



UNIVERSITY OF CALGARY

Management Discussion & Analysis

For the Year Ended
March 31, 2021

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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, 2021. 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, 2021 and offers analysis of the University’s:

1. Operating Environment
2. Financial Results
3. Net Assets and Net Financial Assets
4. Capital Expansion and Renewal
5. Areas of Significant Financial Risk

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.

The COVID-19 pandemic has resulted in some unique and challenging times across the world. Over the past year, the University has adapted quickly and efficiently to ensure the safety and health of the University’s students, faculty and staff, and members of the community. The University implemented a number of COVID-19 protocols in response to protecting the University community: reduced in-person instruction by moving to a hybrid delivery model for classes and assessments, reduced capacity at field research stations, restricted international travel, and cancelled or postponed in-person events on campus. 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 students, community, province, and the country. The University continues being a catalyst of economic growth driven by new knowledge discoveries and creativity.

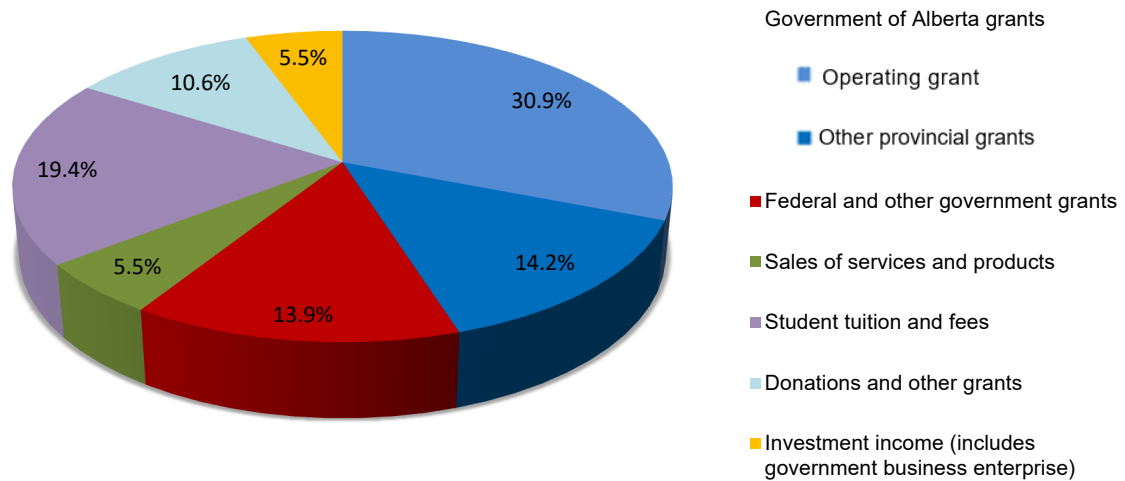
Financial Results

For the year ended March 31, 2021, the University’s expenses exceeded revenues by \$10.1 million. This annual operating deficit decreased from the \$29.8 million deficit in 2020. The most significant drivers contributing to the \$10.1 million deficit include lower than anticipated revenues from budgeted sales of products and services partially offset by higher than anticipated credit tuition, and lower than budgeted expenditures primarily related to travel, utilities and cost of goods sold. In addition, 2020 included a Voluntary Retirement Incentive Program expense of \$12.8 million, which was not recurring in 2021.

Total net assets have increased by \$220.1 million from March 31, 2020 as the result of \$214.7 million increase in unrealized gains on portfolio investments and \$15.5 million of endowment donations, which are partially offset by the \$10.1 million annual operating deficit.

