



Financial Statement Discussion and Analysis

**For the Year Ended
March 31, 2015**

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2015

(in millions of dollars)

The financial statement discussion and analysis should be read in conjunction with the University of Alberta annual audited financial statements. The discussion and analysis and the audited financial statements are reviewed and approved by the University of Alberta Board of Governors on the recommendation of the University of Alberta Audit Committee. 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: 2015 Comprehensive Institutional Plan, Dare to Discover: A Vision for a Great University, Investment Reports.

<http://uofa.ualberta.ca/reporting>

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

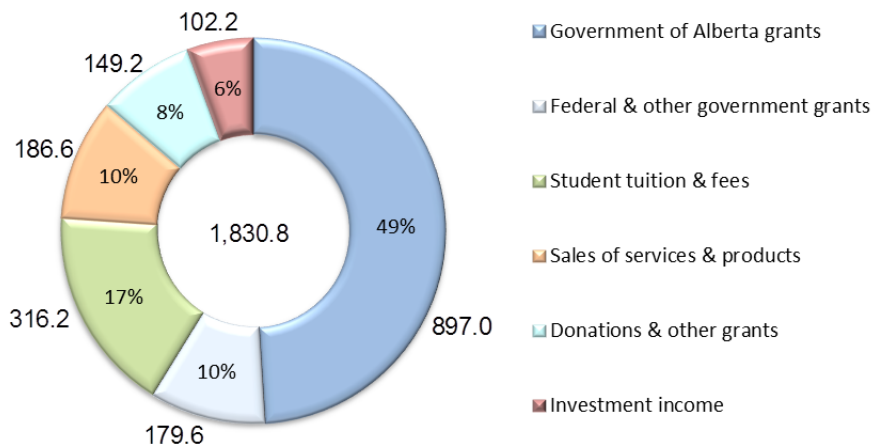
- Financial Results
- Net Assets
- Capital Planning
- Areas of Significant Financial Risk

Financial Results

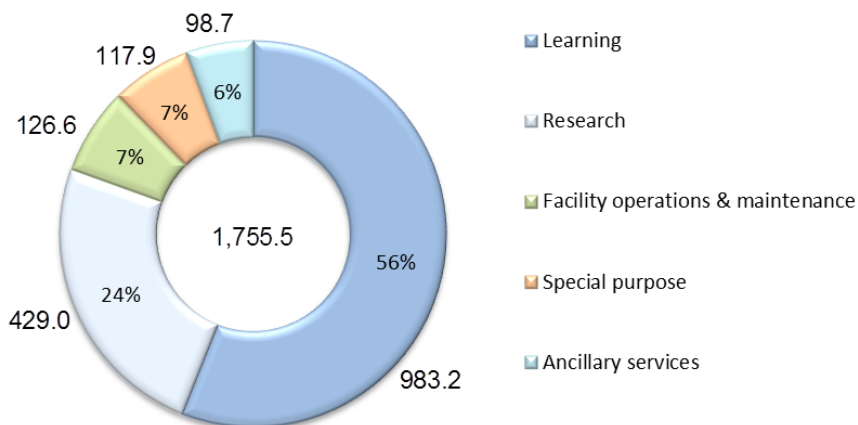
From total revenue of \$1,830.8 million, the university ended the year with an excess of revenue over expense of \$75.3 million compared to a \$9.5 million budgeted excess. The excess is mainly due to a one-time recovery of a previous write-down on the floating rate notes (\$29.1) and a timing delay on expenditures by faculties and administrative units across the institution. Of the \$75.3 million excess, \$15.8 million was used for net purchases of capital assets and debt repayment, \$2.6 million was transferred to endowments and \$56.9 million was used to reduce the accumulated deficit from operations from \$89.1 million to \$32.2 million. It is anticipated that faculties and administrative units will utilize their accumulated surplus to fund expenditures to support the university in reaching its strategic goals.

Net assets increased by \$251.7 million due to increases in endowments (\$187.8), an investment in tangible capital assets (\$15.8) and a decrease in the accumulated deficit from operations (\$56.9) offset by a decrease in unrealized investment gains (\$8.8).

