UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 198 OF THE BUSINESS BOARD

June 14, 2012

To the Governing Council,
University of Toronto

Your Board reports that it met on Thursday, June 14, 2012 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. W. David Wilson (Chair)
Ms Shirley Hoy, (Vice-Chair)
Professor C. David Naylor, President
Professor Scott Mabury, Vice-President, University Operations
Ms Sheila Brown, Chief Financial Officer
Ms Christina Sass-Kortsak, Acting Vice-President, Human Resources and Equity
Mr. P. C. Choo
Mr. Jeff Collins
Professor Edward Iacobucci
Ms Paulette L. Kennedy
Professor Michael R. Marrus
Mr. Gary P. Mooney
Mr. Jorge J. Prieto
Mr. Manveen Puri
Ms Catherine Riddell
Mr. Howard Shearer
Mr. W. John Switzer
Mr. Chris Thatcher
Mr. W. Keith Thomas
Ms Rita Tsang
Ms B. Elizabeth Vosburgh

Mr. David Palmer, Vice-President, Advancement
Mr. Louis Charpentier, Secretary of the Governing Council
Mr. Paul Donoghue, Chief Administrative Officer, University of Toronto Mississauga
Ms Sally Garner, Executive Director, Planning and Budget
Professor Edith Hillan, Vice-Provost, Faculty and Academic Life
Ms Gail Milgrom, Acting Assistant Vice-President, Campus and Facilities Planning

Mr. Neil Dobbs, Secretary

Regrets:

Ms Celina Rayonne Caesar-Chavannes
Ms Mary Anne Elliott
Mr. J. Mark Gardhouse
Mr. Steve (Suresh) Gupta
Professor Angela Hildyard
Ms N. Jane Pepino
Ms Penny Somerville
Dr. Sarita Verma

In Attendance:

Professor William Gough, member, the Governing Council
Ms Gillian Morrison, Assistant Vice-President, Divisional Relations and Campaigns
Mr. Mark Britt, Director, Internal Audit Department
Ms Nora Gillespie, Legal Counsel, Office of the Vice-President and Provost
Mr. Anthony Gray, Director, Strategic Initiatives and Research, Office of the President
Mr. Steve Moate, Senior Legal Counsel, Office of the President
Mr. Pierre Piché, Controller and Director of Financial Services

In Attendance (Cont'd):

Mr. Anwar Kazimi, Committee Secretary, Office of the Governing Council
Ms Mae-Yu Tan, Assistant Secretary of the Governing Council

The meeting began with Ms Hoy in the Chair, with Mr. Wilson assuming the Chair at about 5:45 p.m.

ITEMS 2 AND 3 ARE RECOMMENDED TO THE GOVERNING COUNCIL FOR APPROVAL. ITEM 6 RECORDS THE CONCURRENCE OF THE BOARD WITH A RECOMMENDATION OF THE ACADEMIC BOARD FOR GOVERNING COUNCIL APPROVAL. OTHER ITEMS ARE REPORTED FOR INFORMATION.

1. Report of the Previous Meeting

Report Number 197 (May 3, 2012) was approved.

2. Audited Financial Statements for the Year ended April 30, 2012

Ms Kennedy said that it was a real accomplishment to have the April 30 financial statements for so large and complex an organization as the University finalized and ready for consideration by the Business Board on June 14. Ms Brown, Mr. Piché and their staffs, as well as the external and internal auditors, had to work extremely long and hard to meet their very tight deadlines to produce the statements so expeditiously. The Audit Committee had reviewed the statements at two meetings. In May, the Committee had reviewed the draft notes to the statements, in particular the changes to be made to them from the previous year. The Committee had also at that time considered the major changes to be incorporated into the 2012-13 statements, arising from the new accounting principles being adopted in Canada and elsewhere. In June, the Committee had reviewed the statements in detail. The Committee had received a very positive report from the external auditors, who had required no adjustments to be made to the statements – even small changes – as a result of their audit. Ms Kennedy congratulated and thanked all those involved.

Ms Brown provided a brief review of the key numbers in the year's financial results. She characterized those results, given the difficult economic conditions in the world in 2011-12, as being not at all bad ones, and she said that they were better than the results in the forecast presented to the Board in January.

- **Net loss**. The overall net loss for the year was $34.5-million. That was after recording a non-cash expense of $131-million for the cost of unfunded employee future benefits. That $131-million figure was calculated using current interest rates on long-term bonds. The financial statements for 2011-12 used an interest rate of 4.8% to discount the cost of the employee future benefits, a decline from 5.6% the previous year, with the result that the recorded cost increased substantially. Absent that change, the result for the year would have been a positive net income. The actual loss of $34.5-million was less than the $110-million loss projected in the January forecast.

2. Audited Financial Statements for the Year ended April 30, 2012 (Cont'd)

- **Income statement: revenue**. The two largest sources of revenue for the year were student fees of $847.4-million and government operating grants of $702.2-million. Government operating grants had increased by less than 2% over the previous year. In contrast, student-fee revenue had increased by almost 11%, reflecting fee increases, enrolment increases and other changes.

  Ms Brown noted that while revenue from student fees had increased, so too had scholarships, fellowships and bursaries, which had amounted to $150.8-million in 2011-12. Revenue included $420.3-million of restricted grants and contracts - primarily research grants and contracts. It also included about $83.5-million of donations. That amount represented cash donations received, excluding those to the federated universities (St. Michael's, Trinity and Victoria). Total donations and pledges for the year, including those made to the federated universities, amounted to $128.5-million.

