



Management Discussion & Analysis

Year Ended March 31, 2014

The Management Discussion and Analysis provides supplemental financial information and should be read in conjunction with the University of Lethbridge's (University) audited financial statements and accompanying notes. The University's financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards. All amounts are in thousands of dollars unless otherwise noted.

The University of Lethbridge is a public, board-governed university operating as a Comprehensive Academic and Research Institution under the authority of the *Post-Secondary Learning Act of Alberta*. The University provides opportunities for study at all levels (undergraduate, Masters and Doctoral) and across the full breadth of disciplines through various pathways whether by location or delivery mode.

While the fiscal environment has been and will likely be unfavourable for the next few years and budget reductions will be experienced in most budget units, the University remains committed to directing as many of its scarce resources as possible towards our strategic priorities and enhancing our position as a comprehensive teaching and research university. As reductions are made to the operating budget, senior administration has made every effort to ensure that the quality of our academic programs and services to our students are maintained.

Over the past several years, the University has revised its budget model and processes to ensure the institution is in a position to make resource allocation decisions that will advance the University's strategic directions. Especially in challenging financial times, the University will need to be able to adapt quickly to unforeseen situations without losing sight of the priorities that have been established through our academic, research and strategic plans. The University's budget process is based on a three-year rolling budget model whereby budgets are estimated for three years into the future.

Operational Highlights

During the year the University had an operating surplus of \$3,096 compared to a \$202 surplus in 2013. The main contributing factors to this surplus was a temporary hiring restriction on positions funded through the Campus Alberta Operating grant and investment earnings of \$9,306 that exceeded budget by \$4,762. The investment earnings reflect strong performance as well as management's decision, in consultation with the Board Finance Committee and the University's external Investment Consultant, to rebalance the investment portfolio.

Net Assets

A defining characteristic of public sector financial reporting is that the organization's equity is referred to as net assets on the Statement of Financial Position. Net assets consist of endowment principal which remains intact in perpetuity, accumulated remeasurement gains and losses, the University's investment in capital assets, internally restricted surplus set aside for strategic priorities by the Board of Governors, and unrestricted surpluses from operations.

Total net assets (total assets less total liabilities) have increased by \$18,435. This increase in net assets is accounted for by:

Figure 1:

| | | |
|-------------------------------|----|---------------|
| Increase in total assets | \$ | 9,869 |
| Decrease in total liabilities | | 8,566 |
| Increase in total net assets | \$ | <u>18,435</u> |
| | | |

The increase in total net assets occurred as a result of the following changes:

Figure 2:

| | Balance 31-Mar-2013 | Change | Balance 31-Mar-2014 |
|--|------------------------|-----------|------------------------|
| Accumulated surplus | | | |
| Unrestricted surplus | \$ 10,795 | (10,671) | 124 |
| Internally restricted surplus | 22,958 | 7,290 | 30,248 |
| Investment in capital assets | 95,446 | 6,477 | 101,923 |
| Total accumulated surplus | 129,199 | 3,096 | 132,295 |
| Endowments | | | |
| Endowment contributions | 33,131 | 632 | 33,763 |
| Cumulative investment gains - realized | 9,878 | 2,024 | 11,902 |
| Cumulative investment gains - unrealized | 2,586 | 3,780 | 6,366 |
| Total endowments | 45,595 | 6,436 | 52,031 |
| Accumulated rereasurement gains | 5,961 | 8,903 | 14,864 |
| Total net assets | \$ 180,755 | \$ 18,435 | \$ 199,190 |
| | | | |

