



## **FINANCIAL HIGHLIGHTS 2007/08**

### ***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, 2008.

### ***Financial Management***

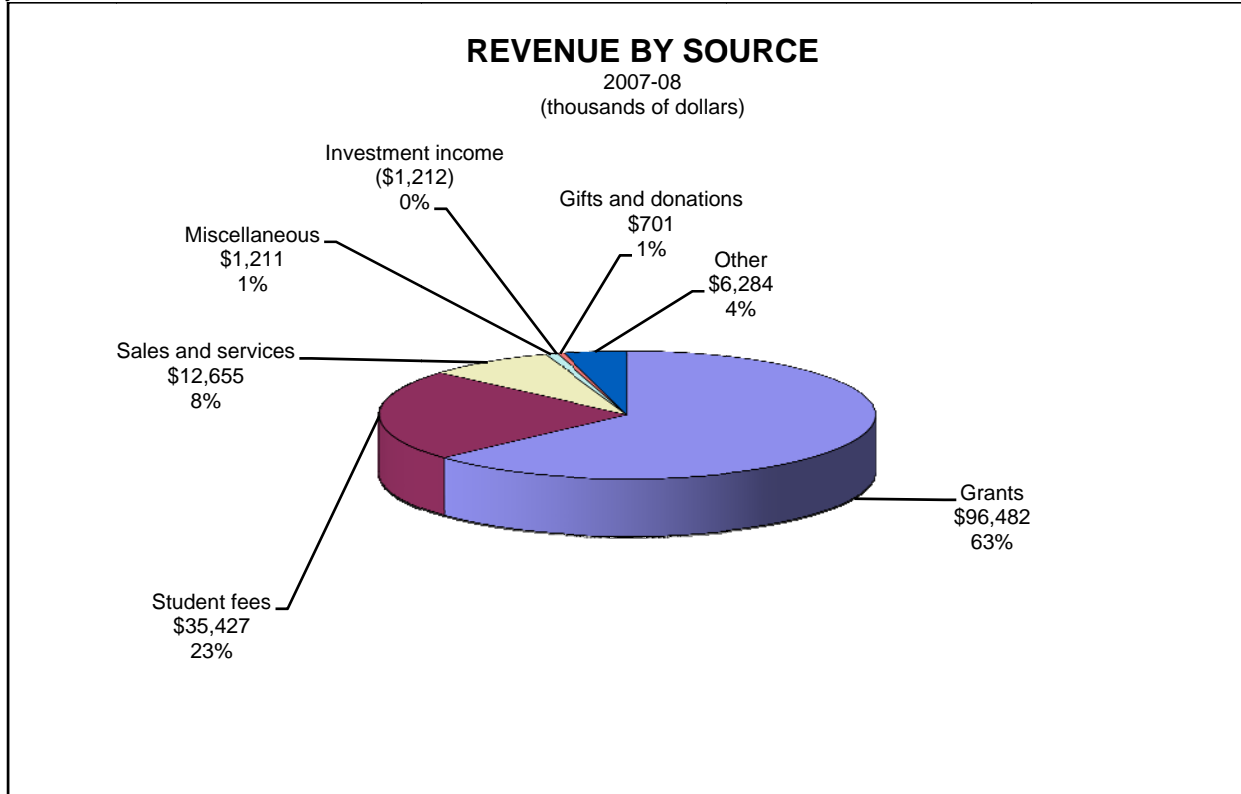
The University's budget process is based on a three-year rolling budget model whereby budgets are estimated for three years into the future. In conjunction with the instructional tuition allocation model which allocates instructional fees to the faculties based on credit hours taught, the budgeting process 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, 2008 decreased by \$9 million over the prior year to \$6.8 million. The major contributor to this loss was \$1.2 million investment loss (2007: \$6.3 investment income). In prior years the realized income was included; however with the adoption of the financial instrument standards both the realized and unrealized investment gains (losses) are recorded.

**Revenue**

University revenue totalled \$151.5 million in fiscal 2008, an increase of 2% over the previous year.



Grant revenue increased by \$7.8 million or 10% over the previous year, due to an increase in provincial government grant of \$9 million. Grants represented 63.7% of total revenue (2007: 58.2%).

