Representing Faculty, Librarians & Veterinarians

ANALYSIS OF UNIVERSITY FINANCES

2/2/2018

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 2017 contextualized in terms of prior years.

Contents

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

BRIEF SUMMARY (FOR THE YEAR 2017)

STRONG FINANCIAL HEALTH: THE STRUCTURAL SURPLUS CONTINUES…

Total UGFA salaries remain a stable percentage of the University's total revenues and total expenses.

A record NET SURPLUS of $90M in 2017.

The average yearly net surplus in the past four years is $75M.

Instead of spending the surplus on its intended use— the primary missions of teaching and research/scholarship, the career-long twin passions of UGFA Members—the Administration has instead established an incredible structural surplus. Indeed, the current financial statements refer regularly to the surplus as a "net income," as if the University operates as a private corporation headed by CEOs.

EVER-MORE ENORMOUS "RESERVES" IN INTERNALLY RESTRICTED FUNDS

Internally restricted funds grew by 23% this year to $321M, accounting for 16% of the $2B in total assets of the University. $236M of this money (~75%) consists of

- $96M of unspent "carry-forward," which grew by $13M (16%) in 2017, despite the Provost's promise that she would reclaim this money;
- $75M of "reserves" with no true specified purpose (more inside); and
- $65M of money set aside for possible pension plan contributions.

All of this set-aside money could be used now in support of the University's twin missions. Instead, departments across campus struggle to maintain rich course offerings and programs, with faculty struggling to cope with ever-growing workload and stress.

RECORD LEVEL OF NEW INVESTMENTS / INCREASE IN CAPITAL SPENDING

In 2016, we saw a record level of investment at $127M, but this record was easily surpassed in 2017, with an additional $170M (21% of total revenue) pumped into investments. In 2017, we also saw the greatest capital spending, $82M, of the past six years, paid for in part by new borrowing.

INTRODUCTION

This document presents the UGFA Financial Advisory Committee's analysis of the University's audited financial statements, running from 2012 to 2017. When suitable, we include additional information obtained from other sources.

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

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

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

Analyses in This Report

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

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

Colour Legend for all Tables

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

In each section, we present

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

As always, the UGFA believes that it is important to connect this financial analysis to the University's primary missions, teaching and scholarship. UGFA members are the guardians of the twin missions.

Throughout the round of collective bargaining concluded in Fall 2017, the UGFA Executive and Council heard concerns of high stress and workload levels combined with low morale across much of campus. Member surveys and meetings always echoed these messages. Your negotiating team tried to make gains that would address these issues. For example, a joint workload committee could have a profound effect, if the Administration takes it seriously. The reality is that the principal solution is to hire (many) more faculty members, in proportionate response to the increase in student numbers. The UGFA Financial Analyses repeatedly show that there is money for meaningful hiring, but the Administration seemingly relies on our Members' passion and professionalism; the Administration has an implicit, harmful belief that, in the end, we will always deliver strong teaching and scholarship effort, even in the worst settings, and even when it negatively impacts our work-life balance and mental health. While we have this career-long passion, the transient Senior Administration continues to focus on "the corporation's net income" and vacuous initiatives to build a resume that lands them their next transient position. In contrast, we remain at and committed to the

University of Guelph, forced to deal with the consequences of past (and current) Senior Administrative decisions.

All of the financial statements are presented as at April 30 of the ending year, the last day of the University's fiscal 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. As noted earlier, corrections to the 2016 numbers will be colored **green** in this report. There are corrections, as the University has adopted a new accounting policy, merging into the audited statements the finances for University of Guelph – Humber, with the unfortunate abbreviation UGH.

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

Following the sections on the four financial statements, we present a section with

- a Financial Scorecard that looks at factors and trends that could indicate severe financial issues, including the existence of a structural deficit; and
- 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.

The numbers going back to 2012 are presented in Table 1. As a percentage of total assets, we see:

	In 2012-2016	*In 2017*
Cash (& short-term investments)	Between 12% and 16%	At 13%
Capital assets	Between 58% and 67%	At 56%
Short-term liabilities	Between 7% and 13%	At 13%
Long-term liabilities	Between 11% and 13% One outlier of 35% in 2012	At 11%
Internally Restricted money	Between 11% and 14%	At 16%

The green entries in Table 1 reflect the incorporation of the Guelph-Humber numbers in updating the 2016 data. For example, total assets increased by $3.5M when Guelph-Humber was included.

Of course, the big news is that total assets (even without Guelph-Humber) have crossed $2B, growing by $185M in 2017. The statements report that Net Assets grew by $150M. Yes, in 2012, total assets crossed the $1.5B mark, and five years later the number has grown by a third. That result surely reflects aspects of real estate and capital assets, but it also just as surely reflects a priority of both Administrations that oversaw operations during the six-year period. It may be worth mentioning that a $34M gain in Net Assets was recorded as a result of an actuarial re-measurement of Employee Future Benefits (i.e. their projected valued decreased by $34M), while the remaining increases in Net Assets are actual money, not actuarial alchemy.

Cash & Short-term Investments grew by $39M, from $216M to $255M. For the curious, they took the $67M that was in money market funds and moved most of it to a GIC, added $25M in Canadian Fixed Income fund investments, and about $20M in new bonds. In 2017, Cash & Short-term Investments account for roughly 13%

Cash & Short-term Investments account for roughly 13% (or about 1/8) of the total assets of the University.

