Financial Update
Report to the Board of Trustees
March 4, 2016

I: 2015-16 Operating Budget Update

The following table shows the Capital Allocations from the Operating Budget.

	Budget 2015-16	Projection 2015-16
Grant Revenue		
MTCU Facilities Renewal Fund	$ 1,085,500	$ 1,641,200
MTCU Graduate Capital	$ 1,700,000	$ 1,700,000
Total Revenue	$ 2,785,500	$ 3,341,200
Capital Projects Financing		
School of Kinesiology & Queen's Centre	$ 6,900,000	$ 6,900,000

The Ministry announced in October 2015 an additional investment in the Facilities Renewal Program for the post- • } v Œ Ç • š } Œ U Y µ (š Z •] • ‰] } • Œ š X } ò ð D X d Z v š] Œ &] o] š] • Z funding will continue to be allocated to deferred maintenance within the capital budget

Budget Analysis

Research Overhead

Research Overhead revenues are difficult to project because they are linked to expenditures in research projects, which are somewhat unpredictable, but current projections suggest we are $800K lower than budgeted.

Investment Income

Investment income is showing a positive variance of $400K which relates to higher than budgeted returns on short-term investments. The Pooled Investment Fund (PIF) incurred some losses in early fiscal 2015-16, but has since then rebounded to a break-even position and we are now projecting a modest income of $1.3M. The returns include both realized and unrealized gains/losses and will fluctuate with market conditions before the end of the fiscal year. In fiscal 2013-14 the PIF experienced a significant gain that was unbudgeted, creating a reserve for university priorities or to mitigate against future PIF losses. This reserve can be used to offset a drop in income below 0 Tw 0 Ts 100 Tz 0 Tr i6 u0,ge b

Operating Budget Surplus (or Deficit)

Current projections continue to show a balanced budget

The budget approved by the Board reflects the use of one-year revenue and expenses or budget allocations. Many units planned total expenditures to be higher than their budget allocation, with the additional expenditures being funded by prior-year reserves (carry-forward balances).

The approved budget projected reserves being drawn down by $1.1M, but current projections indicate an improvement, with an estimated drawdown of $2.0M. Part of the swing results from a net increase to the faculty allocations because of enrolment growth (primarily at the undergraduate level, both domestic and international). There have also been salary savings within several faculties, primarily within the Faculty of Engineering and Applied Science. The total impact of increased tuition and other savings within Faculties is a positive variance of $6.5M.

There are also combined projected savings of approximately $2.5M in undergraduate financial aid and graduate student support. These savings are due to a favourable adjustment to the Student Access Guarantee by the MTCU, a lower than budgeted level of need-based and excellence awards required } u ‰ Œ š } Z] • š } Œ] o š Œ v • v o } Á Œ u } µ v š } (Y µ v [• ' Œ µ š targets were not met. The remaining positive variance of $0.4M is spread across several shared services.

The net result of all variances is a small surplus which is being contributed to cash reserves resulting in a variance of $3.2M.

Note: The Bader International Study Centre is a consolidated entity but under the New Budget model its academic operations ar
includedas a faculty in the operating budget.

III: Pension Plan

Currently, government regulations require the university to fund both going concern and solvency deficits. Effective September 1, 2015 the going concern payments are $20.7 million annually. The actuarial valuation of the pension plan completed as of August 31, 2014 reported a solvency deficit of $285 million, funding of which will commence in September 2018 if a solution cannot be found

The university has applied for and received Stage II solvency relief, which allows the solvency deficit to be amortized over 10 years instead of the normal 5 years. Stage II relief also provides universities with a choice to take advantage of an additional 2 year deferral of making solvency deficit payments and to amortize the solvency deficit over the remaining 7 years of Stage II relief. The university has decided to take advantage of the additional 2 year deferral and is also building a reserve in case the solvency deficit payments have to be made in future years, as outlined in the budget planning section (VII) of this report.

d Z Z À] • W v } ( ] Y µ W o v [v h v] À Œ •] š Ç] • v } š ( ] v v] o o Ç • µ • š] v o U v committed to examining all options to make the plan financially sustainable over the long term. During the round of collective bargaining that was completed in the summer of 2015, the university and all its unions committed to participating in the project to design and build a new jointly sponsored pension plan (JSPP) for Ontario universities. The project is being jointly sponsored by the Council of Ontario Universities (for the employees) and Ontario Confederation of University Faculty Associations (for the employees). If the project is su • • (µ o š Z Z À] • W v •] } v University would be µ v [• merged with the new JSPP. One condition for success would be agreement from the Government of Ontario that the new JSPP would have a permanent exemption from solvency payments. If it is not • µ • • (µ o U Y µ v [• v] š • µ v] } v • Œ } u u] š š š } Æ ‰ o } Œ] v P u Œ P] v have a solvency exemption, and failing that, to discussing and negotiating such changes as may be needed to support the financial sustainability of the pension plan

