Confederation
COLLEGE

MEMORANDUM

Date: June 17, 2019

Date Last Updated: June 13, 2018

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 2019-20 budget of $92.6 million has been developed as a balanced budget in support of the Board Ends and Strategic Plan. See also Appendix A for a detailed breakdown of the operating budget.

	2016-17 Actual	2017-18 Actual	2018-19 Actual	2019-20 Projected Budget
Total Revenues	$75,857,235	$75,650,398	$104,682,011	$92,603,853
Total Expenses	$74,942,438	$74,227,562	$86,899,264	$92,569,377
Surplus (Deficiency)	$914,797	$1,422,836	$17,782,747	$34,475

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 2019-20 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 2019 Audited Financial Statements:

- **Annual Surplus/Deficit** (revenue - expenses): At March 31, 2019, the College reported a positive variance of approximately $17.8M compared to a $1.4M surplus at March 31, 2018. This marks the fourth year in a row that the College achieved a year-end surplus.

- **Accumulated Surplus/Deficit** (General Unrestricted, Internally Restricted and Investment in Capital Assets): At March 31, 2019, the College reported a positive variance of $25.6 million compared to a $7.9 million surplus at March 31, 2018, which is an increase of approximately $17.7 million.

I report compliance.

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

I interpret "multi-year plan" as the 2019-20 budget year as well as forecast projections for 2020-2021 and 2021-2022.

Evidence:
The College three-year fiscal plan incorporates assumptions on revenues, enrolment, wage rates, operating expenses, etc. Appendix C provides further detail on the Three-Year Financial Plan for the period 2019-20 to 2021-22. NOTE: Options to balance the budget for 2020-21 and 2021-22 are to be discussed with the Board at the in-camera session.

	2018-19 Actual	2019-20 Projected Budget	2020-21 Projected Budget	2021-22 Projected Budget
Total Revenues	$104,682,011	$92,603,853	$94,892,694	$91,771,678
Total Expenses	$86,899,264	$92,569,377	$94,668,113	$96,626,605
Surplus (Deficiency)	$17,782,747	34,475	$224,581	$(4,854,926)

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 2019-20 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 2019-20 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 2019-2020 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 2019-20 Business Plan for details of the Five-year Capital Expenditure Projections.

c) **Cash flow analysis:**
A summary of the projected changes reflected in the Budget Statement of Financial Position (Balance Sheet) at March 31, 2020 are listed in Appendix D.

d) **Disclosure of planning assumptions**:
Prior to the finalization of the operating budget, the 2019-20 budget planning assumptions were reviewed with the Audit Committee on March 5^{th}, 2019. 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 2019-20, in keeping with historical expenditures.

I report compliance.

Respectfully submitted,

Kathleen Lynch,
President

Appendix A

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The Confederation College of Applied Arts and Technology

Statement of Operations

For the year ended March 31	ACTUAL 2019	BUDGET 2019-2020
Revenue		
Post Secondary Grants	$ 40,166,684	$ 32,040,834
Other Provincial Grants	11,240,244	11,466,304
Tuition Fees - Domestic	10,158,946	7,543,883
Other Student Fees	3,776,380	4,264,370
Tuition Fees - International	18,361,151	20,349,052
Contracts and Programs	9,340,122	6,055,798
Ancillary Operations	3,242,470	3,376,657
Amortization of deferred capital contributions (Note 1	4,999,320	5,758,333
Other Revenue	3,396,694	1,748,621
Donation Revenue		
	104,682,011	92,603,853
Expenses		
Full-time Salaries and Benefits	$ 40,769,522	$ 43,784,502
Part-Time Salaries and Benefits	13,597,374	13,909,627
Restructuring Costs		-
Plant and Property Maintenance	3,419,561	3,718,773
Contract Services	11,041,480	8,634,504
Furniture & Equipment	432,614	1,166,612
Miscellaneous	1,110,928	1,205,827
Office and Instructional Supplies	6,279,215	8,487,730
Professional Dues & Audit Fees	809,677	737,697
Scholarships and Tuition Set-Aside	996,882	1,040,391
Telecommunications & Software	1,358,869	1,401,289
Travel and Professional Development	943,435	1,053,719
Depreciation	6,139,707	7,428,708
Donations and Fundraising		
	86,899,264	92,569,377
Excess of revenue over expenses	$ 17,782,746	$ 34,475

Appendix B

2019 - 2020 Budget Planning Assumptions

Guiding Principles:
The following guiding principles will be used to develop the 2019-20 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;
* 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)

2019-20 OPERATING BUDGET
Key planning assumptions:

- Board must not project an annual budget deficit as per Ont. Reg. 34/03.
- Reflect Integrated College-wide planning
- Consider LT Financial Sustainability planning
- Budget Scenarios to be developed to identify impacts and options to balance the budget

Revenue Assumptions:

