Representing Faculty, Librarians & Veterinarians

ANALYSIS OF UNIVERSITY FINANCES

1/20/2017

Are the Administration's financial decisions best serving the University's mission?

The UGFA Financial Advisory Committee presents an analysis of the University's audited Financial Statements from 2016, contextualized in terms of prior years.

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ANALYSIS OF UNIVERSITY FINANCES

ARE THE ADMINISTRATION'S FINANCIAL DECISIONS BEST SERVING THE UNIVERSITY'S MISSION?

BRIEF SUMMARY (FOR THE YEAR 2016)

GOOD FINANCIAL HEALTH: STRUCTURAL SURPLUS?

Total UGFA salaries remain a stable percentage of the University's total revenues and total expenses, with the percentage even decreasing marginally.

***Huge net surplus* of $60M, $67M, $80M, and $41M in 2016, 2015, 2014, and 2013, respectively**

The structural surplus is a concern, since it represents so much money that we believe should have been spent in support of the University's primary missions of teaching and scholarship/research. As the guardians of those missions, UGFA Members the Administration to share, or at least to support, their commitment to the twin missions, rather than establishing a huge structural surplus.

ENORMOUS "RESERVES" IN INTERNALLY RESTRICTED FUNDS

85% of the $262M in the Internally Restricted portion of the Operating Fund consists of

- $83M of unspent "carry forward," which grew by $12M in each of 2016 and 2015 (a 21% and 16% increase, respectively);
- $69M of "reserves" once identified as contingency money for buyouts as a result of restructuring, but now having unspecified purpose; and
- $72M of money set aside for possible pension plan contributions

All of the money in the first two bullets and, arguably, at least some of the money in the third bullet could be *used now* in support of the University's teaching and scholarship/research missions.

The "Internally Restricted" label is artificial, a management construct, in our view even in the case that the Administration may claim that the Board of Governors has mandated the mirage.

RECORD LEVEL OF NEW INVESTMENTS / INCREASE IN CAPITAL SPENDING

A remarkable $129M was placed in new investments, and $75M was spent on buildings and real estate acquisitions. Rather than spend reserved money on the teaching and scholarship/research missions, the Administration invests it or spends it on buildings (some of which at least connect to the missions).

INTRODUCTION

This document presents the UGFA Financial Advisory Committee's analysis of the University's audited financial statements, running from 2011 to 2016. When suitable, we include additional information obtained from other sources. Readers seeking information back to 2006 are referred to our earlier analyses.

Besides giving some clear insight into the financial health of the institution and the priorities of the Administration, the report also helps one to suggest an answer to the question of whether the financial decisions of the Administration are best serving the University's mission.

Are the financial decisions of the Administration best serving the University's mission?

Analyses in This Report

We look at four key parts of the past years' financial statements, one per section: the

1. Statement of Financial Position
2. Statement of Operations
3. Statement of Cash Flows
4. Statement of Changes in Net Assets

Colour Legend for all Tables

BROWN	Numbers that should attract your attention
GREEN	Numbers from previous reports that have changed
ORANGE	Interesting percentages

In each section, we present

i. a table of numbers from the statements, sometimes also with information from additional sources, with some metrics, ratios, or percentages to highlight trends, and
ii. a brief written analysis of the table.

The UGFA believes that it is important to connect this financial analysis to the University's primary missions: teaching and scholarship/research. UGFA members are the guardians of the twin missions. Anecdotally, a strong majority of the discussions that UGFA Executive members have with the broader membership include concerns over high stress and workload levels. The results of our recent Workload Survey reflect this message, with a majority of members indicating that working conditions have negatively affected quality of life indicators. Morale is low; past morale surveys showed a consistent decline from year to year. UGFA members are struggling with

- workload and morale issues (in many cases leading to health or personal/family-life issues);
- quality of education in huge-section introductory (and other) courses;
- continual Administrative pressure to do more with less, Administrative downloading of bureaucratic tasks involving constantly-changing forms and frustrating electronic systems, and Administrative intrusions into front-line teaching and scholarship matters; and
- increasing corporatization of the university.

All of the financial statements are presented as at April 30 of the ending year. Those numbers become the input values for the subsequent year's financial statement. Sometimes something goes wrong (investment income not realized, government legislation, etc.) and these input numbers change by the time the next statement is produced.

One regular reminder: in our analysis the label "Internally Restricted" refers to the money that the Administration identifies as such in its financial statements. This money is not in general (if at all) allocated with specified payment, contribution, or transfer plans. That is, at any moment, this money can be transferred back into the Operating Fund and used for any other purpose, perhaps related to the primary missions of the University. One might argue that the size of these numbers should *increase* by including essentially all of the Ancillary Enterprises Fund or that that fund should receive separate intense scrutiny.

Following the sections on the four financial statements, we present a section with a Financial Scorecard that looks at factors and trends that could indicate severe financial issues, including the existence of a structural deficit, and we end with a section with summary and conclusions.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

This statement presents assets and liabilities, reporting that

Assets – Liabilities = Net Assets

Assets are broken into two types:

- current, which are usually consumed in one year, and
- long-term, which are used in operations for many years.

Liabilities are similarly broken into two types:

- current, which are usually payable in one year, and
- long-term, which are obligations due beyond one year.

Large amounts of long-term liabilities increase the financial risk of the University, which is why the Administration expresses concerns about pensions and benefits, not just mortgages, etc.

