FINANCIAL HIGHLIGHTS
2006/07

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, 2007.

Financial Management

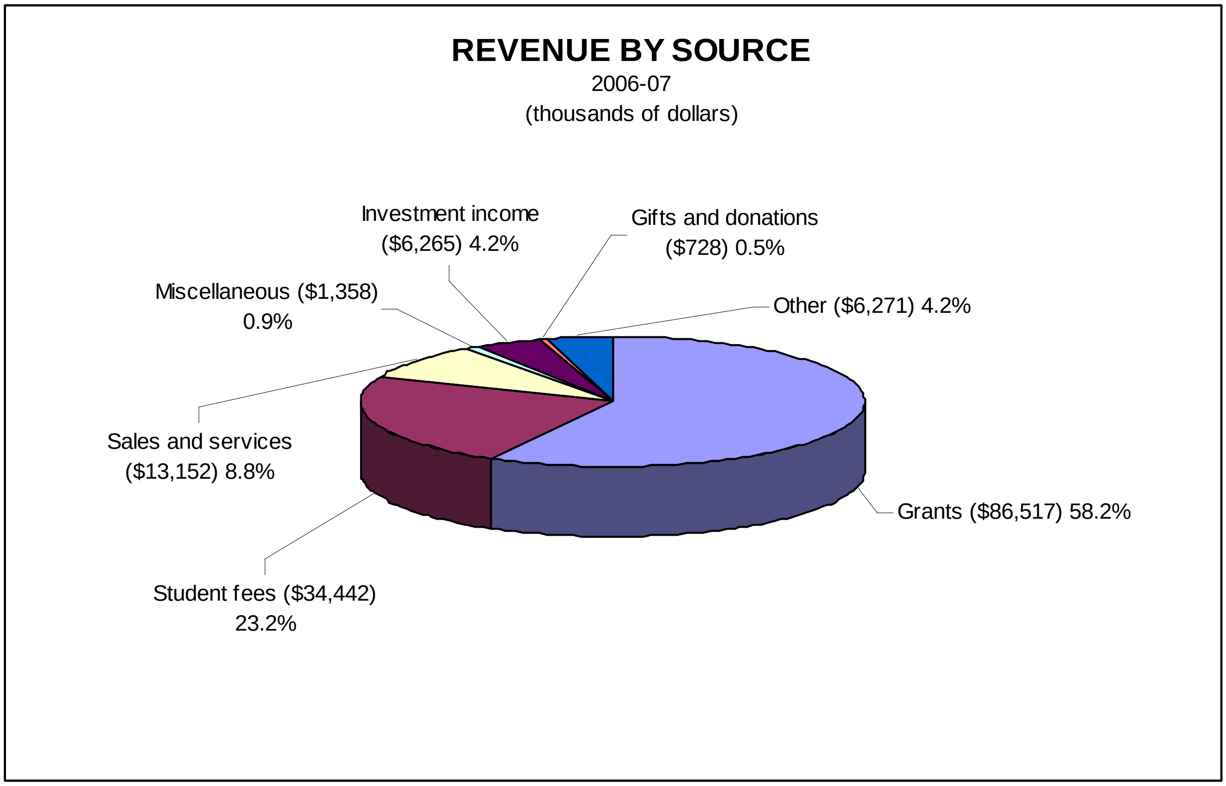
The University's budget process is based on a three-year rolling budget model whereby budgets are estimated for three years into the future. In conjunction with the instructional tuition allocation model which allocates instructional fees to the faculties based on credit hours taught, the budgeting process 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, 2007 increased by $5.7 million over the prior year to $15.8 million. The strong performance was largely attributable to additional operating grants and investment income that exceeded the amounts originally budgeted.

Revenue

University revenue totalled $148.7 million in fiscal 2007, an increase of 9% over the previous year.



Grant revenue increased by $8.5 million or 11% over the previous year, due to an increase in provincial government grant of $9 million. Grants represented 58.2% of total revenue (2006: 57.2%).

Advanced Education and Technology grants increased by $9.4 million or 14% in 2007 including a 6% increase in the base operating grant ($4.4 million) and an increase in the Tuition Fee Rebate of $2.4 million. The Tuition Fee Rebate does not result in a net increase in revenue as it is a rebate which compensated the University for a similar reduction in tuition fee revenue since the government limited the tuition fees to be paid by students. Advanced Education and Technology awarded performance funding of $0.9 million (2006: $0.8 million) to the University. The University received top-level performance awards in both the learning and research components based on progress results for fiscal 2006 as measured by various performance indicators.

