UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 119 OF THE BUSINESS BOARD

June 20, 2002

To the Governing Council,
University of Toronto.

Your Board reports that it met on Thursday, June 20, 2002 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Amir Shalaby (In the Chair)
Ms Rose M. Patten, Vice-Chair
Ms Wendy M. Cecil, Chairman of the Governing Council
Dr. Thomas H. Simpson, Vice-Chair of the Governing Council
Professor Angela Hildyard, Vice-President, Human Resources
Professor W. Raymond Cummins
Mr. Brian Davis
Dr. Claude S. Davis
Ms Susan Eng
Ms Françoise Ko
Mr. Gerald A. Lokash
Mr. Andrew Morgan
Professor Heather Munroe-Blum
Mr. Richard Nunn
Mr. Martin Offman
Ms Jacqueline C. Orange
Mr. Roger Parkinson
Mr. John H. Tory
Mr. Robert S. Weiss

Dr. Jon S. Dellandrea, Vice-President and Chief Advancement Officer
Dr. Sheldon Levy, Vice-President, Government and Institutional Relations
Mr. John Bisanti, Chief Capital Projects Officer
Mr. Louis R. Charpentier, Secretary of the Governing Council
Professor Derek McCammond, Vice-Provost, Planning and Budget
Ms Catherine Riggall, Assistant Vice-President, Facilities and Services
Professor Ronald D. Venter, Vice-Provost, Space and Facilities Planning

Secretariat:

Mr. Neil Dobbs, Secretary
Mrs. Beverley Stefureak

Regrets:
Ms Mary Anne V. Chambers
Mr. Felix Chee
Mr. H. Garfield Emerson
Mr. Paul V. Godfrey
Ms Shirley Hoy
Mr. David Keeling
Professor Brian A. Langille
Mr. Frank E. MacGrath
Mr. George E. Myhal
The Hon. David R. Peterson
Ms Carol Stephenson

In Attendance:
Mr. Don Beaton, Director of Real Estate
Dr. Mary Cone Barrie, Director, School of Continuing Studies
Ms Sheila Brown, Controller and Director of Financial Services

In Attendance (cont'd)
Mr. Donald Burwash, member of the Audit Committee
Mr. Eric Fleming, Director of Risk Management and Insurance
Dr. David Gorman, Director of Occupational Health and Safety
Mr. Brian Martin, Senior Development Officer, School of Continuing Studies
Ms Gayle Murray, Executive Assistant to the Vice-President, Human Resources
Professor Mariel O'Neill-Karch, Principal of Woodsworth College
Mr. Pierre Piché, Associate Controller
Mr. John L. Rawle, Chief Financial Officer, School of Continuing Studies
Professor Edward Relph, Associate Principal, Campus Development, University of Toronto at Scarborough

ITEMS 3, 4 AND 7 ARE RECOMMENDED TO THE GOVERNING COUNCIL FOR APPROVAL.

1. Chair's Remarks

The Chair welcomed Ms Catherine Riggall, new Assistant Vice-President Facilities and Services as a non-voting assessor to the Board. He also recognized and welcomed Mr. Don Burwash, member of the Audit Committee and expressed regrets on behalf of Mr. Chee, who had committed to be away from the City at this time before his appointment to the University.

2. Report of the Previous Meeting

Report Number 118 (May 6, 2002) was approved.

3. Financial Statements for the year ended April 30, 2002

Mr. Weiss observed that preparing April 30 financial statements in time for their approval at the June meeting of the Governing Council was a remarkable task, especially in so large and complex an organization as the University of Toronto. He and the Chair congratulated Ms Sheila Brown (Controller and Director of Financial Services), Mr. Pierre Piché (the Associate Controller), Mr. Mark Britt (the Director of Internal Audit), the external auditors, and the members of their teams.

Mr. Weiss reported that the Audit Committee had considered the financial statements (attached hereto as Appendix "A") over two meetings. The Committee had reviewed the note disclosure at the May meeting. It had then reviewed the final draft statements in detail at a meeting held the previous day. A copy of the presentation made to the Audit Committee, outlining the highlights of the financial results, had been placed on the table for this meeting. The external auditors had been in attendance at both Audit Committee meetings, and the Committee had held its annual private meeting with them, with no members of the administration present, at the June 19 meeting. Mr. Weiss noted that the University had received a clean audit report.

