Confederation COLLEGE

MEMORANDUM

Date: June 23, 2017

Date Last Updated: June 24, 2016

To: **Chair and Board of Governors**

From: **President**

Subject: **MONITORING REPORT – EL-2e Financial Planning and Budgeting**

With respect to budget development, the President shall not cause or allow financial planning for any fiscal year or the remaining part of any fiscal year to: a) deviate materially from Board Ends priorities, b) risk financial jeopardy, or c) fail to be derived from a multi-year plan.

I hereby present the monitoring report on our Executive Limitations policy "Budget Development" according to the schedule set out. I certify that the information contained in this report is true and represents compliance with all aspects of the policy unless specifically stated otherwise.

The President shall not cause or allow financial planning for any fiscal year or the remaining part of any fiscal to:

a) "Deviate materially from Board Ends priorities.

I interpret the development of the annual budget on the basis of the approved college strategic plan, and the business plan that has been developed in support of the Board Ends, as evidence of the Ends expected.

Compliance will be demonstrated when Board Ends priorities are articulated in policies E1 to E3 (Ends Policy 1: Access and Success; Ends Policy 2: Community Prosperity; and Ends Policy 3: Institutional Excellence).

Evidence:
The projected 2017-18 budget of $80.2 million has been developed as a balanced budget and includes $408,075 in funding for Strategic Initiatives to support the Board Ends and Strategic Plan. See also Appendix A for a detailed breakdown of the operating budget.

	2015-16 Actual	**2016-17 Actual**	**2017-18 Projected Budget**
Total Revenues	**$75,122,981**	**$75,857,235**	**$80,208,544**
Total Expenses	**$74,141,721**	**$74,942,438**	**$80,208,256**
Surplus (Deficiency)	**$981,260**	**$914,797**	**$287**

I report compliance.

b) "Risk financial jeopardy."

I interpret "financial jeopardy" as insolvency, the inability to finance operations, risking an in-year deficit not covered by reserves, or making drastic short-term adjustments with negative long-term impact.

Evidence:

The 2017-18 operating budget is forecast as a balanced budget and does not rely on in-year reserves to finance operations. See Appendix A and B for further details.

The following two metrics show positive results in managing the Colleges financial resources as reported on the 2017 Audited Financial Statements:

- **Annual Surplus/Deficit** (revenue - expenses): At March 31, 2017, the College reported a positive variance of approximately $915,000 compared to a $981,000 surplus at March 31, 2016. From 2011-12 to 2014-15, the College experienced 4 years of annual deficits.

- **Accumulated Surplus/Deficit** (General Unrestricted, Internally Restricted and Investment in Capital Assets): At March 31, 2017, the College reported a positive variance of $6.2 million compared to a $5.3 million surplus at March 31, 2016, which is an increase of approximately $900,000.

I report compliance.

c) "Fail to be derived from the multi-year plan."

I interpret "multi-year plan" as the 2017-2018 budget year as well as forecast projections for 2018-2019 and 2019-2020.

Evidence:
The College three-year fiscal plan incorporates assumptions on revenues, enrolment, wage rates, operating expenses, etc. Appendix C is the Three-Year Financial Plan for the period 2017-18 to 2019-20.

	2016-17 Actual	2017-18 Projected Budget	2018-19 Projected Budget	2019-20 Projected Budget
Total Revenues	$75,857,235	$80,208,544	$80,328,361	$80,550,718
Total Expenses	$74,942,438	$80,208,256	$81,623,192	$82,603,568
Surplus (Deficiency)	$914,797	287	($1,294,831)	($2,052,850)

I report compliance.

The President shall not allow budgeting to:

1. **"Risk incurring those situations or conditions described as unacceptable in the Executive Limitation policy entitled 'Financial Condition & Activities' (EL2d)."**

I submit this is clear and requires no further interpretation.
Evidence:
The 2017-18 operating budget is forecast as a balanced budget based on assumptions which were reviewed by the Audit Committee. Appendix B provides further information on the financial risk exposure used to develop the 2017-18 operating budget.

I report compliance.

2. **"Omit a) credible projection of revenues and expenditures, b) separation of capital and operational items, c) cash flow analysis, d) disclosure of planning assumptions:"**

I submit this is clear and requires no further interpretation.

Evidence:

a) **Credible projection of revenues and expenditures:**
The 2017-18 budget has been developed using credible assumptions for projected revenues and expenditures which are summarized in Appendix B.

b) **Separation of capital and operational items:**
The capital budget is a separate item from the operating budget. Please see the 2017-18 Business Plan for details of the Five-year Capital Expenditure Projections.

