UNIVERSITY OF CALGARY

Management Discussion & Analysis

For the Year Ended
March 31, 2022

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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, 2022. 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, 2022 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 of Calgary is working hard to provide a truly exceptional learning environment and grow our intellectual and economic impact in this great city. After a decade of astonishing growth, we faced new headwinds in 2021-22. Reduced funding, disruption in post-secondary education, and an economic recession were all accelerated by a global health emergency that forced a fundamental reimagining of the university experience. In response to COVID-19, we implemented several protocols to protect the campus community that ranged from offering classes through a hybrid delivery model to restrictions on international travel, and the cancellation or postponement of in-person events. We also developed a strategy to keep our eyes high and strengthen our community in these uncertain times. Our new Framework for Growth is built around three "big ideas" that will differentiate our university and drive growth – future-focused program delivery, deeper community partnerships, and transdisciplinary scholarship. They will set the University of Calgary on a course to be the entrepreneurial university – one where students, faculty and staff have access to more tools to change the world around them. These ideas will empower world-class faculty members to tackle society's big problems and enable the leaders that make up our student body to write their own future. As the province continues to recover from the many challenges caused by the COVID-19 pandemic, the University of Calgary intends to play a pivotal role to support the Government of Alberta to achieve its adult learning system goals, not only through research, innovation and commercialization of leading edge technology, but also in providing highly skilled and job-ready graduates for a recovering and dynamic labor market.

