Management Discussion & Analysis

Year Ended March 31, 2013

The University of Lethbridge endeavours to present the audited financial statements in a manner that will help the reader understand our operations, financial position, financial risks and other factors for the year ended March 31, 2013. These financial highlights should be read in conjunction with our audited March 31, 2013 Financial Statements and Notes to the Financial Statements (Notes).

Transition to Public Sector Accounting Standards (PSAS)

Comparative figures, which were previously presented in accordance with Canadian generally accepted accounting principles (as defined in Part V of the Canadian Institute of Chartered Accountants Handbook), have been adjusted as necessary to be compliant with PSAS as issued by the Public Sector Accounting Board (PSAB) and directed to be used by the Government of Alberta effective April 1, 2011. These standards have been implemented retroactively with restatement, except where the standards specifically prohibit retroactive application or by our use of a first time adoption election. Significant differences include:

Presentation of Statement of Financial Position

1. Inclusion of opening Statement of Financial Position for April 1, 2011
2. Removal of distinction between current and long term assets and liabilities
3. Deferred revenue combines general deferred revenue, deferred contributions from research and other restricted funds, unspent capital contributions, and spent capital contributions (formally known as unamortized deferred capital contributions)
4. Accumulated surplus combines unrestricted surplus, investment in capital assets and internally restricted surplus
5. Addition of accumulated remeasurement gains and losses category, a new concept whereby unrestricted unrealized gains and losses no longer flow through investment income, are reported on the Statement of Remeasurement Gains and Losses and are disclosed as net assets
6. Refer to Schedule 1 for transition adjustments applied to the 2011 and 2012 balances

Presentation of the Statement of Operations

7. Revenue allocation of amortization of deferred capital contributions among other revenue categories. Amortization of deferred capital contributions represents the amount of externally restricted deferred revenue used to acquire capital assets, and is recognized as revenue over the life of the asset consistent with its amortization.
8. Expenses are reported by function (expense center) instead of by object (type of expense). A description of functions and expenses presented by object are disclosed in the Notes.
9. Inclusion of a reconciliation of the opening and closing accumulated operating surplus.

Adjustments

10. Remove works of art and historical treasures from tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made.
11. Remove mineral rights from investments because mineral rights and other intangibles are excluded from the standards.

Statement of Financial Position

Assets

Total assets increased by $7.6 million during the 2013 fiscal year. This is mainly due to an increase in the fair value of portfolio investments of $16 million and tangible capital asset additions for $22 million, offset by a decrease in cash and cash equivalents of $31 million.

Cash and Cash Equivalents - Cash and cash equivalents were used to fund the $30 million in capital renovations and building projects.

Portfolio Investments - The investment portfolio consisted of the following fund balances at March 31:

Figure 1:

Funding Source	2012/13 (thousands of dollars)
Externally restricted fund balances:	
Endowments	$45,595
Sponsored research	9,758
Special purpose	12,399
Scholarships, bursaries & trust	527
Capital & infrastructure	20,672
Internally restricted surplus	22,958
Unrestricted surplus (1)	48,289
Total investments	$160,198

(1) The difference in unrestricted surplus noted above of $48,289 and the $10,840 recorded in the Statement of Financial Position relates to non-cash adjustments to accumulated surplus, mainly University Academic Pension Plan liability.

In accordance with the Board of Governors Finance Committee's Investment Management Policy, three external investment managers hold mandates to share in the management of our investments. Through an external consultant the Finance Committee monitors investment performance, compliance with the Investment Management Policy and the environments impact to our policy and objectives.

Tangible Capital Assets – there was additions of $41.4 million for 2013. The most significant building additions included $18.3 million for the construction of new student residences that will open in the fall 2013 and $4.2 million for Physical Education building upgrade, library acquisitions totaled $2.6 million, and computer, scientific and other equipment increased by $4.7 million offset by amortization expense of $19.1 million.

Under Public Sector Accounting Standards, works of art and historical treasures are not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made. The University art collection is recognized as one of the finest in Canada, with over 14,000 works of art with an estimated value of $36,281 (2012: $34,574). The financial statements were retroactively restated to remove the works of art as of April 1, 2011.

