



**UNIVERSITY OF ALBERTA**

**FINANCIAL STATEMENTS**

**for the Year Ended March 31, 2009**



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### **FINANCIAL SERVICES**

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## THE UNIVERSITY OF ALBERTA FINANCIAL ANALYSIS FOR THE YEAR ENDED MARCH 31, 2009

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### **Executive Summary**

The University of Alberta has reported a \$67.6 million deficiency of revenue over expense for the year ended March 31, 2009 compared to a \$42.0 million deficiency reported last year. The year end unrestricted net assets deficit is \$60.5 million as compared to last year's positive unrestricted net assets of \$8.2 million.

The 2009 deficiency is mainly due to investment losses. The global economic crisis has continued to have an unfavorable impact on investment returns. The Unitized Endowment Pool (UEP) had a loss of 19.5% (2008: 6.0% loss) and the Non-Endowed Investment Pool (NEIP) had a 1.3% loss (2008: 2.8% loss). Due to the UEP loss, the University was required to transfer \$31.4 million from endowments (cumulative capitalized earnings) to fund the endowment spending allocation. The NEIP loss includes an additional \$31.1 million write-down of asset-backed commercial paper (ABCP). On January 16, 2009 an ABCP restructuring agreement came into effect with new notes issued on January 21. The University expects to receive interest payments on the majority of the restructured notes, although there is some uncertainty as the payments are contingent upon the sufficient income generation of the underlying assets.

Investment losses have also had an unfavorable impact on the Universities Academic Pension Plan (UAPP), which has resulted in increased pension expense for the University.

Other financial highlights for 2009:

- The Provincial Government base operating grant increased by 6.0% and the University received a number of new grants for academic program expansion.
- In 2009, the University recorded an employee future benefit liability of \$54.1 million for its share of the Universities Academic Pension Plan (UAPP) unfunded pension liability. This liability was known and was disclosed in the March 2008 notes to the financial statements. During this past year, the Alberta Universities and the Ministry of Advanced Education and Technology worked together to determine each participant's share of this multi-employer plan.
- Research revenue (before deferrals) was \$397.2 million in 2009, as compared to \$471.6 million in 2008. Research revenue increased across a variety of funding sources and programs, however there was a net overall decrease due to a large one-time grant received last year (\$91.4 million) for the construction of the Health Research Innovation Facility. The University is among the top five institutions in Canada in attracting research support from the whole range of Canadian and international sponsors.
- The University of Alberta's Campaign 2008 raised \$581.7 million surpassing its campaign goal of \$500 million. For the 2008-09 fiscal year, new endowment contributions totaled \$33.1 million (includes the Provincial Government Access to the Future Fund matching grant of \$5 million) and expendable donations totaled \$24.5 million.
- In support of the University's capital plan, the Province provided \$396.4 million in funding for several key capital priorities. Some of the larger projects that received funding included: The Edmonton Clinic North (\$121.4 million); Centennial Centre for Interdisciplinary Science (\$99.6 million) and the Utilities expansion (\$30 million). The Province also provided \$124.4 million for various building upgrades including Health Research Innovation Facility (West) (\$87.2 million for support facilities).

Areas of significant financial risk:

- deferred maintenance, which now exceeds an estimated \$1 billion and places programs and initiatives at some risk (refer to later section in the financial analysis);

- provincial government operating grant, as the University enters into the final year of a four year commitment of 6.0% increases, there is uncertainty around the provincial government funding commitment for fiscal year 2011 and beyond;
- academic staff salary settlements which do not align with future provincial government operating grant commitments;
- uncertainty about utility costs due to the volatile energy market, inflationary pressures and investment income which can fluctuate significantly due to market performance.

The University is wholly committed to addressing these risks and will work closely with the provincial government on a long-term strategy that minimizes the University's exposure while maintaining its unprecedented forward momentum.

*The Financial Analysis is intended to provide the reader with the financial highlights for the 2009 year and should be read in conjunction with the March 31, 2009 audited Financial Statements.*

- *click on Annual Financial Statements*

*Other documents the reader can refer to for a more in-depth discussion and analysis of the University's goals and objectives are as follows:*

- *click on Key Strategic Planning Documents*
  - *Dare to Discover: A Vision for a Great University*
  - *2007 – 2011 University Plan (update 2009)*
  - *2007 – 2011 Capital Plan (update 2009)*
  - *2007 – 2008 Annual Report*

*Other information the reader may find useful:*

- *click on Investment Reports (most recent fiscal year)*

website link: <http://www.financial.ualberta.ca>

## **Introduction**

To reflect the nature and restrictions placed on its revenue sources, the University classifies its revenues into separate categories. The major classification distinction is whether the revenues represent unrestricted or restricted contributions. Unrestricted contributions are flexible in that they are available to the University's Board of Governors to allocate for spending, as it deems appropriate. Such contributions are recognized as revenue immediately. The University, on the other hand, can only expend restricted contributions for the specific purposes defined by the external sponsor or donor. Such contributions are deferred and recognized as revenue when conditions of the contributions are met.

The University segregates its financial activity into the following separate funds to further enhance accountability, budgetary control and stewardship of resources:

### Unrestricted funds:

- General operating - this fund includes the provincial government operating grant, tuition fee revenue, investment income available for general spending and any new revenues generated by faculties and administrative units.
- Enrolment planning envelope (EPE) - funded by the provincial government for the purposes of implementing specific new programs or expanding existing programs. Viable programs may become part of the operating grant in subsequent years.
- Ancillary enterprises - these University business enterprises provide goods and services to the University community and to individuals, companies and organizations external to the University. These units are expected to operate on either a break-even basis, covering their full operating and capital costs, or on a profit basis.
- Internally restricted - includes internal funds available for spending.

### Restricted funds:

- Research - funded by grants and contracts from external sponsors, donations and endowment investment income available for spending.
- Special purpose - funded by grants and contracts from external sponsors, donations and endowment investment income available for spending. Expenditures include scholarships and bursaries, and other special projects involving teaching and community service.
- Capital - funded by provincial, federal and other government grants and donations. Funds are primarily designated for the acquisition of buildings, equipment and furnishings, including major renovations.

For financial statement reporting purposes, the Statement of Financial Position, Statement of Operations, and Statement of Changes in Net Assets combine the assets, liabilities, equity, revenues and expenses of all funds.

### Deficiency of Revenue over Expense

The University ended the 2009 year with a \$67.6 million deficiency of revenue over expense (2008: \$42.0 deficiency) and an unrestricted net assets deficit of \$60.5 million (2008: \$8.2 unrestricted net assets).

The increase of \$25.3 in the deficiency of revenue over expense is due to a number of factors. A significant factor is the \$34.3 million increase in investment loss, which is mainly attributable to the 19.5% loss for the Unitized Endowment Pool (UEP) (2008: 6.0% loss) and the 1.3% loss for the Non Endowed Investment Pool (NEIP) (2008: 2.8% loss). The endowment spending allocation of \$31.4 million has therefore been funded by a transfer from endowment net assets (cumulative capitalized earnings) as per the authority provided under the *Post-Secondary Learning Act*. The NEIP return also reflects the additional \$31.1 million write-down in unrealized investment losses related to holdings in ABCP. Other factors include:

- \$10.5 million in pension expense for the University's share of the Universities Academic Pension Plan (UAPP) unfunded pension liability.
- A positive impact resulting from spending lags on funding received, most notably with the enrolment planning envelope grants.

Revenues from the Provincial Government increased due to a 6% increase in the operating grant and the University also received new enrolment planning envelope grants.

### Revenues

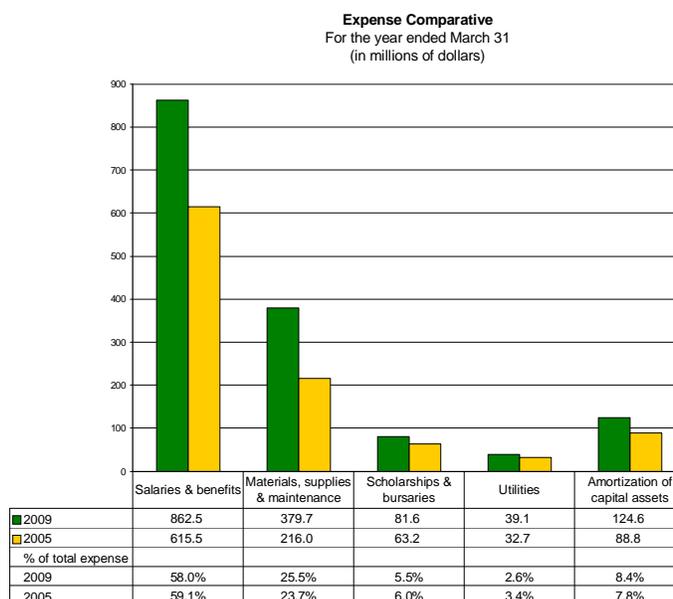
The following table highlights revenues before and after deferrals:

	2009		2008	
	(000's)	(000's)	(000's)	(000's)
	Revenue per Financial Statements	Revenue before Deferrals	Revenue per Financial Statements	Revenue before Deferrals
Provincial government	\$ 681,089	\$ 1,114,566	\$ 624,247	\$ 1,074,076
Federal and other government sources	174,647	195,706	153,625	189,706
Sales of services and products	217,506	217,506	196,224	196,224
Credit course tuition and related fees	205,243	205,243	188,988	188,988
Grants and donations	108,215	127,696	73,340	110,125
Investment loss	(42,302)	(27,884)	(7,956)	(7,956)
Revenue	<u>\$ 1,344,398</u>	<u>\$ 1,832,833</u>	<u>\$ 1,228,468</u>	<u>\$ 1,751,163</u>

## Total Revenues (before deferrals)

While the University's major funding comes from the provincial operating grant, tuition fees and sales, there have also been significant increases in restricted funds for sponsored research, infrastructure and specific academic programs. There were also a number of new grants for academic program expansion.

In 2009, total revenues (before deferrals) amounted to \$1,832.8 million (2005: \$1,154.0) representing a 58.8% increase over the five year period.



## Provincial Government

In 2009, total provincial government revenue (before deferrals) amounted to \$1,114.6 million, representing an increase of \$40.5 million (3.8%) compared to last year.

