



## **FINANCIAL HIGHLIGHTS 2003/04**

### ***Financial Statement Presentation***

The University of Lethbridge has endeavoured to present the audited financial statements in a manner that would lead to better understanding by its readers. The University's financial reporting conforms to generally accepted accounting principles and the Canadian Institute of Chartered Accountants' standards for not-for-profit organizations.

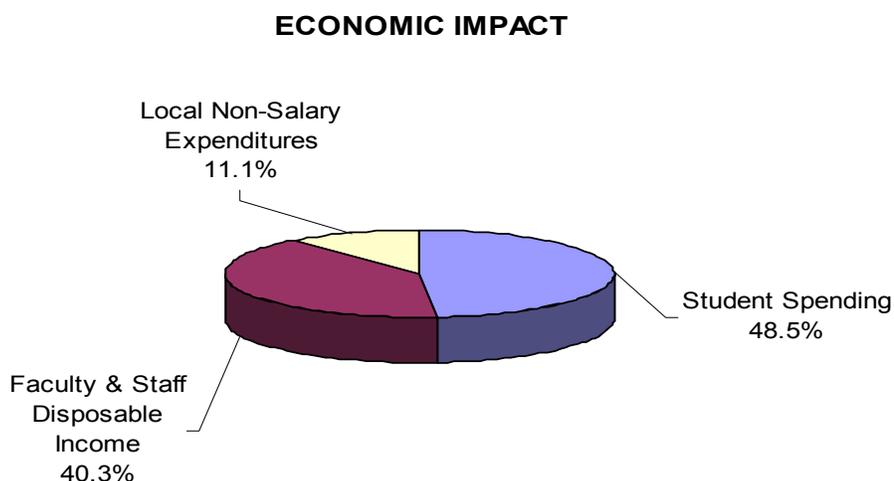
A significant characteristic of university financial statement presentation is the method of revenue recognition. While operating grants and other types of unrestricted income are recognized in revenue when they are received or receivable, externally restricted grants, donations and contributions are deferred when received and are recognized as income in the year(s) in which the related expenses are incurred. These appear as deferred items on the Statement of Financial Position until spent in accordance with the funding restrictions or when the capital assets purchased using these funds are amortized.

Another defining characteristic of university financial reporting is that the organization's equity is referred to as net assets on the Statement of Financial Position. Net assets are made up of the university's investment in capital assets, endowment principal which remains intact in perpetuity, internally restricted reserves set aside for specific purposes by the Board of Governors, and unrestricted operating reserves.

These financial highlights provide management's analysis of the University's financial performance and other relevant information for the 2003/04 fiscal year.

## **Economic Impact**

The University was responsible for generating 1,800 jobs and injecting \$141 million into the local economy in 2003. The total economic impact is more than double the total impact (\$62.4 million) in 1993.



## **Commitment to Students**

The University ranked second among primarily undergraduate universities on percentage of budget devoted to student services in the November 2003 Maclean's magazine Annual Survey of Canadian Universities. Ten per cent of the University's operating budget is devoted to student services.

The growing reputation of our researchers, small class sizes and access to the latest computer technology are just some of the features that attract students to The University of Lethbridge. We continue to experience increasing student enrolments, with 7,402 students (Full Time Equivalent 6,749) in the Fall 2003 semester, an increase of 3.7% over the previous year, a 23% increase since the beginning of the decade and a 102% increase since 1990.

