UNIVERSITY OF ALBERTA

FINANCIAL STATEMENTS

for the Year Ended March 31, 2012

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FINANCIAL SERVICES

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Executive Summary

The University of Alberta ended the 2012 fiscal year with a $4.1 million excess of revenue over expense (2011: $75.2 excess) and an unrestricted net assets deficit of $15.6 million (2011: $3.5 deficit). The small surplus is a reflection of the impact of the 0% grant increases over the past three years, the elimination of the enrolment planning envelope funding and the drawdown of balances in the faculties (spending amounts carried over from previous years). The prior year's excess of revenue over expense of $75.2 million was mainly due to a decrease in the Universities Academic Pension Plan unfunded pension liability expense and spending lag in the operating fund.

Other financial highlights for 2012:

- For the 2012 fiscal year, the University did not receive an increase in the operating grant funding. The University has addressed this issue through a combination of revenue enhancements, cost containment measures and operating efficiencies. The Government of Alberta has committed to a 2% increase in the operating grant for each of the next three years. The University will continue to look at overall cost containment and administrative efficiencies.

- Unitized Endowment Pool (UEP) investments returned 3.0% (2011: 9.2%) and the Non-Endowed Investment Pool (NEIP) returned 2.1% (2011: 2.2%). The UEP return of 3.0% was not sufficient to cover the approved spending allocation; therefore a portion of the spending allocation was funded by endowment net assets (cumulative capitalized income).

- Total funding in support of the University's research activity for 2012 is $460 million compared to $536 million in 2011. The sponsored research revenue decrease is mainly due to reduced grants from the Government of Alberta and the Canada Foundation for Innovation (CFI). Because the funding for CFI comes in blocks and the major projects awarded in 2009 were completed, no new funding occurred in 2012. As a result, matching support from the Government of Alberta was not required. The next cycle of grants for CFI have just been submitted for initiation in 2014. Another major factor in the decrease in funding was the lower capital contributions for research primarily due to completion of the Edmonton Clinic Health Academy, Katz Group Centre for Pharmacy and Health Research, Li Ka Shing Centre for Health Research Innovation and the Centennial Centre for Interdisciplinary Science.

- The University's successful fund-raising initiatives support many activities across the University. For the 2012 year, new endowment contributions totaled $24.7 million and expendable donations totaled $26.5 million. The University also received a $35.0 million in-kind contribution of a building (Saville Community Sports Centre).

- In support of the University's capital plan, the Government of Alberta provided $56.1 million in funding for capital priorities. With the recent completion of large-scale capital projects, the University now has the opportunity to maintain, and where appropriate, repurpose aging assets and infrastructure. The University, with assistance from the Government of Alberta, has also made progress in reducing the overall amount of deferred maintenance.

Areas of significant financial risk:

- The Government of Alberta commitment of a 2% operating grant increase for each of the next three years has provided some stability
- investment income which can fluctuate significantly due to market performance
- uncertainty about utility costs due to the volatile energy markets
- deferred maintenance, which is estimated at over $800 million; this places programs and initiatives at some risk (refer to later section in the financial analysis)

To assist in addressing the ongoing budgetary issues, the University will continue to seek opportunities to look at overall cost containment and administrative efficiencies.

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

The Financial Analysis is intended to provide the reader with the financial highlights for the 2012 year and should be read in conjunction with the March 31, 2012 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:

- *click on Key Strategic Planning Documents*
  - *Dare to Discover: A Vision for a Great University*
  - *2012 Comprehensive Institutional Plan*
  - *2011-12 Annual Report*

Other information the reader may find useful:

- *click on Investment Reports*

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

Introduction

To reflect the nature and restrictions on use, 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. Contributions to acquire capital assets with limited life are amortized to revenue over the useful life of the asset.

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

Unrestricted funds:

- Operating - includes the provincial government operating grant, student tuition and fee revenue, investment income available for general spending and any new revenues generated by faculties and administrative units.
- Ancillary enterprises - these University business enterprises provide services and products 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.

Restricted funds:

- Research - funds provided by grants and contracts from external sponsors, donations and endowment investment income available for spending.
- Special purpose - funds provided by grants and contracts from external sponsors (including Government of Alberta funding for the Faculty of Medicine Academic Alternate Relationship Plan), donations and endowment investment income available for spending. Expenditures include scholarships and bursaries, and other programs involving teaching and community service.
- Capital - funds provided by provincial, federal and other government grants and donations. Funds are primarily designated for the acquisition of buildings and 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.

Excess of Revenue over Expense

The University of Alberta ended the 2012 fiscal year with a $4.1 million excess of revenue over expense (2011: $75.2 excess) and an unrestricted net assets deficit of $15.6 million (2011: $3.5 deficit). The small surplus is a reflection of the impact of the 0% grant increases over the past three years, the elimination of the enrolment planning envelope funding and the drawdown of balances in the faculties (spending amounts carried over from previous years). The prior year excess of revenue over expense of $75.2 million was mainly due to a decrease in the Universities Academic Pension Plan unfunded pension liability expense and spending lag in the operating fund.

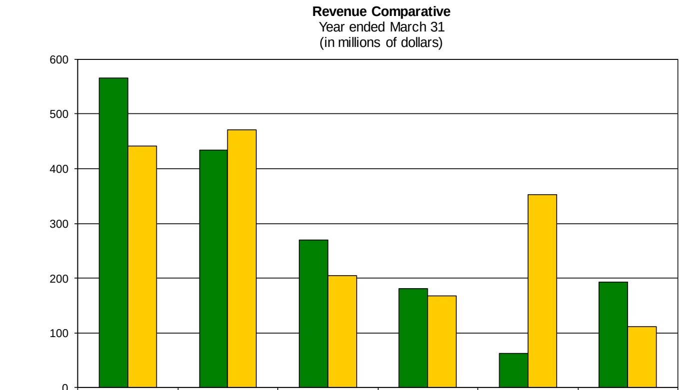
Revenue

The following highlights revenue before and after deferrals:

	2012		2011	
	(000's)	**(000's)**	(000's)	(000's)
	Revenue per financial statements	**Revenue before deferrals**	Revenue per financial statements	Revenue before deferrals
Government of Alberta grants	**$ 763,600**	**$ 841,464**	$ 744,460	$ 992,020
Federal and other government grants	**184,386**	**204,291**	184,507	216,329
Student tuition and fees	**269,355**	**269,355**	253,897	253,897
Sales of services and products	**200,875**	**200,875**	210,698	210,698
Donations and other grants	**124,543**	**146,190**	112,998	139,709
Investment income	**42,067**	**43,415**	56,475	63,829
Amortization of deferred capital contributions	**104,540**	**-**	81,705	-
Revenue	**$ 1,689,366**	**$ 1,705,590**	$ 1,644,740	$ 1,876,482

Revenue (before deferrals)

Revenue (before deferrals) decreased by $170.9 million (9.1%) from $1,876.5 million in 2011 to $1,705.6 million in 2012.



	Campus Alberta Grant	Sponsored Research (incl. sales)	Student Tuition & Fees	Sales	Capital	Other
2012	565.6	434.0	269.4	181.3	62.4	192.9
2008	442.2	471.6	204.7	167.5	353.1	112.1
% of total revenue						
2012	33.2%	25.4%	15.8%	10.6%	3.7%	11.3%
2008	25.3%	26.9%	11.7%	9.6%	20.2%	6.3%

The University's major operating funding comes from the Government of Alberta Campus Alberta operating grant, student tuition and fees and from sales activities. The University also receives restricted funding for sponsored research, capital infrastructure and specific academic programs. Other is mainly comprised of grants and donations for specific academic programs.

The decrease is mainly due to:

- capital grant funding decrease of approximately $97 million is due to a large capital grant received in 2011 towards the construction of Edmonton Clinic Health Academy
- research grant funding decrease of approximately $44 million is mainly due to a reduction in funding from the Government of Canada (approx. $12 million) and from the Government of Alberta (approx. $26 million).
- special purpose grant funding decrease of approximately $24 million is mainly due to the Priority Health Graduates Initiative grant received in 2011
- investment income shortfall results in a portion of the endowment spending allocation being funded from endowment net assets (approx. $10 million)

Government of Alberta Grants

Government of Alberta revenue (before deferrals) amounted to $841.5 million, representing a decrease of $150.6 million (15.2%) compared to last year.

	2012	2011	Increase (decrease)
	(000's)	(000's)	(000's)
Operating fund grants:			
Campus Alberta (operating grant)	**$ 565,647**	$ 565,647	$ -
Other grants	**34,635**	11,271	23,364
	600,282	576,918	23,364
Restricted grants:			
Capital	**56,073**	174,141	(118,068)
Research	**119,479**	145,590	(26,111)
Special purpose	**65,630**	95,371	(29,741)
	241,182	415,102	(173,920)
Revenue (before deferrals)	**$ 841,464**	$ 992,020	$ (150,556)

Other grants increased by $23.4 million and includes a new grant to support medical education ($11.1) (which was previously funded by an Alberta Health Services fee for service arrangement), new lights on funding for specific buildings ($12.7) and additional funding for enrolment pressures ($3.5).

