



University of Lethbridge

Financial Highlights

Year Ended March 31, 2012

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 statements conform 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 surpluses.

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 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 unfavorable, the University is committed to directing resources in a way that promotes the strategic priorities of the institution.

Statement of Financial Position

Assets

Total assets increased by \$16.2 million during the 2012 fiscal year. This is due to a combination of an increase in short-term investments of \$10.7 million and capital assets and collections of \$9.5 million which is offset by a decrease in accounts receivable of \$1.3 million and long-term investments of \$2 million.

Cash flow requirements for construction projects have required that a higher balance be maintained in cash and short-term investments.

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

Table 1: Composition of Investment Portfolio, 2011/12

Funding Source	2011/12
	(thousands of dollars)
Externally restricted fund balances:	
Endowments	\$41,350
Sponsored research	9,711
Special purpose	13,848
Scholarships, bursaries & trust	650
Capital & infrastructure	30,694
Internally restricted net assets	33,271
Unrestricted net assets and operating cash flow	14,066
Total	\$143,590

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

Capital assets of \$29 million were added during the year. The significant additions from major capital projects included \$4.6 million for the Regional Aquatic Centre facility upgrade and \$9 million for new student housing construction as well as renovation of existing housing facilities. Library acquisitions totaled \$2.6 million and computer, scientific and other equipment \$4 million. Amortization expense totaled \$19.1 million.

Art works donated in 2012 totaled \$0.6 million. The University has an impressive art collection, which contains approximately 14,000 objects with a book value of \$34.6 million. The collection is used for both educational and public exhibition purposes.

Liabilities and Net Assets

Current liabilities totaled \$43 million in 2012 (2011: \$46 million). Accounts payable and accrued liabilities increased over the past year by \$1.1 million. Deferred contributions of \$24 million at March 31, 2012 (2011: \$27 million) consisted of restricted balances in the research fund (\$9 million) and trust funds for scholarships and bursaries and other specific purposes (\$15 million). These contributions will be recognized in revenue as the spending restrictions are met.

Employee future benefit liabilities increased by \$1 million, of which \$1.2 million is recorded as a current liability. The main contributors to this increase were the Universities Academic Pension Plan and the Senior Administrative Leaves actuarial losses. Long-term liabilities increased by \$7 million due to the inclusion of the \$7.5 million housing loan from Alberta Capital Finance Authority to construct a new 259 bed student residence, offset by principal payments made during the year.

The deferred capital contribution amounts, totaling \$31 million at March 31, 2012 (2011: \$30 million), represent the unspent portion of grants and donations externally designated for capital construction and renovations. The significant amounts include Life Safety Systems (\$14 million), Infrastructure Maintenance

Program (\$5.9 million), Science Complex planning (\$2.2 million) and Physical Education upgrades (\$5.3 million).

Net assets increased by a total of \$7.3 million during the year as a result of endowment principal increase of \$1.8 million, an increase in investment (equity) in capital assets of \$1 million and an increase in unrestricted net assets (surpluses) of \$6.9 million which was offset by a net usage of internally restricted net assets (reserves) of \$2.4 million.

Endowment increased to a balance of \$41.4 million (2011: \$39.5 million). The increase in value is mainly due to external donor gifts received which is offset by a \$740 encroachment on cumulative capitalized income to cover the annual spending allocation due to the unfavorable investment loss.

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, 2012 the market value of the Endowment pool assets exceed the cumulative endowed contributions indexed by inflation by \$0.9 million (2011: \$3.2 million).

