FINANCE AND ADMINISTRATION COMMITTEE

Simon Fraser University
8:30 a.m., Thursday, November 17, 2022
By Zoom Video Conference

AGENDA - OPEN SESSION

			ACTION	
		RESOURCES	**COMMITTEE**	**BOARD**
2.A	CAUBO University Endowment Investment Survey	M. Pochurko/ A. Blair	Information	Information (Consent)
2.B	2022/23 Quarter 2 Forecast	M. Pochurko/ A. Blair/J. Kennedy	Information	Information (Consent)
2.C	2022/23 Quarter 2 Operating Variances	M. Pochurko/ A. Blair/J. Kennedy	Information	Information (Consent)

Members:
N. Sahota, Chair **[regrets noted]**
A. Lamarsh, Acting Committee Chair and Board Chair
D. Leznoff
M. McDonald, K.C.
A. Parmar
Vacant, OIC

T. Vrooman, Chancellor **[regrets noted]**
J. Johnson, President

A. Blair/J. Beresford
Interim University Secretariat
November 10, 2022

SFU SIMON FRASER UNIVERSITY

BOARD OF GOVERNORS

MEMORANDUM

ITEM TITLE	**CAUBO University Endowment Survey Summary**
DATE	November 17, 2022
COMMITTEE	Finance and Administration Committee (FAC)
SESSION	Open
ACTION REQUESTED **2.A**	☒ For Information/Discussion ☐ Committee to Recommend, Board to Approve ☐ Committee to Approve, Board for Information ☐ Board to Approve
BOARD AGENDA	☐ Consent Agenda ☒ Regular Agenda
SUBMITTED BY	Alison Blair, Associate Vice-President Finance [AVP signature required] ___ABlair___
RECOMMENDED BY	Martin Pochurko, Vice-President, Finance and Administration [VP signature required] ___M. Pochurko___
ENDORSED BY PRESIDENT	Joy Johnson, President and Vice-Chancellor [President signature required]___JJohnson___

REASON(S) WHY THIS ITEM IS BEFORE THE BOARD

This item is being provided to the Board for information in accordance with University policy B10.09 (Investment Governance Policy).

EXECUTIVE SUMMARY

The attached document gives a synopsis of the CAUBO University Investment Survey on Endowment and Pension Funds as at December 31, 2021 for the Board's information. This survey applies to SFU's endowment fund only.

CONSIDERATIONS

SFU's endowment fund has performed well when compared with other BC universities and Canadian universities. SFU has consistently ranked in the top five out of all surveyed universities for the ten-year net annualized return since 2014.

NEXT STEPS

No Committee or Board action required.

ATTACHED SUPPLEMENTARY MATERIALS

1. CAUBO University Endowment Investment Survey

CAUBO University Endowment Survey Summary

CAUBO conducts a survey annually to collect investment results for Canadian university endowments and pension funds. Annual investment results are compiled along with 10 year historical results and published to provide universities with the information necessary to assist them in managing their portfolios. The latest survey, which was conducted in 2022 based on endowment investment results as of December 31, 2021, is the 30th survey conducted by CAUBO. SFU has compiled the CAUBO University Endowment Survey Summary results since 2014.

Overview

Table 1 - Breakdown of Canadian Universities by Asset Value (N=69)				
Category[1]	**Asset Value (Million)**	**% of Total**	**Median Asset Value (Million)**	**No. of mandates (Median)**
1st Quartile (>$500M)	$24,035	80.6%	$986	19
2nd Quartile ($130M~$500M)	$3,985	13.4%	$187	10
3rd Quartile ($41M~$130M)	$1,457	4.9%	$85	5
4th Quartile (<$41M)	$346	1.2%	$22	2
Total	$29,822	100.0%	$131	8

In the 2022 survey, a total of 69 universities participated. The combined assets of the endowments totaled to $29.8 billion as of December 31, 2021 ($26.2 billion as of December 31, 2020). Toronto, Alberta, UBC, McGill and Western are the top five universities by asset value, each university with over 1.9 billion in assets under management. The combined value of the top five universities comprises 42% of the total asset value of Canadian universities in this survey. The universities are grouped into four quartiles based on their asset value as shown in Table 1.

The 1st quartile is the largest category and funds in this quartile contribute 81% of the total asset value; this category contains 18 out of 69 universities. SFU ($689M, ranked 14th) falls into the 1st quartile. The other three quartiles combined make up the remaining 19% of the total survey asset value.

In terms of the number of mandates for each endowment, the figures suggest that universities with larger asset values diversify their investments among many dedicated mandates whereas universities with smaller asset values (the 4th quartile) tend to invest in fewer mandates. For example, the universities in the 1st quartile on average invest in nineteen mandates. SFU invested in 19 investment funds. In comparison, the universities in the 4th quartile on average invest in two mandates.

