BOARD OF GOVERNORS
Audit & Finance Committee

November 23, 2023
2:00 p.m. to 4:45 p.m.
[Videoconference]
+1 289-335-9942 PIN: 117 129 614#

Members: Carla Carmichael (Chair), Roger Thompson (Vice-Chair), Laura Elliott Mitch Frazer, Kathy Hao, Dale MacMillan, Steven Murphy, Kim Slade

Staff: Jackie Dupuis, Sara Gottlieb, Krista Hester, Lori Livingston, Brad MacIsaac, Kimberley McCartney, Pamela Onsiong, Lauren Turner

Guests: Bobbi-Jean White & Robert Gambin (KPMG)

AGENDA

No.	Topic	Lead	Allocated Time	Suggested Start Time
	PUBLIC SESSION			
1	**Call to Order**	Chair	5	2:00 p.m.
2	**Agenda (M)**			
3	**Conflict of Interest Declaration**			
4	**Chair's Remarks**	Chair	5	2:05 p.m.
5	**President's Remarks**	Steven Murphy	10	2:10 p.m.
6	**Annual Terms of Reference Review* (D)**	Lauren Turner	5	2:20 p.m.
7	**Finance**			
7.1	Strategic Discussion: Budget Assumptions* (D)	Brad MacIsaac	25	2:25 p.m.
7.2	Second Quarter Financial Reports* (U)	Pamela Onsiong	10	2:50 p.m.
8	**Investments – Amendment of Statement of Investment Policies* (M)**	Brad MacIsaac	10	3:00 p.m.
9.	**Risk – Interim Risk Management Update* (U)**	Jackie Dupuis & Brad MacIsaac	15	3:10 p.m.

No.	Topic	Lead	Allocated Time	Suggested Start Time
10	**Consent Agenda (M):**	Chair	5	3:25 p.m.
10.1	Minutes of Public Session of A&F Meeting of June 14, 2023*			
10.2	Endowment Policy (I) & Procedures (M)*			
11	**Adjournment (M)**	Chair		3:30 p.m.
BREAK – 10 minutes				
NON-PUBLIC SESSION (material not publicly available)				
12	**Call to Order**	Chair	5	3:40 p.m.
13	**Conflict of Interest Declaration**			
14	**President's Remarks**	Steven Murphy	10	3:45 p.m.
15	**Audit**			
15.1	Audit Engagement Plan* (U)	KPMG	10	3:55 p.m.
	KPMG Departs			
15.2	Audit Assessment Update (U)	Brad MacIsaac	15	4:05 p.m.
15.3	Update on Auditor General of Ontario Value for Money Audit (U)			
16	**Non-Public Risk Update – Questions Only**	Jackie Dupuis & Brad MacIsaac	5	4:20 p.m.
17	**Consent Agenda (M):**	Chair	5	4:25 p.m.
17.1	Minutes of Non-Public Session of A&F Meeting of June 14, 2023* (M)			
17.2	2023-2024 Work Plan* (I)			
17.3	Expenses of the President and Board of Governors* (I)			
17.4	Annual Review of Signing Authorities for University Bank Accounts* (I)			
17.5	A&F Committee Action Points			
18	***In Camera* Session (M)**			
18.1	*In Camera* with General Counsel		5	4:30 p.m.
18.2	Committee *In Camera*		10	4:35 p.m.
19	**Termination (M)**			4:45 p.m.

D – Discussion M – Motion P – Presentation U – Update * Documents attached

COMMITTEE REPORT

SESSION:		**ACTION REQUESTED:**	
Public	☒	**Decision**	☐
Non-Public	☐	**Discussion/Direction**	☒

TO: **Audit and Finance Committee (A&F)**

DATE: **November 23, 2023**

FROM: **Lauren Turner, University Secretary**

SUBJECT: **Review of A&F Terms of Reference**

COMMITTEE MANDATE:

- A&F's responsibilities under its Terms of Reference include overseeing the financial affairs of the university with respect to all auditing, financial reporting and internal systems and control functions, budget approvals, investment of the university's endowment funds, risk management, and other internal and external audit functions and activities at the university.
- In accordance with governance best practices, the Committee conducts an annual review of its Terms of Reference and recommends revisions to the Board when appropriate.
- The Committee is therefore asked to review its Terms of Reference.

BACKGROUND/CONTEXT & RATIONALE:

- The last revision to the Terms of Reference was made in June 2021 in the context of the restructuring of the Board's Audit & Finance and Investment Committees.

COMPLIANCE WITH POLICY/LEGISLATION:

- This is compliant with the Act and By-laws.

NEXT STEPS:

- The University Secretary will record revisions, if any, and present proposed updates to the Governance, Nominations and Human Resources Committee.

SUPPORTING REFERENCE MATERIALS:

- A&F Terms of Reference

BOARD OF GOVERNORS
Audit and Finance Committee

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1. TERMS OF REFERENCE

The Audit and Finance Committee is a standing committee of the university's Board of Governors and is responsible for overseeing the financial affairs of the university with respect to all auditing, financial reporting and internal systems and control functions, budget approvals, investment of the university's endowment funds, risk management, and other internal and external audit functions and activities at the university. The Committee will report and make recommendations to the Board of Governors regarding these and other related matters.

The Committee will also consider such other matters that are delegated to the Committee by the Board of Governors, including special examinations as may be required from time to time, and if appropriate retain special counsel of experts to assist.

Specifically, the Audit and Finance Committee has the following responsibilities:

a. Finance

i) Ensuring fiscal responsibility with respect to the financial resources of the university, including:

1) Reviewing and recommending approval of the annual operating budgets, capital budgets, tuition fees and ancillary fees;
2) Reviewing on a quarterly basis financial statements and financial performance against budget;
3) Reviewing policies on financial administration and recommending their approval by the Board;
4) Reviewing and monitoring all long-term debt and providing recommendations as appropriate; and
5) Providing financial oversight for subsidiary operations.

b. Audit and Financial Reporting

i) Ensuring that appropriate financial controls, reporting processes and accountabilities are in place at the university, including:

1) Appointing the external auditor, and approving the fee for such service;

2) Reviewing the external auditor’s letter of engagement, independence, and the scope of services;
3) Reviewing the external auditor’s comprehensive audit plan, scope of the examination, and the nature and level of support to be provided by the internal audit function;
4) Meeting with the external auditor, independent from management, to review audit results and when planning the upcoming audit year;
5) Assessing the performance of the external audit function; and
6) Providing an avenue of communication between the external auditor, management and the Board of Governors.

ii) Reviewing and recommending to the Board approval of the university’s annual audited financial statements, as well as reviewing significant findings or recommendations submitted by the external auditor.

iii) Overseeing the provision of internal and external audit functions at the university, including annual reviews, area specific evaluations, functional assessments and process appraisals.

c. Oversight of the Investment of the University’s Endowment Funds

i) Overseeing the investment of the university's endowment funds in accordance with the university’s Statement of Investment Policies (“SIP”).

ii) Overseeing the performance of the Investment Manager, including the Investment Manager’s compliance with their mandate.

iii) Providing recommendations to the Board of Governors regarding the SIP and the selection, engagement and dismissal of the Investment Manager, and any other agents or advisors that may be necessary to prudently manage the university’s endowment funds.

iv) Overseeing the administration of the university’s endowment funds by the VP, Administration.

d. Risk Management

i) Reviewing and approving the risk management process at the university that ensures that appropriate processes are in place to determine management’s risk parameters and risk appetite.

ii) Monitoring and ensuring that appropriate processes are in place to identify, report and control areas of significant risk to the university and ensuring that appropriate mitigative actions are taken or planned in areas where material risk is identified.

iii) Receiving regular reports from management on areas of significant risk to the university, including but not limited to legal claims, development (fundraising activities), environmental issues, health, safety and other regulatory matters.

2. MEETINGS

The Committee will meet at least four (4) times per year, or otherwise at the Committee's discretion. In accordance with the university's Act and the Board of Governors Meeting Policy and Procedures, the Committee will conduct three types of Meetings as part of its regular administration: Public, Non-Public and *In Camera* (when required).

3. MEMBERSHIP

The Committee will be composed of:

- Between three (3) and seven (7) external governors

The Chair and Vice-Chair of the Committee will be selected from among the external governors.

At least one member of the committee will have an accounting designation or related financial experience.

All members of the committee will be financially literate and have the ability to read and understand the university's financial statements, or must be able to become financially literate within a reasonable period of time after his/her appointment to the Committee. In this regard, the VP, Administration or other financial expert will ensure that each new member receives appropriate training in reading and understanding the financial statements.

4. QUORUM

Quorum requires that half of the Committee members entitled to vote be present.

COMMITTEE REPORT

SESSION:		**ACTION REQUESTED:**	
Public	☒	**Decision**	☐
Non-Public	☐	**Discussion/Direction**	☒
		Information	☐

TO: **Audit & Finance Committee (A&F)**

DATE: **November 23, 2023**

PRESENTED BY: **Brad MacIsaac, Vice-President, Administration**
Lori Livingston, Provost and Vice-President, Academic
Sarah Thrush, AVP, Planning & Strategic Analysis

SUBJECT: **Strategic Discussion: Budget Assumptions**

COMMITTEE MANDATE:

This Committee is responsible for ensuring fiscal responsibility with respect to the financial resources of the university, including reviewing and recommending approval of the annual operating budgets.

BACKGROUND/CONTEXT & RATIONALE:

As we start to plan for the next three years, noting a focus on 2024-2025, we have updated our assumptions based on this year's results. The intent of The Fiscal Blueprint is to outline the provincial landscape, highlight the main assumptions management is reviewing and link funding priorities with the Integrated Academic Research Plan. The university has created many scenarios and have outlined four in the paper. Looking at the conservative scenario the main facts to be considered are:

a) Enrolment Revenue; The preparation of the operating budget involves the use of projections and estimates. This major revenue driver includes enrolment going up about 600 Full-time Equivalents (include a year-over-year undergraduate domestic student enrolment increase of about 100 and international enrolment increase of about 45).

b) Tuition Revenue: The assumptions include the government continued freeze on domestic rates as we have not heard anything to the contrary. Each 1 per cent increase in the domestic tuition rate is estimated to result in a $470,000 increase in our revenues.

c) Expenses: We must first deal with mandated salary increases and prioritized hiring plans which will be explained further in the final budget proposal. The first draw on the ~$237M budget is a reallocation to invest $12M more in personnel costs compared to 2023-2024. This essentially consumes the entire revenue increase. Other investments will be covered by reallocations.

As we get closer to setting the budget in March, we will have more clarity on student application numbers and expect a response from the government on a proposed tuition policy. Like previous years we will work to set a balanced budget along with a list of unfunded priorities that we can act upon should we see more positive numbers. In every year there is a level of overall risk of not achieving the desired enrolment results (e,g, a 1% deviation in enrolment will lead to ~$1M variance, positive or negative, from tuition fee revenues). Note that the university is normally within ±2% when predicting enrolment totals.

The bigger risk may be what is not included in the budget framework. We recognize that inflation and supply issues continue to wreak havoc on some operating expenses. Currently, we have not placed an inflationary increase into the budget. Instead, we are asking for units to put in an ask for us to prioritize or reallocate from within their existing budgets.

ALIGNMENT WITH MISSION, VISION, VALUES:
The recommendations are made with an eye on the mission of the university and an investment in the priorities laid out in the IARP. They will allow Ontario Tech to continue to provide high quality undergraduate and graduate services and experiences to its students.

COMPLIANCE WITH POLICY/LEGISLATION:
The assumptions are to be compliant with provincial tuition fee policy and Ontario Tech's ancillary fee protocol.

NEXT STEPS:
The paper will be released to all employees. Academic Council consultation and will host a separate hyflex community consultation on November 28th.

Budget holders are to complete and submit their budget by December 16th. The leadership team will review the formal winter count data and finalize the budget submission. This will be presented to the Audit & Finance Committee in April 2024.

SUPPORTING REFERENCE MATERIALS:

Fiscal Blueprint 2024-2027, November 2023

ONTARIO TECH'S FISCAL BLUEPRINT 2024-2027

Budget Working Group, November 2023
For an alternative format of this information, visit
ontariotechu.ca/fiscalblueprint.

Executive Summary

Ontario Tech's Fiscal Blueprint provides the campus community with an overview of the university's upcoming 2024-2027 budget cycle. It outlines the key assumptions and factors that underpin the multi-year budget plan. In alignment with our commitment to the Integrated Academic-Research Plan (IARP) 2023-2028, we continue to pursue ambitious goals, while ensuring ongoing excellence and maintaining fiscal sustainability. The IARP encourages us to concentrate on our priorities and to invest effort into actions within our control to position ourselves for success, while avoiding distractions from external factors beyond our control.

Ontario Tech has accomplished many notable achievements in its first 20 years. Our growth, from an inaugural student class of 947, to now more than 11,000 students, underscores our exceptional efforts in recruitment, retention, and the provision of quality educational experiences. Notably, our student applications have outperformed the Ontario university system, with an impressive rise of almost 50 per cent in the past two consecutive years. We're also gaining global recognition as we continue to receive strong reputational and research rankings from national and international organizations. Our successes are the result of deliberate and strategic actions that we've taken while operating in an increasingly complex local and global higher education sector.

We continue to strongly advocate to the provincial government for improved grant funding and flexible tuition frameworks, yet we remain bound by government policies that limit our grant, tuition and ancillary fee revenues. These revenues currently represent about 80 per cent of our total funding. In a landscape where costs are rising with inflation, our financial sustainability and our ability to plan for the future and invest in our priorities are called into question. To address these challenges, we recognize the necessity of integrated planning, as well as the need to pursue new partnerships and alternative revenue sources to build, support and invest in our core activities. The need for this approach has never been greater.

In this paper, we begin with a brief overview of the current provincial landscape and the public policy context within which post-secondary institutions are currently constrained. This is followed by an overview of the university's assumptions as they relate to revenue streams and expenses for the 2024-2027 budget cycle. These serve as the foundation for discussing different budget scenarios, as well as the opportunities and challenges related to our revenue sources and expenses, potential investments, and budgetary reallocations as we deliver on our IARP goals.

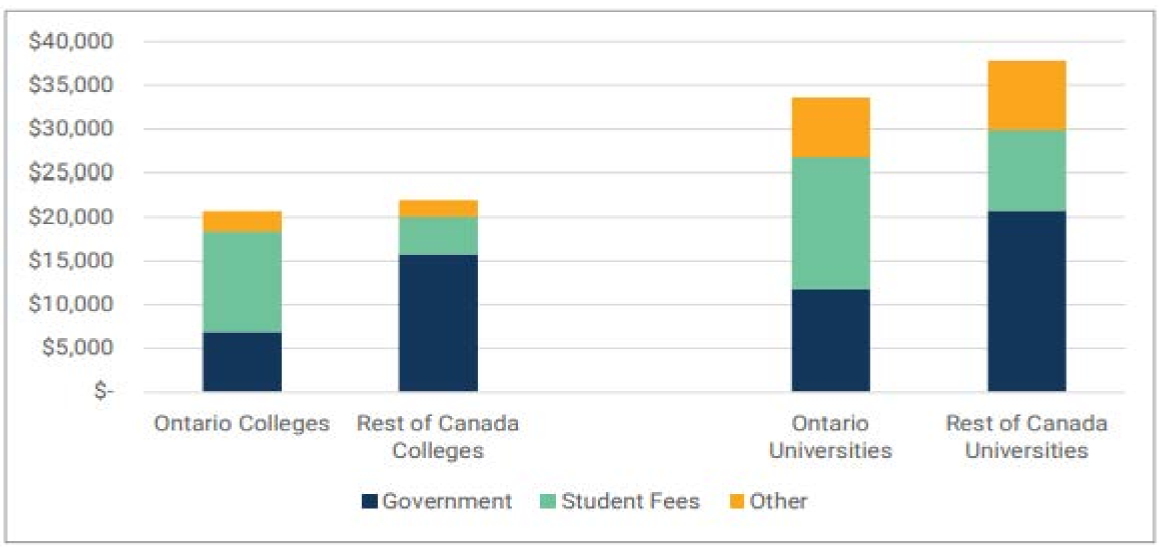
The Higher Education Policy Context in Ontario

As highlighted in [The State of Postsecondary Education in Canada 2023][1], despite having one of the world's highest-quality post-secondary systems, the Canadian sector and particularly that in Ontario, finds itself at a critical juncture. Even with near-record revenues, many institutions find their finances more precarious than ever, raising the pressing question of how long this situation can be endured.

Examining the past 70 years, we observe lasting long-term trends. Between 1955 and 1970, post-secondary institutions quintupled in size as a percentage of the entire economy, from about 0.5 per cent of gross domestic product to 2.5 per cent. That is often referred to as the 'golden period' of Canadian higher education, marked by a substantial allocation of provincial resources. Since then, the history of post-secondary education funding can be divided into two phases. From about 1970 until the late 1990s, public funding and total funding decreased in tandem. Then, as the 1990s went on, institutions began exploring private sources of funding, not only to offset declining funding but to increase funding overall. In the long run, this narrative reveals a story of public neglect but also underscores institutional resilience and entrepreneurial endeavours.

Ontario currently ranks last amongst Canada's provinces in public per-student funding. Over the past five years, since this government assumed provincial office, Ontario universities have experienced a reduction of more than 30 per cent in 'government-controlled' income, which includes provincial grants and domestic fees. The decline in fee income, exacerbated by high inflation, has had a significant effect. The government continues to freeze institutional grants in nominal terms, allowing inflation to erode the proportionate value of the contribution due to additional student enrolment. Additionally, in 2019, the government introduced a 10 per cent across-the-board reduction in domestic tuition for institutions and has maintained frozen fees at that reduced level. On a per-student basis, Ontario's funding for universities stands at 57 per cent of the average in the other nine provinces (Figure 1). The sustained compounding effect of public-funding policies has pushed many Ontario universities into financial peril.