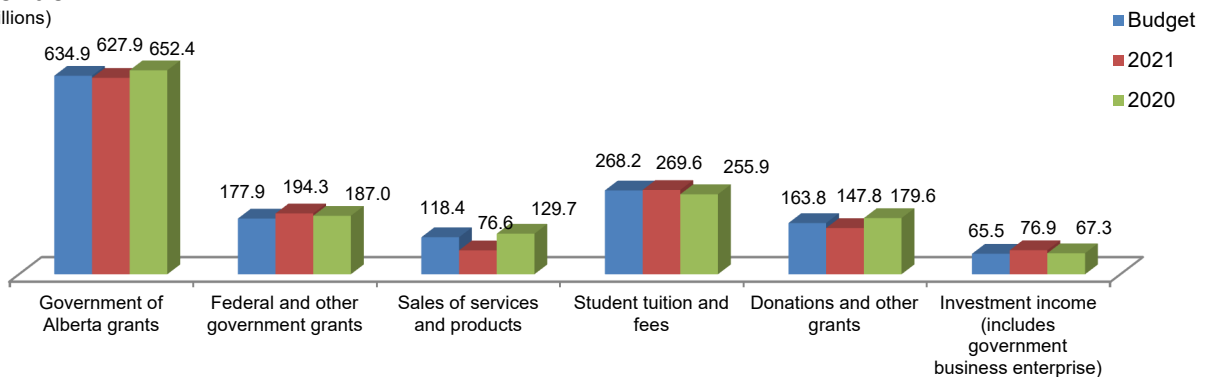
Revenue

Total revenues for the year ended March 31, 2021 were \$1,393.2 million, a decrease of \$78.7 million (5.4%) compared to the prior year and \$35.4 million (2.5%) under budget. Revenue from the Government of Alberta represented the University's single largest source of income, at 45.1% of total University revenue, and played a key role in the ability to fund University activities. Major components of revenue are as follows:



Revenue

(\$ millions)



Government of Alberta grants

Government of Alberta grant revenue of \$627.9 million was \$24.5 million lower than prior year and \$7.0 million lower than budget. The decrease over prior year and budget is primarily the result of the Government of Alberta's 6.0% in year reduction to the Campus Alberta grant.

Federal and other government grants

Grant revenue from federal and other government sources of \$194.3 million was \$7.3 million higher than prior year and \$16.4 million higher than budget. The increase compared to prior year and budget is a result of obtaining funding from a temporary program offered by the Government of Canada as part of the COVID-19 Economic Response Plan and the Canada Research Continuity Emergency Fund (CRCEF). The CRCEF was established to help sustain the research enterprise at Canadian universities and health research institutions. In addition to receiving CRCEF funding, the University was successful in obtaining additional research awards from Canadian Institutes of Health Research (CIHR) and Natural Sciences and Engineering Research Council of Canada (NSERC), and Social Sciences and Humanities Research Council (SSHRC), with an offset by a decrease in funding from the State of Qatar.

Sales of services and products

Sales of services and products revenue of \$76.6 million was \$53.1 million lower than prior year and \$41.8 million lower than budget. The decrease is due to the temporary campus closures and reduction of Ancillary revenue activities on campus because of the COVID-19 pandemic including significantly lower residence occupancy, loss of parking revenues from April to August 2020 and limited parking revenues for the remainder of the fiscal year.

Student tuition and fees

Student tuition and fees of \$269.6 million were \$13.7 million higher than prior year and \$1.4 million higher than budget. The increase is a result of a 5% increase in credit tuition rates and increase in enrolment, partially offset by a decrease in non-credit tuition because of the COVID-19 pandemic.

Donations and other grants

Donations and other grant revenue of \$147.8 million was \$31.8 million lower than prior year and \$16.0 million lower than budget. Donations and other grants were lower than prior year and budget due to receiving multiple one-time funds and grants in 2020 in addition to an \$8.7 million reduction in Institute of Teaching/Learning projects as well as lower than expected donations and other grants related to research clinical trials in the current year.