Capital grants decreased primarily due to the funding last year for the Edmonton Clinic Health Academy. The 2012 capital grants total includes funding for the annual infrastructure maintenance grant ($22.8), Balmoral (a facility to house the Edmonton Radiopharmaceutical Centre and a cyclotron (medical isotopes)) ($12.0) and the completion of funding for Edmonton Clinic Health Academy ($12.0). Research grants decreased across various programs due to a decrease in CFI matching grants and also due to funding received last year for specific projects. Special purpose grants decreased due to the funding received last year for the new Priority Health Graduates Initiative.

Research Revenue

Research revenue (before deferrals) amounted to $460.1 million (2011: $536.0). The University remains among the top three institutions in Canada overall in amount of funding received.

	2012	2011	Increase (decrease)
	(000's)	(000's)	(000's)
Sponsored research revenue (before deferrals):			
Government of Alberta grants	**$ 119,479**	$ 145,670	$ (26,191)
Federal and other government grants	**187,974**	205,730	(17,756)
Donations and other grants	**91,131**	90,879	252
Investment income	**15,822**	23,533	(7,711)
Sales of services and products	**19,547**	18,607	940
	433,953	484,419	(50,466)
Other research related funding:			
Endowment income spending allocation[1]	**7,621**	-	7,621
Capital fund infrastructure grants[2]	**4,462**	30,472	(26,010)
Entities not consolidated[3]	**14,018**	21,070	(7,052)
	26,101	51,542	(25,441)
Total research funding	**$ 460,054**	$ 535,961	$ (75,907)

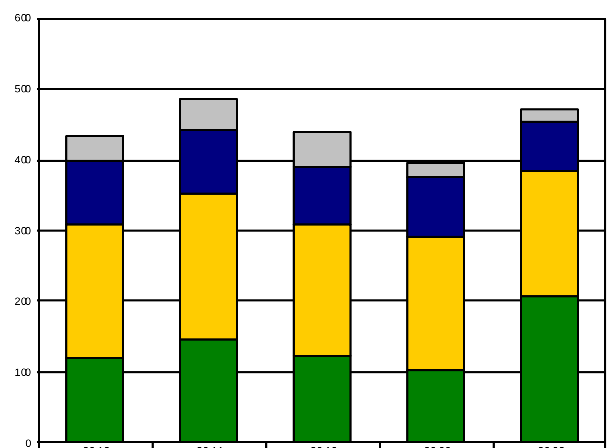
[1] Due to endowment investment income shortfall, a portion of the endowment spending allocation was funded from endowment net assets (cumulative capitalized income).
[2] Capital research infrastructure funding is recorded as a contribution in the capital fund. These amounts represent the portion of the capital funding that was utilized for research designated buildings or research designated space within buildings.
[3] Entities not consolidated include clinical trial and related research funding with Alberta Health Services. These contributions are not reflected in the University's audited financial statements.

The Government of Alberta maintained or increased its funding across a variety of programs. The net overall decrease is due to a decrease in CFI matching grants and also due to funding received last year for specific projects.

Federal and other government maintained or increased its funding across a variety of programs. The net overall decrease is mainly due to a decrease in CFI ($8.8). Grants from Western Economic Diversification decreased ($4.5) due to large grants received in 2011.

Donations and other grants are comparable to last year. Other sources include associations, foundations, institutes and individuals.

Sponsored Research Revenue by Source
Year ended March 31
(in millions of dollars)



	2012	2011	2010	2009	2008
Other	35.4	42.1	49.4	20.4	18.1
Donations and grants	91.1	89.7	82.1	85.6	69.6
Federal and other government	188.0	206.9	184.8	189.3	175.8
Government of Alberta	119.5	145.7	122.8	101.9	208.1
Total revenue	434.0	484.4	439.1	397.2	471.6
% change	-10.4%	10.3%	10.5%	-15.8%	2.2%

Student Tuition and Fees

Student tuition and fees (comprised of both credit and non-credit tuition) amounted to $269.4 million (2011: $253.9). An increase in tuition fees ($2.2) and differential fees for international students ($7.0) were mainly due to higher student enrolment. Market modifier fees ($3.4) were implemented in 2012 for specific programs. The tuition fees (instructional fees only) for an Arts or Science student with a full time course load in 2012 were $5,195 as compared to $5,177 in 2011 (an increase of 0.35%).

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 $200.9 million (2011: $210.7).

The ancillary services units generated sales of $93.0 million (2011: $95.9). The units with the largest sales are: Residences, Hospitality and Facility Services ($28.8), Bookstore ($23.4), Utilities ($15.6) and Parking Services ($14.1).

Academic and administrative units generated sales of $107.9 million (2011: $114.8), with the most significant activity as follows: Faculty of Medicine and Dentistry ($56.7) which is mainly revenue from Alberta Health Services and the practice plans in support of positions that provide an interaction between the academic environment and the clinical services environment; Physical Education and Recreation revenue generated by athletic teams, sport camps and rentals of facilities ($11.3) and Agriculture, Life and Environmental Sciences ($6.8) which is mainly from the sale of animal, plant and related products. Academic and administrative unit sales decreased by $7.0 million due to a change in funding for the Faculty of Medicine and Dentistry (refer to Government of Alberta grants).

Investment Income

Investment income (before deferrals) was $43.4 million (2011: $63.8). Investments primarily fall into two categories, the Unitized Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP).

The UEP had a return of 3.0% (2011: 9.2%). The global economic rebound that started in 2010 was negatively impacted by the European sovereign debt crisis in 2011. Equity markets sold off sharply on concerns that fiscal austerity measures in one of the world's largest economic zones could lead to a protracted global economic slowdown or recession. European governments and monetary authorities were successful in temporarily averting the crisis. This coupled with signs of sustained economic growth in the US resulted in strong gains from equity markets in early 2012. For the year ended March 31, 2012 US equity markets returned 11.5% (2011: 10.9%) while Non-North American equity markets lost 2.7% (2011: 6.3% return). Amidst this uncertain and volatile environment, Canadian equities, dominated by the highly cyclical resource sectors, performed poorly, posting a loss of 9.8% for the year (2011: 20.4% return). Canadian fixed income returned 9.7% (2011: 5.1%). Collectively the strategies employed by the UEP's managers out-performed the UEP's benchmark by 0.5%, which posted a return of 2.5% (2011: 10.3%). 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 three distinct strategies (short-term, mid-term and long-term), recorded an overall return of 2.1% for the year (2011: 2.2%). The short-term money market investments had a return of 1.3% (2011: 0.9%); this compares favorably with the benchmark DEX 91 Day Treasury Bill return of 0.9% (2011: 0.8%) and is primarily attributable to the portfolio's longer duration.

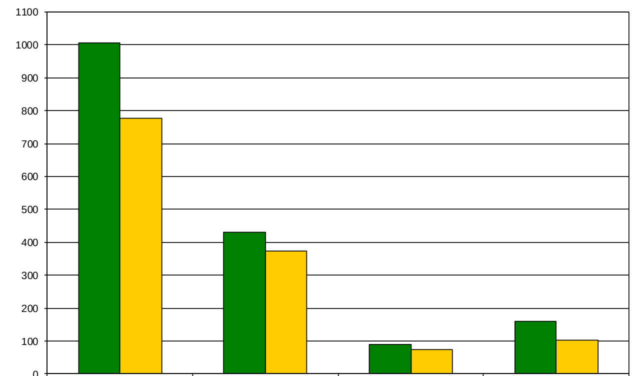
The mid-term bond portfolio returned 6.3% (2011: 5.8%); this exceeded the benchmark DEX Short Term Bond Index return of 4.4% (2011: 3.4%), and is primarily attributable to valuation adjustments on the restructured asset-backed commercial paper (ABCP). The University holds $140.0 million (2011: $141.5) of ABCP and has recorded a write-down of $44.2 million representing 31.6% of the total value (2011: $49.1 representing 34.7% of the total value). The decrease in the write-down primarily reflects the passage of time as credit conditions did not change materially during the year. The majority of the ABCP notes mature within the next five years and the University intends to hold these notes to maturity.

The long-term portion of the NEIP, which is invested in the UEP, added to performance with a return of 3.0% (2011: 9.2%).