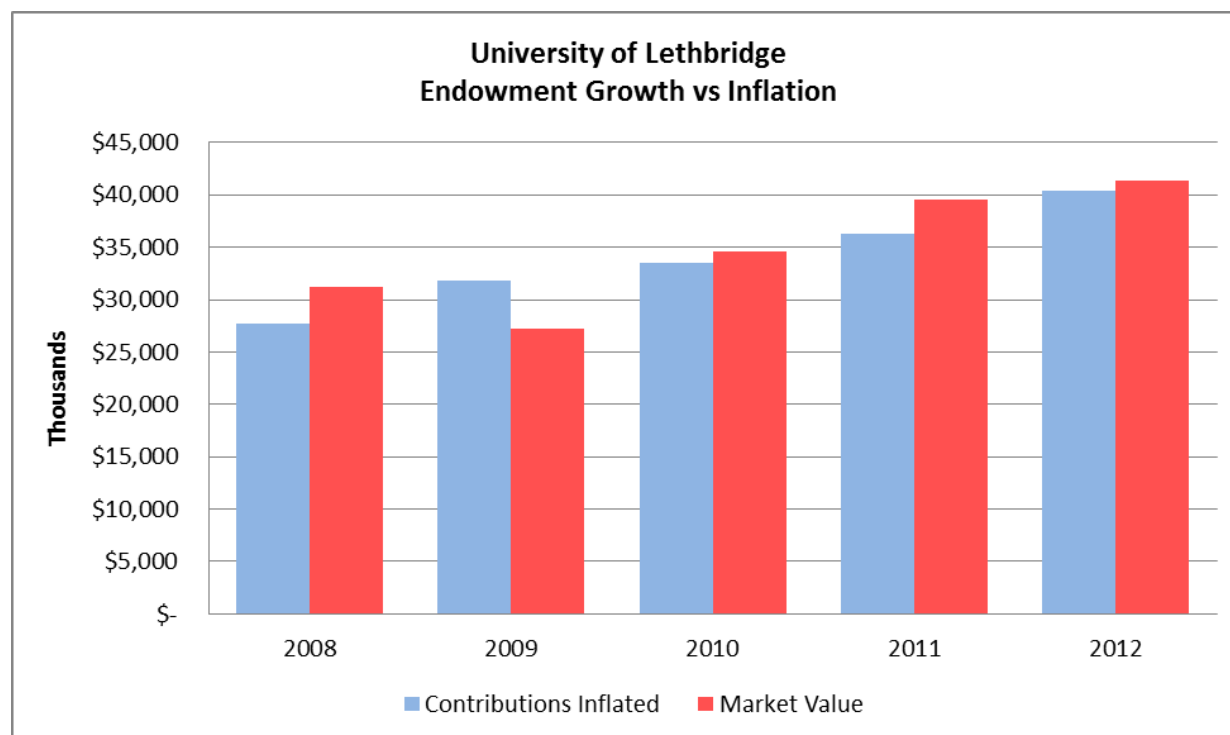


Figure 1: Endowment Market Value vs. Contributions Indexed by Inflation, 2008 - 2012

Internally restricted net assets totaled \$33.2 million (2011: \$35.7 million). 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 \$32 million (2011: \$25 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.

Table 2: Unrestricted Net Assets, 2011/12

Unrestricted Net Assets	2011/12	2010/11
	(thousands of dollars)	
Unexpended funds:		
General operating	\$41,873	\$32,290
Non-recurring (special projects)	3,259	4,833
Research (internally funded)	2,143	2,000
Specific purpose	762	1,059
UAPP unfunded liability	(15,792)	(14,793)
Total	\$32,245	\$25,389

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 academic facilities.

With these efforts combined with the new facilities on campus, our Facility Condition Index for academic buildings has been reduced from 15% to 8%.