(or about 1/8) of the total assets of the University, a little below the six-year average of 14.5%. The routine movement of money by the Administration into longer-term investment options signals a comfort level on their part with how much money they have on hand, or can have on hand quickly, from the shorter-term investment options, but we should remember that it also separates the money into different accounting categories so that an already *huge* pot does not look *incredibly huge*. Indeed, in our financial analyses, we generally do not

Over the six-year period 2012-2017, long-term debt has on average decreased by 5% per year.

comment on long-term investments, since they cannot be liquidated quickly, but it is perhaps worth noting that long-term investments also passed a new threshold, crossing the half-a-billion dollar mark by reaching $560M, essentially a $100M jump from the $464M of 2016.

Total assets have grown on average by $86M per year since 2012, a total growth of just over $500M over the six years. The six-year window 2012-2017 comes after the huge increase in capital asset value in 2011 when these assets were reassessed, so the years we are considering have no such anomaly. It is also worth noting that 2016 was a negligible growth year percentagewise. The percentage of total assets that are capital assets decreased a touch in 2017 to 56%.

The Provost's recent budget presentations and reports all start from the notion that the available operating revenue is $460M-$470M, ignoring that 2/3 again of that amount, money that was originally intended to be directed towards the University's missions, is tucked away in the ever-growing "reserves."

Short-term debt grew by 7% to $252M in 2017, with the key contributor to the debt (at a value of $166M) again being deferred contributions which "represent unspent externally restricted grants, donations and investment income for research and other specific purposes."

Long-term debt (due to borrowing) grew by $28M. The Administration took out a new $40M loan to pay for the Mitchell athletics building construction, so they actually paid down $12M of past long-term debt. Over the six-year period 2012-2017, long-term debt has on average *decreased* by 5% each year.

Long-term investments also passed a new threshold, crossing the half-a-billion dollar mark by reaching $560M, essentially a $100M jump from the $464M of 2016.

We remind you that the Internally Restricted money is declared restricted by the Administration, placed in a fund with a name that may suggest a possible eventual use for the money, unless the Administration spends the money or shifts it to another fund. The money is not in general (if at all) allocated with specified payment, contribution, or transfer plans. At any moment, the money can be transferred back into the (Unrestricted) Operating Fund and used for any other purpose, perhaps even a purpose related to the primary missions of the University.

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After two years of sitting at around $260M, the Internally Restricted funds once again increased by a tremendous amount, 23%, to get to $321M. This money is now labeled as "reserves" of different types. The Administration will likely say that the Board of Governors requires certain amounts of money be set aside like this, but this explanation strains credulity when the amount set aside is roughly one-third of a billion dollars, accounting for 16% of the total assets. Think about this: the Provost's recent budget presentations and reports all start from the notion that the available operating revenue is $460M-$470M, ignoring that 2/3 again of that amount, money that was originally intended to be directed towards the University's missions, is tucked away in the ever-growing "reserves."

An examination of the evolution of the reserves is always interesting:

FUND NAME	2014	2015		2016		2017	
Division Reserves	$59M	$71M	+21%	$83M	+16%	$96M	+16%
Central Operating Reserves	$65M	$48M	-26%	$69M	+43%	$75M	+10%
Employee Benefits Reserves	$59M	$47M	-8%	$72M	-3%	$65M	-10%

The promise [by the Provost that unspent carry-forward would be clawed back to the central fund] has gone undelivered, replaced instead by 16% growth, with the carry-forward preparing to hit $100M, almost 5% of total assets, money that could be directed to the University's teaching and scholarship missions.

The carry-forward [is described] as being "designated for [things including] start-up funding for new faculty." [But] the carry-forward sat at $83M at the start of the year, 19 new budgeted faculty positions were created and there was some replacement hiring, those faculty members received some start-up funds, and the carry-forward ended up at $95M at year end.

In the six-year period 2012-2017, the Division Reserves have enjoyed on average 20% growth per year. (In order to perform this calculation, we have to use values in 2012 and 2013 that lie outside of audited statements, so please view this percentage as the minimum growth! Using the audited numbers only, the average yearly growth for 2014-2017 is 22%.) This money is the "carry-forward" from each organizational unit. If we accept past breakdowns of this fund (from non-audited reports), little of this money lives at the Department/School level, and the great majority of this money is held by Deans, the CIO, and senior Staff/Admin. We have to recognize as well that the year-to-year increase in this fund is the new money coming into it minus the money spent from it. Deans spend this money, but their spending can't keep up with flow of incoming money.

Sadly, looking at the final Budget Plan for 2017-18 reveals that the carry-forward was budgeted to increase to $88M, despite the earlier promise during the budget road show. Of course, the realized increase turned out to be close to three times the forecast increase.

At her March 2017 town hall budget presentation, the Provost assured us that the growth of this fund would be monitored and that unspent money would be clawed back to the central fund under the "carry-forward policy" mentioned on her slide. One year later, the promise has gone undelivered, replaced instead by 16% growth, with the carry-forward preparing to hit $100M, almost 5% of total assets, money that could be directed to the University's teaching and scholarship missions. Reclaiming the money could lead to the new eyesore of having Central Operating Reserves well in excess of $100M.

One might ask whether 23% growth in internally restricted money, including 16% growth in the carry-forward, could perhaps occur as a surprise result despite the intention of dramatically trimming these funds, as promised by the Provost regarding the carry-forward. Sadly, looking at the final Budget Plan for 2017-18 reveals that the carry-forward was *budgeted to increase* to $88M, despite the earlier promise during the budget road show. Of course, the realized increase turned out to be close to three times the forecast increase.

