



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



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



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).





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





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.



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-



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).