



Financial Statement Discussion and Analysis

**For the Year Ended
March 31, 2018**

CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2018

(in millions of dollars)

The consolidated financial statement discussion and analysis should be read in conjunction with the University of Alberta audited financial statements. The university's financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards. For more in-depth discussion and analysis of the university's goals and objectives please refer to the following documents:

For the Public Good, Comprehensive Institutional Plan, Investment Reports.

<https://www.ualberta.ca/reporting>

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

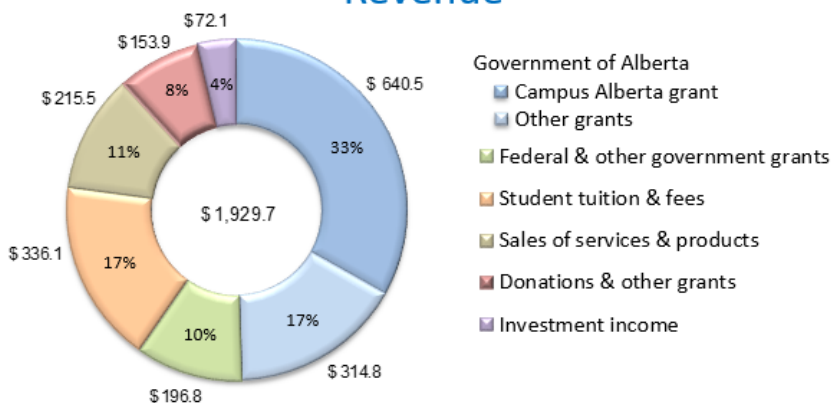
- Summary of Financial Results
- Revenue and Expense
- Capital Acquisitions
- Net Assets and Net Debt
- Areas of Significant Financial Risk

Summary of Financial Results

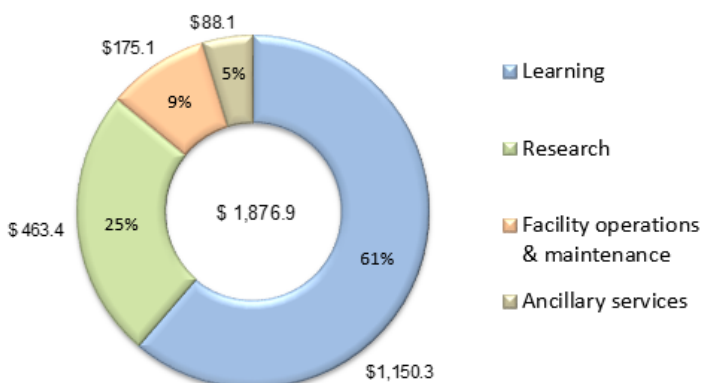
The university ended the year with an annual surplus of \$106.0 million. Of this amount \$53.2 million are donations directed to endowments and endowment capitalized investment income and therefore are not available for spending. The annual operating surplus of \$52.8 million; 2.7% of total revenue (budget: \$16.4; 0.9% of total revenue) was primarily used for capital acquisitions and debt repayment. Capital acquisition expenditures include library resources, scientific equipment and computer hardware/software.

Net assets of \$2,005.8 million increased from the prior year (2017: \$1,873.2). The increase is mainly due to an increase in endowments and the annual operating surplus.

