



The following Motions and Documents were considered by the Board of Governors during the Open Session of its Monday, May 25, 2020 meeting:

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Agenda Title: **Management's Annual Audited Financial Statements (Draft) and review Financial Statement Discussion and Analysis (Draft)**

APPROVED MOTION: THAT the Board of Governors, on the recommendation of the Board Audit and Risk Committee, approve the Audited Consolidated Financial Statements for the year ended March 31, 2020, as set forth in Attachment 1.

Final Item: 4a

Item No. 4a

**Governance Executive Summary**  
**Action Item**

<b>Agenda Title</b>	<b>Management's Annual Audited Financial Statements (Draft) and review Financial Statement Discussion and Analysis (Draft)</b>
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**Motion**

<p>THAT the Board of Governors, on the recommendation of the Board Audit and Risk Committee, approve the Audited Consolidated Financial Statements for the year ended March 31, 2020, as set forth in Attachment 1.</p>
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**Item**

Action Requested	<input checked="" type="checkbox"/> Approval <input type="checkbox"/> Recommendation
Proposed by	Vice-President (Finance and Administration)
Presenter(s)	Gitta Kulczycki, Vice-President (Finance and Administration)

**Details**

Responsibility	Finance and Administration
The Purpose of the Proposal is <i>(please be specific)</i>	To approve the audited Consolidated Financial Statements as required by the <i>Post-Secondary Learning Act</i> .
Executive Summary <i>(outline the specific item – and remember your audience)</i>	<p>Draft Financial Statements and Financial Statement Discussion and Analysis are provided for review.</p> <p>The university ended the year with an annual deficit of \$14.7 million. Of this amount, \$25.6 million are donations directed to endowments and endowment capitalized investment income and therefore are not available for spending. The annual operating deficit was \$40.2 million; 2.2% of total revenue (budget annual operating surplus: \$37.7 million; 1.9% of total revenue). This decrease from the prior year annual operating surplus of \$123.3 million was primarily due to a decrease in the Campus Alberta operating grant, lower investment income from the realization of capital losses, and higher pension expense caused by higher plan expenses (current services costs and interest expense).</p> <p>Net assets of \$1,982.8 million decreased from the prior year (2019: \$2,179.5). The decrease is mainly due to a decrease in the fair value of endowments.</p> <p>The university's investment income earned from endowment investments was not sufficient to fund the current year's endowment spending allocation. Investment income earned was \$13.8 million leaving an unfunded allocation of \$58.0 million. Of this amount, \$30.5 million was spent by endowment holders. As such, the university has recorded a temporary encroachment on its endowment net assets of \$30.5 million as at March 31, 2020.</p>
Supplementary Notes / context	

**Engagement and Routing** (Include meeting dates)

<p>Consultation and Stakeholder Participation (parties who have seen the</p>	<p><u><i>Those who are actively participating:</i></u></p> <ul style="list-style-type: none"> <li>• Gitta Kulczycki, Vice-President (Finance and Administration)</li> <li>• Martin Coutts, Associate Vice-President, Finance and Supply Management Services</li> </ul>
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Item No. 4a

proposal and in what capacity)	<u><i>Those who have been consulted:</i></u>
	<ul style="list-style-type: none"> <li>N/A</li> </ul>
	<u><i>Those who have been informed:</i></u>
	<ul style="list-style-type: none"> <li>Board Audit and Risk Committee, May 25, 2020 (recommendation)</li> </ul>
Approval Route (Governance) (including meeting dates)	Board Audit and Risk Committee, May 25, 2020 (recommendation) Board of Governors, May 25, 2020 (final approver)

**Strategic Alignment**

Alignment with <i>For the Public Good</i>	<i>For the Public Good (Sustain):</i> Sustain our people, our work, and the environment by attracting and stewarding the resources we need to deliver excellence to the benefit of all Albertans. OBJECTIVE 22: Secure and steward financial resources to sustain, enhance, promote, and facilitate the university's core mission and strategic goals. iii. Strategy: Ensure responsible and accountable stewardship of the university's resources and demonstrate to government, donors, alumni, and community members the efficient and careful use of public and donor funds.	
Alignment with Institutional Risk Indicator	Please note below the specific institutional risk(s) this proposal is addressing.	
	<input type="checkbox"/> Enrolment Management <input type="checkbox"/> Faculty and Staff <input checked="" type="checkbox"/> Funding and Resource Management <input type="checkbox"/> IT Services, Software and Hardware <input type="checkbox"/> Leadership and Change <input type="checkbox"/> Physical Infrastructure	<input type="checkbox"/> Relationship with Stakeholders <input type="checkbox"/> Reputation <input type="checkbox"/> Research Enterprise <input type="checkbox"/> Safety <input type="checkbox"/> Student Success
Legislative Compliance and jurisdiction	<i>Post- Secondary Learning Act</i> , sections 70,71 and 79 Audit and Risk Committee Terms of Reference, sections 2(a); 3(a)	

Attachments:

- Financial Statement Discussion and Analysis (Draft) (pages 1 – 7 (as numbered))  
Consolidated Financial Statements (Draft) (pages 8 – 36 (as numbered))
  - Statement of Management Responsibility
  - Independent Auditor's Report
  - Consolidated Statement of Financial Position
  - Consolidated Statement of Operations
  - Consolidated Statement of Change in Net Financial Assets
  - Consolidated Statement of Remeasurement Gains and Losses
  - Consolidated Statement of Cash Flows
  - Notes to the Consolidated Financial Statements

Prepared by: Martin Coutts, Associate Vice-President, Finance and Supply Management Services  
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University Chief Accountant and Associate Director, Financial Reporting & Accounting  
([brian.boytang@ualberta.ca](mailto:brian.boytang@ualberta.ca))



**DRAFT**

# **Consolidated Financial Statements**

**For the Year Ended  
March 31, 2020**

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### FINANCIAL SERVICES

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# CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2020

(in millions of dollars)

The consolidated financial statement discussion and analysis should be read in conjunction with the University of Alberta audited financial statements. The university's financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards. For more in-depth discussion and analysis of the university's goals and objectives please refer to the following documents:

For the Public Good, Comprehensive Institutional Plan, Investment Reports.

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

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

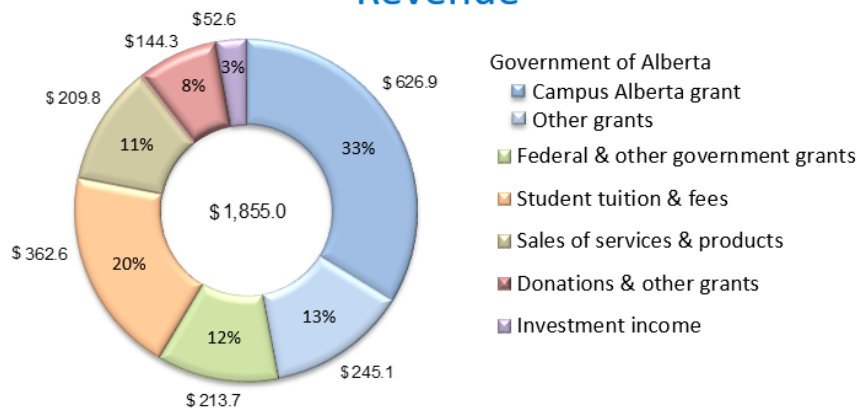
- Summary of Financial Results
- Revenue and Expense
- Capital Acquisitions
- Net Assets and Net Debt
- Areas of Significant Financial Risk

## Summary of Financial Results

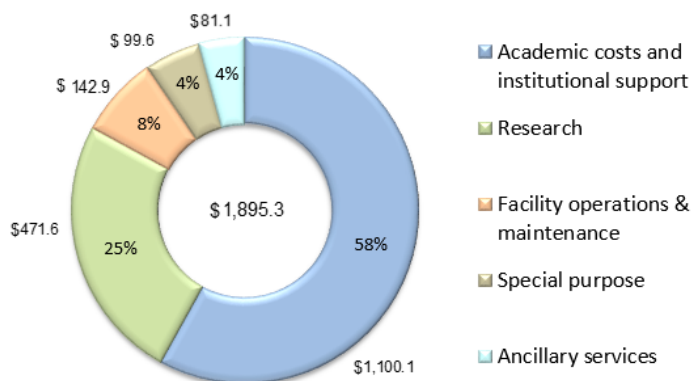
The university ended the year with an annual deficit of \$14.7 million. Of this amount \$25.6 million are donations directed to endowments and endowment capitalized investment income and therefore are not available for spending. The annual operating deficit was \$40.2 million; 2.2% of total revenue (budget annual operating surplus: \$37.7; 1.9% of total revenue). This decrease from the prior year annual operating surplus of \$123.3 was primarily due to a decrease in the Campus Alberta operating grant, lower investment income from realized capital losses and higher pension expense caused by higher plan expenses (current services costs and interest expense).

Net assets of \$1,982.8 million decreased from the prior year (2019: \$2,179.5). The decrease is mainly due to a decrease in the fair value of endowments.

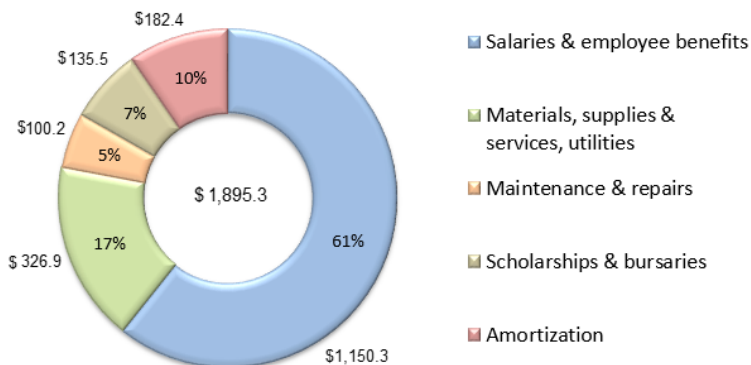
### Revenue



### Expense by Function



### Expense by Object



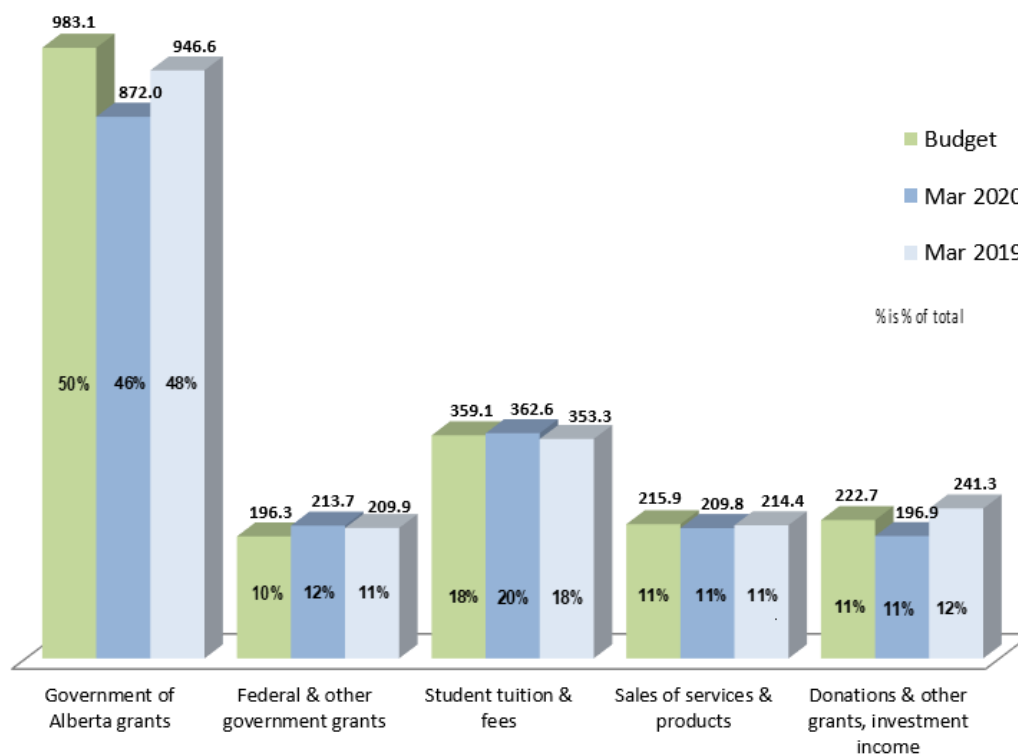
# CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

## YEAR ENDED MARCH 31, 2020

(in millions of dollars)

### Revenue

Total revenue for the year was \$1,855.0 million, a decrease of \$110.5 million over the prior year and \$122.1 million (6.2%) less than budget.



