Representing Faculty, Librarians,
Veterinarians & College Professors

ANALYSIS OF UNIVERSITY FINANCES

4/5/2021

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 2020 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 YEAR 2020)

STRONG FINANCIAL HEALTH: THE STRUCTURAL SURPLUS INTERRUPTED…

After 10 years of surpluses, an $8M deficit occurs.	**The average yearly net surplus in the past six years is $53M.**

As will be evident from the body of the report, to some great degree the small deficit is an artifact of the pandemic (in a number of ways), but the University remains in strong financial health. And there is still $273M in Internally Restricted money!

With that said, looking to fiscal year 2021 (May 2020 to April 2021) and fiscal year 2022, we must:

PREPARE FOR A TWO-YEAR ROLLER-COASTER RIDE

In fiscal year 2021, we will see the bulk of the impact of the pandemic. Will there be a big hit on investments? We expect that Ancillary sales (bookstore, food) will be down. In 2020, "Sales of Goods & Services" dropped $3.4M or about 3% perhaps due to the month-and-a-half when the pandemic/lockdown landed at the end of fiscal year 2020, so we will see if that loss increases substantially for fiscal year 2021. Tuition may take a small hit, too, not due to fewer students but due to more students without a full load. On the other hand, the usage of certain health benefits will be way down.

In fiscal year 2022, the pandemic will fade and life will return to campus, hopefully with UGFA members' health concerns for themselves and their loved ones taken into account by the Administration. Early on in the fiscal year, on July 1, 2021, the University Pension Plan will come into effect. The $156M or so "Provision for Adverse Deviation" will be liberated and solvency funding requirements will disappear. A crucial pension plan valuation on past service will "crystalize" any liability of the Professional Plan, which the University will own, and on which the Administration will have to start a 15-year amortized payment plan. Although our Professional Plan was $70M in surplus in the 2019 valuation, this figure will change due to the 2021 valuation having a lower discount rate (explained in this report) and, likely, the pandemic's impact on pension plan investments.

INTRODUCTION

This document presents the UGFA Financial Advisory Committee's analysis of the University's audited financial statements, running from 2015 to 2020. 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
GREEN	Numbers from previous reports that have changed
ORANGE	Interesting percentages

In each section, we present

i. a table of numbers from the statements, sometimes also with information from additional sources, with some metrics, ratios, or percentages 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 that looks at factors and trends that could indicate severe financial issues, including the existence of a structural deficit; and
- a summary and conclusions.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

This statement presents assets and liabilities, reporting that

Assets – Liabilities = Net Assets

Assets are broken into two types:

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

Liabilities are similarly broken into two types:

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

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

The numbers going back to 2015 are presented in Table 4, at the end of this section. As a percentage of total assets, we see:

	In 2015-2019	*In 2020*
Cash (& short-term investments)	Between 11% and 17%	At 10%
Capital assets	Between 56% and 59%	At 60%
Short-term liabilities	Between 12% and 13%	At 13%
Long-term liabilities	Between 9% and 11%	At 9%
Internally Restricted money	Between 12% and 14%	At 13%

In the past year, total assets of the University saw their only decrease in the six-year window of our review; indeed, the only other (small) decrease we've seen since our analyses began in 2006 was in 2009. In that case, the decrease was about $700K, while this time it is a much more substantial $108M. Before getting too agitated, recall that in the prior three years, total assets grew by $122M, $100M, and $185M. The average yearly growth in the six-year window is $53M, and the average yearly percentage growth is 3.6%.

The identified chief culprit for the decrease in 2020 is investment losses, which the audited statements attribute to the COVID-19 pandemic's impact on investment markets. Total investments decreased $77M, from $801M to $724M. Looking at the investment breakdown, we find that from 2019 to 2020 the amount of short-term investments decreased by $40M, more than half of the decrease in total investments.

The major decrease occurred in investments in very stable low-return short-term government bonds, which decreased from $66M to $35M. It appears that this $31M decrease is likely linked to endowments, an area where our analyses very rarely tread. To complicate matters, endowments are separated into two major funds, the Heritage Fund and the General Endowment Fund (GEF). The Heritage Fund gets its base money from University real estate revenue and the Fund is used for (cue ominous music) "strategic University purposes." The base money in the GEF comes both from private donations and the University, and this Fund is used to support students financially. The endowment funds are either Externally Restricted by private benefactors or Internally Restricted by the Administration, in the subset of the Internally Restricted funds that we generally do not analyze. For the GEF, each year, some student-support spending amount is determined by a formula. When the investment return of the GEF exceeds the spending amount, the GEF increases overall, and when the return is less than the spending amount, the GEF decreases overall. While the spending amount formula may be based on realized returns of prior years to introduce some "smoothing," it of course can't handle a freak anomalous event like the pandemic. In the end, endowment funds decreased from $383M to $352M in 2020. Part of the point of gently discussing these funds here is to note that, while they serve in part the nice purpose of supporting students financially, their contribution to the decrease in total assets is not an indicator of a financial calamity.

> *The point here is to appreciate that a "loss in assets" may not be the concrete decrease in assets you may understand the words to mean, and we should note, in any case, that pension-related matters will change this July, when the University Pension Plan comes into effect.*

With similar reasons given, the other chief investment loss occurred in the pension fund investments. A footnote in the Audited Financial Statements reads,

> *"Under accounting policy, contributions to and investment results on [E]xternally [R]estricted endowments are recorded as direct changes to Net Assets and do not impact revenue or expenses. Similarly, assumption changes and experience e.g., asset gains and losses, related to [Employee Future Benefits] plans are recorded as direct changes to net assets."*

This statement takes us back to the 2014 Audited Financial Statements, the year after which the change in accounting practices mentioned in this footnote was introduced. In the original 2014 Statement of Financial Position, Short-Term Debt of $104M was reported—comparable to immediately preceding years—but in the 2015 Statement, the 2014 numbers were updated due to the change in accounting principles, and the new Short-Term Debt number was $219M. At the time, we noted that the University had switched to reporting the total amount of all future-year deferred contributions as a short-term liability. Here, we are seeing another side of that coin, as this "loss in assets" is due to a re-measurement of Employee Future Benefits (EFB), with the huge decrease being due to actuarial calculations of future investment losses based on the current investment return being less than expected. The point here is to appreciate that a "loss in assets" may not be the concrete decrease in assets you may understand the words to mean, and we should note, in any case, that pension-related matters will change this July, when the University Pension Plan (UPP) comes into effect. Moving forward, we will still see pension-related items in the Audited Financial Statements: any payments due to plan liability on conversion to the UPP, and employer-side contributions to the UPP. But the management of the assets of the plan, and, from the point of view of our current discussion, the presence of these actuarially calculated values in the Audited Financial Statements, will end, although the extended health benefits piece of the puzzle will remain.