Liabilities

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 we are eligible to receive them and are recognized as income in the year(s) their stipulations are met or we extinguish any liability associated with the funding.

Liabilities decreased by $4.0 million (2012: increased by $6.8 million). Accounts payable and accrued liabilities increased over the past year by $1.3 million. Employee future benefit liabilities increased by $5.1 million, of which $4 million is from the liability associated with the academic staff voluntary retirement program. Deferred revenue decreased to $0.24 million (2012: $0.25 million) due to receiving one-time grants in 2012 from Enterprise and Advanced Education (EAE) for Physical Education upgrades ($5.3 million) and Destination Project planning ($2.2 million) which were unspent as of March 31, 2012 offset by a decrease in the Infrastructure Maintenance Program (IMP) from $3.8 million in 2012 to $1.8 million in 2013. The unspent balance in IMP decreased by $1.5 million.

Net Assets

A 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, accumulated remeasurement gains and losses, internally restricted surplus set aside for specific purposes by the Board of Governors, and unrestricted operating surpluses.

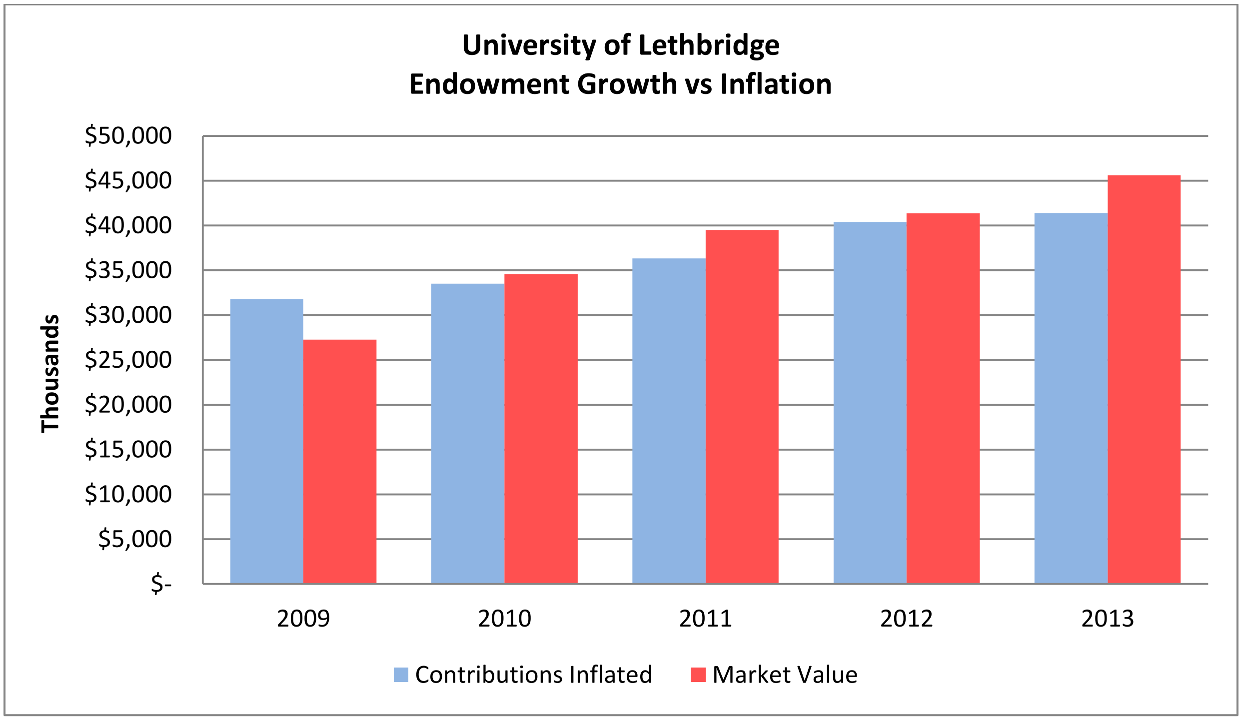
Net assets increased by a total of $11.6 million during the year as a result of endowment principal increase of $4.3 million and $6.0 million of remeasurement gains and losses. Overall the accumulated surplus remained consistent from 2012 to 2013 but the significant change was a reallocation between unrestricted surplus and internally restricted surplus to investment in capital assets for the construction of the new student residences ($18.3 million) and parking lot upgrades ($1.8 million).

