UNIVERSITY OF
CALGARY

# Consolidated Financial Statements

For the Year Ended
March 31, 2014

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The University is responsible for the preparation of the consolidated financial statements and has prepared them in accordance with Canadian Public Sector Accounting Standards as described in note 2 to the financial statements. The financial statements present fairly the financial position of the University as at March 31, 2014 and the results of its operations, remeasurement gains and losses 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, 2014 have been reported on by the Auditor General of the Province of Alberta, the auditor appointed under *The Post-secondary Learning Act*. The Independent 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]

[Original signed by Jonathan Gebert
Vice-President, Finance and Services]

Independent Auditor's Report

To the Board of Governors of the University of Calgary

**Report on the Consolidated Financial Statements**

I have audited the accompanying consolidated financial statements of the University of Calgary, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of operations, remeasurement gains and losses, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the University of Calgary as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

May 30, 2014

Edmonton, Alberta

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT MARCH 31, 2014**
**(thousands of dollars)**

| | | 2014 | | 2013 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents (Note 3) | $ | 392,288 | $ | 399,399 |
| Portfolio investments (Note 4) | | 1,395,273 | | 1,126,510 |
| Accounts receivable | | 90,012 | | 100,197 |
| Inventory and prepaid expenses | | 29,968 | | 28,007 |
| Tangible capital assets (Note 6) | | 1,626,849 | | 1,569,422 |
| Investment in government business enterprises (Note 7) | | 3,702 | | 1,205 |
| | $ | 3,538,092 | $ | 3,224,740 |
| **Liabilities** | | | | |
| Accounts payable and accrued liabilities | $ | 149,156 | $ | 122,070 |
| Employee future benefit liabilities (Note 8) | | 134,267 | | 131,407 |
| Debt (Note 9) | | 298,897 | | 156,446 |
| Deferred revenue (Note 10) | | 1,751,224 | | 1,771,421 |
| | $ | 2,333,544 | $ | 2,181,344 |
| **Net Assets** | | | | |
| Endowments (Note 11) | $ | 661,842 | $ | 568,310 |
| Accumulated operating surplus (Note 12) | | 536,032 | | 470,332 |
| Accumulated remeasurement gains | | 6,674 | | 4,754 |
| | $ | 1,204,548 | $ | 1,043,396 |
| | $ | 3,538,092 | $ | 3,224,740 |

Contingent liabilities and guarantees, and contractual obligations (Note 13 and 14)

**Approved by the Board of Governors:**

[Original signed by Chair, Board of Governors] [Original signed by VP, Finance and Services]

**CONSOLIDATED STATEMENT OF OPERATIONS**
**YEAR ENDED MARCH 31, 2014**
**(thousands of dollars)**

| | | 2014 Budget (Note 15) | | 2014 | | 2013 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Government of Alberta grants (Note 19) | **$** | **598,794** | **$** | **575,604** | $ | 619,994 |
| Federal and other government grants | | **136,458** | | **124,954** | | 118,214 |
| Sales of services and products | | **103,745** | | **110,582** | | 107,636 |
| Student tuition and fees | | **202,846** | | **215,015** | | 202,714 |
| Donations and other grants | | **96,140** | | **136,919** | | 111,524 |
| Investment income (Note 16) | | **40,083** | | **45,826** | | 33,297 |
| Investment gain (loss) in government business enterprises (Note 7) | | **-** | | **2,497** | | (2,288) |
| | **$** | **1,178,066** | **$** | **1,211,397** | $ | 1,191,091 |
| **Expense** | | | | | | |
| Academic costs and institutional support | **$** | **710,431** | **$** | **673,056** | $ | 654,951 |
| Research | | **272,042** | | **283,561** | | 256,291 |
| Special purpose and trust | | **81,023** | | **85,418** | | 87,512 |
| Facilities operations and maintenance | | **67,209** | | **63,921** | | 58,978 |
| Ancillary services | | **47,361** | | **39,741** | | 38,884 |
| | **$** | **1,178,066** | **$** | **1,145,697** | $ | 1,096,616 |
| **Excess of Revenue over Expense** | | | **$** | **65,700** | $ | 94,475 |
| Transfer from endowments | | | | **-** | | 6,916 |
| Change in accumulated operating surplus | | | **$** | **65,700** | $ | 101,391 |
| Accumulated operating surplus, beginning of year | | | | **470,332** | | 368,941 |
| **Accumulated operating surplus, end of year** | | | **$** | **536,032** | $ | 470,332 |

The accompanying notes are an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF REMEASUREMENT OF GAINS AND LOSSES**
**YEAR ENDED MARCH 31, 2014**
**(thousands of dollars)**

| | | 2014 | | 2013 |
|---|---|---|---|---|
| **Accumulated remeasurement gains, beginning of year** | **$** | **4,754** | $ | - |
| Unrealized gains attributable to: | | | | |
| Foreign exchange | | **265** | | 407 |
| Portfolio investments | | **2,987** | | 4,347 |
| Amounts reclassified to statement of operations: | | | | |
| Foreign exchange | | **(407)** | | - |
| Portfolio investments | | **(925)** | | - |
| **Accumulated remeasurement gains, end of year** | **$** | **6,674** | $ | 4,754 |

The accompanying notes are an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED MARCH 31, 2014**
**(thousands of dollars)**

UNIVERSITY OF CALGARY

| | | 2014 | | 2013 |
|---|---|---|---|---|
| **Operating transactions** | | | | |
| Excess of revenue over expense | $ | 65,700 | $ | 94,475 |
| Add (deduct) non cash items: | | | | |
| Amortization of tangible capital assets | $ | 102,046 | $ | 103,255 |
| Expended capital recognized as revenue | | (73,851) | | (74,687) |
| Increase in employee future benefit liabilities | | 2,860 | | 5,602 |
| Change in non cash items | $ | 31,055 | $ | 34,170 |
| Decrease (increase) in accounts receivable | | 10,185 | | (15,841) |
| (Increase) decrease in inventory and prepaid expenses | | (1,961) | | 1,985 |
| Increase (decrease) in accounts payable and accrued liabilities | | 27,086 | | (6,261) |
| Increase in deferred revenue, less expended capital recognized as revenue | | 53,654 | | 91,461 |
| Cash provided by operating transactions | $ | 185,719 | $ | 199,989 |
| **Capital transactions** | | | | |
| Acquisition of tangible capital assets | $ | (154,621) | $ | (124,818) |
| Proceeds on sale of tangible capital assets | | 8 | | 20 |
| Cash applied to capital transactions | $ | (154,613) | $ | (124,798) |
| **Investing transactions** | | | | |
| Purchases of investments, net of sales | $ | (213,272) | $ | (66,797) |
| Change in investment in government business enterprises | | (2,497) | | 2,557 |
| Endowment investment - realized gains capitalized (Note 11) | | 25,889 | | 1 |
| Cash applied to investing transactions | $ | (189,880) | $ | (64,239) |
| **Financing transactions** | | | | |
| Endowment donations (Note 11) | $ | 9,212 | $ | 10,338 |
| Debt - repayment | | (5,049) | | (5,152) |
| Debt - new financing | | 147,500 | | 515 |
| Cash provided by financing transactions | $ | 151,663 | $ | 5,701 |
| **(Decrease) increase in cash and cash equivalents** | $ | (7,111) | $ | 16,653 |
| **Cash and cash equivalents, beginning of year** | | 399,399 | | 382,746 |
| **Cash and cash equivalents, end of year** | $ | 392,288 | $ | 399,399 |