3. Financial Statements for the year ended April 30, 2002 (cont'd)

Ms Brown presented the highlights of the year's financial results. On the positive side, government grants were beginning to rise as the effects of enrolment expansion took hold and as a result of success on the federal front with the announcement of support for the indirect costs of research. Less positive had been the continued market uncertainty and the lower than anticipated investment return. Revenue during the year had been $1.14 billion and expenses had totaled $1.27 billion for a year-end result of expenses greater than revenues by $125 million. This was largely reflective of the continued reduction in investment income. Transfers to and from various reserves in the amount of $112.4 million resulted in a deficit for the current year of $12.7 million. Transfers from reserves included $70.9 million from previously re-invested endowment earnings and a draw down of $73.5 million from funds committed for specific purposes.

An approximately $200 million increase in each of assets and liabilities had occurred, the latter due in large part to the $160 million debenture issue. Total net assets equalled $1.5 billion, $1.2 billion of which were endowments.

Referring to the operating fund results, Ms Brown noted that revenue was $820 million and expenses $830 million, resulting in expenses greater than revenues by $9.9 million. A transfer of $2.9 million from reserve resulted in a deficit of $7 million which was $3.8 million more than the $3.2 million deficit projected in the operating budget for 2001-02. The cumulative deficit in the operating fund was $18.1 million which represented 2.2% of revenue. Ms Brown recalled that, by Governing Council policy, the deficit was limited to 1.5% of revenue by the end of a six-year planning period. This was the 4th year of the current 1998-2004 6-year period. She foresaw no problem with meeting this objective by April 30, 2004.

Mr. Weiss added several observations. It had been no surprise to learn that this had been a difficult year. Over the past decade, government operating funding per student had declined in absolute terms and, even more after taking into account the effect of inflation. The cumulative effect of this in real terms had been that over the past five years government funding for general operations had declined from 40% to 30% of the University's total expenses. Additionally, the investment market had continued to slump with the result that the endowment had lost money for the past two years. Endowment unit values were lower. For the first time in five years, operating expenses had exceeded operating revenue. While he had no concerns about the financial statements and the auditor's opinion, he believed the University would face a challenge entering the new long-range planning exercise.

The Chair thanked Mr. Weiss and members of the Audit Committee for their work, noting that the Board relied on the Committee for the detailed consideration of the statements.

A member observed that the cumulative deficit in the operating fund had grown by over 60% , representing 2.2% of operating revenues. There were only two years left in the current long-range planning period to reduce this to 1.5%. Particularly if the capital markets did not rally and restore endowment earnings, what steps would the University have to take to bring the operating deficit back into line? Ms Brown noted that the Operating Budget Report, which the Business Board had

3. Financial Statements for the year ended April 30, 2002 (cont'd)

reviewed in the spring, had largely anticipated the year-end result and projected a cumulative deficit at April 30, 2004 of 1.5% of revenues. The operating forecast presented to the Business Board earlier this year had reported a $3.8 million shortfall in the provincial operating grant for the full average funding promised for new students enrolled in September 2001. This had occurred because, when faced with a significantly higher than predicted enrolment increase within the system, the government had simply apportioned the originally planned funding among the universities rather than increasing the size of the funding pool. About 47 cents on the dollar had been awarded which in the case of the University of Toronto amounted to a grant of $3.8 million less than anticipated. The government recognized the problem but, because of audit requirements, was unable to formally acknowledge this in a way that the University could show it as an accrual. The announcement earlier this week assured the University that the funding would be forthcoming within this fiscal year. Thus, the unpredicted deficit for this year would be resolved. More generally, Ms Brown informed the Board that investment losses for expendable funds were being smoothed over three years as anticipated in the Operating Budget Report. With respect to endowment earnings the Vice-President, Business Affairs had undertaken to review the endowment spending policy one element of which would be to determine if, in the long term, the University should maintain its policy on 5% payout. He had also commissioned a liability study to better match investment strategy with liabilities.

Noting the reduction in matching funds, a member asked if $19.2 was all there was and, if so, was this considered acceptable or low. Ms Brown responded that these were in fact unrestricted endowments which had been used to provide matching funds for chairs and student financial aid. The remaining matching funds would be exhausted with the receipt of current pledges. Dr. Levy added that the Government had reintroduced the Ontario Student Opportunities Trust Fund (OSOTF) program which would renew the government matching source. Whether donations would be doubled using this government match or tripled with the addition of a University match this time was uncertain.