The numbers going back to 2011 are presented in Table 1. As a percentage of total assets, we see:

	In 2011-2015	*In 2016*
Cash (& short-term investments)	Between 14% and 16%	At 13%
Capital assets	Between 60% and 67%	At 59%
Short-term liabilities	Between 7% and 12%	At 13%
Long-term liabilities	Between 12% and 30%	At 11%
Internally Restricted money	Between 11% and 15%	At 14%

The green entry in Table 1 reflects a downwards adjustment of cash and short-term investments for 2015 from $307M (reported in the 2015 statement) to $283M (in 2016 statement). The decrease of $24M is due to that amount being reported as a Canadian short-term bond fund investment in 2015, but then being shifted into a long-term Canadian Fixed Income investment in the 2016 statement. This adjustment, along with a couple of other notable shifts, makes it mildly interesting to look with slightly deeper detail into cash and short-term investments. Follow this trail from 2014 to 2016:

ITEM	**2014**			**2015**			**2016**
Cash	$62M	-$12M	**$27M,**	$50M	-$10M	**$111M,**	$40M
Money Market/Treasury Bills	$166M	-$2M	**add**	$164M	-$74M	**drop $67M**	$90M
Bank Term Deposits	$16M	-$9M	**$3M,**	$7M	-$7M	**in GICs,**	$0M
GICs	$0M		**drop in**	$0M		**shift $44M**	$67M
Short-Term Bonds	$0M		**bonds**	$30M	-$19M	**to**	$11M
Other	$36M	-$4M		$32M	-$1M	**long-term**	$31M
Total	$280M			$283M			$239M

In the financial statements, the first three items (cash, money market & treasury bills, bank term deposits) are reported as cash and cash equivalents. We also consider short-term investments to be cash equivalents, since the investments mature within months. The details show that from 2014 to 2015, the $280M mass of cash and cash equivalents was rearranged a touch, with another 1% added. On the other hand, from 2015 to 2016, more significant changes occurred. Following years of huge amounts of cash and cash equivalents on hand, the

Administration shifted a significant amount of money, $67M, into GICs. A cynic might note that such short-term investments are convenient ways to "hide" or reserve money, an act that sadly might become desirable as a way to reduce visible cash available (and intended) to support the University's mission.

In addition, the Administration moved a large amount of money, $44M, to long-term investments, and even added an additional $13M to the long-term portfolio. Indeed, we have not reported on long-term investments in our financial analysis, since this money is "locked up" for longer periods. From 2015 to 2016, the value of long-term investments increased by $57M (=$44M+$13M), from $407M to $464M. The long-term government bonds investment increased by $42M, from $41M to 83; the $41M of 2015 includes the $24M identified above, reported as a short-term investment in the 2015 statement, so one might suggest that the long-term bonds investment effectively increased by $66M in the one-year period.

About one seventh of the University's total assets are in the form of cash, cash equivalents, and short-term investments. This percentage has increased consistently from 2011-2014, following a three year peak of near-20% from 2008-2010. One of the effects of the shifting of short-term investment money to longer-term investments is that this percentage decreases, so we see a dip in the adjusted 2015 numbers (since the $24M in short-term bonds was re-categorized) and a further dip in 2016.

We can interpret the numbers and the investment shifting as the Administration being extremely comfortable to run the University operations with less flexibility to generate extra cash quickly (by liquidating investments).

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Total assets have grown on average by $66M per year since 2011, about 7% per year. The 2016 growth is the smallest at 0.57%. We should recall that in 2011 the capital assets of the University we reassessed, with a huge increase in value, so the asset growth in that year is inflated compared to the other years in our window of analysis. Still, capital assets remain a hair under 60% of total assets, having crossed 60% in only three years since 2006 (2011-2013).

Short-term debt has grown by 10% to $230M. The key contributor to this growth, accounting for $23M, is deferred contributions, which "represent unspent externally restricted grants, donations and investment income for research and other specific purposes."

We see that long-term debt (due to borrowing) has decreased. Readers who wonder about the 2013 jump in Table 1 are referred to our previous update.

The Internally Restricted funds remained stable for the second time in a row, increasing 1% to $262M. These funds have increased from $20M in 2007 to $262M in 2014, dipped to $260M in 2015, and then bumped back up to $262M in 2016, sitting at 14% of total assets. This percentage decreased since last year, since in 2016 both net assets and internally restricted funds (the denominator and numerator of the ratio) increased by about $2M. Reminder: this money is declared restricted by the Administration, placed in a fund with a name that *may* suggest a *possible* eventual use for the money, unless the Administration spends the money or shifts it to another fund. The money is not in general (if at all) allocated with specified payment, contribution, or transfer plans. At any moment, the money can be transferred back into the (Unrestricted) Operating Fund and used for any other purpose, perhaps even a purpose related to the primary missions of the University.

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Our previous analysis featured an explanation of the 2015 renaming/restructuring of the different funds that the Administration has labeled as internally restricted. Based on budget presentations, it seemed important to the Administration that these funds be recast as "reserves." We present the evolution of the three reserve pots of particular interest.

FUND NAME	2014	2015		2016	
Division Reserves	$58.7M	$71.0M	+21%	$83M	+16%
Central Operating Reserves	$64.6M	$48.0M	-26%	$69M	+43%
Employee Benefits Reserves	$80.8M	$74.0M	-8%	$72M	-3%

Central Operating Reserves: This fund grew by 43% in 2016, with another $21M set aside.

Division Reserves: This money is the "carry forward" from each organizational unit. It is unspent money in Deans' Offices, the Library, and every other unit. The amount stored here increased by 21% from 2014 to 2015 and increased by another 16% from 2015 to 2016. Somewhat interestingly, the $83M balance on April 30, 2016, was forecast to be a mere $74M in the 2016-17 Budget Plan, published April 20, 2016, demonstrating again that (unaudited) budgets can land somewhat adjacent to the actual numbers.

At a presentation by the Provost in early 2016, a slightly finer level of granularity was provided for this fund in 2015. Of the $71M, the chart says that about $33M was at the level of Colleges and about $23M was in "Library, Academic Support and Institutes." The remaining $15M-or-so was split not quite equally between Institutional Services, Physical Resource Operations, and Student Services. The Provost's report also presents values for the Division Reserves pre-2014. From 2009 to 2013, the reported numbers are $29M, $30M, $33M, $40M, and $43M, respectively. (Keep in mind that this breakdown and the historical numbers are not verifiable by us, as the *audited* statements are coarser and lumped the carry forward into the fantastically-named "Equipment, Supplies and Contingency" fund pre-2014.).