The accompanying notes are an integral part of these consolidated financial statements

## 1. Authority and purpose

"The Governors of the University of Calgary" is a corporation which manages and operates the University of Calgary ("the University") under the Post-secondary Learning Act (Alberta). All members of the Board of Governors are appointed by either the Lieutenant Governor in Council or the Minister of Innovation and Advanced Education, with the exception of the Chancellor and President, who are ex officio members. Under the Post-secondary Learning Act, Campus Alberta Sector Regulation, the University is a comprehensive academic and research institution offering undergraduate and graduate degree programs as well as a full range of continuing education programs and activities. The University is a registered charity, and under section 149 of the Income Tax Act (Canada), is exempt from the payment of income tax. This tax exemption does not extend to its wholly-owned subsidiaries, University Technologies International Inc. and West Campus Development Corporation.

## 2. Summary of significant accounting policies and reporting practices

### (a) General – Canadian Public Accounting Standards (PSAS) and use of estimates

These consolidated financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). The measurement of certain assets and liabilities, revenues and expenses are contingent upon future events; therefore, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. Management uses judgment to determine such estimates. Amortization of tangible capital assets, recognition of deferred revenue related to restricted grants and donations, and employee future benefit liabilities are the most significant items based on estimates. In management's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these consolidated financial statements and, together with the following notes, should be considered an integral part of the consolidated financial statements.

### (b) Net debt model presentation

PSAS require a net debt presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as net debt or net financial assets as an indicator of future revenues required to pay for past transactions and events. The University operates within the government reporting entity and does not finance all its expenditures by independently raising revenues. Accordingly, these consolidated financial statements do not report a net debt indicator.

### (c) Valuation of financial assets and liabilities

The University's financial assets and liabilities are measured as follows:

| Financial statement component | Measurement |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Portfolio investments | Fair value |
| Derivatives | Fair value |
| Accounts receivable | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Debt | Amortized cost |

Unrealized gains and losses from changes in the fair value of unrestricted financial instruments are recognized in the consolidated statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the consolidated statement of remeasurement gains and losses and recognized in the consolidated statement of operations.

Unrealized gains and losses from changes in the fair value of restricted financial instruments are recognized as a liability under deferred revenue or endowments as appropriate based on the restrictions on the earnings on the related restricted financial instrument.

## 2. Summary of significant accounting policies and reporting practices (Continued)

### (c) Valuation of financial assets and liabilities (Continued)

All financial assets except derivatives are assessed annually for impairment. Impaired financial losses are recognized as a decrease in revenue, except for the restricted amount which is recognized as a decrease in deferred revenue or a decrease in endowment net assets. A writedown of an investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial instruments measured using cost or amortized cost. Transaction costs are expensed for financial instruments measured at fair value.

University management evaluates contractual obligations for the existence of embedded derivatives and elects to either designate the entire contract at fair value or separately measure the value of the derivative component when characteristics of the derivative are not closely related to the economic characteristics and risks of the contract itself. Contracts to buy or sell non-financial items for the University’s normal course of business requirements are not recognized as financial assets or financial liabilities. The University does not participate in any derivative contracts with the exception of non-financial items which are purchased for the University's usage requirements.

### (d) Revenue recognition

All revenue is reported on the accrual basis. Cash received for which goods or services have not been provided is recognized as deferred revenue.

**Government grants, non-government grants and donations**

Government transfers are referred to as government grants.

Restricted grants and donations are recognized as deferred revenue if the terms for use, or the terms along with the University's actions and communications as to the use, create a liability. These grants and donations are recognized as revenue as the terms are met. If the grants and donations are used to acquire or construct tangible capital assets, revenue will be recognized over the useful life of the tangible capital asset.

Government grants without terms for the use of the grant are recognized as revenue when the University is eligible to receive the funds. Unrestricted non-government grants and donations are recognized as revenue in the year received or in the year the funds are committed to the University if the amount can be reasonably estimated and collection is reasonably assured.

In-kind donations of services and materials are recognized at fair value when a fair value can be reasonably determined. Volunteers as well as University staff contribute an indeterminable number of hours per year to assist the University in carrying out its mandate; such contributed services are not recognized in these consolidated financial statements.

**Grants and donations related to land**

Grants and donations for the purchase of land are recognized as deferred revenue when received and recognized as revenue when the land is purchased. An in-kind grant or donation of land is recognized as revenue at the fair value of the land when a fair value can be reasonably determined. When the fair value cannot reasonably be determined, the in-kind grant or donation is recorded at nominal value.

**Endowments**

Donations that must be maintained in perpetuity are recognized as a direct increase in endowment net assets when received or receivable. Investment income and unrealized gains and losses that also must be maintained in perpetuity are recognized as endowment net assets when received or receivable.

## 2. Summary of significant accounting policies and reporting practices (Continued)

### (d) Revenue recognition (Continued)

**Investment income**

Investment income includes dividends, interest income, and realized gains or losses on the sale of investments. Unrealized gains and losses on investments from unrestricted grants and donations are recognized in the accumulated remeasurement gains and losses until settlement. Once realized, these gains and losses are recognized as revenue or expense. Investment income from restricted grants and donations is recognized as deferred revenue when the terms for use create a liability, and is recognized as revenue when the terms of the grants or donations are met.

### (e) Inventories

Inventories held for resale are valued at the lower of cost and expected net realizable value and are determined using the weighted average method. Inventories held for consumption are valued at cost.

### (f) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the asset. Cost includes overhead directly attributable to construction and development.

The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straightline basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 20-40 years |
| Furnishings, equipment and systems | 3-10 years |
| Learning resources | 10 years |

Tangible capital assets writedowns are recorded when conditions indicate they no longer contribute to the University's ability to provide services, or when the value of future economic benefits associated with the capital assets are less than their net book value. The net writedowns are recognized as expense.

The University holds library permanent collections of rare books, and works of art collections. The value of the permanent collection has been excluded from the statement of financial position. Purchases of collection items are expensed in the period acquired.

### (g) Employee future benefits

**Pension**

The University participates with other employers in the Public Service Pension Plan (PSPP) and the Universities Academic Pension Plan (UAPP). These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees based on years of service and earnings.

Pension expense for the UAPP is actuarially determined using the projected benefit method prorated on service and is allocated to each participant based on their respective percentage of pensionable earnings. Actuarial gains or losses on the accrued benefit obligation are amortized over the expected average remaining service life.

The University does not have sufficient plan information on the PSPP to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the PSPP is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially predetermined amounts that are expected to provide the plan's future benefits.

