



UNIVERSITY OF CALGARY

Management Discussion & Analysis

For the Year Ended
March 31, 2020

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Management Discussion and Analysis Overview

This Management Discussion and Analysis (“MD&A”) should be read in conjunction with the University of Calgary’s (“the University”) consolidated financial statements and accompanying notes for the year ended March 31, 2020. The MD&A and consolidated financial statements are reviewed and approved by the University’s Board of Governors on the recommendation of the University’s Audit Committee. The University’s consolidated financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (“PSAS”).

The MD&A is an overview of the University’s financial results for the year ending March 31, 2020 and offers analysis of the University’s:

1. Operating Environment
2. Financial Results
3. Net Assets and Net Financial Assets
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Operating Environment

The University is on an ambitious journey to become one of Canada’s top research-intensive universities, making significant contributions to the local and provincial economies. The University’s main campus occupies a beautiful setting with a view of the Rocky Mountains, covering more than 200 hectares – an area larger than Calgary’s entire downtown.

The University is focused on fulfilling the three foundational commitments of our *Eyes High* 2017-22 strategy: sharpen focus on research and scholarship; enrich the quality and breadth of learning; and integrate the University with the community.

On March 17, 2020, the Government of Alberta declared a state of public health emergency over the COVID-19 global pandemic. To ensure the safety and health of the University’s students, faculty and staff, and members of the community, the University temporarily moved to a remote delivery model for classes, suspended activities at field research stations, and cancelled or postponed in-person events on campus. Staff and faculty whose roles supported them working remotely were asked to do so. The COVID-19 pandemic has had significant impacts on the lives of many individuals across our city, province, and around the globe. As the Government of Alberta lifts restrictions and restarts Alberta’s economy, the University remains a strong partner to help our students, community, province, and country as we continue our *Eyes High* journey together.

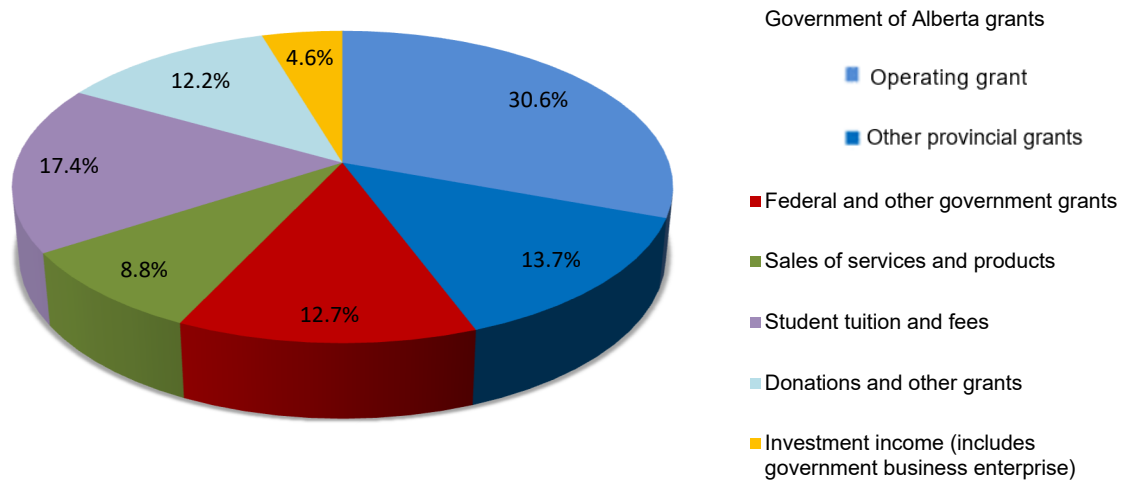
Financial Results

For the year ended March 31, 2020, the University’s expenses exceeded revenues by \$29.8 million. This annual operating deficit decreased from the \$99.4 million surplus in 2019. The primary drivers of the decrease were current year impacts including a 6.9% reduction (\$32.9 million) to the Campus Alberta grant from the Government of Alberta, a Voluntary Retirement Incentive Program of \$12.8 million and \$8.0 million in employee severance payouts. Additionally 2019 included one-time donations of \$42.6 million which were not repeated at that magnitude in 2020.