Advanced Education and Technology grants increased by \$9 million or 12% in 2008 including a 6% increase in the base operating grant (\$4.4 million). Advanced Education and Technology awarded performance funding of \$1.1 million (2007: \$0.9 million) to the University. The University received top-level performance awards in both the learning and research components based on progress results for fiscal 2007 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:

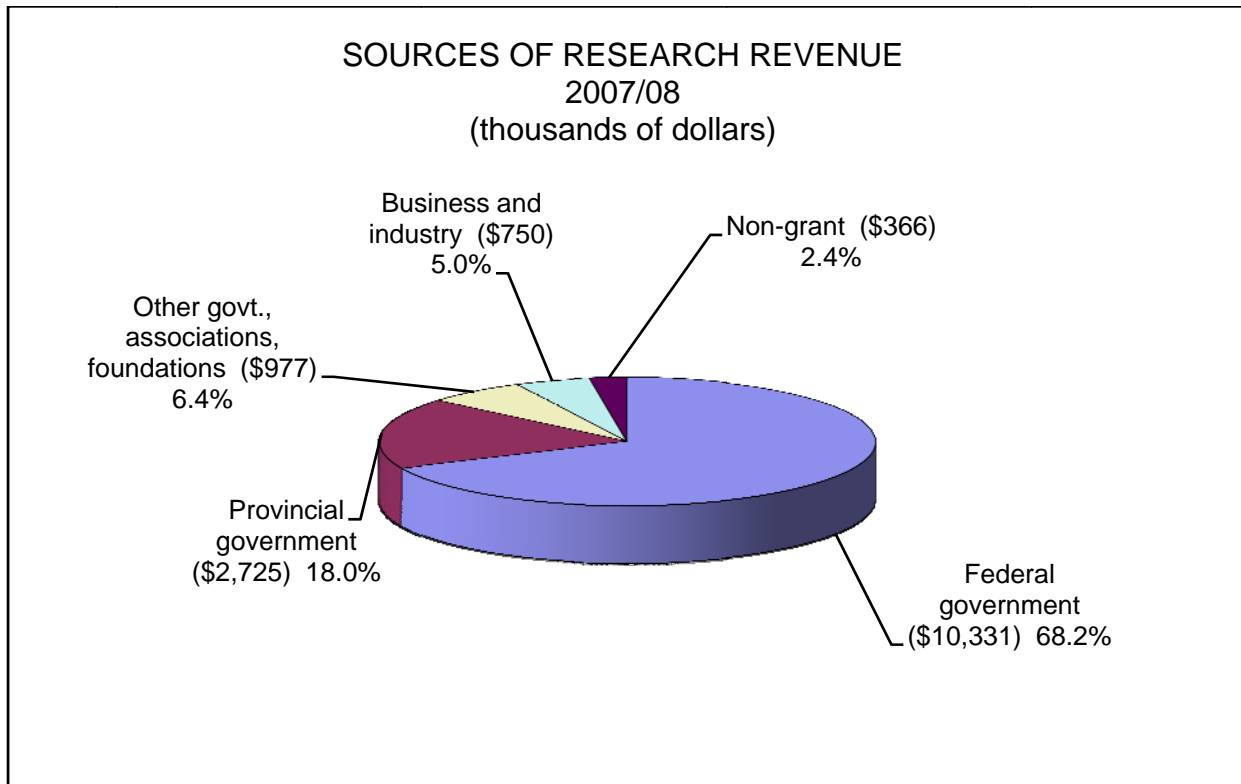
<b>Provincial Grants</b>	<b>2007/08</b>	<b>2006/07</b>
	(thousands of dollars)	
General operating	\$67,722	\$58,348
Tuition Fee rebate	4,801	4,801
Performance funding envelope	1,109	924
Access (operating)	8,532	9,443
Other unrestricted funding	1,834	1,406
Conditional funding	47,215	19,736
Deferred conditional funding	(44,782)	(17,116)
<b>Total</b>	<b>\$86,431</b>	<b>\$77,542</b>

The conditional funding included \$42.3 million from Advanced Education and Technology for capital needs for the Life Safety systems upgrade (\$15.5 million), Water and Environmental Science Building (\$10 million), University Hall Structure and Building (\$5.4 million), Markin Hall (\$5 million), replacement of services buildings (\$1.5 million), Access to the Future Fund for facilities for learning and research purposes (\$1.2 million), as well as funding from Access to the Future Fund for scholarships (\$1.8 million). The Access to the Future Fund is a grant program designed to provide matching payments to stimulate contributions to the advanced education system. Alberta Tourism, Parks, Recreation and Culture contributed \$2 million to the Sports stadium. The remaining \$2.9 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.

