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ANALYSIS OF UNIVERSITY FINANCES

2/22/2016

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 2015, contextualized in terms of prior years.

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ANALYSIS OF UNIVERSITY FINANCES

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BRIEF SUMMARY (FOR THE YEAR 2015)

GOOD FINANCIAL HEALTH: STRUCTURAL SURPLUS?

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

***Huge net surplus* of $67M in 2015, following $80M in 2014 and $41M in 2013.**
(Updated 2014 numbers increased revenue by $8M and decreased expenses by $3M, increasing the 2014 surplus from $69M to $80M.)

These huge surpluses should be a concern, since they represent so much money that could have been (was intended to be?) spent in support of the University's primary missions of teaching and scholarship/research. As the guardians of those missions, UGFA Members expect their commitment to the twin missions to be shared, or at least supported, by the Administration, instead of establishing a huge structural surplus.

ENORMOUS "RESERVES" IN INTERNALLY RESTRICTED FUNDS

70% of the $260M in the Internally Restricted portion of the Operating Fund consists of

- $71M of unspent "carry forward," which grew by $12M (20%) in 2015
- $48M of "reserves" once identified as contingency money for buyouts as a result of restructuring
- ~$60M 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 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.

INCREASE IN CAPITAL EXPENDITURES, BUT LESS RISKY

Money spent to purchase capital assets increased by 18.3% from 2014 to 2015, but borrowing of new money was at record low for the period of all our financial analyses (2006-present). Purchase of capital assets was less than the cash flows from operations in 2015, the second year in a row, explaining the reduction in cash supplied by borrowing.

INTRODUCTION

This document presents the UGFA Financial Advisory Committee's analysis of the University's audited financial statements, running from 2010 to 2015. When suitable, we include additional information obtained from other sources.

Readers seeking information back to 2006 are referred to our earlier analyses.

In each main 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.

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

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.

Colour Legend for all Tables

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

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.

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

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 continues to tell us that morale amongst UGFA members has deteriorated significantly. The climate on campus remains very distressing due to many factors:

- workload and morale issues,
- the quality of education in huge-section introductory (and other) courses;
- heavy-handed Administrative intrusions into front-line teaching and scholarship matters;
- severe and damaging initiatives like the Program Prioritization Process;
- imposition of bureaucratic tools that sap faculty members' patience and valuable time, and, in the case of the eCV, take away faculty members' ability to control how their information is conveyed to committees (and external assessors) during the most sensitive and important tenure, promotion, and review process; and
- the increasing corporatization of the university.

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.

In the Financial Scorecard section, we look at factors and trends that could indicate severe financial issues, including the existence of a structural deficit. We end with a section offering a 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 2010 are presented in Table 1. As a percentage of total assets, we see:

	In 2010-2014	*In 2015*
Cash and cash equivalents	Between 14% and 19%	At 17%
Capital assets	Between 56% and 67%	At 58%
Short-term liabilities	Between 7% and 13%	At 12%
Long-term liabilities	Grown from 13% to 30%	At 12%
Internally Restricted money	Grown from 10% to 15%	At 14%

Just around one sixth of the University's total assets are in the form of cash, cash equivalents, and short-term investments. This percentage has increased consistently since 2011, following a three year peak of near-20% from 2008-2010. For comparison, we noted in our first analysis that in 2006, the percentage was just 8%. It is important to note that total assets have grown by an average of $110M per year since 2010, or roughly 9% per year. This means that even if cash remains a stable percentage of total assets, the actual amount of cash available for operations still increases. Indeed, in 2015 the amount of cash, cash equivalents, and short-term investments rose by $27M compared to 2014.

It is important to note that total assets have grown by an average of $110M per year since 2010, or roughly 9% per year.

Capital assets remain relatively stable, growing just a touch as a percentage of total assets. Readers who wonder about the 2011 jump in Table 1 are referred to our previous update, which discussed the change in accounting practices that led to a real estate reassessment.

In the 2014 audited financial statements, short-term liabilities were reported as reaching their lowest level as a percentage of total assets over all of the years of our study (2006-2014). There was a 10% decrease in this ratio from 2013 to 2014, with short-term liabilities sitting close to $104M. In Table 1, the updated 2014 number reported in the 2015 statements is $219M, a jump of $115M!

Did the Administration really overlook $115M in *SHORT-TERM* liabilities? No, this is a result of a shift in accounting in the 2015 statements. We focus on the "Contributions" part of a liability entry called "Deferred Revenue and Contributions," representing *unspent* grants, donations, and investment income received in the current and prior years for externally restricted expenditures (targeted research, etc.) in a future year. In 2014 and earlier, we find both a long-term liability amount and a separate amount for the current year. For example, in the 2014 audited financial statements, the numbers are $125M as total (long-term) deferred revenue and contributions (reported together), while the current portion is $40M, for a total of $165M. In the 2015 audited financial statements, the current portion of deferred revenue for 2014 is reported as $9M, while the deferred contributions have no current portion, instead replaced by the total $146M, for a total of $155M. Note that the beginning of year balance for 2014 also changed in the two documents, so the point of the preceding details is that the Administration now reports retroactively to 2014 the total amount of all future-year deferred contributions as a short-term liability.

The accounting shift highlighted by example in the preceding paragraph means that the short-term debt raw amount and percentages in terms of total assets should not be compared from 2014-2015 to earlier years.