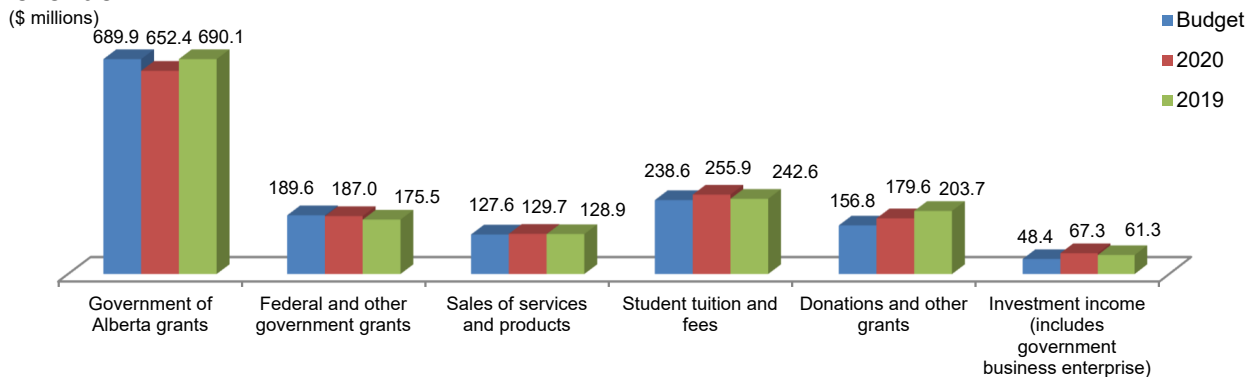
Total net assets have decreased by \$108.8 million from March 31, 2019 as the result of \$29.8 million of annual operating deficit and \$93.2 million of unrealized losses on portfolio investments as a result of financial market declines due to COVID-19, which are partially offset by endowment donations of \$14.2 million.

Revenue

Total revenues for the year ended March 31, 2020 were \$1,471.9 million, a decrease of \$30.1 million (2.0%) compared to the prior year and \$20.9 million (1.4%) over budget. Revenue from the Government of Alberta represented the University's single largest source of income, at 44.3% of total University revenue, and played a key role in the ability to fund University activities. Major components of revenue are as follows:



Revenue



Government of Alberta grants

Government of Alberta grant revenue of \$652.4 million was \$37.7 million lower than prior year and \$37.5 million lower than budget. The decrease over prior year and budget is primarily the result of Government of Alberta 6.9% in year reduction to the Campus Alberta grant.

Federal and other government grants

Grant revenue from federal and other government sources of \$187.0 million was \$11.5 million higher than prior year and \$2.6 million lower than budget. The increase compared to prior year was a result of successfully obtaining additional research awards from Canadian Institutes of Health Research (CIHR) and Social Sciences and Humanities Research Council (SSHRC).

Sales of services and products

Sales of services and products revenue of \$129.7 million was \$0.8 million higher than the prior year and \$2.1 million higher than budget. Increase from prior year is a result of an increase in West Campus Development Trust lease revenue offset by a reduction in University events held on campus to meet the cost restraints of the in-year budget cuts and decreased sales in Ancillary due to the transition of Starbucks to a third party provider.

Student tuition and fees

Student tuition and fees of \$255.9 million were \$13.3 million higher than prior year and \$17.3 million higher than budget. The increase from prior year and budget is a result of increased enrolment of full-time students in addition to increased fees for both domestic and international students.

Donations and other grants

Donations and other grant revenue of \$179.6 million was \$24.1 million lower than prior year and \$22.8 million higher than budget. Donations and other grants were lower than prior year due to receiving a \$34.6 million donation of the W.A. Ranches and \$8.0 million donation of a building in 2019. The variance from budget is due to higher than expected donations and other grants related to research clinical trials.

