



FINANCIAL HIGHLIGHTS 2008/09

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, 2009.

Financial Management

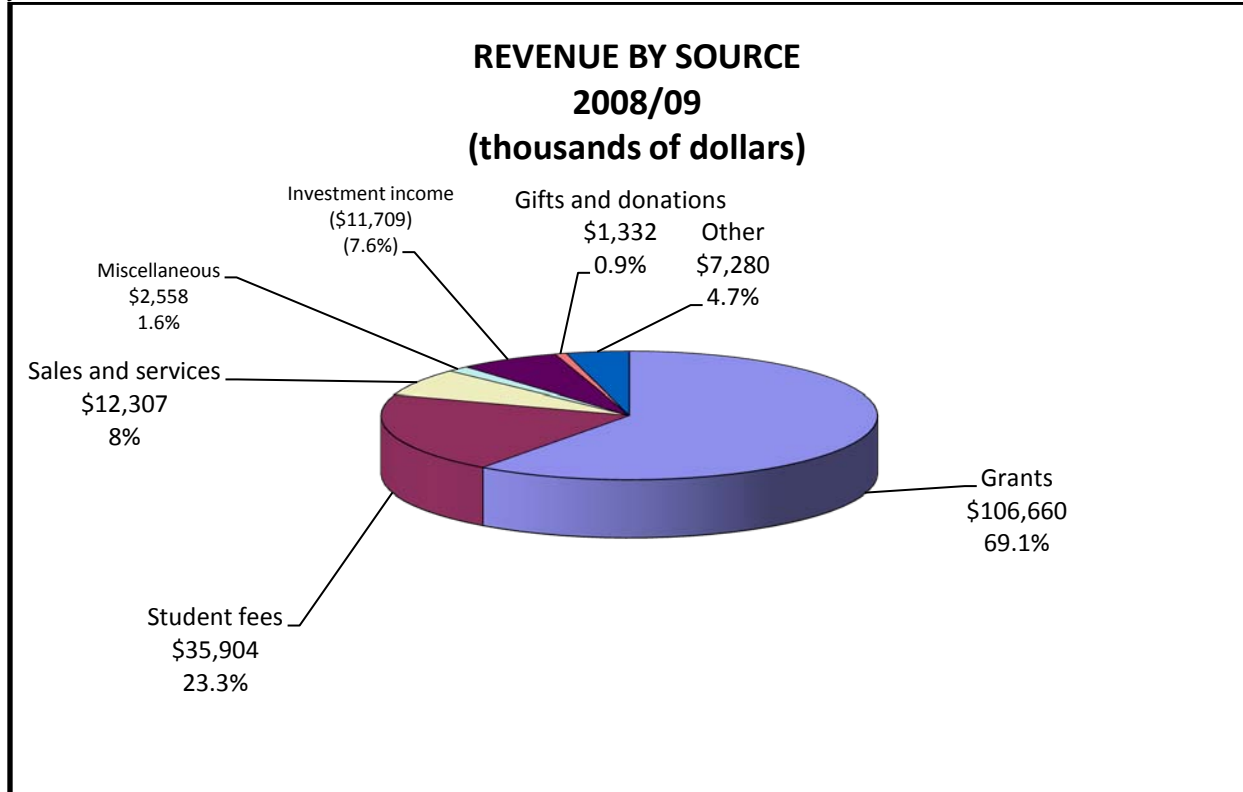
The University's budget process is based on a three-year rolling budget model whereby budgets are estimated for three years into the future. In conjunction with the instructional tuition allocation model which allocates instructional fees to the faculties based on credit hours taught, the budgeting process 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

The University ended the 2009 year with a \$6.1 million deficiency of revenue over expense (2008: \$8.3 million excess). The major contributor to this loss was \$11.7 million investment loss (2008: \$1.2 million loss).

Revenue

University revenue totalled \$154.3 million in fiscal 2009, an increase of 2% over the previous year.



Grant revenue increased by \$10.2 million or 11% over the previous year, due to an increase in provincial government grant of \$9 million. Grants represented 69.1% of total revenue (2008: 63.7%).

Advanced Education and Technology operating grants increased by \$9 million or 11% in 2009 due primarily to a 6% increase in the base operating grant (\$4.5 million) and new enrolment planning envelope grants. Advanced Education and Technology suspended the Performance Envelope funding for 2009 (2008: \$1.1 million).

