

CAUT Webinar

Analyzing University and College Financial Statements

Cameron Morrill and Janet Morrill

July 2020

Agenda

1. Introduction and the UM story
 - i. Why look at financials?
 - ii. University of Manitoba, 2009-2010
 - iii. University of Manitoba, 2010-now
2. Finding and tracking the Cash
3. Other analyses

i. Why look at the financials?

- Audited record of university financial decisions
- Follows (a relatively) standardized set of accounting rules
- A history of the decisions made by administration (where they put their money)
- Problems in having to take administration word for financial situation

Financial statements vs. budgets

Financial statements – standardized language (within certain limits), objective historical fact

Budgets – forward-looking, political, biased (conservative), “wish list”, customized language, subject to change

Administration incentives

“Having to take the administration’s word for it”

The administration has a strong incentive to make financial situation appear as bad as possible:

- Fundraising tool
- Negotiation tactic, especially in an atmosphere of strained labour relations

How will a financial analysis help?

- Reduce information asymmetry – faster, better resolution to disputes; greater satisfaction with final outcome
- Mobilize students and (perhaps) public opinion
- Convince employer that there is a strong case for compensation increase

Accounting 101: Balance Sheet or Statement of Financial Position

Assets	=	Liabilities	+	Equity
▪ Cash		▪ amounts		▪ net worth
▪ Investments		owing to		of entity
▪ Capital		outsiders		

Accounting 101: Statement of operations/Income statement

Revenues

Government grants, tuition fees, ancillary fees

MINUS

Expenses

Salaries, benefits, depreciation

EQUALS

Net income

Accounting 101: Cash flow statement

Operating cash flows

- Cash flows for salaries, operating grants, etc.

Investing cash flows

- Acquisition of capital assets; purchase and sale of investments

Financing cash flows

- Taking out and repaying loans

Financial Analysis: Cash is King

- Salaries and services require cash
- Cash is immune to accounting “tricks”

Context: University of Manitoba, 2009

- Medical-doctoral university in a “have-not” province
- 30,000 students, 8,900 employees
- UMFA has 1,200 members (faculty, instructors and librarians)



Context: University of Manitoba

- UM strategic planning framework 2009 identifies “Strained labour relations” as a key weakness



UM 2009

- Bargaining with on-campus unions
- ROSE and OARs: resource optimization programs designed to eliminate inefficient procedures (and people) and academic programs

2009: Looming financial crisis

- Severe financial pressures
- \$492 million operating budget projected for 2010-2011
- Will lead to \$36.4 M base level budget shortfall

-UM President David Barnard
Town Hall Meeting
October 15, 2009

UMFA response

- “Base level budget” is the opening step to budget negotiation exercise with provincial government
 - =what WOULD occur if university continued current operations without an increase in operating grant or tuition fees
- Historically, always forecasts sizeable base level budget shortfall which never materializes
- Used to make case for operating grant increase
- UMFA will analyze how university is doing...

How much cash is there?

University of Manitoba Balance Sheet

Assets as at March 31, 2009

(thousands of dollars)

Cash	\$121,134
Other current assets	65,223
Investments	389,864
Capital assets	<u>710,997</u>
Total assets	<u>\$1,287,218</u>

Not-for-profit Accounting 101

Characteristics of not-for-profit organizations

- Provide goods or services to society without expectation of profit
- Resources provided by contributors without expectation of gain or repayment
- Contributions often have restrictions attached that govern the manner in which they can be spent

Fund accounting

Financial activities are organized according to restrictions within separate funds, each one with its own set of financial statements. Funds usually include:

General fund: unrestricted funds, usually used to pay operating expenses of university

Restricted funds: funds restricted to purchase of buildings and equipment; research funds

Endowment funds: can only be invested – income is available for specified uses

The “fun” in Fund Accounting

Total assets = \$1,287,218

- General funds (operating)
- Restricted funds
 - capital asset, research/special, staff benefits
- Endowment fund

U of M Balance Sheet (\$ millions)

	General Funds	Restricted funds	Endowment Funds	Total
Cash				\$121
Other				65
Investments	?	?	?	390
Cap. assets				<u>711</u>
				\$1,287



This is what is presented
in UM financial statements

U of M Balance Sheet (\$ millions)

	General Funds	Restricted funds	Endowment Funds	Total
Cash				\$121
Other				65
Investments				390
Cap. assets				<u>711</u>
				<u>\$1,287</u>

↑
This is what we
need to know

↑
This is what is presented
in UM financial statements

Where is the cash?

University of Manitoba Balance Sheet
General Fund Assets
as at March 31, 2009
(thousands of dollars)