Figure 1: Total Income per Full-Time Equivalent Student (FTE), Canada vs. Ontario, 2021-2022



In November 2022, the Ministry of Colleges and Universities (MCU) announced that they had begun developing financial indicators to provide transparent data and insight into the financial health of

[1] Usher, A. (2023, September 6). The state of postsecondary education in Canada 2023. Accessed online at https://higheredstrategy.com/spec-2023/#:~:text=No%20province%20has%20underfunded%20postsecondary,it%20is%20a%20mere%2044%25.

the province's universities. In a recently released draft report, eight measures have been defined to illustrate an institution's liquidity, sustainability and performance. Universities will submit their first analysis to the province in the spring based on their most recent fiscal year end. If an institution is in the medium-risk category, it will have to develop an internal recovery plan with its Board that would address financial risks. If they are in the high-risk category the institution will retain a third-party or expert external advisor to review the institution's finances, recovery plan and overall management strategies. A financially prudent approach to budgeting will potentially protect our fiscal autonomy (i.e., keep us off the government's radar), but at the same time it undermines a fiscally sustainable future as well as our commitments to excellence and innovation in all that we do.

In March 2023, MCU launched a Blue-Ribbon Panel to make recommendations on how to best support the quality, accessibility and sustainability of the post-secondary sector. The panel was tasked to conduct research and to engage in consultations with key participants in the education system to identify actions that can improve the financial sustainability of the post-secondary sector, support the development of a skilled workforce, and promote economic growth and innovation. The panel's work is guided by the following five principles:

1. Enhancing student experience and access.
2. Improving labour market alignment.
3. Keeping education affordable for lower- and middle-income families.
4. Promoting economic growth and prosperity.
5. Rewarding excellence and financial sustainability.

We have been informed that the panel has completed its report and submitted it to the MCU for review. Its release is imminent.

What does this mean for Ontario Tech?

The university recognizes the impending financial challenges that all post-secondary institutions across Ontario face, yet our unique position (i.e., small size, cost structures, the absence of substantial endowment fund) makes us particularly vulnerable. The impact of the province's tuition cut in 2019, followed by a three-year freeze, has resulted in an inflation-adjusted decrease of 25 per cent in provincial funding over the past four years. This, combined with recurring and compounding year-over-year contractual increases in existing labour costs alone, creates an enormous budgeting challenge.

Our university community must stay focused on our own priorities as there is a prevailing belief that the Blue-Ribbon Panel report may not provide any groundbreaking solutions for the university sector. For example, a 3 per cent tuition increase aimed at returning to previous policy levels would cover less than half of today's inflationary expense increases. To avoid severe consequences a reversal of 45 years of government disinvestment is necessary, yet this is not an easy endeavour. The pattern of gradual disinvestment is not specific to a particular government or ideological trend; in fact, it reflects a persistently short-sighted, profound and troubling consensus among Canadian governments. Demonstrating relevance over the past four decades has not swayed our government funders from their commitment to disinvest in universities. As a result, we must explore radically new strategies.

Ontario Tech's Interdependent Planning and Budgetary Contexts

This Fiscal Blueprint provides an overview of anticipated revenue streams and expenses for the 2024-2027 budget cycle. These projections serve as the foundation for discussing three different budget scenarios, each of which explores the opportunities and challenges created by variations in revenue and budget assumptions, and potential investments and budgetary reallocations as needed to realize our [vision and mission](), while also focusing on the realization of our strategic priorities as outlined in the IARP and the [Strategic Research Plan]().

In a landscape filled with competing demands and a challenging fiscal context, this paper focuses on short-term priorities that will stimulate differentiated growth within the university and identifies the longer-term resources required for lasting success and sustainability. This approach helps us to identify areas for future investments while achieving tangible progress during the upcoming budget year. Our strategy will firmly establish our university as a remarkable and highly regarded institution for both work and study. In doing so, we have kept in mind the following excerpt from the Looking Forward' section of the 2023-2028 IARP:

> *"This goal is very ambitious given some of the long-standing and newly emerging fiscal challenges we are currently experiencing. The ongoing financial pressures, created by the imposed 2019 cut to tuition, followed by the ongoing freeze in domestic tuition rates and static grant funding, are growing in magnitude. The grant funding model is scheduled to shift to a new, previously untested performance-based funding model with potentially less predictable outcomes. Moreover, skyrocketing inflation and rising interest rates are reducing our spending power and are having a negative impact on our students' cost of living expenses. Rising rental accommodation rates due to low rental unit availability in Oshawa, as well as bottlenecks in the processing of international student-study permits and visas are a few examples of the real and unanticipated barriers for students wishing to pursue their studies at Ontario Tech. These challenges will require all of us—every member of the Ontario Tech community—to accept a role in supporting our students and the sustainable future of our institution. We must pursue a bold transformation agenda that builds on our unique program offerings and the current momentum of our student demand. This transformation would see us growing to 18,000 students by 2030 to meet the needs of the increasing Greater Toronto Area university-aged population and international demand for science, technology, engineering, math and professional programs. This growth will provide revenues needed to cover the costs of expansion (including enhanced academic and non-academic student, staff, and faculty support services) as well as invest in our priorities and differentiation.*
>
> *Moving forward, staying focused on a combined growth-differentiation agenda aligned with our core strategic priorities (Tech with a conscience, Learning re-imagined, Sticky campus and Partnerships) while adapting to a new post-pandemic reality is crucial. In doing so, we will be data-driven, constantly evaluating the value of our efforts and holding ourselves capable in a constrained fiscal environment. We will grow our revenues, be efficient in our costs and purposefully invest in our priorities. At the same time, we will continue to be accountable for ensuring that our graduates are employable and that the generation, analysis, retention, and meaningful translation of our research efforts support the greater good of society. Importantly, as we move into our next decade of existence, we will continue to envision ourselves as a growing community hub, a place where people will come together to meet and engage in social and cultural activities that reflect community needs.*
>
> *This plan has an important role in keeping us collectively focused to realize a sustainable future for Ontario Tech. It also aligns our activities with our vision, mission, values, strategic priorities and resources. This is exceptionally important during periods of prolonged fiscal restraint such as the one we have now experienced for some time. Our fiscal uncertainty is further complicated by the broader degree-granting privileges now found within the province's colleges as well as a growing number of industry-based education and training programs. We are being pressed to do more with less while also being held to greater levels of accountability by government and society in general."*

Building Ontario Tech’s Budgetary Assumptions

In addition to emphasizing the need for differentiated growth within our institution, the 2023-2028 IARP reaffirms our commitment to our four strategic priority areas: Tech with a conscience, Learning re-imagined, Creating a sticky campus and Partnerships, and challenges us to lead as a forward-thinking university. To achieve this, we must identify opportunities within a fiscal context fraught with real constraints and pressures, one that will necessitate ongoing fiscal discipline to address budgetary challenges and allocate resources for our initiatives. We remain committed to growing our enrolment numbers while also finding efficiencies and new ways of doing things.

As we look to the next three years, our assumptions are grouped into two main categories: revenues and expenses. These assumptions are framed and expanded upon based upon currently available information. As new information becomes available throughout the budget cycle, revisions will be made. This is important as any shift in the assumptions, positive or negative, will impact the budget.

Revenues

Our revenue is predominantly tied to student registration numbers, including associated funds such as grants, tuition and ancillary fees, all of which are controlled by the provincial government—with the exception of international student tuition. **The result is that without further enrolment growth, total revenue is projected to increase by a mere 1 per cent on an annual basis due to international tuition increases**.

Given the current freezes on our grant and domestic tuition levels, we must continue to increase, broaden and stabilize our revenue base to accommodate escalating expenses. This involves realizing additional revenues from growth in student enrolment in existing and new programs of study, meeting our Strategic Mandate Agreement (SMA3) performance targets with the provincial government, and raising funds from alternative sources (e.g., philanthropy).

Domestic Enrolment

The IARP explicitly articulates that Ontario Tech’s overall student enrolment will grow to 18,000 students by 2030, including near-term enrolment commitments, as set out in our current SMA3. Our strategic enrolment management (SEM) tactics, supported by an increasingly popular new brand, have resulted in record applications in 2021 and 2022. However, the road ahead will require an integrated SEM plan, one that equally encompasses increased student recruitment and retention to realize our differentiated growth goals.

Ontario Tech must specifically focus on capturing a larger share of the traditional direct from high school domestic undergraduate market, particularly the Greater Toronto Area (GTA), as it is unlikely that overall university participation by this cohort in the province will see significant growth in the coming years. Traditional student recruitment will hinge on the development and launch of sound new program offerings and existing program repackaging efforts to attract students from new markets and to enhance our competitiveness in the post-secondary landscape. Making co-operative education, experiential, and work-integrated learning opportunities available for all students is necessary, as is an investment in data-driven tools (e.g., early alert systems) designed to support the success and retention of our students.

International Enrolment

We will continue to make significant investments in recruitment and inter-institutional partnerships to ensure the continuation of international student inflows. This is necessary as post-pandemic participation by international students in the province's post-secondary sector has yet to fully recover to pre-pandemic levels. Furthermore, the current global political climate may have negative, long-term implications for Canada's appeal as a study destination.

The university intends to grow international enrolment closer to the provincial system average of 20 per cent. This includes increased growth in undergraduate and graduate student admissions in the coming years. To achieve this, it will be imperative that we communicate our value proposition as a highly ranked access university to the international community. In the long term, we will reinforce this proposition with increased budgetary commitments to fund international scholarships, advocacy for and identification of affordable housing options, and the creation of concurrent work opportunities.

We have opportunities to expand course-based master's programs, positioning us to attract new cohorts by responding to local and global labour market demands. These programs hold strong appeal for students, particularly international students, as they offer pathways to both post-graduate work opportunities and expedited routes to permanent residency. These enrolments will allow us to work within our existing domestic graduate student allocation while allowing for strategic growth.

Part of this differentiated growth in international students will result from effective recruitment strategies. However, these strategies must be closely aligned with our mandate and reflect a firm commitment to student success and retention. With the development of a new university retention plan underway, Ontario Tech can work towards achieving increased student persistence of our new and current students, positioning our university for robust enrolment performance in the future.

Grants

Government-funded enrolment-related grants are expected to remain stagnant as the provincial funding levels have remained frozen since 2012. This represents a 32 per cent decrease when adjusted for inflation. Furthermore, we continue to be limited to receiving our 2016 enrolment corridor funding, even though our number of domestic students has increased over those targets. Our strategic decision to grow domestic enrolment is motivated by the tuition revenue and the expectation that the government will eventually resume grant funding for all students.

Government funding is increasingly becoming more focused, with additional dollars being issued as targeted grants allocated to specific activities rather than for the purposes of broad institutional support. For example, in 2023, the university received an extra $800,000 specifically for facilities renewal. These funds were designated for covering capital costs related to existing buildings. In essence Ontario Tech, like all other universities, has no flexibility in reallocating these funds to areas of greater need. This funding is also subject to strict accountability and reporting measures.

In 2016, the provincial government introduced an enrolment-based funding formula where institutions receive a fixed operating grant if their five-year moving enrolment average remains within 3 per cent of an established target (or corridor mid-point). The new funding model aimed to provide equitable, predictable and stable funding for all institutions, enhancing planning certainty.

In 2019, as part of the SMA3, this fixed operating grant became heavily tied to provincially defined performance measures. Due to the pandemic, the government suspended this plan during the 2022-2023 fiscal year. However, this performance funding approach was activated in 2023-2024 (i.e., Year 4 of SMA3) at 10 per cent. More recently, the government has further deferred its implementation for 2024-2025 pending the outcomes of the Blue-Ribbon Panel review.

Tuition

Tuition fee levels for our undergraduate domestic students are currently approaching, yet are still below, the median for Ontario universities. In February 2019, the government announced a 10 per cent cut to domestic student tuition fees for the 2019-2020 academic year and a subsequent tuition freeze for domestic students. When accounting for inflation, this represents a 25 per cent decrease in tuition revenues over the past four years. For Ontario Tech, this resulted in a cumulative annual revenue reduction of $62 million for the same time period, relative to what we might have otherwise expected. In 2023-2024, the MCU approved our application for tuition anomaly adjustments for three of our degree programs for incoming students, resulting in an annual increase of about $640,000 in domestic tuition fee income. However, the broader tuition freeze remains in effect, and at present, we do not have any information on the domestic tuition framework for future years. Universities are currently urging the government to discontinue its tuition freeze policy; however, we assume the domestic tuition freeze will continue for the 2024-2025 budget year.

For 2024-2025, we have assumed a 5 per cent increase in international undergraduate tuition fees. Our international tuition fees remain below the Ontario system median. However, due to competition for international students, we are closely assessing the potential impact of this assumption. We must balance increases and investments in student support, as noted below.

Ancillary Fees

The remaining revenues received via student fees fall under the category of ancillary fees. Ancillary fees are designated for pre-specified approved activities (e.g., recreation services, health services, student learning). These student-centred supports represent about 12 per cent of total student fees. These fees are subject to a provincial fee protocol that allows for an annual inflationary increase based on the Bank of Canada Consumer Price Index (CPI) (September over September). The current CPI is 4 per cent. However, with student affordability in mind, the 2024-2025 budget considers a more conservative 3 per cent increase in total ancillary fees for the coming year.

Commercial Revenues

Our objective in this area (e.g., parking, food sales, and facility rentals) is to maintain an overall financial balance. The university will allocate any surplus realized from these commercial revenues to capital reserves for future investments, with the prior year's reserve covering any anticipated deficit. This approach ensures the core operating budget is not impacted by supplementary services.

We have received feedback from campus community members who want enhanced services such as extended food service hours and more parking spaces. These pose challenges as we would require further investments from our operating to address these asks. The extended food hours in the past did not achieve enough sales to offset the additional expenses. It could require an additional investment of more than $500,000. For parking, the lots are frequently not at full capacity during the week, even though they can reach capacity at other times. Our 2015 Campus Master Plan promoted sustainability through initiatives such as encouraging more bus and ride-share programs, but we are contemplating options to address the current demand. One option may be an additional investment of $750,000 to build 200 spots, with a break-even point expected after five years; however, this requires upfront funds.

Research and Innovation

Research and innovation funding at Ontario Tech continues to increase, more than doubling in four years to surpass $26 million in 2022-2023. This upward trajectory is expected to continue, a noteworthy achievement given the limited federal funding for research and graduate students that is causing a great deal of budgetary pressure.

While research granting councils face annual budget reductions, our university secures funding from diverse sources, including an increasing percentage from industry and innovation funding, primarily linked to entrepreneurship and commercialization. The rise in research funding reflects the university's commitment to research intensification, contributing to its enhanced reputation.

It's important to note that research and innovation funding primarily flows into restricted accounts, supporting new and unique learning opportunities for undergraduate and graduate students. The funds do not constitute operating funds; however, they are a key measure of success for the IARP.

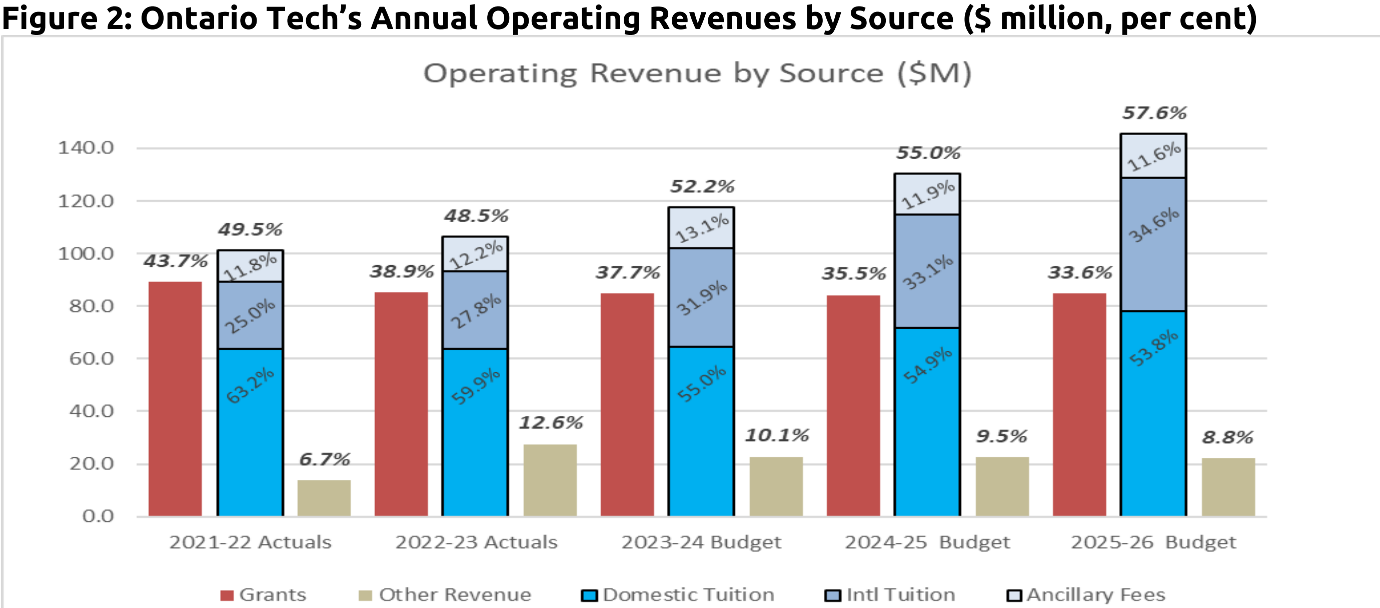
Advancement

In support of the university's strategic priorities and the IARP, the Advancement department is leading the university's comprehensive 'Tech with a Conscience' campaign', anticipated to debut in Spring 2024. In 2022-2023, $4.5 million was raised and this has more recently grown to $9.5 million in new gifts and pledges. This upcoming campaign stands as our most ambitious to date and as the largest in Durham Region's history. The university will see significant growth in fundraising revenue over the next several years, which will continue to be progressive. We will generate campaign revenue through a combination of one-time gifts and multi-year pledges, with a commitment to maintain and nurture relationships beyond the campaign's conclusion.

Overall Revenue Assumption Outlook

In Ontario, the proportion of total revenue from government grant funding has decreased while income from tuition fees, especially international tuition, has grown. In 2020-2021, our tuition and student fees represented 50 per cent of our total revenues. With grants remaining frozen, the percentage of revenue from student fees is estimated to grow to 58 per cent by 2025-2026 (Figure 2). Further, we see international tuition growing from 25 per cent to almost 35 per cent in the same period. This highlights not only our budget's increasing reliance on student fees, but also the potential risk associated with this approach when enrolment targets are not realized. This trend is not unique to Ontario Tech, as other universities share a similar pattern. The provincial system average for the proportion of operating revenue from fees ranges from 40 to 70 per cent, and Ontario Tech is within that range estimating a 55 per cent proportion for 2024-2025.