The suggestion that the Division Reserves are allocated, in the sense that the money has been transferred to some unit, is answered by noting that (i) if the money were allocated in any meaningful way then the pot of money would not have double-digit percentage increases year after year, (ii) the unspent money could be used now to serve the missions of the University, and (iii) the bulk of these funds are overseen by Administrators (Deans, the CIO, Senior Staff/Admin). The final point (iii) is not meant to be combative, but one possible explanation of the enormous and embarrassing growth of the Division Reserves, that also

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resonates with point (ii), is that spreading this money around in the hands of trusted Administrators avoids the eyesore of a $150M Central Operating Reserves fund, ensures the money is not spent, and allows one to argue that the funds are allocated.

As in our last analysis, we observe that 14% of total assets being set aside, unallocated, likely leads to suggestions of how this money could be used to serve the mission of the University. Two primary ways that UGFA members would want to see this money used is hiring of new members and the maintenance of a highly-competitive salary system to attract and retain them. The Division Reserves money alone could pay for a large number of UGFA members, covering their salaries (and salary increases) for a good number of years. Increased faculty complement could help with workload and morale issues, and it would certainly help our teaching and scholarship missions by reducing our student-faculty ratio from its current standing as the highest amongst the province's comprehensive universities.

The Provost has indicated that the bulk of the carry-forward amounts will be clawed back to the Central fund if they go unspent within the year. It will be interesting to see whether we observe this result in the next audited statements.

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TABLE 1. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION (DOLLAR VALUES IN THOUSANDS OF DOLLARS)

as at April 30	2011	2012	2013	2014	2015	2016
Total Assets	1,432,117	1,501,218	1.623,556	1,731,426	1,817,362	1,827,761
year-to-year % change	**24.03**	**4.83**	**8.15**	**6.64**	**4.96**	**0.57**
Cash (& short-term investments)	199,812	214,613	255,599	280,397	283,268	239,192
year-to-year % change	-9.98	7.41	19.10	9.70	1.02	-15.56
cash/total assets	**16.22**	**14.30**	**15.74**	**16.19**	**15.59**	**13.09**
Capital Assets	958,639	999,343	1,027,390	1,036,900	1,052,451	1,085,533
year-to-year % change	48.25	4.25	2.81	0.93	1.50	3.14
(capital assets)/(total assets)	**66.94**	**66.56**	**63.28**	**59.89**	**57.91**	**59.39**
Short-Term Debt (Current Liabilities)	116,782	113,029	115,828	218,945	210,698	231,625
year-to-year % change	8.66	-3.21	2.48	89.03	-3.77	9.93
(short-term debt) /(total assets)	**9.48**	**7.53**	**7.13**	**12.65**	**11.59**	**12.67**
Long-Term Debt (Long-Term Liabilities)	428,332	519,673	215,747	224,144	213,284	201,450
year-to-year % change	24.41	21.32	-58.48	3.89	-4.85	-5.55
(long-term debt) /(total assets)	**29.91**	**34.62**	**13.29**	**12.95**	**11.74**	**11.01**
Internally Restricted	**155,293**	**171,783**	**207,284**	**262,305**	**260,101**	**262,156**
year-to-year % change	38.57	10.62	20.67	26.54	-0.84	0.79
(internally restricted) /(total assets)	**10.84**	**11.44**	**12.77**	**15.15**	**14.31**	**14.34**

ANALYSIS OF THE STATEMENT OF OPERATIONS

The statement of operations reports all revenues, all expenses, and their difference (the surplus or deficit).

Key revenue items are government grants (MTCU, and Ministry of Agriculture, Food, and Rural Affairs) and student tuition. Key expense items are salaries, benefits, and interest (on debt).

Table 2 presents the numbers.

Ideally, we hope to see increases or at least stability for each of the revenue items. We find the following.

	In 2011-2015	*In 2016*
Tuition	Yearly increases, averaging 7.4% per year, ~20-23% of revenue	Increased by 3.4%, ~25% of revenue
Transfer Grants	Marginal yearly increases, averaging 1.4% per year, ~33-35% of revenue	Increased by 1.2%, ~34% of revenue
Total Revenue	Yearly increases, averaging 3.7% per year	Small decrease of -2.1%
Salaries	Small yearly increases, marginal decrease in 2014, marginal in recent years, averaging 1.9% per year, ~48% of expenses	Stable, 0.5% increase, 45% of revenue and 49% of expenses
Benefits	Accounting changes in 2011 affect view. Stable from 2012 onward.	Stable at 5-6% of revenue or expenses
Total Expenses	Stable, except increase in 2012 and comparable decrease in 2013, due to accounting changes	Small decrease of -0.7%

The small dip in total revenues is due to investment losses exceeding the increase in tuition. Notice that tuition increased by 3.4%, or about $6M, even though undergraduate student enrolment increased by just 540 students.

Using the Common University Data Ontario (CUDO) datasets, we can see the shift in the student mass amongst our programs. These datasets are gathered by COU, presenting a common view of all Ontario universities. The reported programs/categories are decided by COU and may be difficult to connect to our actual program(s). We can't verify the numbers. Table 3 presents the results for the change in full-time enrolments from Fall 2014 to Fall 2015. (Interested readers should know that the 2015 total enrolment figures are 18,834, 1,524, and 768 for Bachelor's, Master's, and Doctoral students, respectively.)

We see a shift of students away from the programs in the middle rows of the table. The greatest increase in numbers of students occurred in Engineering, Business & Commerce, and Social Science, while the greatest percentage increase in students occurred in Computer Science, Architecture, and Physical Science. Some of these results are not surprising given the content of the Strategic Mandate Agreement in effect during this period.