In last year's analysis, we celebrated the record achievement of total investments ("Net Assets") of the University crossing the $1B mark. This number is calculated via the simple equation at the top of Table 1. The next two rows of the table show the values in 2019 and 2020. We see a $30M or so increase in capital asset investments; this net increase is due to a combination of an increase in the book value of these assets (buildings) of $25M and the reduction of long-term debt associated with the borrowing the University did to pay for the projects. We also see the $31M decrease in endowment investments discussed earlier. The final column of the table shows the relatively stable Internally Restricted pot of money (more later). The sum in each

TABLE 1: BREAKDOWN OF TOTAL INVESTMENTS (NET ASSETS)

	Total Investments		 Capital Assets Investments		 Endowment Investments		 "Unrestricted" Deficit		 Internally Restricted
		=		+		−		+	
2019	$1.042B		$624M		$383M		$241M		$277M
2020	$720M		$653M		$352M		$557M		$273M

year of the values in these three columns is nearly the same, yet total investments decreased from the lofty $1B+ to a "mere" $720M. The $320M decrease in total investments is due to an equal increase in the "Unrestricted" Deficit, for which the icon in the table is the mystical and magical dancing unicorn, as this number really is a mysterious creature. In the Audited Financial Statements, we find several discussions of this staggering increase in the deficit:

> *"EFB re-measurements results in a decrease of $293M in net assets, almost half of which resulted from a decrease in the market values of pension plan assets, resulting in returns on pension plan assets being significantly less than expected returns per actuarial assumptions."*
>
> *"The Unrestricted (Deficit) decreased by $317M mainly due to the accounting recognition of employee future benefit re-measurements. This was partially due to experiencing an actual return of -3.0% on invested pension plan assets compared to expected return in the current year, which was driven by COVID-19 impact on market values, as well as actuarial losses due to changes in pension valuations filed in fiscal 2020."*
>
> *"Under accounting policy requirements, the financial impact of changes in actuarial assumptions and actual experience (gains or losses) on any defined benefit plan are recorded directly to Net Assets (on the Statement of Financial Position) and are not recognized in the Statement of Operations. The sum of these adjustments resulted in a $292.8 million decrease in Net Assets in 2020 compared to an increase of $56.5 million in 2019."*

After reading these statements, it seems worth discussing some elements of the pension plan.

Very loosely, the pension fund or plan assets grow through (i) contributions (by employees and employers) and (ii) investment returns. The assets have to cover the (administrative) cost of running the plan and the pension benefits paid to members. In our plan, the benefits are "defined," so any accrued (i.e. already earned) benefits are known; keep in mind that this "knowing" is in an actuarial sense, since the total money paid out depends on how long people live.

In order to measure the ability of *today's* assets to cover the accrued benefits that will be paid in the *future*, one has to predict or estimate how today's assets will grow through investment. The expected or assumed growth is captured by a parameter called the "discount rate." The seemingly weird name comes from the other way to view the parameter: we could instead talk about the "present value" of the "future benefits." The *projected* value of assets and the *(actuarially determined) future value* of accrued benefits determine the funded ratio of the plan.

TABLE 2: DISCOUNT RATES OF UNIVERSITY OF GUELPH PENSION PLANS

Plan Name	*Discount Rate on* August 1, 2010	August 1, 2013	August 1, 2016	October 1, 2018	October 1, 2019
Professional Plan	6.50%	6.00%	5.65%	6.20%	6.00%
Retirement Plan	6.50%	6.00%	5.65%	6.20%	6.00%
Non-Professional Plan	6.50%	6.00%	5.65%	6.20%	n/a

Now, in the UPP, the Board of Trustees sets the discount rate, and, if there is a shortfall, the Joint Sponsors can reduce benefits or increase contribution rates (the default choice), even though changing the discount rate also affects the presence and size of a shortfall. An internet search will find news articles suggesting regulation of the discount rate in broader public sector defined benefit pension plans because it could be set artificially high in order to mask a need to increase contribution rates. Indeed, in the current single-employee Professional Plan, it seemed that the employer was free to adjust the discount rate. Routinely in the past, just prior to UGFA's round of collective bargaining, a pension plan valuation has featured a reduction in the discount rate, leading to demands by the Administration at the table for a contribution increase to solve the "funding problem."

In order to realize results reflected by a high discount rate, investment risk has to increase. In the above excerpts from the Audited Financial Statements, "actuarial assumptions" and "re-measurements" are referring to the discount rate used in the 2019 valuations. Table 2 presents the (common) discount rates used in plan valuations for the three pension plans of the University of Guelph. The Audited Statements mention "the impact of the change in discount rate from 5.65% to 6%," a discussion that ignores the 2018 valuations, likely because valuations are required to be filed every 3 years. For clarity, each recent valuation presents a side-by-side view of its parameter values and the values of the previous valuation, with the 2019 valuation including the results (and discount rate) of the 2018 valuation. A discount rate change from 5.65% to 6.00% would improve the funded ratio (since the assets are assumed to grow more), while the actual change from 6.20% to 6.00% reduced the funded ratio, albeit in a non-jaw-dropping way from 107% to 106%. This percentage view is valuable, but it also helps to remember that the assets are just over $1B, so tiny percentages can still represent a lot of money, particularly in an underfunded case in which the plan sponsor (the University) has to make special payments to improve the situation.

This discussion serves as a reminder that our current pension plan, the Professional Plan, shifted from a $100M Going Concern shortfall in 2016 to a $70M Going Concern surplus in 2018 (perhaps unfiled) to a $69M surplus in 2019. Recapping, these numbers depend on contribution rates, investment returns, and the discount rate. From 2018 to 2019, the *negative impact* of poorer investment returns was offset by the *positive impacts* of higher contribution rates and a decreased discount rate, achieving more-or-less the same Going Concern **surplus**.

So what is going on in the quotes, what is this $293M increase in EFB, reported as that same decrease in net assets? Well, as part of the current solvency funding regime where our single-sponsor Professional Plan must

The Professional Plan […] shifted from a $100M Going Concern shortfall in 2016 to a $70M Going Concern surplus in 2018 […] to a $69M surplus in 2019.

only maintain a solvency funded ratio of 85%, the University is additionally required to account for a Provision for Adverse Deviation (PfAD) valued at around 15%, translating into a $156M pot that turns the $69M surplus into an $87M actuarial deficit. Another major piece of the puzzle is that the fund realized investment losses of 3%, which means that the discount rate was about 9% higher than the plan's "experience" (the 3% loss). In one year, that 9% (of ~$1B) is around a $90M decrease, an amount from which we lose all future expected investment returns; so, actuarially, it turns into a $139M decrease. These two big numbers already get us into the ballpark of the reported $293M decrease.