Figure 2: Ontario Tech's Annual Operating Revenues by Source ($ million, per cent)



Expenses

Ontario Tech has historically implemented a hybrid or two-step approach to budget modelling. In the first step, an incremental budgeting approach is used to address mandated year-over-year increases in known expenses (e.g., contractual salary increases, licensing agreements). Simply put, these increases are automatically factored into the preceding year's base budget on an annual basis and updated. In the second step, a strategic incentive allocation mechanism is used to distribute discretionary resources (when available) to support new initiatives that align with the priorities of our IARP.

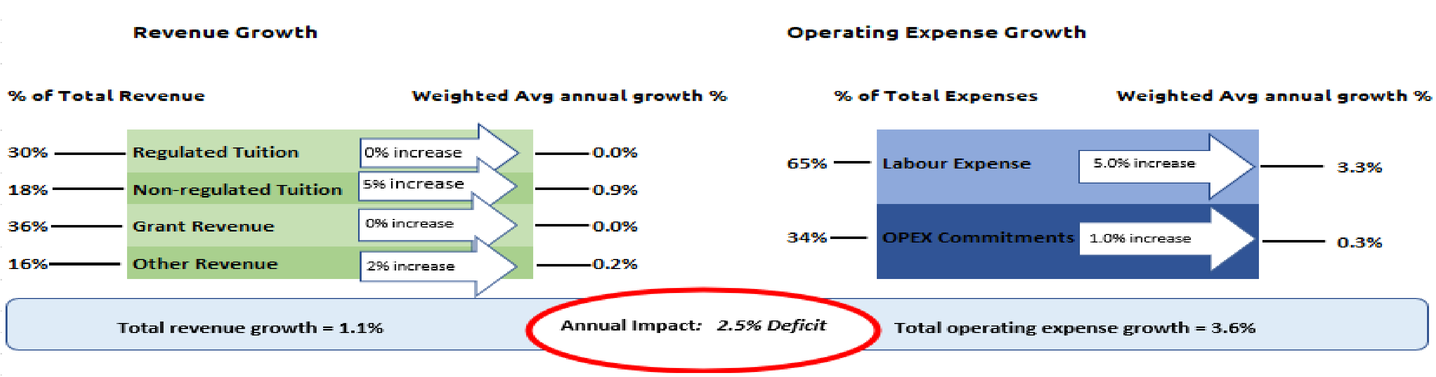
Over the past decade, Ontario Tech has used an activity-based budgeting (ABB) model in the background to simply inform strategic budget allocations. This is a method of budgeting where revenues and expenses are attributed to the areas that generate them. When fully implemented to inform budget allocations, this approach deliberately sets aside funds through revenue-based levies, thus creating a dedicated resource pool to fund strategic priorities and to construct clear incentives for faculties and departments to generate revenue and manage their expenses more consciously.

To create greater transparency, budget understanding and incentives to support differentiated growth during the 2023-2024 fiscal year, the Budget Working Group in collaboration with senior leadership and the deans began to move intentionally toward implementing an ABB model. This model will be shared in the forthcoming budget-setting paper.

The implementation of an ABB model has been necessitated by the fiscal challenges created by the current provincial government's policies (e.g., frozen domestic tuition fees, no additional funding for domestic growth). Simply put, this means that 68 per cent of our total revenues (i.e., 29 per cent regulated tuition and 39 per cent grant revenue) are frozen and subject to no annual increases.

As stated earlier, without further enrolment growth, our revenues are growing at the rate of about 1 per cent on an annual basis. In contrast, using very conservative expense assumptions, our expenses are growing at an average annual rate of 3.6 per cent. This includes a 5 per cent increase attributable to annual mandated salary increases, which encompass across-the-board adjustments and annual progression factors (e.g., promotion increments). To limit the growth in expenses, academic and administrative units are being asked to cover inflationary and contract increases through the reallocation of existing budget dollars. Stated another way, the university is faced with a budget that is contingent upon continuous enrolment growth to fund base operating expenses (Figure 3). To provide some context, salary increases are expected to grow above $6.5 million in each of the next few years. Given that grant and tuition revenues remain stagnant for the foreseeable future, we must enrol about 500 additional students annually to merely cover the mandated salary costs.

Figure 3: An Illustration of the Structural Deficit



Operating expenses are influenced by several factors including, but not limited to, inflation, the rising costs of key goods and services (e.g., software licenses, library subscriptions), and the cost of maintaining and servicing aging facilities. Prior to the pandemic, the Ontario university system typically saw an annual increase in expenses of about 4 per cent. However, between 2021 and 2023, many of these essential expenditures skyrocketed, reaching double-digit percentages. Utility costs and software licensing fees, moreover, continue to increase at these rates. Given that these and other expenses continue to rise, restraining operational expense growth will be required and units may need to reallocate funds from their existing budgets to cover these costs. This will require each and every unit on campus, in alignment with the IARP, to determine if there are activities that must be continued versus others that must be discontinued.

In 2023-2024, our expenses were higher than our revenues as a result of spending commitments and project expenses from prior years. This required reserves to be used to cover the difference. Understanding this context is important as we look forward to the 2024-2025 budget where, compared to the previous year, there is a projected $8.9 million increase in overall expenses (i.e., $236 million compared to $227 million).

Personnel Costs

Additional resources must be allocated to expand our faculty and staff capacity to support new and existing programs, to enhance our ability to move toward the highest quality of hybrid learning capabilities, enhance co-operative education opportunities, and to strengthen supports for teaching and learning, technology and our student recruitment efforts.

Just under 70 per cent of our annual budget supports personnel costs, including salaries and benefits. This is higher than the median for the Ontario university system, which is at 62 per cent. The 2024-2025 base budget already includes almost $10.3 million more in expenses to cover employee labour costs compared to last year's budget. It is important to note that this year's cost is considerably higher in comparison to past years due to the One-Time Retirement Incentive Program for Tenured, Tenure-Track and Teaching Faculty Members as outlined in the recent UOITFA Collective Agreement.

In 2011, our Senior Academic Team set a goal to improve the student-to-faculty ratio from 36:1 to 31:1, aiming to enhance the educational experience of our students and move closer to the provincial average. Our current faculty complement would keep us in this range (Figure 4).

Figure 4: Faculty and Staff Complements (FTEs) and Ratios

FTE COUNT - TOTAL		2022-23 Actual	2023-24 Budget	2024-25 Budget	2025-26 Forecast	2026-27 Forecast
	FFTE's	*9,485*	*9,491*	*10,466*	*11,071*	*11,379*
		1-Oct				
Faculty		339.0	336.3	338.9	357.1	367.1
Staff		554.5	584.2	588.2	603.2	616.2
Total FTE		893.5	920.5	927.1	960.4	983.3
Student:Faculty		*28.0*	*28.2*	*30.9*	*31.0*	*31.0*
Student:Staff		*17.1*	*16.2*	*17.8*	*18.4*	*18.5*

Financial Aid Costs

Five per cent of our annual budget expense is allocated for scholarships, bursaries and fellowships to help students attend our university and to support our institutional access agenda. In line with our international student growth targets, we have introduced programs to allocate funds to assist our international students. In 2023-2024 alone, with increasing investments in entrance scholarships, graduate student assistance, and a new international support program, we will distribute more than $11 million to our students.

Facilities Costs

Ten per cent of our budgetary expenses include the costs associated with the annual physical infrastructure maintenance. This includes more than $5 million annually in building leases and $3 million for the unfunded portion of the debenture.

The following three main items require further consideration when setting our 2024-2027 budget cycle:

- Nondiscretionary costs, such as utilities, are experiencing annual increases of more than 10 per cent, translating to an additional $250,000 cost for the 2024-2025 budget year.
- Our commitment to achieve net zero by 2050 entails some major projects in the coming years.
- We require surpluses to fund future capital requirements. In November 2021, the Audit and Finance Committee was presented a Strategic Reserves Discussion Paper, which aimed to assess and prepare for future capital maintenance and replacement needs. While more than 60 per cent of our buildings are in excellent condition, funds need to be set aside for future renovations. There is a need for above $4 million annually for the next decade to deliver on planned activities such as routine repairs (e.g., roof replacements) and future buildings.

Information Technology (IT) Costs: Major Enterprise Initiatives

To ensure the continued effectiveness of our IT enterprise system, we have planned major initiatives over the next four years:

- Currently, Ontario Tech and Durham College share the same enterprise (i.e., Banner) system. Each institution's data are maintained separately using Shared Technology Platforms (STPs). The STPs have proven effective in facilitating synchronized progress of enterprise systems while preserving a measure of operational autonomy. Although STPs are effectively used by some universities in the United States, we have found that our university's distinct computing needs are testing its limits. As a result, Ontario Tech and Durham College must consider moving to separate enterprise systems. This is a significant endeavor as it would involve more than just separating into two systems such as:
    - Purchasing and implementing other peripheral systems that are currently shared.
    - Re-architecting how we deal with people on the same campus using many shared IT services, but in separate Banner systems.
    - The redesign of how jointly offered academic programs are captured in Banner.
- Currently, Banner operates on-premises, but we are exploring the benefits and implications of moving to the cloud. Several cloud models are being considered, including Platform as a Service (PaaS) and Software as a Service (SaaS). Both PaaS and SaaS offer their own advantages, disadvantages and costs. A move to the cloud could provide more agility in the enterprise space for Ontario Tech, but it is nonetheless important to select the right model and timing for the transition. SaaS, for example, is an effective cloud model, but not all of our required enterprise system functionalities are available at this time. A move to the cloud involves not only the system's migration but also potential changes in the interaction with peripheral systems, data migration, security adjustments, and user and technical staff retraining, etc.

The initiatives highlighted above are significant undertakings in our IT enterprise environment. If Ontario Tech and Durham College move ahead with these initiatives, we estimate the total additional cost for the university to be $10 million over four years.

Opportunities

As explained earlier in this paper, there are several factors that can exert positive and/or negative influences on our annual budget. These factors—some (but not all) of which we can control—are the driving force behind our unwavering commitment to tying fiscal planning to our strategic priorities. This Fiscal Blueprint acknowledges the dynamic nature of revenue shifts and the ever-present pressures of rising expenses. To manage these sensitivities, we have included four possible scenarios in this Fiscal Blueprint in an effort to offer a clear path to navigate a range of potential financial landscapes.

The scenarios presented (Appendix A) reflect a rigorous analysis of potential shifts in enrolment, government support and various other external factors. They represent the range of impacts we may encounter during this budget-planning cycle, combining anticipated events with the university's expected response. These events may represent complex combinations of external factors, such as fluctuations in enrolment, alterations in government student funding, or global economic shifts.

Our analysis focuses on determining the optimal blend of newly introduced versus continuing programs and program delivery modes, for degree and non-degree students as well as traditional and non-traditional learners. This approach needs to fulfill our mission as well as maximize our revenue opportunities. We will concentrate our efforts on factors that support student success and offer programs that ensure we are competitive in an ever-changing environment.

We will primarily focus on what is in our control (e.g., generating revenue through increased student enrolment, expanding our offerings, philanthropy, cost efficiencies) to truly alter our future path. We know that continuing to do business as we have done in the past is not an option. We also know, despite the extensive lobbying efforts of the Council of Ontario Universities, that the provincial government is not likely to introduce measures to sustain or secure our financial future.

We will need to couple aggressive growth, primarily in the area of professional graduate programs, with domestic tuition and grant increases to stabilize our budget and invest in our future.

Summary

Ontario Tech is committed to advancing its strategic priorities in combination with financially responsible budgeting practices. In these challenging financial times, our focus is clear: we must prioritize enrolment growth, explore alternative revenue streams and find cost efficiencies. However, reliance on enrolment growth alone adds a layer of volatility to the planning process as even a minor 3 per cent deviation below the enrolment target could result in more than $1 million in lost revenues. As such, we must be resolute in our efforts to grow our enrolments.

Over the next several months we will know more about the Blue-Ribbon Panel recommendations and MCU's response, as well as have a better understanding of the impact of ongoing international policy decisions on the higher education sector and our university. However, we cannot wait for decisions (or indecision) on behalf of the government to dictate our future. We are not going to sit back and wait for the unknown to happen.

We will continue to provide information so that our campus community has a deeper understanding of the issues and factors that inform our necessary, but difficult decisions within our current fiscally constrained environment. We welcome your feedback through participation in the budget information session or by emailing the Budget Working Group at budget@ontariotechu.ca.

Appendix A: 2023-2027 Budget Cycle Scenarios

As we enter the budget-setting cycle, we have many unknowns that we expect more clarity on by the time we propose the final budget in April 2024. As noted in this paper, enrolments are the largest driver of our revenue, while government policies constrain the same. To begin our discussions, we present four budget scenarios which focus on manipulating these variables (see Figures 8 and 9).

Scenario A: Conservative Enrolment Growth Approach

In this scenario (Figure 5), the assumptions for intake (Figure 6) and total enrolment (Figure 7) estimate revenues exceeding $237 million for 2024-2025, representing an $11.8 million increase from the previous budget year. At the same time, overall, full- and part-time salaries and benefits are expected to increase by almost $10.3 million compared to last year. The result is that our entire estimated revenue increase is entirely consumed, or offset, by estimated expense increases. This forecast would yield a balanced budget for 2024-2025, thanks to minimal to moderate enrolment growth and delayed expenses, counterbalanced by already approved investments in support of the IARP's differentiated growth agenda.

Figure 5: Ontario Tech's Forecasted Operating Budget (2024-2027)

	Budget 2023-24	Budget 2024-25	Budget 2025-26	Budget 2026-27
FTEs	*9,491*	*10,466*	*11,071*	*11,379*
Domestic Tuition	64,669,634	71,679,352	78,265,788	82,604,172
Intl Tuition	37,538,894	43,193,256	50,446,458	55,471,864
Grants	84,875,745	84,210,471	84,848,033	85,246,711
Ancillary Fees	15,424,288	15,574,543	16,878,046	17,757,173
Other Revenue	14,539,477	14,430,352	13,967,566	14,526,269
Donations	2,335,624	2,093,643	2,114,579	2,135,725
Commercial Revenue	5,931,784	5,931,784	6,168,995	6,415,695
Total Revenue	**$ 225,315,446**	**$ 237,113,401**	**$ 252,689,466**	**$ 264,157,608**
FT Labour	122,937,975	134,865,613	146,754,178	159,462,350
PT Labour	21,994,821	20,393,662	20,555,028	21,483,150
OPEX	74,901,655	75,190,463	76,701,451	77,835,759
CAPITAL	7,512,020	5,747,701	8,447,830	7,470,069
Total Expenses	**$ 227,346,471**	**$ 236,197,439**	**$ 252,458,488**	**$ 266,251,328**
PY Reserve Utilization	*2,031,025*	*0*	-	-
Net Surplus/(Deficit)	**$ -**	**$ 915,962**	**$ 230,978**	**$ (2,093,719)**

Historically, using this same conservative approach, Ontario Tech has been able to accurately realize (i.e., within ±2 percent) its enrolment projections year over year. This approach relies on minimal to moderate, yet highly predictable, enrolment growth. For the coming year, it would yield a razor thin $916,000 surplus (i.e., less than 0.4 percent of the total revenues) for allocation. However, this surplus would not include discretionary allocation. This amount would instead be designated as restricted revenues for use in areas such as facility renewal.

In the out years, this model creates even more budgetary uncertainty. For 2024-2025, this model includes a set aside for a modest $1.0 million academic priority fund and a $1.0 million capital fund to promote academic innovation and to address aging equipment needs, respectively. However, this budget does not show an annual surplus exceeding $3.0 million, which is necessary to build reserves for anticipated future deferred maintenance expenses. Consequently, in the out years, there would be no discretionary funds available for new expenditures followed by deficits.