- No funding to offset legacy Bill 148 cost pressures (one-time $8M provided in 2018-19).
- Additional SNR grant of $2.41M will be provided by MTCU until 2020-21
- Provincial grants as per corridor funding model.
- Projections have been developed for domestic and international student enrolment.
- Tuition: On January 17, 2019 the government announced a 10 per cent reduction in domestic student tuition rates for 2019-20 relative to 2018-19 levels. Impact on College Budget: $1.2M; NOTE: Tuition Freeze 2020-21: Colleges expected to maintain tuition fee levels in 2020-21 at the same level as 2019-20 tuition. Impact on College Budget: $1.5M.
- Postsecondary Sustainability Fund: a short-term sustainability fund has been established to support smaller, northern institutions that demonstrate immediate financial need in 2019-20 and “a commitment to developing a plan to achieve long-term sustainability at lower domestic tuition levels”. Impact on College Budget: No sustainability funding has been incorporated into the budget, given the uncertainty around the provincial government’s funding priorities.

- Student Choice Initiative: New Ancillary Fee Classification Framework introduced by MTCU, effective September 2019 academic year; students are given the option to “opt-out” of non-essential fees; Impact on College Budget: It is anticipated to have limited impact to Confederation College, as most College ancillary fees are mandatory for students.
- Changes to OSAP; starting 2019-20 school year; income thresholds will be reduced and students will now receive a higher portion as Ontario Student Loans; 44% of domestic students (1,262 of 2,836) received “free tuition” in the 2017-18 academic year; figures for 2018-19 have not been released by MTCU as winter term has not been completed; Impact on College Budget re: 2019-20 domestic enrolment: Currently, domestic acceptance is lower than target.
- Employment Ontario programs (Northwest Employment Works and Literacy & Basic Skills) will remain at the College (government currently reviewing the EO program delivery model). As part of their program funding review, Youth Job Link and Employment Youth Talent Incentive is eliminated, along with funding reductions to other programs, including Employment Services. Total funding reductions of $320K, along with cost reductions have been incorporated into the budget.
- Contract Training activity will reflect the continuation of current year contracts into 2019-20, as many are deliverable over multiple College fiscal years, and a conservative approach to new contract training activity has been incorporated.
- Ancillary operations – continue as status quo, as per contract agreements. There are no new contract renewals scheduled for2019-20.

Expenditure Assumptions:

- Salary and benefits increases are projected as per collective agreements, at approximately $1.5M;
- Repeal of Bill 148 (Bill 47) & Part-time certification activities; full impact of the repeal unknown at this time; possible scenarios will need to be considered in drafting the budget; 2018-19 Bill 148 revised estimate: $4+M.
- Non-labour costs will have minimal changes, except for known new or contractual increases;
- Strategic Initiatives will initially be budgeted for $400,000.
- Capital Equipment Budgets: 2018-19 Funding for both Capital Equipment Renewal Fund (CERF) and Facilities Renewal Fund (FRP) was announced in March 2019 for spending to occur until September 2019. Unspent amounts at March 31st were carried forward into the 2019-20 budget. The college plans to use internally restricted funds to fund $3.5M of capital investment in 2019-20.
- Restructuring Plan released in January 2019; annual savings estimated at over $1M.

Financial Risk Exposure Areas/Challenges:

- 2018 Ontario Economic Outlook and Fiscal Review projecting a provincial deficit of $14.5B; government is in the process of implementing various measures to reduce the deficit.

- Tuition Reduction, Changes to Student Fees and OSAP; full impact unknown at this time.
- Repeal of Bill 148 – Bill 47, making Ontario Open for Business Act, 2018 introduced by government; full impact unknown at this time.
- Certification of part-time faculty and staff re: first collective agreement expectations; PT for support services are now certified. Additional financial impacts to the college are minimal from the certification, additional $55K in salary costs, over and above new salary rates as a result of Bill 148.
- One-Time Postsecondary Sustainability fund in 2019-20 re: new tuition policy; further details pending MTCU; $1.2M tuition reduction may not be fully offset.
- The increased reliance on international student enrolment increases; impact is increased risk and vulnerability to tuition and fee revenue.
- Increased competition for Indigenous and domestic students by other colleges and Indigenous institutions.
- 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. Limited financial reserves.
- LT Financial sustainability issues; declining importance of the government operating grant and increased reliance on tuition fees to fund college programs and services.
- Corridor funding model requires rethinking of program mix and updated program costing model.
- Upcoming Strategic Mandate Agreement (SMA3) will be implementing new performance/outcomes-based funding. This will result in approximately 74% of our enrolment-based funding transition over to performance/outcomes-based funding, over the course of the 5 years of SMA3. The college will be examining different scenarios to estimate option weightings of the metrics and impacts to the college.
- College Debt is very low. The debt servicing ratio is .41% as of 2017-18 fiscal year. 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. Forecasted debt servicing ratio to increase to 1.3% in 2018-19 fiscal year with full year repayment of the OFA Wellness Centre loan.
- Over the past few years, where the College has realized a surplus, it has transferred funds into internally restricted reserves in order to build up its reserves, in accordance with recommended business practice of establishing 10% of revenues in reserves. For fiscal 2018-19, with a surplus of $17.8M, management recommended that $15M be transferred into internally restricted for various initiatives, such as sustainability, capital and strategic planning. At March 31st, 2019, the internally restricted reserve balance was 17.5% of the College revenues for the year; however these reserves will be used to fund operating shortfalls forecasted in 2021-22 of $4.9M.

