ugFA

Representing Faculty, Librarians & Veterinarians

ANALYSIS OF UNIVERSITY FINANCES

4/20/2015

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 2013-2014, contextualized in terms of prior years.

Contents

ANALYSIS OF UNIVERSITY FINANCES

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

BRIEF SUMMARY (FOR THE YEARS 2013-2014)

GOOD FINANCIAL HEALTH

- Total revenues are growing at a high percentage rate, while total expenses are flat-lined and perhaps even decreasing.
- Total UGFA salaries have remained a stable percentage of the University's total revenues and total expenses;
- Interest costs (as a result of borrowing) are stable, but still exceeded $12M in both years;
- Net *record surpluses* of $41M in 2013 and $69M in 2014.
- Although it seems like talk of it has faded, the structural deficit was once described as about $8M per year, for a $32M four-year total. Yet, including the on-the-books actuarially-driven $58M deficit in 2012 and the $24M surplus in 2011, we find a **$76M four-year structural surplus**, without including any Internally Restricted "contingency" or other set-aside money.

STRIKING GROWTH IN INTERNALLY RESTRICTED FUNDS

- Internally Restricted funds have grown to $265M in 2014;
- Internally Restricted funds have grown to exceed 15% of total assets in 2014.

HIGH LEVEL OF CAPITAL EXPENDITURES, LESS THAN PAST YEARS

- Purchase of capital assets has was 9.43% and 6.65% of total revenue in 2013 and 2014, respectively, a decrease from the 11-16% of the preceding four years;
- Purchase of capital assets exceeded the cash flows generated from operations in 2013, but was less than the cash flows from operations in 2014, when cash flows had a peak year;
- Even if some of the expenditures were in some way co-funded (by government, endowments, or student fees), the reader might assess 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 other possible avenues of expenditure.

FINANCIAL SCORECARD: NO STRUCTURAL DEFICIT

- The worrying trends in financial risk factors is continual borrowing and deficits in the Capital Fund;
- Cash flows from operations are *very* healthy.

INTRODUCTION

On October 29, 2013, The UGFA Financial Advisory Committee (FAC) released its first analysis of the University's audited financial statements, running from 2006 to 2012. We also examined the MTCU operating budgets, Statistics Canada and OCUFA aggregate salary data for UGFA, and the Ontario government's "sunshine list."

This update presents data from 2013 and 2014. The analysis in this report focuses on these two recent years, while identifying notable changes or continuing trends after a reminder of past results.

In the 2013 document, we reported that it was the intention of the FAC that an analysis of this type will be performed each year as the next Audited Financial Statements become available. As will be clear from reading this update, changes in the reporting of various actuarial quantities in 2013 introduced a wild swing in some of the numbers and measures. By waiting to include two years with those changes in reporting, we can see whether volatility remains or whether the numbers and measures may possibly have just moved to some new stable state.

In each main section of the report, we focus on a particular financial element, identifying trends and variations. Besides giving some clear insight into the financial health of the institution and the priorities of the Administration, the report also helps one to suggest an answer to the question of whether the financial decisions of the Administration are best serving the University's mission.

In the remainder of this introduction, we

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

The University of Guelph's Mission

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

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

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

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

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

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

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

Primer on University Finances

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

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

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

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

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

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

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

Unrestricted funds can be spent as the Administration desires. On the other hand, Externally Restricted funds do not have this freedom; for example, government or donors may put restrictions on the use of such money.

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

Analyses in This Report

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

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

In each section, we present

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

The UGFA believes that it is important to connect this financial analysis to the University's primary missions (teaching and scholarship). Our survey data continues to tell us that morale amongst UGFA members has deteriorated significantly. The climate on campus remains very distressing due to many factors:

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

It is important to make this point: in our analysis the label "Internally Restricted" refers to the money that the Administration identifies as such in its financial statements. One might argue that the size of these numbers should *increase* by including essentially all of the Ancillary Enterprises Fund or that that fund should receive separate intense scrutiny.