Performance

Table 2 - Endowment Annualized Returns* (as of December 31, 2021)					
	1Y	**3Y**	**5Y**	**10Y**	**Fee ratio (bps)**** **
SFU	16.8%	14.4%	10.5%	10.9%	*37*
BC Universities Equal Weighted Average Return (N=4)**	14.8%	11.6%	9.1%	9.9%	*71*
1st Quartile Canadian Universities Median Return (N=18)***	14.0%	12.9%	9.4%	10.3%	*52*
Canadian Universities Median Return (N=69)	12.9%	12.0%	8.7%	9.4%	*51*
Canadian Universities Equal Weighted Average Return (N=69)	12.6%	11.6%	8.6%	9.1%	*75*

*Endowment Annualized Returns are calculated by CAUBO, based on calendar year returns as reported by participating universities.
**BC peer universities: SFU, UBC, UNBC and UVic. Kwantlen Polytechnic University, Vancouver Island University, University of Fraser Valley and Emily Carr University of Art & Design were excluded given their small size.
***1st Quartile Canadian Universities ranked by asset size.
****Fee includes internal fee and external fee as reported to CAUBO.

Table 2 compares the performance of SFU with other Canadian universities as of December 31, 2021. Over the ten-year investment horizon, SFU outperformed the median return of its Canadian peer group, the 1st quartile Canadian universities

[1] To allow for better comparisons, in 2015, CAUBO started to group the universities by quartiles instead of basing on pre-determined dollar value breakpoint. While this creates four equal size groups, it also means that each year there will be a moving target in terms of asset levels within each sub-group, as the breakpoints will change accordingly.

ranked by asset size, by 60 bps. SFU also outperformed the Canadian Universities equal weighted average by 180 bps for the same period.

Fees are also studied since they impact endowment performance. Table 2 shows the fee ratio for SFU and Canadian universities in the far right column.

There is a large variability in the fee ratio distribution among universities. There are many factors contributing to the variability, such as the size of the endowment assets, number of mandates, asset allocations, and the way investments are managed (e.g. outsourced versus internally managed). SFU was more fee efficient (37 bps) than the BC peer group average (71 bps) and the Canadian peer group median (52 bps).

Return Distribution (Percentile)

