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## CALCULATION OF SURPLUS – FOR DETERMINATION OF 2019-20 OPERATING GRANT REDUCTION

On October 24, 2019, the Alberta government introduced its budget to the Alberta legislature, which outlined significant reductions to the Campus Alberta Grant (CAG) received by post-secondary institutions in Alberta. These reductions were differential and unique to each institution and ranged from 0% to 7.9%. The University of Lethbridge received a reduction of 3.2% to its CAG.

The determination of the 3.2% reduction in the CAG is based on the Provincial Government's determination of the University's average surplus from 2013-14 to 2017-18 (\$7.215 million) and the assumption that the value of the surpluses shows the ability of the institution to absorb the reduction in the CAG. The University is troubled by the determination of the \$7.215 million surplus amount, since it does not accurately reflect the general operating surplus of the University because it includes endowment funds; as well, as it ignores the impact on the surplus amount of extraordinary events that may occur and have a direct impact on the value of the surpluses reported in the annual audited financial statements. The accurate average operating surplus amount for the period 2013-14 to 2017-18 for the University is \$1.731 million.

### What is the University's Operating Surplus?

The University's annual operating surplus, which is the excess of revenue over expense, is shown on the Statement of Operations in the audited [Financial Statements](#). Annual operating surpluses are generally not on-going since they are the result of events or circumstances which occur in a fiscal year which are not anticipated to happen in future years. Typically, the University's annual operating surpluses are attributed to savings in employee position funds as a result of the length of time taken to fill budgeted positions, fluctuations in investment income beyond anticipated returns, fluctuations in the US dollar exchange rate and cost controls in the areas of materials and services. A one-time surplus may also be realized if there is a time delay between when an initial program grant is received and when the costs are incurred due to the time needed to recruit faculty and staff and establish the infrastructure required for the new program.

As mandated by the *Post-secondary Learning Act*, the University presents a balanced budget each year for approval by the Board of Governors. It is not unusual to experience variations in the annual operating surplus year over year due to unanticipated fluctuations in revenue or expenses. For example, the 2015-16 fiscal year recognized \$12.5 million in realized investment income due to a change in investment managers and the investment portfolio, all of which was reinvested. Similarly, in 2019 the University recognized in its financial statements a decrease in employee future benefits liabilities as a result of a reduction in the Universities Academic Pension Plan (UAPP) costs of \$4.3 million, thus increasing its operating surplus by \$4.3 million. In both of these circumstances the additional surplus funds realized were not available to the University to fund its operations.

Figures 1 and 2 identify the narrow margin of the University's annual operating surpluses, which reflects the contracting budget margins in each of the budget units within the University. Overall, it is useful to keep in mind that the annual operating surpluses do not represent a substantial percentage of the total annual operating budget, as shown in Figure 2.

Figure 1:

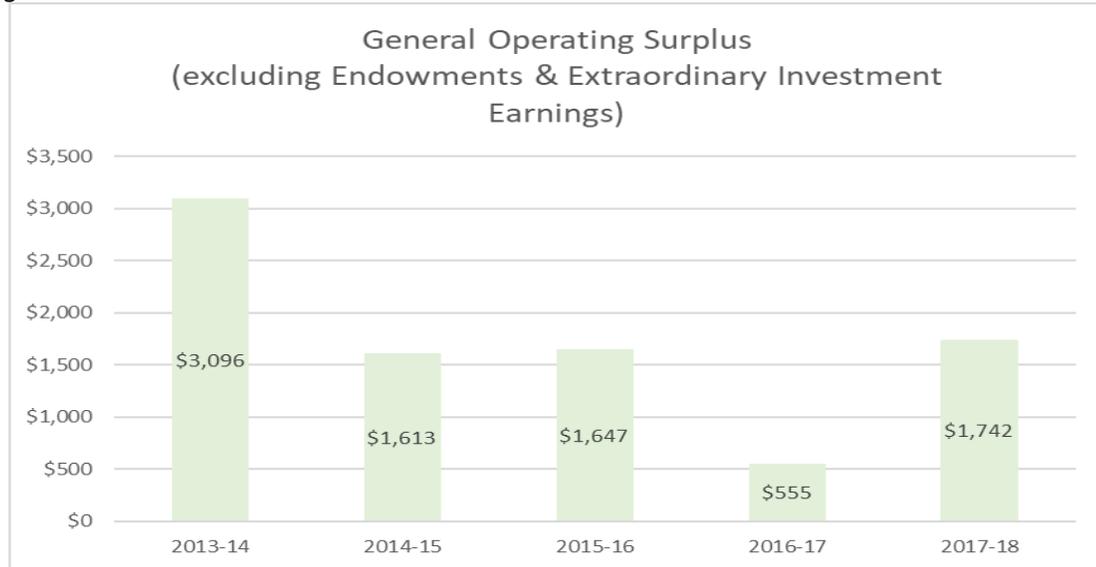
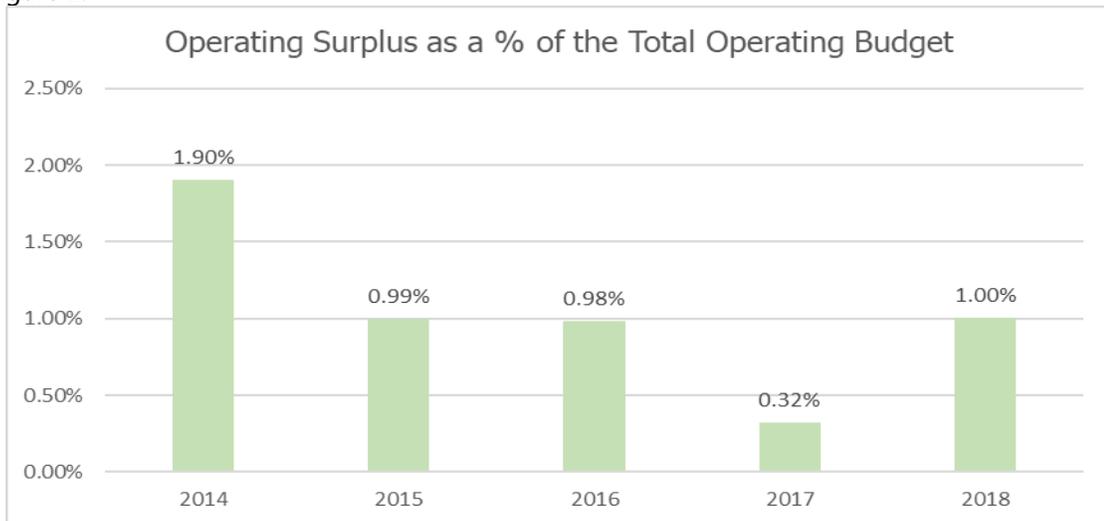


Figure 2:



The surplus amounts used by the Provincial Government to determine the CAG reductions included endowment contributions and endowment capitalized investment income, both of which are not available for spending by the University. Endowments consist of externally restricted donations received by the University, the principal of which is required to be maintained intact in perpetuity. Investment income earned on endowments must be used in accordance with the various purposes established by the donors and the expenses reflect the expenditure terms of the restricted donations.



## BUDGET BRIEF CONTEXT FOR 2020-21 BUDGET

### Accurate Operating Surplus Amount

If the Province had not included the endowment funds or the extraordinary realized investment income, the actual average surpluses of the University for the period 2013-14 to 2017-18 is \$1.731 million, not \$7.215 million. The following Table shows the appropriate calculation of the University's operating surpluses.

<b>AUDITED FINANCIAL STATEMENTS (Consolidated Statement of Operations)</b>							
(\$000)	2013-14	2014-15	2015-16	2016-17	2017-18	Average 2013-2018	
Annual Operating Surplus	\$ 3,096	\$ 1,613	\$ 14,147	\$ 555	\$ 1,742	\$ 4,231	(excluding Endowments)
Endowment Contributions		\$ 2,084	\$ 317	\$ 2,913	\$ 875		
Endowment capitalized investment income		\$ 1,598	\$ 7,397	\$ (204)	\$ (58)		
Total Endowments		\$ 3,682	\$ 7,714	\$ 2,709	\$ 817		
<b>ANNUAL SURPLUS (including endowments)</b>	<b>\$ 3,096</b>	<b>\$ 5,295</b>	<b>\$ 21,861</b>	<b>\$ 3,264</b>	<b>\$ 2,559</b>	<b>\$ 7,215</b>	<b>(including Endowments)</b>
<b>AUDITED FINANCIAL STATEMENTS (General Operating Surplus)</b>							
(\$000)	2013-14	2014-15	2015-16	2016-17	2017-18	Average 2013-2018	
Annual Operating Surplus	\$ 3,096	\$ 1,613	\$ 14,147	\$ 555	\$ 1,742	\$ 4,231	(excluding Endowments)
Less: Realized investment income due to changes in investment managers and portfolio			\$ (12,500)				
	\$ 3,096	\$ 1,613	\$ 1,647	\$ 555	\$ 1,742	\$ 1,731	(excluding Endowments and extraordinary investment earnings)