#### Government of Alberta grants

Government of Alberta grants (GoA) represent the single largest source of funding for university activities at 46% of total revenue. GoA grant revenue of \$872.0 million was \$74.6 million lower than prior year and \$111.1 million lower than budget. The decrease over prior year is primarily due to a 6.9 percent reduction in the Campus Alberta operating grant (\$44.4 million) and a one year cancellation of the Infrastructure Maintenance Program grant (\$34.9 million). These two items are also the primary reasons for the decrease compared to the budget for GoA revenue.

#### Federal and other government grants

Federal and other government grants primarily support the university's research activities. Federal and other government grants revenue of \$213.7 million was \$3.8 million higher than prior year and \$17.4 million higher than budget. The increase over prior year and the budget is due to increased research funding from the Government of Canada, including funding for research on COVID-19 of \$5.3 million.

#### 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 \$362.6 million was \$9.3 million higher than prior year and \$3.5 million higher than budget. The increase over prior year and the budget is mainly due to higher international student enrolment. In the October 2019 provincial budget the GoA announced that the freeze of domestic tuition fees has been lifted and institutions can raise domestic tuition beginning in fiscal year 2021 by up to 7% per year for the next three years.

#### Sales of services and products

Sales of services and products revenues are generated by ancillary services and faculties and administrative units to both individuals and external organizations to support university activities. Sales of services and products revenue of \$209.8 million was \$4.6 million lower than prior year and \$6.1 million lower than budget. There was no one individually significant item that has caused the reduction.

#### Donations and other grants

Donations and other grants support many university activities. Donations and other grants revenue of \$144.3 million was \$2.3 million less than prior year but was \$6.3 million more than budget. There was no one individually significant item that accounted for these variances.

# CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

## YEAR ENDED MARCH 31, 2020

(in millions of dollars)

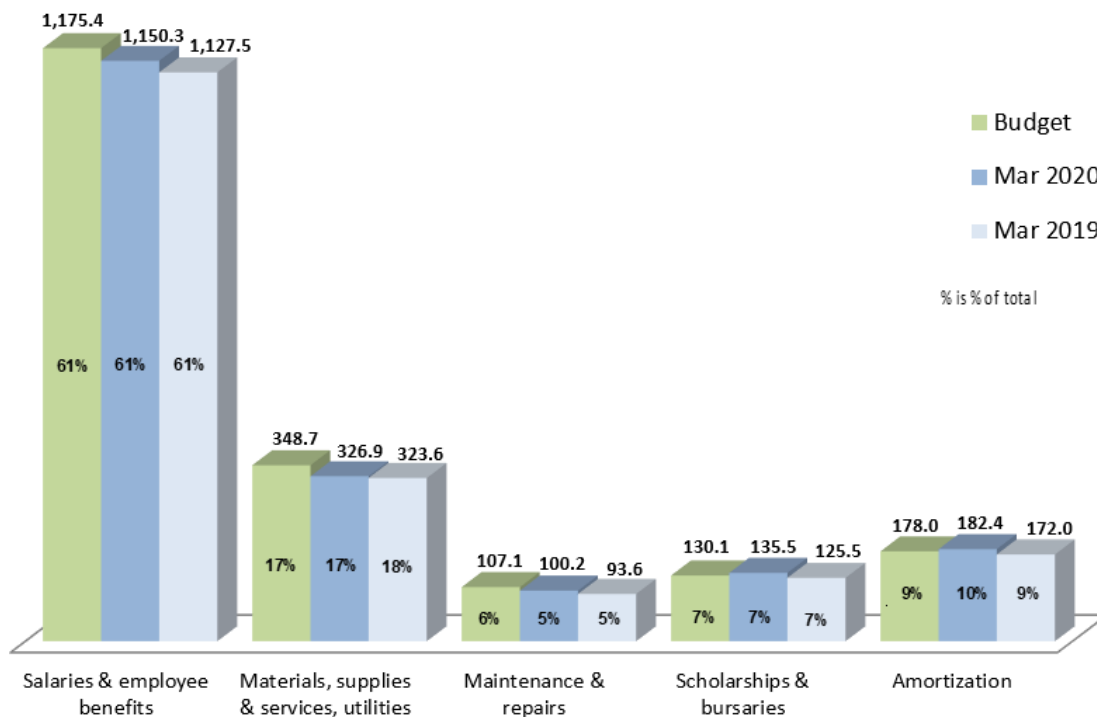
### Investment income

Investment income supports many university activities. Investment income revenue of \$52.6 million was \$41.9 million lower than prior year and \$32.1 million lower than budget. The decrease over prior year and the unfavorable to budget was due to the realization of a capital loss on the disposal of two oil and gas indexed funds. Investments fall into two categories, the University Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP). The UEP had a loss of 10.2% (2019: 5.9% return) 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 loss of 1.2% (2019: 3.5% return).

### Expense

Total expense for the year was \$1,895.3 million, an increase of \$53.1 million over the prior year and \$44.1 million (2.3%) less than budget. Salaries and employee benefits are the single largest expense representing 61% of total expense.

#### Expense by Object



#### Salaries and employee benefits

Salaries and employee benefits of \$1,150.3 million was \$22.8 million more than prior year and \$25.1 million less than budget. The increase over prior year is mainly due to higher pension expense caused by higher plan expenses (current services costs and interest expense). The decrease compared to budget is mainly due to lower salary costs across a number of areas.

#### Materials, supplies and services and utilities

Materials, supplies and services, and utilities of \$326.9 million was \$3.3 million more than prior year and \$21.8 million less than budget. Materials, supplies and services, and utilities was comparable to prior year and less than budget due to units restricting their spending due to GoA funding cuts.

#### Maintenance and repairs

Maintenance and repairs of \$100.2 million was \$6.6 million more than prior year and \$6.9 million less than budget. The increase over prior year was due to the recognition of an environmental liability for the remediation of the university's snow bank facilities. Maintenance and repairs was less than budget due to units restricting their spending due to GoA funding cuts.

#### Scholarships and bursaries

Scholarships and bursaries of \$135.5 million was \$10.0 million more than prior year and \$5.4 million more than budget. The increase over prior year and increase over budget was due to funding from endowments and GoA grants for both undergraduate and graduate awards. This expense aligns with the University's goal to attract and support undergraduate and graduate students.



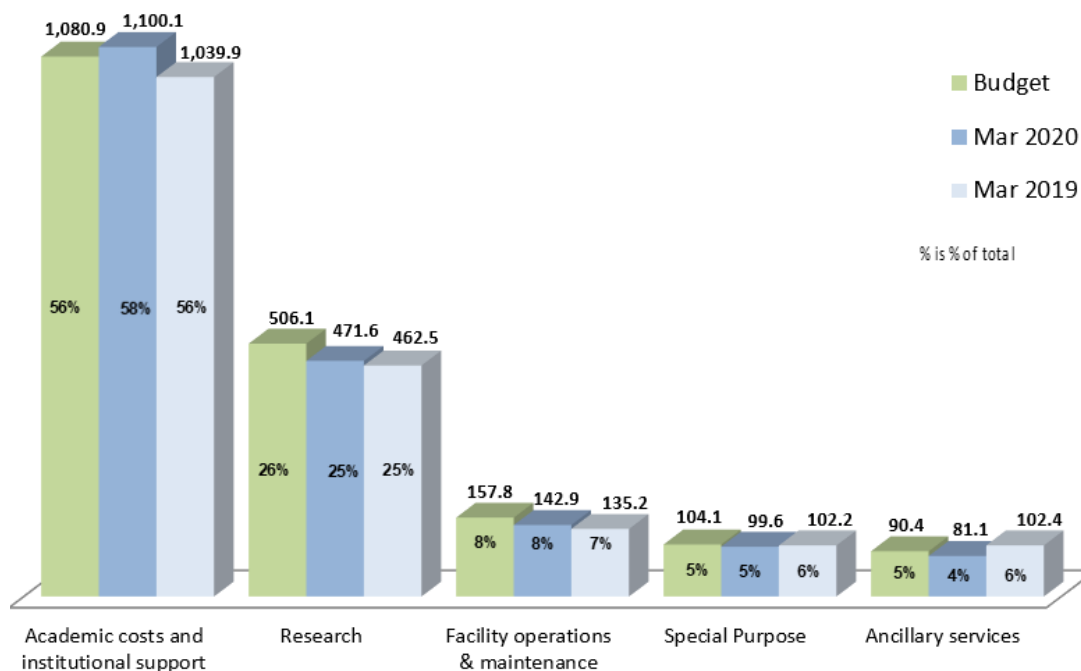
## CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2020

(in millions of dollars)

### Amortization

Amortization of \$182.4 million was \$10.4 million more than prior year and \$4.4 million more than budget. The increase over prior year and the increase over budget was due to an adjustment of the useful life of a number of buildings.

### Expense by Function



#### Academic costs and institutional support

Academic costs and institutional support expenses effectively represents the operating activities of the university. A significant component of this category is salary and employee benefit costs. Expenses for this category of \$1,100.1 million was \$60.2 million more than prior year and \$19.2 million more than budget. The increase over prior year was mainly due to higher pension expense and higher internally funded scholarships. The increase over budget was mainly due to higher pension expense caused by higher plan expenses (current services costs and interest expense).

#### Research

Research expenses are funded by restricted grants and donations along with internal funds designated for research related activities. Research expenses of \$471.6 was \$9.1 million more than prior year and was \$34.5 million less than budget. The increase over prior year has no one individually significant item. The decrease over budget was mainly due to lower expenditures for salaries on research activities.

#### Facility operations and maintenance

Facility operations and maintenance represents the cost of maintaining university facilities and grounds. Facility operations and maintenance expense of \$142.9 million was \$7.7 million more than prior year and \$14.9 million less than budget. The increase over prior year is due to the recognition of an environmental liability for the remediation of the university's snow bank facilities. The decrease over budget was mainly due to lower maintenance and repairs caused by the one year cancellation of the GoA Infrastructure Maintenance Program grant.

#### 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 \$99.6 million was \$2.6 million less than prior year and \$4.5 million less than budget. No one individually significant item is accountable for these variances.

#### Ancillary services

Ancillary services include the university bookstore, parking services, utilities and student residences. Ancillary services expense of \$81.1 million was \$21.3 million less than prior year and was \$9.3 million less than budget. The decrease over prior year is mainly due to lower maintenance costs for residences and lower input costs for the utilities ancillary. The decrease over budget is attributable to the same reasons.

## CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2020

(in millions of dollars)

### Capital Acquisitions

The university expended \$157.6 million (2019: \$124.6) on construction and other tangible capital asset acquisitions.

