



Financial Statement Discussion and Analysis

**For the Year Ended
March 31, 2021**

CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2021

(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, Investment Reports, Annual Report, UofA for Tomorrow.

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

<https://www.ualberta.ca/uofa-tomorrow/index.html>

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

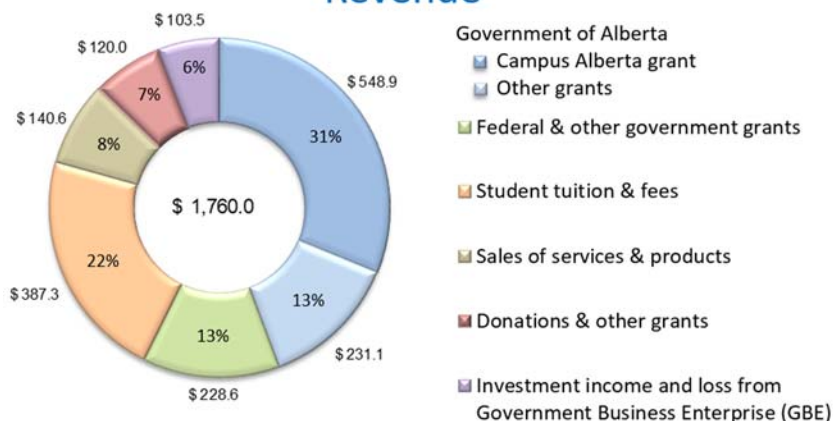
- Summary of Financial Results
- Revenue and Expense
- Capital Acquisitions
- Net Assets and Net Debt
- Areas of Significant Financial Risk

Summary of Financial Results

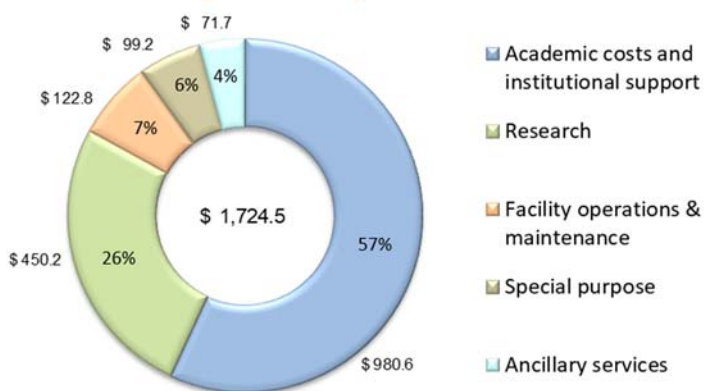
The university ended the year with an annual surplus of \$53.7 million. Of this amount \$18.2 million are donations directed to endowments and endowment capitalized investment income and therefore are not available for spending. The annual operating surplus was \$35.5 million; 2.0% of total revenue (budget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

