

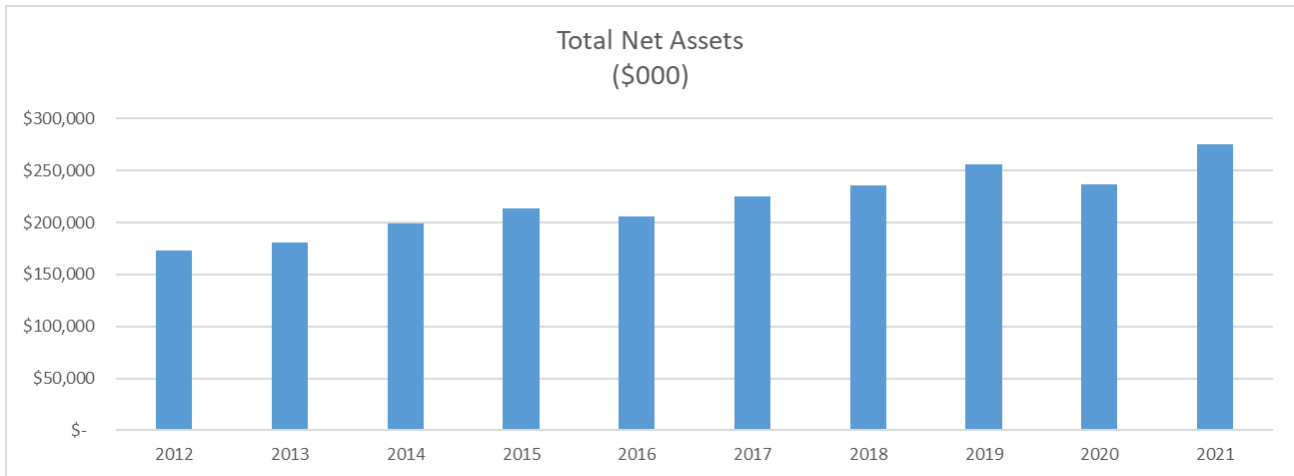
## UNIVERSITY NET ASSETS

A defining characteristic of public sector financial reporting is that the University's equity is referred to as net assets on the [Statement of Financial Position](#). The statement of financial position is a "snapshot" of the assets, liabilities and net assets of the University at a point in time and highlights such issues as whether current and future cash flow needs can be met, what reserves balances are available to meet University strategic priorities and the overall financial health of the University. The financial health of the University guides budget decisions and allocations in the preparation of the University's budget.

**Net assets** are the value of the University's assets (what we own) over and above the University's liabilities (what we owe). It consists of endowment principal which remains intact in perpetuity, accumulated remeasurement gains and losses, investment in capital assets, internally restricted surpluses set aside for strategic priorities by the Board of Governors, and unrestricted surpluses from operations. The growth in the total net assets over the past ten years has been primarily the result of the growth in endowment and internally restricted surpluses. During the 2020-21 fiscal year, the net assets, excluding portfolio investments restricted for endowments, increased by \$28 million due primarily to the market recovery from the March 2020 investment market losses caused by the COVID-19 pandemic, resulting in an increase in investment value of \$25 million, reported as remeasurement gains and losses in the University's financial statements.