- **Income statement: expenses**. The largest item of expense was salaries and benefits, which amounted to $1.537-billion – an increase of about 5% over the previous year. The recorded expense for benefits alone had increased by something over 8% - reflecting the increase in the non-cash accrual for employee future benefits occasioned by the decline in the interest rate used to estimate the present value of those future benefits (as noted above). The increased expense reflected that decline in the interest rate rather than any improvement in benefits.

- **Balance sheet**. The value of the University's net assets as at April 30, 2012 was about $1.8-billion, down by about $50-million from the previous year and slightly better than the forecast net assets of $1.73-billion. The unrestricted cumulative deficit at the end of the year was about $135-million, down from about $173-million at the end of 2010-11 and less than the forecast deficit of $148-million.

- **Endowments**. The largest component of net assets was the endowments, valued at about $1.5-billion, a net decline of about $21-million from the previous year. An investment return of approximately 1% for the year was more than offset by a full endowment payout amounting to $69.8-million. Donations and grants to the endowment amounted to about $26-million.

- **Borrowing capacity**. The University's borrowing strategy defined its maximum external borrowing capacity as being 40% of its net assets averaged over the previous five years. As the Board was advised at an earlier meeting, the University's administration anticipated a reduction of the maximum borrowing capacity for the current fiscal year (owing to a reduction in the year's net assets), and that capacity had indeed declined from $773-million to $746-million. The Business Board had, however, approved capital projects that would bring total external borrowing to $770-million. The adoption of the new accounting rules for 2012-13, including valuing the University's land at its fair value as at May 1, 2011, would serve to increase both net assets and the maximum borrowing capacity substantially.

2. Audited Financial Statements for the Year ended April 30, 2012 (Cont'd)

Therefore, Ms Brown and a working group of Board members would review the borrowing strategy, beginning in the fall. Ms Brown would likely then make a recommendation to the Board for a revision. However, for this year at least, unless and until a revised borrowing strategy was approved, the University would not be able to undertake any new capital project that would require borrowing.

- **Operating fund**. The cumulative deficit in the operating fund was $14.7-million.[1] That compared to the budgeted operating deficit of $21-million and the forecast deficit of $16.7-million. The reason for the better-than-forecast outcome was the size of the reserves accumulated in the University's divisions. Those reserves amounted to $437-million, which was $76-million more than 2010-11 and $40-million more than forecast.

Among the matters that arose in questions and discussion were the following.

(a) Ancillary operations: outcome of loans for new facilities. A member recalled that the University had undertaken substantial borrowing to construct student residences and parking structures, and she asked about the outcome of that borrowing. Ms Brown replied that there were twenty different ancillary operations, including residences, food and beverage services, parking services and Hart House. With the growth in enrolment, the University had to expand student residences and parking, and many such expansions were financed through borrowing. The ancillary operations were expected to make blended principal and interest payments on the loans. The cost of the expansions had caused those operations to incur planned deficits in the early years, but repayment costs remained fixed and the revenues earned by the operations grew over the years. As a result, most of the operations, which had taken on loans about ten years ago, were – as projected –coming out of their deficit positions. Ms Brown stressed that that very satisfactory outcome had been the result of very good work by the staff responsible for the various operations.

(b) Divisional reserves. In response to a member's question, Ms Brown said that the growth of reserves in the academic divisions was the outcome of planning undertaken under the budget model initiated in 2006-07, which made the divisions responsible for the generation of revenue and for its use. As a result of the new model, divisions would retain the benefit of their efforts to generate revenue and to conserve it. Divisions were also responsible for meeting all of their costs, including salary increases, and they were exposed to such factors as fluctuations in investment returns. They had, therefore, developed reserves to deal with contingencies and for other very good purposes. Professor Mabury noted that, for example, the University of Toronto Scarborough (U.T.S.C.) had built up reserves to enable it to construct a new science building, which was essential to enable it to accommodate new faculty, to increase enrolment, and to generate further revenue. In response to another question, Ms Brown said that there was central oversight of reserves. All divisions were expected to develop rolling five-year academic and budget plans, which were reviewed by a University committee to ensure the financial integrity of the division and to determine the effect of the plans on the overall direction of the University.

[1] That is, excluding the restricted funds, the capital fund, and the ancillary operations fund.

2. Audited Financial Statements for the Year ended April 30, 2012 (Cont'd)

(c) Effect of fundraising on the operating budget. In response to a member's question, Ms Brown said that donations were recorded in restricted funds rather than in the operating fund. However, all sources of revenue were taken into account in the academic planning process. Mr. Palmer said that most donations were made for a purpose specified by the donor. Traditionally, only about 5% of donations were unrestricted and thus could be applied directly in support of the operating budget. Very often gifts were made for capital purposes, but such gifts saved the division the need to support its capital project(s) with operating funds, thus indirectly relieving its operating budget. Similarly, gifts for student financial support ultimately provided budget relief because operating funds did not have to be used to achieve the University's accessibility guarantee. Mr. Palmer and his colleagues were looking at means to attract more donations in support of faculty members. One option was the support of time-limited professorships, which could be sponsored with a gift in a lesser amount than an endowed Chair or Professorship. The University Advancement division was sensitive to the need to attract gifts that would support the regular operating budget, and it was seeking to increase unrestricted donations. There had been some significant shift in leadership annual giving, by members of the Presidents' Circle, to unrestricted gifts. While the Advancement Division was doing everything possible to encourage that, Mr. Palmer did not anticipate a large increase in the proportion of ordinary operating costs covered by philanthropy.