Revenue



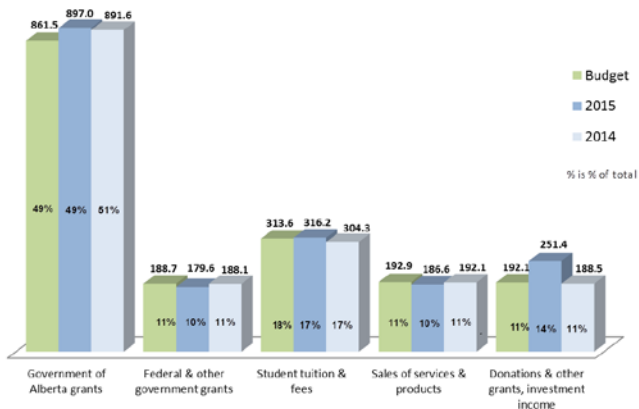
Expense



FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2015

(in millions of dollars)

Revenue



Government of Alberta (GoA) Grants

Grants from GoA represent the university's single largest source of funding for university activities. There was no increase to the fiscal 2015 Campus Alberta grant. GoA grants are \$35.5 million more than budget due to higher than anticipated funding for the Academic Alternative Relationship Plans (AARP).

The university received an Access to the Future Fund (AFF) grant of \$58.7 million, of which \$54.4 million was capitalized to endowment net assets.

Federal and other government grants

Federal and other government grants primarily support the university's research activities. Revenue is relatively comparable to budget.

Student tuition and fees

Enrollment is comparable to last year and is expected to remain relatively stable over the next few years. The annual budgeted increase is due to the increase in instructional fees, which is based upon the increase to the annual CPI, market modifiers, program differential fees and international student fees.

Sales of services and products

Ancillary services and academic and administrative units generate revenue through the sale of services and products to both individuals and organizations external to the university. Ancillary services generated sales of \$93.6 million, while academic and administrative units generated sales of \$93.0 million. Sales revenue is comparable to budget.

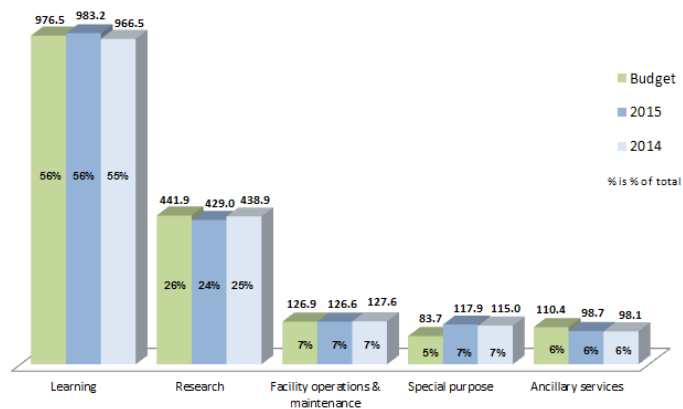
Donations and other grants, investment income

Donations and other grants support many university activities. Revenue is \$15.9 million more than budget. In fiscal 2015 donations include an in kind donation (\$14.3) for the Jeanne and Peter Lougheed Performing Arts Centre.

Investment income is \$43.3 million more than budget mainly due to the gains on the sale of the floating rate notes and the endowment spending allocation being fully

funded from realized income. The budget had anticipated that a portion of the spending allocation would be funded by a transfer from endowments. The floating rate note gains are a one-time recovery of a previous write-down (\$29.1). Investments primarily fall into two categories, the Utilized Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP). The UEP returned 15.3% (2014: 15.5%) and represents the majority of the university's long-term investment strategy. The NEIP investments which are allocated to the short-term, mid-term and long-term investment strategies returned 4.7% (2014: 6.0%).

Expense



Learning

Learning effectively represents the operating activities of the university and therefore a significant component of this category is staff salary and benefit costs. This expense is comparable to budget.

Research

Expenses for research activities are funded by restricted grants and donations as well as internal funds designated for research related spending. This expense is \$12.9 million less than budget.

Facility operations and maintenance

The cost of maintaining university facilities and grounds is comparable to budget.