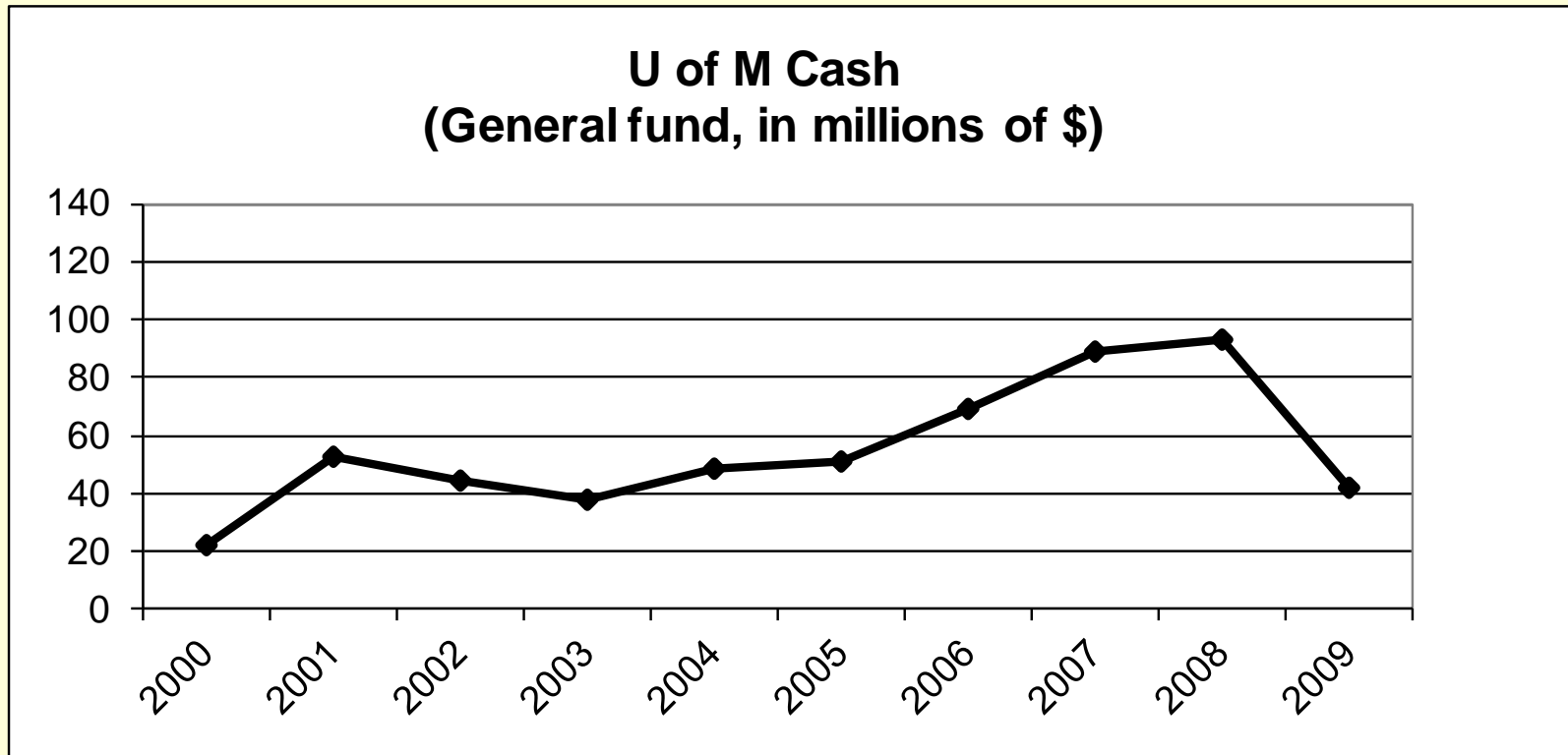
Cash	\$42,028
Other current assets	13,822
Long-term Investments	<u>80,355</u>
Total assets	<u>\$136,205</u>

What does it mean?

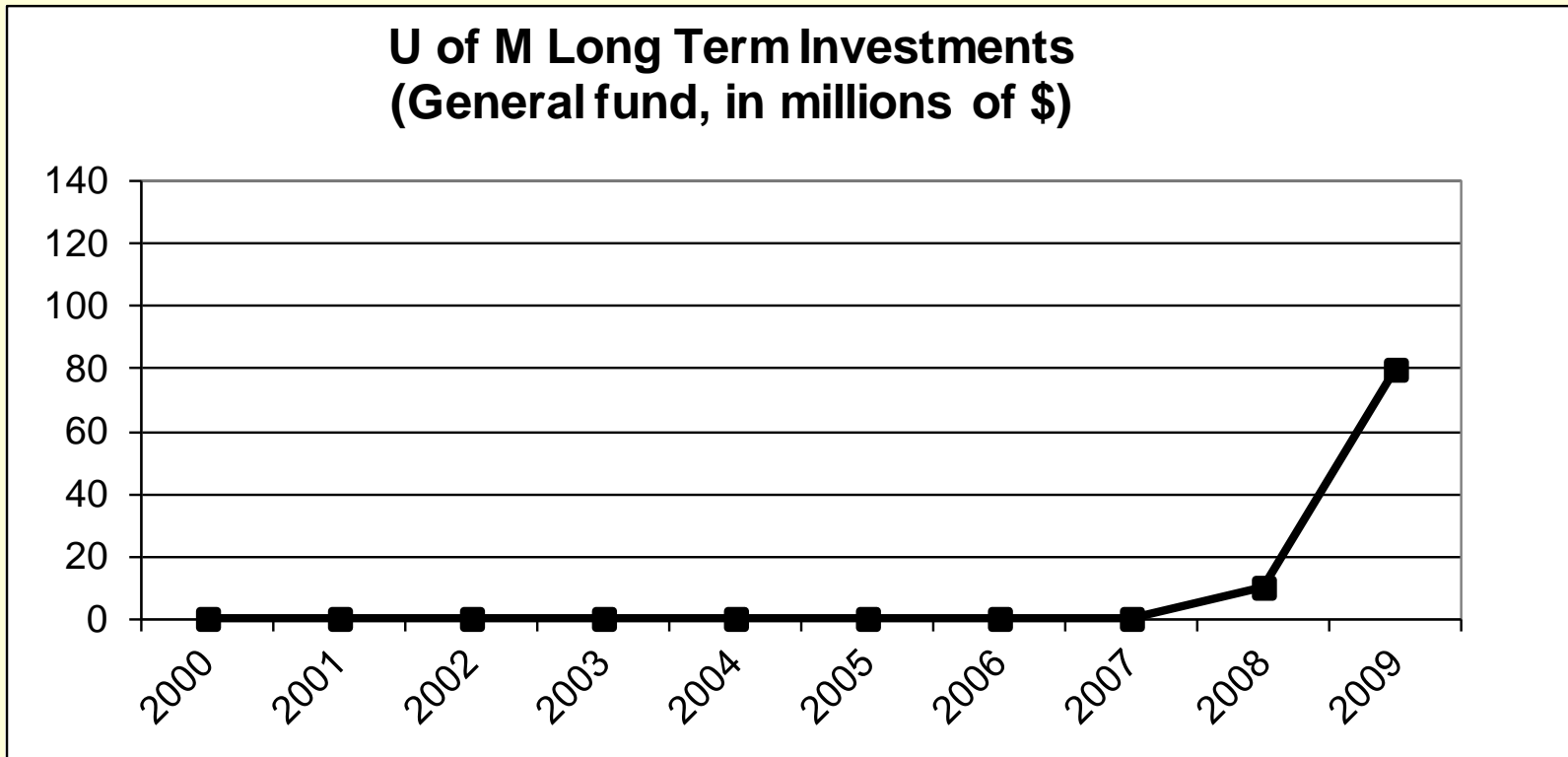
Finding benchmarks

1. Compare your university's results with those of other universities – comparability?
2. Compare your university's results with benchmarks or rules of thumb – expertise?
3. Compare your university with itself – look for trends over time