To address whether all of this should be of great concern, consider the future come July 1, 2021, when the University Pension Plan (UPP) comes into effect. Here are some key things that happen:

- the need for a PfAD disappears, so the current negative $156M accounting entry vanishes;
- solvency funding requirements no longer apply, so such valuations in which shortfalls can explode no longer occur;
- future pension service is administered by the UPP, which is jointly-sponsored, so accounting related entries in the Audited Financial Statements related to future pension service disappear, except for employer contributions to the UPP; and
- the Going Concern numbers for our Professional Plan service crystalize. In 2019, that number for the Professional Plan was a $69M surplus, based on a 6.00% discount rate. A new valuation will take place around July 1, with an agreed-upon discount rate of 5.60%. Based on the above discussion, you will hopefully appreciate that the decrease in the discount rate will induce a decrease in the funding level of the plan, the contribution rate increases on July 1 will have a positive impact, and we might expect, due to the pandemic, that investment returns will have a negative impact. In the end, if there is a shortfall, the employer owns it and has to pay it into the UPP over 15 years. In each of the next 10 years, a new valuation on past service will occur, with any new shortfall owned by the employer. You now understand that new shortfalls can arise from investment returns being less than the discount rate and from a change to the discount rate (made by the Board of Trustees), for example. In the subsequent 10 years, the plan starts taking on an increasing share of any new losses, ending at a 50-50 split.

It seems fair to say that the first three bullets are major positive changes for the financial state of the University, which we see through the lens of the Audited Financial Statements. The long-term impact of the final bullet is also good, but it is unclear what its impact will be in the first year or two. We expect that next year's Audited Financial Statements, looking at the fiscal year ending on April 30, 2021, still before the UPP

The University is additionally required to account for a Provision for Adverse Deviation (PfAD) valued at around 15%, translating into a $156M pot that turns the $69M surplus into an $87M actuarial deficit. [And] the fund realized investment losses of 3%, which means that the discount rate was about 9% higher than the plans experience. In one year, that 9% (of ~$1B) is around a $90M decrease, an amount from which we lose all future expected investment returns; so, actuarially, it turns into a $139M decrease.

comes into effect may be messy because of the presence of transient items related to the first three bullets above and the investment impact of the pandemic. And a year later, the Audited Financial Statements will likely feature some major changes.

On to other items, this is the second year in a row in which cash and short-term investments decreased: by 11% this year and by 9% last year. The amount remains over 10% of total assets. Although the percentage has decreased in recent years, all the way back to 2007 it has stayed above 10%. Maybe the Administration would say that they need this quickly accessible money in order to be "nimble," or perhaps the message is that the Administration has more money on hand than they actually plan to spend.

Short-Term Liabilities decreased by $26M or 9% due to a $12M decrease in government remittances payable and a $14M decrease in "Deferred Contributions," which "represent unspent externally-restricted grants, donations and investment income for research and other specific purposes."

[On July 1, 2021,] the need for a [Provision for Adverse Deviation] disappears, so the current negative $156M accounting entry vanishes.

Long-Term Debt/Liabilities went down for the third year in a row, a $12M or 6% decrease. For the first time since we started doing these analyses in 2006, these liabilities are below $200M, sitting at $193M or 9% of total assets. This is the debt due to borrowing. The Administration has not borrowed money since 2016. Indeed, flashing back, between 2011 and 2016, they borrowed a total of around $125M. They also issued a 40-year "Series A" Unsecured Debenture in 2011 for $100M. In 2020, they repaid $12M in principal and $11M in interest. Taking out loans can be part of doing business, of course, but the rough balance between principal and interest payments shows the cost.

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

The Internally Restricted money decreased slightly, by 1.4% or $4M, from $277M to $273M. Table 3 shows the recent history of the Internally Restricted "reserves" that we have historically followed closely. The Division Reserves grew by 4% to $101M. This money is the carry-forward of all of the units of the University, that is, the accumulated money allocated to them that went unspent. Remember that "unit" does not mean "academic

Long-Term Debt/Liabilities went down for the third year in a row, a $12M or 6% decrease. For the first time since we started doing these analyses in 2006, these liabilities are below $200M, sitting at $193M or 9% of total assets.

TABLE 3: INTERNALLY RESTRICTED FUNDS

FUND NAME	2017	2018		2019		2020	
Division Reserves	$96M	$101M	+5%	$97M	-4%	$101M	+4%
Central Operating Reserves	$75M	$76M	+1%	$81M	+7%	$74M	-9%
Employee Benefits Reserves	$65M	$48M	-25%	$23M	-52%	$30M	+29%

department." As usual, no breakdown is provided in the Audited Financial Statements. In previous years, we have turned to the unaudited (and perhaps untrustworthy) budget documents, which consist of the main "Budget Plan" and a "Supplementary" document, the latter of which typically contains a table reporting on the division reserves or "carry-forwards." Unfortunately, no supplementary document was posted for 2020, so we are unable to get a possible breakdown of this money. In the prior year, OAC dominated the academic colleges, with a $13M carry-forward, compared to a typical amount of ~$5M for the others, and, for example OpenEd had a remarkable $10M, CCS had $5.5M, and Student Services had $5M. The total money in the three reserves in Table 3 grew by $4M.

It's perhaps useful to note that the description in the Audited Statements is four lines long, with the first two lines describing the "Capital Reserves," mentioning renovations and capital assets, the next mentioning "carry-forward" (more in next paragraph), and the final clause being the catch all: "…*and contingencies in amounts deemed necessary by the Board*." This captures what might be viewed as the charade aspect of the yearly budget exercise. In our view, the Senior Administration and the Board of Governors are all part of the Administration of the University. Year upon year, the Provost says the ~$530M budget shows a deficit, and academic departments must cut, cut, cut—sorry, that is usually worded "find efficiencies"—but the construction is based on the premise that the huge $275M pot of Internally Restricted money is absent from the discussion. It resembles a magic act, an illusion, with the magician showing us the contents of a box inside which there lives a secret compartment containing the object of the trick.