Additionally, the findings of the Campaign Planning Study indicate that there is significant support to initiate a major fund raising campaign for innovation equipment, particularly for the TEC Hub. Further information to be provided by Ketchum Canada Inc. (KCI).

c) **Cash flow analysis:**

A summary of the projected changes reflected in the Budget Statement of Financial Position (Balance Sheet) at March 31, 2018 are listed in Appendix D.

d) **Disclosure of planning assumptions**:
Prior to the finalization of the operating budget, the 2017-18 budget planning assumptions were reviewed with the Audit Committee on December 7, 2016 and March 30, 2017. See Appendix B.

I report compliance.

3. **"Omit an annual budget for Board Prerogatives during the year as set forth in the Governance Investment policy."**

I submit this is clear and requires no further interpretation.

Evidence:
These Board prerogatives have been budgeted at $57,418 for 2017-18 in keeping with historical expenditures.

I report compliance.

Respectfully submitted,

D. Jim Madder,
President

Appendix A

The Confederation College of Applied Arts and Technology

Statement of Operations

For the year ended March 31	ACTUAL 2017	BUDGET 2018
Revenue		
Post Secondary Grants	$ 31,183,754	$ 29,997,633
Other Provincial Grants	12,443,368	11,409,753
Tuition Fees - Domestic	9,331,739	9,396,253
Other Student Fees	2,923,167	2,786,831
Tuition Fees - International	7,328,408	7,860,341
Contracts and Programs	4,706,031	10,696,063
Ancillary Operations	3,232,944	3,408,038
Amortization of deferred capital contributions	2,421,186	3,215,111
Other Revenue	2,286,638	1,438,521
	75,857,236	80,208,544
Expenses		
Full-time Salaries and Benefits	$ 38,609,055	$ 41,410,746
Part-Time Salaries and Benefits	9,635,199	9,124,052
Restructuring Costs	175,043	-
Plant and Property Maintenance	4,455,679	3,547,953
Contract Services	7,130,275	7,708,434
Furniture & Equipment	447,002	1,023,100
Miscellaneous	1,138,605	1,676,797
Office and Instructional Supplies	5,820,682	7,145,247
Professional Dues & Audit Fees	916,711	1,389,866
Scholarships and Tuition Set-Aside	895,723	588,801
Telecommunications & Software	1,270,329	1,289,260
Travel and Professional Development	1,266,482	1,380,209
Depreciation	3,181,655	3,923,791
	74,942,438	80,208,256
Excess (Deficiency) of revenue over expenses	$ 914,797	$ 287

Appendix B

2017-2018 Budget Planning Assumptions

Guiding Principles:

The following guiding principles will be used to develop the 2017-2018 operating budget:

Learners are at the centre of quality education.

College budgets should:

* reflect, align and support key priorities identified in the Strategic Plan and Annual Business Plan;
* define responsibility, accountability, and authority for achieving program and service outcomes;
* strive for cost savings, efficiencies, and shared program and service delivery models, where possible;
* consider Integrated Financial Risk Management implications (such as: demographic changes in domestic post-secondary enrolment; increased reliance on International student recruitment; infrastructure and technology renewal challenges; program and service sustainability);
* reflect changes in the fiscal environment that may impact the College (such as: labour market demand; political landscape, provincial funding and tuition framework; college sustainability).

Key Budget Assumptions:

Revenue

- Traditionally, the College's single largest source of revenue has been from the Province in the form of grants, representing approximately 51% of the total projected revenue. In the spring and early summer 2016, the ministry engaged the college sector in a consultation on principles for a renewed college funding model. This was followed by a technical consultation on design elements for the formula. This process resulted in the new funding model, which will begin in 2017-18. Reforms to the funding model are focused on accomplishing the following key objectives:

    - Improving Student outcomes
    - Supporting differentiation by linking funding to Strategic Mandate Agreements (SMAs); and
    - Addressing institutional financial sustainability through a formula which provides predictable funding and supports enrolment planning during a period of projected demographic change and enrolment decline

- In 2017-2018, the Core Operating Grant will be allocated based on average weighted funding units (WFU) enrolment in 2013-14, 2014-15, and 2015-16, and based on a per WFU funding rate of $4,149.54 vs previous rate of $ 4,277.45. The reduction in the rate is due to the College Funding Formula (CFF) Holdback which has been transferred from the Core Operating Grant to the Differentiation envelope.

- The “three year average, two year slip” model multiplied by the average grant per WFU will continue till 2019-2020. In the years after 2019-2020, the college funding will be based on the Corridor Model. Under the corridor assessment mechanism, as long as enrolments remain within the range of 3% above and 7% below the established corridor midpoint (based on 2019-20 WFUs levels, or the average of 2015-16, 2016-17 and 2017-18 WFUs), the college will receive the same amount of funding.

