



FINANCIAL HIGHLIGHTS 2005/06

Financial Statement Presentation

The University of Lethbridge endeavours to present the audited financial statements in a manner that will 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 fiscal year ending March 31, 2006.

Financial Management

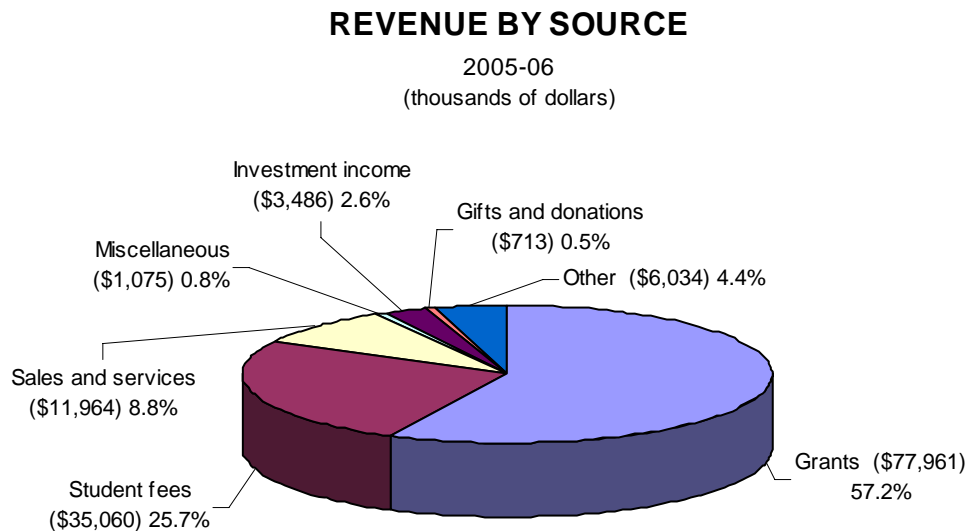
The University's budget process is based on a three-year rolling budget model whereby budgets are estimated for three years into the future. In conjunction with the instructional tuition allocation model which allocates instructional fees to the faculties based on credit hours taught, the budgeting process 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 for the year ending March 31, 2006 increased by \$3.3 million over the prior year to \$10.1 million. The strong performance was largely attributable to additional operating grants and investment income that exceeded the amounts originally budgeted.

Revenue

University revenue totalled \$136.3 million in fiscal 2006, an increase of 11% over the previous year.



Grant revenue increased by \$10.8 million or 16% over the previous year, mainly due to an increase in provincial government grants of \$9 million. Research grant revenue recognized for accounting purposes increased by \$1.3 million over the 2004-05 fiscal year. Grants represented 57.2% of total revenue (2005: 54.7%).

Advanced Education grants increased by \$8.4 million or 15% in 2006 including a 6% increase in the base operating grant (\$3.1 million), the Alberta Centennial Tuition Rebate of \$2.4 million and one-time Access grants of \$2.3 million which were awarded primarily for exceeding enrolment targets and for general enrolment growth between fiscal years 1999 and 2004. Performance funding of \$0.8 million was awarded to the University by Advanced Education (2005: \$0.6 million). The University received top-level performance awards in both the learning and research components based on progress results for fiscal 2005 as measured by various performance indicators.

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

Provincial Grants	2005/06	2004/05
	(thousands of dollars)	
General operating	\$53,928	\$48,095
Centennial tuition rebate	2,426	-
Performance funding envelope	803	604
Access (operating)	7,861	7,729
Other unrestricted funding	464	437
Conditional funding	16,673	5,051
Deferred conditional funding	(7,023)	(1,778)
Total	\$75,132	\$60,138