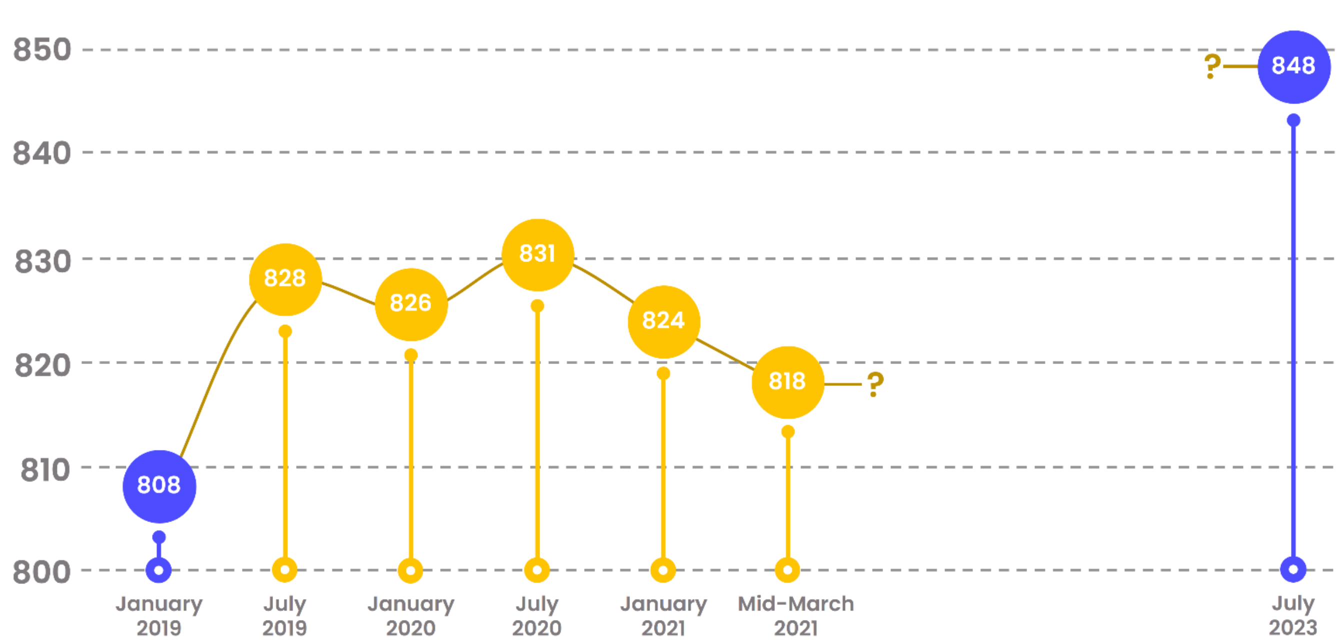
In the six-year period of this analysis, the Division Reserves have grown by close to 10% per year, the Central Reserves have grown by 4% per year, and the Employee Benefits Reserves have decreased by 12% a year. This final number is a perhaps a reflection of the trajectory of our pension plan.

The Division Reserves and Central Reserves could be used now to hire more UGFA members. This will remind you of the Letter of Understanding between the UGFA and the Administration wherein the

[The clause] "and contingencies in amounts deemed necessary by the Board" […] captures what might be viewed as the charade aspect of the yearly budget exercise. [T]the construction is based on the premise that the huge $275M pot of Internally Restricted money is absent from the discussion.

It resembles a magic act, an illusion, with the magician showing us the contents of a box inside which there lives a secret compartment containing the object of the trick.

FIGURE 1: PERMANENT UGFA MEMBER COUNT



Administration commits to hire in such a way that the number of permanent UGFA members (tenure-track and tenured faculty members, continuing-appointment-track and continuing appointment librarians and veterinarians) grows by 40 between January 2019 and July 2023. We should understand that this signed commitment means that, in addition to replacement hiring for departures (due to retirement or any other reason), the Administration will hire 40 permanent UGFA members. Figure 1 illustrates the progress made to date towards this signed agreement.

As we move closer to July 1, 2023, we will keep members apprised regularly of the status of progress towards this signed commitment.

TABLE 4. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION (DOLLAR VALUES IN THOUSANDS OF DOLLARS)

as at April 30	2015	2016	2017	2018	2019	2020
Total Assets	1,817,362	1,831,274	2,015,056	2,115,211	2,238,029	2,130,280
year-to-year % change	**4.96**	**0.77**	**10.04**	**4.97**	**5.81**	**-4.81**
Cash (& short-term investments)	283,268	216,168	255,113	266,254	**242,914**	216,188
year-to-year % change	1.02	-23.69	1.02	4.37	**-8.77**	-11.00
cash/total assets	**15.59**	**11.80**	**12.66**	**12.59**	**10.85**	**10.15**
Capital Assets	1,052,451	1,086,067	1,123,477	1,212,862	1,253,172	1,277,897
year-to-year % change	1.50	3.19	3.44	7.96	3.32	1.97
(capital assets)/(total assets)	**57.91**	**59.31**	**55.75**	**57.34**	**55.99**	**59.99**
Short-Term Debt (Current Liabilities)	210,698	235,138	251,862	275,112	301,168	275,029
year-to-year % change	-3.77	11.60	7.11	9.23	9.47	-8.68
(short-term debt) /(total assets)	**11.59**	**12.84**	**12.50**	**13.01**	**13.46**	**12.82**
Long-Term Debt (Long-Term Liabilities)	213,284	201,450	229,560	217,264	205,021	192,079
year-to-year % change	-4.85	-5.55	13.95	-5.36	-5.64	-6.01
(long-term debt) /(total assets)	**11.74**	**11.00**	**11.39**	**10.27**	**9.16**	**9.05**
Internally Restricted	**260,101**	**261,622**	**320,792**	**288,620**	**276,882**	**272,925**
year-to-year % change	-0.84	0.58	22.62	-10.03	-4.07	-1.43
(internally restricted) /(total assets)	**14.31**	**14.29**	**15.92**	**13.64**	**12.37**	**12.81**

Colour Legend for all Tables

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

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 5 presents the numbers.

Ideally, we hope to see increases or at least stability for each of the revenue items. We find the following.

	In 2015-2019	*In 2020*
Tuition	Yearly increases, averaging 7.5% per year, 23-27% of revenue	Decreased by 5.3%, 27% of revenue
Transfer Grants	Marginal yearly increases, averaging 2.65% per year, 33-35% of revenue (2016 outlier: 8.2% increase)	Increased by 1.6%, 34% of revenue
Total Revenue	Yearly increases, averaging 3.5% per year	Decreased by 4.5%
Salaries	Yearly increases, averaging 4.2% per year, 49-51% of expenses	Increased by 3.9%, 51% of revenue and 51% of expenses
Benefits	Yearly increases of 3-8%, stable at 6% of revenue or expenses	Decreased by 3.3%, 6% of revenue or expenses
Total Expenses	Yearly increases of 3-6%, averaging 4% per year	Increased by 1.7%

Tuition revenue took a hit this year, decreasing by 5.3% compared to 2019, about $12M. Now, you will recall that the government cut (most) domestic tuition by 10%, so the fact that the percentage decrease in tuition revenue is about half that value reflects a combination of an increased number of students and the tuition streams that were exempted from the cut (e.g. international). Indeed, according to the graph in the Audited Financial Statements (see Figure 2), the undergraduate student count excluding Guelph-Humber, measured in "Full-Time Equivalents" (FTEs), increased by 465 or 2.3%. Oddly, the text of the document reports an increase of 335 or 1.7%. It is not clear whether the difference of 130 students is an error or due to Guelph-Humber or, perhaps, international students being included in the graph. The graph purports to report "degree-credit" FTEs only, so, if anything, it seems one should expect the graph to possibly present numbers that are lower than the total student (FTEs) number. A mismatch appears for the graduate student numbers as well, with the graph showing an increase of 208 or 7.2%, while the text reports 141 or 5.1%. The correct numbers do matter, but, in either case, increasing the number of students helped mitigate the 10% tuition cut. Of course, it also increased the student-to-faculty ratio, and, hence, faculty workload, since the faculty complement did not grow by a corresponding percentage.