Deferred Maintenance

A Facilities Condition Audit was conducted in 2010 for most Ontario universities so that the data could be stored in a common database. The data is updated annually to provide for inflationary increases and also offset by the deferred maintenance projects via a data management service provided by facility auditing company, VFA. The deferred maintenance for campus buildings and residences is $223.6M as shown in the table below. In 2016, VFA have been contracted to conduct a more comprehensive audit of the campus buildings to refresh the data. The audit will be completed by late November.

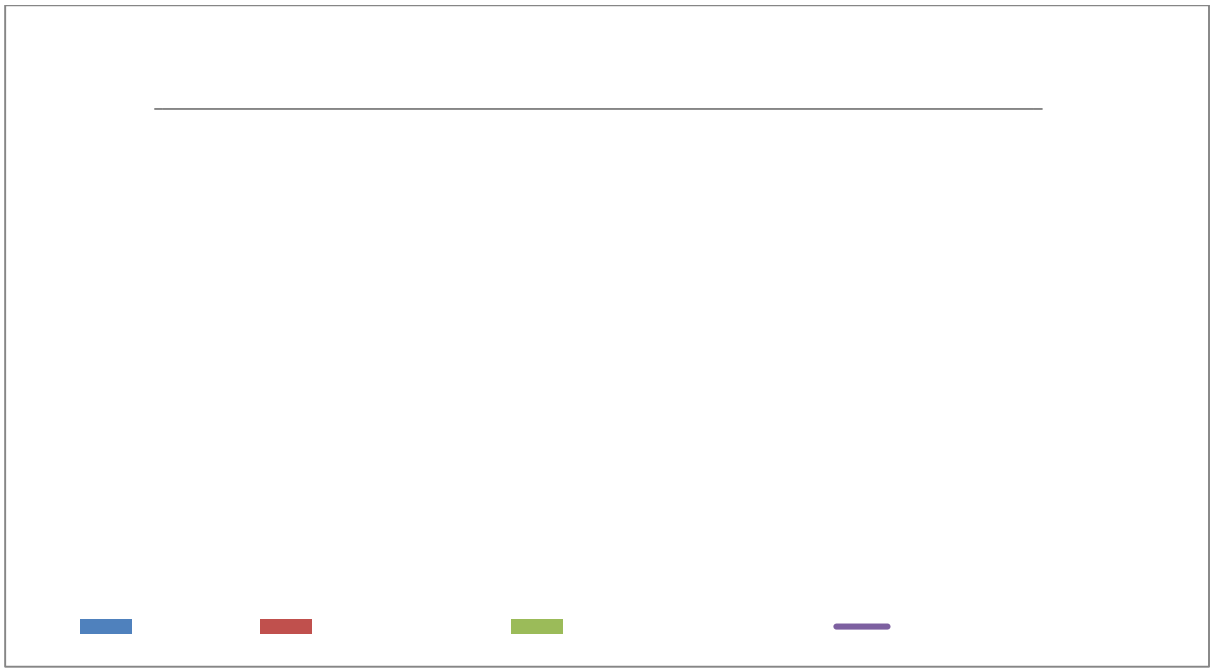
($000's)	
Campus buildings	165,900
Residences	57,700
	223,600

In addition, there is an estimated $30M of campus infrastructure (underground systems) deferred maintenance based on a 2006 audit. In 2016, Physical Plant Services (PPS) will refresh the underground infrastructure audit. It is expected that the estimate will increase.

The University receives annual provincial funding for deferred maintenance under the Ministry of Training Colleges and Universities (MTCU) Facilities Renewal Program. The Provincial budget }u u]šš š} v]v Œ •]v šZ]• (µv]vP v • Œ •µošYµ v[• hv]À Œ increased from $1.1M (2014-15) to $1.6M for 2015-16 and 2016-17.

Yµ v[• }u µ]š• vvµ o }‰ Œ š]vP µ P š (µvnance(The 2016-17 Operating u]v š budget allocation is $6.3M, which includes a one-time allocation of $2.1M from the University Fund.