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

In the new Financial Scorecard section, we look at factors and trends that could indicate severe financial issues, including the existence of a structural deficit. We end with a section offering a summary and conclusions.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

This statement presents assets and liabilities, reporting that

Assets – Liabilities = Net Assets

Assets are broken into two types:

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

Liabilities are similarly broken into two types:

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

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

The numbers going back to 2009 are presented in Table 1. As a percentage of total assets, we see that

	In 2009-2012	*In 2013-2014*
Cash and cash equivalents	Between 14% and 21%	Stable at 16%
Capital assets	Between 55% and 67%†	Stable at 63% and 59%
Short-term liabilities	Between 7.5% and 9.5%	Stable at 7% and 6%
Long-term liabilities	Grown from 30% to 35%†	Stable at 13%
Internally Restricted money	Grown from 7% to 11%	Growing to 13% and 15%

†We note that we have updated three figures in each of 2011 and 2012. Our first financial analysis document used the numbers from each year's audited financial statements. There was a dramatic update to the 2011 and 2012 numbers in the 2013 audited financial statements. The update to 2011 increased total assets by $200M, with capital assets increased by $245M and long-term debt increased by $70M; those increases in total assets and capital assets carried forward into 2012, while long-term debt increased by an additional $30M. This is our first observation of the impact of the change to align with the Canadian Institute of Chartered Accountants' (CICA) accounting principles for not-for-profit organizations. As part of the switch in reporting, the University was permitted to reset land asset values to the fair value on May 1, 2011. The reassessment generated the increase in recorded value of these assets, which is reported retroactively to 2011. (This change also leads to deferred pension costs being included in long-term liabilities.) The change means that capital assets sat at 67% in 2011 and 2012, and long-term liabilities grew to 35% in 2012 (both as a percentage of total assets).

In 2014, short-term liabilities reached its lowest level, as a percentage of total assets, in all of the years of our study (2006-2014), but one needs to be careful to take into account the impact of the change in accounting principles…

What appears to be a huge decrease in long-term liabilities—a decrease of $300M from 2012 to 2013—is actually a result of the switch in accounting principles that perhaps brings greater clarity to these numbers moving forward. Loan interest is now the single major contributor to long-term liability, with leases and mortgages adding a very small amount (<2%) to the total. The $216M in 2013 has corresponding figures of $197 in 2012 and $168M in 2011. The $320M difference in the 2012 figure is now reported separately as "employee future benefits." The change means that we can view the long-term liabilities figure as a measure of how much debt due to borrowing the University is carrying, while before this change it included the actuarial liability of "employee future benefits."

In 2013 and 2014, we see that the cash percentage sat at 16%, increasing in amount by $40M and $35M, respectively. Interestingly, the Internally Restricted has also featured dramatic percentage increases each year, 21% and 28%, values of $37M and $58M, respectively. These facts seem to suggest that all of this Internally Restricted money is being accumulated from something other than cash. This trend mirrors past behavior, as documented in our first analysis. As in that analysis, we might conclude that some other activity or item is going without this money, or that (some of) this excess cash could be directed towards the primary missions of the University.

In our first analysis, we observed that a large amount of money, exceeding $115M, was set aside as an Internally Restricted portion of the Operating Fund for buyouts and early retirements due to restructuring, as "contingency funds," and for pension contributions. This pattern appears to continue as