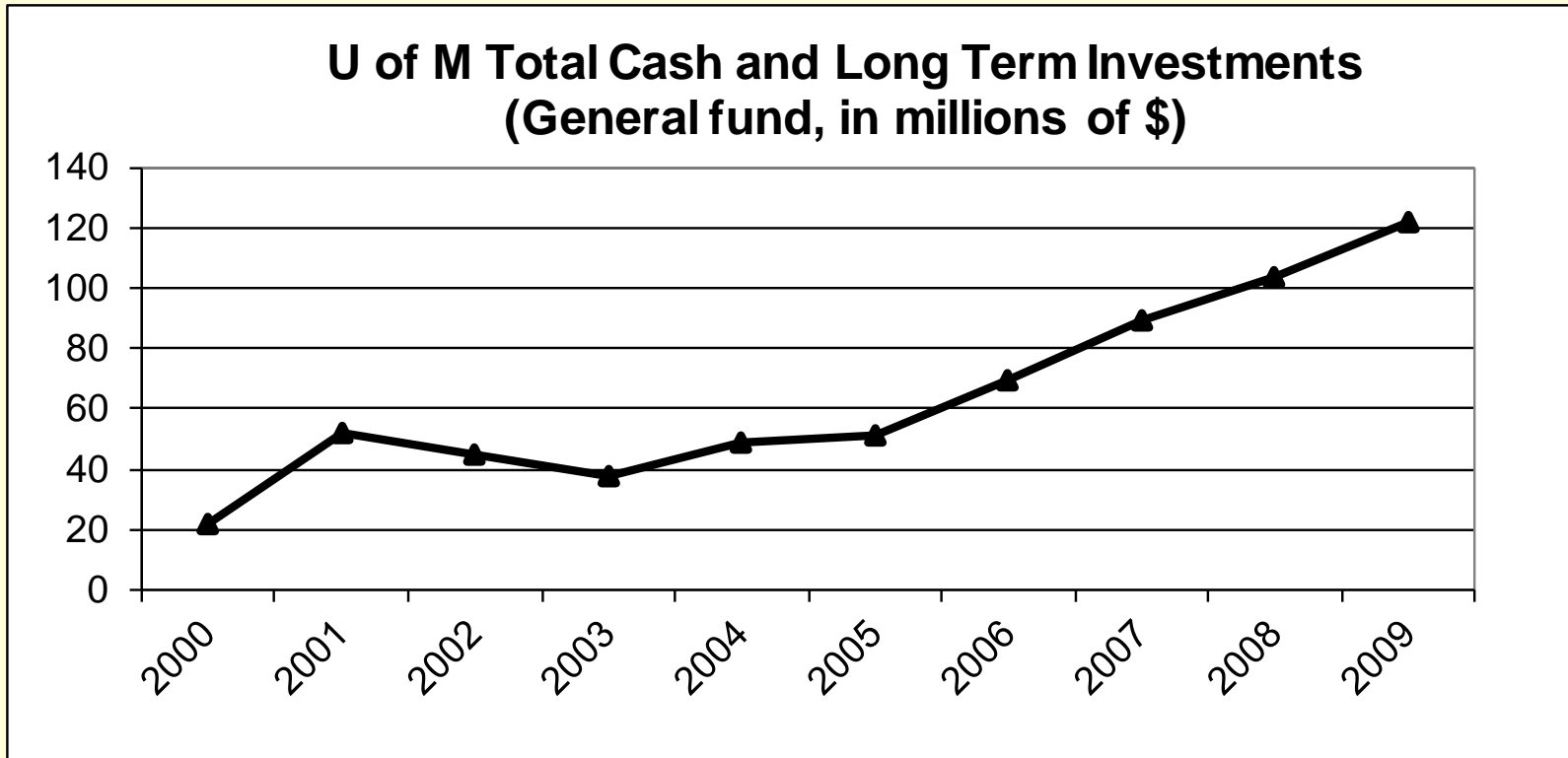
Cash Resources



Cash Resources



Cash Resources



General Fund Cash: Bottom Line

- Balance in cash (and other liquid investments) was in the \$40 - \$60 million range over the period 2001 – 2005
- Between 2005 and 2009, total cash and liquid investments has increased by \$71 million, or about \$18 million per year