Expenses

Expenses increased by $115.7 million (7.4%) from $1,569.6 million in 2011 to $1,685.3 million in 2012. The main components of this increase are:

Expense Comparative
Year ended March 31
(in millions of dollars)



	Salaries & benefits	Materials, supplies, maint. & utilities	Scholarships & bursaries	Amortization of capital assets
2012	1005.9	430.3	90.2	158.9
2008	777.3	374.0	73.2	102.9
% of total expense				
2012	59.7%	25.5%	5.4%	9.4%
2008	58.6%	28.2%	5.5%	7.7%

Salaries expense increased by $51.8 million (6.6%). The collective bargaining process resulted in negotiated salary increases for both academic employees (July 1, 2011 - 1.75%; July 1, 2012 - 2.0%) and support employees (April 1, 2011 - 1.75%) and, in addition, eligible employees received merit increases (averaging approximately 2%). There was also a net increase in new hires (approximately 300 net) relating to the increased level of activity (2012 approx. - 11,450; 2011 - approx. 11,150). Included in the staff count is approximately 1,323 academic staff granted tenure.

Employee benefits expense increased by $14.9 million (9.8%)

- Employee future benefits expense increased by $7.8 million
  The increase is mainly due to a $5.7 million increase in the Universities Academic Pension Plan (UAPP) unfunded pension liability expense due to unfavorable investment returns in the UAPP.
- Benefits expense increased by $7.1 million
  Pension contributions expense (mainly UAPP) increased by $3.1 million mainly due to unfavorable investment returns in the UAPP. There were increases across various other benefit plans.

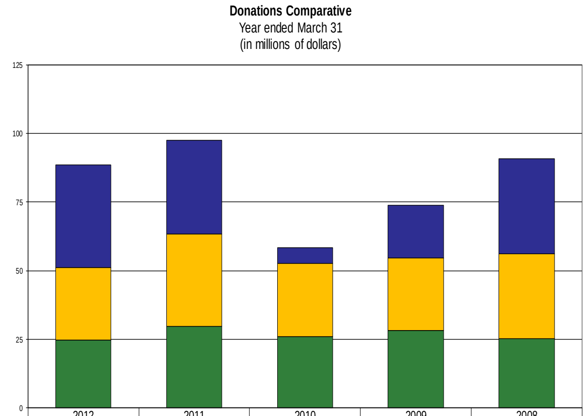
Materials, supplies and services expense increased by $24.5 million (6.1%) mainly due to due to increased activity in the operating fund ($14.7) and the ancillary fund ($13.2). The ancillary fund increase includes a one-time inventory write-down. In 2012, the Bookstore undertook a review of their inventory practices and concluded the inventory was overvalued. The inventory was overvalued due to incorrect inventory item costs in the inventory system and obsolete inventory that had not been written down in prior years. The write-down of $8.8 million represents an accumulation over many years. Maintenance expense increased by $6.5 million (9.0%) primarily in the operating fund for renovations, and building maintenance. Utilities expense of $39.2 is comparable to last year ($40.4).

Scholarships and bursaries expense of $90.2 million are comparable to last year ($91.1). An increase in scholarships funded from operating funds ($2.4) was offset by a decrease in the restricted funds ($3.3).

Donations Received

Donations (before deferrals) received in the year totaled $88.6 million as compared to $97.6 million in 2011 and are comprised of:

- $24.7 million endowed donations
- $26.5 million expendable donations
- $37.4 million in-kind donations
  In-kind donations include the Saville Community Sports Centre ($35.0)



	2012	2011	2010	2009	2008
In-kind	37.4	34.2	5.7	19.2	34.6
Expendable	26.5	33.6	26.8	26.6	30.9
Endowed	24.7	29.8	25.9	28.1	25.3
Total	88.6	97.6	58.4	73.9	90.8

Donor pledges outstanding at March 31, 2012 are $218.5 million (2011: $145.0) 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 increased by $31.6 million due to a $17.0 million increase in endowments, an increase in investment in capital assets and collections of $26.7 million and an increase in the unrestricted net assets deficiency of $12.1 million.

Endowments

Endowments consist of restricted donations to the University and internal allocations by the University's Board of Governors, the principal of which is required to be maintained intact in perpetuity. The investment income earned on endowments must be used in accordance with the various purposes established by the donors or 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.

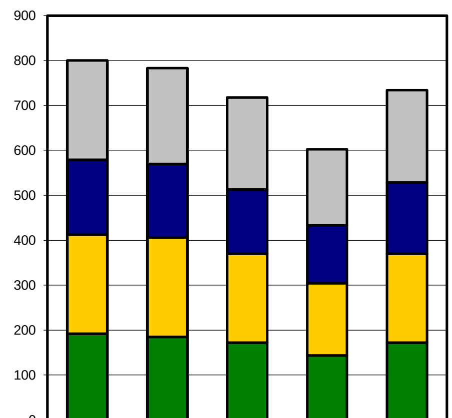
Endowment investments earned a return of 3.0% for the year ended March 31, 2012 (2011: 9.2%) and averaged 4.3% on a ten-year annualized basis.

The $800.3 million in endowments represent over 2,420 individual endowment funds. Endowments increased by $17.0 million, comprised of:

- $24.7 endowed donations
- $2.6 capitalization from expendable funds
- $23.1 investment income
- ($22.8) allocated for total spending (includes program spending allocation, administrative and external management fees)
- ($10.6) transfer from endowment net assets (cumulative capitalized income) to fund a portion of the spending allocation

Endowments support 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 2012 is $25.5 million (2011: $30.4). In 2012, due to investment income shortfall, the transfer from endowments ($10.6) is the amount required to cover the 2012 expenditures. It is anticipated that the difference between the amount allocated ($25.5) and the approved spending allocation ($32.8) will be allocated next year. The program spending allocation rate is 4.25% (2011: 3.80%) and is based on a moving average of the endowment's fair value.

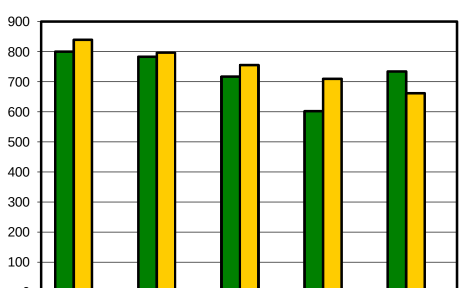
Endowments by Category
Year ended March 31
(in millions of dollars)



	2012	2011	2010	2009	2008
Academic programs	221.3	213.7	204.7	169.1	205.4
Research	166.8	163.6	143.1	129.1	159.1
Scholarships	220.3	221.1	197.3	160.4	197.7
Chairs & professorships	191.9	184.9	172.4	143.8	172.0
Total	800.3	783.3	717.5	602.4	734.2

At March 31, 2012 the market value of the UEP assets are lower than the cumulative endowed contributions indexed for inflation by $39.4 million. The shortfall against this inflation indexed target is primarily due to investment losses in 2007 and 2008. The shortfall increased in 2012 as the investment return of 3.0% was lower than the total spending of 5.1% (includes program spending, external management fees and administration fees) and inflation of 1.9%. The new spending policy has transitioned the spending rate back to 4.25% and on a go forward basis the spending allocation will be indexed annually by inflation, subject to certain provisions that are designed to restore and maintain the real value of the endowment.

Endowment Growth versus Inflation
Year ended March 31
(in millions of dollars)



	2012	2011	2010	2009	2008
Market value	800.3	783.3	717.5	602.4	734.2
Contributions inflated	839.7	796.8	755.5	710.1	662.2
Surplus (deficiency)	(39.4)	(13.5)	(38.0)	(107.7)	72.0

Acquisition of Capital Assets and Collections

	2012 (000's)	2011 (000's)	Increase (decrease) (000's)
Buildings and utilities	**$ 189,219**	$ 354,867	$ (165,648)
Equipment and furnishings	**101,260**	90,000	11,260
Learning resources	**20,653**	20,532	121
Permanent collections	**1,133**	908	225
Land	**-**	32,137	(32,137)
Total acquisitions	**$ 312,265**	$ 498,444	$ (186,179)

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 2012 were as follows (in millions of dollars):

- construction of:
  - Edmonton Clinic Health Academy ($54.7)
  - Chemical Materials Engineering Building Functional Renewal ($27.4)
  - Katz Group Centre for Health Research Innovation ($16.6)
  - Centennial Centre for Interdisciplinary Science ($14.3)
  - Utilities Expansion ($6.3)
  - Li Ka Shing Center for Health Research Innovation ($6.1)
- Saville Community Sports Centre ($35.0 in-kind contribution of a building from the GO Community Centre)
- major renovations to various buildings: Balmoral ($8.8), Chemistry West Building ($6.5), Kinsella Ranch ($2.3)

The increase in equipment and furnishings is due to acquisitions of research equipment.

There were no additions to land in 2012. In 2011 the University acquired the Soaring Estates property in Edmonton and the Mattheis Ranch in southern Alberta.