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

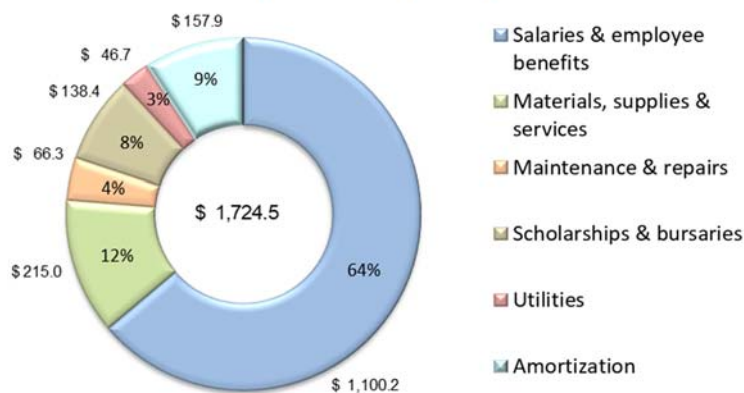
Revenue



Expense by Function



Expense by Object

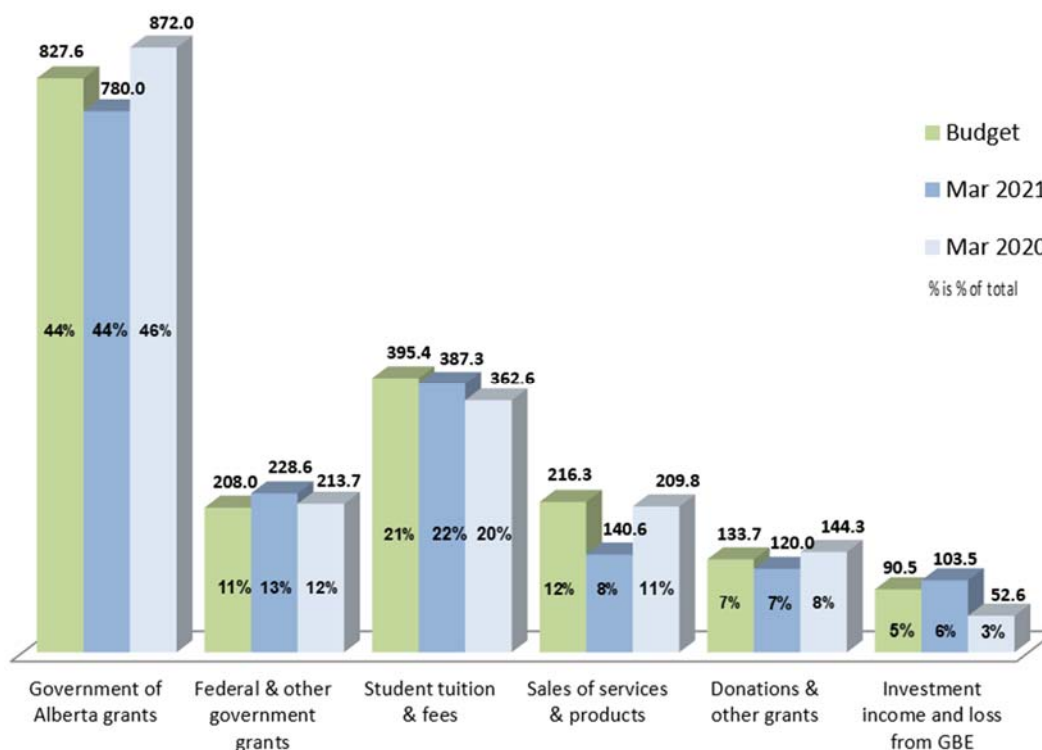


CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2021

(in millions of dollars)

Revenue

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



Government of Alberta grants

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

Federal and other government grants

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

Student tuition and fees

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

Sales of services and products

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

CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2021

(in millions of dollars)

Donations and other grants

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

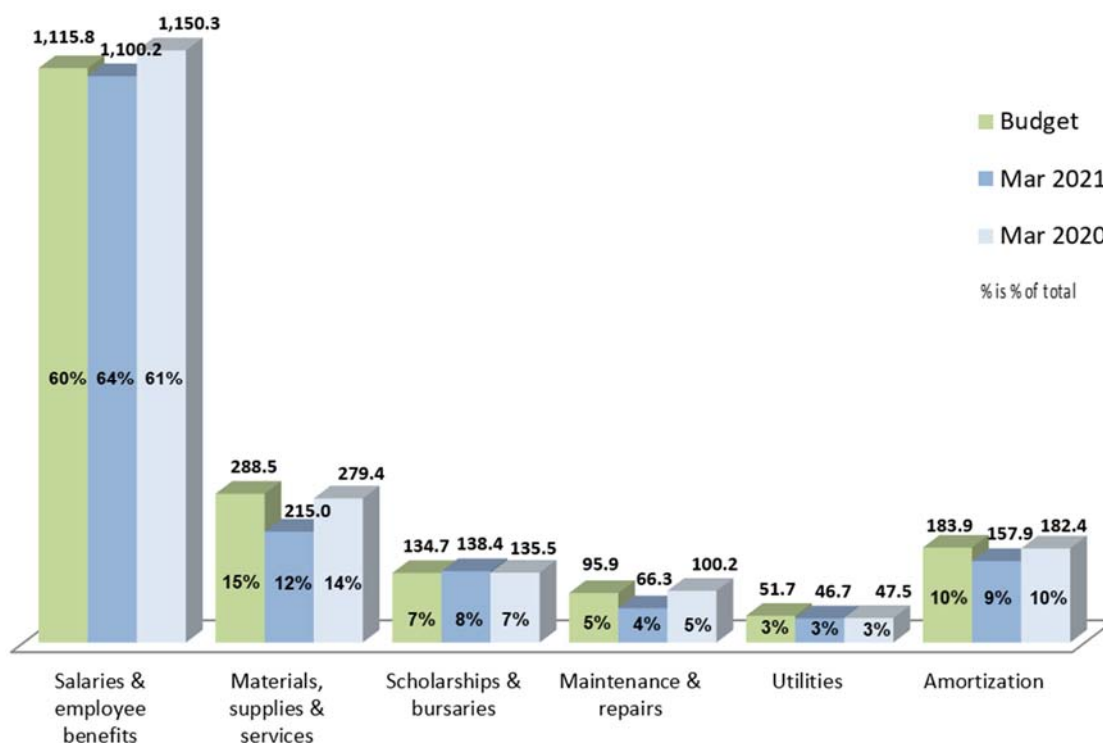
Investment income and loss from Government Business Enterprises (GBE)