In the context of tuition, the growth of enrolment in professional programs like Engineering, which have higher tuition fees and allow for larger tuition increases, generates a greater increase in revenues. Total domestic undergraduate enrolments increased by just 2.3%, but the demographics of the undergraduate student mass shifted towards such higher-tuition programs. Of course, another way to generate higher tuition revenue without significantly increasing enrolments is to take more international students. We see that the 2.3% domestic student growth was complemented by a 22.8% growth in international undergraduate students, or 126 students, increasing to 678 in total. Since international undergraduate students represent just 3-4% of the undergraduate student population, total undergraduate enrolment growth sits at 3% after this calculus, with tuition revenue up 3.4%. The increase in enrolment leads to an increase in the government transfer grants, so those extra students generated an additional $8.2M in revenues. Assuming that these students are retained, the tuition and transfer revenues will be enjoyed in subsequent years as well.

The preceding observations reveal the beginnings of one concrete strategy of the Administration. At this moment in time, President Franco Vaccarino has almost reached the 30-month or half-way mark of his term, and VP Academic Charlotte Yates is about a year behind in clocked time. We can consider numerous documents and documents-in-progress all including the title word "strategic": Strategic Renewal Framework, Strategic Research Plan, and Strategic Mandate Agreement. We can also look at the 2016-2017 Budget Plan and assorted presentations. Reading through all of these items reveals very little in terms of University direction, operational priorities, and, our focus, financial priorities. The centre-spread pages of the Strategic Renewal Framework glossy book, referred to as "the placemat" at Senate, present a buffet menu of "motherhood statements"[1]. For example, does being a "leader in inspiring learning and inquiry" mean anything about spending related to the teaching mission of the University? Well, the sub-items under this heading (or "theme," as the document calls it) include "Support the education and well-being of the whole person," "Meet learners' changing needs using evidence-based practices and new technologies," and "Advance experiential learning, engaged scholarship, learning outcomes and the graduate student experience." We might argue about some of the word choices in these items, perhaps from an academic freedom standpoint, and, ignoring word choice, we might debate why the teaching and scholarship/research missions constitute just 40% of the "strategic themes," but we come away with no understanding of priorities, financial or otherwise. The tactic used to create the Strategic Research Plan is to build on the Strategic Renewal Framework. Indeed, senators were asked to vote by early January on a question that asks whether the following Strategic Research Plan principles and priorities resonate with the framework document: excellence, partnership, culture, mobilization, and supports. More motherhood. In the context of our preceding observations, the one element of the discussion we can draw on is an unexplained "internationalization strategy."

The 2016-2017 Budget Plan suggests targeting an undergraduate enrolment growth of roughly 600 students to reach 19,450 students, and it says that the "increased efforts to recruit international students" will be given even more resources. Ignore the numbers until we have actual values, but understand that the strategy is increasing international student enrolments, both in absolute numbers and percentage-wise, while also shifting enrolments to professional programs. This financial strategy has operational impact that deserves monitoring.

[1] Just in case you have not heard this phrase before and interpret it as saying something derogatory about motherhood, a definition of this usage is "A vague, feel-good platitude, especially one made by a politician, that few people would disagree with. For example: 'Our country must contribute to world peace.'" The usage comes from the idea that politicians often kiss babies because no one can object to babies, who come from mothers. Babies are good so mothers are good.

Once again, the Administration led the University to another incredible surplus for the record books.

STATEMENT YEAR	SURPLUS (= REVENUES - EXPENSES)
2016	$60M surplus
2015	$66M surplus
2014	$69M surplus, adjust up to $80M a year later
2013	$77M surplus, adjusted down to $41M a year later

Remember that Universities are intended to run in the public interest, using not-for-profit accounting principles, so revenues minus expenses is called a surplus or deficit instead of a profit or loss. Profits in the private sector can lead to dividends for shareholders, and so on, but, in our case, these huge surpluses should be a concern, since they represent so much money that could have been spent in support of the University's primary missions of teaching and scholarship/research.

At this point, after four years of enormous surpluses, it seems fair to say that the rolling surpluses are a structural issue. The Administration plainly does not direct this unspent money, roughly 8.3% of yearly total revenues since 2013, towards any University activities, let alone mission-critical activities.

At this point, after four years of enormous surpluses, it seems fair to say that the rolling surpluses are a structural issue. The Administration plainly does not direct this unspent money, roughly 8.3% of yearly total revenues since 2013, towards any University activities, let alone mission-critical activities. The majority of the revenues of the University still come through government transfers and tuition, with the expectation from the public, and the government one would assume, that the money is spent on the missions of the University.

A high-level breakdown of the surplus is provided in the financial statements. The Operating and Capital Funds each generated just over $35M in surplus or net income, compared to their combined surplus of $32M in 2015. The financial statement reports that the Capital Fund net income is “used to reduce the internal financing of capital projects and increase the University's equity in its capital assets.” In fact, the Capital spending of the Administration totaled $75.9M in 2016, up 29% from the $58.7M in 2015. We will break this down a bit in the next section. Ancillary Enterprises generated a $12M surplus or net income. The reason that the total net income reduces to $60M is that $20M was transferred out of the (Internally Restricted) Trust Fund to pay for capital expenditures, leaving a balance of $30M. The investments of the Endowment Fund also lost money.

The Transfer Grants from MTCU stayed stable. The Administration has portrayed this revenue stream as an unpredictable wildcard since the government has yet to reveal its new funding formula. In December 2016, an update was released by the renamed Ministry of Advanced Education and Skills Development (add MAESD to your abbreviation list). The government re-affirmed that the new funding formula will

- shift focus from growth to "high-quality student outcomes";
- provide funding protection for enrolment declines, but not necessarily for enrolment growth; and
- provide specific funding to support differentiation for each institution.