	<u>2009</u>	<u>2008</u>	<u>Change</u>
	(000's)	(000's)	(000's)
Unrestricted:			
Operating grant	<b>\$ 484,774</b>	\$ 442,168	\$ 42,606
Performance envelope award	-	3,266	(3,266)
Enrolment planning envelope grants	<b>53,865</b>	38,127	15,738
Other grants	<b>10,723</b>	9,320	1,403
	<b>549,362</b>	492,881	56,481
Restricted:			
Capital grants	<b>396,430</b>	319,571	76,859
Research grants	<b>100,816</b>	204,618	(103,802)
Special purpose grants	<b>67,958</b>	52,006	15,952
Access to the future fund (matching grants)	-	5,000	(5,000)
	<b>565,204</b>	581,195	(15,991)
Revenue (before deferrals)	<b>\$ 1,114,566</b>	\$ 1,074,076	\$ 40,490

The total operating grant increased by 9.6% compared to the prior year. The base operating grant increased by 6% and there were increases to various other operating grants. Advanced Education and Technology suspended the performance envelope award program for 2008/09. Enrolment planning envelope funding increased due to new grants received for the implementation of new programs or expansion to existing programs.

The 2009 capital grants include The Edmonton Clinic North, Centennial Centre for Interdisciplinary Science, Utilities expansion, and various other renovation and upgrade projects. Research grants decreased primarily due to a one-time grant received last year for the Health Research Innovation Facility (\$91.4). Special purpose funding increased due to increases in Alberta Health and Wellness grants (Alternate Funding Plans, Post Graduate Medical Education Program) and an Alberta Infrastructure grant in-kind for Kinsella land and buildings. The University received \$5.0 million in Access to the Future Fund (matching grant) which is included in endowment net assets (and therefore not reflected in the above table).

## Sponsored Research Revenue

The University of Alberta continues to increase its level of research funding in all areas of scholarly activity. The University remains in the top five institutions in Canada overall in both funding and impact of research activities.

Research revenue (before deferrals) amounted to \$397.2 million (2008: \$471.6). Research revenue increased across many funding sources and programs; however there is an overall net decrease of \$74.4 million (15.8%) mainly due to a large one-time grant received last year for the Health Research Innovation Facility (\$91.4).

	<u>2009</u> (000's)	<u>2008</u> (000's)	<u>Change</u> (000's)
Provincial government	\$ 101,927	\$ 208,082	\$ (106,155)
Federal and other government	189,337	175,796	13,541
Grants and donations	85,600	69,575	16,025
Investment income	2,830	5,913	(3,083)
Sales of services and products	17,488	12,204	5,284
<b>Research revenue (before deferrals)</b>	<b><u>\$ 397,182</u></b>	<b><u>\$ 471,570</u></b>	<b><u>\$ (74,388)</u></b>

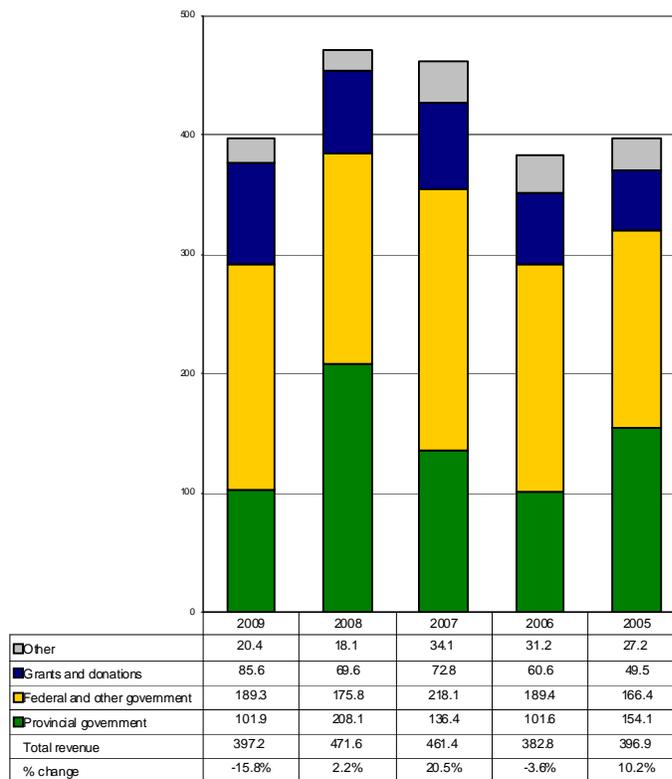
Province of Alberta increased their funding across a variety of programs; however the net decrease is mainly due to funding received last year for the Health Research Innovation Facility (\$91.4).

Federal and other government increase is mainly due to federal government grant increases for Canada Foundation for Innovation (CFI) (\$10.4), Tri-Council grants (\$3.4) and Networks of Centers of Excellence (NCE) for Sustainable Forest Management (\$3.0).

Grants and donations increase is due to an increase from the Canadian business sector (\$9.5) and various other sources (\$6.9). Other sources include associations, foundations, institutes and individuals.

Other income includes investment income and sales revenue.

**Sponsored Research Revenue by Source**  
For the year ended March 31  
(in millions of dollars)



## **Tuition and Related Fees**

Tuition and related fees amounted to \$205.2 million (2008: \$189.0). This increase is due to various increases including a 4.6% increase in tuition fees, increases in fees due to increased international student enrolment and various other fee increases.

In 2006, the provincial government announced a comprehensive framework to make post-secondary studies more affordable for students. A key component of the framework was a new tuition fee policy, starting in fall 2007. The tuition fee policy limits tuition increases to changes in the annual Consumer Price Index (CPI). Along with the announcement of the new tuition policy, the provincial government increased its grants to post-secondary institutions for the three years starting 2007-08 to offset the difference between maximum annual tuition increase under the old policy and the new policy.

The tuition fees (instructional fees only) for an Arts or Science student with a full time course load in 2009 were \$4,901 as compared to \$4,686 in 2008.

## **Sales of Services and Products**

Ancillary services units and academic and administrative units generate revenues through the sale of services and products to individuals, companies and organizations external to the University. Also included in sales are miscellaneous types of revenues received by the University. Sales of services and products amounted to \$217.5 million (2008: \$196.2).

The ancillary services units generated sales of \$90.5 million for 2009 (2008: \$85.1). The units with the largest sales are: Bookstore (\$26.3), Housing and Food Services (\$25.4), Utilities (\$17.0) and Parking Services (\$12.4).

Academic and administrative units generated sales of \$127.0 million (2008: \$111.1), with the most significant activity as follows: Faculty of Medicine and Dentistry (\$65.2) which is mainly revenue from Capital Health and the practice plans in support of positions that provide an interaction between the academic environment and the clinical services environment; Faculty of Extension for non credit tuition and related fees (\$10.2); Physical Education and Recreation revenue generated by athletic teams, sport camps and rentals of facilities (\$9.8); Faculty of Business professional and executive development programs (\$8.2) and Faculty of Agriculture, Life and Environmental Sciences (\$4.5) which is mainly from the sale of animal, plant and related products. The \$127.0 million in academic and administrative unit sales represents a \$15.9 million increase which is due to increased activity or new sales activity in the following areas: Faculty of Medicine (\$9.8), Faculty of Business (\$1.2), Faculty of Physical Education and Recreation (\$1.1) and a net overall increase across all other units (\$3.8).

## **Investment Loss**

The loss from investments for the year was \$42.0 million compared to a loss of \$8.0 million last year. Investments primarily fall into two categories, the Unitized Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP).

The UEP had a loss of 19.5% (2008: 6.0% loss). The credit crisis evolved into a near catastrophic financial crisis and a synchronized global economic downturn in 2009, the magnitude of which had not been experienced in over 50 years. Virtually all asset classes suffered substantial losses as extreme levels of uncertainty resulted in a flight to safety in short-term sovereign debt. The Morgan Stanley Capital International World Index posted a loss of 29.1% (2008: 13.5% loss). Canadian equities, with their heavy weighting to the cyclical commodity based sectors, performed poorly with the S&P TSX Index posting a loss of 32.4% (2008: 4.0% return). The DEX Bond Universe Index returned 4.9% (2008: 5.8%), but there was wide dispersion within the index with corporate bonds returning only 1.6% (2008: 2.8%) and Government of Canada bonds returning 8.4% (2008: 7.7%). This had a negative impact on performance given the UEP's 63.8% allocation to equities as at March 31, 2009. Collectively the conservative strategies employed by the UEP's managers provided good downside protection of 4.5% as the UEP's benchmark posted a loss of 23.7% (2008: 4.2% loss). At March 31, 2009 the benchmark was comprised of the following: 20% DEX Bond Universe Index, 10% DEX Real Return Bond Index, 15% S&P/TSX Composite Index and 55% Morgan Stanley Capital International World Index 50% hedged to the Canadian Dollar. The primary long-term objective of the UEP is to maintain its real value while providing for a sustainable level of program support

The NEIP, comprised of 3 distinct strategies (short-term, mid-term and long-term), recorded an overall loss of 1.3% for the year (2008: 2.8% loss). The short-term money market investments had a return of 0.0% (2008: 3.2% loss); this compares unfavorably with the benchmark DEX 91 Day Treasury Bill return of 2.4% (2008: 4.6%) and is entirely attributable to the University's exposure to third-party asset-backed commercial paper (ABCP).

ABCP subject to the Montreal Accord was successfully restructured into long-term floating rate notes with maturities that match that of the underlying assets on January 16, 2009. Two bank sponsored ABCP holdings were successfully restructured earlier in the fiscal year. Devonshire Trust failed to restructure and the asset provider commenced legal action on January 13, 2009 to recover the collateral posted by the trust. Devonshire Trust is defending this action. The University's exposure to Devonshire Trust is \$3.0 million.

