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ANALYSIS OF UNIVERSITY FINANCES

10/29/2013

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 2006-2012.

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

BRIEF SUMMARY (FOR THE YEARS 2006-2012)

GOOD FINANCIAL HEALTH

- Total revenues are growing at a higher percentage rate than total expenses;
- Total UGFA salaries have remained a stable percentage of the University's total revenues and total expenses;
- Interest costs (as a result of borrowing) are stable, but still exceeded $11M in 2010-2012;
- Net *surpluses* of $25M in 2011 and $26M in 2012.

STRIKING GROWTH IN INTERNALLY RESTRICTED FUNDS

- Internally Restricted funds have grown from $35M in 2006 to $172M in 2012;
- Internally Restricted funds have grown from 2.5% of total assets in 2006 to 13% in 2012.

DRAMATIC LEVEL OF CAPITAL EXPENDITURES

- Purchase of capital assets has exceeded 11% of total revenue every year since 2009, spiking at 15.6% in 2011;
- Purchase of capital assets exceeded the cash flow generated from operations in 2011 and 2012, leading to more borrowing and increased expense due to interest costs;
- Even if all of the expenditures either somehow serve the University's primary missions of teaching and scholarship or were in some way co-funded by government, endowments, or student fees, one can ask whether any single year needed to feature so many of them.

INTRODUCTION

The UGFA Financial Advisory Committee (FAC) has analyzed the University's audited financial statements from 2006 to 2012. We also examined the MTCU operating budgets, Statistics Canada aggregate salary data for UGFA, and the Ontario government's "sunshine list." This report presents our findings.

It is the intention of the FAC that an analysis of this type will be performed each year as the next Audited Financial Statements become available.

In each section of the report, we focus on a particular financial element, identifying trends and variations. 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.

This document has received the approval of UGFA Executive and UGFA Council. An earlier copy of this document was given to the Senior Administration in mid-October, 2013, two weeks prior to the date on which it would be distributed to the UGFA Membership. On October 24, 2013, UGFA representatives met with the Provost and the Assistant Vice-President (Finance and Services) to receive any feedback from the Administration. The AVP confirmed that the numbers we use in our analysis are correct. They expressed concerns about the framing of capital expenditures, which we have addressed in the section on the Statement of Cash Flows. At the meeting, we also received an advance copy of the 2012-2013 Audited Financial Statements, which were presented to the Board of Governors the previous evening and are not yet published on the University's website. In the near future, the FAC will assemble its second financial analysis to include these most recent statements.

In the remainder of this introduction, we

- provide the University's mission statement,
- give a brief primer on University finances, and
- discuss the different analyses that are presented in detail in subsequent sections.

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 a slightly modified primer from 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 the Program Prioritization Process (PPP) as a needed response to 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. 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.

Analyses in This Report

We look at four key parts of the past six 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

In each section, we present

i. a table of numbers from the statements, sometimes also with information from additional sources, with some metrics 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). Our survey data tells us that morale amongst UGFA members has deteriorated significantly. Workload issues, the quality of education in huge-section introductory (and other) courses, heavy-handed Administrative intrusions into front-line teaching and scholarship matters, and severe budget-driven initiatives, among other things, have combined to create a climate that is distressing.

In our January 2013 communication, we labeled the Ancillary Enterprises Fund as Internally Restricted. The Administration responded by saying that student support fees (accounted for within this Fund) are externally restricted. Nonetheless, one might suggest at the outset that ancillary enterprises are arguably not an explicit part of the University's mission, even if an individual activity therein seems to be meritorious or money well spent.

It is important to make this point: in our analysis the label "Internally Restricted" refers to the money that the Administration identifies as such in its financial statements. 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.

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.

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 are presented in Table 1.

As a percentage of total assets, we see that since 2007

1) cash and cash equivalents have sat between 15% and 19%,
2) capital assets, and short-term liabilities have stayed quite stable;
3) long-term liabilities have grown from 25%, to 29% for three years, to 31%;
4) Internally Restricted money has grown from 2.5% to 13%, with some enormous year-to-year jumps.

The third point might echo the Administration's concerns regarding the future cost of benefits. Financial risk seems stable except for point (3), which suggests a small increase in risk.

