



UNIVERSITY
OF ALBERTA

Consolidated Financial Statements

Discussion & Analysis

For the year ended March 31, 2024



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The consolidated financial statement discussion and analysis should be read in conjunction with the University of Alberta audited financial statements. The University's financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards.

For more in-depth discussion and analysis of the University's goals and objectives please refer to the following documents: *Shape*, Investment Reports, and Annual Report:

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

<https://www.ualberta.ca/strategic-plan>

Summary of Financial Results

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

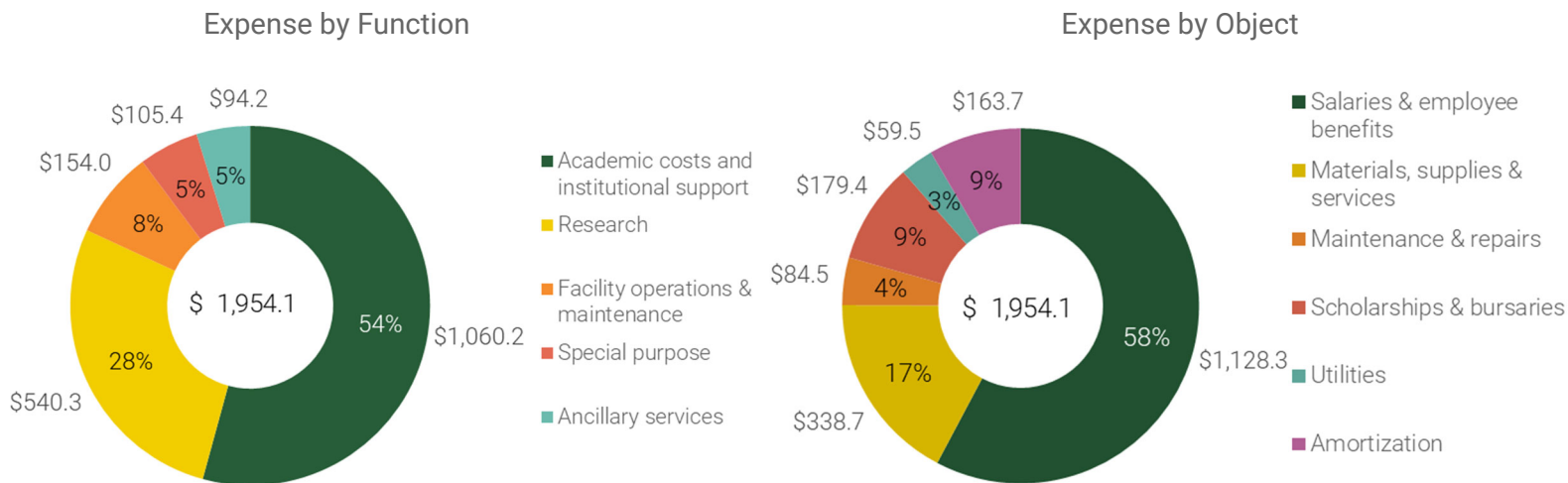
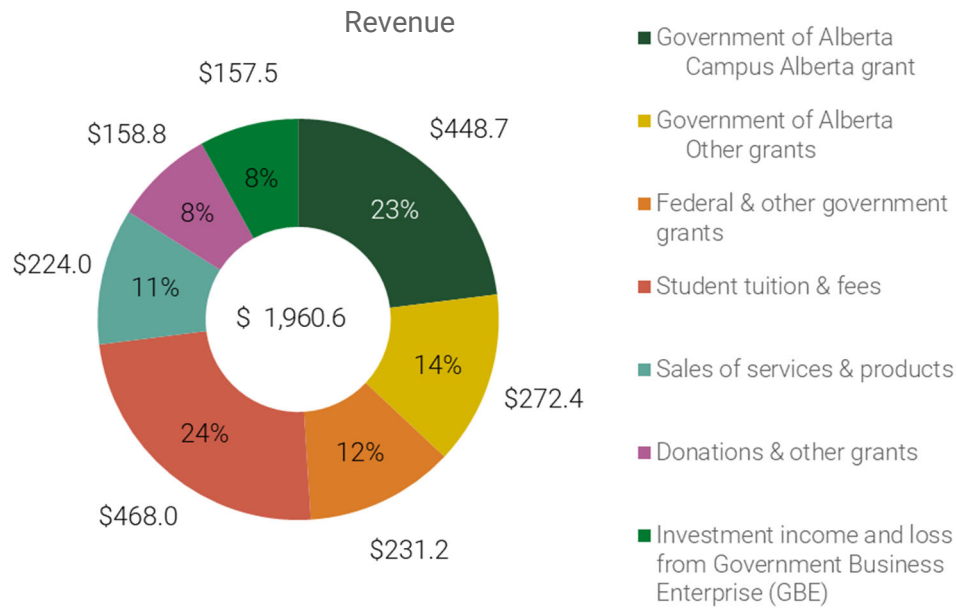
- Summary of Financial Results
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The University of Alberta ended the year with an annual consolidated surplus of \$34.4 million. Of this amount, \$27.9 million are donations directed to endowments and endowment capitalized investment income and therefore are not available for spending. The annual operating surplus was \$6.5 million, which is 0.3% of total revenue (budgeted annual operating deficit: \$38.8 million; 2.0% of total expenses). The increase of \$45.3 million from the annual operating surplus compared to the budgeted operating deficit is mainly due to higher than budgeted investment income (\$42.4 million).