Investment income – Including investment income in government business enterprise

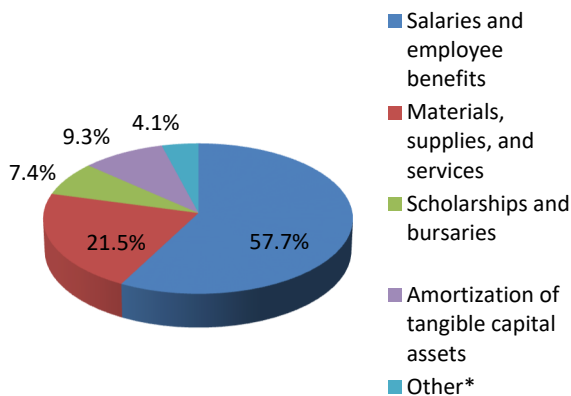
Investment income (including investment income in government business enterprise (“GBE”)) of \$67.3 million was \$6.0 million higher than prior year and \$18.9 million higher than budget. The variance is due to a \$3.6 million increase in income from the University’s investment in GBE, West Campus Development Corporation, \$15.3 million higher realized income earned on investments due to realized capital gains and higher than expected investment income.

Expense

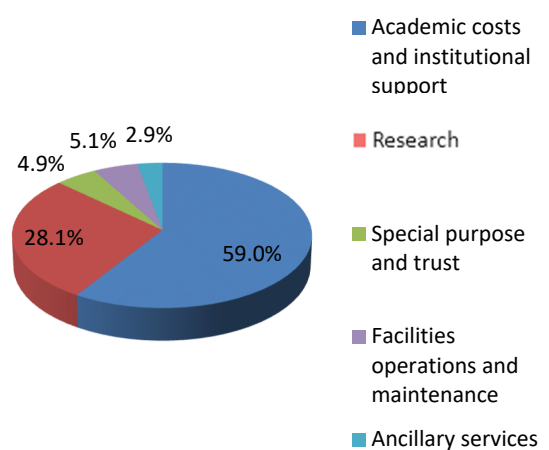
For the year ended March 31, 2020, the University recorded \$1,501.8 million in expenses representing an increase of \$99.0 million (7.1%) over the prior year and \$50.8 million (3.5%) higher than budget. Salaries and benefits are the largest expenditure component at the University, representing 57.7% of the University's expenses.

Academic costs and institutional support represents the single largest function at the University, with this function representing 59.0% of the University's expenses. This includes instruction, non-research academic and administrative support activities, effectively representing the operating activities of the University.

Expense by Object



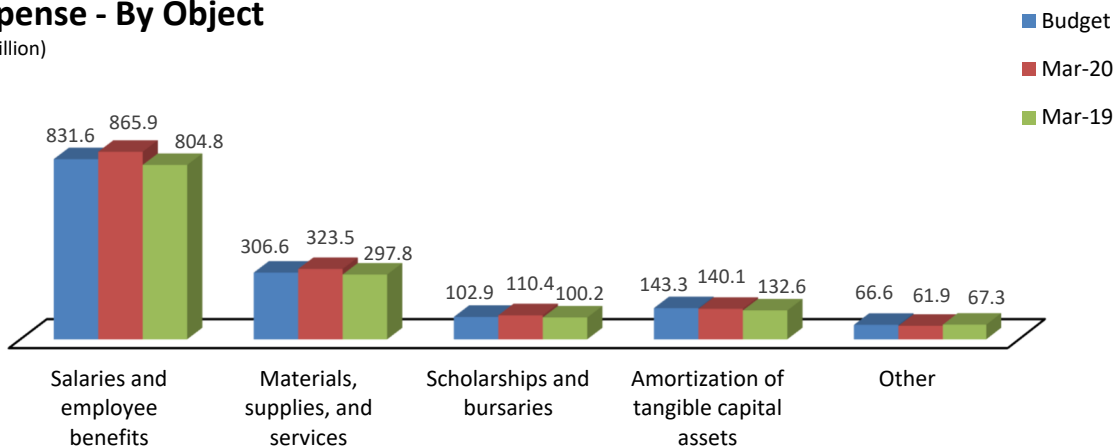
Expense by Function



*Other expenses include: Utilities, Maintenance and repairs, and Cost of goods sold.