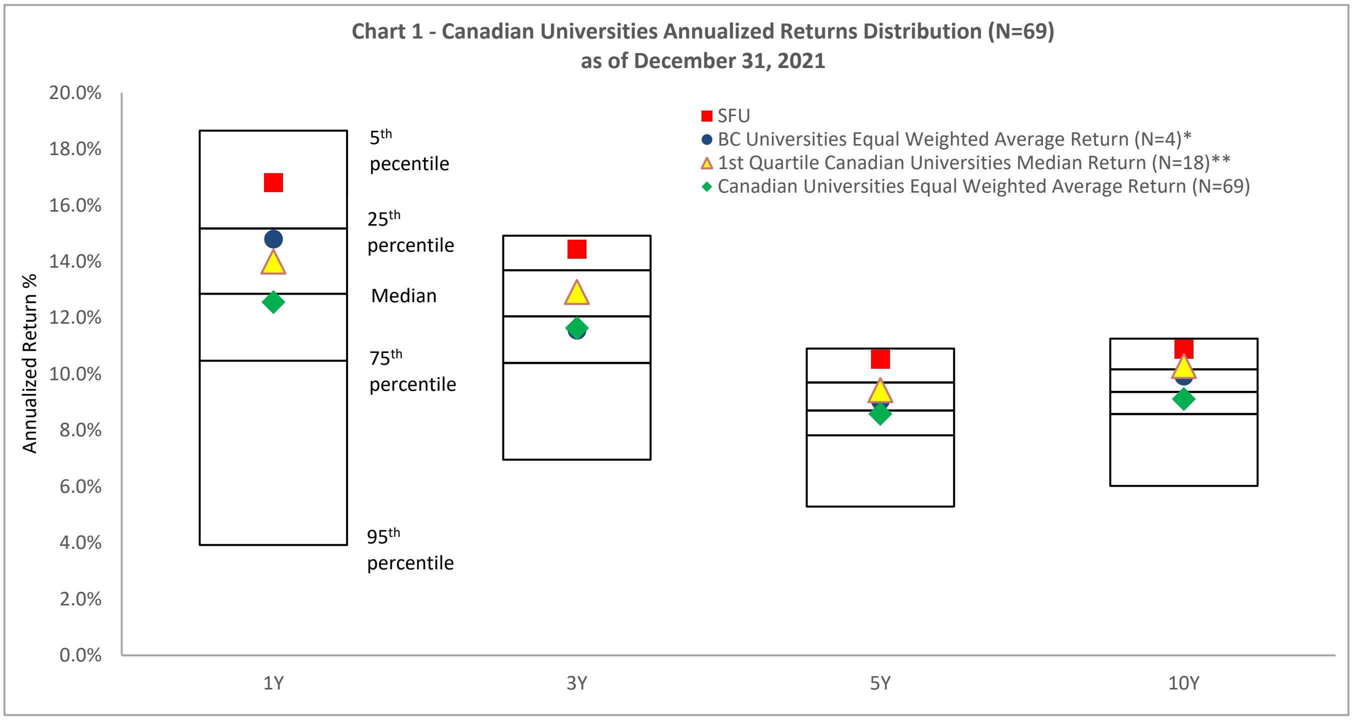


Table 3 – Canadian Universities Annualized Returns Distribution

	1Y		3Y		5Y		10Y	
5th percentile	18.7%		14.9%		10.9%		11.3%	
25th percentile	15.2%		13.7%		9.7%		10.2%	
Median	12.9%		12.0%		8.7%		9.4%	
75th percentile	10.5%		10.4%		7.8%		8.6%	
95th percentile	3.9%		7.0%		5.3%		6.0%	
	Return	***Percentile**** ***						
SFU ■	16.8%	*15%*	14.4%	*12%*	10.5%	*13%*	10.9%	*9%*
BC Universities Equal Weighted Average Return (N=4)* ●	14.8%	*32%*	11.6%	*56%*	9.1%	*42%*	9.9%	*35%*
1st Quartile Canadian Universities Median Return (N=18)** ▲	14.0%	*42%*	12.9%	*37%*	9.4%	*34%*	10.3%	*19%*
Canadian Universities Equal Weighted Average Return (N=69) ◆	12.6%	*54%*	11.6%	*56%*	8.6%	*55%*	9.1%	*58%*

*BC peer universities: SFU, UBC, UNBC and UVic. Kwantlen Polytechnic University, Vancouver Island University, University of Fraser Valley and Emily Carr University of Art & Design were excluded given their small size.
**1st Quartile Canadian Universities ranked by asset size.
***The percentile calculations for BC Universities Equal Weighted Average Return, the 1st Quartile Canadian Universities Median Return, and the Canadian Universities Equal Weighted Average Return are based on the distribution of 69 observations.

Chart 1 shows the 1Y, 3Y, 5Y, and 10Y Canadian universities annualized return distributions. The return for SFU is represented by the red square. BC universities equal weighted average return is represented by the blue circle. The 1st quartile Canadian universities median return is represented by the yellow triangle. Canadian universities equal weighted average return is represented by the green diamond.

Each box represents the return distributions from the 5th percentile to the 95th percentile for the respective annualized period. Table 3 shows the returns that correspond to the return distributions for each period as illustrated in Chart 1 above. SFU was in the first quartile for investment performance over all annualized periods.

Top 5 Performers (Absolute Ranking)

Table 4 - Top 5 Performing Universities over 10Y Period as of December 31, 2021 (N=69)

University	Assets (Million)	Rank by Assets	1Y	1Y Rank	3Y	3Y Rank	5Y	5Y Rank	10Y	10Y Rank	Fee Ratio (bps)
Victoria (UT)	$731	*13*	8.3%	*57*	8.8%	*52*	8.6%	*34*	12.1%	*1*	*18*
Brock	$136	*33*	12.1%	*38*	13.2%	*21*	10.7%	*8*	11.4%	*2*	*67*
Dalhousie	$865	*11*	19.9%	*3*	14.8%	*5*	10.9%	*4*	11.3%	*3*	*51*
Western	$1,905	*5*	20.7%	*2*	14.9%	*4*	10.9%	*5*	11.3%	*4*	*77*
Queen's	$1,513	*6*	16.5%	*13*	13.6%	*17*	9.9%	*14*	11.0%	*5*	*52*
SFU	$689	*14*	16.8%	*9*	14.4%	*8*	10.5%	*9*	10.9%	*6*	*37*

Table 4 highlights the top 5 performing universities (gross of fees) out of the 69 survey participants over the 10Y annualized period. SFU is listed at the bottom of the table for comparison. The top 5 performing universities significantly outperformed the Canadian universities median 10Y return (9.4%) by at least 160 bps. SFU's 10Y return (10.9%) ranked 6th out of the 69 universities that participated in the survey. However, if taking the fee ratio impact into consideration, SFU will rank among the top 5 performing universities from the net return basis. SFU has consistently ranked in the top five out of all surveyed universities for the ten-year net annualized return since 2014, when SFU began preparing the CAUBO University Endowment Survey Summary results.