The decrease of \$28.4 million from the prior year annual operating surplus of \$34.9 million was primarily due to an increase in operating salaries (\$42.0 million), mainly due to academic and support staff across-the-board increases from agreements ratified in 2022, increased research activity, and the continued establishment of partner networks as part of the ongoing transition to the University of Alberta for Tomorrow (UAT) operating module. Additionally, there was an increase in materials, supplies and services (\$20.5 million) due to spending on approved carryforward initiatives. These increased expenses were offset by an increase in Government of Alberta Targeted Enrolment Expansion grants (\$11.2 million), an increase in investment income earned (\$10.5 million), and a prior year loss on the sale of the Soaring Estates land (\$9.5 million).

Net assets of \$2,723.7 million increased from the prior year (2023: \$2,594.2 million). The increase of \$129.5 million is due to an increase in the fair value of portfolio investments of \$95.1 million along with the annual surplus of \$34.4 million.

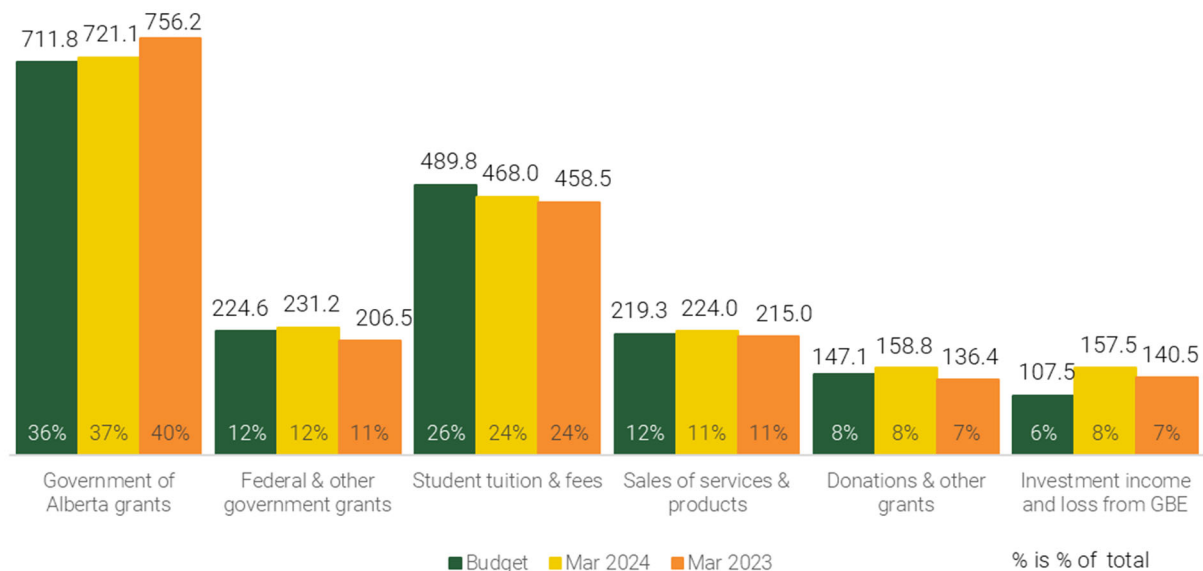
The following figures provide an overview of the University revenue, expense by function, and expense by object.