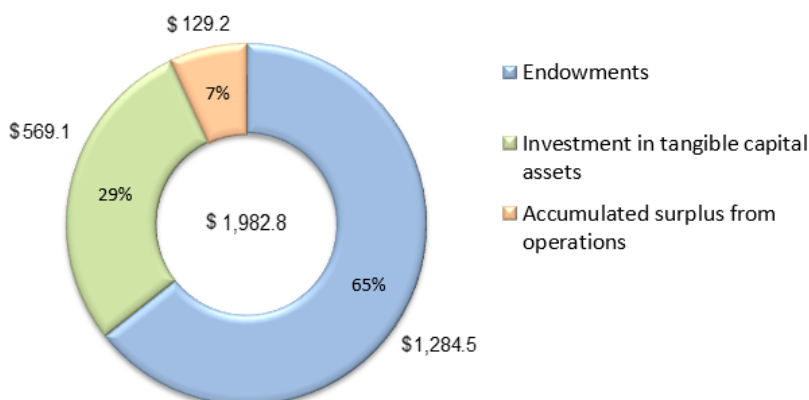
The most significant construction and capital asset acquisitions in 2020 are:

- Lister Centre renewal – a multi-year project to upgrade three residence towers in the Lister Centre complex.
- Dentistry and Pharmacy Renewal and Repurpose - a multi-year project to renovate the Dentistry Pharmacy building.
- Natural Resources Engineering Facility (NREF) Renewal and Renovation project – a multi-year project to repurpose a number of floors of the facility to high tech research laboratory space.

### Net Assets and 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 \$1,284.5 million. Endowments represent contributions from donors that are required to be maintained in perpetuity, as well as capitalized investment income that is also required to be maintained in perpetuity to protect the economic value of the endowment. Endowments are not available for spending. Of the remaining \$698.3 million in net assets, \$569.1 million represents funds invested in tangible capital assets.



	Unrestricted	Internally restricted	Investment in tangible capital assets	Endowments	Total
Net assets, beginning of year	\$ 138.3	\$ 55.1	\$ 553.8	\$ 1,432.3	\$ 2,179.5
Annual operating deficit	(40.2)	-	-	-	(40.2)
Endowments contributions and capitalized income	-	-	-	25.5	25.5
Transfer to endowment	(2.3)	-	-	2.3	-
Tangible capital assets	(15.3)	-	15.3	-	-
Transfer from endowments	30.5	-	-	(30.5)	-
Transfer from internally restricted	15.0	(15.0)	-	-	-
Change in accumulated rereasurement gains	(36.9)	-	-	(145.1)	(182.0)
(Decrease) increase	(49.2)	(15.0)	15.3	(147.8)	(196.7)
<b>Net assets, end of year</b>	<b>\$ 89.1</b>	<b>\$ 40.1</b>	<b>\$ 569.1</b>	<b>\$ 1,284.5</b>	<b>\$ 1,982.8</b>

The decrease in accumulated surplus from operations is mainly due to the annual operating deficit (\$40.2) and to a decrease in the fair value of portfolio investments causing a decrease in the unrealized rereasurement gains (\$36.9). The university also transferred \$2.3 million from accumulated surplus to endowments for capitalization of unrestricted income and transferred \$30.5 million from endowments to accumulated surplus for unfunded endowment expenditures.

## CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2020

(in millions of dollars)

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The university has an internally restricted investment income reserve (\$40.1). The purpose of the reserve is to create a buffer for risk management purposes; that is, to ensure that future financial obligations can be fulfilled in the event of significant investment losses. The reserve target is 17% of the underlying obligations (investment cost), currently \$87 million, which allows for fluctuations in capital and equity markets to the degree experienced during the financial crisis in 2008-09. Once the reserve target is met, allocations will be made to a Strategic Initiatives Fund that will be used to support long-term institutional goals. This year the university withdrew \$15.0 million from the reserve to replace funding for committed capital initiatives that were impacted by the one year cancellation of the Infrastructure Maintenance Program grant.

The increase in investment in tangible capital assets of \$15.3 million consists of additions (\$87.3) and debt repayments (\$14.5), less new financing (\$20.0) and amortization (\$66.5). These additions include construction projects, equipment, furnishings, computer hardware/software and library resources.

The university's endowment spending policy provides for an annual spending allocation (2020: \$53.0; 2019: \$49.0) to support a variety of key initiatives in the areas of academic programs, chairs and professorships, scholarships, bursaries and research. The decrease in endowments of \$147.8 million is due to a decrease in fair value (\$145.1) and a transfer of endowment principal to unrestricted net assets to cover unfunded endowment expenditures (\$30.5), partially offset by new contributions (\$25.5) and a transfer of miscellaneous sales revenue from unrestricted net assets (\$2.3). During the year the university's investment income earned from endowment investments was not sufficient to fund the annual spending allocation of \$53.0 million along with the investment management and administration fees of \$18.8 million. Total investment income was \$13.8 million leaving an unfunded allocation of \$58.0 million. Of this amount, \$30.5 million was spent by the endowment holders and was funded by a transfer from endowments net assets to unrestricted net assets. The remaining \$27.5 million represents unspent allocation per the University Endowment Pool (UEP) Spending policy and is being managed by the university as a future commitment.

### 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 (excluding portfolio investments restricted for endowments) indicates that the university has a \$168.6 million deficiency (2019: \$97.8). The deficiency can be attributed to the acquisition of prepaid expenses \$9.3 (2019 - \$8.1), tangible capital assets acquired by debt financing \$288.5 (2019 - \$283.1), partially offset by the accumulated operating surplus \$129.2 (2019 - \$193.4). Net debt has increased mainly due to the acquisition of tangible capital assets.

## Areas of Significant Financial Risk

### Fiscal Uncertainty

The Campus Alberta grant is the primary source of funding for the university's day-to-day operating activities. Government support is under pressure given the impacts of COVID-19, the drop in oil prices and the province's fiscal outlook. Grants, tuition and other revenue generation initiatives are largely under government control, which puts significant pressure on university finances. The impact to university revenue of a 1% change to the Campus Alberta base operating grant is \$6.2 million and a 1% change to domestic tuition is \$2.0 million.

The COVID-19 pandemic has had a large impact in how the university conducts its operations. The major operational change was the change to on-line delivery of instructional courses to students. It is anticipated that there will be negative impacts to major revenue streams, especially with regards to enrollment (international students) and fundraising. Staffing levels will be impacted as the university and the Non-Academic Staff Association (NASA) agreed to a Letter of Understanding regarding temporary layoffs on April 15, 2020. The full financial impact to the university has yet to be established and won't be known for a period of time. The liquidity position of the university is strong so there are no immediate cash flow concerns.

### Unfunded Pension Liability

The university participates with other Alberta post-secondary institutions in the Universities Academic Pension Plan (UAPP) to provide pensions for the university's participating employees. The unfunded deficiency in the UAPP is currently being funded by a combination of employee and employer contributions and the Government of Alberta. The deficiency is required to be eliminated by 2043. At March 31, 2020, based on actuarial assumptions, the university has recorded a UAPP employee future benefit liability of approximately \$116 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 \$83 million, a 1% increase in the salary escalation assumption would be an increase of approximately \$17 million, while a decrease of 0.25% in the discount rate assumption would lead to an increase of approximately \$47 million.

**CONSOLIDATED FINANCIAL STATEMENT DISCUSSION AND ANALYSIS**  
**YEAR ENDED MARCH 31, 2020**

*(in millions of dollars)*

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**Deferred Maintenance**

As the largest and oldest post-secondary institution in the province, the university's deferred maintenance obligations continue to increase. As of December 2019, the liability stood at \$309 million and is estimated to increase to approximately \$872 million over the next five years. As part of the fiscal 2020 budget, the government eliminated the Infrastructure Maintenance Program (IMP) grant (\$35 million) which was a main source of funding in dealing with the deferred maintenance issue. This funding was re-established in the fiscal 2021 provincial budget. 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.

**STATEMENT OF MANAGEMENT RESPONSIBILITY - DRAFT  
YEAR ENDED MARCH 31, 2020**

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The consolidated financial statements of the University of Alberta have been prepared by management in accordance with Canadian public sector accounting standards. The consolidated financial statements present fairly the financial position of the university as at March 31, 2020 and the results of its operations, remeasurement gains and losses, changes in net financial assets and cash flows for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management 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 the consolidated financial statements.

The Board of Governors is responsible for reviewing and approving the consolidated financial statements, and overseeing management's performance of its financial reporting responsibilities.

The Board of Governors carries out its responsibility for review of the consolidated financial statements principally through its Audit and Risk Committee. With the exception of the President, all members of the Audit and Risk Committee are not employees of the university. The Audit and Risk Committee meets with management and the external auditors and internal auditors to discuss the results of audit examinations and financial reporting matters. The external and internal auditors have full access to the Audit and Risk Committee, with and without the presence of management.

These consolidated financial statements have been reported on by the Auditor General of Alberta, the auditor appointed under the *Post-secondary Learning Act*. The Independent Auditor's Report outlines the scope of the audit and provides the audit opinion on the fairness of presentation of the information in the consolidated financial statements.

*Original signed by David H. Turpin*

\_\_\_\_\_  
President and Vice-Chancellor

*Original signed by Gitta Kulczycki*

\_\_\_\_\_  
Vice-President (Finance & Administration)  
and Chief Financial Officer

# DRAFT

## Independent Auditor's Report

To the Board of Governors of University of Alberta

### Report on the Consolidated Financial Statements

#### Opinion

I have audited the consolidated financial statements of University of Alberta which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of operations, change in net financial assets, remeasurement gains and losses, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University of Alberta as at March 31, 2020, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

#### Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of my report. I am independent of the University of Alberta in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Other information

Management is responsible for the other information. The other information comprises the information included in the University of Alberta's Annual Report, but does not include the consolidated financial statements and my auditor's report thereon. The University of Alberta's Annual Report is expected to be made available to me after the date of this auditor's report.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

# DRAFT

## **Responsibilities of management and those charged with governance for the consolidated financial statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the University of Alberta's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University of Alberta's financial reporting process.

## **Auditor's responsibilities for the audit of the consolidated financial statements**

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 University of Alberta's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

# DRAFT

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University of Alberta's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the University of Alberta to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the entity to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

W. Doug Wylie FCPA, FCMA, ICD.D  
Auditor General

May 25, 2020  
Edmonton, Alberta



**UNIVERSITY OF ALBERTA**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION - DRAFT**  
**AS AT MARCH 31, 2020**  
*(thousands of dollars)*

	Note	2020	2019
<b>Financial assets excluding portfolio investments restricted for endowments</b>			
Cash and cash equivalents	3	\$ 75,343	\$ 19,581
Portfolio investments - non-endowment	4	989,681	1,040,126
Accounts receivable		145,435	145,148
Inventories held for sale		1,994	2,133
		<b>1,212,453</b>	<b>1,206,988</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		188,720	172,470
Employee future benefit liabilities	7	219,057	217,774
Debt	8	403,550	335,797
Deferred revenue	9	569,742	578,758
		<b>1,381,069</b>	<b>1,304,799</b>
<b>Net debt excluding portfolio investments restricted for endowments</b>			
		<b>(168,616)</b>	<b>(97,811)</b>
Portfolio investments - restricted for endowments	4	1,284,568	1,432,304
<b>Net financial assets</b>			
		<b>1,115,952</b>	<b>1,334,493</b>
<b>Non-financial assets</b>			
Tangible capital assets	10	2,657,080	2,684,090
Prepaid expenses		9,287	8,118
		<b>2,666,367</b>	<b>2,692,208</b>
<b>Net assets before spent deferred capital contributions</b>			
		<b>3,782,319</b>	<b>4,026,701</b>
Spent deferred capital contributions	11	1,799,471	1,847,187
<b>Net assets</b>			
	12	\$ 1,982,848	\$ 2,179,514
<b>Net assets is comprised of:</b>			
Accumulated surplus		\$ 1,913,944	\$ 1,928,600
Accumulated remeasurement gains		68,904	250,914
		<b>\$ 1,982,848</b>	<b>\$ 2,179,514</b>