The Endowment balance increased to $45.6 million (2012: $41.2 million) due to the improvement in the fair value of the endowment investments and donations received for $0.57 million (2012: $1.8 million).

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, 2013 the fair value of the Endowment pool assets exceed the cumulative endowed contributions indexed by inflation by $4.2 million (2012: $0.9 million).

Figure 2:



Unrestricted Surplus

Unrestricted surplus consists of:

Figure 3:

Unrestricted Net Assets	2012/13	2011/12
	(thousands of dollars)	
Unexpended funds:		
General operating	$15,598	$42,364
Non-recurring (special projects)	20,306	3,259
Research (internally funded)	2,350	2,143
Specific purpose	800	762
UAPP unfunded liability	(28,214)	(28,120)
Total	$10,840	$20,408

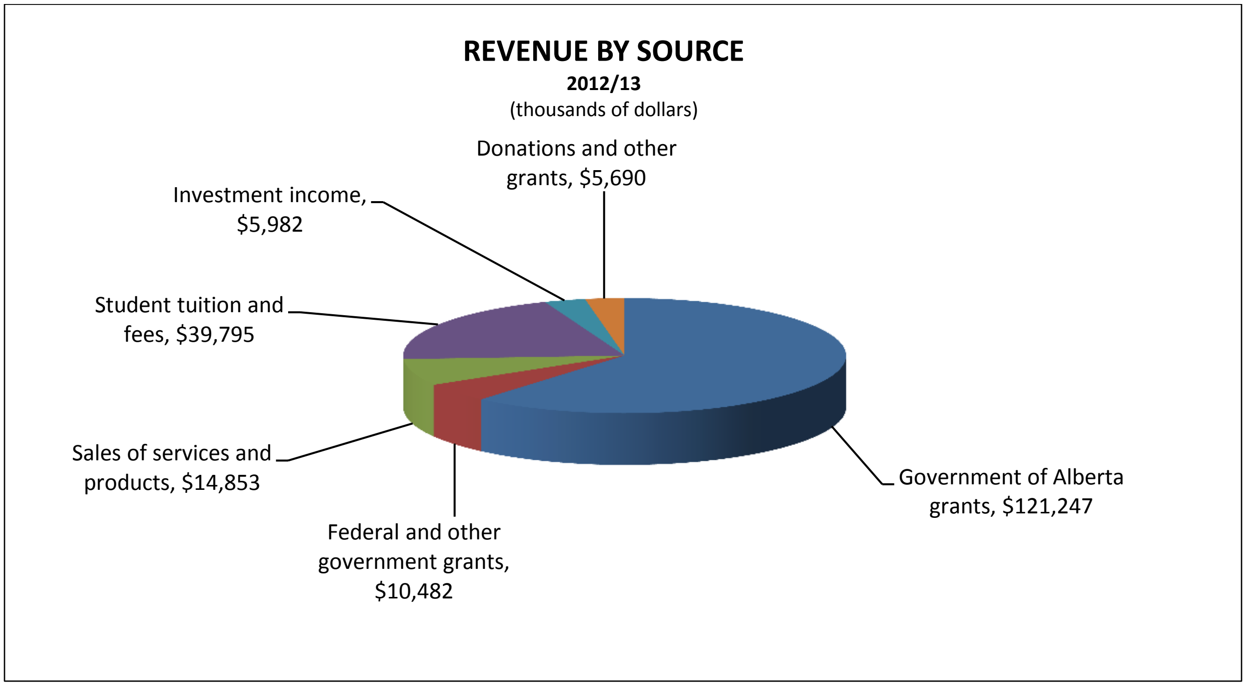
Statement of Operations

The University ended the 2013 fiscal year with a $1.3 million excess of revenue over expense (2012: $6.2 million).

