The Facts on the University of Alberta Surplus

As a result of the provincial budget tabled on October 24, the U of A received a grant reduction of 6.9% or $44,420,368. In conversation with the Ministry of Advanced Education, we have learned that the amount of each institution's reduction was based on the government's assessment of each institution's ability to manage an immediate cut. They calculated this as a percentage of 5-year average consolidated surpluses. In our case, the 6.9% reduction is 49.1% of our 5-year average surplus of $90,397,000. The figures were taken from the audited financial statements from 2013-14 to 2017-18.

It is important that we understand what makes up that surplus. Using our annual audited financial statements, we have examined the 5 years of audited figures the government used to calculate the grant reduction.

Table 1: Figures from the Audited Consolidated Statements of Operations

(thousands of dollars)

	2013-14	2014-15	2015-16	2016-17	2017-18	Average
Excess of Revenue over Expense	**18,374**					
Annual operating surplus		**75,287**	**33,062**	**25,077**	**52,800**	
Endowment contributions		79,683	20,885	31,996	25,440	
Endowment capitalized investment income		26,950	8,414	26,277	27,740	
Total endowments		**106,633**	**29,299**	**58,273**	**53,180**	
Annual surplus	**$18,374**	**$181,920**	**$62,361**	**$83,350**	**$105,980**	**$90,397**

Alberta has financial accounting rules that do not accurately represent the university operating surplus.

In 2013-14, endowment contributions and capitalized investment income did not flow through the statement of operations (meaning those amounts were not included in calculating the surplus, but rather were reflected as increases to net assets). From 2014-15 onward, the Government of Alberta required that we reflect endowment contributions and endowment capitalized investment income as part of our surplus. It is important to understand that endowments are gifts from donors that are legally required to be maintained in perpetuity, with investment income to be generated to support spending allocations directed to the purpose for which the donation (endowment) was provided, and to preserve the economic value of the spending in perpetuity. Hence, both the contributions themselves and the capitalized investment income are entirely restricted, which means that they must be used only for their intended purpose. As can be seen from the table above, these amounts were included in the computation of the university's average surplus from 2014-15 onward. They comprise approximately 55% of the $90,397 average surplus.

Now let's examine what makes up the annual operating surplus in those same years. Again the Annual operating surplus figures are from the Audited Consolidated Statements.

Table 2: Analysis of annual operating surplus

(thousands of dollars)

	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Annual operating surplus	**18,374**	**75,287**	**33,062**	**25,077**	**52,800**
Composition:					
Employee future benefits	(10,608)	(3,108)	(6,678)	5,717	16,598
Ancillary services	(1,674)	(6,731)	(3,153)	4,952	4,522
Amounts carried forward by faculties and units	16,991	28,497	44,472	(12,005)	17,729
Subtotal - restricted items	**4,709**	**18,658**	**34,641**	**(1,336)**	**38,849**
Surplus remaining after restricted items	13,665	56,629	(1,579)	26,413	13,951
Expended on:					
Investments in capital	13,000	27,600	18,600	13,200	8,400
Contributions to internal research projects and endowments	2,544	11,468	4,761	7,854	10,830
Subtotal – expended amounts	**15,544**	**39,068**	**23,361**	**21,054**	**19,230**
Remainder	**$(1,879)**	**$17,561**	**$(24,940)**	**$5,359**	**$(5,279)**

Considering restricted and expended amounts, remaining operating surplus is effectively zero.

There are several points to note to assist in understanding these figures:

There are two components of the Annual operating surplus that are truly stand-alone items: the year-over-year change in our Employee future benefits obligations and the results of our Ancillary Services operations.

What do the figures for **employee future benefits** mean? Employee future benefits are the current costs associated with the future benefit liability. These university benefits include: Universities Academic Pension Plan (UAPP), and supplementary retirement, long-term disability and early retirement plans. The positive figures in 2017 and 2018 are due to strong investment returns within the pension plan, which have reduced the UAPP liability. Any changes to the benefit obligation must be accounted for through our statement of operations, thus appears as part of our surplus.

The major **ancillary services** include residence and food service operations, our utility plant (that serves the university, the hospital, Alberta Health Services and the Jubilee Auditorium), parking and the bookstore. In each case, they are required to not only cover their direct costs, but also to maintain reserves adequate to fund their own capital improvements and deferred maintenance and provide for contingencies from an operational standpoint. In fact, the utility plant is required by provincial regulation to do so. Except for the utility plant, which serves institutions other than our own and hence government has provided some capital support, all the others receive no funding of any kind except for what is charged of those who use the service.

How do **carry forwards** impact the operating position of the university in the audited financial statements? Using 2017-18 as an example, faculties and central administrative units underspent their approved budgets by $17.7 million. When approved budgets are underspent, this differential increases the surplus for the year. In 2016-17, the opposite occurred – faculties and central units overspent their budgets by $12 million. Why do these carry forwards exist? Faculties and central admin units plan to set aside funds for important initiatives such as start-up grants, equipment purchases and technology enhancements. These items are important in supporting core teaching and research activities.

What about the surplus remaining after the above restricted items?

Our operating funds must be used, at least in part, to fund the ongoing **investment in the equipment and infrastructure** of the institution, in support of our teaching and research mission. To that end, we have included the institution's annual investment in capital projects (refer to the line Investments in capital in Table 2) net of amortization expense which had already been deducted in arriving at the Annual operating surplus. These figures exclude the impact of capital items funded though other sources.

The institution also contributes to various researchers' **research programs** through the provision of start-up grants and allowing them to subsidize their research activities through various fee-for-service arrangements. Occasionally, the university also makes **contributions to the endowment funds** (with approval from the Board of Governors) typically originating with the receipt of an undesignated bequest. The line Contributions to internal research projects and endowments identified the totals in each year, related to these two items.

The remainder of the surplus, once all of the above items are taken into account, is essentially zero. The sum of the remainder over the 5-year period is $(9,178). This is part of the university's accumulated institutional deficit.

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