Revenue

Total revenue for the year was \$1,960.6 million, an increase of \$47.5 million (2.5%) over the prior year and \$60.5 million (3.2%) more than budget. Figure 1 provides a breakdown of the University's revenue.

Figure 1. University of Alberta Revenue



Government of Alberta Grants

Government of Alberta (GoA) grants represent the single largest source of funding for University activities at 37% of total revenue. GoA grant revenue of \$721.1 million was \$35.1 million lower than prior year mainly due to prior year COVID-19 countermeasures research grant (\$50.1) offset by an increase in targeted enrolment expansion grant (\$11.9 million). GoA grant revenue was \$9.3 million higher than budget mainly due to additional targeted enrolment expansion grants.

Federal and Other Government Grants

Federal and other government grants primarily support the University's research activities. Federal and other government grants revenue of \$231.2 million was \$24.7 million higher than prior year and \$6.6 million higher than budget. The increase over prior year and budget is not attributable to one individual item. The increase is mainly in restricted research due to overall increase in research expenses (grants received recognized to match spending).

Student Tuition and Fees

Student tuition and fees includes instructional fees, market modifiers, program differential fees, international student fees, and mandatory non-instructional fees. Student tuition and other fees revenue of \$468.0 million was \$9.5 million higher than prior year but \$21.8 million lower than budget. The increase over prior year was mainly due to increases in domestic and international tuition (5.5% domestic and international (admitted prior to fall 2020); 6.0% international guaranteed), offset by an increase in April teaching days deferral due to the

timing of the Easter holiday. The decrease compared to budget is mainly due to lower than planned international student enrolment due to visa processing delays and geopolitical relations.

Sales of Services and Products

Sales of services and products to individuals and external organizations are generated by ancillary services, faculties, and administrative units to support University activities. Sales of services and products revenue of \$224.0 million was \$9.0 million more than prior year mainly due to higher ancillary revenues for residences and retail services, and various on-campus activities. Sales of services and products revenue was comparable to budget.

Donations and Other Grants

Donations and other grants support many University activities. Donations and other grants revenue of \$158.8 million was \$22.4 million higher than prior year and \$11.7 million higher than budget. The increase over prior year and when compared to budget is mainly due to higher donations received for restricted research projects.

Investment Income, loss from Government Business Enterprises (GBE)