Another major revenue stream, government grants, within which we track the MTCU transfers and OMAFRA, increased by 1.6% compared to 2019, about a $4.6M increase. This increase helped offset the tuition revenue decrease.

The investment return for externally restricted endowments was a $1.8M loss, compared to a $29.5M gain in 2019, also explaining some of the decrease in total revenues. And the "Sales of Goods & Services" generated $98M in revenue, but that was down $3.4M from 2019. Presumably, this item

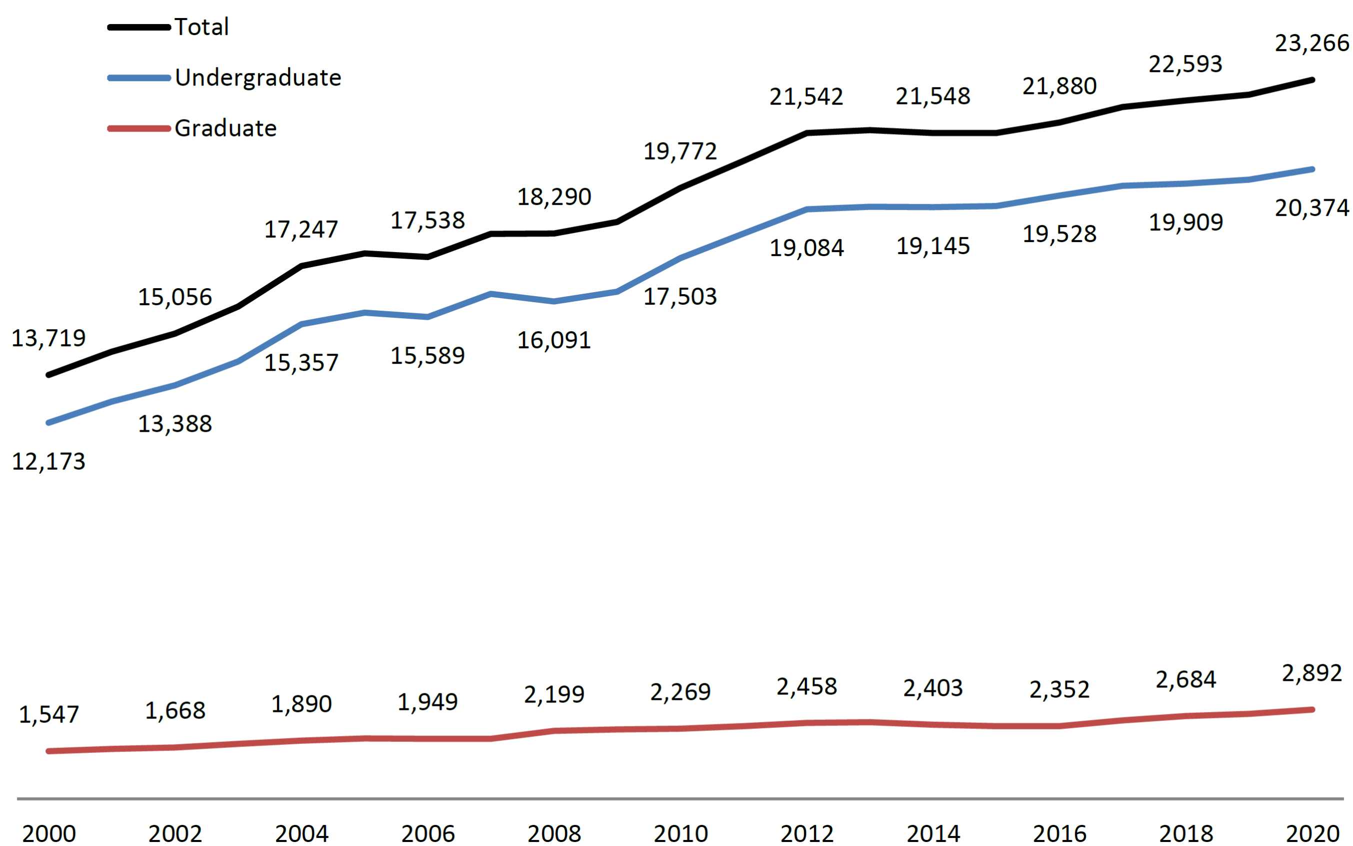


FIGURE 2: UNIVERSITY DEGREE-CREDIT FULL-TIME EQUIVALENT ENROLMENTS

includes Ancillary enterprises, such as the bookstore and the food outlets on campus, so the decrease in this revenue stream compared to 2019 could perhaps be a result of the shutdown due to the pandemic.

In 2020, total expenses had the lowest percentage growth in the six-year period we are considering, increasing by 1.7%, compared to a 6.4% increase in 2019. Of course, salaries (of all continuing employees) grew, but the growth rate (3.9%) was lower than the three most-recent years and the six-year average. For the first time in our analyses, total salaries crossed the 50% line as a percentage of total revenues and total expenses, about 51% in each case. We are not able to separate out an UGFA-only value here, but UGFA salaries did possibly contribute to the net increase. First, the salaries of continuing members increased. Second, our data show that there was net growth in the UGFA member complement; typically, departing members have higher salaries than new hires, so that on a one-to-one basis there is a net decrease in cost for a replacement hire, but if the ratio of new hires to departures substantially exceeds one-to-one, a net increase occurs. Recall that Figure 1 illustrated the permanent UGFA member count, while this UGFA salary expense discussion refers to the total member count; that is,

[I]ncreasing the number of students helped mitigate the 10% tuition cut. Of course, it also increased the student-to-faculty ratio, and, hence, faculty workload, since the faculty complement did not grow by a corresponding percentage.

the salaries of Contractually-Limited (CL) members are included in the current discussion. Between January 2019 and January 2021, the total member count grew by a whopping 9 (from 850 to 859) or by just under 1%. During this two-year period, 39 members retired (presumably with a high-end salary), and many left the membership for many other reasons, including taking a position or job elsewhere; joining the Administration (and perhaps returning as a permanent member later); various types of leaves of absence; or, sadly, passing away. During this same two-year period, the CL member count shrank from 41 to 31. An outcome wherein the bulk of replacement and growth hires have salaries generally close to the salary floors in our Collective Agreement is one over which the Administration has control. Take the preceding details and ideas into account when thinking about the UGFA salary mass.