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

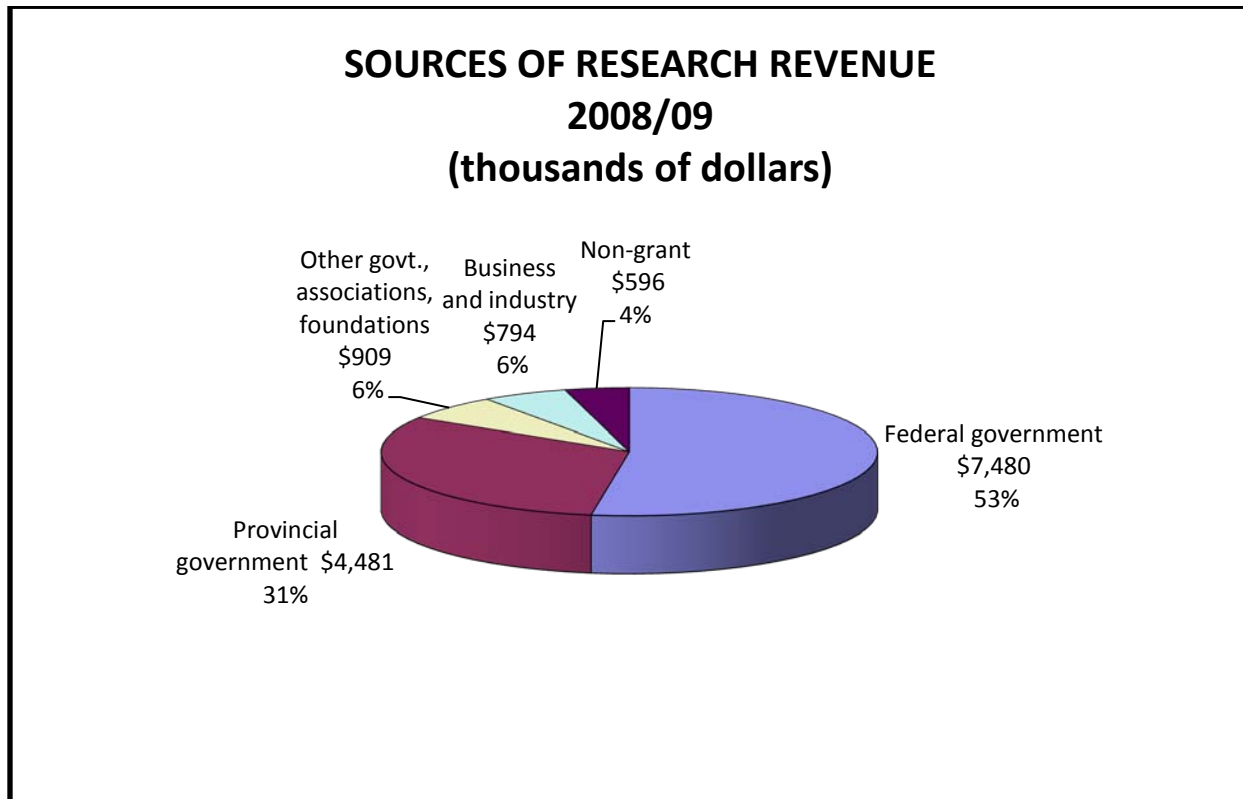
Provincial Grants	2008/09	2007/08
	(thousands of dollars)	
General operating	\$74,514	\$67,722
Tuition Fee rebate	5,141	4,801
Performance funding envelope	-	1,109
Access (operating)	11,622	8,532
Other unrestricted funding	3,313	1,834
Conditional funding	54,599	47,215
Deferred conditional funding	(51,842)	(44,782)
Total	\$97,347	\$86,431

The conditional funding included \$49.5 million from Advanced Education and Technology for capital needs for Markin Hall (\$45 million), Infrastructure Maintenance Program (\$3.3 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. 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.