## **Financial Management**

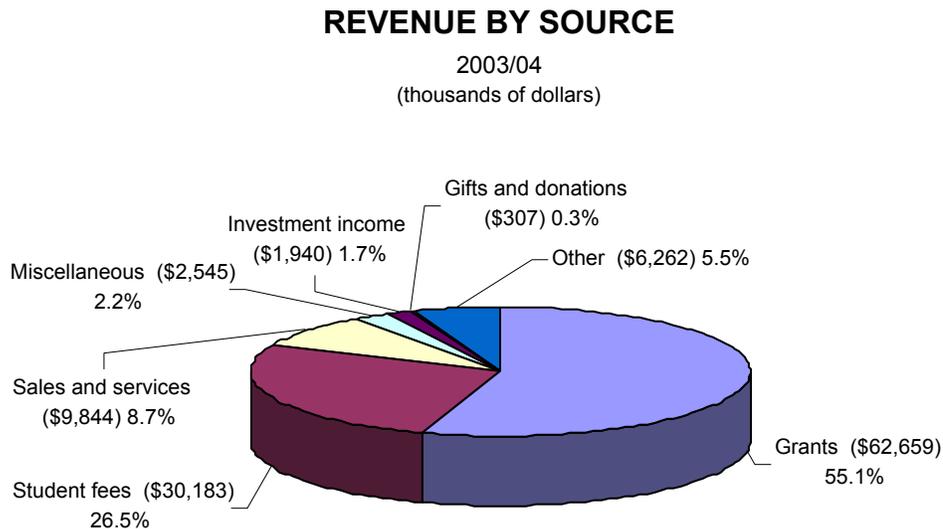
The University's budgeting process is based on a three year rolling budget model whereby budgets are estimated for three years into the future. In conjunction with the instructional tuition allocation model which allocates instructional fees to the faculties based on credit hours taught, the budgeting process has been very successful. This has allowed the University to be in a position to respond to various budget scenarios and to achieve positive financial results year after year.

## Statement of Operations

Excess of revenue over expense increased by \$3.9 million over the prior year. A significant write-down of investment value in the 2003 fiscal year of \$2.8 million is the primary reason for the year-over-year difference.

### Revenue

University revenue totalled \$113.7 million in 2004, an increase of \$9.2 million or 9% over the previous year.



Grant revenue increased by \$5.7 million or 10% over the previous year due to increases in provincial government grants and research grants. As students pay a greater share of their education, and as our revenue from other sources, particularly sponsored research, continues to grow, the percentage of revenue provided by the Province has decreased. In 1990/91, the Province provided 68% of total revenue, 57% in 1999/00, and 49% in 2003/04. Federal government grants, most of which support sponsored research, represented 5% of total revenue in 2003/04 and 2.4% in 1999/00 and in 1990/91.

Alberta Learning grants increased by \$4.1 million or 8.3% in 2003/04 including a one-time operations and maintenance grant of \$1.4 million and performance funding of \$0.5 million. Performance funding was not provided to post-secondary institutions in 2003. Two programs funded by Access grants until 2002/03 are now funded through the general operating grant on a continuing basis beginning in 2003/04.

The University received the following grants from the Province of Alberta, including Alberta Learning and other provincial ministries, departments and agencies:

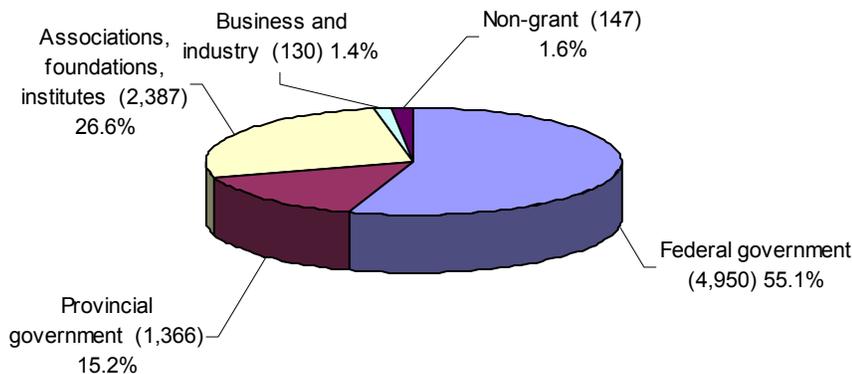
<b>Provincial Grants</b>	<b>2003/04</b>	<b>2002/03</b>
	(thousands of dollars)	
General Operating	\$45,380	\$42,554
One-time operations & maintenance	1,383	-
Performance funding envelope	487	-
Access (operating)	6,388	7,000
Conditional funding	4,137	4,601
Deferred conditional funding	(1,344)	(1,744)
<b>Total</b>	<b>\$56,431</b>	<b>\$52,411</b>

