

Consolidated Financial Statements

Discussion & Analysis

For the year ended March 31, 2022



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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, University of Alberta for Tomorrow.

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

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

Summary of Financial Results

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

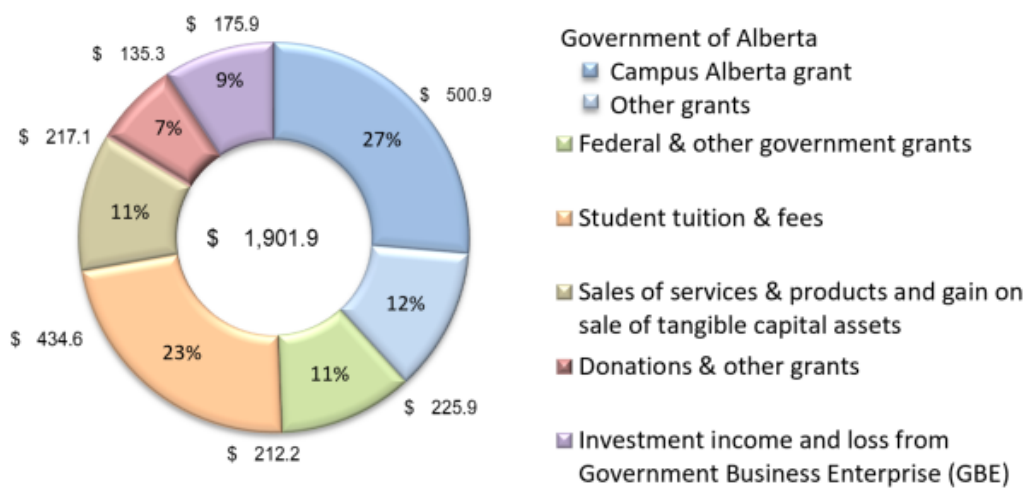
The university ended the year with an annual consolidated surplus of \$153.6 million. Of this amount \$23.3 million are donations directed to endowments and endowment capitalized investment income and therefore are not available for spending. The annual operating surplus was \$130.3 million, which is 6.9% of total revenue (budgeted annual operating surplus: \$3.2 million; 0.2% of total revenue). The increase of \$94.8 million from the prior year annual operating surplus of \$35.5 million was primarily due to the gain on sale of tangible capital assets (\$34.9, primarily sale of Newton Place), the recovery of the temporary endowment encroachment (\$31.2) and higher investment income due to higher realized gains on the sale of investments (\$28.5).

Most of the annual operating surplus amount of \$130.3 million is not available to the university to fund current year activities. The gain on sale of tangible capital assets is designated to cover operating losses incurred by ancillary operations over the past two fiscal years due to the Covid-19 pandemic. The recovery of the temporary endowment encroachment must be used to repay endowment principal that was used to cover endowment expenditures from the past two fiscal years when insufficient investment income was earned to cover the expenditures. This repayment is per university policy. On the higher investment income due to realized gains, per university policy \$48.0 million is transferred to an internally restricted investment income reserve which ultimately will be used in part to fund approved strategic initiatives. This amount is not available to fund day to day operations. When these factors are considered this leaves about \$16.2 million available, in carry forwards, for day to day operations. Of this amount, \$9.0 million has been used to fund the lump sum ratification payment on the NASA collective agreement reached on March 31, 2022.

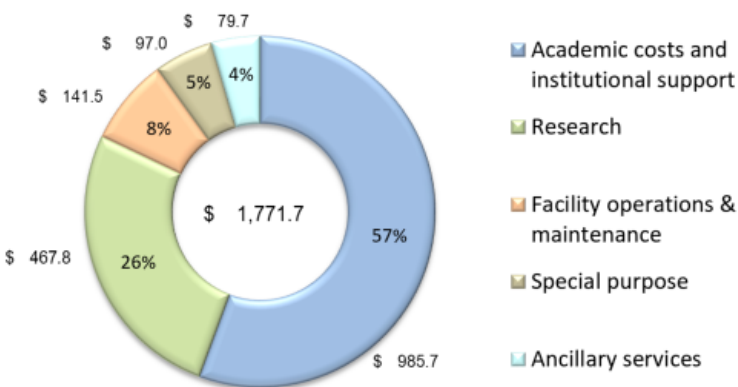
Net assets of \$2,566.3 million increased from the prior year (2021: \$2,407.9). The increase is mainly due to an increase in the fair value of endowments along with the increase in the annual surplus.

