



University of Lethbridge

Financial Highlights

Year Ended March 31, 2010

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 as 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.

Financial Management

The University's budget process is based on a four-year rolling budget model whereby budgets are estimated for four 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. While the current fiscal environment is unfavourable, given the reduced level of the operating grant, the University is committed to directing resources in a way that promotes the strategic priorities of the institution.

Statement of Operations

The University ended the 2010 year with a \$16 million excess of revenue over expense (2009: \$7.6 million deficit). The major contributor to this excess was \$17 million unrealized investment gain recorded in investment income compared to a \$23.6 million loss of the same in 2009.

Revenue

University revenue totaled \$189.2 million in fiscal 2010, an increase of 25% over the previous year.

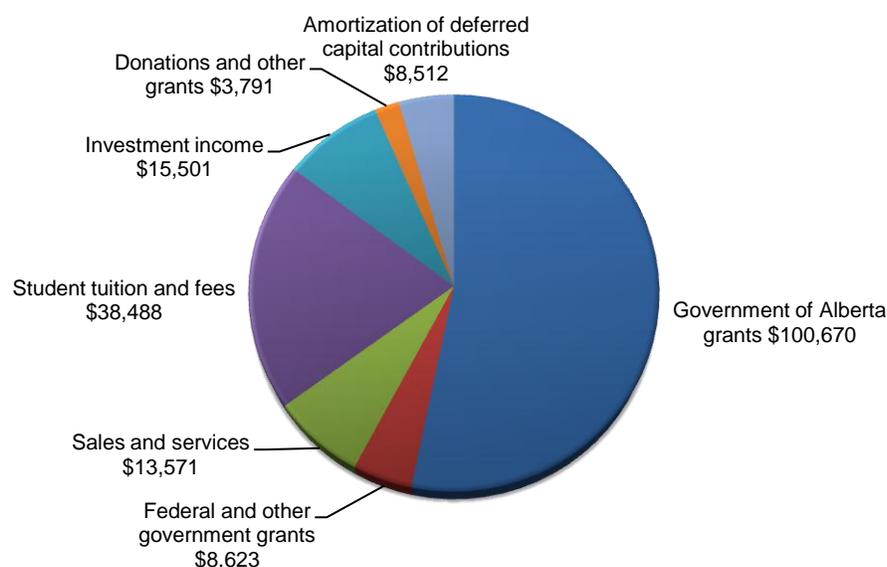


Figure 1: Revenue by Source, 2009/10 (thousands of dollars)

Government Grant Revenue

Government grant revenue increased by \$6.7 million or 7% over the previous year, due to an increase in provincial government grant of \$6 million. Grants represented 58% of total revenue (2009: 68%).

The base operating grant from Advanced Education and Technology increased by 6% along with other operating grant adjustments such as the \$0.6 million Water and Environmental Science Building facility operations grant which opened in the fall 2008.

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

Table 1: Provincial Grants to the U of L, 2009/10 and 2008/09

Provincial Grants	2009/10	Restated 2008/09
	(thousands of dollars)	
General operating	\$85,677	\$79,675
Enrolment performance envelope (operating)	9,755	11,622
Other unrestricted funding	444	1,304
Conditional funding	14,885	56,644
Deferred conditional funding	(9,398)	(54,553)
Transfers to endowments	(693)	(622)
Total	\$100,670	\$94,070

The conditional funding included \$4.7 million from Advanced Education and Technology for capital Infrastructure Maintenance Program (\$3.3 million) and Knowledge Infrastructure Program (\$1.4 million), \$1.4 million from Alberta Culture and Community Spirit for the Sports Field Complex, and 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 totaled \$15.5 million, an increase of \$1.2 million (8%) over the previous year. At the end of the year, \$3.5 million of unspent research grant revenue was deferred (2009: \$3.4 million deferred).

Research continues to be funded primarily by federal and provincial government agencies.

