



UNIVERSITY OF CALGARY

Management Discussion & Analysis

For the Year Ended
March 31, 2023

TABLE OF CONTENTS

MANAGEMENT DISCUSSION AND ANALYSIS OVERVIEW.....	1
OPERATING ENVIRONMENT.....	1
FINANCIAL RESULTS.....	2
NET ASSETS AND NET FINANCIAL ASSETS.....	8
CAPITAL EXPANSION AND RENEWAL.....	10
AREAS OF SIGNIFICANT FINANCIAL RISK.....	11

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, 2023. 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, 2023 and offers analysis of the University’s:

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

Operating Environment

The University of Calgary is a leading Canadian university located in the nation’s most enterprising city. Ranked one of the top ten research universities in Canada, the University is home to more than 80 research institutes and centres working to address society’s most persistent and emerging challenges. The University is a global intellectual hub where 33,000+ students thrive in programs made rich by research and hands-on experiences. The University currently offers more than 200 undergraduate, graduate, and professional degree programs, and provides the wider community with lifelong learning opportunities. As a member of the U15 group, an association of fifteen leading research universities across Canada, the University drives \$16.5 billion in economic impact to its host province of Alberta alone. The University alumni are effectively building the local community, with more than two-thirds of over 200,000 graduates living and/or working in the Calgary area. The University is developing a vision to 2030 that will position the institution to leap ahead of tomorrow. That vision focuses on four (4) strategies that will be realized through cross-cutting initiatives and decisions made throughout the academy. The University will (1) increase access to impactful and future-focused education to educate transformative leaders; (2) harness the power of research and innovation to tackle society’s biggest challenges to maximize research impact; (3) locate community at the centre of all we do to enhance community relevance; and (4) make our processes clearer, simpler, better than any other university.

Restated Prior Year Financial Statements

Effective April 1, 2022 the University adopted the new accounting standard PSAS 3280 Asset Retirement Obligations (ARO) and applied the standard using the modified retroactive approach with restatement of prior year comparative information. ARO are legal obligations associated with the retirement of a tangible capital asset resulting from its acquisition, construction, development, or normal use. The vast majority of the University’s ARO relate to its obligations to remove hazardous asbestos fibre materials from various buildings under its control. Regulations require the University to handle and dispose of the asbestos in a prescribed manner when it is disturbed, such as when the building undergoes renovations or is demolished. Amounts are measured using information and assumptions that are current at the beginning of the fiscal year in which the standard is in effect. The amount recognized as an asset retirement cost is determined as of the date the asset retirement obligation was incurred. Accumulated amortization is measured for the period from the date the liability would have been recognized had the provisions of this standard been in effect to the date as of which this standard is first applied.

The impact of adoption on the prior year Consolidated Statement of Financial Position included the recording of an ARO liability of \$76.5 million and a net increase of \$19.1 million in tangible capital assets, resulting in a net decrease of \$57.4 million to the accumulated surplus.

For more detailed information on the restatement to prior year financial information refer to note 3 in the consolidated financial statements.