- the "University Pension Contributions" set-aside fund grew by $20M in 2013, staying at its $65M balance through 2014. To be clear, the University had $45M set aside for this purpose in May 2011, carried that through 2012, added $20M in 2013, and carried the $65M through to 2014. Given that OCUFA, COU, the government, and others are working on pension plan reform for our sector and that the University is enjoying a period of solvency relief, this money, or a portion of it, could be directed towards the primary missions of the University. While we might think that there is a "prudent fiscal management" element to this set aside, the amount just grows and the money just sits there as set aside instead of being poured into our pension fund.
- While the amount of money set aside in the University Pension Contributions fund increases, the Administration is in fact making additional pension payments as required under the Pensions and Benefits Act, as follows: in addition to the "normal actuarial costs" of the plan, they are paying
  - a portion of the funding shortfall for the Going Concern Costs of the Plan, which must be funded to at least a 90% level.
  - carrying costs for solvency relief, that is, interest-only payments on the current solvency deficits of the two active pension plans.
- The "Equipment, Supplies and Contingency" fund grew a bit from $88M in 2011 to $95M in 2012. In 2013, $4M was used, and in 2014, they transferred an additional $32M into the fund, giving a balance of $123M. When this fund sat at $95M, we were told that roughly half of that amount was intended to be used for buyouts due to restructuring.
- The other growing Internally Restricted pot lives in the Research and Trust Fund, which grew by $6M in 2013 and $11M in 2014.

These huge amounts of set aside funds are labelled as Internally Restricted by the Administration, although they are not in general (if at all) allocated with specified payment, contribution, or transfer plans. At any moment, the money in the first two bullets above, in any case, can be transferred back into the Operating Fund and used for any other purpose, perhaps related to the primary missions of the University.

Internally Restricted money totaled a whopping $265M in 2014, growing by 21% in 2013 and 28% in 2014. The amount of money labelled as "internally restricted" has **more than doubled since 2010**, increasing by a factor of 2.5, and **more than tripled since 2009**.

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

as at April 30	2009	2010	2011	2012	2013	2014
Total Assets	1,074,916	1,154,700	1,432,117	1,501,218	1.623,556	1,731,426
year-to-year % change	**-0.06**	**7.42**	**24.03**	**4.83**	**8.15**	**6.64**
Cash (& short-term investments)	220,492	221,970	199,812	214,613	255,599	280,397
year-to-year % change	5.26	0.67	-9.98	7.41	19.10	9.70
cash/total assets	**20.51**	**19.22**	**16.22**	**14.30**	**15.74**	**16.19**
Capital Assets	595,725	646,637	958,639	999,343	1,027,390	1,033,939
year-to-year % change	5.42	8.55	48.25	4.25	2.81	0.64
(capital assets)/(total assets)	**55.42**	**56.00**	**66.94**	**66.56**	**63.28**	**59.27**
Short-Term Debt (Current Liabilities)	99,509	107,476	116,782	113,029	115,828	103,932
year-to-year % change	11.86	8.01	8.66	-3.21	2.48	-10.27
(short-term debt) /(total assets)	**9.26**	**9.31**	**9.48**	**7.53**	**7.13**	**6.00**
Long-Term Debt (Long-Term Liabilities)	317,554	344,287	428,332	519,673	215.747	224,144
year-to-year % change	11.91	8.42	24.41	21.32	-58.48	3.89
(long-term debt) /(total assets)	**29.54**	**29.82**	**29.91**	**34.62**	**13.29**	**12.95**
Internally Restricted	**76,777**	**112,071**	**155,293**	**171,783**	**207,284**	**265,266**
year-to-year % change	128.60	45.97	38.57	10.62	20.67	27.97
(internally restricted) /(total assets)	**7.14**	**9.71**	**10.84**	**11.44**	**12.77**	**15.32**

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 2009-2012	*In 2013-2014*
Tuition	Yearly increases, ~20% of revenue	Yearly increases, ~23% of revenue
Grants	Yearly increases, marginal in recent years, ~35% of revenue	Flat, 34% of revenue
Total Revenue	Yearly increases, small in 2010 & 2012	Small yearly increases, 2.7%
Salaries	Stable, 46-48% of revenue or expenses, 43% in anomalous 2012	Stable, 45% of revenue, 49% of expenses
Benefits	Stable, 14-15% of revenue or expenses, 4.9% in anomalous 2012	Stable at 5-6% of revenue or expenses
Total Expenses	Yearly increases, by 16% in 2012	Controlled, -11% in 2013, 0% in 2014

In each of 2013 and 2014, the share of total revenues coming from student tuition has grown slightly, about 3.7% and 3.1%, respectively. On the other hand, the share formed by grants has decreased by 2.9% and 1.4%, respectively, reflecting what we all know is a challenging funding climate. Overall total revenues increased each year.

