University of Lethbridge

Financial Highlights

Year Ended March 31, 2011

The University of Lethbridge endeavours to present the audited financial statements in a manner that will lead to a 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 contributions 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 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. While the current fiscal environment is unfavourable, 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 2011 fiscal year with a $17 million excess of revenue over expense (2010: $16 million).

Revenue

University revenue totaled $192 million in fiscal year 2011, an increase of 1% over the previous year.

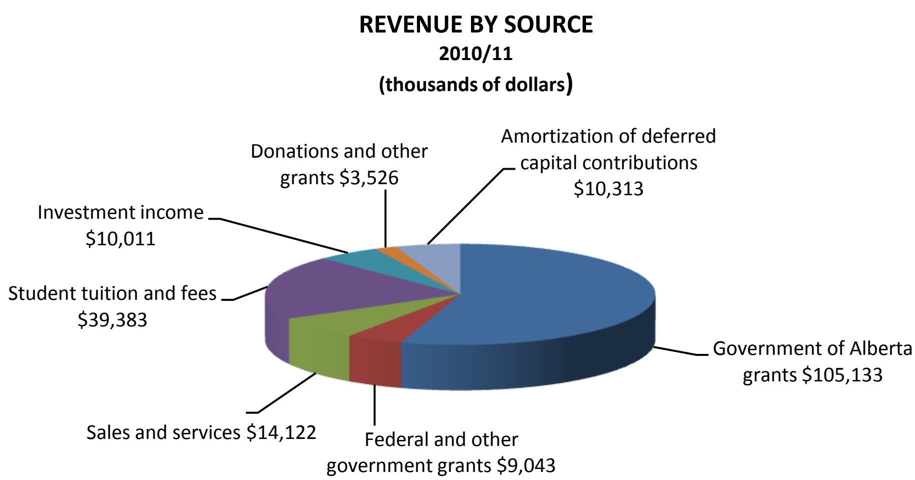

Figure 1: Revenue by Source, 2010/11 (thousands of dollars)

Government of Alberta Grants

Government grant revenue increased by $4.9 million or 4% over the previous year, due to an increase in provincial government grants of $4 million and an increase of $0.439 million in federal and other government grants. Grants represented 59% of total revenue (2010: 57%).

In 2010/11 the general operations grant was combined with the Enrolment Planning Envelope to create the Campus Alberta grant. Included in the Provincial grant were $1 million one-time grant received for lights on funding for Markin Hall and Dr. Foster James Penny building and a $1.7 million one-time transition grant to address budget challenges and make strategic decisions.

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, 2010/11 and 2009/10

Provincial Grants	**2010/11**	**2009/10**
	(thousands of dollars)	
General operating	$97,363	$85,677
Enrolment planning envelope (operating)	-	9,755
Other unrestricted funding	746	444
Conditional funding	20,412	14,885
Deferred conditional funding	(12,898)	(9,398)
Transfers to endowments	(490)	(693)
Total	**$105,133**	**$100,670**

The conditional funding included $13.4 million from Advanced Education and Technology and $7 million from other ministries. The other ministry funding includes $6 million from Alberta Health Services to address the labour market priorities identified in the context of the Health Workforce Action plan. The Advanced Education and Technology conditional grants include capital Infrastructure Maintenance Program ($3.3 million) and Knowledge Infrastructure Program ($0.5 million), support of the Polaris award ($3.4 million) and $3 million in Access to the Future Fund which included endowed chairs ($1 million), as well as funding for scholarships ($1.8 million). The Access to the Future Fund is a grant program designed to provide matching payments to stimulate external donations 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 increased significantly in 2011 to $22.2 million, an increase of $6.7 million (42%) over the previous year. At the end of the year, $8 million of unspent research grant revenue was deferred (2010: $3.5 million). The significant increases in sponsored research funding is from Canadian Foundation for Innovation (CFI) $2.9 million and Advanced Education and Technology (AET) $1.3 million. In addition to this funding there was an increase in gifts-in-kind of $1.6 million recorded as matching funding for the CFI and AET grants. Gifts-in-kind is the donations of equipment and services provided by vendors.