Contingent assets and contractual rights (note 13 and 15)  
Contingent liabilities and contractual obligations (note 14 and 16)

**UNIVERSITY OF ALBERTA  
CONSOLIDATED STATEMENT OF OPERATIONS - DRAFT  
YEAR ENDED MARCH 31, 2020**

*(thousands of dollars)*

	Note	Budget (Note 18)	2020	2019
<b>Revenue</b>				
Government of Alberta grants	19	\$ 983,086	\$ <b>872,029</b>	\$ 946,643
Federal and other government grants	19	196,265	<b>213,653</b>	209,900
Student tuition and fees		359,053	<b>362,593</b>	353,280
Sales of services and products		215,928	<b>209,786</b>	214,434
Donations and other grants		138,061	<b>144,367</b>	146,752
Investment income		84,682	<b>52,596</b>	94,489
		1,977,075	<b>1,855,024</b>	1,965,498
<b>Expense</b>				
Academic costs and institutional support		1,080,927	<b>1,100,086</b>	1,039,925
Research		506,125	<b>471,604</b>	462,497
Facility operations and maintenance		157,783	<b>142,927</b>	135,198
Special purpose		104,117	<b>99,546</b>	102,207
Ancillary services		90,374	<b>81,107</b>	102,383
		1,939,326	<b>1,895,270</b>	1,842,210
<b>Annual operating (deficit) surplus</b>		\$ 37,749	<b>(40,246)</b>	123,288
Endowment contributions	12		<b>25,506</b>	36,227
Endowment capitalized investment income	12		<b>84</b>	39,236
			<b>25,590</b>	75,463
<b>Annual (deficit) surplus</b>			<b>(14,656)</b>	198,751
<b>Accumulated surplus, beginning of year</b>			<b>1,928,600</b>	1,729,849
<b>Accumulated surplus, end of year</b>	12		<b>\$ 1,913,944</b>	\$ 1,928,600

**UNIVERSITY OF ALBERTA**  
**CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS - DRAFT**  
**YEAR ENDED MARCH 31, 2020**  
*(thousands of dollars)*

	Budget (Note 18)	2020	2019
Annual (deficit) surplus	\$	\$ (14,656)	\$ 198,751
Acquisition of tangible capital assets, net of proceeds on disposals	(188,945)	(157,333)	(124,342)
Amortization of tangible capital assets	177,953	182,376	172,006
Loss on disposal of tangible capital assets	-	1,967	275
Change in prepaid expenses	(170)	(1,169)	(137)
Change in spent deferred capital contributions	(41,051)	(47,716)	(53,054)
Change in accumulated remeasurement gains		(182,010)	(25,058)
<b>(Decrease) increase in net financial assets</b>		<b>(218,541)</b>	168,441
<b>Net financial assets, beginning of year</b>		<b>1,334,493</b>	1,166,052
<b>Net financial assets, end of year</b>	\$	\$ 1,115,952	\$ 1,334,493

**UNIVERSITY OF ALBERTA**  
**CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES - DRAFT**  
**YEAR ENDED MARCH 31, 2020**  
*(thousands of dollars)*

	Note	2020	2019
<b>Accumulated remeasurement gains, beginning of year</b>		<b>\$ 250,914</b>	\$ 275,972
Unrealized (losses) gains attributable to:			
Portfolio investments - non-endowment:			
Quoted in an active market		<b>(15,794)</b>	8,778
Designated at fair value		<b>(25,427)</b>	4,143
Portfolio investments - restricted for endowments:			
Quoted in an active market		<b>(38,002)</b>	42,822
Designated at fair value		<b>(123,096)</b>	8,676
Amounts reclassified to consolidated statement of operations:			
Portfolio investments - non-endowment:			
Quoted in an active market		<b>683</b>	(10,803)
Designated at fair value		<b>3,659</b>	(3,601)
Portfolio investments - restricted for endowments:			
Quoted in an active market		<b>3,767</b>	(62,425)
Designated at fair value		<b>12,200</b>	(12,648)
Net change for the year		<b>(182,010)</b>	(25,058)
<b>Accumulated remeasurement gains, end of year</b>	12	<b>\$ 68,904</b>	\$ 250,914
<b>Accumulated remeasurement gains is comprised of:</b>			
Portfolio investments - non-endowment		<b>\$ 5,001</b>	\$ 41,880
Portfolio investments - restricted for endowments		<b>63,903</b>	209,034
		<b>\$ 68,904</b>	\$ 250,914

**UNIVERSITY OF ALBERTA  
CONSOLIDATED STATEMENT OF CASH FLOWS - DRAFT  
YEAR ENDED MARCH 31, 2020**

*(thousands of dollars)*

	2020	2019
<b>Operating transactions</b>		
Annual (deficit) surplus	\$ (14,656)	\$ 198,751
Add (deduct) non-cash items:		
Amortization of tangible capital assets	182,376	172,006
Expended capital recognized as revenue	(115,828)	(111,570)
Loss (gain) on sale of portfolio investments	20,309	(89,477)
Loss on disposal of tangible capital assets	1,967	275
Increase (decrease) in employee future benefit liabilities	1,283	(20,000)
Change in non-cash items	90,107	(48,766)
(Increase) decrease in accounts receivable	(341)	8,083
Decrease in inventories held for sale	139	207
Increase (decrease) in accounts payable and accrued liabilities	17,177	(7,954)
(Decrease) increase in deferred revenue	(9,016)	30,742
Increase in prepaid expenses	(1,169)	(137)
<b>Cash provided by operating transactions</b>	<b>82,241</b>	<b>180,926</b>
<b>Capital transactions</b>		
Acquisition of tangible capital assets, net of proceeds on disposals, less in kind donations	(149,855)	(120,669)
<b>Cash applied to capital transactions</b>	<b>(149,855)</b>	<b>(120,669)</b>
<b>Investing transactions</b>		
Purchases of portfolio investments	(403,015)	(362,768)
Proceeds on sale of portfolio investments	398,004	207,680
<b>Cash applied to investing transactions</b>	<b>(5,011)</b>	<b>(155,088)</b>
<b>Financing transactions</b>		
Debt repayment	(15,747)	(14,509)
Debt - new financing	83,500	-
Increase in spent deferred capital contributions, less in kind donations	60,634	54,843
<b>Cash provided by financing transactions</b>	<b>128,387</b>	<b>40,334</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>55,762</b>	<b>(54,497)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>19,581</b>	<b>74,078</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 75,343</b>	<b>\$ 19,581</b>

**UNIVERSITY OF ALBERTA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT**  
**YEAR ENDED MARCH 31, 2020**  
*(thousands of dollars)*

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**1. Authority and purpose**

The Governors of The University of Alberta is a corporation that 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, 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 – Canadian public sector accounting standards (PSAS) and use of estimates**

These consolidated financial statements have been prepared in accordance with PSAS. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. Management uses judgment to determine such estimates. Employee future benefit liabilities and amortization of tangible capital assets are the most significant items based on estimates. In management'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 consolidated financial statements and, together with the following notes, should be considered an integral part of the consolidated financial statements.

**(b) Valuation of financial assets and liabilities**

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

- Cash and cash equivalents, Accounts payable and accrued liabilities - cost
- Portfolio investments - fair value and amortized cost
- Accounts receivable - lower of cost and net recoverable value
- Inventories held for sale - lower of cost and expected net realizable value
- Debt - amortized cost
- Derivatives - fair value

Unrealized gains and losses from changes in the fair value of financial assets and liabilities are recognized in the consolidated statement of remeasurement gains and losses. When the restricted nature of a financial instrument and any related changes in fair value create a liability, unrealized gains and losses are recognized as deferred revenue.

All financial assets are assessed annually for impairment. Impairment losses are recognized as a decrease in revenue, except for the restricted amount which is recognized as a decrease in deferred revenue. A write-down of an investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial assets and liabilities measured at amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial assets and liabilities that are measured at amortized cost and expensed when measured at fair value. Investment management fees are expensed as incurred. The purchase and sale of cash and cash equivalents and portfolio investments are accounted for using trade-date accounting.

Derivatives are recorded at fair value in the consolidated statement of financial position. Derivatives with a positive or negative fair value are recognized as financial assets or liabilities. Unrealized gains and losses from changes in the fair value of derivatives are recognized in the consolidated statement of remeasurement gains and losses. Upon settlement, the realized gains and losses are reclassified as revenue or expense in the consolidated statement of operations.

Management evaluates contractual obligations for the existence of embedded derivatives and elects to either measure the entire contract at fair value or separately measure the value of the derivative component when characteristics of the derivative are not closely related to the economic characteristics and risks of the contract itself. Contracts to buy or sell non-financial items for the university's normal course of business are not recognized as financial assets or liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT**  
**YEAR ENDED MARCH 31, 2020**  
*(thousands of dollars)*

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**2. Summary of significant accounting policies and reporting practices (continued)**

**(c) Revenue recognition**

All revenue is reported on an accrual basis. Cash received for which services and products have not been provided is recognized as deferred revenue.

**Government grants, non-government grants and donations**

Government transfers are referred to as government grants.

Restricted grants and donations are recognized as deferred revenue if the terms for use, or the terms along with the university's actions and communications as to the use, create a liability. These grants and donations are recognized as revenue when the terms are met. If the grants and donations are used to acquire or construct tangible capital assets, revenue will be recognized over the useful life of the tangible capital assets.

Government grants without terms for the use of the grant are recognized as revenue when the university is eligible to receive the funds. Non-government grants and donations with no restrictions are recognized as revenue in the year received or in the year the funds are committed to the university if the amount can be reasonably estimated and collection is reasonably assured.

In kind donations of services, materials, and tangible capital assets are recognized at fair value when a fair value can be reasonably determined.

**Grants and donations related to land**

Grants and donations for the purchase of land are recognized as deferred revenue when received and recognized as revenue when the land is purchased. An in kind grant or donation of land is recognized as revenue at the fair value of the land when a fair value can be reasonably determined. When the fair value cannot be reasonably determined, the in kind grant or donation is recognized at nominal value.

**Endowment donations**

Endowment donations are recognized as revenue in the consolidated statement of operations in the year in which they are received, and are required by donors to be maintained intact in perpetuity.

**Investment income**

Investment income includes dividends, interest income and realized gains and losses on the sale of portfolio investments. Investment income from restricted grants and donations is recognized as deferred revenue when the terms for use create a liability, and is recognized as revenue when the terms of the grant or donation are met.

The endowment spending allocation portion of investment income earned by endowments is recognized as deferred revenue when the terms for use by the endowment create a liability. Investment income earned by endowments in excess of the endowment spending allocation is recognized as revenue in the consolidated statement of operations (realized income) and the consolidated statement of rereasurement gains and losses (unrealized gains and losses), and is capitalized and maintained intact in perpetuity.

**(d) 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 (excluding unrealized income) by the endowments in excess of the amount required for spending allocation is capitalized to maintain and grow the real value of the endowments. 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:

- Investment income earned by the endowments to be withheld from distribution to avoid fluctuations in the amounts distributed, generally to regulate the distribution of income earned by the endowments.
- Encroachment on the capital of the endowments to avoid fluctuations in the amounts distributed and generally to regulate the distribution of investment income earned by the endowments 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT**  
**YEAR ENDED MARCH 31, 2020**  
*(thousands of dollars)*

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**2. Summary of significant accounting policies and reporting practices (continued)**

**(d) Endowments (continued)**

In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, the spending allocation is funded from the accumulated capitalized investment income. However, for individual endowments without sufficient accumulated capitalized investment income, endowment principal is used in that year and is expected to be recovered by future investment income.

