



## **FINANCIAL HIGHLIGHTS 2004/05**

### ***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, 2005.

### ***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***

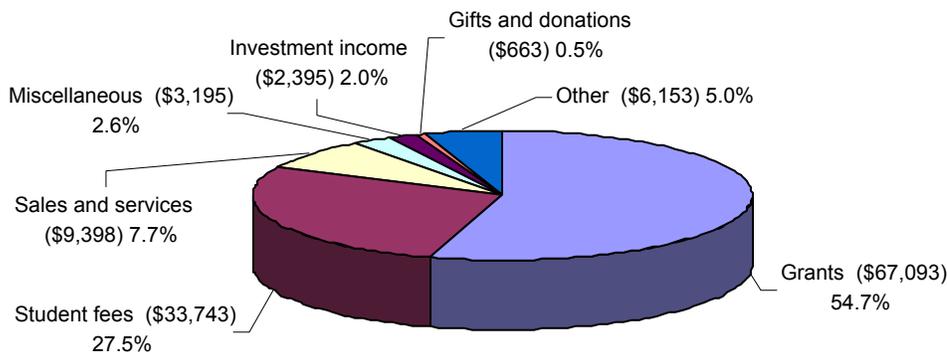
Excess of revenue over expense decreased by \$1.3 million over the prior year. The majority of the decrease was due to a write down of \$1.1 million in capital assets that will be demolished in 2006 for the purposes of constructing the Regional Health and Wellness Centre, which was approved by the Board of Governors shortly after the year end.

**Revenue**

University revenue totalled \$122.6 million in fiscal 2005, an increase of \$10.2 million or 9% over the previous year.

**REVENUE BY SOURCE**

2004-05  
(thousands of dollars)



Grant revenue increased by \$4.4 million or 7% over the previous year due to increases in provincial government grants and research grants.

Advanced Education grants increased by \$2.9 million or 5.4% in 2005 including one-time Access grants of \$2.2 million. Performance funding of \$0.6 million was awarded to the University by Advanced Education during the year (2004 - \$0.5 million). The University received top-level performance awards in both the learning and research components based on progress results for fiscal 2004 as measured by various performance indicators.

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

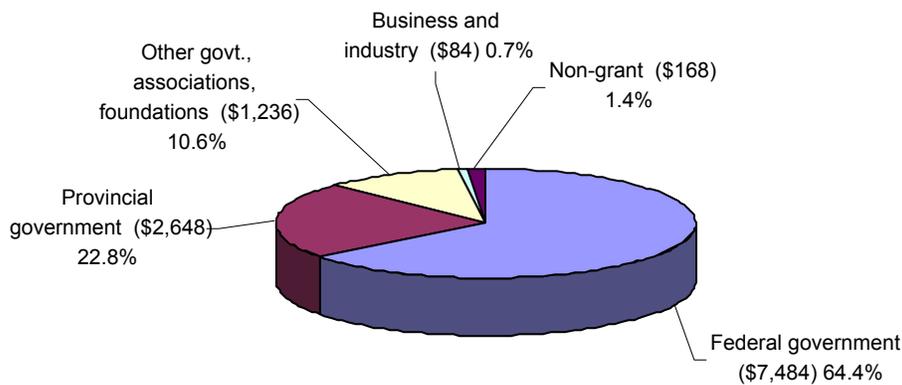
| Provincial Grants            | 2004/05                | 2003/04         |
|------------------------------|------------------------|-----------------|
|                              | (thousands of dollars) |                 |
| General operating            | \$48,095               | \$46,668        |
| Performance funding envelope | 604                    | 487             |
| Access (operating)           | 7,729                  | 6,388           |
| Other unrestricted funding   | 437                    | 420             |
| Conditional funding          | 5,051                  | 3,812           |
| Deferred conditional funding | (1,778)                | (1,344)         |
| <b>Total</b>                 | <b>\$60,138</b>        | <b>\$56,431</b> |