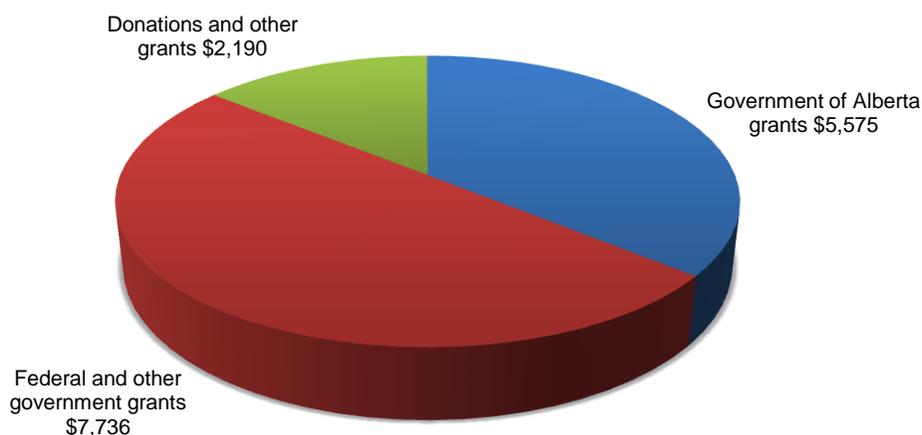


Figure 2: Source of Research Revenue, 2009/10 (thousands of dollars)

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

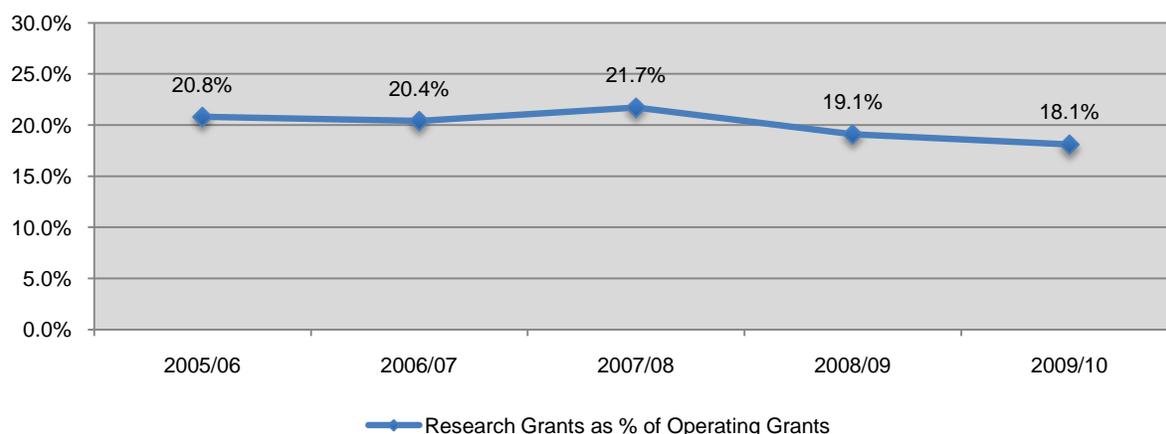


Figure 3: Research Grants as a Percentage of Operating Grants, 2005/06 to 2009/10

In 2010, the University also received \$1.8 million (2009: \$1.7 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.

Student Tuition and Fees

Student tuition and fee revenue increased by approximately 7% (\$2.6 million) due to an increase of 4.1% in undergraduate and graduate fees and an increase in enrolment of 1.5% and 45% respectively. The major contributing factor in the increase in graduate enrolment is the expansion of the Master of Education program from 3 to 7 cohorts.

Sales of Services and Products

Sales and services revenue increased by 1% (\$0.1 million) over the prior year. The major source of sales and services revenue are Ancillary Services (\$7.9 million), Sport and Recreation Services programs and services (\$1.5 million), and parking permits, meters and fines (\$1.2 million).

Investment Income

The investment income, both realized and unrealized, for the year was \$15.5 million (2009: loss of \$11.5 million). The main reason for this was market condition improvements. There was an additional \$4.5 million which was recorded as a direct increase to endowment principal. Realized investment earnings, as measured on a cash basis, was 2.29% in 2010 (2009: 2.59%).

Donations and Other Grants

Total donations received during the year were \$6.8 million (2009: \$9.1 million). Donations and other grants include charitable gifts from donors, gifts in kind, and research grants from non-Canadian government agencies (for example, the U.S. National Institute of Health \$0.5 million grant of which \$0.3 million was recognized as revenue in 2010), as well as other contributions.