Figure 6: Forecasted Undergraduate Intake by Headcount and Fiscal Year

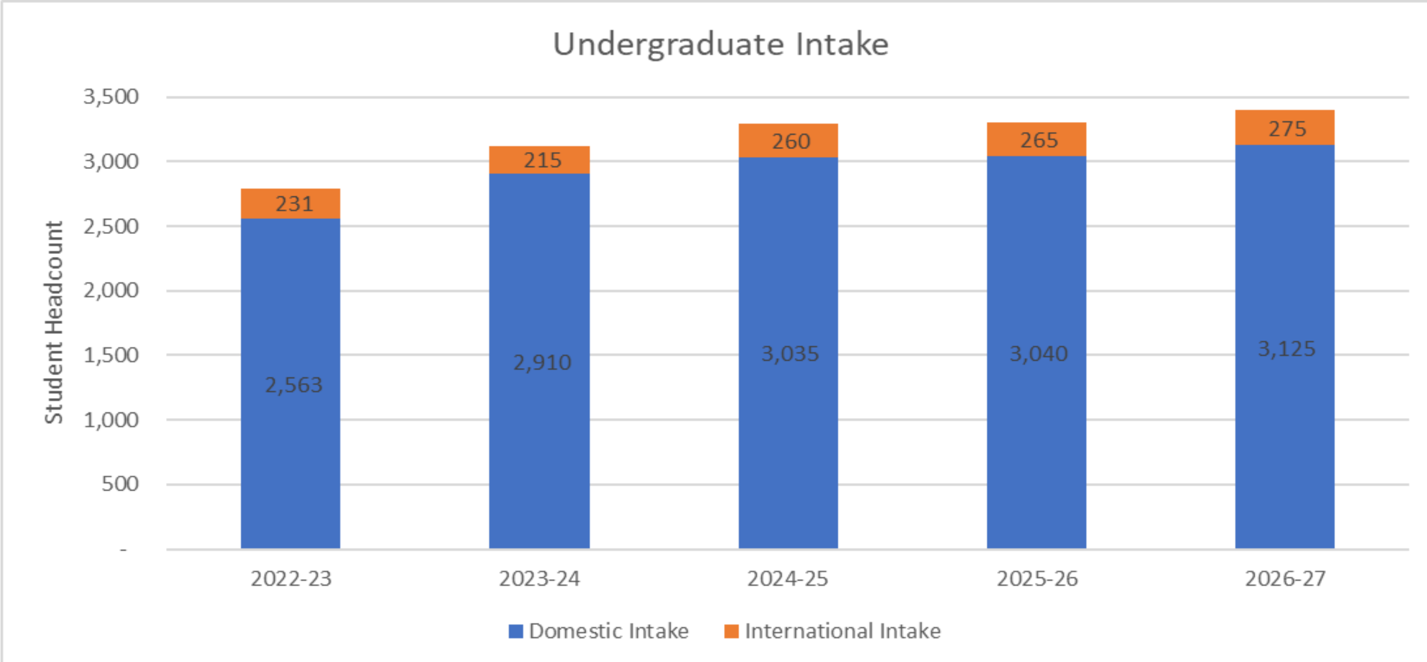
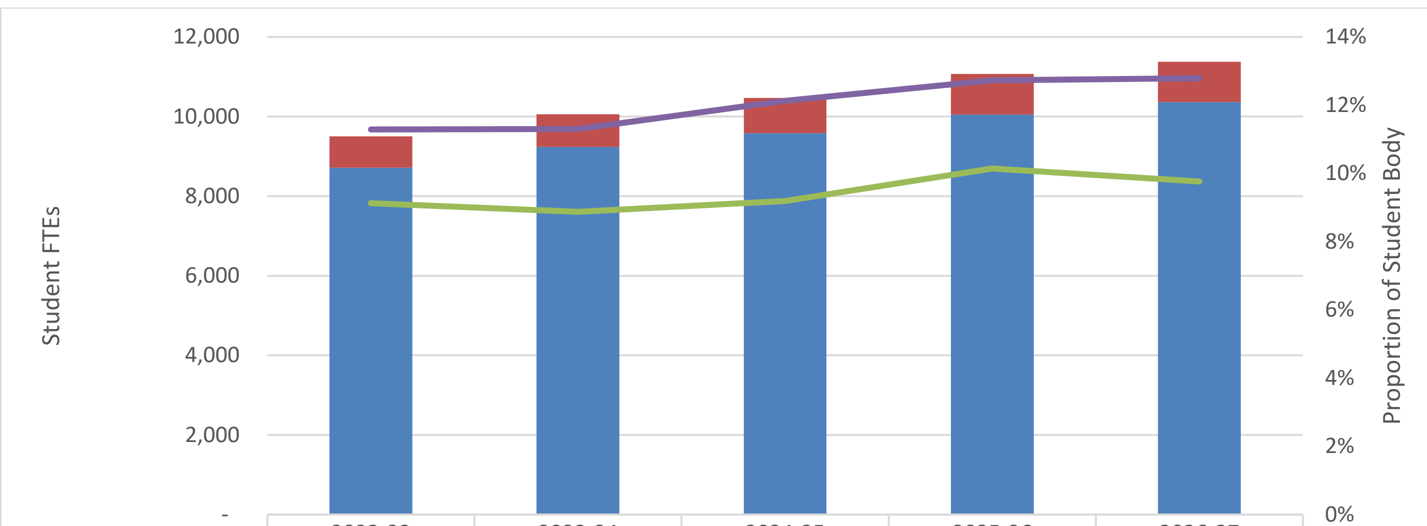


Figure 7: Forecasted Student Enrolment (FTEs) by Fiscal Year



	2022-23	2023-24	2024-25	2025-26	2026-27
Graduate	795	820	881	1,020	1,012
Undergraduate	8,711	9,240	9,585	10,052	10,367
% Graduate	9%	9%	9%	10%	10%
% International	11%	11%	12%	13%	13%

Scenario B: Increasing Domestic Tuition

In this scenario we assume the same enrolment data as seen in Scenario A plus a 2 per cent domestic tuition increase for the out years. While this tuition increase would not keep up with current inflation and is below the previous ministry policy allowance of a 3 per cent increase per annum, it is a number we are hearing as a potential increase. Each 1 per cent increase in the domestic tuition rate is estimated to result in a modest $470,000 increase in total revenues.

Scenario C: Moderate Growth Approach with Tuition Increases

In the short term, we can mitigate the impact of the revenue restrictions by emphasizing growth. We have prepared an aggressive growth plan aligned with our IARP goals. In 2020, we increased our international enrolment targets, aiming to reach levels comparable to the Ontario university system average. This, coupled with reallocations (where possible) and delayed infrastructure investments, would provide at least a temporary solution to our budget challenges.

If we increase international undergraduate intake by 10 per cent in 2025 versus 5 per cent, coupled with the expansion of professional master's programs, while at the same time experiencing a slight increase in undergraduate persistence, it would result in 115 more FTE enrolments in 2025-2026 (Figure 8), and our forecasted surplus for allocation would be $5.6 million more (Figure 9).

It is anticipated that this approach would also require enhanced support to those areas demonstrating growth while some areas not experiencing the same would need to find more efficient ways to operate. Failing to draw this distinction could potentially impact the quality of support and education we provide to our students. More importantly, however, beyond providing a slightly more prolonged period of financial sustainability, this scenario only delays the inevitable structural impact on the budget.

Scenario D: Moderate Growth with Tuition and Grant Increases

In this scenario, we assume the same enrolment in Scenario C with the addition that all domestic students, not just those in our corridor, would receive full grant funding at today's levels. It should be noted that the Blue-Ribbon Panel may make recommendations to the MCU regarding grant funding for universities, but the details of these recommendations and the MCU's response remain unknown at this time.

Figure 8: Budgeted Enrolment vs. Growth Enrolment (FTEs)

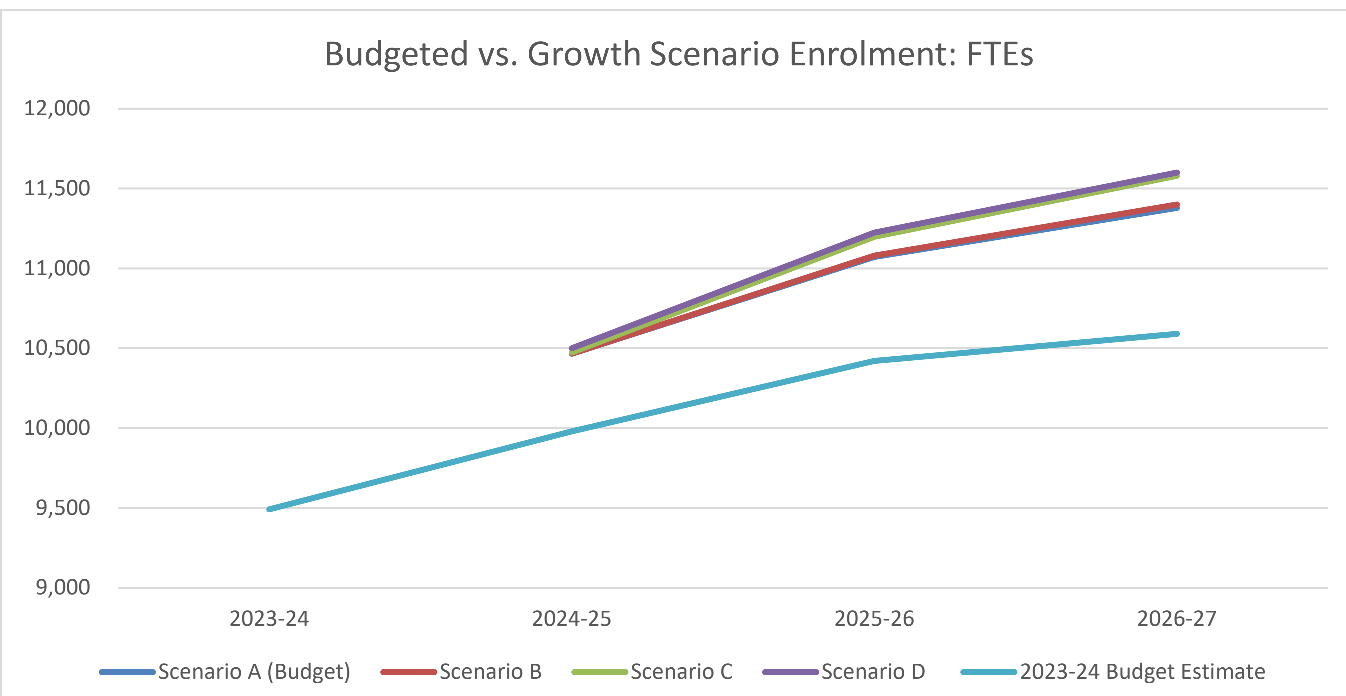
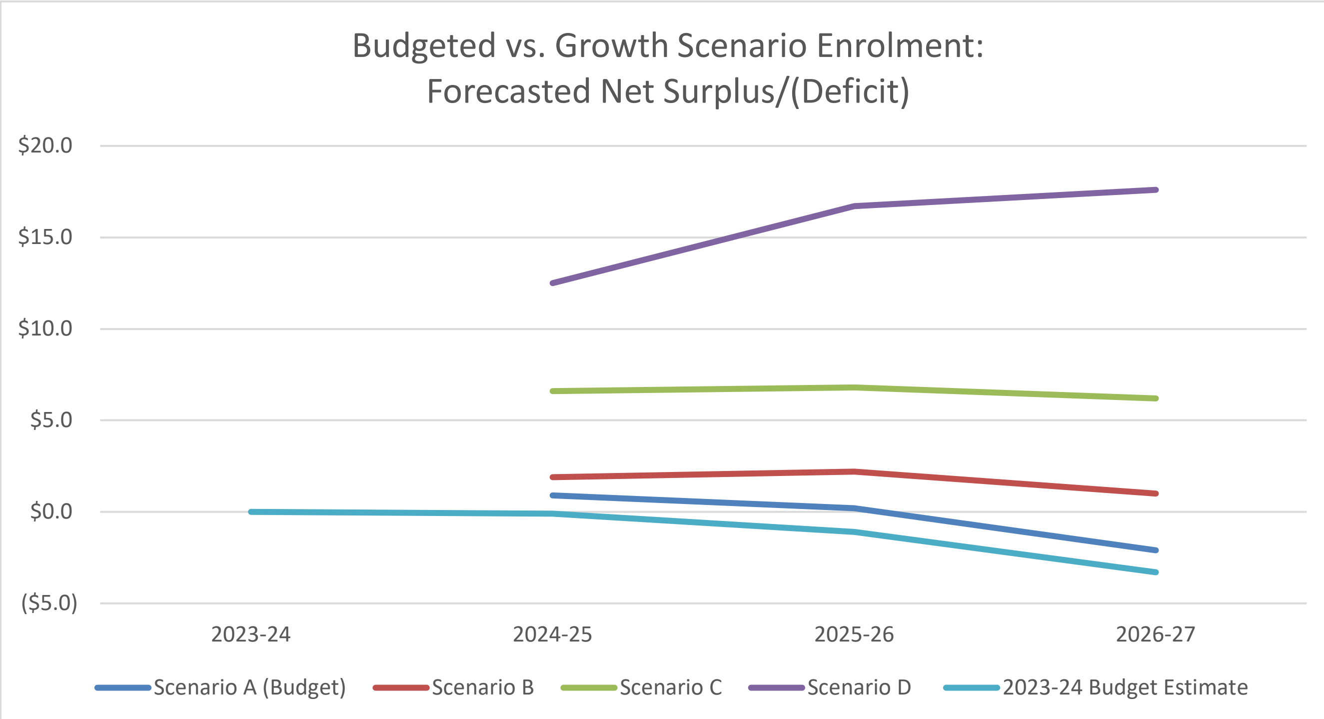


Figure 9: Corresponding Net Surplus (deficit) Based on Enrolment Change



COMMITTEE REPORT

SESSION:

Public ☒
Non-Public ☐

ACTION REQUESTED:

Decision ☐
Discussion/Direction ☐
Information ☒

TO:	**Audit & Finance Committee**
DATE:	**November 23, 2023**
PRESENTED BY:	**Pamela Onsiong**
SLT LEAD:	**Brad MacIsaac**
SUBJECT:	**2nd Quarter Financial Reports: Operating Forecast for year ending March 31, 2024**

COMMITTEE MANDATE:
The Committee is responsible for overseeing the financial affairs of the University, including approval of the annual budget and financial reporting to ensure that appropriate financial controls, reporting processes and accountabilities are in place at the University.

BACKGROUND/CONTEXT & RATIONALE:
In April 2023, the Committee approved a balanced 2023/24 budget which included $1.0M of expenses to be funded from internally restricted prior year reserves (see **N1** on Operating Forecast Summary). This report provides the Committee with an overview of the projected year-end results against the approved budget (Appendix 1).

The operating budget is based on a projection of cash receipts and expenditures for the year. This contrasts with the audited financial statements which are prepared in accordance with generally accepted accounting principles ("GAAP") for non-for-profit organizations in Canada. In arriving at the year-end results on a GAAP basis, adjustments are required to be made to the management report, e.g.

- The management report includes cash outlays for capital investment in the budget year while the GAAP financial statements include an expense that reflects the amortization of all capital assets over their useful lives.
- Conversely, the GAAP financial statements include the unrealized gain/loss on endowed investments while these are not budgeted and therefore not included in the management report.

HIGHLIGHTS

Based on Fall 2023, Day 10 enrolment data and expense forecasts from budget holders the **net operating surplus** for the year is projected to be **$3.8M against an original balanced budget.** The net surplus of $3.8M is mainly attributable to a $2.0M temporary increase in investment income and a $0.9M one-time increase in restricted student fees.

Excluding the $1.0M of prior year internally restricted reserves currently not utilized, the forecast surplus is favourable $4.8M and comprises of a $4.5M favourable variance in revenue, net $2.8M labour and operating savings, offset by $2.5M more capital investment than budgeted (see details in analysis below).

The University continues with prudent financial planning in light of the continuing decline in provincial grant funding, the cut and subsequent freeze to domestic tuition coupled with year-over-year escalating costs. In November 2021, a Strategic Reserves Discussion Paper was presented to the Audit and Finance Committee. This paper highlighted a need in excess of $4.0M reserves annually for the next decade to meet future capital (e.g. Charles Hall and Library expansion) and deferred maintenance (e.g. roof replacement) needs. Should the forecast trend continue, management will be recommending that some of the **actual surplus at the end of the year** be reserved for this purpose.

Revenue

Total **revenue** is favourable $5.1M (or 2%) against original budget. Approximately **50% of the increase in revenues have offsetting expenses,** and these are included in this forecast under the Expense and Capital sections. Revenue increase includes:

Tuition revenues increase of $1.1M (or 1%) against budget. This is comprised of an increase in student tuition fees as a result of an increase in enrolment (see Table 2). Total **enrolment** is favourable 488 FTE (or 5.1%) against an approved budget of 9,571 FTE.

Domestic enrolment remains strong with a net increase of 542 FTE or an additional $2.7M domestic tuition revenues. This net favourable variance was offset by the missed international target attributable to the ongoing issues with the processing of international student-study permits and visas. Total international enrolment decreased 54 FTE or a decrease of $2.3M in international tuition revenues.

The remaining increase in tuition revenues pertains to fees attributable to the increase in enrolment and are restricted for student-specific purposes. The university is currently developing a long-term plan as to how these restricted fees will be utilized.

Revenue (continued)

As a result of the increase in enrolment, Management has allocated funds to some of the secondary priorities from the 2023/24 budget setting process. This includes the approval of 7 new hires in the current year, of which 3 pertain to academic positions and the remaining in support of learning innovation and the technology enhanced learning program. These new hires, amounting to $0.6M, are included in the forecast expenses.

Other revenues increase of $3.3M (or 15.0%) against budget includes $2.0M increase in interest revenues on operating cash and short-term investment balances as the Central Bank of Canada has continued to raise interest rates over the last year in an effort to curb high inflation rates. Other revenue increase also includes $1.1M attributable to the accounting recognition of expendable donations and for which there are offsetting operating and capital expenses.

Expense – Operating and Capital

Operating expenses are showing a favourable variance of net $2.8M mostly attributable to vacant full-time positions offset by an increase in limited term contracts to back-fill for the full-time vacant positions and new in-year hires, decrease in scholarships due to students not meeting the eligibility criteria, savings in lease costs due to the termination of the an operating lease in downtown Oshawa, and savings in other general operating expenses.

Capital Expenses are unfavourable $2.5M (or 34%) against budget, of which 90% are funded by higher than expected provincial facilities & equipment renewal grants and expendable donations. The remaining 10% increase is funded from Operations to invest in the University's emergency management systems to improve campus safety.

FINANCIAL IMPLICATIONS:

The primary purpose of this financial update is to report on the projected year-end results of the operating budget. Maintaining a balanced (or surplus) budget is critical to Ontario Tech University's short-term financial health and long-term financial sustainability.

SUPPORTING REFERENCE MATERIALS:

- Appendix 1: Management Reporting: Operating Forecast Summary for the year ending March 31, 2024
- Appendix 2: Enrolment Table

APPENDIX 1

Ontario Tech University

Operating Forecast Summary
For the year ending March 31, 2024 (in $ 000's)

The table below shows the variance of the year-end forecast vs the approved 2023/24 budget

	April 1, 2023 - March 31, 2024			
	Total Annual Budget	**Y/E Forecast**	**Fav. (Unfav.) Forecast vs Budget $ / %**	
Revenue				
Grants	84,876	84,799	(77)	0%
Tuition	102,209	103,340	1,131	1%
Student Ancillary	16,389	16,555	165	1%
Other	22,807	26,124	3,317	15%
Total Revenue	**226,280**	**230,817**	**4,537**	**2%**
Expenditures				
Academic/ACRU	94,615	93,738	877	1%
Academic Support	48,894	46,736	2,158	4%
Administrative	31,211	30,853	358	1%
Sub-total	**174,720**	**171,327**	**3,392**	**2%**
Purchased Services	15,308	15,432	(124)	**-1%**
Total Ancillary/Commercial	10,702	11,140	(438)	**-4%**
Debt Interest Expense	9,609	9,623	(14)	**0%**
Total Operating Expenses	**210,339**	**207,522**	**2,817**	**1%**
Net Contribution from Operations	**$ 15,941**	**$ 23,295**	**$ 7,354**	**46%**
Capital Expenses	**7,512**	**10,038**	**(2,526)**	**-34%**
Principal Repayments - debt & capital leases	**9,468**	**9,483**	**(16)**	**0%**
	$ (1,038)	**$ 3,774**	**$ 4,812**	**-463%**
Other disclosures:				
Funded by prior year restricted reserves (N1)	**$ 1,038**	**$ -**	**(1,038)**	**-100%**
Total Net Surplus	**$ (0)**	**$ 3,774**	**$ 3,774**	**N/A**

N1. Original budget had PY reserves of $2,003k being utilised to balance the budget. $965k of these related to PY deferred ancillary revenues (forecast $542k) to fund athletic renovations and therefore have now been reclassified to Student Ancillary under Revenue above, where the deferred revenues will be recognized in actual

APPENDIX 2

ONTARIO TECH UNIVERSITY
Operating Forecast Summary
For the year ending March 31, 2024

Enrolment

FTE's	2022/23 actual	2023/24 approved budget	Q2 forecast *	Q2 forecast vs approved budget
Undergraduate				
Domestic	7,956	7,972	8,480	508
International	765	830	759	(71)
Graduate				
Domestic	436	408	442	34
International	399	361	378	17
Total FTE's	9,556	9,571	10,059	488

* Q2 enrolment forecast reflects Fall 2023 Day 10 enrolment count.