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 were stable for the first time in many years, having increased from $20M in 2007 all the way to $262M in 2014 and $260M in 2015. Remember that this money is declared restricted by the Administration, placed in a fund which *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 Operating Fund and used for any other purpose, perhaps related to the primary missions of the University

The [$260M of Internally Restricted] 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 Operating Fund and used for any other purpose, perhaps related to the primary missions of the University

The closing remarks in our previous analysis read:

> *"Finally, it seems like a question worth asking is why this set aside is labelled "Equipment, Supplies, and Contingency" in the first place. Would it not be more illuminating to separate "Equipment and Supplies" set-aside money from "Contingency" set-aside money? A cynic might suggest that that observation is precisely why all three declarations are put in one title."*

In relation to this remark, we highlight an interesting change: in the 2014 Audited Financial Statements, the words "contingency" and "contingencies" occur 8 times and 5 times, respectively, including in the name of the fund holding all of that possible buyout money. In the 2015 document, the words occurs 0 times and 4 times. Indeed, in 2015, the new word to describe this set-aside money is "Reserves." The $262M in Internally Restricted money, spread over many funds, has been somewhat repackaged since last year into a collection of "reserve funds." In each of 2014 and 2015, the Internally Restricted portion of the Operating Fund was broken into five sub-funds. We present the details:

2014 STATEMENTS			2015 STATEMENTS		
2014 BALANCE	**FUND NAME**		**FUND NAME**	**2014 BALANCE**	**2015 BALANCE**
$123.3M	Equipment, Supplies and Contingency	split →	Division Reserves	$58.7M	$71.0M
			Central Operating Reserves	$64.6M	$48.0M
$0.9M	Guelph-Humber Internally Restricted		Guelph-Humber Internally Restricted	$0.9M	$1.5M
$1.0M	Self-Insured Losses		Self-Insured Losses	$1.0M	$1.0M
$16.2M	Employee Benefits	combine →	Employee Benefit Reserves	$80.8M	$74.0M
$64.6M	University Pension Contributions				

We examine the top and bottom items more closely.

- In 2012, when the mischievously-named "Equipment, Supplies and Contingency" fund sat at $95M, we were told that roughly half of the money in that fund was for possible buyouts due to restructuring. By the time it grew to $123M in 2014, we were no longer sure exactly what portion of the fund was to cover such buyouts. Now, looking at the 2015 split of the fund into two reserves, we see that the $58.7M was the "Division Reserves," which we more casually refer to as the "carry forward" —that is, unspent money at the "organizational unit" level—and the other $64.6M is the "Central Operating Reserves," which includes the at-least $50M-or-so of buyout money. Jumping ahead to 2015, the carry forward now sits at $71M, an increase of $12M in one year, a leap of over 20%. The Central Operating Reserves had another $6.4M transferred into it, reaching $71M, with $23M then transferred back to the unrestricted part of the Operating Fund, to leave it at $48M.

  The first observation is that the mischievous "Equipment" and "Supplies" part of the previous fund name perhaps masked that this money was the carry forward. The second observation is that we do not get any detail of how this money is distributed amongst the "organizational units."

  And third: what is the difference between the unrestricted part of the Operating Fund and the Central Operating Reserves? A household analogy: on allowance day, you realize you have $30 in your wallet, so you transfer $25 to your sock drawer and tell the kids that they will have to accept $0 allowance this week since there is so little unrestricted money in your wallet to cover household operations.

A household analogy: on allowance day, you realize you have $30 in your wallet, so you transfer $25 to your sock drawer and tell the kids that they will have to accept $0 allowance this week since there is so little unrestricted money in your wallet to cover household operations.

Think about this: according to the University website, we have 34 academic departments at the University of Guelph. The FAC asks each faculty member a quick question: is your academic unit sitting on a $2M+ carry forward ($71M ÷ 34)? Or any significant carry forward?

Of course, carry forwards occur in non-academic organizational units, as well, and they may occur at the College level academically. One can suggest a number of equally unsatisfying explanations why this money has not been spent to advance the University's core missions, why faculty members in teaching trenches and at the research/scholarship forefront struggle with high workload and low morale.

Some perspective:

- Assuming that new faculty members are hired at a salary of $100K, above the salary floor in the Collective Agreement, the carry forward amount in 2015 equates to 710 new faculty members, almost doubling our faculty complement.
- Counting all enrolments (Guelph, Guelph-Humber, Off-Campus, full- and part-time) at all levels, the University receives tuition revenue from roughly 27000 students. The carry forward amount in 2015 equates to $2600 per student.
- The *growth* alone in the carry forward from 2014-2015 equates to 120 new faculty members or, pulling back, 100 new faculty members, with the remaining carry forward covering the salaries of those new members, with foreseeable raises, for 5 more years.

[…] the carry forward amount in 2015 equates to 710 new faculty members, [which would] almost double the current faculty complement [, or] $2600 per student [of all types and levels at all campuses].

Obviously, UGFA Members understand the need for fiscal prudence, including reserves. The perspective bullets give context to the *size and staggering growth* of the carry forward, not necessarily the best or desired way to use this money. We can make similar observations about the Central Operating Reserves. One also cannot forget that during the years that these enormous stockpiles of "internally restricted" money grow ever more enormous, the Administration has frequently spoken about a structural deficit, large budget cuts, very limited hiring that does not cover retirement replacements, and salary freezes, and they have attempted to negotiate our salary increases to zero or near zero and to negotiate away our traditional salary system.

- In 2014, we see that $64.6M was set aside for possible pension plan contributions. As we noted in our previous analysis, OCUFA, COU, the government, and other labour groups are working on a jointly-sponsored pension plan for the university sector (for all employee groups), with the promise that a viable plan of this type would exempt the involved universities from solvency valuations on a forward basis. The actuarial impact of that exemption is profound. Keep in mind that even while this set-aside money has grown through to 2014, the Administration has made additional payments as detailed in our previous report. In 2015, the Administration merged the reporting of the pension set aside with the much smaller benefits set aside. The decrease of $6.8M is money paid to cover ongoing pension contribution requirements. Don't be fooled when you see that

$74M is set aside as "Employee Benefits Reserves"; 80% of this money is for the pension fund, to cover contribution payments that the Administration was responsible for making in the past and for which the Administration may well enjoy significant forgiveness from the government if/when solvency valuations are waived. Remember that the Administration took so-called "pension holidays" years back—UGFA Members always paid their contributions, but the Administration opted not to because the pension fund status was strong—and now the Administration is stockpiling money because of those past decisions. Obviously, UGFA Members want a secure pension plan, but we surely have to watch this money in the event that joining a new or existing multi-employer JSPP leads to an exemption from solvency valuations in the future. One might also question whether the pension holidays they took in the past should be covered today by starving mission-critical activities via such stockpiling of money. Recall that the value of Capital Assets increased by $245M after the reassessment (see 2010-2011 jump in Table 1); some of these assets have no (or little) connection to the mission of the University and perhaps offer an avenue for addressing pension fund matter without starving mission-critical activities.

