergraduate (full-time) | 29,268 | 29,100 |
| Graduate (full-time) | 5,968 | 5,964 |
| Undergraduate (part-time) | 2,032 | 1,844 |
| Graduate (part-time) | 1,506 | 1,382 |
| Faculty of Extension Registrations (including Brokered Registrations) | (preliminary) 13,346 | 13,989 |
| Tuition | | |
| Arts & Social Sciences | \$5,195 | \$5,177 |
| Law | \$9,977 | \$9,943 |
| Medicine | \$11,755 | \$11,714 |
| M.A., M.Sc., and PhD | \$3,575 | \$3,643 |
| Research Revenue | \$460 million | \$536 million |
| Faculty & Staff | 5,355 | 5,291 |
| Faculty | 2,121 | 2,123 |
| Other Academic Staff | 650 | 637 |
| Support Staff | 2,584 | 2,531 |
| | 2011 CALENDAR YEAR | 2010 CALENDAR YEAR |
| Degrees & Diplomas Granted | 8,603 | 8,609 |
| Undergraduate | 6,680 | 6,770 |
| Graduate | 1,923 | 1,839 |

Sources:

Students: U of A enrolment data, December 1 headcount

Tuition: U of A sample tuition

Degrees: U of A convocation data

Faculty and Staff: U of A human resources data, numbers do not include temporary staff

Note:

Numbers in this table may differ from those presented elsewhere in the report as these figures include all students whereas other figures may have exclusions as noted.

NOTABLE ACCOMPLISHMENTS IN 2011-12

The following cornerstone achievements highlight significant accomplishments in 2011-12 and also gauge progress towards the University of Alberta's Vision, *Dare to Discover*, and its four cornerstones.

The reported performance measures provide complementary data and were chosen and developed on the basis of input from key university partners as well as the planning efforts that produced the university's Comprehensive Institutional Plan. These measures help to monitor progress toward the University of Alberta's four cornerstones and the goals of access and research.



The University of Alberta will attract and retain talented people

The world's most talented faculty, promising students, and dedicated staff — the world's most creative thinkers, prolific researchers, and innovative teachers — seek a university that offers the support, facilities, and commitment to excellence they need to thrive. The right environment is essential if the University of Alberta is to become a super-magnet for this kind of talent.

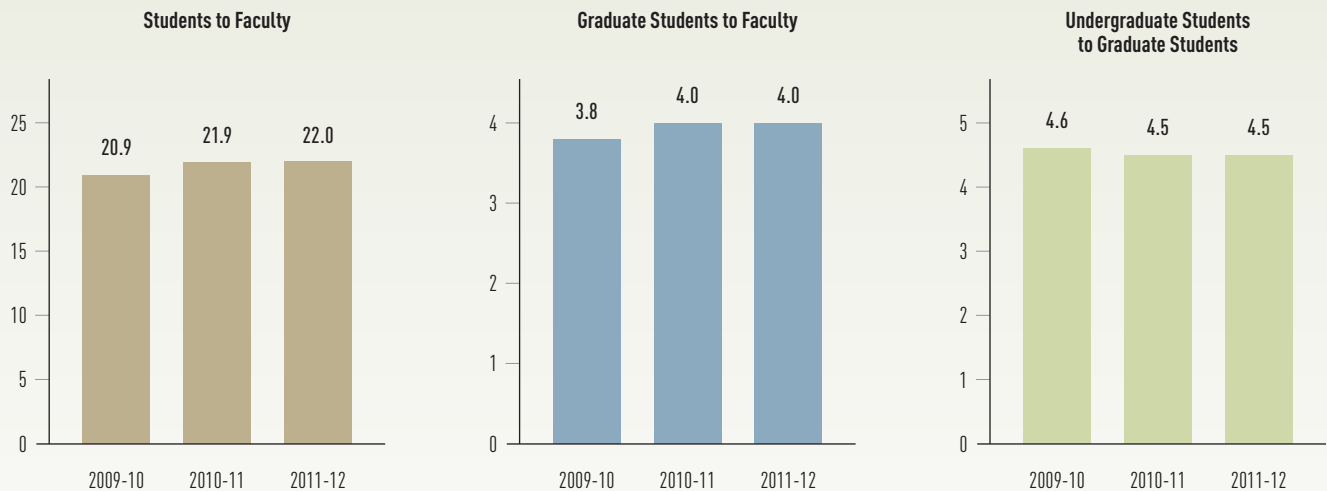
HIGHLIGHTS

- The U of A continues to lead the country in the number of 3M National Teaching Fellowships awarded for excellence in undergraduate teaching. Sarah Forgie (pediatrics), Charles Lucy (chemistry), Toni Samek (library and information science), and Connie Varnhagen (psychology) bring the U of A's nation-leading total to 38. Only 10 fellows are selected each year; this is the second time that the U of A has been honoured with four.
- Six new Natural Sciences and Engineering Research Council Industrial Research Chairs (NSERC IRCs) in the Faculty of Engineering were announced in November 2011, bringing Engineering's total to 16 NSERC IRCs. These major research grants foster and enable collaboration between industry and university researchers, playing a fundamental role in Canada's innovation system.

PERFORMANCE MEASURES

A great university has at its foundation the ability to offer an outstanding student experience

FIGURE 1 FULL-TIME EQUIVALENT (FTE) RATIOS, 2009-10 TO 2011-12

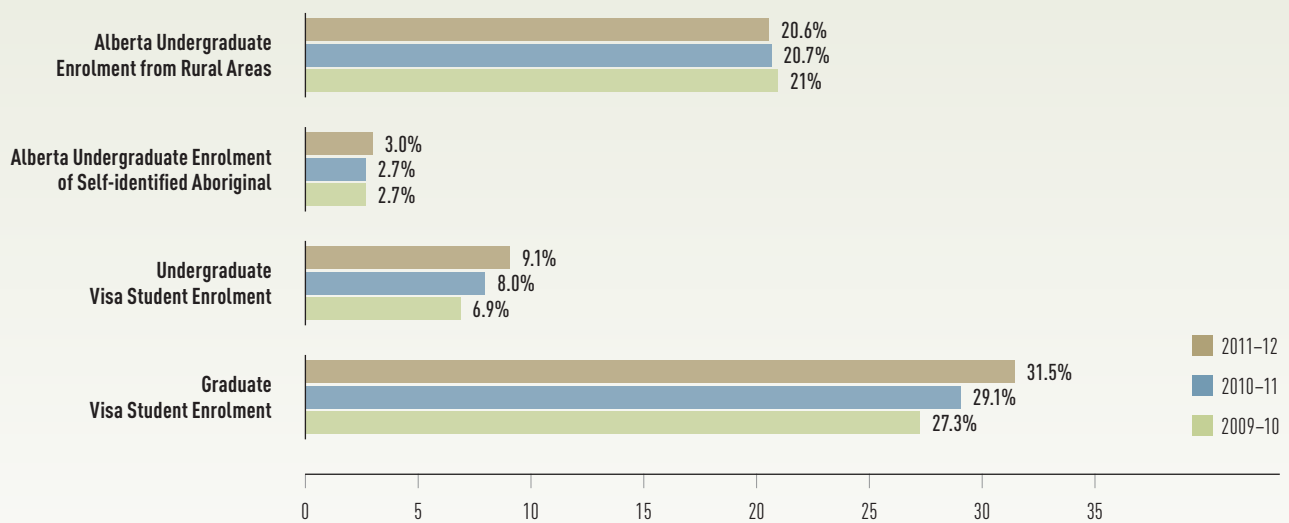


Notes: Enrolments based on active fall enrolments. Post-graduate medical education students are excluded. FTE (full-time equivalent) represents the number of full-time students plus one-third the number of part-time students, and is based on the number of individual students within each reporting category. **Source:** Student enrolments based on U of A RegStats Archive data as of December 1 of each respective academic year. Faculty counts based on U of A Human Resources data as of October 1 of each respective academic year.

- In 2011-12, the U of A was awarded eight new Canada Research Chairs (CRCs) as well as achieving 14 renewals and three advancements from Tier 2 to Tier 1 for a total of \$24.2M in funding over the lifetime of the awards. As a result, the U of A was home to 96 CRCs (44 Tier 1 and 52 Tier 2) during the past year, bringing in a total of \$87.9M in federal research funding from this program.
- In 2011, eleven U of A doctoral students received prestigious Vanier Canada Scholarships. The Vanier Canada Graduate Scholarship program aims to attract and retain world-class doctoral students by supporting students who demonstrate both leadership skills and a high standard of scholarly achievement in graduate studies.
- Sixteen new Campus Alberta Innovation Program (CAIP) Chairs were created in July 2011 by Advanced Education and Technology, and the U of A received seven of them. Six of the seven Chairs are expected to be recruited by June 30.
- The university has undertaken numerous initiatives to increase the number of Aboriginal students, including the development of recruitment materials, events and staff devoted to Aboriginal students; the approval in 2011 of two new certificate programs in Aboriginal Sport and Recreation and Aboriginal Governance; and the exciting presentation of the U of A Annual Round Dance which, in 2011, was held at Augustana Campus with 1000 guests and more than 100 volunteers.

The U of A attracts and retains outstanding students and provides them with foundational support structures

FIGURE 2 ENROLMENT OF SELECTED STUDENT GROUPS



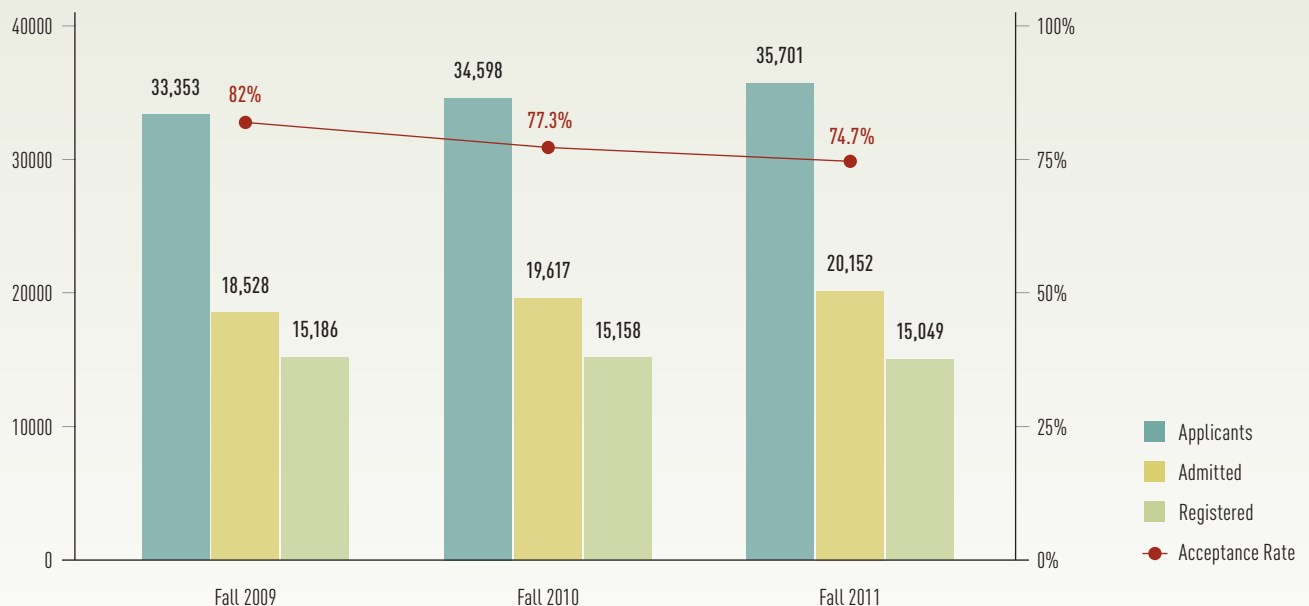
Notes: Rural and Aboriginal figures are proportions of total Alberta undergraduate enrolment. Rural means home addresses outside greater Edmonton and Calgary census divisions. Visa students include those with statuses of study permit, work permit, diplomatic status, refugee, temporary resident visa and visiting speaker.
Sources: U of A Student Enrolment data, Dec 1 headcount. Summary of Statistics, tables 7.4 and 7.8.

HIGHLIGHTS

- Lorne Babiuk, Vice-President (Research), received the prestigious 2012 Canada Gairdner Wightman Award “for his extraordinary national and international leadership in vaccine development and research on human and veterinary infectious disease control”. Since the inception of the award in 1959, 78 Gairdner recipients have gone on to receive the Nobel Prize in Medicine.
- The Alberta Carbohydrate Chemistry group – consisting of U of A researchers John Klassen, David Bundle and Todd Lowary and University of Calgary researchers Kenneth Ng and Glen Armstrong — received the 2011 NSERC Brockhouse Prize for Interdisciplinary Research in Science and Engineering.
- Six U of A professors were inducted into the Royal Society of Canada in September. They are Jan Selman (drama), Richard Fedorak (medicine), Andy Knight (political science), John Newman (linguistics), James Shapiro (surgery) and Joel Weiner (biochemistry).

We draw the interest of talented undergraduates

FIGURE 3 APPLICATIONS AND ADMISSIONS, FALL 2009 TO FALL 2011

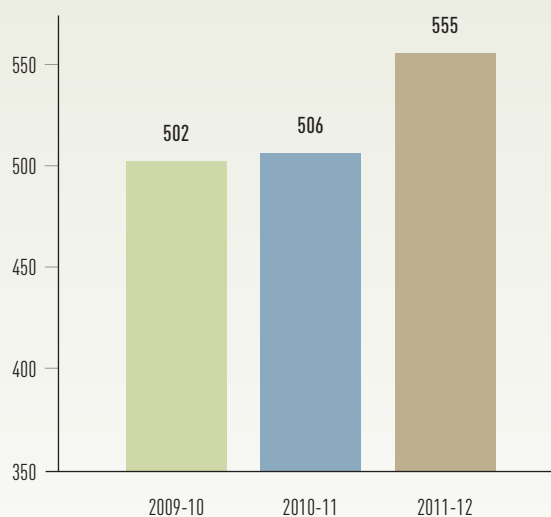


Notes: The numbers reported reflect unique individuals. Processing of applications changed in Fall 2010 with the implementation of Apply Alberta. Comparability of data reported before Fall 2010 is compromised by this change. The acceptance rate is the proportion of those admitted who registered. **Source:** UG data from Summary of Undergraduate Applications for Fall Admission (Strategic Analysis and Registrar’s Office). Data are as of October 4 of the reported year.

- Over the last year, several U of A researchers earned top national awards in their respective disciplines: Mark Lewis (mathematical and statistical sciences, and biological sciences) was named the 2011 recipient of the Centre de recherches mathématiques (CRM), the Fields Institute, and the Pacific Institute for the Mathematical Sciences (PIMS) prize, the highest mathematics honour in Canada; Carole Estabrooks, professor of nursing, was awarded a 2011 American Academy of Nursing Fellowship, joining only four other Canadians with this honour; Deepali Kumar of the department of medicine was the recipient of the 2011 Royal College of Physicians and Surgeons of Canada Gold Medal for her original work as a clinical investigator.
- Paolo Raggi, an internationally recognized clinician-scientist from Emory University in Atlanta, Ga., has been recruited as the academic director of the Mazankowski Alberta Heart Institute (MAHI). He will hold the Capital Health endowed chair in cardiac research and serve as section chief of cardiology for Alberta Health Services (AHS) effective June 1, 2012. The Faculty and AHS made the joint announcement on January 30th, 2012.