Revenue

University revenue totaled $198 million in fiscal year 2013 (2012: $189 million), an increase of 5% over the previous year.

Figure 4:



Government of Alberta Grants

Government of Alberta grant revenue increased by $3 million or 2% over the previous year, representing 66% of total revenue (2012: 68%). The Government of Alberta grant includes the Campus Alberta operating grant and a $1.7 million one-time grant to support the costs associated with University's academic staff voluntary retirement program.

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

Figure 5:

	2012/13	2011/12
	(thousands of dollars)	
Campus Alberta general operating	$100,880	$98,473
Other unrestricted funding	891	641
Conditional funding	8,676	19,420
Deferred conditional funding	10,800	(649)
Total	**$121,247**	**$117,885**

The conditional funding included $6.7 million from Enterprise and Advanced Education and $2 million from other ministries. Significant conditional grants were received for the following purposes: Infrastructure Maintenance Program funding ($1.8 million), voluntary academic staff retirement program ($1.7 million), Campus Alberta Innovation Program ($1 million) and funding from Alberta Health for expanding mental health and addiction services ($1 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 stipulations are met.

Student Tuition and Fees

Student tuition and fee revenue decreased by approximately 1% ($0.3 million) due to an decrease of 1.71% in undergraduate credit hours which is offset by the undergraduate tuition rate increase of 1.45%. Enterprise and Advanced Education'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 increased by 6% ($0.8 million). The major source of sales of services and products revenue is Ancillary Services ($10.2 million) and Sport and Recreation Services programs and services ($1.8 million).

Investment Income

The comparison between 2012 and 2013 investment income is not recommended since the transition to PSAS was applied prospectively (as of April 1, 2012) resulting in an inconsistency in recording of unrealized investment income. The $1.7 million in 2012 included realized and unrealized investment income whereas the $6 million in 2013 is comprised of only realized investment income.

Realized investment earnings were 4.95% during the year (2012: 3.01%).

Donations and Other Grants

Total donations and other grants received during the year was $7.6 million (2012: $8.2 million). Donations and other grants include charitable gifts from donors, gifts in kind, research grants from non-Canadian government agencies such as the European Commission as well as other contributions.

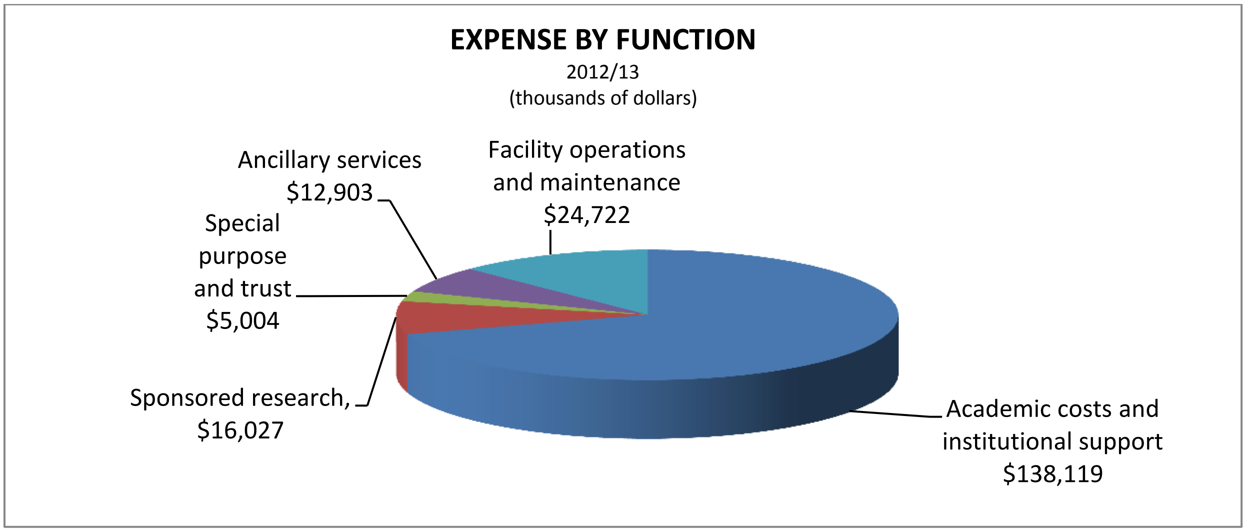
Of the $7.5 million in total donations and other grants, $0.6 million was added directly to endowment principal (2012: $1.8 million) and $1.2 million was deferred for spending in future years (2012: $1.5 million) and therefore $5.7 million (2012: $4.9 million) was recognized as revenue. There is an additional $2.8 million in identifiable pledges as of March 31, 2013 (2012: $3.5 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.

