Financial Review

Statement of Management Responsibility

The University is responsible for the preparation of the financial statements and has prepared them in accordance with Canadian generally accepted accounting principles as described in note 2 to the financial statements. The financial statements present fairly the financial position of the University as at March 31, 2010 and the results of its operations and cash flows for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of the financial statements.

The Board of Governors carries out its responsibility for review of the financial statements principally through its Audit Committee. The Audit Committee meets with Management and the External Auditor to discuss the results of audit examinations and financial reporting matters. The External Auditor has full access to the Audit Committee, with and without the presence of Management.

The financial statements for the year ended March 31, 2010 have been reported on by the Auditor General of the Province of Alberta - the Auditor appointed under *The Post-Secondary Learning Act*. The Auditor's Report outlines the scope of his examination and provides his opinion on the fairness of presentation of the information in the financial statements.

Original signed by Warren L. Veale
Interim President

Original signed by Jonathan Gebert
Vice-President (Finance and Services)

Management Discussion & Analysis

This Management Discussion and Analysis (MD&A) should be read in conjunction with the University of Calgary annual audited financial statements and accompanying notes. The MD&A and audited financial statements are reviewed and approved by the University of Calgary Board of Governors on the recommendation of the University of Calgary Audit Committee. The University financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

The University has reported a $48.0 million excess of revenue over expense for the year ended March 31, 2010. This compares to an $8.7 million excess of revenue over expense for the year ended March 31, 2009. The year-end net asset position is $710.0 million as compared to last year's $561.3 million.

Total revenue increased by $79.9 million (8.4%) to $1,034.1 million while total expenditures increased by $40.6 million (4.3%) to $986.1 million. The predominant changes in revenue include increases of $38.6 million in grants and donations, $12.5 million in tuition and $24.5 million in investment income. The main increases in expense categories include increases in salaries and benefits of $37.9 million and $5.5 million in scholarships and awards, offset by a decrease in utility expense of $3.8 million.

This MD&A provides an overview of the results the University of Calgary achieved in 2010 with a detailed discussion and analysis of the institution's:

1. Operating Environment
2. Business Planning and Management
3. Financial / Budget Information
4. Areas of Significant Financial Risk
5. Progress in Capital Projects

1. OPERATING ENVIRONMENT

Over the past several years, the University of Calgary has taken its place among Canada's major research institutions as evident from its ranking on a number of national and international measures related to program quality, size and research productivity. The university continues to derive much of its strength from its role within the Campus Alberta post-secondary system, its location within the City of Calgary and Province of Alberta, and from the over 100 academic programs it offers through its 14 faculties and 53 teaching departments.

The University of Calgary operates in an environment characterized by considerable political, economic, social, technological, and environmental change. The recession is just one of a number of factors contributing to increased student demand in 2009-10 as more people move from the workforce to post-secondary education. Meeting this demand over the next few years, particularly in areas of strategic priority, will be challenging since much of the funding for planned program expansions across the Campus Alberta system is no longer available.

The acute staffing challenges of recent years eased in 2009. However, longer term demographics suggest that these pressures will re-emerge and the University will need to take strategic actions now to ensure that it is prepared. As the public sector typically lags behind the private sector, the University will remain in this period of wage restraint as the private sector is emerging from it.

Revenue through fundraising declined; investment returns were lower than normal; and government grant and tuition revenue grew at rates less than the inflationary cost of program delivery. Recent changes to post-secondary roles and mandates, new legislation governing university research, and the resulting desire of government to target funds and regulate student fees provide evidence that the University must continue to work to achieve the appropriate balance between institutional autonomy and public accountability.

2. BUSINESS PLANNING AND MANAGEMENT

The University of Calgary's four-year business plan lays out the framework and provides the resources for the institution to achieve its teaching, research, interdisciplinary, and service goals and objectives. Within this plan, the University describes its operating environment as well as the strategies it will engage in to further enhance its quality, reputation, profile and distinctive character.