In response to a question about whether the Audit Committee had satisfied itself with respect to contingent liabilities, Mr. Weiss said that the Committee had reviewed outstanding legal concerns and related financial exposure. As well, it had reviewed the risk management and insurance report which would be received later in the meeting. Further consideration of the risk assessment profile would take place in early autumn. The Committee had been satisfied to date that the exposure faced by the University was adequately disclosed in the financial statements.

On the recommendation of the Audit Committee,

YOUR BOARD RECOMMENDS

THAT the University of Toronto audited financial statements for the fiscal year ended April 30, 2002 be approved.

4. Appointment of External Auditors for 2002 - 03

Mr. Weiss observed that Ernst & Young had been long-serving external auditors of the University. As a result, they had the advantage of knowing well the University's systems and its financial staff. That had the corresponding disadvantage of familiarity. To ensure that that familiarity did not impair the independence of the audit, the Audit Committee reviewed the appointment annually and the University and the firm had established a practice of changing the partner in charge of the audit periodically. The *Purchasing Policy* called for a complete review approximately every five years. This had last been done in 1998 and he expected it would be undertaken again next year or the year after.

A second concern when reviewing the appointment of external auditors was the degree to which they were performing other services that had the potential of compromising their objectivity when providing the audit of the University's financial statements. Ernst & Young had provided the Audit Committee with an overview of their other assignments. The Committee carried out an annual review of consulting and other services and was assured that there were no problems. Mr. Weiss felt confident that, should something emerge, it could be effectively dealt with.

He noted a correction in the proposed motion. Part 2 should read "for the fiscal year ending June 30, 2003" rather than "April 30".

A member asked how this appointment would affect audits of subsidiary operations such as the University of Toronto Asset Management corporation (UTAM) and the University of Toronto Press. Ms Brown said that the agreements with these bodies required that they use the same auditor as the University. By appointing Ernst & Young as University auditors, both the UTAM and the University of Toronto Press were required to be audited by them. She saw no problems with this arrangement and, in fact, thought it was a positive one.

On the recommendation of the Audit Committee,

YOUR BOARD RECOMMENDS

1) THAT Ernst & Young LLP be re-appointed as the external auditors of the University of Toronto for the fiscal year ending April 30, 2003;

2) THAT Ernst & Young LLP be re-appointed as the external auditors of the University of Toronto pension funds for the fiscal year ending June 30, 2003; and

3) THAT the members of the University of Toronto Innovations Foundation be requested to re-appoint Ernst & Young LLP as the external auditors of the Foundation for the fiscal year ending April 30, 2003 at a remuneration to be fixed by the Directors of the Foundation.

5. Capital Projects

The Chair indicated that documentation for the following two items had been circulated separately from the Agenda package and he hoped members had had the opportunity to review it. He reminded the Board of its responsibility with respect to capital projects which was that the project was appropriate to move forward at this time, that funding was secure, that cost estimates were solid, that the price provided good value for money and that, where appropriate, the design review process had been completed.

(a) Wordsworth College Residence

The Chair welcomed Principal O'Neill-Karch to the meeting for this item.

Mr. Bisanti reviewed his memorandum supporting the proposal to execute the Woodsworth College Residence. Under Summer Executive Authority in 2000, an expenditure of $2.5 million had been approved for the design and site development work for the project. This had been reported to the Business Board in the fall of 2000. The proposed residence on what is known as Site #26, at the southeast corner of Bloor Street and St. George Street, would comprise approximately 17,000 gross square metres with 8,000 net assignable square metres (nasm) for 371 beds, 1,170 nasm of classroom space, 713 nasm of audio-visual and archival storage space, and 514 nasm of street level retail space. The estimated cost was $32 million and a projected opening date had been January 2004.

In mid-2001, the design had been appealed by a neighbourhood institution to the Ontario Municipal Board (OMB). After a delay of six months and $670,000 of legal and related expenses, the University of Toronto was successful before the OMB and the project was out to tender with a closing date of June 26, 2002. Funding sources were outlined in his memorandum, as was the plan for managing the repayment of the mortgage. Mr. Bisanti reported that the financial plan had been reviewed carefully by the Department of Financial Services and approved. The one area of risk was that if following tender the construction costs exceeded $32 million, the project plans would need to be reworked. There could be no cost overrun because the College believed that the rates could not be set higher than those currently projected in the business plan. However, the administration believed this project should proceed given the continuing pressure on residence spaces and the location of this property as a northwestern gateway to the University precinct.