**Research Funding**

Sponsored research grants totalled \$8.8 million, an increase of \$1.5 million over the previous year. Unspent research grant revenue of \$2 million was deferred to future years (\$1.4 million in 2002/03). Research continues to be funded primarily by federal and provincial government agencies. Over the past five years, research grants have increased more than one-and-one-half times (164%) from a total of \$3.3 million in 1999/00. The increase in research grants over the last ten years is 345% or almost three-and-one-half times. This trend is largely due to new sources of federal research funding including the Canadian Foundation for Innovation, Canadian Stroke Network, Canada Research Chairs program and Canadian Space Agency, provincial funding from the Alberta Gaming Research Institute, Alberta Innovation and Science, Alberta Ingenuity Fund, Alberta Science Research Institute as well as funding from the United States National Institute of Health.

**SOURCES OF RESEARCH REVENUE**

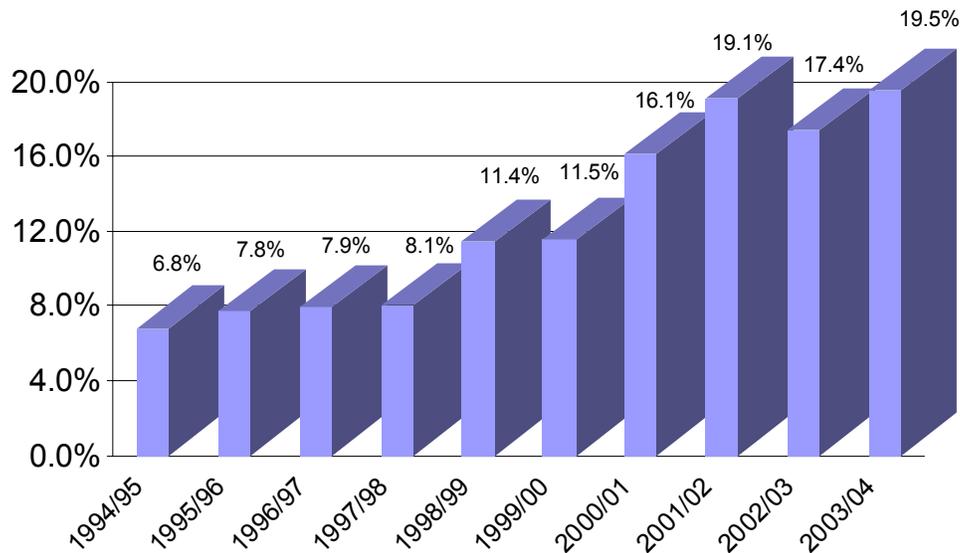
2003-04  
(thousands of dollars)



The University has a strong commitment to research, which is reflected by the increasing ratio of research funding relative to operating grants.

### RESEARCH GRANTS AS A % OF OPERATING GRANTS

#### Ten-Year Trend



In the 2003 Maclean's magazine Annual Survey of Canadian Universities, the University held second place for average size and number of research grants awarded to undergraduate medical/science (NSERC and MRC) research institutions, and fourth place for national awards per full-time faculty member.

In 2004 the University received \$0.9 million from the federal Canada Research Chairs Indirect Costs Program based on research grants funded by federal government research granting agencies. The Indirect Costs Program was established in recognition of the growing indirect costs of conducting publicly-funded academic research, and the resulting grants will enable the University to secure additional support for the indirect costs of conducting research so that the teaching and community services mandates of universities can continue to be met.

#### **Tuition Revenue**

Tuition and related fees revenue increased by approximately 11% (\$3 million) due to the 3.7% increase in enrolment in Fall 2003, as well as Board of Governors-approved increases of 7.5% in undergraduate fees and 6.6% in graduate fees effective May 1, 2003. The fee increase followed a three-year tuition freeze under Alberta Learning tuition fee policies, which limit the allowable annual tuition increase and cap tuition fees at 30%. The University's tuition fee revenue for 2002/03 was 28.7% of net operating expenses.