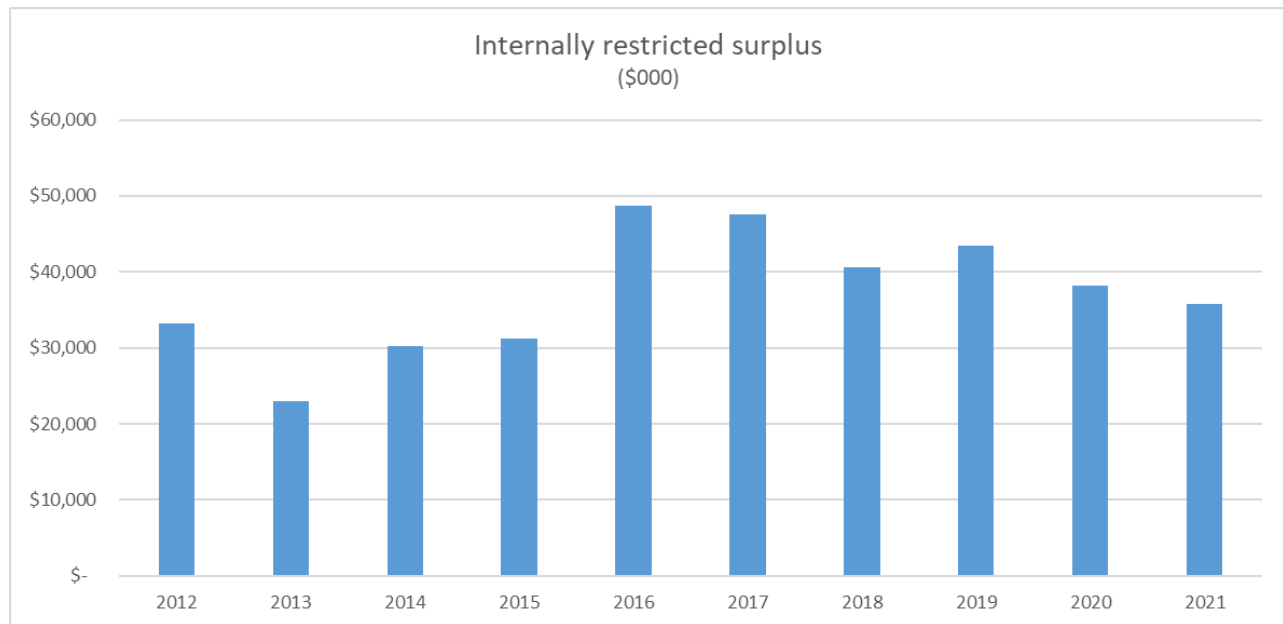
Each of these net assets is explained further in this brief.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
<b>NET ASSETS</b>										
Accumulated surplus *	\$ 132,032	\$ 129,199	\$ 132,295	\$ 133,907	\$ 148,054	\$ 148,609	\$ 150,351	\$ 157,659	\$ 158,761	\$ 158,169
Endowments	\$ 41,277	\$ 45,595	\$ 52,031	\$ 58,735	\$ 56,810	\$ 64,918	\$ 68,348	\$ 72,953	\$ 66,761	\$ 81,121
Accumulated remeasurement gains and losses	\$ -	\$ 5,961	\$ 14,864	\$ 20,619	\$ 1,410	\$ 11,876	\$ 17,187	\$ 25,523	\$ 11,147	\$ 35,951
	\$ 173,309	\$ 180,755	\$ 199,190	\$ 213,261	\$ 206,274	\$ 225,403	\$ 235,886	\$ 256,135	\$ 236,669	\$ 275,241
<b>* ACCUMULATED SURPLUS FROM OPERATIONS</b>										
Investment in capital assets	\$ 78,353	\$ 95,446	\$ 101,923	\$ 102,742	\$ 98,948	\$ 100,464	\$ 103,095	\$ 107,889	\$ 103,848	\$ 98,817
Internally restricted surplus	\$ 33,271	\$ 22,958	\$ 30,248	\$ 31,165	\$ 48,641	\$ 47,609	\$ 40,584	\$ 43,451	\$ 38,129	\$ 35,831
Unrestricted surplus	\$ 20,408	\$ 10,795	\$ 124		\$ 465	\$ 536	\$ 6,672	\$ 6,319	\$ 16,784	\$ 23,521
	\$ 132,032	\$ 129,199	\$ 132,295	\$ 133,907	\$ 148,054	\$ 148,609	\$ 150,351	\$ 157,659	\$ 158,761	\$ 158,169