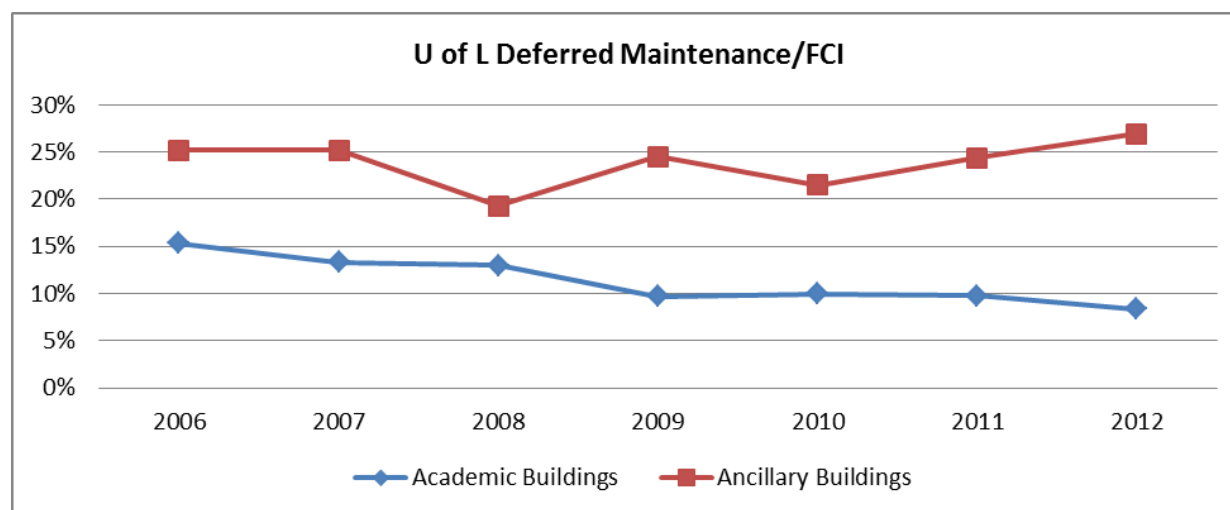


Figure 2: Facility Condition Index

Deferred maintenance on University facilities is estimated at \$96 million (2011: \$102 million) based on a facility condition report completed by the University in 2011. In 2007/08 Advanced Education and Technology provided \$25 million in capital grants to address deferred maintenance projects in University Hall and the unexpended grant funds to date is \$15 million, which includes \$2 million in investment income. Deferred maintenance is not reflected in these financial statements since it is not a liability or a commitment for accounting purposes, and the balance of funding received for this purpose is recorded as deferred contributions, capital.

Statement of Operations

The 2012 excess of revenue over expense of \$4 million (2% of budget) resulted in a \$5.7 million positive variance between budget and actual.

Revenue

University revenue totaled \$189 million in fiscal year 2012 (2011: \$192 million), a decrease of 1% over the previous year.