### **Sales and Services**

Sales and services revenue increased by 6% (\$0.5 million) over the prior year. The majority of sales and services revenue is raised by Ancillary Services and Parking Services. In 2003/04 \$7.5 million was generated by Ancillary Services (\$6.9 million in 2003) and \$0.9 million by Parking Services (\$0.8 million in 2003). The increase in sales and services revenue was primarily due to the effect of student growth on Ancillary Services units, particularly the Bookstore (increase of \$0.2 million) and Housing, which increased its sales revenue by \$0.4 million due to rate increases and the opening of a new 96-bed residence in September 2003.

### **Investment Revenue**

Investment income declined during the year by 26% (\$0.7 million). Despite a significant improvement in market values of bonds and equities during the year, realized returns on investments were down from the prior year. The University uses the cost method of accounting for investments and therefore only realized returns, not market returns, are recorded in income.

### **Other Revenue**

Other income of \$6.3 million (\$6.1 million in 2003) represents amounts brought into income for accounting purposes from the amortization of capital assets purchased in prior years using externally restricted contributions.

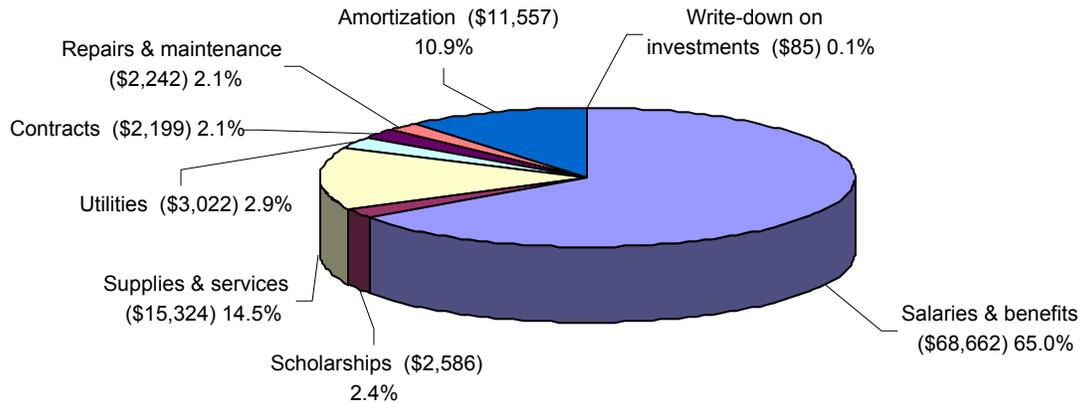
### **Expense**

University expenses totalled \$105.7 million in 2004, an increase of \$5.4 million or 5% over the previous year.

Salaries and benefits continue to be the major component of the cost of operating the University. Despite the pressure to stay competitive in labour markets and the increasing cost of benefits, however, the University has managed to keep its salaries and benefits expense ratio consistent over the past five years. In 2003/04, salaries and benefits made up 65.0% of total expense, compared to 66.5% in 1999/00.

### EXPENSE BY TYPE

2003/04  
(thousands of dollars)



Salaries and benefits increased by 10% over the previous year. Approximately 80 new faculty and staff positions were added during the year.

The amount of scholarships, fellowships and bursaries awarded in 2003/04 was \$2.6 million (2002/03: \$2.4 million). The 2003/04 total was funded from unrestricted operating funding (\$1.3 million), research funding (\$1.1 million) and donations/endowment funding (\$0.2 million). Due to increasing graduate and postgraduate student enrolment, the University has been able to attract larger amounts of research fellowship funding. Fellowships increased by \$0.4 million over the prior year.

Supplies and services expense increased slightly from the previous year, mainly due to increases in research spending, cost of goods sold by the Bookstore, property and liability insurance premiums and travel costs. Also included in this category is interest expense of \$0.7 million, down from the prior year's expense of \$1.4 million, which included a premium to retire the debt on the Library and Information Network Centre.

Repairs and maintenance expenditures decreased by \$0.2 million from the prior year due to a reduction in the infrastructure renewal grant (2004: \$1.4 million; 2003: \$2.3 million). More funding is needed to address the deferred maintenance on University facilities, which is estimated at \$62 million.