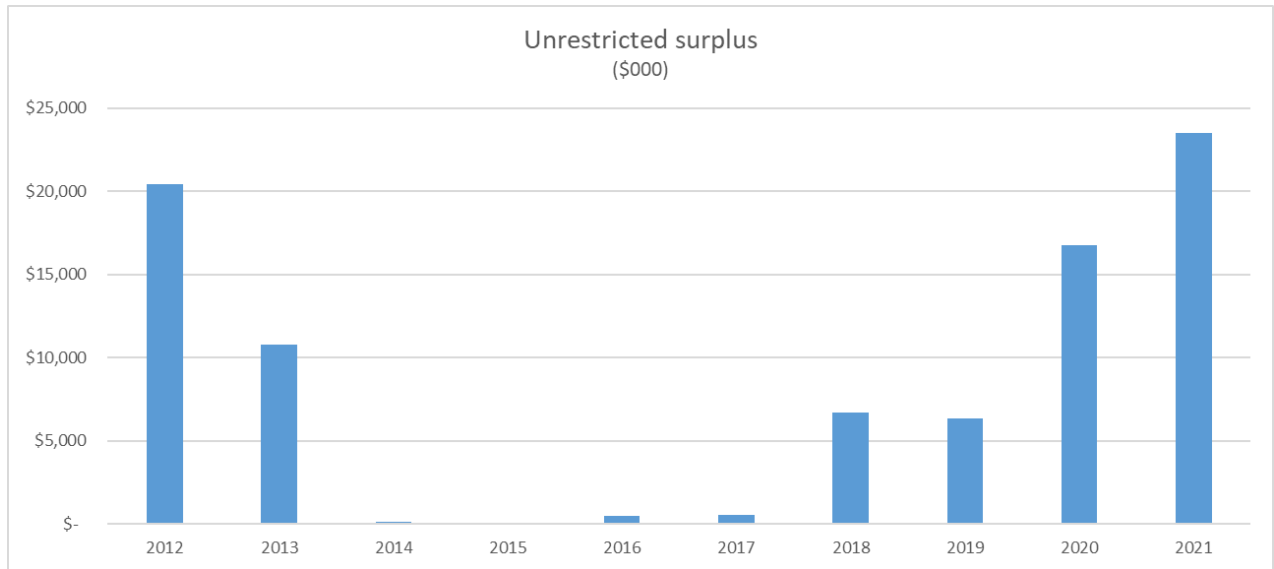


**Investment in Capital Assets** represents the amount of funding that has been spent on tangible capital assets (i.e. buildings, equipment, furniture, etc.) offset by debt related to those assets. For example, if the University owned a house worth \$200,000 and there is a mortgage against the house of \$75,000, the University's investment in the capital asset is \$125,000 (\$200,000 - \$75,000). These funds have already been spent and do not represent cash that can be allocated to other purposes.

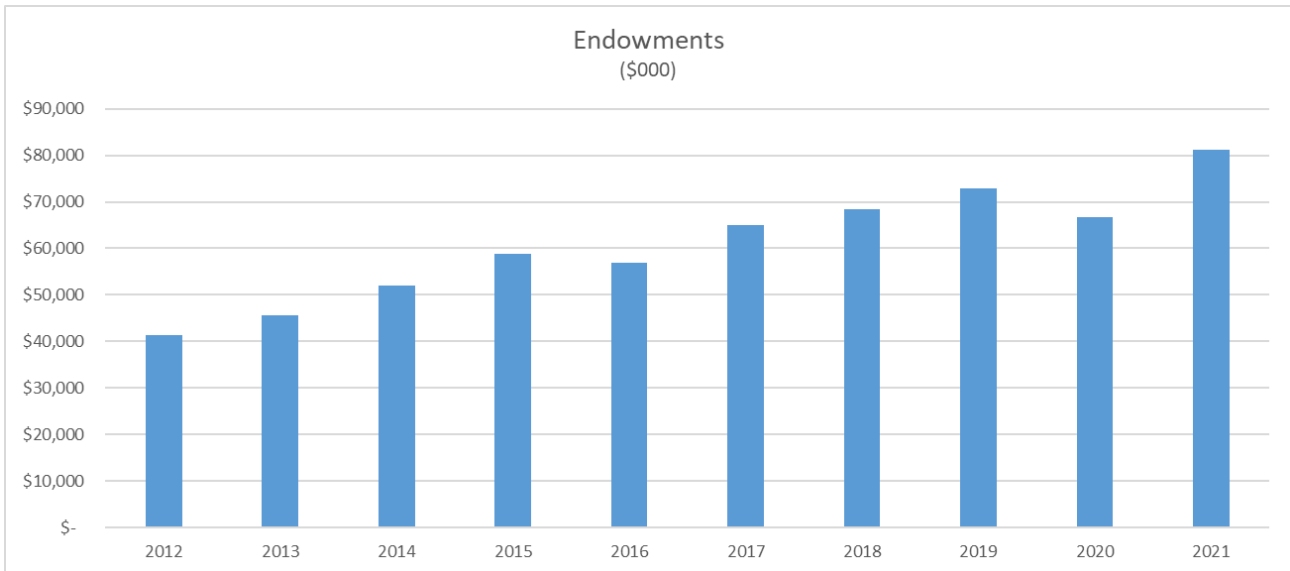
**Internally Restricted Funds** represent amounts set aside by the University's Board of Governors for specific purposes and is sometimes referred to as "reserves". These amounts are not available for other purposes without the approval of the Board of Governors. The internally restricted surplus of \$35.8 million has been allocated for specific projects in alignment with the University's strategic priorities, including the Science Commons (new science and academic building), replacement or purchase of capital assets, information technology systems upgrades and limited term position funding. The reduction in the internally restricted funds in 2018 was primarily due to funds being expended on student housing envelope repairs (\$12.4 million over 2017 and 2018).



