**COMMITTEE REPORT**

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| **SESSION:** | | **ACTION REQUESTED:** | |
| **Public** | ☒ | **Decision** | ☐ |
| **Non-Public** | ☐ | **Discussion/Direction** | ☐ |
| | | **Information** | ☒ |

| | |
|---|---|
| **TO:** | **Audit & Finance Committee** |
| **DATE:** | **April 10, 2025** |
| **PRESENTED BY:** | **Brad MacIsaac, Vice-President, Administration** |
| **SUBJECT:** | **MCU Efficiency and Accountability Fund Final Report** |

**COMMITTEE MANDATE:**
The Audit & Finance Committee (A&F) is responsible for overseeing the financial affairs of the University with respect to all auditing.

The Advisory practice of KPMG has been engaged by Ontario Tech to provide a review relating to efficiencies at the University. While the firm was hired by the University, the review is more like an external audit as the scope and format is mandated by the Ministry rather than the University. KPMG will provide ideas on how to improve operations and give unbiased opinions to stakeholders outside of management. A confidential report has been prepared and submitted to the Ministry on March 31, 2025. At the June A&F meeting, leadership will be proposing an implementation plan based on the report for approval.

This meeting will provide the Committee with a general overview of the project and findings. Some questions for consideration and discussion are:

1. Are there notable gaps in the report?
2. Are there concerns about certain recommendations?
3. What are potential areas for common messages that could be developed?

**BACKGROUND/CONTEXT & RATIONALE:**
As discussed at the November 2024 A&F meeting, Ontario Tech, like most Ontario universities, has experienced increasing financial pressures. The University has been actively offsetting these pressures through implementing cost-saving measures as well as implementing revenue generating ideas such as executing its differentiated growth strategy.

KPMG has been retained to perform a review financed by the Efficiency and Accountability Fund. This fund supports third-party reviews of individual post-secondary institutions to identify opportunities to maximize resources, while continuing to meet the evolving needs of students, faculty, staff, and local communities. Twelve universities are currently undergoing reviews by external consultants. The review covers five mandatory areas. The general items discussed in each area include:

- **Academic programming**: program health/costing metrics to inform decisions; focus on productivity including effective use of fulltime and part-time instructors; optimizations of course sections; enhance “flexibility” of offerings; increased third-party funded scholarships.

- **Revenue generating activities**: enhance non-government related revenue: grow alternative learning offerings; international partnerships; capital opportunities (e.g., renting to third parties); fundraising; ensure ancillaries are generating revenue; increase residence and ancillary fees.

- **University governance, administration and student services**: increase use of technology to reduce manual effort (e.g. Student Information System); centralize admin functions (e.g. reduce duplication of roles and services across units/faculties).

- **Physical assets and facilities:** centralized booking (enhance standardization); implement technology to support optimal utilization and develop strategies to focus on improving use of space (increased weekend and summer use).

- **Collaborative procurement activities:** realize savings through economies of scale (e.g., increase collaboration with other local industry); reduce number of vendors.

While the key findings do not explicitly reflect the University focus areas, as it is an independent third-party review, it is important to reflect on the consistency of messaging that leadership has been providing through the President’s summaries and budget updates. The overarching key findings that have a moderate to significant need for further analysis from the review to date include:

- Ontario Tech has stated the need to grow to 18,000 for economies of scale.
  - KPMG reports, “with grant and tuition revenues frozen and costs increasing, various programs will not be sustainable into the future. Ontario Tech has been very innovative with program structures to maximize current course offerings to increase to sustainable sizes. If no further growth, the University should consider program/course cancellation and consolidation of section sizes to decrease costs. Further, to help growth, unnecessary course prerequisites should be removed, and greater flexibility should be added to programs to increase student retention. Through retention and alternate entry points the university would grow enrollment towards an optimal size.”

- Ontario Tech has stated the need to expand unique training to increase non-traditional learners.
  - KPMG reports, “the University can boost other sources of revenue through expanding alternative unique learning offerings and generate additional revenues through better utilization of specialized venue spaces. By focusing on why people would want to come back to the University for more things than a degree a greater diversification will be recognized.”

- Ontario Tech has stated the need to provide further automation so highly qualified personnel can free up time from transactional tasks to more students servicing and strategic actions.
  - KPMG reports, “Human Resources, Information Technology and Facilities would benefit from streamlined processes with clear roles and responsibilities. Once sound process mapping is in place enhancements can be made through automation and AI systems.”