Total expenses in 2012 were adjusted in the 2013 audited financial statements, increasing by $85M. This increase is due the new reporting of employee future benefits as an expense and a change in the way benefits and future benefits are handled. Digging into the Net Benefit Plan Costs, we find that the reporting on Net Benefit Plan Costs changes from the 2012 to 2013 audited financial statements, with a number of actuarial gains/losses leaving the reporting structure. In 2014, the actuarial entries return, and the new reporting of benefits seems to be stable. Total expenses dropped just as dramatically in 2013, with negligible change in 2014.

The salary figures in Table 2 are for the entire University not just the UGFA. Obviously, individual salaries of employees have increased in each year we are considering. Recalling the anomalous one-time jump in total expenses in 2012, we note that in all other years from 2009 to 2014 total salaries form a fairly stable 48-49% of total expenses, with a slight increasing trend; they formed a stable 45-48% of total revenues, with a slight decreasing trend. In fact, from 2013 to 2014, the dollar value of total salaries actually decreased a tiny bit, even as individual salaries of continuous employees increased.

Separately, UGFA-only salary data (likely professor-only data) was obtained from OCUFA. It should be noted that this data is for a calendar year, while the financial statement data is for a year end of April 30. These numbers show that the UGFA salary mass has sat at just under 30% of total revenues in 2013 and 2014 (and sat between 28 and 30% since 2006).

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

Separately, Sunshine List data give some sense for salary successes of individual faculty members versus typical Administrative positions. (The "Sunshine List" is the casual name given to the list of public sector salaries posted by the Ontario government in accordance with the 1996 Public Sector Salary Disclosure Act.) In Table 3, we look at the past ten years, 2005-2014. We report the increases in average salaries for some Administrative positions during that period as well as the number of UGFA members, employed during the ten-year period, who achieved at least the same percentage increase. Of course, the UGFA member salaries are lower, typically much lower, than those for the Administrative positions, and the member salary figures may include extra mounts for special appointments (Chair, research chair, etc.). Highlighting the difference in salaries, Table 3 also reports the number of UGFA members who in 2014 had salaries at or above the average for the Administrative positions. A total of 12 UGFA members, about 1.6% of UGFA members, had 2014 salaries above the lowest Administrative average salary. In 2014, there were 35 people holding those Administrative positions.

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

Interest costs remain a stable small percentage of total revenues and total expenses in 2013-2014, but have a yearly cash value of $11-12M.

In our first analysis, we noted that University enjoyed (record) levels of surplus in 2011 and 2012. Due to the 2013 readjustment to 2012 total expenses, the $26M surplus originally reported in 2012 turned into a $58M deficit in the books. But, following that adjustment to the records, **the University generated a new record surplus of $41M in 2013 followed by yet another new record surplus of $69M in 2014.** We note that the 2013 number is adjusted downward from the original $77M surplus reported in the 2013 audited financial statements; there is a chance that the new record surplus of 2014 will be adjusted in the 2015 statements. As the numbers sit right now, **the University did not spend 5.8% of its revenue in 2013 and 9.4% of its revenue in 2014.** That's additional money that could be put towards the primary missions of the University.

Although it seems like talk of it has faded for the moment, the "structural deficit" was once described as about $8M per year, for a $32M four-year total. Yet, including the on-the-books $58M deficit in 2012 and the $24M surplus in 2011, we find a **$76M four-year surplus**, without including any of the tens of millions of dollars of Internally Restricted "contingency" money.