Deferred Maintenance

The University's deferred maintenance liability is estimated at over $800 million as at December 31, 2011 (previous most recent estimate available was December 2009 – estimated at over $900 million). The University has received significant and continued funding from the Government of Alberta that has assisted in reducing the deferred maintenance liability. While the deferred maintenance remains high, it continues on a downward trend and the facility condition index for a number of buildings has improved significantly. This area remains a high priority as deferred maintenance puts some risk on the University's programs and initiatives. 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 unrestricted net assets deficit is summarized as follows:

	2012	2011	Increase (decrease)
	(000's)	(000's)	(000's)
Unexpended (over expended) funds:			
Operating	**67,757**	43,199	24,558
Ancillary enterprises	**36,946**	40,617	(3,671)
Capital (internally funded)	**3,007**	24,217	(21,210)
Research (internally funded)	**35,997**	34,715	1,282
	143,707	142,748	959
Employee future benefit liabilities	**(159,319)**	(146,286)	(13,033)
Unrestricted net assets (deficit)	**$ (15,612)**	$ (3,538)	$ (12,074)

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL REPORTING
YEAR ENDED MARCH 31, 2012

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, 2012 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, 2012 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 V. Samarasekera

Indira V. Samarasekera, OC
President

Original signed by Phyllis Clark

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

Independent Auditor's Report

To the Board of Governors of the University of Alberta

Report on the Financial Statements

I have audited the accompanying financial statements of the University of Alberta, which comprise the statement of financial position as at March 31, 2012 and the statements of operations and changes in unrestricted net assets, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the University of Alberta as at March 31, 2012, and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2012

Edmonton, Alberta

UNIVERSITY OF ALBERTA
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2012
(thousands of dollars)

	2012	2011
ASSETS		
Current		
Cash and cash equivalents (note 3)	**$ 119,652**	$ 122,800
Short-term investments (note 4)	**550,343**	663,337
Accounts receivable	**156,590**	177,119
Inventories and prepaid expenses	**13,273**	21,125
	839,858	984,381
Long-term investments (note 4)	**983,428**	969,485
Capital assets and collections (note 5)	**2,822,274**	2,670,255
	$ 4,645,560	$ 4,624,121
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 199,007**	$ 213,369
Current portion of employee future benefit liabilities (note 6)	**7,806**	8,667
Current portion of long-term liabilities (note 7)	**10,895**	12,659
Deferred contributions, research and other (note 8)	**387,215**	412,671
Deferred revenue	**20,168**	21,140
	625,091	668,506
Employee future benefit liabilities (note 6)	**151,129**	138,262
Long-term liabilities (note 7)	**185,743**	197,170
Deferred contributions, research and other (note 8)	**90,000**	90,000
Deferred contributions, capital (note 8)	**170,407**	275,916
Unamortized deferred capital contributions (note 9)	**2,101,486**	1,964,182
	3,323,856	3,334,036
Net Assets		
Endowments (note 10)	**800,343**	783,340
Investment in capital assets and collections (note 11)	**536,973**	510,283
Unrestricted (deficit)	**(15,612)**	(3,538)
	1,321,704	1,290,085
	$ 4,645,560	$ 4,624,121

Contingent liabilities and contractual obligations (note 12 and 13)

Approved by the Board of Governors:

Original signed by Douglas Goss
Chair, Board of Governors

Original signed by Don Matthew
Chair, Board Audit Committee

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

UNIVERSITY OF ALBERTA
STATEMENT OF OPERATIONS AND CHANGE IN UNRESTRICTED NET ASSETS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

	2012	2011
REVENUE		
Government of Alberta grants (note 16)	**$ 763,600**	$ 744,460
Federal and other government grants	**184,386**	184,507
Student tuition and fees	**269,355**	253,897
Sales of services and products	**200,875**	210,698
Donations and other grants	**124,543**	112,998
Investment income (note 15)	**42,067**	56,475
Amortization of deferred capital contributions (note 9)	**104,540**	81,705
	1,689,366	1,644,740
EXPENSE		
Salaries	**838,600**	786,797
Employee benefits	**167,322**	152,382
Materials, supplies and services	**313,004**	293,711
Scholarships and bursaries	**90,183**	91,109
Maintenance and repairs	**78,118**	71,658
Utilities	**39,184**	40,382
Amortization of capital assets	**158,881**	133,548
	1,685,292	1,569,587
EXCESS OF REVENUE OVER EXPENSE	**4,074**	75,153
NET TRANSFERS FROM (TO) ENDOWMENTS (note 10)	**9,876**	(175)
NET CHANGE IN INVESTMENT IN CAPITAL ASSETS (note 11)	**(26,024)**	(17,962)
Change in unrestricted net assets for the year	**(12,074)**	57,016
UNRESTRICTED NET ASSETS (DEFICIT), BEGINNING OF YEAR	**(3,538)**	(60,554)
UNRESTRICTED NET ASSETS (DEFICIT), END OF YEAR	**$ (15,612)**	$ (3,538)

UNIVERSITY OF ALBERTA
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

	Endowments	Investment in Capital Assets and Collections	Unrestricted Net Assets (deficit)
NET ASSETS, March 31, 2010	$ 717,495	$ 466,896	$ (60,554)
Excess of revenue over expense	-	-	75,153
Investment income (note 15)	28,767	-	-
Endowment contributions (note 10)	36,903	-	-
Net transfers (note 10)	175	-	(175)
Net change in investment in capital assets (note 11)	-	17,962	(17,962)
Contributions of assets not subject to amortization (note 11)	-	25,425	-
NET ASSETS, March 31, 2011	$ 783,340	$ 510,283	$ (3,538)
Excess of revenue over expense	-	-	4,074
Investment income (note 15)	257	-	-
Endowment contributions (note 10)	26,622	-	-
Net transfers (note 10)	(9,876)	-	9,876
Net change in investment in capital assets (note 11)	-	26,024	(26,024)
Contributions of assets not subject to amortization (note 11)	-	666	-
NET ASSETS, March 31, 2012	$ 800,343	$ 536,973	$ (15,612)

UNIVERSITY OF ALBERTA
STATEMENT OF CASH FLOW
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

	2012	2011
CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES		
Excess of revenue over expense	**$ 4,074**	$ 75,153
Add (deduct) non-cash items:		
Amortization of capital assets	**158,881**	133,548
Amortization of deferred capital contributions	**(104,540)**	(81,705)
Change in employee future benefit liabilities	**12,006**	4,568
Change in unrealized gain on investments	**(2,295)**	(11,210)
Total non-cash items	**64,052**	45,201
Net change in non-cash working capital (*)	**100,585**	147,038
	168,711	267,392
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES		
Purchases of capital assets and collections, net of proceeds on disposals	**(310,234)**	(469,088)
Purchases of long-term investments, net of sales	**(15,562)**	3,417
Endowment investment income (loss)	**4,171**	(55,767)
	(321,625)	(521,438)
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES		
Endowment contributions	**26,622**	36,903
Capital contributions	**136,335**	221,306
Long-term liabilities - new financing, net of repayments	**(13,191)**	19,408
	149,766	277,617
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(3,148)**	23,571
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**122,800**	99,229
CASH AND CASH EQUIVALENTS, END OF YEAR (note 3)	**$ 119,652**	$ 122,800

(*) **Net change in non-cash working capital:**

	2012	2011
Decrease in short-term investments	**$ 112,994**	$ 55,078
Decrease (increase) in accounts receivable	**20,529**	(8,442)
Decrease in inventories and prepaid expenses	**7,852**	483
Decrease in accounts payable and accrued liabilities	**(14,362)**	(1,584)
(Decrease) increase in deferred contributions, research and other	**(25,456)**	97,260
(Decrease) increase in deferred revenue	**(972)**	4,243
	$ 100,585	$ 147,038

1. Authority and purpose

"The Governors of The University of Alberta" is a corporation which manages and operates the University of Alberta ("the University") under the *Post-Secondary Learning Act* (Alberta). All members of the Board of Governors are appointed by either the Lieutenant Governor in Council or the Minister of Advanced Education and Technology, with the exception of the Chancellor and President, who are *ex officio* members. Under the *Post-Secondary Learning Act*, Campus Alberta Sector Regulation, the University is a comprehensive academic and research institution offering undergraduate and graduate degree programs as well as a full range of continuing education programs and activities. The University is a registered charity, and under section 149 of the *Income Tax Act* (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 (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 valuation of 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) (9.09% interest) - a joint venture with ten 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) Financial instruments

The University's financial assets and liabilities are generally classified and measured as follows:

Financial Statement Components	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value
Investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Other long-term assets	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term liabilities	Other liabilities	Amortized cost

The University's financial instruments are recognized on their trade date. Transaction costs related to all financial instruments are expensed as incurred. The value of the investments recorded in the financial statements is determined as follows:

- Short-term 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 price on quoted markets.
- Securities that are infrequently traded or where market quotes are not available are valued using estimation techniques. These techniques include discounted cash flows, internal models that utilize observable market data, or comparisons with other securities that are substantially the same.
- 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.