On the other hand, we could ask why the cash percentage is so high. What is striking is that the cash percentage has not spiked (sitting between 15% and 20%) while the Internally Restricted amount has featured dramatic percentage increases every year since 2008. This fact suggests that all of this Internally Restricted money is being accumulated from something other than cash. We might conclude that some other activity or item is going without this money, or that (some of) this excess cash could be directed towards the primary missions of the University.

Looking deeper, this dramatic increase in Internally Restricted money in large part appears within what the Administration identifies as the Internally Restricted portion of the Operating Fund. Since they report separately on Ancillary Enterprises, we understand this money in the context of the August 2012 report to the Board of Governors: in our January 2013 communication, we reported that

- the Administration has set aside over $100M, with a significant chunk identified as being required to cover buyouts and early retirements due to restructuring (including buyouts, as per Article 24 of the Collective Agreement);
- additional "Contingency Funds" are set aside for pension fund contributions that would be legally required in the absence of the solvency relief we have enjoyed in recent years and have been granted an extension on for the next few years; and

- $12M was set aside for unspecified contingencies.

Regarding this final item, note that Internally Restricted money totaled $172M at April 30, 2012, so the $12M of unallocated money is 7% of the set aside money. The Administration has responded that they used $6M of this $12M by delaying cuts in 2012-13.

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

as at April 30	2006	2007	2008	2009	2010	2011	2012
Total Assets	937,588	985,791	1,075,579	1,074,916	1,154,700	1,231,799	1,318,429
year-to-year % change		**5.14**	**9.11**	**-0.06**	**7.42**	**6.68**	**7.03**
Cash (& short-term investments)	72,191	148,112	209,468	220,492	221,970	199,812	214,613
year-to-year % change		105.17	41.43	5.26	0.67	-9.98	7.41
cash/total assets	**7.70**	**15.02**	**19.47**	**20.51**	**19.22**	**16.22**	**16.28**
Capital Assets	521,444	550,752	565,114	595,725	646,637	713,290	753,994
year-to-year % change		5.62	2.61	5.42	8.55	10.31	5.71
(capital assets)/(total assets)	**55.62**	**55.87**	**52.54**	**55.42**	**56.00**	**57.91**	**57.19**
Short-Term Debt (Current Liabilities)	72,837	66,197	88,958	99,509	107,476	116,782	113,029
year-to-year % change		-9.12	34.38	11.86	8.01	8.66	-3.21
(short-term debt)/(total assets)	**7.77**	**6.72**	**8.27**	**9.26**	**9.31**	**9.48**	**8.57**
Long-Term Debt (Long-Term Liabilities)	223,386	247,960	283,761	317,554	344,287	357,328	411,441
year-to-year % change		11.00	14.44	11.91	8.42	3.79	15.14
(long-term debt)/(total assets)	**23.83**	**25.15**	**26.38**	**29.54**	**29.82**	**29.01**	**31.21**
Internally Restricted	40,326	24,565	33,586	**76,777**	**112,071**	**155,293**	**171,783**
year-to-year % change		-39.08	36.72	128.60	45.97	38.57	10.62
(internally restricted)/(total assets)	**4.30**	**2.49**	**3.12**	**7.14**	**9.71**	**12.61**	**13.03**

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.

Student tuition has shown an increase each year, with significant increases of roughly 10% each year since 2009. Tuition has grown to form just over 20% or so of total revenue. Except for a small dip in government grants in 2008 (down 3% compared to 2007), we see growth in this item, albeit marginal since 2010. Grants form 35% or so of total revenue.

Overall total revenues have been increasing each year, with the percentage increases being small in 2010 and 2012 because of the small or negligible increases in the two key revenue streams.

Total expenses are increasing as well, but displaying a negligible increase since 2010.

Of particular note to us are the salaries and benefits items, which are for the entire University not just the UGFA. Obviously, individual salaries of employees have increased in each year we are considering. Since 2010, perhaps retirements and lower-salary new hires have meant that the total salary mass increase has been very small. Nonetheless, since 2007,

- Salaries have been a very stable percentage of total revenues or total expenses, between 46% and 48% of either total number;
- Benefits have been a very stable percentage of total revenues or total expenses, between 13.7% and 15% of either total number.

In fact, both salaries and benefits show a slight *downward* trend as a percentage of total revenue.