The following figures provide an overview of the university revenue, expensive by object, and expense by function.

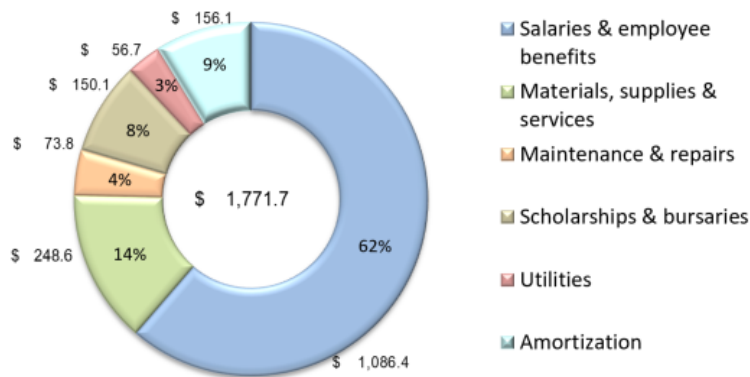
Revenue



Expense by Function



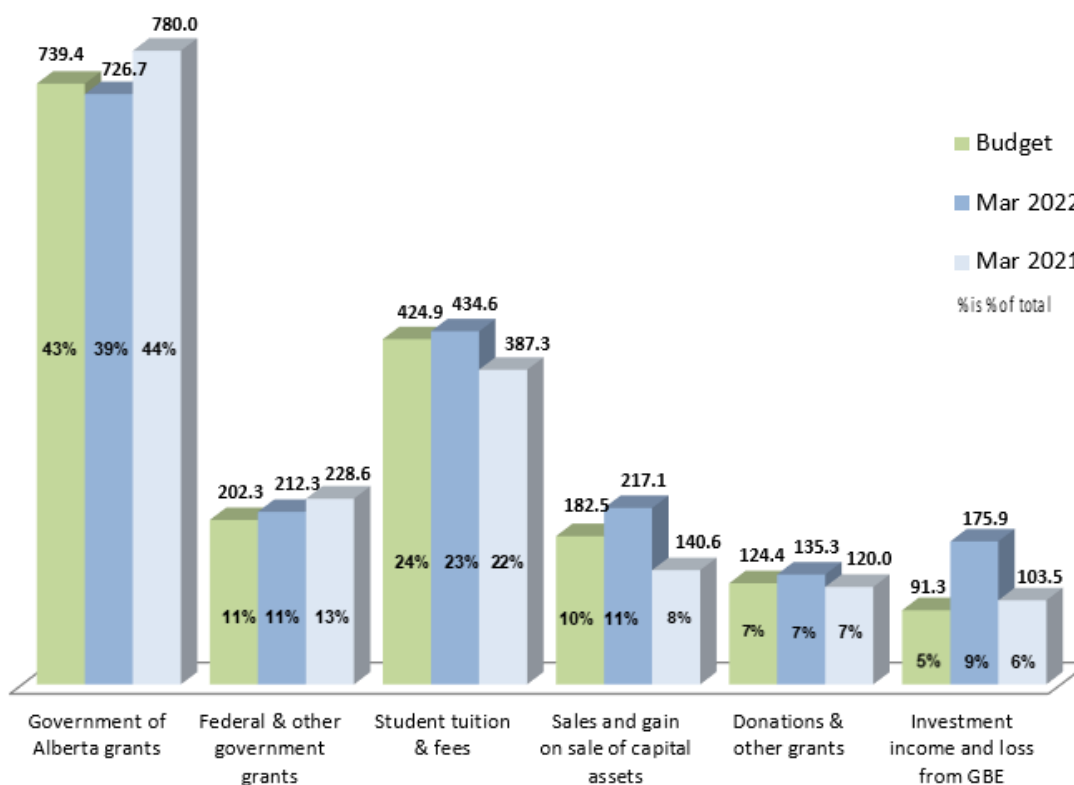
Expense by Object



Revenue

Total revenue for the year was \$1,901.9 million, an increase of \$141.9 million over the prior year and \$137.1 million (7.8%) more than budget.