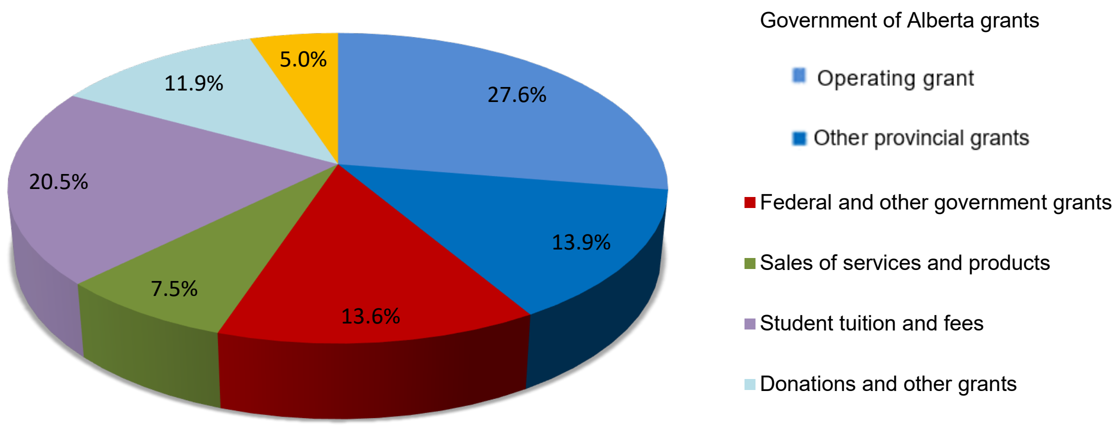
Financial Results

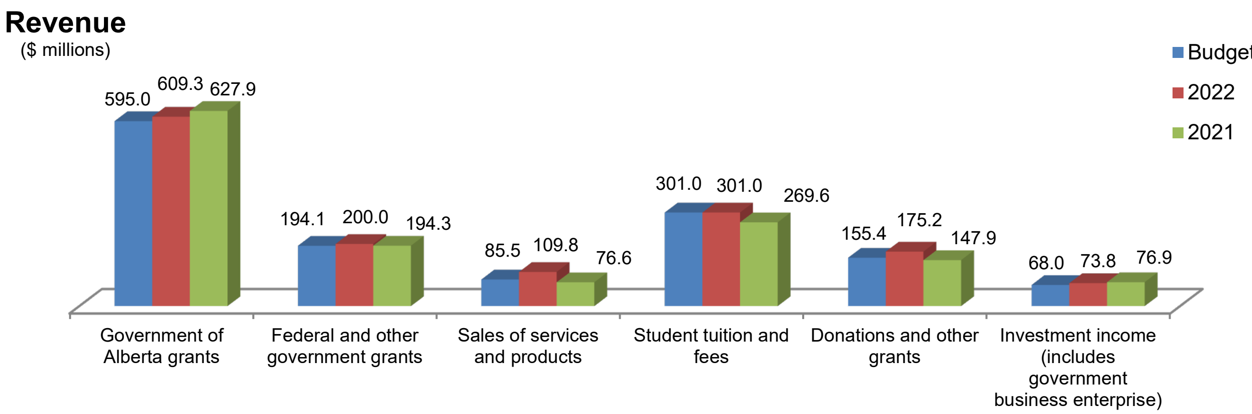
For the year ended March 31, 2022, the University's revenues exceeded expenses by $26.3 million. This annual operating surplus increased from the $10.1 million deficit in 2021. The most significant drivers contributing to the $26.3 million surplus include higher than anticipated sales of products and services resulting from the campus returning to in person teaching and learning, increased tuition revenues, and additional income from increased clinical trial and research activities. These revenue increases are partially offset by the reduction of Campus Alberta operating grant and an increase in costs, particularly salaries and benefits and materials, supplies, and services.

Total net assets have increased by $43.5 million from March 31, 2021 as the result of $26.3 million of annual operating surplus, $9.0 million of endowment donations, and $27.6 million of capitalized endowment income, which are partially offset by the $19.4 million decrease in unrealized gains on portfolio investments.

Revenue

Total revenues for the year ended March 31, 2022 were $1,469.1 million, an increase of $75.9 million (5.5%) compared to the prior year and $70.1 million (5.0%) over budget. Revenue from the Government of Alberta represented the University's single largest source of income, at 41.5% of total University revenue, and played a key role in the ability to fund University activities. Major components of revenue are as follows:





Government of Alberta grants

Government of Alberta grant revenue of $609.3 million was $18.6 million lower than prior year and $14.3 million higher than budget. The decrease over prior year is primarily the result of the Government of Alberta's $25.0 million in-year reduction to the Campus Alberta operating grant. The variance from budget is due to a higher than expected provincially funded externally restricted research revenue, increased funding from Alberta Precision Laboratories for clinical supplements, and additional salary recovery funding from Alberta Health Services for Program Directors.

Federal and other government grants

Grant revenue from federal and other government sources of $200.0 million was $5.7 million higher than prior year and $5.9 million higher than budget. The increase compared to prior year and budget is a result of $4.8 million of additional municipal and US government grants combined with increased funding from the Qatar Ministry of Finance and Continuing Education.

Sales of services and products

Sales of services and products revenue of $109.8 million was $33.2 million higher than prior year and $24.3 million higher than budget. The increase is primarily due to increased ancillary services revenues associated with returning to in-person activities on campus including higher residence occupancy, increased parking revenues, and increased bookstore and food revenues, combined with increased University District Trust lease revenue.

Student tuition and fees

Student tuition and fees of $301.0 million was $31.4 million higher than prior year and consistent with budget. The increase is primarily due to tuition rate increases, increased international students and an increase in non-credit tuition from Continuing Education programs.

Donations and other grants

Donations and other grant revenue of $175.2 million was $27.3 million higher than prior year and $19.8 million higher than budget. The increase is primarily attributable to higher revenue from grant funded clinical trials and higher than expected donations and other grants from various foundations and institutes.