Performance measures monitor plan progress. As the University refines its plans, these measures are updated to ensure they continue to assess performance against desirable outcomes. Together, this plan and the annual report form part of an accountability relationship with many stakeholders: students, faculty and staff, the Board of Governors, the business community, various public communities, other post-secondary institutions, and the provincial and federal governments.

3. FINANCIAL / BUDGET INFORMATION

REVENUES

Total revenues have increased by $79.9 million (8.4%) to $1,034.1 million from the $954.2 million recorded in 2009. The following table shows the composition of the University's total revenues for the 2010 fiscal year with comparative information for 2009 and 2008:

Revenue by Source	**2010**	**2009**	**2008**
Government grants	$ 614,404	$ 564,370	$ 492,105
Sales of services and products	94,967	90,949	79,536
Student tuition and fees	169,720	157,166	138,968
Donations and other grants	71,456	82,929	75,744
Investment income (loss)	31,510	7,036	(129)
Amortization of deferred capital contributions	52,073	51,751	48,944
Total Revenue	**1,034,130**	**954,201**	**$ 835,168**

Government Grants

The University's single largest source of revenue is government grants which increased by $50.0 million (8.9%) from $564.4 million in 2009 to $614.4 million in 2010.

Grants received during the year from Alberta Advanced Education and Technology increased by $44.2 million (6.8%) from $649.2 million in 2009 to $693.4 million in 2010. Of this amount, $193.7 million (2009 $199.4 million) relates to capital grants. These capital grant amounts are deferred and recognized into revenue as "amortization of deferred capital contributions" over the life of the associated capital assets.

The base operations grant increased by $27.2 million; this increase includes a 6% increase over the 2009 base operations grant ($20.1 million), and additional veterinary medicine funding amounting to $6.4 million. Enrolment Planning Envelope (EPE) funding increased by $8.5 million from $57.2 million in 2009 to $65.7 million in 2010. Other miscellaneous grants increased by $14.2 million.

Grants from the Government of Alberta represent 81.3% of the total government grant revenue received by the University (80.8% in 2009) and 48.3% of total revenues for the University in 2010 (47.8% in 2009).

Tuition Fees

Total credit tuition revenue increased by $14.2 million (10.2%) from $139.8 million in 2009 to $154.0 million in 2010. Of this increase, the Government of Alberta Tuition Policy which allowed for a 4.1% increase (2009- 4.6%) in regulated tuition provided $5.3 million in revenue growth for 2010. Further, increased student enrolment resulted in additional general tuition and visa differential revenue amounting to $8.0 million. The enrolment increase is in line with expectations. The 2010 credit tuition budget allowed for an enrolment increase of 1,500 full load equivalent students in support of the University objective to expand access in response to population growth and market demand.

Non credit tuition decreased by $1.7 million from $17.4 million in 2009 to $15.7 million in 2010 as the result of decreased enrolments in 2010. The weakened economic environment led to a reduction in registrations, particularly in leisure programs such as travel study and general interest offerings. In addition, the threat of a flu epidemic led to cancellations of English as a Second Language and other international group program registrations.

Research

Cash research contributions during the year increased by $28.4 million from $243.7 million in 2009 to $272.1 million in 2010. The significant contributors to this increased funding are as follows: Alberta Advanced Education and Technology ($2.1 million), Canadian Foundation for Innovation ($13.3 million), Informatics Circle of Research Excellence ($1.6 million), Natural Sciences & Engineering Research Council ($2.2 million), Social Science & Humanities Research Council ($2.5 million) and corporate business funding ($5.0 million).

Research grants and revenues are matched to the period in which related expenditures are incurred; there is significant deferral of revenues at the balance sheet date. The financial statements reflect recognized research revenue of $260.6 million in 2010 compared to $228.7 million in 2009. Research revenue is derived from a number of sources and as such is reported within multiple lines of the statement of operations.