Benefits decreased by 3.3% in 2020, which, in normal times, would be astounding, perhaps only possible with a decrease in the number of employees. Here, though, it is surely a side effect of the pandemic lockdown: members had no ability, and perhaps no desire, to visit their dentist, massage therapist, and so on. This is of interest to us, since a University's arrangement for health benefits with insurance companies requires the payment of a premium that assumes a particular usage rate. In this abnormal year, during which usage rates were impacted dramatically by other forces, the University will likely have overpaid, with a surplus being left in a reserve. Although the finer financial details are not available to us, we need to pay attention to this point when reviewing the Audited Statements over the next couple of years.

Between January 2019 and January 2021, the total member count grew by a whopping 9 (from 850 to 859) or by just under 1%. During this two-year period, 39 members retired (presumably with a high-end salary), and many left the membership for many other reasons [...]. During this same two-year period, the CL member count shrank from 41 to 31. An outcome wherein the bulk of replacement and growth hires have salaries generally close to the salary floors in our Collective Agreement is one over which the Administration has control. Take the preceding details and ideas into account when thinking about the UGFA salary mass.

Employee Future Benefits also show a small decrease this year, about 1%, but we should again understand that these figures involve actuarial calculations based on underlying assumptions. Interest payments also continued to decrease (by 4.8%), since there has been no new borrowing.

Revenues minus expenses produced the first deficit since 2009, with a value of about $8M. This statement ignores the sizeable surplus in 2012 that turned into a huge deficit for the same year when results were recast in terms of new accounting principles. The average surplus over the six-year period of our review is $53M.

We suggest that one should not be panicked about the switch from an average annual surplus of $65M for the five years 2015-2019 to a deficit of $8M in 2020. First, some of the huge mass of Internally Restricted money could have been used to eliminate the deficit or even introduce a surplus that matches or exceeds the earlier years. The Administration actually did shift $4M from Internally Restricted to the (Unrestricted) Operating Fund, so why not more? In 2018 and 2019, the transfers in this direction were $32M and $12M respectively, but, now, in addition to a smaller transfer in 2020, investment returns were non-existent. Separately, the accounting related to pension plan solvency funding included a new, worse valuation, along with the PfAD, which will not persist. It is also worth noting, for example, that spending on construction grew from $45M to $68M.

TABLE 5: ANALYSIS OF THE STATEMENT OF OPERATIONS (DOLLAR VALUES IN THOUSANDS OF DOLLARS)

as at April 30	2015	2016	2017	2018	2019	2020
Revenues						
Total Revenues	759,374	767,352	818,314	825,353	865,909	826,590
year-to-year % change	1.90	2.97	6.64	0.86	4.91	-4.54
Government Grants						
MTCU/MAESD	178,990	197,400	201,420	204,251	204,398	205,336
Min Agriculture, Food, Rural Affairs	69,602	70,295	71,104	74,182	75,699	79,274
Total	248,592	267,695	272,524	278,433	280,097	284,610
year-to-year % change	0.49	8.22	1.80	2.17	0.60	1.61
(govt grants)/(total revenues)	**32.74**	**34.89**	**33.30**	**33.74**	**32.35**	**34.43**
Student Tuition	177,127	198,632	214,523	222,658	233,312	220,935
year-to-year % change	4.17	16.82	8.00	3.79	4.78	-5.30
(student tuition)/(total revenues)	**23.33**	**25.89**	**26.22**	**26.98**	**26.94**	**26.73**
Expenses						
Total Expenses	689,048	707,763	731,424	769,861	819,162	833,212
year-to-year % change	2,86	2.72	3.34	5.26	6.40	1.72
Salaries	334,009	345,341	360,127	381,018	406,027	421,739
year-to-year % change	1.10	3.39	4.28	5.80	6.56	3.87
salaries/(total revenues)	**43.98**	**45.00**	**44.01**	**46.16**	**46.89**	**51.02**
salaries/(total expenses)	**48.47**	**48.79**	**49.24**	**49.49**	**49.57**	**50.62**
Benefits	40,788	44,077	45,915	49,119	52,545	50,835
year-to-year % change	2.98	8.06	4.17	6.98	6.97	-3.25
benefits/(total revenue)	**5.37**	**5.74**	**5.61**	**5.95**	**6.07**	**6.15**
benefits/(total expenses)	**5.92**	**6.23**	**6.28**	**6.38**	**6.41**	**6.10**
Interest Cost	12,206	11,618	11,707	11,595	11,079	10,543
year-to-year % change	-1.81	-4.82	0.77	-0.96	-4.45	-4.84
(interest cost)/(total revenues)	**1.61**	**1.51**	**1.43**	**1.40**	**1.28**	**1.28**
(interest cost)/(total expenses)	**1.77**	**1.64**	**1.60**	**1.51**	**1.35**	**1.27**
Adjustments						
Unrealized Gain/Loss or Interest Rate Swap	-3,431	595	2,892	6,557	-279	-1251
Surplus or Deficit						
All Funds Combined	66,535	60,184	89,782	62,049	46,468	-7,873
year-to-year % change	-16.76	-9.55	49.18	-30.89	-25.11	-116.94
(surplus or deficit)/(total revenues)	**8.76**	**8.09**	**10.97**	**7.52**	**5.37**	**-0.95**

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 6 presents the data.

Cash flows from operations in 2020 were $38M, a 49% drop from the previous year, which was a 25% drop from the previous three years; but, there is still a lot of money being generated by the operations of the University.

In 2020, there was a "Net Sale" of investments of $27M or 3% of Total Revenues. This is the first year since 2009 that investments have decreased. In recent years, we often saw short-term investments decrease while long-term investments increased: that pattern signals that the Administration has no intention of spending this money in the short-term, as when a short-term investment came to an end, they rolled the money into a long-term investment vehicle. In this past year, both short-term and long-term investments decreased.

The Administration spent $75M on capital purchases, including $25M on buildings and the $23M increase in construction in progress. The cost of capital assets grew by around $46M, which is close to the $75M in new purchases minus the $27M "Sale."

The Audited Statements mention "Capital Projects" being "continued spending on approved projects that are being financed internally." No new borrowing took place.

Spending on the Strategic Investment Fund (SIF) was $0.9M. Recall that the University received $26.2M from the government for six projects:

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

In 2019, $67.6M of the reported total cost of $69.1M had been spent, so we are now at $68.5M and almost done.

The Administration spent $75M on capital purchases, including $25M on buildings and the $23M increase in construction in progress.