Utilities costs increased by 9% over the prior year due to increases in natural gas prices as well as increased consumption of utilities resulting from the growth of facilities and activity at the University. The University has a contract for natural gas that provides a fixed rate for approximately 30% of gas consumed. A five-year contract commencing January 1, 2006 for electricity was negotiated subsequent to the year end and is expected to reduce electrical costs by 35%.

Due to market volatility and currency changes, the University wrote down certain long-term investments for accounting purposes in both 2004 (\$0.085 million) and 2003 (\$2.755 million). As of March 31, 2004, however, total market value of investments exceeded total book value by \$6.3

million.

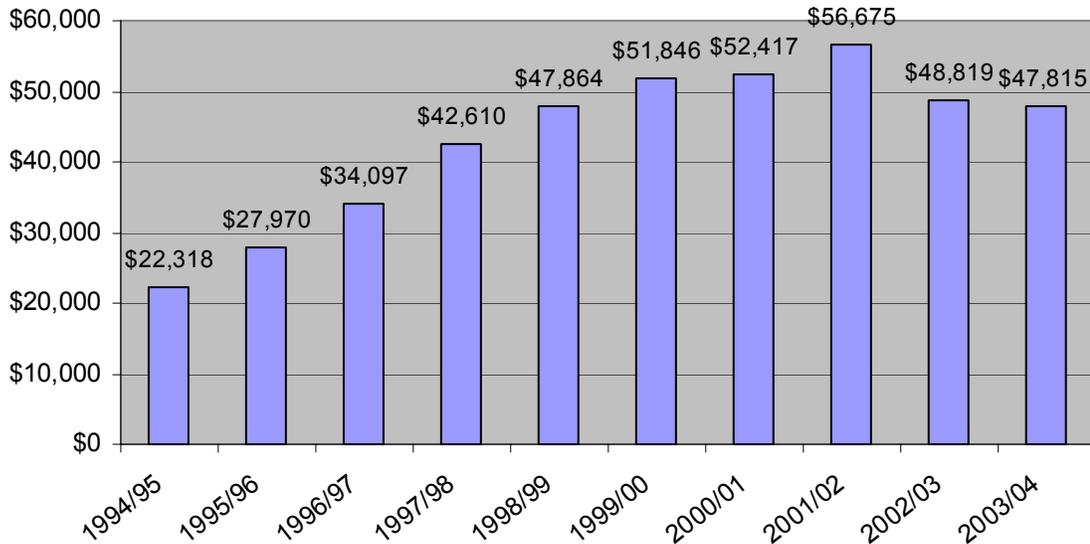
**Statement of Financial Position**

**Assets**

Total assets increased by \$10 million mainly due to an increase in cash at year end (\$8.7 million increase) and net additions to capital assets during the year (\$2 million increase).

Investment balances decreased by \$1 million, comprising net withdrawals of \$3 million to cover construction expenditures for the new student housing project and reinvested portfolio income of \$1.9 million. Over the past ten years, investments have increased by \$23 million or 114%, mainly due to the buildup of internally restricted and unrestricted reserves resulting from the University’s strong fiscal management, as well as an increase in endowment principal.

**INVESTMENT BALANCES**  
 (thousands of dollars)  
 Ten-Year Trend



The investment portfolio was made up of the following fund balances at March 31:

<b>Funding Source</b>		<b>2003/04</b>	<b>2002/03</b>
		(thousands of dollars)	
Externally restricted fund balances			
	Endowments	\$11,227	\$10,762
	Infrastructure Renewal	3,716	4,069
	Sponsored Research	4,304	3,554
	Special Purpose	698	526
	Scholarships, Bursaries & Trust	2,008	1,908
	Capital	1,281	1,039
Internally restricted net assets		5,399	5,290
Unrestricted net assets and operating cash flow		19,182	21,671
<b>Total</b>		<b>\$47,815</b>	<b>\$48,819</b>

Investments are managed by an external investment manager in accordance with the Board of Governors Finance Committee's Investment Management Policy. Investment performance and compliance to the Investment Management Policy are monitored by the Finance Committee through an external consultant.