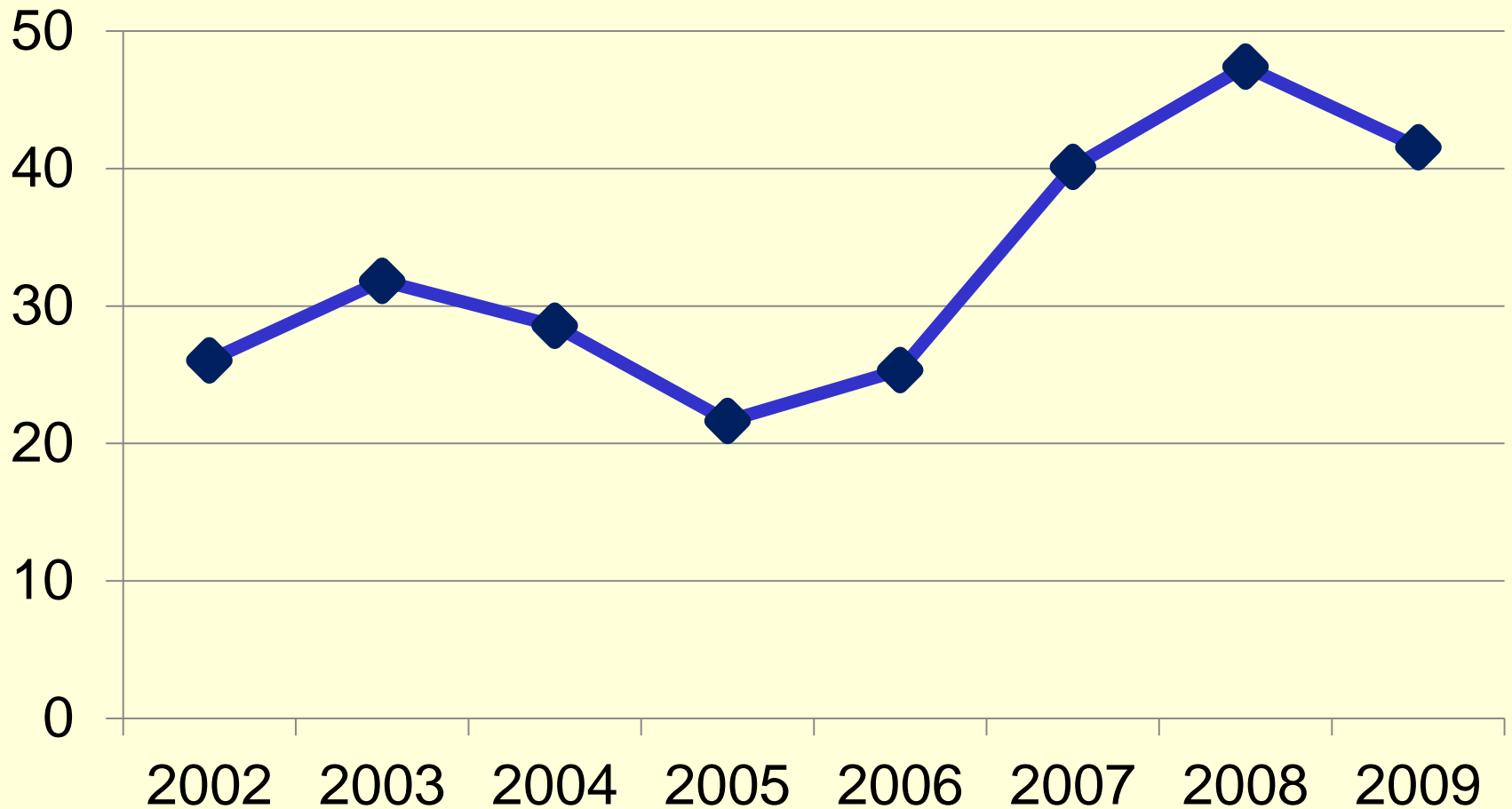
Where does the cash come from?

University of Manitoba
General Operating Fund

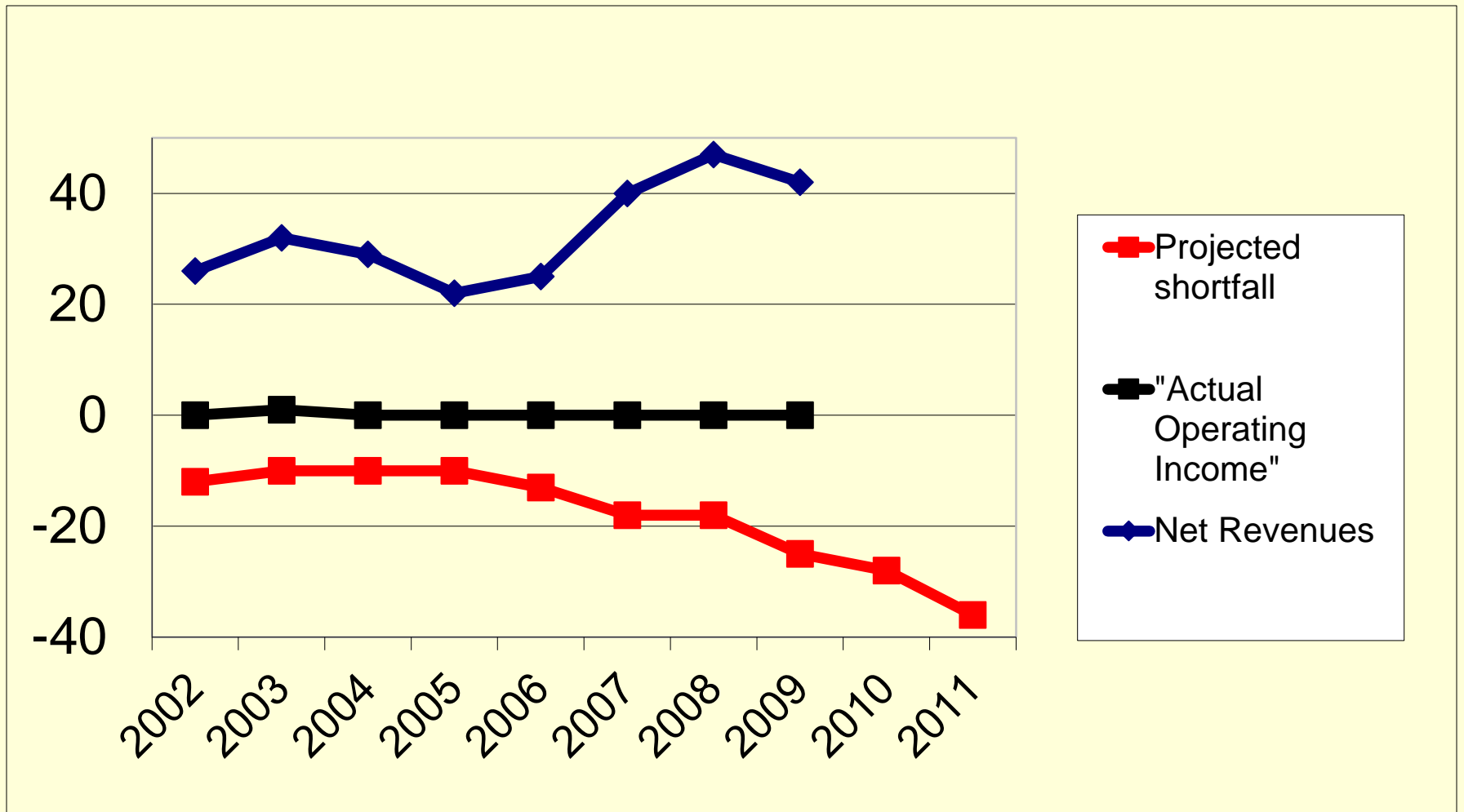
Statement of Operations for the year ending
March 31, 2009 (millions of dollars)