## 2. Summary of significant accounting policies and reporting practices (Continued)

### (g) Employee future benefits (Continued)

**Supplementary retirement plans**

The pension expense for defined benefit supplementary retirement plans is actuarially determined using the projected benefit method prorated on service. Actuarial gains or losses on the accrued benefit obligation are amortized over the expected service lifetime for each plan participant.

### (h) Investment in government not for profit organization and government partnership

The consolidated financial statements include the financial results of the Arctic Institute of North America (AINA), a nonprofit organization controlled by the University. AINA operates under the authority of the Act of the Federal Parliament (910 George VI, Chapter 45) to initiate, encourage and support northern research and to advance the study of arctic conditions and problems.

The consolidated financial statements use the proportionate consolidation method to record the University's proportionate share of the Western Canadian Universities Marine Sciences Society (20% interest) a government partnership with five university members to provide research infrastructure in the marine sciences for its member universities and the worldwide scientific community.

### (i) Investment in government business enterprises

Government business enterprises, owned or controlled by the University but not dependent on the University for their continuing operations, are included in the consolidated financial statements using the modified equity method. Under the modified equity method, the equity method of accounting is modified only to the extent that the business entity accounting principles are not adjusted to conform to those of the University. Thus, the University's investment in these entities is recorded at acquisition cost and is increased for the proportionate share of post acquisition earnings and decreased by post acquisition losses and distributions received. Wholly-owned entities accounted for by the modified equity basis include University Technologies Group (UTI) and West Campus Development Corporation (WCDC).

### (j) Funds and reserves

Certain amounts, as approved by the Board of Governors, are set aside in accumulated surplus for future operating and capital purposes. Transfers to / from funds and reserves are an adjustment to the respective fund when approved.

### (k) Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities and non-monetary items included in the fair value category reflect the exchange rates at the statement of financial position date. Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses.

In the period of settlement, foreign exchange gains and losses are reclassified to the statement of operations, and the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses.

### (l) Expense by Function

The University used the following function categories on its statements of operations:

**Academic costs and institutional support**

Academic costs and institutional support includes expenses relating to activities directly and indirectly supporting innovative learning, programming, and teaching as well as administration and governance functions of the university.

(thousands of dollars)

## 2. Summary of significant accounting policies and reporting practices (Continued)

### (k) Expense by Function (Continued)

**Research**

Research expenses relate primarily to activity funded by externally sponsored research funds intended for specific research purposes as well as internal funds designated for research related spending.

**Special purpose and trust**

Special purpose and trust is comprised of expenses relating to externally restricted funding for non-research related activities including scholarships and community service.

**Facilities operations and maintenance**

Facilities operations and maintenance function includes centralized management and maintenance of grounds and facilities, and buildings. Examples include utilities, facilities administration, building maintenance, custodial services, landscaping and grounds keeping, and major repairs and renovations.

**Ancillary services**

Ancillary expenses relate to secondary services available to students, faculty, and staff. Services include on campus residence, food services, university bookstores, microstore, Hotel Alma, and conference services.

### (m) Future accounting changes

**Liability for contaminated sites**

In June 2010, the Public Sector Accounting Board (PSAB) issued PS 3260 *Liability for Contaminated Sites* to establish recognition, measurement and disclosure standards for liabilities associated with the remediation of contaminated sites. Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environment standard. The new section defines activities included in a liability for remediation, establishes when to recognize and how to measure a liability for remediation, and provides the related financial statement presentation and disclosure requirements.

PS 3260 is effective for fiscal years beginning on or after April 1, 2014. The University is currently assessing the impact of this adoption on the consolidated financial statements and has not yet determined the effect.

## 3. Cash and cash equivalents

| | | **2014** | | 2013 |
|---|---|---|---|---|
| Cash | **$** | **3,810** | $ | (1,073) |
| Money market funds, short-term notes and treasury bills | | **388,478** | | 400,472 |
| | **$** | **392,288** | $ | 399,399 |

Cash and cash equivalents include short-term investments with a maturity less than three months from the date of acquisition.

**(thousands of dollars)**

## 4. Portfolio investments

The composition, fair value, and annual market yields on portfolio investments are as follows:

| | **2014** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Investments at fair value: | | | | |
| Bonds | | | | |
| Canadian government and corporate | **$ -** | **$ 476,463** | **$ -** | **$ 476,463** |
| Pooled investment funds - Canadian government and corporate bonds | **-** | **163,071** | **-** | **163,071** |
| Equities | | | | |
| Canadian equity | **83,640** | **-** | **-** | **83,640** |
| Pooled investment funds - Canadian equity | **-** | **165,791** | **-** | **165,791** |
| Pooled investment funds - foreign equity | **-** | **260,834** | **-** | **260,834** |
| Other | | | | |
| Canadian mortgage | **-** | **202,537** | **-** | **202,537** |
| Floating rate notes [1] | **-** | **42,937** | **-** | **42,937** |
| | **$ 83,640** | **$ 1,311,633** | $ **-** | **$ 1,395,273** |

[1] The categorization of floating rate notes has changed from level 3 to level 2 due to a change in valuation method from an estimated model to a valuation technique that uses market based inputs.

| | 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments at fair value: | | | | |
| Bonds | | | | |
| Canadian government and corporate | $ - | $ 345,383 | $ - | $ 345,383 |
| Pooled investment funds - Canadian government and corporate bonds | - | 131,694 | - | 131,694 |
| Equities | | | | |
| Canadian equity | 69,153 | - | - | 69,153 |
| Pooled investment funds - Canadian equity | - | 135,551 | - | 135,551 |
| Pooled investment funds - foreign equity | - | 236,711 | - | 236,711 |
| Other | | | | |
| Canadian mortgage | - | 168,568 | - | 168,568 |
| Floating rate notes | - | - | 39,450 | 39,450 |
| | $ 69,153 | $ 1,017,907 | $ 39,450 | $ 1,126,510 |

The above tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

(thousands of dollars)

## 4. Portfolio investments (Continued)

The University has policies and procedures in place governing asset mix, diversification, exposure limits, credit quality and performance measurement. The University's Investment Committee, a subcommittee of the Board of Governors, has delegated authority for oversight of the University's investments. The Investment Committee meets regularly to monitor investments, to review investment manager performance, to ensure compliance with the University's investment policies and to evaluate the continued appropriateness of the University's investment policies.

## 5. Financial risk management

### Market risk

The University is exposed to market risk, the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, its issuer or general market factors affecting all securities. To manage this risk, the University has established an investment policy with a target asset mix that is diversified by asset class with individual issuer limits and is designed to achieve a long-term rate of return that in real terms equals or exceeds total endowment expenditures with an acceptable level of risk.

The following details the University's portfolio sensitivity to an 8.0% increase or decrease in the market prices. The sensitivity rate is determined using the historical annualized standard deviation for the total endowment fund over a four year period as calculated internally. At March 31, 2014, if market prices had an 8.0% (2013 - 8.7%) increase or decrease with all other variables held constant, the increase or decrease in accumulated remeasurement gains and losses and endowment net assets – externally restricted contributions for the year would have totalled $53,597 (2013 - $49,416).