The University website includes a page that details the "Carry Forward Policy," approved by the Board of Governors in January 2016. Punchline: "The accumulated carry forwards limit at the end of any fiscal year will be capped at 10% of a Unit's Gross Budget" and "Funds in excess of the limit will be transferred to central reserves." But here's one catch: "Exceptions" can be approved, including capital projects and renovations and bridging new hires, but they should not be committed for structural or ongoing costs. Perhaps all of this money intended to serve the missions of the University is being stockpiled year after year for the "exceptional" purposes of massive capital and/or renovation spending or bridging, neither of which activity ever happens with enough volume to slow the 15-20% yearly growth of the carry-forward. No, the bigger catch is that since this money is declared (internally) restricted it avoids being subject to the carry-forward policy!

The appendices of the budget include a table showing the distribution of the carry-forward, including the preceding year's number and the forecast; none of these numbers are verifiable, as they come from an unaudited source. The table includes both unit reserves and "general" reserves, so it is not obvious how to lift out the money labelled as Division Reserves in other documents. Nonetheless, the unverifiable numbers for 2016 report a carry-forward of $40M in the Colleges, $10M in OPED, $7M in Physical Plant, $5M in the Library, $5M in Student Services, $4M in Scholarships/Bursaries, $3M each in CCS and Research

If this money were allocated in any meaningful, clearly-managed way then the pot of money would not increase by 20% year after year, and unspent money would be used to serve the missions of the University.

Institutes, $2M in Athletics, and $10M in various Administration items. (Don't feel bad about the "small" Administration total, since there is also the massive Central Reserves.)

Perhaps UGFA members reading this feel bad about their own individual contribution to the carry-forward, unspent PDR. Imagining a universe were every UGFA member has a maximized PDR account, two full years carried forward plus the current year, for roughly $6K. Assuming 800 UGFA members, we can round up to say that maximum carry-forward due to PDR is $5M, and note that the real number is much less than this value. Now, ask: what about the other $90M?

The audited statements describe the carry-forward as being "designated mainly for future projects and programs, including capital renovations, start-up funding for new faculty and temporary support staff." Sadly, one could joke that the consistent growth in a fund that purports to provide start-up money to new faculty makes sense, given the extremely limited hiring of new faculty. Some faculty members may read the preceding sentence and think, "We hired people in my department." According to the audited statements, during the financial year, faculty grew by 19 budgeted positions, while staff complement grew by 24 budgeted positions. As we mention later, the total faculty number reported in the statements

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does not agree with reality and perhaps includes administrators. Nonetheless, the story produced is that the carry-forward sat at $83M at the start of the year, 19 new budgeted faculty positions were created and there was some replacement hiring, those faculty members received some start-up funds, and the carry-forward ended up at $95M at year end. The word "designated" should not mislead you: is there a payment plan or equivalent? Nope. If this money were allocated in any meaningful, clearly-managed way then the pot of money would not increase by 20% year after year, and unspent money would be used now to serve the missions of the University.

Of course, we have all read tales of a Senior Administrator facing an administrative revolt due to aggravating the fiefdom-minded lower-level Administrators, perhaps by reclaiming their lucre. Reclaiming that money, as the Provost promised, isn't a solution in any case: the solution is to spend the money in support of the University's teaching and scholarship missions. The Division Reserves money alone could pay for a large number of new faculty and other UGFA member positions, covering their salaries (and salary increases) for a good number of years. Increased faculty complement could help with workload and morale issues, and it would certainly help our teaching and scholarship missions.

The Division Reserves money alone could pay for a large number of faculty and other UGFA member positions, covering their salaries (and salary increases) for a good number of years. Increased faculty complement could help with workload and morale issues, and it would certainly help our teaching and scholarship missions. [In negotiations,] the Administration showed no meaningful concern in response to your negotiating team's repeated statements that workload—its impact on mental health, work-life balance, and morale; the high stress levels—was the primary concern of UGFA members.

We remind readers that during the recent round of negotiations that concluded in Fall 2017, the Administration showed no meaningful concern in response to your negotiating team's repeated statements that workload—its impact on mental health, work-life balance, and morale; the high stress levels—was the primary concern of UGFA members. We suggested that hiring more UGFA members would help spread the work and relieve the workload strains. Sure, the Administration said we could talk about things and eventually agreed to a committee that would discuss things, but, in keeping with other rounds of negotiations, they made no plainly meaningful commitments. As reported in a Negotiator newsletter, your Chief Negotiator, Ed Carter, made the remarkable observation that when he started working at the University there were 780 UGFA members and 11,000 students, while now, a career later, there are 780 UGFA members and 22,000 students. The implication is that UGFA members are less supported to achieve excellence in their teaching and scholarship; it is a great testament to their passion, dedication, and skill that so many laurels are delivered in both mission arenas.

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

as at April 30	2012	2013	2014	2015	2016	2017
Total Assets	1,501,218	1,623,556	1,731,426	1,817,362	**1,831,274**	2,015,056
year-to-year % change	**4.83**	**8.15**	**6.64**	**4.96**	**0.77**	**10.04**
Cash (& short-term investments)	214,613	255,599	280,397	283,268	**216,168**	255,113
year-to-year % change	7.41	19.10	9.70	1.02	-23.69	1.02
cash/total assets	**14.30**	**15.74**	**16.19**	**15.59**	**11.80**	**12.66**
Capital Assets	999,343	1,027,390	1,036,900	1,052,451	**1,086,067**	1,123,477
year-to-year % change	4.25	2.81	0.93	1.50	3.19	3.44
(capital assets)/(total assets)	**66.56**	**63.28**	**59.89**	**57.91**	**59.31**	**55.75**
Short-Term Debt (Current Liabilities)	113,029	115,828	218,945	210,698	**235,138**	251,862
year-to-year % change	-3.21	2.48	89.03	-3.77	11.60	7.11
(short-term debt) /(total assets)	**7.53**	**7.13**	**12.65**	**11.59**	**12.84**	**12.50**
Long-Term Debt (Long-Term Liabilities)	519,673	215.747	224,144	213,284	201,450	229,560
year-to-year % change	21.32	-58.48	3.89	-4.85	-5.55	13.95
(long-term debt) /(total assets)	**34.62**	**13.29**	**12.95**	**11.74**	**11.00**	**11.39**
Internally Restricted	**171,783**	**207,284**	**262,305**	**260,101**	**261,622**	**320,792**
year-to-year % change	10.62	20.67	26.54	-0.84	0.58	22.62
(internally restricted) /(total assets)	**11.44**	**12.77**	**15.15**	**14.31**	**14.29**	**15.92**

