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, 2011 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, 2011 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 Elizabeth Cannon
President and Vice Chancellor

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 $69.8 million excess of revenue over expense for the year ended March 31, 2011. This compares to a $48.0 million excess of revenue over expense for the year ended March 31, 2010. The year-end net asset position is $835.2 million as compared to last year's $710.0 million.

Total revenue increased by $31.7 million (3.1%) over fiscal 2010 to $1,065.8 million while total expenditures increased by $9.8 million (1.0%) to $995.9 million. The predominant changes in revenue include increases of $13.6 million in tuition, $11.3 million in grants and donations and $7.8 million in amortization of deferred capital contributions. The main increases in expense categories include increases in materials, supplies and services of $13.4 million, $8.8 million in amortization of capital assets and $5.3 million in scholarships and bursaries. These increases are offset by a decrease in salaries and benefits of $18.9 million.

This MD&A provides an overview of the results the University of Calgary achieved in 2011 with a detailed discussion and analysis of the University'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

The University of Calgary operates in an environment characterized by political, economic, social, technological, and environmental change. Increasing competition, population growth, economic uncertainty, challenges related to student recruitment, retention and engagement, affordable student housing, the gap between revenue and expenditure growth, and calls for greater public accountability, among other factors offered opportunities and presented challenges.

The recession was just one of a number of factors contributing to increased student demand as more people moved from the workforce to post-secondary education. Meeting this demand, particularly in areas of strategic priority, was challenging for the University since much of the funding for planned program expansions across the Campus Alberta system was canceled to meet provincial budget targets.

Changes to the provincial research and innovation landscape introduced by Alberta Advanced Education and Technology in 2009-10 continued to work their way through the system in 2010-11, making it less complex, more focused on government's priorities, with less overlap and providing stronger links between the players. Despite considerable public sector debt, the demand for university research remained strong as governments turned to innovation as a driver of social and economic development.

The global financial crisis had a profound and lasting effect on all aspects of the Alberta post-secondary system. Numerous provincial grants were frozen or reduced. Planned program expansions were cancelled, and new capital projects were deferred.

Fortunately, the University was better positioned than many other institutions in its sector to buffer the financial downturn. It continued to benefit from a favourable student to faculty ratio, and a broad range of desirable programs. In anticipation of the challenges ahead, budgets were reduced by 3% in 2010-11. The Innovative Support Services (iS2) project reduced ongoing administrative costs. Senior administrative salaries were frozen in 2010-11. Annual tuition fee increases were approved by the Minister of Advanced Education and Technology for the Bachelor of Commerce and MBA program to correct market anomalies. A new student services fee was phased in over 3 years to direct more of the operating budget into core academic operations. Additionally, collective agreements were settled at rates lower than in previous years.

Despite these challenges, the University leveraged its strengths to attend to its priorities, enhance its resources, and improve the service it provided to students and the community.

2. BUSINESS PLANNING AND MANAGEMENT

The University's three-year business plan lays out the framework and 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 including 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 $31.7 million (3.1%) to $1,065.8 million from the $1,034.1 million recorded in 2010. The following table shows the composition of the University's total revenues for the 2011 fiscal year with comparative information for 2010 and 2009:

Revenue by Source	Budget - unaudited	2011	2010	2009
Government grants	$ 625,347	$ 618,126	$ 614,404	$ 564,370
Sales of services and products	93,910	93,371	94,967	90,949
Student tuition and fees	179,198	183,253	169,720	157,166
Donations and other grants	70,314	79,075	71,456	82,929
Investment income	26,477	32,078	31,510	7,036
Amortization of deferred capital contributions	56,124	59,859	52,073	51,751
Total Revenue	**$ 1,051,370**	**$ 1,065,762**	**$ 1,034,130**	**$ 954,201**

Government Grants

The University's single largest source of revenue is government grants which increased by $3.7 million (0.6%) from $614.4 million in 2010 to $618.1 million in 2011.

Grants received during the year from Alberta Advanced Education and Technology decreased by $100.6 million (14.5%) from $693.4 million in 2010 to $592.8 million in 2011. Of this amount, $97.9 million (2010 $193.7 million) relates to capital grants. The decrease in capital grants from 2010 to 2011 is due to the near completion of the major capital expansion program funded by Alberta Advanced Education and Technology. These capital grant amounts are deferred and recognized into revenue as "amortization of deferred capital contributions" over the life of the associated capital assets, which is why the reduction in capital grants is not reflected in grant revenues on the statement of operations.