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

Expense

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

Expense by Object



Salaries and employee benefits

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

CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2021

(in millions of dollars)

Materials, supplies and services

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

Maintenance and repairs

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

Scholarships and bursaries

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

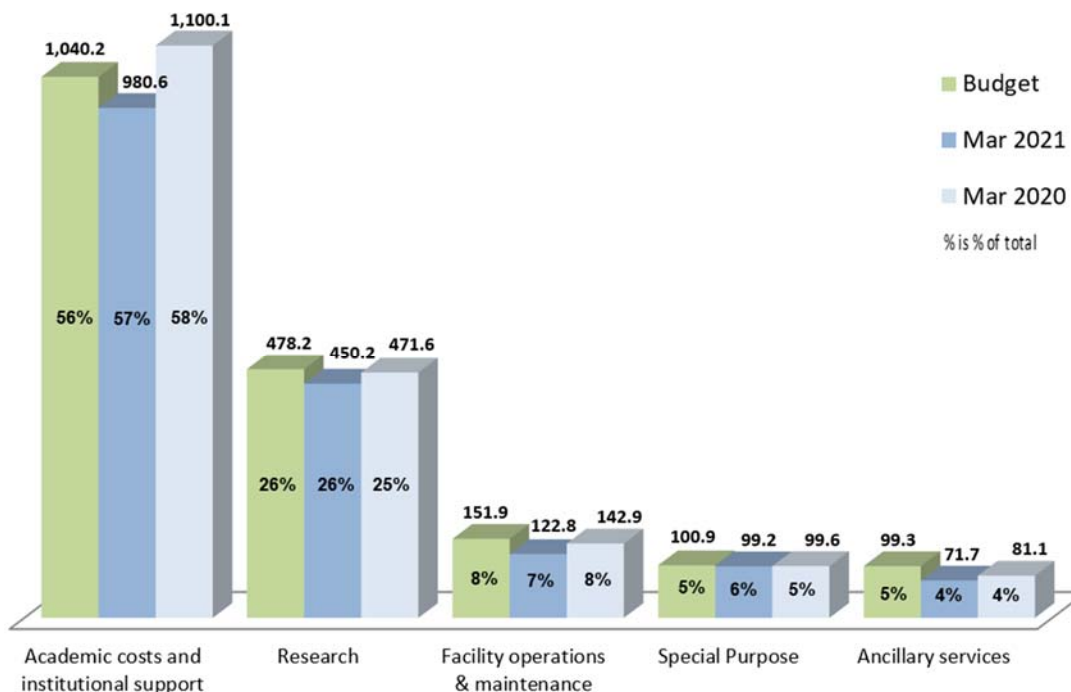
Utilities

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

Amortization

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

Expense by Function



Academic costs and institutional support

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

CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2021

(in millions of dollars)

Research

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

Facility operations and maintenance

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

Special purpose

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

Ancillary services

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

Capital Acquisitions

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

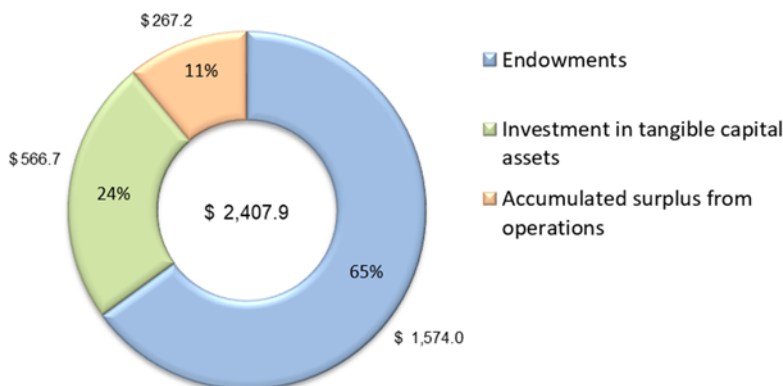
The most significant construction and capital asset acquisitions in 2021 are:

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

Net Assets and Net Debt

Net assets

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



CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS
YEAR ENDED MARCH 31, 2021

(in millions of dollars)

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

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

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

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

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

Net debt

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

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

CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2021

(in millions of dollars)

Areas of Significant Financial Risk

Fiscal Uncertainty

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

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

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

Unfunded Pension Liability

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

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

Deferred Maintenance

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