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 2012-2016	*In 2017*
Tuition	Yearly increases, averaging 8.7% per year, 22-26% of revenue	Increased by 8.0%, 26% of revenue
Transfer Grants	Marginal yearly increases, averaging 2.4% per year, 33-35% of revenue	Increased by 1.8%, 33% of revenue
Total Revenue	Yearly increases, averaging 3.5% per year	Increased by 6.7%
Salaries	Small yearly increases, averaging 1.9% per year, 43-49% of expenses	Increased by 4.3%, 44% of revenue and 49% of expenses
Benefits	5-6% of revenue or expenses	Stable at 5-6% of revenue or expenses
Total Expenses	Accounting changes affect 2012-2013; average 1.7% increase 2014-2016 (due to the 0% increase/sacrifice by UGFA in 2014)	Increased by 3.3%

In 2017, the increase in revenue just exceeded twice the increase in expenses. This annual report of the audited financial statements repeatedly refers to the amount by which revenue exceeded expenses as the "net income" of the University. Having studies a dozen years' worth of these statements, looked at many statements from neighbouring institutions, and read much supporting material, it was quite jarring to see the phrase "net income" instead of "surplus." In private industry, the net income of a company generates bonuses for management, dividends for investors, and so on. With the University being part of the (broader) public sector, we appreciate the use of the word "surplus," which signals that money that was intended to be directed towards the missions of the University, as approved by the government, the representation of the public, went unspent for that critical purpose. Besides the word switch adding to the worry about the increasing corporatization of the University, it also seems to fly in the face of the fact that University uses not-for-profit accounting principles.

Tuition increases combined with enrolment increases produced a significant increase of 8% in revenues generated from tuition, jumping from $199M to $215M, a new high water mark. The 2016 figures were moved upward by $15.5M with the addition of Guelph-Humber. That adjustment affects the 2012-2016 yearly average, since there is an artificial $15.5M jump in 2016. Using the Guelph campus data only, we find that the average increase in revenue from tuition in 2012-2016 drops to 6%. In this light, the 2016 to 2017 increase of 8%, with both numbers including Guelph-Humber, is better appreciated.

The audited statements report that the 3.3% increase in total expenses was driven by the 4.3% increase in total salaries. Another way to view this: if we round up and say that salaries are 50% of expenses, then all non-salary expenses increased on average by 2.3%, so that the average increase in expenses is 3.3%. The growth in the dollar value of expenses is credited to general salary increases as well as the increase in the number of employees: 19 new budgeted faculty positions and 24 new budgeted staff positions, amounting to 2% growth in combined “budgeted” faculty and staff positions. It isn’t clear whether these “budgeted” positions mean *actual* positions as we understand them. Indeed, in the 2017 audited statements, the number of “budgeted” faculty positions in 2015 is adjusted down to 797 from the 823 reported in 2015 and 2016. That correction is a 3% change, so we might wonder whether the margin of error on these numbers has the same magnitude as the suggested growth we are considering. Additionally, none of these numbers agree with the numbers from Statistics Canada, OCUFA, or UGFA, and shifting the snapshot date does not remove the gap: *their count of faculty positions exceeds ours by at least 70*. Historically, the Council of Ontario Universities (COU) reports faculty numbers that include Deans, Associate Deans, Assistant Deans, and other administrators. It is easy to imagine that summing up such positions on campus could easily lead to a total of 70 or more. Perhaps the “budgeted” faculty positions include these administrative positions.

In any case, it is very important to keep in mind that, despite these new hires etc., as a percentage of total expenses, salaries only increased by 0.45%. That outcome is the result of many factors. Replacement hiring is a money saver, as the University saves the difference between the salaries of the senior faculty member and the newly-hired junior faculty member: the total number of faculty members can stay constant, with salary cost decreasing. We can add in a small number of new hires and keep the salary costs flat. Finally, UGFA negotiated mild base salary increases in the relevant round of collective bargaining, instead having to fight off barbaric proposals on unilateral DOE changes by the Administration, and more.

Of course, the dollar value of the surplus is of great interest, and, not to disappoint, the Administration landed at a NEW RECORD SURPLUS. The inarguable structural surplus over the years is remarkable, deserving its own big table, in recognition of the big numbers:

STATEMENT YEAR	SURPLUS (= REVENUES - EXPENSES)
2017	$90M
2016	$60M
2015	$66M
2014	$80M
2013	$41M

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.

One should appreciate that the seemingly small percentage shifts in revenues (+6.6%) and expenses (+3.3%) are applied to really large numbers, so the gap between revenues and expenses, already a large dollar value in past years, becomes an incredible dollar value: $90M is around 20% of the total budget. The audited financial statements report that the $90M surplus arose mainly from $33M in realized investment returns from “internally restricted endowments,” increases in operating grants ($5M), and increases in tuition ($21M). Combined with total expenses increasing by a smaller percentage, the gap between revenues and expenses grew by $30M over the previous year. It seems appropriate to note that there is apparently no attempt by the Administration to take action to shift a huge structural surplus to some reasonable small number. It also seems appropriate to note that the set-aside internally-restricted stockpile generated a truckload of interest, and neither the principal nor the interest seems to ever be directed towards the missions of the University. The audited statements write that "most [of the $33M in interest] flowed through as an increase in Net Assets."