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

as at April 30	2010	2011	2012	2013	2014	2015
Total Assets	1,154,700	1,432,117	1,501,218	1.623,556	1,731,426	1,817,362
year-to-year % change	**7.42**	**24.03**	**4.83**	**8.15**	**6.64**	**4.96**
Cash (& short-term investments)	221,970	199,812	214,613	255,599	280,397	307,092
year-to-year % change	0.67	-9.98	7.41	19.10	9.70	9.52
cash/total assets	**19.22**	**16.22**	**14.30**	**15.74**	**16.19**	**16.90**
Capital Assets	646,637	958,639	999,343	1,027,390	1,036,900	1,052,451
year-to-year % change	8.55	48.25	4.25	2.81	0.93	1.50
(capital assets)/(total assets)	**56.00**	**66.94**	**66.56**	**63.28**	**59.89**	**57.91**
Short-Term Debt (Current Liabilities)	107,476	116,782	113,029	115,828	218,945	210,698
year-to-year % change	8.01	8.66	-3.21	2.48	89.03	-3.77
(short-term debt) /(total assets)	**9.31**	**9.48**	**7.53**	**7.13**	**12.65**	**11.59**
Long-Term Debt (Long-Term Liabilities)	344,287	428,332	519,673	215.747	224,144	213,284
year-to-year % change	8.42	24.41	21.32	-58.48	3.89	-4.85
(long-term debt) /(total assets)	**29.82**	**29.91**	**34.62**	**13.29**	**12.95**	**11.74**
Internally Restricted	**112,071**	**155,293**	**171,783**	**207,284**	**262,305**	**260,101**
year-to-year % change	45.97	38.57	10.62	20.67	26.54	-0.84
(internally restricted) /(total assets)	**9.71**	**10.84**	**11.44**	**12.77**	**15.15**	**14.31**

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 2010-2014	*In 2015*
Tuition	Yearly increases, averaging 8.9% per year, ~21-23% of revenue	Increased by 4.2%, ~23% of revenue
Grants	Small yearly increases, marginal in recent years, averaging 1.6% per year, small decreases as a percentage of total revenue	Flat, 33% of revenue
Total Revenue	Yearly increases, averaging 3.7% per year	Small increase, 1.9%
Salaries	Small yearly increases, marginal decrease in 2014, marginal in recent years, averaging 1.9% per year, ~47.5% of expenses	Stable, 1.1% increase, 44% of revenue and 48.5% of expenses (in each case a small decrease from 2014)
Benefits	Accounting changes 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	Controlled, 2.9% increase in 2015

The obvious first thing to note is that once again in the 2015 statements the University reported a huge surplus. The results are

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

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. As the guardians of those missions, UGFA Members expect their commitment to the twin missions to be shared, or at least supported, by the Administration, instead of establishing a huge structural surplus.

These huge surpluses [of $41M, $80M, and $66M] 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. As the guardians of those missions, UGFA Members expect their commitment to the twin missions to be shared, or at least supported, by the Administration, instead of establishing a huge structural surplus.

The surplus in 2015 equated to 9% of total revenues, while in 2013 and 2014 the percentage was 6% and 11%. In the past three years, the Administration has, on average, not spent 8.5% of its revenue. Remember that revenues consist in large part of taxpayers' money (both through government transfers and through tuition), with the expectation that this money is spent on the missions of the University.

The surplus in 2015 is broken down in the financial statements, into portions ranging from $21.7M down to $7.7M, including amounts distributed from the Operating Fund to the other four high-level Funds. In the end, the Operating Fund still held a $21.7M surplus, reported as a decline from the more golden 2014. This $21.7M included the $12.3M increase in the carry forward, mentioned earlier. As a second example, Research & Trust grew from $68.1M to $82.1M thanks to a transfer of $14.8M from Operating.

In 2015, the share of total revenues coming from tuition increased by 0.5%, which equates to an increase of $7M. On the other hand, the share generated by grants only went up 0.5%. In the breakdown, we see that the MTCU transfer fell by $4.5M but OMAFRA rose by $5.6M. Total revenue in 2015 is $759M. The total revenue figure for 2014 was increased by $8M when revisited in the 2015 statements.

Total expenses seem to be stable after the accounting changes (related to employee future benefits) a few years ago. There was an increase in the amount of total expenses in 2015, but they still landed much lower than total revenues, which of course continues to be one of the major messages to extract from the statements. Note that the 2014 total expenses figure was adjusted downward by $3M; combined with the adjustment to total revenues, the two changes led to an increase of $11M in the reported surplus for the previous year.

Total salaries as a percentage of revenues continued to decrease by a small bit in 2015. The salary figures in Table 2 are for the entire University not just the UGFA. As always, individual salaries of employees have increased in each year we are considering. Notice that total salaries continue to decrease as a percentage of either total expenses or total revenues. The UGFA share of salaries dipped in the 2015 statements because of the 0% Cost of Living increase in 2014. We expect that the dip will persist in 2016 since we do not received a compounded increase for both the 0% and the only-half-to-base Annual Career Increment (ACI) in 2014. It is worth remembering that all Members will receive a base increase on June 30, 2017, equivalent to the lost half-to-base ACI.

We do not have access to Administration salary data. Sources for institutional aggregate salary data blend together management and faculty. For example, the Council of Ontario Universities offers what they call Common University Data Ontario (CUDO). Each institution reports its data on its own website (type "CUDO" in the search field), or one can generate comparison tables via the COU website. Salary figures are divided into "Academic Ranks" (which as we shall see include much of the Administration), “Other Instruction & Research,” and “Other Salaries & Wages.” In order to understand these classifications, one has to travel to the Council of Ontario Finance Officers (COFO) website. The CUDO salary data comes from the COFO reports. The COFO reporting guidelines say under

- Academic Ranks: “The academic ranks include deans, professors, associate professors, assistant professors and lecturers.”
- Other Instruction & Research: “staff members without academic rank […] engaged in instruction and research […] Payments to graduate and undergraduates undertaking these activities.”
- Other Salaries & Wages: “support staff […] All salaries for functions other than Instruction and Research are included even though individuals, (e.g., certain professional librarians or computing centre personnel), may hold the equivalent of an academic rank.”