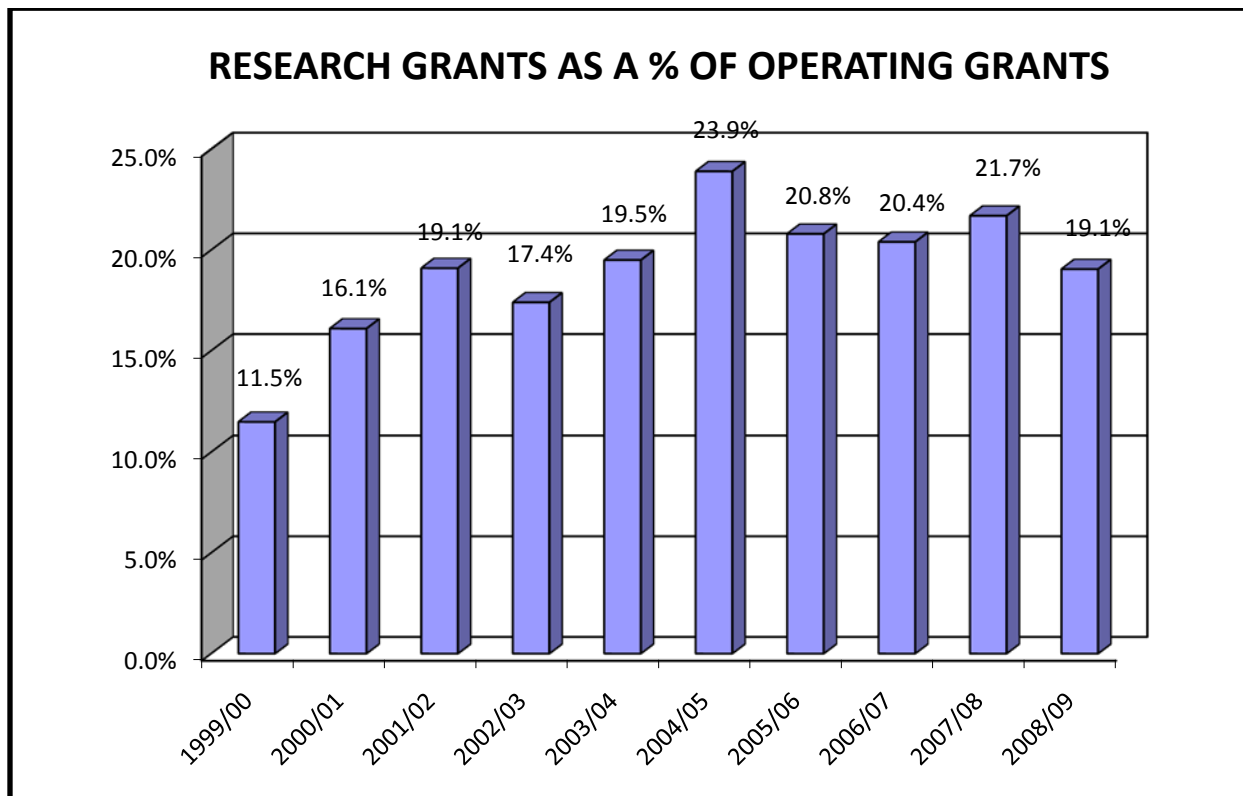
Research Funding

Sponsored research revenue totalled \$14.3 million, a decrease of \$0.89 million or 5.9% over the previous year. Unspent research grant revenue of \$3.4 million was deferred at the end of the year (2008: \$4.9 million deferred).

Research continues to be funded primarily by federal and provincial government agencies. In 2009 Alberta Heritage Foundation for Medical Research was awarded the first Polaris Award for \$10 million, \$1 million to be awarded each year for the next 10 years.



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



In 2009, the University also received \$1.7 million (2008: \$1.5 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 1.3% (\$0.48 million) due to an increase of 4.6% in undergraduate and graduate fees that is offset by a decrease in enrolment in summer 2008, fall 2008 and spring 2009 by 6.32%, 3.33% and 2.31% respectively. The number of graduate students has increased by 17.57% and this has resulted in an increase in revenue of \$0.3 million (21%).

Sales and Services

Sales and services revenue decreased by 2.7% (\$0.3 million) over the prior year. The major sources of sales and services revenue are Ancillary Services (\$7.5 million), Sport and Recreation Services programs and services (\$1.5 million) and parking fees (\$1.2 million). The Faculty of Management discontinued the management executive program as of June 2008 and this resulted in a decrease of (\$0.4 million) in revenue.

Investment Revenue

The loss from investments for the year was \$18.8 million. Of this total, \$6.3 million was deducted directly from endowment principal. Realized investment earnings as measured on a cash basis was 2.59% in 2009 (2008: 7.93%).

Gifts and Donations

Total donations received during the year were \$5.3 million (2008: \$2.9 million). Of this total, \$1.8 million (2008: \$0.4 million) in donations was added directly to endowment principal and \$2.2 million (2008: \$1.7 million) was deferred for spending in future years.