Looking at the Implementation Plan and Financials Summary page of the Report presented by KPMG, there are a few very important points for the Board to be aware of:

- The report includes a “forecasted deficit” line that indicates that even if the University hit all the recommendations there would still be a deficit due to the tuition freeze and cap on grant. This “forecasted deficit” reflects what the University’s budget would realistically look like following the assumed domestic population increase and current business model. As shown in the budget paper if enrolment did not grow there would be a structural deficit as our assumed collective agreement increases for current staff alone will be over $8 million more each year. Once we add in operating inflation and the growing need for capital investment as equipment ages we grow to a deficit above $20 million by 2027 before new asks are even considered. To balance the 2025-2026 budget several of the KPMG recommendations have already been implemented.

- The leadership team received this report at the end of March and will require more time to review the implementation plan. While each topic lead validated their section there is a need for a more holistic review of the proposed timelines. For example, while individually each of the actions could move forward, the fact is if IT is required to support several changes we may need to stagger the implementation more than what is suggested in the Report. Further, there are several projects that require upfront investment for the potential of future savings. As the University is not expecting to receive any stimulus funding to move this forward, a more in-depth review is required in those areas before starting a change.

**Common Messages**

Based on the expanded report some of the “first thoughts” that had emerged:

- With frozen grants and tuition many programs are already showing negative margins. The focus will be on continued growth, consolidating more sections and finding the right mix of full-time and part time hires.

- Ontario Tech has capitalized on many administrative savings such as utilizing very centralized units and finding economies of scale with Durham College in back office supports. Ontario Tech is more efficient than perceived to be.

- Savings alone will not close the financial gap.

- Any new projects/savings opportunities must be realistic, measurable and achievable. Investments are required to implement many projects; this is particularly challenging in times of diminishing resources.

- Fundraising continually emerges as an idea, but there is often a misunderstanding around the restrictions that donors place on these funds (i.e., donors do not often fund ongoing operational costs).

- There is a perception that there are substantial reserves that can be used; however, the majority of Ontario Tech reserves are contractually committed.

**SUPPORTING DOCUMENTATION:**

- MCU Efficiency and Accountability Fund Review - Final Report, March 31, 2025

KPMG

# Ontario Tech University

## Ministry of Colleges and Universities Efficiency and Accountability Fund Review

Final Report

March 31, 2025

# Disclaimer

This report has been prepared by KPMG LLP ("KPMG") for The University of Ontario Institute of Technology ("Ontario Tech", "OTU", "Client") pursuant to the terms of our engagement agreement with Client dated **2024-10-23** (the "Engagement Agreement"). This draft report is being provided to Client and such other persons or entities as may be specified in the Engagement Agreement, on a confidential basis and may not be disclosed to any other person or entity without the express written consent of KPMG and Client. KPMG neither warrants nor represents that the information contained in this report is accurate, complete, sufficient or appropriate for use by any person or entity other than Client and such other persons or entities as may be specified in the Engagement Agreement, or for any purpose other than set out in the Engagement Agreement. This report may not be relied upon by any person or entity other than Client and such other persons or entities as may be specified in the Engagement Agreement, and KPMG hereby expressly disclaims any and all responsibility or liability to any person or entity in connection with their use of this report other than Client and any other persons or entities as may be specified in the Engagement Agreement. The information provided in this report are not subject to assurance. No opinions or conclusions intended to convey assurance have been expressed.

# Land Acknowledgement

We would like to begin by acknowledging that we are in Robinson-Huron Treaty territory and that the land on which we are gathered is the traditional territory of the Anishnaabeg, specifically the Garden River and Batchewana First Nations, as well as Métis People

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# Executive Summary

## Scope & Background

This review has been conducted for Ontario Tech University, in alignment with the requirements set out by the Ministry of Colleges and Universities Efficiency and Accountability Review. The review covers five key scope areas: 1. Governance, Administration and Student Services, 2. Academic Programming, 3. Physical Assets and Facilities, 4.Collaborative Procurement, and 5. Revenue Generation.

Ontario Tech shares a campus with Durham College in north Oshawa, and efficiencies are realized through various shared functions including Facilities, Information Technology, Procurement and Parking Services. Joint pathway programs are offered to allow students to advance their diploma into a degree through studies at Ontario Tech.

Our review identified additional efficiency opportunities primarily in Academic Programming, Revenue Generation and through furthering the use of AI and technology.