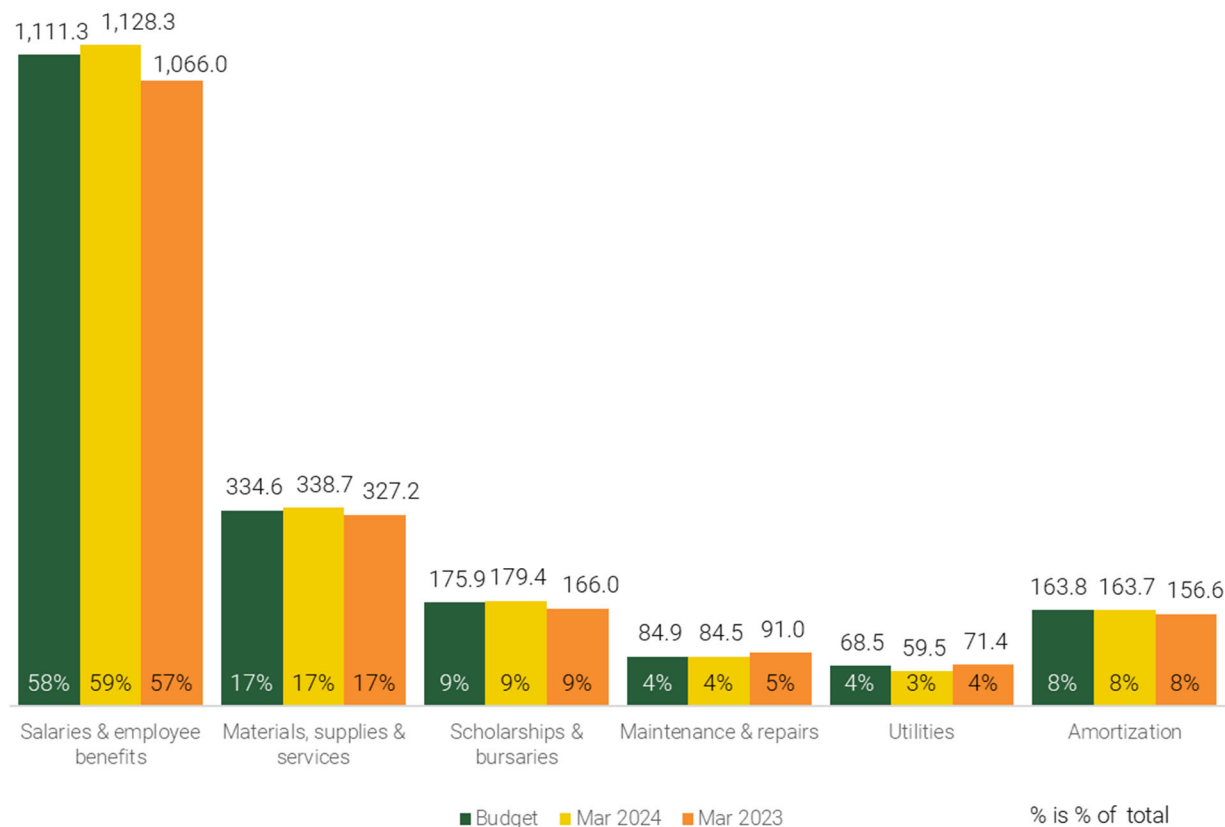
Investment income supports many University activities, both operating activities and a reserve for strategic and other initiatives. Investment income revenue, including the loss from GBE (University of Alberta Properties Trust Inc.), of \$157.5 million was \$17.0 million higher than prior year and \$50.0 million higher than budget. The increase over prior year was mainly due to higher realized income in the liquidity and yield strategies. The increase over budget was mainly due to higher return-seeking and yield strategies. Investments fall into two categories, the University Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP). The UEP had a return of 8.6% (2023: 6.5%) and represents the majority of the University's long-term investment strategy. The NEIP investments, which are allocated to short-term, mid-term and long-term investment strategies, had a return of 6.3% (2023: 2.8%). The return rates reflect both realized and unrealized gains in the investment portfolios. The University's wholly owned GBE, University of Alberta Properties Trust Inc., recorded a loss of \$0.6 million.

Expense

Total expense for the year was \$1,954.1 million, an increase of \$75.9 million (4.0%) more than prior year and \$15.1 million (0.8%) more than budget. Salaries and employee benefits are the single largest expense representing 59% of total expense. Overall, the increase in expenses can be attributed to an increase in salaries due to a combination of new hires and across-the-board increases, and an increase in materials and supplies as the University had approval to spend carryforward surplus on approved initiatives. Figure 2 provides a breakdown of the University's expense by object.