Given that breakdown, the data do not help us.

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	2010	2011	2012	2013	2014	2015
Revenues						
Total Revenues	634,034	678,404	698,765	717,899	745,233	759,374
year-to-year % change	2.13	7.00	3.00	2.74	3.81	1.90
Government Grants						
MTCU	168,427	176,936	181,753	181,301	183,331	178,990
Min Agriculture, Food, Rural Affairs	63,108	62,293	62,888	62,821	64,038	69,602
Total	231,535	239,229	244,641	244,122	247,369	248,592
year-to-year % change	1.09	3.32	2.26	-0.21	1.33	0.49
(govt grants)/(total revenues)	**36.52**	**35.26**	**35.01**	**34.01**	**33.19**	**32.74**
Student Tuition	124,199	137,102	150,754	160,609	170,037	177,127
year-to-year % change	11.80	10.39	9.96	6.54	5.87	4.17
(student tuition)/(total revenues)	**19.59**	**20.21**	**21.57**	**22.37**	**22.82**	**23.33**
Expenses						
Total Expenses	636,624	652,553	753,903	672,150	669,881	689,048
year-to-year % change	1.51	2.50	15.53	-10.84	-0.34	2,86
Salaries	304,285	314,203	322,285	331,568	330,391	334,009
year-to-year % change	1.20	3.26	2.57	2.88	-0.35	1.10
salaries/(total revenues)	**47.99**	**46.32**	**46.12**	**46.19**	**44.33**	**43.98**
salaries/(total expenses)	**47.80**	**48.15**	**42.75**	**49.33**	**49.32**	**48.47**
Benefits	95,864	93,124	36,380	40,230	39,608	40,788
year-to-year % change	5.56	-2.86	-60.93	10.58	-1.55	2.98
benefits/(total revenue)	**15.12**	**13.73**	**5.21**	**5.60**	**5.31**	**5.37**
benefits/(total expenses)	**15.06**	**14.27**	**4.83**	**5.99**	**5.91**	**5.92**
Interest Cost	11,278	11,836	11,427	12,117	12,431	12,206
year-to-year % change	3.08	4.95	-3.46	6.04	2.59	-1.81
(interest cost)/(total revenues)	**1.78**	**1.74**	**1.64**	**1.69**	**1.67**	**1.61**
(interest cost)/(total expenses)	**1.77**	**1.81**	**1.52**	**1.80**	**1.86**	**1.77**
Adjustments						
Unrealized Gain/Loss or Interest Rate Swap	3,926	-1,126	-3,523	-4,406	4,584	-3,431
Surplus or Deficit						
All Funds Combined	1.336	24,725	-58,661	41,343	79,936	66,535
year-to-year % change	112.46	1750.67	-337.25	170.48	93.35	-16.76
(surplus or deficit)/(total revenues)	**0.21**	**3.64**	**-8.39**	**5.76**	**10.73**	**8.76**

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 3 presents the data.

Cash flows from operations in 2015 remained substantial, although it decreased from last year.

In 2015, as in 2014, the purchase of capital assets again stayed below the cash flows from operations. In 2011-2013, spending on capital assets exceeded cash flows from operations, which means that the Administration had to borrow money or starve other activities in those years. Nonetheless, in 2015 they still spent an enormous amount of money on capital assets, $58M or 7.7% of total revenues. In the period 2010-2015, the Administration has spent an average of 10.8% of total revenues per year on purchasing capital assets.

> *In the period 2010-2015, the Administration has spent an average of 10.8% of total revenues per year on purchasing capital assets.*

It can be challenging to say to what extent all of the capital expenditures contribute to the primary missions of the University. The big ticket items in 2015 were the Mitchell Athletics Centre at $6.9M (out of a reported $45.4M total cost that has also been estimated to shoot beyond $60M), the Macdonald Hall refit at $2.1M, the reconstruction of South Ring Road at $2.6M, and the OVC hospital renovation at $1.9M. There is also a lot of deferred maintenance and retrofitting activity; the Board of Governors has approved up to $70M in new debt (borrowing).

Regarding borrowing, notice that the cash supplied by borrowing had a striking decrease in both 2014 and 2015. In fact, the 2015 figure is a record low since are analyses began. Interestingly, in combination with the record-low level of borrowing we find a near-doubling of the increase in investments, the second-highest increase in investments since our analyses began.

> *In combination with the record-low level of borrowing [in 2015], we find a near-doubling of the increase in investments [, an additional $41M in investments,] the second-highest increase in investments since our analyses began [with the 2006 Audited Financial Statements].*

TABLE 3. ANALYSIS OF STATEMENT OF CASH FLOWS (DOLLAR VALUES IN THOUSANDS OF DOLLARS)

as at April 30	2010	2011	2012	2013	2014	2015
Total Revenues	634,034	678,404	698,765	717,899	745,233	759,374
Cash Flows From Operations	119,834	54,071	61,864	55,660	83,975	66,659
year-to-year % change	248.93	-54.88	14.41	-10.03	50.87	-20.62
(cash from operations)/(total revenues)	**18.90**	**7.97**	**8.85**	**7.75**	**11.27**	**8.78**
Increase or Decrease of Investments	92,355	23,066	1,397	35,861	21,391	40,893
year-to-year % change	-497.38	-75.02	-93.94	2643.76	-40.35	91.17
increase/(total revenues)	**14.57**	**3.40**	**0.20**	**5.00**	**2.87**	**5.39**
Purchase or Sale of Capital Assets	**89,453**	**105,910**	**81,058**	**67,701**	**49,082**	**58,077**
year-to-year % change	**29.54**	**18.40**	**-23.47**	**-16.48**	**-27.50**	**18.33**
purchase/(total revenues)	**14.11**	**15.61**	**11.60**	**9.43**	**6.59**	**7.65**

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.