As of March 31, 2009 the University's holdings of restructured notes and ABCP amounted to \$165.2 million (2008: \$169.7 million) and a write down of \$72.1 million representing 42.5% of the total value (2008: \$41.0 million representing 24.0% of the total value) was recorded. The \$31.1 million increase in the write-down is primarily attributable to the widening of credit spreads this past year. The spread between what the restructured notes are expected to pay and what assets of comparable risk and duration yield has widened by approximately 350 basis points. Every 10 basis point widening in credit spreads increases the write-down by approximately \$0.9 million. The restructured notes will pay interest quarterly at the 90 day Bankers Acceptance (BA) rate less 50 basis points. Due in part to monetary policy easing by the Bank of Canada the 90 day BA rate decreased to 0.5% (2008: 3.6%). During the year the yield on assets of comparable duration and risk increased to 5.8% (2008: 5.4%).

With the exception of the exposure to US residential mortgages, the majority of the restructured notes are of high quality and in aggregate 75% of the restructured notes by value have received an investment grade credit rating of A or higher from the Dominion Bond Rating Service. While the maturity dates of the restructured notes vary significantly, 87% of the notes by value are expected to mature within the next eight years. It is the University's intention to hold these notes to maturity. A comprehensive long-term cash flow forecast has been prepared and administration is confident that the exposure to the restructured notes does not represent a liquidity issue for the University and all obligations and commitments will continue to be met.

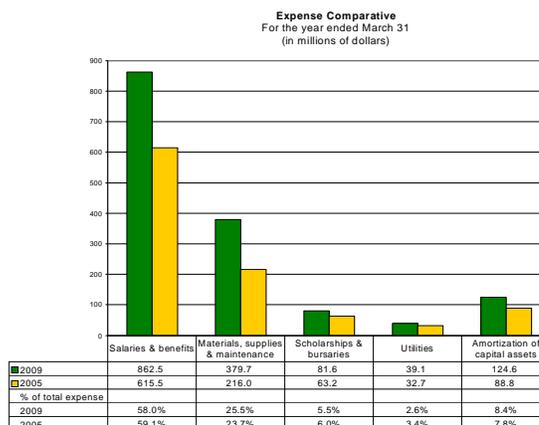
The mid-term bond portfolio had a return of 3.4% (2008: 6.0%); this trailed the benchmark DEX Short Term Bond Index return of 6.9% (2008: 6.4%). This under performance is due in part to the fact that the restructured ABCP notes were transferred to the mid-term bond portfolio from the short-term portfolio effective January 16, 2009. The long-term portion of the NEIP, which is invested in the UEP, detracted from performance with a loss of 19.5% (2008: 6.0% loss).

The University holds a significant equity position in a publicly traded spin-off company (BioMS Medical Corp.), pursuant to a licensing transaction that was completed on December 14, 2000. During the year the BioMS share price fell to \$2.43 (2008: \$3.73). An unrealized capital loss of \$8.6 million related to this holding is reflected in investment income. Given the nature of this unrealized loss it has not been included in the calculation of the 1.3% loss for the NEIP.

## Expenses

Expenses for 2009 increased by \$160.1 million (12.1%) from \$1,327.4 million in 2008 to \$1,487.5 million in 2009. The main components of this increase are:

Salaries expense increased by \$60.8 million (9.2%). The collective bargaining process resulted in negotiated salary increases for both academic and support staff (4.0%) and, in addition, staff received merit increases. There were also increases in new hires (approximately 450) relating to the increased level of activity (2009: approx. 10,800 staff, 2008: approx. 10,350 staff). The increase in staff has contributed to an improved student/faculty ratio. Included in the above staff counts are approximately 1,292 academic staff granted tenure. There were salary expense increases of \$45.9 million in the operating fund, \$9.5 million in the research fund and an increase of \$5.4 million in the remaining funds.



Benefits expense increased by \$24.3 million (21.6%). \$18.8 million of this increase is due to the UAPP unfunded pension liability expense (2009: \$10.5; 2008: (\$8.3)). The increase is mainly due to the change in the actuarial valuation used for the 2009 year compared to the actuarial valuation used for 2008. The remainder of the increase is due to increased salary costs and staff numbers. There were increases of \$4.8 million in the general operating fund and \$0.7 million in the remaining funds.

Materials, supplies and services expense increased by \$31.9 million (11.7%) due to increased activity in the operating fund (\$7.2), increased activities in research (\$14.9) and special purpose (\$7.1) and a net increase across all other funds (\$2.7). Maintenance expense increased by \$8.2 million (14.6%) mainly due to an increase in building maintenance across various funds.

Utilities expense increased by \$4.1 million (11.8%) primarily as a result of an increase in utility rates. The University has managed some of its exposure to volatility in the electrical industry by entering into contracts to fix a portion of its electrical costs.

Scholarships and bursaries expense increased by \$8.4 million (11.5%). This increase was spread throughout a number of initiatives and programs. A variety of scholarship programs received a \$1.8 million increase in support from the operating fund and there was an increase of \$4.0 million in scholarships primarily funded by endowments and \$2.6 million funded by various research grants.

Amortization expense increased by \$21.7 million (21.1%). This increase was due to new buildings coming into service and a change in estimation on equipment assets. The University changed its estimated useful life on specific equipment categories which has resulted in additional amortization expense of approximately \$14.9 million. The equipment categories that were changed are: scientific lab (from 15 to 10 years), computers (from 7 to 5 years) and various other equipment categories (ranging from 15 - 25 to 10 years).

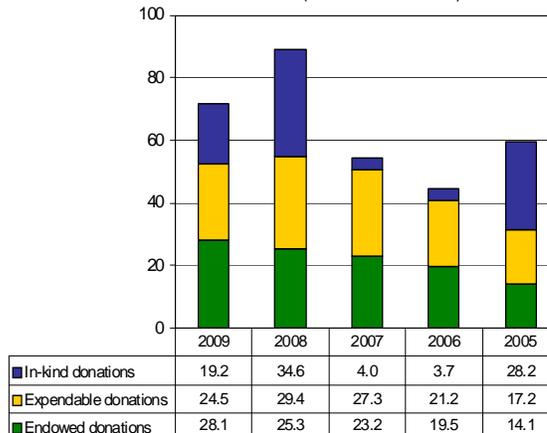
## Donations

Donations (before deferrals) received in the year totaled \$71.8 million as compared to \$89.3 million in 2008 and are comprised of:

- \$28.1 million (2008: \$25.3) endowed donations
- \$24.5 million (2008: \$29.4) expendable donations
- \$19.2 million (2008: \$34.6) in-kind donations  
(2009: donation of software (\$14.7); 2008: donation of software (\$14.0), land (\$17.4))

In 2009, the University received \$5.0 million from the Access to the Future Fund (provincial government matching grant), which is recorded as an endowment contribution. The University also received a grant in-kind of \$9.6 million for land and buildings. These provincial government grants are not included in the \$71.8 million of donation funding.

**Donations Received**  
For the year ended March 31  
(in millions of dollars)



Donor pledges outstanding at March 31, 2009 are \$116.6 million (2008: \$89.2) and are not reflected in the University's financial statements. These pledges are expected to be honoured over the next several years.

## Financial Position

The University's net assets position decreased by \$158.1 million due to a decrease in endowment value of \$131.8 million, a decrease in unrestricted net assets of \$68.7 million and an increased investment in capital assets and collections of \$42.4 million.

### Endowments

Endowments consist of restricted donations to the University, the principal of which is required to be maintained intact in perpetuity, as well as internal allocations by the Board of Governors. The investment income generated from endowments must be used in accordance with the various purposes established by the donors and the Board of Governors. The endowment investment policy, which is long term in nature, is designed to meet the funding objectives of the University by maximizing returns with an acceptable level of risk, while maintaining the real capital value of the endowment and providing for an appropriate level of spending. The University has long recognized the value of permanent funding support and through successful fund raising efforts over the years, ranks fourth overall amongst Canadian universities in terms of total endowment funds.

Endowment investments recorded a loss of 19.5% for the year ended March 31, 2009 (2008: 6.0% loss) and averaged a loss of 0.02% on a five year annualized basis and a 3.67% return on a ten year annualized basis.

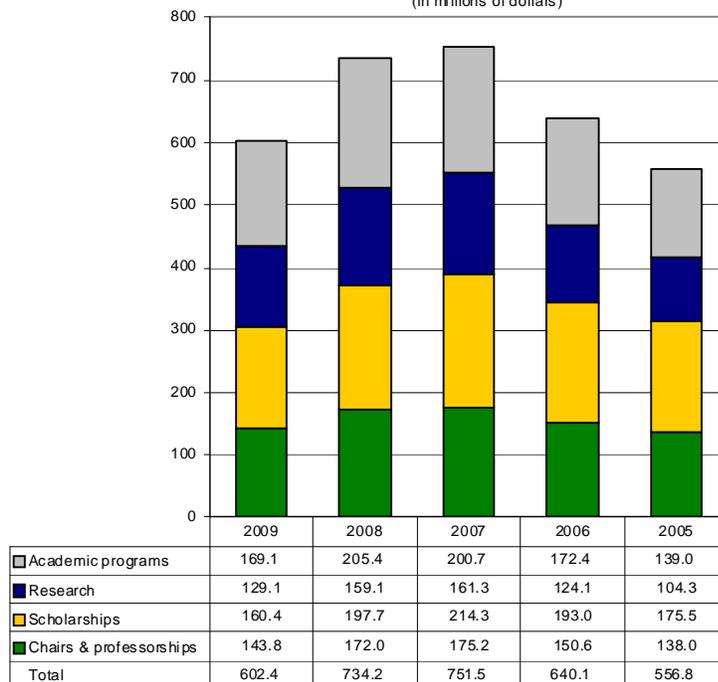
Endowment funding supports a variety of key initiatives in the areas of scholarships, professorships, chairs, visiting speakers, research and many other activities. The spending allocation for these programs in 2009 is \$31.4 million (2008: \$30.0). As a result of the investment loss, the spending allocation for 2009 is funded from the endowment net assets (cumulative capitalized earnings). The spending allocation is 4.45% (2008: 4.65%) and is based on a moving average of the endowment's fair value.