The University's management for risk has not changed from prior year.

### Foreign currency risk

The University is exposed to foreign currency risk on investments that are denominated in foreign currencies, specifically U.S. dollars. The University does not use currency hedging or currency forward contracts or any other type of derivative financial instruments for trading or speculative purposes.

The impact of a change in value of U.S. dollars is as follows:

| Currency | | Fair Value | 2.5% decrease | 1.0% decrease | 1.0% increase | 2.5% increase |
|---|---|---|---|---|---|---|
| US dollar | US equity | $ 130,658 | $ 127,392 | $ 129,351 | $ 131,965 | $ 133,924 |
| US dollar | International equity | $ 130,176 | $ 126,922 | $ 128,874 | $ 131,478 | $ 133,430 |

The University has entered into a contract with the Qatari government to operate a campus in Qatar. Expenses incurred are recovered from the government of Qatar and claims are adjusted to reflect currency fluctuations, thus reducing exchange risk exposure to the University.

### Liquidity risk

The University maintains a line of credit designed to ensure available funds to meet current and forecasted financial requirements as cost effectively as possible. At March 31, 2014 the University has committed borrowing facilities of $15,000 none of which has been drawn.

### Credit risk

The University is exposed to credit risk on investments arising from the potential failure of a counterparty, debtor or issuer to honour its contractual obligations. To manage this risk, the University only invests in investment grade issuers as guided by the Investment policy. The credit risk from accounts receivable is relatively low as the majority of balances are due from government agencies and corporate sponsors. Credit risk from tuition is managed through restricted enrolment activities for students with delinquent balances and maintaining standard collection procedures.

**(thousands of dollars)**

## 5. Financial risk management (Continued)

The credit rating for Canadian government and corporate bonds held is as follows:

| Credit Rating | 2014 | 2013 |
|---|---|---|
| AAA | **39.77 %** | 36.50 % |
| AA | **34.05 %** | 33.70 % |
| A | **26.18 %** | 29.80 % |
| | **100.00 %** | 100.00 % |

### Interest rate risk

Interest rate risk is the risk that future cash flows or fair values will fluctuate due to the volatility of market interest rates. The University is exposed to this risk on its interest bearing assets; cash deposits and bonds. Cash deposits are affected directly as they earn interest at market rates. Bonds are affected indirectly as they are subject to fluctuations in market values. Bonds are currently invested at the shorter end of the yield curve to reduce market value volatility.

The terms to maturity of interest-bearing securities held by the University are as follows:

| Asset class | < 1 year | 1 - 5 years | > 5 years | Average effective market yield |
|---|---|---|---|---|
| Money market funds, short-term notes and treasury bills | 100.00 % | - | - | 1.05 % |
| Canadian government and corporate bonds | 14.50 % | 81.60 % | 3.90 % | 1.68 % |
| Canadian mortgage fund | 11.90 % | 57.90 % | 30.20 % | 3.31 % |
| Floating rate notes | - | 100.00 % | - | 4.00 % |

## 6. Tangible capital assets

| | Building, Utilities and Site Improvements | Furnishings, equipment and systems | Learning resources | Land | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Beginning of year | **$ 2,040,811** | **$ 707,842** | **$ 194,526** | **$ 14,082** | **$ 2,957,261** |
| Additions | **122,106** | **29,563** | **7,812** | **-** | **159,481** |
| Disposals | **-** | **(5,893)** | **-** | **-** | **(5,893)** |
| | **$ 2,162,917** | **$ 731,512** | **$ 202,338** | **$ 14,082** | **$ 3,110,849** |
| **Accumulated amortization** | | | | | |
| Beginning of year | **$ 662,665** | **$ 573,621** | **$ 151,553** | **$ -** | **$ 1,387,839** |
| Additions | **50,538** | **42,634** | **8,874** | **-** | **102,046** |
| Disposals | **-** | **(5,885)** | **-** | **-** | **(5,885)** |
| | **$ 713,203** | **$ 610,370** | **$ 160,427** | **$ -** | **$ 1,484,000** |
| **Net book value at March 31, 2014** | **$ 1,449,714** | **$ 121,142** | **$ 41,911** | **$ 14,082** | **$ 1,626,849** |
| **Net book value at March 31, 2013** | **$ 1,378,146** | **$ 134,221** | **$ 42,973** | **$ 14,082** | **$ 1,569,422** |

Included in buildings, utilities and site improvements is $154,985 (2013 - $114,524) and in furnishings, equipment and systems is $32,155 (2013 - $22,578) recorded as construction in progress, which is not amortized as the assets are not yet available for use.

Acquisitions during the year included in-kind contributions (such as learning resources, equipment, software, buildings and land) in the amount of $4,860 (2013 - $3,609).

(thousands of dollars)

## 7. Investment in government business enterprises

University Technologies Group (UTI) and West Campus Development Corporation (WCDC) are wholly-owned subsidiaries of the University of Calgary. UTI Group operates to facilitate the transfer of intellectual property from the University to private business, thereby commercializing the scientific innovations of University researchers. The WCDC operates as trustee of the West Campus Development Trust (WCDT), which will sublease land to developers for the commercialization of residential and commercial development. The University is the beneficiary of WCDT and will receive distributions from the trust once leases are in place with developers.

The following table provides condensed supplementary financial information reported separately for each Investment in Government Business Enterprise owned by the University; namely the UTI and WCDT.

| | University Technologies Group | | West Campus Development Trust | | Total | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| **Assets** | | | | | | |
| Cash | **$ 2,557** | $ 2,081 | **$ 31** | $ 114 | **$ 2,588** | $ 2,195 |
| Accounts receivable | **8,994** | 723 | **126** | - | **9,120** | 723 |
| Promissory notes receivable | **60** | 37 | **-** | - | **60** | 37 |
| Prepaid expenses | **23** | 32 | **25** | 15 | **48** | 47 |
| Investments | **926** | 703 | **-** | - | **926** | 703 |
| Capital assets | **49** | 67 | **223** | - | **272** | 67 |
| Intangible assets | **1,145** | 1,284 | **-** | - | **1,145** | 1,284 |
| | **$13,754** | $ 4,927 | **$ 405** | $ 129 | **$ 14,159** | $ 5,056 |
| **Liabilities** | | | | | | |
| Accounts payable and accrued liabilities | **$ 5,345** | $ 727 | **$ 73** | $ 2,101 | **$ 5,418** | $ 2,828 |
| Income taxes payable | **6** | 2 | **-** | - | **6** | 2 |
| Deferred revenue | **172** | 804 | **-** | - | **172** | 804 |
| Long term debt | **-** | 217 | **4,861** | - | **4,861** | 217 |
| | **$ 5,523** | $ 1,750 | **$ 4,934** | $ 2,101 | **$ 10,457** | $ 3,851 |
| **Equity** | | | | | | |
| Share capital | **$ 5,333** | $ 5,254 | **-** | - | **$ 5,333** | $ 5,254 |
| Deficit | **2,898** | (2,077) | **(4,529)** | (1,972) | **(1,631)** | (4,049) |
| | **$ 8,231** | $ 3,177 | **$ (4,529)** | $ (1,972) | **$ 3,702** | $ 1,205 |
| | **$13,754** | $ 4,927 | **$ 405** | $ 129 | **$ 14,159** | $ 5,056 |
| **Equity** | | | | | | |
| Revenues | **$ 7,387** | $ 2,079 | **$ -** | **$** - | **$ 7,387** | $ 2,079 |
| Expenses | **2,333** | 2,698 | **2,557** | 1,669 | **4,890** | 4,367 |
| | **$ 5,054** | $ (619) | **$ (2,557)** | $ (1,669) | **$ 2,497** | $ (2,288) |

