UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 85 OF THE AUDIT COMMITTEE

June 20, 2007

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, June 20, 2007 at 4:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Ms Paulette L. Kennedy (In the Chair)
Ms Dominique Barker
Mr. Paul E. Lindblad
Mr. George E. Myhal *
Mr. Richard Nunn
Professor Gordon Richardson
Mr. Robert S. Weiss
Ms Catherine J. Riggall,
Vice-President, Business Affairs **

Mr. Mark L. Britt, Director,
Internal Audit Department ****
Ms Sheila Brown, Chief Financial Officer **
Mr. Louis R. Charpentier, Secretary of the Governing Council **

Secretariat:

Mr. Henry Mulhall **
Ms Cristina Oke **

Regrets:

Mr. Gerald A. Lokash

In Attendance:

Ms Tanya Busch, Ernst & Young ***
Mr. Pierre Piché, Controller and Director of Financial Services **
Ms Mae-Yu Tan, Special Projects Officer, Office of the Governing Council **
Ms Martha Tory, Ernst & Young ***

* participated via telephone conference

** Absented themselves for the Committee's consideration of item 3 (c), External Auditors: *In Camera* Meeting, and item 5 (c) Internal Auditor: Private Meeting.

*** Absented themselves for the Committee's consideration of item 4, External Auditors: Appointment for 2007 – 08, and item 5(c) Internal Auditor: Private Meeting.

**** Absented himself for the Committee's consideration of item 3 (c), External Auditors: *In Camera* Meeting.

ITEMS 3 AND 4 ARE RECOMMENDED TO THE BUSINESS BOARD FOR APPROVAL. ALL OTHER ITEMS ARE REPORTED TO THE BUSINESS BOARD FOR INFORMATION.

1. Report of the Previous Meeting

Report Number 84 (May 28, 2007) was approved.

2. Business Arising

A member referred to item 3 in Report Number 84, and asked if the review of contracts with respect to embedded derivatives was continuing.

3. Audited Financial Statements for the Year ended April 30th, 2007

(a) Presentation

Ms Brown thanked Mr. Piché and his colleagues in the Financial Services Department, the divisions and departments, the Internal Audit Department and the external auditors, all of whom had once again completed the preparation and auditing of the financial statements immediately after the close of the fiscal year.

Mr. Piché presented the financial statements using a PowerPoint presentation. The key points of the presentation included the following.

Contents of the financial statements. The University's financial statements for 2006-07 included all operations under the jurisdiction of the Governing Council, including two controlled, separately incorporated ancillaries - the University of Toronto Press Inc., and the University of Toronto Asset Management Corporation (UTAM). The Financial Statements did not include the federated universities and the research administered at the affiliated teaching hospitals.

Key components of net assets (assets minus liabilities). There were four key components of the University's net assets. Endowments were unique to not-for-profit institutions. The sum of the other three elements was the same as the retained earnings of for-profit businesses.

- **Endowments**. These were endowed contributions plus reinvested investment earnings, recorded at fair values. Endowed donations could not be spent, and investment earnings could be spent only for the purposes specified by the donors to the endowment.

- **Investment in capital assets**. These were retained earnings that had been invested in capital assets. The recorded amount of the investment was reduced over time to match the amortization of capital assets.

- **Internally restricted net assets**. These retained earnings were committed to be spent for specific purposes in future. As detailed and described in note 14 to the financial statements, these included departmental trust funds, unexpended operating funds such as net divisional carryforwards and funds for employee future benefits, and monies set aside for the Supplemental Retirement Agreement (SRA).

- **Unrestricted deficit**. This was the University's unrestricted retained earnings, also known as surplus/deficit, and represented the University's cumulative deficit.

3. Audited Financial Statements for the Year ended April 30th, 2007 (cont'd)

(a) Presentation (cont'd)

Significant accounting concepts: Revenue and expense. Mr. Piché stressed that the revenue recorded in the financial statements was not the same as funds received, and expense was not the same as funds spent. Revenues included restricted and unrestricted funds.