We see continued growth in attracting exceptional talent to contribute to teaching, learning and the research community

FIGURE 4 POSTDOCTORAL FELLOWS



Note: Numbers reflect headcounts of postdoctoral fellows as of October 1 of the reported year. The % of PDFs to total continuing faculty (operating and trust), based on headcount 2010-11: 23.8%, 2011-12: 26.2%. **Source:** U of A staff data, databook table 4.1.

CORNERSTONE 2



The University of Alberta will provide excellence in learning, discovery and citizenship

Great universities stimulate learning and discovery that is cutting-edge, generating new knowledge, innovations, and discoveries that transform everyday life. The world-class university of tomorrow — which the University of Alberta aspires to be— will contribute to scientific, social, and cultural structures of global society in ways that will allow them to change and grow, creating and sustaining prosperity and well-being for future generations.

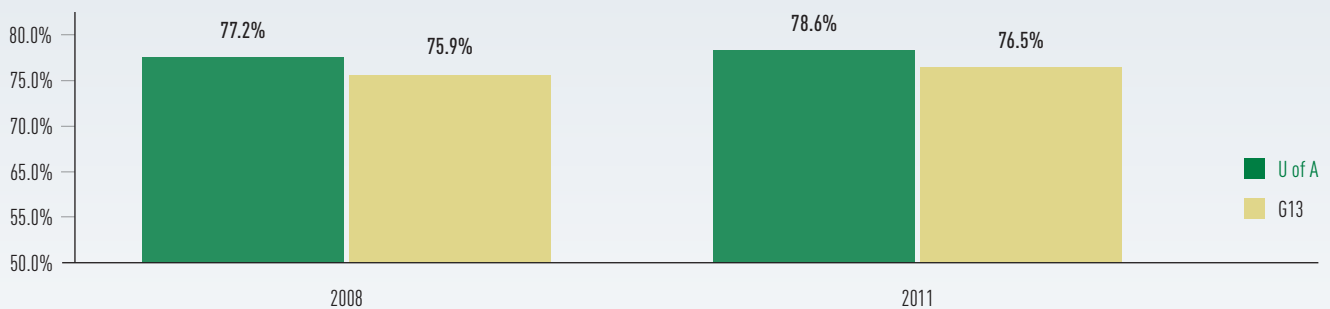
HIGHLIGHTS

- A team led by Michael Houghton, Canada Excellence Research Chair and Li Ka Shing Chair in Virology, has proven that a vaccine developed from one strain of hepatitis C can be effective against all known strains of the virus. This represents a major step in developing a viable commercial vaccine to prevent future hepatitis C infections.
- David Bressler, professor in the Faculty of Agricultural, Life & Environmental Sciences, has developed a thermal process that turns protein from bovine by-products into plastics. Such a breakthrough could open up a new revenue generator for cattle farmers.

PERFORMANCE MEASURES

The U of A creates a nurturing environment that allows for positive student experience and engagement

FIGURE 5 PERCENT OF SENIOR STUDENTS RATING THEIR EDUCATIONAL EXPERIENCE AS GOOD OR EXCELLENT



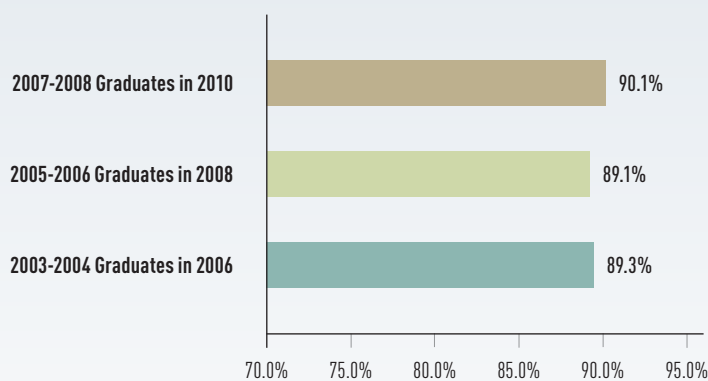
Source: U of A Frequency Distribution Report, NSSE (National Survey of Student Engagement), 2008 and 2011.

HIGHLIGHTS

- After a very successful showing at the Glenbow Museum in January 2011, an art exhibition exploring the legal, ethical and social issues around stem-cell research opened at the Chelsea Art Museum in midtown Manhattan in November 2011. Conceived by Sean Caufield, professor of printmaking, and his brother Tim Caufield, research director of the U of A's Health Law and Science Policy Group, the project features pieces by U of A artists which examine biotechnology through a range of media, including printmaking, photography, sculpture and video. The exhibit, which garnered international media attention, was so successful it had its original 10-day run at the Chelsea Art Museum extended by a week.
- At Augustana Campus, collaborative projects focused on the needs and concerns of rural communities have been developed through the Alberta Centre for Sustainable Rural Communities with over 70 rural researchers, communities and organizations in Alberta, Canada, and the world (UK, USA, Ireland, Australia, New Zealand, China, India).

The U of A creates a nurturing environment that allows for positive student experience and engagement

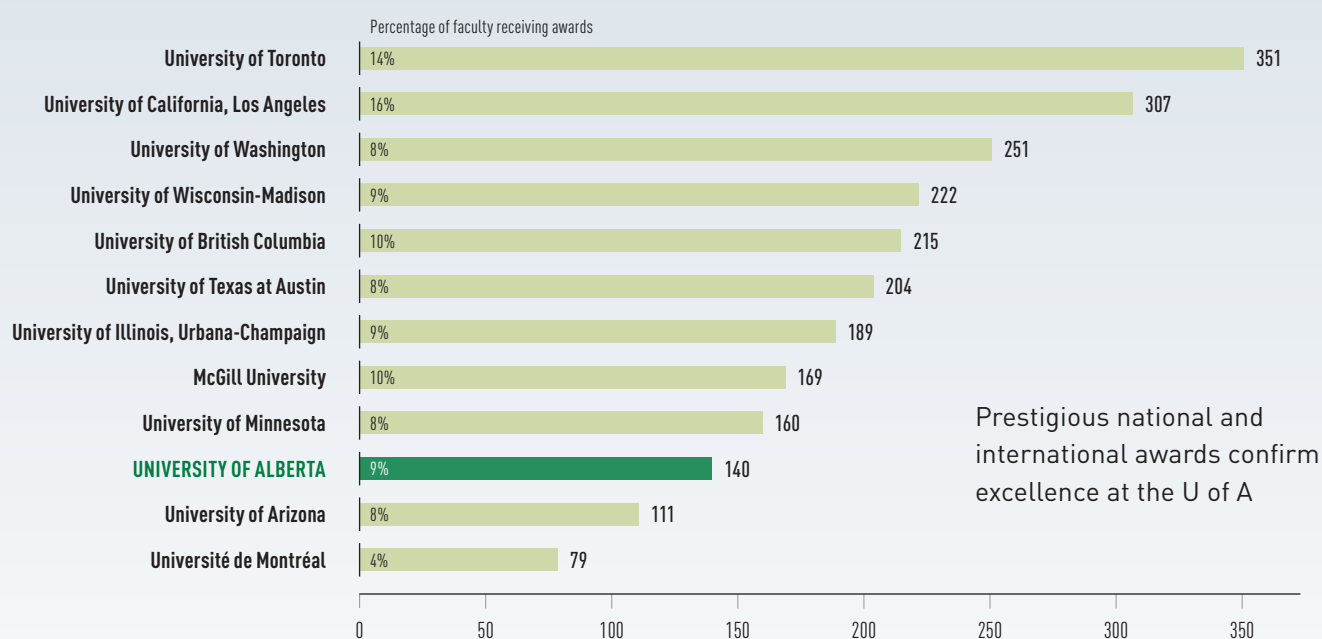
FIGURE 6 PROPORTION OF GRADUATES SATISFIED WITH THEIR EDUCATIONAL EXPERIENCE



Source: Alberta Advanced Education and Technology: Alberta Graduate Outcomes Survey

- The Rupertsland Centre for Métis Research, an academic centre dedicated to research with and for Métis communities, was launched in May 2011 by the Faculty of Native Studies. The centre is jointly funded by the Métis Nation of Alberta and the U of A.
- Canada's first Land Reclamation International Graduate School has recently been formed thanks to a \$1.65M Collaborative Research and Training Experience Program (CREATE) grant won by renewable resources professor and land reclamation leader Anne Naeth.
- Community service-learning (CSL) courses, in which students engage in collaborative projects within community organizations as part of their course work, continue to thrive and grow. In 2011-12, more than 750 undergraduate and graduate students from main campus and 350 from Augustana Campus participated in over 60 CSL courses.

FIGURE 7 SELECTED FULL-TIME FACULTY AWARDS AND HONOURS, UNIVERSITY OF ALBERTA AND SELECTED PEERS, 1998 TO 2010



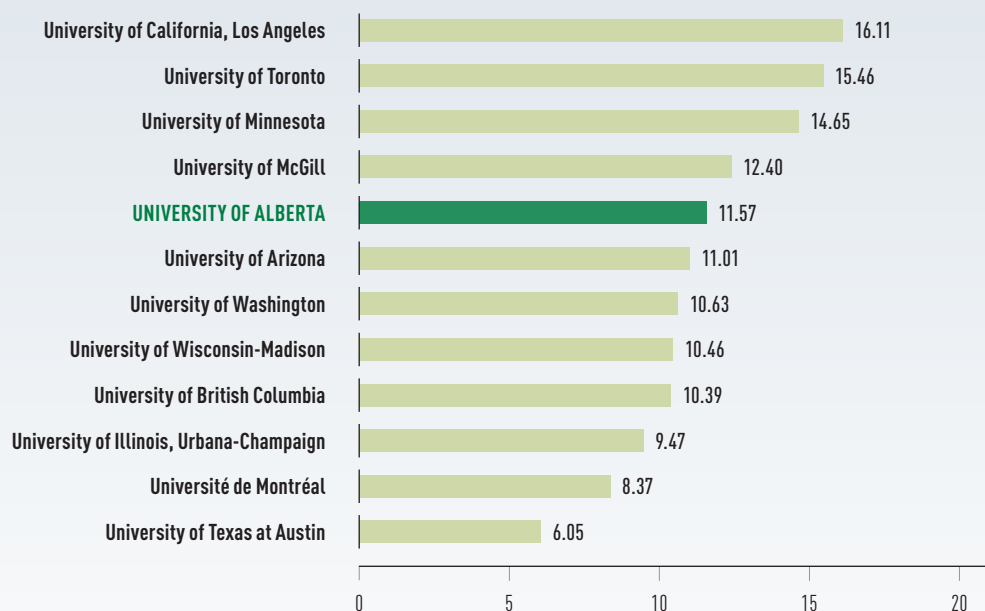
Awards include: 3M (1998-2010), American Academy of Arts and Sciences (1998-2010), CIS Coach of the Year Award (1998-2010), Federal Tri-Council Highest Awards (1998-2010), Fulbright Scholars (1998-2010), Guggenheim Fellowship Awards (1998-2010), ISI Highly Cited Researchers (inception-2009), Killam Research Fellows (1998-2010), Molson Prize (1998-2010), National Academy of Engineering (1998-2010), National Academy of Sciences (1998-2010), Nobel Prize (inception-2010), Royal Society of Canada (1998-2010), Royal Society of London (1998-2010), Sloan Research Fellowships (1998-2010), Steacie Fellows (1998-2010). **Source:** Award data from individual award websites; individual university websites. Faculty counts based on Statistics Canada: Salaries and Salary Scale of full-time staff at Canadian Universities Reports.

HIGHLIGHTS

- Involving undergraduate students directly in research is a critical goal of *Dare to Deliver 2011-2015*, the U of A's current academic plan. Formally launched in September 2011, the Undergraduate Research Initiative provides research funding to undergraduate students allowing them to pursue research projects under the tutelage of U of A's leading researchers and scholars. In March 2012, 140 applications were submitted for 37 available stipends. In November 2011, when the Students' Union held its first undergraduate research symposium, 124 students were on hand to make presentations.
- A new Green & Gold Student Leadership and Professional Development Grant is now available to students to encourage and assist them in developing professional and leadership skills, specifically those attributes and competencies that prepare them to lead in the organizations that will employ them in the future. In the first year of the program, 67 individual and group applications were received and 71 students received grant funding through 27 successful applications.

U of A researchers demonstrably contribute to their fields through high numbers of research publications

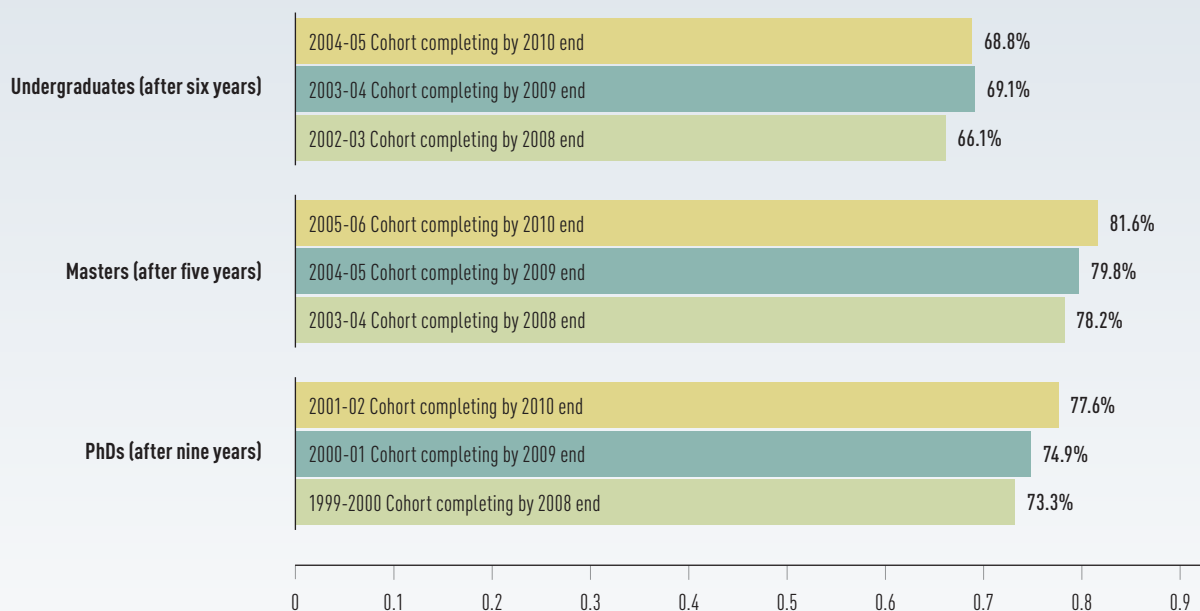
FIGURE 8 PUBLICATIONS PER FULL-TIME FACULTY, UNIVERSITY OF ALBERTA AND SELECTED PEERS, 2006 TO 2010



Notes: Publication counts reflect the number of papers published in the last five-years, to the average of full-time faculty during the same period. **Source:** Canadian university faculty counts based on Statistics Canada UCASS Final Reports for each respective year. US university faculty counts based on their respective Common Data Sets for each respective year. Citations based on InCites™, Thomson Reuters (2011). Data Source: Web of Science®.