(thousands of dollars)

## 8. Employee future benefit liabilities

Employee future benefit liabilities are comprised of the following:

| | | **2014** | | 2013 |
|---|---|---|---|---|
| Universities Academic Pension Plan | **$** | **123,199** | $ | 120,959 |
| Long-term Disability | | **1,855** | | 1,956 |
| Senior Management Administrative Leave Plan | | **379** | | 272 |
| Supplemental Retirement Pension Plan | | **8,834** | | 8,220 |
| | **$** | **134,267** | $ | 131,407 |

### (a) Defined benefit plans accounted for on a defined benefit basis

**Universities Academic Pension Plan (UAPP)**

The UAPP is a multiemployer contributory joint defined benefit pension plan for academic and professional staff members. An actuarial valuation of the UAPP was carried out as at December 31, 2012 and was then extrapolated to March 31, 2014, resulting in a UAPP deficiency of $1,056,921 (2013 - $1,149,175) consisting of a pre-1992 deficiency ($845,077) and a post-1991 deficiency ($211,844). The University's portion of the UAPP deficiency has been allocated based on its percentage of the plan's total employer contributions for the year.

The unfunded deficiency for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2013 - 1.25%) of salaries by the Government of Alberta. Employees and employers equally share the balance of the contributions of 2.87% (2013 - 2.34%) of salaries required to eliminate the unfunded deficiency by December 31, 2043. The Government of Alberta's obligation for the future additional contributions was $310,693 at March 31, 2014. The unfunded deficiency for service after December 31, 1991 is financed by special payments of 5.54% (2013 - 5.54%) of pensionable earnings until December 31, 2021, 1.71% (2013 - 1.46 %) of salaries for 2022 and 2023, 0.70% (2013 - 0.45%) of salaries for 2024 and 2025, and 0.25% (2013 - 0.0%) of salaries for 2026 and 2027, all shared equally between employees and employers.

**Supplementary retirement plans (SRP)**

The University provides non-contributory defined benefit supplementary retirement benefits to executives. An actuarial valuation of these benefits was carried out as at March 31, 2014.

(thousands of dollars)

## 8. Employee future benefit liabilities (Continued)

The expenses and financial position of these defined benefit plans are as follows:

| | **March 31, 2014** | | | March 31, 2013 | | |
|---|---|---|---|---|---|---|
| | **UAPP** | **Long term disability (1)** | **Supplementary retirement (1)** | UAPP | Long term disability (1) | Supplementary retirement (1) |
| **Expenses** | | | | | | |
| Current service cost | **$ 27,295** | **$ -** | **$ 615** | $ 25,760 | $ - | $ 581 |
| Interest cost | **9,457** | **49** | **303** | 10,673 | 46 | 288 |
| Amortization of net actuarial losses (gains) | **2,658** | **(567)** | **14** | 3,931 | (576) | 129 |
| Past service costs | **-** | **603** | **-** | - | 815 | - |
| **Total expenses** | **$ 39,410** | **$ 85** | **$ 932** | $ 40,364 | $ 285 | $ 998 |
| **Financial Position** | | | | | | |
| **Accrued benefit obligation:** | | | | | | |
| Balance, beginning of year | **$ 609,195** | **$ 1,956** | **$ 9,323** | $ 591,919 | $ 1,856 | $ 8,953 |
| Current service cost | **27,295** | **-** | **615** | 25,760 | - | 581 |
| Interest cost | **38,644** | **49** | **303** | 39,284 | 46 | 288 |
| Benefits paid | **(26,398)** | **(186)** | **(319)** | (26,620) | (185) | (470) |
| Past service costs | **-** | **603** | **-** | - | 815 | - |
| Actuarial loss (gain) | **37,266** | **(567)** | **(185)** | (21,148) | (576) | (29) |
| Balance, end of year | **$ 686,002** | **$ 1,855** | **$ 9,737** | $ 609,195 | $ 1,956 | $ 9,323 |
| Plan assets | **553,437** | - | - | 465,376 | - | - |
| Plan deficit | **$ (132,565)** | **$ (1,855)** | **$ (9,737)** | $ (143,819) | $ (1,956) | $ (9,323) |
| Unamortized net actuarial loss | **$ 9,366** | **$ -** | **$ 903** | $ 22,860 | $ - | $ 1,103 |
| Accrued benefit liability | **$ (123,199)** | **$ (1,855)** | **$ (8,834)** | $ (120,959) | $ (1,956) | $ (8,220) |

(1) The University plans to use its working capital to finance these future obligations.

The significant actuarial assumptions used to measure the accrued benefit obligation are as follows:

| | **March 31, 2014** | | | March 31, 2013 | | |
|---|---|---|---|---|---|---|
| | **UAPP** | **Long term disability** | **Supplementary retirement** | UAPP | Long term disability | Supplementary retirement |
| **Accrued benefit obligation:** | | | | | | |
| Discount rate | **6.60 %** | **2.90 %** | **3.50 %** | 6.20 % | 2.60 % | 3.10 % |
| Long term average compensation increase | **3.50 %** | **n/a** | **4.00 %** | 3.50 % | n/a | 4.00 % |
| Benefit cost: | | | | | | |
| Discount rate | **6.60 %** | **2.90 %** | **3.10 %** | 6.50 % | 2.60 % | 3.10 % |
| Long term average compensation increase | **3.50 %** | **n/a** | **4.00 %** | 3.50 % | n/a | 4.00 % |
| Alberta inflation (long term) | **2.25 %** | **n/a** | **2.50 %** | 2.25 % | n/a | 2.50 % |
| Estimated average remaining service life | **8.6 yrs** | **7.62 yrs** | (1) | 10.2 yrs | 7.85 yrs | (1) |

(1) SRP actuarial gains and losses and past service costs are amortized over the remaining contract terms of the participants.

(thousands of dollars)

## 8. Employee future benefit liabilities (Continued)

### (b) Defined benefit plans accounted for on a defined contribution basis

**PSPP**

The Public Service Pension Plan (PSPP) is a multiemployer contributory defined benefit pension plan for support staff members. As the University does not have sufficient information to follow the accounting standards for defined benefit plans, it is accounted for on a defined contribution basis. The pension expense recorded in these consolidated financial statements is $20,957 (2013 - $17,571).