On motion duly made, seconded and carried,

YOUR BOARD RECOMMENDS

THAT the University of Toronto audited financial statements for the fiscal year ended April 30, 2012 be approved.

3. External Auditors: Appointment for 2012-13

Ms Kennedy briefed the Board on recent developments dealing with auditor reporting, audit committees and auditor independence – topics on which a number of standard-setters and regulators had recently published papers and proposals. Those papers had dealt with three concerns, in particular: (1) a perceived gap between the information provided by audited financial statements plus other public disclosures, and the information readers of the statements required to make informed decisions – the perceived "information gap"; (2) a gap between what readers of financial statements expected from an audit of those statements and what the audit could actually provide - the "expectation gap," and (3) the strengthening of auditor independence, skepticism and objectivity. Papers issued by various bodies internationally had dealt with such topics as: the form and content of the standard auditors' report; supplemental reporting by the auditors (an "auditors' discussion and analysis"); expanded reporting by audit committees; and mandatory rotation of audit firms, mandatory tendering, joint audits, and the prohibition of non-audit services by the firm performing the audit of the entity. It was fair to say that no consensus had been reached. Those issues were emerging ones in Canada, and no papers had been issued by Canadian regulatory bodies.

3. External Auditors: Appointment for 2012-13 (Cont'd)

Ms Kennedy outlined two aspects of the debate that would be of particular interest to the Board in considering the Audit Committee's recommendation for the appointment of auditors. The first was the recommendation for expanded reporting by audit committees. A paper prepared by the International Auditing and Assurance Standards Board recommended that audit committees report publicly, explaining how they discharged their responsibility for the integrity of the entity's annual report and for the oversight of the external audit process. The audit committee's report would include any matters of significance identified by the auditors that were not addressed in the annual report. The external auditors would in their turn report on the reasonableness and completeness of the audit committee's report. Those recommendations had not received a great deal of support.

The second aspect of the debate that would be of interest to the Board was one concerning the possibilities of mandatory audit firm rotation, mandatory tendering of audits, joint audits, and prohibition of non-audit services by the firm conducting the audit of a particular entity. Mandatory rotation of the partner within an audit firm was intended to reduce the risk of impairment of auditor independence that might occur when an audit partner developed too close a relationship with a client. Some of the papers in the debate recommend instead mandatory rotation of the audit firm after a given period of time. If there was need to retain the expertise of the original audit firm for a longer period of time, another possibility was joint audits by two firms. That, of course, would have cost implications and could be cumbersome.

Ms Kennedy noted that most of the recommendations had originated in Europe and they had gained traction only there. They had, however, been discussed elsewhere. The Public Companies Accounting Oversight Board in the United States had invited response to a proposal on mandatory audit firm rotation, perhaps only for audit tenures of more than ten years and perhaps only for very large public companies. There had also been discussion in Europe of mandatory tendering with full transparency of the criteria used for auditor selection. In such an arrangement, the outcome of the tendering process would not necessarily be the appointment of a new audit firm. That process was, however, a difficult one, requiring considerable time and effort from the entity inviting tenders and from the audit firms submitting them. Canada had no requirements dealing with those matters. However, a working group had been formed to consider the issues. It was expected that a paper would be issued in about six months, along with an invitation for responses. Ms Kennedy concluded that the landscape was shifting, the Audit Committee would be tracking the developments during the year, and it would report back to the Business Board early in 2013.

Ms Kennedy said that while the debate continued, the Audit Committee recommended the reappointment of Ernst & Young for the 2012-13 year. The Committee was very satisfied with the services provided by the firm. Consistently each year, it worked with management to very tight deadlines to ensure the audit review and release of the financial statements for their consideration by the Audit Committee and the Business Board in June. Any transition to a new audit firm would introduce the short-term risk of not meeting deadlines and delay of approval of the financial statements until the fall. The partner responsible for the University's audit was

3. External Auditors: Appointment for 2012-13 (Cont'd)

particularly knowledgeable – she was a national leader in accounting for universities and other not-for-profit organizations. She had also been particularly helpful to the Committee, which had held *in camera* meetings with the audit partner through the year, and she had been very forthright in providing information and answering questions. The Committee did not perceive any issue with respect to her independence. The fee charged by the firm was a very reasonable one. The University was about to implement new accounting principles for 2012-13, and the external auditors had already completed a review of the proposed application of those new principles and had agreed to the University's approach. The continuity of auditors was particularly important in the transition to the new rules. Finally, the Committee would like to continue to monitor developments with respect to any new rules concerning auditor appointment and rotation. The Committee was very aware of the concerns expressed at the Business Board the previous year about tendering and rotation. It would therefore work with management to review the matter, and to understand how any process to put the audit out to tender would work. It was aware that the process of searching for new auditors and bringing them to an understanding of the workings of this complex University would be time-consuming for management and also for the Committee. Ms Kennedy would report to the Board early in 2013 on any changes both in regulatory requirements in Canada and on the outcome of the Committee's further thinking about the appointment of auditors for 2013-14.

