**The Budget “Crisis”**

December 1, 2011

Budgets are like weather forecasts: both are just estimates or guesses about what may happen in the future. In contrast, financial statements are like actual observed weather, the real experienced weather of the day. Keeping in mind, the analogy to budgets and financial statements, let’s take a look at the following weather forecasts and actual weather observations.

**Time Weather Actual Observed**

**Period Forecast Weather –Reality**

 (Forecast: Budgets) (Reality: Financial Statements)

Week 1 Freezing Rain Clear and Sunny - Mild

Week 2 Freezing Rain Clear and Sunny - Mild

Week 3 Freezing Rain Clear and Sunny - Mild

The weather forecast predicts a real crisis each week because of freezing rain. The actual observed weather is excellent, no crisis at all; this is the weather that actually occurs.

This is very similar to what has happened in the last three years at Laurier. Every year the budgets show a financial “crisis.” But, the real financial outcomes in the financial statements show a tremendously positive financial result, with over $43 million in surplus generated in the general fund. Plus, the surpluses generated in the last two years are record positive surpluses for Laurier. Thus, no financial “crisis” exists at Laurier. In fact, the opposite is true. Laurier has experienced fantastic financial success.

How can it be that no financial “crisis” exists at Laurier if the Administration’s budgets consistently show a “crisis” year after year?

To understand this it is necessary to know something about budgets. Budgets are a forecast; unlike financial statements, they do not reflect actual financial outcomes. Budgets are a financial tool of the Administration to guide the allocation of resources in the University. They reflect the Administration’s goals and aspirations. Budgets do not reflect financial outcomes. Budgets are used by the Administration to direct the actions of all employees, including faculty and staff. Budgets are designed to get you to do what the Administration wants you to do.

The Administration has complete discretion in preparing budgets. This means that, unlike weather forecasts, budgets are biased. The Administration has complete discretion in estimating, preparing and presenting the budget. It is very useful to show a financial “crisis” in the budget to control employees. A manufactured “crisis” is a means to get employees to do more with less.

In contrast to budgets, which are prepared at the complete discretion of the Administration, financial statements are prepared according to very strict accounting standards. These standards exist so that financial statements show the accurate financial reality and economic activity of an organization. Thus, financial statements show the real economic results, not the budgeted discretionary estimates of the Administration. If a financial “crisis” existed at Laurier it would be seen very clearly in the financial statements. We might observe massive increases in debt-to-assets, negative cash flows from operations and massive deficits in the general fund. We actually observe just the opposite in the financial statements: decreases in debt-to-assets, positive cash flows and record breaking positive surpluses in the general fund. This is a strong indication that a structural surplus has been created that will continue into the future. In other words, we observe the diametric opposite of a financial “crisis.”

Financial statements are prepared according to strict rules and show economic reality because they are used by third parties to evaluate the financial management of managers of organizations, including Universities. For example, Dominion Bond Rating Service (DBRS) examines the financial statements of Laurier along with other information to determine the risk of Laurier’s bonds. Their rating of Laurier bonds has been high and stable for the past 5 years. In the current international economic environment, if any hint of a financial “crisis” existed at Laurier the bond rating would have declined. No such decline in bond rating has been observed because no financial “crisis” exists at Laurier.

Thus, the financial reality at Laurier is fantastic financial success. No financial “crisis” exists.

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“Creating a useful crisis is part of what this will be about. So the first communications that the public might hear might be more negative than would be inclined to talk about (otherwise). . . Yeah, we need to invent a crisis and that’s not an act of courage, there’s some skill involved.”

(John Snobelen, Minister for Education and Training, *Toronto Star*, 13 September, 1997, p. A3)

**DID YOU KNOW…**

**that budgets are a tool used by the Administration to get you to do more with less?**

over the past three years.