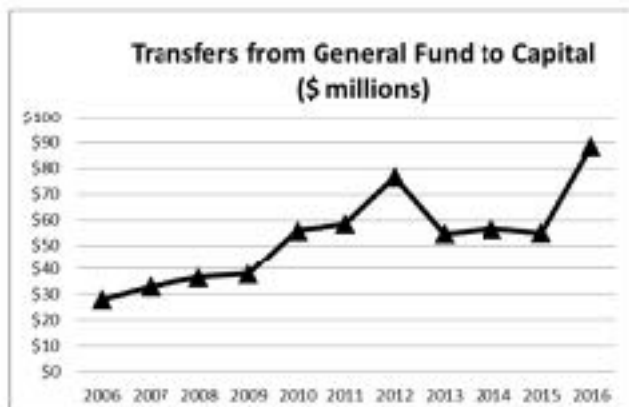


Where has the surplus gone lately? Note 23 of the annual financial report shows that \$88.6 million, over 30% of the operating net revenue, was transferred from the General Fund into Capital. This has been the trend in recent years as shown in the chart below.



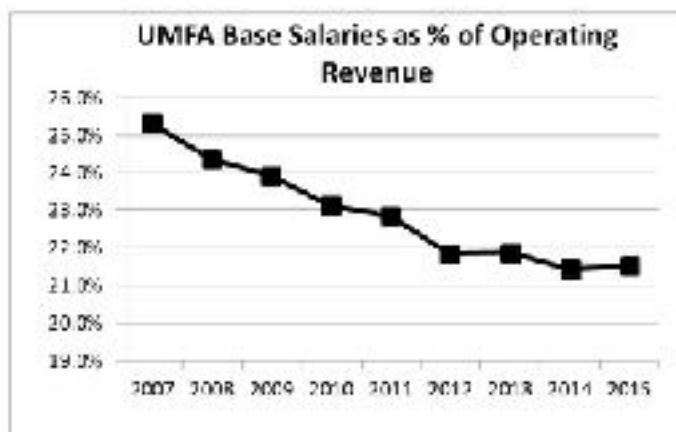
Note 23, reproduced in part below, gives us some more details about these transfers.

2016 Transfers from General Fund to Capital (\$ millions)	
Item	Amount
Funding of capital asset additions	\$72.3
Debt funding: Ancillary/Facilities ¹	6.5
Student Contributions for Technology ¹	3.4
Unit Capital Development Assessment ¹	5.1
Other ¹	1.3
Total	<u>\$88.6</u>

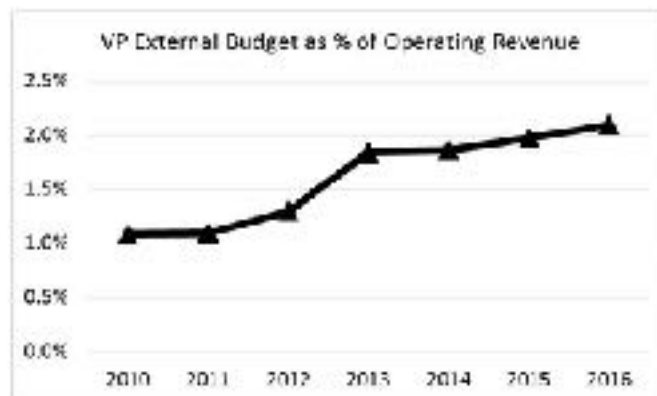
Capital assets include buildings, equipment, land, library books and collections. The largest single transfer is for funding of capital asset additions: \$72.3 million. About half of this amount, \$34 million, was for UM Strategic Priorities (described briefly on page 11 of the [2016 Annual Financial Report](#)). A further \$30.7 million was for library acquisitions and equipment and furnishings purchased by the Faculties.

¹ The other four items, totaling \$14.3 million, are for repayment of debt, loans from the UK bank and for such things as the Arthur Young Centre and internet addresses.

The Administration's view is that the UM's current financial dilemma is exacerbated by (a) high salary costs. The graph below charts the UM's base salaries as a proportion of total operating revenue over recent years.



UMFA salaries were growing during the period, but not as quickly as the UM's operating revenue. Despite the fact that our Members are the front-line workers in the university's core mission of research and teaching, we are receiving a smaller share of the university's resources and do not appear to be a major contributor to the allowed financial costs faced by the university. Other areas of the UM's operation have received better support from the Administration in the last few years. Aside from transfers to Capital, the VP External's office has done well, as shown below.



Our analysis leads to some important conclusions:

- Although the UM is a non-profit institution, it is more "profitable" than at any time in recent UM history. Its 2016 performance compares favourably, in that is the right term, with other U.S. institutions whose financial statements are available, and with successful blue-chip Canadian companies.

**UMFA
BARGAINING
TEAM**

Robert Chernomas
(Economics)
r.chernomas@umfa.ca

Brenda Austin-Smith
(English, Film & Theatre)

Cam Merrill
(Accounting & Finance)

Kevin Smith
(Biological Sciences)

Vanessa Swain
(Dentistry)

Orville Dingwall
(Libraries)

Barbara Yapp
(UMFA Professional
Officer)

Jason Glaser
(UMFA Professional
Officer)

Stay in touch...
We welcome the
opportunity to meet at the
UMFA Office with individual
Members or groups of
Members who wish to
discuss matters related to
bargaining or any other
concern they might have.