- Unrestricted grants and expendable donations were recorded as revenues when received.
- Restricted grants and restricted expendable donations were recorded as revenue when spent.
- Unspent restricted grants and unspent restricted expendable donations were recorded as liabilities – deferred contributions or deferred capital contributions.
- Endowed donations and investment earnings on externally restricted endowments were not recorded as revenue, but were added directly to endowments on the balance sheet.
- Investment income on internally restricted endowments was recorded as revenue and transferred to endowment in the statement of changes in net assets.

Expenses incorporated non-cash items including the amortization of capital projects and the recording of the estimated cost of employee future benefits earned for employees' service in the current year, as required by the accounting rules.

Significant accounting concepts: Fund accounting. Internally, the University recorded its financial transactions using fund accounting. There were four funds:

- **Restricted funds**: donations, including endowments, and research grants.
- **Capital fund**: spending on capital projects, except those for ancillary operations.
- **Ancillary operations** including: residences, food and beverage services, parking, Hart House, Real Estate, and University of Toronto Press.
- **Operating fund**: teaching and administrative activities supported mainly by government operating grants, student fees, and sales of supplies and services.

Key drivers of financial performance.

- The growth of student enrolment had brought about increased revenue but also the increased expense required to provide teaching and services to the additional students.
- The growth in research activity had been funded by increased revenue from research grants, but it had also caused increased indirect expense to carry out the research work that was only partially funded from indirect or overhead cost revenues.
- The growth in the cost of salaries and benefits had been driven in part by increases in enrolment, requiring the engagement of more faculty and staff. It had also been driven by the increase of research activity, which had also required the engagement of more staff.

3. Audited Financial Statements for the Year ended April 30th, 2007 (cont'd)

(a) Presentation (cont'd)

- Growth requiring new space had also required increased borrowing and had driven up interest expense.
- Donations had increased either revenue or the balance in the endowment.
- The growth in the endowments had generated additional income to spend on the objectives of the various endowment funds.
- Investment earnings, which were highly variable from year to year, were a key factor in determining whether the University had a surplus or deficit.

As indicated above, all of the key drivers of financial performance were highly inter-dependent.

Financial results: Assets, liabilities and net assets. Both assets and net assets had grown substantially over the past four years.

- The University's assets as at April 30, 2007 amounted to $4.2-billion. Subtracting liabilities of $1.0-billion and deferred contributions of $1.0-billion, net assets were $2.17-billion.
- Net assets had increased by $300.1-million over the year because of an investment gain on externally restricted endowments, externally endowed donations, and externally endowed Ontario grants, including the Ontario Trust for Student Support (OTSS).
- The endowment had increased in value by $193.9-million over the past year to $1.8-billion. It represented 83.7% of the University's net assets.
- The internally restricted funds had grown by $131.9-million to $266.7-million, with increases in departmental funds and in the amount set aside by the University for the Supplemental Retirement Arrangement.
- Those increases were offset by an increase of $24.0-million in the unrestricted deficit to $195.1-million, mainly generated by the need to set aside retained earnings for internally funded capital assets.
- The sources of the $300.1-million addition to net assets were: net income of $134.5-million, the investment gain on externally restricted endowments of $129.5-million, externally endowed donations of $30.9-million and externally endowed grants from the Government of Ontario of $5.2-million.

Financial results: endowments. The capital of the endowment funds could not be spent.

- The endowment had increased by $193.9-million to $1.8-billion.
- The increase had arisen from $153.7-million of investment earnings above the payout, $36.1-million of donations and grants, and $4.8-million of transfers from expendable funds to match donations.
- Nearly $802.4-million of the endowment was devoted to generating income for student aid. $560.5-million supported endowed chairs and professorships, $253.9-million supported research activities, and $205.9-million supported academic programs.

3. Audited Financial Statements for the Year ended April 30th, 2007 (cont'd)

(a) Presentation (cont'd)

Financial results: revenues and expenses.