The U of A continues to demonstrate high student retention and completion rates

FIGURE 9 COMPLETION RATES, UNIVERSITY OF ALBERTA



Notes: Completion Rate methodology defined and implemented by the Strategic Analysis Office. Completers in the Undergraduate Completion Rate represent students who graduated from the U of A in any program. Completers in the Masters and PhD Completion Rates represent students who graduated with either a Masters or PhD. The Masters Cohort includes students enrolled in either a thesis-based or course-based Masters program; and students graduating with a Masters may be either a thesis-based or course-based Masters. **Source:** University of Alberta Strategic Analysis Office undergraduate figures as submitted to CSRDE (Consortium for Student Retention Data Exchange); Masters and PhD figures as submitted to the G13 Data Exchange.

CORNERSTONE 3



The University of Alberta will forge strong connections with its community locally, nationally and internationally

Can one of the world's great universities be at once exclusive, yet inclusive? Exceptional, yet accessible? The University of Alberta's goal is to be recognized not only for being great, but also for being good: for effectively contributing to the communities that rely on us for solutions, for assuring that our students understand the value of volunteering, and for cultivating the diversity of thought, mind, and character that are essential to modern society.

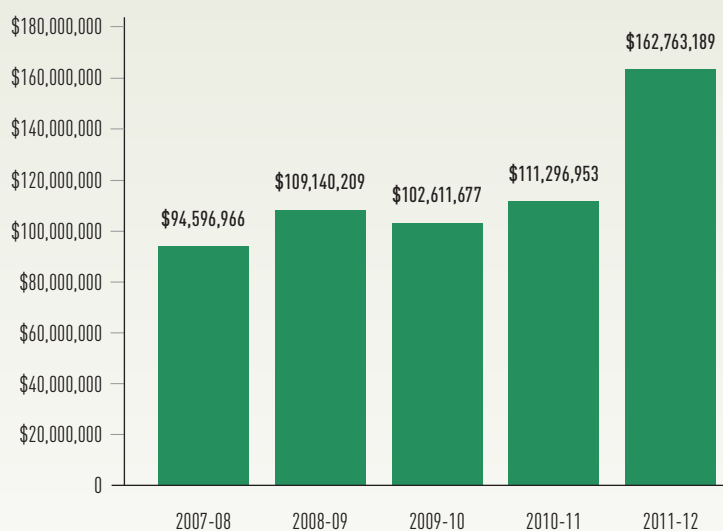
HIGHLIGHTS

- Faculty, students and alumni from Women's Studies partnered in the community-academic-police collaboration SAVE (Sexual Assault Voices of Edmonton), producing an internationally-praised behavioural marketing campaign called "Don't be that guy." In the past year, this campaign has run across Canada and in some cities in the USA, as well as in Australia, New Zealand and Scotland. It was nominated for an Alberta Solicitor General Crime Prevention Award.
- Faculty of Extension professor Fay Fletcher collaborated with the Alexis Nakota Sioux First Nation in the adaptation, delivery and evaluation of a school-based drug and alcohol prevention program. She also partnered with Native Counselling Services of Edmonton in an examination of a formal education program to improve the health of urban Aboriginal women and is working with Enoch Cree Nation's Family Health Working Group, exploring strategies for integrating health services.

PERFORMANCE MEASURES

Support from donors continues to be strong, contributing to sustainable growth

FIGURE 10 UNIVERSITY OF ALBERTA FUNDRAISING ACHIEVEMENT, LATEST 5 YEARS



Note: Fundraising achievement totals consist of new pledges, grants, and gifts (including matching gifts); pledge payments and write offs are not included.

In fiscal year 2012, newly adopted donation counting guidelines resulted in the one-time recording of \$39 million in bequests that were confirmed in writing in prior fiscal years.

Significant donations during the fiscal year include: The Go Community Board donated the facility that is now the Saville Community Centre and the Royal Alexandra Hospital Foundation and the Stollery Children's Hospital Foundation made major commitments in support of the Women and Children's Health Research Institute.

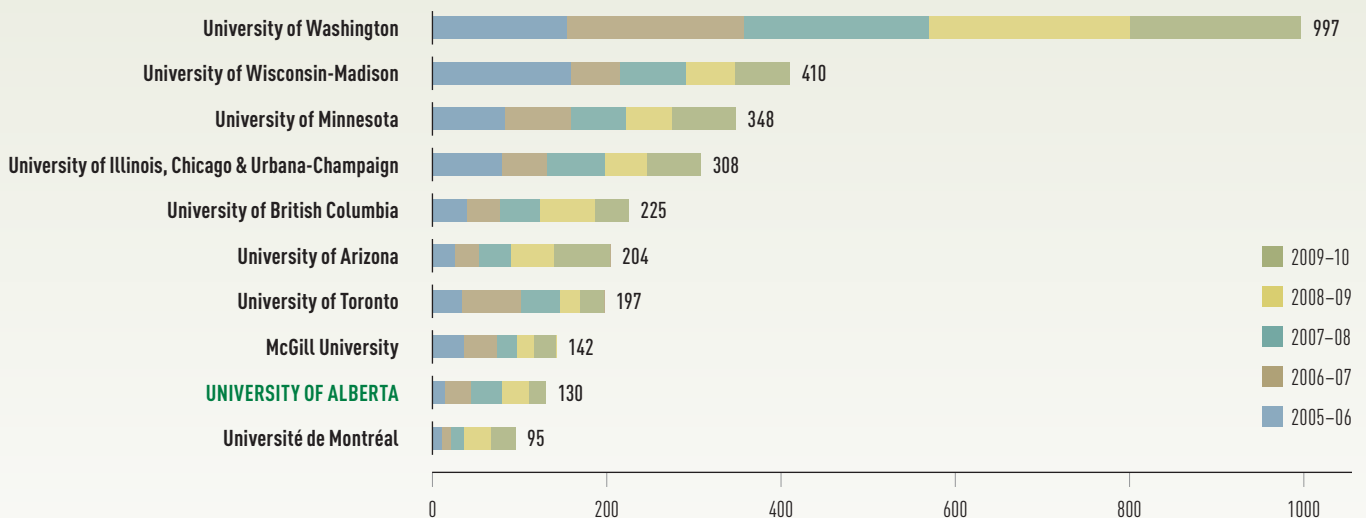
Source: Board of Governors' Reports, University of Alberta.

HIGHLIGHTS

- In year two of the U of A's participation within the Worldwide Universities Network (WUN), the U of A is leading five research projects (attracting \$210,000 in funding) and participating in another 15. These strong results, coupled with President Indira Samarasekera's appointment as the new chair of the WUN Partnership Board, indicates that the connections and research fostered through the WUN will continue to grow and extend U of A's global leadership.
- The Helmholtz-Alberta Initiative also continues to expand from its original focus on energy and environment research into new areas, including infectious diseases and ecosystem and resource informatics. The Helmholtz Association in Germany has allocated €400k/year for up to three years for phase 1 of the collaboration and planning is underway to apply in phase 2 for €800k/year for up to five years.
- Leveraging relationships with Rocky Mountain Laboratories, a premier National Institutes of Health (NIH) facility for biomedical research, the U of A and the University of Montana are collaborating in areas of mutual interest such as mountain studies, American studies, Aboriginal teaching and training, prion and protein folding, and infectious diseases.

Success in bringing discoveries to market

FIGURE 11 NEW LICENSES AND OPTIONS EXECUTED, UNIVERSITY OF ALBERTA AND SELECTED PEERS, 2005-06 TO 2009-10



Notes: UCLA and Texas - Austin are not represented in this chart as they do not report separately to AUTM, but are included in their respective university systems. The University of Illinois data represents two of its largest campuses: Chicago and Urbana-Champaign as reported in the AUTM Licensing Survey.
Source: AUTM Licensing Survey, FY 2005/06 to FY 2009/10.

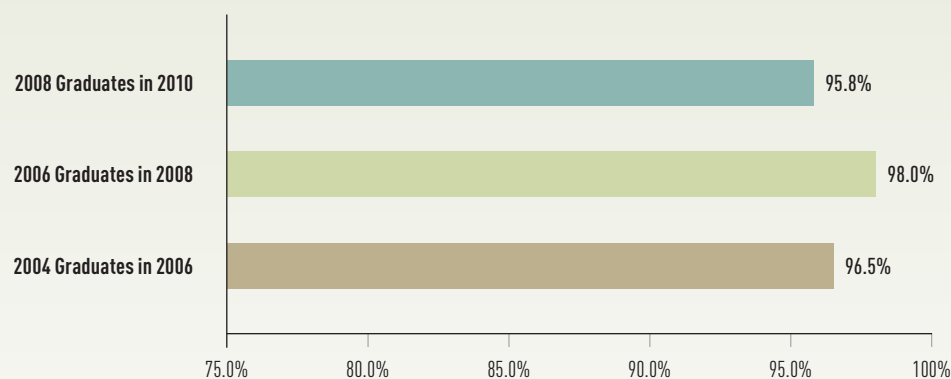
■ In 2011-12, the U of A received \$2.5M over five years from the Chinese government to continue developing collaborative relationships with Chinese research institutes and universities. In February 2012, the university signed a memorandum of understanding with Tsinghua University to establish a Sino-Canada Research Initiative on Energy and Environment. The signing ceremony was witnessed by Prime Minister Harper during his state visit to China.

■ Aga Khan University — a partner of the U of A — is constructing a brand new campus which will be located near Arusha, Tanzania; Professor Jan Selman is leading the creation of its first Faculty of Arts and Sciences. She has spent eight months in Kenya developing specific programming and research activity for the digital arts, expressive arts (performance, design, visual art, music and creative writing) and business for the arts stream.

■ U of A International provided education abroad experiences for approximately 1,000 U of A students dispersed to over 40 countries and 100 post-secondary institutions in 2011-12. Among the many successful incoming international programs, UAI's International Research Internship program hosted 70 students from partner institutions in China and India.

Positive transitions from post-secondary study to professional experience

FIGURE 12 GRADUATE EMPLOYMENT RATE TWO YEARS AFTER GRADUATION



Source: Alberta Advanced Education and Technology: Alberta Graduate Outcomes Survey

CORNERSTONE 4



The University of Alberta will exemplify transformative organization and support

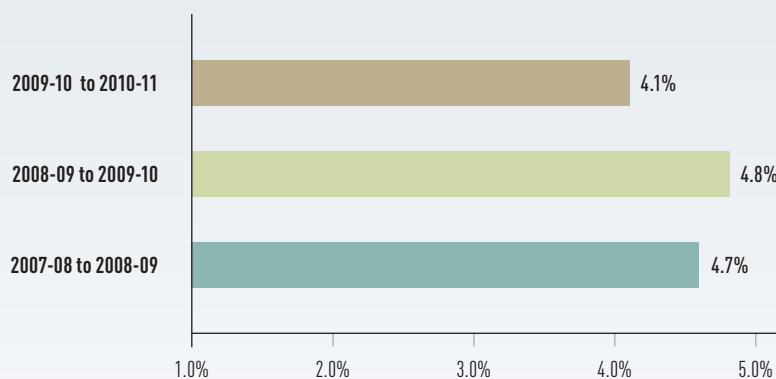
A great university is characterized by, and recognized for, effective governance, strong leadership, and a commitment to helping each member of the university community achieve his or her potential — as scholars, as employees, in their professions, and in their lives. Only by constantly re-assessing ourselves and re-committing to new standards of excellence can the University of Alberta continue to grow and thrive.

HIGHLIGHTS

- Attracting major external research funding and support is both a sign of the University of Alberta's research excellence and an essential component of sustaining and deepening that excellence. In 2011-12, university researchers, programs, institutions and centres attracted \$460.1 million.
- Two major teaching and research facilities were opened in 2011-12: the Centennial Centre for Interdisciplinary Science and the Edmonton Clinic Health Academy. Both buildings provide essential space for the U of A's enrolment growth over the last decade but they provide more than space. They are also both designed to stimulate and facilitate interdisciplinary and inter-professional learning and research collaborations increasingly demanded by today's businesses, industries, and social organizations.
- To increase students' access to international experiences, U of A International overhauled the student financial support model for education abroad to be more simplified, transparent and campus-wide. Funding and adjudication processes have been restructured and streamlined; as a result, UAI awarded approximately 500 scholarships in 2012, up from less than 200 in 2011. Students now have a 1-in-2 chance of receiving funding either through an Individual Study Abroad Award or the Group Study Abroad Program Award.

Responsible stewardship of resources

FIGURE 13 PROPORTION OF OPERATING EXPENDITURES GOING TOWARDS ADMINISTRATIVE PURPOSES, TWO-YEAR CYCLES

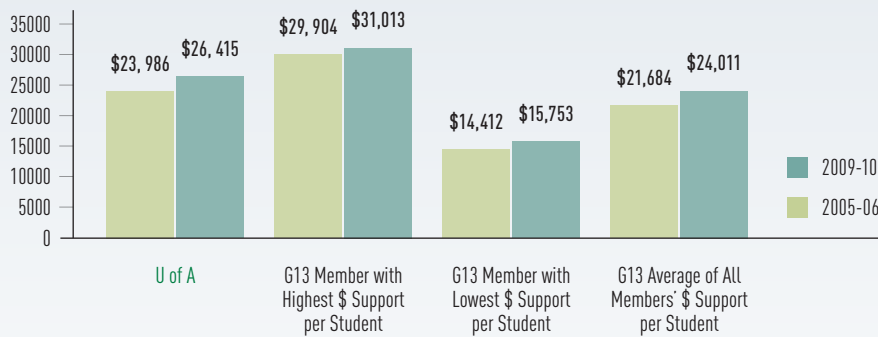


HIGHLIGHTS

- Support for all students was also strengthened by consolidating a range of student support services into a new Student Success Centre and Mental Health Centre. To ensure the success of the latter, the Provost Fellow for Student Mental Health has been identifying best practices across North American post-secondary institutions in order to develop a campus-wide strategy to improve mental health services and augment student wellness, including extensive consultation with, and presentations to, members of the university community.
- The U of A continues to be recognized as a Campus Sustainability Leader by the Sustainability Endowment Institute and as one of Canada’s Greenest Employers. As a Charter Member of Sustainability Tracking, Assessment & Rating System (STARS™), the U of A received a silver rating, the second-highest among Canadian institutions. In addition, the university also received the highest marks of all Canadian institutions in the area of planning, administration and engagement.