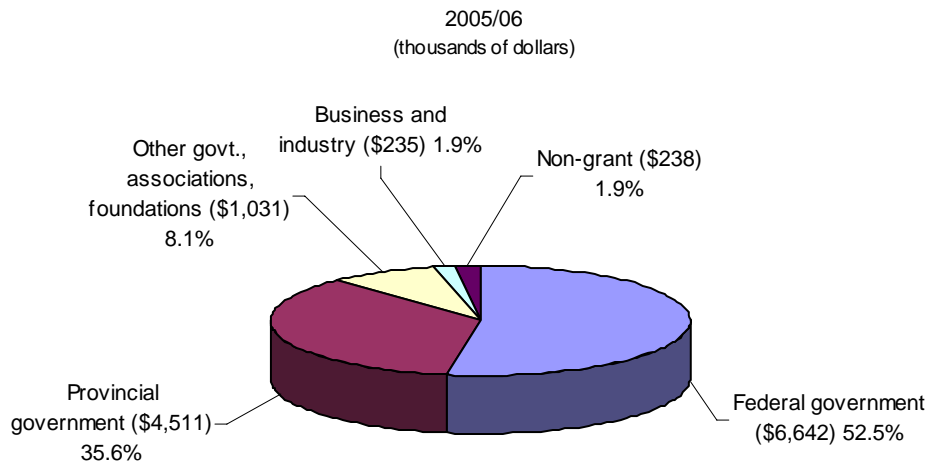
The conditional funding included \$9.1 million from Advanced Education for capital needs such as the University Hall mechanical systems upgrade (\$5 million) and the Water and Environmental Science Building (\$4 million), \$3.1 million from Alberta Infrastructure for infrastructure renewal (\$1.8 million), the replacement of services buildings (\$1 million) and the construction of the Alberta Water and Environmental Science Building (\$0.3 million). The remaining conditional funding was received for provincially-sponsored research including \$1.1 million for equipment for the Alberta Terrestrial Imaging Corporation. In accordance with not-for-profit accounting principles, any conditional funding not spent by the end of the fiscal year is deferred and recognized in revenue in the year(s) in which the related expenditures are incurred.

Research Funding

Sponsored research revenue totalled \$12.7 million, an increase of \$0.8 million or 7% over the previous year. Unspent research grant revenue of \$1.8 million was deferred at the end of the year (2005: \$3.1 million deferred).

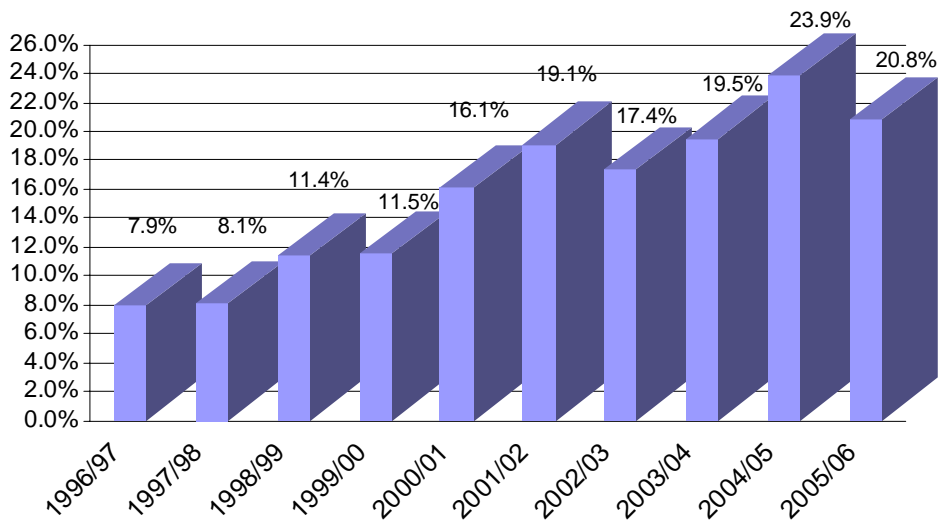
Research continues to be funded primarily by federal and provincial government agencies. Over the past five years, research grants have nearly doubled from a total of \$6.7 million in fiscal 2002, and have increased more than fourfold (475%) over the past ten years. This trend is largely due to new sources of federal research funding including the Canadian Foundation for Innovation, Canadian Stroke Network, Canadian Institute for Health Research, Canada Research Chairs program and Canadian Space Agency, provincial funding from the Alberta Gaming Research Institute, Alberta Innovation and Science, Alberta Ingenuity Fund and Alberta Science Research Institute as well as funding from the United States National Institute of Health.