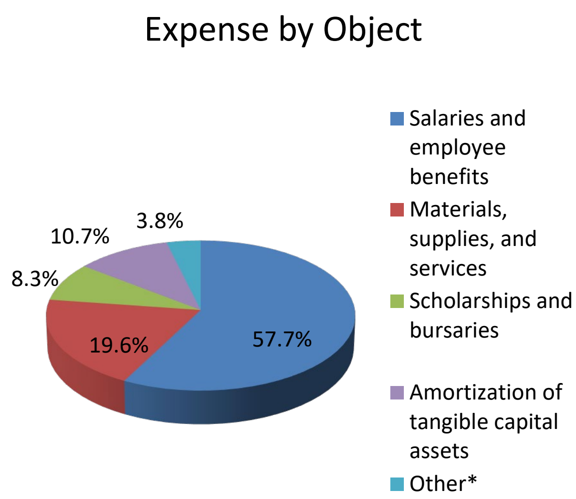
Investment income – Including investment income in government business enterprise

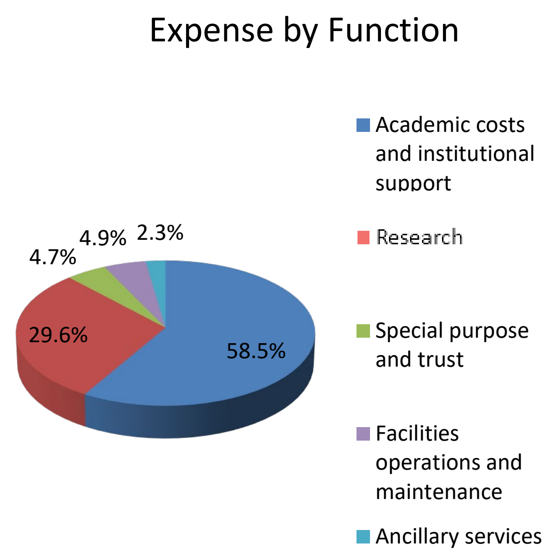
Investment income (including investment income in government business enterprise (“GBE”)) of $73.8 million was $3.1 million lower than prior year and $5.8 million higher than budget. While the amounts are lower from the prior year in part due to reduced realized investment income from non-endowed investments. The amounts are higher than budgeted due to $2.7 million in higher than anticipated income on endowment investments, $2.1 million higher than planned income on non-endowed investments, and $1.0 million higher than budgeted income related to the consolidated results of the University District Trust (“UDT”).

Expense

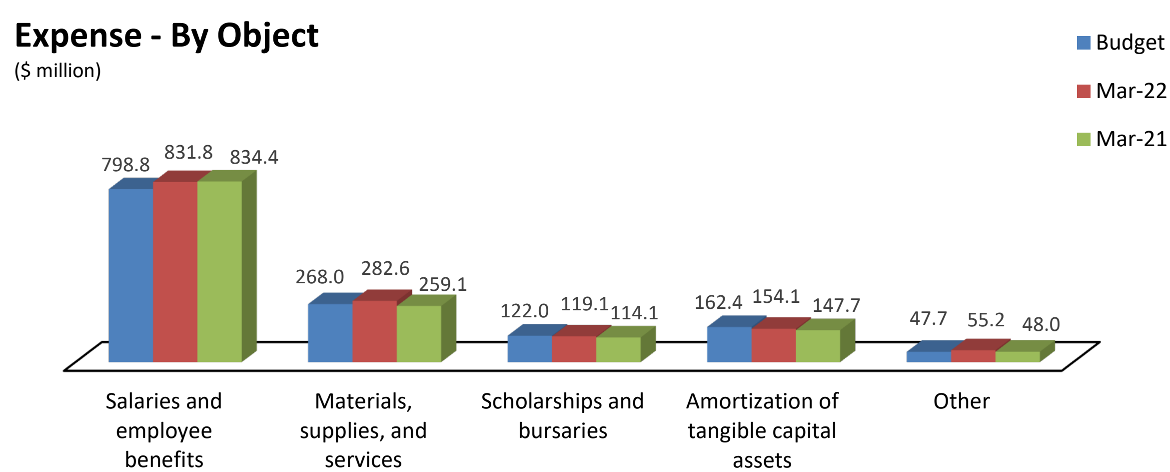
For the year ended March 31, 2022, the University recorded $1,442.8 million in expenses representing an increase of $39.5 million (2.8%) from the prior year and $43.9 million (3.1%) higher than budget. Salaries and benefits are the largest expenditure component at the University, representing 57.7% of the University's expenses.