Under the new funding formula implemented by the Ministry in 2017/18, the funding for domestic students for the current year remains flat at the 2016/17 level. Current eligible undergraduate and graduate enrolment projection is within the + / - 3% of the University's corridor midpoint.

OntarioTech UNIVERSITY

COMMITTEE REPORT

SESSION:	**ACTION REQUESTED:**
Public ☒	**Decision** ☐
Non-Public ☐	**Discussion/Direction** ☐
	Information ☒

TO: **Audit and Finance Committee**

DATE: **November 24, 2023**

PRESENTED BY: **Pamela Onsiong**

SLT LEAD: **Brad MacIsaac**

SUBJECT: **Second Quarter - Financial Statements (unaudited) for the 6 months ending September 30, 2023**

COMMITTEE MANDATE:
The Committee is responsible for overseeing the financial affairs of the University, including approval of the annual financial statements and financial reporting to ensure that appropriate financial controls, reporting processes and accountabilities are in place at the University.

BACKGROUND/CONTEXT & RATIONALE:

This report provides the Committee with an overview of the statements of financial position, operations and cash flow as at September 30, 2023, together with a year-over-year comparison (Appendix 1).

HIGHLIGHTS:

In addition to normal operating activities, these Consolidated financial statements reflect the ongoing tension between revenues and expenses. On the one hand, the Provincial tuition framework has kept tuition fees for domestic funding-eligible programs flat at the 2019-20 levels, after a 10% decrease in the prior year. Grant funding, except for the Collaborative Nursing program, has also remained flat with current year funding for domestic students at the 2016-17 funding level. Expenses, on the other hand, continue to outpace revenue growth with increasing labour costs and inflationary pressures on operating spending as activities at the University return to the higher pre-pandemic levels.

Statement of Operations

The statement of operations includes a net increase in revenue of $10.0M (or 9.4%) and an increase in expenses of $7.8M (or 7.8%) over last year, for a net deficit of $11.6M at the end of the reporting quarter (compared to net deficit of $13.8M last year). Excluding the impact of non-cash transactions (e.g. amortization of capital assets & deferred contributions, or unrealized gain/loss on investment), the increase in revenue still at 10% is offset by an equal increase in expenses.

The University follows Canadian Accounting Standards for Non-for-Profit Organizations in Part lll of the Chartered Professional Accountants of Canada ("CPA") Handbook. In compliance with these standards, student tuition fees are recognized as revenue in the statement of operations when courses are provided, resulting in the deferral of $60.2M in tuition fees at the end of the reporting quarter. This deferred revenue will be taken into income by the end of the fiscal year, thus bridging the gap in the current quarter operating deficit.

Revenue increase is largely driven by:

- $4.9M increase in **tuition fees** due to increase in the enrolment (net 505 domestic FTE and 106 international FTE) coupled with the year-over-year average increase of 5% in international tuition fees.
- $1.7M increase in **student ancillary fees** of which $1.1M relates to the accounting recognition of prior year ancillary fees to fund athletic capital renovations, and remaining increase due to the year-over-year increase in enrolment and an average 2% increase in ancillary fees.
- $2.2M increase in **other income** due to the recovery of the ancillary services from the pandemic, including $1.1M increase in ACE revenues mostly due to increase in "electric vehicle" testing, and $0.5M recognition of prior year deferred revenues for research programs.
- $1.2M increase in **interest revenue** on treasury balances and short-term investments, attributable to the rising interest rates in the last year.

Expenses increase is driven by:

- $5.9M increase in **salaries and benefits** for faculty and staff, including new hires and annual salary increases. Salaries and benefits which comprise over half of the total expenses of the University and are mostly tied to collective agreements, have consumed 60% of the year-over-year increase in total revenue.
- $2.0M increase in **supplies and expenses** as activities return to pre-pandemic levels with increases seen in travel, cost of goods sold for food services, janitorial services and increased supplies for more in class sessions in the current year.

Statement of Operations (continued)

- These increases are offset by $1.9M of **unrealized loss on endowed investments** with the market showing strong performance year-to-date as inflation continues to fall from the highest level in decades and economic activity has continued to expand.

Statement of financial position

The statement of financial position remains stable at the end of the reporting quarter with **net assets** increase of $5.5M (or 5.1%) over the prior year. Net Assets increased in line with the net increase in assets and liabilities, and are supported by cash and restricted investments.

Total Assets increase of $4.4M (or 0.8%) over the prior year is largely driven by:

- Increase of $8.9M in **other accounts receivable** which includes $7.6M of student account receivable attributable to year-over-year enrolment growth.

  Other accounts receivable balance of $50.5M consists of net $46.6M of student receivable ($35.9M for the future winter semester, $10.7M for the current fall and prior receivable), $3.3M of trade, research and ACE receivable and other immaterial variances.
- decrease of $3.1M in **cash and short-term investments** includes a decease attributable to $7.3M investment in Regent Corporation and its related assets in Feb 2023. Cash and operating short-term investment balances remain stable at $91.0M, of which 26% pertain to externally restricted expendable donations and research funds.
- decrease of $6.7M in **capital assets** which is due to the net impact of accumulated amortization ($8.0M) vs asset additions ($1.3M) in the last 12 months.

Liabilities decrease of $1.1M (or 0.2%) over the prior year is mainly driven by:

- $11.0M in total **debt repayment**.
- $4.0M decrease in **deferred capital contributions** and relates to the net impact between contribution amortization ($8.1M) and new grants and donations received for capital projects ($4.1M)
- These decreases are offset by $10.9M increase in **revenues earned and deferred** as these are not spent at the end of the reporting quarter, including $7.0M of deferred tuition.

FINANCIAL IMPLICATIONS:

The primary purpose of this financial update is to report on the statement of financial position of the University for the period ending September 30, 2023. Maintaining a stable financial position is critical to Ontario Tech University's long-term financial sustainability.

COMPLIANCE WITH POLICY/LEGISLATION:
These audited financial statements are prepared in compliance with generally accepted accounting principles for not-for-profit organization.

SUPPORTING REFERENCE MATERIALS:

- Appendix 1: Consolidated GAAP Financial Statements for the 6 months ending September 30, 2023.

Appendix 1

Consolidated Financial Statements of

ONTARIO TECH UNIVERSITY

For 6 months ending September 30, 2023

ONTARIO TECH UNIVERSITY
Consolidated Statement of Financial Position
As at September 30, 2023

	Sep 30, 2023	Sep 30, 2022	YOY Variance	Mar 31, 2023
ASSETS				
Current assets				
Cash and cash equivalents	**$ 73,380,810**	$ 76,815,599	$ (3,434,789)	$ 62,176,383
Short-term investments	**17,474,300**	17,211,507	262,793	17,000,000
Grant receivable	**11,298,954**	9,550,471	1,748,483	9,287,216
Other accounts receivable	**50,498,007**	41,592,869	8,905,139	8,619,781
Prepaid expenses and deposits	**3,143,199**	2,865,577	277,623	2,684,901
Inventories	**43,540**	22,205	21,335	33,729
	155,838,810	148,058,228	7,780,582	99,802,010
Endowed investments	**33,121,874**	31,508,599	1,613,275	33,435,346
Other investments	**(1,779,573)**	(763,102)	(1,016,471)	(1,007,713)
Other assets	**4,533,219**	2,756,925	1,776,294	2,975,239
Capital assets	**392,062,667**	398,789,249	(6,726,581)	398,222,231
Intangible asset - goodwill	**973,421**	-	973,421	973,421
TOTAL ASSETS	**$ 584,750,419**	$ 580,349,900	$ 4,400,519	$ 534,400,534
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	**35,210,427**	32,149,433	3,060,994	30,576,509
Deferred revenue	**101,638,210**	90,718,375	10,919,835	35,326,367
	136,848,637	122,867,808	13,980,829	65,902,876
Other debt	**6,565,298**	175,116	6,390,182	6,935,027
Obligations under capital leases	**27,064,540**	34,765,271	(7,700,731)	27,275,782
Debenture debt	**133,225,254**	140,897,759	(7,672,505)	137,121,464
Fair value of interest rate swap	**19,214,045**	21,232,730	(2,018,685)	21,670,242
Deferred capital contributions	**153,952,857**	157,996,045	(4,043,188)	156,391,888
	476,870,631	477,934,729	(1,064,098)	415,297,281
NET ASSETS				
NET ASSETS, excluding current year surplus	**93,170,821**	90,723,933	2,446,888	90,562,828
Endowments	**26,283,003**	25,534,143	748,861	25,932,433
Current year deficit	**(11,574,036)**	(13,842,905)	2,268,869	2,607,993
	107,879,788	102,415,170	5,464,617	119,103,254
TOTAL LIABILITIES AND NET ASSETS	**$ 584,750,419**	$ 580,349,900	$ 4,400,519	$ 534,400,534

ONTARIO TECH UNIVERSITY
Consolidated Statement of Operations
For the 6 months ending September 30, 2023

		Sep 30, 2023		Sep 30, 2022		YOY Variance
REVENUE						
Grants - operating & research	**$**	**41,425,377**	$	41,768,397		(343,020)
Grant - debenture		**6,750,000**		6,750,000		-
Donations - operating & research		**154,588**		59,848		94,740
Student tuition fees		**34,923,198**		29,994,465		4,928,734
Student ancillary fees		**8,031,567**		6,344,403		1,687,164
Revenue from purchased services		**592,534**		490,143		102,391
Other income		**6,861,861**		4,637,436		2,224,426
Amortization of deferred capital contributions		**4,068,543**		4,179,467		(110,925)
Interest revenue		**1,903,218**		695,961		1,207,257
Gain/(loss) on disposal of assets		**93,769**		(16,743)		110,511
Unrealized gain on interest rate swap		**2,103,197**		1,968,589		134,608
		106,907,853		96,871,967		10,035,886
EXPENSES						
Salaries and benefits		**67,334,161**		61,444,722		5,889,439
Student aid, financial assistance and awards		**8,691,827**		7,704,608		987,219
Supplies and expenses		**16,987,210**		14,979,154		2,008,056
Purchased Services		**6,143,596**		5,394,682		748,914
Professional fees		**649,508**		560,285		89,223
Interest expense - debt obligations		**6,081,332**		6,523,693		(442,361)
Interest expense - other		**128,829**		106,263		22,566
Amortization of capital assets		**11,018,665**		11,374,803		(356,137)
Unrealized loss on investments		**674,901**		2,617,783		(1,942,882)
Loss on other investments		**771,860**		8,879		762,981
		118,481,889		110,714,872		7,767,017
Excess of expenses over revenues	**$**	**(11,574,036)**	$	(13,842,905)	$	2,268,869

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ONTARIO TECH UNIVERSITY
Consolidated Statement of Cash Flows
As at September 30, 2023

		Sep 30, 2023		Sep 30, 2022
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Excess of revenue over expenses	**$**	**(11,574,036)**	$	(13,842,905)
Items not affecting cash:				
Amortization of capital assets		**11,018,665**		11,374,803
Amortization of deferred capital contributions		**(4,068,543)**		(4,179,467)
Unrealized gain on interest rate swap		**(2,103,197)**		(1,968,589)
Unrealized loss on investments		**674,901**		2,617,783
(Gain)/loss on disposal of assets		**(93,769)**		16,743
Loss on other investments		**771,860**		8,879
		(5,374,119)		(5,972,754)
Working Capital				
Grant and other accounts receivable		**(43,889,964)**		(36,424,105)
Prepaid expenses and deposits		**(458,298)**		(706,760)
Inventories		**(9,812)**		(16,475)
Accounts payable and accrued liabilities		**4,633,918**		1,661,342
Deferred revenue		**66,311,843**		58,544,431
		21,213,568		17,085,679
INVESTING				
Purchase of capital assets		**(4,765,332)**		(6,316,886)
Investments		**(835,728)**		(597,562)
Other Assets		**(1,557,980)**		(283,348)
Endowment contributions		**350,571**		617,888
		(6,808,471)		(6,579,909)
FINANCING				
Repayment of interest rate swap		**(353,000)**		(343,000)
Repayment of debenture and other debt		**(4,265,940)**		(3,661,795)
Repayment of obligations under capital leases		**(211,242)**		(495,497)
Deferred capital contributions		**1,629,511**		1,584,659
		(3,200,671)		(2,915,633)
NET CASH INFLOW		**11,204,427**		7,590,137
CASH BALANCE, BEGINNING OF YEAR		**62,176,383**		69,225,462
CASH BALANCE, END OF PERIOD	**$**	**73,380,810**	$	76,815,599

COMMITTEE REPORT

SESSION:		**ACTION REQUESTED:**	
Public	☒	**Decision**	☒
Non-Public	☐	**Discussion/Direction**	☐
		Information	☐

TO: **Audit & Finance Committee**

DATE: **November 23, 2023**

FROM: **Brad MacIsaac, VP Administration**

SUBJECT: **Amendment of Statement of Investment Policies**

COMMITTEE/BOARD MANDATE:
The Audit & Finance Committee is responsible for overseeing the investment of the university's endowment funds (Funds), which includes approving any changes to the Statement of Investment Policies ("SIP").

On the recommendation of our investment manager the university leadership is putting forward a motion to amend the SIP to diversify the current alternatives allocation by reducing the portfolio allocation to the PH&N Mortgage Pension Trust and the RBC Canadian Core Real Estate Fund in favour of two new alternative strategies within the private equity and private debt asset classes. More specifically, the new strategies are Oaktree Strategic Credit Trust and Hamilton Lane Global Private Assets Fund.

BACKGROUND/CONTEXT & RATIONALE:
As discussed at the June 14, 2023 meeting of A&F, the Ontario Tech portfolio composition has evolved over the past 12 years to generate better risk-adjusted returns through a resilient portfolio construction process that incorporates public markets bond and equity exposures, as well as real assets (mortgages, real estate, and infrastructure).

Ontario Tech portfolio composition has evolved over the past 12 years to generate better risk-adjusted returns. Over the past 5 years, we introduced "alternatives" through real assets (mortgages, real estate, infrastructure). At that time PH&N's recommendation and rationale for this included:

- The opportunity to invest in tangible assets that have a high barrier to entry and support economic growth,
- Yield and capital appreciation with high cash flow visibility,

- Embedded inflation protection due to many investments being GDP-sensitive assets,
- Significant investable opportunity set with remarkable diversification potential across segments and geographies.

The mortgage strategy, PH&N Mortgage Pension Trust, was the first alternative strategy introduced to the portfolio and has added significant value since inception. The RBC Canadian Core Real Estate Fund is another alternative strategy that was added to the portfolio a few years ago and has also generated substantial value-add, particularly in the form of an attractive cash yield in what was until last year a very low yield environment for bonds. As other alternative strategies have become available, however, PH&N believes there is merit to reallocating some of this mortgage and real estate exposure to other segments of the alternatives universe in order to diversify the portfolio's alternatives exposure. Both Oaktree and Hamilton Lane are suitable for investors with a long-time horizon and some tolerance for lower liquidity (noting that the liquidity profile for both strategies is the same as that of mortgages and real estate).

The proposed target allocation to each strategy is 4%, with the expectation that full exposure will be opportunistically gained over a 18-24 month transition period in consideration of both lead time for partial liquidation of mortgages and real estate, and the overall macro and capital markets environment. The university leadership and our investment manager are recommending that the Audit and Finance Committee approve the proposed revisions to the SIP to ensure more flexibility to respond to market changes without a reduction in accountability.

IMPLICATIONS:

These changes are intended to make the SIP document fully functional on a standalone basis. The genesis for the proposed changes is to enhance the ability of our investment managers to execute our tactical asset and strategy mix shifts in a timely fashion while ensuring that we don't breach the risk-reward framework that the Committee operates within.

MOTION for CONSIDERATION:

- *That pursuant to the recommendations of management and the investment manager that the Audit & Finance Committee hereby recommends the proposed amendments to the Statement of Investment Policies, to the Board as presented.*

SUPPORTING REFERENCE MATERIALS:

Appendix A – revised SIP (edits to 5.2e and table 6.1)

Classification	LCG 1128
Framework Category	Legal, Compliance and Governance
Approving Authority	Board of Governors
Policy Owner	Vice-President, Administration
Approval Date	March 10, 2022
Review Date	March 2023
Supersedes	June 24, 2021; Statement of Investment Policies, February 27, 2020; Editorial Amendments, February 18, 2020; February 28, 2019; June 2016, June 27, 2018

STATEMENT OF INVESTMENT POLICIES

1.0 Purpose

The purpose of this Statement of Investment Policies ("SIP") is to define the management structure governing the investment of non-expendable (endowed) university funds, and to outline the principal objectives and rules by which assets will be managed. The assets will be managed in accordance with this Statement and all applicable legal requirements. Any investment manager ("Manager") or any other agents or advisor providing services in connection with assets shall accept and adhere to this Statement.

2.0 RESPONSIBILITIES

2.1 **Board of Governors**

The Board of Governors ("the Board") of the university has responsibility and decision-making authority for these assets.

As part of its fiduciary responsibilities, the Board will:

- appoint members to sit on Audit and Finance Committee;
- receive the Audit and Finance Committee's recommendations with respect to the SIP and approve or amend the SIP as appropriate;
- review all other recommendations and reports of the Audit and Finance Committee with respect to the Fund and the selection, engagement or dismissal of professional investment managers, custodians and advisors, and take appropriate action.