Separately, UGFA-only salary data (likely professor-only data) was obtained from Statistics Canada. It should be noted that this data is for a calendar year, while the financial statement data is for a year end of April 30. Nonetheless, these numbers shows that the UGFA salary mass has sat between 28.5% and 30.3% of total revenues since 2006, excluding 2008, when it dipped to 28.12%. We highlight the year 2008 because the UGFA salary mass grew by 10.22% in 2009, which seems large in isolation. Since total revenues grew by 9.05% that year, the increase in terms of percentage of total revenue is actually very small (0.55%). We conclude that the UGFA salary mass is a rather stable percentage of total revenues.

We cannot access Administration-only salary data to see whether the other portion of University salary features Administration salary growth at the expense of support staff. Of course, in any case one might make an argument for growth in UGFA Membership in direct accordance with the University's principal missions (teaching and scholarship) via shrinking the Admin size (and/or salary component), while still keeping total salary stable.

Separately, Sunshine List data give some sense for salary successes of individual faculty members versus typical Administrative positions. (The "Sunshine List" is the casual name given to the list of public sector salaries posted by the Ontario government in accordance with the 1996 Public Sector Salary Disclosure Act.) An in-depth review of the List from its inception in 1996 to the most recent update for 2012 shows that the highest-gaining half-dozen UGFA Members on the Sunshine List have been on the List for between eight and thirteen years, and have seen their salaries increase by 73.4%, 64.6%, 54.1%, 50.7%, 50.2%, and 46.2%.

On the other hand,

- the average Associate Dean salary has increased by 65.4% since 2000,
- the average Dean salary has increased by 98.9% since 1996,
- the average VP salary has increased by 79.1% since 1996, and
- the President's salary has increased 160.7% since 1996.

In Table 3, we restrict the comparison to the past ten years, looking at the five highest-earning UGFA Members who were on the Sunshine List throughout that period and the average salaries for some Administrative positions during that period.

There is no way for us to measure the salary impact of changes in the number of Administrative support staff in Deans' and other Administrative Offices, since one expects that the great majority of these salaries do not appear on the Sunshine List, our only clear access point to non-UGFA salary data.

The Administration has presented us with four charts illustrating "Admin & General Salaries" as a percentage of total salaries, produced using Council of Ontario Universities data. While the charts purport that Guelph scores the lowest such percentages in Ontario, we have no useful data from which to verify the claim or, better yet, explore on our own. In any case, one might wonder whether a comparison to other Universities is meaningful or just one level of largesse compared to another. It may be worth pointing out that UGFA heard from many Members during the PPP about how cheaply their small program ran compared to similar programs at other institutions, but such external comparisons were deemed not meaningful in that process.

Interest costs have been a stable small percentage of total revenues and total expenses in the past few years, actually decreasing by tiny amounts after a more meaningful decrease in 2008-2009. Note that the 2008-2009 statement reported interest costs at 2.48% of total revenues on April 30, 2009, but the 2009-2010 statement started with a corrected figure of 1.76% on that date. The decreases, even though slight, reflect a decrease in financial risk, despite the long-term liability issue.

The decrease in financial risk is further reflected by the fact that the University generated surpluses in the two most recent years, after a trail of deficits. In fact, **the (record?) levels of surplus in 2011 and 2012** are dramatic, with **the University not spending roughly 4% of its revenue in each of these years.** That's additional money that could be put towards the primary missions of the University.

To put this in current context, the raw surplus in 2011 was \$25M and in 2012 was \$26M. Perhaps two years isn't long enough to say that this is a **structural surplus**, but the Administration is presently crystal ball gazing to conclude that a number of years hence there is a \$32M structural deficit. The yearly *realized* surplus and the *proposed* structural deficit numbers almost cancel out, and we have not even factored in the Internally Restricted money.