Table 4 presents the data.

With the exception of the anomalous adjusted 2012 figure, the Unrestricted Fund has generated a surplus every year since 2006. The adjusted 2014 surplus (+$11M) is a hair shy of $100M. The 2015 number, $87M comes in a close second in our record books.

The Capital Fund generated a deficit in 2015 (and, in fact, in every year since 2006), dragging down the financial condition of the University. Looking at interfund transfers, we see that the transfers into the Capital Fund continue. The $20M transfer in 2015 is the highest value since we started our analysis.

The distinction between the [(Unrestricted) Operating Fund and the Central Operating Reserves]—and the carry forward, and perhaps even at least some chunk of the Benefits Reserves that holds possible pension fund contributions—is artificial, a management construct, even in the case that the Administration may claim that the Board of Governors has mandated the mirage.

We mention that each of the Audited Financial Statements include a supplementary schedule page for the Statement of Operations and Changes in Net Assets by high-level Fund. The schedule lists revenues, expenses, and additional things, including interfund transfers. It seems interesting that in the 2015 schedule, the subtotal on expenses includes the interfund transfers, a change from the year before. These pages are typically labeled as unaudited.

For the first time since 2007, the Administration transferred money from Internally Restricted back to the (Unrestricted) Operating Fund, a sum of $2M. This is why the total Internally Restricted money dropped from the peak value of $262M in 2014 down to the equally eye-popping $260M, a fraction of a per cent decrease.

Remember that the Administration has divided the Operating Fund into an "Unrestricted" portion and five Internally Restricted funds, including the Central Operating Reserves that includes the $50M that at one time was a contingency fund to cover buyouts due to restructuring. Perhaps with this relabeling we'll see more transfers from the Central Operating Reserves to the (Unrestricted) Operating Fund. From our perspective, of course, the distinction between the two—and the carry forward, and perhaps even at least some chunk of the Benefits Reserves that holds possible pension fund contributions—is artificial, a management construct, even in the case that the Administration may claim that the Board of Governors has mandated the mirage.

The cumulative transfer out of the Unrestricted Fund since 2006 reached $519M in 2015. In 2015, 75% if the cash generated from operations was transferred out of the Unrestricted Fund.

TABLE 4. ANALYSIS OF STATEMENT OF CHANGES IN NET ASSETS (DOLLAR VALUES IN THOUSANDS OF DOLLARS)

as at April 30	2010	2011	2012	2013	2014	2015
Cash Flows From Operations	119834	54071	61864	55,660	83,975	82,838
Surplus or Deficit Operations						
Unrestricted Fund	18,505	41,540	-41,466	59,749	99,436	86,777
Internally Restricted Fund						
Capital Assets	-17,169	-16,815	-17,195	-18,406	-19,500	-20,242
Total	1,336	24,725	-58,661	41,343	79,936	66,535
Interfund Transfers						
unrestricted to internally restricted	35,294	43,222	16,490	35,501	57,907	0
internally restricted to unrestricted	0	0	0	0	0	2,204
unrestricted to capital fund	24,832	35,915	28,871	19,205	22,354	52,506
total transfers out of unrestricted per year	**60,126**	**79,137**	**45,361**	**54,706**	**80,261**	**50,302**
cumulative transfers out of unrestricted	**209,628**	**288,765**	**379,487**	**488,899**	**469,093**	**519,395**
(total transfers out of unrestricted per year) /(cash from operating activities)	**50.17**	**146.36**	**73.32**	**98.29**	**95.58**	**75.46**
(total transfers out of unrestricted per year) /(surplus or deficit in unrestricted fund)	**4500.45**	**320.07**	**174.36**	**132.32**	**100.41**	**75.60**

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 2010*		
Revenues	Decreasing	Increasing average increase per year = 3.4%	3.4 > 1.9	✓
Expenses	Increasing	Increasing average increase per year = 1.9%	1.9 < 3.4	✓
Surplus/Deficit	Consistent deficits	One large actuarially-driven deficit. Average yearly surplus = $26M Last three years = $67M, $80M, $41M		✓
Cash Balance	Decreasing	Increasing average increase per year = 6.1%		✓
Total Assets	Decreasing	Increasing average increase per year = 9.3%		✓
Capital Assets	Decreasing	Increasing average increase per year = 11.0%		✓
Short-Term Debt	Increasing	Stable/Decreasing? accounting change in 2014; decrease in 2015		?
Long-Term Debt	Increasing	Stable/Decreasing? accounting change in 2014; decrease in 2015		?
Internally Restricted Fund	Decreasing	Increasing massively average increase per year = 23.6% stable in 2015		✓
Cash Flow From Operations	Negative amount	Stable and huge amount average increase per year = 38.1%		✓
Cash Supplied From Borrowing	Increasing amount	Increasing and then decreasing average increase per year = 1.98%		?
Cash used to Buy Capital Assets	Minimal amount	Decreasing, small increase in 2015 average increase per year = 2.26%		✓
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		✓
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.

- Cash generated from operations is *very* healthy.
- 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 decreasing in recent years, a new positive trend.
- Short-term and long-term debt, generally due to borrowing, decreased in 2015, but, in both cases, due to accounting changes, it is too early to be so certain of any trend.
- The Capital Fund's continued regular deficits and large transfers from the Unrestricted Fund remain a principal cause for concern.
- The amount of money in the Internally Restricted Fund is alarming, particularly in light of our earlier analysis of the sub-funds, but 2015 marked the first year that the Internally Restricted Fund did not grow by an enormous amount.

CASE STUDY: BUDGET FRAMING VS. AUDITED FINANCIAL STATEMENTS

Context: the great majority of UGFA Members spend lengthy careers at the University, while Administrators often come and go. UGFA Members know the strong level of our commitment to the teaching and scholarship missions of the University. Although we expect a similar commitment from the Administration, as the guardians of those missions, UGFA Members have to ask questions, demand transparency, seek accountability, if only to guard against an Administrator setting up his/her next "career hop." The increasing corporatization of the University amplifies our concerns: do the Administration's priorities, as captured by their budget and financial decisions, serve the University's mission?