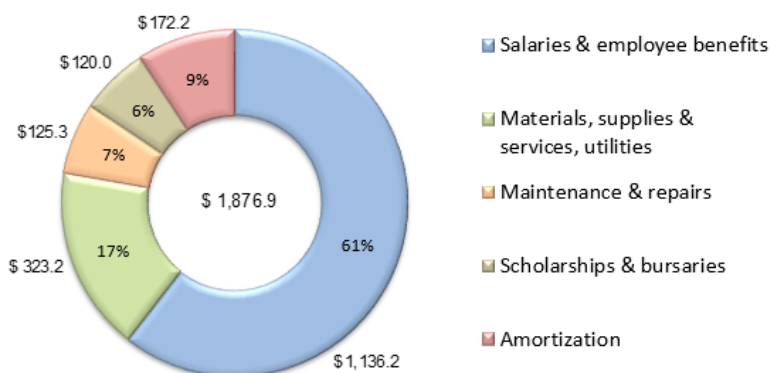
Revenue



Expense by Function



Expense by Object



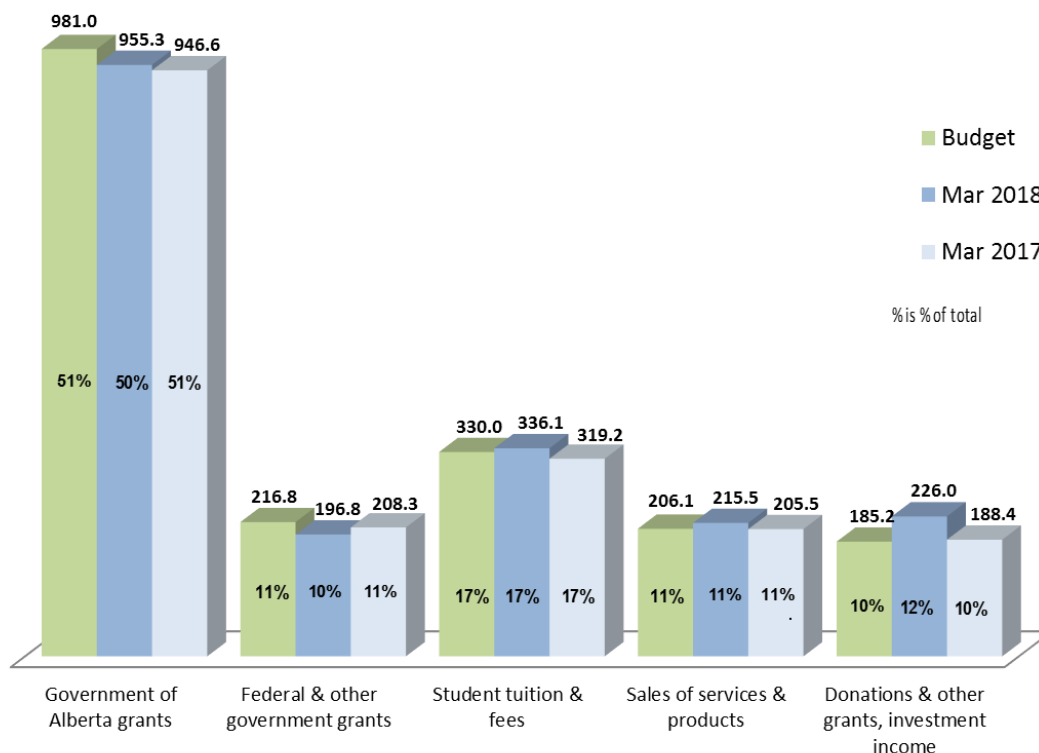
CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

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(in millions of dollars)

Revenue

Total revenue for the year was \$1,929.7 million, an increase of \$61.7 million over the prior year and \$10.6 million (0.6%) more than budget.



Government of Alberta grants (GoA) represent the single largest source of funding for university activities at 50% of total revenue. The GoA increased the Campus Alberta grant (base operating grant) by 2%. Grants are less than budget as the GoA did not provide a tuition backfill grant to compensate for the tuition freeze. GoA grant funding for the Academic Medicine and Health Services Program (AMHSP) is less than budget as a portion of the overall AMHSP funding now comes from the Department of Medicine Practitioners Association (offset in other grants).

Federal and other government grants primarily support the university's research activities. Grants are less than budget due to reclassification of donation funding (offset in donations) and medical trainee revenue (offset in sales of services).

Student tuition and fees budget has remained relatively unchanged from prior year. Tuition includes instructional fees, market modifiers, program differential fees and international student fees. The GoA has frozen tuition fees for the past three fiscal years and in November 2017 announced that the tuition freeze will be extended to 2019.

Sales of services and products revenues are generated by ancillary services and faculties and administrative units to both individuals and external organizations. Ancillary services generated sales of \$97.4 million, while other units generated sales of \$118.1 million. Sales revenue is more than budget mainly due to a reclassification of medical trainee revenue (offset in other government grants).

Donations and other grants support many university activities. Donations and other grants are more than budget due to the AMHSP funding flow change (offset in GoA) and donations received which were included in the other government grants budget.