Investment Income

The University's investment income increased by $24.5 million (350.0%) to $31.5 million from the $7.0 million reported in 2009. The $31.5 million in investment income is comprised of the following:

Investment Income ($000)	
Gain on investments held for endowments	76,019
Gain on other investments	13,258
Recovery on Floating Rate Notes (ABCP)	2,986
Loss from subsidiaries & joint venture	(424)
	91,839
Less:	
Income capitalized to endowment net assets	(57,944)
Amounts deferred	(2,385)
Net investment income	31,510

The increase in total investment income earned is primarily the result of an increase in valuations for world equity markets. Equity investments represent a substantial component of the University's long-term investment portfolio. These increases are partially offset by decreased returns in the University's fixed income and money market investments. The investment gain relating to externally restricted endowments, net of endowment spending and fees, was transferred to cumulative capitalized endowment earnings. In addition, the value of the University's investment in Floating Rate Notes (formerly Asset Backed Commercial Paper) stabilized during the fiscal year, resulting in a recovery of $3.0 million.

For the year ended March 31, 2010 the return on the University's endowment funds was 23.8% (2009 -19.11%) and on non-endowed funds was 2.4% (2009 2.1%)

EXPENSES

Total expenditures increased by $40.6 million (4.3%) from $945.5 million in 2009 to $986.1 million in 2010. The following table shows the composition of the University's total expenses for the 2010 fiscal year with comparative information for 2009 and 2008:

Expense by Category	2010	2009	2008
Salaries	$ 502,482	$ 479,030	$ 446,703
Benefits	101,957	87,596	72,645
Materials, supplies and services	182,095	180,727	165,184
Utilities	28,214	32,039	27,707
Maintenance and repairs	14,160	14,054	13,556
Scholarships, bursaries and awards	61,061	55,572	45,049
Cost of goods sold	15,471	15,833	15,541
Amortization of capital assets	80,681	80,668	79,780
Total Expenses	**$ 986,121**	**$ 945,519**	**$ 866,165**

Salaries and Benefits

At 61.3% of total expenditures (2009 59.9%) salaries and benefits represent the single largest operating expenditure. Salaries increased in 2010 by $23.5 million or 4.9% over 2009 (compared to a 2009 increase of $32.3 million over 2008 or 7.2%) as a result of salary rate increases coupled with an average overall head count increase of 50 (2009 163). This average headcount increase includes 107 additional individuals within the following categories: fixed term employees (formerly trust employees), temporary and term appointments and hourly employees. These increases were offset by a decrease in headcount of 57 in senior administrative, regular continuing academic, support staff and management and professional categories.

Final full time equivalent (FTE) staffing numbers for specific employee groups as at March 31, 2010 with comparative numbers for March 31, 2009 are provided in the table below:

Full Time Equivalent	March 31, 2009	March 31, 2010	Net Change
Regular Continuing Academic	1,788	1,798	10
Support Staff	2,349	2,165	(184)
Management & Professional	693	698	5
Senior Administration	47	51	4
Total Workforce	**4,877**	**4,712**	**(165)**

A portion of salary costs was recovered from external sources.

Expenditures on benefits increased by $14.4 million (16.4%) over the prior year. The cost of benefits as a percentage of salary is 20.3% in 2010 compared to 18.3% in 2009. Of this increase, $12.0 million (2009 $7.6 million) is due to the increase in the actuarially determined UAPP pension expense net of employer cash contributions. The remainder of the increase in benefits expense is primarily due to the $23.5 million increase in total salaries paid as described above.

Utilities

Utilities expense decreased by $3.8 million (-11.9%) primarily as a result of lower natural gas costs.

Scholarships, Bursaries and Awards

Scholarship expense increased by $5.5 million (9.9%) over 2009. Higher enrolment numbers in 2010 contributed to the increase in scholarship spending as more students became eligible for support. Increased funding came from a number of sources including: the Alberta Ingenuity Fund, Natural Sciences and Engineering Research Council and Social Science and Humanities Research Council funds in addition to private corporate contracts.

