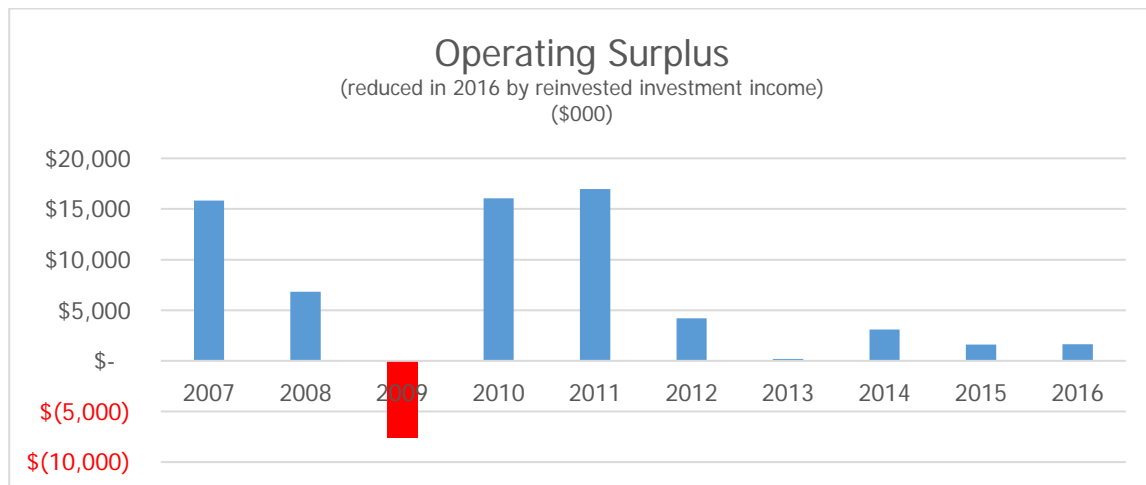


### OPERATING SURPLUSES

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 particular fiscal year which are not anticipated to happen in future years. Generally, the University's annual operating surpluses may be 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 exchange rate and cost controls in the area 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 additional 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 due to unanticipated fluctuations in revenue or expenses. For example, in 2009 the University experienced an investment income loss of \$11.5 million because of a worldwide financial crisis. This loss resulted in an operating deficit in 2009. Similarly, in 2010 the world financial markets experienced a strong recovery that resulted in larger than anticipated investment income gains.

In 2016 the University reviewed its investment portfolio and approved a change in investment managers and the management of its investments from 2 to 3 investment managers. This change resulted in the realization of \$12.5 million in investment income in the statement of operations as investments were sold and new investments were purchased. All of the \$12.5 million investment gains were reinvested and thus the funds were not available for operating expenditures. If the \$12.5 million had not been reported on the statement of operations the annual surplus would have been \$1.6 million, rather than the \$14.1 million reported on the 2015-16 audited financial statements.

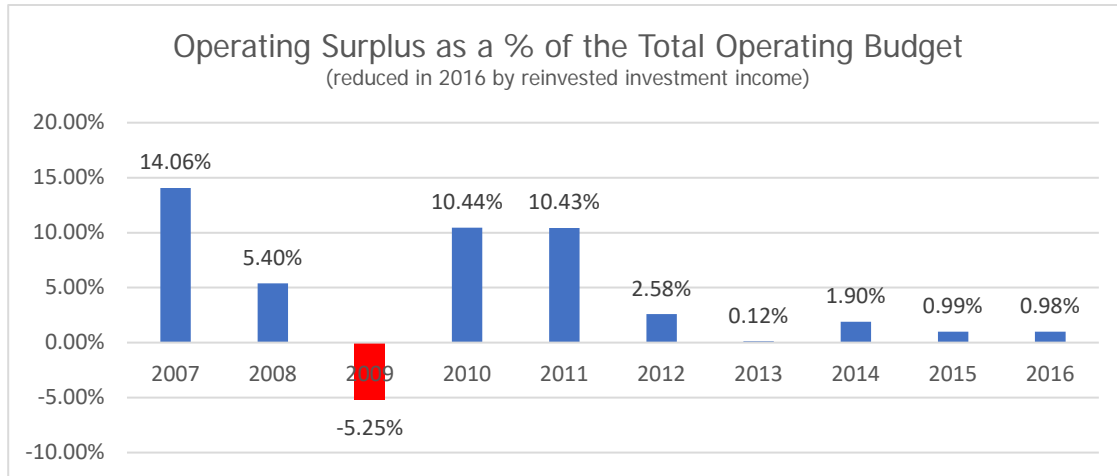


The data show a recent downward trend in operating surpluses. This trend reflects the narrowing budget margins in each of budget units within the University.

Operating surpluses typically are a result of a one-time savings that occurred in the fiscal year and thus they are not available to reduce any continuing operating budget reductions that may be required to balance future years' budgets.

Overall, it is useful to keep in mind that the annual operating budget surpluses do not represent a substantial percentage of the total annual operating budget, as illustrated in the following chart.

## BUDGET BRIEF CONTEXT FOR 2017-18 BUDGET



### How are surpluses considered when developing the University budget?

If a surplus is the result of an increase in revenue or a reduction in an expense that will be on-going and continuing into future years, the value of that surplus can be used to offset any required future budget reductions.

If the surplus is a result of a one-time event that is not anticipated to be repeated, then that surplus cannot be used to balance any future budgets. A related example of a one-time event is the \$400 bonus cheques that were distributed to each Albertan in 2006 from the Provincial surpluses. This was a one-time income increase for all Albertans but not one that could be counted on in future years and thus individuals should not have increased their on-going spending as a result of this “windfall cheque”.

### What does the University do with its operating surpluses?

If there is an annual University operating surplus, it has been used to address University strategic priority projects e.g., the Destination Project (new science and academic building), the information systems revitalization project, student residence construction or essential maintenance, replacement of equipment in the classroom, start-up costs and pilot projects for program expansion and new programs, and student recruitment and retention strategies. Proposed expenditures from operating surpluses are made in alignment with the University's Strategic Plan and are recommended by the Budget Advisory Committee to the Board of Governors for approval following input from both the University Strategic Planning Committee and General Faculties Council.

It is important to emphasize that operating surpluses/reserves are funds that are available only on a one-time basis and that they would not provide funds to cover on-going or continuing deficits that exist in the University's operating budget. Similar to a personal savings account, these funds may serve as an important cushion to cover one-off expenses in the case of an emergency or an unanticipated need for cash. Just like your savings account these funds are not automatically replenished annually.