A substantial discussion ensued. Two members urged that it was important, as a matter of good governance, to change audit firms when a single firm had been conducting the audit for many decades. The need for change was of particular importance in an institution that prided itself on its governance and that offered, through the Rotman School of Management, a strong and well-recognized training program for corporate directors. There was a real risk associated with having the audit performed by the same firm over so many years. The members fully recognized the competence of the auditors and the difficulties of making a change at this time, but those reasons were outweighed by the governance need for change after so many years. If the Board concluded that there was good reason to reappoint the auditors for 2012-13, then the option of putting the 2013-14 audit to tender, through a transparent process, should remain on the table for consideration.

Other members spoke in favour of the reappointment. The key governance need was for a high quality audit, and the current auditors had demonstrated the high quality of their work and their independence. It was not appropriate to consider change simply for its own sake. The Audit Committee had reviewed the audit fees charged to all Ontario universities, and it was clear that the University of Toronto received extremely good value for the fee it paid. The Audit Committee had completed full due diligence. It was an expert committee that had fully satisfied itself of the integrity of the audit before making its recommendation. Given the complexity of the University, and especially given the change in accounting principles for the forthcoming year, it was essential that there be adequate lead time for any change of auditors.

Ms Kennedy and another member of the Audit Committee assured the Board that the Committee recognized the concerns that had been expressed. It would monitor the changes to the

3. External Auditors: Appointment for 2012-13 (Cont'd)

regulatory landscape and would examine carefully the possibility of putting audit services to tender for 2013-14. To ensure adequate lead time for any change, it would report to the Business Board on its deliberations early in 2013. Ms Brown was already working on the process to be followed in the event of a decision to put the 2013-14 audit out to tender.

One of the members who had raised concerns said that he was pleased that the Audit Committee had considered the concerns raised and that it was committed to asking the questions that needed to be considered. He thought that the commitment took the University one half of the way towards the governance change he advocated.

On motion duly made, seconded and carried,

YOUR BOARD RECOMMENDS

(i) THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto for the fiscal year ending April 30, 2013; and

(ii) THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto pension plans for the fiscal year ending June 30, 2013.

4. Capital Projects: Capital Projects Report as at May 31, 2012

The Board received for information the regular report on capital projects as at May 31, 2012. It reported on the progress of six approved projects under construction for an estimated total construction cost of $148.30-million and a further twenty projects that were occupied but not formally closed, costing a total of $416.95-million.

5. Capital Project: University of Toronto Mississauga, Kaneff Centre Expansion

Ms Milgrom said that the proposed renovation of U.T.M.'s Kaneff Centre would accommodate the Departments of Management and Economics, as well as the Registrar's Office and certain public spaces. The project would include a three-story addition to the Kaneff Building as well as a basement. The project would be funded entirely by reserves built up from the U.T.M. operating budget to accommodate its rapid enrolment growth. The additional office space provided by the proposed expansion of the Kaneff Building and the expansion of the North Building (the latter project was currently underway) would provide the office space needed to enable the planned enrolment growth.

Mr. Donoghue said that the proposal was one piece of a multi-faceted five-year plan, integrating U.T.M.'s academic plan, its enrolment plan and its capital plan. U.T.M.'s highest priority was to address its faculty / student ratio. While thirty-seven academic searches were

5. Capital Project: University of Toronto Mississauga, Kaneff Centre Expansion (Cont'd)

currently underway, new faculty members would have to be accommodated in space vacated by retiring faculty or in temporary office space until the proposed project and the North Building project were complete. The planned enrolment growth to be handled by the proposed expansion of the Kaneff Centre was very likely to be achieved in the high-demand area of Management. The new space would also enable the Registrar's Office to move from its current, inadequate space off the Meeting Place in the William G. Davis Building. U.T.M. had built up a significant reserve as a result of the increased revenue resulting from its enrolment growth, and it would continue to do so over the next five years. In addition, this project was a high priority in U.T.M.'s fundraising efforts as part of the "Boundless" Campaign. Those factors would enable U.T.M. to fund the full cost of the project. Mr. Donoghue anticipated that, with governance approval, tenders would be invited in September 2012 for an aggressive target completion date of August 2014.

In response to a member's question, Mr. Donoghue said that U.T.M.'s cash-flow analysis indicated that it would be able to fund the project fully. It currently had reserved cash in hand of $21.5-million, which it would place into a capital account upon governance approval of the project. It would be able to add $7.5-million to that account in May 2013 and a further $6-million in May 2014.

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

Subject to Governing Council approval of the project,

THAT the Vice-President, University Operations be authorized to execute the University of Toronto Mississauga Kaneff Centre Expansion Project at a total project cost not to exceed $35-million, funded entirely from accumulating capital reserves within the University of Toronto Mississauga operating budget.