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

as at April 30	2006	2007	2008	2009	2010	2011	2012
Revenues							
Total Revenues	510,789	560,491	569,267	620,798	634,034	678,404	698,765
year-to-year % change		9.73	1.57	9.05	2.13	7.00	3.00
Government Grants							
MTCU	141,733	159,354	152,510	166,107	168,427	176,936	181,753
Min Agriculture, Food, Rural Affairs	50,226	54,885	54,946	62,930	63,108	62,293	62,888
Total	191,959	214,239	207,456	229,037	231,535	239,229	244,641
year-to-year % change		11.61	-3.17	10.40	1.09	3.32	2.26
(govt grants)/(total revenues)	37.58	38.22	36.44	36.89	36.52	35.26	35.01
Student Tuition	88,658	96,531	101,506	111,092	124,199	137,102	150,754
year-to-year % change		8.88	5.15	9.44	11.80	10.39	9.96
(student tuition)/(total revenues)	17.36	17.22	17.83	17.90	19.59	20.21	21.57
Expenses							
Total Expenses	521,694	563,391	581,441	627,177	636,624	652,553	669,227
year-to-year % change		7.99	3.20	7.87	1.51	2.50	2.56
Salaries	250,042	261,231	278,207	300,686	304,285	314,203	322,285
year-to-year % change		4.47	6.50	8.08	1.20	3.26	2.57
salaries/(total revenues)	48.95	46.61	48.87	48.44	47.99	46.32	46.12
salaries/(total expenses)	47.93	46.37	47.85	47.94	47.80	48.15	48.16
Benefits	72,239	81,444	74,658	90,815	95,864	93,124	95,821
year-to-year % change		12.74	-8.33	21.64	5.56	-2.86	2.90
benefits/(total revenue)	14.14	14.53	13.11	14.63	15.12	13.73	13.71
benefits/(total expenses)	13.85	14.46	12.84	14.48	15.06	14.27	14.32
Interest Cost	10,523	10,635	12,166	10,941	11,278	11,836	11,427
year-to-year % change		1.06	14.40	-10.07	3.08	4.95	-3.46
(interest cost)/(total revenues)	2.06	1.90	2.14	1.76	1.78	1.74	1.64
(interest cost)/(total expenses)	2.02	1.89	2.09	1.74	1.77	1.81	1.71
Adjustments							
Unrealized Gain/Loss or Interest Rate Swap				-4,342	3,926	-1,126	-3,523
Surplus or Deficit							
All Funds Combined	-10,905	-2,900	-12,174	-10,721	1.336	24,725	26,015
year-to-year % change		73.41	-319.79	11.94	112.46	1750.67	5.22
(surplus or deficit)/(total revenues)	-2.13	-0.52	-2.14	-1.73	0.21	3.64	3.72

TABLE 3: PERCENTAGE INCREASES FROM 2003 TO 2012 IN (1) SALARY OF FIVE HIGHEST-EARNING UGFA MEMBERS ON SUNSHINE LIST AND (2) AVERAGE SALARY OF ADMINISTRATIVE POSITIONS

UGFA Members on Sunshine List, Past 10 Years					Average Salary of				
1	2	3	4	5	Assistant Deans	Associate Deans	Deans	VPs	Presidents
73.4%	50.7%	49.2%	42.6%	36.3%	77.0%	40.8%	54.3%	55.8%	121.3%

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.

We see that the University had one negative cash flow year in 2008, which was the year that the pension issue hit them hard: they had a $50M increase in deferred pension costs, combined with other elements of the so-called “perfect (financial) storm.”

After that bump, things turned around. There was a spike in cash flows from operations as reported at April 30, 2010 (reported as 25% of total revenue in 2009-2010, but adjusted to 19% in 2010-2011). Ignoring the spike, we see a steady increase in cash flows from operations. This cash flow increase contributes a steady decrease to the financial risk measure.

We note that the spike in cash flows from operations coincides with a spike in investments that year (at 15% of total revenue). And we see that the purchase of capital assets has exceeded 11% of total revenue every year since 2009, excluding 2012, hitting 15.6% in 2011. The decline in 2012 in the purchase of capital assets may be seen as a measure of how large the number was in 2011, not how small the number became in 2012. In fact, in 2011 and 2012, the purchases of capital assets were larger than the cash flows from operations: this means that money was found elsewhere to buy capital assets. The implication is that the Administration has placed a very high priority on capital investments. The Administration has said to us that such expenditures can be in line with the University’s mission. We do understand this to be true and clearly recognize that some capital expenditures are necessary. However, it is also clear that when so much money is directed this way in a given year, other activities of equal or arguably greater importance to the mission are starved. We expect a balance of priorities that includes issues such as first-year class size, our workload, etc.