## Next Steps

The University should create a comprehensive detailed action plan by combining the individual implementation plans from this report together with other ongoing activities and existing initiatives. Collaboration with the Board is essential to prioritize and finalize this plan, detailing key steps and individual responsibilities.

## Key Observations and Opportunities

**As a maturing University, fixed and growing operating costs of the institution are distributed across a smaller number of students, thus impacting financial viability.**

With grant and tuition revenues frozen and costs increasing with inflation, various programs will not be sustainable into the future. Ontario Tech has been innovative in offering similar courses across programs to help program sustainability; however the University should consider options such as leveraging part-time faculty, consolidating sections to decrease costs, removing unnecessary course prerequisites to increase student retention and increasing enrolment via expanding Winter and Spring intakes.

**Significant opportunities to increase continuous learning enrolment, operating grant funding, and ancillary revenues exist.**

Ontario Tech can boost enrolment through expanding alternative learning offerings, increasing donation and operating grant revenues through more streamlined and efficient advancement processes, and generating additional ancillary revenues through better utilization of unique venue spaces such as ACE and Windfields Farm Lands.

**Manual processes and system limitations in administrative areas inhibit process efficiencies through data silos and a lack of standardized operating procedures**

Onboarding, Offboarding, and service requests in Information Technology and Facilities would benefit from streamlined processes/workflows with clear roles and responsibilities. Further collaboration opportunities exist to enhance the shared services model by implementing Service Management (ITSM) functionality and an improved prioritization system for facilities maintenance requests.

# Academic Programming

**Potential Savings:**
**Significant**

## Ontario Tech has demonstrated a commitment to offer a wide array of programs and courses to meet student preferences and enhance their academic experience.

Ontario Tech will need to increase enrolment while optimizing its academic portfolio to ensure long-term financial viability and consider canceling and/or consolidating programs with low student enrolment.

In addition, efforts to optimize course sizes and section sizes will ensure teaching resources are allocated effectively.

### Enhance Flexibility of Course Offerings ($$$)

- For most programs, core courses are only offered once per year creating challenges for students who are off-track and do not meet course pre-requisites. Ontario Tech should offer greater flexibility in course requirements and timing via the removal of unnecessary prerequisites (where possible) which will increase student retention.
- Most programs are designed to intake students starting in the fall semester. Ontario Tech should expand program intake into the winter/spring terms to increase enrolment through the year.

### Review Course & Section Sizes ($$)

- Approximately 16% lecture-type courses at the undergraduate level have fewer than 20 students enrolled. Some courses are offered in multiple sections, suggesting there is an opportunity to consolidate sections. It is recommended Ontario Tech establish a minimum threshold to evaluate the viability of cancelling courses, and/or adjusting their frequency or timing.

### Optimize Teaching Ratios & Workload ($$)

- In the 2023-24 academic year, almost 80% of sections are covered by full-time faculty members. Aligned with optimizing program offerings, an opportunity exists for Ontario Tech to optimize its workforce and staffing ratios to be responsive to market needs and adopting a more variable cost structure.
- As a STEM-based institution, utilizing highly skilled professionals from industry as contract teaching resources to supplement the delivery of courses will further enhance the student experience.

### Optimize Program Offerings ($)

- Ontario Tech has actively restructured programs to improve financial stability, however due to the reduction and freeze on domestic tuition and the cap on international study permits, an increased number of programs are no longer profitable. While not all academic programs will necessarily be profitable as there are reasons beyond purely financial to offer academic courses, it was noted that several programs (both graduate and undergraduate) had a negative contribution margin. To ensure financial viability, Ontario Tech should review all program offerings and implement a program annual review process to determine either: cancellation, conversion of a program into another program major/minor or continuing the program for strategic purposes.

| Potential Savings / Revenues Generated | $$$ = Significant | $$ = Moderate | $ = Minimal |
|---|---|---|---|

# Revenue Generating Opportunities

**Potential Savings:** **Moderate**

Ontario Tech has shown innovative revenue generation methods including summer camps, conferences services, Regent Theatre, Campus Ice Centre, and the Campus Fieldhouse.

Further opportunities exist through expanding continuous learning offerings, capitalizing on unique spaces by increasing public access, streamlining the advancement process and industry partnerships to increase donations and grant submissions.

Efficiencies realized will enable the institution to grow without a linear increase in the cost base.