Expense by Object

Figure 2. University of Alberta Expense



Salaries and Employee Benefits

Salaries and employee benefits of \$1,128.3 million was \$62.3 million more than prior year mainly due to increased administrative professional officer hires, and academic and support staff across-the-board increases from agreements ratified in 2022. The increase is also attributable to higher employee future benefit expenses, mainly long-term disability and defined contribution supplementary retirement plans. Salaries and employee benefits expense was \$17.0 million higher than budget mainly due to increased research activity, and the continued establishment of partner networks as part of the ongoing transition to the UAT operating module.

Materials, Supplies and Services

Materials, supplies and services include loss on disposal of tangible capital assets. Materials, supplies and services expenses of \$338.7 million was \$11.5 million more than prior mainly due to approved spending on carryforward initiatives, offset by prior year losses from the sale of the Soaring Estate land. Materials, supplies and services expense was comparable to budget.

Scholarships and Bursaries

Scholarships and bursaries of \$179.4 million was \$13.4 million more than prior year due to an increase in undergraduate and graduate awards funded from operations, endowments and restricted grants. Scholarships to students continue to see increases due to the commitment made to students as part of overall tuition increases. This aligns with the University's goal to attract and support undergraduate and graduate students. Scholarships and bursaries expense was comparable to budget.

Maintenance and Repairs

Maintenance and repairs of \$84.5 million was \$6.5 million less than prior year mainly due to prior year renovations on several buildings (Health Sciences Library, Central Academic Building, Enterprise Square). This decrease was offset by new projects, including First Peoples' House (former Coutts Library location in the Education Building) and accessibility initiatives. Maintenance and repairs expense was comparable to budget.

Utilities

Utilities of \$59.5 million was \$11.9 million lower than prior year and \$9.0 million lower than budget. The decrease over prior year and budget was due to lower natural gas and electricity rates.