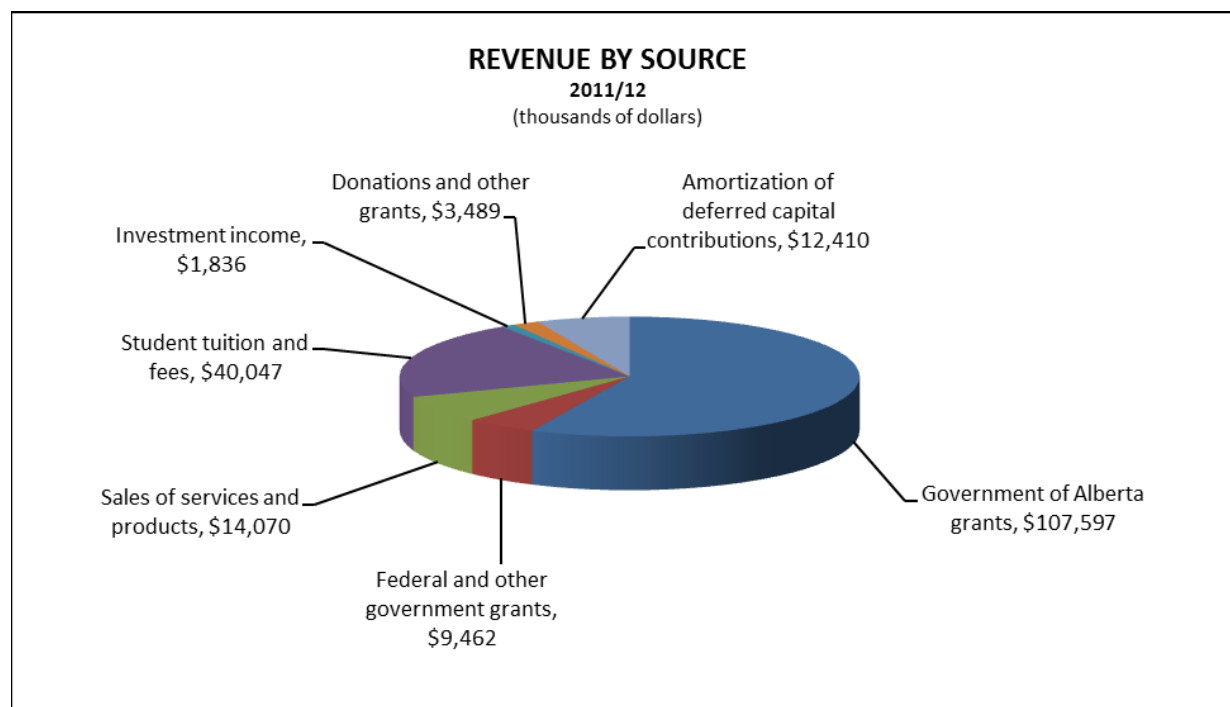


Figure 3: Revenue by Source, 2011/12 (thousands of dollars)

Government Grants

Government grant revenue increased by \$2.9 million or 2% over the previous year, due to an increase in provincial government grants of \$2.5 million and an increase of \$0.4 million in federal and other government grants. Grants represented 61% of total revenue (2011: 59%).

Included in the Campus Alberta general operating grant was a \$1.4 million one-time grant received for lights on funding for Markin Hall, Dr. Foster James Penny building, Sports Stadium Complex and the Daycare facility and a \$1.2 million one-time facilities catch-up grant to address budget challenges associated with facility operation and maintenance costs.

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

Table 3: Government of Alberta grants to the U of L, 2011/12 and 2010/11

Government of Alberta grants	2011/12	2010/11
	(thousands of dollars)	
Campus Alberta general operating	\$98,473	\$97,363
Other unrestricted funding	641	746
Conditional funding	19,547	20,412
Deferred conditional funding	(11,064)	(12,898)
Transfers to endowments	-	(490)
Total	\$107,597	\$105,133

The conditional funding included \$18.5 million from Advanced Education and Technology (AET) and \$1 million from other ministries. Significant Advanced Education and Technology conditional grants were

received for the following purposes: Infrastructure Maintenance Program funding (\$3.6 million), planning for a new science and central plant facility (\$2.3 million), Physical Education building upgrade (\$5.6 million), support of the Polaris award (\$1.6 million) and Campus Alberta Innovation Program (\$0.8 million). Any conditional funding not spent by the end of the fiscal year is deferred and recognized as revenue in the year(s) in which the related expenditures are incurred.

Research Funding

Sponsored research revenue was \$17.1 million (2011: \$22.1 million), a 22% decrease over the previous year. At the end of the year, \$3 million of unspent research grant revenue was deferred (2011: \$8 million). The variance in sponsored research funding is comprised mainly due to the prior year one time Canadian Foundation for Innovation (CFI) funding of \$2.8 in addition to the \$1.6 million in gifts-in-kind revenue recorded as matching funding for the CFI and AET grants. Gifts-in-kind is the donations of equipment provided by vendors.