For example, for the fiscal year ending April 30, 2011, the major items in the $105M of capital acquisitions (paid for with new borrowing, $27.4M in Capital Contributions, and other funds) were

Alexander Hall renovations	$20.3M
OVC Pathobiology/Animal Health Labs Facility	$14.8M
School of Engineering expansion	$13.4M
Addition for Center for Biodiversity Genomics	$5.0M
Lennox Hall renovations	$2.7M
Interior Improvements, Woodlands and Glacier	$2.6M
OVC Primary Health Care Facility	$2.2M
Rugby Field Conversion	$1.7M
“Major Equipment Purchases”	$23.5M
Five-Year Capital Renewal Financing Plan	$9.5M

For the year ending April 30, 2012, the major items in the $81.2M of capital acquisitions (paid for with new borrowing, $12.5M in Capital Contributions, and other funds) were

Athletics Field House and Multiplex	$14.7M
School of Engineering expansion	$12.2M
Addition for Center for Biodiversity Genomics	$8.6M
Animal Cancer Centre	$7.5M
"Major Equipment Purchases"	$17.3M
Five-Year Capital Renewal Financing Plan	$9.6M

The Administration has pointed out that many of the above-listed initiatives had funding sources in addition to the University. Government funding is not the only avenue for additional money to support some of the listed initiatives: donations or new student fees play a role, as well, and even completely cover the cost of an initiative. The style of reporting of capital expenditures does not separate the funding sources in any clear way. The Capital Contributions totals reported above

For example, the Alexander Hall renovations are a Knowledge Infrastructure Program (KIP) project. Exploring this initiative further, we find that the November 11, 2011, news release for the Alexander Hall opening labeled it a $33.6M project. Indeed, the KIP website lists the same total project cost, reporting that the KIP funding amount was $16.8M, half the total. It appears that the other half comes from the other level of government. Looking at the Audited Statements, we find

Year of Statements	Funding received	Money spent
2009-1010	$10.8M	$12.6M
2010-2011	$20.2M	$20.3M
2011-2012	$2.6M	

It is possible that the remainder of the $33.6M spending on this initiative falls under the $3.7M "several smaller projects" spending in 2011-2012.

The "funding received" column presents what the Statements call "Capital Contributions"; each year, such contributions are a small percent of the total amount of capital expenditures.

As another example, the OVC Pathobiology/Animal Health Labs Facility received $62M in government funding (combining provincial and federal); the actual cost of the facility is unclear.

Finally, some new building initiatives, such as the School of Engineering expansion projects, are solely funded by the University.

Nonetheless, contextualizing in current terms, the Administration is projecting a structural deficit of $32M while capital investments have been a significant percentage of total revenues each year since 2006 (more than 10% in all but one year, more than 14% in three of the years). We are typically unable to separate the externally funded portion of such expenditures from the amounts taken out of the Operating Fund, but the latter amount is significant since capital contributions are generally a small percentage of money spent (capital acquisitions). In addition, the impact of borrowing costs can plays a non-negligible role: $4.5M of the $32M projected structural deficit is due to such costs ($1.5M per year for three years).

One might ask some questions:

- Does each of these major capital expenditures serve the University's primary missions of teaching and scholarship? How strongly?
- Even more importantly, was it necessary to make all of these expenditures in the same year?

Discussion of capital expenditures, especially then they in part involve research labs or classrooms is admittedly delicate. Yes, it is hard to ignore new financial contributions from government programs, donors, and students, but central aspects of our primary missions, such as class sizes and UGFA Member workload, become increasingly severe problems that would also benefit from increased financial resources. Another option would be a balanced approach that addresses our primary missions of teaching and scholarship beyond the infrastructure level.

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

as at April 30	2006	2007	2008	2009	2010	2011	2012
Total Revenues	510,789	560,491	569,267	620,798	634,034	678,404	698,765
Cash Flows From Operations	53,816	38,526	-26,560	34,343	119,834	54,071	61,864
year-to-year % change		-28.41	-168.94	-229.30	248.93	-54.88	14.41
(cash from operations)/(total revenues)	**10.54**	**6.87**	**-4.67**	**5.53**	**18.90**	**7.97**	**8.85**
Increase or Decrease of Investments	7,420	-8,652	26,961	-23,241	92,355	23,066	1,397
year-to-year % change		-216.60	-411.62	-186.20	-497.38	-75.02	-93.94
increase/(total revenues)	**1.45**	**-1.54**	**4.74**	**-3.74**	**14.57**	**3.40**	**0.20**
Purchase or Sale of Capital Assets	100,750	68,686	54,251	**69,053**	**89,453**	**105,910**	**81,214**
year-to-year % change		-31.83	-21.02	**27.28**	**29.54**	**18.40**	**-23.32**
purchase/(total revenues)	**19.72**	**12.25**	**9.53**	**11.12**	**14.11**	**15.61**	**11.62**

