Representing Faculty, Librarians, Veterinarians & College Professors

ANALYSIS OF UNIVERSITY FINANCES

4/5/2023

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 2022 contextualized in terms of prior years.

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ANALYSIS OF UNIVERSITY FINANCES

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

BRIEF SUMMARY (FOR THE YEAR 2022)

THIRD CONSECUTIVE DEFICIT, BUT DO NOT PANIC

Following seven consecutive years of huge surpluses ($41M up to $90M) from 2013 to 2019, the Audited Statements showed three consecutive deficits of $8M, $16M, and $34M from 2020-2022. Great care **must** be taken when viewing these figures: all preceding years occurred in fundamentally "normal" times, while the most recent three years were once-in-a-lifetime chaotic.

The Administration is typically focused on the "normal" revenue streams—transfer grants and tuition—which account for 60% of revenues and have been constrained by the government during recent years. Yet, the surplus or deficit of course takes into account all $800M+ of revenues. The pandemic impact on investments, ancillary enterprises (including student housing), and parking, for example, was profound, and, in the case of investments, unpredictable. Losses or lower than typical positive outcomes across these items contribute a negative impact on the "bottom line" exceeding any of the three deficits.

It is wrong, perhaps even opportunistic and manipulative, to suggest that the University has a "structural deficit" based on the once-in-a-lifetime past three years. The indicators we use to identify a structural deficit in fact do not suggest such a state, but the fact is it is unsound to use normal-time indicators to assess the most abnormal of all times.

MORE (POSITIVE!) UPP IMPACT TO COME

The full impact of conversion to the University Pension Plan (UPP) will not be reflected in the audited statements until next year, if then. We do know that investments had a good year just prior to conversion, so all of the founding plans entered the UPP in surplus, with Guelph's being $145M. In addition, the Administration was freed from paying or setting aside other money (the PfAD, the PBGF; read more in the analysis). So, the conversion is initially a big windfall, and, yes, the employee groups saved the University from the financial destruction of the solvency funding regime.

THE LIABILITIES VS. BORROWING DILEMMA

Liabilities (and associated costs, like interest payments) have dramatically decreased in recent years due to no new borrowing. But that means that the money for capital projects comes out of the Operating Fund or, through transfers, the Internally Restricted money.

In recent years when we borrowed a lot, liabilities increased, Internally Restricted money skyrocketed to a peak of $320M (39% of revenues that year!), and surpluses were huge. In the past three years when we borrowed nothing, liabilities decreased, Internally Restricted decreased to $172M (20% of revenues this year!), and (comparatively small) deficits appeared.

The first of these situations is described typically as strong, perhaps even robust, financial health, while the second one may in some circles be described as troubling. It would seem that each of these descriptions should require further thought and analysis… So, read on!

INTRODUCTION

This document presents the UGFA Financial Advisory Committee's analysis of the University's audited financial statements, running from 2017 to 2022. As in past analyses, 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 inferred 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
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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 that highlight trends, and
ii. a brief written analysis of the table and surrounding factors.

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

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. If something goes wrong (investment income not realized, government legislation, etc.), these input numbers may change by the time the next statement is produced. Any changes to past numbers are colored **green** in this report.

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 this fund should receive separate intense scrutiny.

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

- a Financial Scorecard, discussing why we are not presenting a detailed scoreboard this year (spoiler alert: we just experienced three extremely unique years); 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 2017 are presented in Table 1, at the end of this section. As a percentage of total assets, we see:

	In 2017-2021	*In 2022*
Cash (& short-term investments)	Between 9% and 13%	At 8%
Capital assets	Between 56% and 59%	At 60%
Short-term liabilities	Between 13% and 15%	At 15%
Long-term liabilities	Between 8% and 11%	At 8%
Internally Restricted money	Between 12% and 16%	At 8%

This analysis marks the first six-year window inside which total assets have always been above $2B. The average yearly growth in total assets in the six-year window is $24M. In the past year, total assets of the University decreased slightly from $2.21B to $2.16B. This approximately $40M decrease in total assets over the past year was preceded by a $71M increase in the prior year (2020 to 2021) and a $100M decrease the year before that. These changes in net assets are heavily connected to investment returns and losses, with the audited statements frequently referring to the volatility of markets globally. Recall that the bulk of the decrease in 2020 was due to investment losses when the markets were traumatized by the arrival of the COVID-19 pandemic. A year later, there was a massive $50M gain as markets swung back. A year later, there is a swing the other way again. For reference, in the first three years of six-year window, total assets grew by $190M, $100M, and $124M. These massive increases were preceded by other increases, sometimes also quite massive. Long-time readers will recall when these analyses began anticipating total assets hitting $2B as the size of the yearly increases began suggesting it would not take long.

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We think it is important to connect this discussion to UGFA's experience with the current Senior Administration, both in "routine" periods and during collective bargaining in Summer and Fall 2021. We have repeatedly heard that Administrative "turnover" has led to the Administration having no "system memory." That lack of system memory has caused havoc in terms of misinterpretations of (or, in some sad cases, disregard for) the Collective Agreement (CA): without first communicating with the Association, the Administration has with some frequency acted contrary to the CA, leading to grievances, which often end up in arbitration. Additionally, in bargaining, we found ourselves explaining the origin and intent of current CA language and processes.

In the context of University finances, a clear concern is that the Administration may soon only have a memory of "investment volatility" and other experiences we will discuss later, such as limits on domestic tuition increases. Obviously, the current year's planning is affected by the current year's constraints, and, in a way, it makes sense that Senior Administrators focus on a very short-term window around the present; they are transient, setting up their next gig somewhere else by trying to lay a few CV shingles in their present role here. A momentary decrease, which follows a larger increase, should not evoke comparisons to the tragedy of Laurentian, which resulted from sheer mismanagement as the Auditor General identified in her scathing report, but we have heard such comparisons voiced. Even if a Senior Administrator recognizes that a crumby moment may be managed in a reasonable fashion—this too shall pass—sadly, their core instinct as a "leader" is to not miss an opportunity to ram through some sort of significant systemic change by declaring the current moment a crisis.