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

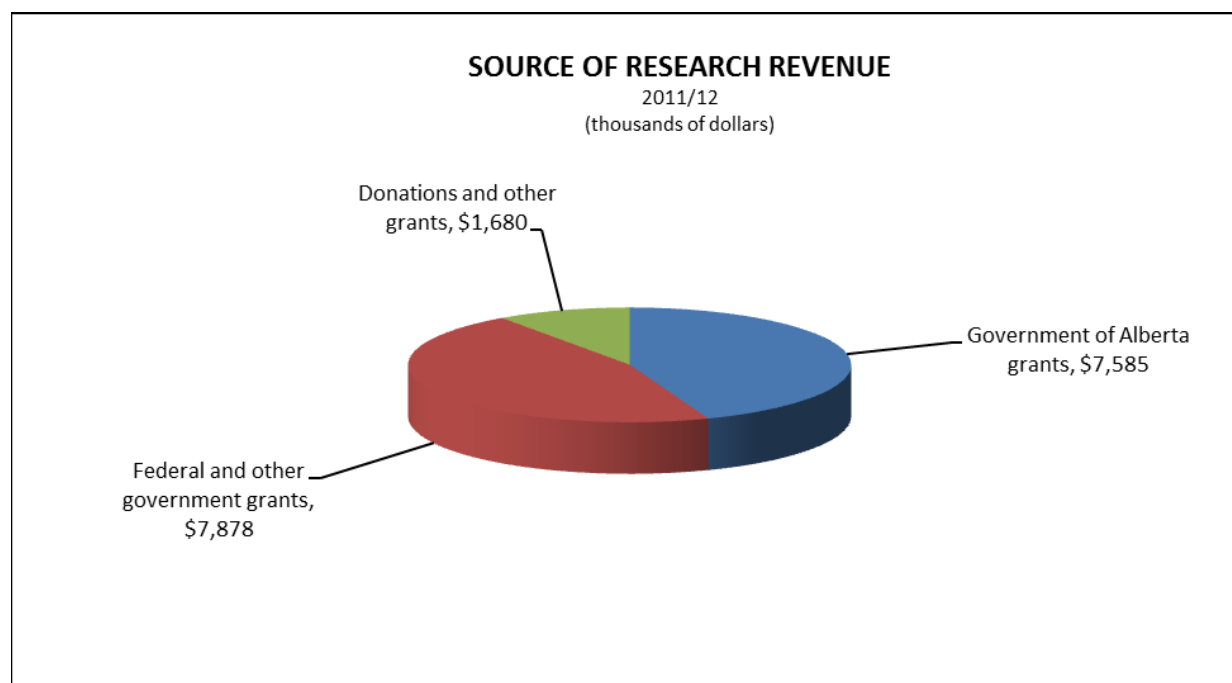


Figure 4: Source of Research Revenue, 2011/12 (thousands of dollars)