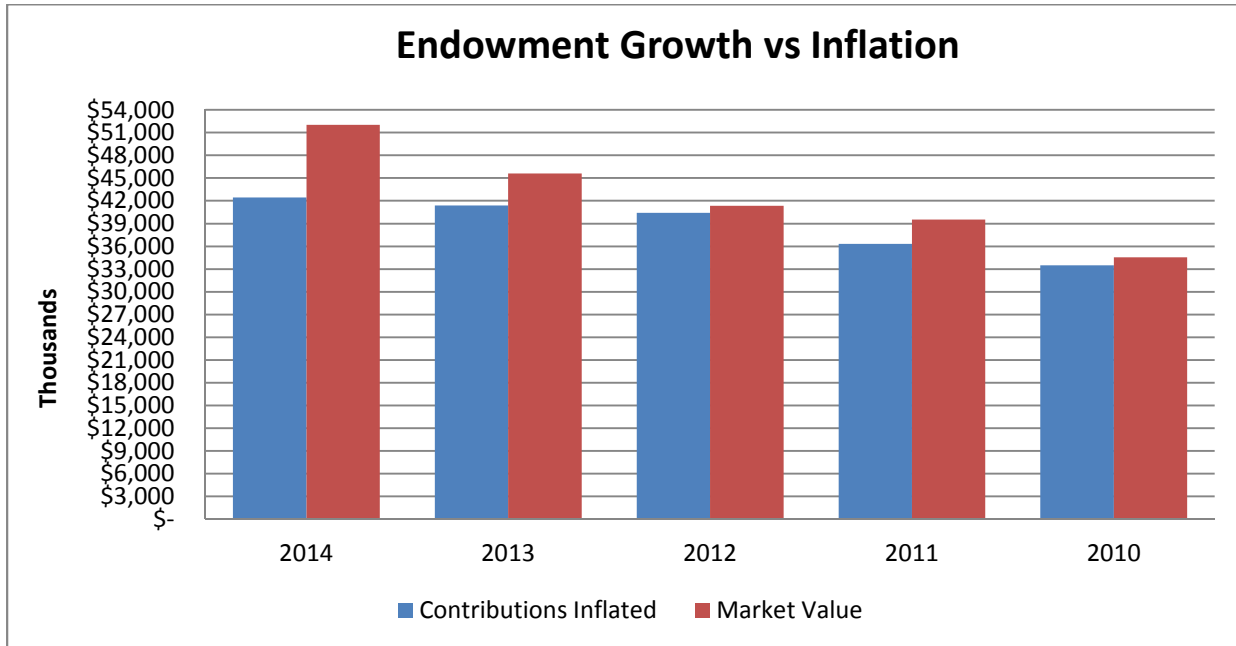
Accumulated surplus

The University implemented a new internal guideline in 2013/14 where the accumulation of unrestricted and internally restricted surplus will be maintained at 10-12% of the University's annual operating budget. This amount is meant to maintain short-term financial flexibility, as well as provide funds for strategic priorities. The University is currently above this threshold by \$6.8 million however the Board of Governors has approved strategic priorities projects that will be completed over the next 3 years that will result in the University attaining this guideline.

Endowments

University policy has the objective of protecting the real value of the endowments by limiting the amount of income expended and reinvesting unexpended income. At March 31, 2014 the fair value of the Endowment pool assets exceed the cumulative endowed contributions indexed by inflation by \$9.6 million (2013: \$4.2 million).

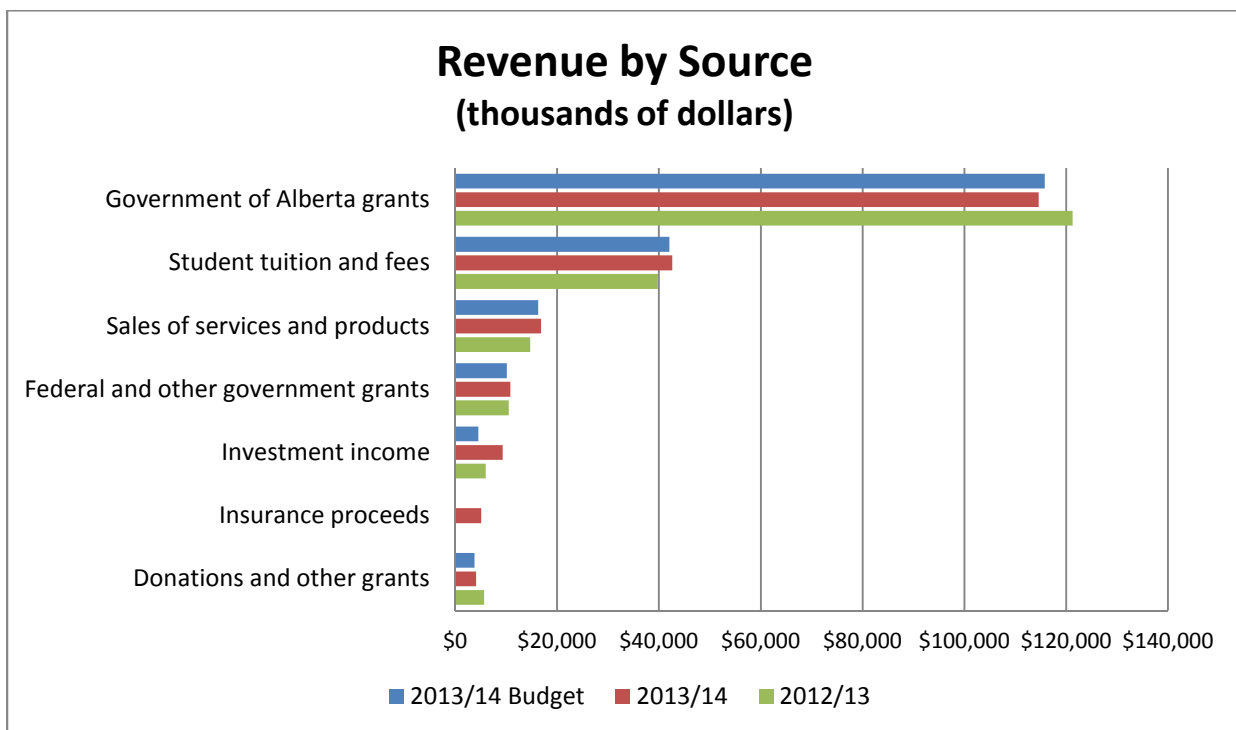
Figure 3:



Revenue and Other Income

Revenue and other income increased by \$5.4 million over the prior year and \$10.9 million over the budget.

Figure 4:



Government of Alberta grants

Revenues from the Government of Alberta represent the University's single largest source of revenue. The Campus Alberta grant decreased in 2013/14 by \$4 million.

Student tuition and fees

In April 2013, Innovation and Advanced Education (IAE) notified the University that tuition fees for 2013/14 would be held at 2012/13 rates and that IAE would include the corresponding difference in rates as part of the Campus Alberta Operating Grant. IAE provided these funds (\$742) as one-time funding in 2013/14 and has confirmed that this amount will be included in the Campus Alberta grant funding for 2014/15 as continuing funding.

The increase in student fees was mainly due to an increase of \$1,559 in student services fee revenue and an increase in differential fees for international students from 1.26 times to 2 times the base tuition fee.

Sales of services and products

Sales of services and products revenue increased by \$2.2 million. The major source of sales of services and products revenue is Ancillary Services (\$11.8 million) and Sport and Recreation Services programs and services (\$1.8 million). The main contributing factor for the Ancillary Services increase was the opening of the new residences and residence fee increases totaling \$1.2 million.

Investment income

Investment income increased by \$3.3 million over the previous year and was \$4.8 million over budget. The investment earnings reflect strong performance as well as management's decision, in consultation with the Board Finance Committee and the University's external Investment Consultant, to rebalance the investment portfolio.

Insurance proceeds

Insurance proceeds will fluctuate from year to year and it is not a category that is budgeted for. For 2013/14 the majority of this increase was a result of a flood in June 2013 that caused damage to the University tunnel, rotunda, Library building, Devonian walkway, University Centre for the Arts and University Hall. Repairs to the facilities and equipment as a result of the flood, estimated at \$7 to \$8 million, are projected to be completed in the summer 2014.

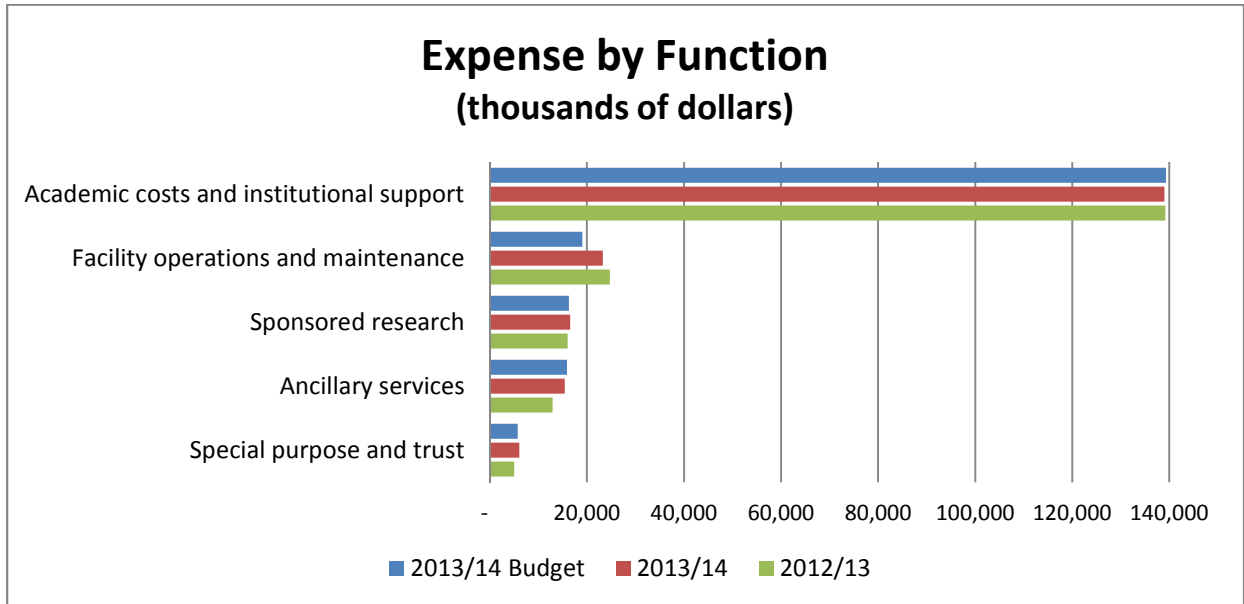
Federal and other government grants and donations and other grants