Timelines to Complete Budget:

- February 12, 2019-Senior Team review.
- March 5, 2019 – Audit Committee review of updated budget assumptions
- April – May 15. 2019 – Finalize any outstanding budget financial pressures
- June 3, 2019 – Audit Committee to review Auditors Report and 2018-19 Financial Statements
- June 10, 2019 – Special Board meeting to approve 2018-19 Financial Statements
- June 17, 2019 – Annual Budget and Business Plan to Board for approval
- June 30, 2019 – Annual Budget and Business Plan submitted to MTCU

Appendix C

Projected Three-Year Financial Plan: 2019-20 to 2021-22

Projected Three-Year Financial Plan: 2019-20 to 2021-22

	2018-19 Actual	2019-20 Projected Budget	2020-21 Projected Budget	2021-22 Projected Budget
REVENUE **Grant Revenue**	$51,406,928	$43,507,138	43,471,902	39,285,605
Tuition Revenue and Student Fees	$32,296,477	$32,157,305	34,912,031	35,051,293
All Other Revenue	$15,979,287	$11,181,076	10,281,076	10,281,076
Amortization	$4,999,320	$5,758,333	6,227,685	7,153,705
Total Revenues	**$104,682,011**	**$92,603,852**	**$94,892,694**	**$91,771,678**
EXPENSES **Salaries & Benefits**	$54,366,896	$57,694,129	59,063,408	60,460,073
Non-Labour Costs	$26,392,663	$27,446,542	27,790,403	28,059,257
Depreciation	$6,139,707	$7,428,708	7,814,302	8,107,275
Total Expenses	**$86,899,264**	**$92,569,379**	**$94,668,113**	**$96,626,605**
Surplus (Deficiency)	**$17,782,747**	**$34,473**	**$224,581**	**-$4,854,926**

NOTES:
Further options to balance the budget for 2020-21 and 2021-22 to be discussed with the Board in camera.

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Appendix D

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

As at	Actual March 31, 2019	Budget March 31, 2020
Assets		
Current		
Cash	$ **36,154,220**	$ 13,681,868
Short-term investments	**-**	15,000,000
Accounts receivable (Note 3)	**7,271,211**	3,190,211
Temporary investments (Note 2)	**-**	-
Inventory	**883,536**	883,536
Current portion of notes and long-term receivable (Note 4)	**454,409**	440,398
Grants receivable	**959,422**	156,132
Prepaid expenses	**509,746**	135,305
Sinking funds investments	**-**	-
	46,232,543	33,487,448
Investment portfolio - endowments restricted (Note 5)	**9,419,568**	9,702,155
Sinking fund investments	**-**	-
Notes and long-term receivable (Note 4)	**6,686,218**	6,245,820
Construction in progress (Note 6)	**2,242,704**	(0)
Capital assets (Note 7)	**77,415,749**	81,047,325
	$ **141,996,783**	$ 130,482,749
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 8)	$ **14,052,396**	$ 7,028,196
Deferred revenue (Note 9)	**5,662,539**	4,433,739
Vacation pay	**3,365,285**	3,615,285
Current portion of long-term debt (Note 10)	**629,762**	380,344
	23,709,982	15,457,563
Post-employment benefits and compensated absences (Note 11)	**2,339,000**	2,344,000
Deferred capital contributions (Note 12)	**70,442,906**	68,262,226
Deferred capital contributions - construction in progress (Note 12)	**577,653**	(0)
Long-term debt (Note 10)	**10,122,900**	9,742,556
	107,192,441	95,806,345
Net Assets		
Unrestricted		
Operating	$ **5,842,551**	$ 5,020,114
Post-employment benefits and compensated absences	**(2,339,000)**	(2,344,000)
Vacation Pay	**(3,365,285)**	(3,615,285)
	138,266	(939,171)
Invested in capital assets (Note 13)	**5,305,128**	9,662,040
Internally restricted (Note 13)		-
Internally and externally restricted (Note 14)	**20,124,840**	16,434,840
Endowments restricted (Note 15)	**9,236,108**	9,518,695
	34,666,076	35,615,575
	34,804,342	34,676,404
	$ **141,996,783**	$ 130,482,749

NOTES:

- Majority of changes due to:
    - Capital projects
        - Prior year Construction in progress (Sioux Lookout) capitalized
        - Upcoming capital projects as per capital plan
    - Receivables collected in year
    - Timing of tuition payments
- Timing of capital project cash flows aligned with acquisition and project construction schedules
- MTCU operating cash flows received on a semi-monthly basis
- Accounts Receivable and Accounts Payable are monitored/managed on a monthly basis