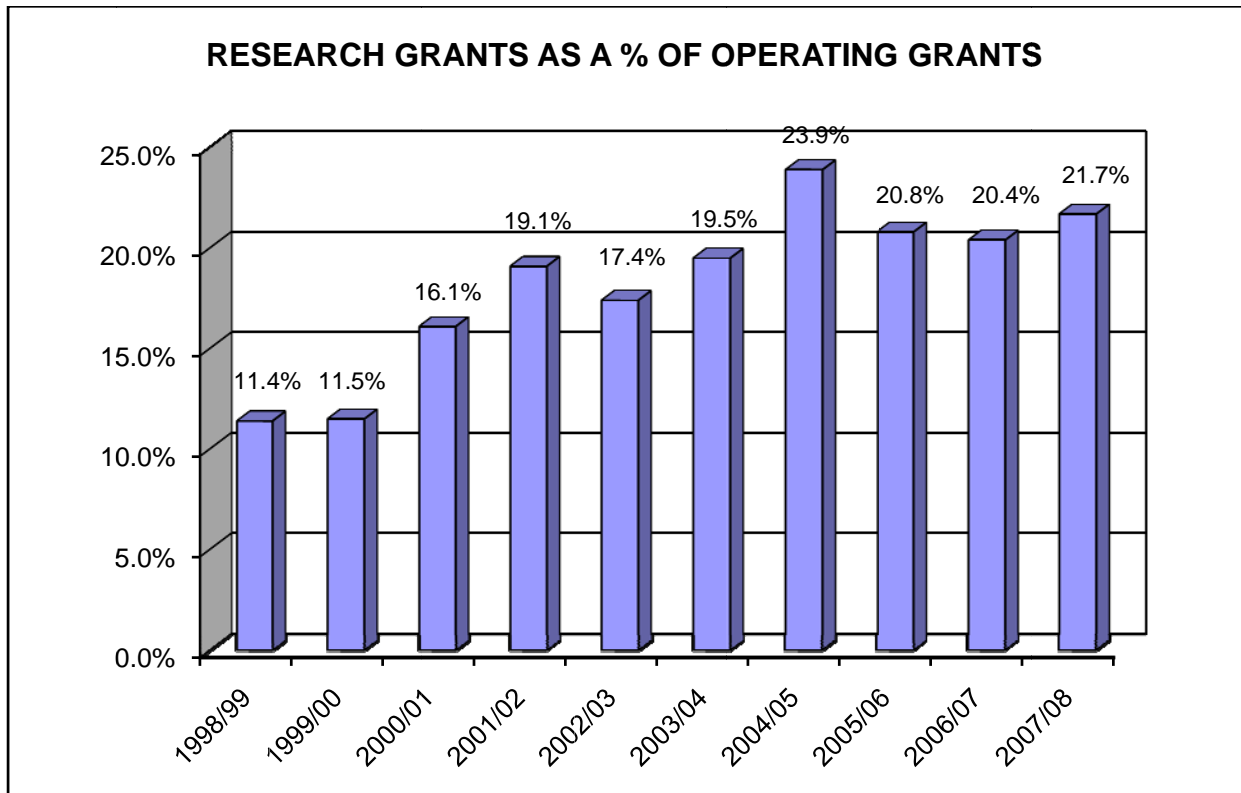
### **Research Funding**

Sponsored research revenue totalled \$15.1 million, an increase of \$2.9 million or 23.6% over the previous year. Unspent research grant revenue of \$4.9 million was deferred at the end of the year (2007: \$2.5 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 \$8.9 million in fiscal 2004, and have increased more than 610% over the past ten years. This trend is largely due to new sources of federal research funding including the Canadian Foundation for Innovation, Western Economic Diversification, Canadian Stroke Network, Agriculture and Agri-Food Canada, 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 Ontario Problem Gambling and Norlein Foundation.



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



In 2008, the University also received \$1.5 million (2007: \$1.4 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 2.9% (\$1 million) due to a .4% increase in enrolment in Fall 2007, as well as increases of 3.3% in undergraduate and graduate fees. The Athletics and Recreation Services fees contributed to the increase by \$.47 million due to a rate increase because the 1st Choice Savings Centre for Sport and Wellness was fully operational.

### ***Sales and Services***

Sales and services revenue decreased by 3.8% (\$.5 million) over the prior year. The majority of sales and services revenue is raised by Ancillary Services, which increased to \$7.5 million in 2008 (2007: \$7 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***

On April 1, 2007 new accounting standards were adopted that required the University to revalue the investments at fair market value. Investment revenue recognized during the year was a net loss of \$1.2 million. Realized investment earnings as measured on a cash basis were 7.93% in 2008 (2007: 5.38%).