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

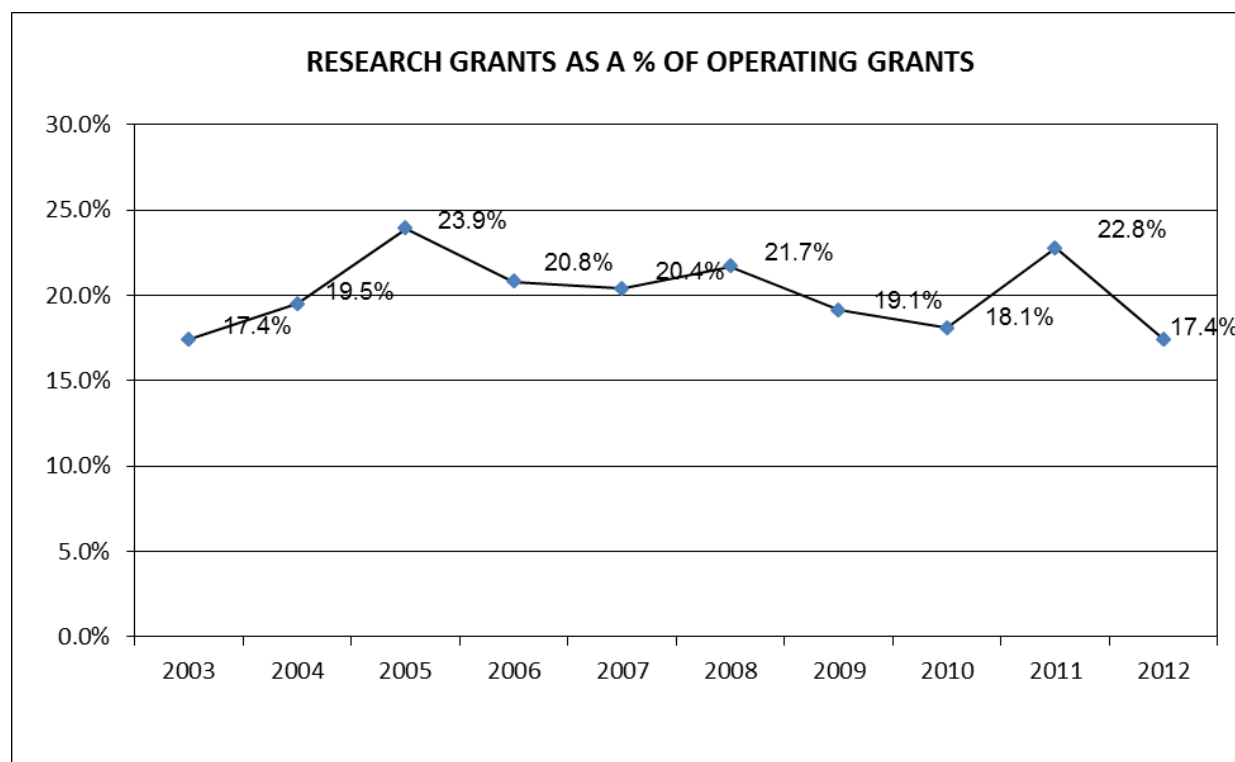


Figure 5: Research Grants as a Percentage of Operating Grants, 2002/03 to 2011/12

In 2012, the University also received \$2 million (2011: \$1.9 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 the 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 enable the University to secure additional support for the indirect costs of conducting research so 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 1% (\$0.7 million) due to an increase of 0.35% in undergraduate and graduate tuition fees. Advanced Education and Technology's tuition fee policy limits tuition increases to changes in the annual Alberta Consumer Price Index.

Sales of Services and Products

Sales of services and products revenue decreased by 0.4% (\$0.05 million). The major source of sales of services and products revenue is Ancillary Services (\$8.5 million), Sport and Recreation Services programs and services (\$1.6 million), and parking permits, meters and fines (\$1.3 million). Ancillary Services generates revenue through 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 (adjustment to market value as of March 31, 2012), for the year was \$1.8 million (2011: \$10 million) which included \$1.5 million in cumulative investment income earned on trust funds from prior years that was recognized as revenue. In addition to the \$1.8 million there

was \$0.4 million in investment loss which was recorded as a direct decrease to endowment principal. Realized investment earnings were 3.0% in 2012 (2011: 4.3 %).

Donations and Other Grants

Total donations and other grants received during the year was \$6.8 million (2011: \$9.7 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. Department of Energy \$0.5 million grant, as well as other contributions.

Of the \$6.8 million in total donations and other grants, \$1.8 million was added directly to endowment principal (2011: \$2.1 million) and \$1.5 million was deferred for spending in future years (2011: \$4.1 million) and therefore \$3.5 million (2011: \$3.5 million) was recognized as revenue. There is an additional \$3.5 million in pledges as of March 31, 2012 (2011: \$2.6 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 \$12.4 million (2011: \$10.3 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 \$185 million in 2012, an increase of \$10 million (5%) over the previous year.