We will see what actually gets delivered, but it seems unlikely that the government would massively reduce funding to any university leading up to an election in 2018.

Total expenses remain stable. Total salaries as a percentage of revenues or expenses went up a touch, but they remain lower as a percentage of revenues than all years of our analysis except 2014 and 2015. We expect that the UGFA percentage share of salaries remained lower than in the past since we did not receive a compounded increase from the 2014 salary amounts (0% increase, plus only-half-to-base Annual Career Increment). This coming June 30, all UGFA members will receive a base increase equal to the lost half-to-base ACI and on the following day receive their negotiated July 1 increase. It is always a curiosity to look at Administration salary data, but, not surprisingly, the sources are few. We can see the largest Administration salaries on the Sunshine List, but the lower-level Administration salaries are not there. The CUDO data mentioned earlier is gathered and provided by COU, who like to present themselves as faculty for the most part, even though they are not members of faculty bargaining units. The CUDO data blurs together what we consider Faculty and what we consider Administrators, making it useless to our analysis.

Interest costs dipped a small bit in 2015, remaining a stable small percentage of total revenues and total expenses, with a yearly cash value of $12M.

TABLE 2. ANALYSIS OF STATEMENT OF OPERATIONS (DOLLAR VALUES IN THOUSANDS OF DOLLARS)

as at April 30	2011	2012	2013	2014	2015	2015
Revenues						
Total Revenues	678,404	698,765	717,899	745,233	759,374	743,594
year-to-year % change	7.00	3.00	2.74	3.81	1.90	-2.08
Government Grants						
MTCU	176,936	181,753	181,301	183,331	178,990	181,379
Min Agriculture, Food, Rural Affairs	62,293	62,888	62,821	64,038	69,602	70,295
Total	239,229	244,641	244,122	247,369	248,592	251,674
year-to-year % change	3.32	2.26	-0.21	1.33	0.49	1.24
(govt grants)/(total revenues)	**35.26**	**35.01**	**34.01**	**33.19**	**32.74**	**33.85**
Student Tuition	137,102	150,754	160,609	170,037	177,127	183,131
year-to-year % change	10.39	9.96	6.54	5.87	4.17	3.39
(student tuition)/(total revenues)	**20.21**	**21.57**	**22.37**	**22.82**	**23.33**	**24.63**
Expenses						
Total Expenses	652,553	753,903	672,150	669,881	689,048	684,005
year-to-year % change	2.50	15.53	-10.84	-0.34	2,86	-0.73
Salaries	314,203	322,285	331,568	330,391	334,009	335,498
year-to-year % change	3.26	2.57	2.88	-0.35	1.10	0.45
salaries/(total revenues)	**46.32**	**46.12**	**46.19**	**44.33**	**43.98**	**45.12**
salaries/(total expenses)	**48.15**	**42.75**	**49.33**	**49.32**	**48.47**	**49.05**
Benefits	93,124	36,380	40,230	39,608	40,788	41,663
year-to-year % change	-2.86	-60.93	10.58	-1.55	2.98	2.15
benefits/(total revenue)	**13.73**	**5.21**	**5.60**	**5.31**	**5.37**	**5.60**
benefits/(total expenses)	**14.27**	**4.83**	**5.99**	**5.91**	**5.92**	**6.09**
Interest Cost	11,836	11,427	12,117	12,431	12,206	11,618
year-to-year % change	4.95	-3.46	6.04	2.59	-1.81	-4.82
(interest cost)/(total revenues)	**1.74**	**1.64**	**1.69**	**1.67**	**1.61**	**1.56**
(interest cost)/(total expenses)	**1.81**	**1.52**	**1.80**	**1.86**	**1.77**	**1.70**
Adjustments						
Unrealized Gain/Loss or Interest Rate Swap	-1,126	-3,523	-4,406	4,584	-3,431	595
Surplus or Deficit						
All Funds Combined	24,725	-58,661	41,343	79,936	66,535	60,184
year-to-year % change	1750.67	-337.25	170.48	93.35	-16.76	-9.55
(surplus or deficit)/(total revenues)	**3.64**	**-8.39**	**5.76**	**10.73**	**8.76**	**8.09**

TABLE 3: CHANGE IN FULL-TIME TOTAL ENROLMENT BY PROGRAM, FALL 2014 TO FALL 2015

	Bachelor's		Master's		Doctoral	
	#	%	#	%	#	%
Agriculture & Biological Science	7	0.2%	7	2.7%	2	1.0%
Architecture	37	16.5%	6	14.0%	0	
Business & Commerce	119	4.2%	20	9.8%	5	26.3%
Computer Science	78	27.7%	7	46.7%	-13	-100.0%
Engineering	239	14.6%	-19	-16.8%	6	10.3%
Fine & Applied Arts	-19	-5.1%	1	3.8%	-5	-35.7%
Food Science & Nutrition	-4	-0.4%	2	1.0%	-8	-8.8%
Humanities	-86	-10.4%	29	40.8%	-4	-9.5%
Kinesiology, Recreation & Phys. Educ.	-18	-1.3%	0		0	
Mathematics	-16	-32.7%	-1	-2.8%	-11	-28.2%
Medicine	58		0		0	
Other Arts & Science	-31	-3.7%	0		0	
Other Health Professions	0		-3	-6.3%	0	
Pharmacy	0		0		0	
Physical Science	68	16.2%	-6	-12.5%	-1	-2.6%
Social Science	110	2.5%	13	4.1%	-3	-1.7%
Veterinary Medicine	-1	-0.2%	-4	-4.5%	7	7.6%
Total Domestic Enrolment	414	2.3%	61	4.7%	-19	-3.1%
Total International Enrolment	126	22.8%	-9	-4.9%	-1	-0.6%
Total Enrolment	540	3.0%	52	3.5%	-20	-2.5%

ANALYSIS OF THE STATEMENT OF CASH FLOWS

This statement shows that

(starting cash) – (ending cash) = sum of cash provided or used by operations, financing, and investing.