Operating grants decreased by $2.6 million (1%) over the prior year. In 2010, grants consisted of the base operating grant combined with supplemental funding, most notably the Enrolment Planning Envelope grant. This year, Alberta Advanced Education and Technology grants were combined, eliminated or modified into what is now referred to as the Campus Alberta grant, resulting in a net decrease in the overall grant.

Grants from the Government of Alberta represent 80.8% of the total government grant revenue received by the University (81.3% in 2010) and 46.9% of total revenues for the University in 2011 (48.3% in 2010).

Tuition Fees

Tuition fees totaled $183.3 million (2010 $169.7) and consisted of $166 million (2010 $154 million) in credit tuition fees and $17.3 million (2010 $15.7 million) in non-credit tuition fees. Total credit tuition revenue increased by $12.0 million (7.8%) from $154.0 million in 2010 to $166.0 million in 2011. Of this increase, $4.5 million represents enrolment growth and $1.9 million relates to the Government of Alberta Tuition Policy which allowed for a 1.5% increase (2010 4.1%). The newly implemented student services fee resulted in an additional general tuition of $3.8 million along with visa and program differential revenue and other tuition revenue of $1.8 million, which accounted for the remaining $5.6 million revenue growth.

Non-credit tuition increased by $1.6 million (10.2%) from $15.7 million in 2010 to $17.3 million in 2011. The increase is mainly due to stronger enrolment in 2011 in English as a Second Language classes and the expansion of the customized executive development programs. In 2010, the revenue was lower due to the weakened economic environment which led to a reduction in registrations in leisure programs and the threat of a flu epidemic which led to cancellations of English as a Second Language and other international group program registrations.

Research

Cash research contributions during the year increased by $3.6 million from $272.1 million in 2010 to $275.7 million in 2011.

Research grants and revenues are recognized in the period in which related expenditures are incurred. There is a significant deferral of unspent research revenues at the balance sheet date. The financial statements reflect recognized research revenue of $258.1 million in 2011 (2010 $260.6 million) which match research expenditures incurred in those periods. Research revenue is derived from a number of sources and as such is reported within multiple lines of the statement of operations.

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Investment Income

The University's investment income increased by $0.6 million (1.9%) to $32.1 million from the $31.5 million reported in 2010. The $32.1 million in investment income is comprised of the following:

Investment Income ($000)	
Income on investments held for endowments	48,989
Income on other investments	16,196
Recovery on Floating Rate Notes (ABCP)	4,051
Gain from subsidiaries & joint venture	338
	69,574
Less:	
Income capitalized to endowment	(31,428)
Amounts deferred	(6,068)
Net investment income	32,078

The increase in total investment income earned is the result of an increase in equity valuations (primarily domestic equity). Equity investments represent a substantial component of the University's long-term investment portfolio. Fixed income and money market investment returns also experienced a slight increase during the year. 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) increased during the fiscal year, resulting in a recovery of $4.1 million.

For the year ended March 31, 2011 the return on the University's endowment funds was 11.8% (2010 23.8%) and on non-endowed funds was 2.6% (2010 2.4%).

EXPENSES

Total expenditures increased by $9.8 million (1.0%) from $986.1 million in 2010 to $995.9 million in 2011. The following table shows the composition of the University's total expenses for the 2011 fiscal year with comparative information for 2010 and 2009:

Expense by Category	Budget - unaudited	2011	2010	2009
Salaries	$ 496,535	$ 496,491	$ 502,482	$ 479,030
Benefits	96,801	89,056	101,957	87,596
Materials, supplies and services	267,880	195,478	182,095	180,727
Utilities	33,352	31,144	28,214	32,039
Maintenance and repairs	12,047	13,734	14,160	14,054
Scholarships and bursaries	62,941	66,371	61,061	55,572
Cost of goods sold	18,353	14,174	15,471	15,833
Amortization of capital assets	84,533	89,474	80,681	80,668
Total Expenses	**$ 1,072,442**	**$ 995,922**	**$ 986,121**	**$ 945,519**

Salaries and Benefits

At 58.8% of total expenditures (2010 61.3%) salaries and benefits represent the single largest operating expenditure. Salaries expense decreased in 2011 by $6.0 million or 1.2% over 2010 primarily due to staff reductions and a decrease in severance payments.