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

as at April 30	2009	2010	2011	2012	2013	2014
Revenues						
Total Revenues	620,798	634,034	678,404	698,765	717,899	737,210
year-to-year % change	9.05	2.13	7.00	3.00	2.74	2.69
Government Grants						
MTCU	166,107	168,427	176,936	181,753	181,301	183,331
Min Agriculture, Food, Rural Affairs	62,930	63,108	62,293	62,888	62,821	64,038
Total	229,037	231,535	239,229	244,641	244,122	247,369
year-to-year % change	10.40	1.09	3.32	2.26	-0.21	1.33
(govt grants)/(total revenues)	**36.89**	**36.52**	**35.26**	**35.01**	**34.01**	**33.55**
Student Tuition	111,092	124,199	137,102	150,754	160,609	170,037
year-to-year % change	9.44	11.80	10.39	9.96	6.54	5.87
(student tuition)/(total revenues)	**17.90**	**19.59**	**20.21**	**21.57**	**22.37**	**23.06**
Expenses						
Total Expenses	627,177	636,624	652,553	753,903	672,150	672,791
year-to-year % change	7.87	1.51	2.50	15.53	-10.84	0.10
Salaries	300,686	304,285	314,203	322,285	331,568	330,391
year-to-year % change	8.08	1.20	3.26	2.57	2.88	-0.35
salaries/(total revenues)	**48.44**	**47.99**	**46.32**	**46.12**	**46.19**	**44.82**
salaries/(total expenses)	**47.94**	**47.80**	**48.15**	**42.75**	**49.33**	**49.11**
Benefits	90,815	95,864	93,124	36,380	40,230	39,608
year-to-year % change	21.64	5.56	-2.86	-60.93	10.58	-1.55
benefits/(total revenue)	**14.63**	**15.12**	**13.73**	**5.21**	**5.60**	**5.37**
benefits/(total expenses)	**14.48**	**15.06**	**14.27**	**4.83**	**5.99**	**5.89**
Interest Cost	10,941	11,278	11,836	11,427	12,117	12,431
year-to-year % change	-10.07	3.08	4.95	-3.46	6.04	2.59
(interest cost)/(total revenues)	**1.76**	**1.78**	**1.74**	**1.64**	**1.69**	**1.69**
(interest cost)/(total expenses)	**1.74**	**1.77**	**1.81**	**1.52**	**1.80**	**1.85**
Adjustments						
Unrealized Gain/Loss or Interest Rate Swap	-4,342	3,926	-1,126	-3,523	-4406	4584
Surplus or Deficit						
All Funds Combined	-10,721	1.336	24,725	-58,661	41,343	69,003
year-to-year % change	11.94	112.46	1750.67	-337.25	170.48	66.90
(surplus or deficit)/(total revenues)	**-1.73**	**0.21**	**3.64**	**-8.39**	**5.76**	**9.36**

TABLE 3: FOR 2006-2014, (I) PERCENTAGE INCREASES IN AVERAGE SALARY OF ADMINISTRATIVE POSITIONS (DUE TO CHANGE IN PRESIDENT, THAT FIGURE IS 2006-2013) AND (2) # OF UGFA MEMBERS ACHIEVING AT LEAST THE SAME PERCENTAGE INCREASE. FOR 2014, # UGFA MEMBERS EARNING AT LEAST THE SAME AS THE AVERAGE SALARY OF EACH ADMINISTRATIVE POSITION.

Time Frame	Measure	Assistant Deans	Associate Deans	Deans	VPs	Presidents
2006-2014	Average Salary % Increase	61.8%	47.8%	50.0%	30.3%	61.4%
	# UGFA members Achieving ≥ Admin % Increase	72	88	87	89	73
2014	# UGFA member Salaries ≥ Average Admin Salary	2	12	1	0	0

ANALYSIS OF THE STATEMENT OF CASH FLOWS

This statement shows that

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

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

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

Table 4 presents the data.