The U of A provides foundational support structures for graduate students

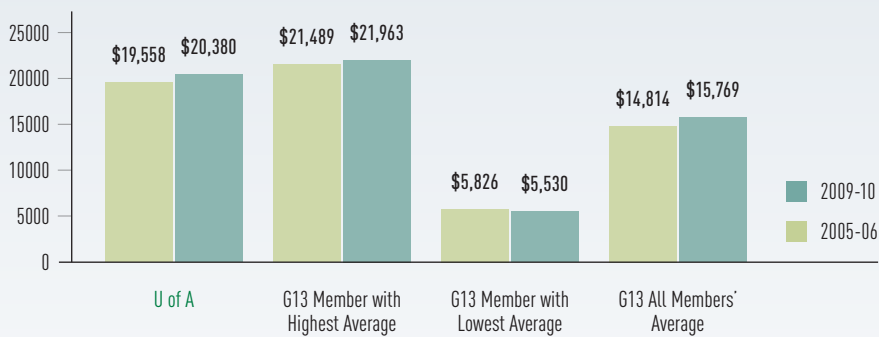
FIGURE 14 AVERAGE FINANCIAL SUPPORT PER DOCTORAL STUDENT, UNIVERSITY OF ALBERTA AND G13 UNIVERSITIES, 2005-06 AND 2009-10



Notes: Data is based on 10 universities in 2005-06 and 13 universities in 2009-10. **Source:** G13 Data Exchange.

- The U of A's fundraising total for 2011-12 amounts to nearly \$163 million — approximately \$50 million more than last year. Much of this increase was due to 900 alumni donating to the U of A for the first time. Contributions to the U of A's Annual Fund, in particular, are being used to launch and sustain three initiatives: the Undergraduate Research Initiative, the Green & Gold Student Leadership and Professional Development Grant, and the International Research Internship program.
- The university's first generation Energy Management Program, initiated in the mid 1970's, resulted in an accumulated cost avoidance of approximately \$258 million and a cumulative reduction in excess of 2,300,000 tonnes of CO₂. Given its success, the university has launched a second generation of the EMP reflecting 21st century sustainability technologies and practices.

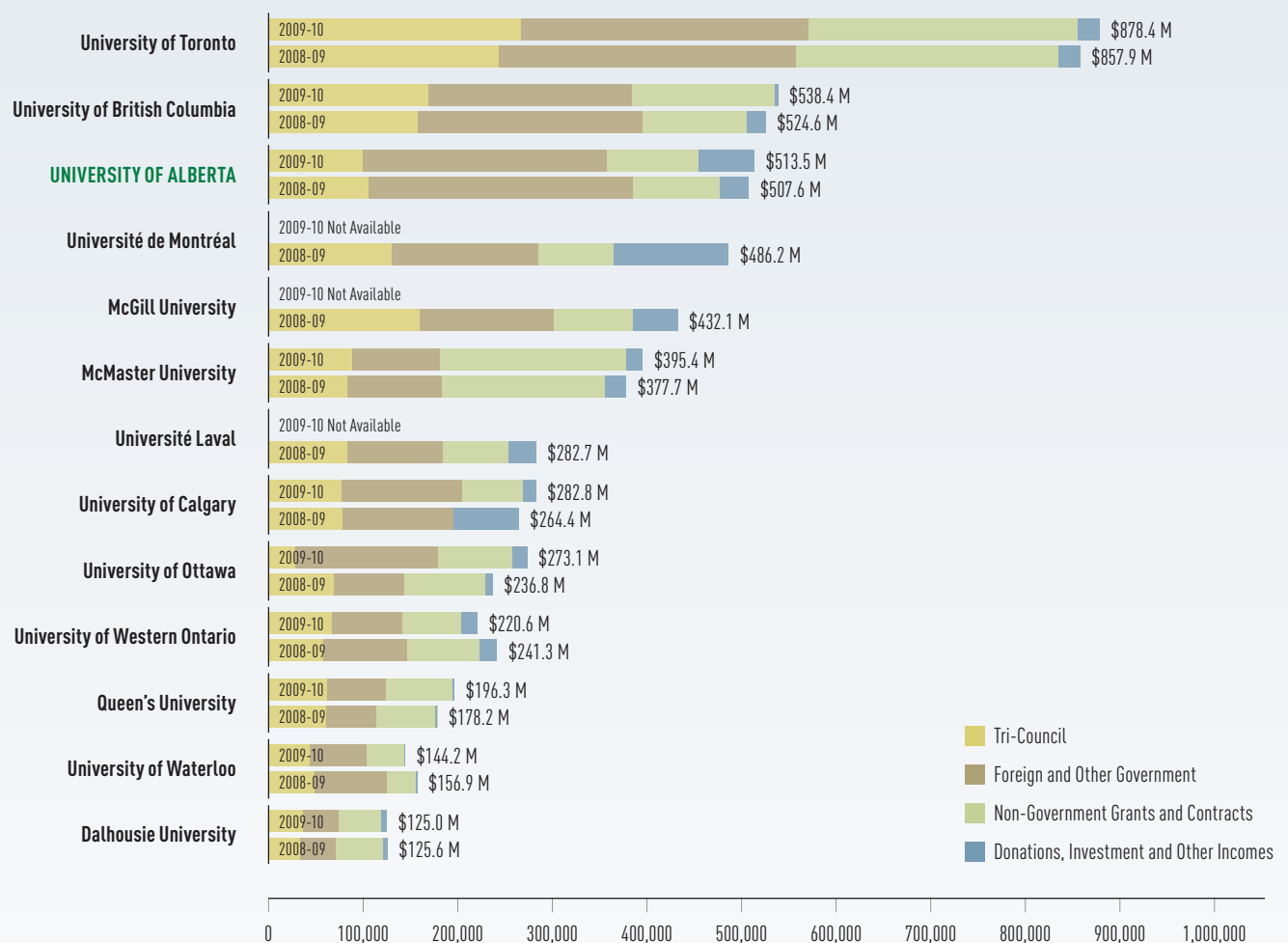
FIGURE 15 AVERAGE FINANCIAL SUPPORT PER RESEARCH MASTERS STUDENT, UNIVERSITY OF ALBERTA AND G13 UNIVERSITIES, 2005-06 AND 2009-10



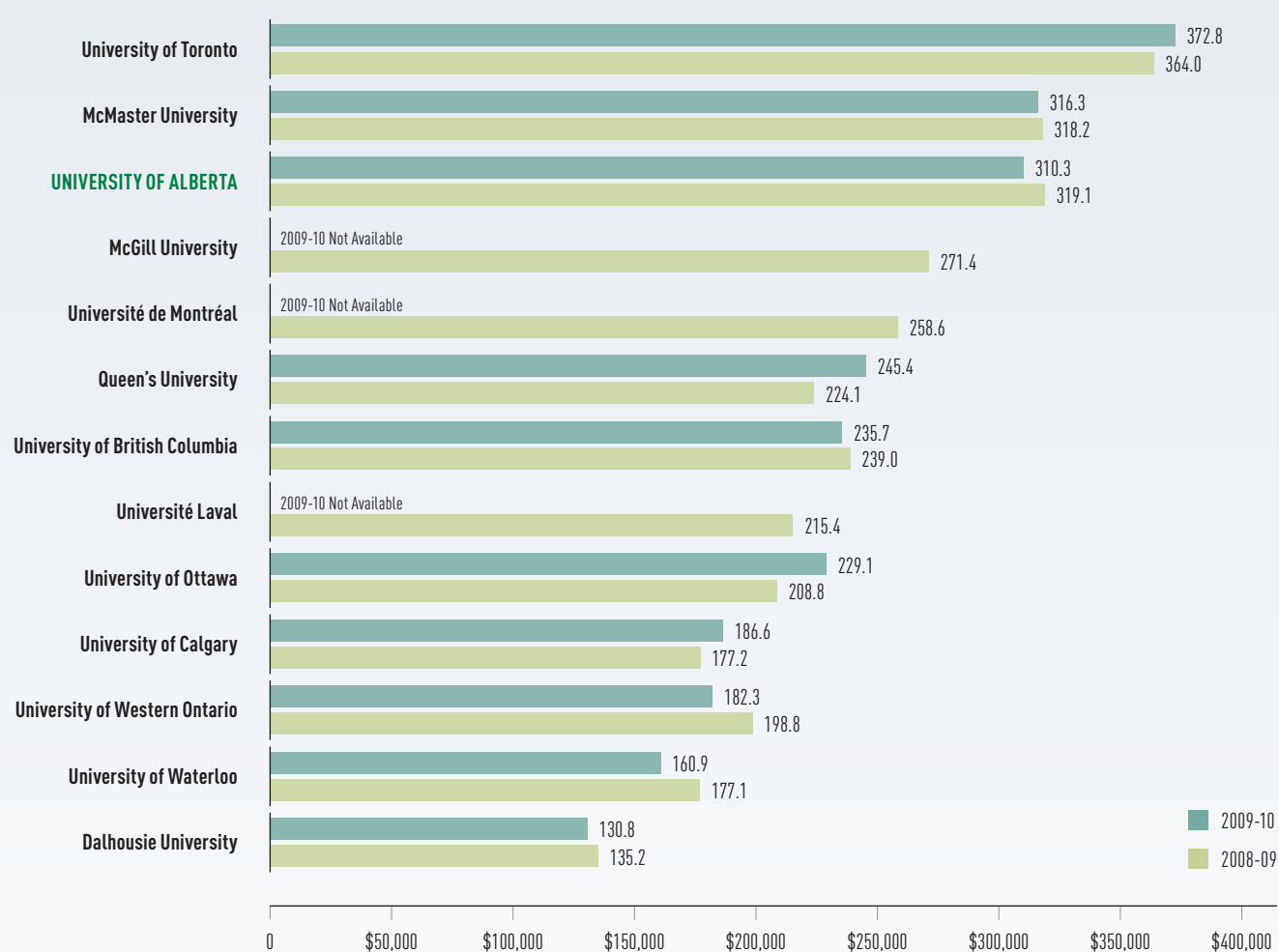
Notes: Data is based on 10 universities in 2005-06 and 13 universities in 2009-10. **Source:** G13 Data Exchange.

Talented U of A researchers have an impact in their field

FIGURE 16 G13 SPONSORED RESEARCH INCOME BY TYPE, 2008-09 AND 2009-10



Notes: Income from Tri-Council includes: Social Sciences and Humanities Research Council (SSHRC); Natural Sciences and Engineering Research Council (NSERC); and Canadian Institutes of Health Research (CIHR). Other Government income reflects income from all government departments and agencies - grants and contracts, less Tri-Council and foreign government income. Donations, non-government grants and contracts, and investment and other incomes, are reported in each respective category on the CAUBO report. **Sources:** Canadian Association of University Business Officers (CAUBO): Financial Information of Universities and Colleges 2008-09 and 2009-2010, Report 3.1. The 2009-10 information is not yet available for Université de Montréal, University of McGill and Université Laval.

FIGURE 17 SPONSORED RESEARCH INCOME PER FULL-TIME TEACHING FACULTY FOR G13 UNIVERSITIES, 2008-09 AND 2009-10 (IN \$000s)

Notes: Full-time teaching faculty (Including Medical/Dental) are Professors, Associate Professors and Assistant Professors. **Source:** CAUBO Financial Information of Universities and Colleges, 2008-09 and 2009-10. The 2009-10 information is not yet available for Université de Montréal, University of McGill and Université Laval. Statistics Canada Salaries and Salary Scales of Full-time Teaching Staff at Canadian Universities, 2008/09: Final Report and the 2009/2010: Preliminary Report, with the exception of the following universities whose data source is G13 Full-Time Faculty Salaries Report (with preliminary data for University of Toronto) 2009-2010: Dalhousie University, University of Western Ontario, Queen's University, University of Waterloo, University of Toronto, Université de Montréal, McGill University and Université Laval.

RENEWING AND ENHANCING FACILITIES AND INFRASTRUCTURE

In the competitive world of post-secondary education, it is essential for the U of A to provide high-quality learning experiences and infrastructure that attracts, retains, and engages outstanding faculty and students.

The following projects were recorded as substantially completed in fiscal year 2011–12:

Edmonton Clinic Health Academy

This \$425M project achieved substantial performance in July 2011 with move-ins to support the lower 3 floor teaching functions occurring in August of 2011, classes commenced as scheduled for the 2011-2012 fall term. This project saw the turnover of 2000 additional student spaces and collaborative research space that integrates interdisciplinary research of Health Sciences Council members and collaboration among various faculties.

Saville Community Sports Centre

This project was completed in August of 2011 and includes an internal bridge link to the original Saville Curling / Tennis facility. This project is a partnership with several community groups and all three levels of government providing roughly 20,000 m² of high quality hard court facilities for basketball, volleyball and gymnastic programs.

Knowledge Infrastructure Partnership Programs

Several projects were completed that were part of the Federal Government Knowledge Infrastructure Partnership stimulus initiative. These included:

- Chemistry West: upgrades and modernization increasing teaching / learning capacity and reducing deferred maintenance.
- Biological Sciences: upgrades to air and heat recovery systems.
- Pedways: Two new pedways were completed crossing 87th avenue and 114th street.
- Li Ka Shing Centre for Health Research Innovation and Katz Group Centre for Pharmacy: continuation of the tenant fit out program.

Utility Plant Expansion Phase 2 and 3

This \$81M project was completed in the fall of 2011 to deal with new building development that has occurred over the past several years.

Projects that started construction during the 2011-12 fiscal or were in planning and design included:

- Physical Activity Wellness Centre: 2011-12 saw completion of the agreement with the students' associations, finalization of the design concepts and selection of the contracting team.
- Li Ka Shing Centre for Health Research Innovation and Katz Group Centre for Pharmacy LKS and Katz final fit out.
- Balmoral Repurposing: broke ground on Balmoral curling club conversion project, building and site to be converted to an advanced radioisotope research facility.
- Dentistry Pharmacy Redevelopment: design team selected.
- East Campus Village 89th Avenue Residence: design concept finalized and RFPs related to both design and construction.
- Camrose Performing Arts Centre: working cooperatively with the City of Camrose to move from the design to construction phase.
- Innovation Centre for Engineering (ICE): in construction.
- Agriculture Research Infrastructure: infrastructure upgrades and new construction at both St Albert and Kinsella facilities.

FINANCIAL HIGHLIGHTS 2011-12

The overview is intended to provide the reader with the financial highlights for the 2012 year and should be read in conjunction with the complete financial analysis and the March 31, 2012 audited Financial Statements available at <http://www.financial.ualberta.ca/AnnualFinancialStatements.aspx>.

The University of Alberta ended the 2012 fiscal year with a \$4.1 million excess of revenue over expense (2011: \$75.2 million excess) and an unrestricted net assets deficit of \$15.6 million (2011: \$3.5 million deficit).

The small surplus is a reflection of the impact of the 0% grant increases over the past three years, the elimination of the enrolment planning envelope funding and the drawdown of balances in the faculties (spending amounts carried over from previous years). The prior year's excess of revenue over expense of \$75.2 million was mainly due to a decrease in the Universities Academic Pension Plan unfunded pension liability expense and spending lag in the operating fund.