The average overall headcount decreased by 353 compared to 2010, primarily due to a decrease of 265 in term appointments and hourly employees, which had a minimal impact to salaries. The major cost reduction resulted from an average headcount decrease of 53 within the support staff group. Severance payments decreased by $1.9 million compared to fiscal 2010 when the University made significant staff reductions in senior administrative, regular continuing academic, support staff and management and professional categories. The FTE figures provided as at March 31, 2011 are not necessarily indicative of staffing levels throughout the year as they are at a point in time. As such, both headcount and year-end FTE figures are provided.

Within the Post Secondary Sector, Universities use full time equivalent (FTE), a common metric, when referring to staffing complement. FTE staffing numbers for specific employee groups as at March 31, 2011 with comparative numbers for March 31, 2010 are provided in the table below:

Full Time Equivalent	March 31, 2011	March 31, 2010	Net Change
Regular Continuing Academic	1,752	1,798	(46)
Senior Administration	48	51	(3)
Management & Professional	725	698	27
Support Staff	2,175	2,165	10
Total Workforce	**4,700**	**4,712**	**(12)**

A portion of salary costs was recovered from external sources.

Expenditures on benefits decreased by $12.9 million (12.6%) over the prior year. The cost of benefits as a percentage of salary is 17.9% in 2011 compared to 20.3% in 2010. Of this decrease, $16.0 million (2010 $12.0 million) is due to the decrease in the actuarially determined UAPP pension expense. The remainder of the variance in benefits expense is primarily due to a one-time adjustment of $2.1 million to accrued vacation balances recorded in 2010 relating to former trust employees who became University employees, net of an increase in pension plan contributions of $6.1 million.

Utilities

Utilities expense increased by $2.9 million (10.3%) over 2010 primarily as a result of increase in the average natural gas rates experienced in 2011, and an increase in usage due to completion and usage of new buildings which opened on campus during the year. A significant portion of gas costs incurred during 2010 were at a low floating rate, prior to the University's decision to move to improve predictability of utilities expenses through the commencement of a hedging program.

Scholarships and Bursaries

Scholarship expense increased by $5.3 million (8.7%) over 2010. Higher enrolment numbers in 2011 contributed to the increase in scholarship spending as more students became eligible for support. Increased scholarship expense came from a number of faculties including the Faculty of Science and the Schulich School of Engineering.

BUDGET TO ACTUAL

The 2011 excess of revenue over expense of $69.8 is $90.9 million greater than the budgeted deficiency of revenue over expense of $21.1 million. This variance is a reflection of cumulative favorable overall variances for both revenue and expenditures.

Actual revenue is $14.4 million over budget due to higher than anticipated donations and other grants in the amount of $8.8 million, higher than expected investment returns in the amount of $5.6 million, and higher than expected tuition revenues in the amount of $4 million, partially offset by some unfavorable variances from Government of Alberta grants.

Actual expenses are $76.5 million below budget primarily due to lower than budgeted materials and supplies expenses of $72.4 million. The materials and supplies budget variance is the result of expenditure restraint at the University combined with lower than anticipated use of contingency amounts budgeted for within this line item.

UNIVERSITY OF CALGARY

FINANCIAL POSITION

Net Assets

The University's net asset balance is $835.2 million at March 31, 2011. This is an increase of $125.2 million (17.6%) over 2010 ($710.0 million). The net asset balance is reported in the following four major categories:

Net Assets - Endowments

Net assets restricted for endowment purposes increased by $55.1 million or 12.5% to $496.8 million from $441.7 million in 2010. The increase is the result of net investment gains of $49.0 million and $23.7 million in new contributions less $17.6 million in endowment expenditures.

Net Assets - Investment in capital assets and collections

Net assets invested in capital assets and collections of $193.4 million decreased by $1.1 million from 2010 ($194.5 million). The decrease was the result of amortization expense relating to internally funded capital assets of $29.9 million largely offset by internally funded net capital purchases and long-term debt repayments relating to capital assets of $28.8 million. Growth in the capital asset and collections balance is discussed in Section 5, 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 $24 million from $84.5 million in 2010 to $108.5 million in 2011. The increase in this balance is primarily due to an internal restriction to allow for management of departmental budget surpluses carried over from 2011, with offsetting reductions relating to spending of amounts that were internally restricted for in previous years.

