

NEWS & VIEWS

SPECIAL EDITION II

FEBRUARY 2010

U of M Financial Statements: Ins & Outs

The first article in our financial statement series identified two facts that seem to contradict each other. First, the U of M's total net operating income over the period 2005-2009, as reported in the U of M's COPSE (Council on Post-Secondary Education) submission and in its own annual reports, was only \$394 thousand. During that same period, however, the U of M's General Fund cash and investments have increased by \$72 million. How can the university report virtually no operating income while accumulating so much liquid assets?

A large part of the answer lies in the Statement of Operations and Changes in Fund Balances on page 21 of the U of M's 2009 Annual Report ([http://umanitoba.ca/admin/financial_services/media/2009_Annual_Report\(2\).pdf](http://umanitoba.ca/admin/financial_services/media/2009_Annual_Report(2).pdf)). This statement is analogous to a corporate income statement in that it presents the revenues and expenses of the university for the 2008-2009 fiscal year. As we did in the previous article, we focus on the operations of the General Fund as this is where the operating revenues and expenses are. A condensed version of the General Operating Fund Statement of Operations for the year is presented below.

Statement of Operations General Operating Fund

Revenue	\$458,394,000
Expenses	<u>416,846,000</u>
Net revenue	41,548,000
Inter-fund transfers	<u>(41,532,000)</u>
Net increase in General Operating Fund balance*	<u>\$16,000</u>

*This is "net operating income" in the COPSE submission.

The statement indicates that the U of M's general operations were quite healthy in 2008-2009. "Net revenue" in this statement is analogous to "net income"—the difference between revenues and expenses. In the U of M's case, operating revenues exceeded operating expenses by close to \$42 million last year, an amount equal to more than 38% of total UMFA salaries in 2008-2009. The chart on the following page shows General Operating Fund Net Revenue over the past few years and indicates that 2008-2009 was not an unusual year.

Net revenue was approximately \$10 million per year until 2004, when it jumped to around \$25 million per year. Over the past three years, annual net revenue has been consistently in the \$40 - \$50 million range. With revenues consistently exceeding expenses by significant amounts, it is not surprising that the General Fund's liquid assets have increased significantly in recent years.

The high and positive net revenue is consistent with the sizeable recent increase in liquid assets. How can we reconcile these large numbers with the very small operating income figures in the COPSE submission?

The difference between the net revenue and the COPSE net operating income in 2008-2009 is just over \$41.5 million and is reported in the General Operating Fund Statement of Operations as *Inter-fund transfers* (see condensed statement at left). The inter-fund

(Continued on page 2)

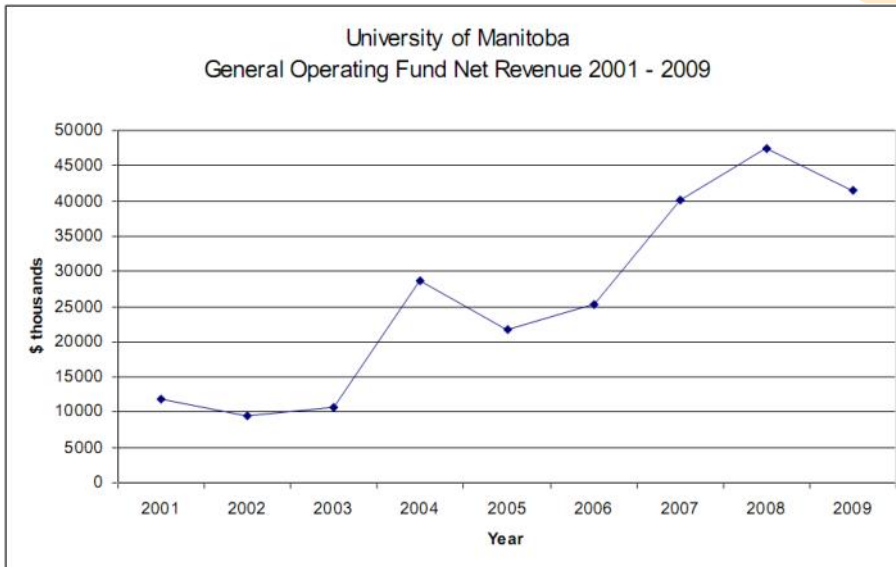
IN THIS ISSUE:

This special edition newsletter is the second of three special newsletters focusing on university finances. We are interested in feedback from you which you can send by return email to fau@umfa.ca.

**University of
Manitoba
FACULTY
ASSOCIATION**

100-29 Dysart Road
Winnipeg, MB R3T 2M7
(204) 474-8272
fau@umfa.ca

www.umfa.ca



Can the university legitimately use operating funds for non-operating purposes? Generally speaking, yes. Revenues that come into the General Operating Fund are often *unrestricted*, that is, they are available for any use that is consistent with the goals of the university. The unrestricted nature of the General Operating Fund gives the university administration considerable discretion over the use of its resources.

How do the General Fund’s liquid assets increase when almost all of the General Operating Fund’s net revenue is being transferred into the Capital Asset and Specific Provision funds? The \$31 million

transfers item indicates how much of the U of M’s general operating funds were diverted to purposes other than current operations. Note 13 of the annual report (p. 35) provides details on the inter-fund transfers during the 2008-2009 fiscal year. There are a number of items in this note, but some highlights are as follows:

- Almost \$31 million was transferred from the General Operating Fund into the Capital Asset Fund
- \$13.5 million (net) was transferred from the General Operating Fund into the Specific Provisions Fund

What are these funds? The Capital Asset Fund represents resources invested in capital assets, i.e., land, buildings and equipment (e. g., computers, office furniture); and cash and investments that are contractually or legally restricted to acquisition of new, and/or improvements of existing, capital assets. Specific Provisions represent resources that have been earmarked by the administration for specific purposes in the future, e. g., computer replacement and faculty budget carryovers.

transfer to the Capital Asset fund typically means that \$31 million in cash moves out of the General Fund and into the Capital Asset Fund – this cash is no longer available for operating purposes and is not included in the General Fund’s liquid assets. The \$13.5 million transferred into Specific Provisions, however, has no effect on General Fund liquid assets because the money is, for the most part, unspent. The cash remains in the General Fund but is earmarked by the administration (the accounting term is “internally restricted”) for specific future purposes.

Over the past four years, the U of M’s operating revenues have exceeded operating expenses by healthy margins. The surplus has been almost entirely transferred into the university’s other funds, primarily the Capital Asset Fund and the Specific Provisions Fund. The effect of these transfers is to reduce the university’s reported operating income to virtually zero while still accumulating liquid assets in the General Fund. The next article in our series looks more closely at these inter-fund transfers.

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