In this case study, we look at the very early days of the just-started budget process. As the process unfolds, we hope that UGFA Members will continue to act together to ask questions, demand transparency, and seek accountability.

To begin, we look at the "Summary of Initial 16/17 Operating Budget Assumption" PDF on the Provost's website, Page 3, Figure 1.

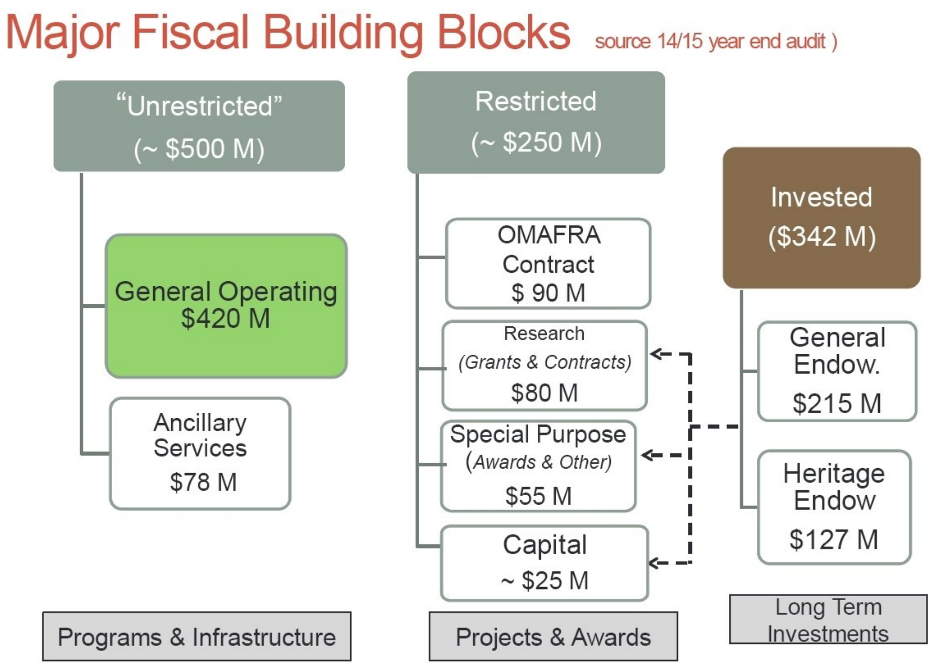


FIGURE 1: PAGE 3 FROM PROVOST'S BUDGET ASSUMPTIONS DOCUMENT

We have no access to the 14/15 year-end audit, so we consult the 2015 Audited Financial Statements. It may be possible that some numbers in the statement will be updated; we will only know with certainty when we see the 2016 Audited Statements.

To source our numbers, we need additional information on Endowments, a little more detail from the Statement of Operation than the analysis in Table 2 presents, and some extra info on the Internally Restricted Fund. We put these extra items in Figures 2-4, respectively, and, on the next page, connect the dots to see where the numbers in Figure 1 come from.

There are some easy items:

- Green: Ancillary services, check.
- Magenta: Capital fund, check.

- Orange: Endowments have a different breakdown but same total. No concerns. Check.
- Blue: OMAFRA. Examining the OMAFRA contract, we find that roughly $70M in funding arrives each year from the government, which combines with a tiny bit of investment income and $17-18M in revenue to reach ~$90M. Check.
- Red: Unrestricted part of the Operating Fund. Revenues minus OMAFRA total $520-$70=$450M, and the $30M drop to $420 is due to projected declines in MTCU money and perhaps enrolment. Of course, tuition will increase, too. The best we can do with this crystal-ball gazing is: Half Check.

We end up with a question mark on the $55M in the "Special Purpose" fund. The dashed line in Figure 1 suggests that this money comes from Endowments that carry restrictions on its use, but it is a bit unclear.

After this exploration, even with a couple of imperfections, we seem to have a clear understanding of all of the money in the Provost's Figure 1 and mostly agree with the values, except projections used in the Operating amount (which we can perhaps view as the minimum expected amount) and the unexplained "Special Purpose (Awards & Other)" box.

We think about the "Restricted" label:

- The OMAFRA money has external (government) restrictions on its use.
- The Research and Trust money is reported inside the Internally Restricted funds part of the audited financial statements and the Capital Fund sits on its own (as opposed to under Restricted). It is possible that both of these funds include money coming from donations or endowments, as the dashed black arrow in the Provost's picture suggests, in which case some (or even all) of this money could indeed be *externally* restricted, but we don't know.
- The "Special Purpose (Awards & Other)" has the dashed arrow to endowments as well. It would be interesting to see an explanation and breakdown of this money.

The core of the University is two groups: UGFA and the students. The Administration and the Board of Governors exist to allow those two groups to pursue their work—communicating, discovering, and advancing knowledge through teaching and scholarship/research—and, as such, are fully accountable to the two groups and to the public.