**(e) Inventories held for sale**

Inventories held for sale are measured using the weighted average method.

**(f) Tangible capital assets**

Tangible capital asset acquisitions are recognized at cost, which includes amounts that are directly related, such as design, construction, development, improvement or betterment of the assets, and costs associated with asset retirement obligations. Cost includes overhead directly attributable to construction and development. Construction in progress is not amortized until after the project is complete and the asset is in service.

The cost less residual value of the tangible capital assets, excluding land, is amortized on a straight-line basis over the estimated useful lives as follows:

Buildings and utilities	10 - 40 years
Equipment, furnishings and systems	5 - 10 years
Learning resources	10 years

Tangible capital asset write-downs are recognized when conditions indicate the asset no longer contributes to the university's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets is less than their net book value. Net write-downs are recognized as expense.

Intangible assets, works of art, historical treasures and collections are expensed when acquired and not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made.

**(g) Asset Retirement Obligations**

Asset retirement obligations are recognized for statutory, contractual or legal obligations associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs are capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement obligations are amortized on the same basis as the related asset and the discount accretion is included in determining the results of operations.

**(h) Foreign currency translation**

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities and non-monetary items included in the fair value category reflect the exchange rates at the consolidated statement of financial position date. Unrealized foreign exchange gains and losses are recognized in the consolidated statement of remeasurement gains and losses.

In the period of settlement, foreign exchange gains and losses are reclassified to the consolidated statement of operations, and the cumulative amount of remeasurement gains and losses is reversed in the consolidated statement of remeasurement gains and losses.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT**  
**YEAR ENDED MARCH 31, 2020**  
*(thousands of dollars)*

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**2. Summary of significant accounting policies and reporting practices (continued)**

**(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. The UAPP activity and financial position are allocated to each participating employer based on their respective percentage of employer contributions. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

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 recognized 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, along with investment income, to provide the plan's future benefits.

**Long-term disability**

The cost of providing non-vesting and non-accumulating employee future benefits for compensated absences under the university's long-term disability plan is charged to expense in full when the event occurs which obligates the university to provide the benefits. The cost of this benefit is actuarially determined using the accumulated benefit method, a discount rate based on the university's cost of borrowing and management's best estimate of the retirement ages of employees, expected health care costs and the period of employee disability. Actuarial gains and losses on the accrued benefit obligation are amortized over the average expected period the benefit 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 prorated on services, a discount rate based on the university's cost of borrowing and management's best estimate of expected health care, dental care, life insurance costs and the period of benefit coverage. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

**Supplementary retirement plans**

The university provides non-contributory defined benefit supplementary retirement benefits to the executive staff based on years of service and earnings. The expense for this plan is actuarially determined using the projected benefit method prorated on service. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

The university provides non-contributory defined contribution supplementary retirement benefits to eligible executive, academic, and management and professional staff based on years of service and earnings. The expense for these plans is the employer's current year contribution to the plan as calculated in accordance with the plan rules.

**Administrative/professional leave**

The university provides for the executive staff to accrue a paid leave of absence at the end of their executive appointment. The expense for this plan is actuarially determined using the projected benefit method prorated on service. Actuarial gains and losses on the accrued benefit obligation are amortized over the expected average remaining service life of the related employee group.

**General illness**

The cost of providing non-vesting and non-accumulating compensated absences to a maximum of 26 weeks (academic staff) or 120 days (support staff) under the university's general illness plan is charged to expense in full when the event occurs which obligates the university to provide the benefit. The cost of this benefit is actuarially determined using the accumulated benefit method and management's best estimate of the period of employee disability.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
YEAR ENDED MARCH 31, 2020**

*(thousands of dollars)*

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**2. Summary of significant accounting policies and reporting practices (continued)**

**(j) Investment in government partnerships**

Proportionate consolidation is used to recognize the university's share of the following government partnerships:

- 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) (7.14% interest) - a joint venture with thirteen other universities to operate a sub-atomic physics research facility.
- Western Canadian Universities Marine Sciences Society (20% interest) - provides research infrastructure in the marine sciences for member universities and the world-wide scientific community.

These government partnerships are not material to the university's consolidated financial statements; therefore, separate condensed financial information is not presented.

**(k) Investment in government business enterprises**

Effective March 11, 2015, the university established a wholly owned government business enterprise, University of Alberta Properties Trust Inc. Government business enterprises are included in the consolidated financial statements using the modified equity method. Since inception, this entity has no transactions.

**(l) Liability for contaminated sites**

Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment. Contaminated sites occur when an environmental standard exists and contamination exceeds the environmental standard.

A liability for remediation of contaminated sites from an operation in productive use is recognized net of any expected recoveries when all of the following criteria are met:

- the university has a duty or responsibility to others, leaving little or no discretion to avoid the obligation;
- the duty or responsibility to others entails settlement by future transfer or use of assets, or a provision of services at a specified or determinable date, or on demand; and
- the transaction or events obligating the institution have already occurred.

A liability for remediation of contaminated sites from an operation no longer in productive use, and/or an unexpected event occurs resulting in contamination, is recognized net of any expected recoveries when all of the following criteria are met:

- the university is directly responsible or accepts responsibility;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

**(m) Expense by function**

The university uses the following categories of functions on its consolidated statement of operations:

**Academic costs and institutional support**

Expenses relating to support for the academic functions of the university both directly and indirectly. This function includes expenses incurred by faculties for their scholarly activities and learning administrative services.

**Research**

Expenses for research activities funded by externally sponsored research funds intended for specific research purposes as well as internal funds designated for research related spending. Other expenses associated with this function include costs such as research administration and research related amortization.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
YEAR ENDED MARCH 31, 2020**

*(thousands of dollars)*

**2. Summary of significant accounting policies and reporting practices (continued)**

**(m) Expense by function (continued)**

**Facility operations and maintenance**

Expenses relating to maintenance and renewal of facilities that house the teaching, research and administrative activities within the university. These include utilities, facilities administration, building maintenance, custodial services, landscaping and grounds keeping, as well as major repairs and renovations.

**Special purpose**

Expenses for student awards and bursaries and other programs involving teaching and learning, and community service specifically funded by restricted grants and donations.

**Ancillary services**

Expenses relating to services and products provided to the university community and to external individuals and organizations. Services include the university bookstore, parking services, utilities and student residences.

**(n) Funds and reserves**

Certain amounts, as approved by the Board of Governors, are set aside in accumulated surplus for future operating and capital purposes. Transfers to/from funds and reserves are an adjustment to the respective fund when approved.

**(o) Future accounting changes**

In August 2018, the Public Sector Accounting Board issued PS 3280 Asset retirement obligations. This accounting standard is effective for fiscal years starting on or after April 1, 2021. Asset retirement obligations provides guidance on how to account for and report a liability for retirement of a tangible capital asset.

In November 2018, the Public Sector Accounting Board issued PS 3400 Revenue. This accounting standard is effective for fiscal years starting on or after April 1, 2022. Revenue provides guidance on how to account for and report on revenue, specifically addressing revenue arising from exchange transactions and unilateral transactions.

Management is currently assessing the impact of these new standards on the consolidated financial statements.

**3. Cash and cash equivalents**

	2020	2019
Cash	\$ 15,369	\$ 1,104
Money market funds	59,974	18,477
	<b>\$ 75,343</b>	<b>\$ 19,581</b>

Money market funds also include short-term notes and treasury bills with a maturity less than three months from the date of acquisition.

**4. Portfolio investments**

	2020	2019
Portfolio investments - non-endowment	\$ 989,681	\$ 1,040,126
Portfolio investments - restricted for endowments	1,284,568	1,432,304
	<b>\$ 2,274,249</b>	<b>\$ 2,472,430</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
YEAR ENDED MARCH 31, 2020**

*(thousands of dollars)*

**4. Portfolio investments (continued)**

The composition of portfolio investments measured at fair value is as follows:

	2020				2019			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Cash and money market funds	\$ 81,686	\$ 469,590	\$ -	\$ 551,276	\$ 132,503	\$ 423,971	\$ -	\$ 556,474
Canadian government and corporate bonds	-	120,910	-	120,910	-	259,280	-	259,280
Foreign government and corporate bonds	-	253,630	-	253,630	-	206,940	-	206,940
Canadian equity	204,758	-	-	204,758	289,543	-	-	289,543
Foreign equity	776,892	-	-	776,892	962,214	-	-	962,214
Private equity	-	-	92,085	92,085	-	-	78,415	78,415
Hedge funds	-	179,703	-	179,703	-	30,137	-	30,137
Private credit	-	-	9,190	9,190	-	-	657	657
Real estate funds	-	-	84,772	84,772	-	-	87,731	87,731
	<b>1,063,336</b>	<b>1,023,833</b>	<b>186,047</b>	<b>2,273,216</b>	<b>1,384,260</b>	<b>920,328</b>	<b>166,803</b>	<b>2,471,391</b>
Other at amortized cost				1,033				1,039
	<b>\$ 1,063,336</b>	<b>\$ 1,023,833</b>	<b>\$ 186,047</b>	<b>\$ 2,274,249</b>	<b>\$ 1,384,260</b>	<b>\$ 920,328</b>	<b>\$ 166,803</b>	<b>\$ 2,472,430</b>

The fair value measurements are those derived from:

- (1) Quoted prices in active markets for identical assets.
- (2) Inputs other than quoted prices included within level 1 that are observable for the assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (3) Valuation techniques that include inputs for the assets that are not based on observable market data.

As at March 31, 2020, the average effective yields and the terms to maturity are as follows:

- Money market funds: 1.59% (2019 - 2.18%); term to maturity: less than one year.
- Canadian government, corporate and foreign bonds: 2.72% (2019 - 2.54%); terms to maturity: range from less than one year to more than 10 years.

The changes in fair value of level 3 portfolio investments are as follows:

	2020	2019
<b>Balance, beginning of year</b>	<b>\$ 166,803</b>	<b>\$ 141,323</b>
Unrealized (losses) gains	(14,008)	9,439
Purchases	52,250	40,696
Proceeds on sale	(18,998)	(24,655)
	<b>\$ 186,047</b>	<b>\$ 166,803</b>

The economic uncertainty resulting from COVID-19 has impacted the availability of reliable market metrics for certain level 3 portfolio investments. Due to this uncertainty of the economic environment as a result of COVID-19, fair value estimates could be subject to changes and such changes could be material.

**5. Derivatives**

Derivative financial instruments are used by the university to manage its commodity exposure with respect to portfolio investments. As at March 31, 2020, the university did not hold any commodity futures contracts (2019 - 5 contracts with a notional amount of \$35,522). The fair value of outstanding commodity futures contracts receivable is \$nil (2019 - \$54) and of commodity futures contracts payable is \$nil (2019 - \$927). The fair value measurement of derivative financial instruments is categorized into level 1 as described in note 4.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
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*(thousands of dollars)*

**6. Financial risk management**

The university is exposed to the following risks:

**Market price risk**

Market price risk is 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 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 portfolio investments. The university's management of this risk has not changed from prior year.

The university assesses its portfolio sensitivity to a percentage increase or decrease in the market prices. The sensitivity rate is determined using the historical annualized standard deviation for the total University Endowment Pool over a five year period as determined by the university's investment performance measurement service provider. At March 31, 2020, if market prices had a 8.4% (2019 - 6.9%) increase or decrease, with all other variables held constant, the increase or decrease in accumulated remeasurement gains for the year would be \$127,531 (2019 - \$116,302). The economic uncertainty surrounding COVID-19 has caused some volatility in the equity markets, fluctuations in the fair value of investments may be experienced as the situation evolves.

**Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The university is exposed to foreign exchange risk on portfolio investments that are denominated in foreign currencies. The university does not hedge its foreign currency exposure with currency forward contracts or any other type of derivative financial instruments.