Among the top 5 performing universities, Victoria (UT) had the lowest fee ratio (18 bps) due to the university allocating the majority of its endowment to internally managed real estate development. Dalhousie and Queen's had a fee ratio close to the fee ratio of the Canadian universities median (51 bps). Western is the only top 5 performing university that had a fee ratio higher than that of the Canadian universities equal weighted average (75 bps).

Asset Allocation[2]

Table 5 - Average Asset Allocation (December 31, 2021)

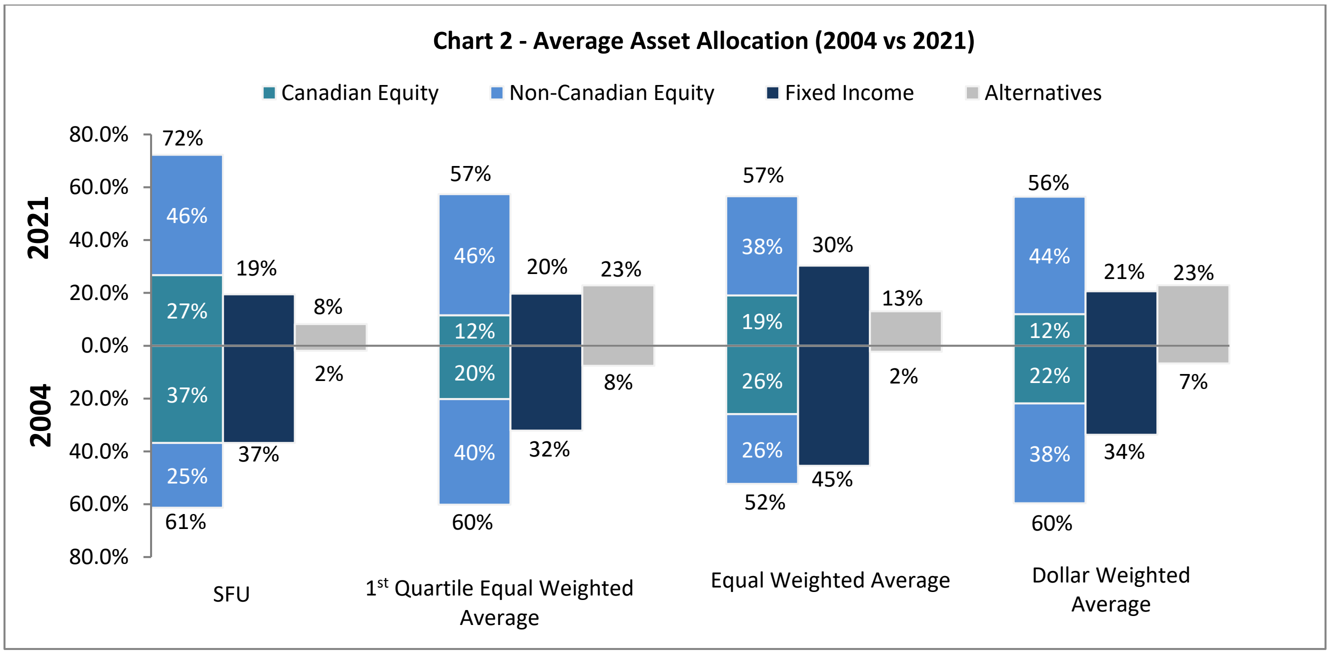
	Equities					Fixed Income			Alternatives
	Canadian	US	Global	EAFE	Other	Bonds	Cash & STN	Other	
SFU	27%	8%	38%	0%	0%	17%	1%	1%	8%
BC Universities Equal Weighted Average (N=4)*	13%	12%	19%	7%	1%	16%	2%	2%	29%
1st Quartile Canadian Universities Equal Weighted Average (N=18)**	12%	14%	17%	10%	5%	16%	2%	2%	23%
Canadian Universities Equal Weighted Average (N=69)	19%	12%	14%	7%	4%	23%	3%	4%	13%

[2] In the CAUBO survey, asset classes are grouped into below three main categories:
(1) Equities: Canadian, US, Global, EAFE, and Other such as Emerging Markets or unspecified. Global category was added in the 2022 CAUBO survey.
(2) Fixed Income: Bonds, Cash & Short-term notes, and Other such as Mortgages or unspecified.
(3) Alternatives: Hedge Funds, Commodities, Private Equity/Venture Capital, Infrastructure, and Real Estate. In the 2022 CAUBO survey, alternative investment asset class was expanded to include private debt.

*BC peer universities: SFU, UBC, UNBC, and UVic. Kwantlen Polytechnic University, Vancouver Island University, University of Fraser Valley and Emily Carr University of Art & Design were excluded given their small size.
**1st Quartile Canadian Universities ranked by asset size.