### ***Gifts and Donations***

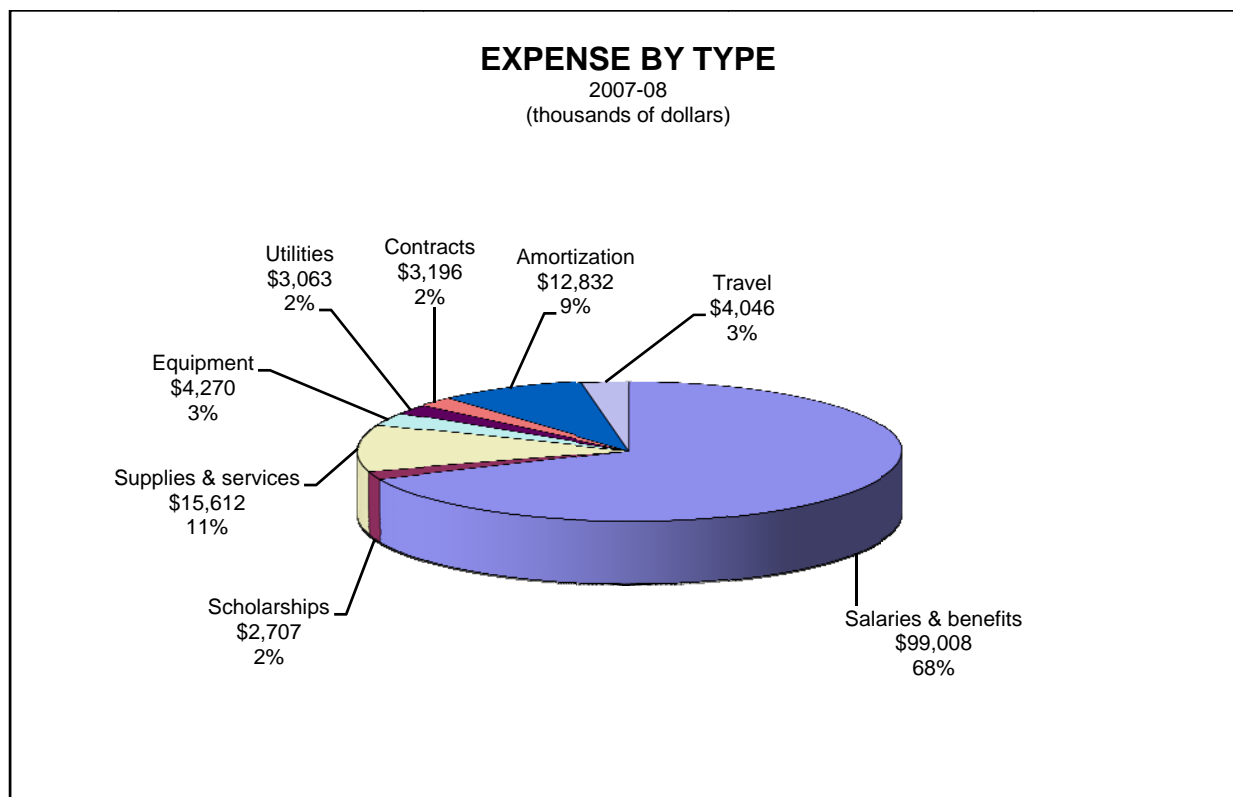
Total donations received during the year were \$2.9 million (2007: \$13 million). Of this total, \$.4 million (2007: \$8.8 million) in donations was added directly to endowment principal and \$1.7 million (2007: \$3.7 million) was deferred for spending in future years. There is an additional \$4.2 million in pledges as of March 31, 2008, for capital projects and scholarships that have not been recorded in the financial statements.

### ***Other Revenue***

Other income of \$6.3 million (2007: \$6.3 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 \$144.7 million in 2008, an increase of \$11.8 million or 9% over the previous year.



Salaries expense increased by 10% over the previous year. In addition to salary increases resulting from merit and negotiated cost-of-living adjustments, approximately 42 new faculty and staff positions were added in 2008. Benefits expense increased by 6% and the majority of this increase is due to increased pension premium rates. 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, the University's salaries and benefits expense ratio has been fairly consistent over the past five years at approximately 67% of total expense.

The amount of scholarships, fellowships and bursaries awarded in 2008 was \$2.7 million (2007: \$2.2 million). This was made up of \$2.6 million in scholarships and bursaries (2007: \$2.1 million) and \$0.1 million in fellowships (2007: \$0.1 million). The University increased scholarships funded from operating sources by \$0.4 million in 2008.

Equipment increased by \$.94 million in fiscal year 2008 due to a migration of the phone system to a voice over IP system.

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

## **Statement of Financial Position**

### **Assets**

Total assets increased by \$71.8 million during the 2008 fiscal year. Cash and short-term investments decreased by \$8.9 million, additional receivables of \$8.5 million, long-term investments increased by \$47 million and capital assets \$24 million.

