University of Manitoba FACULTY ASSOCIATION

NEWS & VIEWS

SPECIAL EDITION I — JANUARY 2010

$HOW U$ THE MONEY

The consistent message from the University administration is that the U of M is facing a financial crisis arising primarily from a pension deficit and the spectre of inadequate government funding. As a result, the cost-cutting/resource-optimizing initiatives ROSE and OARs are underway on campus; hiring is virtually frozen; and the demoralizing prospect of layoffs and cutbacks in university programs, services, and support looms on the horizon.

The last UMFA newsletter (http://www.umfa.ca/pdf/publications/newsletters/dec_2009.pdf) discussed the $36.4 million base-level budget shortfall projected by the administration for 2010-2011. It showed that, based on U of M experience, base-level budget shortfalls are always "predicted" in the annual COPSE submission but never materialize. This current newsletter and two future newsletter articles will assess the most recent U of M annual financial report (available online at http://umanitoba.ca/admin/financial_services/media/2009_Annual_Report(2).pdf). This assessment is based on an analysis carried out by UMFA and examined by chartered accountants from EXG in Winnipeg.

The financial analysis of any organization typically begins with an assessment of the organization's liquidity, i.e., the ability of the organization to meet its obligations to its employees, suppliers, and other creditors and to ensure its survival in the short term. Cash and investments that can be easily turned into cash (together called liquid assets) are critical indicators of liquidity. In a not-for-profit entity like the University of Manitoba, a liquidity assessment would focus particularly on liquid assets that are available for general operating purposes such as employee salaries, utility costs, and other operating expenses.

The University's financial statements provide information on cash and the other assets in the statement of financial position (page 19 of the U of M's 2009 annual report) and the statement of cash flows (page 23). Drawing from these statements, the supplementary notes, and consultation with the University administration, the University's General Fund assets at March 31, 2009 were (all amounts are in millions of dollars):

Cash	$ 42
Other Current Assets	14
Long-Term Investments	80
Total Assets	$136

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IN THIS ISSUE:

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

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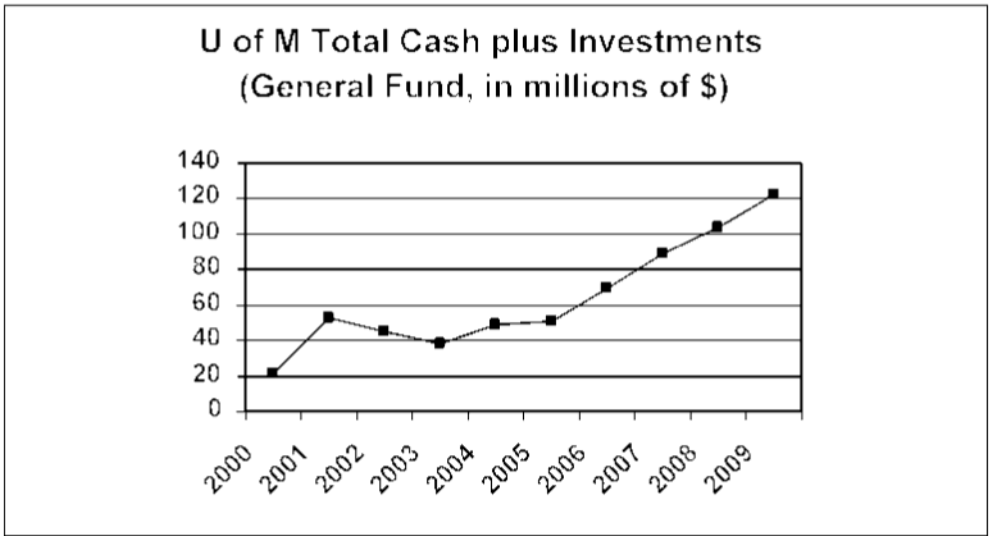
Of the $136 million in total assets, $122 million would be considered liquid: $42 million in cash, plus investments worth $80 million (Manitoba and other provincial government bonds, for the most part, and some corporate bonds – see page 29). Although these investments are designated long-term, they can be liquidated at any time. To give an idea of how much $122 million is, it is equivalent to 30% of the University's annual operating expenses in 2009.

Is the University in a liquidity crisis? The number $122 million by itself tells us very little. Instead, we need to look at the University's previous annual reports to see (1) how the $122 million compares to past years and (2) if there has been any change, and especially deterioration, in recent years. A chart depicting the growth in the U of M's General Fund liquid assets is presented below:



The chart shows that the U of M's liquid assets position was relatively consistent over the period 2001-2005, in the $40 to $60 million range. Since 2006, however, there has been steady growth in liquid assets with an average increase of $18 million per year. Is an organization in a financial crisis if its General Fund liquid assets have grown by $72 million, or almost 250%, over the last four years?

The last newsletter showed that the University's annual net operating surplus was only $16 thousand in 2009 and has never been greater than $300 thousand in any of the past five years. Where did the $18 million per year come from?

Future newsletters will examine these issues.

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