Significant donations in 2013 include $0.6 million in land located in the County of Rocky View near Cochrane and $1.7 million (2012: $0.6 million) in artwork.

Expense

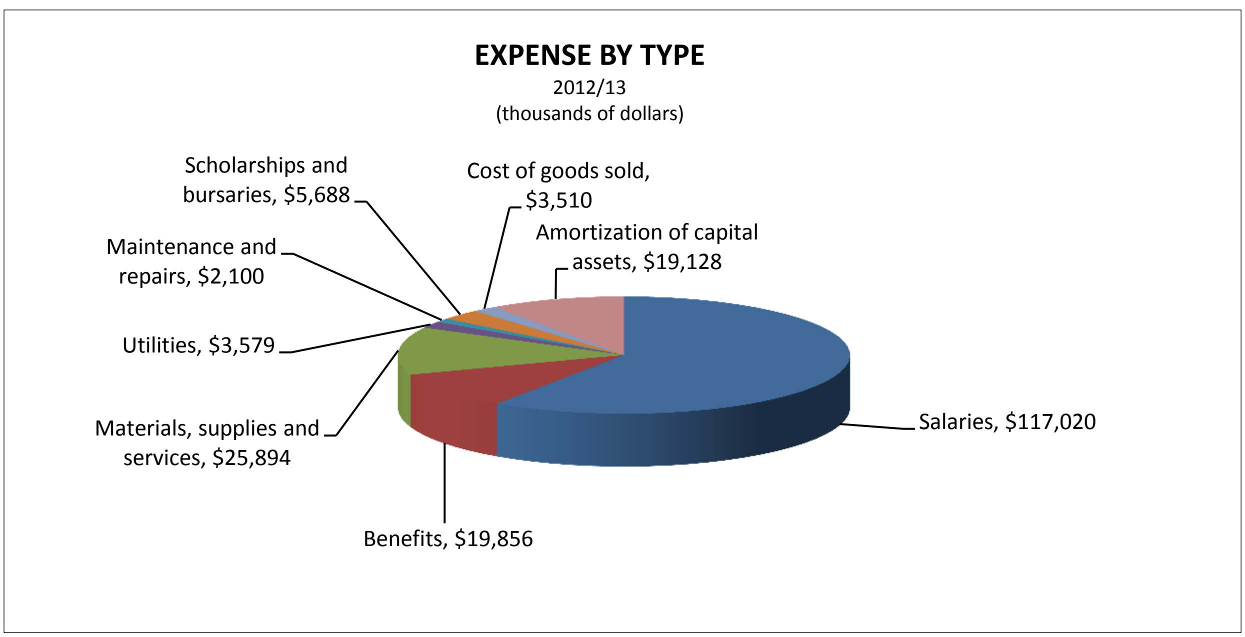
University expenses totaled $197 million in 2013, an increase of $14 million (7%) over 2012.

Figures 6 and 7:



Reporting the Statement of Operations expenses by function is one of the significant differences in the adoption of PSAS. The intended purpose is to provide a summary of the major areas of spending as a proportion of the total expenses. The expenses are also reported by type of expense in the Notes.

Year over year, the most significant variance is in the Academic costs and institutional support that increased by $10 million. The increase is mainly attributable to the accrual for the Academic staff voluntary retirement of $4.2 million, a combination of salary increases due to merit and negotiated cost-of-living adjustments and increase in pension benefit expense.