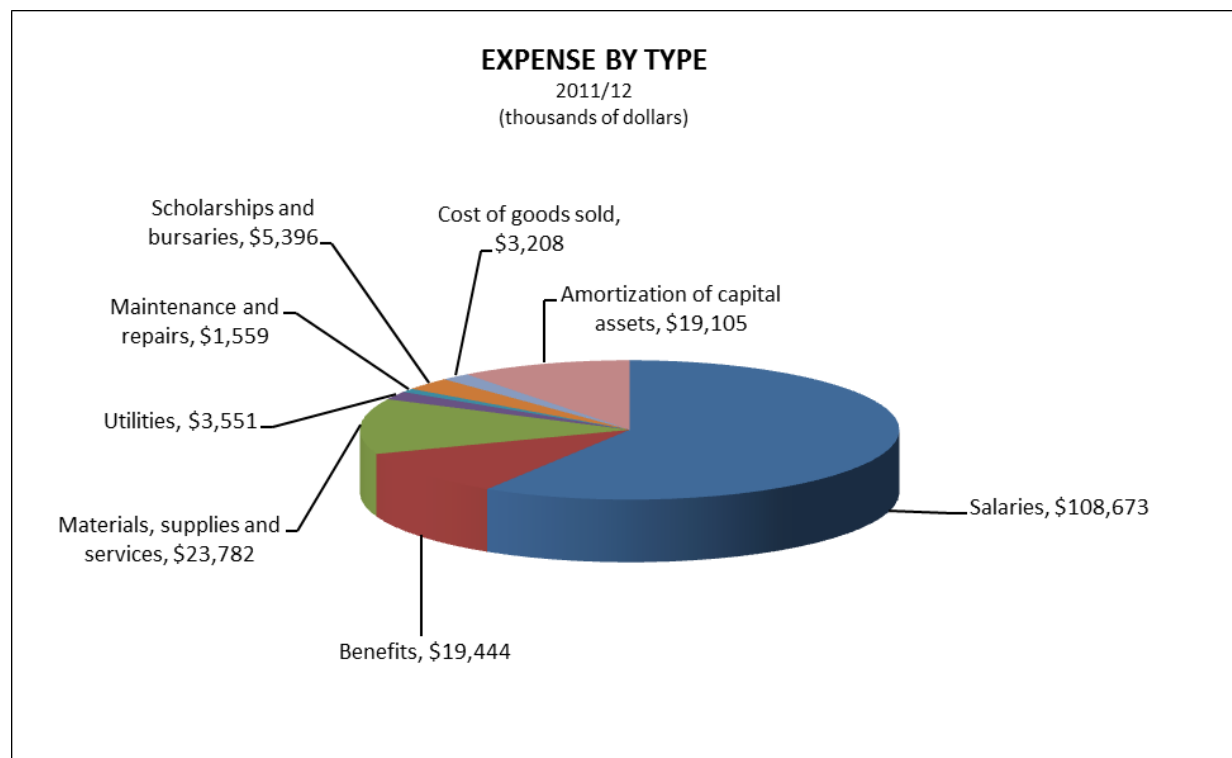


Figure 6: Expense by Type, 2011/12 (thousands of dollars)

Salaries and Employee Benefits

Salaries and benefits continue to be the major component of the cost of operating the University. Salaries expense increased by 6% over the previous year. This increase resulted from a combination of salary increases due to merit and negotiated cost-of-living adjustments and a slight increase in the number of continuing positions. Benefits expense increased by \$1.5 million (8%) primarily due to an increase in the Universities Academic Pension Plan (UAPP) unfunded liability expense of \$1 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 69% of total expense.

Scholarships and Bursaries

The amount of scholarships and bursaries in 2012 was \$5.4 million (2011: \$5.9 million). 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 increased by \$1.5 million and the major contributing factors were student recruitment and new software contracts. 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.

Cost of Goods Sold

To enhance the student experience the Bookstore implemented a textbook rental program which resulted in a decline in cost of goods sold of \$0.3 million.

Amortization of Capital Assets

Amortization represents the portion of a capital assets value that relates to the estimated current period usage. Amortization increased by 8% over the previous year and a significant component of the increase is due to the amortization of new buildings such as Markin Hall that are now in use and being amortized.

Other Expenses

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

Budget to Actual

The 2012 excess of revenue over expense of \$4 million (2% of budget) resulted in a \$5.7 million positive variance between budget and actual.

Actual revenue was \$3.7 million above budget. The main contributing factors to this variance were Government of Alberta restricted grant recognition of \$5.8 million higher than budget, \$1.2 million in Advanced Education and Technology funding for a one-time facility grant, and \$3.4 million excess in amortization of deferred capital contribution over budget which is offset by unfavorable market conditions resulting in investment income being \$6 million below budget and Federal and other government restricted grant recognition of \$1.2 million less than budget. All other revenue budget to actual variances are a combined \$0.5 million.

Actual expenses were \$2 million below budget. The lower than expected materials, supplies and services expenditures are a result of departmental efficiency improvements and reduction in costs. The University contingency funds are also included in the materials, supplies and services expenditure budget.