At March 31, 2009, the University has 2,119 individual endowments, with a total value of \$602.4 million (2008: \$734.2), a net decrease of \$131.8 million, comprised of:

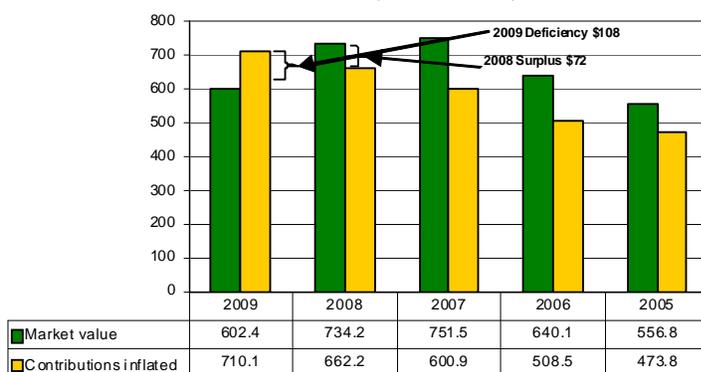
- \$33.1 million endowed donations (includes \$5.0 provincial matching grant)
- \$7.5 million capitalization from expendable funds
- (\$31.4) million allocated for program spending from endowment net assets (cumulative capitalized earnings)
- (\$141.0) million investment loss

The primary long-term objective of the UEP is to maintain its real value while providing for a sustainable level of program support. As at March 31, 2008 the market value of the UEP assets exceeded the cumulative endowed contributions indexed for inflation by \$72 million. The current year's loss combined with program spending support and inflation has resulted in a \$108 million deficiency against this inflation tracking target. In response to this, the Board of Governors at its March 27, 2009 meeting approved a temporary one year reduction in the spending rate from 4.25% to 3.50% for the 2010 fiscal year.

**Endowments by Category**  
For the year ended March 31  
(in millions of dollars)



**Total Endowment Growth versus Inflation**  
For the year ended March 31  
(in millions of dollars)



## Acquisition of Capital Assets and Collections

	<u>2009</u> (000's)	<u>2008</u> (000's)	<u>Change</u> (000's)
Buildings and utilities	\$ 257,273	\$ 163,449	\$ 93,824
Equipment and furnishings	91,730	79,229	12,501
Learning resources	18,170	16,071	2,099
Permanent collections	2,218	760	1,458
Land	9,449	24,648	(15,199)
Total acquisitions	<u>\$ 378,840</u>	<u>\$ 284,157</u>	<u>\$ 94,683</u>

The additions to buildings and utilities are distributed amongst many different University structures and facilities on the North campus, South campus, Enterprise Square, Augustana campus and Campus St. Jean. The most significant additions to individual buildings in 2009 were as follows (in millions of dollars):

- construction of :
  - Centennial Centre for Interdisciplinary Science (\$104.4)
  - The Edmonton Clinic North (\$55.5)
  - Health Research Innovation Facility (\$38.5)
  - Utilities expansion (\$14.7)
  - Jubilee Auditorium Car Park (\$10.9)
  - Augustana Library (\$8.7) and Augustana Forum (\$3.2)
- major renovations on various buildings: Environmental Engineering Building (\$4.8), Enterprise Square (\$2.4), Pembina Hall (\$1.8)

The increase in equipment and furnishings is due to acquisitions of research equipment and large in-kind contributions of software.

The decrease in land is due to the acquisition of land for the St. Albert Research Station in 2008 (\$24.5). In 2009, the University acquired land in Camrose for \$0.6 and received an \$8.8 provincial government grant in-kind of land (Kinsella).

## Deferred Maintenance

The average age of the University's buildings is 46 years. Most of the significant research teaching facilities were built in the 1950's or 1960's and are now at a point of requiring major system upgrades.

The University's deferred maintenance deficit now exceeds an estimated \$1.067 billion and place the University's programs and initiatives at some risk. The University has been attempting to provide a reasonable level of care across the campus, directing portions of its capital grants to buildings of strategic importance or to address abnormally high maintenance costs. This strategic approach coordinates deferred maintenance, functional renewal and other programs like the development of "smart" classrooms to maximize the effect of limited funding. Deferred maintenance requirements are not reflected in the University's financial statements since they are not liabilities or commitments for accounting purposes.

## Unrestricted Net Assets

The decrease of \$68.7 million in unrestricted net assets is summarized in the table below:

	<u>2009</u> <u>(000's)</u>	<u>2008</u> <u>(000's)</u>	<u>Change</u> <u>(000's)</u>
Unexpended (over expended) funds:			
General operating	<b>\$ (52,351)</b>	\$ 17,679	\$ (70,030)
Enrolment planning envelope	<b>37,466</b>	19,662	17,804
Ancillary enterprises	<b>23,477</b>	22,642	835
Capital (internally funded)	<b>9,107</b>	(120)	9,227
Special purpose (operating)	<b>21,907</b>	37,705	(15,798)
Research (internally funded)	<b>30,692</b>	30,600	92
	<b><u>70,298</u></b>	<u>128,168</u>	<u>(57,870)</u>
Accrued employee future benefits	<b><u>(130,833)</u></b>	<u>(120,015)</u>	<u>(10,818)</u>
Unrestricted net assets (deficit)	<b><u>\$ (60,535)</u></b>	<b><u>\$ 8,153</u></b>	<b><u>\$ (68,688)</u></b>

The most significant changes are:

- General operating decrease due to investment losses slightly offset by increase in provincial government funding.
- Enrolment planning envelope increase due to new grants.
- Capital (internally funded) increase due to expenditure timing lag.
- Special purpose (operating) decrease due to transfer of activities to the general operating fund.
- Accrued employee future benefits increase due to the UAPP unfunded pension liability expense.

**UNIVERSITY OF ALBERTA**  
**STATEMENT OF ADMINISTRATIVE RESPONSIBILITY**  
**FOR FINANCIAL REPORTING**

*The administration of the University is responsible for the preparation and for the integrity and objectivity of the accompanying financial statements and the notes thereto. The administration believes that the financial statements present fairly the University's financial position as at March 31, 2009 and the results of its operations for the year then ended.*

*The financial statements have been prepared in accordance with generally accepted accounting principles. Where alternative accounting methods exist, those deemed most appropriate in the circumstances have been chosen. Financial statements are not precise, since they include certain amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.*

*In fulfilling its responsibilities and recognizing the limits inherent in all systems, the administration has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements. The integrity of internal controls is reviewed on an ongoing basis by the Internal Audit Department.*

*The Board of Governors carries out its responsibility for review of the financial statements principally through its Audit Committee. The majority of the members of the Committee are not officers or employees of the University. This committee meets regularly with administration and with external and internal auditors to discuss the results of audit examinations and financial reporting matters. The external and internal auditors have full access to the Board Audit Committee with and without the presence of the administration. The Board of Governors of the University of Alberta has approved the financial statements.*

*The financial statements for the year ended March 31, 2009 have been audited and reported on by the Auditor General for the Province of Alberta whose report outlines the scope of his audit and presents his opinion on the financial statements.*

*Original Signed by Indira Samarasekera*

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Indira V. Samarasekera, OC  
President

*Original Signed by Phyllis Clark*

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

*June 26, 2009*



## Auditor's Report

To the Board of Governors of the University of Alberta

I have audited the statement of financial position of the University of Alberta as at March 31, 2009 and the statements of operations and change in unrestricted net assets, changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the University's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

"Original signed by Fred J. Dunn"  
FCA  
Auditor General

Edmonton, Alberta  
June 1, 2009



**THE UNIVERSITY OF ALBERTA**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT MARCH 31, 2009**  
**(thousands of dollars)**

	<u>2009</u>	<u>Restated (note 3) 2008</u>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (note 4)	\$ 119,621	\$ 77,343
Short-term investments (note 5)	719,958	410,401
Accounts receivable	117,841	189,697
Inventories and prepaid expenses	17,309	16,960
	<u>974,729</u>	<u>694,401</u>
Investments (note 5)	790,326	1,014,771
Capital assets and collections (note 6)	1,970,766	1,718,478
	<u>\$ 3,735,821</u>	<u>\$ 3,427,650</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 208,601	\$ 161,143
Current portion of employee future benefit liabilities (note 7)	33,899	32,986
Current portion of long-term obligations (note 8)	10,483	9,799
Deferred contributions, research and other (note 9)	269,444	280,801
Deferred revenue	15,351	18,824
	<u>537,778</u>	<u>503,553</u>
Employee future benefit liabilities (note 7)	96,934	87,029
Long-term obligations (note 8)	193,852	185,335
Deferred contributions, research and other (note 9)	90,000	90,000
Deferred contributions, capital (note 9)	495,632	290,074
Unamortized deferred capital contributions (note 10)	1,329,723	1,121,647
	<u>2,743,919</u>	<u>2,277,638</u>
<b>Net Assets</b>		
Endowments (note 11)	602,414	734,191
Investment in capital assets and collections (note 12)	450,023	407,668
Unrestricted (deficit)	(60,535)	8,153
	<u>991,902</u>	<u>1,150,012</u>
	<u>\$ 3,735,821</u>	<u>\$ 3,427,650</u>

Contingent liabilities and commitments (note 13)

Signed on behalf of the Board of Governors:

*Original signed by Brian Heidecker*

Chair, Board of Governors

*Original signed by Indira Samarasekera*

President

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



**THE UNIVERSITY OF ALBERTA**  
**STATEMENT OF OPERATIONS AND CHANGE IN UNRESTRICTED NET ASSETS**  
**FOR THE YEAR ENDED MARCH 31, 2009**  
**(thousands of dollars)**

	<u>2009</u>	<u>Restated (note 3) 2008</u>
<b>REVENUE</b>		
Provincial government (note 15)	\$ 681,089	\$ 624,247
Federal and other government	174,647	153,625
Sales of services and products	217,506	196,224
Credit course tuition and related fees	205,243	188,988
Grants and donations	108,215	73,340
Investment loss (note 5)	<u>(42,302)</u>	<u>(7,956)</u>
	1,344,398	1,228,468
Amortization of deferred capital contributions (note 10)	<u>75,514</u>	<u>56,971</u>
	<u>1,419,912</u>	<u>1,285,439</u>
<b>EXPENSE</b>		
Salaries	725,191	664,404
Employee benefits	137,285	112,938
Materials, supplies and services	304,354	272,413
Utilities	39,129	35,001
Maintenance	64,728	56,497
Interest	10,604	10,068
Scholarships and bursaries	81,609	73,217
Amortization of capital assets	<u>124,598</u>	<u>102,882</u>
	<u>1,487,498</u>	<u>1,327,420</u>
<b>DEFICIENCY OF REVENUE OVER EXPENSE</b>	<b>(67,586)</b>	<b>(41,981)</b>
<b>NET TRANSFER FROM ENDOWMENTS (note 11)</b>	<b>29,974</b>	<b>27,809</b>
<b>NET CHANGE IN INVESTMENT IN CAPITAL ASSETS (note 12)</b>	<b><u>(31,076)</u></b>	<b><u>25,429</u></b>
Change in unrestricted net assets for the year	<b>(68,688)</b>	11,257
<b>UNRESTRICTED NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<b><u>8,153</u></b>	<b><u>(3,104)</u></b>
<b>UNRESTRICTED NET ASSETS (DEFICIT), END OF YEAR</b>	<b><u>\$ (60,535)</u></b>	<b><u>\$ 8,153</u></b>