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There is a reason that in some arenas, investment gains and losses are viewed through a rolling average; in the pension world, one routinely uses "asset smoothing" to assess the health of the plan fund. These funds have other inputs (contributions) and output (pension payouts), but, given their size, they are very heavily affected by market swings. That is why plans diversify their investment portfolio. The fact that asset pooling offers even more diversification options was one factor that made the UPP so attractive. For example, past experience suggests that splitting investments between equities and bonds—a 60-40 split is typical—helps mitigate risk: when equities are down, bonds are usually up, and vice versa. But in the recent pandemic period, both have been down, defying past experience. At the end of 2022, the markets rallied again, so the actual results of the current fiscal year remain uncertain.

Cash and short-term investments (that can quickly be made into cash) had their lowest value this year, decreasing by $22M, following a decrease of $28M the year before. These two years mark the first times in many years that cash was below $200M. There is more than one way to look at this year's number, $166M. It is still a lot of money. Or, oh no, it is the lowest amount in the six-year window (and, in fact, much longer). Or, hmm, they often shift money from long-term investments to short-term investments when they feel they will need to spend money, so perhaps they feel no need to have as much money on hand. But, one might ask, how could that be?

Well, short-term liabilities dropped by $8M to a still-large $317M, a decrease of 2.6%. That seems quite meaningful when one notices that these liabilities decreased in only one other year in our six-year window and have an average increase of 5.5% during the period. Much more importantly, long-term liabilities decreased $13M or 7% to the lowest value ($167M) of the six-year window (and longer), marking the fifth year in a row that these liabilities have decreased. So, assets had a very small percentage decrease, but both short-term and long-term liabilities had greater percentage decreases.

Capital Assets increased again, as they always do, barring the sale of such assets, but this time by a paltry $6M, below the average yearly increase in our six-year window of $30M.

Finally, Internally Restricted funds decreased $50M this year, and $50M the year before, now sitting at $172M. That is way down from the lofty days when they had $320M in tucked-away money. Here is the detail on the "reserves" that we always track. One sees that all three of these reserves decreased in each of the last two years.

FUND NAME	2017	2018		2019		2020		2022	
Division Reserves	$101M	$97M	-4%	$101M	+4%	$95M	-5%	$94M	-2%
Central Operating Reserves	$76M	$81M	+7%	$74M	-9%	$66M	-11%	$45M	-32%
Employee Benefits Reserves	$48M	$23M	-52%	$30M	+29%	$26M	-13%	$16M	-39%

So, where did the money go?

Well, in some ways it is a typical story from recent years: money moves from Internally Restricted to the (Unrestricted) Operating account and then gets shifted to the Capital Fund. The difference to the story is that in the past two years the great majority of the huge sums transferred to the Capital Fund could be seen as coming from the Reserve transfers. We will get into this a little more when we look at the Statement on Changes in Net Assets.

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

as at April 30	2017	2018	2019	2020	2021	2022
Total Assets	2,015,056	2,115,211	2,238,029	2,130,280	2,209,442	2,158,229
year-to-year % change	**10.04**	**4.97**	**5.81**	**-4.81**	**3.72**	**-2.32**
Cash (& short-term investments)	255,113	266,254	**242,914**	216,188	188,652	166,164
year-to-year % change	1.02	4.37	**-8.77**	-11.00	-12.74	-11.92
cash/total assets	**12.66**	**12.59**	**10.85**	**10.15**	**8.54**	**7.70**
Capital Assets	1,123,477	1,212,862	1,253,172	1,277,897	1,297,026	1,303,372
year-to-year % change	3.44	7.96	3.32	1.97	1.50	0.49
(capital assets)/(total assets)	**55.75**	**57.34**	**55.99**	**59.99**	**58.70**	**60.39**
Short-Term Debt (Current Liabilities)	251,862	275,112	301,168	275,029	325,774	317,182
year-to-year % change	7.11	9.23	9.47	-8.68	18.45	-2.64
(short-term debt) /(total assets)	**12.50**	**13.01**	**13.46**	**12.82**	**14.74**	**14.70**
Long-Term Debt (Long-Term Liabilities)	229,560	217,264	205,021	192,079	180,142	**167,404**
year-to-year % change	13.95	-5.36	-5.64	-6.01	-6.52	-7.07
(long-term debt) /(total assets)	**11.39**	**10.27**	**9.16**	**9.05**	**8.15**	**7.76**
Internally Restricted	**320,792**	**288,620**	**276,882**	**272,925**	**222,919**	**172,341**
year-to-year % change	22.62	-10.03	-4.07	-1.43	-18.32	-22.69
(internally restricted) /(total assets)	**15.92**	**13.64**	**12.37**	**12.81**	**10.09**	**7.99**

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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).