Other big capital projects also advanced:

- the OVC Master Plan, spending $8.2M in 2020 (plus $23.6M over the prior three years) on a project now slated to cost $37.7M (an increase of $3.5M over last year's total cost);
- the relocation of the Turfgrass Institute, costing $7.7M in 2020 (plus $4.5M in the prior three years) on a project with an $18.4M price tag (up $100K from last year);
- the ImprovLab Theatre & MacKinnon Building renovation, costing $2.5M in 2019, (plus $1.8M last year, reported as $1.6M then) with a total cost of $18.4M; this total is down $1.9M from the reported number last year, and it is unclear whether that is just ignoring the $2M for ImprovLab coming from CFI;
- the Former VMI Building, costing $6.3M on a project with a $13.3M total cost (plus $1.3M last year, reported as $1.2M then);
- the OVC Small Animal Clinic, with $0.7M spending, bringing the total spend to $1M of an $8.4M project;
- Student Housing South Residence Renovations, costing $7M in 2020, with a $7.2M total cost; and
- the Powell Building renovations, costing $0.5M in 2020, and seemingly completed, with the full $12.8M total spent.

Remember that no new loans were taken out, so all of the above spending comes from the Operating Fund.

TABLE 6. ANALYSIS OF STATEMENT OF CASH FLOWS (DOLLAR VALUES IN THOUSANDS OF DOLLARS)

as at April 30	2015	2016	2017	2018	2019	202
Total Revenues	759,374	767,352	818,314	825,353	865,909	826,590
Cash Flows From Operations	66,659	**106,685**	**114,891**	**102,097**	**74,151**	**37,685**
year-to-year % change	-20.62	60.05	7.69	-11.14	-27.37	-49.18
(cash from operations)/(total revenues)	**8.78**	**13.90**	**14.04**	**12.37**	**8.56**	**4.56**
Increase or Decrease of Investments	40,893	127,135	169,769	22,056	17,828	-26,685
year-to-year % change	91.17	210.90	33.53	-87.01	-19.17	-249.68
increase/(total revenues)	**5.39**	**16.57**	**20.75**	**2.67**	**2.06**	**-3.23**
Purchase or Sale of Capital Assets	**58,077**	**75,563**	**82,123**	**135,210**	**88,533**	**74,960**
year-to-year % change	**18.33**	**30.11**	**8.68**	**64.64**	**-34.52**	**-15.33**
purchase/(total revenues)	**7.65**	**9.85**	**10.04**	**10.04**	**10.22**	**9.07**
Cash Supplied By Borrowing	**10,282**	**4,655**	**59,595**	**43,791**	**34,064**	**23,958**
year-to-year % change	**-66.50**	**-54.73**	**1180.24**	**-26.52**	**-22.21**	**-29.67**
borrowing/(total revenues)	**1.35**	**0.61**	**7.28**	**5.31**	**3.93**	**2.90**

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 7 presents the data.

For the third year in a row, some money was transferred out of the Internally Restricted pots into the (Unrestricted) Operating Fund, this time $4M (compared to $32M and $12M in 2019 and 2018, respectively). Despite that transfer, the total money in the three Internally Restricted "reserves" that we monitor grew by $4M (see Table 2). Remember that these "reserves" were relabeled years ago, with the bulk of the money in one of them ("Equipment, Supplies, and Contingency" containing $123M in 2015) identified in the Audited Statements as being for "faculty renewal" that never occurred.

We mention the historical intention for this money because we need to stress that the transfers of

Remember that these "reserves" were relabeled years ago, with the bulk of the money in one of them ("Equipment, Supplies, and Contingency" containing $123M in 2015) identified in the Audited Statements as being for "faculty renewal" that never occurred.

Internally Restricted money into Operating in the past two years are largely, if not solely, to pay for capital projects. That is, a transfer in this direction does not mean that the money ends up being spent on the teaching and scholarship missions of the University!

In 2020, $59M was transferred from the Operating Fund to the Capital Fund.

The Capital Fund reached a new peak deficit of $30M this year. 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.

The cumulative transfer out of the Operating Fund since 2006 crossed $850M. Thinking again about the reported $8M deficit, consider that $38M was generated through operations of the University, while $55M (147% of cash flows) was transferred out of the Operating Fund into other funds.

From an administrative climber's perspective, new buildings are very sexy, while hiring more faculty is not.

In Table 7, 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 7. ANALYSIS OF STATEMENT OF CHANGES IN NET ASSETS (DOLLAR VALUES IN THOUSANDS OF DOLLARS)

as at April 30	2015	2016	2017	2018	2019	2020
Surplus or Deficit Operations						
Cash Flows From Operations	66,659	106,685	114,891	102,097	74,151	37,685
Unrestricted Fund	86,777	81,043	112,105	87,088	74,302	21,798
Internally Restricted Fund						
Capital Assets	-20,242	-20,859	-22,323	-25,039	-27,834	-29,671
Total	66,535	60,184	89,782	62,049	46,468	-7,873
Interfund Transfers						
unrestricted to internally restricted	0	2,083	59,170	0	0	0
internally restricted to unrestricted	2,204	0	0	32,172	11,738	3,957
unrestricted to capital fund	**52,506**	**76,007**	24,427	**96,365**	**63,414**	**59,489**
total transfers out of unrestricted per year	**50,302**	**78,090**	**83,597**	**64,197**	**51,676**	**55,532**
cumulative transfers out of unrestricted	**519,395**	**597,485**	**681,082**	**745,275**	**796,951**	**852,483**
(total transfers out of unrestricted per year) /(cash from operating activities)	**75.46**	**73.20**	**72.76**	**62.87**	**69.69**	**147.36**
(total transfers out of unrestricted per year) /(surplus or deficit in unrestricted fund)	**75.60**	**129.75**	**93.11**	**103.46**	**111.21**	**-705.35**

FINANCIAL SCORECARD

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

	Undesirable trend…	*Trend at UoG since 2015*	
Revenues	Decreasing	Increasing average increase per year = 3.6% 4.5% decrease in 2020, due to government tuition cut	✓
Expenses	Increasing	Increasing average increase per year = 3.7% 1.7% increase in 2020	?
Surplus/Deficit	Consistent deficits	Surplus Average yearly surplus = $53M $8M deficit in 2020	✓
Cash Balance	Decreasing	Stable three increases, three decreases always over $200M, averaging 12.5% of Assets	✓
Total Assets	Decreasing	Increasing average increase per year = 3.6% well over $2B, 4.8% decrease in 2020 due largely to poor investment returns and actuarial calculations	✓
Capital Assets	Decreasing	Increasing average increase per year = 3.6%, $38M	✓
Short-Term Debt	Increasing	Stable stable as a percentage of total assets 9% decrease in 2020	✓
Long-Term Debt	Increasing	Decreasing decreasing In value and as percentage of total assets 6% decrease in 2020, now under $200M	✓
Internally Restricted Fund	Decreasing	Massive, Recent Minor Decrease average increase per year = 1.2% minor decreases since 2018, 13% of total assets	✓
Cash Flow From Operations	Negative amount	Large Positive Amounts average of $83M per year, decrease in 2020	✓
Cash Supplied From Borrowing	Increasing amount	Decreasing decreasing after big increase in 2017	✓
Cash used to Buy Capital Assets	Minimal amount	Large amount	×
Surplus/Deficit in			
Unrestricted Fund	Consistent deficit	Consistent large surplus small deficit in 2020	✓
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 Fund	×

Reviewing the results of the scorecard, we conclude that there is no structural deficit at the University of Guelph. We anticipate anomalies in next year's analysis due to the pandemic, and in the following year due to the UPP. It should be clear that the University is in strong financial health. The Senior Administration reports the same conclusion at high-level presentations at Senate and elsewhere.