In 2009, the University received \$3 million from the Access to the Future Fund (provincially funded matching grant).

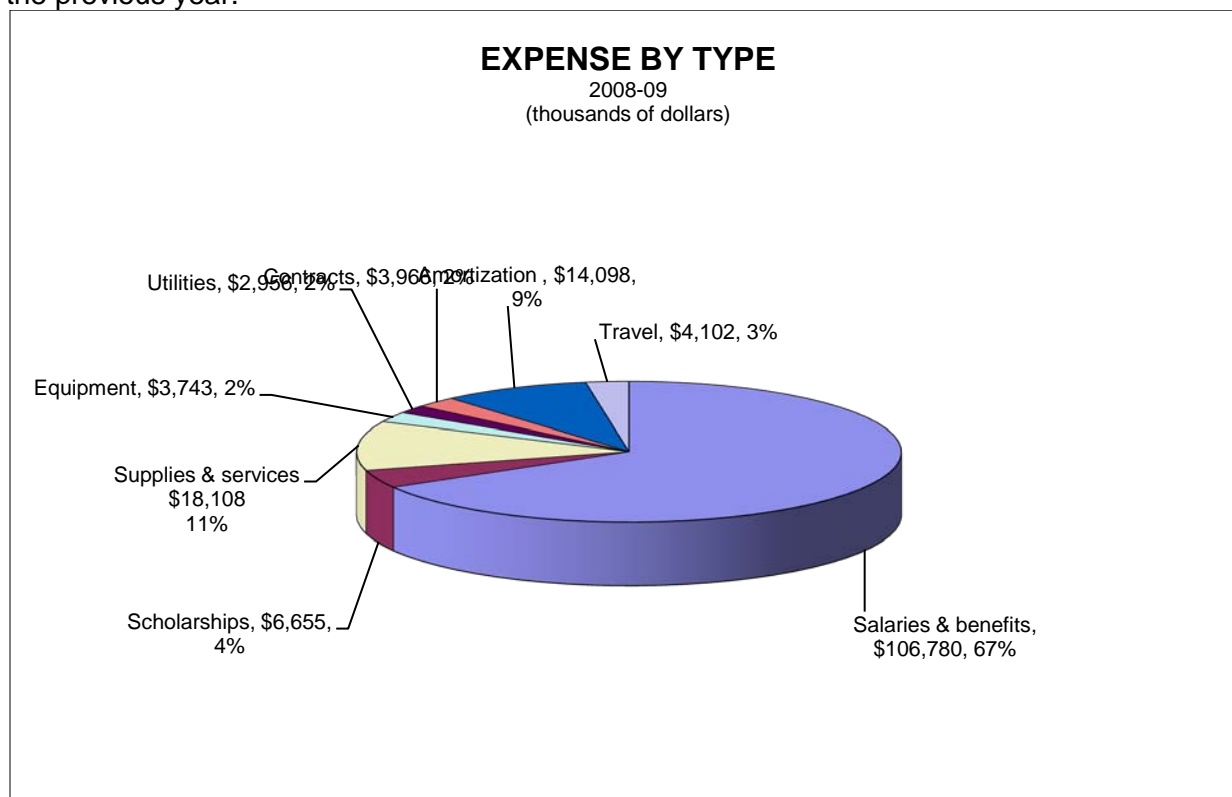
There is an additional \$4.9 million in pledges as of March 31, 2009, for capital projects and scholarships that have not been recorded in the financial statements.

Other Revenue

Other income of \$7.3 million (2008: \$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 \$160.4 million in 2009, an increase of \$17.1 million or 12% over the previous year.



Salaries expense increased by 9% over the previous year. In addition to salary increases resulting from merit and negotiated cost-of-living adjustments, approximately 52 new faculty and staff positions were added in 2009. Benefits expense increased by \$3.7 million (31%) and the primary reason for the increase is due to the recording of the Universities Academic Pension Plan unfunded liability. The remaining change in funds is mainly due to increased salary costs and staff numbers. 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 66% of total expense.

The amount of scholarships, fellowships and bursaries awarded in 2009 was \$6.7 million (2008: \$5 million). This was made up of \$3.8 million in scholarships and bursaries (2008: \$2.6 million) and \$2.9 million in fellowships (2008: \$2.4 million). The University increased scholarships funded from operating sources by \$0.4 million in 2008.