2.2 **Audit & Finance Committee**

The Committee may delegate some of its responsibilities to agents or advisors. In particular, the services of a custodian (the "Custodian") and of one or more investment managers (the “Manager”) may be retained. As part of its fiduciary responsibilities, the Audit and Finance Committee will:

- maintain an understanding of legal and regulatory requirements and constraints applicable to these assets;
- review the SIP on an annual basis, and make appropriate recommendations to the Board of Governors;
- formulate recommendations to the Board of Governors regarding the selection, engagement or dismissal of professional investment managers, custodians and advisors.
- oversee the Fund and the activities of the Manager, including the Manager’s compliance with their mandate and the investment performance of assets
- ensure that the Manager is apprised of any amendments to their mandate; and
- inform the Manager of any significant cash flows.

2.3 **Investment Manager(s)**

The Manager is responsible for:

- Selecting securities within the asset classes assigned to them, subject to applicable legislation and the constraints set out in this Statement;
- Providing the Committee with quarterly reports of portfolio holdings, a review of investment performance, facilitating future strategy discussions and recommending appropriate changes to the investment portfolio; (see Section 8 on “Reporting and Monitoring”);
- Attending meetings of the Committee at least once per year to review performance and to discuss proposed investment strategies;
- Informing the Committee promptly of any investments which fall outside the investment constraints contained in this Statement and what actions will be taken to remedy this situation; and
- Advising the Committee of any elements of this Statement that could prevent attainment of the objectives.

3.0 PORTFOLIO OBJECTIVES

3.1 **Investment Policy**

The Investment Policy outlines the university's investment objectives and risk guidelines. Investment objectives are defined in the context of Total Return which is defined as the sum of income and capital gains from investments.

3.2 Investment Objectives

The overall investment objective is to obtain the best possible total return on investments that is commensurate with the degree of risk that the university is willing to assume in obtaining such return. In general, the university's investment decisions balance the following objectives:

- generate stable annual income for the funds' designated purpose;
- preserve the value of the capital;
- protect the value of the funds against inflation; and
- maintain liquidity and ease of access to funds when needed

Stable annual incomes are an essential part of the disbursement process, and facilitate the forecast of spendable income each year. The investment object for non-expendable (endowment) funds is to generate a total return that is sufficient to meet obligations for specific purposes by balancing present spending needs with expected future requirements. The total return objective must take into consideration the preservation of endowment capital, and the specific purpose obligations according to donor wishes.

All endowment funds are to be accumulated and invested in a diversified segregated or pooled fund of Canadian and foreign equities and fixed income securities. These funds must be structured to optimize return efficiency such that the return potential is maximized within the organization's risk tolerance guidelines. The Manager is expected to advise the Committee in the event that the pooled fund exhibits, or may exhibit, any significant departure from this Statement.

4.0 GENERAL GUIDELINES

The university uses the investment pool method, except that in those instances where funds are precluded under agreement or contract from being pooled for investment purposes. The acquisition of specific investment instruments outside of authorized investment pools, requires the approval of the Chief Financial Officer and one of either President or VP External Relations.

All securities shall be registered in the University Of Ontario Institute of Technology's name; or in the name of a financial institution that is eligible to receive investments under the University Of Ontario Institute Of Technology's

Investment Policy.

The university may or may not directly or internally manage any portion of its endowed funds.

External investment managers and/or advisors shall be selected from well-established and financially sound organizations which have a proven record in managing funds with characteristics similar to those of the university.

The university shall maintain separate funds in the general ledger for endowment fund donations. Within these funds, the university shall maintain accurate and separate accounts for all restricted funds.

Investment income, capital gains and losses on the sale of equities and securities, and the amortization of premiums and discounts on fixed term securities earned on endowment funds accrue to the benefit of the endowment accounts and are distributed to capital preservation, stabilization and distribution accounts annually.

5.1 **AUTHORIZED INVESTMENTS**

5.2 **Investment Criteria**

Outlined below are the general investment criteria as understood by the Committee. The list of permitted investments includes:

(a) Short-term instruments:

- Cash;
- Demand or term deposits;
- Short-term notes;
- Treasury bills;
- Bankers acceptances;
- Commercial paper; and
- Investment certificates issues by banks, insurance companies and trust companies.

(b) Fixed income instruments:

- Bonds;
- Debentures (convertible and non-convertible); and

Commented [BM1]: Delete Mortgages from web version as classified as alternatives. This was altered previously in the table but not in this section.

(c) Canadian equities:

- Common and preferred stocks;
- Income trusts; and

- Rights and warrants.

(d) Foreign equities:

- Common and preferred stocks;
- Rights and warrants; and
- American Depository Receipts and Global Depository Receipts.

(e) Alternative investments:

- Direct Real Estate Equity: commercial investment grade income-producing real estate
- Direct investment in Global Private Infrastructure assets via a pooled fund structure that is well-diversified across sectors and geographies with a focus on countries that are members of the Organization for Economic Co-operation and Development (OECD).
- Conventional Mortgage investments primarily in first mortgages on income-producing commercial, industrial, and multi-residential properties. Underlying mortgages should be diversified geographically and by property type, and places an emphasis on large population centers with strong demographic and economic growth profiles.
- Private equity and private debt accessed only through a well-diversified pooled fund structure.

(f) Pool funds, closed-end investments companies and other structured vehicles in any or all of the above permitted investment categories are allowed.

5.3 **Derivatives**

The Fund may use derivatives, such as options, futures and forward contracts, for hedging purposes, to protect against losses from changes in interest rates and market indices; and for non-hedging purposes, as a substitute for direct investment.

5.4 **Pooled Funds**

With the approval of the Committee, the Manager may hold any part of the portfolio in one or more pooled or co-mingled funds managed by the Manager, provided that such pooled funds are expected to be operated within constraints reasonably similar to those described in this mandate. It is recognized by the Committee that complete adherence to this Statement may not be entirely possible; however, the Manager is expected to advise the Committee in the event that the pooled fund exhibits, or may exhibit, any significant departure from this Statement.

5.5 **Responsible Investing**

The Board has a fiduciary obligation to invest the Fund in the best interests and for the benefit of the university.

The Board recognizes that environment, social, and governance (ESG) factors may have an impact on corporate performance over the long term, although the impact can vary by industry. Best practices suggest that incorporating ESG factors in the investment process is prudent and aligned with the university's social commitment.

Given the fact that the university uses the investment pool method, it is not practical for the Committee to directly engage individual companies on ESG related issues, either through dialogue or by filing shareholder resolutions. Subject to its primary fiduciary responsibility of acting in the best interests of the university and its stakeholders, and within the limits faced by an investor in externally managed pooled funds, the Committee will incorporate ESG factors into its investment process through the following methods:

(a) **Manager Selection and Reporting**

The integration of ESG factors in the investment process will be a criterion in the selection, management and assessment of the Manager.

The Committee will require the Manager to provide regular and annual reporting on the incorporation of formal ESG factors in the management of their portfolios.

(b) **Engagement**

Since the university does not directly invest in companies, proxy voting is delegated to the Manager. The Committee will encourage the Manager to incorporate into their proxy voting guidelines policies that encourage issuers to increase transparency of their ESG policies, procedures and other activities, and also to bring to the Committee's attention any significant exposure through the Fund to a particular company, industry or nation that is facing a material ESG issue.

6.0 RISK GUIDELINES

All investment of assets must be made within the risk guidelines established in this Statement. Prior to recommending changes in investments, the Manager must certify to the Committee that such changes are within the risk guidelines. For the purposes of interpreting these guidelines, it is noted that all allocations are based on market values and all references to ratings reflect a rating at the time of purchase, reviewed at regular intervals thereafter. In the event that the portfolio is, at any time, not in compliance with either the ranges or ratings profile established in this Statement, such non- compliance will be addressed within a reasonable time after the Manager or Committee has identified such non-compliance.

6.1 Asset Mix and Ranges

Investment of assets must be within the asset classes and ranges established in Table 6.1.

Table 6.1

Asset Class	Strategic Target	Range	Benchmark (Total Return)
Cash & short-term	**0%**	**0% – 10%**	FTSE 30-Day T-Bill Index
Fixed Income	**20%**	**15% – 35%**	
Core Plus Bonds	20%	15% - 35%	FTSE Canada Universe Bond Index
Equities	**55%**	**45% - 65%**	
Canadian	20%	10% - 30%	S&P/TSX Capped Composite Index
Global	30%	20% - 45%	MSCI World Net Index ($C)
Emerging Market Equities	5%	0% - 10%	MSCI Emerging Markets Net Index ($C)
Alternatives	**25%**	**10% - 30%**	
Direct Real Estate	~~10~~6%	0 - 10~~5~~%	Canadian CPI (Non-Seasonally Adjusted) 1-month lag + 400 bps
Mortgages	5~~8~~%	0% - 10~~5~~%	FTSE Canada Short Term Overall Bond Index
Global Infrastructure	~~7~~6%	0 – 10~~5~~%	Canadian CPI (Non-Seasonally Adjusted) 1-month lag + 400 bps
Private Debt	4%	0 – 8%	Morningstar LSTA US Leveraged Loan Index
Private Equity	4%	0 – 8%	MSCI World Net Index ($C)

6.2 Cash and Cash Equivalents

Cash and cash equivalents must have a rating of at least R1, using the rating of the Dominion Bond Rating Service (“DBRS”) or equivalent.

6.3 Fixed Income

(a) Maximum holdings of the fixed income portfolio by credit rating are:

Credit Quality	Maximum in Bond[1]	Minimum in Bond[1]	Maximum Position in a Single Issuer
Government of Canada[2]	100%	n/a	no limit
Provincial Governments[2]	60%	0%	40 %
Municipals	25%	0%	10%
Corporates	75 %	0%	10%
AAA[3]	100%	0%	10%
AA[3]	80%	0%	5%
A[3]	50%	0%	5%
BBB	15%	0%	5 %
BB and less	20 %	0%	2 %

[1] Percentage of portfolio at market value; [2] Includes government-guaranteed issues; [3] Does not apply to Government of Canada or Provincial issues

(b) Maximum holdings of the fixed income portfolio, other than Canadian denominated bonds as illustrated in 6.3 (a), by asset type:

- 20% for asset-backed securities;
- ~~60% for mortgages or mortgage funds;~~
- 20% for bonds denominated for payment in non-Canadian currency; and
- 10% for real return bonds.

(c) All debt ratings refer to the ratings of Dominion Bond Rating Service (DBRS), Standard & Poor's or Moody's.

(d) No less than 80% of non-Canadian dollar denominated bonds should be hedged back to the Canadian dollar.

6.4 Equities

(a) No one equity holding shall represent more than 15% of the market value of the assets of a single pooled fund.

(b) There will be a minimum of 30 stocks in each equity (pooled fund) portfolio.

(c) No more than 5% of the market value of an equity portfolio (pooled fund) may be invested in companies with a market capitalization of less than $1 billion at the time of purchase

(d) Illiquid assets are restricted to 10% of the net assets of the Fund.

(e) Foreign equity holdings can be currency hedged to a maximum of 50%

~~(e)~~(f) It is expected that Global Equities will be well-diversified to represent a proportional share of U.S. equities as part of the broader global markets. This has historically ranged from 55% to 65%.

6.5 **Alternative Assets**

(a) Illiquid assets shall not constitute more than 30% of the total portfolio.

(b) Alternative investment solutions have the potential to enhance fixed income returns, reduce equity risk, reduce portfolio volatility and improve portfolio efficiency. They typically require a longer investment horizon, are less liquid, and when considered in isolation may be deemed more risky than other securities. The associated risks, fees and expenses are detailed in a document called an Offering Memorandum which the manager is responsible for providing to the appropriate Committee prior to any such new investment being made in the portfolio.

7.0 PERFORMANCE EXPECTATIONS

7.1 Portfolio Returns

The portfolio is expected to earn a pre-fee rate of return in excess of the benchmark return over the most recent five-year rolling period. Return objectives include realized and unrealized capital gains or losses plus income from all sources. Returns will be measured quarterly, and calculated as time-weighted rates of return. The composition of the benchmark is developed from the asset mix outlined in this Statement and more specifically described in the Asset Class Management Procedures, Appendix A.

In order to meet the university's disbursement requirements, investments need to earn a minimum level of income, measured over a five-year rolling market cycle. The minimum recommended level is defined as the sum of the following items:

Minimum disbursement requirement	3.5%
Investment management fees	0.5%
Capital preservation amount	2.0%
Minimum Rate of Return	6.0%

Note: The disbursement requirement and capital preservation amounts will be reviewed, and updated as required.

8.0 REPORTING & MONITORING

8.1 Investment Reports

Each quarter, the Manager will provide a written investment report containing the following information:

- portfolio holdings at the end of the quarter;
- portfolio transactions during the quarter;
- rates of return for the portfolio with comparisons with relevant indexes or benchmarks; Compliance report;

8.2 Monitoring and Recommendations

At the discretion of the Committee as required, the Manager will meet with the Committee regarding:

- the rate of return achieved by the Manager;
- the Manager's recommendations for changes in the portfolio;
- future strategies and other issues as requested.

The agreement with the Manager or any Custodian will be reviewed by the committee on a four year cycle. This review could include a Request for Proposal for these services.

8.3 Annual Review

It is the intention of the university to ensure that this policy is continually appropriate to the university's needs and responsive to changing economic and investment conditions. Therefore, the Committee shall present the SIP to the Board, along with any recommendations for changes, at least annually.

9.0 STANDARD OF CARE

The Manager is expected to comply, at all times and in all respects, with the code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute.

The Manager will manage the assets with the care, diligence and skill that an investment Manager of ordinary prudence would use in dealing with all clients. The Manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent Investment Manager.

The Manager will manage the assets in accordance with this Statement and will verify compliance with this Statement when making any recommendations with respect to changes in investment strategy or investment of assets.

The Manager will, at least once annually, provide a letter to the Committee confirming the Manager's familiarity with this Statement. The Manager will, from time to time, recommend changes to the SIP to ensure that the SIP remains relevant and reflective of the university's investment objectives over time.

10.0 CONFLICT OF INTEREST

All fiduciaries shall, in accordance with the university's Act and By-laws and policies on conflict of interest, disclose the particulars of any actual or potential conflicts of interest with respect to the Fund. This shall be done promptly in writing to the Chair of the Audit & Finance Committee. The Chair will, in turn, table the matter at the next Board meeting. It is expected that no fiduciary shall incur any personal gain because of their fiduciary position. This excludes normal fees and expenses incurred in fulfilling their responsibilities if documented and approved by the Board.

11.0 PROXY VOTING RIGHTS

Proxy voting rights on portfolio securities are delegated to the Manager. The Manager is expected to maintain, and produce upon request, a record of how voting rights of securities in the portfolio were exercised. The Manager will exercise acquired voting rights in the best interests of the unit holders of the pooled fund.

COMMITTEE REPORT

SESSION:		**ACTION REQUESTED:**	
Public	☒	**Decision**	☐
Non-Public	☐	**Discussion/Direction**	☒
		Information	☐

TO: **Audit & Finance Committee**

DATE: **November 23, 2023**

FROM: **Brad MacIsaac, Vice President Administration**

SUBJECT: **Interim Risk Management Report**

COMMITTEE MANDATE:
The Audit and Finance Committee is responsible for overseeing risk management and other control functions at the University. This oversight includes receiving regular reports from management on areas of significant risk to the University.

BACKGROUND/CONTEXT & RATIONALE:
The office of Risk Management is charged with presenting an annual report in April of each year. At all other meetings we present interim reports focusing on new additions, changes, or emerging risks impacting the University.

This report showcases the university's current landscape, profiling the most common themes identified by risk owners. The report further provides key mitigation efforts to support the university's resilience and sustainability to emerging and inherent risk.

Four items that we would like to highlight for A&F this quarter are:

<u>EMERGING GLOBAL CLIMATE:</u> In response to the evolving global landscape, our university is proactively and continuously monitoring and reviewing emerging risks on campus to ensure timely identification and management. Key Stakeholders across the institution are collaborating, ensuring an active and engaged response to these dynamic global challenges.

<u>GROWTH STRATEGY:</u> The university's journey towards growth has become top of mind for several risk owners across the institution. As we undertake growth initiatives during

a period of steadily increasing institutional reputation, it is imperative to implement coordinated integration efforts, establish robust project oversight, and advance a change management strategy through a well-structured communications plan. Notably, risks related to recruiting and retaining are becoming increasingly prevalent across the entire university. The university has acknowledged the evolving trend and is proactively collaborating with people managers and leaders throughout the institution.

COMPLIANCE TRACKING UPDATE: Efforts to advance the compliance culture include the construction of a comprehensive Master Legislative Compliance Tracker and exhaustive research into legislative mandates. A Compliance Register Questionnaire was implemented in October to validate data accuracy and assess compliance against legislative requirements. Anticipated outcomes include gap identification and the development of strategic workplans to meet legislative expectations. While the university is subject to various compliance and regulatory reporting requirements, the Office of Risk Management has not identified any breaches or incidents that necessitate notification to the Board.

CYBER UPDATE: While the university has not experienced significant cyber incidents recently, the risk landscape continually evolves. The institution must be bold in its cybersecurity initiatives. This is a daily threat as our firewall fended off over 19.9 million threats during the period April to September 2023. This is in line with other small post-secondary institutions. Our current cybersecurity measures encompass a range of controls and recent enhancements. However, it's essential to acknowledge identified risks and vulnerabilities in our cybersecurity approach. These include the possibility of unidentified threat vectors, even in the absence of significant incidents. The collaboration with Durham College introduces interinstitutional dependencies, potentially exposing us to new vulnerabilities due to the involvement of different units in our systems. The emerging initiatives from bodies like the Council of Chief Information Officers (OCCCIO) indicate that information security is becoming a sector-wide concern. We will continue to engage external partners in our risk management processes and reporting, demonstrating our eagerness and ability to adapt and remain open to change.

NEXT STEPS:

As we move the university's strategies ahead, we will consider, as part of our risk workplan, connecting the risks more intentionally to our integrated academic research plan, as well as the common themes of educational excellence, workforce readiness, research and innovation, financial sustainability, access and equity, and infrastructure sustainability. These interconnections will allow for an integrated approach to risk management that supports the university in achieving its long-term goals while effectively addressing potential challenges along the way.

Attachments:

Interim Risk Management Report November 2023

November 2023

INTERIM RISK MANAGEMENT REPORT

Prepared by:
Brad MacIsaac - Chief Risk Officer
Jackie Dupuis - Director of Risk Management
November 23, 2023

BACKGROUND

The University Risk Management (URM) framework was established in June 2014, underpinned by the institutional risk register developed and validated in partnership with all faculty and administrative units in 2017. The University's risk register is continuously (normally annually at minimum and as any in year changes occur) reviewed with risk owners. The 2023 review of the risk register is progressing well. This meticulous process allows us to continually assess and prioritize risks, ensuring that our risk management strategies remain relevant and effective. This exercise will conclude by the early winter term, with a comprehensive report scheduled for April. Key recurring themes have surfaced and are summarized below.