An actuarial valuation of the PSPP was carried out as at December 31, 2012 and was then extrapolated to December 31, 2013. At December 31, 2013, the PSPP reported an actuarial deficiency of $1,254,678 (2012 - $1,645,141). For the year ended December 31, 2013 PSPP reported employer contributions of $315,830 (2012 - $257,350). For the 2013 calendar year, the University's employer contributions were $20,730 (2012 - $16,584). The PSPP's deficiency is being discharged through additional contributions from both employees and employers until 2028 (2012 – 2026). Other than the requirement to make additional contributions, the University does not bear any risk related to the PSPP deficiency.

## 9. Debt

Debt is measured at amortized cost and is comprised of the following:

| | Collateral | Maturity date | Interest rate % | 2014 | 2013 |
|---|---|---|---|---|---|
| Debentures payable to Alberta Capital Finance Authority: | | | | | |
| Debenture for Schulich Expansion | 2 | December 2017 | 1.61% | $ 60,000 | $ - |
| Debenture for Cascade Hall | 2 | May 2025 | 6.25% | 10,929 | 11,530 |
| Debenture for Residence Renewal Program | 2 | September 2026 | 4.43% | 13,132 | 13,904 |
| Debenture for Downtown Campus | 1 | March 2031 | 4.27% | 13,473 | 14,004 |
| Debenture for Health Renovation Innovation Centre/Parkade | 2 | April 2031 | 4.94% | 4,848 | 5,019 |
| Debenture for Child Development Centre/Parkade | 2 | June 2032 | 5.25% | 1,656 | 1,708 |
| Debenture for International Residence House | 2 | September 2032 | 4.69% | 22,214 | 22,956 |
| Debenture for Residences | 2 | December 2038 | 3.90% | 87,500 | - |
| Debenture for International Residence House | 2 | June 2039 | 5.10% | 27,480 | 27,997 |
| Debenture for Phase VI Residence | 2 | March 2040 | 4.73% | 56,865 | 57,959 |
| Mortgages payable to Canada Mortgage and Housing Corporation: | | | | | |
| Mortgage for Dining Centre, Kananaskis and Rundle Halls | 2 | March 2016 | 5.13% | 226 | 331 |
| Bank loans payable: | | | | | |
| Demand loan for Western Canadian Universities Marine Sciences Society | 2 | November 2014 | 3.66% | 2 | 5 |
| Demand loan for Western Canadian Universities Marine Sciences Society | 2 | December 2014 | 3.52% | 9 | 20 |
| Demand loan for Western Canadian Universities Marine Sciences Society | 2 | April 2015 | 4.93% | 292 | 306 |
| | | | | $ 298,626 | $ 155,739 |
| Obligations under capital leases | | | | $ 271 | $ 707 |
| | | | | $ 298,897 | $ 156,446 |

(1) title to land, building; (2) none

**(thousands of dollars)**

## 9. Debt (Continued)

Interest expense on debt recorded in these consolidated statements is $ 7,505 (2013 - $7,431) of which $1,258 (2013 - $0) was capitalized. Principal and interest repayments are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 22,010 | $ 11,571 | $ 33,581 |
| 2016 | 22,264 | 10,999 | 33,263 |
| 2017 | 22,583 | 10,426 | 33,009 |
| 2018 | 23,172 | 9,837 | 33,009 |
| 2019 | 8,172 | 9,290 | 17,462 |
| Thereafter | 200,696 | 94,126 | 294,822 |
| | $ 298,897 | $ 146,249 | $ 445,146 |

## 10. Deferred revenue

Deferred revenue is comprised of unearned externally restricted grants and donations, unearned tuition and other fees.

| **2014** | **Research and special purpose** | **Capital** | **Tuition and fees other** | **Total** |
|---|---|---|---|---|
| Balance, beginning of year | **$ 494,013** | **$ 1,246,685** | **$ 30,723** | **$ 1,771,421** |
| Grants, tuition and donations received | **372,927** | **16,758** | **218,847** | **608,532** |
| Investment income | **21,260** | **255** | **-** | **21,515** |
| Unearned capital acquisition transfers | **(51,409)** | **51,409** | **-** | **-** |
| Recognized as revenue | **(349,136)** | **(75,322)** | **(225,786)** | **(650,244)** |
| | **$ 487,655** | **$ 1,239,785** | **$ 23,784** | **$ 1,751,224** |

| 2013 | Research and special purpose | Capital | Tuition and fees other | Total |
|---|---|---|---|---|
| Balance, beginning of year | $ 461,202 | $ 1,266,935 | $ 26,510 | $ 1,754,647 |
| Grants, tuition and donations received | 403,108 | 936 | 238,490 | 642,534 |
| Investment income | 19,435 | 853 | - | 20,288 |
| Unearned capital acquisition transfers | (52,648) | 52,648 | - | - |
| Recognized as revenue | (337,084) | (74,687) | (234,277) | (646,048) |
| | $ 494,013 | $ 1,246,685 | $ 30,723 | $ 1,771,421 |

Capital is comprised of $1,232,128 (2013 - $1,224,886) restricted grants and donations spent on capital acquisitions and $7,657 (2013 - $21,799) of unspent restricted grants and donations. The expended capital is unearned as the terms will be met over the useful life of the asset.

**(thousands of dollars)**

## 11. Endowments

Endowments consist of externally restricted donations received by the University and internal allocations by the University's Board of Governors, the principal of which is required to be maintained intact in perpetuity.

Investment income earned on endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. Benefactors as well as University policy stipulate that the economic value of the endowments must be protected by limiting the amount of income that may be expended and reinvesting unexpended income.

Under the *Post-secondary Learning Act,* the University has the authority to alter the terms and conditions of endowments to enable:

- Income earned by the endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.
- Encroachment on the capital of the endowment to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment if, in the opinion of the Board of Governors, the encroachment benefits the University and does not impair the long-term value of the fund.

In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, the spending allocation is funded from the cumulative capitalized income. However, for individual endowment funds without sufficient cumulative capitalized income, endowment principal is used in that year. This amount is expected to be recovered by future investment income.

The composition of endowments is as follows:

| | | **2014** | | 2013 |
|---|---|---|---|---|
| Balance, beginning of year | **$** | **568,310** | $ | 517,208 |
| Endowment donations | | **9,212** | | 10,338 |
| Investment - realized gains capitalized | | **25,889** | | 1 |
| Investment - unrealized gains capitalized | | **58,431** | | 47,679 |
| Transfer from endowments | | **-** | | (6,916) |
| Balance, end of year | **$** | **661,842** | $ | 568,310 |
| Cumulative donations | **$** | **410,070** | $ | 400,858 |
| Cumulative capitalized income | | **251,772** | | 167,452 |
| Balance, end of year | **$** | **661,842** | $ | 568,310 |

Included in the ending endowment balance is the fair value unrealized gains of $106,110 (2013 - $47,679).