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

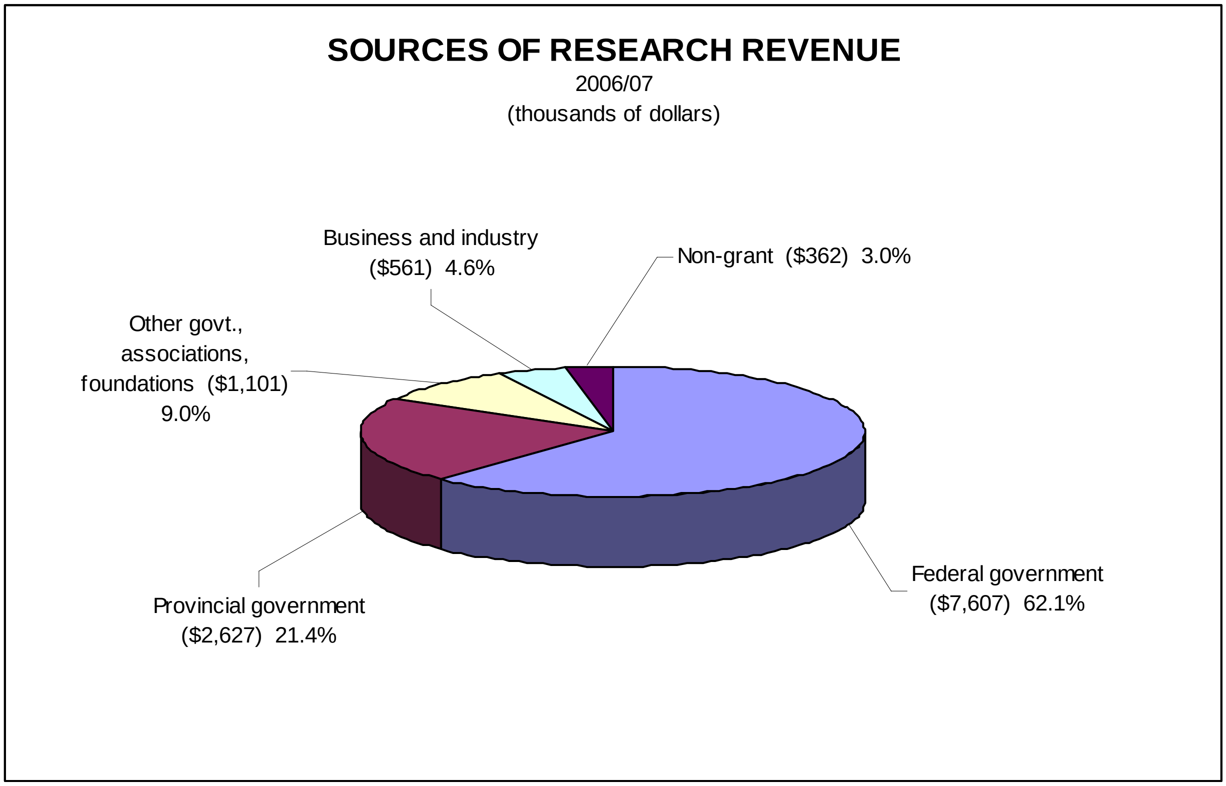
Provincial Grants	**2006/07**	**2005/06**
	(thousands of dollars)	
General operating	$58,348	$53,928
Tuition Fee rebate	4,801	2,426
Performance funding envelope	924	803
Access (operating)	9,443	7,861
Other unrestricted funding	1,406	464
Conditional funding	20,822	16,673
Deferred conditional funding	(17,151)	(13,871)
Total	**$78,593**	**$68,284**

The conditional funding included $18.4 million from Advanced Education and Technology for capital needs for the Life Safety systems upgrade ($1.8 million), Alberta Water and Environmental Science Building ($8 million), replacement of services buildings ($5.1 million) Access to the Future Fund for facilities for learning and research purposes ($1.5 million), as well as funding from Access to the Future Fund for scholarships ($1.5 million) and research projects ($.5 million). The Access to the Future Fund is a new grant program designed to provide matching payments to stimulate contributions to the advanced education system. Alberta Gaming contributed $.1 million to the Sports stadium. The remaining $2.3 million in conditional funding was received for provincially sponsored research and other restricted funds. 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.