A member regretted that no mockup or drawing had been made available to members and asked what design was proposed for this prominent location on campus. Mr. Bisanti undertook to ensure that in the future the design drawings would be available to the Board. Also, he noted that the Design Review Committee had reviewed and approved the design. With respect to this project, he described a 17-storey building around a central courtyard designed from the perspective that this was a gateway building in a highly visible location. Professor Hildyard, speaking from her role as former Principal of Woodsworth, added that care had been taken in the design to ensure that the building base would blend into houses along St. George Street. The design had gone through many iterations to optimize the look and the capacity, and to

5. **Capital Projects** (cont'd)

(a) **Wordsworth College Residence** (cont'd)

create a positive academic and community environment for students. In her view, the architect had done a wonderful job and the design was very good.

Dr. Levy, speaking as interim Vice-Provost, Students, hoped that the resolution would be approved. The residence guarantee to first-year students, together with the dearth of residence beds, had the consequence of dislodging 2^{nd}, 3^{rd} and 4^{th}-year students in order to accommodate the first-year students. The University currently leased eight floors of the Primrose Hotel and was considering increasing that to ten or fourteen. This was not an effective solution. He believed it was important to move quickly so as not to further delay a building that had been already put on hold for six months while under appeal.

There was some discussion about the basis for the appeal. Dr. Levy indicated that considerable discussion had been undertaken with neighbours but in the final analysis it had not been possible to come up with a design that satisfied all of them and one of the neighbours had launched an appeal. Unfortunately, the appeal had been taken to the final level and had resulted in considerable delay and expense over which the University had no control. Dr. Levy and Mr. Bisanti agreed that the University would be best served by a policy of open and effective communication with individuals in the community. This was certainly the intent going forward and it was hoped repetition of such disputes could be henceforth avoided.

In response to a question, Ms Brown confirmed that a 25-year mortgage at 8% was the standard parameter used for the financial modeling for new capital construction requiring borrowing.

A member noted that the financing arrangements for this residence called for a $1.2 million subsidy per year from the University and asked how this compared with the cost of subsidizing residence space at the Primrose Hotel. Dr. Levy responded that currently the subsidy to the Primrose was $1.2 million for eight floors. The University was in negotiation now with respect to rates for next year. Because the requirement for space was going up, Dr. Levy expected that the cost would rise to about $2 million for this year and this was for space off campus.

A member expressed concern about what, in his view, was an inconsistency between the motion and what had been reported. After considerable discussion, it was clarified that the project could not go ahead as presented if the tenders came in over estimated cost; that there was little flexibility to raise fees per bed beyond the cost on opening of $675; that approval to proceed presumed approval by the University Affairs Board of the rate on opening and the subsequent increases outlined in the business plan; that market surveys indicated rates, for example, at Ryerson were already at $750 per bed; that student input had been an important component of designing a business plan for this project; and that studies were underway to determine if there were ways in which the University could build appropriate residences while staying within the preferred costing of about $50,000 per bed. In conclusion, Mr. Bisanti

5. Capital Projects (cont'd)

(a) Wordsworth College Residence (cont'd)

indicated that if issues arose the project would be reviewed and revisions approved under summer executive authority.

The Chair instructed that the business plan be attached to the report of the meeting.

A member said he had uneasiness about the urgency with which this had been brought to the Board. There seemed to be unanswered questions. In particular, he was concerned that the legal and related expenses, which the Board had been informed were built into the estimated cost, would be a charge on the project and he asked what would be cut. Invited to respond, Professor Venter said that the pricing for this project had had detailed study. While there had been very small changes in the design of the retail space and the corner siting, no internal changes had been made. In fact, half of the "related expenses" were for architectural fees to redesign the project while maintaining the integrity of the original plans. Professor Venter indicated that the administration might consider separating out the legal fees which would give some flexibility in the costing.

A member enquired as to the feasibility of buying condominium units to be used as residences. Mr. Bisanti said that the administration was always reviewing all options and this had been considered. Feasibility was very market dependent as was the suitability of condominium design. The administration believed that it was important to maintain the educational experience of living on campus. Professor Hildyard added that one needed to consider the layout of a building and measure its suitability for building an academic community. Most hotels and condominium projects were not conducive to creating that environment.