This target means that the Administration's goal is to stockpile 5% of the over $800M yearly revenues; in other words, this target implies a goal of having a yearly surplus exceeding $40M. It is a remarkable admission, especially when you consider that the University is supposed to run as a "not-for-profit" institution.

Since 2017, the Audited Statements include a section presenting some metrics to measure "fiscal strength" and debt of the University. The information is presented in Table 8. Last year, they made a number of changes to the way the metrics are reported, and this year we just stick with the new formulations.

Similar to the tables that drive our analysis, these metrics monitor certain ratios over time, with a difference being that target or expected ratios are declared. Entries in the table that are on the wrong side of the "target" or "expected" value have their cell shaded pink. We see that the "debt per student (FTE)" amount has always exceeded the $10K threshold. That was the only pink cell for 2015-2019.

In 2020, we see two other problematic metrics, not surprisingly linked to the Surplus/Deficit.

The first is the "Net Income/Loss Ratio," a metric that was introduced last year and which we want to call the "Surplus/Revenues Ratio." In the case of a surplus, we see this as a measure of how much of the incoming money (revenues) the Administration decided not to spend (since surplus = revenues minus expenses). Since they landed at a reported deficit, the ratio is negative, not near the 5% target. We've discussed the deficit in another section, so, here, we just note with amazement that they have openly set a target ratio of 5%. This target means that the Administration's goal is to stockpile 5% of the over $800M yearly revenues; in other words, this target implies a goal of having a yearly surplus exceeding $40M. It is a remarkable admission, especially when you consider that the University is supposed to run as a "not-for-profit" institution.

The second problematic metric is "Debt Service Coverage," which they describe as "adjusted net income to debt service costs." The table reports adjusted net income as $35M. The Statements do not define the term, but "adjusted net income" is the net income with certain deductions (notably for us, depreciation and amortization of assets) added back in. The notion of "adjusted net income" exists in part because businesses find ways to minimize net income to minimize taxes, but when the business is to be sold they want to give a measure of the true financial value or return of the business. The $35M value of adjusted net income is interesting to consider in this light and in the shadow of the reported $8M deficit. It's worth noting that the adjusted net income in 2019 was $50M higher.

There are indicators in Table 8 that make sense in the corporate environment of private industry, but make little sense, if any, for a university. At the risk of repeating ourselves, the University runs under not-for-profit accounting principles, and our view remains that it should be focused on serving the public through its teaching and scholarship missions.

Table 8. Financial Indicators Presented in the Audited Financial Statements

	Target or Objective	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*
Primary Reserve Ratio How long can the University run on reserves?	Target=146 (=days of operation)	172	173	203	184	170	159
Net Income/Loss Ratio Surplus over revenues (excluding restricted funds)	Expected=5%	9.21%	8.01%	10.62%	6.72%	5.40%	-0.80%
Net Operating Revenues Ratio Cash Flows over revenues	Expected=4%	8.78%	14.54%	14.04%	12.37%	8.56%	4.56%
Viability Ratio Expendable net assets over external debt	Target=0.65	1.51	1.61	1.77	1.78	1.86	1.88
Debt Servicing Burden Debt payments over expenses (excluding capital asset amortization)	Objective<5.5%	4.9%	4.6%	4.2%	4.3%	4.5%	4.3%
Interest Burden Interest payments over expenses	Objective<4%	1.89%	1.81%	1.70%	1.60%	1.44%	1.35%
Debt Service Coverage Net income over debt service costs	Objective>1.5%	3.8%	3.4%	4.8%	3.4%	2.9%	1.2%
Debt Per Student FTE Debt over #Student FTE	Objective<$10K (Not stated; implied)	$11.9K	$10.2K	$11.8K	$12.5K	$12.0K	$11.1K

The $35M value of adjusted net income is interesting to consider in this light and in the shadow of the reported $8M deficit.

SUMMARY & CONCLUSIONS

During 2020, we see significant stability in key revenue and expense items.

Key Revenue Items

Total Revenues	Stable or increasing Small decrease compared to 2019, but still above 2015-2018
Government Grants (MTCU,OMAFRA)	Stable or increasing
Tuition	Increasing Small decrease due to government, but still above 2015-2017

Key Expense Items

Total Expenses	Stable or increasing
Salaries	Stable or increasing
Benefits	Stable or increasing a little (small decrease in 2020)
Interest Costs	Stable (small decrease in 2020)

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.

To be fair, we expect our salary ratio with expenses to perhaps increase a bit, having negotiated the signed agreement with the Administration that they would grow our permanent member complement by 40 (or just around 5%) by July 1, 2023. Since that growth might be accomplished by regularizing a meaningful number of Contractually-Limited positions and since this growth commitment also requires that retirements (typically at a high salary) are replaced (typically by an appointment near the salary floor), it is not clear to what degree the fulfillment of this commitment will increase the UGFA salary mass.

What is sadly clear is that the Administration has grown our permanent member complement by only 10 roughly halfway through the life of the signed agreement.

Despite the pressures of the known 10% tuition cut and the unknowable arrival of the pandemic, the Administration's high priority on capital asset expenditures persisted.

Many projects were partially complete when the fiscal year began and, one would guess, had to continue. At least there was no new borrowing, and the debt-servicing (i.e. interest) costs decreased, but all of the projects that are underway or just started are choices that typically are made without any real notion of collegial governance.

The Administration has designated $273M as Internally Restricted.

These pots reached the peak value of $320M a few of years ago. Then around $44M was transferred out over a two-year period, all of it for capital expenditures. This year, an additional $4M was transferred out. We were unable to examine the "carry-forwards" this year, although we never see audited numbers at that level of granularity, in any case. The astounding observation a year ago was that Open Learning had a $10M carry-forward, more than 4 times it yearly budget.

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.