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 is exposed to the following risks:

Market risk
The University is exposed to market risk - the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, its issuer or general market factors affecting all securities. To manage this risk, the University has established an investment policy with a target asset mix that is diversified by asset class with individual issuer limits and is designed to achieve a long-term rate of return that in real terms equals or exceeds total endowment expenditures with an acceptable level of risk. Further details can be found in note 4 and note 10.

Foreign currency risk
The University is exposed to foreign exchange risk on investments that are denominated in foreign currencies and uses forward contracts to manage this risk. The University does not use foreign currency forward contracts or any other type of derivative financial instruments for trading or speculative purposes.

Liquidity risk
The University maintains a short-term line of credit that is designed to ensure that funds are available to meet current and forecasted financial requirements in the most cost effective manner.

Credit risk
The University is exposed to credit risk on investments arising from the potential failure of a counterparty, debtor or issuer to honor its contractual obligations. To manage this risk the University has established an investment policy with required minimum credit quality standards and issuer limits. The credit risk from accounts receivable is low as the majority of balances are due from government agencies and corporate sponsors.

Interest rate risk
Interest rate risk is the risk to the University's earnings that arise from the fluctuations in interest rates and the degree of volatility of these rates. This risk is managed by investment policies that limit the term to maturity of certain fixed income securities that the University holds. Interest risk on the University's long-term liabilities is managed through fixed-risk agreements with Alberta Capital Finance Authority (note 7).

(d) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at cost. Cost is determined by weighted average.

(e) 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 held for education, research and public exhibition purposes.

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

(f) 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 net book value of the asset and amortized over its estimated useful life.

(g) 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.
- Unrestricted investment income - when earned; this includes interest, dividends, realized and unrealized gains and losses.
- Pledges - when collected.
- Revenues received for services and products - when the services or products are substantially provided and collection is reasonably assured.
- 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.

(h) 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.

(i) 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.

Supplementary retirement plans

The University provides non-contributory defined benefit supplementary retirement benefits to senior administrators based on years of service and earnings. The expense for these plans is actuarially determined using the projected benefit method prorated on service. The excess of net actuarial gains or losses over 10% of the benefit obligation is amortized over the expected average remaining service life.

The University provides non-contributory defined contribution supplementary retirement benefits to eligible academic staff members based on years of service and earnings. The expense for this plan is the employer's current year contribution to the plan.

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. The excess of net actuarial gains or losses over 10% of the benefit obligation is 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 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.

Administrative/professional leave

The University provides for certain senior administrators to accrue a paid leave of absence at the end of their administrative appointment. The expense for these plans is actuarially determined using the projected benefit method prorated on service. The excess of net actuarial gains or losses over 10% of the benefit obligation is amortized over the expected average remaining service life.

(j) Capital disclosures

The University defines its capital as the amounts included in deferred contributions (note 8), endowment net assets (note 10) 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 and other government funding agencies. The University has investment policies (note 4), 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 or Lieutenant Governor in Council approval for a deficit budget, mortgage and debenture borrowing and the sale of any land, other than donated land, that is held by and being used for the purposes of the University.

(k) 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.

(l) Future accounting changes

The Canadian Public Sector Accounting Board (PSAB) has issued a framework of financial reporting for government not-for-profit organizations. The framework will be effective for fiscal years beginning on or after January 1, 2012.

Effective April 1, 2012, the University will adopt the Canadian Public Sector Accounting (PSA) standards without the public sector PS 4200 series. Adopting these new standards will impact the University's financial statements. As a result, administration has identified the major difference between current and PSA accounting and reporting standards. Administration has developed a transition plan and continues to work through the remaining differences. The quantitative impact of the transition cannot be fully and reasonably determined at this time.

(thousands of dollars)

3. Cash and cash equivalents

Cash and cash equivalents have a maximum maturity of 90 days at date of purchase and are as follows:

	2012	2011
Cash	**$ 5,925**	$ 1,118
Money market funds, short-term notes and treasury bills	**113,727**	121,682
	$ 119,652	$ 122,800

4. Investments

	2012	2011
Cash, money market funds, short-term notes and treasury bills	**$ 563,631**	$ 676,370
Asset-backed commercial paper	**95,710**	92,367
Canadian government and corporate bonds	**175,108**	252,323
Canadian equity	**189,769**	190,507
Foreign equity	**396,020**	395,472
Pooled hedge funds	**62,717**	24,711
Annuities	**82**	86
Real estate	**50,734**	986
	$ 1,533,771	$ 1,632,822
Short-term investments	**$ 550,343**	$ 663,337
Long-term investments	**983,428**	969,485
	$ 1,533,771	$ 1,632,822

As at March 31, 2012, the average effective yields and the terms to maturity are as follows:

- Money market funds, short-term notes and treasury bills: 1.12% (2011 – 1.32%); term to maturity: less than one year.
- Canadian government and corporate bonds: 1.42% (2011 - 2.72%); terms to maturity: range from less than one year to more than 10 years.

The University's investments are managed using two pools, the Unitized Endowment Pool (UEP) with investment holdings of $870,130 (2011 - $838,580) and the Non-Endowed Investment Pool (NEIP) with investment holdings of $663,641 (2011 - $794,242). 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. The primary objective 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.

Derivative financial instruments are used to manage 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. The fair value of net outstanding foreign currency forward contracts receivable is $4,006 (2011 - $1,552).

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 the 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.

(thousands of dollars)

Asset-backed commercial paper

The University holds $131,294 (2011 - $132,848) in “New Restructured Notes” that were received on January 21, 2009 in exchange for asset-backed commercial paper (ABCP) formerly held by the University. The ABCP had been restructured under the restructuring agreement of the Pan-Canadian Investments Committee (known as the Montreal Accord). Certain notes, classified as Other ABCP, were not part of the Montreal Accord and were restructured directly with the sponsors or remain subject to ongoing legal proceedings.

The composition and fair value of the ABCP investments are as follows:

	2011		**2012**			
Note type	Estimated fair value	Cost	**Note cancellations**	**Redemptions**	**Cost**	**Estimated fair value**
Traditional assets[1]	$ 2,410	$ 2,543	**$ (8)**	**$ (1,071)**	**$ 1,464**	**$ 1,412**
Synthetic assets[2]	80,061	117,575	**-**	**4**	**117,579**	**83,645**
IA tracking notes[3]	3,705	12,730	**-**	**(479)**	**12,251**	**4,414**
	86,176	132,848	**(8)**	**(1,546)**	**131,294**	**89,471**
Other ABCP[4]	6,191	8,660	**-**	**-**	**8,660**	**6,239**
	$ 92,367	$ 141,508	**$ (8)**	**$ (1,546)**	**$ 139,954**	**$ 95,710**

(1) Primarily rated as AA+ or higher by DBRS, with a yield based upon the income generated by the underlying assets. Anticipated yield is Bankers Acceptance (BA) plus 0.40%. Scheduled repayment dates are between 4 and 6 years with legal maturity dates between 11 and 25 years.

(2) Primarily rated as A and BBB (low) by DBRS, with a yield of BA minus 0.50%. Scheduled repayment date is January 2017 with a legal maturity date of July 2056.

(3) No stated amount, interest paid will be based on income generated by underlying assets. Scheduled repayment and legal maturity dates are between 2 and 29 years.

(4) Stated yield ranges from BA to Canadian Deposit Offering Rate plus 0.33%. Scheduled repayment and legal maturity dates are between 3 and 6 years.

<u>Valuation</u>

ABCP restructured under the Montreal Accord:

The University has estimated the fair value of these investments as at March 31, 2012 using a discounted cash flow valuation 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 for 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 for notes in the synthetic assets ranges from 463 to 1,063 basis points. An increase of 100 basis points in the estimated discount rate would decrease the fair value by approximately $5,600.

Other ABCP:

In the absence of an active market for these investments, the University has estimated their fair value as at March 31, 2012, using a discounted cash flow valuation model similar to the approach used for the ABCP restructured under the Montreal Accord.

<u>Measurement uncertainty</u>

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.

(thousands of dollars)

5. Capital assets and collections

	2012			2011		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Buildings and utilities	**$ 3,020,539**	**$ 857,044**	**$ 2,163,495**	$ 2,831,320	$ 792,577	$ 2,038,743
Equipment and furnishings	**1,143,341**	**770,817**	**372,524**	1,059,594	712,401	347,193
Learning resources	**319,512**	**221,429**	**98,083**	298,859	201,578	97,281
Land	**85,464**	**-**	**85,464**	85,464	-	85,464
Library permanent collections	**36,248**	**-**	**36,248**	35,776	-	35,776
Other permanent collections	**66,460**	**-**	**66,460**	65,798	-	65,798
	$ 4,671,564	**$ 1,849,290**	**$ 2,822,274**	$ 4,376,811	$ 1,706,556	$ 2,670,255

Included in buildings and utilities is $60,845 (2011 - $925,994) recorded as construction in progress, which is not amortized as the assets are not yet available for use.