Investment income – Including investment income in government business enterprise

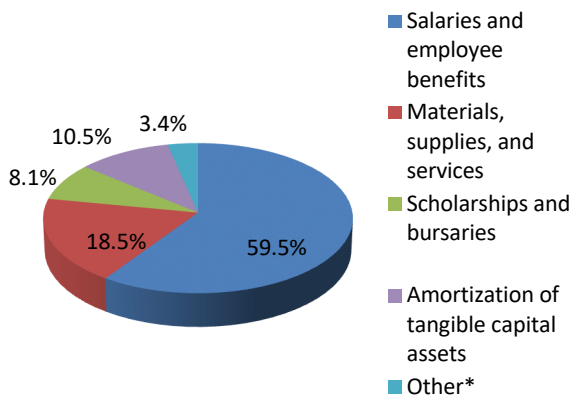
Investment income (including investment income in government business enterprise (“GBE”)) of \$76.9 million was \$9.6 million higher than prior year and \$11.4 million higher than budget. The variance is due to a higher investment income on non-endowment investments and higher realized capital gains on endowment investments offset by lower investment income related to the University’s investment in University District Trust.

Expense

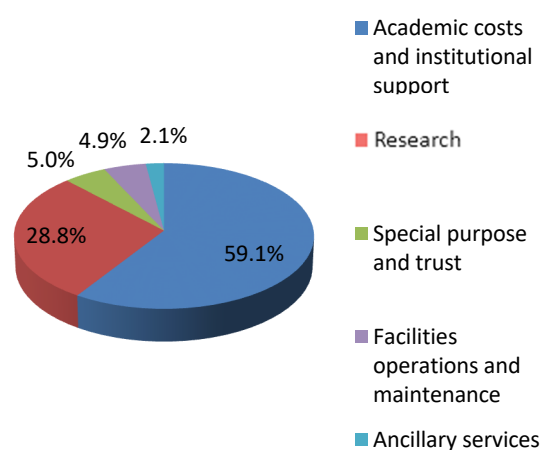
For the year ended March 31, 2021, the University recorded \$1,403.3 million in expenses representing a decrease of \$98.5 million (6.6%) from the prior year and \$25.4 million (1.8%) lower than budget. Salaries and benefits are the largest expenditure component at the University, representing 59.5% of the University's expenses.

Academic costs and institutional support represent the single largest function at the University, with this function representing 59.1% 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



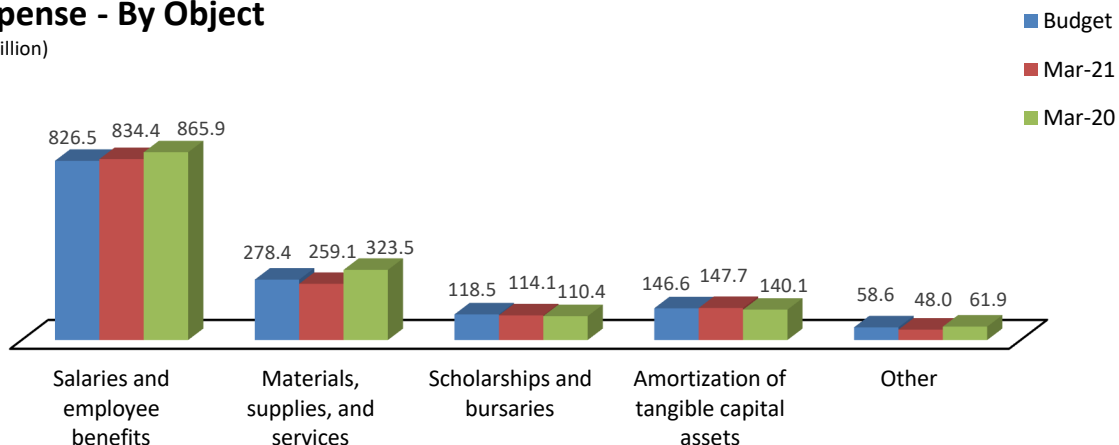
Expense by Function



*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 \$834.4 million have decreased by \$31.5 million over the prior year and increased by \$7.9 million from budgeted amounts. The decrease over prior year is mainly due to temporary layoffs and a Voluntary Retirement Incentive Program of \$12.8 million offered in 2020, partially offset by increased Universities Academic Pension Plan (UAPP) pension costs relating to a change in actuarial calculations. The budget variance is a result of \$11.5 million higher than expected UAPP pension costs from changes in actuarial calculations completed for the pension plan and severance payouts in April and May, partially offset by employee departures.