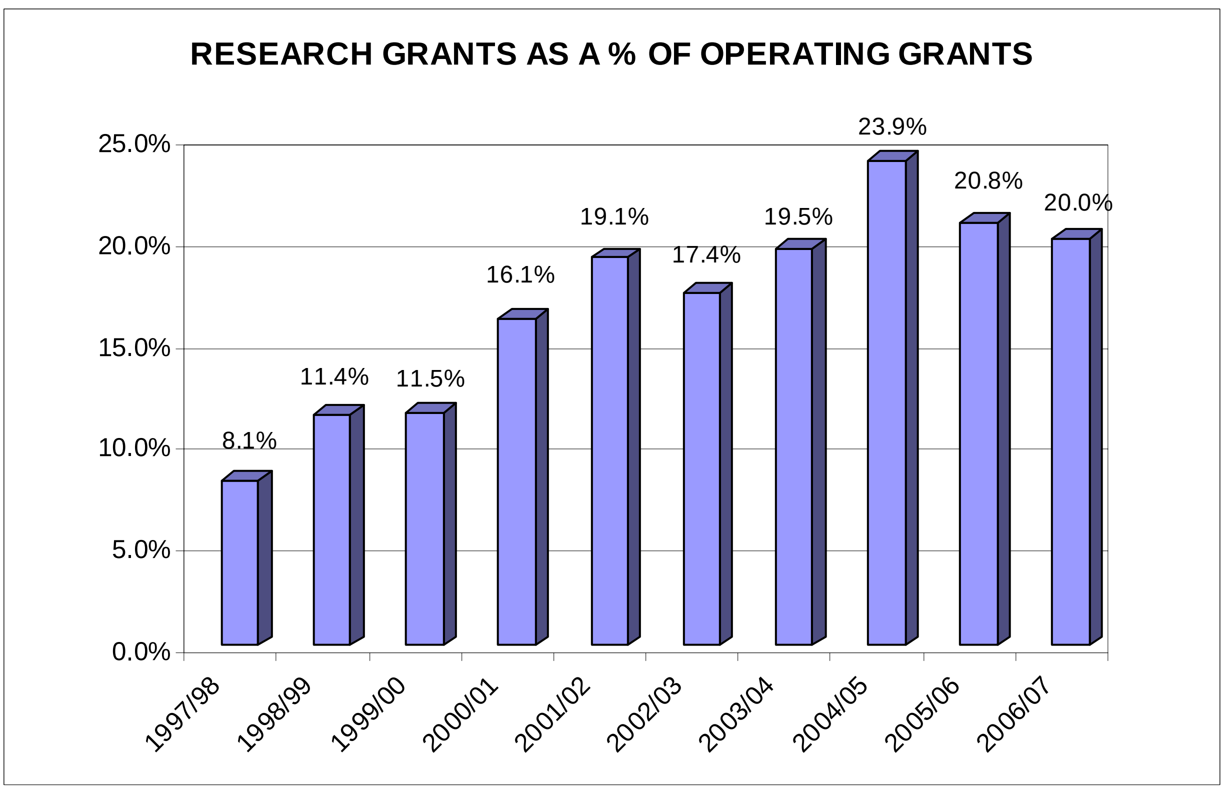
Research Funding

Sponsored research revenue totalled $12.2 million, a decrease of $0.59 million or 5% over the previous year. Unspent research grant revenue of $2.5 million was deferred at the end of the year (2006: $1.8 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 $7.5 million in fiscal 2003, and have increased more than fourfold (430%) 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 Cancer Board, Alberta Ingenuity Fund and Alberta Science and Research Authority as well as funding from the United States National Institute of Health and Ontario Problem Gambling.



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



In 2007, the University also received $1.4 million (2006: $1.2 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 decreased by approximately 1.7% ($.6 million). The decrease in tuition fee revenue was primarily due to no increases in tuition fees for Canadian (domestic) students as the Government of Alberta paid for the Board-approved 6.5% increase in 2007 (2006: 7%) in fees through the Tuition Fee Rebate which cumulatively over the past two years totalled $4.8 million. Advanced Education and Technology reviewed the provincial tuition fee policy and any tuition increases were based on 2004/2005 tuition fees rather than the previous year's tuition rates. The Athletics and Recreation Services fees contributed to the decrease by $.12 million due to a rate decrease because of the disruption in services during the construction of the 1st Choice Savings Centre for Sport and Wellness.