Figure 1. University of Alberta Revenue



Government of Alberta Grants

Government of Alberta (GoA) grants represent the single largest source of funding for university activities at 39% of total revenue. GoA grant revenue of \$726.7 million was \$53.3 million lower than prior year and \$12.7 million lower than budget. The decrease over prior year is mainly due to a 10.7 percent reduction in the Campus Alberta operating grant (\$60.1 million). This was partially offset by higher revenue recognized on restricted funded projects due to increased research activity as staff slowly returned to campus. The decrease compared to budget is mainly due to lower spending on restricted funded projects.

Federal and Other Government Grants

Federal and other government grants primarily support the university's research activities. Federal and other government grants revenue of \$212.3 million was \$16.3 million lower than prior year and \$10.0 million higher than budget. The decrease over prior year was mainly due to lower current year funding for COVID-19 research. The increase compared to budget is due to increased research funding from the Canada Foundation for Innovation (a Government of Canada agency).

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 \$434.6 million was \$47.3 million higher than prior year and \$9.7 million higher than budget. The increase over prior year was mainly due to an increase of \$34.2 million in the international program-based fee model and \$10.0 million (7.0%) in domestic tuition along with an increase of 4.0% in international differential tuition fees. The increase compared to budget is mainly due to higher than budgeted student enrolment.

Sales of Services and Products / Gain on Sale of Tangible Capital Assets

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 \$217.1 million includes a gain on the sale of tangible capital assets of \$34.9 million. Revenue was \$76.5 million higher than prior year and \$34.6 million higher than budget. The increase over prior year was mainly due to the gain on the sale of tangible capital assets and higher ancillary revenues related to residences and parking services. The increase compared to the budget was mainly due to the gain on the sale of tangible capital assets, which was not budgeted.

Donations and Other Grants

Donations and other grants support many university activities. Donations and other grants revenue of \$135.3 million was \$15.3 million higher than prior year and \$10.9 million higher than budget. The increase over prior year and when compared to budget is mainly due to higher donations received for restricted research projects.

Investment Income and Loss from Government Business Enterprises (GBE)