In general, Larger endowments tend to have higher allocations to alternative investments. For example, as of December 31, 2021, the 1st quartile Canadian universities had an average allocation of 23% in alternative investments, whereas the overall Canadian universities had an average allocation of 13% in alternative investments. Overall, SFU had a higher allocation to Canadian equities and a lower allocation to alternative investments when compared to the 1st quartile Canadian universities average. Relative to the Canadian universities equal weighted average, SFU had a high allocation to both Canadian equity and non-Canadian equity, and a lower allocation to fixed income and alternative investments.

Chart 2 compares the average asset allocations for SFU, the Canadian peer group (the 1st quartile ranked by asset size), and overall Canadian universities in 2021 (top half of chart 2) to 2004[3] (bottom half). Both Canadian equity and non-Canadian equity are grouped under the same bar (furthest to the left).



In view of the average asset allocation, SFU's Canadian peer group, the 1st quartile, has generally shifted weights from fixed income (32% to 20%) and equity (60% to 57%) to alternatives (8% to 23%) over the past 17 years. Since the endowment assets distribution is positively skewed with the largest universities comprising the majority of total endowment value, this observation is very similar to the dollar weighted average asset allocation comparison. In view of the equal weighted average asset allocation for all universities, the weights in Canadian equity and fixed income asset classes decreased while the weights in alternatives and non-Canadian equities increased. Compared to 2004 data, SFU has shifted allocations from Canadian equity and fixed income to alternative investments and non-Canadian equities.

[3] Earliest survey results were collected from CAUBO 2004 Survey.

Table 6 - Asset Allocation of Top 5 Performing Universities (December 31, 2021)									
University	No. of Mandates	Equities					Fixed Income			Alternatives
		Canadian	US	Global	EAFE	Other	Bonds	Cash & STN	Other	
Victoria (UT)	15	5%	9%	0%	5%	4%	0%	1%	4%	72%
Brock	4	3%	31%	0%	24%	4%	20%	0%	18%	0%
Dalhousie	31	15%	21%	0%	16%	1%	18%	1%	0%	29%
Western	22	15%	0%	23%	7%	0%	4%	5%	5%	41%
Queen's	23	9%	7%	46%	0%	0%	3%	9%	8%	18%
SFU	19	27%	8%	38%	0%	0%	17%	1%	1%	8%

Table 6 shows the asset allocation (as of December 31, 2021) of the top 5 performing universities, which are all different from one another. The asset allocation of SFU is listed at the bottom for comparison. Victoria (UT), the top performing university, had a very high allocation to real estate (72%). In contrast, Brock, the only non - 1st quartile top 5 performing university, had no exposure to alternatives. The other three top 5 performing universities, Dalhousie, Western and Queen's all had a relatively higher allocation to alternatives and non-Canadian equity compared to Canadian Universities Equal Weighted Average. Compared to the top 5 performing universities, SFU had a lower allocation to alternatives and a higher allocation to Canadian equity.

Spending Policy

As shown in table 7 below, Canadian universities use different spend methods. Market value (64%) is the most widely used method and is followed by book value (12%), income (7%), banded inflation (9%) and real return (7%). SFU's spending is based on the endowment book value (principal adjusted for inflation).

Table 7 - Canadian Universities Endowment Spend Method* breakdown (N=69)					
	Market Value	Book Value	Income	Banded Inflation**	Real Return
Spend Method	44 (**64%**)	8 (**12%**)	5 (**7%**)	6 (**9%**)	5 (**7%**)

*Endowment Spend Method is defined by CAUBO Survey.
**Banded inflation (or spending rate plus inflation) is spending plus an inflation factor, bound by an upper and lower band.
***UQTR did not report their endowment spend methods in the 2022 CAUBO Survey.

The effective spend rate is used to compare universities with different spending policies. With reference to NACUBO, the effective spend rate is calculated by taking the amount available for spending in a particular year divided by the ending market value of the endowment in the previous year.

Table 8 - Canadian Universities Effective Spend Rate breakdown (N=58)*						
	Median	<3%	3 - 3.49%	3.5 - 3.99%	4.0 - 4.5%	>4.5%
Effective Spend Rate	3.2%	24 (**41%**)	13 (**22%**)	13 (**22%**)	4 (**7%**)	4 (**7%**)

*Excluded eleven universities in the calculation. UBC, Laurentian, Royal Roads, INRS and UQTR did not report their 2021 spending dollars. St. Michael's College, Kwantlen Polytechnic University, Trinity Western and Ontario Tech did not report the 2020 endowment market value. Algoma and Brandon are also excluded from the calculation for data integrity consideration. Algoma reported $7.3 million for spending in 2021, and $6.3 million of endowment market value in 2020. Brandon reported $20.4 million for spending in 2021, and $72.9 million of endowment market value in 2020.