Of the \$6.8 million in total donations, \$1.0 million was added directly to endowment principal (2009: \$2.7 million) and \$2.0 million was deferred for spending in future years (2009: \$3.0 million). There is an additional \$3.3 million in pledges as of March 31, 2010 (2009: \$4.8 million), for capital projects and scholarships that have not been recorded in the financial statements as they do not meet the criteria for revenue recognition.

Amortization of Deferred Capital Contributions

Amortization of deferred capital contributions of \$8.5 million (2009: \$7.3 million) represents amounts brought into income for accounting purposes to match externally restricted contributions received for the purpose of purchasing capital assets with the amortization expense of those assets.

Expense

University expenses totaled \$173 million in 2010, an increase of \$14.4 million (9%) over the previous year.

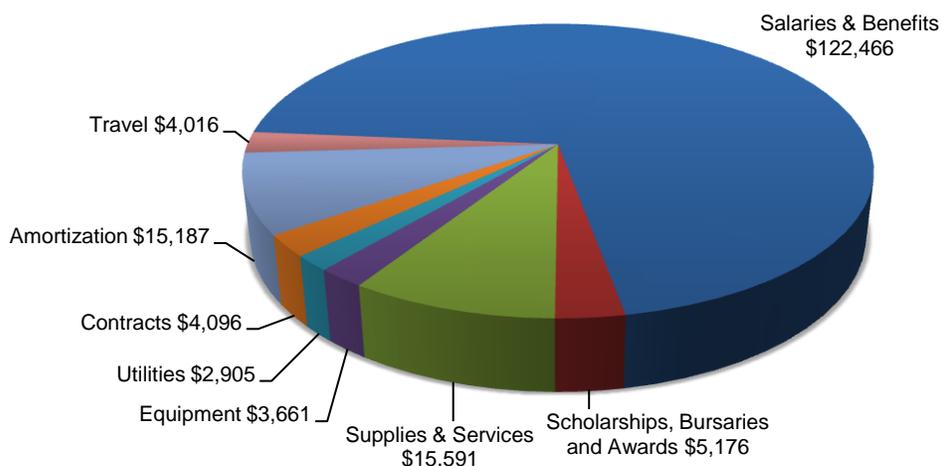


Figure 4: Expense by Type, 2009/10 (thousands of dollars)

Salaries & Benefits

Salaries and benefits continue to be the major component of the cost of operating the University. Salaries expense increased by 9% over the previous year. This increase resulted from a combination of salary increases due to merit and negotiated cost-of-living adjustments. Benefits expense increased by \$5.0 million (31%). The primary reason for the benefits increase is the recording of the Universities Academic Pension Plan unfunded liability. 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 around 69% of total expense.

Scholarships

The amount of scholarships, bursaries and awards in 2010 was \$5.2 million (2009: \$4.6 million). This was made up of \$4.4 million in scholarships and bursaries (2009: \$3.9 million) and \$0.765 million in fellowships (2009: \$0.724 million). The University increased scholarships funded from operating sources by \$0.4 million in 2010.

Materials, Supplies & Services

Supplies and services decreased by \$0.8 million and the major contributing factor were the adjustments made by departments to improve efficiencies and reduce costs.

Other Expenses

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

Statement of Financial Position

Assets

Total assets increased by \$32.1 million during the 2010 fiscal year. This is due to a combination of an increase in receivables of \$3.3 million, long-term investments of \$21.4 million, and capital assets of \$26.8 million offsetting a \$19.2 million decrease in cash and short-term investments.

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

Government of Alberta receivables showed a significant increase in 2010 of \$4.9 million.

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

Table 2: Composition of Investment Portfolio, 2009/10

Funding Source	2009/10
	(thousands of dollars)
Externally restricted fund balances:	
Endowments	\$34,581
Sponsored research	8,599
Special purpose	5,495
Scholarships, bursaries & trust	1,085
Capital & infrastructure	47,835
Internally restricted net assets	15,480
Unrestricted net assets and operating cash flow	29,130
Total	\$142,205

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

Capital assets of \$43 million were added during the year, including major capital projects (Markin Hall - \$20.1 million, Sports Field Complex - \$5.6 million, and Daycare facility - \$1.8 million). Library acquisitions totaled \$2.4 million and computer, scientific and other equipment \$7.2 million. Amortization expense totaled \$15.2 million.