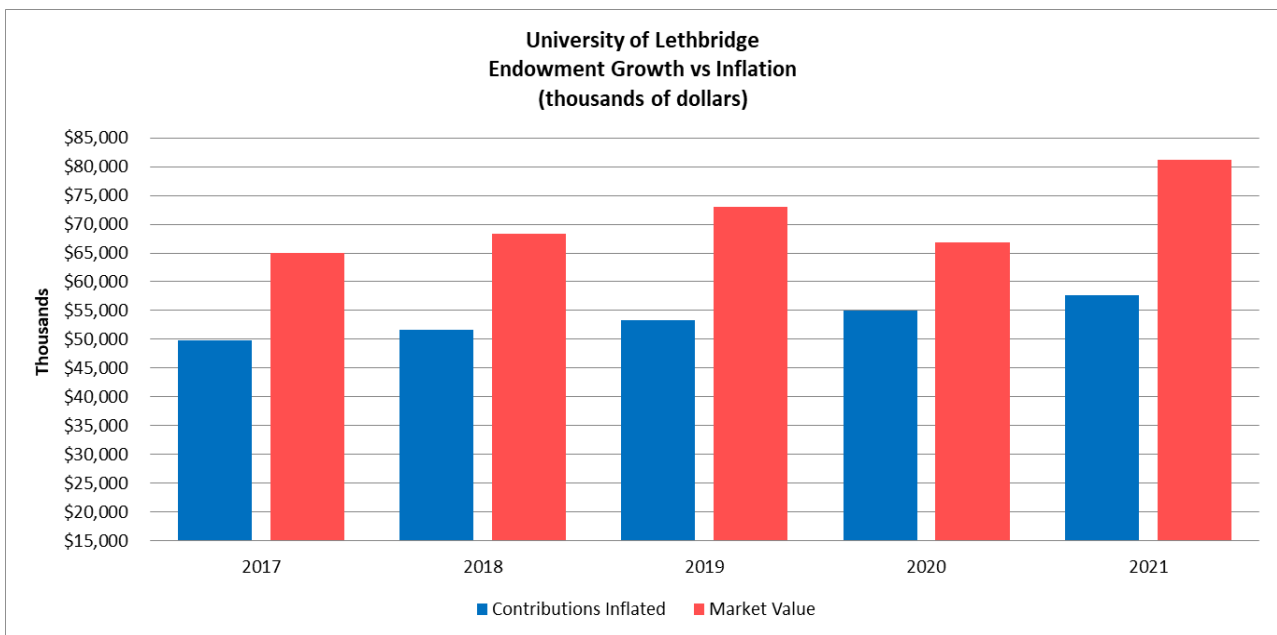
**Unrestricted Surplus** is the accumulated balance of excess revenue over expense since inception of the University and represents the surplus that is not subject to internal or external restrictions (i.e. funds that have not been committed to specific projects). There was no unrestricted surplus at the end of March 31, 2015 due to the accrual (recording) of \$29 million which represents the University of Lethbridge's share of the unfunded pension liability in the Universities Academic Pension Plan (UAPP). The unfunded pension liability is the result of greater pension payment obligations than funds in the pension plans. The increase in 2020 is primarily due to liquidating \$10 million of non-endowment investments, creating a realized income spike of \$2.5 million and insurance proceeds from past claims of \$674 thousand. The balance in accumulated surplus from operations, consisting of investment in capital assets, internally restricted funds and unrestricted surpluses, has been relatively stable. The increase in unrestricted surplus over the past few years corresponds with the decrease in the internally restricted funds, as the Board of Governors has not designated unrestricted surpluses to internally restricted funds due to the anticipated need for funds to cover expenses due to the significant reductions in our provincial operating grant and the need to balance the operating budget using one-time funds, as well as anticipated additional costs and loss of revenue due to COVID-19.