- The University's revenue had been growing in recent years because of the growth in student enrolment and in research activity.
- Expenses had been growing primarily because of growth in the cost of salaries and benefits and also because of inflationary growth in other expenses.
- For 2006-07, revenues had amounted to $1.9-billion and expenses had amounted to $1.8-billion.
- Net income for the year was $134.5-million, the fourth consecutive year of positive net income following three years of losses.

Financial results: sources of revenue.

- Since 1999, the University's revenue had grown primarily because of the growth in student enrolment and increases in the volume of research.
- Of the $1.9-billion of revenue for 2006-07, about $650-million had come from government grants, an increase from about $590-million in the previous year.
- The increase in 2006-07 over the previous year also reflected support for various research projects. The research funding included $20-million to develop the university's capacity for interdisciplinary research on the creation of jurisdictional economic advantage and $15 million to support the University's advanced research in structural genomics.
- The Province had also provided $40-million in incremental funds to the University to alleviate its immediate cost pressures.
- Revenue from student fees had increased from $506-million to $539-million. That reflected an increase in enrolment from 60,203 full-time-equivalent students in 2005-06 to 61,210 full-time-equivalent students in 2006-07.
- Investment income had increased from $120-million in 2005-06 to $134.4-million in 2006-07, reflecting good investment performance.

Financial results: Government and other grants and contracts for restricted purposes.

- The University had received $455.7-million for restricted purposes in 2006-07: $423-million for research and $32.7-million for capital infrastructure.
- Of the $455.7-million, $304.3-million had been reported as revenue from grants for restricted purposes, $19.6-million had been reported as contract research revenue, and $131.8-million had been reported as deferred contributions and deferred capital contributions.

3. Audited Financial Statements for the Year ended April 30th, 2007 (cont'd)

(a) Presentation (cont'd)

Financial results: Donations received.

- For 2006-07, the University had received donations amounting to $105.7-million, a substantial increase from previous years, and an impressive accomplishment in a year when the University was not involved in a formal fundraising campaign.

- Of the $105.7 million, $30.9-million had been added to the endowment and $74.8-million had been reported as revenue. Those amounts did not include pledges that had not yet been fulfilled and also did not include funds that had been raised for the federated universities.

Financial results: Investment earnings.

- Investment earnings for 2006-07 had been $263.9-million.

- Of that amount, $129.5-million earned on externally restricted endowments had been added directly to endowments for the preservation of capital.

- $134.4-million had been reported as investment income: $80.7 million investment income on endowments and $53.7-million investment income on expendable funds.

Expenses.

- Total expenses for 2006-07 had been $1.807-billion, an increase from $1.709-billion in the previous year.

- Significant changes had included an increase in spending on repairs and maintenance, from $54.2-million to $61.4-million and an increase in spending on scholarships, fellowships and bursaries, from $106.5-million to $115.9-million.

- The most significant increase had been in expense for salaries and benefits, which had increased from $1.012-billion to $1,062-billion. The salaries and benefits line represented 58.7% of total expenses.

Expenses: Salaries and benefits.

- Benefits expense had increased from $33.3-million in 1998-99 to $209.7-million in 2006-07.

- The primary reason for the increase had been the cost of benefits earned by employees in the current year to be paid in the future due to increased numbers of staff, improved retiree pension benefits, and changes in accounting rules.

- Salary expense had increased from $502.8-million in 1998-99 to $852.2-million in 2006-07. This increase had been the result of an increase in the number of employees combined with a increases in negotiated salaries.

Expenses: Capital investment in infrastructure.

- The University's building program had been required to support its growth in student enrolment and in research activity. The amount of spending on construction had, however, been in a downward trend for the past three years.