The impact of a change in value of the Canadian dollar against foreign currencies is as follows:

Currency	Fair Value	2.5% decrease	1.0% decrease	1.0% increase	2.5% increase
US dollar	\$ 1,359,907	\$ (33,998)	\$ (13,599)	\$ 13,599	\$ 33,998

**Credit risk**

Counterparty credit risk is the risk of loss arising from the failure of a counterparty, debtor or issuer to fully honor its financial obligations with the university. The university is exposed to credit risk on investments and has established an investment policy with required minimum credit quality standards and issuer limits to manage this risk. The university's exposure, based on the risk rating of our money market funds and bonds, has not changed significantly year over year.

The credit risk from accounts receivable is low as the majority of balances are due from government agencies and corporate sponsors with small amounts due from students and various vendors. Management has established a provision for receivables and assesses it annually to address any new concerns that may arise. Given the nature of the university's accounts receivable balances, management has assessed that, based on current economic outlook and the potential impact of COVID-19, the change to our expected credit losses is not considered material.

The distribution of money market funds and bonds by risk rating is as follows:

- Money market funds: R-1(high) 72.9% (2019 - 75.3%); R-1(mid) 27.1% (2019 - 24.7%).
- Bonds: AAA 54.3% (2019 - 63.1%); AA 5.2% (2019 - 10.0%); A 10.3% (2019 - 7.3%); BBB 19.9% (2019 - 11.7%); below BBB and not rated 10.3% (2019 - 7.9%).

**Liquidity risk**

Liquidity risk is the risk that the university will encounter difficulty in meeting obligations associated with its financial liabilities. The university maintains a portfolio of short-term investments with rolling maturity dates to manage short-term cash requirements. The university maintains a short-term line of credit of \$20,000 to ensure that funds are available to meet current and forecasted financial requirements. In 2020, the line of credit was not drawn upon (2019 - not drawn upon). The university believes, based on its assessment of future cash flows that incorporate the effects of COVID-19, it will have access to sufficient capital through internally generated cash flows, external sources and the undrawn short-term line of credit to meet current spending forecasts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
YEAR ENDED MARCH 31, 2020**

*(thousands of dollars)*

**6. Financial risk management (continued)**

**Interest rate risk**

Interest rate risk is the risk that the university's earnings will be affected by the fluctuation and degree of volatility in interest rates. This risk is managed by investment policies that limit the term to maturity of certain fixed income instruments that the university holds. If interest rates increase by 0.25%, and all variables are held constant, the potential loss in fair value to the university would be approximately \$5,420 (2019 - \$4,692). Interest rate risk on the university's debt is managed through fixed rate agreements with Alberta Capital Finance Authority (note 8).

The maturity and effective market yield of interest bearing investments are as follows:

	< 1 year	1 - 5 years	> 5 years	Average effective market yield
	%	%	%	%
Money market funds	100.0	-	-	1.6
Canadian government, corporate and foreign bonds	4.3	42.0	53.7	2.7

**7. Employee future benefit liabilities**

	2020			2019		
	Academic staff	Support staff	Total	Academic staff	Support staff	Total
Universities Academic Pension Plan	\$ 115,671	\$ -	\$ 115,671	\$ 116,439	\$ -	\$ 116,439
Long-term disability	10,708	27,203	37,911	9,546	25,855	35,401
Early retirement	-	26,728	26,728	-	26,748	26,748
SRP (defined contribution)	29,688	-	29,688	27,301	-	27,301
SRP (defined benefit)	6,328	-	6,328	8,543	-	8,543
Administrative/professional leave	1,194	-	1,194	1,396	-	1,396
General illness	716	821	1,537	863	1,083	1,946
	<b>\$ 164,305</b>	<b>\$ 54,752</b>	<b>\$ 219,057</b>	<b>\$ 164,088</b>	<b>\$ 53,686</b>	<b>\$ 217,774</b>

**(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, 2018 and was then extrapolated to March 31, 2020, resulting in a UAPP deficit of \$1,276,244 (2019 - \$996,451) consisting of a pre-1992 deficit of \$882,338 (2019 - \$827,872) and a post-1991 deficit of \$393,906 (2019 - \$168,579). The university's portion of the UAPP deficit has been allocated based on its percentage of the plan's total employer contributions for the year.

The unfunded deficit for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2019 - 1.25%) of salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 2.90% (2019 - 2.90%) of salaries required to eliminate the unfunded deficit by December 31, 2043. The Government of Alberta's obligation for the future additional contributions is \$266,237 (2019 - \$258,270) at March 31, 2020.

The following special payments apply to the post-1991 period, and are shared equally between employees and employers:

- 3.38% of salaries until June 30, 2020, then 3.24% of salaries until December 31, 2021 (2019 - 4.44% of salaries until December 31, 2021)
- 1.71% (2019 - 1.71%) of salaries for 2022 and 2023
- 0.70% (2019 - 0.70%) of salaries for 2024 and 2025
- 0.25% (2019 - 0.25%) of salaries for 2026 and 2027

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
YEAR ENDED MARCH 31, 2020**

*(thousands of dollars)*

**7. Employee future benefit liabilities (continued)**

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

**Long-term disability (LTD) and general illness (GI)**

The university provides long-term disability and general illness defined benefits to its academic and support staff. An actuarial valuation of these benefits was carried out as at March 31, 2020. The long-term disability plan provides pension and non-pension benefits after employment, but before the employee's normal retirement date. The general illness plan provides similar benefits but for a maximum of 26 weeks (academic staff) or 120 days (support staff).

**Early retirement**

The early retirement benefits for support staff include a bridge benefit (2020 - \$19,204; 2019 - \$19,376) and a retirement allowance (2020 - \$7,524; 2019 - \$7,372). An actuarial valuation of these benefits was carried out as at March 31, 2020. The bridge benefit 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 former 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 (those with 20 years of pensionable service at retirement date) one week's base pay per full year of employment to a maximum 25 days pay.

**Supplementary retirement plan (SRP)**

The university provides a non-contributory defined benefit supplementary retirement benefit to executive. The SRP obligation is calculated based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries, which management has adopted as their best estimate. An actuarial valuation of these benefits was carried out as at March 31, 2020. The SRP was closed to new members effective June 30, 2014, as part of the approval of the new defined contribution SRP for executives.

**Administrative/professional leave (leave)**

The university provides for certain executive to accrue a paid leave at the end of their executive 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. The leave obligation is calculated based on assumptions, including inflation, which are prescribed each month by the Canadian Institute of Actuaries, which management has adopted as their best estimate. An actuarial valuation of these benefits was carried out as at March 31, 2020.

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

	2020				2019			
	UAPP	LTD, GI <sup>(1)</sup>	Early retirement <sup>(1)</sup>	SRP, leave <sup>(1)</sup>	UAPP	LTD,GI <sup>(1)</sup>	Early retirement <sup>(1)</sup>	SRP, leave <sup>(1)</sup>
<b>Expense</b>								
Current service cost	\$ 48,489	\$ 17,815	\$ 929	\$ 349	\$ 44,499	\$ 17,386	\$ 964	\$ 617
Interest cost, net of earnings	10,955	1,812	749	317	3,714	2,075	1,052	436
Amortization of actuarial losses (gains)	6,019	328	(588)	79	(8,669)	1,519	(163)	171
	<b>\$ 65,463</b>	<b>\$ 19,955</b>	<b>\$ 1,090</b>	<b>\$ 745</b>	<b>\$ 39,544</b>	<b>\$ 20,980</b>	<b>\$ 1,853</b>	<b>\$ 1,224</b>
<b>Liability</b>								
<b>Accrued benefit obligation</b>								
Balance, beginning of year	\$ 1,327,412	\$ 38,136	\$ 19,095	\$ 9,564	\$ 1,201,832	\$ 39,380	\$ 24,210	\$ 10,418
Current service cost	48,489	17,815	929	349	44,499	17,386	964	617
Interest cost	75,406	1,812	749	317	73,098	2,075	1,052	436
Benefits paid	(58,743)	(17,854)	(1,110)	(3,162)	(56,064)	(17,082)	(1,430)	(1,785)
Actuarial losses (gains)	3,630	2,744	(45)	(34)	64,047	(3,623)	(5,701)	(122)
Balance, end of year	<b>1,396,194</b>	<b>42,653</b>	<b>19,618</b>	<b>7,034</b>	<b>1,327,412</b>	<b>38,136</b>	<b>19,095</b>	<b>9,564</b>
Plan assets	(1,147,191)	-	-	-	(1,147,170)	-	-	-
Plan deficit	<b>249,003</b>	<b>42,653</b>	<b>19,618</b>	<b>7,034</b>	<b>180,242</b>	<b>38,136</b>	<b>19,095</b>	<b>9,564</b>
Unamortized actuarial (losses) gains	(133,332)	(3,205)	7,110	488	(63,803)	(789)	7,653	375
Accrued benefit liability	<b>\$ 115,671</b>	<b>\$ 39,448</b>	<b>\$ 26,728</b>	<b>\$ 7,522</b>	<b>\$ 116,439</b>	<b>\$ 37,347</b>	<b>\$ 26,748</b>	<b>\$ 9,939</b>

<sup>(1)</sup> The university plans to use its working capital to finance these future obligations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
YEAR ENDED MARCH 31, 2020**

*(thousands of dollars)*

**7. Employee future benefit liabilities (continued)**

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

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

	2020			2019		
	UAPP	SRP, leave	LTD, GI, early retirement	UAPP	SRP, leave	LTD, GI, early retirement
	%	%	%	%	%	%
<b>Accrued benefit obligation</b>						
Discount rate	5.6	3.8	3.8	5.6	3.9	3.9
Long-term average compensation increase	3.0	3.0	3.0	3.0	3.0	3.0
<b>Benefit cost</b>						
Discount rate	5.6	3.9	3.8	6.0	4.3	4.3
Long-term average compensation increase	3.0	3.0	3.0	3.0	3.0	3.0
Alberta inflation (long-term)	2.0	2.0	2.0	2.0	1.5	2.0
Estimated average remaining service life	10.6 yrs	Note <sup>(1)</sup>	1 - 13 yrs	10.6 yrs	Note <sup>(1)</sup>	1 - 13 yrs

<sup>(1)</sup> SRP actuarial gains and losses are amortized over the remaining contract terms of the 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 recognized in these consolidated financial statements is \$29,602 (2019 - \$29,947).

An actuarial valuation of the PSPP was carried out as at December 31, 2017 and was then extrapolated to December 31, 2019. At December 31, 2019, the PSPP reported an actuarial surplus of \$2,759,320 (2018 - surplus of \$519,218). For the year ended December 31, 2019 PSPP reported employer contributions of \$321,306 (2018 - \$337,390). For the 2019 calendar year, the university's employer contributions were \$29,728 (2018 calendar year - \$30,142).

**(c) Defined contribution plans**

**Supplementary retirement plans (SRP)**

The university provides non-contributory defined contribution supplementary retirement benefits to eligible executive and academic staff members. The expense recognized in these consolidated financial statements is \$4,680 (2019 - \$3,315).

**(d) COVID-19 impact**

The fair value of the pension plans are subject to significant market volatility due to the economic crisis stemming from the global pandemic COVID-19 virus. To the extent that the pension plans may not recover market-losses during the remainder of 2020, the funded status of the plans would experience a correlated decline. The financial market impact of the outbreak has been rapidly evolving, which precludes a reasonable estimate of the impact.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
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*(thousands of dollars)*

**8. Debt**

The following debt is with Alberta Capital Finance Authority and is measured at amortized cost:

	<b>Maturity Date</b>	<b>Interest rate %</b>	<b>2020</b>	<b>2019</b>
<b>Collateral</b>				
Title to land, building	August 2024 - March 2048	2.815 - 6.000	\$ 185,918	\$ 192,842
Cash flows from facility	May 2020 - December 2047	4.814 - 6.250	41,988	44,629
General Security Agreement	December 2028 - June 2049	2.420 - 3.623	161,470	82,992
None	December 2025 - September 2036	2.599 - 5.353	14,174	15,334
<b>Balance, end of year</b>			<b>\$ 403,550</b>	<b>\$ 335,797</b>

Interest expense on debt recognized in these consolidated financial statements is \$13,380 (2019 - \$12,211).

