



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

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DATE: June 4, 2015 for June 18, 2015

AGENDA ITEM: 14

ITEM IDENTIFICATION:

Guideline on the Use of Divisional Operating Reserves for the Purpose of Matching New Donor Gifts

JURISDICTIONAL INFORMATION:

Business Board's Areas of Responsibility under Section 5 include "financial policy, including policy delegating financial authority, and approval of financial transactions as required by policy." Sections 5.1 and 5.5 give authority to the President or his designate over guidelines "in the normal course of business" that are related to financial policy and transactions, as well as "strategies and policies concerning the general conduct of fundraising."

GOVERNANCE PATH:

1. Business Board [for information] – June 18, 2015

PREVIOUS ACTION TAKEN:

The *Policy on Approval of Inter-Fund Transfers* was adopted in 1979 (see attached) and addresses the ability of the University "to transfer resources between funds to implement existing policy or to reflect specific administrative decisions," as necessary.

Over the years, several permanent delegations of authority to the Administration have been approved for donation matching programs for student aid and faculty support. The 2014-15 and 2015-16 Budget Reports have added short-term additional delegation authority to the Provost to allow for a broader range of matching from the operating fund. The 2015-16 Budget Report, which was approved by the Governing Council on April 1, 2015, states on page 29:

“Within the approved budget process, the Provost has discretion to make allocations from operating funds in support of academic initiatives. In the last few years, and more recently with the launch of the Boundless Campaign, the University has sought external donations to enhance academic initiatives by establishing matching programs to create endowments and other trust funds. To meet these commitments some divisions have earmarked operating funds within their budgeting process. Others have sought to use operating funds to establish or augment endowments as the most effective way to implement an initiative. An example of this includes the College ONE program in which \$500k was allocated to each of the associated colleges in support of programs for first year students in residence. Many colleges chose to endow this funding and/or use it as matching leverage for donations to their ONE program, to ensure the financial sustainability of the program. In keeping with the Policy on Inter-fund Transfers, decisions for the commitment of operating funds for restricted fund purposes do not need further approval when they are approved within the budget process. To balance the integrity of the operating funds with divisional plans, the Provost is authorized to transfer operating funds to restricted and other funds up to \$2 million per instance, based on requests from the budget authority for those sources.”

HIGHLIGHTS:

Oversight for the inter-fund planning process normally occurs during the Academic Budget Reviews held by the Provost with each academic division. In that forum, a division can express its intent and obtain approval in principle from the Provost to proceed with using its reserves for 1) fundraising matching or 2) other financial transactions that will serve the academic mission and/or strengthen the unit financially. Special occasions can arise outside of the normal planning schedule wherein an academic division is presented with an opportunity that requires an inter-fund transfer and it must gain approval from the Provost, to ensure there is appropriate oversight under the Policy.

The Guideline will be used by Advancement to assist divisions in planning for and attracting large donations, providing a valuable tool during the Boundless Campaign for divisions to grow their fundraising activity in targeted areas of academic priority. The Guideline will also result in greater transparency about the criteria applied by the Provost and the Vice-President, Advancement in approving inter-fund transfers being requested by academic divisions.

The Guideline was developed by a working group with representatives from the Provost’s Office, the Division of University Advancement, Planning & Budget, and Financial Services. Individual deans and other officers from the various administrative offices have been consulted throughout the development process and are in support of this Guideline.

Following the rollout of this Guideline, the administration will finalize an accompanying ‘detailed procedures’ document to ensure proper implementation and approvals of inter-fund transfers – both those related to donations under this Guideline and other types of inter-fund transfers between any funds (operating, restricted, ancillary, capital). Eventually, such detailed procedures may be integrated with other existing processes, such as the Provost’s approval of

fundraising priorities. This Guideline incorporates processes that have been in place in previous years with respect to the existing matching programs.

FINANCIAL IMPLICATIONS:

There are no direct financial implications as a result of this Guideline. It will allow more strategic use of operating reserves by divisions as matching funds to encourage new donor gifts.

RECOMMENDATION:

This Guideline is being brought forward for information.

DOCUMENTATION PROVIDED:

Guideline on the Use of Divisional Operating Reserves for the Purpose of Matching New Donor Gifts

University of Toronto Policy on Approval of Inter-Fund Transfers (1979)

Guideline on the Use of Divisional Operating Reserves for the Purpose of Matching New Donor Gifts

June 2015

Preamble:

From time to time, the University establishes various matching programs to create endowments and other restricted trust funds in order to encourage external donations to support approved academic initiatives. University of Toronto units/divisions periodically have sufficient operating reserves to allocate a portion of those operating funds to create and fund these matching commitments. This Guideline has been developed to articulate principles and the approval process under which unit/divisional operating reserves can be allocated for strategic donor matching initiatives.

Objective:

To stimulate enhanced donations in support of the University's academic priorities by leveraging divisional operating reserves as matching funds.