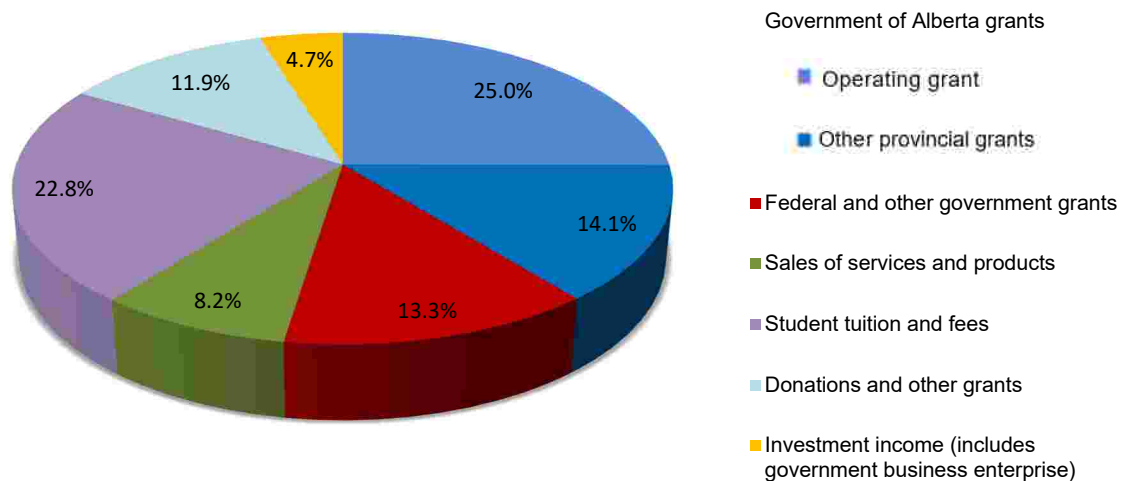
Financial Results

For the year ended March 31, 2023, the University's revenues exceeded expenses by \$27.4 million. The most significant drivers contributing to the \$27.4 million surplus include higher than budgeted government and other grant revenue from increased research and clinical trial activities, higher international and domestic student enrollment, and an increase in sales of products and services resulting from the campus returning to in-person teaching and learning. These revenue increases are partially offset by the reduction of Campus Alberta's operating grant and an increase in costs, particularly materials, supplies, and services and scholarships and bursaries.

Total net assets have increased by \$58.1 million from March 31, 2022 as the result of \$27.4 million of annual operating surplus, \$37.4 million of endowment donations, and \$9.2 million of capitalized endowment income, which is partially offset by the \$15.9 million decrease in unrealized gains on portfolio investments.

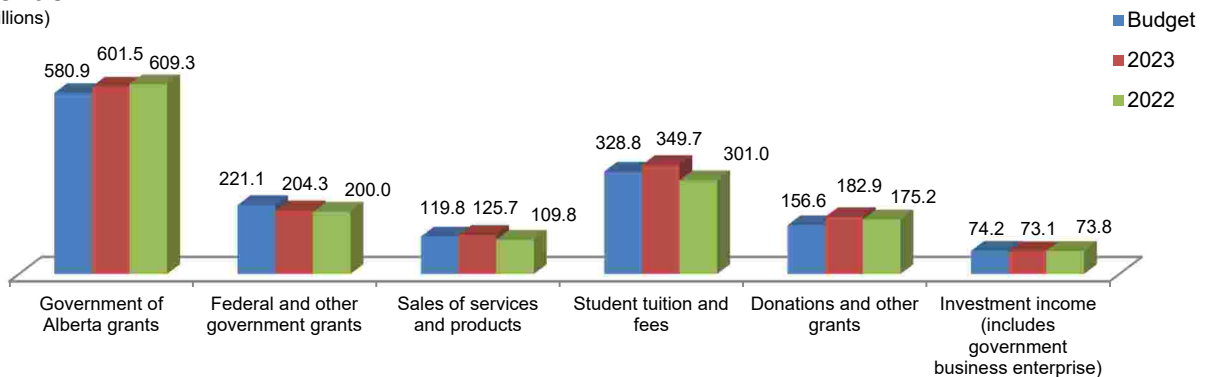
Revenue

Total revenues for the year ended March 31, 2023 were \$1,537.3 million, an increase of \$68.2 million (4.6%) compared to the prior year and \$55.9 million (3.8%) over budget. Revenue from the Government of Alberta represented the University's single largest source of income, at 39.1% of total University revenue, and played a key role in the ability to fund University activities. The major components of revenue are as follows:



Revenue

(\$ millions)



Government of Alberta grants

The government of Alberta's grant revenue of \$601.5 million was \$7.8 million lower than prior year and \$20.6 million higher than budget. The decrease over prior year is primarily the result of the Government of Alberta's \$20.7 million in-year reduction to the Campus Alberta operating grant. The variance from budget is due to higher than expected provincially funded externally restricted research revenue as a result of continued growth in research activities.

Federal and other government grants

Grant revenue from federal and other government sources of \$204.3 million was \$4.3 million higher than prior year and \$16.8 million lower than budget. The increase compared to prior year is a result of higher funding from Natural Sciences and Engineering Research Council and the Canada First Research Excellence Fund, which is consistent with continued growth in research activities. The decrease from budget is due to lower externally restricted revenue by other government grants, which is offset by higher than budgeted externally restricted revenue from the Government of Alberta.