Land and buildings pledged as collateral have a net book value of \$283,262 (2019 - \$293,236).

Principal and interest payments are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 17,466	\$ 14,370	\$ 31,836
2022	16,678	13,650	30,328
2023	17,336	12,992	30,328
2024	18,024	12,304	30,328
2025	18,741	11,587	30,328
Thereafter	315,305	108,570	423,875
	<b>\$ 403,550</b>	<b>\$ 173,473</b>	<b>\$ 577,023</b>

**9. Deferred revenue**

	<b>2020</b>			<b>2019</b>
	<b>Unspent externally restricted grants and donations</b>	<b>Student tuition and other revenue</b>	<b>Total</b>	<b>Total</b>
<b>Balance, beginning of year</b>	<b>\$ 547,908</b>	<b>\$ 30,850</b>	<b>\$ 578,758</b>	<b>\$ 548,016</b>
<b>Net change for the year</b>				
Grants, donations, endowment spending allocation and tuition	539,775	370,562	910,337	1,003,853
Transfers to spent deferred capital contributions	(68,112)	-	(68,112)	(58,516)
Recognized as revenue	(483,029)	(368,212)	(851,241)	(914,595)
<b>Net change for the year</b>	<b>(11,366)</b>	<b>2,350</b>	<b>(9,016)</b>	<b>30,742</b>
<b>Balance, end of year</b>	<b>\$ 536,542</b>	<b>\$ 33,200</b>	<b>\$ 569,742</b>	<b>\$ 578,758</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
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*(thousands of dollars)*

**10. Tangible capital assets**

	2020					2019
	Buildings and utilities	Equipment, furnishings and systems	Learning resources	Land	Total	Total
<b>Cost</b>						
Beginning of year	\$ 3,653,721	\$ 1,278,528	\$ 476,733	\$ 84,027	\$ 5,493,009	\$ 5,384,360
Acquisitions	60,852	75,192	21,546	-	157,590	124,566
Disposals	(12,616)	(14,543)	(8,114)	-	(35,273)	(15,917)
	<b>3,701,957</b>	<b>1,339,177</b>	<b>490,165</b>	<b>84,027</b>	<b>5,615,326</b>	<b>5,493,009</b>
<b>Accumulated amortization</b>						
Beginning of year	1,425,505	1,025,353	358,061	-	2,808,919	2,652,331
Amortization expense	96,759	63,670	21,947	-	182,376	172,006
Disposals	(10,981)	(13,954)	(8,114)	-	(33,049)	(15,418)
	<b>1,511,283</b>	<b>1,075,069</b>	<b>371,894</b>	<b>-</b>	<b>2,958,246</b>	<b>2,808,919</b>
<b>Net book value, March 31, 2020</b>	<b>\$ 2,190,674</b>	<b>\$ 264,108</b>	<b>\$ 118,271</b>	<b>\$ 84,027</b>	<b>\$ 2,657,080</b>	<b>\$ 2,684,090</b>
Net book value, March 31, 2019	\$ 2,228,216	\$ 253,175	\$ 118,672	\$ 84,027	\$ 2,684,090	

Included in buildings and utilities is \$68,683 (2019 - \$18,548) recognized as construction in progress, which is not amortized as the assets are not in service.

Acquisitions include in kind donations in the amount of \$7,478 (2019 - \$3,673).

The university holds library permanent collections and other permanent collections which include works of art, museum specimens, archival materials and maps. These collections are expensed and therefore are not included in tangible capital assets.

**11. Spent deferred capital contributions**

Spent deferred capital contributions is comprised of externally restricted grants and donations spent on tangible capital assets, less amortization recognized as revenue.

	2020	2019
<b>Balance, beginning of year</b>	<b>\$ 1,847,187</b>	<b>\$ 1,900,241</b>
<b>Net change for the year</b>		
Transfers from unspent externally restricted grants and donations	68,112	58,516
Expended capital recognized as revenue	(115,828)	(111,570)
<b>Net change for the year</b>	<b>(47,716)</b>	<b>(53,054)</b>
<b>Balance, end of year</b>	<b>\$ 1,799,471</b>	<b>\$ 1,847,187</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
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*(thousands of dollars)*

**12. Net assets**

	Unrestricted	Investment in tangible capital assets	Internally restricted	Endowments	Total
<b>Net assets, March 31, 2018</b>	\$ 74,160	\$ 552,127	\$ -	\$ 1,379,534	\$ 2,005,821
<b>Annual operating surplus</b>	123,288	-	-	-	123,288
<b>Transfer to internally restricted</b>	(55,051)	-	55,051	-	-
<b>Endowments</b>					
New donations	-	-	-	36,227	36,227
Capitalized investment income	-	-	-	39,236	39,236
Transfer to endowments	(882)	-	-	882	-
<b>Tangible capital assets</b>					
Acquisitions	(65,606)	65,606	-	-	-
Debt repayment	(13,371)	13,371	-	-	-
Debt - new financing	16,837	(16,837)	-	-	-
Amortization	60,436	(60,436)	-	-	-
<b>Change in accumulated remeasurement gains</b>	(1,483)	-	-	(23,575)	(25,058)
<b>Net assets, March 31, 2019</b>	\$ 138,328	\$ 553,831	\$ 55,051	\$ 1,432,304	\$ 2,179,514
<b>Annual operating deficit</b>	(40,246)	-	-	-	(40,246)
<b>Transfer from internally restricted</b>	15,000	-	(15,000)	-	-
<b>Endowments</b>					
New donations	-	-	-	25,506	25,506
Capitalized investment income	-	-	-	84	84
Transfer to endowments	(2,327)	-	-	2,327	-
Transfer from endowments	30,522	-	-	(30,522)	-
<b>Tangible capital assets</b>					
Acquisitions	(87,313)	87,313	-	-	-
Debt repayment	(14,564)	14,564	-	-	-
Debt - new financing	20,024	(20,024)	-	-	-
Amortization	66,548	(66,548)	-	-	-
<b>Change in accumulated remeasurement gains</b>	(36,879)	-	-	(145,131)	(182,010)
<b>Net assets, March 31, 2020</b>	\$ 89,093	\$ 569,136	\$ 40,051	\$ 1,284,568	\$ 1,982,848

**Net assets is comprised of:**

Accumulated surplus	\$ 84,092	\$ 569,136	\$ 40,051	\$ 1,220,665	\$ 1,913,944
Accumulated remeasurement gains <sup>(1)</sup>	5,001	-	-	63,903	68,904
	\$ 89,093	\$ 569,136	\$ 40,051	\$ 1,284,568	\$ 1,982,848

<sup>(1)</sup> Accumulated remeasurement gains are unrealized gains which are not recognized as revenue until realized.

**Internally restricted net assets**

Internally restricted net assets represent amounts set aside by the university's Board of Governors for an investment income reserve to ensure that future obligations can be fulfilled in the event of significant investment losses. This amount is not available for other purposes without the approval of the Board and does not have interest allocated to it.

	2020	2019
Investment income reserve	\$ 40,051	\$ 55,051

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
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*(thousands of dollars)*

**12. Net assets (continued)**

The university's investment income earned from endowment investments was not sufficient to fund the current year's endowment spending allocation. Investment income earned was \$13,822 leaving an unfunded allocation of \$58,044. Of this amount, \$30,522 was spent by endowment holders. As such, the university has recorded a temporary encroachment on its endowment net assets of \$30,522 as at March 31, 2020. In addition, the university also has a future commitment of \$27,522 representing the unspent allocation provided per the University Endowment Pool (UEP) Spending policy. Since this \$27,522 represents a future commitment at March 31, 2020, it has not been recorded in the financial statements.

**13. Contingent assets**

The university has initiated a number of insurance claims arising in the normal course of business in which the outcomes may result in assets in the future. While the outcomes of these claims cannot be reasonably estimated at this time, the university believes that any settlement will not have a material effect on the financial position or the results of operations of the university. These contingent assets are not recognized in the consolidated financial statements.

**14. 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. Management has concluded that none of the claims meet the criteria for recognizing a liability.
- (b) The university has identified a potential liability 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 facilities will be recognized in the period in which there is certainty that the renovation or demolition project will proceed and there is sufficient information to estimate fair value of the obligation.

**15. Contractual rights**

Contractual rights are rights of the university to economic resources arising from contracts or agreements that will result in both assets and revenues in the future when the terms of those contracts or agreements are met.

Estimated amounts that will be received or receivable for each of the next five years and thereafter are as follows:

	Operating leases	Other contracts	Total
2021	\$ 1,638	\$ 2,388	\$ 4,026
2022	1,253	2,300	3,553
2023	880	2,280	3,160
2024	449	2,225	2,674
2025	260	1,742	2,002
Thereafter	416	4,309	4,725
	<b>\$ 4,896</b>	<b>\$ 15,244</b>	<b>\$ 20,140</b>
Total at March 31, 2019	\$ 6,900	\$ 11,771	\$ 18,671

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
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*(thousands of dollars)*

**15. Contractual rights (continued)**

During the year, the university entered into a 25 year lease to provide space to an entity under common control for a nominal amount. The remaining fair value over the lease term is estimated to be \$6,797.

The university also has contractual rights which cannot be reasonably estimated due to the nature of the agreements. The total of these rights is not material.

**16. Contractual obligations**

- (a) The university has contractual obligations that will result in liabilities in the future when the terms of the contracts are met. The estimated aggregate amount payable for the unexpired terms of these contractual obligations are as follows:

	Capital projects	Service contracts	Long-term leases	Total
2021	\$ 141,114	\$ 80,683	\$ 3,990	\$ 225,787
2022	115,921	11,392	2,538	129,851
2023	74,652	2,157	1,854	78,663
2024	38,499	842	1,794	41,135
2025	25,521	842	1,139	27,502
Thereafter	20,000	351	1,766	22,117
	<b>\$ 415,707</b>	<b>\$ 96,267</b>	<b>\$ 13,081</b>	<b>\$ 525,055</b>
Total at March 31, 2019	\$ 480,137	\$ 121,592	\$ 16,520	\$ 618,249

The significant service contracts are as follows:

- 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. The two contracts (2019 - three contracts) with expenditures totaling \$7,199 (2019 - \$16,212) expire over the next two years.
  - Effective August 1, 2015, the university entered into an agreement with an external party for dining and catering services. The agreement has four months remaining with a total estimated cost of \$3,467 (2019 - \$13,867). The agreement will be renewed effective August 1, 2020.
  - The university entered into agreements with two external parties for information technology support. The first agreement, effective July 1, 2015 for infrastructure management services, has three months remaining with a cost of \$934 (2019 - \$5,625). The agreement will be renewed effective July 1, 2020. The second agreement, effective July 1, 2019 for application management services, has two years remaining with a cost of \$3,667 (2019 - \$812).
  - Effective August 1, 2019, the university entered into an agreement with an external party for custodial services. The agreement has two years remaining with a cost of \$13,032 (2019 - \$3,300).
- (b) The university is one of 61 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, 2019, CURIE had an accumulated surplus of \$90,185 (2018 - \$79,338), of which the university's pro rata share is approximately 7.33% (2019 - 7.34%). This accumulated surplus is not recognized in the consolidated financial statements.