(thousands of dollars)

## 12. Accumulated operating surplus

The composition of accumulated operating surplus is as follows:

| | Unrestricted Net Assets | Investment in Capital Assets | Internally Restricted Net Assets | Accumulated Operating Surplus |
|---|---|---|---|---|
| **Balance April 1, 2012** | $ 24,335 | $ 169,912 | $ 174,694 | $ 368,941 |
| Excess of revenue over expense | 94,475 | - | - | 94,475 |
| Transfer from endowments | 6,916 | - | - | 6,916 |
| Acquisition of capital assets | (42,715) | 42,715 | - | - |
| Amortization of capital assets | 28,652 | (28,652) | - | - |
| Debt repayment | (4,960) | 4,960 | - | - |
| Debt new financing | 515 | (515) | - | - |
| Transfers to internally restricted surplus | (43,197) | - | 43,197 | - |
| **Balance March 31, 2013** | **$ 64,021** | **$ 188,420** | **$ 217,891** | **$ 470,332** |
| Excess of revenue over expense | **65,700** | **-** | **-** | **65,700** |
| Acquisition of capital assets | **(78,381)** | **78,381** | **-** | **-** |
| Amortization of capital assets | **28,195** | **(28,195)** | **-** | **-** |
| Debt repayment | **(4,944)** | **4,944** | **-** | **-** |
| Debt new financing | **33,143** | **(33,143)** | **-** | **-** |
| Transfers to internally restricted surplus | **(34,902)** | **-** | **34,902** | **-** |
| **Balance March 31, 2014** | **$ 72,832** | **$ 210,407** | **$ 252,793** | **$ 536,032** |

### Internally restricted net assets

Internally restricted net assets represent amounts set aside by the University's Board of Governors for specific purposes. Those amounts are not available for other purposes without the approval of the Board and do not have interest allocated to them. Internally restricted net assets are summarized as follows:

| | **2014** | 2013 |
|---|---|---|
| Capital activities | **$ 23,660** | $ 42,492 |
| Operating activities | **187,641** | 155,537 |
| Research activities | **41,492** | 19,862 |
| | **$ 252,793** | $ 217,891 |

## 13. Contingent liabilities and guarantees

The University has identified potential asset retirement obligations related to the existence of asbestos in a number of its facilities. Although not a current health hazard, upon renovation or demolition of these facilities, the University may be required to take appropriate remediation procedures to remove the asbestos. As the University has no legal obligation to remove the asbestos in these facilities as long as the asbestos is contained and does not pose a public health risk, the fair value of the obligation cannot be reasonably estimated due to the indeterminate timing and scope of the removal. The asset retirement obligations for these assets will be recorded in the period in which there is certainty that the capital project will proceed and there is sufficient information to estimate fair value of the obligation.

At March 31, 2014 the University had entered into agreements that provide guarantees on employee housing loans in the amount of $782 (2013 - $882). These amounts are not recorded in the consolidated financial statements.

**(thousands of dollars)**

## 14. Contractual obligations

The University has contractual obligations which are commitments that will become liabilities in the future when the terms of the contracts or agreements are met.

The estimated aggregate amount payable for the unexpired terms of these contractual obligations are as follows:

| | Service Contracts | Capital Projects | Long term leases | Total |
|---|---|---|---|---|
| 2015 | $ 12,714 | $ 109,471 | $ 3,944 | $ 126,129 |
| 2016 | 12,655 | - | 4,014 | 16,669 |
| 2017 | 12,468 | - | 3,800 | 16,268 |
| 2018 | 12,889 | - | 3,628 | 16,517 |
| 2019 | - | - | 3,576 | 3,576 |
| Thereafter | - | - | 46,108 | 46,108 |
| | $ 50,726 | $ 109,471 | $ 65,070 | $ 225,267 |

Included in service contracts are the contracts to purchase electricity and natural gas. To manage its risk exposure to electricity and natural gas, the University has entered into an Electricity Purchase Agreement, expiring March 31, 2017 and an Energy Purchase Agreement expiring October 31, 2018 based on indexed (floating on the spot market) prices with an option to hedge any portion of the requirement at any time. At March 31, 2014 the University had hedged a portion of these contracts by fixing the price on a portion of its estimated electricity and natural gas consumption. Using best estimates of future consumption and forward market prices on March 31, 2014, the estimated contractual obligations including executed hedge contracts are $18,537 (2013 - $18,464) for electricity and $32,189 (2013 - $11,926) for natural gas.

The University is one of 58 members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability, and errors and omissions risks of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through members' premiums. As at December 31, 2013 CURIE had a surplus of $12,338 (2012 - $14,244). The University participates in six of the underwriting periods, which have an accumulated surplus of $71,331 (2012 - $60,500) of which the University's pro rata share is approximately 5.82% (2011 - 5.77%). This surplus is not recorded in the financial statements.

## 15. Budget comparison

The University's 2013-14 budget was approved by the University's Board of Governors and was presented to the Minister of Enterprise and Advanced Education as part of the University's submission of its 2013-14 Comprehensive Institutional Plan. Certain budget figures from the University's 2013-14 Comprehensive Institutional Plan have been reclassified to conform to the presentation adopted in the 2014 consolidated financial statements.

## 16. Investment income

| | **2014** | 2013 |
|---|---|---|
| Income on investments held for endowments | **$ 17,552** | $ 8,337 |
| Income on other investments | **28,604** | 25,781 |
| | **$ 46,156** | $ 34,118 |
| Deferred | **$ (330)** | $ (821) |
| | **$ 45,826** | $ 33,297 |

(thousands of dollars)

### 17. Expense by object

| | 2014 Budget | 2014 | 2013 |
|---|---|---|---|
| Salaries | $ 569,140 | **$ 558,730** | $ 531,182 |
| Employee benefits | 109,719 | **116,982** | 102,803 |
| Materials, supplies and services | 251,479 | **227,012** | 225,343 |
| Utilities | 28,622 | **29,208** | 26,139 |
| Maintenance and repairs | 18,134 | **18,440** | 15,393 |
| Scholarships and bursaries | 77,171 | **79,496** | 77,669 |
| Cost of goods sold | 17,735 | **13,783** | 14,832 |
| Amortization of tangible capital assets | 106,066 | **102,046** | 103,255 |
| | $ 1,178,066 | **$ 1,145,697** | $ 1,096,616 |

### 18. Funds held on behalf of others

The University holds the following funds on behalf of others over which the University's Board of Governors has no power of appropriation. Accordingly, these funds are not included in the University's consolidated financial statements.

| | 2014 | 2013 |
|---|---|---|
| Child Care Centre West Campus | **$ 785** | $ 601 |
| Alberta Sulphur Research | **331** | 252 |
| The Students' Union the University of Calgary | **260** | - |
| Campus Ticket Centre | **207** | 142 |
| Health Knowledge Network | **116** | 481 |
| CDN Research Institute - Law and the Family | **-** | 197 |
| U of C Day Care | **-** | 173 |
| Others | **300** | 435 |
| | **$ 1,999** | $ 2,281 |

**(thousands of dollars)**

## 19. Related party transactions and balances

The University operates under the authority and statutes of the Province of Alberta. Transactions and balances between the University and the Government of Alberta (GOA) are measured at the exchange amount and summarized below.