On the recommendation of the Vice-President, Business Affairs

YOUR BOARD APPROVED

Subject to the understanding that the rate of Woodworth College Residence Ancillary Operation will be sufficient to ensure that the operation recovers its own costs, and subject to the tender prices being within the approved funding envelope;

THAT the Vice-President, Business Affairs be authorized;

i. to expend up to $32.0 million for the construction of the Woodsworth College Residence
ii. to arrange such interim and long-term financing as is required.

(b) School of Continuing Studies

The Chair welcomed Dr. Mary Cone Barrie to the meeting for this item.

5. **Capital Projects** (cont'd)

(b) **School of Continuing Studies** (cont'd)

Mr. Bisanti reviewed his memorandum outlining the proposed loan to the School of Continuing Studies for renovation and new construction. He noted that the School was a self-supporting unit. It paid for the use of classrooms and paid stipends to instructors of its courses. The current facility did not reflect the important role of the School within the university community and beyond, and the School had put together a creative plan for the renovation of 1600 gross square metres and the construction of 100 gross square metres of new space within its building on St. George Street at a total estimated cost of $7.1 million. The estimates included allowances for escalation of cost and $560,000 for the rental of temporary facilities for one year while the project was underway.

Dr. Barrie was invited to respond to a question about the source of the $2.6 million not being borrowed. She indicated that the funds were expected to come from a variety of fund-raising sources, including friends and affiliated corporations for whom the School was important.

Speaking in support of the project, a member noted that the School inspired a sense of confidence, coming as it had out of large deficit ten years ago to its current financial position of a $1 million reserve. He had no concern about the proposed loan, which would be negotiated at market interest rates and which he had no doubt would be paid back in a timely way.

Another member indicated that, though he had no concern about the proposal, from a process point of view it would have been helpful to have information within the documentation on sources for the $2.6 million. Another member queried why the School would not increase fees to meet capital needs. Mr. John Rawle (Chief Financial Officer) said that the proposal had been brought together assuming no fee increase. The last ten years had yielded enrolment growth of about 65% and all indicators were that this would continue. Dr. Barrie added that the role of the School was to take adult education to a market that was subject to the economic pressures of any other market. Pricing of courses was carefully calibrated to what the market would bear. Fees were sometimes increased when there was a need to do so; in this business case there was not a need to do so.

Ms Brown informed the Board that the business plan put forward by the School of Continuing Studies had been considered by the Department of Financial Services and had been subjected to stringent stress testing. Her conclusion was that there was room, even with considerable volatility in the business cycle, to accommodate this proposal. A copy of the business plan would be attached to the report of the meeting.

A member expressed concern with the lack of context around this proposal. Usually, she recalled, proposals for capital projects had come forward with the table designed by

5. **Capital Projects** (cont'd)

(b) **School of Continuing Studies** (cont'd)

Professor Venter, giving an overview of all the capital activity. Further, she wondered if any discussion had been undertaken with respect to alternative methods of course delivery, relative to continued investment in bricks and mortar. The Chair requested that the table be provided for the Board whenever a capital project came forward. In the meantime, he referred members to Schedule 14 of the *Supplementary Financial Report*, which gave a snapshot view at April 30, 2002 of what was underway in the capital field. Responding to the second question, Dr. Levy noted that the report of the Provost's Task Force on Technology-Assisted Education was available on the world wide web, www.utoronto.ca/provost/tftea/report.htm and a review of this report might help members in understanding the issues and alternatives. He would be pleased to lead a discussion sometime on the report.

On the recommendation of the Vice-President, Business Affairs

YOUR BOARD APPROVED

THAT the Vice-President, Business Affairs be authorized:

i) to expend up to $7.1 million for the renovations and construction of the School of Continuing Studies; and,
ii) to finalize and approve the terms of a loan to the School of Continuing Studies for up to $4.5 million, such loan to be repaid, over a term not exceeding 17 years, from income generated within the School of Continuing Studies.

6. **Property: University of Toronto at Scarborough – Lease of Land to Centennial College of Applied Arts and Technology**

The Chair welcomed Mr. Don Beaton and Professor Ted Relph to the meeting for this item.