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

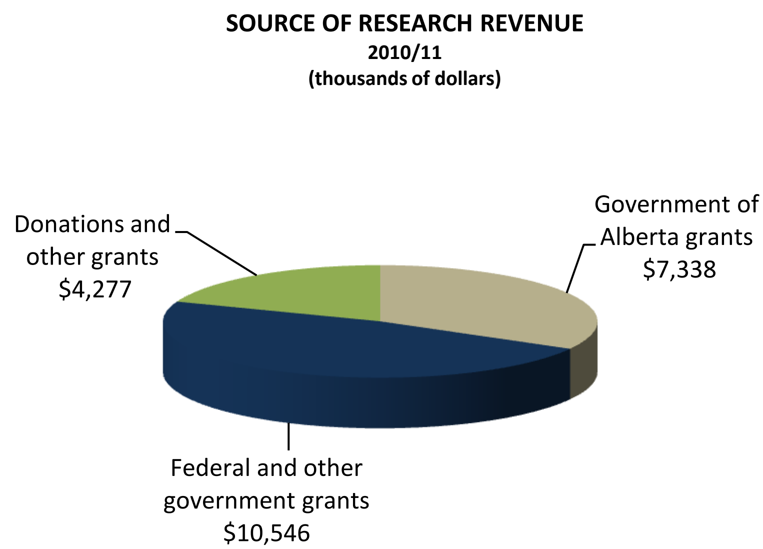

Figure 2: Source of Research Revenue, 2010/11 (thousands of dollars)

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

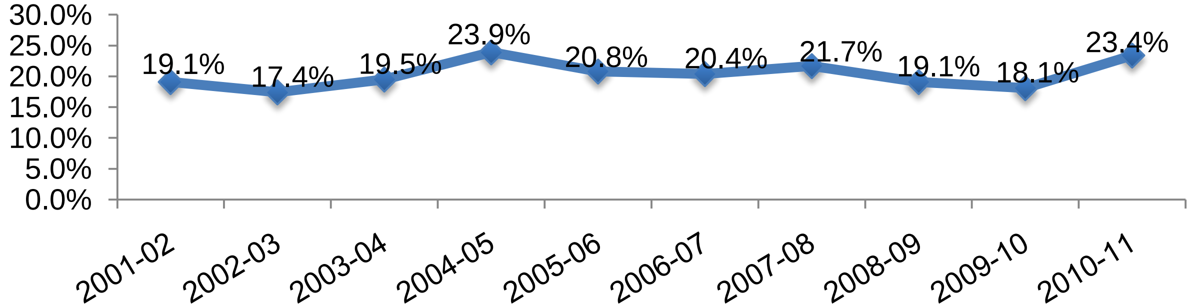

Figure 3: Research Grants as a Percentage of Operating Grants, 2006/07 to 2010/11

In 2011, the University also received $1.9 million (2010: $1.8 million) from the federal Canada Research Chairs Indirect Costs Program based on the funding received by researchers from Natural Sciences and Engineering Research Council, Social Sciences and Humanities Research Council and Canadian Institutes of Health Research. 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 2% ($0.895 million) due to an increase of 1.5% in undergraduate and graduate tuition fees and an increase in enrolment of 3.9% for undergraduate students. The Advanced Education and Technology tuition fee policy limits tuition increases to changes in the annual Alberta Consumer Price Index.

Sales of Services and Products

Sales and services revenue increased by 4% ($0.55 million) over the prior year. The major source of sales and services revenue are Ancillary Services ($8.2 million), Sport and Recreation Services programs and services ($1.7 million), and parking permits, meters and fines ($1.2 million). Ancillary Services units generate revenue through the sales of services and products and are full cost recovery units that consist of Bookstore, Printing, Housing, Catering and Food Services and Conference Services and Events.

Investment Income

The investment income, both realized and unrealized, for the year was $13.9 million (2010: $21 million). Of the $13.9 million in total investment income, $2.9 million (2010: $4.5 million) which was recorded as a direct increase to endowment principal and $0.936 million (2010: $1.6 million) was deferred for spending in future years. Realized investment earnings, as measured on a cash basis, was 4.31% in 2011 (2010: 3.6%).

Donations and Other Grants

Total donations and other grants received during the year were $9.7 million (2010: $7.4 million). Donations and other grants include charitable gifts from donors, gifts in kind, research grants from non-Canadian government agencies such as the U.S. National Institute of Health $1 million grant, as well as other contributions.