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*(thousands of dollars)*

**17. Related parties**

The university is a related party to organizations within the Government of Alberta reporting entity. Related parties also include key management personnel, including the Board of Governors, and their close family members. Transactions with these entities and individuals are considered to be in the normal course of operations and are recorded at the exchange amount, which approximates fair value.

The university utilizes space provided by other related parties, mainly Alberta Health Services. This space is provided at a nominal cost. Due to the unique physical and operating arrangements in place, the specialized nature of the space and the integrated nature of operations, the fair value of these lease arrangements cannot be reasonably determined.

The university has debt with Alberta Capital Finance Authority as described in (note 8).

**18. Budget**

The university's 2019-20 budget was approved by the Board of Governors and was presented to the Minister of Advanced Education as part of the university's submission of its 2019-20 Comprehensive Institutional Plan.

**19. Government transfers**

	2020	2019
<b>Government of Alberta grants</b>		
Advanced Education - Campus Alberta grant	\$ 626,861	\$ 671,283
Advanced Education - other grants	80,648	116,303
Alberta Health Services - Academic Medicine and Health Services Program	60,429	52,668
Alberta Health Services - other grants	6,642	5,022
Economic Trade and Development	44,844	66,217
Health	25,081	24,928
Other departments and agencies	9,336	17,989
	<b>853,841</b>	954,410
Expended capital recognized as revenue	68,147	67,238
Deferred revenue	(49,959)	(75,005)
	<b>\$ 872,029</b>	<b>\$ 946,643</b>
<b>Federal and other government grants</b>		
Natural Sciences and Engineering Research Council	\$ 55,793	\$ 52,643
Canadian Institutes of Health Research	38,992	35,899
Social Sciences and Humanities Research Council	30,468	30,981
Canada Research Chairs	15,497	12,430
Canadian Foundation for Innovation	13,156	13,843
Canada First Research Excellence Fund	12,264	13,090
Other	44,050	46,458
	<b>210,220</b>	205,344
Expended capital recognized as revenue	19,927	18,242
Deferred revenue	(16,494)	(13,686)
	<b>\$ 213,653</b>	<b>\$ 209,900</b>

The university currently holds \$11,553 (2019 - \$8,788) on behalf of federal and other government agencies. These amounts are not recognized in the university's consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - DRAFT  
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*(thousands of dollars)*

**20. Expense by object**

	2020 Budget (Note 18)	2020	2019
Salaries	\$ 976,351	\$ 941,083	\$ 942,685
Employee benefits	199,075	209,241	184,786
Materials, supplies and services	298,588	279,345	276,808
Scholarships and bursaries	130,124	135,461	125,476
Maintenance and repairs	107,061	100,243	93,620
Utilities	50,174	47,521	46,829
Amortization of tangible capital assets	177,953	182,376	172,006
	\$ 1,939,326	\$ 1,895,270	\$ 1,842,210

Salaries and employee benefits include accrued termination benefits of \$6,247 (2019 - \$1,188) and \$408 (2019 - \$nil) respectively.

**21. Salaries and employee benefits**

	2020							Total
	Base salary <sup>(5)</sup>	Other cash benefits <sup>(6)</sup>	Non-cash benefits <sup>(7)</sup>	Non-cash benefits (DB SRP) <sup>(8)</sup>	Non-cash benefits (DC SRP) <sup>(9)</sup>	Non-cash benefits (leave) <sup>(10)</sup>		
<b>Governance <sup>(1)</sup></b>								
Board of Governors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Executive</b>								
President	500	250	52	31	64	63	960	
Provost and Vice-President (Academic) <sup>(11)</sup>	415	-	44	-	50	-	509	
Vice-President (Research and Innovation) <sup>(2)</sup>	375	10	42	-	26	77	530	
Vice-President (Facilities and Operations)	370	9	43	-	28	30	480	
Vice-President (Finance and Administration)	375	9	52	-	30	32	498	
Vice-President (University Relations) <sup>(3)</sup>	230	476	34	-	15	13	768	
Vice-President (Advancement)	206	74	39	-	16	-	335	
2019								
	Base salary <sup>(5)</sup>	Other cash benefits <sup>(6)</sup>	Non-cash benefits <sup>(7)</sup>	Non-cash benefits (DB SRP) <sup>(8)</sup>	Non-cash benefits (DC SRP) <sup>(9)</sup>	Non-cash benefits (leave) <sup>(10)</sup>	Total	
<b>Governance <sup>(1)</sup></b>								
Board of Governors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Executive</b>								
President	500	170	50	30	47	99	896	
Provost and Vice-President (Academic) <sup>(11)</sup>	415	-	43	-	43	-	501	
Vice-President (Research) <sup>(2)</sup>	367	10	46	-	25	58	506	
Vice-President (Facilities and Operations)	370	9	42	-	27	39	487	
Vice-President (Finance and Administration)	375	9	52	-	25	41	502	
Vice-President (University Relations)	350	9	41	-	26	35	461	
Vice-President (Advancement) <sup>(4)</sup>	305	29	41	-	20	22	417	

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

(2) The position title was changed July 29, 2019. In 2019, two individuals held this position. The interim Vice-President (Research) did not participate in any executive benefit programs except the DC SRP.

(3) In 2020, two individuals held this position. The interim Vice-President (University Relations), who served in this role on a part time basis, did not participate in any executive benefit programs except the DC SRP.

(4) In 2019, two individuals held this position. The interim Vice President (Advancement) did not participate in any executive benefit programs except the DC SRP.

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*(thousands of dollars)*

**21. Salaries and employee benefits (continued)**

- (5) Base salary includes pensionable base pay for all executive.
- (6) Other cash benefits include academic executive allowances, salary supplements, performance pay, market supplements, car allowances, mobile allowances and relocation allowances. Other cash benefits in 2020 also includes severance payments (salary continuance and lump sum payment) and a vacation payout for the former Vice President (University Relations).
- (7) 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 executive also include supplemental life insurance and forgivable housing loans.
- (8) Under the terms of the Defined Benefit Supplementary Retirement Plan (DB SRP), the executive may receive supplemental 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 DB 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. The DB SRP was closed to new members effective June 30, 2014.

The DB SRP current service cost and accrued benefit obligation is as follows:

	2019		2020			
	Years of eligible University of Alberta service	Accrued benefit obligation	Service costs	Interest and other costs	Actuarial (gain) loss	Accrued benefit obligation <sup>(8b)</sup>
President <sup>(8a)</sup>	4.8	\$ 99	\$ 27	\$ 4	\$ (6)	\$ 124

(8a) The DB SRP was closed to new members effective June 30, 2014. However, a portion of the supplementary retirement benefit for the current President is calculated on a defined benefit basis, and the liability will be disclosed on this basis as service is provided.

(8b) The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in (note 7).

- (9) Under the terms of the executive Defined Contribution Supplementary Retirement Plan (DC SRP), the executive may receive supplemental 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 cost to provide supplementary retirement benefits. The DC SRP provides future benefits to participants based on the value of the contributions at the end of their service. The cost of these benefits is calculated based on pensionable salary multiplied by a factor based on age and service. The DC SRP was introduced effective July 1, 2014, for all executives commencing employment on or after that date.

The DC SRP current service cost and obligation is as follows:

	2019		2020		
	Years of eligible University of Alberta service	DC SRP obligation	Service costs	Interest and investment earnings <sup>(9b)</sup>	DC SRP obligation
President	4.8	\$ 180	\$ 48	\$ 16	\$ 244
Provost and Vice-President (Academic)	4.8	126	39	11	176
Vice-President (Research and Innovation)	1.9	24	25	1	50
Vice-President (Facilities and Operations)	3.6	54	24	4	82
Vice-President (Finance and Administration)	3.4	62	25	5	92
Former Vice-President (University Relations) <sup>(9a)</sup>	2.3	40	11	3	54
Interim Vice-President (University Relations)	0.4	-	1	-	1
Interim Vice-President (Advancement)	1.4	6	15	1	22

(9a) Includes service to September 29, 2019 and the DC SRP obligation shown is at September 29, 2019.

(9b) Contributions are made on an annual basis at the end of the plan (calendar) year. Interest is paid in lieu of contributions being made every month. Investment earnings are distributed to each plan participant based on the overall return of the plan's investments.



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**21. Salaries and employee benefits (continued)**

<sup>(10)</sup> The administrative/professional leave (leave) plan current service cost and accrued benefit obligation is as follows:

	Years of eligible University of Alberta service	2019		2020		
		Accrued benefit obligation	Service costs	Interest and other costs	Actuarial (gain) loss	Accrued benefit obligation <sup>(10d)</sup>
President <sup>(10a)</sup>	4.8	\$ 339	\$ 90	\$ (27)	\$ 43	\$ 445
Vice-President (Research and Innovation) <sup>(10b)</sup>	1.9	59	79	(2)	(136)	-
Vice-President (Facilities and Operations)	3.6	102	38	(8)	1	133
Vice-President (Finance and Administration)	3.4	100	40	(8)	1	133
Former Vice-President (University Relations) <sup>(10c)</sup>	2.3	63	16	(3)	2	78

<sup>(10a)</sup> The current service cost and accrued benefit obligation for the President have been calculated based on the base salary which will be in effect at the end of the term of service on June 30, 2020. That base salary will be \$447 as stipulated in the *Reform of Agencies, Boards and Commissions (Post-secondary Institutions) Compensation Regulation, Schedule 2*. If calculated using the base salary of \$500, the accrued benefit obligation at March 31, 2020 would have been \$57 higher.

<sup>(10b)</sup> The Vice-President (Research and Innovation) has given the university notice of departure effective April 30, 2020. Based on the relevant employment agreement, there are no longer any circumstances under which a leave benefit will need to be paid out, and so the accrued benefit obligation has been reduced to \$0.

<sup>(10c)</sup> Includes service to September 29, 2019 and the accrued benefit obligation shown is at September 29, 2019.

<sup>(10d)</sup> The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in (note 7).

<sup>(11)</sup> The Provost and Vice-President (Academic) participates in the administrative leave program available to faculty members in eligible administrative positions. Under that administrative leave program, an individual must apply for and receive approval for a leave; therefore, there is no leave accrual.

**22. Approval of financial statements**

The consolidated financial statements were approved by the Board of Governors.

**23. Comparative figures**

Certain comparative figures have been reclassified to conform to the current year presentation.

**24. Subsequent events**

On March 11, 2020, the World Health Organization declared the COVID-19 disease to be a global pandemic. On March 17, 2020, the Government of Alberta declared a state of public health emergency over the COVID-19. These declarations have impacted how the university operates. Specific impacted areas are:

**Staff**

On April 15, 2020, the university announced its intention to conduct temporary staff layoffs for a period of 16 weeks in response to the change in how the university operates under the public health emergency. The university intends to hire these staff back once the university resumes normal operations. No allowance has been made to the financial statements for this item.

**Enrolment**

The announced closure of Canada's borders to non-essential international travel is expected to have an impact on enrolment, especially if the restriction is still in place when the fall semester is to begin. This will have a negative impact on tuition revenue which cannot be reasonably estimated at this time. It is anticipated that enrolment of domestic students may increase as a result. No allowance has been made to the financial statements for this item.

**Fundraising**

The economic impacts of COVID-19 present uncertainty for fundraising in the year ahead. However, it is too early in the year to forecast specific implications to fundraising targets and results. No allowance has been made to the financial statements for this item.

**Provincial government funding**

Before the emergence of the COVID-19 pandemic, the university was operating under a general guideline of proposed funding cuts to its operating grant over this and the next two fiscal years. The emergence of this pandemic along with the historic drop in oil prices has resulted in uncertainty if the proposed guideline of cuts is still applicable. The overall impact to the university is uncertain and therefore cannot be reasonably estimated at this time. No allowance has been made to the financial statements for this item.