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

Total receivables increased by \$8.5 million, mainly due to government grants and \$2.1 million from the City of Lethbridge for the Sports Field complex.

The change in long-term investments was an increase by \$47 million. The University adopted the new financial instrument standards that required the University to revalue the investments at fair market value. This change resulted in a \$15 million increase in investments on April 1, 2007. The fair market value of the investments as of March 31, 2008 is \$116 million.

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

<b>Funding Source</b>	<b>2007/08</b>
	(thousands of dollars)
Externally restricted fund balances:	
Endowments	\$32,173
Sponsored research	6,838
Special purpose	4,615
Scholarships, bursaries & trust	1,396
Capital & infrastructure	47,398
Internally restricted net assets	13,335
Unrestricted net assets and operating cash flow	10,950
<b>Total</b>	<b>\$116,705</b>

Three external investment managers in accordance with the Board of Governors Finance Committee's Investment Management Policy manage investments. The Finance Committee through an external consultant monitors investment performance and compliance to the Investment Management Policy.

Capital assets of \$34 million were added during the year, including major capital projects (Water and Environmental Science building: \$11 million spent during 2008; expansion of the Turcotte Hall - \$5 million, Markin Hall - \$3.3 million, Park Way Service complex - \$1.5 million, in addition to capital lease for the Dr. Foster James Penny land and building for \$1.2 million). Library acquisitions totalled \$1.8 million and computer, scientific and other equipment \$4 million. Amortization expense totalled \$10 million.

Art works donated in 2008 totalled \$0.13 million. The University has an impressive art collection, which contains approximately 14,000 objects with a book value of \$34 million. The collection is used for both educational and public exhibition purposes.

### **Liabilities and Net Assets**

Current liabilities totalled \$32 million in 2008 (2007: \$30 million). Accounts payable and accrued liabilities decreased over the prior year by \$1.1 million, mainly due to decrease in construction holdbacks. Deferred contributions of \$14 million at March 31, 2008 (2007: \$11 million) primarily consisted of restricted balances in the research fund (\$5 million), trust funds for scholarships and bursaries and other specific purposes (\$6 million) and the Infrastructure Maintenance Program (\$2.7 million). These contributions will be recognized in revenue as the spending restrictions are met.

Long-term liabilities increased by \$26.2 million mainly due to an increase in deferred capital contributions, which totalled \$24 million at March 31, 2008 (2007: \$20.6 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 (\$18 million), Water and Environmental Science Building (\$12 million), Markin Hall (\$6 million), University Hall structure (\$5 million) and Sports Field complex (\$3 million).

Liabilities include an asset retirement obligation of \$.8 million that represents the estimated fair value of the legal obligation associated with the removal of asbestos from University Hall and a capital lease for \$.4 million.

Net assets increased by a total of \$23.3 million during the year as a result of an increase in investment (equity) in capital assets of \$3.9 million, endowment principal additions (primarily donations and capitalized investment income) of \$7.6 million, a decrease in internally restricted net assets of \$4.4 million and an increase in unrestricted net assets (operating reserves) of \$16.2 million.

Endowment balances are steadily increasing, with a balance of \$32.2 million at March 31, 2008, an increase of 31% over the prior year and 280% over the past ten years. The majority of this increase is due to the restatement of endowment to market value. This growth has also been achieved from a combination of gifts, capitalized investment earnings and contributions from University sources.

#### **Growth of Endowment Principal** (thousands of dollars)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Opening Balance<sup>(1)</sup></b>	<b>\$29,797</b>	<b>\$13,663</b>	<b>\$11,975</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>
Endowment gifts	1,613	8,825	1,292	409	123	125	249	125	141	131
Capitalized investment earnings	(265)	1,996	306	249	202	323	290	308	251	185
University contributions	1,029	53	90	90	140	90	100	88	197	150
<b>Closing Balance</b>	<b>\$32,174</b>	<b>\$24,537</b>	<b>\$13,663</b>	<b>\$11,975</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>

<sup>(1)</sup> Beginning of year balance for 2008 was restated to include \$5.260 million adjustment for financial instruments.



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 \$13.3 million as of March 31, 2008. 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, 2008 includes an allocation of \$8.5 million for capital projects in progress at the year end, including \$3.6 million for Sports Field complex, \$.9 million for renovations of Students Union Building level 0, and \$.8 million for renovations to the Dr. Foster James Penny Building.

Unrestricted net assets of \$34.9 million (2007: \$18.7 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. The change in accounting policy for financial instruments resulted in an increase in 2008 to the opening balance in Unrestricted Net Assets of \$9,785.