Salaries and Employee Benefits

Salaries and benefits continue to be the major component of the cost of operating the University. Salaries expense increased by 8.3% over the previous year. The most significant component of this increase is the $4.2 million accrual for academic staff voluntary retirement program payments. The balance of 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 $1.8 million (9.6%) primarily due to a $1 million increase in the Universities Academic Pension Plan (UAPP). 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 70% of total expense.

Scholarships and Bursaries

The amount of scholarships and bursaries in 2013 was $5.7 million (2012: $5.4 million). The Alberta Scholarship Program also awards $3 million (2012: $3 million) in scholarships and bursaries to 2,162 (2012: 2,165) 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. 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. The most significant component of this increase is due to the recording of artwork which is now expensed instead of recorded as tangible capital assets. Donated artwork expense of $1.7 million for 2013 and $0.6 million for 2012 is offset by donation revenue.

Other Expenses

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

Budget to Actual

The 2013 surplus of $1.3 million resulted in a $2.2 million positive variance between budget to actual.

Actual revenue was $9.9 million above budget. Some of the contributing factors to this variance were Government of Alberta higher than budget, $1.7 million in Enterprise and Advanced Education funding for a one-time grant, and $1.3 million in amortization of deferred capital contribution which has been allocated between Government of Alberta, Federal and other Government grants and Donations and other grants.

Actual expenses were $7.7 million above budget. The most significant component of this increase is the $4.2 million accrual for academic staff voluntary retirement program payments and a budget shortfall in the amortization of tangible capital assets of $7.9 million which is offset by a budget surplus in materials, supplies and services.

Areas of Significant Financial Risk

Financial Sustainability

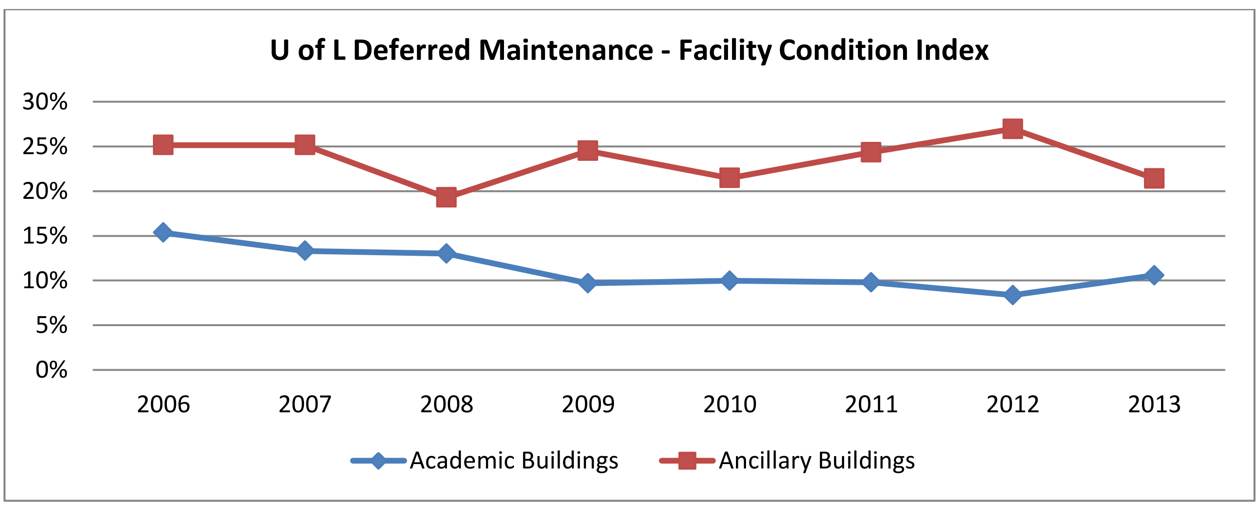
The University's budget process is based on a three-year rolling budget model whereby budgets are estimated for three years into the future. Over the past several years, the University has revised its budget processes to ensure that the institution is in a position to make resource allocation decisions that will advance the University's strategic directions. Especially in challenging financial times, the University will need to be able to quickly adapt to the situation without losing sight of the priorities that have been established through our academic, research and strategic plans.