Cash flows from operations in 2013 stayed close to the numbers from 2011-2012, which followed the spike in 2010. In 2014, we had another increase in cash flows from operation. The increase contributes to a decrease in financial risk by this measure.

Notice that a three-year trend was broken in 2014: in each of 2011-2013, the purchase of capital assets exceeded the cash flows from operations, meaning that money had to be found elsewhere to buy capital assets. This situation can be interpreted as the Administration placing a very high priority on capital investments, so high that they are willing to borrow money or starve other University activities perhaps of greater important to our mission. In any case, the relationship flipped in 2014, when capital purchases comprises "just" 6.7% of total revenues, a record low since the start of our analyses (2006). Given that the Administration still spent $49M on capital asset purchases, it is hard to say whether this signals a new balance of priorities. Of course, we expect a balance that includes issues that have significant impact on morale, such as workload, etc.

It can be challenging to say to what extent all of the capital expenditures contribute to the primary missions of the University. We can identify some of the big ticket items.

The capital expansion to the School of Engineering cost $12.3M in 2013 and $3.7M, for a total of $16M, on top of the $26M in 2011-2012. All of this money comes from the University alone.

During 2013-14, $8M was spent on athletic capital projects, $2M was spent on the Wastewater Testing Facility, and $45M was spent on major equipment purchases and building renovations. This latter item is paid for by research-related funding and matching funds. Renovations/renewal of student housing cost $19M, bringing that initiative to a total cost of $57M. Money to pay for these things can come from student fees/contributions, endowments and benefactors, and government initiatives. The breakdown of sources is not reported in detail in the audited financial statements.

Regardless, we can look at the money allocated to capital purchases and ask whether the University had to pursue all of these things in the same year. While it is hard to ignore new financial contributions from government programs, donors, and students, during the past two years core aspects of our primary missions, such as class sizes and UGFA Member workload, have only become increasingly severe problems that would also benefit from increased financial resources. We expect a balanced approach that addresses our primary missions of teaching and scholarship beyond the infrastructure level.

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

as at April 30	2009	2010	2011	2012	2013	2014
Total Revenues	620,798	634,034	678,404	698,765	717,899	737,210
Cash Flows From Operations	34,343	119,834	54,071	61,864	55,660	82,838
year-to-year % change	-229.30	248.93	-54.88	14.41	-10.03	48.83
(cash from operations)/(total revenues)	**5.53**	**18.90**	**7.97**	**8.85**	**7.75**	**11.24**
Increase or Decrease of Investments	-23,241	92,355	23,066	1,397	35,861	28,291
year-to-year % change	-186.20	-497.38	-75.02	-93.94	2643.76	-21.11
increase/(total revenues)	**-3.74**	**14.57**	**3.40**	**0.20**	**5.00**	**3.84**
Purchase or Sale of Capital Assets	**69,053**	**89,453**	**105,910**	**81,058**	**67,701**	**49,007**
year-to-year % change	**27.28**	**29.54**	**18.40**	**-23.47**	**-16.48**	**-27.61**
purchase/(total revenues)	**11.12**	**14.11**	**15.61**	**11.60**	**9.43**	**6.65**

ANALYSIS OF THE STATEMENT OF CHANGES IN NET ASSETS

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

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

If we sum up all of the interfund transfers, we get $0, since this is just moving money around a fixed number of Funds, not adding or removing money from the system. The 2009-2010 Financial Statement and earlier ones have a "Statement of Changes in Internally Restricted Net Assets"; beginning in 2010-2011, they have a "Statement of Changes in Net Assets." Separate other reports in the earlier Statements allow us to reconstruct the numbers as they would appear in the current reporting structure, so we were able to build a study going back to 2006.

Table 5 presents the data.