At the end of this section, 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 2017-2021	*In 2022*
Tuition	Average increase of 2.6% per year; -5% hit in 2020, with 2% increase in 2021; 26-28% of revenue	Decreased by 2%, 26% of revenue
Transfer Grants	Marginal yearly increases, with small decreases in 2020 and 2021; 32-34% of revenue	Increased by 4.4%; 34% of revenue
Total Revenue	Average increase of 1.2% per year, with decreases in 2020 and 2021	Increase by 4%
Salaries	Average increase of 3.7% per year, with a 2% decrease in 2021	Increased by 4%; 51% of revenue and 49% of expenses
Benefits	Average increase of 5.2% per year, with a 3.3% decrease in 2020 and an 11% increase in 2021; 6.1-6.8% of expenses	Marginal decrease; 6.4% of expenses
Total Expenses	Average increase of 3.2% per year, with marginal decrease in 2021	Increased by 6.2%

We have heard some bleak stories from the Administration, so it is good to see that the increase in the transfer grants hit 4.43%. That is the highest percentage increase in the six-year window! Tuition revenue enjoyed a small increase of 1.82% in 2021 and a small decrease of 1.94% in 2022, essentially returning to the $220M value of 2020. In that year, of course, the number was a 5.3% decrease from the preceding year, but all of the years we are talking about exceed the tuition revenue from 2017, which at the time was the highest ever and the first to cross $200M. As a percentage of revenue, the current value is just slightly the lowest in the six-year window, but it is still very close to all years except 2021, which was 1.5% higher (as a share of corresponding revenue). So, does the tuition cut and subsequent freeze hurt? Sure. Increasing the total number of students and shifting the domestic/international mix a little bit had real impact: it brought things in line with the past, at the cost of increased UGFA member workload, of course.

Figure 1 shows the Administration's graph of student enrolments. In the two-year interval (2020-2022) presented in the graph, undergraduate student enrolments decreased by 3.5% and graduate student

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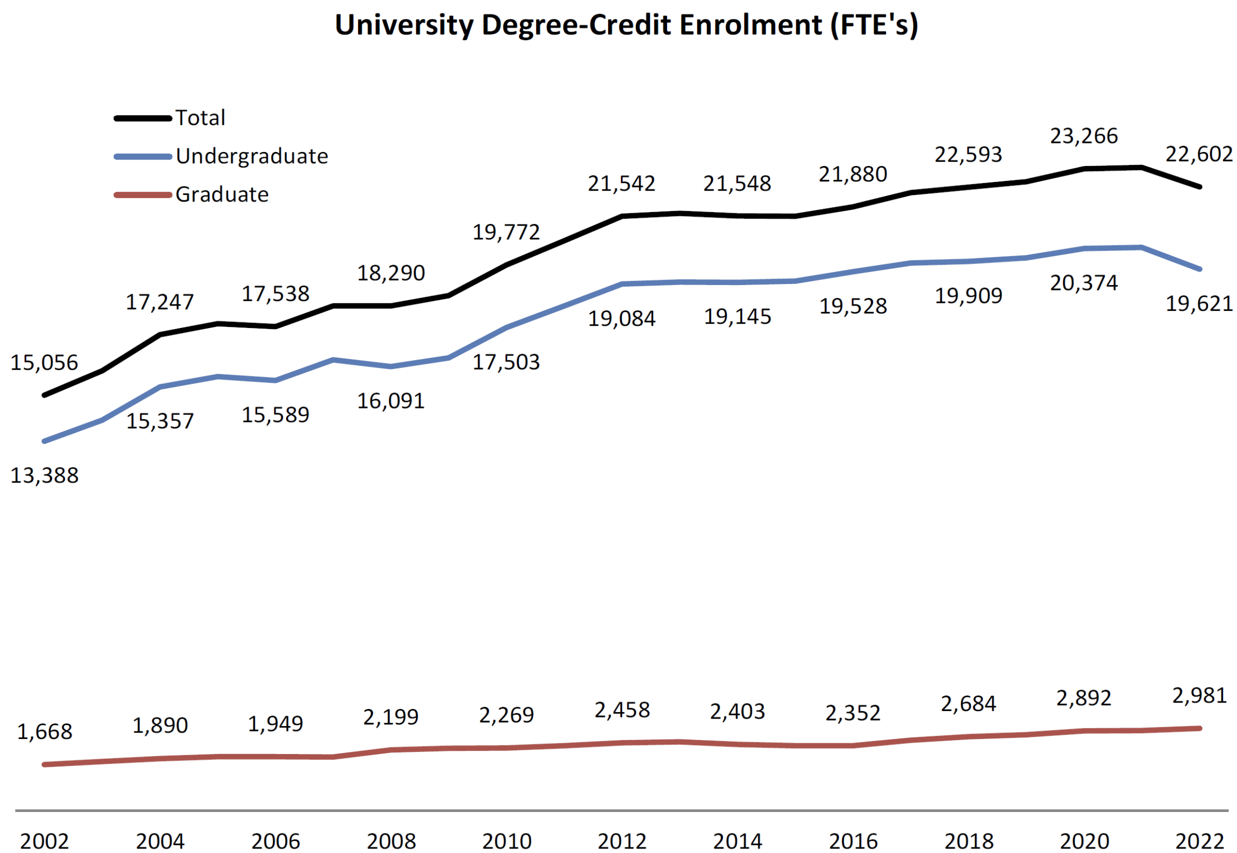

FIGURE 1: UNIVERSITY DEGREE-CREDIT FULL-TIME EQUIVALENT ENROLMENTS

enrolments increased by around 3%, with total tuition revenue staying essentially the same. We cannot dig deeper into that result, but it surely reflects a shift of enrolments to professional, higher-tuition programs and/or growth in the international student cohort.

Perhaps what is most astounding about this graph—and a testament to the dedication of UGFA members—is the incredible biannual increase in the number of graduate students. While it may be seen as part of a rounded academic career, in a multi-year period dominated by (i) health crises, including severe mental health concerns; (ii) ever-increasing workload; and (iii) a strong sense amongst members that the Administration really does not care at all about their wellness (despite offers of neon yoga on the Green), UGFA members willingly chose to increase their workload through even more graduate student supervision.