Of the $9.7 million in total donations and other grants, $2.1 million was added directly to endowment principal (2010: $1.5 million) and $4.1 million was deferred for spending in future years (2010: $2.1 million). There is an additional $2.6 million in pledges as of March 31, 2011 (2010: $3.3 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 $10.3 million (2010: $8.5 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 $175 million in 2011, an increase of $1.5 million (0.8%) over the previous year.

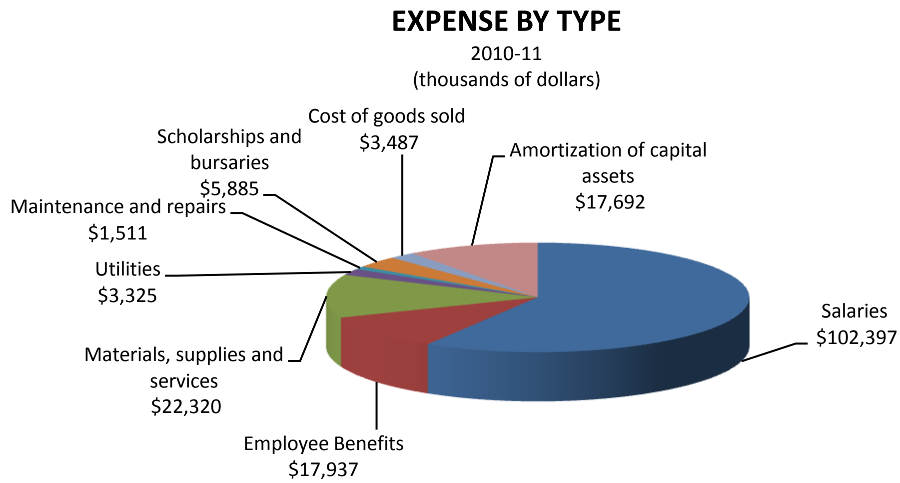

Figure 4: Expense by Type, 2010/11 (thousands of dollars)

Salaries and Employee Benefits

Salaries and benefits continue to be the major component of the cost of operating the University. Salaries expense increased by 0.7% over the previous year. This increase resulted from a combination of salary increases due to merit and negotiated cost-of-living adjustments which are offset by a decrease in number of continuing positions. Benefits expense decreased by $2.9 million (13%) primarily due to a decrease in the Universities Academic Pension Plan (UAPP) unfunded liability expense of $9 million (2010: $11.7 million). 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 68% of total expense.

Scholarships and Bursaries

The amount of scholarships and bursaries in 2011 was $5.9 million (2010: $5.2 million). The majority of the increase was in the graduate programs. The Alberta Scholarship Program also awards $3 million in scholarships and bursaries to University of Lethbridge students which are not included in the financial statements.

Materials, Supplies and Services

Materials, supplies and services expense decreased by $0.5 million and the major contributing factor was the adjustments made by departments to improve efficiencies and reduce costs. This category includes supplies and services, travel, external contracted services, expendable equipment, professional fees, insurance, interest on long-term liabilities, property taxes and loss (gain) on disposal of capital assets.

Other Expenses

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

Budget to Actual

The 2011 surplus of $17 million resulted from the budget exceeding actual expenditures.

Actual revenue is $2.4 million below budget. Sales of services and products are lower than expected due to the inclusion of internal sales in the revenue budget which was reported as a combined $5.8 million net decrease to materials, supplies and services and cost of goods sold in the actual expenditures categories. This difference was offset by a higher than anticipated Government of Alberta one time grants of $2.7 million and higher than anticipated investment returns of $1.9 million. In addition, there were cumulative $1.2 million variances in other revenue categories.

Actual expenses are $21 million below budget due to vacant employee positions of $3.2 million, budgeting for internal sales of goods and services ($5.8 million), lower than anticipated expenditures in maintenance and repairs with $2.8 million in renovation expenditures being capitalized and recorded as capital assets rather than being expensed as budgeted.

The lower than expected materials, supplies and services expenditures are a result of department decisions to improve efficiencies and reduce costs and using contingency funds to cover unforeseen expenses.

Statement of Financial Position

Assets

Total assets increased by $29.9 million during the 2011 fiscal year. This is due to a combination of an increase in cash and cash equivalents of $8.3 million, long-term investments of $8.7 million, and capital assets of $15.7 million which is offset by a decrease in accounts receivable of $3.6 million.

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.