Reviewing his memorandum, Mr. Bisanti recalled that in June 2000 the Board had been advised of a SuperBuild grant to Centennial College to construct a new campus on the University of Toronto at Scarborough campus, with the explicit understanding that a given amount of the grant would be used for the land lease, which in turn would be used for construction of the proposed Academic Resource Centre at UTSC. The University and the College had agreed to a pre-paid land lease for a period of 99 years of 2.88 hectares of UTSC property at the intersection of Morningside Avenue and Ellesmere Road, on terms that were outlined in the attachment to Mr. Bisanti's memorandum. Two years of work had gone into the preparation of the site, including consolidation of parking, site decontamination, soil remediation and rezoning. All was now ready to proceed with construction. The rental payment of $9.270 million had been held in trust since July 2000 and, to date, had earned interest of $804,539. These funds, less encumbrances, would be used to fund approximately 46% of the total project cost of the new Academic Resource Centre, a building that was a high priority in the expansion plans for the

6. Property: University of Toronto at Scarborough – Lease of Land to Centennial College of Applied Arts and Technology (cont'd)

UTSC. Dr. Levy added that this was an extremely good business deal and had very good academic potential. The Academic Board had indirectly endorsed the project by its enthusiastic approval of joint programming with Centennial College.

On the recommendation of the Vice-President, Business Affairs,

YOUR BOARD APPROVED

THAT the Vice-President, Business Affairs be authorized to finalize the terms and conditions and execute the Lease Agreement between Centennial College and the University of Toronto for the lease of University lands at the Scarborough campus, the lease to be essentially consistent with the "Summary of the Principal Terms" attached to Mr. Bisanti's memorandum to the Business Board for the meeting of June 20, 2002.

7. Terms of Reference – Revisions

Mr. Charpentier was invited to introduce the item. He began by saying that the terms of reference for the Business Board and for the Audit Committee were the final two pieces of the complete package that would be going to the Governing Council for approval on June 27. The primary incentive in updating all the terms of reference had been to ensure that each reflected current and accepted practice, to add actions or responsibilities that were now required by policy of the Governing Council and by the 1988 *Report of the Chairman's Advisory Committee on Governance*. Finally, Mr. Charpentier said that the intent was to include as much information in a body's terms of reference as was necessary to allow the terms to stand alone in providing support to the Chair with respect to the role and responsibilities of that particular body. He noted that the green sheet covering the proposed revised terms of reference highlighted the major changes and that he would be happy to respond to questions.

The Chair added that he and the Vice-Chair had been consulted and had had the opportunity for a good review the proposed changes. Both were satisfied that the changes met the objective of making the terms consistent with practice and expectation.

A member noted the varying use of the words "approval" and "concurrence" and asked for an explanation of the difference. Mr. Charpentier responded that in the case of concurrence, the Academic Board was the lead body in considering the proposal, though it was always within the prerogative of the Business Board to withhold its approval if it did not agree. The Chair added that he saw "concurrence" as a signal that in some recommendations the role of the Business Board was to look at only those aspects of the proposal that fell within its mandate.

A member asked about the Board's role in determining asset mix for investments managed by UTAM. Noting that this would be discussed in more detail under item 8, the Chair indicated that the Business

7. Terms of Reference – Revisions (cont'd)

Board retains the authority to set policy, which included the normal asset mix as well as ranges for each asset class. The UTAM was permitted to vary the asset mix from the normal mix provided that each asset category remained within the ranges contained in the policy.

With respect to page 8, section 5.6, the Chair clarified for a member that policy with respect to relations with the external community was part of the Board's mandate, but the Board would not be called upon to approve policy or mission statements for each of the operating units reporting to the Vice-President and Chief Advancement Officer.

A member enquired about the Board's role in the approval of collective agreements. The Chair and Professor Hildyard responded that the first collective agreement with any unionized group came to the Board for approval; subsequent agreements came only when there were significant policy changes. In the absence of those, the President had authority to approve agreements after the first one. Agreements with non-unionized groups, including the Faculty Association, came to the Board. The member concluded that this was surprising and that, in his view, final approval of all major contracts should be the Board's responsibility.