There was no significant variance between federal and other government grants and donations and other grants and the budgeted expectations.

Expense by Function

For the year ended March 31, 2014 the University recorded an increase of \$2.5 million in expenses over the prior year and \$4.1 million over budget.

Figure 5:



Academic costs and institutional support

Academic costs and institutional support includes expenses incurred by faculties for their scholarly and non-sponsored research activities as well as institutional wide administrative services. The largest component of the University's expenditures is salaries and benefits, representing 67% of the total expenses. Attracting and retaining quality faculty and staff continues to remain a Board of Governor's priority. The 2013/14 costs remained consistent with the prior year since a temporary hiring restriction on positions funded through the Campus Alberta Operating grant was in place from September 2013 to March 2014.

Facility operations and maintenance

The expenses in this category relate to maintenance and renewal of facilities that house teaching, research, administrative and common areas within the university. These expenses include utilities, facilities administration, building maintenance, custodial services, grounds keeping as well as major repairs and maintenance. There was a significant variance of \$4 million over budget and \$1.5 million over prior year. This increase was a result of a flood in June 2013 that caused damage to the University tunnel, rotunda, Library building, Devonian walkway, University Centre for the Arts and University Hall. Repairs to the facilities and equipment as a result of the flood, estimated at \$7 to \$8 million, are projected to be completed in the summer 2014.

Sponsored research

The expenses in this category are sponsored research activities specifically funded by restricted grants and donations. Research activities cost \$0.3 million more than budget and were \$0.5 million higher than prior year costs.

Ancillary services

These expenses relate to the University’s business enterprise that provides services and products to the University community and to external individuals and organizations. This function includes the bookstore, printing, housing, food, conference and parking. Ancillary costs were \$0.5 million higher than budget and \$2.5 million higher than prior year costs. Cost increases were a result of the new residences that were opened in September, as well as termination costs associated with a change in the food services provider.

Special purpose and trust

The expenses in this category relate to scholarship, bursary programs and other programs involving teaching and community service specifically funded by restricted grants and donations. Special purpose and trust costs were \$0.4 million higher than budget and \$1 million higher than prior year costs.