Expense - By Object

(\$ million)



Salaries and employee benefits

Salaries and employee benefits of \$865.9 million have increased by \$61.1 million over the prior year and increased \$34.3 million from budgeted amounts. The increase is mainly due to \$19.5 million higher than budgeted Universities Academic Pension Plan (UAPP) pension costs as a result of changes in actuarial calculations completed for the pension plan, \$12.8 million related to the Voluntary Retirement Incentive Program and \$8.0 million in severance payouts, offset by \$6.0 million lower than expected salaries from delayed hires, unexpected leaves, and departures.

Materials, supplies and services

Materials, supplies and services of \$323.5 million represent the second largest expense component of the University with current year costs \$25.7 million higher than the prior year and \$16.9 million higher than budget. Materials, supplies and services are higher than prior year due to purchasing \$3.3 million of new security cameras and monitors to upgrade our building and physical security and increased spending on externally restricted projects relating to research and special purpose activities.

Scholarships and bursaries

Scholarships and bursaries of \$110.4 million were \$10.2 million higher than the prior year and \$7.5 million above budget. These higher expenses are in line with University goals for attracting and supporting students across various faculties.

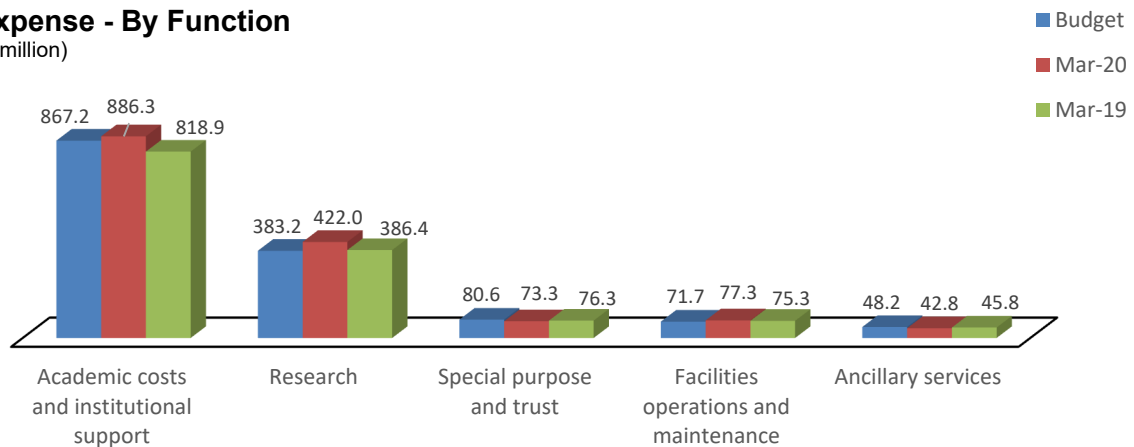
Amortization of tangible capital assets

Amortization of tangible capital assets expense of \$140.1 million increased by \$7.5 million from the prior year and decreased by \$3.2 million compared to budget. The increase from prior year is a result of new assets transferred into service during the year, primarily related to the completion of MacKimmie Tower in January 2020.

Other

Other expenses totaling \$61.9 million were \$5.4 million lower than prior year and \$4.7 million lower than budgeted amounts. The decrease is primarily due to the absence of Infrastructure Maintenance Program (IMP) funding which was suspended by the Government of Alberta for the 2020 fiscal year and additional budget constraints in the current year resulting in a reduction of related expenses.

Expense - By Function (\$ million)



Academic costs and institutional support

Academic costs and institutional support expenses of \$886.3 million increased \$67.4 million over the prior year and increased by \$19.1 million compared to budget. The increase from prior year is primarily due to \$19.5 million of UAPP pension costs as a result of changes in actuarial calculations, \$16.2 million increase in academic and institutional support salaries with additional increases of \$12.8 million from the Voluntary Retirement Incentive Program and \$8.0 million in severance payouts. Further increases from prior year were due to \$6.4 million in increased materials and supplies primarily from research projects as well as \$4.5 million increase due to asset retirement of the MacKimmie Block.