**Research Funding**

Sponsored research grants totalled \$11.6 million, an increase of \$2.7 million or 30% over the previous year. Unspent research grant revenue of \$3 million was deferred to future years at March 31, 2005 (\$2 million at March 31, 2004). Research continues to be funded primarily by federal and provincial government agencies. Over the past five years, research grants have more than doubled from a total of \$5.1 million in fiscal 2001, and have increased more than fourfold (415%) over the past ten years. This trend is largely due to new sources of federal research funding including the Canadian Foundation for Innovation, Canadian Stroke Network, Canada Research Chairs program and Canadian Space Agency, provincial funding from the Alberta Gaming Research Institute, Alberta Innovation and Science, Alberta Ingenuity Fund and Alberta Science Research Institute as well as funding from the United States National Institute of Health.

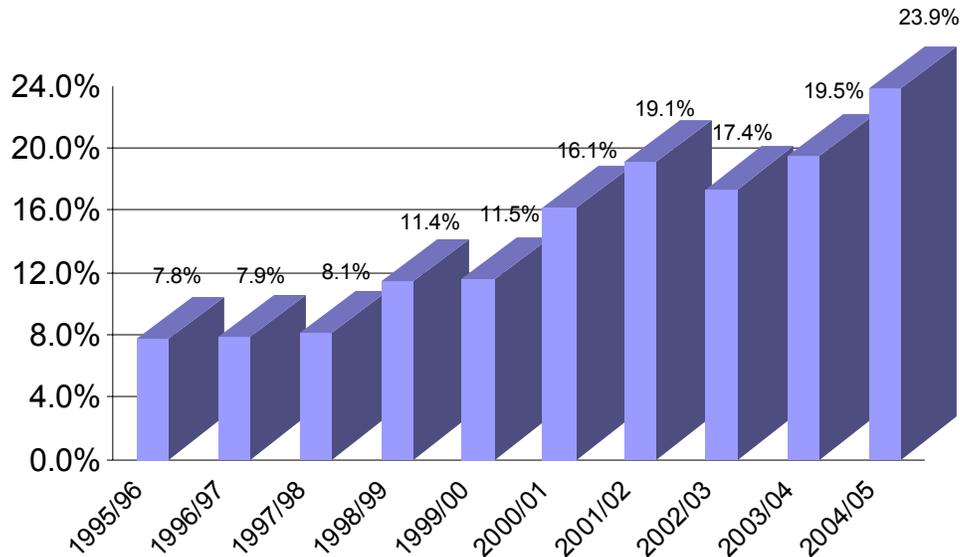
**SOURCES OF RESEARCH REVENUE**

2004-05  
(thousands of dollars)



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

### RESEARCH GRANTS AS A % OF OPERATING GRANTS Ten-Year Trend



In 2005 the University received \$1 million (2004 – \$0.9 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 12% (\$3.6 million) due to a 4.7% increase in enrolment in Fall 2004, as well as increases of 7.24% in undergraduate fees and 5.6% in graduate fees effective May 1, 2004. The fee increases were in compliance with Advanced Education's tuition fee policies, which limit the allowable annual tuition increase and cap tuition fees at 30% of net operating expenses. The University's tuition fee revenue for fiscal 2004 was 29.2% of net operating expenses.

#### ***Sales and Services***

Sales and services revenue increased by 16% (\$1.3 million) over the prior year. The majority of sales and services revenue is raised by Ancillary Services, which increased to \$6.7 million in 2005 from \$6.2 million in 2004. Other factors contributing to the increase in sales and services revenue included one-time GST and utilities rebates of \$0.4 million and an increase of \$0.2 million in Faculty of Management non-credit program fees.

**Investment Revenue**

Investment income recognized during the year increased by \$0.5 million over the previous year. Realized investment earnings as measured on a cash basis were 2.9% in 2005 (2004 – 4.1%). The University uses the cost method of accounting for investments; therefore, market returns are not recorded in income. The market return for 2005 on long-term investments was 7.4% (2004 – 16.1%).