The industry standard for annual deferred maintenance funding is 1.5% of Current Replacement

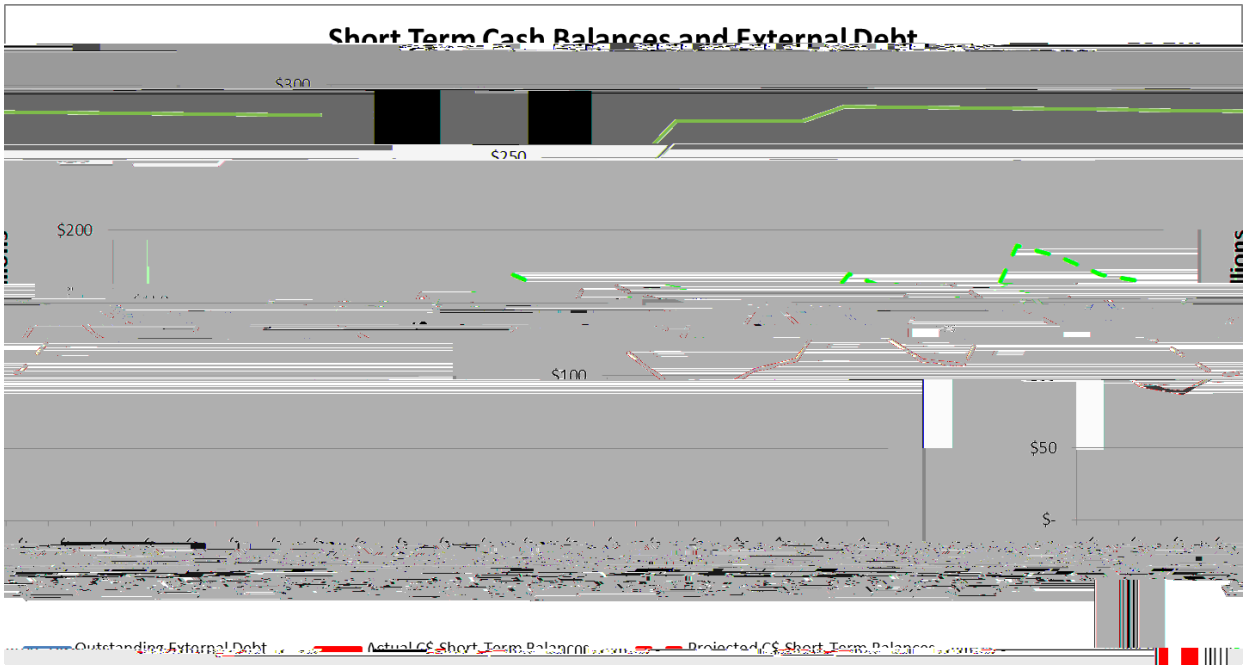


Cash Flow

The University administration uses a cash management forecasting model to manage its short-term investment portfolio and to optimize interest income. The model will continue to evolve over time as it becomes more robust, and its forecasting ability becomes more refined.

The graph below shows the projected short-term investment and external debt balances from April 2015 through April 2017. University cash balances are cyclical in nature with higher balances in September & October and January & February, due to tuition and residence fee receipts, and lower balances experienced during the late spring and early summer months. As a result, University administration invests its excess cash balances received from term billings in bank demand deposits, bank term deposits and guaranteed investment certificates maturing between one month and 2 years, and with a short-term bond fund with a targeted maturity of 3 years (fully redeemable at any time). These investments are made taking into account the projected cash flow needs of the University with the aim of matching inflows and outflows. The] v À • š u} (v ‰ } Œ š]š Z h v( ] À Œ •] š Z Ç [o • v •] v } v š P d Œ maturities allows the University to earn higher interest income than could otherwise be earned in a demand deposit account.

/ v } u ‰ o] v š Á] š h Z v] À Œ v • À] š • Ç [u ‰ v } š o] • Ç Z } - term investments, no more than $60 million has been deposited with any one of the five major Schedule I Canadian banks.



The short-term budget planning framework continues to be extremely challenging. The Provost and Vice-Principal (Academic) provided Shared Service Units with Comprehensive Budget Plan Guidelines and preliminary budget allocations in May 2015. The guidelines included planning parameters that work towards the planning for pension solvency payments outlined above, while still achieving a structurally balanced outlook within the three-year budget horizon. All shared service units submitted their budgets by the end of August and PACB reviewed submissions at meetings in late September. Preliminary budget allocation decisions for the shared service units have been made, which allowed for the determination of preliminary Faculty and School budget allocations. These were released mid-October, and Faculties and Schools submitted their multi-year budget plans by late November; PACB meetings to review the submissions were completed in December.

2016-2017 to 2018-2019 budget projections were developed in January. The preliminary projections will be presented to the Board of Trustees at the March meeting for information and consultation; the final projections will be presented to the board for approval at its May meeting.