The Chair invited Mr. Weiss to comment on revisions to the Audit Committee's terms of reference. Mr. Weiss said that the most significant change charged the Committee with monitoring risk exposure. This had already begun when the Committee reviewed the risk assessment profile last fall. In an ongoing way, the Committee would request an annual risk-assessment report, including a report on mechanisms for mitigating risk, and then its role would be one of monitoring rather than decision-making. Further clarifying, Mr. Weiss said that the Committee would not be taking direct responsibility for risk management but rather would seek to ensure that areas of the University dealing with or accountable for risk management were effectively managing it. He noted that last fall when this had first arisen during consideration of the risk assessment profile, the Committee had agreed that a monitoring body was necessary. The proposed terms of reference called upon the Audit Committee to play that role. There had been lengthy discussion at the Audit Committee about the advisability of the Committee accepting this role and agreement had not been achieved on how specifically the role should be played. However, the Committee had agreed to approve the revisions on the understanding that there may be a need to review this once there has been some experience on how the role can be fulfilled.

YOUR BOARD RECOMMENDS

THAT the proposed revised terms of reference of the Business Board and the Audit Committee (attached hereto as Appendix "B") be approved.

8. University of Toronto Asset Management Corporation: Financial Statements, 2001

Before dealing with the UTAM financial statements, the Chair recalled that there had been an "off line" session on investment policy on May 16. He thanked Ms Susan Eng for being a leading exponent of

8. University of Toronto Asset Management Corporation: Financial Statements, 2001 (cont'd)

both this (and the other) off-line sessions and for stepping in to Chair, in his absence, what turned out to be a lively session on investment policy.

He was pleased to inform the Board that the Vice-President, Business Affairs had undertaken a number of steps that had arisen from that discussion. He had provided the following report:

(1) The following issues had been identified and needed to be addressed:

- (a) The role of Business Board and that of the UTAM Board;
- (b) Hedge funds and other alternative assets;
- (c) Performance evaluation and attribution; and,
- (d) Strategic versus tactical asset allocation (currently UTAM does not undertake short-term tactical allocation)

(2) Discussions had been initiated with the Governing Council leadership, and a further meeting would be arranged to carve out concrete next steps when Mr. Chee returned to Toronto at the end of June.

(3) The matters to be addressed would likely require discussion, either at Board meetings or at a further "off-line" session(s).

(4) Mr. Chee had engaged consultants, Hewitt & Associates, to look into the issue of better asset/liability match for the endowment funds.

With respect to the financial statements of UTAM, the Chair said that the Audit Committee was responsible for reviewing the audited financial statements of the incorporated ancillary operations and, if appropriate, recommending them to the Business Board for acceptance. The Audit Committee had not met between the December 31 end of year for UTAM and an earlier Business Board meeting. Therefore, the financial statements were coming forward today. He noted that these statements were accepted rather than approved because UTAM's Board had responsibility for approval.

Mr. Weiss said that the Audit Committee had been satisfied with the financial statements as presented. He noted that these statements reflected only the cost of managing UTAM and that the assets under management and the investment returns appeared on the University's own financial statements. In response to a question, Mr. Weiss confirmed that members of the UTAM Board did not receive directors' fees, though they were permitted to do so by by-law.

A member asked if there had been any incentive compensation to the UTAM management, given the results of the last year. Mr. Weiss indicated that a small amount of incentive compensation had been distributed because, though the investment returns were poor, performance had exceeded the benchmark. A member expressed concern that when the Business Board set the benchmark there had been no indication of incentive compensation. In response to a request from a member, Mr. Weiss undertook to

8. University of Toronto Asset Management Corporation: Financial Statements, 2001 (cont'd)

convey to UTAM the request that the financial statements next year include audited management expense ratios for the major funds.

On the recommendation of the Audit Committee,

YOUR BOARD ACCEPTED

The audited financial statements of the University of Toronto Asset Management Corporation, December 31, 2000, a copy of which is attached to Report Number 64 of the Audit Committee as Appendix "A".

9. Reports for Information

(a) Environmental Health and Safety: Annual Report, 2001-02

The Chair welcomed Dr. Gorman to the meeting for this item. Though this and the next three items were reports for information and part of a consent agenda, he had specifically requested Professor Hildyard to comment on the Environmental Health and Safety Annual Report, to inform the Board of trends and actions that might be contemplated to manage those.

Professor Hildyard referred to the comprehensive report which had been circulated with the Agenda package, and reviewed her covering memorandum of June 13, 2002. Safety performance continued to be better than average but, in her view, this may not be good enough. She believed the University of Toronto should be setting the standard and looked to by other institutions for best practices. Accordingly, plans were underway to significantly improve this institution's record. External consultants had been provided with a report on all workplace accidents and asked for suggestions as to how conditions could be improved. Also, the Workplace Safety and Insurance Board had instituted a new audit program – the Work Well Audit – in which spot checks were carried out to determine the safety of the environment. She was impressed with the program and could see how it might have far-reaching effects within an institution such as this. Over the next six months, the University of Toronto would be undertaking a similar audit using the Work Well Audit guidelines.