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



**THE UNIVERSITY OF ALBERTA**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED MARCH 31, 2009**  
**(thousands of dollars)**

	<u>Endowments</u>	<u>Investment in Capital Assets and Collections</u>	<u>Restated (note 3) Unrestricted Net Assets (deficit)</u>
<b>NET ASSETS, March 31, 2007 (as previously reported)</b>	\$ 752,486	\$ 410,418	\$ 48,856
Adjustment to prior period (note 3)	<u>-</u>	<u>-</u>	<u>(51,960)</u>
<b>NET ASSETS, March 31, 2007</b>	\$ 752,486	\$ 410,418	\$ (3,104)
Deficiency of revenue over expense	-	-	(41,981)
Investment loss (note 5)	(42,954)	-	-
Endowment contributions	52,468	-	-
Net transfer from endowments (note 11)	(27,809)	-	27,809
Net investment in capital assets (note 12)	-	(25,429)	25,429
Contributions of assets not subject to amortization (note 12)	<u>-</u>	<u>22,679</u>	<u>-</u>
<b>NET ASSETS, March 31, 2008</b>	\$ 734,191	\$ 407,668	\$ 8,153
Deficiency of revenue over expense	-	-	(67,586)
Investment loss (note 5)	(140,959)	-	-
Endowment contributions	39,156	-	-
Net transfer from endowments (note 11)	(29,974)	-	29,974
Net investment in capital assets (note 12)	-	31,076	(31,076)
Contributions of assets not subject to amortization (note 12)	<u>-</u>	<u>11,279</u>	<u>-</u>
<b>NET ASSETS, March 31, 2009</b>	<u>\$ 602,414</u>	<u>\$ 450,023</u>	<u>\$ (60,535)</u>

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



**THE UNIVERSITY OF ALBERTA  
STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED MARCH 31, 2009  
(thousands of dollars)**

	<u>2009</u>	Restated (note 3) <u>2008</u>
<b>CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES</b>		
Deficiency of revenue over expense	<b>\$ (67,586)</b>	\$ (41,981)
Add (deduct) non-cash items:		
Amortization of capital assets	124,598	102,882
Amortization of deferred capital contributions	(75,514)	(56,971)
Loss on disposal of capital assets	2,545	550
Change in employee future benefit liabilities	10,818	(5,485)
Change in unrealized loss on investments	54,256	45,525
Total non-cash items	<u>116,703</u>	<u>86,501</u>
Net change in non-cash working capital (*)	<u>(196,422)</u>	<u>(496,752)</u>
	<u>(147,305)</u>	<u>(452,232)</u>
<b>CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES</b>		
Acquisition of capital assets and collections	(378,840)	(284,159)
Purchases of investments, net	44,481	(33,692)
Endowment investment earnings (loss)	(15,910)	21,650
Proceeds on disposal of capital assets	68	86
	<u>(350,201)</u>	<u>(296,115)</u>
<b>CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES</b>		
Endowment contributions	39,156	52,468
Capital contributions	489,148	476,060
Contributions of assets not subject to amortization	11,279	22,679
Long-term obligations - new financing	10,060	38,307
Long-term obligations - repayments	(9,859)	(9,528)
	<u>539,784</u>	<u>579,986</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>42,278</b>	<b>(168,361)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>77,343</u>	<u>245,704</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (note 4)</b>	<u><b>\$ 119,621</b></u>	<u><b>\$ 77,343</b></u>
<b>(*) Net change in non-cash working capital:</b>		
Increase in short-term investments	\$ (309,557)	\$ (560,419)
Decrease (increase) in accounts receivable	71,856	(38,417)
Increase in inventories and prepaid expenses	(349)	(3,043)
Increase in accounts payable and accrued liabilities	56,458	36,744
(Decrease) increase in deferred contributions, research and other	(11,357)	66,233
(Decrease) increase in deferred revenue	(3,473)	2,150
	<u><b>\$ (196,422)</b></u>	<u><b>\$ (496,752)</b></u>

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



**THE UNIVERSITY OF ALBERTA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009  
(thousands of dollars)**

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**1. Authority and purpose**

The University of Alberta ("the University") operates under the *Post-Secondary Learning Act* of the Province of Alberta to provide post-secondary and graduate education and to engage in research and public service. The University is a registered charity, and under section 149 of the *Income Tax Act* of 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, known as 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 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) (14.3% interest) - a joint venture with six 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) Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on deposit, money market funds, short-term notes and treasury bills, with a maximum maturity of 90 days at date of purchase.

**(d) Financial instruments**

The University has classified cash and cash equivalents and all of its investments as held for trading; these are measured at fair value. Subsequent changes in the fair value of unrestricted investments are recognized into net income immediately. Subsequent changes in the fair value of endowment investments are recognized as direct increases or decreases to endowments. Accounts receivable, accounts payable and long-term obligations are measured at amortized cost using the effective interest rate method.

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 OF ALBERTA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009  
(thousands of dollars)**

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The calculation of fair value is based upon market conditions at a specific point in time, with the exception of real estate held directly by the University which is not for operational use. The value of investments recorded in the financial statements is determined as follows:

- Short-term investments are comprised primarily of certificates of deposit, guaranteed investment certificates, government treasury bills and commercial paper with a maturity between 91 days and one year and units in a pooled money market fund. These 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 prices.
- 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.
- Infrequently traded securities are based on quoted market yields or prices of comparable securities, as appropriate.

The University's financial instruments are recognized on their trade date and fair values have been recorded for all assets in transit. Transaction costs related to all financial instruments are expensed as incurred.

Financial statements are exposed to credit risk, interest rate risk, foreign exchange risk and market risk. The University's receivables are due from a diverse group of customers and are subject to normal credit risk other than receivables from government entities which are at lower than normal risk. The interest rate risk is the risk to earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates or the inability to obtain lower rates on fixed rate instruments when interest rates rise. The foreign exchange risk is the risk of fluctuations in costs related to purchase transactions mainly in US dollars and amounts collected for receivables which are due in US dollars. The market risk is the risk to earnings that arises from the fluctuation and the degree of volatility in the value of investments. Each of these risks is managed through the University's collection procedures, investment guidelines and other internal policies, guidelines and procedures.

**(e) Inventories**

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at cost.

**(f) 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.

Capital assets, once placed into service, are amortized on a straight-line basis over the assets' 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

Effective April 1, 2008 the University changed its estimated useful life on the following equipment and furnishings categories: scientific lab (from 15 to 10 years), computers (from 7 to 5 years), and various other equipment (ranging from 15 - 25 to 10 years).

**(g) 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 carrying amount of the asset and amortized over its estimated useful life.

**(h) 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.



**THE UNIVERSITY OF ALBERTA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009  
(thousands of dollars)**

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- Unrestricted investment income - when earned; this includes interest, dividends, realized and unrealized gains and losses.
- Pledges - are recognized when collected.
- Revenues received for services and products - when the services or products are provided.
- 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.

**(i) 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.

**(j) 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.

**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. Actuarial gains or losses on the accrued benefit obligation are 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



**THE UNIVERSITY OF ALBERTA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009  
(thousands of dollars)**

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.

**(k) Capital disclosures**

Effective April 1, 2008, the University adopted CICA 1535: Capital Disclosures. The new standard requires an entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new note disclosure is as follows:

The University defines its capital as the amounts included in deferred contributions (note 9), endowment net assets (note 11) 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. The University has investment policies (note 5), 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 approval for a deficit budget, borrowing and the sale of any land or buildings.

**(l) 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.

**3. Change in accounting policy for employee future benefits**

In previous years, the University accounted for its pension costs in the Universities Academic Pension Plan (UAPP) based on employer paid contributions. Although the total UAPP pension liability was known, there was significant measurement uncertainty with respect to each participant's share.

The Universities and the Province of Alberta have made their best estimates to allocate to each University their respective share of the unfunded deficiency as at March 31, 2009. As a result, the University has changed its accounting policy from defined contribution to defined benefit accounting.

These changes have been applied retrospectively with restatement of comparative numbers. The impact on the prior year's financial statements as a result of the change in accounting policy is as follows:

	2008		
	As previously recorded	Adjustment recorded	As restated
Increase(decrease) in:			
Statement of Financial Position			
Employee future benefit liabilities	\$ 43,399	\$ 43,630	\$ 87,029
Unrestricted net assets, beginning of the year	48,856	(51,960)	(3,104)
Unrestricted net assets, end of the year	51,783	(43,630)	8,153
Statement of Operations			
Benefits expense	121,268	(8,330)	112,938



**THE UNIVERSITY OF ALBERTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2009**  
**(thousands of dollars)**

**4. Cash and cash equivalents**

Cash and cash equivalents are comprised of the following:

	<u>2009</u>	<u>2008</u>
Cash	\$ 1,615	\$ 23,306
Money market funds, short-term notes and treasury bills	<u>118,006</u>	<u>54,037</u>
	<u>\$ 119,621</u>	<u>\$ 77,343</u>

**5. Investments**

The composition and fair value of investments are as follows:

	<u>2009</u>			<u>2008</u>		
	<u>Short-term</u>	<u>Long-term</u>	<u>Total</u>	<u>Short-term</u>	<u>Long-term</u>	<u>Total</u>
Cash, money market funds, short-term notes and treasury bills	\$ 719,958	\$ 4,388	\$ 724,346	\$ 410,401	\$ 168,161	\$ 578,562
Canadian government and corporate bonds	-	352,575	352,575	-	268,604	268,604
Canadian equity	-	108,309	108,309	-	181,140	181,140
Foreign equity	-	301,915	301,915	-	371,066	371,066
Pooled hedge funds	-	22,061	22,061	-	24,719	24,719
Annuities	-	92	92	-	95	95
Real estate	-	986	986	-	986	986
	<u>\$ 719,958</u>	<u>\$ 790,326</u>	<u>\$ 1,510,284</u>	<u>\$ 410,401</u>	<u>\$ 1,014,771</u>	<u>\$ 1,425,172</u>

Included in Canadian government and corporate bonds is asset-backed commercial paper.