Investment income is \$5.4 million more than budget. Investments fall into two categories, the University Endowment Pool (UEP) and the Non-Ended Investment Pool (NEIP). The UEP had a return of 8.0% (2017: 14.9% return) and represents the majority of the university's long-term investment strategy. The NEIP investments which are allocated to the short-, mid- and long-term investment strategies had a return of 2.9% (2017: 4.4% return).

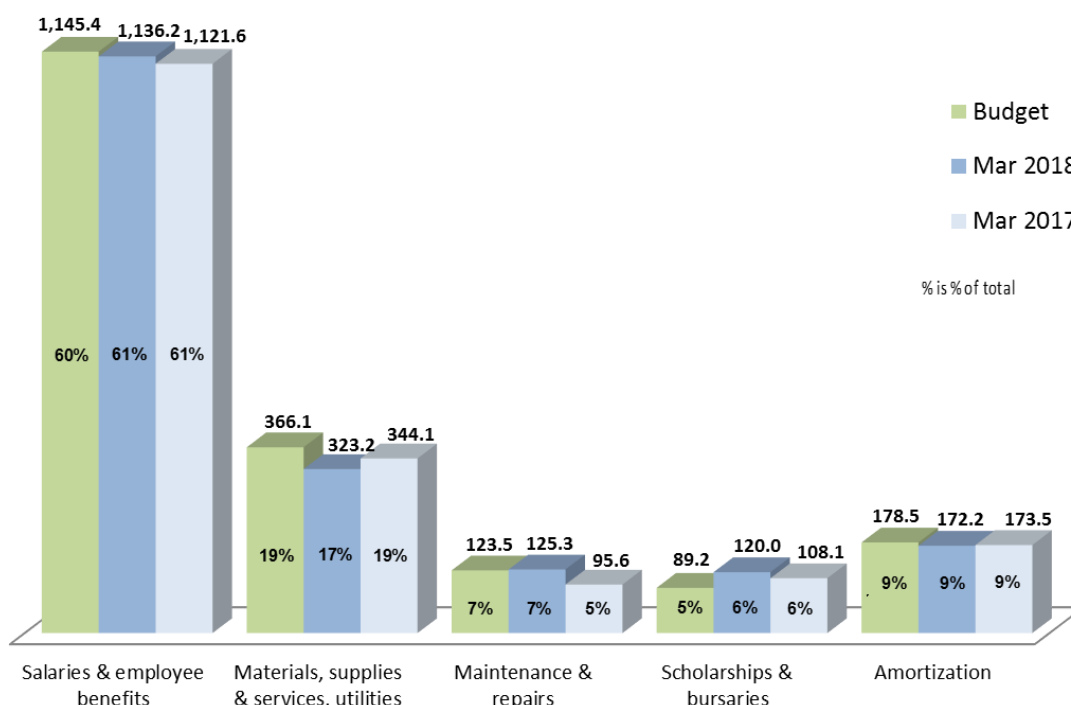
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Expense

Total expense for the year was \$1,876.9 million, an increase of \$34.0 million over the prior year and \$25.8 million (1.4%) less than budget. Salaries and employee benefits are the single largest expense representing 61% of total expense.

Expense by Object



Salaries and employee benefits are less than budget mainly due to the creation of a graduate research assistantship fellowship category which is now categorized as scholarships. This change occurred after the budget was finalized. Excluding this adjustment, salaries and benefits are on budget.

Materials, supplies and services, utilities are less than budget mainly due to lower than planned spending for materials, supplies and services. Utilities is lower than budget due to lower than budgeted utility rates.

Maintenance and repairs is comparable to budget.