A critical person might observe that revenues—in particular, public money from the Ministry of Advanced Education and Skills Development (MAESD) and tuition—come into the (Unrestricted) Operating Fund with the intention of being directed towards the teaching and scholarship mission of the University. Instead, significant amounts of this money get shifted into Internally Restricted pots that grow to ridiculous levels, keeping in mind that some money is spent from those pots, but much more is added. Instead of being spent, the majority of this money is invested in long-term investments (signaling the lack of intention to spend it), and the interest from those investments contributes towards the jaw-dropping yearly surplus. The bulk of the yearly surplus maintains the Internally Restricted designation, and those pots continue to grow, ready to contribute towards next year's surplus. That is the anatomy of our structural surplus, all while the University's twin missions starve and UGFA members struggle with the many impacts of high workload.

Tuition revenue grew by 8% (both years including Guelph-Humber). Undergraduate student FTEs grew by 1.6% and graduate student FTEs grew by 8.4%, not accounting for Guelph-Humber. Overall student growth was 2.3%, exceeding the 2% growth in "budgeted" combined faculty and staff positions. It's a small difference, of course, but it contributes towards what the Financial Advisory Committee sees as *workload creep*. The accumulation of assorted workload creeps leads to meaningful workload increases, with all of the negative side effects we have seen reported by members on surveys and heard reports of in person. In any case, that 2.3% increase in total students, combined with tuition increases and increases in the number of international students and students in professional programs, translates into an 8% increase in tuition revenue, roughly $16M.

Instead of being spent, the majority of [the Internally Restricted] money is invested in long-term investments (signaling the lack of intention to spend it), and the interest from those investments contributes towards the jaw-dropping yearly surplus. The bulk of the yearly surplus maintains the Internally Restricted designation, and those pots continue to grow, ready to contribute towards next year's surplus. That is the anatomy of our structural surplus, all while the University's twin missions starve.

The Transfer Grants from MAESD stayed stable. In recent budget presentations (and at Senate), this revenue stream has been portrayed by the Provost as quite unpredictable as we enter a new government funding regime.

Total expenses remain stable, increasing by 3.3%, half the percentage increase of total revenues.

Total salaries as a percentage of revenues went down a touch, landing 1% below the average of the preceding five years, the lowest of the six-year window. On the other hand, total salaries as a percentage of expenses went up a touch, but remained stable since 2013. The 2012 percentage is a low outlier compared to all other years we have analyzed.

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

as at April 30	2012	2013	2014	2015	2016	2017
Revenues						
Total Revenues	698,765	717,899	745,233	759,374	**767,352**	818,314
year-to-year % change	3.00	2.74	3.81	1.90	2.97	6.64
Government Grants						
MTCU/MAESD	181,753	181,301	183,331	178,990	**197,400**	201,420
Min Agriculture, Food, Rural Affairs	62,888	62,821	64,038	69,602	70,295	71,104
Total	244,641	244,122	247,369	248,592	**267,695**	272,524
year-to-year % change	2.26	-0.21	1.33	0.49	8.22	1.80
(govt grants)/(total revenues)	**35.01**	**34.01**	**33.19**	**32.74**	**34.89**	**33.30**
Student Tuition	150,754	160,609	170,037	177,127	**198,632**	214,523
year-to-year % change	9.96	6.54	5.87	4.17	16.82	8.00
(student tuition)/(total revenues)	**21.57**	**22.37**	**22.82**	**23.33**	**25.89**	**26.22**
Expenses						
Total Expenses	753,903	672,150	669,881	689,048	**707,763**	731,424
year-to-year % change	15.53	-10.84	-0.34	2,86	2.72	3.34
Salaries	322,285	331,568	330,391	334,009	**345,341**	360,127
year-to-year % change	2.57	2.88	-0.35	1.10	3.39	4.28
salaries/(total revenues)	**46.12**	**46.19**	**44.33**	**43.98**	**45.00**	**44.01**
salaries/(total expenses)	**42.75**	**49.33**	**49.32**	**48.47**	**48.79**	**49.24**
Benefits	36,380	40,230	39,608	40,788	**44,077**	45,915
year-to-year % change	-60.93	10.58	-1.55	2.98	8.06	4.17
benefits/(total revenue)	**5.21**	**5.60**	**5.31**	**5.37**	**5.74**	**5.61**
benefits/(total expenses)	**4.83**	**5.99**	**5.91**	**5.92**	**6.23**	**6.28**
Interest Cost	11,427	12,117	12,431	12,206	11,618	11,707
year-to-year % change	-3.46	6.04	2.59	-1.81	-4.82	0.77
(interest cost)/(total revenues)	**1.64**	**1.69**	**1.67**	**1.61**	**1.51**	**1.43**
(interest cost)/(total expenses)	**1.52**	**1.80**	**1.86**	**1.77**	**1.64**	**1.60**
Adjustments						
Unrealized Gain/Loss or Interest Rate Swap	-3,523	-4,406	4,584	-3,431	595	2,892
Surplus or Deficit						
All Funds Combined	-58,661	41,343	79,936	66,535	60,184	89,782
year-to-year % change	-337.25	170.48	93.35	-16.76	-9.55	49.18
(surplus or deficit)/(total revenues)	**-8.39**	**5.76**	**10.73**	**8.76**	**8.09**	**10.97**

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 2017 reached the highest level since 2010, with all intervening years also featuring very large values.