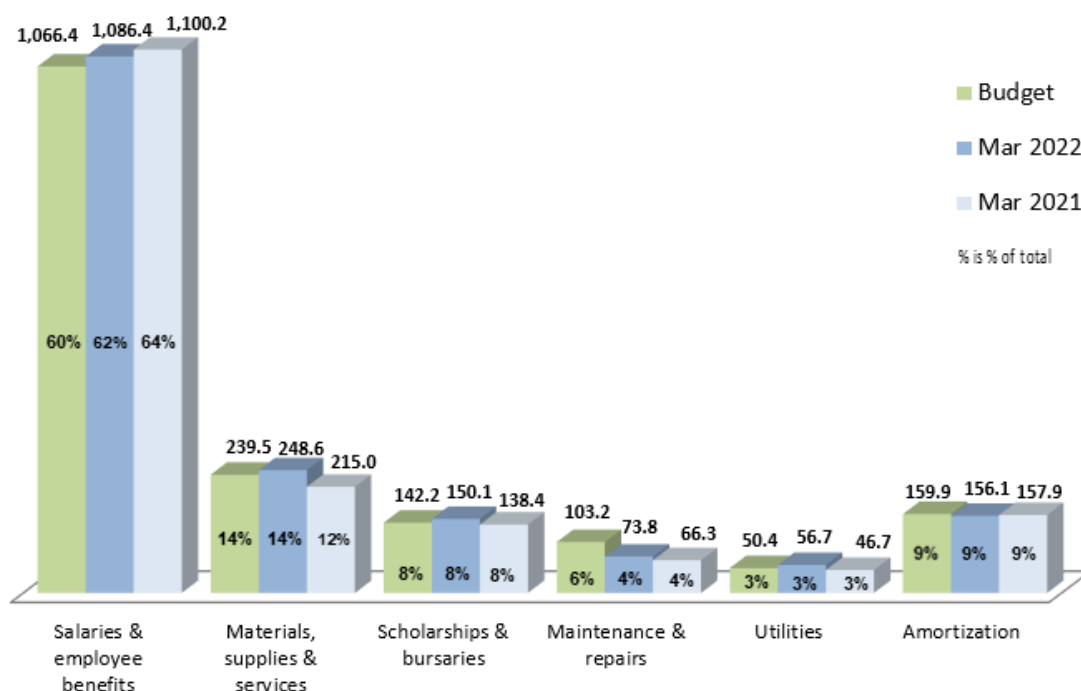
Investment income supports many university activities, both operating activities and a reserve for strategic and other initiatives. Investment income revenue, including the loss from GBE, of \$175.9 million was \$72.4 million higher than prior year and \$84.6 million higher than budget. The increase over prior year and the favorable to budget was due to higher realized gains on disposal of investments and the recovery of the temporary endowment encroachment. Investments fall into two categories, the University Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP). The UEP had a return of 9.5% (2021: 29.2%) 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 4.2% (2021: 12.4%). In 2015 the university established a wholly owned government business enterprise, University of Alberta Properties Trust Inc. to act as trustee for the University of Alberta Properties Trust. During the year, the trust recorded a loss of \$0.6 million.

Expense

Total expense for the year was \$1,771.7 million, an increase of \$47.2 million over the prior year and \$10.1 million (0.6%) more than budget. Salaries and employee benefits are the single largest expense representing 62% of total expense. Overall, the increase in expenses can be attributed to an increase in materials and supplies and maintenance as staff slowly return to campus from working remotely.

Expense by Object

Figure 2. University of Alberta Expense



Salaries and Employee Benefits

Salaries and employee benefits of \$1,086.4 million was \$13.8 million less than prior year and \$20.0 million more than budget. The decrease over prior year is mainly due to lower UAPP pension expense as a result of the decrease in the UAPP deficiency due to higher investment values. The increase compared to budget is mainly due to higher than budgeted salaries charged to research projects as research activity increased due to staff returning to campus.

Materials, Supplies and Services

Materials, supplies and services of \$248.6 million was \$33.6 million more than prior year and \$9.1 million more than budget. The increase over prior year and when compared to budget is mainly due to higher materials and supplies in support of increased research activities as staff return to campus.

Scholarships and Bursaries

Scholarships and bursaries of \$150.1 million was \$11.7 million more than prior year and \$7.9 million more than budget. The increase over prior year was due to an increase in undergraduate awards from operations and an increase in graduate awards funded by endowments and restricted grants. The increase over budget is mainly due to higher than budgeted awards from restricted funding (grants and endowments). It should be noted that while other areas of the university faced significant cost reductions due to the decrease in the GOA base operating grant, scholarships to students continued to see an increase. This aligns with the University's goal to attract and support undergraduate and graduate students.

Maintenance and Repairs

Maintenance and repairs of \$73.8 million was \$7.5 million more than prior year but \$29.4 million less than budget. The increase over prior year was mainly due to renovation costs for Enterprise Square and the demolition of buildings in the Michener Park site to get it ready for new development. Maintenance and repairs was less than budget due to lower than budgeted work on several deferred maintenance projects funded by restricted capital grants.