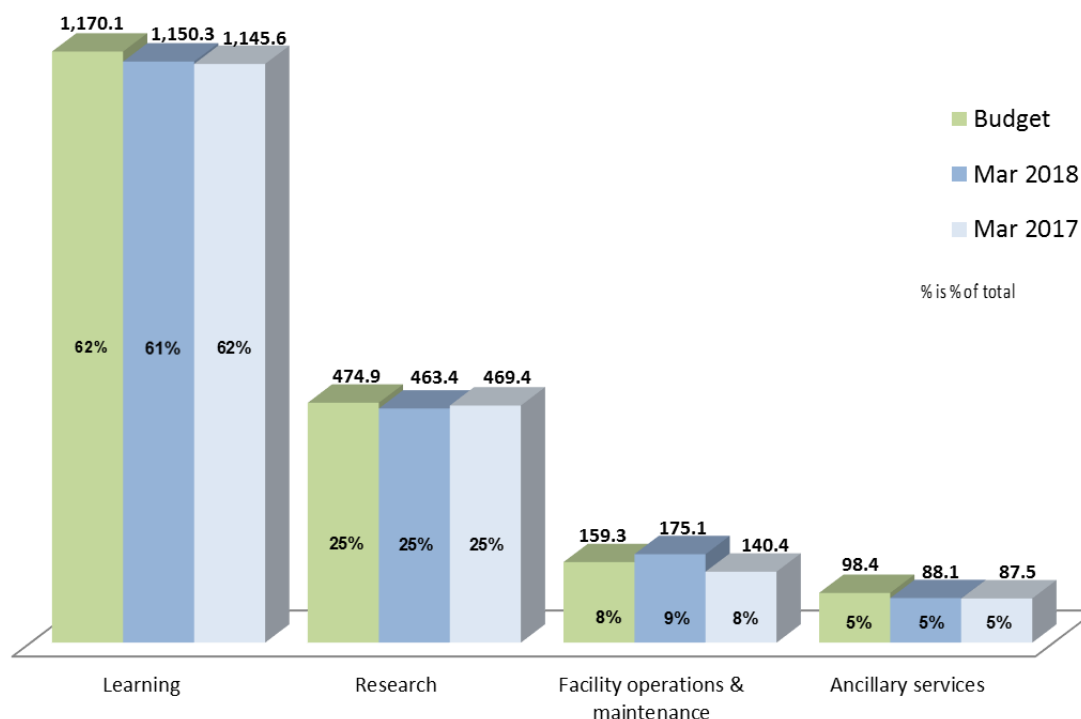
Scholarships and bursaries are more than budget, refer to salaries and employee benefits explanation.

Amortization is comparable to budget.

CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2018

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Expense by Function



Learning effectively represents the operating activities of the university. A significant component of this category is salary and employee benefit costs. Learning also includes restricted grants and donations that support undergraduate student scholarships, student bursaries and the Academic Medicine and Health Services Program (AMHSP). This expense is comparable to budget.

Research activities expenses are funded by restricted grants and donations as well as internal funds designated for research related spending. This expense is comparable to budget.

Facility operations and maintenance represents the cost of maintaining university facilities and grounds. This expense is more than budget mainly due to additional funding, received from GoA Strategic Initiative Fund grants and the increase in the Infrastructure Maintenance Program grant.

Ancillary services include the university bookstore, parking services, utilities and student residences. Ancillary services are less than budget mainly due to the delay in planned maintenance projects for parking and residences.

Capital Acquisitions

The university expended \$197.9 million (2017: \$145.3) on construction and other tangible capital asset acquisitions.

The most significant construction and capital asset acquisitions in 2018 are:

- Three new residence construction projects - Peter Loughheed Hall, East Campus Village and Lister Tower are funded by student rental revenue.
- Research and Collections Resource Facility - a new facility to replace the existing document storage site is funded from university resources.
- Aga Khan Garden at the UofA Botanic Garden is funded by donations.
- Various Strategic Investment Fund projects are funded by a combination of GoA grants and university resources.

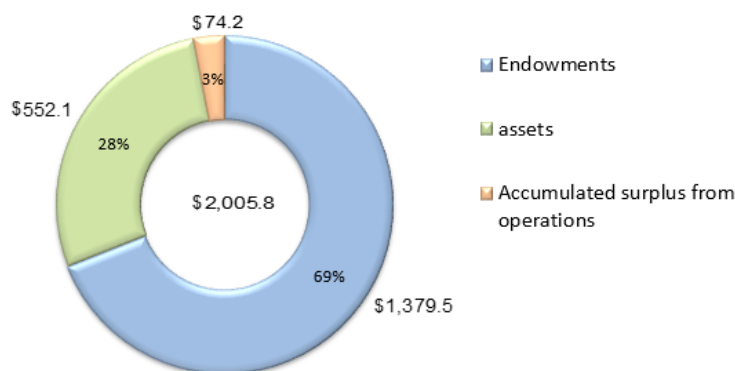
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Net Assets and Net Debt

Net assets

The net asset balance is an important indicator of financial health for the university. The net assets measure provides the economic position of the university from all years of operations. The university's net assets include endowments of \$1,379.5 million. Endowments represent contributions from donors that are required to be maintained in perpetuity, as well as capitalized investment income that is also required to be maintained in perpetuity to protect the economic value of the endowment. Endowments are not available for spending. Of the remaining \$626.3 million in net assets, \$552.1 million represents funds invested in tangible capital assets.