In 2017, the Administration made a new record level of new investments with an additional $170M tucked away, beating the 2016 record by one third! This translates into 21% of total revenues being plunked into new investments. You may recall that the 2016 investment number was a huge increase (210%) over the previous year, so we should appreciate that this year's number is a sizeable increase beyond what was already an enormous increase. In the footnotes of the audited statements, we find that, from 2016-2017, the total short-term investments increased $103M from $96M to $199M and the total long-term investments increased $96M from $464M to $560M. Yes, in the one-year period from 2016 to 2017, total investments increased by $199M.

> *[The $170M] translated into 21% of total revenues being plunked into new investments. […In] the one-year period from 2016 to 2017, total investments increased by $199M.*

The Administration spent $82M on capital assets in 2017, an 8.7% increase over last year. Very close to one third of total revenues was directed to new investments and purchase of capital assets. Over the six-year period 2012-2017, the Administration has spent $415M on capital assets, on average roughly $68M per year.

The Administration borrowed $60M, in large part to direct towards capital spending. The big capital projects are

- the Mitchell Athletics Centre, costing $14.8M in 2017, $24M in 2016, and $6.9M in 2015, with total spending to-date being $45.7M. That's a curious number since the proposed total cost of the project is $45.4M. From the start, it was suggested that the cost will balloon beyond $60M;
- the Football Pavilion, costing $5.5M in 2017 and $0.7M in 2016, and having a total cost of $8.2M;
- the OVC Master Plan, costing $4M in 2017, the start of spending on a project slated to cost $35.2M;
- the relocation of the Turfgrass Institute, costing $1.5M in 2017, the start of spending on a project with $15M cost;

- the energy retrofit project, costing $3.9M in 2017, $11.9M in 2016, $6.7M prior, and having a total cost of $26.2M; and
- $3.9M spending on roads, parking lots, and sidewalks. Perhaps this includes the concrete borders on the corners of green areas, as well.

We include a reminder that the six projects covered by the $26.2M in Strategic Investment Fund money awarded to the University are

- A bio-carbon innovation and commercialization centre;
- A biosafety level 2 production animal research isolation unit;
- A food innovation centre;
- Expansions and renovations of the library;
- Renewal and renovations of the MacNaughton Building; and
- Renovations to the Reynolds Building.

The total spending on these projects is estimated at $66.6M, so $40.4M is needed on top of the government funding. All of this spending is expected to occur in 2017-2018, with $5.7M spent in 2017.

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

as at April 30	2012	2013	2014	2015	2016	2017
Total Revenues	698,765	717,899	745,233	759,374	767,352	818,314
Cash Flows From Operations	61,864	55,660	83,975	66,659	**106,685**	**114,891**
year-to-year % change	14.41	-10.03	50.87	-20.62	60.05	7.69
(cash from operations)/(total revenues)	**8.85**	**7.75**	**11.27**	**8.78**	**13.90**	**14.04**
Increase or Decrease of Investments	1,397	35,861	21,391	40,893	**127,135**	**169,769**
year-to-year % change	-93.94	2643.76	-40.35	91.17	210.90	33.53
increase/(total revenues)	**0.20**	**5.00**	**2.87**	**5.39**	**16.57**	**20.75**
Purchase or Sale of Capital Assets	**81,058**	**67,701**	**49,082**	**58,077**	**75,563**	**82,123**
year-to-year % change	**-23.47**	**-16.48**	**-27.50**	**18.33**	**30.11**	**8.68**
purchase/(total revenues)	**11.60**	**9.43**	**6.59**	**7.65**	**9.85**	**10.04**

ANALYSIS OF THE STATEMENT OF CHANGES IN NET ASSETS

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

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

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

Over time, we have become particularly interested in transfers into and the size of the Internally Restricted funds, and we must repeat the following statement from past updates.

> *It is worth reminding readers that the distinction between the (Unrestricted) Operating Fund and the five Internally Restricted Funds is artificial from our perspective. All of these funds contain money that could be directed towards the teaching and scholarship missions of the University. Money set aside for other purposes should have clear payment or contribution plans attached in order to justify the amounts. Instead, we have now seen these set aside amounts grow from year to year for at least the past handful of years, while UGFA members work their hardest to deliver on the University's teaching and research missions, sub-optimally supported, amidst morale, workload, and health issues. The Senior Administration may say that the Board of Governors has mandated the creation of these Internally Restricted Funds, but we can't distinguish between the Senior Administration and the BoG in this regard: we can only monitor their combined actions. Remember that in the tale of the University Guelph, involving UGFA members, the Senior Administration, and the BoG, by and large UGFA members form the only set of actors committed to the University of Guelph for a career-long period. We are the guardians of the University's twin missions and also of the University itself.*

Table 4 presents the data.

With the exception of the anomalous adjusted 2012 figure, the (Unrestricted) Operating Fund has generated a surplus every year since 2006, with 2017 crossing the $100M threshold with a record $112M. The prior three years all crossed $80M.

The Capital Fund continued the historic trend of a $20M deficit.

Looking at interfund transfers, we see that $59M was moved from the (Unrestricted) Operating Fund into the various Internally Restricted "reserves" and $24M was transferred into the Capital Fund. The former amount is the increase in Internally Restricted money from $262M to $321M.

The cumulative transfer out of the Operating Fund since 2006 reached a hair shy of $680M in 2017. In 2017, 73% of the money generated through operations was shifted out of the (Unrestricted) Operating Fund into other funds.