Research and Special purpose and trust

Research costs of \$422.0 million were \$35.6 million higher than prior year and \$38.8 million higher than budget. This increase is due to the University's strategic focus on directing resources and activities towards research initiatives in support of *Eyes High* goals for increased research across many faculties of the University. Special purpose and trust costs of \$73.3 million were \$3.0 million lower than prior year and \$7.3 million lower than budgeted amounts primarily due to increase of materials and supplies in the prior year related to Postgraduate Medical Education projects.

Facilities operations and maintenance

Facilities operations and maintenance costs of \$77.3 million were \$2.0 million higher than prior year and \$5.6 million higher than budget. The increase from prior year is related to costs associated with the Life Sciences Innovation Hub. The budget variance is a result of operating and maintaining a growing and aging campus infrastructure resulting in higher than budgeted expenditures.

Ancillary services

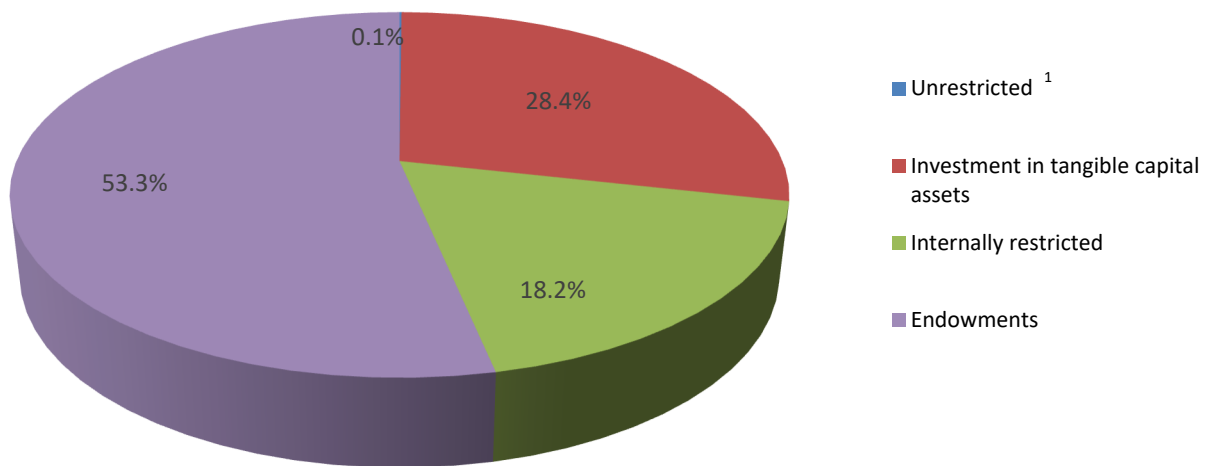
Ancillary expenditures of \$42.8 million were \$3.0 million lower than prior year and \$5.4 million lower than budget primarily due to lower salaries and benefits from unfilled vacancies and fewer hourly employees and decreased costs as a result of the transition of Starbucks to a third party provider.

Net Assets and Net Financial Assets

Net Assets

The University's net asset balance is an important indicator of financial health for the University. Prudent financial planning and strategic decision-making combined with increased endowment contributions from donors have contributed to the University's \$1,717.9 million in net assets. Endowments of \$915.9 million continue to represent the largest component of Net Assets. Endowments must be maintained in perpetuity. Investment income earned is used to fund specific research, scholarship, and donor supported initiatives.

Of the remaining \$802.0 million in net assets, \$487.5 million represents funds previously spent as a net investment in capital assets and \$312.7 million formally restricted by the University's Board of Governors for spending on strategic initiatives in support of student learning, research, capital projects, and community service. During the year, the Board of Governors approved \$65.2 million of transfers into internally restricted net assets for faculty and department strategic initiatives offset by \$63.4 million of non-capital expenditures for a net transfer of \$1.8 million. In addition, the University used unrestricted net assets to fund \$25.7 million of capital construction and capital purchases and \$5.9 million to repay University debt. After amounts spent on capital assets, Board of Governors restrictions, and debt repayment, \$1.8 million remains in unrestricted net assets. Net assets at March 31, 2020 are comprised of the following balances and related summarized transactions:



¹ Unrestricted net assets of 0.1% are not visible in the chart due to the low percentage of total net assets.