As at March 31, 2009, the average effective yields and the terms to maturity are as follows:

- Money market funds, short-term notes and treasury bills: 1.73% (2008 - 4.31%); term to maturity: less than one year.
- Government and corporate bond funds: 1.40% (2008 - 3.99%) terms to maturity: range from less than one year to more than 10 years.

The University's investments are managed using two pools, the Non-Endowed Investment Pool (NEIP) with investment holdings of \$883,196 (2008 - \$627,677) and the Unitized Endowment Pool (UEP) with investment holdings of \$627,088 (2008 - \$797,495). The primary objective of the University's investment policy 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. 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.

Derivative financial instruments are used to manage certain market and 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. As at March 31, 2009 the fair value of net outstanding foreign currency forward contracts receivable is \$505 (2008 - \$6,975 payable).

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 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.



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**Asset-backed commercial paper**

At March 31, 2009 the University holds third-party and bank-sponsored asset-backed commercial paper (ABCP) that has been restructured. These investments are categorized as follows:

- “Third-party ABCP” that has been restructured under the restructuring agreement of the Pan-Canadian Investors Committee;
- “Other ABCP” that has been restructured directly with the sponsors of the affected ABCP (Sitka/Apex Trust and Superior Trust), or whose restructuring has failed (Devonshire Trust).

The Canadian market for ABCP suffered a liquidity disruption in mid-August 2007 when many of these investments did not settle on maturity. At the dates the University acquired these investments they were rated R1 (High) by Dominion Bond Rating Service (DBRS), the highest credit rating issued for commercial paper, as required by the University’s investment policy.

Based on the valuation analysis, a write-down in ABCP investments of \$31,114 (2008 - \$41,000) has been recorded as a reduction to the investment income resulting in an estimated fair value of \$93,099 (2008 - \$128,729). The University has incurred \$447 for restructuring costs all of which were recovered at March 31, 2009.

	Original cost	Disposal 2009	Write-down 2008	Write-down 2009	Write-down total	Write-down percent
Traditional assets	\$ 17,640	\$ -	\$ 81	\$ 1,362	\$ 1,443	8.18%
Synthetic assets	120,176	(2,413)	25,524	25,071	50,595	42.10%
Ineligible assets	21,150	-	14,279	2,607	16,886	79.84%
Sub-total	158,966	(2,413)	39,884	29,040	68,924	43.36%
Other ABCP	10,763	(2,103)	1,116	2,074	3,190	29.64%
Total	\$ 169,729	\$ (4,516)	\$ 41,000	\$ 31,114	\$ 72,114	42.49%

During the year, the University exchanged \$2,103 of ABCP for cash as part of the restructuring process and \$957 in assets was reclassified from traditional and synthetic to ineligible. Certain trades subject to the Montreal Accord were unwound in April 2008 resulting in a total loss of capital to note holders. The University’s exposure to these trades was \$2,413.

Impact on operations

The liquidity crisis in the Canadian market for ABCP has had no significant impact on the University’s liquidity or cash needs. The University holds or has access to sufficient available cash and highly liquid investments to meet all of its obligations. The University’s Unitized Endowment Pool (UEP) investments had no exposure to ABCP investments.

Restructuring agreement

Third-party ABCP (restructured under the Montreal Accord):

On January 16, 2009 a restructuring agreement came into effect with new notes issued January 21, 2009. The restructuring agreement converted the ABCP notes into long-term floating rate notes with maturities corresponding to those of the underlying assets. Interest is paid quarterly. The Pan-Canadian Investors Committee oversaw the orderly restructuring of these notes; the University was a member of this Committee and actively supported the restructuring process.

Other ABCP:

Other ABCP not covered by the Montreal Accord include Devonshire Trust (third-party), Sitka/Apex Trust (bank-sponsored) and Superior Trust (bank-sponsored). The Sitka/Apex Trust and Superior Trust notes were successfully restructured directly with the sponsor. In general, the restructuring plans are similar to the Montreal Accord in that the ABCP notes were restructured into long-term floating rate notes to match the maturity date of the underlying assets. Interest is paid monthly. Devonshire Trust ABCP failed to restructure and the asset provider bank began legal proceedings on January 13, 2009 to recover the collateral posted by the trust. Devonshire Trust is defending this action.



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While the University expects to receive interest payments on all restructured notes, there is some uncertainty as the payments are contingent upon the income generation of the underlying assets in the various trusts and in some cases subject to a subordinated note structure and payment priority schedule. It is the University's intention to hold these notes to maturity.

Restructured notes

Note type	Face value	Estimated fair value	Yield	Scheduled repayment	Maturity	Percent of notes held	DBRS rating
Traditional assets:							
TA tracking notes	\$ 16,076	\$ 14,995	(1)	5 – 7 years	13 – 27 years	10%	AAA/ AA+
TA tracking notes	1,564	1,202	(1)	5 – 7 years	13 – 27 years	1%	unrated
Total TA tracking notes	17,640	16,197				11%	
Synthetic assets:							
MAV2 Class A-1	57,176	33,981	(2)	January 22, 2017	July 15, 2056	35%	A
MAV2 Class A-2	48,289	27,853	(2)	January 22, 2017	July 15, 2056	29%	A
MAV2 Class B	8,765	3,979	(3)	January 22, 2017	July 15, 2056	5%	Unrated
MAV2 Class C	3,533	1,355	(4)	January 22, 2017	July 15, 2056	2%	Unrated
Total synthetic	117,763	67,168				71%	
IA tracking notes	21,150	4,263	(5)	4 – 31 years	4 – 31 years	13%	Unrated
Other ABCP	8,660	5,470	(6)	5 – 8 years	5 – 8 years	5%	Unrated
Total	\$ 165,213	\$ 93,098				100%	

(1) No stated amount. Interest paid will be based on income generated by underlying assets. Anticipated yield is Banker's Acceptance (BA) plus 0.40%.

(2) BA minus 0.50%.

(3) BA minus 0.50% at maturity if funds are available at that time.

(4) Stated yield is up to a maximum of BA plus 20% at maturity if funds are available at that time.

(5) No stated amount, interest paid will be based on income generated by underlying assets.

(6) Stated yield ranges from BA to Canadian Deposit Offering Rate plus 0.33%.

Third-party ABCP (restructured under the Montreal Accord):

The restructuring process of the Montreal Accord varied depending on the type of asset securitized by the various ABCP notes:

- Traditional assets (TA) represent primarily trade receivables, credit card receivables, personal lines of credit, auto and equipment loans, residential and commercial mortgage backed securities. These have been restructured as TA tracking notes.
- Synthetic assets represent collateralized debt obligations and traditional assets. Under the restructuring the University selected Master Asset Vehicle 2 notes (MAV2) which rely on a third-party margin funding facility. Pooled synthetic notes are divided into senior and subordinated notes, the majority of which are ranked senior.
- Ineligible assets (IA) represent primarily assets with exposure to the US sub-prime real estate market or unlevered collateralized debt obligations involving asset providers that were unable to participate in Master Asset Vehicles. These have been restructured as IA tracking notes.

Other ABCP:

The underlying assets in the other ABCP trusts are represented by either exclusively collateralized debt obligations or a combination of collateralized debt obligations and traditional assets.

Valuation

Third-party ABCP (restructured under the Montreal Accord):

In the continued absence of an active market for third-party ABCP subject to the Montreal Accord, the University has estimated the fair value of these investments as at March 31, 2009 using a discounted cash flow valuation



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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 from 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 ranges from 562 basis points for the Class A-1 notes and 862 basis points for Class C Notes. An increase of 100 basis points in the estimated discount rate would decrease the fair value by approximately \$9,000.

**Other ABCP:**

In the absence of an active market for these investments, the University has estimated their fair value as at March 31, 2009, using a discounted cash flow valuation model similar to the approach used for the third-party notes.

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.

**Investment loss**

	<u>2009</u>	<u>2008</u>
Loss on investments held for endowment:	<b>\$ (140,959)</b>	\$ (46,503)
Income on other investments	<b>3,230</b>	36,593
Asset-backed commercial paper write-down (note 4)	<b>(31,114)</b>	(41,000)
	<b>(168,843)</b>	(50,910)
Amounts deferred	<b>(14,418)</b>	-
Loss charged to endowment net assets (note 11)	<b>140,959</b>	42,954
Total investment loss	<b>\$ (42,302)</b>	<b>\$ (7,956)</b>



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**6. Capital assets and collections**

	2009			2008		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Buildings and utilities	\$ 2,094,047	\$ 702,133	\$ 1,391,914	\$ 1,836,773	\$ 659,281	\$ 1,177,492
Equipment and furnishings	918,945	585,497	333,448	843,859	537,456	306,403
Learning resources	258,252	162,691	95,561	240,082	143,676	96,406
Capital assets subject to amortization	3,271,244	1,450,321	1,820,923	2,920,714	1,340,413	1,580,301
Land	53,296	-	53,296	43,848	-	43,848
	<u>3,324,540</u>	<u>\$ 1,450,321</u>	<u>1,874,219</u>	2,964,562	<u>\$ 1,340,413</u>	1,624,149
Library permanent collections	34,650		34,650	32,684		32,684
Other permanent collections	61,897		61,897	61,645		61,645
Capital assets and collections	<u>\$ 3,421,087</u>		<u>\$ 1,970,766</u>	<u>\$ 3,058,891</u>		<u>\$ 1,718,478</u>

Included in buildings and utilities is \$308,316 (2008 - \$122,049) recorded as construction in progress, which is not amortized as the assets are not yet available for use.