To be clear, this increase cannot be explained by an increase in the number of UGFA members. Figure 2 shows the number of permanent UGFA members from January 2019 through to January 2023, as well as the bargained target value for this number in July 2023 and December 2023. (Recall that the UGFA Bargaining Team was reasonable when bargaining in acknowledging that the pandemic may have had impact on the

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Administration's ability to fulfill the full amount of growth hiring by July 1, 2023. Arbitrator William Kaplan is "seized" (meaning on hold and available to help resolve any issue) should the Administration miss either of the two target values identified in the Figure.) As members consider Figure 2, the growth hiring commitment, and, perhaps, the impact on the UGFA salary mass, it is important to remind you of the other thing that impacts the member complement: retirements and other departures.

Figure 2 also helps us consider the expense of salaries from the UGFA viewpoint. Remember that the numbers we report for any year refer to the fiscal year ending on April 30th of that year. So, when considering the past two fiscal years, we are interested in the number of UGFA members on April 30, 2021 and 2022. The potential difference in UGFA membership, also including Contractually-Limited members who are not captured in Figure 2, and the recognition that UGFA members received a 1% Cost-Of-Living Adjustment plus our Annual Career Increment as a salary increase does not account for a huge share of the $17M increase in salaries reported in Table 2.

Given that the Administration has now more than once drawn comparisons for us to the tragedy of Laurentian University, perhaps it is worth visiting the Auditor General's final report on the tragedy.

If you enjoy reading the UGFA analyses and/or want to understand what happened at Laurentian, this document is definitely worth reading, containing many points of analysis similar to our own analyses.

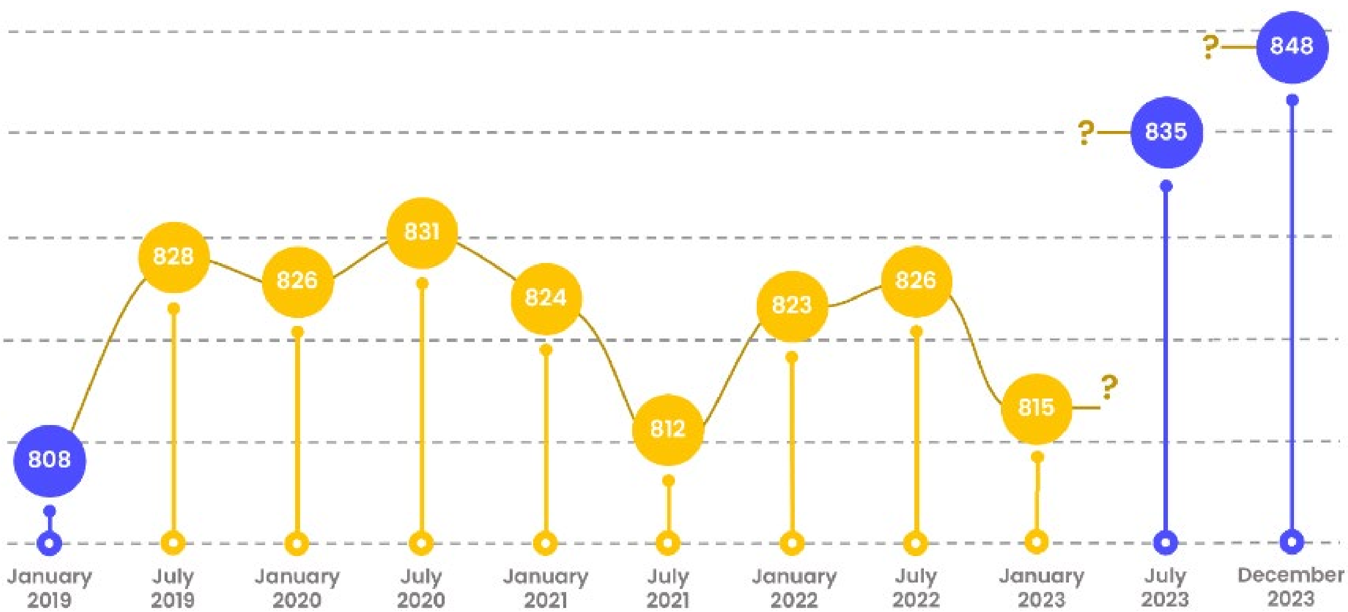


FIGURE 2: PERMANENT UGFA MEMBER COUNT

For the current discussion, we focus on Figure 16 of the AG's report, which presents a graph of the "Size of the Senior Administration and Related Salary Expenses" from 2010 to 2020. In the AG's analysis, Senior Administration "includes those employees at the following levels: president, vice-president, associate/assistant vice-president, general counsel, registrar, university secretary, and university librarian." The AG wrote,

> *From 2010 to 2020, Laurentian went from 10 to 18 senior administration positions, peaking at 22 in 2018. The salary expenses for its senior administration grew correspondingly by about 75% to $3.4M annually, as seen in Figure 16. The total cumulative financial growth for these salary expenses between 2010 and 2020 cost an additional $10.1M.*