SOURCES OF RESEARCH REVENUE



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 2006 the University also received \$1.2 million (2005: \$1.1 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 4% (\$1.3 million) due to a 3% increase in enrolment in Fall 2005, as well as increases in ancillary fees effective May 1, 2005. There was no increase in tuition fees for Canadian (domestic) students as the Government of Alberta paid for the Board-approved 7% increase in fees through the Alberta Centennial Tuition Rebate which totalled \$2.4 million. Advanced Education will also cover the Board-approved increase in domestic student fees scheduled for 2006-07. The provincial tuition fee policy is currently under review by Advanced Education and changes will be announced later this year effective for the 2007-08 academic year and beyond.

Sales and Services

Sales and services revenue increased by 3% (\$0.3 million) over the prior year. The majority of sales and services revenue is raised by Ancillary Services, which increased to \$6.9 million in 2006 from \$6.7 million in 2005. Other major sources of sales and services revenue are parking fees (\$0.9 million), Faculty of Management non-credit programs (\$1.3 million) and Sport and Recreation Services programs and services (\$1.4 million).

Investment Revenue

Investment income recognized during the year increased by 35% or \$0.9 million over the previous year. Realized investment earnings as measured on a cash basis were 6.3% in 2006 (2005: 2.9%). The University uses the cost method of accounting for investments; therefore, market returns are not recorded in income. The market return for 2006 on long-term investments was 10.4% (2005: 7.4%).

Gifts and Donations

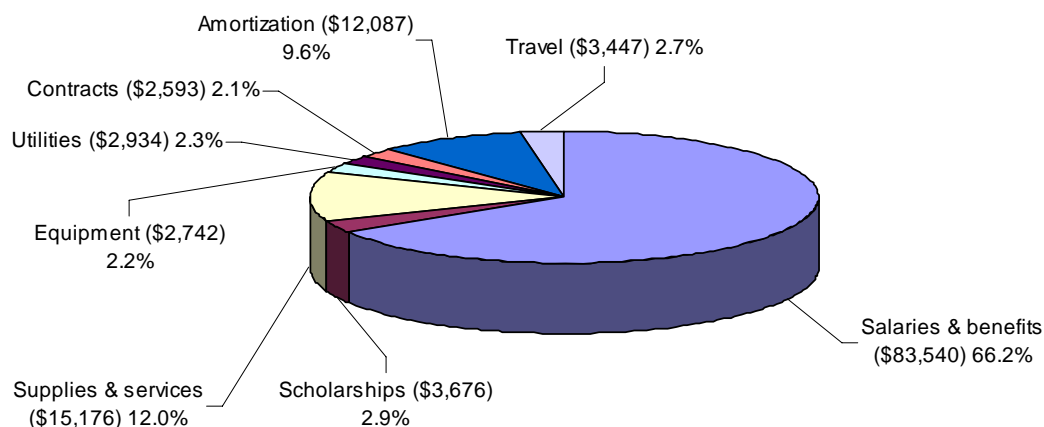
Total donations received during the year were \$3.2 million (2005: \$2.1 million). Of this total, \$1.3 million (2005: \$0.4 million) in donations was added directly to endowment principal and \$1.2 million (2005: \$1.0 million) was deferred for spending in future years. In addition to donations received, there were pledges totalling \$7.4 million as of March 31, 2006, including \$5.9 million for capital projects and \$1.2 million for scholarships.

Other Revenue

Other income of \$6 million (2005: \$6.2 million) 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 \$126.2 million in 2006, an increase of \$10.1 million or 9% over the previous year.