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

as at April 30	2012	2013	2014	2015	2016	2017
Surplus or Deficit Operations						
Cash Flows From Operations	61864	55,660	83,975	66,659	**106,685**	114,891
Unrestricted Fund	-41,466	59,749	99,436	86,777	**81,043**	112,105
Internally Restricted Fund						
Capital Assets	-17,195	-18,406	-19,500	-20,242	**-20,859**	-22323
Total	-58,661	41,343	79,936	66,535	60,184	89,782
Interfund Transfers						
unrestricted to internally restricted	16,490	35,501	57,907	0	**2,083**	59,170
internally restricted to unrestricted	0	0	0	2,204	0	0
unrestricted to capital fund	28,871	19,205	22,354	52,506	**76,007**	24,427
total transfers out of unrestricted per year	**45,361**	**54,706**	**80,261**	**50,302**	**78,090**	**83,597**
cumulative transfers out of unrestricted	**379,487**	**488,899**	**469,093**	**519,395**	**597,485**	**681,082**
(total transfers out of unrestricted per year) /(cash from operating activities)	**73.32**	**98.29**	**95.58**	**75.46**	**73.20**	**72.76**
(total transfers out of unrestricted per year) /(surplus or deficit in unrestricted fund)	**174.36**	**132.32**	**100.41**	**75.60**	**129.75**	**93.11**

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, with × the potential worrisome trends, and with ? any unclear items.

	Undesirable trend…	*Trend at UoG since 2012*	
Revenues	Decreasing	Increasing average increase per year = 3.5% increase every year 6.6% increase in 2017	✓
Expenses	Increasing	Stable / Small Increase average increase per year = 2.3%	?
Surplus/Deficit	Consistent deficits	One large actuarially-driven deficit in 2012 Average yearly surplus = $47M	✓
Cash Balance	Decreasing	Increasing average increase per year = 6.6% substantial decrease in 2016, but still > $200M	✓
Total Assets	Decreasing	Increasing average increase per year = 5.8% exceeded $2B in 2017	✓
Capital Assets	Decreasing	Increasing average increase per year = 2.6%, $21M	✓
Short-Term Debt	Increasing	Stable? accounting change in 2014, recalibrating in 2014-15 increased by 7% in 2017	?
Long-Term Debt	Increasing	Decreasing? accounting change in 2014, decreased 2015-16 increased by 14% in 2017	✓
Internally Restricted Fund	Decreasing	Increasing massively average increase per year = 13% increased 23% in 2017	✓
Cash Flow From Operations	Negative amount	Increasing and huge amount New record high in 2017	✓
Cash Supplied From Borrowing	Increasing amount	Decreasing, with increase in 2017	✓
Cash used to Buy Capital Assets	Minimal amount	Increasing since 2014	✓
Surplus/Deficit in			
Unrestricted Fund	Consistent deficit	Consistent surplus, increasing One actuarial-driven deficit, in 2012 New record surplus of $112M in 2017	✓
Internally Restricted	Consistent deficit	No deficit	✓
Capital Fund	Consistent deficit	Consistent deficit	×
Endowment Fund	Consistent deficit	No deficit Small deficit in 2016	✓
Transfer of Cash Between Funds	Consistent transfers to same funds	Consistent transfers from Unrestricted to Internally Restricted (except for 2015) and to Capital Fund	×

Reviewing the results of the scorecard, we conclude that there is no structural deficit at the University of Guelph. In fact, five years of tremendous surpluses, incredible levels of set-aside Internally Restricted money generating record levels of investments, and the consistency of such results and activity are indicators of a large ***structural surplus***.

Somewhat curiously, the 2017 audited statements include a section presenting eight metrics to measure “fiscal strength” and debt of the University. We present the information from the eight graphs in the following table, including the targets or objectives that are identified in the statements.

	Target/Objective	*2013*	*2014*	*2015*	*2016*	*2017*
Primary Reserve Ratio How long can the University run on reserves?	Target = 0.4 (➜ 4.8 months)	0.28	0.41	0.45	0.44	0.55
Return on Net Assets Change in net assets over net assets	Expected = 5%	36.6%	15.7%	22.5%	0.2%	20.4%
Net Operating Revenues Ratio Surplus over expenses (excluding restricted funds)	Expected = 4%	9.6%	11.9%	10.7%	12.2%	11.4%
Viability Ratio Expendable net assets over external debt	Target = 0.65	0.84	1.16	1.38	1.47	1.67
Debt Servicing Burden Debt payments over expenses (excluding capital asset amortization)	Objective < 5.5%	4.9%	5.2%	4.9%	4.6%	4.2%
Interest Burden Interest payments over expenses	Objective < 4%	2.6%	2.7%	2.4%	2.2%	2.0%
Debt Service Coverage Net income over debt service costs	Objective > 1.5%	3.0%	4.0%	3.8%	3.4%	4.8%
Debt Per Student FTE Debt over #Student FTE	Objective < $10K (Not stated, but seems so)	$12.3K	$12.4K	$11.9K	$10.2K	$11.8K

The conclusion of the calculation of these metrics seems to be that 7 of the 8 targets or goals are well met. The final item, measuring debt per student FTE, lands above the objective by a small amount.

Readers should keep in mind that some of these metrics are in conflict with the FAC’s view of university finances. For example, the idea of having “expendable reserves” (as the audited statements write) to run the University for half a year with no other revenue seems like a very odd metric to us. In what galaxy do we envision such a scenario? It does seem to make some sense for a corporation that has to worry about stability of sales, demand, and other market forces, in a risky marketplace. We have a similar view of the expectation that the surplus (the statements say net income) will be 4% of expenses: given that total expenses are $731M, this metric gives a negative result unless the University generates a $30M surplus.

Our view is that the University runs under not-for-profit accounting principles, should be focused on serving the public through its teaching and scholarship missions, and is misguided in embracing a corporate, net-income focused philosophy to its operations.

With this view, it is actually significantly more alarming that the University has a rather rosy assessment in terms of these corporate-minded metrics.