6. Policy on Capital Planning and Capital Projects: Revision

Professor Mabury said that the original Policy on Capital Planning and Capital Projects had been approved by the Governing Council in 2001. Since that time, $1.6-billion of capital projects had been planned and constructed on the three campuses of the University. The Governing Council's Task Force on Governance, recognizing the heavy load of transactions brought to the Planning and Budget Committee and the Business Board under the terms of the Policy, had recommended its review with a "view to refining the review and approval process related to capital planning and capital projects." Ms Riggall, before her retirement, had undertaken that review and had carried it much of the way to completion. The current Policy required full governance review of all projects costing $2-million or more. Projects costing less

6. Policy on Capital Planning and Capital Projects: Revision (Cont'd)

than $2-million were subject to review and approval by the Accommodation and Facilities Directorate (A.F.D.). Inflation since the approval of the original policy in 2001 would bring that threshold to $3-million. Pursuant to the terms of the proposed new policy, projects on the St. George Campus costing less than $3-million would be subject to review and approval by a reconstituted A.F.D., with a broader mandate and with wider membership, to be called the Capital Projects and Space Allocation Committee (CaPS). That Committee would, unlike the A.F.D., include representation from the Planning and Budget Office and the Finance Division. Projects costing less than $3-million at the University of Toronto Mississauga (U.T.M.) would be subject to review and approval by that campus's Space Planning and Management Committee, and such projects at U.T.S.C. by the Campus Design and Development Committee. Such projects would receive "Level 1" review and approval. There would be two paths for projects costing $3-million or more and requiring Governing Council approval. First, projects costing between $3-million and $10-million would be subject to "Level 2" approval. They would be reviewed initially by the Executive Committee of CaPS, including in its membership the Executive Director of Planning and Budget and the Chief Financial Officer. With its endorsement, a recommendation would be made to the Vice-President and Provost and to the Vice-President, University Operations, who would then submit the project to the Planning and Budget Committee of the Governing Council. With the recommendation of that Committee, the project would proceed to the Academic Board, for approval, normally on its consent agenda, and would then proceed to the Executive Committee of Governing Council for confirmation. For any project costing between $3-million and $10-million that required borrowing, the approval of the Business Board would also be required. Finally, projects costing over $10-million would need "Level 3" approval, requiring both review and endorsement by the Executive Committee of CaPS, recommendation by the Vice-President and Provost and the Vice-President, University Operations, and the full process of Governing Council approval, as at present.

Professor Mabury stressed that the proposed process was an important one. Over the past ten years, an average of about $40-million annually had been spent on projects costing less than $2-million, and $60-million had been spent on projects costing $2-million or more. The University had been the second most active site of construction in the region. While the proposed new Policy would streamline the process of governance approval, it would intensify the process of staff review and approval. All projects, large and small, would be reviewed by CaPS or its Executive Committee, now with representation of the Planning and Budget Office and the Finance division, in order to ensure the long-term financial viability of projects. The proposed new Policy contained numerous other, smaller changes. Titles of officers and names of offices had changed since 2001, and detailed procedures – some of which had not been followed – had been updated and moved from the Policy to administrative procedures, where they could be updated flexibly over time in response to changing circumstances and learning from experience.

Among the matters that arose in discussion were the following.

(a) Alignment of capital projects with long-term academic plans and priorities and with the Campus Master Plans. In response to a member's question, Professor Mabury said that in

6. Policy on Capital Planning and Capital Projects: Revision (Cont'd)

part, the representation of the Planning and Budget Office on CaPS would help to ensure that capital planning was kept in alignment with long-term academic planning, budget planning, and land-use planning. In addition, he would recommend to the Vice-President and Provost that the senior officer in the Campus and Facilities Planning group, currently Ms Milgrom, participate in the annual academic and budget review meetings held with each academic division. That would help to ensure the integration of academic planning, budget planning, enrolment planning, faculty complement planning and space planning. Mr. Donoghue observed that it had certainly been the recent experience in his division that capital planning was fully tied in with academic, budget and enrolment planning, and capital planning was included in the annual review meetings with the Vice-President and Provost. Ms Milgrom assured the Board that the terms of reference of all project planning committees, hitherto received for information by the Planning and Budget Committee, would under, the new arrangement, be more detailed and be reviewed in detail by CaPS. That review would also contribute to the integration of capital and academic planning.

(b) Reporting on CaPS exercise of delegated authority. A member commented that the increased delegation of authority to an administrative committee – CaPS – implied the need for reporting to governance on the exercise of that authority, at least in aggregate terms. Professor Mabury said that the administration did, at present, bring an annual report to the Planning and Budget Committee on the approvals by the Accommodation and Facilities Directorate. He would bring a similar annual report on CaPS approvals, at least in aggregate terms, to the Planning and Budget Committee and also to the Business Board. He noted that the administration would in addition report to the two committees on the review of the proposed Policy to be completed in five years' time.

(c) Reporting on the outcome of capital projects. A member observed that while there had in the past been governance oversight to the approval of projects and their execution, there had been no substantial reporting on the outcome of the projects. In some cases, projects had not worked out to meet divisions' needs and changes had been required – sometimes at a significant cost. Professor Mabury replied that the current Policy called for the submission to the Business Board of detailed project completion reports. The reports, as prescribed in the Policy, had not in fact been provided. He undertook to provide information on project completions in his annual report to the Planning and Budget Committee and to the Business Board. It was important to learn from experience.

In the course of discussion, two members spoke in support of the proposed policy, which they said would increase the efficiency of the process of approval of capital planning and capital projects and would at the same time ensure appropriate transparency.