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

Table 2: Composition of Investment Portfolio, 2010/11

Funding Source	**2010/11**
	(thousands of dollars)
Externally restricted fund balances:	
Endowments	$39,519
Sponsored research	8,605
Special purpose	17,708
Scholarships, bursaries & trust	918
Capital & infrastructure	29,688
Internally restricted net assets	35,691
Unrestricted net assets and operating cash flow	13,519
Total	**$145,648**

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 $33 million were added during the year, including a significant contribution of $1.8 million in donations of land, building and plants for the Coutts Centre located near Nanton, Alberta. There were also additions from major capital projects (Markin Hall - $6.7 million, University Hall exterior rehabilitation - $3.8 million, and Knowledge Infrastructure Projects - $1.7 million). Library acquisitions totaled $2 million and computer, scientific and other equipment $7.8 million. Amortization expense totaled $17.7 million.

Art works donated in 2011 totaled $0.173 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 $46 million in 2011 (2010: $37 million). Accounts payable and accrued liabilities decreased over the past year by $3.3 million. Deferred contributions of $27 million at March 31, 2011 (2010: $15 million) consisted of restricted balances in the research fund ($8 million) and trust funds for scholarships and bursaries and other specific purposes ($19 million). These contributions will be recognized in revenue as the spending restrictions are met.

Employee future benefit liabilities decreased by $0.4 million, of which $2.2 million is recorded as a current liability. The main contributor to this decrease was the payments of $0.5 million for the voluntary retirement program.

Long-term liabilities decreased by $0.6 million. Included in the long-term liabilities is the asset retirement obligation which represents the estimated fair value of the legal obligation associated with the removal of asbestos from University Hall.

The deferred capital contribution amounts, totaling $30 million at March 31, 2011 (2010: $48), represent the unspent portion of grants designated for 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 ($14 million), Infrastructure Maintenance Program ($9.8 million), and Markin Hall ($4.3 million).

Net assets increased by a total of $22.7 million during the year as a result of endowment principal increase of $4.9 million and an increase in internally restricted net assets of $20.2 million which was offset by a decrease in investment (equity) in capital assets of $0.9 million and a decrease in unrestricted net assets (operating reserves) of $1.5 million.

Endowment balances increased to a balance of $39.5 million at March 31, 2011. The $4.9 million increase in value is mainly due to significantly improved market conditions as well as external donor gifts received.

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 been a factor in the growth of the endowment balances, the University continues to seek donations for new and existing scholarships to help students fund a portion of their education.

At March 31, 2011 the market value of the Endowment pool assets exceed the cumulative endowed contributions indexed by inflation.