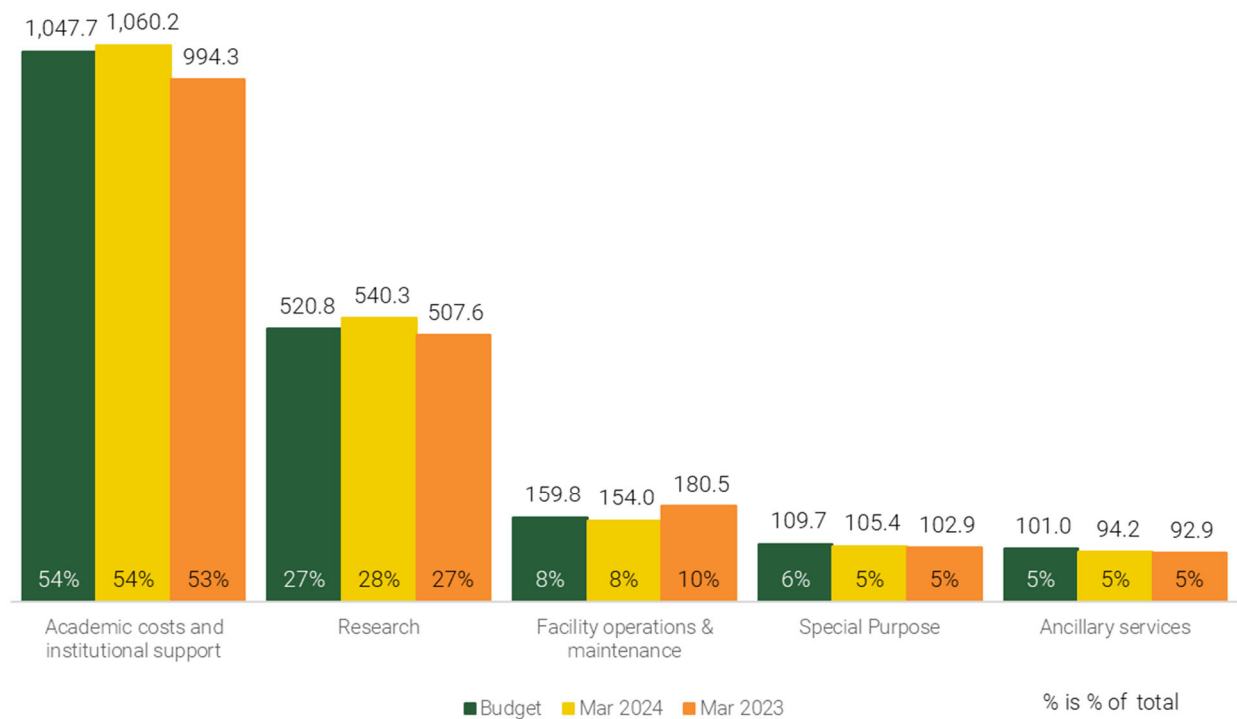
Amortization

Amortization of \$163.7 million was \$7.1 million more than prior year mainly due to the amortization of the Lister Centre Renewal and the amortization of various equipment and furnishings. Amortization expense was comparable to budget.

Expense by Function

Figure 3 provides a breakdown of the University’s expense by function.

Figure 3. University of Alberta Expense by Function



Academic Costs and Institutional Support

Academic costs and institutional support expenses effectively represent the operating activities of the University. A significant component of this category is salary and employee benefit costs. Expenses for this category of \$1,060.2 million were \$65.9 million more than prior year mainly due the increase in salaries and benefits, as well as materials, supplies and services relating to faculty specific carryforward initiatives. Academic costs and institutional support expense was comparable to budget.

Research

Research expenses are funded by restricted grants and donations along with internal funds designated for research related activities. Research expenses of \$540.3 million were \$32.7 million more than prior year and \$19.5 million more than budget. The increase from prior year and over budget is mainly due to increased restricted research activity; there is no one individually significant project of note.

Facility Operations and Maintenance

Facility operations and maintenance represent the cost of maintaining University facilities and grounds. Facility operations and maintenance expense of \$154.0 million was \$26.5 million less than prior year due to lower utility costs and less maintenance work on buildings. Facility operations and maintenance expense was \$5.8 million lower than budget due to lower utility costs.

Special Purpose

Special purpose expenses are for student awards and bursaries and other programs involving teaching and learning, and community service specifically funded by restricted grants and donations. Special purpose expense of \$105.4 million was \$2.5 million more than prior year and \$4.3 million less than budget.

Ancillary Services

Ancillary services include the University bookstore, parking services, utilities and student residences. Ancillary services expense of \$94.2 million was \$1.3 million more than prior year. Ancillary services expense was \$6.8 million less than budget mainly under the utilities ancillary as a result of lower cost of goods sold for electricity and natural gas.

Capital Acquisitions

The University expended \$200.5 million (2023: \$148.6) on construction and other tangible capital assets and intangible acquisitions.

The most significant construction and capital asset acquisitions in 2024 continue to be:

- University Commons Renewal and Repurpose (formerly Dentistry and Pharmacy) - a multi-year project to renovate the building.
- District Energy System - a multi-year project to upgrade the capacity of the distinct energy system to service the needs of the greater campus area.

The University also sold the following asset during the course of the year:

- Sturgeon land – a donation of land to the University which the University proceeded to sell and the net sale proceeds are to fund Alzheimer's disease research initiatives.

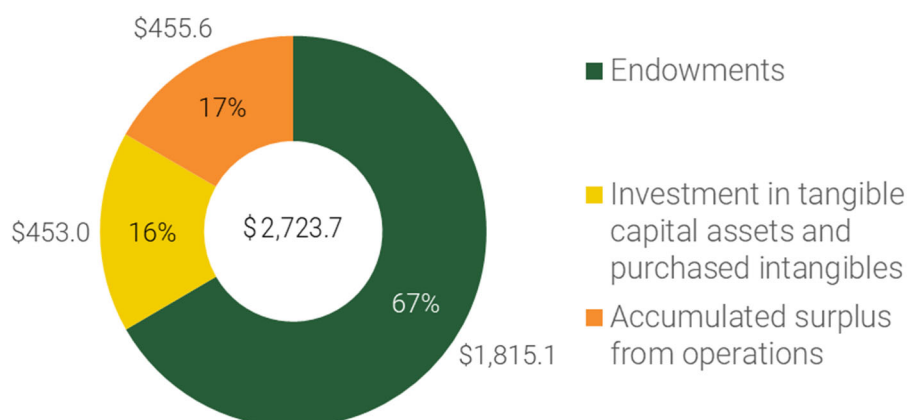
Net Assets and Net Financial Assets / Net Debt