Net Assets (continued)

As at March 31, 2020 (\$ thousands)	Unrestricted	Investment in Capital Assets	Internally Restricted	Endowment	Total
Balance as at March 31, 2019	\$ 17,026	\$ 457,771	\$ 360,846	\$ 991,060	\$1,826,703
Annual deficit	(29,841)	-	-	-	(29,841)
Transfer to internally restricted net assets net of expenditures	(1,771)	-	1,771	-	-
Endowment					
New contributions	-	-	-	14,257	14,257
Transfer from endowment ⁽¹⁾	4,980	-	-	(4,980)	-
Tangible capital assets					
Acquisition of tangible capital assets	(25,653)	75,588	(49,935)	-	-
Amortization of tangible capital assets	50,465	(50,465)	-	-	-
Debt repayment	(5,854)	5,854	-	-	-
Debt new financing	1,214	(1,214)	-	-	-
Change in accumulated remeasurement losses	(8,811)	-	-	(84,380)	(93,191)
Balance as at March 31, 2020	\$ 1,755	\$ 487,534	\$ 312,682	\$ 915,957	\$1,717,928

- (1) Transfer from endowment has been recorded to cover the endowment spending in excess of the investment income earned on endowments. When endowment investment income is insufficient to cover endowment spending, amounts are transferred from the cumulative capitalized endowment investment income to cover the shortfall.

Net Financial Assets

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. The Net Financial Asset indicator is intended to identify the availability of net financial resources of an organization to fund future operations after considering liabilities owed to third parties. The University presents the Net Financial Asset indicator in a manner as directed by the Controller of the Province of Alberta. The presentation includes \$915.9 million of investments that are restricted for endowments. Portfolio investments – restricted for endowments must be maintained in perpetuity and are therefore not available to pay for University liabilities, nor can the University use the endowment portfolio investments to pay for future operating or capital purchases. As a result, net financial assets excluding portfolio investments restricted for endowments is presented on the Consolidated Statement of Financial Position.

At March 31, 2020 Net Financial Assets excluding portfolio investments restricted for endowments is \$146.2 million, representing a \$65.1 million decrease from the prior year figures. This decline is primarily due to the impact on the University's surplus from the in-year Campus Alberta Grant reduction of \$32.9M, the loss of the Infrastructure Maintenance Program (IMP) grant of \$22.4M and the accrual of \$12.8 million for the Voluntary Retirement Incentive Program.

Capital Expansion and Renewal

Continuation of capital expansion and renewal projects remains a critical priority for the University, contributing not only to the student learning experience and the quality of research activity, but also positively to the Calgary economy. In 2020, the University expended \$216.4 million (2019 - \$272.6 million) on construction and other capital asset acquisitions. This capital activity represents the continuation of the University's multi-year capital building program through construction of new buildings as well as redevelopment, renovation, and numerous instructional facility upgrade projects.

The following represents progress on the top six major construction projects on campus:

Major Capital Project Costs (\$ thousands)	2020	Expenditures to Date	Total Budget
Mackimmie Complex and Professional Faculties Building Redevelopment	90,753	173,927	290,000
Schulich School of Engineering Block E Renovation Project	7,033	7,855	9,500
Veterinary Medicine Student Space Expansion Project	5,202	6,180	7,665
Mathison Hall	3,965	5,178	90,000
University Research Centre Labs	3,208	3,557	5,100
Life Sciences Innovation Hub	2,636	3,111	4,350

Mackimmie Complex and Professional Faculties Building Redevelopment

The project will completely renew and repurpose the Mackimmie Complex, including targeted renovations to the Professional Faculties Building (PFB), associated with the relocation of the Faculty of Social Work to the Mackimmie Tower and backfill of the space to accommodate Faculty of Nursing expansion. The project represents an opportunity to address many challenges, as part of one integrated project. Making the best use of two existing buildings will reduce operating costs, co-locate and centralize student and staff services in the heart of our campus, alleviate space pressures within the Social Work and Nursing Faculties and bring the Facility Condition Index (FCI) of the Mackimmie Tower and Block to near zero. The project necessitated the decanting of 600 existing Mackimmie Tower occupants (500 to offsite premises and 100 to main campus locations).