Art works donated in 2010 totaled \$0.127 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 totaled \$44 million in 2010 (2009: \$39 million). Accounts payable and accrued liabilities decreased over the past year by \$0.8 million. Deferred contributions of \$22.3 million at March 31, 2010 (2009: \$17 million) consisted of restricted balances in the research fund (\$8.0 million), trust funds for scholarships and bursaries and other specific purposes (\$6.4 million) and the Infrastructure Maintenance Program (\$7.9 million). These contributions will be recognized in revenue as the spending restrictions are met.

Employee future benefit liabilities increased by \$6.0 million, of which \$1.9 million is recorded as a current liability. The main contributor to this increase was the \$5.0 million increase in UAPP liability and \$1.4 million liability for the voluntary retirement program.

Long-term liabilities decreased by \$1.0 million mainly due to a \$0.7 million write down of the asset retirement obligation based on a review of the cost estimates and the timeline to complete the project. The asset retirement obligation represents the estimated fair value of the legal obligation associated with the removal of asbestos from University Hall.

The deferred contributions, research and other and the deferred capital contribution amounts, totaling \$40.7 million at March 31, 2010 (2009: \$63), represent the unspent portion of grants designated for research related capital equipment or capital construction and renovations. The deferred capital contributions balance represents externally restricted amounts received from grants and donations for capital projects including Life Safety Systems (\$21 million), Markin Hall (\$15.7 million), and Knowledge Infrastructure (\$1.4 million). The Knowledge Infrastructure program is a federal initiative to renew Canada's college and university infrastructure as part of the economic stimulus package. Matching funding from the federal and provincial governments was received to renovate space that will be vacant once the Faculties of Health Sciences and Management move into Markin Hall.

Net assets increased by a total of \$22.2 million during the year as a result of endowment principal increase of \$5.6 million, an increase in internally restricted net assets of \$9.3 million, an increase in investment (equity) in capital assets of \$4.9 million, and an increase in unrestricted net assets (operating reserves) of \$2.4 million.

Endowment balances increased to a balance of \$34.6 million at March 31, 2010. The \$5.6 million increase in value is mainly due to significantly improved market conditions as well as external donor gifts received.

Table 3: Growth of Endowment Principal, 2001 to 2010 (thousands of \$)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Opening Balance ⁽¹⁾	\$28,952	\$32,174	\$29,797	\$13,663	\$11,975	\$11,227	\$10,762	\$10,224	\$9,585	\$9,064
Endowment gifts	1,484	2,730	1,613	8,825	1,292	409	123	125	249	125
Capitalized investment earnings	4,520	(6,758)	(265)	1,996	306	249	202	323	290	308
University contributions	(375)	806	1,029	53	90	90	140	90	100	88
Closing Balance	\$34,581	\$28,952	\$32,174	\$24,537	\$13,663	\$11,975	\$11,227	\$10,762	\$10,224	\$9,585

⁽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 totaled \$15.5 million as of March 31, 2010. 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 \$27 million (2009: \$25 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.

Table 4: Unrestricted Net Assets, 2009/10

Unrestricted Net Assets	2009/10
	(thousands of dollars)
Unexpended funds:	
Enrolment Planning Envelope	\$11,640
General operating	18,662
Non-recurring (special projects)	5,565
Life cycle capital replacement	2,926
Research (internally funded)	1,747
Specific purpose	823
UAPP unfunded liability	(14,413)
Total	\$26,950

Deferred Maintenance

Deferred maintenance on University facilities is estimated at \$111,594 based on a facility condition report completed by the University in 2010. Advanced Education and Technology provided \$25,915 in capital grants to address deferred maintenance projects and the unexpended revenue to date is \$21,295. Deferred maintenance is not reflected in these financial statements since they are not liabilities or commitments for accounting purposes.