Sales and Services

Sales and services revenue increased by 10.9% ($1.3 million) over the prior year. The majority of sales and services revenue is contributed by Ancillary Services, which increased to $7 million in 2007 (2006: $6.9 million). Other major sources of sales and services revenue are parking fees ($1 million), Faculty of Management non-credit programs ($1 million) and Sport and Recreation Services programs and services ($1.4 million).

Investment Revenue

Investment revenue recognized during the year increased by 79.7% or $2.8 million over the previous year. Realized investment earnings as measured on a cash basis were 5.38% in 2007 (2006: 6.3%). The University uses the cost method of accounting for investments; therefore, market returns are not recorded in income. Realized investment income included a reversal of $2 million write down on US investments which resulted when a portion of US equities were liquidated upon transfers between investment managers. The market return for 2007 on long-term investments was 11.2% (2006: 10.4%).

Gifts and Donations

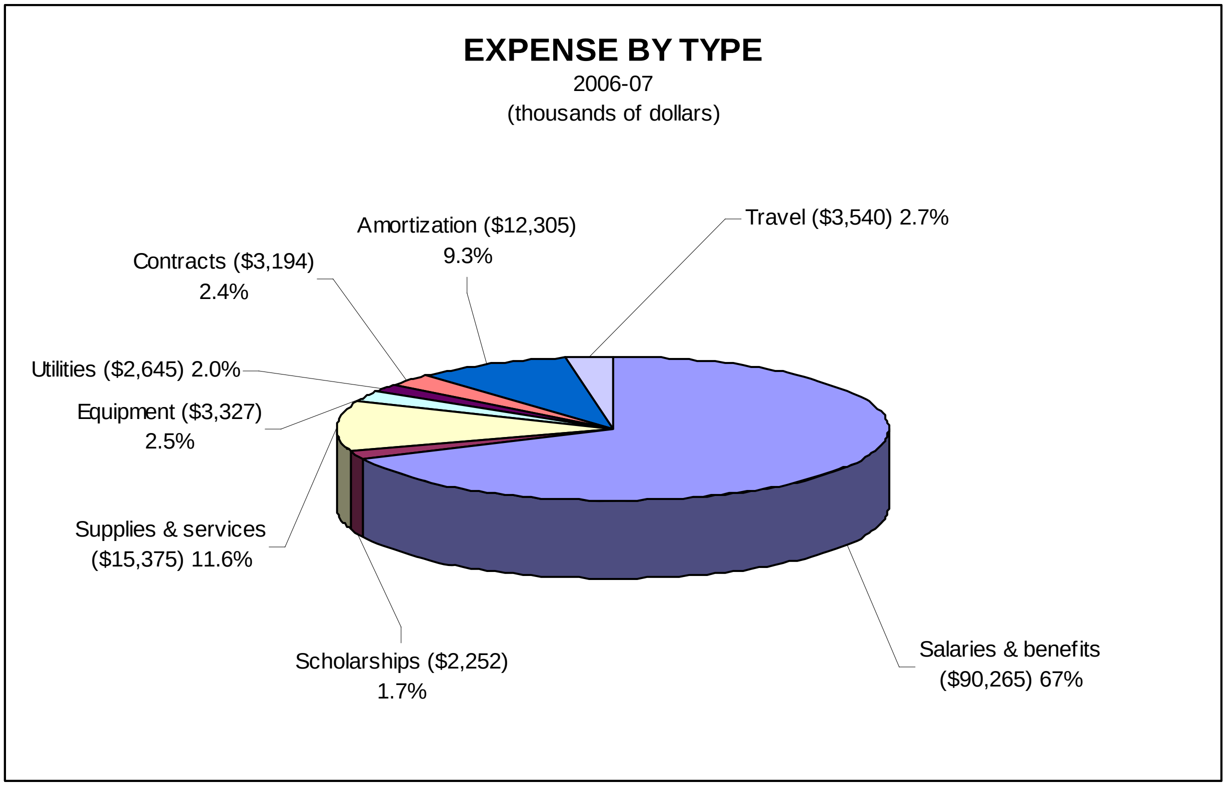
Total donations received during the year were $13 million (2006: $2.9 million). Of this total, $8.8 million (2006: $1.3 million) in donations was added directly to endowment principal and $3.7 million (2006: $1.2 million) was deferred for spending in future years. Included in donations is $3.8 million in future contributions towards the 1st Choice Savings Centre for Sport and Wellness and $8.3 million for the Prentice Institute. There is an additional $4.3 million in pledges as of March 31, 2007, including $3.3 million for capital projects and $1 million for scholarships that have not been recorded in the financial statements.