Operational Risk remains well within appetite, consistently maintaining a moderate risk profile throughout the institution. While the operational risk area may not be classified as 'high' risk in our assessment, it undeniably holds the distinction of having the greatest number of risks assigned to it. Furthermore, it garners the most attention and resources across the university, primarily due to its significant implications in terms of both liabilities and resource allocation. Notable efforts to continue the mitigation of operational risks at the institution have been ongoing.

Training Presentations: We have successfully developed unique, comprehensive training presentations designed for university members, university managers, and researchers. These presentations aim to provide valuable insights into risk management practices, thereby equipping our community with the knowledge and tools to mitigate risks effectively. In addition, the Board recently underwent their annual new member orientation training which included a segment on risk management at Ontario Tech.

Series of Inspections: During the summer term, we conducted a series of thorough inspections to assess and identify potential risks across various areas of our university. These inspections are essential in ensuring the safety and security of our campus and its members. Additionally, we welcomed several visits from insurers to review our university's spaces and research initiatives. Of particular note is our focus on cybersecurity during the fourth quarter, highlighting our commitment to safeguarding sensitive data.

Tools and Resources: The establishment of an Event Guide and Field Trip Guide is a significant milestone in ensuring the safety and success of university events and trips away from campus. These guides will serve as a valuable reference for planning and executing events with risk management in mind. Additionally, enhancing the safety and security of our students and staff during such activities. Lastly, to empower front-line staff, we have created easily accessible risk bulletins, which serve as valuable resources for understanding and addressing risks. These resources are now available online for quick reference.

Financial Risk continues to remain top of mind with uncertainty surrounding enrollment challenges and funding diversification. The university continues to invest in diversifying educational offerings, including continuous learning, industry and international partnerships. It's essential to exercise caution by conducting thorough due diligence before entering into transactions and adhering to the university's defined contract framework. As we face competition from non-traditional competitors and continually adapt to industry's evolving landscape, the institution's strategic emphasis is on specialized programs and skills that are not easily replicated elsewhere, ensuring a unique and valuable educational offering. Furthermore, faculties are tasked with prioritizing real-world experience opportunities for students that will enhance their career readiness. The university continues to monitor and review its financial sustainability on an ongoing basis.

The Office of Risk Management has successfully implemented a central database for cross-institutional assessments, in line with the 2022 Auditor General's Report. This effort, led by a specialized task force, has established a centralized framework for effectively identifying and addressing institutional gaps. The introduction of a standardized Report Form, now actively used by stakeholders since September 2023, has significantly improved the efficiency of assessment activities. These advancements are expected to enrich the annual risk report due in April 2024

Strategic Risk discussions have been ongoing with Senior Leadership Team (SLT) to deliberate on current strategic risks key theme classification. We are in the process of preparing a presentation to clarify how these key themes were initially identified and why changes in our risk management approach may be necessary. The review is against the evolution of the university's integrated academic plan, vision, priorities, considering external factors, alongside the changing landscape of risk. Furthermore, this exercise will assist in re-establishing accountabilities and expectations of risk at the institution and tease out common themes to facilitate interdepartmental conversations, which will diversify risk perspective, creativity and innovation, create greater continuity, and establish stronger interconnections.

Reputational Risk remains well within acceptable parameters and has maintained stability since the last reporting period. Several positive developments underscore the institution's commitment to enhancing its brand and reputation. The university has significantly expanded its partnerships with esteemed organizations, showcasing its dedication to collaborative initiatives that positively impact its image. In addition, the institution's approach to program innovation, marked by adaptability and forward-thinking strategies, demonstrates a commitment to staying at the forefront of education trends. Furthermore, the university has successfully expanded its offerings in high-demand programs, aligning its portfolio with market needs and student preferences. The repackaging of existing programs, along with the introduction of varying cost structures, highlights its flexibility and accessibility. The university's encouragement of a culture of adaptability and agility further strengthens its ability to respond effectively to changing circumstances.

Lastly, the President's commitment to transparent and proactive communication, both regarding changes and opportunities for advancement, has significantly contributed to strong brand management. This open approach fosters trust and goodwill among stakeholders and reinforces the institution's positive image.

AT A GLANCE - RISKS

The risks highlighted in the dashboards that follow may evolve every quarter. The highlights are a snapshot of a few of the items that the Office of Risk Management notes as a new addition, a change from last quarter, and/or those possessing the highest residual impact and likelihood scores after existing management controls have been fully considered.

Operational Risk
Risk Definition: Exposures that arise from people or a failure in internal processes, systems or controls and may impact the University's ability to sustain immediate or future business operations.
Alignment to Risk Appetite: Within risk appetite

Key updates since last report: The university continues to adequately manage operational risk activities on campus diligently. Amidst the backdrop of global uncertainties, the university has consistently upheld its commitment to fostering a secure and inclusive campus environment for its members.

There continues to be opportunity and exposure around travel and mobility risk off campus. Since COVID, and in the wake of recent global distress, addressing requirements and realities for travel will be necessary, including changes to processes and programs, such as the existing crisis management response.

Top Operational Risks	Risk Trend	Risk Mitigation Plan
International Travel Risks associated with students travelling internationally on university-sanctioned activities	↑	**Policy:** Review existing policy against the current landscape and complete fulsome overhaul to include all university membership and assign intentional accountability and responsibility; **Tools and Resources:** Re-evaluate existing registration tools to determine adequacy and efficacy; **Risk:** Reinforce risk assessment process; **Partnerships:** Research and identify complementary resources to support the university's travel safety initiatives;
Risk Owner:		Associate Vice President – International

Financial Risk

Risk Definition: Exposures that arise from the University's financial operations and/or external market forces, with the potential to impact funding level, investment performance, liquidity, budget, premium revenue/rates, and other key financial indicators.

Alignment to Risk Appetite: Within risk appetite

Key updates since last report: After years of budget uncertainty relating to COVID, we are forecasting a relatively stable yet lean three-year balanced budget position. The university has continued to grow over the last two recruitment cycles, however must remain laser focused on continuing to lead in student applications.

Top Financial Risk	Risk Trend	Risk Mitigation Plan
Financial Sustainability: Risk associated with inadequate fiscal controls	→	Maintain focus on short term priorities and tangible gains; Continue to identify efficiencies to reallocate funds to priority areas; Continue to budget conservatively under the assumption of frozen tuition policies and limited government funding, as well as the potential for volatile revenue swings;

		Encourage efforts on establishing alternative revenue streams;
Risk Owner:		Vice President – Administration

Contracts: Failure to adhere to the contract management framework.	→	**Policy:** Contract management and signing authority policy currently in final stages of review. **Training:** Training developed and has been made available to university members, and managers;
Risk Owner:		*Collaborative*: General Counsel and VP - Administration

Strategic Risk

Risk Definition: Risk that arises from internal and external trends and events that might impact the University's ability to achieve its mandate, or that arise from its ability to identify and execute on objectives and to establish and implement strategies to achieve them.

Alignment to Risk Appetite: Within risk appetite

Key updates since last Report: Despite the university's commitment to growth and expansion, a culture of uncertainty has reared which may impact long term viability and reputation if not managed effectively. Common themes noted include turnover affecting project delays and burnout, knowledge gaps, challenges in the hybrid work model, economic factors, and incivility. The university is taking proactive measures to address these issues and maintain a positive culture.

Top Strategic Risk	Risk Trend	Risk Mitigation Plan
Culture Employee Engagement; Talent Recruitment and Retention; External Economic and Legislative Factors;	↑	**Labor Market Analysis**: a comprehensive review is underway, which will help inform our compensation strategy against market data and assess comparative positioning with counterpart universities; **Training**: Commitments are in place for manager training to address cultural issues, and promote a more respectful and supportive campus environment; **Manager Empowerment:** Develop and implement a comprehensive talent management strategy that includes succession planning to address institutional knowledge gaps; **Cross-Institution Dialogue**: Regular conversations with other educational institutions help us keep a finger on the pulse of broader trends;

	Pan-Institutional Communication: Enhance internal communication to ensure alignment of expectations and standards across departments;
Risk Owner:	Vice President – People and Transformation

Reputational Risk

Risk Definition: Exposures that arise from stakeholders' perception of the University with the potential to impact public trust in the University, as a result of direct or indirect action of the University, its employees, partners or suppliers.

Alignment to Risk Appetite: Within risk appetite

Key updates since last report: The university has actively managed risk through a comprehensive approach to cybersecurity, including the implementation of robust controls and recent enhancements. The institution must continue to remain vigilant and agile against uncertainty. While cyber security can fall into a realm of risk domains; data breaches, service impacts, negative media cover, legal implications, and trust factors all contribute to the institutions reputation.

Top Reputational Risk	Risk Trend	Risk Mitigation Plan
Cyber Security and Privacy: The failure to safeguard our information systems and data	→	**Enhanced Monitoring:** Extension of CrowdStrike subscription to include 24/7 SOC monitoring offers immediate incident response capabilities; **Collaborative Exercises:** Risk Management offices, ITS from both institutions, and the Office of Campus Safety will continue to have joint tabletop exercises focusing on information security. We are in the planning stages for another exercise in winter 2024, which will include more stakeholders based on the proposed scenario; **Legal Preparedness:** Ontario Tech and Durham College have aligned their breach counsel, allowing for a coordinated legal response to incidents; **Inter-Institutional Information Sharing**: Participation in OCCCIO initiatives for sharing essential information about breaches enhances collective security intelligence; **Investment:** Continued investment in cutting-edge cybersecurity tools and practices; **Risk:** Develop a formalized risk assessment process to identify and evaluate new cyber threats regularly; **Insurance:** Explore cyber risk insurance options as an additional layer of financial protection;
Risk Owner:		Vice President – Administration

APPENDIX A: EMERGING RISKS AND NEW INITIATIVES

Emerging Risks:	Climate Change
Risk Assessment:	Increase in catastrophic losses, caused by diverse climate changes. Extreme weather events are on the rise, such as flash floods, storm surges, wildfire, and excessive heat. Uncertainty can lead to infrastructure vulnerabilities, supply chain disruption, financial exposure, disruptions to research and academic activities, and people health implications.
Risk Category:	Operational, Financial
Next Steps:	Engage the university's reciprocal in completing its first Campus Vulnerability Assessment to benchmark the institution's existing strengths, weaknesses, opportunities, and threats.

New Initiatives:	Intellectual Property – insurance policy
Risk Assessment:	The university may lack adequate protection against patents, trademarks, and copyrights.
Risk Category:	Operational, financial, Reputational
Next Steps:	Work with stakeholders to consider the following: • Identify and inventory intellectual property; • Valuation of IP assets; • Contemplate existing IP protections; • Conduct fulsome risk assessment to identify insurable risks; • Legal review; • Assess IP policy promotion in risk management culture.

BOARD OF GOVERNORS
Audit & Finance Committee (A&F)

Minutes of the Public Session of the Meeting of June 14, 2023
2:00 p.m. to 2:47 p.m. Videoconference

Attendees: Carla Carmichael (Chair), Laura Elliott, Kathy Hao, Thorsten Koseck, Dale MacMillan, Steven Murphy

Regrets: Mitch Frazer, Kim Slade, Roger Thompson

Governors: Matthew Mackenzie, Dwight Thompson

Staff: Jamie Bruno, Krista Hester, Lori Livingston, Brad MacIsaac, Kimberley McCartney, Pamela Onsiong, Lauren Turner

Guests: Reagen Travers (KPMG), Bobbi White (KPMG)

1. Call to Order
The Chair called the meeting to order at 2:00 p.m. and read aloud the land acknowledgement.

2. Agenda
Upon a motion duly made by T. Koseck and seconded by S. Murphy, the Agenda, including the contents of the consent agenda, was approved as presented.

3. Conflict of Interest Declaration
There was none.

Dale MacMillan joined the meeting.

4. Chair's Remarks
The Chair thanked everyone for joining the last Committee meeting of the academic year. She reflected on an interesting first year as Chair of the Committee, highlighting the evolution of risk reporting, moving to a 3-year budgeting cycle, overseeing remediation of the recommendations from the Auditor General and oversight of complex financial transactions.

5. President's Remarks
The President thanked the Chair for her leadership over the past year and remarked upon the ongoing challenges presented by the tuition and grant freeze.

He then thanked students, staff, faculty and governors for making Convocation a great success last week. He closed by noting that June is Pride and Indigenous History month and welcomed Ruth Nyaamine, the new Associate Vice-President of Inclusion, Diversity and Belonging to the University.

6. Finance

6.1 Draft Audited Financial Statements 2022-2023

P. Onsiong presented the Draft Audited Financial Statements 2022-2023 (Statements). She noted that the Statements reflect the acquisition of control of Regent Corp. and its property located at 55 Bond St which took place in February 2023 for a cash consideration of $7.5 million. Turning to the statement of operations, P. Onsiong drew the Committee's attention to a surplus of $2.6 million for the year with revenues increasing 4% over last year but expenses increasing by 9%. She noted that 6% of the 9% was driven by salaries and benefits which consume over 80% of increased revenues. She advised the Committee that the statement of financial position remains stable with a net asset increase of $3.5 million over last year. Expendable net assets decreased slightly over last year, largely driven by the investment in Regent Corp. She reported that overall cash and short-term investments are healthy at $80 million, 25% of which is restricted for research and donations. She advised the Committee that over $11 million in debt obligations were repaid leaving $193 million on the books at the end of the fiscal year.

P. Onsiong then discussed the appendices to the Statements. She advised that restricted reserves are reviewed in conjunction with the year-end management report, which is prepared on a modified cash basis. She noted that the University used over $11 million from reserves in the current year to fund capital infrastructure and financial assistance to students. She recommended to the Committee that $0.5 million be set to reserves to comply with contractual obligations for faculty startup, professional development, and unspent student funds. Turning to the University's financial ratios, she commented that the ratios remain those recommended by the Council of Ontario Universities (COU) in 2016. Out of five ratios, the University falls short on three: income loss, debt, and interest burden. She advised that if the $13.5 million of grant funding received annually by the University from the Ministry for debenture debt is normalized, debt ratios fall well within minimal recommendations.

A discussion then ensued on the Statements. In response to a question, P. Onsiong confirmed that the threshold for capitalization is $10,000 at the University; staff are exploring increasing this to $25,000 to align with the sector and reduce manual work for the Finance team. In response to a different question, P. Onsiong advised that metrics are reported to the Ministry, including an explanation of the University's debt ratios. In response to a question, P. Onsiong clarified that deferred value represents a combination of operating and research values. The Chair expressed support for normalizing the debt metrics, commenting that they should be contextualized in the University's unique situation with respect to the debenture. In response to a question, P. Onsiong confirmed that the normalized value reflects the 80% guaranteed by the Ministry. In response to a question about the net income/loss ratio, P. Onsiong confirmed that there will be deficits in 2024/2025 and 2025/2026. The Committee requested that this ratio be monitored and met if possible. In response, P. Onsiong advised that the ratio demonstrates the ongoing challenges presented by restricted grant and tuition funding.

Upon a motion duly made by T. Koseck and seconded by S. Murphy, the Audit and Finance Committee hereby recommends the 2022/23 audited financial statements and the 2022/23 internally reserved funds, as presented, for approval by the Board of Governors.

6.2 Fourth Quarter Financial Reports

P. Onsiong presented the Fourth Quarter Financial Reports (Reports). She provided an overview of performance against forecast, drawing the Committee's attention to a projected $4.7 million forecast in Q3 that was $2 million less by year end actuals. She summarized significant upsides and downsides including unspent grants deferred to next year, lower than projected tuition revenue due to a formula error, and donations. She commented on forecasting challenges stemming from underspending in some units, increased benefit costs not included the budget or Q3 forecast, and unexpected repairs and equipment purchases. She advised that conversations with relevant stakeholders are underway to tighten forecasting processes. She closed by noting that the shortfall in actual year-end surplus meant that $6 million of the funds required to acquire Regent Corp. were funded through prior year reserves.

Carla Carmichael left the meeting.

7. Investment Oversight

7.1 Investment Portfolio Update

B. MacIsaac presented the Investment Portfolio Update, reporting a 5.5% rate of return which represents an increase since the December 2022 report. He advised that management and PH&N are seeing positive signs of recovery. He reported that as of January 2023 new disbursement quotas were required; working with the Advancement Office, Finance, and PH&N, he advised that the University is above the quota for compliance purposes.

Carla Carmichael rejoined the meeting.

8. Interim Risk Update

B. MacIsaac presented the Interim Risk Update, noting that twice a year there will be more in-depth presentations and in between reports will be interim with a focus on major changes since the last in-depth report. For this report, he advised that there were no major changes, but brought two updates to the Committee's attention: (i) consolidation of compliance requirements; and (ii) a site-visit by the University's insurer, Canadian Universities Reciprocal Insurance Exchange

(CURIE). With respect to compliance, he advised that staff are working to consolidate and centralize compliance data and exploring software to support these efforts. Regarding CURIE, he advised that the insurer is moving to a rewards program that incentivizes meeting or exceeding standards with premium reductions. In response to a question, he confirmed that there were significant issues arose in the last three months.

9. Consent Agenda

9.1 Minutes of Public Session of A&F Meeting of April 12, 2023

9.2 A&F Annual Board Report

9.3 Annual Policy Review

9.4 Privacy Report 2023

10. Adjournment

Upon a motion duly made by T. Koseck, the public session adjourned at 2:47 p.m.

Lauren Turner, University Secretary

COMMITTEE REPORT

SESSION:	**ACTION REQUESTED:**
Public ☒	**Decision** ☒
Non-Public ☐	**Discussion/Direction** ☐
	Information ☐

TO: **Audit and Finance Committee**

DATE: **November 23, 2023**

PRESENTED BY: **Pamela Onsiong**

SLT LEAD: **Brad MacIsaac**

SUBJECT: **Revised – Endowment Policy and Procedures**

COMMITTEE MANDATE:

Under the University's Act, section 9(1), the Board of Governors has the power to establish academic, research, service and institutional policies and plans to control the manner in which they are implemented. The University's Policy Framework is a key institutional policy that delegates the Board's power, establishing categories of policy instruments with distinct approval pathways.