Acquisitions include in-kind contributions in the amount of $49,351 (2011 - $39,060).

(thousands of dollars)

6. Employee future benefit liabilities

	2012			Restated [1] 2011		
	Academic staff	**Support staff**	**Total**	Academic staff	Support staff	Total
UAPP	**$ 89,372**	**$ -**	**$ 89,372**	$ 82,349	$ -	$ 82,349
Long-term disability	**7,002**	**20,469**	**27,471**	6,229	21,803	28,032
Early retirement	**167**	**25,741**	**25,908**	327	24,507	24,834
SRP (defined benefit)	**5,243**	**-**	**5,243**	4,163	-	4,163
SRP (defined contribution)	**7,966**	**-**	**7,966**	5,119	-	5,119
Administrative/professional leave	**2,975**	**-**	**2,975**	2,432	-	2,432
	112,725	**46,210**	**158,935**	100,619	46,310	146,929
Less current portion	**2,221**	**5,585**	**7,806**	2,872	5,795	8,667
	$ 110,504	**$ 40,625**	**$ 151,129**	$ 97,747	$ 40,515	$ 138,262

[1] Administrative/professional leave liability was previously included in accounts payable and accrued liabilities.

(a) Defined benefit plans accounted for on a defined benefit basis

Universities Academic Pension Plan (UAPP)
The UAPP is a multi-employer contributory joint defined benefit pension plan for academic staff members. An actuarial valuation of the UAPP was carried out as at December 31, 2010 and was then extrapolated to March 31, 2012, resulting in a UAPP deficiency of $1,153,334 (2011 - $992,933) consisting of a pre-1992 deficiency ($759,322) and a post-1991 deficiency ($394,012). The University's portion of the UAPP deficiency has been allocated based on its percentage of the plan's total employer contributions for the year.

The unfunded deficiency for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2011 - 1.25%) of salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 2.03% (2011 - 2.03%) of salaries required to eliminate the unfunded deficiency by December 31, 2043. The actuarial extrapolation shows that the present value of the Government of Alberta's obligation for the future additional contributions was $314,798 at March 31, 2012. The unfunded deficiency for service after December 31, 1991 is financed by special payments of 5.09% (2011 - 5.09%) of pensionable earnings shared equally between employees and employers until December 31, 2023.

Long-term disability (LTD) and early retirement
The University provides long-term disability (academic and support staff) and early retirement (support staff) defined benefits to its employees. The most recent actuarial valuation for these benefits was as at March 31, 2012.

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.

Administrative/professional leave (leave)
The University provides for certain senior executives to accrue a paid leave of absence at the end of their administrative appointment. Upon completing their term of service, the individual's salary and benefits in effect at the end of the service are paid for the duration of the leave. An actuarial valuation of these benefits was carried out as at March 31, 2012.

(thousands of dollars)

Supplementary retirement plans (SRP)

The University provides non-contributory defined benefit supplementary retirement benefits to executives. An actuarial valuation of these benefits was carried out as at March 31, 2012.

The expense and financial position of these defined benefit plans are as follows:

	2012				Restated [2] 2011			
	UAPP	**LTD [1]**	**Early retirement [1]**	**SRP and leave [1]**	UAPP	LTD [1]	Early retirement [1]	SRP and leave [1]
Expense								
Current service cost	**$ 33,406**	**$ 4,489**	**$ 1,478**	**$ 1,163**	$ 28,613	$ 4,537	$ 1,229	$ 683
Interest cost	**11,538**	**1,256**	**1,110**	**469**	10,941	1,484	1,251	286
Amortization of net actuarial (gain) loss	**8,321**	**(616)**	**(58)**	**-**	6,301	(970)	(90)	-
Amortization of past service cost	**-**	**-**	**-**	**54**	-	-	-	54
Total expense	**$ 53,265**	**$ 5,129**	**$ 2,530**	**$ 1,686**	$ 45,855	$ 5,051	$ 2,390	$ 1,023
Financial Position								
Accrued benefit obligation:								
Balance, beginning of year	**$ 708,155**	**$ 24,530**	**$ 22,388**	**$ 6,934**	$ 620,025	$ 24,551	$ 21,524	$ 5,965
Current service cost	**33,406**	**4,489**	**1,478**	**1,163**	28,613	4,537	1,229	683
Interest cost	**47,164**	**1,256**	**1,110**	**469**	43,757	1,484	1,251	286
Recognition of past service	**-**	**-**	**-**	**-**	-	-	-	-
Benefits paid	**(31,917)**	**(5,690)**	**(1,456)**	**(77)**	(28,924)	(6,097)	(1,613)	(210)
Actuarial (gain) loss	**6,274**	**2,831**	**(105)**	**623**	44,684	55	(3)	210
Balance, end of year	**763,082**	**27,416**	**23,415**	**9,112**	708,155	24,530	22,388	6,934
Plan assets	**(561,736)**	**-**	**-**	**-**	(540,931)	-	-	-
Plan deficit	**201,346**	**27,416**	**23,415**	**9,112**	167,224	24,530	22,388	6,934
Unamortized net actuarial gain (loss)	**(111,974)**	**55**	**2,493**	**(609)**	(84,875)	3,502	2,446	-
Unamortized past service cost	**-**	**-**	**-**	**(285)**	-	-	-	(339)
Accrued benefit liability	**$ 89,372**	**$ 27,471**	**$ 25,908**	**$ 8,218**	$ 82,349	$ 28,032	$ 24,834	$ 6,595

[1] The University plans to use its working capital to finance these future obligations.

[2] Administrative/professional leave liability was previously included in accounts payable and accrued liabilities.

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

	2012		2011	
	UAPP, SRP and leave	**LTD and early retirement**	UAPP, SRP and leave	LTD and early retirement
Accrued benefit obligation:				
Discount rate	**5.40% to 6.50%**	**4.20%**	6.50% to 6.80%	4.80%
Long-term average compensation increase [1]	**3.00% to 3.50%**	**3.00%**	3.00% to 3.50%	3.00%
Benefit cost:				
Discount rate	**5.80% to 6.50%**	**4.80%**	5.80% to 6.50%	5.70%
Long-term average compensation increase [1]	**3.00% to 3.50%**	**3.00%**	3.00% to 3.50%	3.00%
Alberta inflation (long-term) [2]	**2.25%**	**2.50%**	2.25%	2.50%
Estimated average remaining service life (years) [3]	**10.2**	**5.0 to 13.0**	11.3	5.0 to 13.0

[1] Compensation increases are not applicable for long-term disability.

[2] SRP lump-sum payments upon retirement are based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries, and as such, those assumptions are not set by the University.

[3] SRP actuarial gain and past service cost are amortized over the remaining contract terms of the affected participants.

(b) Defined benefit plan accounted for on a defined contribution basis

Public Service Pension Plan (PSPP)
The PSPP is a multi-employer contributory defined benefit pension plan for support staff members. As the University does not have sufficient information to follow the accounting standards for defined benefit plans, it is accounted for on a defined contribution basis. The pension expense recorded in these financial statements is $25,070 (2011 - $23,842).

An actuarial valuation of the PSPP was carried out as at December 31, 2010 and was then extrapolated to December 31, 2011. At December 31, 2011, the PSPP reported an actuarial deficiency of $1,790,383 (2010 - $2,067,151).

(c) Defined contribution plan

Supplementary retirement plan (SRP)
The University provides non-contributory defined contribution supplementary retirement benefits to eligible academic staff members. The expense recorded in these statements is $2,826 (2011 - $2,679).