**Gifts and Donations**

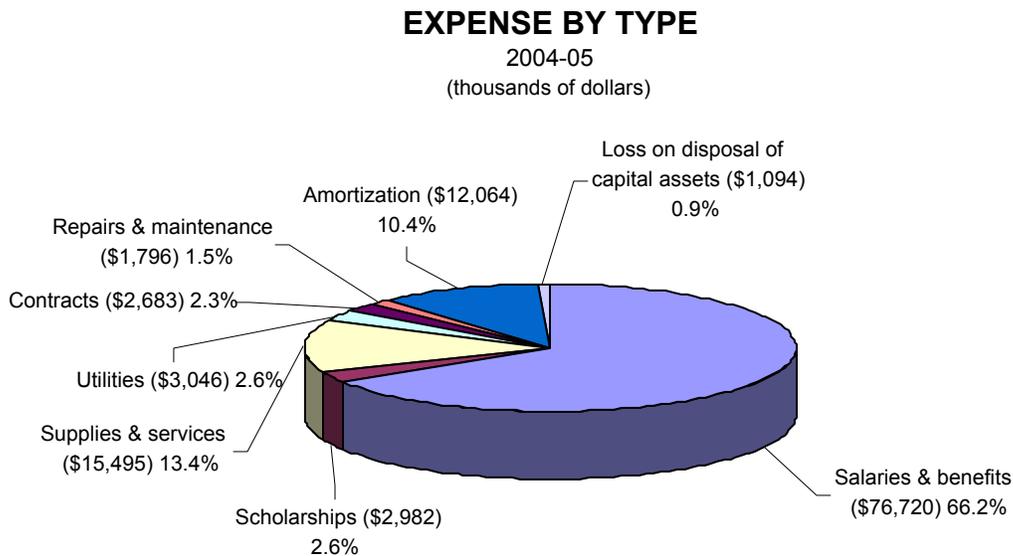
Total donations received during the year were \$2.1 million (2004 - \$1.2 million). Of this total, \$0.4 million (2004 - \$0.1 million) in donations was added directly to endowment principal and \$1 million (2004 - \$0.8 million) was deferred for spending in future years. Contributions included \$0.7 million for the Management and Health Sciences building. In addition to donations received, there were pledges totalling \$4.2 million as of March 31, 2005, including \$3.2 million for capital projects and \$0.8 million for scholarships.

**Other Revenue**

Other income of \$6.2 million (\$6.3 million in 2004) 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 \$115.9 million in 2005, an increase of \$11.5 million or 11% over the previous year.



Salaries and benefits increased by 12% over the previous year. In addition to salary increases resulting from merit and negotiated cost-of-living adjustments, approximately 45 new faculty and staff positions were added in 2005. Salaries and benefits continue to be the major component of the cost of operating the University. Despite the pressure to stay competitive in labour markets and the increasing cost of benefits, however, the University's salaries and benefits expense ratio has been fairly consistent over the past five years. In 2005, salaries and benefits made up 66.2% of total expense, compared to 66.0% in fiscal 2001.

The amount of scholarships, fellowships and bursaries awarded in 2005 was \$3.0 million (2004 - \$2.6 million). This was made up of \$1.4 million in scholarships and bursaries (2004 - \$1.3 million) and \$1.6 million in fellowships (2004 - \$1.3 million). Due to increasing graduate and postgraduate student enrolment, the University is able to attract larger amounts of research fellowship funding.

Supplies and services expense increased by \$1.4 million (10%) from the previous year, mainly due to increased spending on research and increased operational costs including property and liability insurance premiums, professional services fees and travel and conference registration expenses.

Repairs and maintenance expenditures totalled \$1.8 million in 2005. The majority of repairs and maintenance was funded through grants provided by the Infrastructure Maintenance Program (IMP). More IMP funding is needed to address the deferred maintenance on University facilities, which is estimated at \$82 million.

Utilities costs increased by only 1% over the prior year due to contracts that provide fixed rates for natural gas and electricity.