Capital assets of \$13 million were acquired during the year, including new student residences (\$5.2 million), land and road improvements (\$1.0 million), library acquisitions (\$1.4 million), office relocation, lab and classroom construction and facility upgrades (\$1.7 million), and computer, scientific and other equipment purchases (\$3.7 million).

Art donations of \$90,000 in 2003/04 were added to the collection. The University is very proud of its investment in its collection, which contains approximately 14,000 objects. The collection is used for both educational and public exhibition purposes.

### **Liabilities and Net Assets**

During 2004 the University issued \$4 million in long-term debt for a 96-bed residence, which was opened in September 2003 to address increased needs for on-campus housing. The ratio of students from outside of Lethbridge has increased over the past 10 years from 37% in 1994 to 66% in 2003. Campus housing can now accommodate 642 students in traditional style dormitories, apartments and townhomes.

Deferred contributions of \$10.7 million are made up of restricted contributions for infrastructure renewal (\$3.7 million), research (\$4.3 million) and trust funds for scholarships, bursaries and other special purposes (\$2.7 million). These contributions will be recognized in revenue as the spending restrictions are met.

Deferred capital contributions of \$1.3 million represent externally restricted amounts received for capital projects including the Regional Health and Wellness Centre, the Centre for Leadership and Change and a future Art Gallery.

Net assets increased by a total of \$8.5 million during the year as a result of an increase in investment (equity) in capital assets of \$2 million, an endowment principal increase of \$0.5 million, and an increase in unrestricted net assets (operating reserves) of \$6 million.

Endowment balances are steadily increasing, with a balance of \$11.2 million at March 31, 2004, an

increase of 4.3% over the prior year and a 69% increase over the past ten years. This growth has been achieved from a combination of gifts, capitalized investment earnings and contributions from University sources, all of which make up endowment principal.

### Growth of Endowments over Ten-Year Period

	2003/04	2002/03	2001/02	2000/01	1999/00	1998/99	1997/98	1996/97	1995/96	1994/95
	(thousands of dollars)									
<b>April 1 balance</b>	<b>\$10,762</b>	<b>\$10,224</b>	<b>\$9,585</b>	<b>\$9,064</b>	<b>\$8,475</b>	<b>\$8,017</b>	<b>\$7,301</b>	<b>\$7,022</b>	<b>\$6,656</b>	<b>\$6,521</b>
Endowment gifts	123	125	249	125	141	131	149	151	60	54
Capitalized investment earnings	202	323	290	308	251	185	415	128	306	81
University contributions	140	90	100	88	197	150	152	-	-	-
<b>March 31 balance</b>	<b>\$11,227</b>	<b>\$10,762</b>	<b>\$10,224</b>	<b>\$9,585</b>	<b>\$9,064</b>	<b>\$8,475</b>	<b>\$8,017</b>	<b>\$7,301</b>	<b>\$7,022</b>	<b>\$6,656</b>

Endowment principal is required by law to be maintained intact in perpetuity. The investment income generated from endowments must be used in accordance with the purposes specified by the donors or the Board of Governors. University policy has been established with the objective of protecting the real value of the endowments by limiting the amount of income expended and reinvesting unexpended income. The majority of the University's endowments were created to fund student scholarships and visiting speakers. While capitalized investment earnings on endowment principal and University contributions have helped endowment balances to grow, the University continues to seek donations for new and existing scholarships to help students fund the rising cost of their education.

Internally restricted net assets (\$5.3 million as of March 31, 2004) represent operating surplus from prior years that has been set aside by the Board of Governors to provide for capital and maintenance needs of Ancillary Services units such as Housing and the Bookstore, and to cover contingencies and one-time expenditures aimed at increasing efficiency and/or reducing costs.

The increase in unrestricted net assets resulted from the accounting surplus of \$8.1 million for 2003/04. The unrestricted net asset balance of \$19.6 million (2003: \$13.5 million) will be used primarily for investment in capital assets to enhance the education and services available to our students and the local community.

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