BUDGET TO ACTUAL

The 2010 surplus of $48.0 million is a reflection of cumulative favourable overall variances for both revenue and expenditures.

Actual revenue is $2.1 million over budget due to higher than anticipated investment returns of $14.1 million and increased sales and services across all portfolios of $10.7 million. These factors are offset by lower than anticipated government research grant revenue of $11.1 million and lower than anticipated operating revenue from University of Calgary - Qatar of $8.6 million. In addition, there is a further cumulative $3.0 million reduction in revenue recognition in all other categories.

Actual expenses are $45.9 million below budget due to lower than expected materials and supplies expenses of $48.0 million combined with below budget utilities costs of $7.9 million. These positive variances are offset by higher than expected scholarships, bursaries and awards costs of $6.5 million and smaller unfavorable variances in amortization and repairs and maintenance.

The lower than expected materials and supplies costs are the result of expenditure restraint at the University combined with lower than anticipated use of contingency funds.

FINANCIAL POSITION

Net Assets

The University's net asset balance totalled $710.0 million at March 31, 2010. This is an increase of $148.7 million over 2009. The net asset balance is reported in the following four major categories:

Net Assets - Endowments

Net assets restricted for endowment purposes increased by $101.6 million or 29.9% to $441.7 million from $340.1 million in 2009. The increase is the result of net investment gain of $76.1 million and $43.6 million in new contributions less $18.1 million in endowment expenditures.

Net Assets - Investment in capital assets and collections

The portion of net assets invested in capital assets decreased from $200.1 million in 2009 to $194.5 million in 2010. The $5.6 million decrease is the result of internally funded net capital purchases of $23.0 million less amortization expense relating to internally funded capital assets of $28.6 million. Growth in the capital asset and collections balance is discussed in Section5. Progress in Capital Projects.

Net Assets - Internally restricted

Internally restricted net assets represent amounts set aside by the University for specific purposes. The balance increased by $5.9 million from $78.6 million in 2009 to $84.5 million in 2010. The increase in this balance is due primarily to an internal restriction established in 2010 to allow for management of departmental budget surpluses carried over into 2011 with partially offsetting reductions in the balance due to spending of internally restricted amounts for future commitments.

The composition of internally restricted net assets is as follows:

	$ Million
Funding reserved for subsidiaries (University Technologies Group and Arctic Institute of North America)	5,643
Future Commitments and Strategic Reinvestments	53,598
Funding for faculty and departmental priorities	25,227
Total	84,468

Net Assets - Unrestricted

The University's unrestricted net assets balance (or "equity") at year-end is in a deficit position of $(10.6) million (2009 $57.6 million deficit as re-stated). This improvement of $47.0 million is primarily due to $48.0 million in net income.

Investments

The cash and cash equivalents balance at March 31, 2010 is $576.1 million compared to $456.6 million at March 31, 2009. This $119.5 million net increase is primarily due to the excess of revenue over expense for the year, adjusted for non-cash items plus amounts held to support payment of March 31, 2010 payroll and other accounts payable and accrued liabilities. Pay dates for employees were changed during the fiscal year resulting in payments 10 days in arrears, rather than at mid-month and end of month as in previous fiscal years.

Total investments increased by $165.7 million (35.0%) from the $473.9 million recorded in 2009 to $639.6 million in 2010. Long-term investments increased by $94.7 million and current investments increased by $70.8 million. The increase in long-term investments is primarily due to an increase in the value of equities and bonds held, as well as endowment contributions net of expenditures of $25.5 million. The increase in short-term investments is primarily due to increases in unspent research and other restricted balances.

4. AREAS OF SIGNIFICANT FINANCIAL RISK

Unfunded Pension Liability

The University participates with other employers in the Universities Academic Pension Plan ("UAPP") to provide pensions for certain staff members.