## Grow Alternative Learning Offerings ($$)

- Ontario Tech should review current continuous learning offerings to identify courses with minimal revenues generated and courses which are similar to those offered by other competitors in the market and whether they should be continued in the foreseeable future. The University should strive for a profit margin of 40% or above.
- Expand continuous learning offerings by partnering with industry to offer courses tailored to market need. Additionally, partnerships with the International Office to offer services in other countries will allow Ontario Tech to increase revenues on educational services.
- Additional learning offerings and associated revenues exist through greater use of licensing, selling of simulations or ready-made micro-credentials.

## Capitalize on Unique Spaces ($)

- Opportunities exist for Ontario Tech to utilize their unique facilities including: ACE and Windfields Farm Land for public events. Exploring alternative uses for these spaces including special events, conference rentals, community events and weddings will result in additional revenues.
- A review was conducted over the potential third-party monetization of land identified that the sale of land would be a short-term gain, however would not be beneficial for the institution's future.

## Streamline Advancement Processes (-)

- Proposals, donor relations, and campaigns are completed manually with limited tools available to streamline these tasks. Ontario Tech should build a repository of past proposal submissions, implement an AI tool to assist with fundraising activities and collaborate with their unique services (e.g., ACE) to increase donation revenues to support new capital, infrastructure and student supports.

## Reserves (-)

- The review identified that Ontario Tech does not have sufficient reserves to cover forecasted deficits. Existing reserves are internally restricted for various purposes including research, capital projects and student assistance to support the institution.

| Potential Savings / Revenues Generated | $$$ = Significant | $$ = Moderate | $ = Minimal |
|---|---|---|---|

# Governance, Administrative & Student Services

**Potential Savings:** **Moderate**

## Ontario Tech has continuously worked towards enhancing processes, and staff are highly engaged and keen on implementing improvements.

Opportunities to minimize reliance on manual processes and increase system integration will provide time savings and process efficiencies.

In addition, the enhancement of the level of service provided as part of the existing shared services and collaboration with Durham College will result in additional savings to the institutions.

Lastly, we noted some opportunities to improve training and reporting to the Board to increase the effectiveness and ease of oversight.

### Process Efficiency Improvements ($$)

- Our review identified time-saving opportunities to reduce manual effort in various administrative areas where bottlenecks exist including Payroll, Onboarding and Offboarding, Information Technology support, Course Scheduling and Student Registration.
- Employee hiring and departures is decentralized resulting in inconsistencies across departments. Human Resources (HR) has limited visibility and oversight over the process, impacting reliability of information within Banner which impacts the Payroll department and Faculties.
- Administrative burdens can be reduced by establishing streamlined standard processes across the University to reduce duplication and confusion. Once established, use of artificial intelligence (AI) and process automation will provide additional efficiencies across the institution.

### Enhancing the Employee Experience ($$)

- Staffing costs are approximately 63% of Ontario Tech's total costs. Streamlining and centralizing key processes relating to the hiring, on-boarding and off-boarding processes will deliver significant cost savings.
- Increasing collaboration between HR and the respective units across the institution will enhance data accuracy, ensure employee changes are processed quickly, and enable better decision making relating to the most significant costs for the institution.

### Better Integration with Durham College ($)

- Opportunities exist for further integration of back-office services (e.g., food services, network, infrastructure, health services etc.) between Ontario Tech and Durham College to achieve cost savings. Further integration should consider risks including the impact to each institution's reputation, and existing standard business processes.
- Opportunities exist to further collaborate with Durham College and centralize additional back-office processes such as establishing a central IT Service Management (ITSM) solution.
- Additionally, opportunity exists to improve quality of services provided as part of the services shared across institutions (e.g. IT, Facilities etc.) to enhance efficiency and reduce costs.

| Potential Savings / Revenues Generated | $$$ = Significant | $$ = Moderate | $ = Minimal |
|---|---|---|---|

# Physical Assets & Facilities

**Potential Savings:**
**Minimal**

## Ontario Tech can improve operational efficiency and better prepare for the future through strategic actions in various areas.

Key recommendations include streamlining maintenance request processes and improving user interfaces to enhance service management.

Although the University has a strong track record in energy efficiency, further opportunities exist but are hindered due to staffing and funding challenges.

Overall, these initiatives are expected to yield annual savings but will require initial investments to realize these efficiencies.