The composition of internally restricted net assets is as follows:

	$ (000's)
Funding reserved for Capital activities	2,400
Funding reserved for Operating activities	88,544
Funding reserved for Research activities(includes research activities and for subsidiaries –University Technologies Group and Arctic Institute of North America)	17,545
Total	$108,489

Net Assets - Unrestricted

The University's unrestricted net assets balance at year-end has recovered significantly to a surplus of $36.5 million (2010 $10.6 million deficit). This improvement of $47.1 million is primarily due to the $69.8 million excess of revenue over expenditures.

Investments

The cash and cash equivalents balance decreased by $41.1 million to $535.0 million compared to $576.1 million at March 31, 2010. This decrease is a result of cash of $356.3 million used in investing activities, offset by cash inflows of $43.5 million and $271.7 million respectively from operating and financing activities.

Total investments increased by $133.4 million (20.9%) from the $639.6 million recorded in 2010 to $773.0 million in 2011. Long-term investments increased by $68.5 million and current investments increased by $64.9 million. The increase in long-term investments is primarily due to an increase in the market value of the portfolio in the amount of $40.2 million and net purchases in the amount of $28.3 million. The increase in short-term investments is primarily due to increases in unspent research and other restricted balances that have been invested.

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, 2010 related to all participants is $1,123.0 million (2009 $971.0 million) consisting of a pre-1992 deficiency ($754.0 million) and a post 1991-deficiency ($369.0 million). Based on an extrapolation of the UAPP's financial position to March 31, 2011, the University's portion of this deficiency, which has been allocated based on its plan members' percentage of pensionable earnings is estimated to be $119.8 million (2010 $116.4 million). The University has recorded an accrued benefit liability of $61.9 million (2010 $58.3 million) and deferred $57.9 million (2010 $58.1 million) of unamortized experience losses as prescribed by GAAP for employee future benefits. The unfunded deficiency for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2010 1.25%) of salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 2.03% (2010 2.03%) of salaries required to eliminate the unfunded deficiency by December 31, 2043.

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 significant 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 current deferred maintenance balance for buildings is estimated at $304.5 million (2010-$298.7 million) based on March 31, 2011 information from Alberta Infrastructure. This balance represents the expected future life cycle costs associated with University buildings over the next five years based on periodic audits conducted by Alberta Infrastructure. Deferred maintenance is retired through Infrastructure Maintenance Grants, special preservation grants and as part of the ongoing capital program within the existing building inventory. Total provincially-funded expenditures on maintenance events over the twelve months ended March 31, 2011 was $33.2 million (2010 $21.1 million). Of this amount, $15.2 million (2010 $6.9 million) was funded from special preservation grants. A portion of these amounts were treated as capital improvements and are further discussed under "Progress in Capital Projects" (below). The Facility Condition Index (FCI) is an industry standard for measuring building condition against the total replacement value of the University's buildings. The University's current FCI of 10.6% is within an acceptable range (0% to 15%) and would indicate a well managed maintenance program.

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, and a possibility of reductions, in operating grant funding in the foreseeable future;
- reduction in, or loss of, external funding sources;
- potential for significant unexpected repairs on aging facilities;
- likely increase in contribution rates for pension plans;
- maintaining enrolment associated tuition revenue as economy recovers;
- potential for negotiated salaries and other inflationary pressures in excess of funding;
- a tuition policy that limits tuition to rates below inflation rates; and,
- potential for volatility with regards to investment returns

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 2011 the University expended $271.6 million (2010 $274.1 million) on buildings and plant, and a total of $80.6 million (2010 $47.0 million) on equipment & furnishings, books, software and artwork. These additions were funded as follows: $28.8 million from internal University funds, $38.3 million from debt financing and $285.1 million from other external sources.

Significant investment in capital projects from external funds includes: Energy, Environment & Experiential Learning ($76.9 million), Taylor Family Digital Library and High Density Library ($48.2 million), Phase VI New Residence ($25.8 million – debt funded), Foothills Campus including Health Research Innovation Centre fit out costs, Health Science Centre Critical Renovations, and Undergraduate Medical Expansion ($35.4 million), Phase I Expansion of Schulich School of Engineering ($20.6 million), Central Heating and Cooling Plant / Energy Centre ($25.0 million), and Phase II of Energy Performance Projects ($10.9 million).