Operating revenues	\$458.4
Operating expenses	<u>417.8</u>
Net revenue	<u>\$41.6</u>

General Operating Fund Net Revenue 2002 – 2009 (\$millions)



Operating income numbers 2002 – 2009 (\$millions)



Where does all the cash go?

University of Manitoba

General Operating Fund

Statement of Operations for the year ending

March 31, 2009 (millions of dollars)

Operating revenues	\$458.4
Operating expenses	<u>417.8</u>
Net revenue	41.5
Inter-fund transfers	<u>41.5</u>
Net increase in fund balance	<u>\$0.0</u>

What to do with too much income?

1. Get rid of it – transfer the excess operating income, which is unrestricted, into another fund, especially Capital Assets
2. Hide it – invest the income and earmark it for specific purposes

Inter-fund transfers

In this context, inter-fund transfers represent current operating funds that are transferred and used, or earmarked, for purposes other than current operations.

1. Capital assets (\$35 million): acquisition of, or renovations to, buildings, land, office equipment and furniture, heavy equipment, etc.

2. Specific provisions (\$15.7 million)

*Inter-fund transfers from Operating to
Capital Assets – 2009 (\$ millions)*

Item	Amount
Funding of capital asset additions	\$27
Long Term Debt Repayments	4
Unit Capital Development Assessment	<u>4</u>
Total	<u>\$35</u>

Are transfers to Capital legitimate?

U of M says it cannot raise sufficient capital funds from outside sources so it must use unrestricted operating funds.

- library acquisitions, asbestos abatement
- cost overruns on construction projects

Some more questionable uses: \$3.6 M in operating funds used to build new Welcome Centre.

Inter-fund transfers

Inter-fund transfers represent current operating funds that are transferred and used or earmarked for purposes other than current operations.

1. Capital assets (\$35 million): acquisition of, or renovations to, buildings, land, office equipment and furniture, heavy equipment, etc.

2. Specific provisions (\$15.7 million): internally restricted funds

Inter-fund transfers from Operating to Specific Provisions – 2009 (\$ millions)

Item	Amount
Unit specific projects (carryover), special projects and improvements	\$11.9
Capital asset replacement	<u>3.8</u>
Total	<u>\$15.7</u>

March 31, 2009:

General fund long term
investments

= \$80 million

Balance, Specific Provisions

= \$79 million

Can the cash generated by net revenue be used to “fix” budget?

Average excess cash flow 2006-2009

= \$18 million per year

Long term bond investment in General Fund

= \$80 million

Admin response: \$80 million is “cash in the bank” and cannot be used to fund ongoing expenses; would be dishonest to reallocate money once earmarking decisions are made.

Accounting Media Wars: UM vs. UMFA

2009 - 2010

Date	Event	Substance
Oct 2009	UM President Town Hall	The sky is falling!
Dec 2009	UMFA newsletter	No, it isn't.
Jan 2010 Feb 2010 Mar 2010	UMFA releases analysis of UM financial stmts	UM has earned and banked substantial operating surpluses.
Apr 2010	UM sends memo to employees	UMFA is wrong.
Apr 2010	UMFA newsletter	No, we're not.

Bargaining: Salary and pension

University opening position

- 3-year Salary freeze (no increments or scale increase), cut pension benefit by 25% and convert to DC Plan for new employees

Final agreement

- 0.5%, 1% and 2.9% on scale in years 1, 2 and 3; merit increments in all three years
- Pension benefit preserved; increased pension contributions by 28%