### Maintenance Request Processing ($)

- Key efficiencies include streamlining the ticket submission process with Durham College to minimize delays, expanding the pool of trained requestors, and establishing a prioritization system for urgent requests. Additionally, a centralized intake process and enhancing the user interface of the Archibus software will significantly improve service request management.
- A structured communication and feedback mechanism is essential for assessing user satisfaction and improving service quality. These changes will lead to better resource allocation and operational performance, ultimately driving cost savings and efficiency improvements.

### Capital Planning and Delivery ($)

- Implementing an improved ranking system for asset replacements based on urgency will streamline decision-making and ensure resources are directed to critical needs, and prevent inefficient resource allocation. Utilizing an AI tool for data visualization and analysis will significantly enhance decision-making processes, leading to better financial planning and resource allocation.

### Physical Space Management ($)

- Several improvements can be made to save costs and drive efficiencies. Key areas include streamlining enhancing space utilization, data collection processes, and implementing improved space visualization through AI tools. These initiatives can lead to better resource allocation and improved decision making.
- Annual classroom utilization analysis is performed, however opportunities still exist to increase utilization of classrooms and revenue generation in the evening, weekend and summer through Continuous Learning classes or renting out spaces to the public.

### Energy Efficiency and Sustainability ($)

- Ontario Tech has been a leader in energy efficiency for decades and there is less opportunity. Minor opportunities for energy savings and greenhouse gas (GHG) reductions have been identified - however, staffing and funding barriers currently impede the realization of some of these opportunities.

| Potential Savings / Revenues Generated | $$$ = Significant | $$ = Moderate | $ = Minimal |
|---|---|---|---|

# Collaborative Procurement Opportunities

**Potential Savings:** **Minimal**

## Ontario Tech has demonstrated commitment to collaborative procurement through active participation in multiple collaborative sourcing partnerships.

Building on existing collaborative procurement initiatives, our analysis identified key areas where Ontario Tech can further optimize procurement spending and achieve cost savings. Initiatives include supplier consolidation across categories, negotiating early payment discounts, increasing contract utilization through improved oversight and visibility and creating guidelines for compliance with payment.

### Track Spend Against Defined Categories ($)

- Standardize spend category taxonomy (account or activity) across all departments and track spend across categories on a regular basis to identify opportunities for supplier consolidation.
- Provide training to staff on proper categorization to ensure consistency and accuracy

### Enhance Contract Visibility ($)

- The Procurement team should have visibility into all contracts (e.g. revenue generating contracts etc.).
- Assess overlap of products / services across different contracts and prioritize purchasing from contracts that offer a better rate across all Ontario Tech and Durham College contracts.

### Establish Non-Contract Procurement Guidelines ($)

- Require justification for off-contract purchases to minimize unauthorized spending.
- Create a standardized form for documenting reasons for deviation from existing contracts.
- Regularly review off-contract spend reports to identify opportunities for new contracts or supplier consolidation.

| Potential Savings / Revenues Generated | $$$ = Significant | $$ = Moderate | $ = Minimal |
|---|---|---|---|

# Assumptions

Key assumptions made as part of this review include:

- The University will continue with its mission of **'We equip future leaders to solve complex problems'** ensuring students receive the best possible education and employment opportunities.
- The University offers various high-cost programs (e.g. STEM) which do not meet the minimum contribution for financial viability, however we have assumed the University will continue to offer these programs to meet labour-market needs.
- **Number of students:** 11,678 (includes full-time and part-time students across undergraduate and graduate programs)
- **Number of full-time equivalent employees (FTE):** 946 for Fiscal 2023-24
- Employee costs are based on the average salary of an FTE at the University, or where possible, the exact salary of the related position. Salaries were increased by 2.5% annually.
- Analysis, work performed and quantification included within this report are based on:
  - Information provided by University for Fiscal 2023-24 (e.g., documents for review, interviews, walkthroughs etc.)
  - Benchmarking against industry best practices
  - Publicly available information
- Cost saving and revenue generating opportunities have been divided into two categories:
  - **Tangible:** Any cost reductions or revenue increases that can be quantified in monetary terms and dollars saved (cost savings) or earned (revenues generated).
  - **Efficiency:** In most instances, these include the hours saved through improved processes and better resource management.
- Financial values within this report are undiscounted (i.e., not at Net Present Value).
- Human Resource requirements have been evaluated on an opportunity to opportunity basis, not collectively. When implementing recommendations, the University should consider resource requirements to implement recommendations concurrently.
- The implementation plan will be reviewed by the Board at the next scheduled meeting in June 2025.
- The review identified opportunities which would contribute to a long-term benefit and return for the institution. For the purposes of the financial summary and implementation plans, only opportunities which deliver a positive return on investment over 5 years have been included

# Financials - Summary

At a high-level, we have included the total impact of all identified opportunities below. Estimated opportunities identified do not cover the deficit forecasted by Ontario Tech over the next 5 years. Ontario Tech will be implementing over $7M in remediation measures in 2025-26 ($5M in administrative and $2M in academic areas) to help balance the budget.