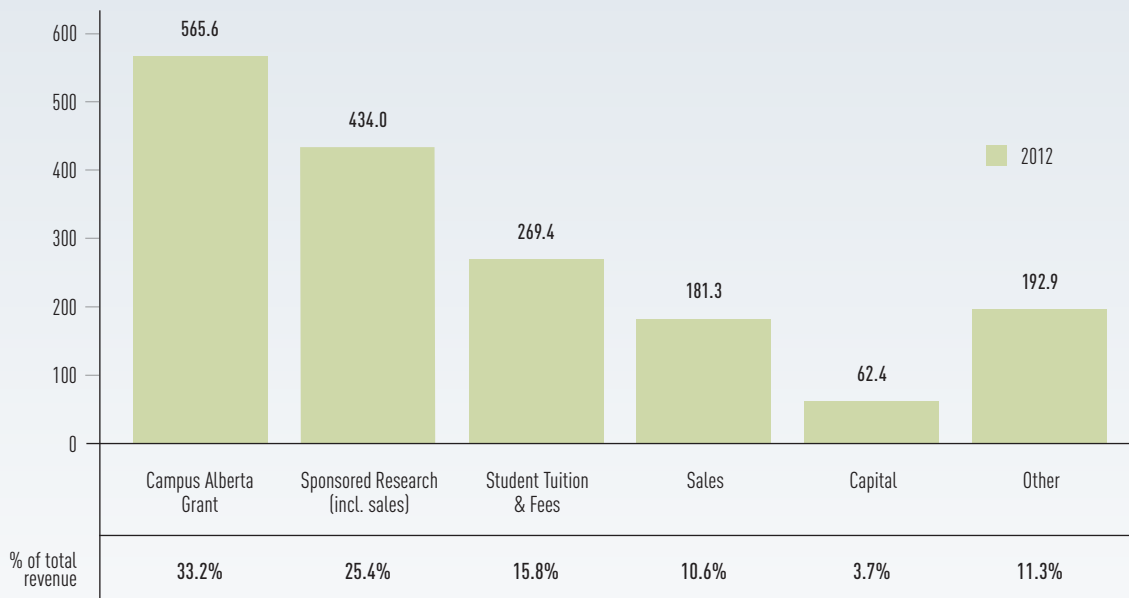
OTHER FINANCIAL HIGHLIGHTS FOR 2012:

■ For the 2012 fiscal year, the University did not receive an increase in the operating grant funding. The University has addressed this issue through a combination of revenue enhancements, cost containment measures and operating efficiencies. The Government of Alberta has committed to a 2% increase in the operating grant for each of the next three years. The University will continue to look at overall cost containment and administrative efficiencies.

■ Unitized Endowment Pool (UEP) investments returned 3.0% (2011: 9.2%) and the Non-Endowed Investment Pool (NEIP) returned 2.1% (2011: 2.2%). The UEP return of 3.0% was not sufficient to cover the approved spending allocation; therefore a portion of the spending allocation was funded by endowment net assets (cumulative capitalized income).

Revenue (before deferrals)

FIGURE 18 REVENUE YEAR ENDED MARCH 31 (IN MILLIONS OF DOLLARS)

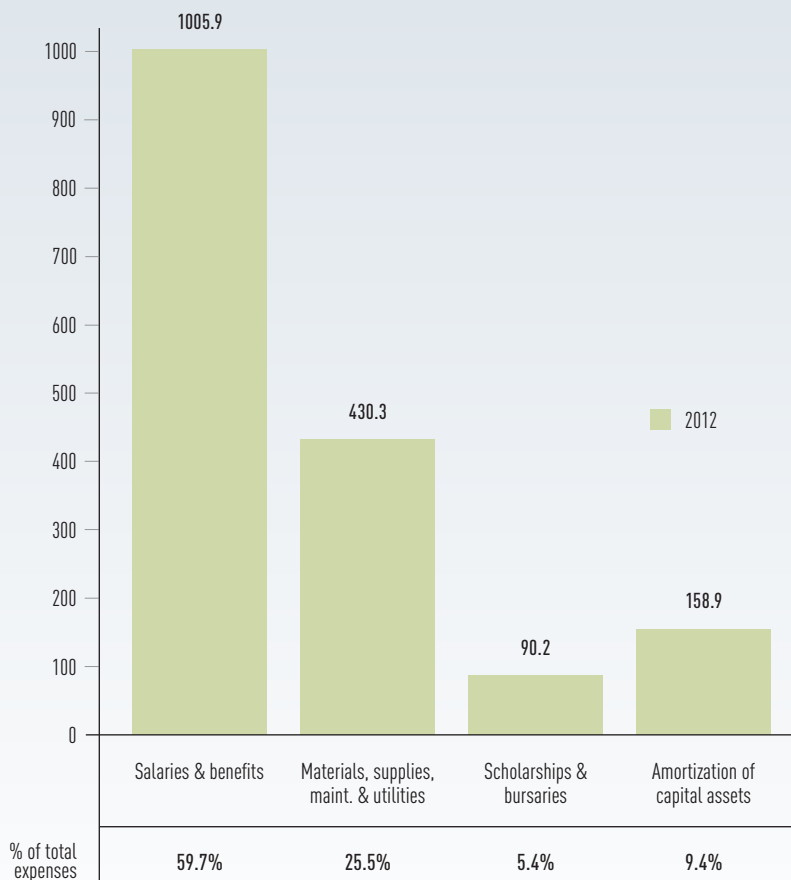


- Total funding in support of the University's research activity for 2012 is \$460 million compared to \$536 million in 2011. The sponsored research revenue decrease is mainly due to reduced grants from the Government of Alberta and the Canada Foundation for Innovation (CFI). Because the funding for CFI comes in blocks and the major projects awarded in 2009 were completed, no new funding occurred in 2012. As a result, matching support from the Government of Alberta was not required. The next cycle of grants for CFI have just been submitted for initiation in 2014. Another major factor in the decrease in funding was the lower capital contributions for research primarily due to completion of the Edmonton Clinic Health Academy, Katz Group Centre for Pharmacy and Health Research, Li Ka Shing Centre for Health Research Innovation and the Centennial Centre for Interdisciplinary Science.

- The University's successful fund-raising initiatives support many activities across the University. For the 2012 year, new endowment contributions totaled \$24.7 million and expendable donations totaled \$26.5 million. The University also received a \$35.0 million in-kind contribution of a building (Saville Community Sports Centre).
- In support of the University's capital plan, the Government of Alberta provided \$56.1 million in funding for capital priorities. With the recent completion of large-scale capital projects, the University now has the opportunity to maintain, and where appropriate, repurpose aging assets and infrastructure. The University, with assistance from the Government of Alberta, has also made progress in reducing the overall amount of deferred maintenance.
- For further information, please see the Financial Statements, March 31, 2012 at <http://www.financial.ualberta.ca/AnnualFinancialStatements.aspx>.

Expenses

FIGURE 19 EXPENSES YEAR ENDED MARCH 31 (IN MILLIONS OF DOLLARS)



OPPORTUNITIES AND CHALLENGES

Alberta is at an exciting point in terms of its role on the national stage. According to Statistics Canada, Alberta's economy expanded by 3.8 percent in 2010 and had the highest GDP per capita of any province or state in North America. The province continues to lead the country in per capita investment. In fact, per capita investment was almost double the national average in 2010. Analysts, such as BMO Capital Markets and RBC Financial Group, have forecasted that Saskatchewan and Alberta, powered by their respective natural resource sectors, will be Canada's economic growth leaders in 2012.

Authorities on post-secondary education are noticing a similar trend. Alex Usher, president of Higher Education Strategy Associates, recently generated headlines across the country when he stated that “[t]he intellectual centre of gravity of Canada is shifting west much faster than people realize.” As Usher notes, the U of A has successfully leveraged past support from the provincial government to achieve impressive results on the national stage. When the federal government awarded the first round of the Canada Excellence Research Chairs, the University of Alberta received four chairs – the most of any institution in Canada. In December 2011, the announcement of new federally funded industrial research chairs saw the University of Alberta receive six additional IRCs, bringing the University’s Faculty of Engineering to 16 chairs, again more than any other institution.

Continued bold, transformative investments are required to sustain the U of A’s remarkable momentum within the Canadian context and to capitalize on new opportunities for national leadership in the post-secondary education and research sector. Within Alberta’s efficient six sector model, the U of A and the other comprehensive academic and research institutions (CARIs) are the key to sustaining and improving Alberta’s global competitiveness through graduate education and research. Within this Campus Alberta model, the U of A has a special responsibility and ability through our international research partnerships

to deliver talented human capacity to Alberta’s entire innovation environment. In addition, through strategic planning, the U of A leverages its government investment to the benefit of Campus Alberta. We play a leadership role in creating and facilitating collaboration with partnering institutions; we work together to create opportunities for students in rural and remote areas; we share resources and best practices to create administrative and system-wide efficiencies, and continue to leverage economies of scale.

With the Knowledge Infrastructure Program completed and the envelope for future Canada Foundation for Innovation competitions somewhat limited, ensuring that Alberta’s post-secondary institutions have access to funding for world-class research and experimental facilities is of paramount importance, especially since the U of A serves as a resource for the wider Campus Alberta system. A mechanism for the provision of provincial matching funds would also greatly enhance the U of A’s ability to compete for and secure grants from the Tri-Council as well as build international partnerships and collaborations.

In today’s global context, competing successfully on the international stage is a key part to the U of A’s capacity to be a provincial and national leader. Despite the economic downturn since 2008, nations across the world have recognized the critical importance of investing in education and research in order to secure both short-term economic

recovery and long-term economic competitiveness in the knowledge economy of the future. Aside from these critical investments in education and research, nations are also aggressively pursuing collaborative international partnerships that allow them to leverage their own strengths in partnerships with centres of excellence elsewhere. This is especially apparent among emerging economic powerhouses, such as China and India. Even smaller nations, such as South Korea and Taiwan, are also investing strategically and reaping great benefits. As a result, competition within the global context is fierce.

Human capital is mobile: people move from one country to another to live and work, transferring knowledge between countries and developing new ideas, innovations, and solutions in the process. Currently, international students and faculty members are studying and teaching in universities throughout Alberta, but we need to recruit and retain more of them. At the U of A in 2011-12, international students accounted for 31.5% of graduate students. Through their long-standing and powerful global networks these individuals create informal and formal connections that cross borders. The University of Alberta also continues to work with the province to establish new and extend current multileveled research partnerships, involving academic, government, and industry partners. The overall aim of these kinds of partnerships is to position the University of Alberta as a global leader able to facilitate research and teaching with international

impact and influence. If Alberta effectively leverages these partnership connections, it will increase competitiveness, secure economic prosperity, and advance its position in the global economy. Alberta needs and deserves the benefits that a globally recognized institution brings to its citizens, who move internationally, and its industries, which engage globally. Alberta's ability to capitalize on strategic opportunities, find effective solutions to issues of provincial interest, and provide leadership in areas of international importance is directly linked to this university's ability to attract the world's best, to partner with global innovators, and to compete at the highest levels on the international stage. To ensure that the U of A — and by extension the province — remains a competitive destination of choice for talented people and productive provincial, national and international partnerships, it is vitally important that the province invest strongly in itself through the U of A's future.

*For further details regarding the U of A's plans with respect to these opportunities and challenges, please refer to the 2012 Comprehensive Institutional Plan (CIP) <http://www.provost.ualberta.ca/en/ComprehensiveInstitutionalPlan.aspx>. The CIP is written in support of the University's vision and mission as outlined in *Dare to Discover* and its Academic Plan, *Dare to Deliver*. The CIP outlines the University's academic and research priorities, which in turn drive the University's capital and resource allocation priorities.*

RISKS — PREPARING FOR THE FUTURE

Like all world-class research intensive universities, the University of Alberta must deal with a variety of risks that have the potential to hinder its growth and the realization of its vision, mission and strategic objectives. The risks and the strategies to address them were identified in the 2012 CIP.

1. In moving towards our vision of being one of the world's great public universities, our national and international profile will increase. A higher profile will be accompanied by an increased level of scrutiny and we will be held to a higher standard. Any significant long-term negative event can quickly impact the reputation of an institution.
2. The substantive and continuing economic uncertainty, low interest rates, concerns over rising costs of education, government deficits, and a budget model where expenditures are increasing more rapidly than revenue present the University with a series of fundamental budget risks. The realignment of the University's budget model will be critical if the University is to achieve its vision.
3. Enrolment growth must be managed from the perspective of meeting the labour demands of a province on the road to recovery, while achieving the appropriate enrolment ratio targets that position the University as an internationally competitive research intensive institution.
4. The University must maintain the morale of its staff during uncertain economic times, while investing in key human-resource systems and processes to ensure the effective operation of the University.
5. For the University to remain relevant to its students and meet the needs and expectations of its faculty to engage in world-calibre research, it requires continuous investment in leading-edge Information Technology infrastructure and support.
6. The continuation of appropriate levels of Infrastructure Maintenance Program funding to avoid a return to increasing levels of deferred maintenance is vital. In addition, limited or no funding of capital for new, expansion, and/or renewal projects will impact the capacity of the University to meet the strategic goals of the institution and negatively impact the economic goals of the province.
7. Uncertainty brings risk associated with retaining and attracting the best and the brightest students, academics and staff. Clarity in levels of ongoing government investment and confirmation of strategic investments greatly reduces the risks associated with uncertainty.
8. An institution that has aspirations of being among the top publicly funded research-intensive universities in the world can only achieve that goal through the establishment of strategic collaborations and partnerships with an extensive range of stakeholders. These relationships must be managed in an integrated and strategic manner.
9. The University requires access to and flexibility in funding that would enable it to leverage tens of millions of research dollars from provincial, national, and international sources. This type of leveraging strategy will advance the University in achieving internationally recognized research excellence while meeting the economic goals of both the provincial and federal governments.
10. While the University must assume risks in support of its mandate as an internationally recognized research intensive institution, it must also promote appropriate risk management plans and strategies that develop responsive attitudes and behaviours at all levels of the organization in order to maintain a healthy and safe environment for all.

Through its integrated enterprise risk management framework, the University will monitor, manage, and mitigate these and other emerging risks in an effort to avoid substantial impact on the University's ability to fulfil its strategic objectives.

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

University of Alberta's management is responsible for the preparation, accuracy, objectivity and integrity of the information contained in the Annual Report including the financial statements, performance results, and supporting management information. Systems of internal control are designed and maintained by management to produce reliable information to meet reporting requirements. The system is designed to provide management with reasonable assurance that transactions are properly authorized, are executed in accordance with all relevant legislation, regulations and policies, reliable financial records are maintained, and assets are properly accounted for and safeguarded.

The Annual Report has been developed under the oversight of the Board University Relations Committee, as well as the Board Audit Committee with respect to the financial information, and approved by the Board of Governors. The report is prepared in accordance with the *Government Accountability Act* and the *Post-Secondary Learning Act*.

The Auditor General of the Province of Alberta, the institution's external auditor appointed under the Auditor General Act, performs an annual independent audit of the consolidated financial statement in accordance with generally accepted accounting principles.