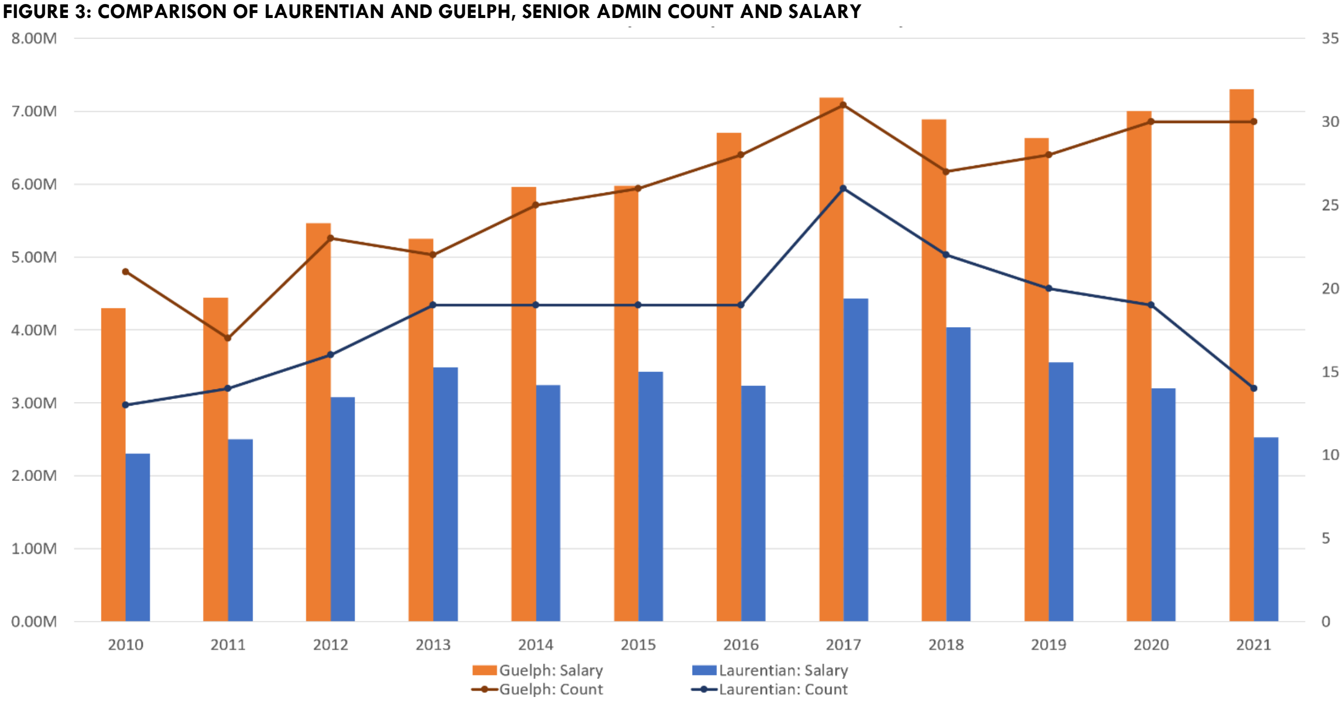
And later,

> *While a university with sustained growth in revenue and/or enrolment may choose to increase its senior administration to better manage that growth, this was not the situation Laurentian faced. In fact, as the University experienced a 4.4% decline in enrolment between 2010 and 2018, the senior administration increased its size by 120%.*

Now, we are unable to access the cost or any salary of the Administration's general counsel, but we can look at all of the other categories of employees. And it seems odd to include associate/assistant VPs, but leave out the corresponding high-level individuals underlings of the Registrar and the Chief Librarian. We also should mention that we include Vice-Provosts. In Figure 3 below, we present the results, looking at the years 2010 to 2021, for both the University of Guelph and for Laurentian University.

The graph reflects a Senior Administration growth pattern at Guelph that is somewhat alarming, as the total number of Senior Administration almost doubled from 2011 to the peak values of 2017 and 2021. It is particularly alarming that there was a climb in numbers during the pandemic, compared to the decrease we see at Laurentian following the tragedy there. Indeed, from 2019 to 2021, the salary mass of the Senior Administration grew by 10%. When the Administration preaches to us about finding

FIGURE 3: COMPARISON OF LAURENTIAN AND GUELPH, SENIOR ADMIN COUNT AND SALARY



"efficiencies," perhaps it is completely appropriate to respond loudly that they should look in their own house first!

Looking at the slightly bigger set of positions as well as the additional year 2021, we find that the cumulative cost of the positions from 2010-2021at Laurentian is $11.4M, while at Guelph it is $21.5M. This different lens also means that the peak increase in the Senior Administration's size compared to its size in 2010 was 100%, while at Guelph it was 82%. During this period, the Laurentian Senior Administration's salary was, on average, 6.3% of the total Sunshine List employee salary, while at Guelph, the Senior Administration's salary was, on average, 4.7% of the total Sunshine List employee salary.

It is also interesting to observe the additional benefit of reducing long-term liabilities (i.e. no new borrowing): a steady reduction in interest payments, which went down another 5% this year. In 2021 and 2022, interest payments finally dipped below $10M per year. More great news!

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In 2022, total expenses had the second-largest increase of the six-year window, follow a marginal decrease in 2021. The net result of Table 5 will make the Administration sound an alarm: there's a deficit of $33M. They will say, sure, revenue went up by 4%, but expenses went up by 6%!

So, let's return to a topic that first surfaced when we discussed Net Assets: investment returns. In the Statement of Operations, the 2022 investment income is reported at $4M, down a massive $45M from 2021. Digging in a bit more, we find a lot of losses in the different categories of the University's investment funds. Our analysis rarely strays to the endowment funds, separated into two categories: money that is externally restricted by the donors, and money that is internally restricted by the Administration. In 2021, when the markets swung back, the investment income in those two categories was $34M and $23M, respectively, for a total income of $57M. But in 2022, when the markets struggled again, the losses were $13.4M and $4M, respectively. $11M in new donations leads to the reported decrease of $6.5M across all endowment funds. Including the new donations into the bottom line hides the poor investment result, what is often referred to as "negative returns" to avoid using the word "loss," perhaps to put the blame on the markets, not the investment manager. In any case, the budget planned for a $15M deficit and one might suggest that this investment loss of $17.4M pretty much turned the deficit into the $33M in Table 5.