We see that the Operating Fund generated record surpluses in 2013 and 2014. With the exception of the anomalous adjusted 2012, the fund has generated a surplus every year since 2006.

The Capital Fund generated a deficit in 2013 and 2014 (and, in fact, in every year since 2006), dragging down the financial condition of the University.

Looking at interfund transfers, we see immediately that the Administration has shifted large amounts of money every year to the Capital Fund. Unlike some other transfers, transfers to the Capital Fund are typically permanent. Recall that there was some cautious optimism when assessing 2014 because cash flows from operations exceeded capital purchases. Here, we see that the transfers to the Capital Fund from the Operating Fund in 2014 exceeded the same amount transferred in 2013, so perhaps we should employ "extra-cautious" optimism.

Remember that the Administration can park or set aside money from the Operating Fund for any reason by designating it as Internally Restricted. On the other hand, we should recognize that there are useful activities in the Internally Restricted Fund that may require such transfers. And the Administration can move money back from Internally Restricted to the Operating Fund. Of course, such a transfer did not occur in 2013 or 2014 (or any year since 2007).

The total transfers out of the Unrestricted Fund exceed the surplus in the Fund in 2013-2014. The level of transfers to the Capital Fund indicates that the Administration places a very high priority on capital acquisitions, at the expense of other possible uses for this money.

The total transfer out of the Unrestricted Fund per year used up pretty much all of the cash generated from operations in 2013 and 2014.

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

as at April 30	2009	2010	2011	2012	2013	2014
Cash Flows From Operations	34343	119834	54071	61864	55,660	82,838
Surplus or Deficit Operations						
Unrestricted Fund	6,252	18,505	41,540	-41,466	59,749	88,503
Internally Restricted Fund						
Capital Assets	-16,973	-17,169	-16,815	-17,195	-17,655	-22,279
Total	-10,721	1,336	24,725	-58,661	41,343	69,003
Interfund Transfers						
unrestricted to internally restricted	43,191	35,294	43,222	16,490	35,501	57,982
internally restricted to unrestricted	0	0	0	0	0	0
unrestricted to capital fund	22,018	24,832	35,915	28,871	19,205	22,279
total transfers out of unrestricted per year	**65,209**	**60,126**	**79,137**	**45,361**	**54,706**	**80,261**
cumulative transfers out of unrestricted	**149,502**	**209,628**	**288,765**	**379,487**	**488,899**	**569,160**
(total transfers out of unrestricted per year) /(cash from operating activities)	**189.88**	**50.17**	**146.36**	**73.32**	**98.29**	**96.89**
(total transfers out of unrestricted per year) /(surplus or deficit in unrestricted fund)	**-608.24**	**4500.45**	**320.07**	**174.36**	**132.32**	**116.32**

FINANCIAL SCORECARD

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

	Undesirable trend…	*Trend at UoG since 2009*		
Revenues	Decreasing	Increasing average increase per year = 4.4%	4.4 > 2.8	✓
Expenses	Increasing	Increasing average increase per year = 2.8%	2.8 < 4.4	✓
Surplus/Deficit	Consistent deficits	One large actuarially-driven deficit. Increasing surplus otherwise.		✓
Cash Balance	Decreasing	Increasing; average increase per year in year-end balance= 17%		✓
Total Assets	Decreasing	Increasing average increase per year = 8.5%		✓
Capital Assets	Decreasing	Increasing average increase per year = 11.7%		✓
Short-Term Debt	Increasing	Increasing; decrease in 2014 average increase per year = 5.8%		×
Long-Term Debt	Increasing	Increasing; accounting change in 2014 average increase per year = 1.9%		×
Internally Restricted Fund	Decreasing	Increasing massively average increase per year = 45.4%		✓
Cash Flow From Operations	Negative amount	Positive amount; Increasing		✓
Cash Supplied From Borrowing	Increasing amount	Increasing; decrease in 2014 average increase per year = 11.6%		×
Cash used to Buy Capital Assets	Minimal amount	Recent decline to $67M in 2013, $49M in 2014, from peak of $145M in 2010		✓
Surplus/Deficit in				✓
Unrestricted Fund	Consistent deficit	Consistent surplus, increasing One actuarial-driven deficit, in 2012		✓
Internally Restricted	Consistent deficit	No deficit		✓
Capital Fund	Consistent deficit	Consistent deficit		×
Endowment Fund	Consistent deficit	No deficit		✓
Transfer of Cash Between Funds	Consistent transfers to same funds	Consistent transfers from Unrestricted to Capital and to Internally Restricted		×