Special purpose

Special purpose is non-research activity that is funded through restricted grants and donations and includes student scholarships and bursaries, teaching and learning programs and community service. This expense is \$34.3 million more than budget mainly due to the higher than anticipated AARP grant.

Ancillary services

Ancillary services include the university bookstore, parking services, utilities and student residences. Ancillary services are \$11.7 million less than budget mainly due to the Bookstore closure of the Microstore and lower text book sales, resulting in lower cost of goods sold.

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2015

(in millions of dollars)

Net Assets

	March 2015	March 2014
Investment in tangible capital assets	\$ 509.4	\$ 493.6
Accumulated deficit from operations	(32.2)	(89.2)
Accumulated operating surplus	477.2	404.4
Endowments	1,181.5	993.7
Accumulated remeasurement gains	30.0	38.9
	\$ 1,688.7	\$ 1,437.0

The university's net asset balance is an important indicator of financial health for the institution. Net assets increased by \$251.7 million compared to the prior year.

Endowments consist of restricted donations and capitalized investment income which is required to be maintained intact in perpetuity to support donor specified activities. Endowments support a variety of key initiatives in the areas of academic programs, chairs and professorships, research and scholarships. Donations of \$27.8 million and capitalizing \$54.4 million of the AFF grant and \$105.6 million of investment income are the drivers behind the \$187.8 million increase to endowments. Endowment investments generated \$151.1 million of income, of which \$45.5 million was allocated for program spending and administrative fees, the remainder (\$105.6) was capitalized.

Capital Planning

The university expended \$200.1 million (2014: \$179.2) on construction and other capital asset acquisitions.

The most significant construction and capital asset acquisitions in 2015 are:

- Innovation Centre for Engineering
- Physical Activity and Wellness Centre
- Jeanne and Peter Lougheed Performing Arts Centre
- Energy management program

Areas of Significant Financial Risk

The university operates in a complex environment and must deal with a variety of risks which it manages through its integrated enterprise risk management framework. The major risks that can affect the university from a financial perspective are as follows:

Provincial Funding

The 2015-16 budget has been prepared based on a zero per cent change to the Campus Alberta grant. This could be an area of significant risk if the new provincial budget includes grant decreases. Tuition fees are at risk based on the new government's election platform to freeze tuition including rolling back recently approved market modifier fees. GoA grants represent the university's single largest source of funding for university activities, any reduction in the Campus Alberta or AARP grants result in significant budgetary pressure.

The university recognizes that funding models are changing for public universities throughout the global post-secondary sector and that universities are expected to generate a greater proportion than in the past of the operating revenues that sustain and enhance the quality of its research and the student experience. The university is pursuing steps which include but are not limited to growing its endowment, generating new net revenues, increasing federal government support for the indirect costs of research, adjusting tuition to reflect market conditions, and leveraging the establishment of its land trust.

Pension and Employee Future Benefits

The university currently carries a liability of approximately \$253 million for employee future benefits, representing probable future payments to be made for benefits earned to date. This balance can change for many reasons outside the university's control, including inflation and investment returns.

On the whole, the university's cost of benefits is expected to increase by between 5% and 7% per year in the upcoming years and this is not sustainable. Approximately 61% of the university's non-pension benefit costs relate to programs the university and its staff co-operatively manage and which could be changed through negotiation.

The largest of the unfunded liabilities is the university's share of the UAPP, which is approximately \$168 million. Both the UAPP and PSPP deficiencies are expected to be eliminated within 15 years, based on conditions at the time of the last actuarial valuations when the new contribution rates were set. The continuing increase in pension plan contributions represents a significant risk. Without structural reforms to the pension plans, the level of pension plan contributions as a percentage of total benefit costs will become unsustainable.

Deferred Maintenance

The university's deferred maintenance is estimated at over \$800 million. While the university is making progress on deferred maintenance on its older facilities, the overall amount of deferred maintenance remains relatively unchanged. This area remains a high priority as deferred maintenance puts some risk on the university's programs and initiatives. The continuation of appropriate levels of Infrastructure Maintenance Program funding is needed to avoid a return to increasing amounts of deferred maintenance.