The point is not to place the blame on the investment manager, but to make clear that we need to have a rounded view when the Administration's alarm sounds and the "solution" to the "crisis" that they propose is a mix of austerity, more cuts, increased workload (which they will call "efficiencies," of course), squeezing programs, and, heaven forbid, closing programs.

Indeed, remember as well that ancillary enterprises, such as the bookstore and the food outlets on campus, and parking, brought in very limited revenue during the pandemic. Essentially, a significant revenue stream was shut down. From fiscal year 2017 to 2019, ancillary enterprises delivered a $12.1M surplus, a $15.3M surplus, and a $12.6M surplus, respectively. Then, 2020 was significantly impacted by the pandemic, delivering a $6.3M surplus. Fiscal year 2021 was devastated by the lockdowns, delivering a $25.1M deficit, and 2022 rallied to an $8.5M surplus. From 2021 to 2022, ancillary revenue increased from $49.5M to $74.4M, as the recovery progressed.

Again, the point is that nobody denies the negative impact of the pandemic on the University's finances or the lingering effects like market volatility, the hit on ancillary enterprises, or issues with international student travel. But these challenges are slowly disappearing, albeit at different rates. It is completely absurd to propose massive systemic changes now based on financial bottom lines that were generated by the financial chaos of the pandemic when it is clear and/or expected that the impacts are fading and the impacted revenue streams will return to normal. Of course, it also means that the window to propose disingenuously that such changes are needed is closing rapidly, which may mean that, if anything, we will hear a louder claim that change is needed right now!

The Audited Statements actually say that the increase in total expenses was "due to increased research, ancillary enterprises (housing and food services) and other activities associated with campus re-opening," which should be understood as the salaries, and, one expects, to a lesser degree other costs, associated with these activities. They write that non-personnel operating expenses were "$11.1M for operating fund supplies and services, $10.9M for non-capital equipment, maintenance, repairs and minor renovations, $7.8M for research activities, $6.2M for food and retail costs of sales, and other smaller amounts." Long-time readers will recall the infamous and vaguely named "Equipment, Tools, and Contingency Fund, a home for money that had mostly nothing to do with equipment or tools. This fund grew to incredible levels, with no transparency or clarity on what the intent for this money was. The occasional footnote in the Audited Statements and rare honest answers to direct questions helps us understand that this fund was to be used for faculty renewal, which may also have meant buyout money, (either way, for a "contingency," you see!) that was later reshuffled into the current reserves. This walk down memory lane arises as one cannot help but wonder about the reported expense of "Supplies and Services," which has grown from $67M in 2017 to the ~$75M for 2019-2021, already an interesting increase, followed by a big jump to $95M in 2022. What is captured by this expense is not explained at all in any of the Audited Statements, not even when the expense jumped by $20M in 2022! Usually, a new $20M expense at least warrants a footnote.

In the background, the conversion to the University Pension Plan (UPP) in a year of strong investment returns meant that the University's pension plans transferred in at a surplus of $145M. This surplus provides a good buffer should subsequent valuations of past service introduce new liabilities, whether through market effects or the changing of the valuation parameters. And, thanks to being in a JSPP, the University immediately escaped the Pension and Benefits Guarantee Fund payments and the stocking of

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the Provision for Adverse Deviation (a multi-million dollar expense) and, of course, escaped solvency

funding (which, as you know, literally saved the University). The shift in the pension situation of the University allowed the Administration to reconsider the huge amount of Internally Restricted money, which they had earmarked for pension payments (after originally allocating it to renewal/buyouts years before). These monies could be used to help level the roller coaster of lingering pandemic effects mentioned above.

While we are writing about the UPP, it seems appropriate to discuss the notion of "Employee Future Benefits" (EFB) that is reported as an expense in the accounting model used by the Administration for the University. Our analyses have spoken about EFB at times, since they are an actuarial quantity that is quite different in nature from traditional expenses. In past analyses, we identified how the struggling pension plan situation affected EFB, which involves both pension and non-pension plans. Well, much as pension plan valuations provide new (actuarial) views of the state of the pension fund, the EFB is subject to (actuarial) "re-measurements." Indeed, it was with the hope of avoiding EFB noisiness that we produced no financial analysis document last year. We still do not have real clarity this year, as the most-recent fiscal year end we are considering is April 30, 2022, almost one year after the conversion to the UPP. The audited financial statements report in a footnote that "UPP-related re-measurements after July 1, 2021 are not included."

So that you have some sense of possibilities, what we do find is that the EFB re-measurements in 2019, 2020, 2021, and 2022 generated a $56.5M increase in Net Assets, a $293M decrease in Net Assets, a $220M increase in Net Assets, and an $81M increase in Net Assets, respectively. To be clear, these numbers are a result of the change in value of investments that are intended to cover the actuarially-calculated expected obligations for EFB. Returning to the quoted footnote, in the years that we are discussing, the assets of the pension plan are included in the mix. For example, in regard to the huge 2020 decrease, the audited statements report, "almost half of which resulted from a decrease in the market values of the pension plan assets, resulting in returns on pension plan assets being significantly less than expected returns per actuarial assumptions." Again, recall the investment experience summary for the pandemic period: very loosely, 2020=bad, 2021=good, 2022=middle. We see these outcomes reflected in all investments: endowments, EFB, etc., and beyond the University. It will be very interesting to see how things change when there is full accounting for the presence of the UPP.