As shown in table 8, the median effective spend rate is 3.2% for all fifty-eight Canadian universities. 14% of the respondents had an effective spend rate greater than 4% in 2021. SFU had an effective spend rate of 4.1%. In 2021, the equal weighted average effective spend rate for the 1st quartile Canadian universities by asset size was at 3.0%. The median effective spend rate for the 1st quartile Canadian universities by asset size was also at 3.0%, lower than that of 2020 (3.2%).

Table 9 - Summary of Effective Spend Rates from 2011 to 2021											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
SFU	3.8%	4.4%	3.9%	3.8%	4.2%	4.2%	4.1%	3.9%	4.3%	3.8%	4.1%
BC Peer Universities Equal Weighted Average (N=4)*	3.1%	3.7%	3.7%	3.5%	3.5%	3.5%	3.6%	3.8%	4.0%	3.4%	3.5%
1st Quartile Canadian Universities Equal Weighted Average**	3.9%	4.0%	3.8%	3.7%	3.6%	3.2%	3.1%	3.1%	3.4%	3.0%	3.0%
Canadian Universities Equal Weighted Average	4.0%	4.3%	4.0%	3.9%	3.8%	3.6%	3.8%	3.3%	3.5%	3.1%	3.1%

*BC peer universities: SFU, UBC, UNBC, and UVic. Kwantlen Polytechnic University, Vancouver Island University, University of Fraser Valley and Emily Carr University of Art & Design were excluded given their small size.
**1st Quartile Canadian Universities ranked by asset size.

Table 10 - Summary of BC Universities Spending													
Rank by Size	University	2021 Spending Dollar ($,000)	Summary of Effective Spending Rates from 2011 to 2021										
			2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
3	UBC	NA	3.0%	NA	3.3%	3.3%	2.9%	3.1%	3.5%	4.1%	4.5%	NA	NA
14	SFU	$24,235	3.8%	4.4%	3.9%	3.8%	4.2%	4.2%	4.1%	3.9%	4.3%	3.8%	4.1%
16	UVic	$17,582	3.8%	3.9%	4.0%	3.7%	3.5%	3.6%	3.6%	3.5%	3.6%	3.3%	3.4%
40	UNBC	$2,788	1.8%	2.7%	3.5%	3.4%	3.2%	3.3%	3.4%	3.5%	3.5%	3.3%	3.0%

* UBC's did not report its 2012, 2020 and 2021 spending dollars in the 2013, 2021 and 2022 CAUBO survey.

Table 9 and 10 summarize the effective spend rates for SFU versus BC peer universities, the 1st quartile Canadian universities by asset size, and Canadian universities overall during the past eleven years. For most of the years, SFU's effective spend rate has been higher than the equal weighted average of the BC peer universities and that of the 1st quartile Canadian universities by asset size (except for 2011). In 2021, the effective spend rate of SFU (4.1%) is higher than the equal weighted average of SFU's peer group in BC (3.5%), the Canadian peer group (3.0%), and the overall Canadian universities (3.1%).

SFU SIMON FRASER UNIVERSITY

BOARD OF GOVERNORS

MEMORANDUM

ITEM TITLE	**2022-23 Quarter 2 Forecast**
DATE	Oct 12, 2022
COMMITTEE	Appropriate Board committee by terms of reference Finance & Administration Committee
SESSION	Open/closed as appropriate, pursuant to the Board Rules, section 8 Open
ACTION REQUESTED **2.B**	☒ For Information/Discussion ☐ Committee to Recommend, Board to Approve ☐ Committee to Approve, Board for Information ☐ Board to Approve
BOARD AGENDA	To maximize the efficiency and effectiveness of the Board meeting, Committee to Recommend/Board to Approve items that are routine and/or non-controversial, and do not require debate, discussion or explanation at the full Board meeting, may be appropriate to include on the Board's consent agenda ☐ Consent Agenda ☒ Regular Agenda
SUBMITTED BY	Alison Blair, AVP Finance *ABlair*
RECOMMENDED BY	Martin Pochurko, Vice-President Finance & Administration [Executive signature required] *M. Pochurko*
ENDORSED BY PRESIDENT	[President signature required] Joy Johnson, President and Vice-Chancellor *JJohnson*

REASON(S) WHY THIS ITEM IS BEFORE THE BOARD

The forecast is provided to keep the Board of Governors informed of the financial projections for the current year. The Ministry of Advanced Education and Skills Training (AEST) requires Board of Governors review of Quarterly Forecasts. The forecast has also been provided to the Ministry of Advanced Education and Skills Training (AEST).