3. Audited Financial Statements for the Year ended April 30th, 2007 (cont'd)

(a) Presentation (cont'd)

Expenses: Capital investment in infrastructure (cont'd)

- Capital spending had peaked at $329.3-million in 2003-04, and it had declined to $172.4-million in 2006-07. Depreciation expense had grown, reaching $99.1-million in 2006-07.
- The $172.4 million of addition to capital assets in 2006-07 had included $37.3-million to purchase library books and $54.8-million to acquire equipment.
- Spending on construction projects had included $16.3-million on the Varsity project, $7.5-million on the Leslie Dan Pharmacy Building (representing 36% of the total project cost), $6.3-million of spending on the Terrence Donnelly Centre for Cellular and Biomolecular Research, and $36.5-million on other projects.

External borrowing outstanding.

- Borrowing as at April 30, 2007 had amounted to $556.7-million. This had included the $75-million series "D" debenture issued in December 2006.
- External borrowing as a percentage of net assets had declined slightly from 25.8% at April 30, 2006 to 25.6% at April 30, 2007.
- The increase in the University's net assets had increased the University's external borrowing capacity from $621.2-million to $675.2 million.

Discussion

A member asked whether any changes in the *Borrowing Strategy* [1] were anticipated, in light of proposed changes to accounting rules currently under discussion that would replace rules that smoothed changes in asset and liability values with rules that focused on values at a point in time. Ms Brown replied that, to date, not all of the University's borrowing capacity had been allocated. If changes to accounting rules were implemented, the *Borrowing Strategy* would be reviewed.

A member suggested that a graph be added to the Financial Statements document that would show at a glance the University's position with respect to the target of 33% and the maximum of 40% of net assets for external borrowing required by the *Borrowing Strategy*.

A member asked why the unrestricted deficit had increased in a year when there had been robust investment returns. Mr. Piché referred to Statement 3 on page 26 of the Financial Statements and explained that there had been movements between net asset categories, including the transfer of divisional carryforwards to internally restricted funds.

(b) External Auditors' Audit Results

Ms Tory reviewed Ernst and Young's Report on the "Audit Results for the Year Ended April 30, 2007." The external auditors' opinion on the financial statements had been unqualified. The Report contained the required communications to the Audit Committee. Page 2 included the identification of three areas that involved sensitive accounting issues and disclosures. Pages 7 – 9

[1] Documentation for the *Borrowing Strategy*, approved by the Governing Council on June 24, 2004, is available at http://www.utoronto.ca/govcncl/bac/details/bb/2003-04/bba20040617-07c.pdf.

3. Audited Financial Statements for the Year ended April 30th, 2007 (cont'd)

(b) External Auditors' Audit Results (cont'd)

contained the auditors' comments on the accounting for certain unusual items and transactions of audit significance.

A member asked for further information about the management estimate of the capital project cost overruns referred to on page 2 of the Auditor's report. Ms Riggall explained that the two legal claims by contractors, amounting to $9-million, were considered to be largely without merit.

Referring to the comments on page 2 concerning the valuation of investments including private equities and hedge funds, a member noted that the availability of data on hedge funds and their controls was often limited as there were tight controls on information. Ms Riggall indicated that the accuracy of the valuation of hedge funds was a matter for discussion by the Board of the University of Toronto Asset Management Corporation (UTAM).

Ms Tory said that she was required to obtain confirmation from the Audit Committee that it was aware of no acts of fraud or other matters of concern that had not come to the attention of the external auditors. The Chair, with the concurrence of the Committee, stated that the Committee was aware of no such matters.

(c) External Auditors: *In Camera* Meeting

The Chair reminded members that the Committee met at least annually with the external auditors, with no members of the administration, the Secretariat, or the Internal Audit Department present. During that meeting, the external auditors were invited, as provided in the Committee's terms of reference, (a) to advise "whether adequate cooperation has been received from [the] administration and whether [the] administration has exerted any undue pressure," (b) to comment candidly on the probity and the competence of the University's senior financial officers and its Internal Audit Department; and (c) to respond to members' questions.

THE COMMITTEE MOVED *IN CAMERA*.

The Committee met privately with the external auditors.

THE COMMITTEE CONCLUDED THE *IN CAMERA* SESSION.

The Chair stated that there were no matters arising from the *in camera* meeting that would require action.