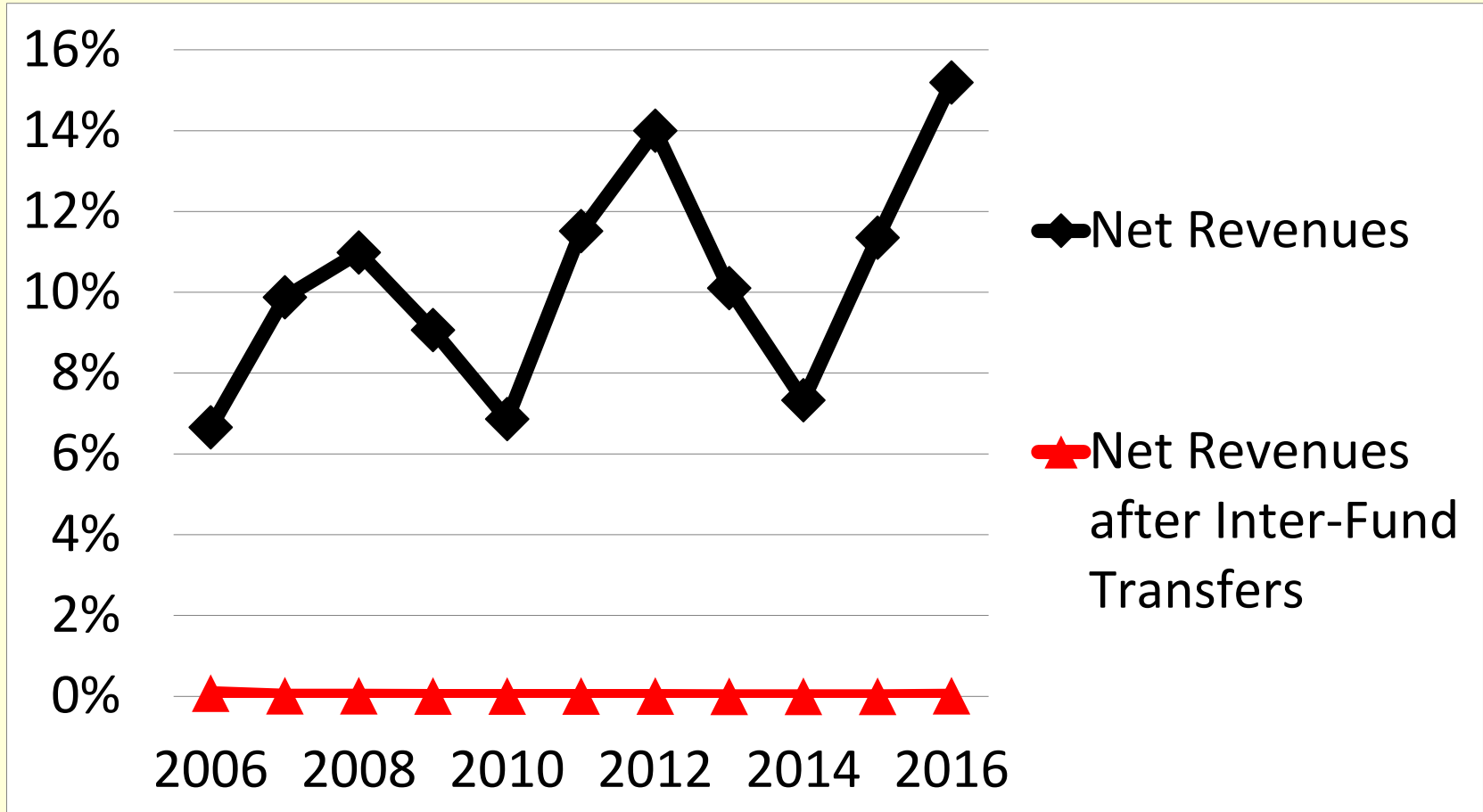
Could we have done better?

- Limits of financial analysis vs. illusion of certainty
- Pension funding requirements, operating grant cuts
- External constraints, especially public sector wage freeze
- Mutually assured destruction
- What did the membership think?

III. Post 2010: Potential employer responses to UMFA analysis

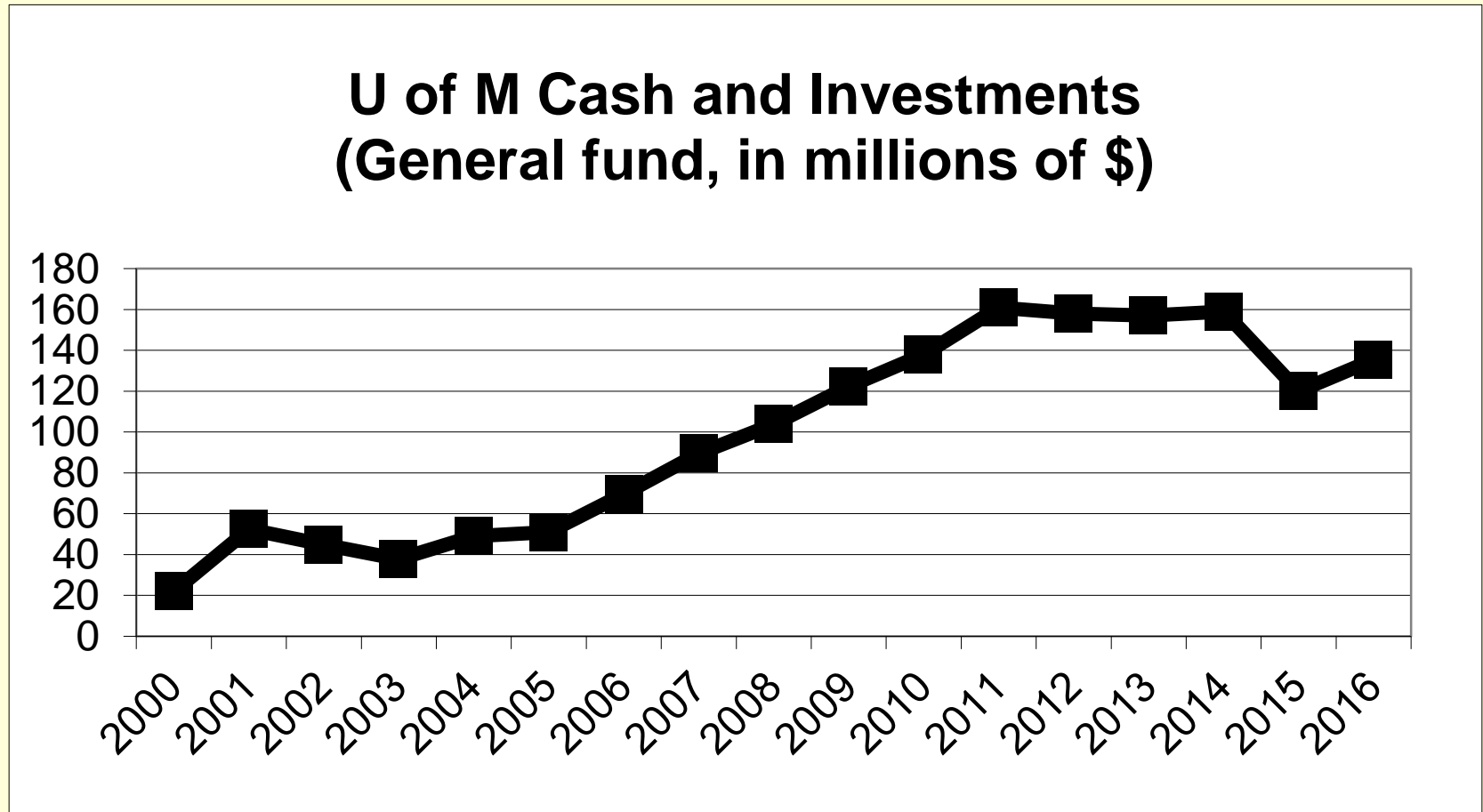
1. Earnings management: Does UM decrease reported operating surplus?
2. “Real” management (spend more)?
3. Disclosure choices: Does UM reduce disclosure related to the following?
 - a. Unrestricted cash and investments
 - b. Operating fund surplus
 - c. Inter-fund transfers