Principles:

1. The proposed use of operating reserves must be in service to the University's academic mission and approved funding priorities, particularly in line with goals of the Boundless Campaign.
2. The "unit" (division, department, or EDU) wishing to commit operating funds towards restricted purposes must have sufficient contingency reserves against the unit's own operating expenses as confirmed by the Dean.
3. The use of operating reserves that will serve as a match must remain in University accounts and, for example, cannot be moved to a hospital foundation or other partner organization.
4. Matches for eligible gifts cannot exceed 1:1.
5. The use of matching funds from operational reserves may NOT be combined with other University-wide matching programs.
6. Matching funds have greater leverage and more impact on the University's mission when they are used to match donations of significant amounts. Accordingly, matching funds are intended for use in major gift or principal gift programs and proposals. Using matching funds in minimum increments of \$25,000 is preferred. Use of matching funds from operating reserves for annual giving programs (gifts of \$25,000 or less) is strongly discouraged, and will be approved only in exceptional circumstances.

7. The use of matching funds for chairs and professorships is highly desired and preferred over one-off scholarship matches. Scholarship/financial aid support should be framed in terms of a program that will impact many donors.
8. Retroactive matching for existing donations will not be permitted.

Approval Requirements:

1. All requests for transfers from operating reserves to a restricted fund in support of a donor matching initiative must be approved by the Dean and then submitted for approval by the Vice-President & Provost and Vice-President, Advancement.
2. Requests may be approved:
 - a. within the annual budget process; or
 - b. by the Provost and Vice President, Advancement on a case by case basis up to \$2 million per instance, when in line with this Guideline and not approved within the annual budget process; or
 - c. by the Business Board if it exceeds \$2 million per instance, when not approved within the annual budget process.

Administration and Approval Process:

Within the Annual Budget Process

1. Units are encouraged to request transfers from operating to restricted funds for the purpose of matching funds within the annual budget planning process. The transfers can be planned on a detailed level (i.e. setting individual target amounts for specific matching programs or initiatives) or specified as a maximum limit to be allocated towards all matching programs. Since the operating budget is approved every year, the amounts of planned transfers should also be specified annually.
2. The Dean will consolidate and incorporate all of these plans in the annual academic budget review report, which is submitted to the Provost in the fall of each year.
3. The Provost and Planning & Budget will meet with the Dean of the Faculty and will assess all the items in the academic budget review report including the proposed transfers from operating to restricted funds. The Provost will ensure that the central Advancement offices have been consulted and will seek approval from the Vice-President, Advancement on the use of the proposed transfers from operating to restricted funds.
4. The Provost will provide a written response to the Dean, which will include the approval or denial of the proposed transfers. This normally happens between January and February.

Outside the Annual Budget Process

5. Similar to the current approval process for new fundraising priorities, a 'request for approval' memo should be completed by each division and approved by the Dean. The Dean will assess and determine if there is a sufficient level of operating reserves available to match the proposed new gift.
6. The memo approved by the divisional Dean should be submitted to the Manager, Development Logistics, Major Gifts, Divisional Relations and Campaigns (Manager) at University Advancement.
7. The Manager will move the matching request memo through to Divisional Relations and Campaigns, the Provost and the Vice-President, Advancement for review and approval. If the request exceeds the \$2 million per instance threshold, the request will be brought forward for approval by the Business Board.
8. The Manager will notify the divisional contact when the approval is complete and a forthcoming formal approval notification email will be sent from the Provost's Office to the requesting Dean.

For further information or questions, please contact:

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University of Toronto

Policy on Approval of Inter-Fund Transfers

Background

The accounts of the University are maintained in accordance with the principles of "fund accounting" in order that limitations and restrictions placed on the use of available resources may be observed. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds in accordance with activities or objectives specified. For financial reporting purposes, the University has combined funds with similar characteristics into four fund groups; Current Operating Fund, Ancillary Enterprises Fund, Capital Funds and Restricted Funds

From time to time, it is necessary to transfer resources between funds to implement existing policy or to reflect specific administrative decisions.

To ensure proper control over such transfers, appropriate authorizations have been developed which are set out herein.

Nature of Transfers

Transfers between funds arise from two main initiatives, as follows:

1. implementation of existing policy or accounting practices, e.g.

- i) return on investment in UTIAS, an ancillary enterprise, to current operating funds;
- ii) transfers of income from endowed funds, which are accounted for as restricted funds, to the fund whose purpose has been specified by the donor (e.g. general endowment income to current Operating funds);
- iii) specific renovation/alteration/energy conservation projects of a capital nature
 - originally funded from current operating funds, for which government capital funding is subsequently received;
 - partly funded from current operating funds and partly from capital funding (current operating funds transferred to capital funds); or
 - bridge-financed (e.g. current operating fund projects bridge financed from general building fund in capital funds)

2. specific administrative decisions outside of the approved budget process which alter the purpose for which the funds are to be used, such as commitment of current operating funds to capital or restricted fund purposes.

Note: re category 1 ii)

In the purest sense, certain transfers from restricted funds (e.g. general endowment income), which are recorded in the financial statements as current operating income, are actually inter-fund transfers.

Approvals required

1. implementation of existing policy or accounting practices - no further approval of the specific transfers is required, however, such policies and practices should be recognized and budgeted for in the annual budget process, and the inter-fund transfers relating to the funding of specific capital projects should be approved by the Business Affairs Committee as part of its review and approval of such capital projects.
2. specific administrative decisions outside of the budget process which alter the purpose for which funds are to be used,
 - i) each transfer up to \$100,000 - by the Business Affairs Committee, with reporting to the next meeting of the Governing Council;
 - ii) each transfer in excess of \$100,000 - by the Governing Council on the basis of a recommendation from the Business Affairs Committee.

September, 1979.

M.E. Dedrick