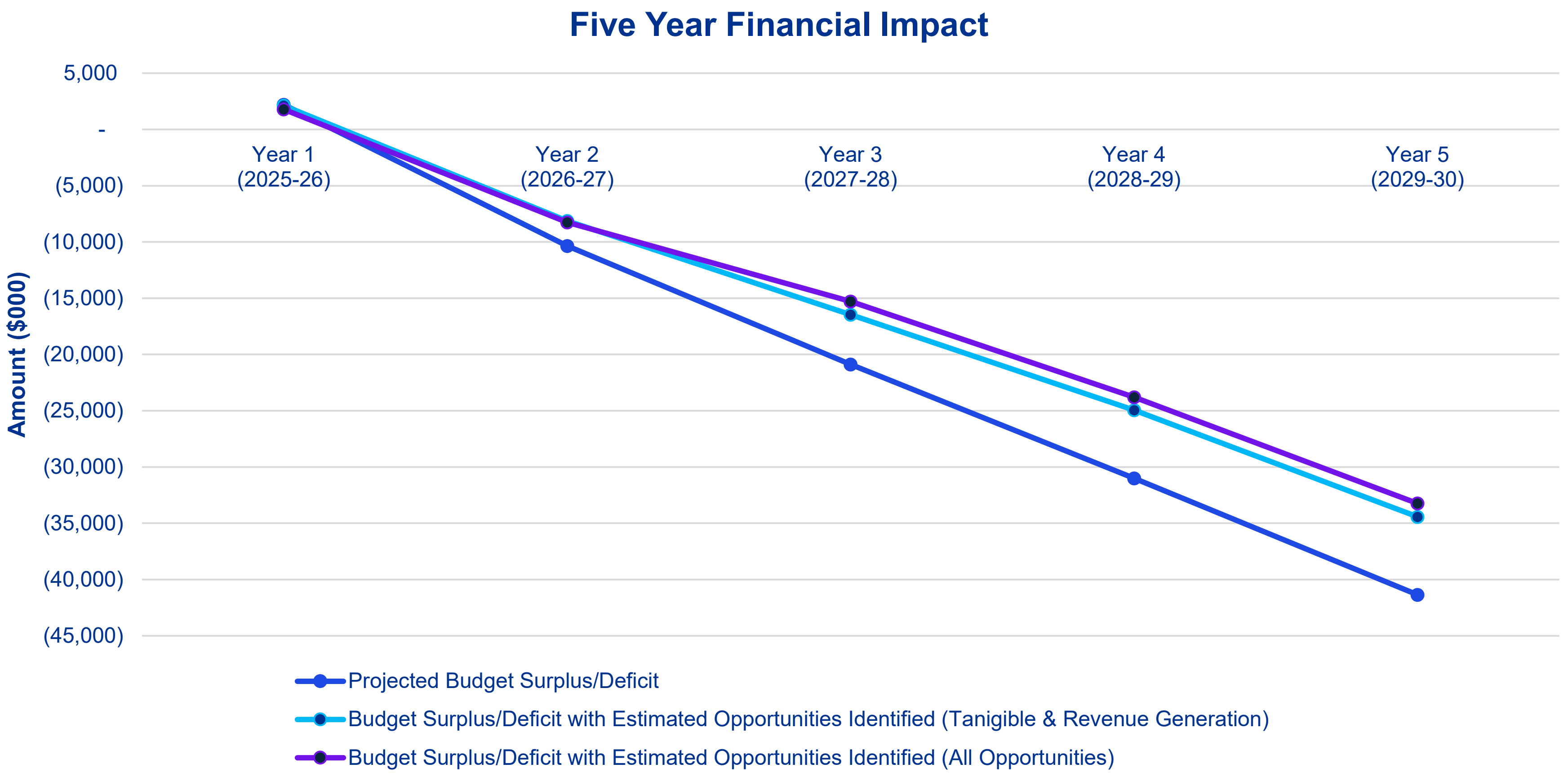
| Scope Area | Expected financial impact ($000), up to a value of:* | | | | |
|---|---|---|---|---|---|
| | **Year 1 -** *2025-26* | **Year 2 -** *2026-27* | **Year 3 -** *2027-28* | **Year 4 -** *2028-29* | **Year 5 -** *2029-30* |
| **Budget Surplus (Deficit) forecasted by Ontario Tech before remediation activities** | **2,200** | **(10,359)** | **(20,871)** | **(31,004)** | **(41,353)** |
| **Tangible Opportunities** | | | | | |
| Governance, Admin and Student Services | 6 | 172 | 186 | 186 | 186 |
| Academic Programming | - | 1,241 | 1,860 | 2,568 | 2,568 |
| Facilities | - | 40 | 170 | 170 | 170 |
| Procurement | 43 | 160 | 163 | 168 | 172 |
| **Investment Required to Realize Tangible Savings** | **(33)** | **(180)** | **(21)** | **(21)** | **(21)** |
| **Revised Deficit After Tangible Savings** | **2,216** | **(8,927)** | **(18,513)** | **(27,933)** | **(38,279)** |
| **Revenue Generating Opportunities** | | | | | |
| Academic Programming | 258 | 556 | 904 | 1,271 | 1,624 |
| Revenue Generation | 88 | 281 | 1,239 | 1,797 | 2,326 |
| **Investment Required to Realize Revenue Generating Opportunities** | **(450)** | **(43)** | **(89)** | **(92)** | **(94)** |
| **Revised Budget Surplus (Deficit) after tangible savings & revenue generating opportunities** | **2,112** | **(8,133)** | **(16,459)** | **(24,957)** | **(34,422)** |
| **Efficiency Opportunities** | | | | | |
| Governance, Admin and Student Services | 223 | 484 | 557 | 568 | 582 |
| Academic Programming | - | - | - | - | - |
| Facilities | - | 280 | 750 | 750 | 750 |
| Procurement | - | - | - | - | - |
| **Investment required to realize efficiency savings** | **(552)** | **(901)** | **(145)** | **(146)** | **(146)** |
| **Revised Budget Surplus (Deficit) Net of All Savings** | **1,783** | **(8,269)** | **(15,298)** | **(23,784)** | **(33,236)** |