Mark Hudson
UMFA President
474-8272
president@umfa.ca

Greg Fleming
Executive Director
474-8282
gfleming@umfa.ca

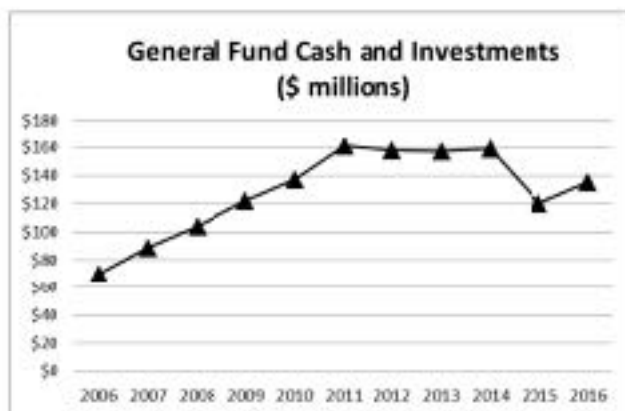
umfa

University of Manitoba Financial Analysis

Part II: Where's the Money?

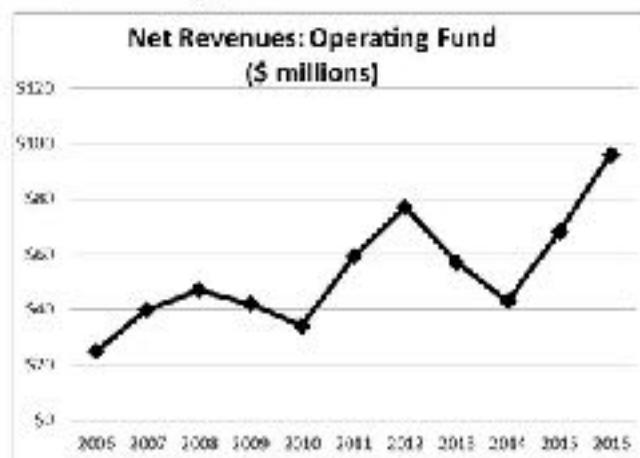
In our newsletter of July 27, we saw that the University of Manitoba has been generating strong, perhaps record, operating surpluses at rates that exceed those of other U15 universities and even some well-known and successful for-profit Canadian companies.

So where is all of this surplus? Is there a pile of cash sitting somewhere that the university is, for some reason refusing to spend? The answer is not straightforward, and comes from two places. First, we plot the UM's unrestricted cash and investments (i.e., cash and investments that are not restricted by donors for specific purposes) as at the end of each of the last eleven years below.

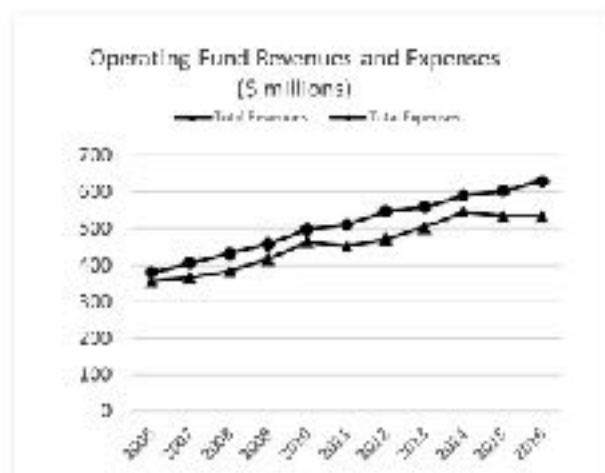


Over the period 2006 – 2011, the UM's operating surplus allowed the University to save significant amounts of money, on the order of \$18 million per year. That accumulation has stopped since 2011, and the stock of Cash and Investments has even dropped slightly since 2014.

The General Operating Funds Net Revenue is the excess of operating revenues over operating expenses, a measure of operating income. It is significant because it represents the amount of operating revenues that were not spent on the LM's operating activities (the costs of public programs, employee salaries, routine maintenance, utilities, etc.). The \$95.5 million figure is the highest in recent history, as shown in the graph below.



This is a puzzling result. If, as President Bernard explained, in-state, expenses are increasing faster than revenues, this line should be going downward. The graph below charts JM operating revenues and expense over the past eleven years.



Operating revenues have increased pretty consistently over the past eleven years. What is more interesting is that expenses have not been increasing at a faster rate than revenues. In fact, operating expenses have decreased in each of the last two years. The operating unit budget cuts over the past two years probably explain at least part of this decrease.

The more recent results show that the U15s, diverting 15.2% of its operating revenue into non-operating activities—which can include library stocks, lab, or new buildings—have had a reasonable 7% “Return on sales” ratio. It’s difficult to answer that question without comparing it to an analogous ratio of some other organizations. We calculate below a “Return on sales” ratio equal to operating income (the analogous income figure for for-profit companies is earnings before interest, tax, depreciation and amortization, or EBITDA) divided by operating revenues.

"Return on sales" for select Canadian organizations ¹		
	2015	2016
University of Manitoba	11.3%	15.2%
Canadian Tire	11.2%	
Bedouk Companies	6.0%	
Hudson's Bay	13.3%	
Levi's Furniture	8.0%	
Air Canada	5.7%	

UM's numbers will surpass all Canada's most successful for-profit companies. But perhaps the fairest comparison would be to the other U15 universities. At the time of this writing, five of the U15s had released their 2016 financial statements. Operating net revenue to operating revenue results for these universities is charted below.



UM is a top performer among this group as well.

CONCLUSION

Our results to this point indicate that the U15 is in strong and improving financial condition. In comparison with available 2016 data from U15 universities, UM has the highest “return on sales” relative to operating revenues, i.e., UM is channeling more of its operating funds away from its central research and teaching activities and into something else. Next week, we’ll examine where that money is going.