(thousands of dollars)

7. Long-term liabilities

	Collateral	Maturity date	interest rate %	Amount outstanding **2012**	Amount outstanding 2011
Debentures payable to Alberta Capital Finance Authority:					
Health Research Innovation Facility	(1)	June 2011	5.030	**$ -**	$ 1,000
Enterprise Square	(2)	October 2011	4.162	**-**	1,301
Natural Resources Engineering Facility	(3)	June 2014	4.974	**4,764**	6,512
Energy Management Program, Year 1	(1)	September 2014	4.551	**1,028**	1,408
Energy Management Program, Year 2	(1)	March 2016	4.525	**1,783**	2,181
Natural Resources Engineering Facility	(3)	June 2017	5.056	**4,888**	5,641
Health Research Innovation Facility	(1)	June 2017	5.053	**9,958**	11,493
Extension Centre	(1)	October 2017	8.750	**1,439**	1,616
Energy Management Program, Year 3	(1)	December 2017	4.493	**2,283**	2,608
Energy Management Program, Year 4	(1)	March 2019	3.718	**2,582**	2,899
Steam Turbine Generator	(3)	May 2020	6.250	**10,147**	10,970
Newton Place	(2)	August 2024	6.000	**11,063**	11,616
Newton Place Renovation	(2)	August 2024	6.000	**1,913**	2,008
Energy Management Program, Year 5	(1)	December 2025	3.885	**3,324**	3,500
Lister Residence II	(2)	November 2027	5.875	**17,088**	17,723
Windsor Car Park	(3)	September 2028	6.000	**5,655**	5,844
Saville Centre	(3)	December 2028	5.875	**3,718**	3,844
East Campus Village	(2)	March 2029	4.960	**7,603**	7,883
Centennial Centre for Interdisciplinary Science Phase I	(1)	September 2029	5.353	**8,229**	8,508
Centennial Centre for Interdisciplinary Science Phase I	(1)	June 2030	4.518	**-**	1,867
Health Research Innovation Facility	(1)	June 2032	5.191	**5,132**	5,269
Killam Centre	(1)	September 2036	4.810	**1,891**	1,931
Enterprise Square	(2)	September 2036	4.627	**38,857**	39,697
East Campus Village - Graduate Housing	(3)	September 2040	4.886	**24,423**	24,812
Jubilee Carpark	(3)	December 2047	4.814	**15,545**	15,704
				183,313	197,835
Liabilities under capital leases				**115**	165
Other long-term liabilities (includes asset retirements and liabilities for site restoration)				**13,210**	11,829
				196,638	209,829
Less current portion				**10,895**	12,659
				$ 185,743	$ 197,170

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

The principal portion of long-term debt repayments required over the next five years is as follows:
2013 - $10,895; 2014 - $11,465; 2015 - $10,820; 2016 - $10,115; 2017 - $10,155; and thereafter - $129,863.

Interest expense on long-term liabilities is $11,239 (2011 - $10,926) and is included in materials, supplies and services.

The University has recorded a liability for an asset retirement obligation of $4,630 (2011 - $3,230). The asset retirement obligation represents the legal obligation associated with the eventual decommissioning of a research reactor.

(thousands of dollars)

8. Deferred contributions

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

	2012		2011	
	Capital	**Research and other**	Capital	Research and other
Balance, beginning of the year	**$ 275,916**	**$ 502,671**	$ 437,617	$ 405,411
Grants and donations received	**34,397**	**494,582**	166,949	514,440
Recognized as revenue	**-**	**(422,115)**	-	(365,699)
Transferred to unamortized deferred capital contributions (note 9)	**(139,906)**	**(97,923)**	(328,650)	(51,481)
Balance, end of the year	**170,407**	**477,215**	275,916	502,671
Less amounts included in current liabilities	**-**	**387,215**	-	412,671
	$ 170,407	**$ 90,000**	$ 275,916	$ 90,000

9. 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. Changes in the unamortized deferred capital contributions balance are as follows:

	2012	2011
Balance, beginning of the year	**$ 1,964,182**	$ 1,662,878
Additions from deferred contributions, capital (note 8)	**139,906**	328,650
Additions from deferred contributions, research and other (note 8)	**97,923**	51,481
Long-term liabilities repayment	**4,015**	2,878
Amortization to revenue	**(104,540)**	(81,705)
Balance, end of the year	**$ 2,101,486**	$ 1,964,182

(thousands of dollars)

10. 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 by 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.

The composition of endowments is as follows:

	2012	2011
Balance, beginning of year	**$ 783,340**	$ 717,495
Endowment contributions	**26,622**	36,903
Transfers to endowments	**674**	175
Transfers from endowments	**(10,550)**	-
Investment income	**257**	28,767
Balance, end of year	**$ 800,343**	$ 783,340
Cumulative contributions	**$ 595,089**	$ 567,793
Cumulative capitalized income	**205,254**	215,547
	$ 800,343	$ 783,340

During the 2012 year, due to investment income shortfall, cumulative capitalized income of $10,550 was required to fund a portion of the approved endowment spending allocation. Per the terms of specific endowments, $257 was capitalized.

The Board of Governors approved the permanent endowment of certain unrestricted funds and transferred $674 (2011 - $175) from unrestricted net assets to endowments.

In 2012 the Government of Alberta's Access to the Future Fund matching program was suspended. In 2011 gifts of endowment principal include matching grants of $5,000.

(thousands of dollars)

11. Investment in capital assets and collections

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

	2012	2011
Capital assets and collections at net book value (note 5)	**$ 2,822,274**	$ 2,670,255
Less amounts financed by:		
Unamortized deferred capital contributions (note 9)	**(2,101,486)**	(1,964,182)
Long-term liabilities related to capital expenditures	**(183,815)**	(195,790)
Investment in capital assets and collections, end of year	**$ 536,973**	$ 510,283

	2012	2011
The changes during the year are as follows:		
Investment in capital assets and collections, beginning of year	**$ 510,283**	$ 466,896
Acquisition of capital assets and collections	**72,894**	90,668
Long-term liabilities repayment	**10,763**	8,124
Long-term liabilities new financing	**(2,800)**	(27,275)
Net book value of asset disposals	**(492)**	(1,712)
Amortization of investment in capital assets	**(54,341)**	(51,843)
Net change in investment in capital assets	**26,024**	17,962
Contributions of assets not subject to amortization	**666**	25,425
Increase for the year	**26,690**	43,387
Investment in capital assets and collections, end of year	**$ 536,973**	$ 510,283

(thousands of dollars)

12. Contingent liabilities

(a) The University is a defendant in a number of legal proceedings arising in the normal course of business. 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 recording an accrued liability under GAAP.

(b) 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.

13. Contractual obligations

(a) The University has contractual obligations which are commitments that will become liabilities in the future when the terms of the contracts or agreements are met.

	2012	2011
Significant service contracts	**$ 180,923**	$ 167,971
Capital projects	**267,272**	368,818
	$ 448,195	$ 536,789

Significant service contracts consist of the following:

- 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 $73.33 (2011 - $65.82) per megawatt hour. The six contracts (2011 - five contracts) with expenditures totaling $120,924 (2011 - $107,430) expire over the next six years.
- Effective November 1, 2010, the University entered into an agreement with an external party for dining and catering services. Dining services includes the preparation, sale and distribution of food and beverages. Catering services includes providing food and beverages for third parties or for the University. The agreement has four years remaining with an estimated cost of $35,800 (2011 - $50,000).
- Effective July 1, 2010, the University entered into agreements with two external parties for information technology support. The agreement for infrastructure management services has three years remaining with a cost of $7,735 (2011 - $10,123). The agreement for application management services has one year remaining with a cost of $2,431 (2011 - $4,585).
- Effective August 1, 2011, the University entered into an agreement with an external party for custodial services. The agreement has two years remaining with a cost of $14,000.

(b) 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, 2011 CURIE had a surplus of $48,586 (2010 - $43,288). 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 $44,984 (2010 - $39,738) of which the University's pro rata share is approximately 6.90% (2010 - 6.83%). This surplus is not recorded in the financial statements.

(c) The University has invested in a partnership agreement with iNovia Investment Fund II-B, Limited Partnership, which invests in the technology, energy, life sciences and applied sciences sectors. 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 3.25 million units. The remaining commitment of $1,750 (2011 - $2,500) is due at such times and in such amounts as the General Partner may determine.

(thousands of dollars)

14. Budget comparison

The University's 2011-12 budget was approved by the Board of Governors and was presented to the Minister of Advanced Education and Technology as part of the University's submission of its 2011-2012 Comprehensive Institutional Plan.