Under the Policy Framework, the Board of Governors is the approval authority for the Endowment Management Policy, on the recommendation of the Audit and Finance Committee. The Audit and Finance Committee is the approval authority for the related Procedures.

We are submitting this report and proposed amended Policy and Procedures amendment for Audit and Finance Committee's consideration.

BACKGROUND/CONTEXT & RATIONALE:

The University is charged with investing endowment funds in order to maximize the benefit to both current and future beneficiaries. The University receives endowment funding from Donors for purposes including student awards, scholarships, bursaries, and program enrichment. The Board may also make allocations at its discretion to existing endowment funds or to establish new Board restricted endowment funds.

…/continued

The purpose of the amended Policy and Procedures is to outline the objectives and principles by which the University's endowment funds are established, administered and disbursed and to ensure the prudent administration of Donor and Board Endowed Funds. These amendments, if accepted, will supersede the current Endowment Management Policy (approved by the Board, March 2016) and Procedures (approved by A&F, February 2016).

OVERVIEW:

The objective is to re-affirm and put into practice these revised Policy and Procedures to ensure consistent and transparent, endowment fund management in line with best practice. It is also intended to hold the endowment fund in good stead in times of volatile economic conditions such as those we are currently experiencing (i.e. uncomfortably high inflation rates and decreasing total net returns), while at the same time allowing the University to meet its annual endowed disbursement quota.

A summary of the changes from the existing Policy and Procedures, and reasons for the change, are disclosed in the table below:

Category	Current Policy & Procedures	Revised Policy and Procedures
Spending - Capital preservation	In order to avoid a reduction over time in spending in real terms, due to the effects of inflation, a portion of the total net investment return, known as capital preservation, will be added to the Endowment.	No change from current policy. In addition, it is recommended that the Board of Governors **retain the right to limit or suspend the annual allocation of capital preservation**, e.g. when inflation rates are unusually high
Spending - Spending level	Spending levels are calculated using a percentage of a **four-year rolling average of the inflation adjusted capital value of the Endowment**	No change from current policy. The spending as a **basis of a four-year rolling average** will now be applied on a **prospective basis**. Using a 4-year rolling average tampers the impact of wild inflation rates on the spending level

…/continued

Category	Current Policy & Procedures	Revised Policy and Procedures
Funding & Disbursement – Allocation of investment returns	The annual investment return for disbursement is comprised of **realized gains and losses**, including interest, dividends, **and realized capital gains and losses,** net of investment fees.	The annual investment return for disbursement is based on a **total net return**. This comprises of realized capital gains/losses, interest, dividends, and **unrealized capital gains**, net of fees. The crystallization of unrealized capital gains will support the disbursement of awards when realized investment income is not sufficient to support the spending level after capital preservation. This follows endowment management best practices and is in line with donors' expectations
Funding & Disbursement - Stabilization fund	The stabilization fund **will not exceed 5%** of the inflation adjusted cost of the Endowment and any excess earnings will be returned to the principle endowment account	The stabilization fund **will not exceed 15%** of the Endowment and any excess balances will be considered for capitalization into the endowment fund or for one-time disbursement. Stabilization fund **increases from 5% to 15%** as the portfolio has reached a higher level of maturity compared to 7 years ago and has built a significant amount of unrealized gains. A higher stabilization fund also allows the University to continue disbursement of awards to students during economic downturn
Funding & Disbursement - Stabilization fund	When funds in the stabilization are insufficient to support committed spending, there will be, after approval by the BOG: a. A delay in spending b. Execution of unrealized gains; or c. Expense (s) paid from operating funds	When funds in the stabilization are insufficient to support committed spending, there will be, after approval by the BOG: a. A delay in spending; **b. Suspension of capital protection; or** **c. Encroachment on capital where permitted by the Endowment Fund Agreement** **Revised b) and c) will require Board approval** Current b) and c) require management approval only

…/continued

Compliance with this revised policy and procedures aligns with donors' expectations and sector best practice.

COMPLIANCE WITH POLICY/LEGISLATION:

The proposed policy and procedures comply with generally accepted accounting principles (GAAP) for not-for-profit organizations and the federal government's prescribed minimum annual payment percentage in order that the University retain its charitable tax status.

CONSULTATION AND NEXT STEPS:

Presented to:

- ✓ Policy Advisory Committee – Policy Assessment (September 25, 2023)
- ✓ Academic Council – Consultation (October 24, 2023)
- ✓ Administrative Leadership Team – Consultation (November 14, 2023)
- ✓ University on-line Consultation (October 16 – 27, 2023)
- Audit and Finance Committee – Policy Recommendation to Board of Governors; Procedures Approval (November 23, 2023)
- Board of Governors – Policy Approval (November 30, 2023)

MOTION FOR CONSIDERATION:

That the Audit & Finance Committee hereby approves the Endowment Management Procedures and recommends the Endowment Management Policy, as presented, for approval by the Board of Governors

SUPPORTING REFERENCE MATERIALS:

- Appendix 1: Revised Policy & Procedures

Item	10.9
Framework Category	Legal, Compliance and Governance
Approving Authority	Board of Governors
Policy Owner	Audit & Finance Committee
Approval Date	
Review Date	
Supersedes	Endowment Policy, June 2013

APPENDIX 1

ENDOWMENT MANAGEMENT POLICY

PURPOSE

1. Ontario Tech University receives endowment funding from Donors for purposes including student awards, scholarships, bursaries, and program enrichment. The Board may also make allocations at its discretion to existing endowment funds or to establish new Board restricted endowment funds. The University is charged with investing endowment funds in order to maximize the benefit to both current and future beneficiaries. The purpose of this Policy is to outline the objectives and principles by which the University's endowment funds are established, administered and disbursed.

DEFINITIONS

2. For the purposes of this Policy the following definitions apply:

"**Capital Preservation**" means protecting the earnings power of the original Endowed Fund by capitalizing a cumulative amount equal to the annual rate of increase of the Consumer Price Index (CPI) Canada.

"Donor" means a person, foundation, or organization that makes a Gift that is eligible for a donation receipt.

"Endowed Fund" means a principal or capital sum and subsequent capital contributions, set aside permanently and invested by the University with only the income (all or a portion thereof) disbursed to support specific programs or projects, often based on donor direction in accordance with the Endowment Fund Agreement or terms of reference for the Endowed Fund.

"Endowment" means the total value of the University's Endowed Funds. The Endowment is the sum of individual Endowed Funds, each representing the original value of the donation and additions made for inflation and other capitalized amounts as directed.

"Endowed Fund Agreement" or "Gift Agreement" means a document establishing the Endowed Fund and describing the name, purpose, funding and administration of an Endowed Fund, normally signed by the Donor and the University.

"Gift" means a voluntary transfer of cash and/or in-kind, from individuals, industry, foundations, and other sources to the University for either unrestricted or restricted utilization in the operation of the University. Gifts are made without expectation of tangible return; no consideration to the Donor or anyone designated by the Donor may result from these contributions. Gifts may be monetary or non-monetary (e.g. securities, real property).

"Stabilization Fund" means the fund established to smooth the year over year fluctuations in earnings by providing a reserve to be used when the Endowment Fund does not earn sufficient income to cover approved annual spending amounts. The Stabilization Fund holds cumulative net investment returns above those allocated for spending and capital preservation.

SCOPE AND AUTHORITY

3. This Policy applies to all University Endowed Funds and related Endowment Fund Agreements, unless specifically exempted by the Audit & Finance Committee of the Board of Governors.

4. The Audit & Finance Committee, through the office of the Vice-President Administration, or successor thereof, is the Policy Owner and is responsible for overseeing the implementation, administration and interpretation of this Policy.

POLICY

The objective of the Endowment Management Policy is to allow annual spending requirements to be met while preserving as much of the purchasing power of the Endowment as possible.

5. General

5.1. Individual Endowed Funds are established when a donor(s) makes a commitment to contribute a minimum of $25,000 to the Endowment. Under exceptional circumstances, this limit may be waived by the Vice President, Administration and Vice President, Advancement. In accordance with the Gift Acceptance Policy, a written agreement with the Donor(s) stipulates the purpose and terms of the gift(s). Donors may make contributions of any amount to established Endowed Funds.

5.2. Endowed Funds are invested on a pooled basis in order to optimize net return and the diversification of risk. Net return is the total gains and losses from the endowment pool after deducting investment and administrative fees. Total gains and losses include interest income, dividend income, and realized and unrealized capital gains and losses.

5.3. Endowed Funds are managed by the University's external investment manager(s) in accordance with the Statement of Investment Policies and Asset Class Management Procedures ("Investment Policy").

5.4. Annually the net return is allocated to the Endowed Funds to support Spending; Capital Preservation; and Stabilization.

6. Capital Preservation

6.1. To preserve the purchasing power of the Endowed Fund, a portion of the total net investment return equivalent to the preceding year's Consumer Price Index (CPI) Canada, will be set aside and allocated annually to the Endowed Fund capital.

7. Spending

7.1. An annual spending level will be authorized by a resolution of the Board of Governors. In recognition of the reliance the University community places on the annual spending to support student awards, bursaries and scholarships, the Board strives to maintain the stability of the spending level year over year.

8. Stabilization Fund

8.1. The Stabilization Fund will not exceed 15% of the Endowed Fund. Annually, when a stabilization fund reaches the 15% maximum, excess balances will be considered for capitalization into the Endowed Fund or for one-time disbursement for the purposes of the Endowed Fund.

8.2. Should the Stabilization Fund be insufficient to support committed spending and capital preservation there may be, after approval by the Board of Governors:

a) A delay in spending; or

b) Suspension of the capital preservation; or

c) Encroachment on capital where permitted by the Endowment Fund Agreement

9. Reporting

9.1. An annual Endowment Report will be presented to the Strategy and Planning Committee and the Audit and Finance Committee. This report will highlight additions, earnings, disbursements, and the net position of the Endowment and the Stabilization Fund.

MONITORING AND REVIEW

10. This Policy will be reviewed as necessary and at least every three years. The Vice-President, Administration, or successor thereof, is responsible to monitor and review this Policy.

RELEVANT LEGISLATION

11. Income Tax Act, RSC, 1985, c. 1 (5^{th} supp.)

RELATED POLICIES, PROCEDURES & DOCUMENTS

12. Endowment Management Procedures

Statement of Investment Policy

Asset Class Management Procedures

Naming of Physical University Assets Policy

Gift Acceptance Policy

Gift Registry Procedures

Signing Authority Policy

Expenditure Signing Authority Procedures

Classification	LCG xxxxx
Parent Policy	Endowment Management Policy
Framework Category	Legal, Compliance and Governance
Approving Authority	Audit & Finance Committee
Policy Owner	Vice President, Administration
Approval Date	xxx
Review Date	xxx
Supersedes	Endowment Policy, June 2013

ENDOWMENT MANAGEMENT PROCEDURES

PURPOSE

1. The purpose of these Procedures is to ensure the prudent administration of Donor and Board Endowed funds and to provide guidelines for the calculation and distribution of the annual amount available for spending.

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DEFINITIONS

2. For the purposes of these Procedures the following definitions apply:

"**Capital Preservation**" means protecting the earnings power of the original Endowed Fund by capitalizing a cumulative amount equal to the annual rate of increase of the Consumer Price Index (CPI) Canada.

"Donor" means a person, foundation, or organization that makes a Gift that is eligible for a donation receipt.

"Endowed Fund" means a principal or capital sum and subsequent capital contributions, set aside permanently and invested by the University with only the income (all or a portion thereof) disbursed to support specific programs or projects, often based on donor direction in accordance with the Endowment Fund Agreement or terms of reference for the Endowed Fund.

"Endowment" means the total value of the University's Endowed Funds. The Endowment is the sum of individual Endowed Funds, each representing the original value of the donation and additions made for inflation and other capitalized amounts as directed.

"Endowed Fund Agreement" or "Gift Agreement" means a document establishing the Endowed Fund and describing the name, purpose, funding and administration of an Endowed Fund, normally signed by the Donor and the University.

"Gift" means a voluntary transfer of cash and/or in-kind, from individuals, industry, foundations, and other sources to the University for either unrestricted or restricted utilization in the operation of the University. Gifts are made without expectation of tangible return; no consideration to the Donor or anyone designated by the Donor may result from these contributions. Gifts may be monetary or non-monetary (e.g. securities, real property).

"Stabilization Fund" means the fund established to smooth the year over year fluctuations in earnings by providing a reserve to be used when the Endowment Fund does not earn sufficient income to cover approved annual spending amounts. The Stabilization Fund holds cumulative net investment returns above those allocated for spending and capital preservation.

SCOPE AND AUTHORITY

3. These Procedures apply to all University Endowed Funds and related Endowed Fund Agreements, unless specifically exempted by the Audit & Finance Committee of the Board of Governors.

4. The Vice-President Administration, or successor thereof, is the Policy Owner and is responsible for overseeing the implementation, administration and interpretation of these Procedures.

PROCEDURES

5. Duties and Responsibilities

5.1. 5.1 **University Advancement** is responsible for the following, in accordance with the Gift Acceptance Policy and Procedures:

a) Communicating with Donors to ensure the donation is of an appropriate size to generate sufficient annual investment return to meet the Endowed Fund objectives and that it complies with the minimum threshold as approved within the Endowment Management Policy to establish new named Endowed Fund.

b) Preparing the Gift Agreement or other instrument establishing the Endowed Fund and ensure Donor(s) understands and agrees to the terms and conditions of the Gift Agreement.

c) Assisting Donors with the transfer of any share donations.

d) Confirming that accepted donations to existing Endowed Funds are in compliance with the pre-existing terms and conditions.

e) Issuing charitable tax receipts in accordance with Canada Revenue Agency policy and guidelines.

f) Maintaining the Donor database.

g) Providing a copy of the Endowed Gift Agreement to Finance to enable Finance to appropriately administer the fund within the financial system.

h) In consultation with the Office of the Registrar and/or appropriate faculty and staff, setting the specific terms of reference for a scholarship/student award or area of purpose, and subsequently communicating with Donors as to the names of award recipients and/or the availability of funds to support the award. For all Endowed Funds, the terms of reference should include the name of the fund; purpose; intended distribution; other relevant historical information.

i) In conjunction with Finance, preparing and distributing Endowed Fund stewardship reports, on an annual basis.

5.2. **Finance** is responsible for:

a) Establishing a unique account for each Endowed Fund in the financial system.

b) Accounting for investments and allocating investment earnings in accordance with the Endowment Management Policy and these Procedures, as may be amended from time to time.

c) Communicating with the external investment manager, and reporting on status of investments and related issues to the Audit and Finance Committee.

d) Maintaining financial records that track for each Endowed Fund the capital contributions, accumulated capital preservation and stabilization, and the balance available for disbursement.

e) Ensuring the annual spending from the Endowment does not exceed funds available.

f) Providing direction to the Investment Manager to meet the Spending cash requirements including crystallization of unrealized gains when appropriate.

5.3. **Office of the Registrar** is responsible for:

a) Understanding and complying with the terms and conditions specified in the Endowed Fund Agreement, or other instrument establishing an Endowed Fund, and all applicable University policies and procedures.

b) Reporting any circumstances that have resulted in the inability to meet the terms and conditions of the Endowed Fund Agreement to Advancement.

c) Communicating the availability of student awards and other relevant information to the student body.

d) Disbursing the award to the selected recipient in accordance with the terms of the Endowed Fund Gift Agreement.

e) Providing a listing of student award recipients, each year, to University Advancement.

6. Endowed Funds and Allocation of Investment Returns

6.1. Each Endowed Fund account will track

a) Capital: original and subsequent contributions, plus capital preservation

b) Spending: allocation and amounts spent, and

c) Stabilization Fund: share of total net investment return after allocations for capital preservation and spending.

6.2. The net return available for disbursement is calculated on a total return basis and is comprised of interest, dividends, and the pooled fund distribution of realized and unrealized capital gains/losses net of investment manager, custodial, and other administrative fees.

6.3. The annual investment return as at March 31st is allocated to each Endowed Fund Stabilization account in proportion to the total Endowment Fund balance. On an annual basis an allocation will be made from the Stabilization Fund for Spending and for Capital Preservation.

6.4. In the case of funds endowed during a fiscal year, the total annual investment return allocation will be prorated to the number of months in the fiscal year the funds were endowed.

7. Spending

7.1. The Spending level will be recommended to the Board of Governors for approval by the Strategy and Planning Committee on the recommendation of the Vice-President, Administration. The spending level will be reviewed annually on the basis of the long-term investment return experience of the Endowment.

7.2. Spending level for each Endowed Fund is calculated using a four-year rolling average of the inflation adjusted capital value of the Endowment. The spending level enables investment return to be used to support the Endowment commitments over the long term.

8. Disbursement

8.1. A Disbursement Committee will be convened with membership from Finance, Advancement, and the Office of the Registrar. The Disbursement Committee provides recommendations on the annual individual disbursements to the Vice-President, Administration.

The Disbursement Committee's recommendations will consider the spending level; prior year approved funding that was not distributed; requirements of each Endowed Fund as per their Gift Agreement; and the status of the Stabilization Fund. The Committee will consider and recommend, when appropriate, permanent increases to individual Endowed Funds for award amount and/or number of awards. Any changes to amount or number of awards will be made in consultation with the applicable Gift Agreement.

Should the Stabilization Fund be insufficient to meet the spending level plus capital protection, the Committee will make recommendations for alternatives requiring Board and/or Management approvals.

8.2. All Endowed Fund cash outflows required for disbursement purposes are to be met, first, from the realized annual net investment returns. If realized investment income is insufficient to fund the required awards, Management has the authority to crystalize unrealized capital gains to fulfil this mandate.

8.3. The cash required to meet approved disbursement spending will be transferred from the Endowment investment to the Advancement cash account.

MONITORING AND REVIEW

9. These Procedures will be reviewed as necessary and at least every three years. The Vice-President Administration, or successor thereof, is responsible to monitor and review these Procedures.

RELEVANT LEGISLATION

10. This section intentionally left blank

RELATED POLICIES, PROCEDURES & DOCUMENTS

11. Endowment Management Policy

Statement of Investment Policy

Asset Class Management Procedures

Naming of Physical University Assets Policy

Gift Acceptance Policy

Gift Registry Procedures

Signing Authority Policy

Expenditure Signing Authority Procedures

Planned Giving Program Guidelines