The key items are cash flows from operations, increase/decrease in investments, and purchase/sale of capital assets.

The University should have a positive cash flow from operations to avoid risk. Otherwise, the University must be borrowing money to operate, which is risky behavior, particularly if it is a multi-year pattern.

Table 4 presents the data.

Cash flows from operations in 2016 reached the highest level since 2010, with all intervening years also featuring very large values.

In 2016, the Administration made a record level of new investments with an additional $129M tucked away, exceeding the old record by 40% and marking a 214% increase over the comparatively paltry $41M in new investments from 2015. This means that the Administration buried in investments just more than 17% of the total revenues of the University. In addition, the Administration spent $75M on capital assets, a 30% increase in spending over 2016. In combination, this means that new investments and purchase of capital assets used 27.5% of the total revenues of the University. In the period 2011-2016, the Administration has spent an average of 10.2% of total revenues per year on the purchase of capital assets.

In the period 2011-2016, the Administration has spent an average of 10.2% of total revenues per year on purchasing capital assets.

Before looking into the targets of the capital spending, we note that the level of borrowing has reached a new record low, following the previous record low from 2015. Perhaps not surprisingly, the behaviour observed last year continues: record-low borrowing coupled with significant increase in investments (new investment spending doubled from 2014 to 2015 and then more than tripled from 2015 to 2016).

Indeed, the audited statements mention parenthetically that “currently no borrowing is required for operating purposes.” The remark is made in the context of capital spending on “high priority projects,” meaning that the Administration is able to pay for all of the building projects with its own cash.

In 2016, the Administration made a record level of new investments with an additional $129M tucked away, exceeding the old record by 40% and marking a 214% increase over the comparatively paltry $41M in new investments from 2015.

The big ticket items are

- the Mitchell Athletics Centre, costing $24M in 2016, $6.9M in 2015, and having a total cost of $45.4M, although it has been estimated that the cost will balloon beyond $60M;
- the Macdonald Hall refit, costing $6.8M in 2016, $2.1M in 2015, and having a total cost of $12.3M;
- South Residence furniture replacement, costing $3.2M in 2016;
- assorted retrofitting activity, costing $11.9M in 2016, $6.7M prior, and having a total cost of $26.2M; and
- purchase of a new building in the Research Park for $2.2M to add to the property management portfolio.

We can expect more of the same in the current year. Attentive members will have noted that the federal government's Strategic Investment Fund delivered $26.2M to the University, along with $4.7M from the provincial government. The Administration has already committed $35.7M in spending. Six projects covered by this funding are

- a bio-carbon innovation and commercialization centre;
- a biosafety level 2 production animal research isolation unit;
- a food innovation centre;
- expansions and renovations of the library;
- renewal and renovations of the MacNaughton Building; and
- renovations to the Reynolds Building.

TABLE 4. ANALYSIS OF STATEMENT OF CASH FLOWS (DOLLAR VALUES IN THOUSANDS OF DOLLARS)

as at April 30	2011	2012	2013	2014	2015	2016
Total Revenues	678,404	698,765	717,899	745,233	759,374	743,594
Cash Flows From Operations	54,071	61,864	55,660	83,975	66,659	**108,135**
year-to-year % change	-54.88	14.41	-10.03	50.87	-20.62	62.22
(cash from operations)/(total revenues)	**7.97**	**8.85**	**7.75**	**11.27**	**8.78**	**14.54**
Increase or Decrease of Investments	23,066	1,397	35,861	21,391	40,893	**128,665**
year-to-year % change	-75.02	-93.94	2643.76	-40.35	91.17	214.64
increase/(total revenues)	**3.40**	**0.20**	**5.00**	**2.87**	**5.39**	**17.40**
Purchase or Sale of Capital Assets	**105,910**	**81,058**	**67,701**	**49,082**	**58,077**	**75,483**
year-to-year % change	**18.40**	**-23.47**	**-16.48**	**-27.50**	**18.33**	**29.97**
purchase/(total revenues)	**15.61**	**11.60**	**9.43**	**6.59**	**7.65**	**10.15**

ANALYSIS OF THE STATEMENT OF CHANGES IN NET ASSETS

This statement shows the changes in the net asset balances of each Fund and the transfers between the Funds. For each Fund,

Net Assets at beginning of year + (surplus or deficit) + (interfund transfer)	=	Net Assets at end of year

If we sum up all of the interfund transfers, we get $0, since this is just moving money around a fixed number of Funds, not adding or removing money from the system.

Table 5 presents the data.

With the exception of the anomalous adjusted 2012 figure, the (Unrestricted) Operating Fund has generated a surplus every year since 2006, with the last three years marking incredible record levels over $80M.

Note that the green entry for Cash Flows in 2015 just corrects a typographical error from the previous analysis. We did report this correct number in the Statement on Cash Flows section last time, but transferred it incorrectly: it played no significant role in this section of the previous analysis.

The Capital Fund continued the historic trend of a $20M deficit. Looking at interfund transfers, we see that the transfers into the Capital Fund continue. We see the $75.9M transfer from the Operating Fund into the Capital Fund; that's the cash that paid for all of the capital expenditures mentioned in the previous section.

The $2M transfer from the Operating Fund to the Internally Restricted funds marks the minor increase in Internally Restricted money from $260M to $262M. It is amazing to think that this $2M is less than one percent of the set-aside money we have discussed.

The cumulative transfer out of the Operating Fund since 2006 reached a hair shy of $600M in 2016. Roughly three quarters of the cash generated by operations is shifted out of the Operating Fund into other funds.

It is worth reminding readers that the distinction between the (Unrestricted) Operating Fund and the five Internally Restricted Funds is artificial from our perspective. All of these funds contain money that could be

[The (Unrestricted) Operating Fund and the five Internally Restricted Funds] contain money that could be directed towards the teaching and scholarship/research missions of the University. Instead, we have now seen these set-aside amounts grow from year to year for at least the past handful of years, while UGFA members work their hardest to deliver on the University's teaching and research missions, sub-optimally supported, amidst morale, workload, and health issues.