The March 7, 2013 Provincial Budget is a significant barrier to the U of L's ability to realize our full potential within Campus Alberta. It does not, however, change the University's long-range goals and priorities; what has changed is the timing. This budget has not caused the U of L to retrench, but to reaffirm the University's values and to reprioritize its actions and activities.

Deferred Maintenance

Through concerted efforts in capital projects and utilizing conditional grants from the Provincial Government, the University has been able to maintain the deferred maintenance balance of its academic facilities at 11% (2012: 8%). One of the contributing factors in the increase in deferred maintenance in academic buildings is due to a reduction in the Infrastructure Maintenance Program grant from \$3.8 million in 2012 to \$1.8 million in 2013.

Figure 8:



Deferred maintenance on University facilities is estimated at \$116 million (2012: \$96 million) based on a facility condition report completed by the University in 2012. 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 \$12 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 revenue.

Unfunded Pension Liability

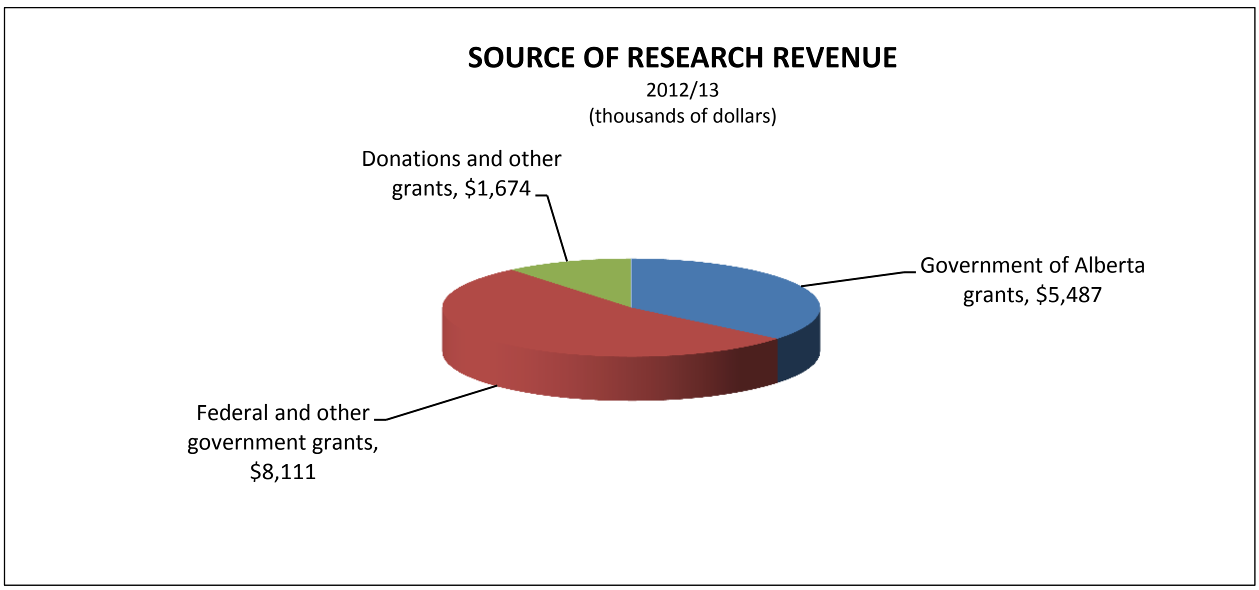
Since 1978 the university has participated with other Alberta post-secondary institutions in the Universities Academic Pension Plan (UAPP) to provide pensions for participating faculty, Administrative Professional Officers and other senior administrators. Until December 2000, the UAPP was established through a separate provincial statute, and the Provincial Treasurer was the trustee of the Plan. Effective January 2001, the UAPP became a non-statutory pension plan subject to the Employment Pension Plans Act of Alberta. The extrapolated actuarial deficiency for the pension plan at March 31, 2013 was $1,149.2 million of which the University of Lethbridge's portion is $35 million. The unfunded deficiency is currently being funded by the Government of Alberta and employee and employer contributions.