Utilities

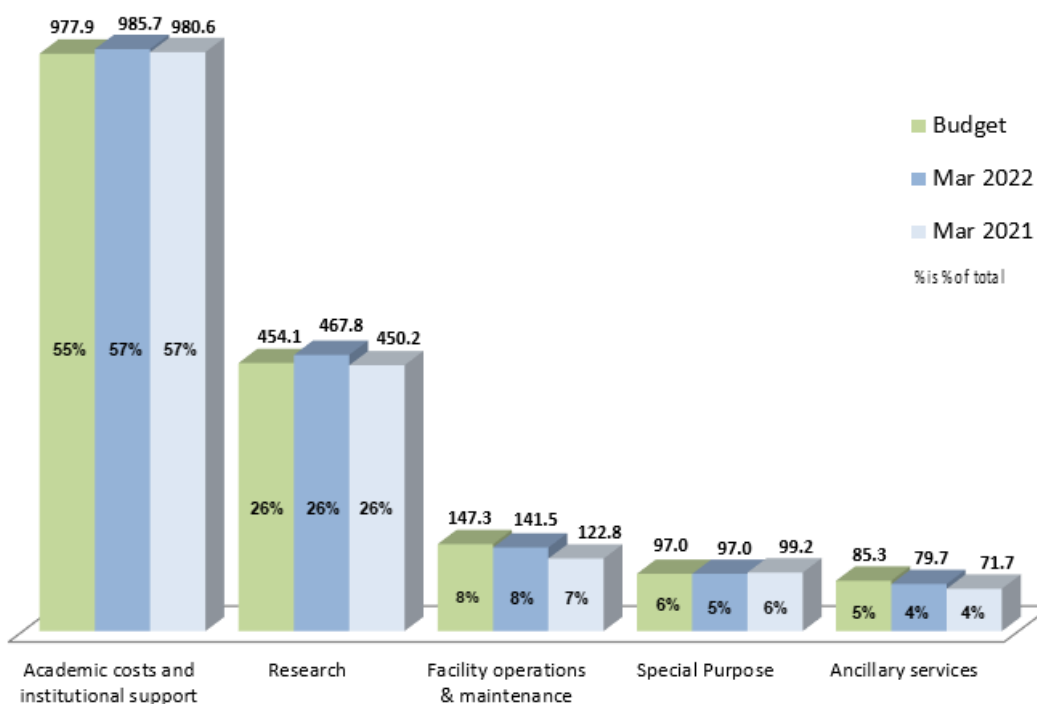
Utilities of \$56.7 million was \$10.0 million higher than prior year and \$6.3 million higher than budget. The increase over prior year and the increase over budget was due to the higher than budgeted price for natural gas.

Amortization

Amortization of \$156.1 million was \$1.8 million less than prior year and \$3.8 million less than budget. The decrease over prior year and the decrease over budget was mainly due to lower amortization expense for equipment and learning resources.

Expense by Function

Figure 3. University of Alberta Expense by Function



Academic Costs and Institutional Support

Academic costs and institutional support expenses effectively represent the operating activities of the university. A significant component of this category is salary and employee benefit costs. Expenses for this category of \$985.7 million were \$5.1 million more than prior year and \$7.8 million more than budget. The variances are not significant and cannot be attributed to any particular event or expense.

Research

Research expenses are funded by restricted grants and donations along with internal funds designated for research related activities. Research expenses of \$467.8 were \$17.6 million more than prior year and \$13.7 million more than budget. The decrease over prior year and the decrease over budget is mainly due to increased research activity on projects as staff began to return to campus as COVID-19 restrictions were reduced.

Facility Operations and Maintenance

Facility operations and maintenance represents the cost of maintaining university facilities and grounds. Facility operations and maintenance expense of \$141.5 million was \$18.7 million more than prior year and \$5.8 million less than budget. The increase over prior year is mainly due to renovations to Enterprise Square and the demolition of buildings on the Michener Park site. The decrease over budget was mainly due to lower than budgeted deferred maintenance projects funded by restricted capital grants.

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 \$97.0 million was \$2.2 million less than prior year and comparable to 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 \$79.7 million was \$8.0 million more than prior year and was \$5.6 million less than budget. The increase over prior year is mainly due to a return to activity on campus due to the gradual removal of COVID-19 restrictions. The decrease over budget is mainly due to lower than budgeted operating expenses for residences and parking services.