Other Revenue

Other income of $6.3 million (2006: $6.0 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 $132.9 million in 2007, an increase of $6.7 million or 5% over the previous year.



Salaries expense increased by 5% over the previous year. In addition to salary increases resulting from merit and negotiated cost-of-living adjustments, approximately 71 new faculty and staff positions were added in 2007. Benefits expense increased by 14% due to increased pension premium rates and the introduction of the flexible benefit plan for support staff effective January 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 68% of total expense.

The amount of scholarships, fellowships and bursaries awarded in 2007 was $2.2 million (2006: $2.0 million). This was made up of $2.1 million in scholarships and bursaries (2006: $1.9 million) and $0.1 million in fellowships (2006: $0.1 million). The University increased scholarships funded from operating sources by $0.1 million in 2007. Scholarships funded from endowments increased by $0.1 million due to a change in the Endowment Management policy that allowed an increased amount of spending for endowed scholarships.

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

Statement of Financial Position

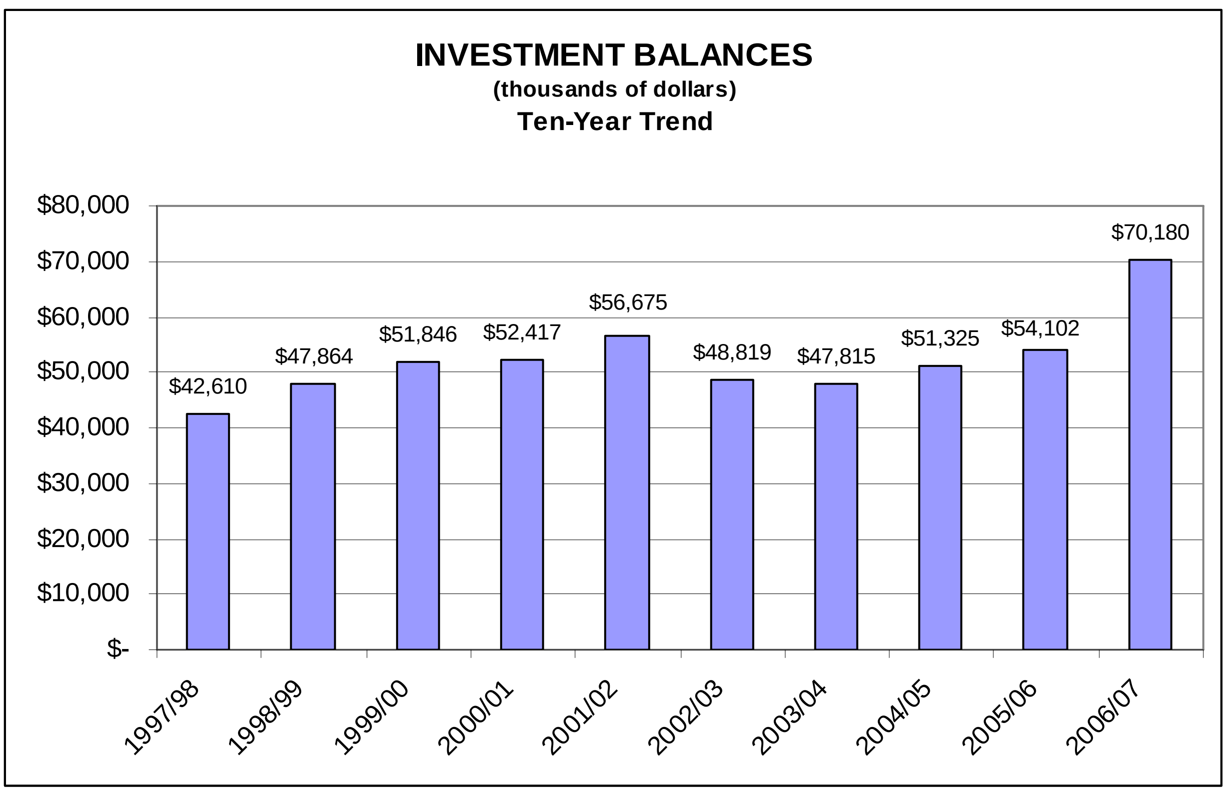
Assets

Total assets increased by $49.5 million during the 2007 fiscal year. Cash and short-term investments were up $6.5 million, long-term investments $16 million and capital assets $21 million.