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

as at April 30	2017	2018	2019	2020	2021	2022
Revenues						
Total Revenues	818,314	825,353	865,909	826,590	809,769	841,883
year-to-year % change	6.64	0.86	4.91	-4.54	-2.03	3.97
Government Grants						
MTCU/MAESD	201,420	204,251	204,398	205,336	206,708	212,506
Min Agriculture, Food, Rural Affairs	71,104	74,182	75,699	**69,417**	67,015	73,334
Total	272,524	278,433	280,097	**274,753**	273,723	285,840
year-to-year % change	1.80	2.17	0.60	**-1.91**	-0.37	4.43
(govt grants)/(total revenues)	**33.30**	**33.74**	**32.35**	**33.24**	**33.80**	**33.95**
Student Tuition	214,523	222,658	233,312	220,935	224,956	220,590
year-to-year % change	8.00	3.79	4.78	-5.30	1.82	-1.94
(student tuition)/(total revenues)	**26.22**	**26.98**	**26.94**	**26.73**	**27.78**	**26.20**
Expenses						
Total Expenses	731,424	769,861	819,162	833,212	828,319	879,460
year-to-year % change	3.34	5.26	6.40	1.72	-0.59	6.17
Salaries	360,127	381,018	406,027	421,739	413,701	430,361
year-to-year % change	4.28	5.80	6.56	3.87	-1.91	4.03
salaries/(total revenues)	**44.01**	**46.16**	**46.89**	**51.02**	**51.09**	**51.12**
salaries/(total expenses)	**49.24**	**49.49**	**49.57**	**50.62**	**49.94**	**48.93**
Benefits	45,915	49,119	52,545	50,835	56,441	56,126
year-to-year % change	4.17	6.98	6.97	-3.25	11.03	-0.56
benefits/(total revenue)	**5.61**	**5.95**	**6.07**	**6.15**	**6.97**	**6.67**
benefits/(total expenses)	**6.28**	**6.38**	**6.41**	**6.10**	**6.81**	**6.38**
Interest Cost	11,707	11,595	11,079	10,543	9,997	9,473
year-to-year % change	0.77	-0.96	-4.45	-4.84	-5.18	-5.24
(interest cost)/(total revenues)	**1.43**	**1.40**	**1.28**	**1.28**	**1.23**	**1.13**
(interest cost)/(total expenses)	**1.60**	**1.51**	**1.35**	**1.27**	**1.21**	**1.08**
Adjustments						
Unrealized Gain/Loss or Interest Rate Swap	2,892	6,557	-279	-1,251	2,692	3,722
Surplus or Deficit						
All Funds Combined	89,782	62,049	46,468	-7,873	-15,858	-33,855
year-to-year % change	49.18	-30.89	-25.11	-116.94	-101.42	-113.49
(surplus or deficit)/(total revenues)	**10.97**	**7.52**	**5.37**	**-0.95**	**-1.96**	**-4.02**

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.

At the end of this section, Table 3 presents the data.

Cash flows from operations in 2020 were just $6.6M, a 91% drop from the previous year, which was a 25% drop from the previous three years, but there is still a lot of money moving around in operations.

The Administration continued to spend large sums of money on capital purchases in 2021 and 2022, $71M and $60M, respectively, including $32M and $42M, respectively, on buildings; and $15M and $18M, respectively, on equipment.

There was no new borrowing, which is reflected in the fact that liabilities and interest payments are decreasing. That means the money used to pay for capital projects came from the internal Operating fund or, more carefully, the Internally Restricted funds, as we saw by following the transfers.

Borrowing is a double-edged beast:

A lot of borrowing means	• HIGH liabilities and interest payments • a DECREASED need to use the principal revenues of the University to pay for capital projects • a perhaps fake sense of the POSITIVE financial wellness of the University
A bit of borrowing means	• LOW liabilities and interest payments • an INCREASED need to use the principal revenues of the University to pay for capital projects • a perhaps fake sense of the NEGATIVE financial wellness of the University

In both cases, the attentive observer needs to be on guard.

We summarize the capital spending in 2021 and 2022. Remember that some of these projects have run for a number of years before 2021.

Project	2021	2022	Total Spent (Over All Years)	Total Approved
OVC Master Plan	$5M	$1.5M	$38.3M	$38.5M
Improv Theatre / MACK Building	$9.1M	$8.3M	$21.6M	$25.0M
Former VMI Building	$4.0M	$1.6M	$13.2M	$13.3M
OVC Small Animal Clinic	$0.3M	$4.0M	$5.3M	$8.4M
South Residence	$5.0M	$4.7M	$9.7M	$15.2M
Alumni Stadium		$2.6M	$5.3M	$5.4M
Turfgrass Institute	$5.3M		$17.6M	$18.1M
MACN Building	$9.3M		$12.2M	$13.8M

Note that spending on the Alumni Stadium in 2021 (and, for that matter, 2020) was not reported in the corresponding audited statements, and given that spending of $0.3M was reported for an item in 2021, it is unclear when the unreported $2.7M was spent, perhaps prior to 2020. In any case, it seems that the items in the final three rows of our summary are likely completed. The "Total Approved" amount changes from year to year as additional spending is approved or, in some cases, when a reduction or saving occurs.

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

as at April 30	2017	2018	2019	2020	2021	2022
Total Revenues	818,314	825,353	865,909	826,590	809,769	841,883
Cash Flows From Operations	**114,891**	**102,097**	**74,151**	**37,685**	**70,759**	**6,559**
year-to-year % change	7.69	-11.14	-27.37	-49.18	-87.76	-90.73
(cash from operations)/(total revenues)	**14.04**	**12.37**	**8.56**	**4.56**	**8.74**	**0.78**
Increase or Decrease of Investments	169,769	22,056	17,828	-26,685	-43,568	-13,703
year-to-year % change	33.53	-87.01	-19.17	-249.68	-63.27	-68.55
increase/(total revenues)	**20.75**	**2.67**	**2.06**	**-3.23**	**-5.38**	**-1.63**
Purchase or Sale of Capital Assets	**82,123**	**135,210**	**88,533**	**74,960**	**71,216**	**59587**
year-to-year % change	**8.68**	**64.64**	**-34.52**	**-15.33**	**-4.99**	**-16.33**
purchase/(total revenues)	**10.04**	**10.04**	**10.22**	**9.07**	**8.79**	**7.08**
Cash Supplied By Borrowing	**59,595**	**43,791**	**34,064**	**23,958**	**7,236**	**9,640**
year-to-year % change	**1180.24**	**-26.52**	**-22.21**	**-29.67**	**-69.80**	**-33.22**
borrowing/(total revenues)	**7.28**	**5.31**	**3.93**	**2.90**	**0.89**	**1.15**