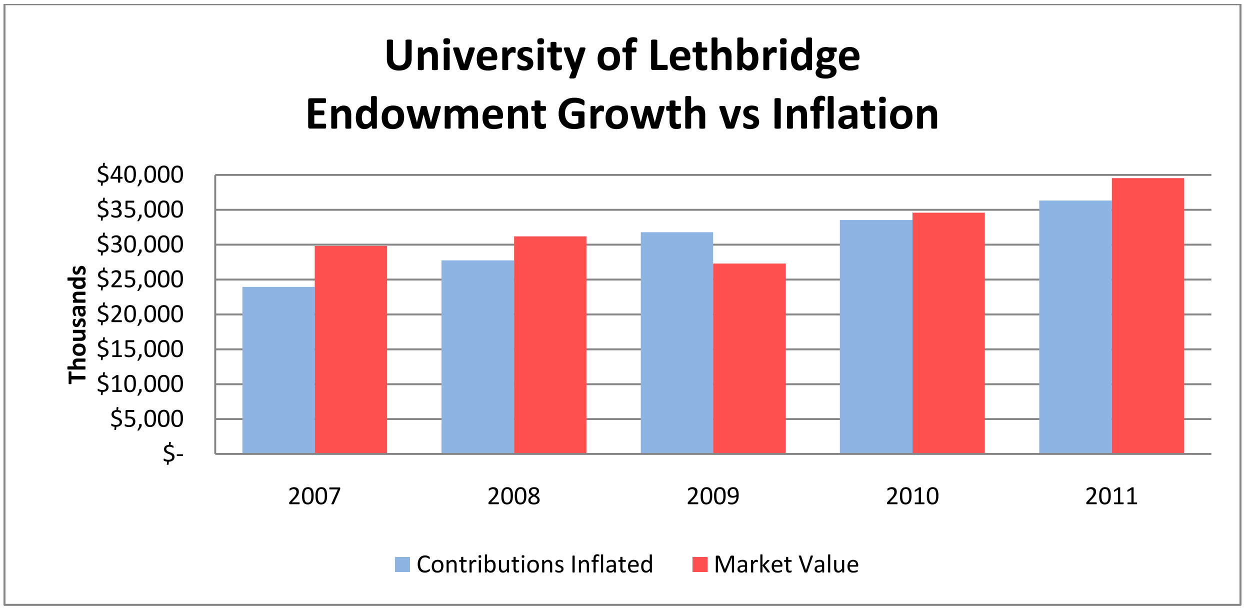

Figure 5: Endowment Market Value vs. Contributions Indexed by Inflation, 2007 - 2011

Internally restricted net assets totaled $35.7 million as of March 31, 2011. 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 that support the University's Strategic Priorities.

Unrestricted net assets of $25 million (2010: $26.9 million) represent accumulated operating surpluses and are used primarily to fund capital asset additions and operating expenses required to maintain the programs and services available to our students. Note that in 2010/11 the fund balance for life cycle capital replacement is included in Internally Restricted Net Assets ($4,104)

Table 3: Unrestricted Net Assets, 2010/11

Unrestricted Net Assets	2010/11	2009/10
	(thousands of dollars)	
Unexpended funds:		
Enrolment planning envelope	$13,549	$11,640
General operating	18,741	18,662
Non-recurring (special projects)	4,833	5,565
Life cycle capital replacement	-	2,926
Research (internally funded)	2,000	1,747
Specific purpose	1,059	823
UAPP unfunded liability	(14,793)	(14,413)
Total	**$25,389**	**$26,950**

Deferred Maintenance

Through concerted efforts in capital projects and utilizing conditional grants from the Provincial Government, the University has been able to reduce the deferred maintenance balance of its facilities.

With these efforts combined with the new facilities on campus, our Facility Condition Index has been reduced from 15% to 10% over this period.

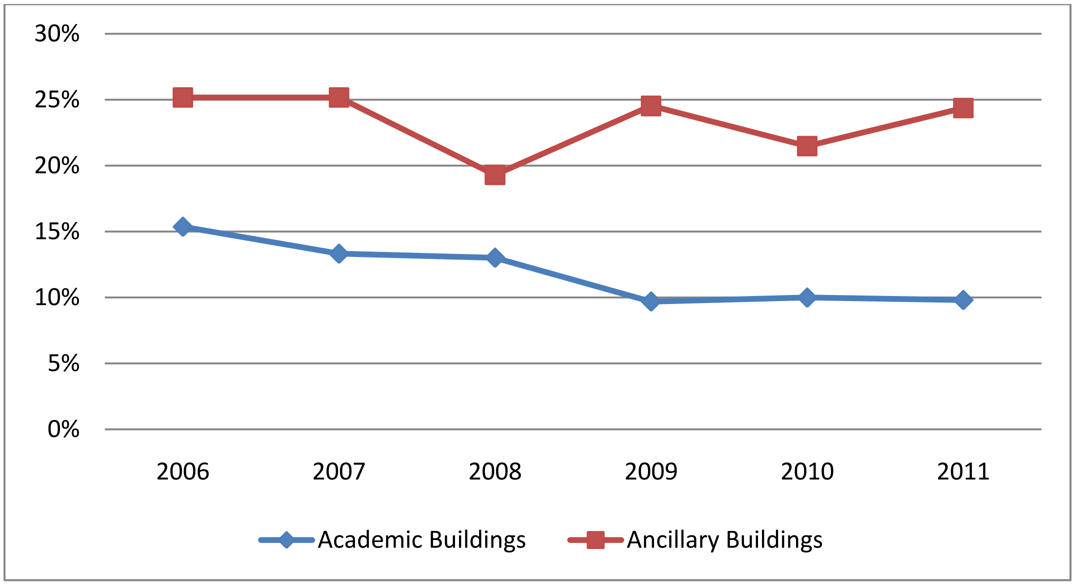

Figure 17: Facility Condition Index

Deferred maintenance on University facilities is estimated at $101,749 based on a facility condition report completed by the University in 2010. In 2007/08 Advanced Education and Technology provided $25,915 in capital grants to address deferred maintenance projects and the unexpended grant funds to date is $15,408, which includes $1,045 in investment income. Deferred maintenance is not reflected in these financial statements since it is not a liability or a commitment for accounting purposes.