| | | **2014** | | 2013 |
|---|---|---|---|---|
| Grants from GOA | | | | |
| Innovation and Advanced Education: | | | | |
| Operating | **$** | **427,138** | $ | 452,776 |
| Capital | | **62,272** | | 58,400 |
| Research | | **10,627** | | 21,516 |
| Alberta Innovates Bio Solutions | | **839** | | 1,330 |
| Alberta Innovates Energy and Environment | | **1,228** | | 515 |
| Alberta Innovates Health Solutions | | **38,024** | | 32,117 |
| Alberta Innovates Technology Futures | | **8,627** | | 8,210 |
| Other | | **11,291** | | 20,669 |
| Total Innovation and Advanced Education | **$** | **560,046** | $ | 595,533 |
| Other Post secondary Institutions | **$** | **2,791** | $ | 2,459 |
| Other GOA departments and agencies: | | | | |
| Alberta Health and Wellness | **$** | **15,417** | $ | 25,606 |
| Alberta Health Services | | **5,274** | | 13,159 |
| Other | | **8,689** | | 12,633 |
| Total other GOA departments and agencies | **$** | **29,380** | $ | 51,398 |
| Total grants received | **$** | **592,217** | $ | 649,390 |
| Less: deferred revenues | | **(16,613)** | | (29,396) |
| Government of Alberta Grants | **$** | **575,604** | $ | 619,994 |
| Accounts receivable | | | | |
| Innovation and Advanced Education | **$** | **4,384** | $ | 1,198 |
| Other GOA departments and agencies | | **27,033** | | 12,668 |
| Other post secondary institutions | | **283** | | 291 |
| | **$** | **31,700** | $ | 14,157 |
| Accounts payable | | | | |
| Innovation and Advanced Education | **$** | **-** | $ | 4,236 |
| Other GOA departments and agencies | | **1,927** | | 1,424 |
| Other post secondary institutions | | **207** | | 12 |
| | **$** | **2,134** | $ | 5,672 |

The University has debt with Alberta Capital Finance Authority as described in (Note 9).

(thousands of dollars)

## 20. Salary and Employee Benefits

| | 2014 | | | | 2013 |
|---|---|---|---|---|---|
| | **Base salary [1]** | **Other cash benefits [2]** | **Other non-cash benefits [3] [6]** | **Total** | **Total** |
| **Governance [4]** | | | | | |
| Chair of the Board of Governors | $ - | $ - | $ - | $ - | $ - |
| Members of the Board of Governors | - | - | - | - | - |
| **Executive** | | | | | |
| President [6][7][10][11] | **457** | **28** | **247** | **732** | 836 |
| Vice-Presidents: | | | | | |
| Provost and Vice President Academic [6][10] | **403** | **12** | **124** | **539** | 549 |
| Vice President Research [6][10] | **382** | **12** | **115** | **509** | 517 |
| Vice President Finance and Services [6][9][10] | **295** | **12** | **74** | **381** | 417 |
| Vice President University Relations [6][9][10] | **274** | **53** | **74** | **401** | 377 |
| Vice President Facilities Management and Development | | | | | |
| Incumbent [5][6][9][10] | **39** | **6** | **20** | **65** | - |
| Past Incumbent [5][6][9][10] | **211** | **70** | **96** | **377** | 556 |
| Vice President Development [6][8][10] | **295** | **52** | **56** | **403** | 471 |

1. Base salary includes pensionable base pay.
2. Other cash benefits include administrative honorariums, bonuses, relocation benefits, and lump sum payments.
3. Other non-cash benefits include the University's share of all employee benefits and contributions or payments made on behalf of employees including pension, group life insurance, employee family assistance program, critical illness, supplementary health care, short and long-term disability plans, dental plan, supplemental retirement plan (per footnote (6)), accidental disability and dismemberment.
4. The Chair and Members of the Board of Governors receive no remuneration for participation on the Board.
5. During the fiscal year, the Vice President Facilities Management and Development Past Incumbent position was occupied for eight months and the Vice President Facilities Management and Development Incumbent position was held for two months.
6. Under the terms of the supplementary retirement plan (SRP), the executive may receive supplemental retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expenses for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The SRP provides future pension benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method prorated on services, a market interest rate, and management's best estimate of other assumptions. Net actuarial gains and losses of the benefit obligations are amortized over the expected remaining service life of each plan participant or over the expected remaining lifetime for pensions in pay. Current service cost is the actuarial present value of the benefits earned in the current year. The components of the cost of the SRP include current service cost, amortization of actuarial gains and losses, past service costs on plan initiation, and interest accruing on the actuarial liability.
7. The individual in this role earned administrative leave benefits during the year that have been included in other non-cash benefits.
8. During the term of their employment contract, the individual in this role may take up to four months of administrative leave subject to the President's approval of the individual's administrative leave proposal. The costs associated with the leave benefits are recorded when incurred.
9. The employment contracts for these individuals do not provide for administrative leave benefits.
10. Individuals in these roles received an executive allowance included in other cash benefits.
11. The individual in this role received a vehicle allowance included in other cash benefits.

(thousands of dollars)

## 20. Salary and Employee Benefits (Continued)

The current service cost and accrued obligation for each executive under the SRP is outlined in the following table:

| | Accrued Benefit Obligation March 31, 2013 | Service costs | Interest costs | Actuarial loss (gain) | Benefits paid | Accrued Benefit Obligation March 31, 2014 |
|---|---|---|---|---|---|---|
| President | $ 372 | $ 135 | $ 16 | $ (42) | $ - | $ 481 |
| Vice-Presidents: | | | | | | |
| Provost and Vice President Academic | 176 | 106 | 9 | (20) | - | 271 |
| Vice President Research | 167 | 95 | 8 | (17) | - | 253 |
| Vice President Finance and Services | 277 | 74 | 11 | (41) | - | 321 |
| Vice President University Relations | 110 | 55 | 5 | (15) | - | 155 |
| Vice President Facilities Management and Development | | | | | | |
| Incumbent | - | 13 | - | - | - | 13 |
| Past Incumbent | 358 | 75 | 14 | (8) | (5) | 434 |
| Vice President Development | 665 | 62 | 23 | (58) | - | 692 |

The significant actuarial assumptions used to measure the accrued benefit obligation are disclosed in Note 8.

The current service cost and accrued obligation for each executive under the Senior Management Administrative Leave Plan is outlined in the following table:

| | Accrued Benefit Obligation March 31, 2013 | Service costs | Interest costs | Actuarial loss (gain) | Benefits paid | Accrued Benefit Obligation March 31, 2014 |
|---|---|---|---|---|---|---|
| President | $ 272 | $ 99 | $ 10 | $ (2) | $ - | $ 379 |

1. Only the President is eligible for administrative leave benefits.

The significant actuarial assumptions used to measure the accrued benefit obligation for the Senior Management Administrative Leave Plan are based on a discount rate of 2.90% (2013 – 2.60%) and a yearly salary increase rate of 4.00%. An administrative leave benefit loading rate of 15% is applied to the President only.

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