Sales of services and products

Sales of services and products revenue of \$125.7 million were \$15.9 million higher than prior year and \$5.9 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.

Student tuition and fees

Student tuition and fees of \$349.7 million was \$48.7 million higher than prior year and \$20.9 million higher than budget. Increase from budget is attributed to an increase in both domestic and international student enrollment in credit and non-credit tuition courses. Increase from prior year attributed to increase in tuition rates, in addition to an increase in student enrollment in both credit and non-credit tuition courses.

Donations and other grants

Donations and other grant revenue of \$182.9 million was \$7.7 million higher than prior year and \$26.3 million higher than budget. The increase is primarily attributable to continued growth in research activities, including grant funded clinical trials.

Investment income – Including investment income in government business enterprise

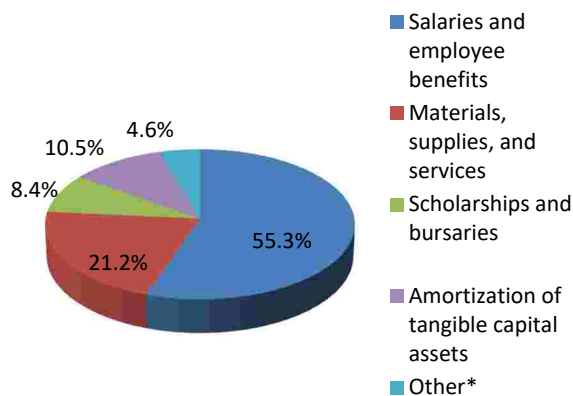
Investment income (including investment income in government business enterprise (“GBE”)) of \$73.1 million was \$0.7 million lower than prior year and \$1.1 million lower than budget. Investment income, excluding GBE, increased from prior year and budget due to higher realized income earned on non-endowment investments. This increase was offset by \$7.6 million investment loss from GBE related to the consolidated results of University District Trust.

Expense

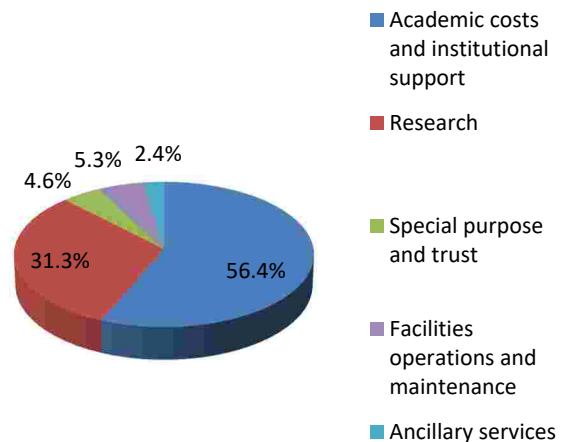
For the year ended March 31, 2023, the University incurred \$1,509.9 million in expenses representing an increase of \$65.2 million (4.5%) from prior year and \$28.5 million (1.9%) higher than budget. Salaries and benefits are the largest expenditure component at the University, representing 55.3% of the University's expenses.

Academic costs and institutional support represent the single largest function at the University, with this function representing 56.4% 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