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) = Net Assets at end of year
+ (interfund transfer)

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. The 2009-2010 Financial Statement and earlier ones have a "Statement of Changes in Internally Restricted Net Assets"; beginning in 2010-2011, they have a "Statement of Changes in Net Assets." Separate other reports in the earlier Statements allow us to reconstruct the numbers as they would appear in the current reporting structure, so we are able to build a study going back to 2006.

Table 5 presents the data.

We see that the Operating Fund has generated a surplus every year since 2006, growing dramatically in 2011 and 2012, perhaps to record levels ($41M and $43M, respectively). The Capital Fund generated a deficit every year since 2006, dragging down the financial condition of the University.

Looking at interfund transfers, we see immediately that the Administration has shifted large amounts of money every year to the Capital Fund. See the preceding section for some examples of the uses of these transfers. Unlike some other transfers, transfers to the Capital Fund are typically permanent.

Remember that the Administration can park or set aside money from the Operating Fund for any reason by designating it as Internally Restricted. On the other hand, we should recognize that there are useful activities in the Internally Restricted Fund that may require such transfers.

We see that money actually was transferred out of the Internally Restricted Fund to the Unrestricted Fund in 2006 and 2007, *possibly* to support the main missions of the University (teaching and scholarship). This could be money that had been transferred and parked in Internally Restricted previously. Separate calculations show that the Internally Restricted Fund had a balance of $35M on April 30, 2007, which would be the balance after transferring out the $16M reported in the Change in Net Assets.

The total transfers out of the Unrestricted Fund exceed the surplus in the Fund in every year. In fact, the transfer into the Capital Fund alone exceeds the surplus of the Unrestricted Fund in all years except 2011 and 2012. The level of transfers to the Capital Fund indicates that the Administration places a very high priority on capital acquisitions, at the expense of other possible uses for this money.

Notice that the total transfer out of the Unrestricted Fund per year used up

- Roughly half of the cash generated from operations in 2006 and 2010;
- Roughly three quarters of the cash generated from operations in 2007 and 2012;
- More than the cash generated from operations in 2009 and 2011.

The anomalous year is 2008, when the pension crisis hit, after which the pattern was reestablished.

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

as at April 30	2006	2007	2008	2009	2010	2011	2012
Cash Flows From Operations	53816	38526	-26560	34343	119834	54071	61864
Surplus or Deficit Operations							
Unrestricted Fund	6,355	15,577	6,071	6,252	18,505	41,540	43,210
Internally Restricted Fund							
Capital Assets	-17,260	-18,477	-18,245	-16,973	-17,169	-16,815	-17,195
Total	-10,905	-2,900	-12,174	-10,721	1,336	24,725	26,015
Interfund Transfers							
unrestricted to internally restricted	0	0	9,182	43,191	35,294	43,222	16,490
internally restricted to unrestricted	24,179	15,761	0	0	0	0	0
unrestricted to capital fund	48,560	45,568	20,923	22,018	24,832	35,915	28,871
total transfers out of unrestricted per year	**24,381**	**29,807**	**30,105**	**65,209**	**60,126**	**79,137**	**45,361**
cumulative transfers out of unrestricted	**24,381**	**54,188**	**84,293**	**149,502**	**209,628**	**288,765**	**334,126**
(total transfers out of unrestricted per year) / (cash from operating activities)	**45.30**	**77.37**	**-113.35**	**189.88**	**50.17**	**146.36**	**73.32**
(total transfers out of unrestricted per year) /(surplus or deficit in unrestricted fund)	**-223.58**	**-1027.83**	**-247.29**	**-608.24**	**4500.45**	**320.07**	**174.36**

SUMMARY & CONCLUSIONS

Over the period we have analyzed, the main revenue streams and expense items were generally very stable as percentages of total revenues or total expenses.