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

- There is no structural deficit at the University of Guelph
- Cash generated from operations is *very* healthy.
- Cash is available for operations, purchase of assets, increase in cash balances, and transfer out of cash from operations.

- Level of borrowing to generate cash has increased in recent years, with first decline in 2014.
- Short-term and long-term debt, generally due to borrowing, show small regular increases, although short-term debt is possibly heading in a better (decreased) direction.
- The Capital Fund continued regular deficits are the principal cause for concern.

SUMMARY & CONCLUSIONS

During 2013-2014, we observe the following results for the main revenue streams and expense items, as percentages of total revenue and/or total expenses.

Key Revenue Items

Total Revenues	Increased both years, albeit small
Government Grants (MTCU,OMAFRA)	Flat-lined
Tuition	Increased both years

Key Expense Items

Total Expenses	Decreased in 2013, perhaps due to actuarial anomaly in 2012; Fair to say that expenses were flat-lined.
Salaries	Stable as a percentage of either total revenues or total expenses.
Benefits	Stable as a percentage of either total revenues or total expenses; decreased compared to past years due to change in accounting principles.
Interest Costs	Stable, maintaining slight decreases compared to 2011 and earlier.

The University appears to be in good financial health. As identified in the Financial Scorecard section, a key risk factor is the level of new borrowing to fund significant capital expenditures well exceeding the cash flows generated by operation of the University.

We continue to find that:

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

   We continue to negotiate responsible raises for our members, maintaining the stability of the salary mass

   We have no real ability to assess similarly the portion of the University salary mass corresponding to the Administration; we cannot obtain a complete set of data with same level of detail as we can for our Members. The full salary mass remains a stable expense, but we cannot comment on the breakdown in terms of the other employee groups, including the Administration and Administrative support staff. Sunshine List data analysis supports the claim that higher-profile Administrative salaries (Assistant and Associate Deans and up) have enjoyed percentage increases that well exceed the increases of typical faculty members over the same time period.

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

   Such activity has led to increases in long-term liability due to large levels of borrowing. 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 $265M as Internally Restricted.

   The total amount of such set-aside money grew by large percentages in each of 2013 and 2014, now exceeding 15% of the total assets owned by the University.

   More than 70% of this parked money, roughly $188M, is identified as being set aside for pension contributions and for "Equipment, Supplies, and Contingency."

   Recall that pension industry experts expect that universities will be exempted from solvency valuations in the rather near future, perhaps by joining an existing Jointly Sponsored Pension Plan (JSPP), such as the CAAT plan, or by forming a new JSPP, as is being explored by a joint committee with various University faculty representatives, OCUFA, and COU. Our new Collective Agreement includes a Letter of Understanding outlining the process to be followed in these regards as it pertains to UGFA. It seems reasonable to wonder whether the $65M set aside for pension contributions ($20M added to the pot in 2013) will actually ever be used for the currently declared purpose.

   On the other hand, when the "Equipment, Supplies, and Contingency" set aside money had a more meagre $95M balance, the Administration identified that half of that pot was allocated to expected buy outs due to restructuring. With the balance of this pot having grown to $123M in 2014, one might reasonably ask how much of this new huge balance is directed towards Equipment and Supplies, and how much is directed to the "Contingency" of restructuring-induced buyouts.

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