EXPENSE BY TYPE2005-06
(thousands of dollars)

Salaries and benefits expense increased by 9% over the previous year. In addition to salary increases resulting from merit and negotiated cost-of-living adjustments, approximately 43 new faculty and staff positions were added in 2006. Salaries and benefits continue to be the major component of the cost of operating the University. Despite the pressure to remain competitive in labour markets and the increasing cost of benefits, however, the University's salaries and benefits expense ratio has been fairly consistent over the past five years at approximately 66% of total expense.

The amount of scholarships, fellowships and bursaries awarded in 2006 was \$3.7 million (2005: \$3.0 million). This was made up of \$2.0 million in scholarships and bursaries (2005: \$1.4 million) and \$1.7 million in fellowships (2005: \$1.6 million). The University increased scholarships funded from operating sources by \$0.3 million in 2006 and scholarships donated by third parties or generated from investment income on endowments increased by \$0.4 million.

Equipment expense increased by \$1.8 million in fiscal 2006 due to a change in the capitalization threshold whereby items \$5,000 and over are now capitalized and amortized over their useful lives. Prior to 2006 items \$1,000 and over were capitalized.

Amounts recorded in other expense categories were comparable to the prior year's results.

Statement of Financial Position**Assets**

Total assets increased by \$26.5 million during the 2006 fiscal year. Cash and short-term investments were up \$10.3 million, long-term investments \$2.8 million and capital assets \$13 million.

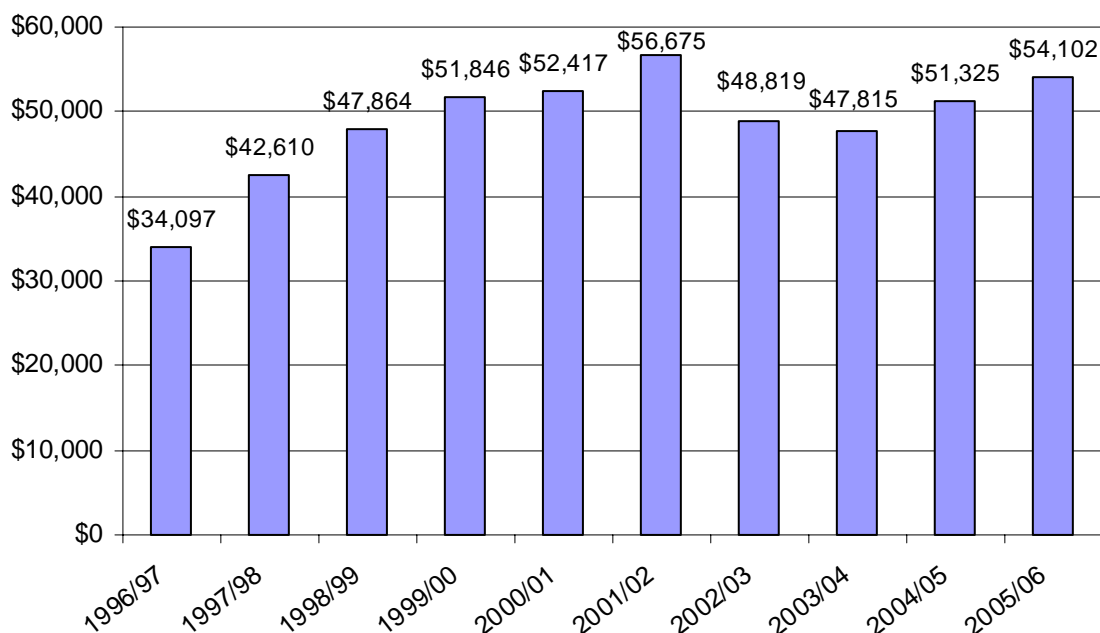
Cash flow requirements for construction projects have necessitated maintaining a higher balance in cash and short-term investments over the past two fiscal years.

