University of Manitoba FACULTY ASSOCIATION

NEWS & VIEWS

SPECIAL EDITION III

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Where does all the money go?
Inter-Fund Transfers at the U of M

Our previous articles (available at http://umfa.ca/pages/publications/newsletters/) on the U of M's financial situation revealed some interesting results. The $36.4 million projected budget shortfall that has been so heavily emphasized in recent communications from the administration is an artifact of the provincial Council on Post Secondary Education's (COPSE) application process. Shortfalls are consistently predicted in the COPSE application but never materialize. In fact, the U of M's recent financial results are the strongest in several years. Over the period 2006 to 2009, the U of M's operating revenues have exceeded operating expenses by a total of $154 million, an amount equal to one-third of the U of M's 2008-2009 operating budget. This surplus has allowed the university to accumulate an additional $80 million in cash and investments in its General Fund.

At the same time, the U of M has reported a net operating income of only $393,000 over the 2006-2009 period. The difference between the $154 million in the previous paragraph and the $393,000 in the previous sentence is *inter-fund transfers*, and is the subject of this final article in our U of M financial statement series. As in our previous articles, all financial information comes from the U of M's published financial statements, which are available online at: http://umanitoba.ca/admin/financial_services/annualreports/index.html.

So where does all the money go?

As in previous years, virtually all of the 2008-2009 net revenue ($41,548,000) was transferred out of the General Operating Fund by the end of the year. Note 13 of the annual report presents the net effect of the inter-fund transfers that occurred in 2008-2009. Some of the most significant transfers out of the operating fund were as follows:

2008-2009 Inter-Fund Transfers from General Operating Fund
(Schedule 7, All amounts in thousands of dollars)

To Capital Asset Fund	
To fund capital asset additions	
• By academic units	$4,856
• By libraries—books and periodicals	8,998
• By Administration and other units on campus	13,072
	26,926
For Long Term Debt Repayment	4,041
For Unit Capital Development Assessment	4,023
	$34,993
To Specific Provisions	
• Capital asset replacement and improvements	$3,786
• Unit carryovers, special projects, and initiatives	11,932
	$15,718

Note: The transfers to the Capital Asset and Specific Provisions funds do not add up to the net inter-fund transfers figure of $41,532,000. The net figure includes additional transfers

(Continued on page 2)

IN THIS ISSUE:

This special edition newsletter is the third and final edition 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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between General Operating and other funds, notably Staff Benefits, Research and Special, and the Trust Fund.

Most of the operating surplus every year is funnelled into the Capital Asset Fund ($35 million in 2008-2009), which represents funds invested, or available for investment, in buildings, equipment, library books and artwork. Almost $5 million of this amount represents the decisions of faculties, colleges and other academic units to use operating budget funds to invest in capital assets. Another $9 million represents library expenditures on books and periodicals. The remaining $21 million is for repayment of the U of M's long term debt ($4 million) and other capital assets additions and projects on campus ($17 million).

What is perhaps more interesting are the inter-fund transfers to *Specific Provisions*. Specific Provisions represent "appropriations" or "earmarking" of funds for particular future purposes. The earmarked money remains in the General Fund until it is spent. Total Specific Provisions at the end of the 2008-2009 year were as follows:

Specific Provisions as at March 31, 2009
(Schedule 4, All Amounts in Thousands of Dollars)

Equipment Replacement	$6,903
Unit Specific Projects	45,063
Fiscal Stabilization	4,766
Parking Lot Improvements	2,829
Pension	2,512
Special Funding Arrangements	9,344
Special Projects and Initiatives	5,714
Workers' Compensation Self-insurance	1,839
Total Specific Provisions	$78,970

Two things are striking. First, the total amount of the Specific Provisions is virtually equal to the $80 million in bonds held in the General Fund. This implies that the $80 million is not available for current operating purposes. The second item of interest is Unit specific projects, which accounts for $45 million, or 60%, of the total Specific Provisions.

Unit specific projects refer, for the most part, to budget carryovers. Budget carryovers represent funds allocated in some past year that were unspent and allowed to be carried over into the next year(s). Examples included internal research grants, "PDA" and unit operating budgets. At the end of the last decade, there was no provision for Unit Specific Projects. By 2006, there was a provision of just over $16 million. By 2009, that amount had grown to $45 million. The increase in provision for budget carryover raises several questions:

Why has there been such a dramatic increase in the budget carryover provision?
The operating surpluses of the last few years have produced additional funds that were not available prior to 2006. Since there was no other need for this surplus, it has been "banked" to provide funds for some future time when the budget carryover might be paid out all at one time.

Does the increase in the provision for carryover mean that budget carryovers are becoming a more serious problem in recent years?
It does not appear so. According to information that we have from the administration, the total amount of budget carryover has declined from $56 million in 2006 to $48 million in 2009. In spite of this decline, the provision to fund budget carryover has almost tripled during this same period.

How did the U of M fund budget carryover in past years when there was no provision?
In past years, budget carryover was funded out of the current year's operating revenues. This was not a serious problem because as carryover from previous years was spent, some of the current year's budget was unspent at yearend and carried over to the future. The unspent funds from the current year's budget effectively funded the carryover from previous years.

When will the U of M need to spend the $45 million currently restricted for budget carryover?
If the U of M changed policies to limit or eliminate budget carryover options for the university community, it might start a "run on the bank." In the

(Continued on page 3)

absence of such a policy change, it is likely that budget carryovers will persist and the provision will never be depleted.

What will happen to these funds if the provision is never used?
The funds will likely remain as they are now – invested in long term bonds or similar instruments.

Can the funds earmarked for the carryover provision be used for other purposes, such as making up a current budget shortfall?
Yes. The restrictions placed on the funds are for the most part internal restrictions, i.e., they have been put in place by the university administration. The university's position is that these funds are not available for purposes other than those stated, but there are no legal or contractual reasons which preclude other uses.

Can any of the other monies earmarked as Specific Provisions be used to make up a current budget shortfall?
The Fiscal Stabilization fund is meant to be a general "rainy day" fund, although the administration argues in its COPSE submission that it is not to be used to reduce a budget shortfall.

The Bottom Line

Over the past four years, the U of M has generated considerable surplus operating income. For the most part, this surplus has either been spent on capital assets or allocated to Specific Provisions.

Are these legitimate uses for operating funds? Asbestos abatement and library acquisitions are examples of capital expenditures that most members of the U of M community support. Some of those same members might question the use of $3.6 million of operating funds to build the new Welcome Centre in the southwest corner of campus.

According to the administration, the U of M has been unable to raise sufficient funds from either government or private donors to cover all of its capital needs. In some circumstances, operating funds might be the only funds available for necessary capital expenditures.

There are some indications that the need to build up Specific Provisions will lessen in the future. The largest single item, Unit Specific Projects (budget carryover), is now almost fully funded. The recent flow into the General Fund's cash and investments, which has averaged $20 million per year since 2006, could be used to absorb potential declines in university funding and fund increases in salaries and benefits.

At a time when faculties are being asked to trim 5% from their 2010/2011 budgets, and maybe another 5% the year after, it is perhaps time to reconsider putting even more operating money into Specific Provisions or Capital Assets.

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