Capital Acquisitions

The university expended \$197.1 million (2021: \$187.7) on construction and other tangible capital asset acquisitions.

The most significant construction and capital asset acquisitions in 2022 are:

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

The university also sold two significant assets during the course of the year:

- Newton Place – a student residence tower
- Husfloen Centre – a building on Augustana Campus used for teaching purposes

Net Assets and Net Financial Assets / 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 \$1,639.7 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 \$926.6 million in net assets, \$564.2 million represents funds invested in tangible capital assets.

Figure 4. University of Alberta Net Assets

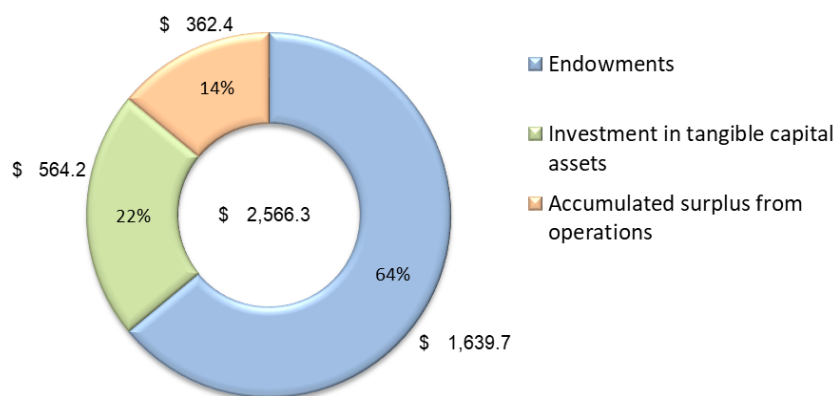


Table 1. University Net Assets

	Unrestricted	Internally Restricted	Investment in Tangible Capital Assets	Endowments	Total
Net Assets, Beginning of Year	\$212.1	\$55.0	\$566.7	\$1,574.0	\$2,407.8
Annual Operating Surplus	130.3	-	-	-	130.3
Transfer to Internally Restricted	(48.0)	48.0	-	-	-
Endowments Contributions and Capitalized Income	-	-	-	23.3	23.3
Transfer to Endowment	(0.6)	-	-	0.6	-
Transfer to Endowments - Encroachment	(31.2)	-	-	31.2	-
Tangible Capital Assets	2.5	-	(2.5)	-	-
Change in Accumulated Remeasurement Gains	(5.7)	-	-	10.6	4.9
Increase (Decrease)	47.3	48.0	(2.5)	65.7	158.5
Net Assets, End of Year	\$259.4	\$103.0	\$564.2	\$1,639.7	\$2,566.3

The increase in unrestricted net assets is mainly due to the annual operating surplus (\$130.3) and funding for tangible capital assets (\$2.5), partially offset by transfers to the internally restricted reserve (\$48.0), a transfer to recover the temporary endowment encroachment (\$31.2), current year remeasurement loss on investments (\$5.7), and a transfer capitalized to endowment principal (\$0.6).

The university has an internally restricted reserve of \$103.0 million, the current year transfer is \$48.0 million. Of this amount \$71.0 million is an investment income reserve while \$32.0 million has been appropriated to a Strategic Initiatives Fund in support of various strategic initiatives in accordance with University Funds Investment Policy.

As per the University Funds Investment Policy, all realized Non-Endowed Investment Pool earnings not required for current budget purposes will be reinvested to build an investment income reserve. In the current year, this amounts to \$48.0 million.