6. Policy on Capital Planning and Capital Projects: Revision (Cont'd)

On motion duly made, seconded and carried,

YOUR BOARD CONCURS
WITH THE RECOMMENDATION
OF THE ACADEMIC BOARD

THAT the revised Policy on Capital Planning and Capital Projects be approved, effective July 1, 2012, replacing the Policy approved by the Governing Council on June 28, 2001.

7. Borrowing: Status Report to May 31, 2012

The Board received the status report on borrowing to May 31, 2012. Updated to reflect the 2011-12 financial statements, the maximum borrowing capacity pursuant to the approved Borrowing Strategy was $946.6-million. Borrowing allocated by the Business Board was $958.3-million (net of $95.0-million of repayments that could be re-allocated). In addition to the actual external borrowing of $722.6-million, internal borrowing outstanding was $167.3-million. A separate internal borrowing capacity had been approved for pension funding in the amount of $150-million, from which a loan in the amount of $112.6-million had been taken out on June 1, 2011.

8. Borrowing Capacity and Status of the Long Term Borrowing Pool to April 30, 2012

The Chair reminded members that Ms Brown would work with a group of three members of the Business Board to consider revisions to the Borrowing Strategy that would establish a new metric for the maximum borrowing capacity. The three members were Mr. Collins, Ms Somerville and himself. Ms Brown said that she and her colleagues would work over the summer to identify various approaches that could be used. She hoped to be able to present those options to the three-person working group around the end of September.

Ms Brown said that the report before the Board consisted of two parts. The first part reported on the new maximum external borrowing capacity in the light of the 2011-12 financial statements. That matter had been discussed above. The second part dealt with the Long-Term Borrowing Pool, the self-imposed sinking fund used to accumulate principal repayments of internal loans made to the divisions for various capital projects. The Pool would be used to repay the University's various debenture issues: the $160-million Series "A" debenture due in 2031; the $200-million Series "B" debenture due in 2043; the $75-million series "C" debenture due in 2045; the $75-millon Series "D" debenture due in 2046, and the $200-million Series "E" debentures due in 2051. The Pool was doing reasonably well. It was invested in the Long-Term Capital Appreciation Pool and therefore had lost $17.3-million of value in 2009. However, it had regained some of that loss in 2010 and 2011, and its assets as at April 30, 2012 stood at $101.2-million. There was a $6.0-million internally restricted deficit remaining from the 2009 investment loss.

8. Borrowing Capacity and Status of the Long Term Borrowing Pool to April 30, 2012

In the course of her comments, Ms Brown reported that Standard and Poor's had recently completed its annual review of the University's credit worthiness and it had reaffirmed its rating of AA with a negative outlook. That rating was one full level higher than that of the Province of Ontario; Standard and Poor's had recently downgraded the Province's rating by one grade but had not similarly downgraded the University's rating. The negative outlook was the outcome of the agency's concern about the large pension-plan deficit. If, over the next year, the University was to succeed in improving the pension-plan deficit situation, the negative outlook might well be removed. That would require (1) making special payments according to the recently approved Pension-Plan Contribution Strategy, and (2) securing the agreement of all employee groups to increased employee pension-plan contributions. However, if Standard and Poor's foresaw significant growth in pension deficits affected the University's operating results, material setbacks in meeting conditions for stage two acceptance, or sizable new debt issuance, the firm had indicated that it could lower the credit rating next year.

9. Report Number 102 of the Audit Committee - May 9, 2012

The Board received, for information, Report Number 102 of the Audit Committee (May 9, 2012). The Chair said that in accordance with the new terms of reference, the annual risk-assessment profile, and the record of the Audit Committee's review of it, would be forwarded to the Executive Committee of the Governing Council.

10. Pension Plan: Amendment to Implement the Pension Benefits Amendment Act, 2010 (Bill 236) and Grow-In Rights after July 1, 2012

Ms Sass-Kortsak introduced the proposal, which would enable the plan Actuary to make pension-plan amendments to implement amendments to the *Pension Benefits Act*, which would become effective on July 1, 2012. The pension-plan amendments would enable pension plan members (a) whose employment is involuntarily terminated without cause on or after July 1, 2012, or (b) who have a combination of fifty-five years of age plus service, to leave their pension-plan contributions, and the University's pension contributions on their behalf, in the plan and to receive a pension. That could be either (a) an unreduced early-retirement pension on the date on which they would have been eligible for one had their employment not been terminated, or (b) an immediate pension reduced by 5% per year for each year by which their termination date precedes the earliest date on which they could have received an unreduced pension.

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

THAT the plan Actuary be authorized to make the necessary amendments to the provisions of the pension plans to provide for the implementation of the revised *Pension Benefits Amendment Act, 2010*.

11. Business Board Terms of Reference: Tri-Campus Governance

Professor Gough said that a new governance model was being proposed for the Mississauga and Scarborough Campuses of the University, with authority delegated to new Campus Councils and a structure of committees reporting to them. The proposal had arisen from the Report of the Task Force on Governance and the work of the Implementation Committee for that Report. The Implementation Committee's Working Group on Tri-Campus Matters was in the final stage of an extensive process of consultations; that stage included consultation with all of the Boards of the Governing Council. The proposal would not affect the terms of reference of the Business Board directly, but there would be indirect effects, for example, as seen in the proposed revised Policy on Capital Planning and Capital Projects. That revised Policy would delegate to appropriate committees of the Campus Councils at U.T.M. and U.T.S.C. responsibility for approval of capital projects on their campuses costing less than $3-million.