The change in long-term investments during the year included reinvesting income of \$3 million, donations of securities totalling \$0.3 million, and a write-down in the carrying value of particular investments in accordance with generally accepted accounting principles at March 31 of \$0.5 million. Over the past ten years, investments have increased by \$20 million or 59%, mainly due to the accumulation 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:

Funding Source	2005/06	2004/05
	(thousands of dollars)	
Externally restricted fund balances:		
Endowments	\$13,663	\$11,975
Sponsored research	4,002	5,676
Special purpose	1,775	929
Scholarships, bursaries & trust	2,050	2,422
Capital & infrastructure	13,527	6,555
Internally restricted net assets	16,541	13,713
Unrestricted net assets and operating cash flow	2,544	10,055
Total	\$54,102	\$51,325

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. At March 31, 2006 the market value of investments exceeded the carrying value by \$11.8 million (2005: \$8.3 million).

Capital assets of \$25.7 million were added during the year, including major capital projects (Regional Health and Wellness Centre: \$14 million spent during 2006; expansion of the Canadian Centre for Behavioural Neuroscience Building- \$1.8 million). Library acquisitions totalled \$2.3 million and scientific equipment \$2.9 million. Amortization expense totalled \$12 million.

Art works donated in 2006 totalled \$0.2 million. The University has an impressive art collection, which contains approximately 14,000 objects with a book value of \$33 million. The collection is used for both educational and public exhibition purposes.

Liabilities and Net Assets

Current liabilities totalled \$24.5 million in 2006 and in 2005. Accounts payable and accrued liabilities increased over the prior year by \$1.9 million, mainly due to construction projects in progress at the year end. Deferred contributions of \$8.2 million at March 31, 2006 (2005: \$9.9 million) primarily consisted of restricted balances in the research fund (\$3.4 million), trust funds for scholarships, bursaries and other specific purposes (\$3.8 million) and the Infrastructure Maintenance Program (\$0.9 million). These contributions will be recognized in revenue as the spending restrictions are met.

Long-term liabilities increased by \$8 million mainly due to an increase in deferred capital contributions, which totalled \$12.6 million at March 31, 2006 (2005: \$4.8 million). The deferred capital contributions balance represents externally restricted amounts received from grants and donations for capital projects and infrastructure renewal including Life Safety Systems (\$5 million), the Alberta Water and Environmental Science Building (\$4.3 million), the Management and Health Sciences Building (\$1.1 million) and the Turcotte Hall addition (\$0.9 million).

Net assets increased by a total of \$11.9 million during the year as a result of an increase in investment (equity) in capital assets of \$6.4 million, endowment principal additions (primarily donations and capitalized investment income) of \$1.7 million, an increase in internally restricted net assets of \$2.8 million and an increase in unrestricted net assets (operating reserves) of \$1 million.

Endowment balances are steadily increasing, with a balance of \$13.7 million at March 31, 2006, an increase of 14% over the prior year and 87% over the past ten years. This growth has been achieved from a combination of gifts, capitalized investment earnings and contributions from University sources.

Growth of Endowment Principal
(thousands of dollars)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Opening balance	\$11,975	\$11,227	\$10,762	\$10,224	\$9,585	\$9,064	\$8,475	\$8,017	\$7,301	\$7,022
Endowment gifts	1,292	409	123	125	249	125	141	131	149	151
Capitalized investment earnings	306	249	202	323	290	308	251	185	415	128
University contributions	90	90	140	90	100	88	197	150	152	-
Closing balance	\$13,663	\$11,975	\$11,227	\$10,762	\$10,224	\$9,585	\$9,064	\$8,475	\$8,017	\$7,301

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 totalled \$16.5 million as of March 31, 2006. These represent operating surpluses from prior years that have been set aside by the Board of Governors to provide for capital and maintenance needs and to cover contingencies and one-time expenditures aimed at increasing efficiency and/or reducing costs. The internally restricted net assets balance at March 31, 2006 includes an allocation of \$10 million for capital projects in progress at the year end, including \$3.4 million for the Regional Health and Wellness Centre, \$3.2 million for the Turcotte Hall addition and \$2.8 million for the Sports Stadium.

Unrestricted net assets of \$15.7 million (2005: \$14.7 million) represent accumulated operating surpluses and are used primarily to fund capital asset additions required to maintain the education and services available to our students and the local community.