As at March 31, 2022 the market value of the Non-Endowed Investment Pool's yield and return seeking investments exceed their underlying obligations (cost) by \$204 million or 24%. Of this amount, \$103 million in realized gains have been set aside in internally restricted reserves; the remainder represents unrealized investment gains. The purpose of the investment income reserve is to create a buffer for risk management purposes; that is, to ensure that all future financial obligations can be fulfilled in the event of unplanned liquidity requirements and significant investment losses occurring concurrently. The reserve target is 17% of the underlying obligations (investment cost), currently \$147 million, which allows for fluctuations in capital and equity markets to the degree experienced during the financial crisis in 2008-09. Since the reserve target is currently being met, appropriations to a Strategic Initiatives Fund to support long-term institutional goals can be made. Details of the allocations can be seen in Table 2.

Table 2. University Investment Income and Strategic Reserves	2022	2021
Investment Income Reserve	\$71.0	\$55.0
Strategic Initiatives	\$32.0	-
Total Reserves, End of Year	\$103.0	\$55.0

The decrease in investment in tangible capital assets of \$2.5 million consists of additions (\$68.8) and debt repayments (\$19.3), less financing allocation (\$26.8) and amortization (\$63.8). 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 (2022: \$56.9; 2021: \$55.8) 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 \$65.7 million is due to an increase in fair value (\$10.6), new contributions and capitalized investment income (\$23.3), a transfer of miscellaneous sales revenue from unrestricted net assets (\$0.6), and the recovery of the temporary endowment encroachment that funded prior year endowment expenditures (\$31.2). During the year the university's investment income earned from endowment investments was \$143.3 million (2021 - \$70.7). This is sufficient to fund the annual spending allocation of \$56.9 million (2021 - \$55.8) along with the investment management and administration fees of \$18.1 million (2021 - \$19.4). The investment income earned was also sufficient to fund both the temporary endowment encroachment of the last two fiscal years of \$31.2 million along with the unfunded spending allocation commitment of \$31.4 million. This left \$5.7 million that was capitalized to endowment net assets as it was not required to meet the university's spending allocation obligations.

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 financial assets position (excluding portfolio investments restricted for endowments) indicates that the university has a \$36.5 million surplus (2021: \$48.8 deficiency). The surplus can be attributed to the accumulated operating surplus \$362.4 million (2021 - \$267.1), partially offset by the incurrence of prepaid expenses \$12.1 million (2021 - \$9.6) and tangible capital assets acquired by debt financing \$313.8 million (2021 - \$306.3). Net financial assets has increased mainly due to the annual surplus and unrealized gains on investments.

Areas of Significant Financial Risk

Fiscal Uncertainty

The Campus Alberta grant is the primary source of funding for the university's day-to-day operating activities. Government support continues to decline. The final cut to the operating grant will occur in fiscal 2022-23 and will be approximately \$52 million. 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 \$4.9 million and a 1% change to domestic tuition is \$2.1 million.

In response to the pressures on provincial funding, during the year the university successfully completed the implementation of its 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 expected that the restructuring will result in administrative efficiencies and will see overall cost savings of approximately \$127 million.

The COVID-19 pandemic continues to have an impact in how the university conducts its operations. The university returned to in-person delivery of most instructional courses to students at the end of February 2022. This also meant the return to campus of staff who support the delivery of services to students. Other staff will return to campus in a phased approach during the remainder of 2022. With the return to campus the university saw improvement in its ancillary revenues – mainly in residences and parking services. The university also saw an increase in materials and supplies expenses as staff returned to campus. The liquidity position of the university remains strong so there are no immediate cash flow concerns due to the impact of the COVID-19 pandemic.

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, 2022, based on actuarial assumptions, the university has recorded a UAPP employee future benefit liability of approximately \$126 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 \$10 million, a 1% increase in the salary escalation assumption would be an increase of approximately \$3 million, while a decrease of 1% 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 obligations continue to increase. As of December 2021, the estimated liability stood at \$350 million and is estimated to increase to approximately \$1.035 billion by 2025. As part of the fiscal 2022 budget, the government provides a Capital Maintenance and Renewal (CMR) grant (\$35 million) which is a main source of funding in dealing with the deferred maintenance liability. 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. This is also being done in the context of achieving our Facility and Space Optimization objectives which is underpinned by the Integrated Asset Management Strategy.