Original signed by Indira V. Samarasekera, OC

President and Vice-Chancellor

Original signed by Phyllis Clark

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

INDEPENDENT AUDITOR'S REPORT

FOR YEAR ENDED MARCH 31, 2012



Independent Auditor's Report

To the Board of Governors of the University of Alberta

Report on the Financial Statements

I have audited the accompanying financial statements of the University of Alberta, which comprise the statement of financial position as at March 31, 2012 and the statements of operations and changes in unrestricted net assets, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the University of Alberta as at March 31, 2012, and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Merwan N. Saher, FCA

Auditor General

June 4, 2012

Edmonton, Alberta

UNIVERSITY OF ALBERTA FINANCIAL STATEMENTS

FOR YEAR ENDED MARCH 31, 2012

UNIVERSITY OF ALBERTA
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2012
(thousands of dollars)

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents (note 3) | \$ 119,652 | \$ 122,800 |
| Short-term investments (note 4) | 550,343 | 663,337 |
| Accounts receivable | 156,590 | 177,119 |
| Inventories and prepaid expenses | 13,273 | 21,125 |
| | <u>839,858</u> | <u>984,381</u> |
| Long-term investments (note 4) | 983,428 | 969,485 |
| Capital assets and collections (note 5) | 2,822,274 | 2,670,255 |
| | <u>\$ 4,645,560</u> | <u>\$ 4,624,121</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 199,007 | \$ 213,369 |
| Current portion of employee future benefit liabilities (note 6) | 7,806 | 8,667 |
| Current portion of long-term liabilities (note 7) | 10,895 | 12,659 |
| Deferred contributions, research and other (note 8) | 387,215 | 412,671 |
| Deferred revenue | 20,168 | 21,140 |
| | <u>625,091</u> | <u>668,506</u> |
| Employee future benefit liabilities (note 6) | 151,129 | 138,262 |
| Long-term liabilities (note 7) | 185,743 | 197,170 |
| Deferred contributions, research and other (note 8) | 90,000 | 90,000 |
| Deferred contributions, capital (note 8) | 170,407 | 275,916 |
| Unamortized deferred capital contributions (note 9) | 2,101,486 | 1,964,182 |
| | <u>3,323,856</u> | <u>3,334,036</u> |
| Net Assets | | |
| Endowments (note 10) | 800,343 | 783,340 |
| Investment in capital assets and collections (note 11) | 536,973 | 510,283 |
| Unrestricted (deficit) | (15,612) | (3,538) |
| | <u>1,321,704</u> | <u>1,290,085</u> |
| | <u>\$ 4,645,560</u> | <u>\$ 4,624,121</u> |

Contingent liabilities and contractual obligations (note 12 and 13)

Approved by the Board of Governors:

Original signed by Douglas Goss

Chair, Board of Governors

Original signed by Don Matthew

Chair, Board Audit Committee

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

UNIVERSITY OF ALBERTA
STATEMENT OF OPERATIONS AND CHANGE IN UNRESTRICTED NET ASSETS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

| | <u>2012</u> | <u>2011</u> |
|---|--------------------|-------------------|
| REVENUE | | |
| Government of Alberta grants (note 16) | \$ 763,600 | \$ 744,460 |
| Federal and other government grants | 184,386 | 184,507 |
| Student tuition and fees | 269,355 | 253,897 |
| Sales of services and products | 200,875 | 210,698 |
| Donations and other grants | 124,543 | 112,998 |
| Investment income (note 15) | 42,067 | 56,475 |
| Amortization of deferred capital contributions (note 9) | 104,540 | 81,705 |
| | <u>1,689,366</u> | <u>1,644,740</u> |
| EXPENSE | | |
| Salaries | 838,600 | 786,797 |
| Employee benefits | 167,322 | 152,382 |
| Materials, supplies and services | 313,004 | 293,711 |
| Scholarships and bursaries | 90,183 | 91,109 |
| Maintenance and repairs | 78,118 | 71,658 |
| Utilities | 39,184 | 40,382 |
| Amortization of capital assets | 158,881 | 133,548 |
| | <u>1,685,292</u> | <u>1,569,587</u> |
| EXCESS OF REVENUE OVER EXPENSE | 4,074 | 75,153 |
| NET TRANSFERS FROM (TO) ENDOWMENTS (note 10) | 9,876 | (175) |
| NET CHANGE IN INVESTMENT IN CAPITAL ASSETS (note 11) | (26,024) | (17,962) |
| Change in unrestricted net assets for the year | (12,074) | 57,016 |
| UNRESTRICTED NET ASSETS (DEFICIT), BEGINNING OF YEAR | (3,538) | (60,554) |
| UNRESTRICTED NET ASSETS (DEFICIT), END OF YEAR | \$ (15,612) | \$ (3,538) |

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

UNIVERSITY OF ALBERTA
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

| | <u>Endowments</u> | <u>Investment in Capital Assets and Collections</u> | <u>Unrestricted Net Assets (deficit)</u> |
|---|--------------------------|---|--|
| NET ASSETS, March 31, 2010 | \$ 717,495 | \$ 466,896 | \$ (60,554) |
| Excess of revenue over expense | - | - | 75,153 |
| Investment income (note 15) | 28,767 | - | - |
| Endowment contributions (note 10) | 36,903 | - | - |
| Net transfers (note 10) | 175 | - | (175) |
| Net change in investment in capital assets (note 11) | - | 17,962 | (17,962) |
| Contributions of assets not subject to amortization (note 11) | - | 25,425 | - |
| NET ASSETS, March 31, 2011 | <u>\$ 783,340</u> | <u>\$ 510,283</u> | <u>\$ (3,538)</u> |
| Excess of revenue over expense | - | - | 4,074 |
| Investment income (note 15) | 257 | - | - |
| Endowment contributions (note 10) | 26,622 | - | - |
| Net transfers (note 10) | (9,876) | - | 9,876 |
| Net change in investment in capital assets (note 11) | - | 26,024 | (26,024) |
| Contributions of assets not subject to amortization (note 11) | - | 666 | - |
| NET ASSETS, March 31, 2012 | <u><u>\$ 800,343</u></u> | <u><u>\$ 536,973</u></u> | <u><u>\$ (15,612)</u></u> |

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

UNIVERSITY OF ALBERTA
STATEMENT OF CASH FLOW
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

| | 2012 | 2011 |
|---|-------------------|-------------------|
| CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES | | |
| Excess of revenue over expense | \$ 4,074 | \$ 75,153 |
| Add (deduct) non-cash items: | | |
| Amortization of capital assets | 158,881 | 133,548 |
| Amortization of deferred capital contributions | (104,540) | (81,705) |
| Change in employee future benefit liabilities | 12,006 | 4,568 |
| Change in unrealized gain on investments | (2,295) | (11,210) |
| Total non-cash items | 64,052 | 45,201 |
| Net change in non-cash working capital (*) | 100,585 | 147,038 |
| | <u>168,711</u> | <u>267,392</u> |
| CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES | | |
| Purchases of capital assets and collections, net of proceeds on disposals | (310,234) | (469,088) |
| Purchases of long-term investments, net of sales | (15,562) | 3,417 |
| Endowment investment income (loss) | 4,171 | (55,767) |
| | <u>(321,625)</u> | <u>(521,438)</u> |
| CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES | | |
| Endowment contributions | 26,622 | 36,903 |
| Capital contributions | 136,335 | 221,306 |
| Long-term liabilities - new financing, net of repayments | (13,191) | 19,408 |
| | <u>149,766</u> | <u>277,617</u> |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (3,148) | 23,571 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>122,800</u> | <u>99,229</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR (note 3) | <u>\$ 119,652</u> | <u>\$ 122,800</u> |
| (*) Net change in non-cash working capital: | | |
| Decrease in short-term investments | \$ 112,994 | \$ 55,078 |
| Decrease (increase) in accounts receivable | 20,529 | (8,442) |
| Decrease in inventories and prepaid expenses | 7,852 | 483 |
| Decrease in accounts payable and accrued liabilities | (14,362) | (1,584) |
| (Decrease) increase in deferred contributions, research and other | (25,456) | 97,260 |
| (Decrease) increase in deferred revenue | (972) | 4,243 |
| | <u>\$ 100,585</u> | <u>\$ 147,038</u> |

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

**UNIVERSITY OF ALBERTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012**

(thousands of dollars)

1. Authority and purpose

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

2. Summary of significant accounting policies and reporting practices

(a) General - GAAP and use of estimates

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

(b) Interest in joint ventures

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

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

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

(c) Financial instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

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

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

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

The University is exposed to the following risks:

Market risk

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

Foreign currency risk

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

Liquidity risk

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

Credit risk

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

Interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

(d) Inventories

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

(e) Capital assets and collections

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

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

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

(f) Asset retirement obligations

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

(g) Revenue recognition

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

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

Deferral method

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

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

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

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

(h) Foreign currency translation

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

(i) Employee future benefits

Pension

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

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

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

Supplementary retirement plans

The University provides non-contributory defined benefit supplementary retirement benefits to senior administrators based on years of service and earnings. The expense for these plans is actuarially determined using the projected benefit method prorated on service. The excess of net actuarial gains or losses over 10% of the benefit obligation is amortized over the expected average remaining service life.

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

Long-term disability

The cost of providing non-vesting and non-accumulating employee future benefits for compensated absences under the University's long-term disability plans is charged to expense in full when the event occurs which obligates the University to provide the benefits. The cost of these benefits is actuarially determined using the accumulated benefit method, a market interest rate and administration's best estimate of the retirement ages of employees, expected health care costs and the period of employee disability. The excess of net actuarial gains or losses over 10% of the benefit obligation is amortized over the average expected period the benefits will be paid.

Early retirement

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

Administrative/professional leave

The University provides for certain senior administrators to accrue a paid leave of absence at the end of their administrative appointment. The expense for these plans is actuarially determined using the projected benefit method prorated on service. The excess of net actuarial gains or losses over 10% of the benefit obligation is amortized over the expected average remaining service life.

(j) Capital disclosures

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

(k) Contributed services

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

(l) Future accounting changes

The Canadian Public Sector Accounting Board (PSAB) has issued a framework of financial reporting for government not-for-profit organizations. The framework will be effective for fiscal years beginning on or after January 1, 2012.

Effective April 1, 2012, the University will adopt the Canadian Public Sector Accounting (PSA) standards without the public sector PS 4200 series. Adopting these new standards will impact the University's financial statements. As a result, administration has identified the major difference between current and PSA accounting and reporting standards. Administration has developed a transition plan and continues to work through the remaining differences. The quantitative impact of the transition cannot be fully and reasonably determined at this time.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

3. Cash and cash equivalents

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

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| Cash | \$ 5,925 | \$ 1,118 |
| Money market funds, short-term notes and treasury bills | <u>113,727</u> | <u>121,682</u> |
| | <u>\$ 119,652</u> | <u>\$ 122,800</u> |

4. Investments

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Cash, money market funds, short-term notes and treasury bills | \$ 563,631 | \$ 676,370 |
| Asset-backed commercial paper | 95,710 | 92,367 |
| Canadian government and corporate bonds | 175,108 | 252,323 |
| Canadian equity | 189,769 | 190,507 |
| Foreign equity | 396,020 | 395,472 |
| Pooled hedge funds | 62,717 | 24,711 |
| Annuities | 82 | 86 |
| Real estate | 50,734 | 986 |
| | <u>\$ 1,533,771</u> | <u>\$ 1,632,822</u> |
| Short-term investments | \$ 550,343 | \$ 663,337 |
| Long-term investments | 983,428 | 969,485 |
| | <u>\$ 1,533,771</u> | <u>\$ 1,632,822</u> |

As at March 31, 2012, the average effective yields and the terms to maturity are as follows:

- Money market funds, short-term notes and treasury bills: 1.12% (2011 – 1.32%); term to maturity: less than one year.
- Canadian government and corporate bonds: 1.42% (2011 - 2.72%); terms to maturity: range from less than one year to more than 10 years.

The University's investments are managed using two pools, the Unitized Endowment Pool (UEP) with investment holdings of \$870,130 (2011 - \$838,580) and the Non-Endowed Investment Pool (NEIP) with investment holdings of \$663,641 (2011 - \$794,242). The primary objective for the UEP is to earn a long-term rate of return that, in real terms, exceeds total endowment spending at an acceptable level of risk. The UEP also includes non-endowed assets that will not be required for spending in the next five years. The primary objective for the NEIP is to earn a rate of return that exceeds the DEX 91 day T-Bill return with an emphasis on liquidity and the preservation of capital.

Derivative financial instruments are used to manage currency exposures primarily with respect to the University's investments. The University uses foreign currency forward contracts to manage its foreign exchange currency exposure on certain investments, and has entered into foreign currency forward contracts to minimize exchange rate fluctuations. All outstanding contracts have a remaining term to maturity of less than one year. The University has contracts outstanding held in US dollars, Euro, Japanese yen and the British pound among others. The fair value of net outstanding foreign currency forward contracts receivable is \$4,006 (2011 - \$1,552).

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2012

(thousands of dollars)

Asset-backed commercial paper

The University holds \$131,294 (2011 - \$132,848) in "New Restructured Notes" that were received on January 21, 2009 in exchange for asset-backed commercial paper (ABCP) formerly held by the University. The ABCP had been restructured under the restructuring agreement of the Pan-Canadian Investments Committee (known as the Montreal Accord). Certain notes, classified as Other ABCP, were not part of the Montreal Accord and were restructured directly with the sponsors or remain subject to ongoing legal proceedings.

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

| Note type | 2011 | | 2012 | | | |
|-----------------------------------|----------------------|------------|--------------------|-------------|------------|----------------------|
| | Estimated fair value | Cost | Note cancellations | Redemptions | Cost | Estimated fair value |
| Traditional assets ⁽¹⁾ | \$ 2,410 | \$ 2,543 | \$ (8) | \$ (1,071) | \$ 1,464 | \$ 1,412 |
| Synthetic assets ⁽²⁾ | 80,061 | 117,575 | - | 4 | 117,579 | 83,645 |
| IA tracking notes ⁽³⁾ | 3,705 | 12,730 | - | (479) | 12,251 | 4,414 |
| | 86,176 | 132,848 | (8) | (1,546) | 131,294 | 89,471 |
| Other ABCP ⁽⁴⁾ | 6,191 | 8,660 | - | - | 8,660 | 6,239 |
| | \$ 92,367 | \$ 141,508 | \$ (8) | \$ (1,546) | \$ 139,954 | \$ 95,710 |

(1) Primarily rated as AA+ or higher by DBRS, with a yield based upon the income generated by the underlying assets. Anticipated yield is Bankers Acceptance (BA) plus 0.40%. Scheduled repayment dates are between 4 and 6 years with legal maturity dates between 11 and 25 years.

(2) Primarily rated as A and BBB (low) by DBRS, with a yield of BA minus 0.50%. Scheduled repayment date is January 2017 with a legal maturity date of July 2056.

(3) No stated amount, interest paid will be based on income generated by underlying assets. Scheduled repayment and legal maturity dates are between 2 and 29 years.

(4) Stated yield ranges from BA to Canadian Deposit Offering Rate plus 0.33%. Scheduled repayment and legal maturity dates are between 3 and 6 years.

Valuation

ABCP restructured under the Montreal Accord:

The University has estimated the fair value of these investments as at March 31, 2012 using a discounted cash flow valuation model. This model incorporates administration's best estimates of multiple factors, updated to reflect market-related and other additional information.