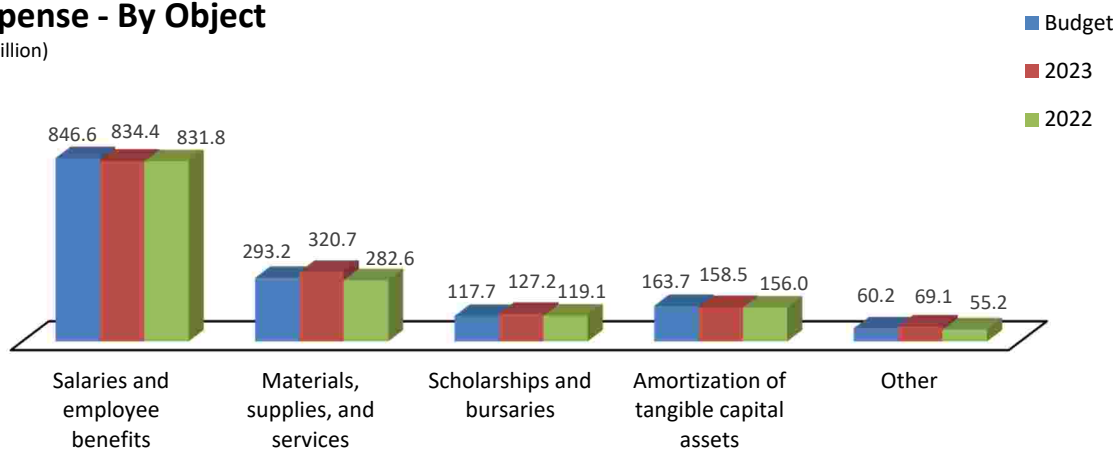
Expense by Function



*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 were \$2.6 million higher than prior year and \$12.2 million lower than budget. The increase over prior year is mainly due to higher than anticipated salaries on internally funded projects and externally funded research activities, partially offset by UAPP pension actuarial cost adjustment. The budget variance is primarily attributed to operating savings, recoveries, delay in hiring and lower benefit costs, partially offset by increased research related spending.

Materials, supplies and services

Materials, supplies and services of \$320.7 million represent the second largest expense component of the University with current year costs \$38.1 million higher than prior year and \$27.5 million higher than budget. Materials, supplies, and services are higher due to increased on-campus activities and research-related travels from the lifting of COVID-19 restrictions, in addition to increase in externally funded research project activities.

Scholarships and bursaries

Scholarships and bursaries of \$127.2 million were \$8.1 million higher than prior year and \$9.5 million higher than budget. The increase in scholarships and bursaries over the prior year and budget is in line with the University's goal to attract students and its continued focus on providing support opportunities to students across various faculties.

Amortization of tangible capital assets

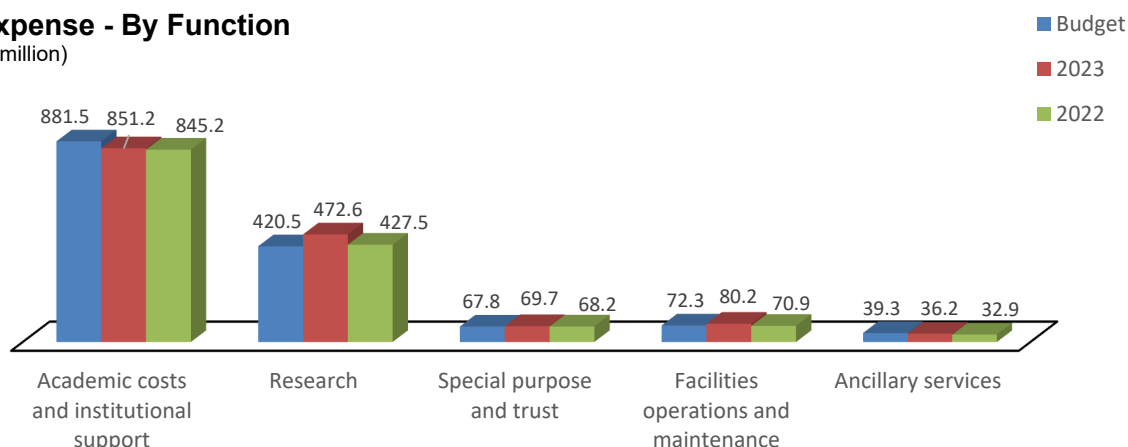
Amortization of tangible capital assets expense of \$158.5 million increased by \$2.5 million from prior year while being \$5.2 million below budgeted expectations. The increase from prior year is a result of new assets transferred into service during the year, primarily related to the completion of Hunter Student Commons and Mathison Hall. The budget variance is mainly due to lower spending in Capital Maintenance Renewal projects due to project schedule delays of some infrastructure spending to fiscal 2024.

Other

Other expenses totaling \$69.1 million were \$13.9 million higher than prior year and \$8.9 million higher than budget. The increase is primarily due to higher utilities expense due to utility rate increases, increase in cost of goods sold due to inflationary pressure, and return to in-person campus activities resulting in an increase in both utilities and cost of goods sold.