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

Total receivables increased by $5.7 million. Of this total, $3.8 million was for future contributions towards the 1st Choice Savings Centre for Sport and Wellness.

The change in long-term investments during the year included reinvesting income of $5 million and a donation to the Prentice Institute of $8.25 million. Over the past ten years, investments have increased by $28 million or 65%, 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.



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

Funding Source	**2006/07**	**2005/06**
	(thousands of dollars)	
Externally restricted fund balances:		
Endowments	$24,537	$13,663
Sponsored research	4,868	4,002
Special purpose	3,658	1,775
Scholarships, bursaries & trust	599	2,050
Capital & infrastructure	23,074	13,527
Internally restricted net assets	17,758	16,541
Unrestricted net assets and operating cash flow	(4,314)	2,544
Total	**$70,180**	**$54,102**

Two external investment managers administer the University's investments in accordance with the Board of Governors' Investment Management Policy. The Board of Governors Finance Committee, through an external consultant, monitors investment performance and compliance with the Investment Management Policy. At March 31, 2007, the market value of investments exceeded the carrying value by $15 million (2006: $11.8 million).

Capital assets of $33.6 million were added during the year, including major capital projects (1st Choice Savings Centre for Sport and Wellness- $12 million spent during 2007; expansion of Turcotte Hall - $5 million, other renovation projects $8.8) and an asset retirement obligation of $1 million. Library acquisitions totalled $1.8 million and computer, scientific and other equipment $5 million. Amortization expense totalled $12 million.

Art works donated in 2007 totalled $0.01 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 $30 million in 2007 (2006: $24.5 million). Accounts payable and accrued liabilities increased over the prior year by $2.4 million, mainly due to construction projects in progress at the year end. Deferred contributions of $11 million at March 31, 2007 (2006: $8.2 million) primarily consisted of restricted balances in the research fund ($4.3 million), trust funds for scholarships and bursaries and other specific purposes ($4.3 million) and the Infrastructure Maintenance Program ($2.4 million). These contributions will be recognized in revenue as the spending conditions are met.

Long-term liabilities increased by $8.9 million mainly due to an increase in deferred capital contributions, which totalled $20.6 million at March 31, 2007 (2006: $12.6 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 ($4 million), the Alberta Water and Environmental Science Building ($11.5 million), the Markin Building for Health Sciences and Management ($2.7 million), service building replacement ($2.3 million) and other projects ($1.0 million).

Liabilities include an asset retirement obligation of $1.1 million that represents the estimated fair value of the legal obligation associated with the removal of asbestos from University Hall.

Net assets increased by a total of $26.7 million during the year as a result of an increase in investment (equity) in capital assets of $11.6 million, endowment principal additions (primarily donations and capitalized investment income) of $10.9 million, an increase in internally restricted net assets of $1.2 million and an increase in unrestricted net assets (operating reserves) of $3 million. Internally restricted and unrestricted net assets are primarily designated for academic program developments, capital deferred maintenance projects and capital asset replacement.

Endowment balances are steadily increasing, with a balance of $24.5 million at March 31, 2007, an increase of 80% over the prior year and 206% over the past ten years. This growth has been achieved from a combination of gifts, capitalized investment earnings and contributions from University sources. Included in the endowments is a donation of $8.25 million for the Prentice Institute.

Growth of Endowment Principal
(thousands of dollars)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Opening Balance	**$13,663**	**$11,975**	**$11,227**	**$10,762**	**$10,224**	**$9,585**	**$9,064**	**$8,475**	**$8,017**	**$7,301**
Endowment gifts	8,825	1,292	409	123	125	249	125	141	131	149
Capitalized investment earnings [1]	1,996	306	249	202	323	290	308	251	185	415
University contributions	53	90	90	140	90	100	88	197	150	152
Closing Balance	**$24,537**	**$13,663**	**$11,975**	**$11,227**	**$10,762**	**$10,224**	**$9,585**	**$9,064**	**$8,475**	**$8,017**

[1] 2007 Includes a one-time $1.519 million capitalization of previous year's unexpended balance as a result of the adoption of change in Endowment management policy.

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. 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 $17.8 million as of March 31, 2007. 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, 2007 includes an allocation of $10.7 million for capital projects in progress at the year end.

Unrestricted net assets of $18.7 million (2006: $15.7 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.