**Endowments** are donations, and non-government contributions that have been given to the University for specific purposes and must be maintained forever. Investment income attributable to endowments is added to the endowment balances each year. These funds are typically invested and, the conditions of the donation or grant, in conjunction with the [Endowment Management Policy](#), determine how the income from these funds can be used. Given these are to be maintained forever, and we receive more endowment contributions from time to time, this number will continue to grow.



The University’s [Endowment Management Policy](#) has the objective of protecting the real value of the endowments by limiting the amount of income expended and by reinvesting unexpended income. At March 31, 2021 the fair value of the Endowment pool assets exceeded the cumulative endowed contributions indexed by inflation by \$23.5 million (2020: \$11.7 million) (this means that the value of the University’s endowments has grown faster than inflation). During 2020/21 there was a transfer from the endowment to accumulated surplus from operations of \$367 to cover the endowment spending in excess of the realized investment income earned on the endowment. When endowment investment income is insufficient to cover endowment spending, amounts are transferred from the cumulative capitalized endowment investment income to cover the shortfall. It is anticipated that this transfer will be replenished in 2021/22 due to sufficient investment earnings realised.



**Accumulated Remeasurement Gains and Losses** are unrealized gains and losses on the University's investments portfolio. New financial reporting standards were introduced in 2013 with the requirement to record the accumulated remeasurement gains and losses in a separate financial statement. This statement is used to record accumulated unrealized changes in the fair market value of financial instruments, such as portfolio investments and foreign exchange, and when the financial instruments are sold or disposed of the fair market value changes will then be recorded in the Statement of Operations. The unrealized remeasurement gains and losses is not "cash" that the University can spend.

### Why does the University not tap into its Net Assets/Reserves to meet budgetary shortfalls?

Questions arise from the University community as to why the University does not tap into net assets/reserve balances to fund any budget deficits? It is important to understand that reserves are funds that are available only on a one-time basis and would not provide funds to cover on-going or continuing deficits that exist in the University's operating budget. Similar to savings that individuals may have in their bank account, these funds serve as an important cushion in the case of an emergency or unexpected need for cash. Savings should not be used for on-going expenditures because eventually the savings would be depleted to zero and there would still be an annual operating deficit that needs to be addressed. The significant negative financial impact of the COVID-19 global pandemic, \$7.0 million in 2020-21 with an additional negative impact of \$1.3 million in 2021-22, is a prime example of why the University requires reserves to respond to such unexpected financial needs.

It would be fiscally irresponsible to use reserves as a long-term solution to cover on-going budget deficits as this would only solve the deficit problem for the short term and not address the issue of expenditures that are higher than revenue.

### There is a balance of \$275 million in accumulated net assets. Can this entire amount be allocated to cover expenses?

Some members of the University community have raised the concern that the University of Lethbridge has accumulated assets of \$275.2 million that could be allocated to operating expenses, such as compensation to employees or to address future reductions in government grants.

It is important to know that not all net asset funds are available for on-going operating expenses (like salaries). Net assets include restricted funds such as endowment funds that are legally required to be maintained forever and never spent and are used primarily in support of student scholarships and bursaries.. The net asset figure also includes the University's investment in capital, which is essentially the equity that the University owns of its capital assets (buildings, land, and equipment). Investment in capital assets is similar to your personal ownership of your home, which is not money in your bank account that you can spend.