A member referred to communications from student groups expressing concern that the presidents of the U.T.M. and U.T.S.C. student associations were not to be *ex officio* members of the Campus Councils. They noted that they were *ex officio* members of the current councils. Professor Gough replied that the Working Group had considered the matter very carefully. While senior officers of student associations were indeed often *ex officio* members of their divisional councils, there were no such *ex officio* places on the Governing Council or its Boards and Committees. The *ex officio* members of those bodies were officers who brought proposals to the Committee or Board and they were in some ways held accountable by those Committees or Boards. There was no such relationship for the leaders of student societies. While there were no *ex officio* student members, there certainly were student members. Indeed, as a result of the consultation process, student membership on some committees in the proposal had been increased.

Two members commented that the role of students in decision-making would be enhanced by the proposed arrangements. The U.T.M. and U.T.S.C. Campus Councils and their committees would exercise certain delegated authorities from the Governing Council; the College Councils currently were in many respects purely advisory bodies. Students would therefore have a voice in final decisions. Professor Gough observed that the point was an important one. For example, certain responsibilities to be devolved upon the Campus Affairs Committees at U.T.M. and U.T.S.C. were currently exercised by the University Affairs Board of the Governing Council. For the current year, no students from U.T.S.C. were members of the University Affairs Board.

A member noted that the heads of the student societies at U.T.M. and U.T.S.C. would be able to stand for election to the Campus Councils, but their fiduciary duty would be not to represent their organizations but to serve the best interests of U.T.M. or U.T.S.C. and those of the University as a whole. Another member commented that members of the Governing Council and its committees would sound out and take into account the views of their constituencies, but all were legally bound by section 2(3) of the University of Toronto Act to "act with diligence, honestly and with good faith in the best interests of the University . . . ."

12. Business Board Terms of Reference: Statement of Responsibilities for the Pension Plan and the Endowment Fund

The Board received for information a memorandum from the Chief Financial Officer clarifying the responsibilities of the Business Board and the Pension Committee with respect to the pension plans and the endowment funds. The Chair recalled that clarification of the responsibilities of each body had been requested at a previous meeting.

Ms Brown said that the memorandum had also been provided to the Pension Committee. It was recognized that the matter was a complex one, and the administration would, when individual matters arose, continue to delineate the specific responsibilities of each committee for the particular matter.

13. Reports of the Administrative Assessors

Pan-American Aquatics and Athletics Centre

Professor Mabury reported that Vice-President and Principal Franco Vaccarino and he would the next day sign the facilities agreement for the operation of the Pan-Am Aquatics and Athletics Centre at U.T.S.C. after the completion of the Pan-Am Games. Ms Catherine Riggall had carried much of the responsibility for the project and would continue to do so. The signing of the agreement would enable the initiation of the capital project to construct the Centre. The remediation of the land at the site was very near completion, and Professor Mabury was pleased to report that the work would be completed at a cost that would be approximately $15-million under budget. Because the budget for the Centre itself was a conservative estimate of the cost, and because the project was to be constructed under combined design and build contract, Professor Mabury was confident that it too would be completed at or under budget.

Goldring Centre for High Performance Sport

Professor Mabury reported that the Goldring Centre project was proceeding, and the excavation was about half completed. Because no unusual site conditions had been encountered, and because that project also was to be built under a combined design and build contract, Professor Mabury was again confident that it would be completed at or under budget.

Joseph L. Rotman School of Management Building

Professor Mabury reported that the new additional building for the Rotman School of Management was open and was proving to be an excellent one. He was confident that it would be of great benefit to the faculty, staff and students of the School.

14. Date of Next Meeting

The Chair reminded members that the first regular meeting of the 2012-13 academic year was scheduled for **Monday, September 24, 2012 at 5:00 p.m**. The complete list of meeting dates would be distributed over the summer.

15. Other Business

Board Evaluation Forms

The Chair reminded members that Board Evaluation Forms, which are to be completed anonymously, were available on line. Members' views were very welcome and would be given serious consideration. Members were urged to complete the evaluation as soon as possible.

Chair's Remarks

The Chair thanked all members for their service over the past year. The Board had completed some very important work. He offered special thanks to members who were concluding their terms on the Board.

- **Mr. P.C. Choo** had served on the Board for many of his eight years as a member of the Governing Council. He would continue his service on the Governing Council next year, but he would serve on the Executive Committee rather than the Business Board.

- **Ms Mary Ann Elliott** had served for the maximum nine years on the Board. In recent years, she had commuted from New York, where she now worked, or she had participated in the Board's discussions by telephone – an effort that had been very much appreciated.

- **Mr. Mark Gardhouse** also had to commute to meetings of the Board for the past two years, in his case from Edmonton, where he has been C.E.O. of a remarkable conglomerate owned equally by two companies representing the Inu peoples of the Western Arctic. That company provided aviation, marine transportation and other services, and developed economic and employment opportunities for the Inu peoples. Mr. Gardhouse's efforts to find time to commute for meetings had been very much appreciated.

- **Mr. Steve Gupta** would continue on the Governing Council next year, but not on the Business Board.

- **Professor Edward Iacobucci** would continue on the Governing Council next year. He, like Mr. Choo, would be moving to serve on its Executive Committee.