## ***Statement of Financial Position***

### **Assets**

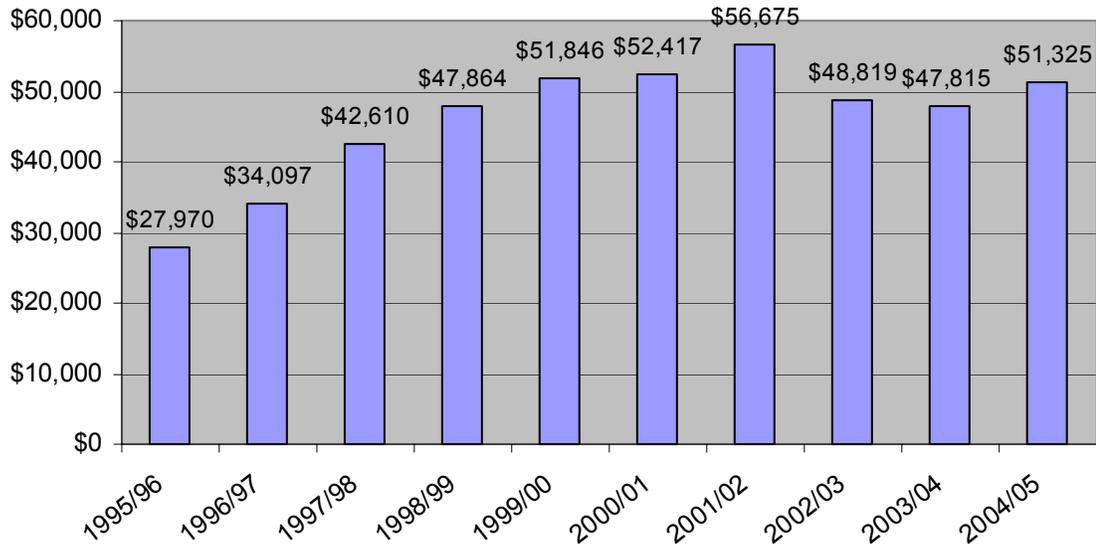
Total assets increased by \$10 million mainly due to an increase in cash and short-term investments of \$5.6 million, additional receivables of \$1.4 million, an increase in long-term investments of \$3.5 million, and a net decrease in capital assets of \$1 million.

The University will be drawing down its short-term investments over the next year to cover the construction costs of the Regional Health and Wellness Centre.

Due to the large growth in research funding, research grants receivable increased by \$1.2 million, accounting for the majority of the increase in receivables.

The increase in long-term investment balances was attributed to new contributions by the University of \$1 million, \$0.4 million in donated shares and reinvested portfolio income of \$2 million. Over the past ten years, investments have increased by \$23 million or 84%, mainly due to the accumulation of internally restricted and unrestricted reserves resulting from the University's strong fiscal management, as well as an increase in endowment principal.

### INVESTMENT BALANCES (thousands of dollars) Ten-Year Trend



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

| Funding Source                                  | 2004/05                | 2003/04         |
|---|------------------------|-----------------|
|   | (thousands of dollars) |                 |
| Externally restricted fund balances             |                        |                 |
| Endowments                                      | \$11,975               | \$11,227        |
| Infrastructure Renewal                          | 4,816                  | 3,716           |
| Sponsored Research                              | 5,676                  | 4,304           |
| Special Purpose                                 | 929                    | 698             |
| Scholarships, Bursaries & Trust                 | 2,422                  | 2,008           |
| Capital   | 1,739                  | 1,281           |
| Internally restricted net assets                | 13,713                 | 5,399           |
| Unrestricted net assets and operating cash flow | 10,055                 | 19,182          |
| <b>Total</b>                                    | <b>\$51,325</b>        | <b>\$47,815</b> |

Investments are managed by an external investment manager in accordance with the Board of Governors Finance Committee’s Investment Management Policy. Investment performance and compliance to the Investment Management Policy are monitored by the Finance Committee through an external consultant. At March 31, 2005 the market value of investments exceeded the carrying value by \$8.3 million (2004 - \$6.3 million). During the year the University changed its long-term investment asset mix in order to reduce its risk to the fluctuating value of the US currency.