MAESD Operating Grants Summary

	2015/2016 Actual	2016/2017 Forecast	2017/2018 Budget CFF Model	2017/2018 Budget New Funding Model	2018/2019 Budget New Funding Model	2019/2020 Budget New Funding Model
Operating Grant	18,734,981	18,734,981	18,372,499	19,773,443	19,138,852	18,517,569
CFF Holdback	765,522	765,522	765,522	765,522	765,522	765,522
Performance Funding	402,170	376,052	376,052	376,052	376,052	376,052
Small, Northern & Rural Grant	9,471,898	9,471,898	9,471,898	9,471,898	9,471,898	9,471,898
Reporting Entities Grant	35,465	35,236	35,236	35,236	35,236	35,236
Enrolment Growth Funding	1,589,930	1,488,467	1,119,942	-	-	-
ISR International Student Recovery	(256,786)	(440,876)	(424,500)	(424,500)	(440,625)	(439,500)
Total Operating Grants	**30,743,180**	**30,431,280**	**29,716,649**	**29,997,651**	**29,346,935**	**28,726,777**

- For 2017-2018 and 2018-19, Core Operating Grant allocations will be based on the greater of calculations given above, Or as determined by the previous CFF formula. In 2017-2018, the allocation for Confederation College is greater under the new Core Operating Grant formula, resulting in a slight increase in funding of $281,002. However this increase does not address the inflationary and collective agreement increases the College faces annually.

- Tuition revenue will be modelled directly from the Strategic Enrolment Management plan and approved fees schedule. The tuition fees for 2017-2018 were approved by the Board of Governors at the January board meeting. Tuition fees are increasing a flat 3% for all programs.

  - Enrolment has been continually reviewed by SEM and updated for the actual Winter 2017 term program enrolments, which would impact subsequent year’s enrolments of a multi-year program.
  - Domestic enrolment is budgeted to continue to decline by 4.8% in Fall 2017 from current Fall 2016 enrolment.

  - International enrolment is expected to increase from current enrolment with forecasted increase of 9.8% and increase 3.0% from actual Fall 2016 and Winter 2017 enrolment, respectively.

- Ancillary revenue is derived from campus bookstore, Sibley Hall residence, parking, food services, fitness center, and facilities rentals. These budgets will continue to be reviewed with our partners for economic impacts, such as closure of the West Wing in Sibley Hall, and the impact on mandatory meal plan sales revenue to the Food Services operations.

- Contract training and special programming continues to be reviewed, and only secured, or contracts with a high probability of securement will be included in the budget.

Operating Expenditures

- The College's single largest expenditure in its operating budget is salaries and benefits for full-time, and part-time staff, totaling $50.5M. Full-time salary rate increases for faculty and support are in accordance with the respective collective agreements. For the approved full-time complement, the budget will include the rate increases, step increases on anniversary dates, and support staff special allowances. Administrative salaries are budgeted in accordance with the College's Employer Council recommendations.

- The fringe benefits rates incorporated into the budget are as follows: Faculty 24%, Support 29%, and Administration 26%. These rates incorporate the legislated employer deductions, and discretionary fringe benefits, such as health and insurance premiums, and pension plan contributions.

- Workforce restructuring (staffing and vacancy adjustments) implemented in 2015 are assumed to be permanent reductions to complement. The restructuring plan consisted of mainly full time administrative positions, and this is evident in the 2017-2018 Budget with full time administrative salaries continue to be 2.7% lower than 2015-2016 actual level At the present time, there are no restructuring costs budgeted for.

- The remainder of the operating budget is for other non-salary costs such as supplies, travel, telecommunications, utilities, professional fees, promotion, contracted training and ancillary operations.

- The US currency will continue to impact costs, as many software maintenance agreements are in US currency. The exchange rate to be assumed will be 1.35 versus the previous year's budget was at a rate of 1.45.

Financial Risk Exposure Areas:

- The ongoing reality of domestic student enrolment declines; impact is reduced tuition fee and provincial operating grant revenue, which is driven by domestic enrolment.
- The increased reliance on international student enrolment increases; impact is increased risk and vulnerability to tuition and fee revenue; offset somewhat by

increases in additional expenditures for teaching and support for the increased international enrolment.

- Increased competition for indigenous students by other colleges and indigenous institutions.
- The 2017-2018 operating budget is not expected to be negatively impacted by the new Ontario Student Grant, which was announced in the 2016 Provincial Government Budget.
- Small, Northern and Rural Grant is being reviewed as part of the College Funding Model process. Preliminary recommendations by Colleges are to maintain this funding.
- Lack of annual funding from government for inflation forces colleges to either grow or reduce services/staffing in order to cover cost inflation.
- Capital resources/investment to refresh program equipment, information technology and facilities is severely limited.
- Financial sustainability issues; declining importance of the government operating grant and increased reliance on tuition fees to fund college programs and services.
- Constrained government finances and pressures on government from many sectors mean that there is little or no new funding for Colleges.
- College Debt is relatively low: The debt servicing ratio is .52% versus the benchmark ratio for Ontario Colleges is < or =3%. This ratio is an indicator of the percentage of total income required to cover interest and debt servicing charges.