She noted that there were continuing concerns with respect to asbestos which had led to the establishment of a joint union-management task force to work in partnership toward better practices in this area.

In conclusion, she was aware that staff sometimes felt they were not rewarded for reporting accidents. This was being reviewed and would need to be addressed.

9. Reports for Information (cont'd)

(a) Environmental Health and Safety: Annual Report, 2001-02 (cont'd)

Noting the 21% frequency data for skilled trades lost time, a member asked how that compared to other institutions. Ms Riggall responded that the skilled trades group was very small so that statistics were easily skewed by a relatively small number of lost-time accidents.

The Chair concluded the discussion by expressing the hope that there would be an improvement in these statistics next year.

(b) Risk Management and Insurance: Annual Report, 2001-02

The Chair welcomed Mr. Eric Fleming to the meeting and asked Mr. Weiss to comment briefly on the Audit Committee's review of this report. Mr. Weiss said that the Committee had engaged in long discussion on the report. He stressed that the risk-management dealt with in this report was closely related to insurance and it should not be confused with the broader process of risk-assessment and risk-management that would engage the Audit Committee in the fall.

(c) Report Number 64 of the Audit Committee - May 22, 2002

There were no questions on Report Number 64 of the Audit Committee.

(d) Quarterly Report on Donations of $250,000 or More

There were no questions on the Quarterly Report on Donations of $250,000 or more.

10. Reports of the Administrative Assessors

The Chair announced that Professor Hildyard would be reporting on the status of negotiations later in the meeting under the item, "closed session reports."

There were no other administrative assessors' reports.

11. Tentative Date of Next Meeting

The Chair informed members that the tentative date of the next meeting had been changed to Monday, September 30 and that the Secretary would send around a memorandum shortly with the full meeting schedule for the year

12. Other Business

The Chair thanked all members for their service and proffered special thanks to members who were concluding their terms on the Board: Ms Wendy M. Cecil, Ms Mary Anne Chambers, Professor Ray Cummins, Mr. David Keeling, Ms Françoise Ko, Mr. Frank MacGrath, Mr. Andrew Morgan, and

12. Other Business (cont'd)

Mr. Martin Offman. He particularly thanked Professor Heather Munroe-Blum for all her assistance over the year and wished her well in her appointment as Principal and Vice-Chancellor of McGill University. He thanked Ms Rose Patten for her very valuable advice and support as Vice-Chair, and he wished her well in her new role as Vice-Chair of the Governing Council.

THE BOARD MOVED *IN CAMERA*.

13. Report of the Striking Committee: Co-opted Membership of the Business Board and the Audit Committee for 2002-03

The report of the Striking Committee was included in the agenda package.

On the recommendation of the Striking Committee,

YOUR BOARD APPROVED

(a) THAT Ms Kim McLean and Ms Patricia Ricci be appointed to the Business Board for terms from July 1, 2002 to June 30, 2003; and

(b) THAT Mr. Donald Burwash and Mr. Gerald A. Lokash be appointed to the Business Board for three-year terms from July 1, 2002 to June 30, 2005;

(b) THAT Mr. H. Garfield Emerson be appointed to the Business Board for a two-year term from July 1, 2002 to June 30, 2004;

(d) THAT the following be appointed to the Audit Committee for one-year terms from July 1, 2002 to June 30, 2003:

Ms Paulette L. Kennedy
Mr. Paul E. Lindblad
Mr. Gerald A. Lokash
Ms Kim MacLean
Mr. George E. Myhal
Mr. Edward Ng
Mr. Richard Nunn
Mr. Roger H. Parkinson; and

(e) THAT Mr. Robert S. Weiss be re-appointed Chair of the Audit Committee for a one-year term from July 1, 2002 to June 30, 2003, and Mr. George Myhal be appointed Vice-Chair of the Audit Committee for a one-year term from July 1, 2002 to June 30, 2003.

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14. Closed Session Report

Professor Angela Hildyard reported on negotiations with the University of Toronto Faculty Association.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:30 p.m.

Recording Secretary

Chair

June 25, 2002

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