(d) Legal Claims

The Chair reminded members that the Committee, in connection with the review of the University's audited financial statements, was responsible for reviewing an annual report on substantial outstanding legal actions against the University in order to monitor contingent liabilities that should be disclosed in financial statements, as well as to monitor possible risk exposures. Members should identify any concerns they had about the accuracy of the disclosure in note 22(b) or about the management of risk arising from the legal actions.

Ms Brown reported that the main legal claim was from contractors for delays in capital projects. The claim was for $31-million; the University's insurance coverage for the claim was $9-million.

3. Audited Financial Statements for the Year ended April 30th, 2007 (cont'd)

(d) Legal Claims (cont'd)

A member asked whether the amount of $1.0 billion for a claim listed on the summary was a typographical error, and whether the claim was proceeding. Ms Brown replied that it was not a typographical error. Mr. Piché added that the claim was currently inactive. Ms Brown commented that, while management would like to dispense with some of the long-standing claims which had been inactive for several years, it was the opinion of legal counsel that it was appropriate to take no action.

(e) Recommendation

On the recommendation of the Chief Financial Officer,

YOUR COMMITTEE RECOMMENDS

THAT the University of Toronto audited financial statements for the fiscal year ended April 30, 2007 be approved.

The Chair congratulated Ms Riggall, Ms Brown, Mr. Piché, Mr. Britt, Ms Tory, Ms Busch and all of the members of their teams on their work in preparing the University's financial statements in time for their approval at the June meeting of the Governing Council. This was a remarkable achievement, since at most universities, the statements were not ready until the first meeting of the governing board in the fall.

4. External Auditors: Appointment for 2007 – 08

Ms Brown recommended the re-appointment of Ernst & Young as the external auditors for the University and for the pension fund. She noted that the University's *Purchasing Policy* required a review of on-going central consulting and professional services approximately every five years Mr. Piché had conducted such a review in 2004. To prevent too close a relationship between the auditors and the entity being audited, Ernst & Young provided for partner rotation for its accounts. In 2005, Ernst & Young had assigned Ms Tory to the University's account. It was the understanding of the University that Ms Tory would continue as the University's audit partner in 2007-08.

Ms Brown commented that the Sarbanes-Oxley Act in the U.S. required partner rotation every five years. The U.S. National Association of College and University Business Officers had taken the view that partner rotation at least every seven years was more appropriate for the post-secondary education sector, which had a number of specialized accounting rules.

A member asked whether the non-audit services provided by Ernst & Young to the University were appropriate. Ms Brown replied in the affirmative, as the only non-audit service provided by Ernst & Young was in the area of taxation.

The member noted that the audit fees for 2007-08 would be negotiated by the Chief Financial Officer, and raised the possibility of bringing the fees to the Audit Committee for approval. Ms Brown replied that the Terms of Reference of the Audit Committee did not provide for such approval. She took the matter under advisement and referred the matter of approval of the audit fees to the Secretariat for clarification. It was agreed that the matter would be addressed at the November 2007 meeting of the Committee.

4. External Auditors: Appointment for 2007 – 08 (cont'd)

On the recommendation of the Chief Financial Officer,

YOUR COMMITTEE RECOMMENDS

(a) THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto for the fiscal year ending April 30, 2008; and

(b) THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto pension plans for the fiscal year ending June 30, 2008.

5. Internal Auditor

(a) Annual Report, 2006-07

Mr. Britt presented the annual report of the Internal Audit Department for 2006-07. The highlights of his report included the following matters.

Reviews. A total of 24 departmental audits and four continuous audits had been completed or were in progress as at the April 30 fiscal year-end. Five special reviews had been completed at the request of management. Three follow-up reviews had been completed and ten others were in progress.

Conclusions arising from the year's reviews. Conditions indicative of increased financial, physical and information/information technology (IT) risk were noted in several units. These observations emphasized the need to improve the consistency with which control activities were performed, to undertake appropriate monitoring for compliance with policies and procedures, and to develop and test contingency plans.