Net Assets

The net asset balance is an important indicator of financial health for the University. The net assets measure provides the economic position of the University from all years of operations. The University's net assets include endowments of \$1,815.1 million. Endowments represent contributions from donors that are required to be maintained in perpetuity, as well as capitalized investment income that is also required to be maintained in perpetuity to protect the future economic value of the endowment. Endowments are not available for spending. Of the remaining \$908.6 million in net assets, \$453.0 million represents funds invested in tangible capital assets and purchased intangibles.

Figure 4 and Table 1 provide a breakdown of the University's net assets.

Figure 4. University of Alberta Net Assets



	Unrestricted	Internally Restricted	Investment in Tangible Capital Assets and Purchased Intangibles	Endowments	Total
Net Assets, Beginning of Year	\$287.8	\$118.1	\$460.2	\$1,728.1	\$2,594.2
Annual Operating Surplus	6.5	-	-	-	6.5
Transfer to Internally Restricted	(39.0)	39.0	-	-	-
Transfer from Internally Restricted	24.9	(24.9)	-	-	-
Endowments Contributions and Capitalized Income	-	-	-	27.9	27.9
Transfer to Endowment	(0.9)	-	-	0.9	-
Tangible Capital Assets and purchased intangibles	7.2	-	(7.2)	-	-
Change in Accumulated Remeasurement Gains	36.9	-	-	58.2	95.1
Increase (Decrease)	35.6	14.1	(7.2)	87.0	129.5
Net Assets, End of Year	\$323.4	\$132.2	\$453.0	\$1,815.1	\$2,723.7

The increase in unrestricted net assets is mainly due to the annual operating surplus (\$6.5 million), current year remeasurement gain on investments (\$36.9 million), and funding for tangible capital assets (\$7.2 million), partially offset by net transfers to the internally restricted reserve (\$14.1 million) and a transfer capitalized to endowment principal (\$0.9 million).

The University has an internally restricted reserve of \$132.2 million; the current year transfer is \$39.0 million. Of this amount, \$77.0 million is an investment income reserve while an additional \$40.0 million has been appropriated to a Strategic Initiatives Fund, on top of the \$15.2 million balance from last year for a total of \$55.2 million, in support of various strategic initiatives in accordance with University Funds Investment Policy. During the fiscal year, the University transferred \$24.9 million from the Strategic Initiatives Fund for various board-approved one-time projects.

As per the University Funds Investment Policy, all realized Non-Endowed Investment Pool earnings not required for current budget purposes will be reinvested to build an investment income reserve. In the current year, this amounts to \$39.0 million.

As at March 31, 2024, the market value of the Non-Endowed Investment Pool's yield and return-seeking investments exceed their underlying obligations (cost) by \$328 million or 35.2%. Of this amount, \$132.2 million in realized gains have been set aside in internally restricted reserves. The purpose of the investment income reserve is to create a buffer for risk management purposes; that is, to ensure that all future financial obligations can be fulfilled in the event of unplanned liquidity requirements and significant investment losses occurring concurrently. The policy target is for the market value of these investment strategies to exceed the underlying obligations (investment cost) by 17%, currently \$158 million, which allows for fluctuations in capital and equity markets to the degree experienced during the financial crisis in 2008-09. Since the policy target is currently being met, appropriations to a Strategic Initiatives Fund to support long-term institutional goals can be made. Details of the allocations can be seen in Table 2.