	Accumulated (deficit) surplus from operations	Investment in tangible capital assets	Endowments	Total
Net assets, beginning of year	\$ (16.1)	\$ 585.0	\$ 1,304.3	\$ 1,873.2
Annual operating surplus	52.8	-	-	52.8
Endowments	(1.7)	-	54.9	53.2
Tangible capital assets	(1.4)	1.4	-	-
Tangible capital assets - new financing for residence construction expenditures, incurred in the prior year	34.3	(34.3)	-	-
Change in accumulated remeasurement gains	6.3	-	20.3	26.6
Increase (decrease)	90.3	(32.9)	75.2	132.6
Net assets, end of year	\$ 74.2	\$ 552.1	\$ 1,379.5	\$ 2,005.8

The change from accumulated deficit from operations to accumulated surplus is mainly due to the annual operating surplus (\$52.8) and mortgage financing received in the current year for tangible capital assets that were acquired last year (\$34.3). The university also transferred \$1.7 million from accumulated surplus to endowments, representing a bequest received in the year.

The increase in investment in tangible capital assets of \$1.4 million consists of additions (\$103.1) and debt repayments (\$12.9), less new financing (\$54.1) and amortization (\$60.4). A portion of new financing (\$34.3) was for prior year construction projects; financing was deferred in order to secure a better interest rate. These additions include construction projects, equipment, furnishings, computer hardware/software and library resources.

The university's endowment spending policy provides for an annual spending allocation (2018: \$38.1; 2017: \$36.8) to support a variety of key initiatives in the areas of academic programs, chairs and professorships, scholarships, bursaries and research. The increase in endowments of \$75.2 million is due to an increase in fair value (\$48.1), new donations (\$25.4) and a transfer of a bequest (\$1.7).

CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2018

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Net debt

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

The net debt (excluding portfolio investments restricted for endowments) indicates that the university has a \$213.5 million deficiency (2017: \$227.4). The deficiency can be mainly attributed to employee future benefit liabilities (2018: \$237.8; 2017: \$251.1) which include the Universities Academic Pension Plan (UAPP) (2018: \$141.7; 2017: \$157.6) and other benefit plans such as supplementary retirement, long-term disability and early retirement (2018: \$96.1; 2017: \$93.5). Net debt has decreased mainly due to a decrease in employee future benefit liabilities resulting primarily from strong investment returns within the pension plan.

Areas of Significant Financial Risk

Fiscal Uncertainty

The Campus Alberta grant is the primary source of funding for the university's day-to-day operating activities. Government support is under pressure given the province's fiscal outlook. Grants, tuition and other revenue generation initiatives are largely under government control, which puts significant pressure on university finances. The impact to university revenue of a 1% change to the Campus Alberta base operating grant is \$6.2 million and a 1% change to domestic tuition is \$1.9 million.

Unfunded Pension Liability

The university participates with other Alberta post-secondary institutions in the Universities Academic Pension Plan (UAPP) to provide pensions for the university's participating employees. The unfunded deficiency in the UAPP is currently being funded by a combination of employee and employer contributions and the Government of Alberta. The deficiency is required to be eliminated by 2043. At March 31, 2018, based on actuarial assumptions, the university has recorded a UAPP employee future benefit liability of approximately \$142 million.

The impact to the university's share of the unfunded liability of a 1% increase in the inflation rate assumption would be an increase of approximately \$45 million, a 1% increase in the salary escalation assumption would be an increase of approximately \$9 million, while a decrease of 0.25% in the discount rate assumption would lead to an increase of approximately \$23 million.

Deferred Maintenance

As the largest and oldest post-secondary institution in the province, the university's deferred maintenance continues to increase and was estimated at approximately \$1 billion in 2017. The university continues to identify and address priority deferred maintenance issues through joint renewal and repurposing projects to maintain the functionality of our building inventory. We are grateful for the Government increase to the Infrastructure Maintenance Program grant (2018: \$34.9; 2017: \$23.6) which assisted in addressing the deferred maintenance priorities.