Mr. Britt reported that the department heads of the units for which audits had been completed had indicated that the recommendations included in the audit report had already been implemented, or would be implemented.

Administrative accountability reports. Of the 153 reports to be completed in the units that had been audited, 18, or 12%, had either not been completed or could not be found, compared with 9% in 2006. As fifteen of the accountability reports were required from faculty in one department, it was likely that the documents had been misplaced.

Executive expense reimbursement reports totaling approximately $84,600 had been reviewed as part of the Continuous Auditing program. All expenses had been appropriate and properly authorized by the officer at one level up.

Follow-up Reviews. For the follow-up reviews completed during the period, management had implemented the recommendations contained in the audit reports. Further follow-up was required to verify that actions had been taken by management to address the following findings that had been reported between 2003 and 2006:

- Lack of compliance with the Income Tax Act for payments made to individuals, including taxable benefits;

- Lack of documented and tested disaster recovery and business resumption plans for local and central information systems as well as some student residences.

5. Internal Auditor (cont'd)

(a) Annual Report, 2006-07 (cont'd)

Internal Audit Department staffing. The Department had returned to full complement in September 2006 after a lengthy recruitment process for two senior auditors. The actual number of audit hours was 7,419, compared to the planned number of 8,300 audit hours. The variance was due to the reallocation of direct audit hours to non-audit activities and events including staff reorganization; training; maternity leave; updating standard audit programs, templates, and the audit issues report; evaluating audit management and electronic working paper software solutions; and updating the audit universe database.

UTAM auditing. The Department provided internal auditing for the University of Toronto Asset Management Corporation at a negotiated hourly rate in accordance with a Service Agreement. Approximately 1,200 audit hours were provided by the Senior Auditor and Director during the year. Work undertaken during the year included: the completion of the business process documentation project; the investment manager selection, evaluation, and termination project; the board reporting process review; and the operation due diligence follow-up review.

Other departmental activities. Mr. Britt referred members to a list of other activities completed by himself and members of the Department. Those activities had included attendance at seminars and conferences, and presentations to a variety of University staff. Mr. Britt served as the President of the Toronto Chapter of the Institute of Internal Auditors and is the Ontario representative on the Internal Auditors Standing Committee of the Canadian Association of University Business Officers (CAUBO).

Questions and Discussion

A member asked Mr. Britt for his opinion on the control environment at the University. Mr. Britt replied that the risks that were identified in audit reports were within the unit being reviewed, and were not statistically valid for the entire institution. The Chair asked what work would have to be done to identify risks for the entire University. Mr. Britt replied that the work of the Internal Audit would have to be redirected from the current focus on the operational level to particular risk categories identified by management. A member suggested that it would be more valuable for governance and oversight if Internal Audit focused on risk assessment rather than on monitoring compliance with University policies and procedures. The Chair noted that the external auditor had changed the approach to the payroll audit in the University. She commented that the University had accepted delegation of authority, unlike the corporate and for-profit sectors. There were different controls in the University environment. A member commented that a lot of controls existed, and that it was necessary to determine how to better deploy available resources.

(b) Internal Audit: Audit Plan, 2007-08

Mr. Britt presented the Internal Audit Plan for 2007-08. It included 9,300 hours of auditing from a staff complement of 8.0 full-time equivalents (FTEs). This represented a utilization rate of 78% - the maximum based on available hours in light of generous vacation provisions and benefits. Mr. Britt reviewed the Department's organization chart and noted that all audit staff had professional designations. He reviewed the plan's objectives, and the scope of the plan. The scope included departmental audits of academic, administrative and student-service units on all three campuses, information systems auditing, continuous auditing of selected transactions, assisting Ernst & Young with the external audit, follow-up reviews, special reviews and responses to requests.