ANALYSIS OF THE STATEMENT OF CHANGES IN NET ASSETS

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

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

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

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 of Guelph, involving UGFA members, the Senior Administration, and the BoG, by and large UGFA members form the only set of actors committed to the University of Guelph for a career-long period. We are the guardians of the University's twin missions and also of the University itself.*

At the end of this section, Table 4 presents the data.

We now see five straight years of transfers out of the Internally Restricted pots into the (Unrestricted) Operating Fund, including a huge $50M in each of 2021 and 2022. In the first year of our six-year window, 2017, the Administration shoveled $59M out of Operating and into Internally Restricted, and over the next five years they moved $148M out. Although one cannot follow an individual dollar's path from Internally Restricted to its usage destination, we do see that every year there have been transfers out of the Internally Restricted pot, and a significantly larger amount of money has been moved from the Operating Fund into the Capital Fund. In the six-year window, the total transfer from the Operating Fund to the Capital Fund is $368M. The cumulative transfer out of the Operating Fund since 2006 has hit $876M.

In our most recent financial analysis of the 2020 audited financial statements, we noted that the Capital Fund had reached a new peak deficit of $30M in that year. In 2021 and 2022, the deficit was $88M and $103M, respectively. This fund is **always** in deficit, and money is transferred into the fund continuously. Senior Administrators want to be seen as visionary builders, after all. From an administrative climber's perspective, new buildings are very sexy, while hiring more faculty is not.

Think about this as you consider the current deficit.

In the six-year window, the total transfer from the Operating Fund to the Capital Fund is $368M. The cumulative transfer out of the Operating Fund since 2006 has hit $876M.

In Table 4, we have highlighted in red the significant shifting of money for capital expenditures. We remind the reader that brown numbers should attract your attention, and orange numbers are interesting percentages.

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

as at April 30	2017	2018	2019	2020	2021	2022
Surplus or Deficit Operations						
Cash Flows From Operations	114,891	102,097	74,151	37,685	70,759	6,559
Unrestricted Fund	112,105	87,088	74,302	21,798	14,973	-2,255
Internally Restricted Fund						
Capital Assets	-22,323	-25,039	-27,834	-29,671	-30,831	-31,600
Total	89,782	62,049	46,468	-7,873	-15,858	-33,855
Interfund Transfers						
unrestricted to internally restricted	59,170	0	0	0	0	0
internally restricted to unrestricted	0	32,172	11,738	3,957	50,006	50,578
unrestricted to capital fund	24,427	**96,365**	**63,414**	**59,489**	**68,124**	**56,297**
total transfers out of unrestricted per year	**83,597**	**64,197**	**51,676**	**55,532**	**18,118**	**5,719**
cumulative transfers out of unrestricted	**681,082**	**745,275**	**796,951**	**852,483**	**870,601**	**876,320**
(total transfers out of unrestricted per year) /(cash from operating activities)	**72.76**	**62.87**	**69.69**	**147.36**	**25.61**	**87.19**
(total transfers out of unrestricted per year) /(surplus or deficit in unrestricted fund)	**93.11**	**103.46**	**111.21**	**-705.35**	**-114.25**	**-16.89**

FINANCIAL SCORECARD: NONE THIS YEAR

We usually present a table of various indicators of a structural deficit or a structural surplus. We are not doing so this year, as half of the years under consideration were highly abnormal due to the pandemic. As we wrote in earlier sections, it seems patently unreasonable, likely even absurd, to use metrics/indicators for normal times on a period that will be unique in all of our lifetimes.

That said, readers may worry that all or a majority of indicators land negatively.

For reference, in our previous financial analysis of the six-year period ending with fiscal year 2020, we identified that 4 out of the 16 indicators were of concern, and we concluded that there was no structural deficit at the University. Disregarding the proper approach described in the opening paragraph of this section, we will note that this year we would identify that 5 out of 16 indicators are of concern. There has been no massive swing in the indicators.

SUMMARY & CONCLUSIONS

During 2022, we see significant stability in key revenue and expense items.

Key Revenue Items

Total Revenues	Increased by 4%
Government Grants (MTCU,OMAFRA)	Increased by 4%
Tuition	Decreased by 2%

Key Expense Items

Total Expenses	Increased by 6%
Salaries	Increased by 4%
Benefits	Decreased by 14%
Interest Costs	Fourth year of decrease by ~5%

The University appears to be in strong financial health.

We find that:

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

UGFA members received individual raises far less than the 4% increase in total salaries. The UGFA membership did not grow appreciably. UGFA's contribution to the total salary expense remains quite stable. On the other hand, our study of the Senior Administration's salary mass reveals a 10% increase in this expense from 2019 to 2021.

Despite the pressures of the tuition freeze and the pandemic, the Administration's high priority on capital asset expenditures persisted.

In the two most recent years of our analysis, the Administration moved $50M per year out of the Internally Restricted funds and into the Capital Fund to cover costs for their building projects. While it is good to see this set-aside money be used for University operations, it would also be good to see a share of it be directed to the Administration's bargained commitment for growth hiring in the UGFA permanent member complement.

APPENDIX A

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

A.1 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.

A.2 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 cannot in general be spent freely; 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.