Expense - By Function

(\$ million)



Academic costs and institutional support

Academic costs and institutional support expenses of \$851.2 million increased by \$6.0 million over the prior year while being \$30.3 million lower than budgeted expectations. The increase from prior year is due primarily to additional materials and supplies related to the increase in on campus and in-person activities. Although academic costs and institutional support were higher than prior year, the costs were lower than expected primarily due to salary and benefits reductions from operating savings, recoveries, delay in hiring and lower benefit costs.

Research and Special purpose and trust

Research costs of \$472.6 million were \$45.1 million higher than prior year and \$52.1 million higher than budget. This increase is mainly the result of the University's continued growth in externally funded research activities, resulting in increased salary costs, materials and supplies used in research projects, travel and scholarships. Special purpose and trust costs of \$69.7 million were \$1.5 million higher than prior year and \$1.9 million higher than budgeted amounts primarily due to increase in salaries and benefits and materials, supplies, and services purchased for non-research activities.

Facilities operations and maintenance

Facilities operations and maintenance costs of \$80.2 million were \$9.3 million higher than prior year and \$7.9 million higher than budget. The increase from prior year and budget is mainly due to the increased usage of utilities, return of on-campus operational activities, and higher costs of electricity and natural gas.

Ancillary services

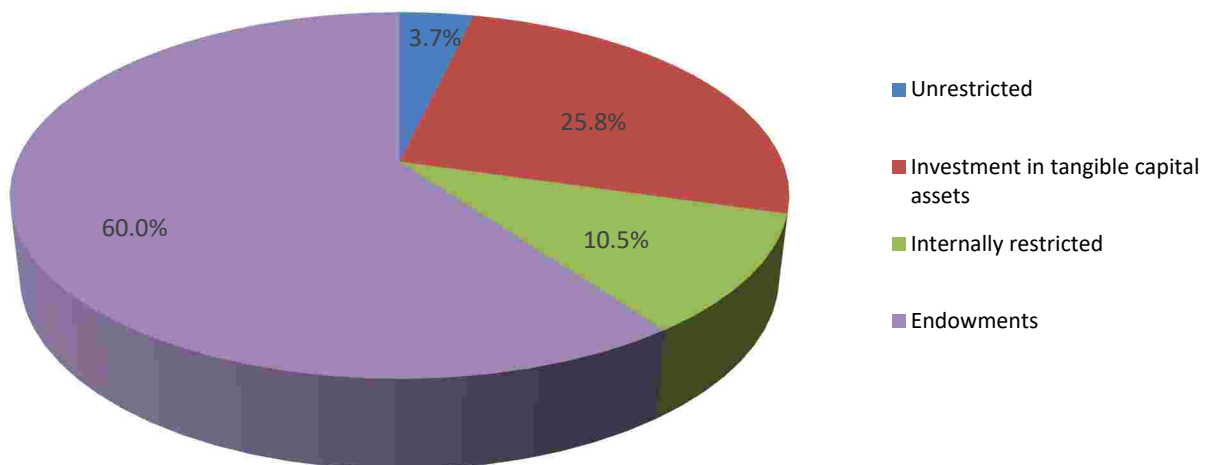
Ancillary expenditures of \$36.3 million were \$3.3 million higher than prior year and \$3.1 million lower than budget. Increase from prior year is due to increased cost of goods sold from resuming on-campus activities and increased sales-related expenses as a result of inflationary pressures. The decrease from budget is mainly due to salary and benefits operating savings from vacancies and delay in hiring.

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 \$1,982.2 million in net assets. Endowments of \$1,189.6 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 \$792.6 million in net assets, includes \$511.7 million of funds previously spent as a net investment in capital assets and \$208.8 million of funds formally restricted by the University's Board of Governors for spending on strategic initiatives in support of capital construction projects on campus. In addition, the University used unrestricted net assets to fund \$23.4 million of capital construction and capital purchases and \$7.2 million to repay University debt. After amounts spent on capital assets, Board of Governors restrictions, and debt repayment, \$72.0 million remains in unrestricted net assets. Net assets at March 31, 2023 are comprised of the following balances and related summarized transactions:



Net Assets (continued)