5. Internal Auditor (cont'd)

(b) Internal Audit: Audit Plan, 2007-08 (cont'd)

Mr. Britt reviewed the Departments that would be audited in 2007-08. A member repeated his suggestion that Internal Audit change its focus from operational compliance to risk management and mitigation. Ms Brown emphasized the importance of the continuous audit process. Mr. Britt stated that the continuous audit process was regarded as valuable by the University community, but noted that it could be conducted by either Internal Audit or by a central office. A member suggested that the University obtain some external views on the appropriate role for Internal Audit. It was agreed that the Audit Committee would discuss this issue at its next meeting in November 2007.

A member asked whether the staff complement was based on a formula or benchmark. Mr. Britt replied that benchmarking in terms of size and budget was done with respect to Canadian universities. The University of Toronto was one of the 11 universities in Ontario that had Internal Audit functions. The University was well resourced in terms of Canadian Universities; some of the Internal Audit departments in other Ontario universities had only 1 or 2 staff.

(c) Internal Auditor: Private Meeting

The Chair reminded members that the Committee met at least annually with the internal auditor, with no members of the administration, the Secretariat or the external auditors present. During that meeting, Mr. Britt was asked to comment on whether adequate cooperation had been received from management and whether management had exerted any undue pressure. Mr. Britt was also invited to bring to the attention of the Audit Committee any other matters he deemed appropriate.

THE COMMITTEE MOVED *IN CAMERA*.

The Committee met privately with the internal auditor.

THE COMMITTEE CONCLUDED THE *IN CAMERA* SESSION.

The Chair stated that there were no matters arising from this meeting that would require action.

6. Borrowing Strategy: Status Report

Ms Brown explained that a report of the borrowing strategy had been presented to the Business Board on January 15, 2007. The Board had concluded that the current borrowing strategy was financially prudent and provided sufficient capability to meet key priorities for the next several years under current accounting rules. This status report did not reproduce what was in other reports that had been presented to governance.

The report provided an update on the borrowing capacity to reflect the April 30, 2007 financial results, compared the borrowing capacity to approved borrowing, and reported on the long-term borrowing pool (LTBP).

6. Borrowing Strategy: Status Report (cont'd)

At April 30, 2007:

- the internal borrowing capacity limit remained $200.0 million of internal loans from the Expendable Funds Investment Pool (EFIP);
- $115.5 million of internal funds had been loaned under the internal loan programme;
- the maximum external borrowing capacity limit was $675.2 million, representing 40% of net assets smoothed over 5 years;
- the approved external borrowing decreased by $2.0 million to $559.4 million due to principal repayments of pre-2001 loans;
- outstanding external borrowing was $556.7 million, an increase of $63.0 million due to the issue of the Series D Debenture on December 13, 2006 offset by principal repayments on loans arranged prior to 2001;
- $42.8 million of the $75.0 million Series D debenture had been loaned out internally;
- the LTBP assets had a balance of $40.4 million
  - $35.8 million was from principal repayments from internal loans;
  - $4.6 million was an internally restricted asset that represented the excess of cumulative LTPB earnings and interest payments from internal loans over the debentures' interest and expenses.

A member asked how much growth there would be in the LTPB. Ms Riggall replied that the projection was that the same amount could be lent out again in twenty years, and the capital could be paid when it came due.

7. Report of the Administration

Ms Riggall reported that Mr. Felix Chee would be resigning his position as President and Chief Executive Officer of the University of Toronto Asset Management Corporation (UTAM) effective December 31, 2007, and that a Search Committee would be established by UTAM to appoint his successor. She also reported that the University had decided to withdraw from the Canadian Universities Reciprocal Insurance Exchange (CURIE), and would be approaching the commercial market for insurance coverage.

8. Date of Next Meeting

The Chair informed members that the first meeting of the Committee in 2007-08 was scheduled for Thursday, November 29, 2007 at 4:00 p.m.

9. Other Business

The Chair thanked members for their service over the past governance year.

It was agreed that an update on the development of the Whistle Blower policy would be provided to the November meeting of the Committee.

The meeting adjourned at 6:30 p.m.

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Secretary Chair

August 8, 2007