[We] should put on a podium our many UGFA members who deliver Usain-Bolt-level results in their teaching, actually surpassing his level-playing-field results with world-class teaching quality within a framework in which so much is stacked against that outcome.

directed towards the teaching and scholarship/research missions of the University. Money set aside for other purposes should have clear payment or contribution plans attached in order to justify the amounts. Instead, we have now seen these set-aside amounts grow from year to year for at least the past handful of years, while UGFA members work their hardest to deliver on the University's teaching and scholarship/research missions, sub-optimally supported, amidst morale, workload, and health issues. Although we are not sure that a sports analogy is perfectly fitting, we should put on a podium our many UGFA members who deliver Usain-Bolt-level results in their teaching, actually surpassing his level-playing-field results with world-class teaching quality within a framework in which so much is stacked against that outcome.

The Senior Administration may say that the Board of Governors has mandated the creation of these Internally Restricted Funds, but we can't distinguish between the Senior Administration and the BoG in this regard: we monitor their combined actions. Remember that in the tale of the University of Guelph, involving UGFA members, the Senior Administration, and the BoG, by and large UGFA members form the only set of actors committed to the University of Guelph for a career-long period. We are the guardians of the University's twin missions and, hence, of the University itself.

[In] the tale of the University Guelph, involving UGFA members, the Senior Administration, and the [Board of Governors], by and large UGFA members form the only set of actors committed to the University of Guelph for a career-long period.

TABLE 5. ANALYSIS OF STATEMENT OF CHANGES IN NET ASSETS (DOLLAR VALUES IN THOUSANDS OF DOLLARS)

as at April 30	2011	2012	2013	2014	2015	2016
Cash Flows From Operations	54071	61864	55,660	83,975	66,659	108,135
Surplus or Deficit Operations						
Unrestricted Fund	41,540	-41,466	59,749	99,436	86,777	80,935
Internally Restricted Fund						
Capital Assets	-16,815	-17,195	-18,406	-19,500	-20,242	-20,751
Total	24,725	-58,661	41,343	79,936	66,535	60,184
Interfund Transfers						
unrestricted to internally restricted	43,222	16,490	35,501	57,907	0	2055
internally restricted to unrestricted	0	0	0	0	2,204	0
unrestricted to capital fund	35,915	28,871	19,205	22,354	52,506	75,927
total transfers out of unrestricted per year	**79,137**	**45,361**	**54,706**	**80,261**	**50,302**	**77,982**
cumulative transfers out of unrestricted	**288,765**	**379,487**	**488,899**	**469,093**	**519,395**	**597,377**
(total transfers out of unrestricted per year) /(cash from operating activities)	**146.36**	**73.32**	**98.29**	**95.58**	**75.46**	**72.12**
(total transfers out of unrestricted per year) /(surplus or deficit in unrestricted fund)	**320.07**	**174.36**	**132.32**	**100.41**	**75.60**	**129.57**

FINANCIAL SCORECARD

In this section, we list a set of financial factors and associated trends that would indicate financial difficulty for the institution. In a situation where many of the trends are exhibited, we might be able to identify the existence of a structural deficit; when the great majority of the trends are not exhibited, we may reasonably conclude that no structural deficit exists. We present the list of factors, the associated undesirable trends, and the actual trends of the University, in the form of a scorecard. In the rightmost column of the scorecard, we indicated with ✓ the good trends and with × the potential worrisome trends.

	Undesirable trend…	*Trend at UoG since 2011*	
Revenues	Decreasing	Increasing average increase per year = 2.3% small decrease in 2016	✓
Expenses	Increasing	Stable average increase per year = 1.3% small decrease in 2016	✓
Surplus/Deficit	Consistent deficits	One large actuarially-driven deficit in 2012 Average yearly surplus = $30M	✓
Cash Balance	Decreasing	Increasing average increase per year = 1.9% substantial decrease in 2016, but huge numbers	✓
Total Assets	Decreasing	Increasing average increase per year = 8.2%	✓
Capital Assets	Decreasing	Increasing average increase per year = 10.1%	✓
Short-Term Debt	Increasing	Stable? accounting change in 2014 recalibrating in 2014-2015	?
Long-Term Debt	Increasing	Decreasing accounting change in 2014; decreasing since	✓
Internally Restricted Fund	Decreasing	Increasing massively average increase per year = 16% stable but huge since 2014	✓
Cash Flow From Operations	Negative amount	Stable and huge amount Near record high in 2016	✓
Cash Supplied From Borrowing	Increasing amount	Decreasing average decrease per year = 15%	✓
Cash used to Buy Capital Assets	Minimal amount	Increasing since 2014	✓
Surplus/Deficit in			
Unrestricted Fund	Consistent deficit	Consistent surplus, increasing One actuarial-driven deficit, in 2012	✓
Internally Restricted	Consistent deficit	No deficit	✓
Capital Fund	Consistent deficit	Consistent deficit	×
Endowment Fund	Consistent deficit	No deficit Small deficit in 2016	✓
Transfer of Cash Between Funds	Consistent transfers to same funds	Consistent transfers from Unrestricted to Internally Restricted (except for 2015) and to Capital Fund	×

Reviewing the results of the scorecard, we reach the following conclusions:

- There is no structural deficit at the University of Guelph. In fact, the Administration has established a structural surplus, in evidence over the past four years.
- Cash generated from operations is *very* healthy, with a near record high in 2016.
- Cash is available for operations, purchase of assets, increase in cash balances, and transfer out of cash from operations.
- Level of borrowing to generate cash is the smallest we have ever observed since our study began by considering 2006.
- Short-term debt needs time to demonstrate its trend. Long-term debt has a two-year decreasing trend.
- The Capital Fund's continued regular deficits and large transfers from the Operating Fund remain a principal cause for concern. In 2016, $75M cash was transferred from Operating to Capital for building ventures and real estate purchases.
- The amount of money in the Internally Restricted Fund is alarming. It has sat just over a quarter-billion dollars for three years now, not increasing in a significant way, but it is a challenge to identify that as a positive trend.