Schulich School of Engineering (SSE) Block E Renovation Project

This project is to renovate the first, second and third floors of Block E. The project consists of the redevelopment of over 6,000m² of space for functional and pedagogical reconfigurations, modernization of the spaces and improved Code compliance requirements while following University Design Guidelines. The project includes classrooms, wet and dry lab spaces, office space for Faculty and post-graduate residents, as well as spaces for students.

Veterinary Medicine Student Space Expansion Project

The project is comprised of a series of enhancements to existing teaching and learning facilities at the Clinical Skills Building located at the Spy Hill Campus. This includes an expanded surgery suite, new teaching areas and modifications to the existing bovine and equine facilities. In addition to the expansion scope, renovations to existing facilities will also be undertaken to provide additional student study space, teaching areas and expand locker/change rooms. These enhanced facilities will also allow the Veterinary Medicine program to accommodate increased student placements beginning in 2020, be used to provide continuing education to Alberta veterinarians and will provide a space for special interest groups from the public to hold conferences.

Mathison Hall

The project primarily consists of the development of a new, innovative building on campus with approximately 10,000 m² to meet modern expectations for technology-rich, flexible teaching and research space required for the Haskayne School of Business. The new building will share a new front door with Scurfield Hall and be connected to it by a four story atrium. The project scope will also include landscaping, IT and furnishings, fixtures, and equipment.

University Research Centre Labs

The project consists of the development of high-quality research and industrial lab space and support space. Renovations will address safety concerns, including the replacement of old fume hoods, improvement of the working environment through the replacement of aged flooring, paint and lab benching, and improved functionality to meet specific user requirements through design modifications of larger labs and the relocation/upgrading of electrical services to accommodate new equipment. The project will significantly increase the university's research capacity to make a significant contribution toward Canada's leadership as a supplier of safe, secure, clean and reliable energy.

Life Sciences Innovation Hub

The project involves renovating the space within the Life Sciences Innovation Hub (the former Shell Technology Centre), located in University Research Park, to support its re-development and prepare the facility to be tenant-ready in the University's pursuit to create a space that drives life sciences innovation and supports start-up organizations.

Areas of Significant Financial Risk

Deferred Maintenance

The University directs significant resources to ensure that University buildings are updated with relevant technology, operated efficiently, meet or exceed university and external regulatory standards. The University has an outstanding deferred maintenance balance of \$555.7 million (2019 - \$536.0 million). Due to budget constraints, the Government of Alberta suspended the Infrastructure Maintenance Program funding for the 2020 fiscal year (2019 - \$22.5 million).

Unfunded Pension Liability

The University participates, with other Alberta post-secondary institutions, in the UAPP to provide defined-benefit pensions for participating faculty and staff. The extrapolated actuarial deficiency for the pension plan at March 31, 2020 is \$1,304.2 million (2019 - \$996.5 million). The University's portion of the deficiency is \$187.7 million (2019 - \$133.9 million). This unfunded deficiency in the UAPP is currently being funded by the Government of Alberta, employee and employer contributions. The deficiency is expected to be eliminated by 2043.

Budgetary Pressure

In the 2020 fiscal year, the University received a 6.9 percent cut to its provincial grant. Subsequently, the University's grant was cut a further 6.0 percent for the 2021 fiscal year. Although the University has produced a balanced budget for 2021, provincial funding is expected to continue to decrease. Cost savings to address these cuts were achieved largely through workforce reductions, reductions in discretionary spending, and the cancellation or deferral of major projects. Impacts of the global COVID-19 pandemic may further impact provincial funding to the University. Plans to mitigate these risks include expenditure reductions in targeted areas, the achievement of greater efficiencies in our operations, and the identification of new sources of revenue. Through our prudent fiscal management and a willingness to partner with government, the University will continue to work toward mitigating risks to ensure we continue to deliver on *Eyes High* strategy and mandate while ensuring that budgets remain balanced.