SUMMARY & CONCLUSIONS

During 2017, we see significant stability in key revenue and expense items.

Key Revenue Items

Total Revenues	Stable or increasing, 6.6% increase
Government Grants (MAESD,OMAFRA)	Stable or increasing, 1.8% increase
Tuition	Stable or increasing, 8.0% increase

Key Expense Items

Total Expenses	Stable or increasing, 3.3% increase, percentage increase in expenses is half the percentage increase in revenues
Salaries	Stable, 0.5% increase as percentage of total expenses, 1.0% decrease as percentage of total revenues
Benefits	Stable as a percentage of expenses or revenues
Interest Costs	Stable as a percentage of expenses or revenues

The University appears to be in good financial health.

We continue to find that:

1. The UGFA salary mass remains a stable percentage of total revenues or total expenses.

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

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

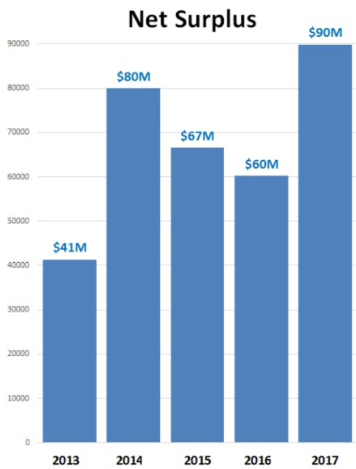
3. The Administration has designated $321M as Internally Restricted.

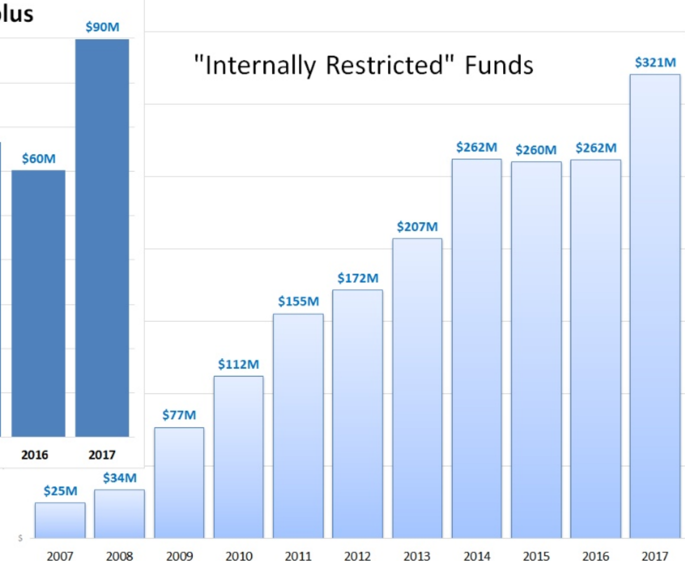
   The total amount of such set-aside money stayed stable at just over a quarter-billion dollars for three years, before enjoying a 23% increase to approach one third of a billion dollars. This amount of money represents 16% of the University's total assets.

   Roughly $235M (or 73%) of the $321M in the Internally Restricted portion of the Operating Fund is
   - carry-forward money from the previous year (which grew by 16% or $13M in 2017),
   - 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 all of the money in the first two bullets and, arguably, at least some of the money in the third bullet could be *used now* in support of the University's teaching and scholarship/research missions. Readers will recall that the budget process run by the Provost routinely ignores all of this money.

Following President Vaccarino's frequent approach of surveying the landscape of the University or the sector from 30,000 feet, we close the summary with the following graphical illustration of our high-level view.





Enormous Surpluses & Unallocated Set-Aside Funds

Looming Massive Pension Plan Savings

Professional Plan 2016 Current Valuation		
Going Concern	Solvency	Windup (Solvency + Interest)
$100M	$451M	$638M

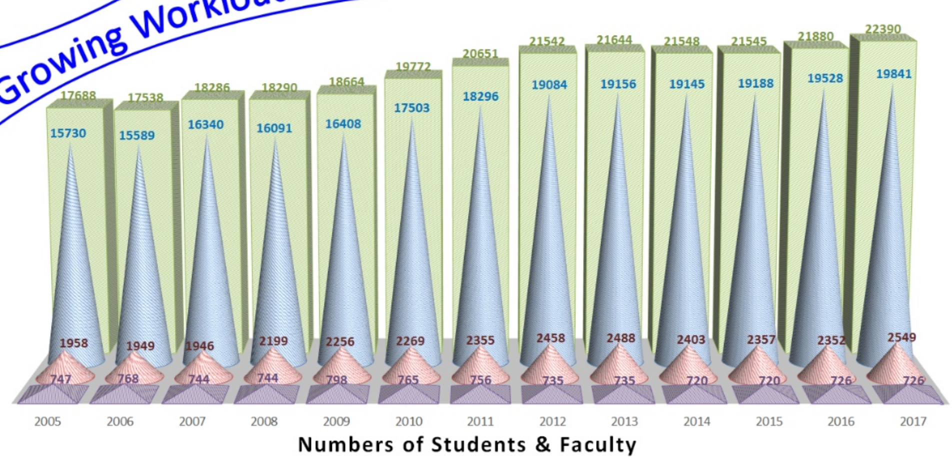
Solvency/Windup liability DISAPPEARS if UGFA members and other Professional Plan members save the University

$100M	$0M	$0M
Going Concern	Solvency	Windup (Solvency + Interest)
Proposed Jointly-Sponsored Pension Plan 2019 Inception?		

Money for the Twin Missions of Teaching and Scholarship?

How About Meaningful Growth in Faculty?

Growing Workload: More Students, But No More Faculty



APPENDIX A

In this appendix, we provide the University's mission statement and give a brief primer on University finances.

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 committed 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.