The valuation also involves assumptions regarding the difference between the yield the University expects to earn from the restructured floating rate notes and the appropriate market-discount attributable to such investments. The estimated investment yields were determined based on available information. The estimated market-discount rates for the floating rate notes were determined by reference to market rates for other investments and appropriate forward-credit indices. They were then adjusted to include an estimated premium to reflect the expected lack of liquidity in the restructured floating rate notes together with the leveraged nature of the underlying assets and were adjusted for subordination where appropriate. The shortfall between the expected yield and the estimated discount rate for notes in the synthetic assets ranges from 463 to 1,063 basis points. An increase of 100 basis points in the estimated discount rate would decrease the fair value by approximately \$5,600.

Other ABCP:

In the absence of an active market for these investments, the University has estimated their fair value as at March 31, 2012, using a discounted cash flow valuation model similar to the approach used for the ABCP restructured under the Montreal Accord.

Measurement uncertainty

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

5. Capital assets and collections

| | 2012 | | | 2011 | | |
|-------------------------------|---------------------|--------------------------|---------------------|---------------------|--------------------------|---------------------|
| | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| Buildings and utilities | \$ 3,020,539 | \$ 857,044 | \$ 2,163,495 | \$ 2,831,320 | \$ 792,577 | \$ 2,038,743 |
| Equipment and furnishings | 1,143,341 | 770,817 | 372,524 | 1,059,594 | 712,401 | 347,193 |
| Learning resources | 319,512 | 221,429 | 98,083 | 298,859 | 201,578 | 97,281 |
| Land | 85,464 | - | 85,464 | 85,464 | - | 85,464 |
| Library permanent collections | 36,248 | - | 36,248 | 35,776 | - | 35,776 |
| Other permanent collections | 66,460 | - | 66,460 | 65,798 | - | 65,798 |
| | \$ 4,671,564 | \$ 1,849,290 | \$ 2,822,274 | \$ 4,376,811 | \$ 1,706,556 | \$ 2,670,255 |

Included in buildings and utilities is \$60,845 (2011 - \$925,994) recorded as construction in progress, which is not amortized as the assets are not yet available for use.

Acquisitions include in-kind contributions in the amount of \$49,351 (2011 - \$39,060).

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

6. Employee future benefit liabilities

| | 2012 | | | Restated ⁽¹⁾ 2011 | | |
|-----------------------------------|-------------------|------------------|-------------------|---------------------------------|---------------|------------|
| | Academic staff | Support staff | Total | Academic staff | Support staff | Total |
| | UAPP | \$ 89,372 | \$ - | \$ 89,372 | \$ 82,349 | \$ - |
| Long-term disability | 7,002 | 20,469 | 27,471 | 6,229 | 21,803 | 28,032 |
| Early retirement | 167 | 25,741 | 25,908 | 327 | 24,507 | 24,834 |
| SRP (defined benefit) | 5,243 | - | 5,243 | 4,163 | - | 4,163 |
| SRP (defined contribution) | 7,966 | - | 7,966 | 5,119 | - | 5,119 |
| Administrative/professional leave | 2,975 | - | 2,975 | 2,432 | - | 2,432 |
| | 112,725 | 46,210 | 158,935 | 100,619 | 46,310 | 146,929 |
| Less current portion | 2,221 | 5,585 | 7,806 | 2,872 | 5,795 | 8,667 |
| | \$ 110,504 | \$ 40,625 | \$ 151,129 | \$ 97,747 | \$ 40,515 | \$ 138,262 |

⁽¹⁾ Administrative/professional leave liability was previously included in accounts payable and accrued liabilities.

(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, 2010 and was then extrapolated to March 31, 2012, resulting in a UAPP deficiency of \$1,153,334 (2011 - \$992,933) consisting of a pre-1992 deficiency (\$759,322) and a post-1991 deficiency (\$394,012). The University's portion of the UAPP deficiency has been allocated based on its percentage of the plan's total employer contributions for the year.

The unfunded deficiency for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2011 - 1.25%) of salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 2.03% (2011 - 2.03%) of salaries required to eliminate the unfunded deficiency by December 31, 2043. The actuarial extrapolation shows that the present value of the Government of Alberta's obligation for the future additional contributions was \$314,798 at March 31, 2012. The unfunded deficiency for service after December 31, 1991 is financed by special payments of 5.09% (2011 - 5.09%) of pensionable earnings shared equally between employees and employers until December 31, 2023.

Long-term disability (LTD) and early retirement

The University provides long-term disability (academic and support staff) and early retirement (support staff) defined benefits to its employees. The most recent actuarial valuation for these benefits was as at March 31, 2012.

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

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

Administrative/professional leave (leave)

The University provides for certain senior executives to accrue a paid leave of absence at the end of their administrative 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. An actuarial valuation of these benefits was carried out as at March 31, 2012.

NOTES TO THE FINANCIAL STATEMENTS
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(thousands of dollars)

Supplementary retirement plans (SRP)

The University provides non-contributory defined benefit supplementary retirement benefits to executives. An actuarial valuation of these benefits was carried out as at March 31, 2012.

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

| | 2012 | | | | Restated ⁽²⁾ 2011 | | | |
|---|------------------|--------------------|---------------------------------|------------------------------|---------------------------------|--------------------|---------------------------------|------------------------------|
| | UAPP | LTD ⁽¹⁾ | Early retirement ⁽¹⁾ | SRP and leave ⁽¹⁾ | UAPP | LTD ⁽¹⁾ | Early retirement ⁽¹⁾ | SRP and leave ⁽¹⁾ |
| Expense | | | | | | | | |
| Current service cost | \$ 33,406 | \$ 4,489 | \$ 1,478 | \$ 1,163 | \$ 28,613 | \$ 4,537 | \$ 1,229 | \$ 683 |
| Interest cost | 11,538 | 1,256 | 1,110 | 469 | 10,941 | 1,484 | 1,251 | 286 |
| Amortization of net actuarial (gain) loss | 8,321 | (616) | (58) | - | 6,301 | (970) | (90) | - |
| Amortization of past service cost | - | - | - | 54 | - | - | - | 54 |
| Total expense | <u>\$ 53,265</u> | <u>\$ 5,129</u> | <u>\$ 2,530</u> | <u>\$ 1,686</u> | <u>\$ 45,855</u> | <u>\$ 5,051</u> | <u>\$ 2,390</u> | <u>\$ 1,023</u> |
| Financial Position | | | | | | | | |
| Accrued benefit obligation: | | | | | | | | |
| Balance, beginning of year | \$ 708,155 | \$ 24,530 | \$ 22,388 | \$ 6,934 | \$ 620,025 | \$ 24,551 | \$ 21,524 | \$ 5,965 |
| Current service cost | 33,406 | 4,489 | 1,478 | 1,163 | 28,613 | 4,537 | 1,229 | 683 |
| Interest cost | 47,164 | 1,256 | 1,110 | 469 | 43,757 | 1,484 | 1,251 | 286 |
| Recognition of past service | - | - | - | - | - | - | - | - |
| Benefits paid | (31,917) | (5,690) | (1,456) | (77) | (28,924) | (6,097) | (1,613) | (210) |
| Actuarial (gain) loss | 6,274 | 2,831 | (105) | 623 | 44,684 | 55 | (3) | 210 |
| Balance, end of year | <u>763,082</u> | <u>27,416</u> | <u>23,415</u> | <u>9,112</u> | <u>708,155</u> | <u>24,530</u> | <u>22,388</u> | <u>6,934</u> |
| Plan assets | (561,736) | - | - | - | (540,931) | - | - | - |
| Plan deficit | <u>201,346</u> | <u>27,416</u> | <u>23,415</u> | <u>9,112</u> | <u>167,224</u> | <u>24,530</u> | <u>22,388</u> | <u>6,934</u> |
| Unamortized net actuarial gain (loss) | (111,974) | 55 | 2,493 | (609) | (84,875) | 3,502 | 2,446 | - |
| Unamortized past service cost | - | - | - | (285) | - | - | - | (339) |
| Accrued benefit liability | <u>\$ 89,372</u> | <u>\$ 27,471</u> | <u>\$ 25,908</u> | <u>\$ 8,218</u> | <u>\$ 82,349</u> | <u>\$ 28,032</u> | <u>\$ 24,834</u> | <u>\$ 6,595</u> |

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

⁽²⁾ Administrative/professional leave liability was previously included in accounts payable and accrued liabilities.

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

| | 2012 | | 2011 | |
|---|---------------------|--------------------------|---------------------|--------------------------|
| | UAPP, SRP and leave | LTD and early retirement | UAPP, SRP and leave | LTD and early retirement |
| Accrued benefit obligation: | | | | |
| Discount rate | 5.40% to 6.50% | 4.20% | 6.50% to 6.80% | 4.80% |
| Long-term average compensation increase ⁽¹⁾ | 3.00% to 3.50% | 3.00% | 3.00% to 3.50% | 3.00% |
| Benefit cost: | | | | |
| Discount rate | 5.80% to 6.50% | 4.80% | 5.80% to 6.50% | 5.70% |
| Long-term average compensation increase ⁽¹⁾ | 3.00% to 3.50% | 3.00% | 3.00% to 3.50% | 3.00% |
| Alberta inflation (long-term) ⁽²⁾ | 2.25% | 2.50% | 2.25% | 2.50% |
| Estimated average remaining service life (years) ⁽³⁾ | 10.2 | 5.0 to 13.0 | 11.3 | 5.0 to 13.0 |

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

(b) Defined benefit plan accounted for on a defined contribution basis

Public Service Pension Plan (PSPP)

The PSPP is a multi-employer contributory defined benefit pension plan for support staff members. As the University does not have sufficient information to follow the accounting standards for defined benefit plans, it is accounted for on a defined contribution basis. The pension expense recorded in these financial statements is \$25,070 (2011 - \$23,842).

An actuarial valuation of the PSPP was carried out as at December 31, 2010 and was then extrapolated to December 31, 2011. At December 31, 2011, the PSPP reported an actuarial deficiency of \$1,790,383 (2010 - \$2,067,151).

(c) Defined contribution plan

Supplementary retirement plan (SRP)

The University provides non-contributory defined contribution supplementary retirement benefits to eligible academic staff members. The expense recorded in these statements is \$2,826 (2011 - \$2,679).

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

7. Long-term liabilities

| | Collateral | Maturity date | interest rate % | Amount outstanding | |
|---|------------|----------------|-----------------|--------------------|-------------------|
| | | | | 2012 | 2011 |
| Debentures payable to Alberta Capital Finance Authority: | | | | | |
| Health Research Innovation Facility | (1) | June 2011 | 5.030 | \$ - | \$ 1,000 |
| Enterprise Square | (2) | October 2011 | 4.162 | - | 1,301 |
| Natural Resources Engineering Facility | (3) | June 2014 | 4.974 | 4,764 | 6,512 |
| Energy Management Program, Year 1 | (1) | September 2014 | 4.551 | 1,028 | 1,408 |
| Energy Management Program, Year 2 | (1) | March 2016 | 4.525 | 1,783 | 2,181 |
| Natural Resources Engineering Facility | (3) | June 2017 | 5.056 | 4,888 | 5,641 |
| Health Research Innovation Facility | (1) | June 2017 | 5.053 | 9,958 | 11,493 |
| Extension Centre | (1) | October 2017 | 8.750 | 1,439 | 1,616 |
| Energy Management Program, Year 3 | (1) | December 2017 | 4.493 | 2,283 | 2,608 |
| Energy Management Program, Year 4 | (1) | March 2019 | 3.718 | 2,582 | 2,899 |
| Steam Turbine Generator | (3) | May 2020 | 6.250 | 10,147 | 10,970 |
| Newton Place | (2) | August 2024 | 6.000 | 11,063 | 11,616 |
| Newton Place Renovation | (2) | August 2024 | 6.000 | 1,913 | 2,008 |
| Energy Management Program, Year 5 | (1) | December 2025 | 3.885 | 3,324 | 3,500 |
| Lister Residence II | (2) | November 2027 | 5.875 | 17,088 | 17,723 |
| Windsor Car Park | (3) | September 2028 | 6.000 | 5,655 | 5,844 |
| Saville Centre | (3) | December 2028 | 5.875 | 3,718 | 3,844 |
| East Campus Village | (2) | March 2029 | 4.960 | 7,603 | 7,883 |
| Centennial Centre for Interdisciplinary Science Phase I | (1) | September 2029 | 5.353 | 8,229 | 8,508 |
| Centennial Centre for Interdisciplinary Science Phase I | (1) | June 2030 | 4.518 | - | 1,867 |
| Health Research Innovation Facility | (1) | June 2032 | 5.191 | 5,132 | 5,269 |
| Killam Centre | (1) | September 2036 | 4.810 | 1,891 | 1,931 |
| Enterprise Square | (2) | September 2036 | 4.627 | 38,857 | 39,697 |
| East Campus Village - Graduate Housing | (3) | September 2040 | 4.886 | 24,423 | 24,812 |
| Jubilee Carpark | (3) | December 2047 | 4.814 | 15,545 | 15,704 |
| | | | | 183,313 | 197,835 |
| Liabilities under capital leases | | | | 115 | 165 |
| Other long-term liabilities (includes asset retirements and liabilities for site restoration) | | | | 13,210 | 11,829 |
| | | | | 196,638 | 209,829 |
| Less current portion | | | | 10,895 | 12,659 |
| | | | | \$ 185,743 | \$ 197,170 |

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

The principal portion of long-term debt repayments required over the next five years is as follows:
2013 - \$10,895; 2014 - \$11,465; 2015 - \$10,820; 2016 - \$10,115; 2017 - \$10,155; and thereafter - \$129,863.

Interest expense on long-term liabilities is \$11,239 (2011 - \$10,926) and is included in materials, supplies and services.

The University has recorded a liability for an asset retirement obligation of \$4,630 (2011 - \$3,230). The asset retirement obligation represents the legal obligation associated with the eventual decommissioning of a research reactor.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

8. Deferred contributions

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

| | 2012 | | 2011 | |
|--|-------------------|--------------------|-------------------|--------------------|
| | Capital | Research and other | Capital | Research and other |
| Balance, beginning of the year | \$ 275,916 | \$ 502,671 | \$ 437,617 | \$ 405,411 |
| Grants and donations received | 34,397 | 494,582 | 166,949 | 514,440 |
| Recognized as revenue | - | (422,115) | - | (365,699) |
| Transferred to unamortized deferred capital contributions (note 9) | (139,906) | (97,923) | (328,650) | (51,481) |
| Balance, end of the year | 170,407 | 477,215 | 275,916 | 502,671 |
| Less amounts included in current liabilities | - | 387,215 | - | 412,671 |
| | <u>\$ 170,407</u> | <u>\$ 90,000</u> | <u>\$ 275,916</u> | <u>\$ 90,000</u> |

9. Unamortized deferred capital contributions

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

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Balance, beginning of the year | \$ 1,964,182 | \$ 1,662,878 |
| Additions from deferred contributions, capital (note 8) | 139,906 | 328,650 |
| Additions from deferred contributions, research and other (note 8) | 97,923 | 51,481 |
| Long-term liabilities repayment | 4,015 | 2,878 |
| Amortization to revenue | (104,540) | (81,705) |
| Balance, end of the year | <u>\$ 2,101,486</u> | <u>\$ 1,964,182</u> |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2012

(thousands of dollars)

10. Endowments

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

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

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

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

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

The composition of endowments is as follows:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|-------------------|-------------------|
| Balance, beginning of year | \$ 783,340 | \$ 717,495 |
| Endowment contributions | 26,622 | 36,903 |
| Transfers to endowments | 674 | 175 |
| Transfers from endowments | (10,550) | - |
| Investment income | 257 | 28,767 |
| Balance, end of year | <u>\$ 800,343</u> | <u>\$ 783,340</u> |
| Cumulative contributions | \$ 595,089 | \$ 567,793 |
| Cumulative capitalized income | <u>205,254</u> | <u>215,547</u> |
| | <u>\$ 800,343</u> | <u>\$ 783,340</u> |

During the 2012 year, due to investment income shortfall, cumulative capitalized income of \$10,550 was required to fund a portion of the approved endowment spending allocation. Per the terms of specific endowments, \$257 was capitalized.