As of March 31, 2022 (\$ thousands)	Unrestricted	Investment in Capital Assets (Restated)	Internally Restricted	Endowment	Total (Restated)
Balance as at March 31, 2022	\$ 42,681	\$ 479,337	\$ 239,181	\$ 1,162,862	\$1,924,061
Annual surplus	27,350	-	-	-	27,350
Transfer to internally restricted net assets net of expenditures	(29,105)	-	29,105	-	-
Endowment					
New contributions	-	-	-	37,441	37,441
Capitalized investment income	-	-	-	9,207	9,207
Tangible capital assets					
Acquisition of tangible capital assets	(23,442)	82,920	(59,478)	-	-
Amortization of tangible capital assets	59,409	(59,409)	-	-	-
Debt repayment	(7,203)	7,203	-	-	-
Debt new financing	64	(64)	-	-	-
Decrease in asset retirement obligations	(1,734)	1,734	-	-	-
Change in accumulated remeasurement gains	4,000	-	-	(19,882)	(15,882)
Balance as of March 31, 2023	\$ 72,020	\$ 511,721	\$ 208,808	\$ 1,189,628	\$1,982,177

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 \$1,176.4 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, 2023, Net Financial Assets excluding portfolio investments restricted for endowments is \$50.8 million, representing a \$21.1 million increase 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 to the quality of research activity, but also positively to the Calgary economy. In 2023, the University expended \$152.3 million (2022 - \$192.2 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 facilities upgrade projects.

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

Major Capital Project Costs (\$ thousands)	2023	Project to Date	Total Budget
Mackimmie Complex and Professional Faculties Building Redevelopment	23,986	307,425	320,000
Life Sciences Research Centre (LSRC)	2,751	12,208	130,000
Mathison Hall	21,107	89,234	93,980
Veterinary Medicine Expansion Project	1,089	1,089	58,500
Utility Reduction, Grant Program	3,301	13,838	18,000

Mackimmie Complex and Professional Faculties Building Redevelopment

The program vision called for a completely renewed and repurposed Mackimmie Complex. The redevelopment included 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 the Faculty of Nursing expansion. The redevelopment 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).

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 the Life and Environmental Sciences curriculums in the Faculties of Science, Arts, Kinesiology, Veterinary Medicine, and the Cumming School of Medicine. The full LSRC 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 developing a new, innovative building on campus with approximately 10,000m² to meet modern expectations for technology-rich, flexible teaching and research space required for the Haskayne School of Business. The new building is situated immediately adjacent to Scurfield Hall and incorporates pedestrian connectivity to Scurfield Hall. The project scope also includes landscaping, IT and furnishings, fixtures, and equipment.

Veterinary Medicine Expansion Project

The project consists of the construction of a new standalone, instructional and administrative building of approximately 6,611 square meters at the University of Calgary's Spyhill campus. The project also consists of new trailer facilities at W.A. Ranches and a portion of renovations to existing Faculty of Veterinary Medicine infrastructure at the Spyhill and the Foothills campuses.

Utility Reduction, Grant Program

The University of Calgary has implemented a multi-year Utility Reduction Program (URPr) to reduce institutional greenhouse gas emissions and operating costs. The scope of the URPr Grant 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 \$740.0 million (2022 - \$641.8 million). The Capital Maintenance and Renewal (formerly named Infrastructure Maintenance Program) funding from the province decreased to \$22.5 million (2022 - \$31.1 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, 2023 is \$249.9 million (2022 - \$247.9 million). The University's portion of the deficiency is \$9.5 million (2022 - \$4.0 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

After four years of successive cuts that reduced the University of Calgary's Operations and Program Support Grant (OPSG) (formerly known as the Campus Alberta Grant) by over \$100 million, the provincial grant remained unchanged from 2022-23 to 2023-24. Years of provincial cost cutting, followed by high inflation and adherence to collective agreements, have made it challenging to fund priorities. In the absence of increases to the OPSG in Alberta, the University has had to reduce costs and shift resources to fund its priorities. Cost savings to address inflation were achieved by reducing spending and deferring some initiatives. Through prudent fiscal management and a willingness to partner with government, the University will continue to mitigate budgetary risks to deliver on its mandate.