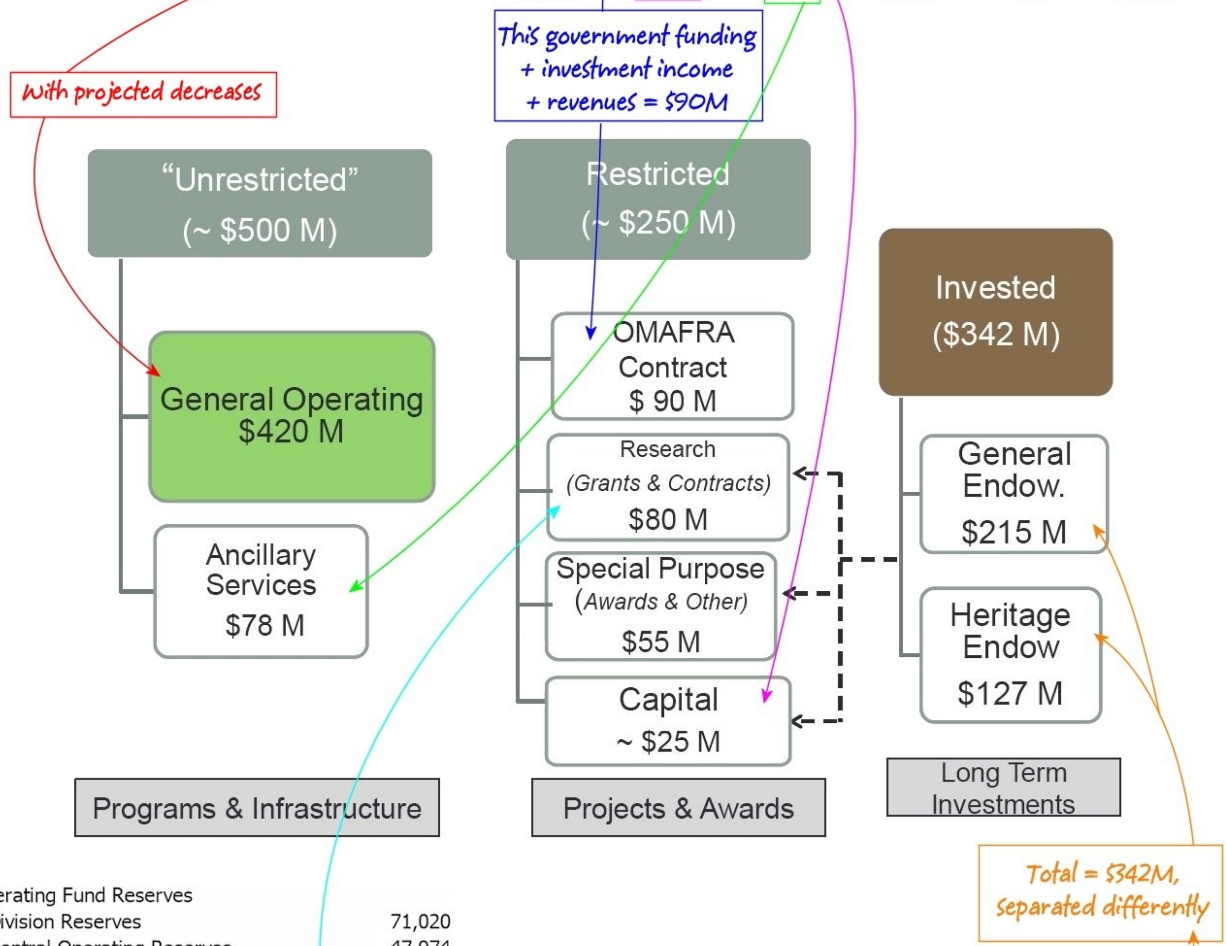
But the major question is not about the truth of the numbers that *are* in the figure; it's about the numbers that *are not* there. Where is the huge pile of Internally Restricted money? We saw in our analysis that there is $71M in strongly-growing carry forward, $48M in Central Operating Reserves, and about $60M for possible pension contributions, as Figure 3 reminds us. We note here that page 24 of the Provost's Budget Assumptions PDF has a bullet that reads "new 'carry-forward' policy," but that apparently doesn't involve including this $71M in the budget.

As a result of all of the preceding discussion and, in light of the combined Figures on the next page, it seems the initial budget assumptions could be adjusted, as in Figure 5.

FIGURE 2: REVENUE PORTION OF STATEMENT OF OPERATIONS, 2015 AUDITED FINANCIAL STATEMENTS

Statement of Operations – By Fund for Fiscal 2015 (May 1, 2014 to April 30 2015)

(in thousands of dollars)	Operating Fund	Capital Fund	Ancillary Enterprises	Research & Trust Fund	Endowment Fund	Total 2015
REVENUE						
Ministry of Training, Colleges and Universities	177,967	1,007	16	-	-	178,990
Ministry of Agriculture, Food and Rural Affairs Agreement	69,602	-	-	-	-	69,602
Other Grants and Contracts	7,960	-	-	100,409	224	108,593
Tuition (Credit and Non-credit)	177,127	-	-	-	-	177,127
Student Fees and Contracts	15,935	-	43,425	-	-	59,360
Sales of Goods and Services	48,132	-	32,906	-	-	81,038
Investment Income	1,772	1,029	-	15,657	6,730	25,188
Amortization of Deferred Capital Contributions	-	22,847	33	-	-	22,880
Donations	24	-	-	12,955	29	13,008
University of Guelph Humber Operations	9,925	-	-	-	-	9,925
Other	13,336	102	225	-	-	13,663
	521,780	24,985	76,605	129,021	6,983	759,374



Operating Fund Reserves	
Division Reserves	71,020
Central Operating Reserves	47,974
Guelph-Humber Internally Restricted	1,463
Self Insured Losses	1,000
Employee Benefit Reserves	73,985
	195,442
Capital Projects Reserves	
Capital Projects and Renovations	4,945
Internally Financed Projects	(37,475)
Funds Held for Debt Repayment	13,497
Research and Trust	82,897
Other	795
	260,101

FIGURE 3: FOOTNOTE 12, BREAKDOWN OF INTERNALLY RESTRICTED FUNDS, 2015 AUDITED FINANCIAL STATEMENTS

Endowments	
Externally Restricted ($M)	$204.4
Internally Restricted ($M)	$137.5
Total Endowment Assets – Market Values	$341.9
Total Endowment per FTE ($)	$15,869