Supplies and services increased by \$0.8 million and the major contributing factor for this increase was a \$0.4 million increase in advertising to stimulate enrolment levels.

Repairs and maintenance increased by \$1.6 million. The increase is mainly in the operating fund and is due to the Canada Day flood in the 1st Choice Savings Centre for Sport and Wellness and sewage damage repairs.

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

Statement of Financial Position

Assets

Total assets increased by \$44 million during the 2009 fiscal year. Cash and short-term investments increased by \$18.8 million, decrease in receivables of \$8.9 million, long-term investments increased by \$3.7 million and capital assets \$31 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.

There is a significant decrease in the receivables since the 2008 amount includes research and operating government receivables of \$7.4 million.

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

Funding Source	2008/09
	(thousands of dollars)
Externally restricted fund balances:	
Endowments	\$28,197
Sponsored research	7,495
Special purpose	4,791
Scholarships, bursaries & trust	1,683
Capital & infrastructure	65,356
Internally restricted net assets	6,240
Unrestricted net assets and operating cash flow	6,647
Total	\$120,409

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 \$45 million were added during the year, including major capital projects (Markin Hall - \$18.5 million, Water and Environmental Science building - \$9.6 million, Sports Field Complex - \$1.4 million and Park Way Service complex - \$1 million). Library acquisitions totalled \$2.1 million and computer, scientific and other equipment \$5.6 million. Amortization expense totalled \$14 million.

Art works donated in 2009 totalled \$0.6 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 \$40 million in 2009 (2008: \$32 million). Accounts payable and accrued liabilities increased over the prior year by \$1.4 million, mainly due to an increase in construction holdbacks. Deferred contributions of \$17.5 million at March 31, 2009 (2008: \$14 million) primarily consisted of restricted balances in the research fund (\$6.6 million), trust funds for scholarships and bursaries and other specific purposes (\$5.7 million) and the Infrastructure Maintenance Program (\$5.2 million). These contributions will be recognized in revenue as the spending restrictions are met.

Long-term liabilities increased by \$16.6 million mainly due to an increase in deferred capital contributions, which totalled \$15.6 million at March 31, 2009 (2008: \$24 million). The deferred capital contributions balance represents externally restricted amounts received from grants and donations for capital projects including Markin Hall (\$34.6 million), Life Safety Systems (\$22.5 million) and Water and Environmental Science Building (\$2 million).

Liabilities include an asset retirement obligation of \$0.8 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 \$0.3 million.

Net assets decreased by a total of \$10 million during the year as a result of endowment principal decline of \$3.2 million, a decrease in internally restricted net assets of \$7.1 million and a decrease in unrestricted net assets (operating reserves) of \$1.2 million that is offset by an increase in investment (equity) in capital assets of \$1.5 million

Endowment balances declined to a balance of \$28.9 million at March 31, 2009. The decline in value is mainly due to a decline in the market value of the investments. The \$6.3 million decline in market value of the endowments is offset by external donor gifts and contributions from University sources.

Growth of Endowment Principal (thousands of dollars)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Opening Balance⁽¹⁾	\$32,174	\$29,797	\$13,663	\$11,975	\$11,227	\$10,762	\$10,224	\$9,585	\$9,064	\$8,475
Endowment gifts	2,730	1,613	8,825	1,292	409	123	125	249	125	141
Capitalized investment earnings	(6,333)	(265)	1,996	306	249	202	323	290	308	251
University contributions	381	1,029	53	90	90	140	90	100	88	197
Closing Balance	\$28,952	\$32,174	\$24,537	\$13,663	\$11,975	\$11,227	\$10,762	\$10,224	\$9,585	\$9,064

⁽¹⁾ 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 \$6.2 million as of March 31, 2009. 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.

Unrestricted net assets of \$26 million (2008: \$27.2 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 to record the Universities Academic Pension Plan resulted in a prior period adjustment of \$9.1 million in 2008 and \$7.7 million recording of unfunded liability in 2009.

Deferred Maintenance

Deferred maintenance on University facilities is estimated at \$109,877 based on a facility condition report completed by the University in 2009. Advanced Education and Technology provided \$25,915 in capital grants to address deferred maintenance projects and the unexpended revenue to date is \$22,513. Deferred maintenance is not reflected in these financial statements since they are not liabilities or commitments for accounting purposes.