SUMMARY & CONCLUSIONS

During 2016, we see significant stability in key revenue and expense items.

Key Revenue Items

Total Revenues	Stable, 2% decrease
Government Grants (MTCU,OMAFRA)	Stable, 1% increase
Tuition	Stable, 3% increase

Key Expense Items

Total Expenses	Stable, 1% decrease
Salaries	Stable, 0.5% increase
Benefits	Stable, 2% increase
Interest Costs	Decrease, 5% decrease

The University appears to be in good financial health.

We continue to find that:

1. The UGFA salary mass remains a stable (actually slightly decreasing) percentage of total revenues or total expenses.

2. The Administration continues to place an exceptionally high priority on capital asset expenditures, coupled this year with a record level of new investments.

   As always, the reader may think about the individual merit of these capital purchases, perhaps in terms of their connection to the primary missions of the University, the level of consultation and collegial governance that leads to these spending decisions, and the impact of such decisions on possible other avenues of expenditure.

3. The Administration has designated $262M as Internally Restricted.

   The total amount of such set-aside money has stayed stable at just over a quarter-billion dollars for three years now. This amount of money represents roughly 14-15% of the University's total assets.

   Roughly $223M (or 85%) of the $260M in the Internally Restricted portion of the Operating Fund is
   - carry-forward money from the previous year (which grew by 16% or $12M in 2016),
   - money previously identified as being set aside for buyouts due to possible restructuring, and
   - money identified as being set aside for possible/eventual pension contributions.

   UGFA Members understand that the all of the money in the first two bullets and, arguably, at least some of the money in the third bullet could be *used now* in support of the University's teaching and scholarship/research missions.

   Readers will recall that the budget process run by the Provost ignores all of this money.

APPENDIX

The University of Guelph's Mission

The University's Mission Statement, approved by Senate on November 21, 1995, focuses essentially upon teaching/learning and scholarship/research:

The University of Guelph is a research-intensive, learner-centred university. Its core value is the pursuit of truth. Its aim is to serve society and to enhance the quality of life through scholarship. Both in its research and in its teaching programs, the University is committee to a global perspective.

The University offers a wide range of excellent programs, both theoretical and applied, disciplinary and interdisciplinary, undergraduate and graduate, in the arts, humanities, social sciences, natural sciences, as well as professional fields. Among these, it recognizes agriculture and veterinary medicine as areas of special responsibility.

The University attracts students, faculty, and staff of the highest quality. It is animated by a spirit of free and open inquiry, collaboration, and mutual respect. It asserts the fundamental equality of all human beings and is committed to creating for all members of its community, an environment that is hospitable, safe, supportive, equitable, pleasurable, and above all, intellectually challenging.

The University of Guelph is determined to put the learner at the centre of all it does, recognizing that research and teaching are intimately linked and that learning is a life-long commitment. The University eagerly promotes collaboration among undergraduates, graduate students, faculty, staff, and alumni, as well as with our local and international community, other educational institutions, government and business.

The University of Guelph is committed to the highest standards of pedagogy, to the education and well-being of the whole person, to meeting the needs of all learners in a purposefully diverse community, to the pursuit of its articulated learning objectives, to rigorous self-assessment, and to a curriculum that fosters creativity, skill development, critical inquiry, and active learning. The University of Guelph educates students for life and work in a rapidly changing world.

The University of Guelph invites public scrutiny of the fulfillment of its mission, especially by the people of Ontario, to whom it is accountable.

Primer on University Finances

For the completeness of this document, we present with slight modifications the primer that first appeared in our January 2013 communication.

Formal reports on University finances come in two forms: audited financial statements and budgets. Both reports are prepared by the Administration, but they differ in many ways, including those captured in this table:

	Audited Financial Statement	Budget
Third-party (auditor) oversight?	Yes	No
Who decides the assumptions and definitions?	Accounting standards	The Administration
Detail?	Limited	Substantial

The key distinction reflected by these differences is that an audited *financial statement provides an accurate report* of the financial situation of the University while a *budget provides insight into the goals and priorities of the Administration*. It is the FAC's opinion that framing things like the Program Prioritization Process (PPP) or the "structural deficit" in terms of a budget deficit obscures this distinction, for example.

Accounting measurements at Universities are made by collecting financial activity into separate areas of responsibility called "funds." Each fund tracks the assets, liabilities, revenues, and expenses in a particular area, and separate budgets are prepared for each fund. The University of Guelph currently reports on five different funds: Operating, Ancillary Enterprises, Capital, Research, and Trust and Endowment. Focusing on the first two,

- The Operating Fund is used to account for the main activities of the University, and the majority of the revenues and expenses of the University flow through this fund.
- The Ancillary Enterprises Fund is used to account for activities that support the main activities of the University. Examples are the bookstore, residence, and parking.

Money in these funds may be identified as *Unrestricted, Internally Restricted,* or *Externally Restricted.*

Unrestricted funds can be spent as the Administration desires. On the other hand, Externally Restricted funds do not have this freedom; for example, government or donors may put restrictions on the use of such money. Internally Restricted funds include money that is declared as restricted by the Administration. The name should not fool you: there is *no restriction of any kind* in the use of internally restricted funds. Money with this designation can be used in any way the Administration desires or they can just store or set aside cash in this way. In the past, the Administration has responded to this description of Internally Restricted funds by noting that some external restrictions apply to ancillary operations. For example, there is a requirement to segregate funds for self-funded operations, such as Hospitality and Housing.