The University also participates in a multi-employer Public Service Pension Plan for support staff members. The total unfunded deficiency in this plan as of December 31, 2012 is $1,645 million which represents the unfunded position of the plan and not the University's share.

Research Funding

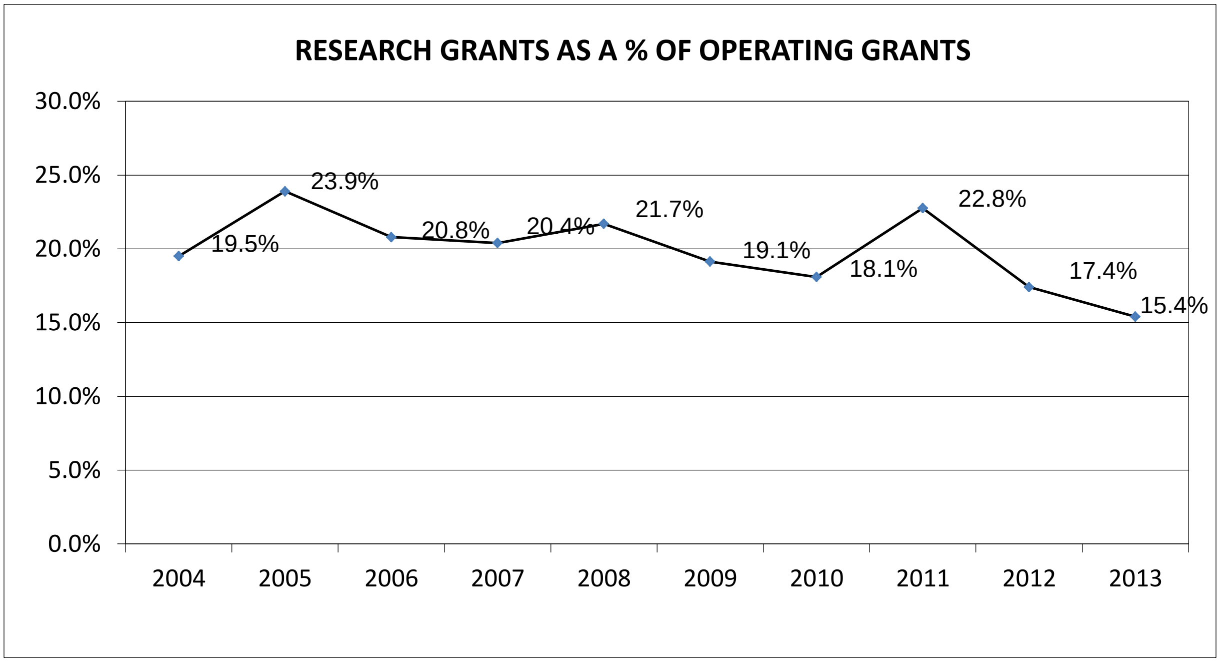
Sponsored research revenue was $15.3 million (2012: $17.1 million) which was a 10% decrease over the previous year. At the end of the year, $1.8 million of unspent research grant revenue was deferred (2012: $3 million). The variance in sponsored research funding is comprised mainly due to a decrease of $2 million in provincial grants. Research continues to be funded primarily by federal and provincial government agencies.

Figure 9:



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

Figure 10:



In 2013, the University received $2 million (2012: $2 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. Increased funding is still required to create the environment need to develop and recruit top quality researchers and graduate students.

Student Recruitment and Retention

The Campus Alberta Planning Resource (CAPR) anticipates a shift in the age distribution for Alberta over the next ten years; while overall population growth is anticipated to be close to 20%, projected growth of 18-34 year olds is much lower at 6.3%. While this group is expected to grow overall, the growth is largely accounted for in the 25-34 year old population, with the 18-24 year old cohort declining. The latter cohort remains the primary age group at the University. In a financial context, constraints of operating grant and tuition caps highlight the significance of our enrolment in both undergraduate and graduate programs.