Key Revenue Items

Total Revenues	Increased in every year, with the percentage increase *exceeding the corresponding percentage increase in expenses* every year except 2008
Government Grants (MTCU,OMAFRA)	Very slight increase in recent years, yet still a slight decrease as a percentage of total revenues
Tuition	Steady year-to-year increase as a percentage of total revenues

Key Expense Items

Total Expenses	Increased in every year, with the percentage increase *less than the corresponding percentage increase in revenues* every year except 2008
Salaries	Stable as a percentage of either total revenues or total expenses
Benefits	Stable as a percentage of either total revenues or total expenses, with a slight decrease since 2010
Interest Costs	Stable, slowing a slight decrease in recent years, as a percentage of either total revenues or total expenses, yet exceeding $11M/year in 2010-2012

The University appears to be in good financial health. A key risk factor is the level of new borrowing to fund a pronounced amount of capital expenditures well exceeding the cash flows generated by operation of the University. Costs associated with this new borrowing account for $4.5M of the Administration's projected $32M three-year structural deficit.

Our analysis reveals three clear messages:

1. The UGFA salary mass is a stable percentage of total revenues or total expenses. The raises negotiated as part of our current Collective Agreement maintained this stability. In the last round of negotiations, we agreed to make very substantial increases to our pension contributions, partly offsetting our salary increases. In very recent news, the Administration receiving a solvency relief extension, surely at least in part due to our concessions.

   The Administration might add that the Multi-Year Plan 1 cuts funded our raises, maintaining the stability in the process, but that would just open new questions also of current interest, such as

   - What do they choose to cut?
   - What process and/or metrics drive these decisions?
   - Why do they cut while at the same time
     - growing huge contingency funds, including one with the identified purpose of dealing with restructuring and paying buyouts?
     - making a dramatic level of capital expenditures?

We have no real ability to assess similarly the portion of the University salary mass corresponding to the Administration; we cannot obtain a complete set of data with same level of detail as we can for our Members. The full salary mass is a stable expense, but we cannot comment on the breakdown in terms of the other employee groups, including the Administration and Administrative support staff. Sunshine List data analysis supports the claim that higher-profile Administrative salaries (Associate Deans and up) have enjoyed percentage increases that well exceed the increases of faculty members over the same time period. This result is particularly striking in light of the occasional reminders from the Senior Administration of their multi-year salary freeze sacrifice; the gap would be even wider without it.

2. The Administration places an exceptionally high priority on capital asset expenditures. Such activity has led to increases in long-term liability due to large levels of borrowing. The University has been spending roughly $11.5M per year in interest charges on its debts, which one might say is a stable 1.5-2% of total revenue or total expenses. The new borrowing means that we cannot expect this cost to disappear or even decrease substantially any time soon.

   Questions regarding the merit of individual capital expenditures in relation to best serving our primary missions; the presence or absence of collegial governance that leads to the spending decisions and, potentially, new directions of activity at the University; and so on; are left to the reader. Similarly, the reader can decide whether exercising some restraint on *actual* capital asset expenditures could help offset the Administration's *proposed* structural deficit, as well as what role the *realized* record surpluses of the past two years (a structural surplus?) can play.

3. The Administration has designated a surprisingly large amount of money as Internally Restricted, a total of $172M of Internally Restricted funds on April 30, 2012. We identified a five-year pattern of double- and even triple-digit year-to-year percentage changes in money with such designation. In the past five years, the amount of money labeled as Internally Restricted has increased by more than a factor of five, now exceeding in value more than 13% of the University's total assets.

   The Administration has indicated that some of the Internally Restricted money is parked for University pension contributions. The recent period of solvency relief, now extended for perhaps three more years, means that any Internally Restricted money allocated to pension contributions is needed only for "Going Concern" issues, not solvency. The Administration has estimated that this may equate to needing $10M to $11M per year; in 2012, $45M was set aside as internally restricted for pension contributions. Pension industry experts expect that universities will be exempted from solvency valuations, either by forming a Jointly Sponsored Pension Plan (single- or multi-employer may be possible) or by being forcibly switched to a Defined Contribution plan as the Ontario PCs have talked about.

   The Administration has also indicated that more restructuring is on the way, which is the anticipated allocation of a $46M contingency fund parked inside a $95M "Equipment, Supplies and Contingency" Internally Restricted fund.

   Questions regarding how any restructuring affects the primary missions of the University and the reputation of the University and its programs, and the presence or absence of collegial governance in determining that such actions are necessary, are left to the reader.