The Board of Governors approved the permanent endowment of certain unrestricted funds and transferred \$674 (2011 - \$175) from unrestricted net assets to endowments.

In 2012 the Government of Alberta's Access to the Future Fund matching program was suspended. In 2011 gifts of endowment principal include matching grants of \$5,000.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
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11. Investment in capital assets and collections

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

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| Capital assets and collections at net book value (note 5) | \$ 2,822,274 | \$ 2,670,255 |
| Less amounts financed by: | | |
| Unamortized deferred capital contributions (note 9) | (2,101,486) | (1,964,182) |
| Long-term liabilities related to capital expenditures | (183,815) | (195,790) |
| Investment in capital assets and collections, end of year | <u>\$ 536,973</u> | <u>\$ 510,283</u> |

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| The changes during the year are as follows: | | |
| Investment in capital assets and collections, beginning of year | <u>\$ 510,283</u> | <u>\$ 466,896</u> |
| Acquisition of capital assets and collections | 72,894 | 90,668 |
| Long-term liabilities repayment | 10,763 | 8,124 |
| Long-term liabilities new financing | (2,800) | (27,275) |
| Net book value of asset disposals | (492) | (1,712) |
| Amortization of investment in capital assets | <u>(54,341)</u> | <u>(51,843)</u> |
| Net change in investment in capital assets | 26,024 | 17,962 |
| Contributions of assets not subject to amortization | <u>666</u> | <u>25,425</u> |
| Increase for the year | <u>26,690</u> | <u>43,387</u> |
| Investment in capital assets and collections, end of year | <u>\$ 536,973</u> | <u>\$ 510,283</u> |

NOTES TO THE FINANCIAL STATEMENTS
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12. Contingent liabilities

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

13. Contractual obligations

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

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|-------------------|-------------------|
| Significant service contracts | \$ 180,923 | \$ 167,971 |
| Capital projects | <u>267,272</u> | 368,818 |
| | <u>\$ 448,195</u> | <u>\$ 536,789</u> |

Significant service contracts consist of the following:

- In order to manage its exposure to the volatility in the electrical industry, the University has entered into contracts to fix a portion of its electrical cost at an average of \$73.33 (2011 - \$65.82) per megawatt hour. The six contracts (2011 - five contracts) with expenditures totaling \$120,924 (2011 - \$107,430) expire over the next six years.
 - Effective November 1, 2010, the University entered into an agreement with an external party for dining and catering services. Dining services includes the preparation, sale and distribution of food and beverages. Catering services includes providing food and beverages for third parties or for the University. The agreement has four years remaining with an estimated cost of \$35,800 (2011 - \$50,000).
 - Effective July 1, 2010, the University entered into agreements with two external parties for information technology support. The agreement for infrastructure management services has three years remaining with a cost of \$7,735 (2011 - \$10,123). The agreement for application management services has one year remaining with a cost of \$2,431 (2011 - \$4,585).
 - Effective August 1, 2011, the University entered into an agreement with an external party for custodial services. The agreement has two years remaining with a cost of \$14,000.
- (b) The University is one of 58 members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability, and errors and omissions risks of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through members' premiums. As at December 31, 2011 CURIE had a surplus of \$48,586 (2010 - \$43,288). This surplus is an accumulation of five different underwriting periods. The University participates in four of the underwriting periods, which have an accumulated surplus of \$44,984 (2010 - \$39,738) of which the University's pro rata share is approximately 6.90% (2010 - 6.83%). This surplus is not recorded in the financial statements.
- (c) The University has invested in a partnership agreement with iNovia Investment Fund II-B, Limited Partnership, which invests in the technology, energy, life sciences and applied sciences sectors. The partnership will continue until April 17, 2017, extendable for up to three additional years. The University subscribed to five million partnership units at a price of \$1.00 per unit of which the University has purchased 3.25 million units. The remaining commitment of \$1,750 (2011 - \$2,500) is due at such times and in such amounts as the General Partner may determine.

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(thousands of dollars)

14. Budget comparison

The University's 2011-12 budget was approved by the Board of Governors and was presented to the Minister of Advanced Education and Technology as part of the University's submission of its 2011-2012 Comprehensive Institutional Plan.

| | Actual | Budget | Variance |
|--|------------------|-------------------|-----------------|
| Revenue | | (unaudited) | |
| Government | \$ 947,986 | \$ 932,952 | \$ 15,034 |
| Student tuition and fees | 269,355 | 246,917 | 22,438 |
| Sales of services and products | 200,875 | 214,394 | (13,519) |
| Grants, donations and investment income | 166,610 | 160,102 | 6,508 |
| Amortization of deferred capital contributions | 104,540 | 104,925 | (385) |
| | <u>1,689,366</u> | <u>1,659,290</u> | <u>30,076</u> |
| Expense | | | |
| Salaries | 838,600 | 807,061 | 31,539 |
| Employee benefits | 167,322 | 163,682 | 3,640 |
| Materials, supplies, services and other expenses | 520,489 | 531,800 | (11,311) |
| Amortization of capital assets | 158,881 | 158,123 | 758 |
| | <u>1,685,292</u> | <u>1,660,666</u> | <u>24,626</u> |
| Excess (deficiency) of revenue over expense | <u>\$ 4,074</u> | <u>\$ (1,376)</u> | <u>\$ 5,450</u> |

15. Investment income

| | 2012 | 2011 |
|--|------------------|------------------|
| Income on investments held for endowment | \$ 23,068 | \$ 66,776 |
| Income on other investments | 15,703 | 16,817 |
| Asset-backed commercial paper recovery | 4,901 | 9,004 |
| | <u>43,672</u> | <u>92,597</u> |
| Amounts deferred | (1,348) | (7,355) |
| Endowment income capitalized (note 10) | (257) | (28,767) |
| | <u>\$ 42,067</u> | <u>\$ 56,475</u> |

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
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16. Related party transactions and balances

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

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Grants from GOA: | | |
| Advanced Education and Technology: | | |
| Operating Campus Alberta grant | \$ 565,647 | \$ 565,647 |
| Capital | 55,948 | 174,439 |
| Research: | | |
| Alberta Innovates Bio Solutions | 3,703 | 5,697 |
| Alberta Innovates Health Solutions | 32,882 | 30,974 |
| Alberta Innovates Technology Futures | 20,099 | 27,493 |
| Other research | 31,198 | 26,210 |
| Total research | 87,882 | 90,374 |
| Other | 28,555 | 46,879 |
| Total Advanced Education and Technology | <u>738,032</u> | <u>877,339</u> |
| Other GOA departments and agencies: | | |
| Alberta Education | 3,709 | 6,074 |
| Alberta Environment | 1,000 | 10,377 |
| Alberta Health and Wellness | 69,392 | 66,138 |
| Alberta Health Services | 10,848 | 16,689 |
| Other | 18,483 | 15,403 |
| Total other GOA departments and agencies | <u>103,432</u> | <u>114,681</u> |
| Total contributions received | 841,464 | 992,020 |
| Less deferred contributions | (77,864) | (247,560) |
| | <u>\$ 763,600</u> | <u>\$ 744,460</u> |
| Accounts receivable: | | |
| Advanced Education and Technology | \$ 9,176 | \$ 9,530 |
| Other GOA departments and agencies | 9,784 | 4,204 |
| | <u>\$ 18,960</u> | <u>\$ 13,734</u> |
| Accounts payable: | | |
| Advanced Education and Technology | \$ 1,162 | \$ 1,021 |
| Other GOA departments and agencies | 21,055 | 1,061 |
| | <u>\$ 22,217</u> | <u>\$ 2,082</u> |

The GOA's Access to the Future Fund has provided nil (2011 - \$5,000) in matching grant funds, which is included in endowments.

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

NOTES TO THE FINANCIAL STATEMENTS
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17. Salary and employee benefits

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

| | 2012 | | | | Total |
|---|----------------------------|----------------------------------|--|--|-------|
| | Base salary ⁽³⁾ | Non-cash benefits ⁽⁴⁾ | Non-cash benefits (SRP) ⁽⁵⁾ | Non-cash benefits (leave) ⁽⁶⁾ | |
| Governance ⁽¹⁾ | | | | | |
| Chair of the Board of Governors | \$ - | \$ - | \$ - | \$ - | \$ - |
| Members of the Board of Governors | - | - | - | - | - |
| Executive | | | | | |
| President | 512 | 59 | 373 | 132 | 1,076 |
| Provost and Vice-President Academic | 499 | 37 | 167 | - | 703 |
| Vice-President Research | 461 | 98 | 110 | 122 | 791 |
| Vice-President Facilities and Operations | 443 | 43 | 123 | 140 | 749 |
| Vice-President Finance and Administration | 450 | 31 | 118 | 148 | 747 |
| Vice-President University Relations | 355 | 41 | 72 | - | 468 |
| Chief Advancement Officer ⁽²⁾ | 309 | 40 | 36 | - | 385 |

| | Restated ⁽⁷⁾ 2011 | | | | Total |
|---|---------------------------------|----------------------------------|--|--|-------|
| | Base salary ⁽³⁾ | Non-cash benefits ⁽⁴⁾ | Non-cash benefits (SRP) ⁽⁵⁾ | Non-cash benefits (leave) ⁽⁶⁾ | |
| Governance ⁽¹⁾ | | | | | |
| Chair of the Board of Governors | \$ - | \$ - | \$ - | \$ - | \$ - |
| Members of the Board of Governors | - | - | - | - | - |
| Executive | | | | | |
| President | 481 | 60 | 341 | 127 | 1,009 |
| Provost and Vice-President Academic | 462 | 36 | 149 | - | 647 |
| Vice-President Research | 432 | 84 | 96 | 113 | 725 |
| Vice-President Facilities and Operations | 415 | 42 | 111 | 133 | 701 |
| Vice-President Finance and Administration | 415 | 29 | 107 | 138 | 689 |
| Vice-President University Relations | 314 | 37 | 47 | - | 398 |
| Chief Advancement Officer ⁽²⁾ | 183 | 61 | 18 | - | 262 |

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

⁽²⁾ This position was established effective August 15, 2010.

⁽³⁾ Base salary includes pensionable base pay and an administrative honorarium for the Provost and Vice-President Academic. The 2012 totals for certain senior executives include reductions for the optional personal leave program (days off without pay). The 2011 totals also include reductions for the optional personal leave program and the mandatory furlough program which was in effect for that year.

⁽⁴⁾ 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 senior executives also include car allowance, parking, supplemental life insurance, forgivable housing loans and housing allowances. Additional non-cash benefits for the President include expenses related to the personal use portion of the residence which the President rents from the University.

⁽⁵⁾ Under the terms of the SRP, senior executives may receive supplementary retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expenses for the rights to future compensation. Costs shown reflect the total estimated cost to provide supplementary retirement benefits. The SRP provides future benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method pro rated on service, a market interest rate, and other assumptions included in the Canadian Institute of Actuaries' lump-sum commuted value standard. Net actuarial gains and losses of the benefit obligations are amortized over the remaining terms of the participants' contracts. Current service cost is the actuarial present value of the benefits earned in the current year.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

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

| | Years of eligible University of Alberta service | Accrued obligation March 31, 2011 | 2012 | | | |
|---|---|-----------------------------------|---------------|--|----------------|---|
| | | | Service costs | Interest and other costs ^(5a) | Actuarial loss | Accrued obligation ^(5b) March 31, 2012 |
| President Provost and Vice-President Academic | 6.8 | \$ 1,315 | \$ 229 | \$ 144 | \$ 138 | \$ 1,826 |
| Vice-President Research | 4.8 | 858 | 111 | 56 | 130 | 1,155 |
| Vice-President Facilities and Operations | 7.8 | 324 | 86 | 24 | 37 | 471 |
| Vice-President Finance and Administration | 7.8 | 571 | 85 | 38 | 72 | 766 |
| Vice-President University Relations | 7.8 | 551 | 82 | 36 | 65 | 734 |
| Chief Advancement Officer | 1.7 | 49 | 66 | 6 | 17 | 138 |
| | 1.6 | 19 | 33 | 3 | 16 | 71 |

^(5a) Includes \$54 amortization of past service costs for the President.

^(5b) The accrued obligation is based on University of Alberta years of eligible service and other factors such as age, salary and actuarial assumptions.

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

⁽⁶⁾ The University provides certain senior executives with a paid leave of absence (leave) at the end of their administrative appointment, and these leaves are recorded in the financial statements (refer to table below). For other senior executives, the leave program is contained in the relevant collective bargaining agreement and must be applied for; therefore an amount is not recorded in the financial statements.

Leave 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 leave benefits. 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 current service cost and accrued obligation for each participating senior executive's leave is as follows:

| | Years of eligible University of Alberta service | Accrued obligation March 31, 2011 | 2012 | | |
|---|---|-----------------------------------|---------------|--------------------------|---|
| | | | Service costs | Interest and other costs | Accrued obligation ^(6a) March 31, 2012 |
| President | 6.8 | \$ 554 | \$ 96 | \$ 36 | \$ 686 |
| Vice-President Research | 4.8 | 352 | 94 | 28 | 474 |
| Vice-President Facilities and Operations | 9.2 | 729 | 88 | 52 | 869 |
| Vice-President Finance and Administration | 9.9 | 798 | 89 | 59 | 946 |

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

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

⁽⁷⁾ Comparative figures have been restated. In 2012, the University undertook an actuarial valuation of the President's administrative leave, resulting in an adjustment of \$4 to the 2011 amount. Also in 2012, the contracts for the Vice-President Research (VPR), the Vice-President Facilities and Operations (VPF&O) and the Vice-President Finance and Administration (VPF&A) were revised to reflect a change in how leaves are earned under these agreements. Previously, approval was required for a six month leave at year three and five of the contract. Now, leave is earned as service is provided, resulting in equal proration of leave costs over each year of their five year contracts. An actuarial valuation was also undertaken on these leave programs. The restatement for VPR and the VPF&O is \$113, and the restatement for the VPF&A is \$118.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

18. Canada - Alberta Knowledge Infrastructure Program

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

| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>Total</u> |
|----------------|---------------|-------------|-------------|--------------|
| Contributions | \$ - | \$ 31,061 | \$ 31,061 | \$ 62,122 |
| Eligible costs | 21,570 | 90,435 | 29,737 | 141,742 |

The remaining minimum contractual obligation to complete the projects at March 31, 2012 is nil.

19. Comparative figures

Certain 2011 figures have been reclassified to conform to the presentation adopted in the 2012 financial statements.



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