	Actual	Budget (unaudited)	Variance
Revenue			
Government	$ 947,986	$ 932,952	$ 15,034
Student tuition and fees	269,355	246,917	22,438
Sales of services and products	200,875	214,394	(13,519)
Grants, donations and investment income	166,610	160,102	6,508
Amortization of deferred capital contributions	104,540	104,925	(385)
	1,689,366	1,659,290	30,076
Expense			
Salaries	838,600	807,061	31,539
Employee benefits	167,322	163,682	3,640
Materials, supplies, services and other expenses	520,489	531,800	(11,311)
Amortization of capital assets	158,881	158,123	758
	1,685,292	1,660,666	24,626
Excess (deficiency) of revenue over expense	$ 4,074	$ (1,376)	$ 5,450

15. Investment income

	2012	2011
Income on investments held for endowment	**$ 23,068**	$ 66,776
Income on other investments	**15,703**	16,817
Asset-backed commercial paper recovery	**4,901**	9,004
	43,672	92,597
Amounts deferred	**(1,348)**	(7,355)
Endowment income capitalized (note 10)	**(257)**	(28,767)
	$ 42,067	$ 56,475

(thousands of dollars)

16. Related party transactions and balances

The University operates under the authority and statutes of the Province of Alberta. Transactions and balances between the University and the Government of Alberta (GOA) are measured at the exchange amount and are as follows:

	2012	2011
Grants from GOA:		
Advanced Education and Technology:		
Operating Campus Alberta grant	**$ 565,647**	$ 565,647
Capital	**55,948**	174,439
Research:		
Alberta Innovates Bio Solutions	**3,703**	5,697
Alberta Innovates Health Solutions	**32,882**	30,974
Alberta Innovates Technology Futures	**20,099**	27,493
Other research	**31,198**	26,210
Total research	**87,882**	90,374
Other	**28,555**	46,879
Total Advanced Education and Technology	**738,032**	877,339
Other GOA departments and agencies:		
Alberta Education	**3,709**	6,074
Alberta Environment	**1,000**	10,377
Alberta Health and Wellness	**69,392**	66,138
Alberta Health Services	**10,848**	16,689
Other	**18,483**	15,403
Total other GOA departments and agencies	**103,432**	114,681
Total contributions received	**841,464**	992,020
Less deferred contributions	**(77,864)**	(247,560)
	$ 763,600	$ 744,460
Accounts receivable:		
Advanced Education and Technology	**$ 9,176**	$ 9,530
Other GOA departments and agencies	**9,784**	4,204
	$ 18,960	$ 13,734
Accounts payable:		
Advanced Education and Technology	**$ 1,162**	$ 1,021
Other GOA departments and agencies	**21,055**	1,061
	$ 22,217	$ 2,082

The GOA's Access to the Future Fund has provided nil (2011 - $5,000) in matching grant funds, which is included in endowments.

The University has long-term liabilities with Alberta Capital Finance Authority as disclosed in note 7.

(thousands of dollars)

17. Salary and employee benefits

Treasury Board Directive 12-98 under the *Financial Administration Act* of the Province of Alberta requires the disclosure of certain salary and employee benefits information.

	2012				
	Base salary [3]	**Non-cash benefits [4]**	**Non-cash benefits (SRP) [5]**	**Non-cash benefits (leave) [6]**	**Total**
Governance [1]					
Chair of the Board of Governors	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Members of the Board of Governors	**-**	**-**	**-**	**-**	**-**
Executive					
President	**512**	**59**	**373**	**132**	**1,076**
Provost and Vice-President Academic	**499**	**37**	**167**	**-**	**703**
Vice-President Research	**461**	**98**	**110**	**122**	**791**
Vice-President Facilities and Operations	**443**	**43**	**123**	**140**	**749**
Vice-President Finance and Administration	**450**	**31**	**118**	**148**	**747**
Vice-President University Relations	**355**	**41**	**72**	**-**	**468**
Chief Advancement Officer [2]	**309**	**40**	**36**	**-**	**385**

	Restated [7] 2011				
	Base salary [3]	Non-cash benefits [4]	Non-cash benefits (SRP) [5]	Non-cash benefits (leave) [6]	Total
Governance [1]					
Chair of the Board of Governors	$ -	$ -	$ -	$ -	$ -
Members of the Board of Governors	-	-	-	-	-
Executive					
President	481	60	341	127	1,009
Provost and Vice-President Academic	462	36	149	-	647
Vice-President Research	432	84	96	113	725
Vice-President Facilities and Operations	415	42	111	133	701
Vice-President Finance and Administration	415	29	107	138	689
Vice-President University Relations	314	37	47	-	398
Chief Advancement Officer [2]	183	61	18	-	262

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

(2) This position was established effective August 15, 2010.

(3) Base salary includes pensionable base pay and an administrative honorarium for the Provost and Vice-President Academic. The 2012 totals for certain senior executives include reductions for the optional personal leave program (days off without pay). The 2011 totals also include reductions for the optional personal leave program and the mandatory furlough program which was in effect for that year.

(4) 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 and family assistance program, critical illness, supplementary health care, short and long-term disability plans and dental plan. Benefits for some of the senior executives also include car allowance, parking, supplemental life insurance, forgivable housing loans and housing allowances. Additional non-cash benefits for the President include expenses related to the personal use portion of the residence which the President rents from the University.

(5) Under the terms of the SRP, senior executives may receive supplementary retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expenses for the rights to future compensation. Costs shown reflect the total estimated cost to provide supplementary retirement benefits. The SRP provides future 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 service, a market interest rate, and other assumptions included in the Canadian Institute of Actuaries' lump-sum commuted value standard. Net actuarial gains and losses of the benefit obligations are amortized over the remaining terms of the participants' contracts. Current service cost is the actuarial present value of the benefits earned in the current year.

(thousands of dollars)

The current service cost and accrued obligation for each executive under the SRP is as follows:

	Years of eligible University of Alberta service	Accrued obligation March 31, 2011	**2012** Service costs	**2012** Interest and other costs [5a]	**2012** Actuarial loss	**2012** Accrued obligation [5b] March 31, 2012
President	6.8	$ 1,315	**$ 229**	**$ 144**	**$ 138**	**$ 1,826**
Provost and Vice-President Academic	8.8	858	**111**	**56**	**130**	**1,155**
Vice-President Research	4.8	324	**86**	**24**	**37**	**471**
Vice-President Facilities and Operations	7.8	571	**85**	**38**	**72**	**766**
Vice-President Finance and Administration	7.8	551	**82**	**36**	**65**	**734**
Vice-President University Relations	1.7	49	**66**	**6**	**17**	**138**
Chief Advancement Officer	1.6	19	**33**	**3**	**16**	**71**

[5a] Includes $54 amortization of past service costs for the President.

[5b] The accrued obligation is based on University of Alberta years of eligible service and other factors such as age, salary and actuarial assumptions.

The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in note 6.

[6] The University provides certain senior executives with a paid leave of absence (leave) at the end of their administrative appointment, and these leaves are recorded in the financial statements (refer to table below). For other senior executives, the leave program is contained in the relevant collective bargaining agreement and must be applied for; therefore an amount is not recorded in the financial statements.

Leave costs as detailed below are not cash payments in the period but are period expenses for the rights to future compensation. Costs shown reflect the total estimated cost to provide leave benefits. The cost of these benefits is actuarially determined using the projected benefit method pro rated on service, a market interest rate, and other assumptions included in the Canadian Institute of Actuaries' lump-sum commuted value standard. Net actuarial gains and losses of the benefit obligations are amortized over the remaining terms of the participants' contracts. Current service cost is the actuarial present value of the benefits earned in the current year.

The current service cost and accrued obligation for each participating senior executive's leave is as follows:

	Years of eligible University of Alberta service	Accrued obligation March 31, 2011	**2012** Service costs	**2012** Interest and other costs	**2012** Accrued obligation [6a] March 31, 2012
President	6.8	$ 554	**$ 96**	**$ 36**	**$ 686**
Vice-President Research	4.8	352	**94**	**28**	**474**
Vice-President Facilities and Operations	9.2	729	**88**	**52**	**869**
Vice-President Finance and Administration	9.9	798	**89**	**59**	**946**

[6a] The accrued obligation is based on University of Alberta years of eligible service and other factors such as age, salary and actuarial assumptions.

The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in note 6.

[7] Comparative figures have been restated. In 2012, the University undertook an actuarial valuation of the President's administrative leave, resulting in an adjustment of $4 to the 2011 amount. Also in 2012, the contracts for the Vice-President Research (VPR), the Vice-President Facilities and Operations (VPF&O) and the Vice-President Finance and Administration (VPF&A) were revised to reflect a change in how leaves are earned under these agreements. Previously, approval was required for a six month leave at year three and five of the contract. Now, leave is earned as service is provided, resulting in equal proration of leave costs over each year of their five year contracts. An actuarial valuation was also undertaken on these leave programs. The restatement for VPR and the VPF&O is $113, and the restatement for the VPF&A is $118.

(thousands of dollars)

18. Canada - Alberta Knowledge Infrastructure Program

The Canada - Alberta Knowledge Infrastructure Program (KIP) was established to provide funding in support of capital projects at post secondary institutions in order to offset the impact of the global economic recession by providing employment opportunities. Eligible KIP projects can receive up to 50% of their funding from Government of Canada contributions through direct payments made by the GOA. The remaining portion of funding for KIP projects is made up of internal resources, GOA contributions and research grants. The KIP program supports eligible costs incurred from February 24, 2009 to October 31, 2011. Amounts received from the GOA representing Government of Canada contributions and eligible costs incurred on KIP projects are as follows:

	2012	2011	2010	Total
Contributions	**$ -**	$ 31,061	$ 31,061	$ 62,122
Eligible costs	**21,570**	90,435	29,737	141,742

The remaining minimum contractual obligation to complete the projects at March 31, 2012 is nil.

19. Comparative figures

Certain 2011 figures have been reclassified to conform to the presentation adopted in the 2012 financial statements.