Materials, supplies and services

Materials, supplies and services of \$259.1 million represent the second largest expense component of the University with current year costs \$64.4 million lower than the prior year and \$19.3 million lower than budget. Materials, supplies and services are lower due to the impact of cost cutting measures combined with the impact of COVID-19 in relation to less on-campus activities and less research related travel.

Scholarships and bursaries

Scholarships and bursaries of \$114.1 million were \$3.7 million higher than the prior year and \$4.4 million below budget. These higher expenses are in line with the University's goals to attract and support students across various faculties. The budget variance is primarily due to a reduction in student research scholarships, grants, and awards as some research labs remain closed due to COVID-19.

Amortization of tangible capital assets

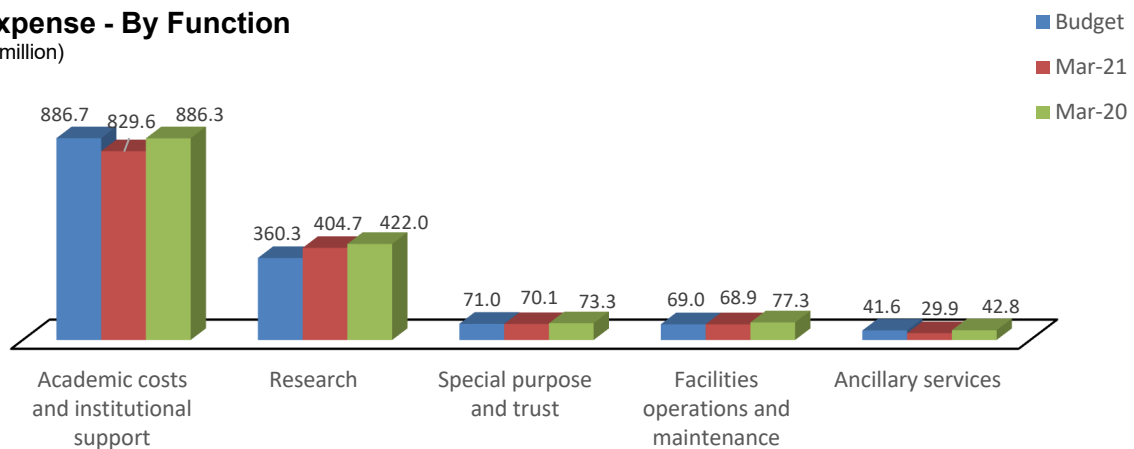
Amortization of tangible capital assets expense of \$147.7 million increased by \$7.6 million from the prior year and increased by \$1.1 million compared to budget. The increase from prior year and budget is a result of new assets transferred into service during the year, primarily related to the completion of MacKimmie Tower in January 2020, Schulich School of Engineering Block E redevelopment, Clinical Skills Building expansion and the implementation of the Utility Reduction Program.

Other

Other expenses totaling \$48.0 million were \$14.0 million lower than prior year and \$10.6 million lower than budgeted amounts. The decrease is primarily the result of the one-time prior year loss on disposal of the MacKimmie Block in 2020, reduced Ancillary operations, and the temporary closure of campus buildings due to COVID-19.

Expense - By Function

(\$ million)



Academic costs and institutional support

Academic costs and institutional support expenses of \$829.6 million decreased by \$56.7 million over the prior year and decreased by \$57.1 million compared to budget. The decline is primarily due to a decrease in academic and institutional support salaries, decline of travel related expenditures due to COVID-19 and reduction in materials and supplies due to budget cuts. In 2020, there was a Voluntary Retirement Incentive Program offered and higher severance expenses.