Academic costs and institutional support represent the single largest function at the University, with this function representing 58.5% of the University's expenses. This includes instruction, non-research academic and administrative support activities, effectively representing the operating activities of the University.





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



Salaries and employee benefits

Salaries and employee benefits of $831.8 million have decreased by $2.6 million over the prior year and are $32.9 million higher than budgeted amounts. The decrease over prior year is mainly due to $10.4 million in reduced operating salaries and benefits costs primarily from a reduction in University Academic Pension Costs and $7.6 million in reduced strategic initiative costs. These reductions were partially offset by $15.4 million in higher than expected externally funded research salaries and benefits. The budget variance is primarily due to increase in externally restricted research salary costs attributed to growing research and special purpose funding and related activities and higher than budgeted strategic initiative costs being partially offset by operating savings.

Materials, supplies and services

Materials, supplies and services of $282.6 million represent the second largest expense component of the University with current year costs $23.5 million higher than the prior year and $14.6 million higher than budget. Materials, supplies and services are higher due to the increased on-campus activities and research-related travels from the lifting of COVID-19 restrictions in addition to the unanticipated increased research project spending primarily in the Cumming School of Medicine.

Scholarships and bursaries

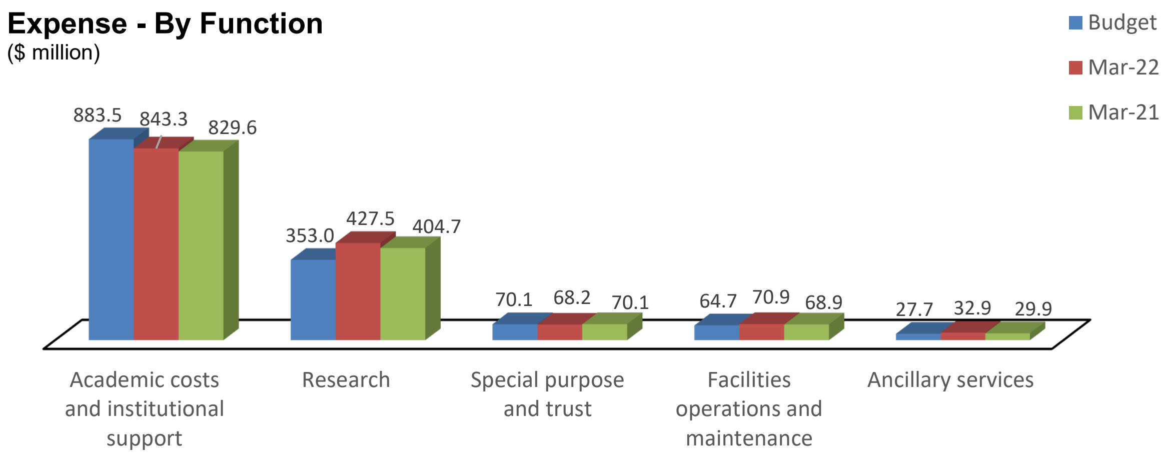
Scholarships and bursaries of $119.1 million were $5.0 million higher than the prior year and $3.0 million below budget. The increase of scholarships and bursaries over prior year is in line with the University's goals to attract and support students across various faculties. The budget variance is primarily due budget timing differences relating to making the funds available and having the scholarships and bursaries awarded and disbursed.

Amortization of tangible capital assets

Amortization of tangible capital assets expense of $154.1 million increased by $6.4 million from the prior year while being $8.3 million below budgeted expectations. The increase from prior year is a result of new assets transferred into service during the year, primarily related to the completion of the Tower portion of the MacKimmie Complex and Professional Faculties Building redevelopment, along with additional software purchases and institutional program division (IPD) projects that were completed. The budget variance is mainly due to the project schedule delays of some infrastructure spending to fiscal 2023.