**Please note financial values are undiscounted (i.e., not at Net Present Value).*

03 – FINANCIAL SUMMARY

# Five-Year Financial Impact

The graph below illustrates the five-year financial impact considering the following scenarios: 1) projected ongoing deficit of Ontario Tech without any adjustments; 2) projected ongoing deficit considering estimated cost savings based on tangible and revenue generating opportunities identified; 3) projected ongoing deficit considering all estimated opportunities.



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# COMMITTEE REPORT

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|---|---|---|---|
| **SESSION:** | | **ACTION REQUESTED:** | |
| **Public** | ☒ | **Decision** | ☐ |
| **Non-Public** | ☐ | **Discussion/Direction** | ☐ |
| | | **Information** | ☒ |

**TO:** **Audit & Finance Committee (A&F)**

**DATE:** **April 10, 2025**

**PRESENTED BY:** **Brad MacIsaac, VP Administration**

**SUBJECT:** **MCU Financial Accountability Framework**

**COMMITTEE MANDATE:**
A&F is responsible for overseeing internal systems and control functions at the University.

**BACKGROUND/CONTEXT & RATIONALE:**
In June 2023 and February 2024 management provided an update on the discussions that were occurring with MCU on a Financial Accountability Framework they were creating. Based on MCU presentations and the draft technical manual we assumed we would be in the "medium risk" category. In May 2024 MCU sent the University a letter based on 2022-2023 Financial Statements in which we were listed as Medium Risk as assumed. As part of the report back requirement we indicated the assessment was 100% caused by the University debenture being calculated at the full amount even though the Ministry covers over 80% of the annual repayments. The University showed it had the continued payments in our long-term budget. No further actions were requested from MCU.