Acquisitions during the year included in-kind contributions (such as learning resources, equipment, software, buildings and land) in the amount of \$38,417 (2008 - \$45,270).

The University has recorded a liability for an asset retirement obligation of \$1,064 (2008 - \$1,004). The asset retirement obligation represents the legal obligation associated with the eventual decommissioning of a research reactor.



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**7. Employee future benefit liabilities**

Employee future benefit liabilities are comprised of the following:

	2009			Restated (Note 3) 2008		
	Academic staff	Support staff	Total	Academic staff	Support staff	Total
Vacation pay	\$ 7,100	\$ 18,600	\$ 25,700	\$ 6,600	\$ 18,400	\$ 25,000
UAPP	54,090	-	54,090	43,630	-	43,630
Long-term disability	7,260	20,920	28,180	8,003	21,344	29,347
Early retirement	835	22,028	22,863	1,193	20,845	22,038
Total	69,285	61,548	130,833	59,426	60,589	120,015
Less current portion	9,728	24,171	33,899	9,824	23,162	32,986
Long-term portion	\$ 59,557	\$ 37,377	\$ 96,934	\$ 49,602	\$ 37,427	\$ 87,029

**Pension**

The UAPP is a multi-employer contributory joint defined benefit pension plan for academic staff members. At December 31, 2008, the UAPP reported an actuarial deficiency of \$1,055,471 (2007 - \$535,843) consisting of a pre-1992 deficiency (\$752,437) and a post-1991 deficiency (\$303,034). An actuarial valuation of the UAPP was carried out as at December 31, 2006 and was then extrapolated to December 31, 2008. A further extrapolation to March 31, 2009 has resulted in an increase to the UAPP deficiency to \$1,299,860 (pre-1992 deficiency (\$857,110) and a post-1991 deficiency (\$442,750)).

The PSPP is a multi-employer contributory defined benefit pension plan for support staff members and is accounted for on a defined contribution basis. At December 31, 2008, the PSPP reported an actuarial deficiency of \$1,187,538 (2007 - \$92,509 deficiency). An actuarial valuation of the PSPP was carried out as at December 31, 2005 and was then extrapolated to December 31, 2008. The pension expense recorded in these financial statements is \$15,861 (2008 - \$14,672).

**Long-term disability and early retirement**

The University's long-term disability (academic and support staff) and early retirement (support staff) future benefits are defined benefit plans that provide post-employment benefits to its employees.

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.



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The most recent actuarial valuation was as at March 31, 2009 for these future benefit liabilities:

	2009			2008		
	UAPP	Long-term disability	Early retirement	UAPP	Long-term disability	Early retirement
Accrued benefit obligation:						
Balance, beginning of year	\$ 594,790	\$ 21,776	\$ 24,888	\$ 428,480	\$ 17,943	\$ 26,505
Current service cost	27,600	4,144	1,278	25,240	5,855	1,341
Interest cost	40,780	1,174	1,261	29,990	997	1,238
Benefits paid	(27,330)	(4,888)	(1,884)	(18,790)	(4,264)	(1,875)
Actuarial (gain) loss	31,670	(1,272)	(2,469)	129,870	1,245	(2,321)
Balance, end of year	667,510	20,934	23,074	594,790	21,776	24,888
Plan assets <sup>(1)</sup>	(417,440)	-	-	(481,980)	-	-
Funded status - plan deficit	250,070	20,934	23,074	112,810	21,776	24,888
Unamortized net actuarial gain (loss)	(195,980)	7,246	(211)	(69,180)	7,571	(2,850)
Accrued benefit liability	\$ 54,090	\$ 28,180	\$ 22,863	\$ 43,630	\$ 29,347	\$ 22,038

(1) Plan assets:

UAPP - the unfunded deficiency for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2007 - 1.25%) of salaries by the Province of Alberta. Employees and employers equally share the balance of the contributions of 1.74% (2007 - 2.28%) of salaries required to eliminate the unfunded deficiency by December 31, 2043. The actuarial valuation shows that the present value at December 31, 2006 of the Province of Alberta's obligation for the future additional contributions was \$213,900. The unfunded deficiency for service after December 31, 1991 is financed by special payments of 1.08% (2007 - 2.64%) of salaries shared equally between employees and employers until December 31, 2021.

Long-term disability and early retirement - the University plans to use its working capital to finance the future obligations.

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

	2009			2008		
	UAPP	Long-term disability	Early retirement	UAPP	Long-term disability	Early retirement
Accrued benefit obligation:						
Discount rate	6.70%	6.25%	6.25%	6.70%	5.00%	5.00%
Long-term average compensation increase	3.00%	n/a	3.00%	3.00%	n/a	3.00%
Benefit cost:						
Discount rate	6.70%	5.00%	5.00%	6.75%	4.60%	4.60%
Long-term average compensation increase	3.00%	n/a	3.00%	3.00%	n/a	3.00%
Alberta inflation (year 1, thereafter; years 1-2, thereafter)	3.70%, 2.70%	3.00%	3.00%	3.70%, 2.70%	3.00%	3.00%
Estimated average remaining service life	10.5	5	12	10.5	5	12



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**8. Long-term obligations**

	Collateral	Maturity date	Interest rate %	Amount outstanding	
				2009	2008
Mortgages payable to Canada Mortgage and Housing Corporation:					
Lister Residences	(1)	July 2014	5.125	\$ 828	\$ 970
Michener Park Phase I	(1)	April 2018	5.875	1,948	2,107
MacKenzie Hall	(1)	November 2018	6.250	1,064	1,141
Debenture payable to Alberta Finance:					
Housing Union Building	(3)	June 2008	3.285	-	104
Debentures payable to Alberta Capital Finance Authority:					
Health Research Innovation Facility	(3)	June 2011	5.030	1,000	1,000
Enterprise Square	(1)	October 2011	4.162	3,747	4,897
Natural Resources Engineering Facility	(2)	June 2014	4.974	9,760	11,268
Energy Management Program, Year 1	(3)	September 2014	4.551	2,118	2,449
Energy Management Program, Year 2	(3)	March 2016	4.525	2,926	3,274
Natural Resources Engineering Facility	(2)	June 2017	5.056	7,039	7,688
Health Research Innovation Facility	(3)	June 2017	5.053	14,342	15,664
Extension Centre	(3)	October 2017	8.750	1,928	2,066
Energy Management Program, Year 3	(3)	December 2017	4.493	3,216	3,500
Energy Management Program, Year 4	(3)	March 2019	3.718	3,500	-
Steam Turbine Generator	(2)	May 2020	6.250	12,472	13,158
Newton Place	(1)	August 2024	6.000	12,629	13,093
Newton Place Renovation	(1)	August 2024	6.000	2,184	2,264
Lister Residence II	(1)	November 2027	5.875	18,889	19,425
Windsor Car Park	(2)	September 2028	6.000	6,191	6,350
Saville Centre	(2)	December 2028	5.875	4,075	4,181
East Campus Village	(1)	March 2029	4.960	8,403	8,644
Centennial Centre for Interdisciplinary Science Phase I	(3)	September 2029	5.353	9,023	9,211
Centennial Centre for Interdisciplinary Science Phase I	(3)	June 2030	4.518	1,982	2,085
Health Research Innovation Facility	(3)	June 2032	5.191	5,525	5,643
Killam Centre	(3)	September 2036	4.810	2,005	2,039
Enterprise Square	(1)	September 2036	4.627	41,267	42,000
Jubilee Carpark	(2)	December 2047	4.814	16,000	9,500
Bank loans payable:					
East Campus Housing	(3)	September 2008	4.440	-	146
				<b>194,061</b>	193,867
Obligations under capital leases				210	263
Other long-term obligations (includes asset retirements and liabilities for site restoration)				10,064	1,004
				<b>204,335</b>	195,134
Less current portion				10,483	9,799
				<b>\$ 193,852</b>	<b>\$ 185,335</b>

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

The principal portion of long-term debt repayments required over the next five years is as follows:  
2010 - \$10,483; 2011 - \$11,023; 2012 - \$12,590; 2013 - \$10,832; 2014 - \$11,405

Interest expense on long-term obligations is \$10,604 (2008 - \$10,068).

All long-term obligations have fixed interest rates. The weighted average interest rate is 5.209% (2008 - 5.244%).



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**9. Deferred contributions**

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

	2009		2008	
	Capital	Research and other	Capital	Research and other
Balance, beginning of the year	\$ 290,074	\$ 370,801	\$ 10,501	\$ 331,766
Grants and donations received	418,882	480,464	441,304	524,355
Recognized as revenue	-	(424,180)	-	(452,393)
Transferred to unamortized deferred capital contributions (note 10)	(213,324)	(67,641)	(161,731)	(32,927)
Balance, end of the year	495,632	359,444	290,074	370,801
Less amounts included in current liabilities	-	269,444	-	280,801
	<u>\$ 495,632</u>	<u>\$ 90,000</u>	<u>\$ 290,074</u>	<u>\$ 90,000</u>

Included in "research and other" category are grants and donations of \$67,641 (2008 - \$32,927) used for capital acquisitions.

**10. 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. The changes in the unamortized deferred capital contributions balance are as follows:

	2009	2008
Balance, beginning of the year	\$ 1,121,647	\$ 982,131
Additions from deferred contributions (note 9)	280,965	194,658
Long-term obligations - repayment	2,625	1,829
Amortization to revenue	(75,514)	(56,971)
Balance, end of the year	<u>\$ 1,329,723</u>	<u>\$ 1,121,647</u>



**11. 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 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.

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 734,191	\$ 751,478
Gifts of endowment principal	39,156	52,468
Transfer to endowments	7,943	193
Transfer from endowments	(37,917)	(28,002)
Investment loss	(140,959)	(42,954)
Adoption of new financial instruments accounting standard	-	1,008
Balance, end of year	<u>\$ 602,414</u>	<u>\$ 734,191</u>
Cumulative contributions	\$ 495,663	\$ 448,705
Cumulative capitalized income	<u>106,751</u>	<u>285,486</u>
	<u>\$ 602,414</u>	<u>\$ 734,191</u>

During the 2009 year, cumulative capitalized income of \$178,735 (2008 - \$70,151) was required to cover the investment loss on endowments of \$140,959 (2008 - \$42,954), the approved endowment spending allocation of \$31,389 (2008 - \$27,197) and the transfer of \$6,387 (2008 - nil) to unrestricted net assets to repay the 2008 spending allocation and investment loss on the internally restricted endowments.