EXECUTIVE SUMMARY

The Annual Operating Surplus is projected to be lower than AEST's budget for SFU. Tuition revenue is expected to be lower than budget, due to lower enrolments observed in the summer and fall sessions, particularly in international enrolments. It is assumed that this financial challenge will be offset by a reduction in expenses and a slowing of capital renewal investments. It is assumed that this financial challenge will be offset by a combination of the use of contingency, reduction in expenses, and a slowing of capital renewal investments. It is expected that the forecasted projections will evolve as the year progresses.

CONSIDERATIONS

There continue to be uncertainties surrounding the year's forecast, particularly with respect to international enrolments in the winter session. As the year progresses, the forecast will be updated to reflect current trends and experiences, as well as changes to the restriction of the operating grant for capital purposes.

NEXT STEPS

The 2022-23 Quarter 2 Forecast will be completed in late September for submission to the Ministry by October 4, 2022.

ATTACHED SUPPLEMENTARY MATERIALS

2022-23 Quarter 2 Forecast.

2022-23 Forecast

Updated in Quarter 2

Forecast prepared for the Ministry of Advanced Education, and Skills Training

Contacts: Martin Pochurko
VP Finance & Administration

Alison Blair
AVP Finance

Prepared by: Janis Kennedy
Director, Budget Office

Background

Each quarter across the post-secondary sector, the Ministry of Advanced Education, Skills Training (AEST) requests a forecast to reflect the University's anticipated consolidated net income for the current year plus an additional 3-years. The following tables reflect a summary of this forecast:

- Table 1: Current forecast,
- Chart 1: Breakdown of the Annual Operating Surplus/Deficit line,
- Table 2: This quarter's forecast in comparison to the Ministry's budget,
- Table 3: Forecast assumptions.

AEST's budget for SFU is based upon the third quarter forecast submitted in early December 2021, for the current fiscal year. This forms the primary comparator for the quarterly fiscal year forecasts.

This Quarter's Forecast

The *Annual Operating Surplus* is projected to be lower than AEST's budget for SFU by $6.1 million. Tuition revenue is expected to be lower than budget, due to lower enrolments observed in the summer and fall session, and anticipated in the spring session relating primarily to international enrolments. It is assumed that this financial challenge will be offset by a combination of the use of contingency, reduction in expenses, and a slowing of capital renewal investments. It is expected that the forecasted projections will evolve as the year progresses.

The key changes (Quarter 1 versus Quarter 2) reflect that: a) the tuition revenue shortfall has been increased to $18M for the year (versus $6M for spring session only), b) a restriction of the operating grant for capital purposes has been recognized, assuming that a year-end adjustment will take place, and c) some cost savings have emerged in areas such as travel and pensions & employee-future benefits.

The Annual Operating Surplus (boxed in the table below), is a key focus for the Ministry. The addition of restricted endowment contributions[1] matches the Annual Operating Surplus presented in SFU's Annual Financial Report. SFU does not contribute to endowment principal.

Table 1: Current Forecast

Financial Forecast by Year	**2021-22**	**2022-23**	**2022-23**	**2023-24**	**2024-25**	**2025-26**
(in millions $)	**Actual**	**AEST Budget**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Revenues	858.5	855.3	845.5	866.0	878.5	892.3
Less: Expenses	831.4	841.3	837.7	858.0	868.0	880.4
Annual Operating Surplus (for Ministry)[1]	27.1	13.9	7.8	8.0	10.5	12.0
Plus: Endowment contributions[2]	77.7	22.4	32.0	30.3	25.2	25.7
Annual Operating Surplus	104.8	36.3	39.8	38.3	35.8	37.7