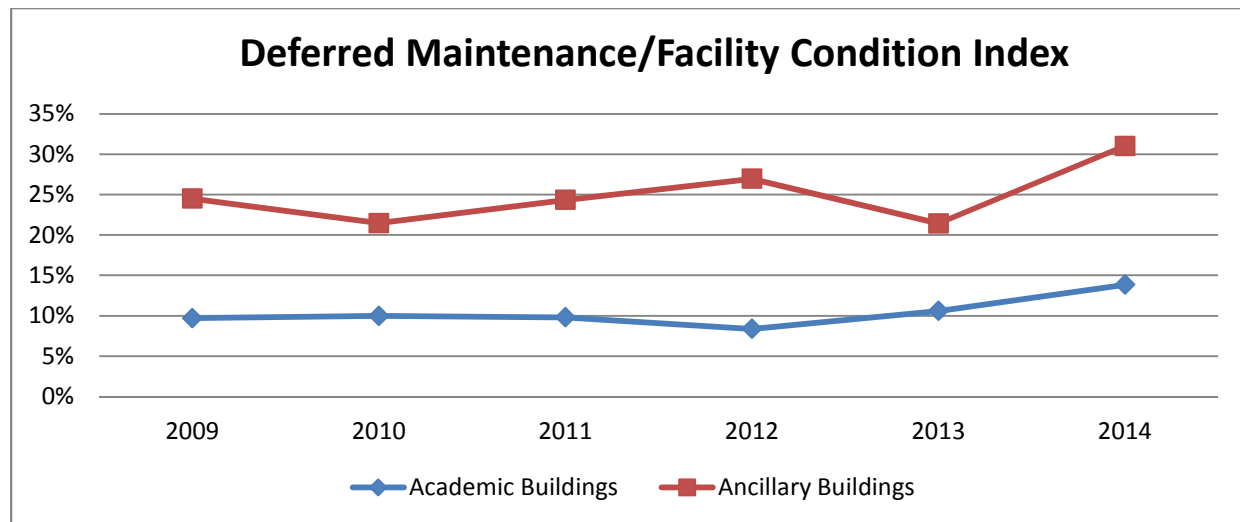
Areas of Significant Financial Risk

Financial Sustainability

Deferred maintenance

Through concerted efforts in capital projects and utilizing conditional grants from the Provincial Government, the University has been able to maintain the deferred maintenance balance of its academic facilities at 14% (2013: 11%). One of the contributing factors in the increase in deferred maintenance in academic buildings is due to a reduction in the Infrastructure Maintenance Program grant from \$3.8 million in 2012 to \$1.8 million in 2013 and 2014.

Figure 6:



Deferred maintenance on University facilities is estimated at \$153 million (2013: \$116 million) based on a facility condition report completed by the University in 2014. In 2007/08 Innovation and Advanced Education provided \$25 million in capital grants to address deferred maintenance projects in University Hall and the unexpended grant balance in March 2014 is \$8 million, which includes \$2 million in investment income. Deferred maintenance is not reflected in these financial statements since it is not a liability or a commitment for accounting purposes, and the balance of funding received for this purpose is recorded as deferred revenue.

The University is grateful to Innovation and Advanced Education and Alberta Infrastructure for providing funding support to help deal with these deficiencies. It continues to be a challenge to meet these deficiencies but the University is making progress in addressing the issue.

Unfunded pension liability

Since 1978 the University has participated with other Alberta post-secondary institutions in the Universities Academic Pension Plan (UAPP) to provide pensions for participating faculty, Administrative Professional Officers and senior administrators. Until December 2000, the UAPP was established through a separate provincial statute, and the Provincial Treasurer was the trustee of the Plan. Effective January 2001, the UAPP became a non-statutory pension plan subject to the Employment Pension Plans Act of Alberta. The extrapolated actuarial deficiency for the pension plan at March 31, 2014 was \$1,056.9 million of which the University of Lethbridge's portion is \$29 million (2013: \$28 million). The unfunded deficiency is currently being funded by the Government of Alberta and employee and employer contributions.

The University also participates in a multi-employer Public Service Pension Plan for support staff members. The total unfunded deficiency in this plan as of December 31, 2013 is \$1,255 million which represents the unfunded position of the total plan and the University's proportional share cannot be determined. The unfunded deficiency is currently being funded by additional employee and employer contributions.

Student recruitment and retention

The Campus Alberta Planning Resource (CAPR) anticipates a shift in the age distribution for Alberta learners over the next ten years; while overall population growth is anticipated to be over 20%, projected growth of 18-34 year olds is much lower at 7.2%. This is the primary age group at the University with 79% of undergraduate students in Fall 2013 between 17 and 25 years of age (average age: 23.4), and a majority of Master's and Doctoral students being 30 or younger (59.1%). In a financial context, constraints of operating grant and tuition caps highlight the significance of our enrolment in both undergraduate and graduate programs. The Recruitment and Retention Project continually identifies and evaluates opportunities for integrated planning across academic and administrative units, as well as the secondary and post-secondary sectors and local community, to increase collaboration with a goal of increasing learned pathways, satisfaction and success.

Outlook

Financial constraints continue to be a challenge to the University of Lethbridge's ability to realize our full potential within Campus Alberta. This has not caused us to retrench, but to reaffirm our values and to reprioritize the University of Lethbridge's actions and activities. The University of Lethbridge is confident that we will be served by our self-reflection through our planning processes on the unique niche we fill within Campus Alberta and in our ability to meet the demands of our students and the post-secondary system.