The actuarial deficiency reported by the UAPP as at December 31, 2009 related to all participants is $971.0 million (2008 - $1,055.5 million) consisting of a pre-1992 deficiency ($666.0 million) and a post 1991-deficiency ($305.0 million). Based on an extrapolation of the UAPP's financial position to March 31, 2010, the University's portion of this deficiency, which has been allocated based on its plan members' percentage of pensionable earnings, is estimated to be $116.4 million (2009 - $187.0 million). The University has recorded an accrued benefit liability of $58.3 million (2009 - $38.7 million) and deferred $58.1 million (2009 - $148.3 million) of unamortized experience losses as prescribed by GAAP for employee future benefits. Current contributions have been set such that the pre-1992 liability would be eliminated by December 31, 2043. Rates are currently being re-evaluated by UAPP and increases are anticipated effective July, 2010. This represents a significant financial risk to the University, including a potential risk in recruitment and retention.

The University is also a participant in the Public Sector Pension Plan (PSPP) for certain other employees. Participants, including the University, are unable to isolate their share of the PSPP pension due to the number of participating employers in the PSPP and the resultant complexities in calculating accurate information related to the participants' share of any unfunded liability. There is a strong likelihood that both employer and employee contribution rates will increase in the near future for PSPP plans.

For multi-employer defined-benefit plans where there is measurement uncertainty with respect to each plan participant, the CICA Handbook guidance allows for following the standards on defined-contribution plans. Therefore, the University has chosen to continue to account for the PSPP on a defined-contribution basis.

Deferred Maintenance

The magnitude of deferred maintenance and an aging infrastructure means emergency repairs may be unavoidable. The current 5-year deferred maintenance liability for buildings totals $298.7 million (2009 $361.7 million). A significant part of the reduction from 2009 can be attributed to the reduction in construction costs, which impacts the cost of addressing deferred maintenance projects. Wherever possible, the University will try to address deferred maintenance as part of other capital projects within the existing building inventory. Even with this strategy, deferred maintenance continues to be a major issue for the University. During the past year, the University expended $14.2 million (2009 $14.1 million) on maintenance projects. Another $6.9 million (2009 $5.2 million) was spent on capital projects within the Infrastructure Maintenance Program funded by the Province of Alberta. Based on current Facilities Condition Index data compiled for the University, the University estimates it needs to spend approximately $41.9 million (1.5% of current replacement value) per year in order to properly address the capital renewal requirements of its existing buildings. The University is limited in its ability to make adequate progress on its deferred maintenance issues.

Budgetary Pressure

The University's future finances are under pressure as a result of a number of factors including:

- the expectation that there will be no increases in operating grant funding in the foreseeable future;
- potential for operating grant funding reductions in the foreseeable future;
- loss of incremental Enrolment Planning Envelope funding impacting new programming and tuition revenues;
- potential for negotiated salaries in excess of funding;
- a tuition policy that limits tuition to rates below inflation rates;
- potential for volatility with regards to Investment returns; and,
- maintaining a positive unrestricted net asset position

The University continues to be committed to address these budgetary pressures and will work closely with the Board of Governors and the government to develop long-term strategies to ensure that it can continue to deliver on its mandate.

5. PROGRESS IN CAPITAL PROJECTS

In 2010 the University expended $274.1 million (2009 $181.1 million) on buildings and plant, and a total of $47.0 million (2009 $38.3 million) in equipment & furnishings, books, software and artwork. These additions were funded as follows: $23.2 million from internal University funds, $50.8 million from debt financing and $247.1 million from other external sources.

Significant investment in buildings from external funds includes: Energy, Environment & Experiential Learning ($60.8 million), Taylor Family Digital Library and High Density Library ($87.6 million), Phase VI New Residence ($29.1 million – debt funded), Foothills Campus including Health Research Innovation Centre fit out costs, Health Science Centre Critical Renovations, and Undergraduate Medical Expansion ($26.6 million), the International House residence ($18.4 million – debt funded), Central Heating and Cooling Plant / Energy Centre ($15.2 million), and the Clinical Skills Building ($9.1 million).