1. Earnings management?



All figures deflated by total operating revenue

2. Real management: Unrestricted cash and investments



3. UM Disclosure

Regarding the items UMFA was interested in:

Prior to 2010, UM could be characterized as a *ritualistic discloser*, i. e., disclosure was consistent from one year to the next.

After 2010, disclosures began to change.

UMFA analysis: Specific items we focused on

- Unrestricted cash and investments
- Operating surpluses before and after transfers
- Transfers of Operating funds to “internally restricted” (specific provisions)
- Transfers of General funds to capital

3. Disclosure: Unrestricted cash and investments

- Hard to manipulate, but required information to estimate; required Cash balance in the operating fund, which was available in statement of cash flows; and Investments in the general fund, which was disclosed in the Investments note.
- Disclosure of Investments in the general fund was dropped in 2017 financial statements

3. Disclosure: Operating fund net revenues

- Contained in body of financial statements pre-2014 (income statement for individual general and restricted funds)
- Removed from body of financial statements in 2014: detailed info moved to “MD&A”, condensed version in Board of Governors (BOG) report
- Removed detailed information in 2015 altogether: condensed version still in BOG report
- Reinstated detailed information in 2016

3. Disclosure: Internally restricted net assets

- Detail of transfers from general operating to specific provisions shown in notes prior to 2013
- Collapsed interfund columns in 2014; no longer able to identify transfers to specific provisions

3. Disclosure: Internally restricted net assets

UNAUDITED SCHEDULES

- Individual elements of specific provisions and changes in those balances shown in unaudited schedules, appended to annual financial report, prior to 2009
- 2009: unaudited schedules removed from financial report and posted in a separate section of UM website
- 2010: no longer produced; previous copies of schedules removed from UM website

3. Disclosure: Transfers to capital

- Disclosed prior to 2013
- Collapsed inter-fund transfers notes from 8 columns to 3 in 2014: no longer possible to identify transfers from General to Capital fund (could only identify General to Restricted)
- In 2015, could identify total transfers, and verbal description in MD&A

Inter-fund transfers, 2009

13. INTER-FUND TRANSFERS

Inter-Fund transfers at March 31 are as follows:

	General Operating	Specific Provisions	Expenses Funded From Future Revenues	Capital Asset	Research and Special	Staff Benefits	Trust Fund	Endowment Fund
	\$	\$	\$	\$	\$	\$	\$	\$
Employee Future Benefits	410		1,581			(1,991)		
Repayment of Staff Benefits	(1,475)					1,475		
Net Change in Vacation Pay & Pension Liability	4,831		(4,831)					
Benefit Premiums Net of Employer Contributions for Staff Benefits	1,444					(1,444)		
Appropriations for Specific Provisions:								
Capital Asset Replacements & Improvements	(3,788)	3,788						
Unit Carryovers, Special Projects & Initiatives	(11,932)	13,198		(1,266)				
Funding of Capital Asset Additions	(26,926)	(5,988)		45,094	(7,470)		(4,710)	
Long Term Debt Repayments	(4,041)			4,081	(40)			
Student Contributions to University Development Funds	(1,047)			59				988
Student Contributions for Technology	(3,242)			3,242				
Scholarships, Bursaries & Prizes	(4,436)	(100)		181	(123)		4,478	
Other Net Transfers	(13)			27	21		(3,468)	3,433
Overhead Recoveries	3,389				(3,389)			
Funding of General Operating Expenses	9,386	(2,198)		(801)	(950)		(5,437)	
Unit Capital Development Assessment	(4,023)			4,023				
Funding of Research Projects	(71)				1,009		(938)	
March 31, 2009	<u>\$ (41,532)</u>	<u>\$ 9,698</u>	<u>\$ (3,250)</u>	<u>\$ 54,640</u>	<u>\$ (10,942)</u>	<u>\$ (1,960)</u>	<u>\$ (10,075)</u>	<u>\$ 4,421</u>
March 31, 2008	<u>\$ (42,328)</u>	<u>\$ 20,885</u>	<u>\$ (5,111)</u>	<u>\$ 69,161</u>	<u>\$ (11,783)</u>	<u>\$ (3,866)</u>	<u>\$ (9,119)</u>	<u>\$ 2,961</u>

Inter-fund transfers, 2014

13. INTER-FUND TRANSFERS

Inter-Fund transfers for the years ended March 31 are as follows:

	General Funds	Restricted Funds	Endowment Fund
Employee Future Benefits	\$ 8,196	\$ (8,196)	\$
Benefit Premiums Net of Employer Contributions for Staff Benefits	(4,107)	4,107	
Funding of Capital Asset Additions	(41,978)	41,978	
Long Term Debt Repayments	(5,577)	5,577	
Student Contributions to University Development Funds	(940)	185	755
Student Contributions for Technology	(3,976)	3,976	
Scholarships, Bursaries & Prizes	(5,828)	5,751	77
Other Net Transfers	(362)	(2,555)	2,917
Overhead Recoveries	3,636	(3,636)	
Funding of General Operating Expenses	13,917	(13,917)	
Unit Capital Development Assessment	(4,988)	4,988	
Funding of Research Projects	(7,456)	7,456	
March 31, 2014	\$ (49,463)	\$ 45,714	\$ 3,749
March 31, 2013	\$ (57,752)	\$ 54,227	\$ 3,525

Inter-fund Transfers

The University uses the restricted fund method of accounting and classifies resources and their use into separate Funds which correspond to our major activities and objectives. A large example of inter-fund transfers is the transfer of resources from the Operating and Research funds to the Capital fund to reflect purchases of equipment, furniture, and library books. Other examples will include transfers from the Operating fund to the Trust fund of amounts to be used for scholarships and bursaries and transfers back and forth between the Operating fund and the Provisions fund for Carryover set aside at the end of the year and moved back into Operating at the start of the next year.