FIGURE 4: ENDOWMENTS PORTION OF TABLE OF COMPARATIVE RESULTS, 2015 AUDITED FINANCIAL STATEMENTS

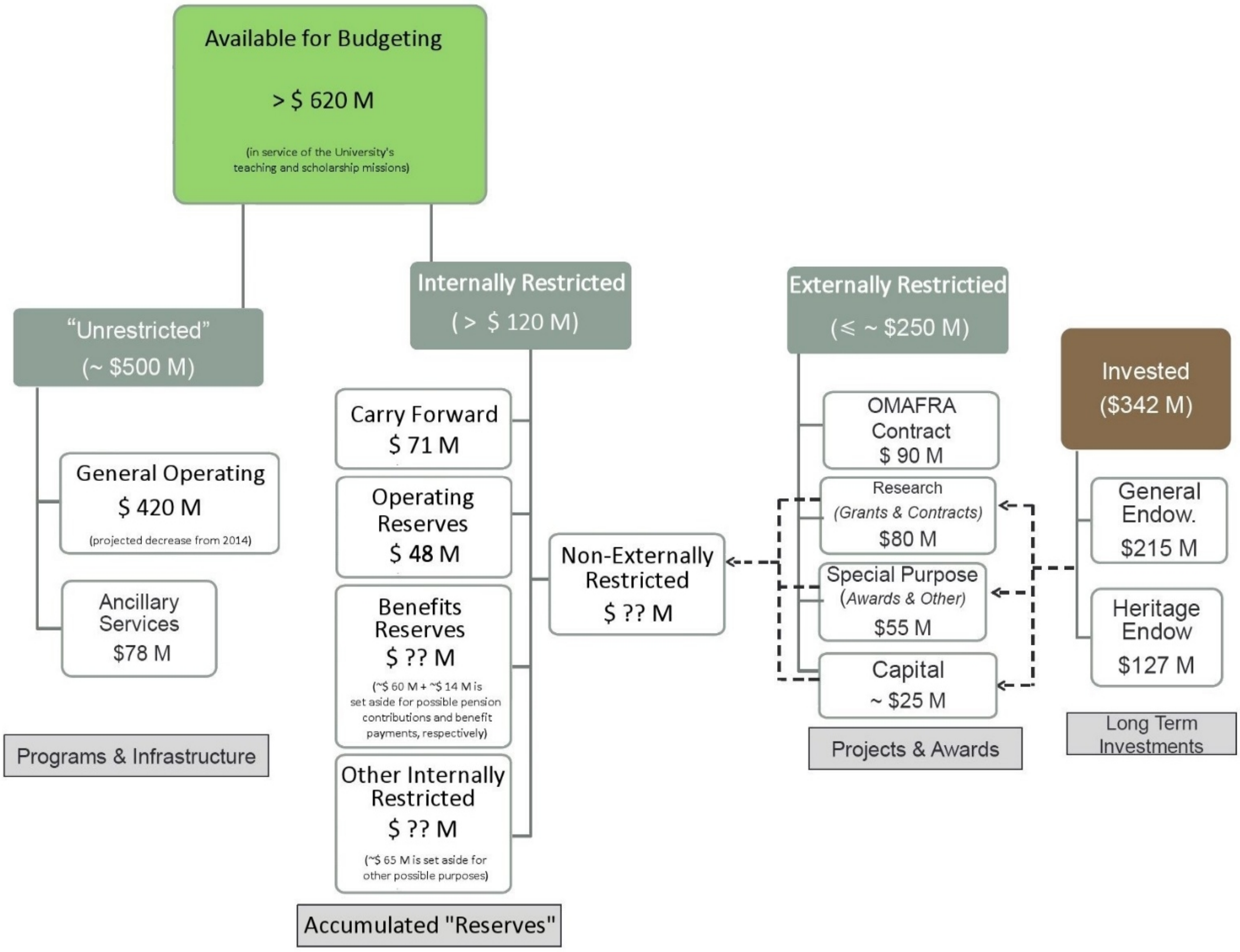


FIGURE 5: UPDATED REPORT OF MONEY AVAILABLE FOR BUDGETING

The upper two "??" entries in Figure 5 represent the unknown amount of money earmarked for "Restricted" activities, including "Special Purposes (Awards & Other)", that may have no external restrictions at all, and a portion—perhaps zero, after discussion, but what about non-mission-critical Capital Assets?—of the ~$60M set aside for possible pension contributions that could instead be directed towards starved mission-critical activities. The bottom "??" entry represents some possible portion of the remaining $65M currently labeled as Internally Restricted.

We feel that the budget discussion should begin with all of the available resources on the table, and clear and complete explanations and discussions of the nature of "internal restrictions," particularly when advertised driving principles of the process are accountability and transparency. This fits with our view that the core of the University is two groups: UGFA and the students. The Administration and the Board of Governors exist to allow those two groups to pursue their work—communicating, discovering, and advancing knowledge through teaching and scholarship/research—and, as such, are fully accountable to the two groups and to the public.

SUMMARY & CONCLUSIONS

During 2015, we observe the following results for the main revenue streams and expense items, as percentages of total revenue and/or total expenses.

Key Revenue Items

Total Revenues	Stable; Increased by 1.9%
Government Grants (MTCU,OMAFRA)	Flat-lined
Tuition	Increased by 4.2%

Key Expense Items

Total Expenses	Stable; Increased by 2.9%; Still well below total revenues
Salaries	Stable; Small decrease as a percentage of total revenues or total expenses.
Benefits	Stable as a percentage of either total revenues or total expenses
Interest Costs	Stable; Decreased by 1.8%

The University appears to be in good financial health

We continue to find that:

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

   We continue to negotiate responsible raises for our members, maintaining the stability of the salary mass and contributing to the slight decrease in salary as a percentage of total revenues.

   We have no real ability to assess similarly the portion of the University salary mass corresponding to the Administration.

2. The Administration continues to place an exceptionally high priority on capital asset expenditures.

   Such activity has led to increases in long-term liability due to large levels of borrowing. This year was better than other years in that regard. 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 $260M as Internally Restricted.

   The total amount of such set-aside money grew by large percentages in each of 2013 and 2014, before staying level in 2015. The lack of growth of Internally Restricted money in 2015 in no way illustrates a situation under control: the amount of such money represents 14.3% of the total assets owned by the University.

Roughly $180M (or 70%) of the $260M in the Internally Restricted portion of the Operating Fund is

- carry forward money from the previous year (which grew by 20% or $12M in 2015),
- 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.

4. The initial assumptions of the just-started budgeting process ignore all of the money in Item 3.