Other

Other expenses totaling $55.2 million were $7.2 million higher than prior year and $7.5 million higher than budgeted amounts. The increase is primarily the result of the higher utility costs as a result of utility rate increases and return to in-person campus activities, resuming Ancillary operations and the related higher maintenance and repair expenditures.



Academic costs and institutional support

Academic costs and institutional support expenses of $843.3 million increased by $13.7 million over the prior year while being $40.2 million lower than budgeted expectations. The increase over prior year is due primarily to additional materials and supplies related to increase on campus and in-person activities compared to the prior year that was a predominantly remote learning and work environment. Although academic costs and institutional support were higher than the prior year, the costs were lower than expected primarily due to timing in hiring vacant positions as well as temporary layoffs and lower than planned materials supplies and services costs associated with the unexpected closure of campus during the fall of 2021.

Research and Special purpose and trust

Research costs of $427.5 million were $22.8 million higher than prior year and $74.5 million higher than budget. These increases are mainly the result of higher the university's continued growth in externally funded research activities resulting in increased salary costs as well as materials and supplies used in research projects. Special purpose and trust costs of $68.2 million were $1.9 million lower than prior year and $1.9 million lower than budgeted amounts primarily due to reductions in salaries, benefits and materials, supplies, and services purchased for non-research activities.

Facilities operations and maintenance

Facilities operations and maintenance costs of $70.9 million were $2.0 million higher than prior year and $6.2 million higher than budget. The increase from prior year relates to the higher maintenance and repairs associated with operating a growing and aging campus infrastructure, in addition to the increased usage of utilities associated with the reopening of campus buildings and higher costs in natural gas.

Ancillary services

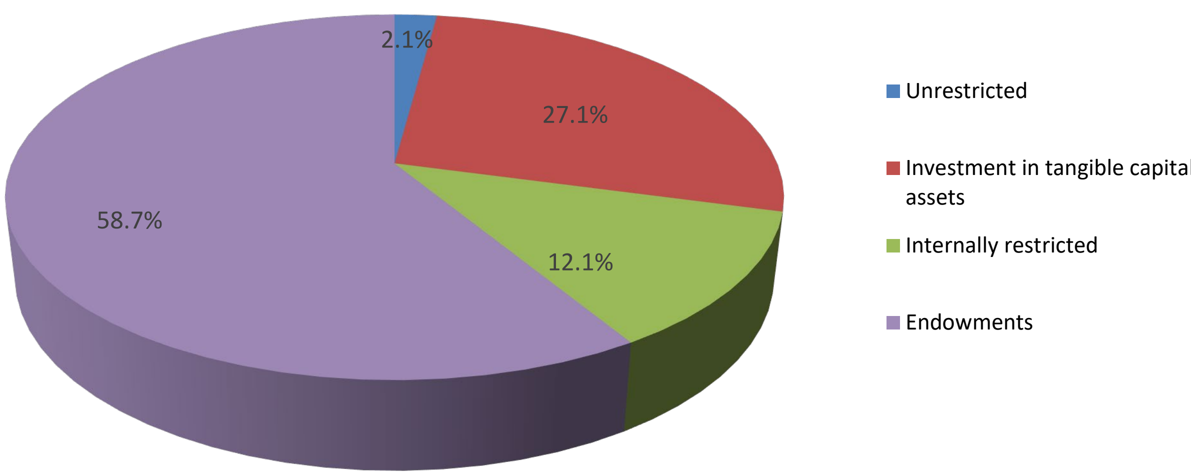
Ancillary expenditures of $32.9 million were $3.0 million higher than prior year and $5.2 million higher than budget primarily due to increased cost of goods sold from resuming campus activities and increased sales-related expenses from Ancillary operations.