Inter-fund transfers are detailed in Note 13. The more significant transfers to and from the Operating fund are described below.

- A total of \$39,342 was transferred to the Capital fund, which includes \$21,079 representing purchases of capitalized equipment and furnishings in Faculties and Units, as well as library acquisitions. An additional \$14,329 was transferred from the Operating fund to the Capital fund for strategic priorities. This included \$3.8 million for deferred maintenance, \$4.4 million for teaching labs, \$2.3 million for Canada First Research Excellence projects, \$1.0 million for Science renovations (Buller and Parker), and \$1.3 million for various other faculty renovation projects. Faculties and units initiated transfers of \$3,934 for current capital projects. Some examples of these projects are \$0.3 million from the Faculty of Architecture for renovations to studio space in the Education Building, \$0.5 million from the Faculty of Arts for classroom renovations, \$0.2 million from the Faculty of Science for Parker Lab renovations, and \$0.4 million from Risk Management and Security Services for CCTV renewal. Ancillaries transferred \$1.3 million to the provision fund for future capital projects.
- Total transfers for Debt funding of \$14,174 was transferred from the Operating fund to the Capital fund. This included \$5.1 million in Unit funded transfers for Ancillary Services and Active Living Centre debt and \$5.1 million for debt repayment under an arrangement structured to allow for debt servicing on long-term Provincial debt. An additional \$3.2 million was collected as tuition and transferred to the Capital fund to service debt related to technology improvements. The remaining \$0.8 million represents the transfer of facility rental income that is being designated for debt retirement.
- A total of \$7,200 was transferred from Operating to Trust and Endowment for the payment of scholarships, bursaries and prizes. Faculties and units funded student awards totalling \$1.3 million were transferred to the Trust fund for disbursement. The majority of student awards are generated by Trust and Endowment and our practice is to disburse all awards from this fund for operational efficiency. In addition \$5.9 million was transferred from the Operating fund to Trust and Endowment for student awards as planned in the opening budget and included undergraduate scholarships (\$2.3 million), international graduate student support (\$1.3 million), Graduate Enhancement of Tri-Council Stipends (GETS) of \$0.9 million, needs based bursaries (\$0.5 million), and emergency student aid (\$0.2 million).
- Transfers to the Specific Provisions fund for special projects totalled \$24,688 as Units and Faculties transferred \$12,754 including Ancillary Services future parking lot improvements (\$1.7 million), School of Art improvements related to the move to the new building (\$0.3 million), Northern Medical Unit establishing a protection against sudden revenue declines (\$0.7 million), Faculty of Nursing future computer and equipment renewal (\$0.2 million), and External Affairs provision to allow Alumni Relations a degree of protection from future income swings (\$0.2 million). Also included is \$8.9 million in transfers back to Provisions for IST related projects which were deferred. Centrally funded transfers to the Specific Provision Fund of \$11,934 included \$4.3 million for pension plan funding, \$3.0 million for the Voluntary Retirement Program, \$2.0 million in funds left in the utilities budget to the utilities provision, and \$1.2 million for the Learning Commons.
- Also, \$2,000 was transferred from the Staff Benefits fund to the Specific Provisions to support the Voluntary Retirement Program.

- \$2,967 was transferred from the Operating fund to the Staff Benefits fund representing University support for staff benefit premiums.
- Students, as part of their tuition, provide amounts that support improvements to the University and contribute to trust funds. During the year, \$1,043 was transferred to the Trust and Endowment funds as instructed by students through various referenda.
- Overhead of \$5,558 earned by research projects was transferred from the Research fund to the Operating fund to contribute to the costs of supporting research.
- A total of \$23,202 was transferred into the Operating fund from all other funds. Faculties and units initiated transfers of \$10.4 million into the Operating fund from all Restricted funds which includes \$8.3 million from the Trust fund for operating expenses as supported by the terms and conditions of the various trust funds. The remaining \$2.1 million was transferred in from the Capital and Research funds to the Operating fund. Typically these amounts would be related to unused funds no longer needed and being returned to the source (Operating fund). This year also includes a transfer of some longstanding funds that were reviewed and determined not to be research funds. A total of \$12.8 million was transferred to the Operating fund from the Specific Provision fund for various operating projects and equipment purchases. The most significant transfer was \$9.8 million to fund IST projects, \$0.9 million related to the termination of a print management contract and \$0.2 million for equipment in Physical Plant.
- The net carryover transfer of \$6,800 from the Operating fund to the Specific Provision fund increased the carryover provision to \$40.0 million. These amounts are in support of one-time expenses or planned expenditures for which the funds were allocated but not expended in 2013-14.
- \$3,526 was transferred from Operating to the Research fund representing research start-up for new faculty members, deans and department heads.
- Transfers between Operating, Restricted funds and Future Revenues of \$6,517 and \$2,794 represent funding for the net change in the employee future benefits liability and pension liability.

Source: University of Manitoba 2015, p. 12-13

Parting thoughts on U financial reporting

- Universities are:
 - massive publicly funded NPO's with extensive resources
 - that are being diverted away from core missions
 - in ways that are not clearly disclosed (UM was one of the BEST until 2017)
- Unlikely that accounting standards would ever be specific enough
- Requires stronger governance and oversight, which is not the case now. We need BOGs that:
 - Know enough to ask the questions, and/or
 - Support those that ask questions
 - Require disclosure
 - Demand accountability, challenge decisions

QUESTIONS?