On March 25, 2025 we received our second annual assessment, based on the 2023-24 results, in which we remain at "medium risk". The next steps are:

- Within 4 weeks the University must confirm receipt of the ministry's letter and confirm our intention to development an internal recovery plan

- Within 3 months we must submit an internal recovery plan which will include:
    - Explanation/Analysis of Causes for Financial Health Metric Results that contains a detailed account for each financial health metric that contributed to risk category score, note any variances between the 2023-24 budget plan and the 2023-24 audited financial statements and highlight any qualitative factors that the University feels the Ministry should be aware of that contributed to financial metric result.
    - Steps to be Taken to Restore Metrics and Improve Financial Health that contains a detailed explanation of the next actions, a timeline and a projection for what the relevant metrics are to be next fiscal year, based on the budget plan.

The University will submit a report that shows the medium risk assessment is mainly driven by the debenture debt.

Please note that management has already provided A&F with the 2023-2024 report in the June 2024 presentation of Financial Statements. The document noted the University's financial ratios are stable.

- Liquidity ratios (primary reserve and working capital) measure the ability of the University to pay off its short-term liabilities. While the working capital ratio at 1.4 is at a healthy level, the primary reserve ratio at 70 days remains in the medium-risk category due to the utilization of internally restricted reserves to invest in the University's infrastructure in the last 5 years. Management is aware of the need to replenish these reserves and improve the primary ratio over time.
- Sustainability (or debt) ratios measure the University's debt capacity and affordability, as measured by its viability, debt, debt to revenue and interest burden ratios. Although the debt ratios have consistently improved over the years as the University continues to pay back its various debt obligations, these ratios all fall within the medium-risk and high-risk categories due to the level of debt on the University's books (total debt as at March 31, 2024 = $182k which includes an outstanding $129M debenture debt). Debt affordability is supported by the annual debt service grant of $13.5M from the province which covers over 80% of the University's annual debenture repayment. Adjusting for the impact of the debt funding by the Province, the University's debt ratios improve significantly and fall outside of the risk thresholds, except for the interest burden which, at 2.3%, still presents as a medium risk (see "Adjusted" ratios as highlighted in blue below).

| **Financial Ratios and Thresholds** | | 2021/22 | 2022/23 | 2023/24 | Thresholds: Medium-risk threshold | Thresholds: High-risk threshold | 2023/2024 Results vs Thresholds: Medium-risk threshold | 2023/2024 Results vs Thresholds: High-risk threshold |
|---|---|---|---|---|---|---|---|---|
| **LIQUIDITY RATIOS** | | | | | | | | |
| Primary reserve (days) | (Expendable net assets / Total expenses) x 365 days | 87 | 70 | 70 | < 90 | < 30 | ✗ | ✓ |
| Working capital | Current assets / Current liabilities | 1.4 | 1.3 | 1.4 | < 1.25 | < 1 | ✓ | ✓ |
| **SUSTAINABILITY RATIOS** | | | | | | | | |
| Viability ratio | Expendable net assets / Long-term debt | 26.2% | 24.2% | 27.9% | < 60% | < 30% | ✗ | ✗ |
| | **Adjusted Viability ratio** | **65.0%** | **55.6%** | **60.9%** | | | ✓ | ✓ |
| Debt ratio | Total liabilities - DCC / Total assets | 49.1% | 48.5% | 47.3% | > 35% | > 55% | ✗ | ✓ |
| | **Adjusted Debt ratio** | **28.0%** | **29.1%** | **27.8%** | | | ✓ | ✓ |
| Debt to revenue ratio | Long-term debt / Total revenue | 86.0% | 78.3% | 66.5% | > 35% | > 50% | ✗ | ✗ |
| | **Adjusted debt to revenue ratio** | **35.0%** | **34.1%** | **30.5%** | | | ✓ | ✓ |
| Interest burden ratio | Interest expense / Total expenses less amortization | 6.8% | 6.1% | 5.2% | > 2% | > 4% | ✗ | ✗ |
| | **Adjusted interest burden ratio** | **3.0%** | **2.6%** | **2.3%** | | | ✗ | ✓ |
| **PERFORMANCE** | | | | | | | | |
| Net income / (loss) ratio | Net income (loss) / Total revenues | 5.5% | 1.1% | 2.5% | < 1.5% | < 0% | ✓ | ✓ |
| Net operating revenue ratios | Cash flow from operations / Total revenues | 13.1% | 7.7% | 7.1% | < 7% | < 2% | ✓ | ✓ |
| **Credit Rating** | | | | | | | | |
| Moodys | | | **A1 stable** | **A1 stable** | | | ✓ | |
| DBRS | | | **A low** | **A stable** | | | ✓ | |