Research and Special purpose and trust

Research costs of \$404.7 million were \$17.3 million lower than prior year and \$44.4 million higher than budget. The decrease over prior year mainly results from the \$16.5 million of research related travel due to COVID-19. The budget variance is due to the higher than expected salaries and benefits as well as materials and supplies in research projects. Special purpose and trust costs of \$70.1 million were \$3.2 million lower than prior year and \$0.9 million lower than budgeted amounts primarily due to a \$4 million decrease in research related travel caused by COVID-19, partially offset by an increase in scholarships.

Facilities operations and maintenance

Facilities operations and maintenance costs of \$68.9 million were \$8.4 million lower than prior year and \$0.1 million lower than budget. The decrease from prior year relates to the workforce reduction in addition to reduced maintenance and lower utilities associated with the COVID-19 campus closure and rate fluctuations.

Ancillary services

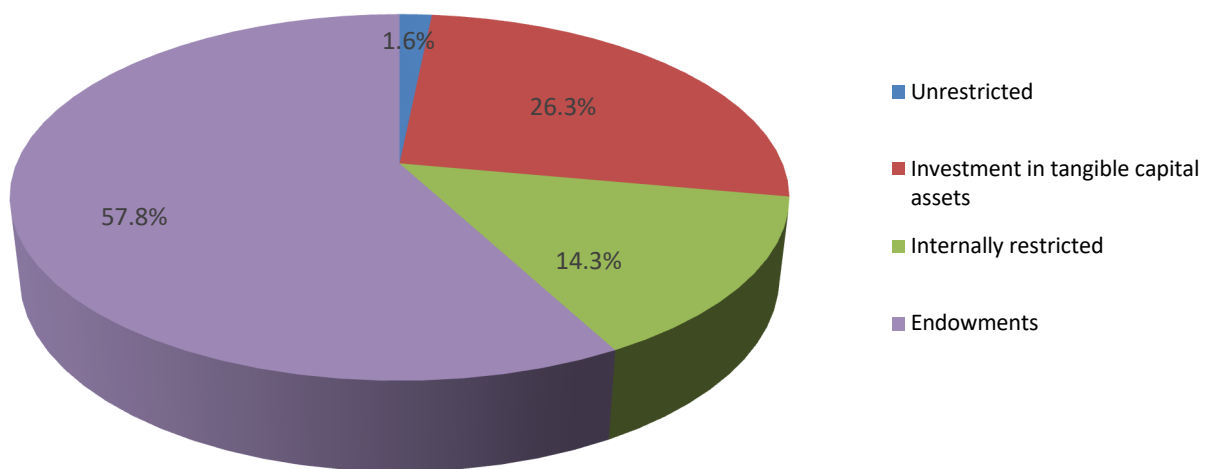
Ancillary expenditures of \$29.9 million were \$12.9 million lower than prior year and \$11.7 million lower than budget primarily due to lower salaries and benefits from unfilled vacancies and workforce reduction, and lower expenditures for materials and supplies as well as cost of goods sold from campus closure due to COVID-19.

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 unrealized gains from portfolio investments have contributed to the University's \$1,938.0 million in net assets. Endowments of \$1,120.0 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.

The remaining \$818.0 million in net assets, includes \$509.8 million of funds previously spent as a net investment in capital assets and \$278.0 million of funds 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 \$76.9 million of transfers into internally restricted net assets for faculty and department strategic initiatives offset by \$57.6 million of non-capital expenditures for a net transfer of \$19.3 million. In addition, the University used unrestricted net assets to fund \$15.0 million of capital construction and capital purchases and \$6.1 million to repay University debt. After amounts spent on capital assets, Board of Governors restrictions, and debt repayment, \$30.2 million remains in unrestricted net assets. Net assets at March 31, 2021 are comprised of the following balances and related summarized transactions:



Net Assets (continued)

As at March 31, 2021 (\$ thousands)	Unrestricted	Investment in Capital Assets	Internally Restricted	Endowment	Total
Balance as at March 31, 2020	\$ 1,755	\$ 487,534	\$ 312,682	\$ 915,957	\$1,717,928
Annual deficit	(10,075)	-	-	-	(10,075)
Transfer to internally restricted net assets net of expenditures	(19,288)	-	19,288	-	-
Endowment					
New contributions	-	-	-	15,431	15,431
Transfer from endowment ⁽¹⁾	1,333	-	-	(1,333)	-
Tangible capital assets					
Acquisition of tangible capital assets	(14,964)	68,917	(53,953)	-	-
Amortization of tangible capital assets	52,691	(52,691)	-	-	-
Debt repayment	(6,082)	6,082	-	-	-
Debt new financing	70	(70)	-	-	-
Change in accumulated remeasurement gains	24,782	-	-	189,943	214,725
Balance as at March 31, 2021	\$ 30,222	\$ 509,772	\$ 278,017	\$ 1,119,998	\$1,938,009

(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 \$1,120.0 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, 2021, Net Financial Assets excluding portfolio investments restricted for endowments is \$145.3 million, representing a \$0.9 million decrease from the prior year figures. The University continues to have sufficient positive Net Financial Assets, demonstrating financial strength and commitment to managing the University's financial position.

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 2021, the University expended \$160.5 million (2020 - \$216.4 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)	2021	Expenditures to Date	Total Budget
MackKimmie Complex and Professional Faculties Building Redevelopment	47,022	220,949	320,000
Interdisciplinary Science and Innovation Centre	4,420	6,429	130,000
Mathison Hall	20,879	26,057	94,000
Utility Reduction, Grant Program	4,494	4,720	18,000
Schulich School of Engineering Block E Renovation Project	1,372	9,227	9,500
Veterinary Medicine Student Space Expansion Project	1,368	7,548	7,642

MackKimmie 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.

Interdisciplinary Science and Innovation Centre (ISIC)

The project will provide critical new space on main campus that will help maintain and enhance the university's interdisciplinary research strength for life and environmental sciences curriculum in the Faculties of Science, Arts, Kinesiology, Veterinary Medicine and the Cumming School of Medicine. The full ISIC program contemplates the construction of a new building to meet current expectations for technology-rich, specialized research and support spaces. The project will consist of the co-locating of disparate labs across the campus into modern, purpose-built facilities and adjacent spaces that support the institution's academic and research operations.

Mathison Hall

The project primarily consists of the development of a new, innovative, Leed Platinum (net-zero) 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 be situated immediately adjacent to Scurfield Hall and will incorporate pedestrian connectivity to Scurfield Hall. The project scope will also include landscaping, IT and furnishings, fixtures, and equipment.

Utility Reduction, Grant Program

The University of Calgary has implemented a multi-year Utility Reduction Program to reduce institutional greenhouse gas emissions and operating costs. The scope of the Utility Reduction Program consists of several medium-sized retrofit projects with a primary focus on the Foothills campus and smaller investments on main campus. The projects include HVAC and controls upgrades in classrooms and laboratories as well as lighting retrofits, installation of energy recovery systems and energy performance optimization of targeted buildings.

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.

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 \$529.5 million (2020 - \$555.7 million). The Infrastructure Maintenance Program funding from the province increased to \$22.5 million (2020 – was suspended due to budget constraints) and was used to address deferred maintenance.

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, 2021 is \$817.4 million (2020 - \$1,304.2 million). The University's portion of the deficiency is \$103.7 million (2020 - \$187.7 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 2021 fiscal year, the University received a 6.0 percent cut to its provincial grant. 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 affect provincial funding to the University. Plans to mitigate these risks include expenditure reductions in targeted areas, the achievement of greater efficiencies in the University's 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.