The Board of Governors approved the permanent endowment of the Endowment Fund for the Future and the Central Research Endowment and transferred \$55,144 (2008 - nil) from internally restricted endowments to permanent endowments. The Board of Governors also approved to permanently endow other unrestricted funds and transferred \$7,943 (2008 - \$193) from unrestricted net assets to endowments. Per the terms and conditions of specific endowments, \$141 was decapitalized for spending purposes (2008 - \$805).

Gifts of endowment principal include a \$5,000 matching grant from the Province of Alberta's Access to the Future Fund. In 2008 the University received a \$5,000 matching grant; however under the previous program guidelines these funds were recorded in deferred contributions and then capitalized to endowments. In 2008 cumulative contributions includes a grant of \$12,789 from the Province of Alberta for the China Institute Endowment.



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**12. Investment in capital assets and collections**

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

	<u>2009</u>	<u>2008</u>
Capital assets and collections at net book value (note 6)	<b>\$ 1,970,766</b>	\$ 1,718,478
Less amounts financed by:		
Unamortized deferred capital contributions (note 10)	<b>(1,329,723)</b>	(1,121,647)
Long-term obligations related to capital expenditures	<b>(191,020)</b>	(189,163)
Investment in capital assets and collections, end of year	<b><u>\$ 450,023</u></b>	<b><u>\$ 407,668</u></b>

	<u>2009</u>	<u>2008</u>
The changes during the year are as follows:		
Investment in capital assets and collections, beginning of year	<b><u>\$ 407,668</u></b>	<u>\$ 410,418</u>
Acquisition of capital assets and collections	<b>86,037</b>	37,706
Long-term obligations - repayment	<b>7,445</b>	6,858
Long-term obligations - new financing	<b>(12,586)</b>	(23,446)
Net book value of asset disposals	<b>(736)</b>	(636)
Amortization of investment in capital assets	<b>(49,084)</b>	(45,911)
Net investment in capital assets	<b>31,076</b>	(25,429)
Contributions of assets not subject to amortization	<b>11,279</b>	22,679
Increase (decrease) for the year	<b><u>42,355</u></b>	<u>(2,750)</u>
Investment in capital assets and collections, end of year	<b><u>\$ 450,023</u></b>	<b><u>\$ 407,668</u></b>

**13. Contingent liabilities and commitments**

- (a) The University is a defendant in a number of legal proceedings. 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 being recorded under GAAP.
- (b) Academic staff members are entitled to a professional expense allowance, enabling them to incur expenditures for their teaching, research, professional, or general University duties. At March 31, 2009 approximately \$10,714 (2008 - \$9,272) of such allowances is committed for expenditures not yet incurred.
- (c) 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, 2008 CURIE had a surplus of \$17,748 (2007 - \$16,825). 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 \$13,771 (2007 - \$13,737) of which the University's pro rata share is approximately 6.66% (2007 - 6.69%). This surplus is not recorded in the financial statements.



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- (d) At March 31, 2009 the University has contractual commitments for capital projects greater than \$1 million of approximately \$629,000 (2008 – approximately \$637,000).
- (e) On March 31, 2005 the University renewed their five year agreement for information technology support with an external party. The cost of \$7,592 over the remaining 15 months provides for manager application support services.
- (f) 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 \$67.10 (2008 - \$71.72) per megawatt hour. The four (2008 – three) contracts totaling \$120,101 (2008 - \$122,167) expire on December (2010, 2012, 2013, 2016).
- (g) 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.
- (h) The University has invested in a partnership agreement with iNovia Investment Fund II-B, Limited Partnership, which invests in the sectors of technology, energy, life sciences and applied sciences. 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 one million units. The remaining commitment of \$4,000 (2008 - \$4,500) is due at such times and in such amounts as the General Partner may determine.

**14. Budget comparison**

The University's 2008-09 budget was approved by the Board of Governors on March 28, 2008.

	Actual	Budget	Variance
Revenue:		(unaudited)	
Government	\$ 855,736	\$ 768,731	\$ 87,005
Credit course tuition and related fees	205,243	186,618	18,625
Sales of services and products	217,506	191,887	25,619
Grants, donations and investment income (loss)	65,913	141,150	(75,237)
	<u>1,344,398</u>	<u>1,288,386</u>	<u>56,012</u>
Amortization of deferred capital contributions	75,514	56,380	19,134
	<u>1,419,912</u>	<u>1,344,766</u>	<u>75,146</u>
Expense:			
Salaries	725,191	676,121	49,070
Employee benefits	137,285	123,926	13,359
Materials, supplies, services and other expenses	500,424	436,854	63,570
Amortization of capital assets	124,598	106,139	18,459
	<u>1,487,498</u>	<u>1,343,040</u>	<u>144,458</u>
Excess (deficiency) of revenue over expense	<u>\$ (67,586)</u>	<u>\$ 1,726</u>	<u>\$ (69,312)</u>



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## 15. Related party transactions

The University operates under the authority and statutes of the Province of Alberta. Transactions between the University and the Province of Alberta are summarized below.

	<u>2009</u>	<u>2008</u>
Advanced Education and Technology:		
Operating grant	\$ 484,774	\$ 442,168
Enrolment planning envelope grants	53,865	38,127
Performance envelope award	-	3,266
Capital grants	396,430	412,301
Research grants	25,819	28,828
Access to the future fund (matching grants)	-	5,000
Other	16,117	14,899
Total Advanced Education and Technology	<u>977,005</u>	<u>944,589</u>
Other provincial departments and agencies grants:		
Alberta Health and Wellness	49,468	40,454
Alberta Heritage Foundation for Medical Research	31,636	28,322
Alberta Ingenuity Fund	20,556	16,035
Infrastructure and Transportation	9,659	4,053
Alberta Health Services	6,275	18,534
Other	19,967	22,089
Total other provincial departments and agencies	<u>137,561</u>	<u>129,487</u>
Total contributions received	1,114,566	1,074,076
Less: deferred contributions	<u>(433,477)</u>	<u>(449,829)</u>
Revenue from provincial government	<u>\$ 681,089</u>	<u>\$ 624,247</u>

The Province of Alberta has provided \$5,000 (2008 - \$12,789) in matching grants for externally restricted endowment contributions during the year, which is included in endowment net assets. Alberta Health Services has provided nil (2008 - \$3,000) in grants for externally restricted endowment contributions, which is included in endowment net assets.

The University of Alberta has receivables from the Province of Alberta of \$31,869 (2008 - \$88,853) and payables to the Province of Alberta of \$12,561 (2008 - \$1,368).

These transactions are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

The University has long-term obligations with Alberta Finance and Alberta Capital Finance Authority as described in note 8 (Long-term obligations).



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**16. Salary and employee benefits**

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

	2009			2008	
	Base salary <sup>(1)</sup>	Other cash benefits <sup>(2)</sup>	Other non-cash benefits <sup>(3) (6)</sup>	Total	Total
<b>Governance<sup>(4)</sup></b>					
Chair of the Board of Governors	\$ -	\$ -	\$ -	\$ -	\$ -
Members of the Board of Governors	-	-	-	-	-
<b>Executive</b>					
President	457	-	373	830 <sup>(3a)</sup>	627
Vice-Presidents:					
Provost and Vice-President Academic	384	56	179	619	618
Vice-President Research <sup>(5)</sup>	412	-	186	598	507
Vice-President Finance and Administration	390	-	153	543	654 <sup>(3a)</sup>
Vice-President External Relations	336	-	121	457	428
Vice-President Facilities and Operations	390	-	175	565	668 <sup>(3a)</sup>

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include administrative honorarium.

(3) Other 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 family assistance program, critical illness, supplementary health care, short and long-term disability plans, dental plan, supplemental pension plans (per footnote<sup>(6)</sup>), accidental disability and dismemberment. Benefits for some of the executive also include professional leave, car allowance and memberships. In recognition that the University uses the President's home for various University functions, the University pays for certain costs for the general operation of her home determined in accordance with a contractual arrangement entered into by the President and the University. Included in non-cash benefits is the President's taxable benefit portion (46%) of these costs.

(3a) In 2009, the President became eligible for a professional leave; included in non-cash benefits is the equivalent of an additional six months salary. In 2008, certain individuals became eligible for an additional six month professional leave; included is an additional six months salary for Vice-President Finance and Administration and Vice-President Facilities Operations.

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

(5) Two individuals held this position in 2008.

(6) Under the terms of the supplementary retirement plan (SRP), the executive may receive supplemental retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post employment period. The SRP provides future pension 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 services, a market interest rate, and management's best estimate of expected costs and the period of benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the current year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

	2009			2008	
	Current service cost	Prior service and other costs	Total	Total	Total
<b>Executive</b>					
President	\$ 99	\$ 21	\$ 120	\$ 112	
Vice-Presidents:					
Provost and Vice-President Academic	106	33	139	136	
Vice-President Research	76	7	83	70	
Vice-President Finance and Administration	68	18	86	82	
Vice-President External Relations	56	9	65	59	
Vice-President Facilities and Operations	71	19	90	85	



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The accrued obligation of each executive under the SRP is outlined in the following table:

	Accrued obligation March 31, 2008	Changes in accrued obligation	Accrued obligation March 31, 2009
<b>Executive</b>			
President	\$ 273	\$ (10)	\$ 263
Vice-Presidents:			
Provost and Vice-President Academic	503	(30)	473
Vice-President Research	57	58	115
Vice-President Finance and Administration	257	39	296
Vice-President External Relations	98	51	149
Vice-President Facilities and Operations	267	38	305

The significant actuarial assumptions used to measure the accrued benefit obligation are:

Discount rate	5.50%	7.40%
Long-term average compensation increase	3.00%	3.00%

## 17. Comparative figures

Certain 2008 figures have been reclassified to conform to the presentation adopted in the 2009 financial statements.