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 capitalized investment income from portfolio investments have contributed to the University's $1,981.4 million in net assets. Endowments of $1,162.9 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.

The remaining $818.5 million in net assets, includes $536.7 million of funds previously spent as a net investment in capital assets and $239.2 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 fiscal year ended March 31, 2022, the Board redirected internally restricted net asset amounts to fund strategic capital construction programs on campus. The academic, institutional, and research initiatives previously funded by internally restricted net assets are ongoing and will be funded through the University's annual budgeting process. In addition, the University used unrestricted net assets to fund $35.7 million of capital construction and capital purchases and $6.4 million to repay University debt. After amounts spent on capital assets, Board of Governors restrictions, and debt repayment, $42.7 million remains in unrestricted net assets. Net assets at March 31, 2022 are comprised of the following balances and related summarized transactions:



Net Assets *(continued)*

As at March 31, 2022 ($ thousands)	**Unrestricted**	**Investment in Capital Assets**	**Internally Restricted**	**Endowment**	**Total**
Balance as at March 31, 2021	**$ 30,222**	**$ 509,772**	**$ 278,017**	**$ 1,119,998**	**$1,938,009**
Annual surplus	26,284	-	-	-	26,284
Transfer to internally restricted net assets net of expenditures	(21,286)	-	21,286	-	-
Endowment					
New contributions	-	-	-	8,987	8,987
Capitalized investment income	-	-	-	27,567	27,567
Tangible capital assets					
Acquisition of tangible capital assets	(35,735)	95,857	(60,122)	-	-
Amortization of tangible capital assets	57,409	(57,409)	-	-	-
Debt repayment	(6,370)	6,370	-	-	-
Debt new financing	17,883	(17,883)	-	-	-
Change in accumulated remeasurement gains	(25,726)	-	-	6,310	(19,416)
Balance as at March 31, 2022	**$ 42,681**	**$ 536,707**	**$ 239,181**	**$ 1,162,862**	**$1,981,431**

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 $1,162.9 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, 2022, Net Financial Assets excluding portfolio investments restricted for endowments is $106.3 million, representing a $39.0 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 2022, the University expended $192.2 million (2021 - $160.5 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 five major construction projects on campus:

Major Capital Project Costs ($ thousands)	2022	Expenditures to Date	Total Budget
MacKimmie Complex and Professional Faculties Building Redevelopment	62,490	283,439	320,000
Life Sciences Research Centre	3,028	9,457	130,000
Mathison Hall	42,070	68,127	93,980
Capital Maintenance and Renewal (CMR)	5,090	5,090	31,054
Utility Reduction, Grant Program	5,817	10,537	18,000

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.

Life Sciences Research Centre (formally Interdisciplinary Science and Innovation Centre)

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 Life Sciences Research Centre 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 m^2 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.

Capital Maintenance and Renewal (CMR)

This grant provides funds to post-secondary institutions on an annual basis to assist with maintaining the condition of facilities and to cover the cost of repairs, upgrades, maintenance, and replacement of building systems and major building components. The grant covers the cost of minor functional renovations and upgrading projects that are required to meet program delivery needs and are associated with deferred maintenance projects. Institutions may access other funding sources available to complement the CMR grant, including a portion of the institution's Base Operating Grant.

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.

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 $641.8 million (2021 - $529.5 million). The Capital Maintenance and Renewal (formerly named Infrastructure Maintenance Program) funding from the province increased to $31.1 million (2021 – $22.5 million) 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, 2022 is $247.9 million (2021 - $817.4 million). The University’s portion of the deficiency is $4.0 million (2021 - $103.7 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 2022 fiscal year, the University received a 6.0 percent reduction on its Campus Alberta grant. Although the University has produced a balanced budget for 2022, provincial funding is expected to continue to decrease by an additional 5.2 percent in fiscal year 2023. Cost savings to address these cuts were achieved largely through workforce reductions, reductions in discretionary spending, and the cancellation or deferral of major projects. 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.