- **Ms Jane Pepino** too would continue on the Governing Council next year but would move to serving on its Executive Committee.

- **Mr. Jorge Prieto**, a full-time undergraduate student in international relations and economics, has served on both the Governing Council and the Business Board.

15. Other Business (Cont'd)

Chair's Remarks (Cont'd)

- **Mr. Manveen Puri**, a full-time student in the Faculty of Medicine, had also served on the Council and on the Business Board. His recent contribution as a member of the Board's Striking Committee was very much appreciated.

- **Professor Sarita Verma**, who had served as Acting Dean of the Faculty of Medicine for much of the academic year, would continue on the Governing Council next year, serving on the Academic Board and its Committee on Academic Policy and Programs.

The Chair offered his very special thanks to **Ms Shirley Hoy**, Vice-Chair of the Board, who would continue to serve the Board in that capacity for 2012-13. She had not only stepped into the Chair on occasion, but had also contributed her very substantial wisdom to decisions in the planning meetings that preceded each Committee meeting. He also offered his special thanks also to all of the Board's Assessors for their excellent work in preparing reports and proposals for the Board's consideration. The Board's senior assessor, **Professor Scott Mabury**, had moved into a role that had doubled his already formidable responsibilities and workload, and he had provided exceptional energy and enthusiasm in the discharge of his duties as a leader on the Board.

A member commented that, as a member of the Governing Council and a proud member of the University community, he had met many distinguished and capable people who provided exceptional service to the people of Ontario. No-one had exemplified that better than the Chair, **Mr. David Wilson**, in his many roles. He and all members of the Board had been very pleased to work with Mr. Wilson. The Vice-Chair said it had been a great pleasure to serve under Mr. Wilson's leadership as Vice-Chair of the Board. The Business Board had over the past year tackled a number of very challenging and complex governance and financial issues, including the issues concerning the pension plans. The Chair had provided remarkable leadership. He had always ensured that members had time to consider and debate important issues carefully and to make timely and well-considered decisions. Members endorsed those views with their applause.

The Chair and the Vice-Chair offered their thanks to the Secretary, **Mr. Neil Dobbs**, for his support of the work of the Board, and members endorsed their thanks with their applause.

Finally, the Chair offered his best wishes to **Mr. John Switzer,** who had been appointed by the Governing Council to Chair of the Business Board next year. The Chair was confident that Mr. Switzer would do a superb job as Board Chair for the forthcoming year.

THE BOARD MOVED INTO CLOSED SESSION TO CONSIDER ITEMS 16 – 18 AND *IN CAMERA* TO CONSIDER ITEM 19.

16. Salary and Benefits for Faculty and Professional Librarians, July 1, 2011 – June 30, 2014

On behalf of Professor Hildyard, Professor Mabury presented for approval the tentative settlement reached with the Faculty Association dealing with salary and benefits for members of the faculty and professional librarians for the period July 1, 2011 to June 30, 2014. The Chair reminded members that Section 27(d) of By-Law Number 2 prohibited moving, seconding, or voting on motions related to compensation by any employee of the University, or any immediate family member of an employee, except for the President and the Vice-Presidents (who were excluded from that prohibition). The provision did not exclude participation in questions and discussion. A full discussion took place.

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

THAT the Memorandum of Settlement between the Governing Council of the University of Toronto and the University of Toronto Faculty Association for the period July 1, 2011 to June 30, 2014 be ratified on behalf of the Governing Council of the University of Toronto, subject to the approval of the Memorandum of Settlement by the University of Toronto Faculty Association.

The Board, by its applause, congratulated Professor Hildyard and all of the members of the University's team on having reached the tentative three-year settlement.

17. Collective Agreement: Sheet Metal Workers International Association, Local 30

The Board received for information a report on the collective agreement between the University and local 30 of the Sheet Metal Workers International Association for the period May 1, 2012 to April 30, 2015. Because the members of the union were not members of the University's pension plan, no aspect of the agreement required Board approval.

18. Report on New Gifts and Pledges over $250,000, February 1 – April 30, 2012

The Board received for information the Report on New Gifts and Pledges over $250,000, February 1 – April 30, 2012. Mr. Palmer said that because some of the gifts had not yet been announced, it was important that the report remain confidential.

19. Report of the Striking Committee: Co-opted Membership of the Business Board and the Audit Committee for 2012-13

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

(a) THAT Ms Catherine Riddell be re-appointed to the Business Board for a one-year term from July 1, 2012 to June 30, 2013;

(b) THAT Mr. Ian Freedman be appointed to the Business Board for a two-year term from July 1, 2012 to June 30, 2014 and that Mr. Arthur M. Heinmaa and Mr. Peter A. Robinson be appointed to the Business Board for three-year terms from July 1, 2012 to June 30, 2015;

(c) THAT the following be appointed as co-opted members of the Audit Committee for one-year terms from July 1, 2012 to June 30, 2013:

Mr. Jeff Collins
Ms Kathryn A. Jenkins
Mr. Peter Robinson
Ms Penelope Somerville
Mr. Chris Thatcher; and

(d) THAT Ms Paulette Kennedy be appointed Chair of the Audit Committee and Ms Penelope Somerville be appointed Vice-Chair of the Audit Committee for one-year terms from July 1, 2012 to June 30, 2013.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:00 p.m.

Secretary | Chair

September 11, 2012