	2024	2023
Investment Income Reserve	\$77.0	\$78.0
Strategic Initiatives	55.2	40.1
Total Reserves, End of Year	\$132.2	\$118.1

The decrease in investment in tangible capital assets and purchased intangibles of \$7.2 million consists of amortization (\$73.0 million), financing allocation (\$8.7 million), and the change in asset retirement obligations (\$5.8 million), offset by additions (\$65.0 million) and debt repayments (\$15.3 million). The additions include construction projects, equipment, furnishings, computer hardware/software, and library resources.

The University's endowment spending policy provides for an annual spending allocation of \$61.8 million (2023: \$59.6 million) to support a variety of key initiatives in the areas of academic programs, chairs and professorships, scholarships, bursaries and research. The increase in endowments of \$87.0 million is due to an increase in fair value (\$58.2), new contributions and capitalized investment income (\$27.9 million), and a board-approved transfer of miscellaneous revenue from unrestricted net assets (\$0.9 million).

During the year the University's investment income earned from endowment investments was \$89.0 million (2023: \$98.7 million). This was sufficient to fund the annual spending allocation of \$61.8 million (2023: \$59.6 million) along with the investment management and administration fees of \$21.1 million (2023: \$19.5 million). This left \$6.1 million (2023: \$19.6) that was capitalized to endowment net assets as it was not required to meet the University's spending allocation obligations.

Net Debt

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

The net debt position (excluding portfolio investments restricted for endowments) indicates that the University has a \$34.4 million deficiency (2023: \$81.6 million deficiency). The deficiency can be attributed to tangible capital assets acquired by debt financing of \$304.8 million (2023: \$311.5 million), asset retirement obligations of \$170.2 million (2023: \$164.4 million), and the incurrence of prepaid expenses of \$15.1 million (2023: \$11.6 million), offset by the accumulated operating surplus of \$455.7 million (2023: \$405.9 million). Net debt has decreased mainly due to increased unrealized gains on investments not restricted for endowments and the current year annual operating surplus.

Areas of Significant Financial Risk

Fiscal Uncertainty

The provincial Operating and Program Support Grant is the primary source of funding for the University's day-to-day operating activities. The final planned cut to the Operating and Program Support Grant occurred in the prior year and was approximately \$52 million. Government support was held flat this fiscal year. Grants, tuition and other revenue-generating initiatives are largely under government control, which puts significant pressure on University finances. The impact to University revenue of a 1% change to the Operating and Program Support base operating grant is \$4.5 million and a 1% change to domestic tuition is \$2.4 million.

Unfunded Pension Liability

The University, along with other Alberta post-secondary institutions, participates in the Universities Academic Pension Plan (UAPP) to provide pensions for the University's participating employees. The unfunded deficiency in the UAPP is currently being funded by a combination of employee and employer contributions and the Government of Alberta. The deficiency is required to be eliminated by 2043. As at March 31, 2024, based on actuarial assumptions, the University has recorded a UAPP employee future benefit liability of approximately \$86.4 million.

The impact to the University's share of the unfunded liability of a 1% increase in the inflation rate assumption would be an increase of approximately \$54 million, a 1% increase in the salary escalation assumption would be an increase of approximately \$16 million, while a decrease of 1% in the discount rate assumption would lead to an increase of approximately \$125 million.

Deferred Maintenance

As the largest and oldest post-secondary institution in the province, the University's deferred maintenance obligations continue to increase. As of March 2024, the estimated liability stood at \$360.8 million and is estimated to increase to approximately \$1.095 billion by 2029. Of the \$360.8 million estimated liability, \$170.2 million is recorded in the University's financial statements as a result of the Asset Retirement Obligation standard. In fiscal 2024, the government provided a Capital Maintenance and Renewal (CMR) grant (\$37 million), which is a main source of funding in addressing the deferred maintenance liability. For fiscal 2025, the government signed a 3-year CMR grant totaling \$70 million.

The University continues to identify and address priority deferred maintenance issues through joint renewal and repurposing projects to maintain the functionality of our building inventory. This is also being done in the context of achieving our Facility and Space Optimization objectives, which are underpinned by the Integrated Asset Management Strategy.