Appendix C

Projected Three-Year Financial Plan: 2017-18 to 2019-20

	2016-17 Actual	2017-18 Projected Budget	2018-19 Projected Budget	2019-20 Projected Budget
REVENUE Grant Revenue	$43,627,122	$41,407,386	$40,337,342	$40,108,804
Tuition Revenue	$19,583,314	$20,043,425	$20,707,518	$20,984,273
All Other Revenue	$10,225,613	$15,542,622	$15,542,622	$15,542,622
Amortization	$2,421,186	$3,215,111	$3,740,879	$3,915,019
Total Revenues	**$75,857,235**	**$80,208,544**	**$80,328,361**	**$80,550,718**
EXPENSES Salaries & Benefits	$48,244,254	$50,534,798	$51,500,436	$52,552,938
Restructuring Costs	$175,043	-	-	-
Non-Labour Costs	$23,341,486	$25,749,667	$25,834,736	$25,881,914
Depreciation	$3,181,655	$3,923,791	$4,288,021	$4,168,716
Total Expenses	**$74,942,438**	**$80,208,256**	**$81,623,192**	**$82,603,568**
Surplus (Deficiency)	**$914,797**	**287**	**($1,294,831)**	**($2,052,850)**

NOTES:
Key planning assumptions:

- Corridor funding model (transitioning over 3 years).
- Enrolment forecasts from SEM (annual decrease)
- Changes to contract training revenue (increase)
- Salary projections (as per collective agreements)
- Tuition Fees (maximum 3% annual increase)
- Non-labour costs (minimal changes - not adjusted for inflation)

Appendix D

Projected Cash Flow Changes – Statement of Financial Position

The Confederation College of Applied Arts and Technology
Statement of Financial Position

As at	March 31, 2017	Change	March 31, 2018
Assets			
Current			
Cash	$ 13,764,463	$ (1,029,493)	$ 12,734,970
Accounts receivable (Note 3)	4,712,961	2,000,000	6,712,961
Temporary investments (Note 2)	-		-
Inventory	641,246		641,246
Current portion of notes and long-term receivable	14,540	490,077	504,617
Grants receivable	1,190,034	(1,000,000)	190,034
Prepaid expenses	526,844	(155,000)	371,844
	20,850,087		21,155,672
Investment portfolio - endowments restricted (Note 4)	8,920,129	267,604	9,187,733
Notes and long-term receivable	41,094	7,501,562	7,542,656
Construction in progress (Note 5)	9,803,198	8,404,143	18,207,341
Capital assets (Note 6)	40,209,157	12,367,679	52,576,836
	$ 79,823,666		$ 108,670,238
Liabilities			
Current			
Accounts payable and accrued liabilities (Note 7)	$ 6,419,917	$ (1,500,000)	$ 4,919,917
Deferred revenue (Note 8)	3,888,495	(863,065)	3,025,430
Vacation pay	3,011,721	(125,000)	2,886,721
Current portion of long-term debt (Note 9)	364,399	270,179	634,578
	13,684,532		11,466,646
Post-employment benefits and compensated absences (Note 10)	2,497,000		2,497,000
Deferred capital contributions (Note 11)	36,538,036	12,668,089	49,206,125
Deferred capital contributions - construction in progress (Note 11)	5,650,890	13,391,110	19,042,000
Long-term debt (Note 9)	6,484,893	4,721,614	11,206,507
	64,855,351		93,418,278
Net Assets			
Unrestricted			
Operating	$ 6,789,084	$ 287	6,789,372
Post-employment benefits and compensated absences	(2,497,000)	-	(2,497,000)
Vacation Pay	(3,011,721)	125,000	(2,886,721)
	1,280,363		1,405,651
Invested in capital assets (Note 12)	$ 1,288,114	345,850	1,633,964
Internally and externally restricted (Note 13)	3,650,293	(455,096)	3,195,197
Endowments restricted (Note 14)	8,749,545	267,604	9,017,149
	13,687,952		13,846,310
	14,968,315		15,251,961
	$ 79,823,666		$ 108,670,239

NOTES:

- Majority of changes due to capital projects (Wellness Centre, TEC Hub, Sioux Lookout):
  - Construction in Progress
  - Notes & LT receivables
  - Capital Assets
- Timing of capital project cash flows aligned with project construction schedules which have been communicated with the various funders and the OFA
- Operating cash flows from MAESD provided on a bi-monthly basis
- Accounts Receivable and Accounts Payable are monitored/managed on a monthly basis
- Other funding is flowed as per terms of the funding agreements