Capital assets of \$12.4 million were acquired during the year, including major renovation projects (\$4.6 million), parking expansion (\$1 million), library acquisitions (\$1.4 million) and computer, scientific and other equipment purchases (\$5.3 million). Amortization expense totalled \$12 million. Net capital asset disposals of \$1.2 million consisted mainly of the write down of assets that are being decommissioned to make way for the Regional Health and

Wellness Centre.

Art donations of \$0.2 million in 2005 were added to the collection. The University is very proud of its investment in its collection, which contains approximately 14,000 objects. The collection is used for both educational and public exhibition purposes.

### **Liabilities and Net Assets**

Current liabilities increased by \$5.1 million in 2005, mainly due to increases in accounts payable and deferred revenue and contributions. Deferred contributions of \$13.8 million at March 31, 2005 were made up of restricted contributions for infrastructure renewal (\$4.8 million), research (\$5.6 million) and trust funds for scholarships, bursaries and other special purposes (\$3.4 million). These contributions will be recognized in revenue as the spending restrictions are met. The restricted contributions for infrastructure renewal are largely earmarked for renovations to the Physical Education Building.

Long-term liabilities increased by \$0.9 million due to increases in employee benefit liabilities and deferred capital contributions. Employee benefits include obligations for the University's long-term disability, senior administrative leave, supplementary benefit and early retirement plans. Deferred capital contributions of \$1.7 million represent externally restricted amounts received for capital projects including the Regional Health and Wellness Centre (\$0.5 million), the Management and Health Sciences building (\$0.9 million) and other capital projects.

Net assets increased by a total of \$7.6 million during the year as a result of an increase in investment (equity) in capital assets of \$3.4 million, endowment principal additions of \$0.7 million, an increase in internally restricted net assets of \$8.3 million and a decrease in unrestricted net assets (operating reserves) of \$4.9 million.

Endowment balances are steadily increasing, with a balance of \$11.9 million at March 31, 2005, an increase of 6.7% over the prior year and a 71% increase over the past ten years. This growth has been achieved from a combination of gifts, capitalized investment earnings and contributions from University sources, all of which make up endowment principal.

### **Growth of Endowment Principal**

|                                 | 2004/05         | 2003/04         | 2002/03         | 2001/02         | 2000/01        | 1999/00        | 1998/99        | 1997/98        | 1996/97        | 1995/96        |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>April 1 balance</b>          | <b>\$11,227</b> | <b>\$10,762</b> | <b>\$10,224</b> | <b>\$9,585</b>  | <b>\$9,064</b> | <b>\$8,475</b> | <b>\$8,017</b> | <b>\$7,301</b> | <b>\$7,022</b> | <b>\$6,656</b> |
| Endowment gifts                 | 409             | 123             | 125             | 249             | 125            | 141            | 131            | 149            | 151            | 60             |
| Capitalized investment earnings | 249             | 202             | 323             | 290             | 308            | 251            | 185            | 415            | 128            | 306            |
| University contributions        | 90              | 140             | 90              | 100             | 88             | 197            | 150            | 152            | -              | -              |
| <b>March 31 balance</b>         | <b>\$11,975</b> | <b>\$11,227</b> | <b>\$10,762</b> | <b>\$10,224</b> | <b>\$9,585</b> | <b>\$9,064</b> | <b>\$8,475</b> | <b>\$8,017</b> | <b>\$7,301</b> | <b>\$7,022</b> |

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 \$13.7 million as of March 31, 2005. 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. The increase in internally restricted net assets of \$8.3 million represents funds reserved for capital projects, including \$5.5 million for the Regional Health and Wellness Centre.

Unrestricted net assets (\$14.7 million; 2004 - \$19.6 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.