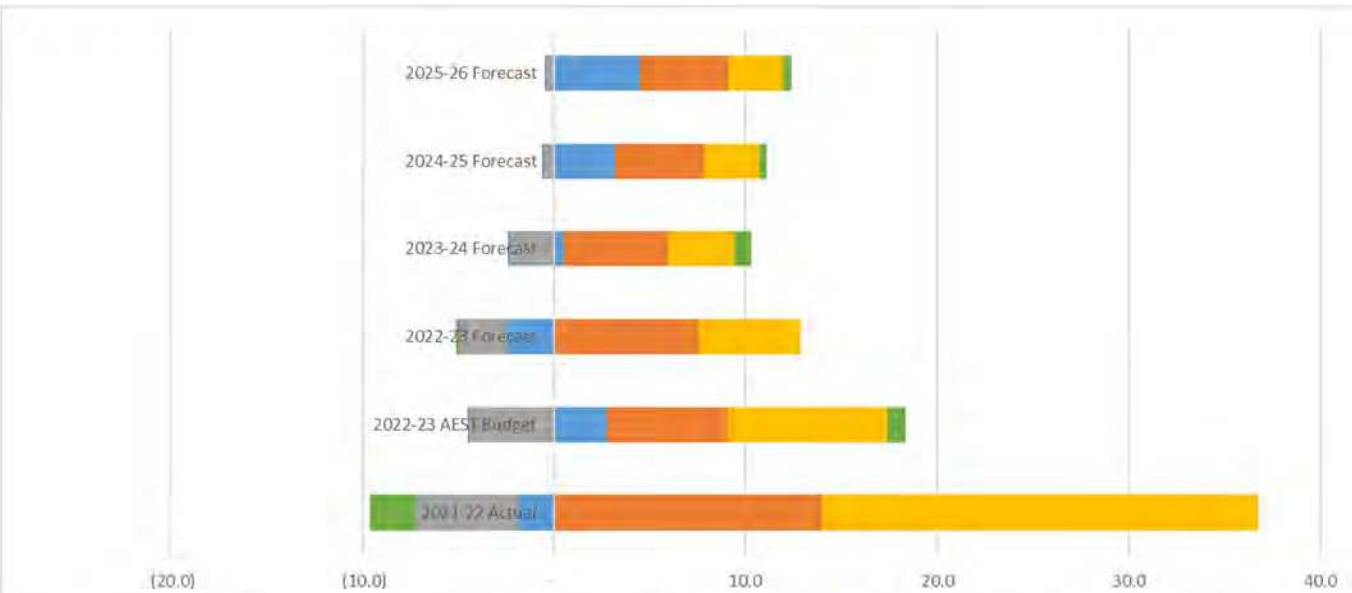
NOTE 1: The Annual Operating Surplus is before the inclusion of net restricted endowment contributions, and is a key focus for the Ministry.
NOTE 2: The Net Restricted Endowment Contributions (NREC) were high in 2021-22 due to the $45 million endowment capitalization entry approved by the Board of Governors, May 2021. In 2022-23, the NREC is expected to be higher than budget due to an anticipated higher inflation rate at fiscal year-end. This figure may change as the year progresses and as the amount to be capitalized is determined.

[1] Net restricted endowment contributions reflect restricted donations received by the university, and a portion of the restricted endowment income for the preservation of the endowment's purchasing power.

Breaking down the Annual Operating Surplus

Contributions are received throughout the year for a variety of purposes, and may be restricted by the donor, government funding agency, or corporation. An external restriction may be to use a contribution only for one particular program, or to purchase a capital asset, or it may be that the contribution is not to be used at all, but rather invested as an endowment with the income from the invested funds used for a particular program. Adherence is required if the restricted contributions are accepted; the contributions must be used in accordance with the terms and conditions stipulated by the contributor. Fund Accounting groups together transactions and accounts related to similarly restricted activities. Each fund has its own revenues and expenditures, its own assets and liabilities and its own net asset (fund) balance. The chart below reflects the allocation of annual operating surplus based upon the type and nature of the funds.

Chart 1: Annual Operating Surplus by Group



	2021-22 Actual	2022-23 AEST Budget	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast
Operating	(1.8)	2.8	(2.4)	0.5	3.2	4.5
Projects (IntR)	13.9	6.3	7.5	5.4	4.6	4.6
Ancillaries	(5.4)	(4.4)	(2.5)	(2.3)	(0.6)	(0.4)
Capital	22.8	8.3	5.4	3.4	2.9	2.9
Projects (R)	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Related Entities	(2.4)	1.0	(0.2)	0.9	0.4	0.4

Operating · Projects (IntR) · Ancillaries · Capital · Projects (R) · Related Entities

NOTE 1. The endowment contribution is not reflected in the chart above, but is allocated to Restricted Net Assets.
NOTE 2. IntR references internally restricted projects, whereas R reflects externally restricted projects.

Group	Group Description	Summary of Forecast
Operating	This includes unrestricted revenues primarily used for academic program delivery and administration of the university. The principal revenue sources are the provincial operating grant and tuition & student fees.	It is anticipated that the tuition shortfall will be offset by a combination of contingency, cost savings, and increased investment income. The bottom-line operating deficit reflects that it is anticipated that there will be a draw against carry forwards.
Projects (IntR)	This includes all *internally restricted projects* for research, faculty start-up, and externally funded projects for specific purposes.	It is expected that the funding allocated for academic start-up and required for bridge funding will remain relatively stable over the long-term, with a slight downward trend as the funding is utilized.
Ancillaries	Operations that support and provide services to students, staff and faculty, such as Residence & Housing, Bookstore, Dining Services, and Meeting, Event & Conference Services. Revenues generated are to cover all their related expenses and debt service payments, as well as provide reinvestment to ensure the long-term financial sustainability of the operations.	It is expected that the ancillary operations will continue to recover from the pandemic over multiple years. In the short-term the use of reserves will offset the shortfalls, with revenue recovery taking place over the longer-term.
Capital	This captures the financial effect of funding designated for capital projects, funding received for maintenance, and recording the university's tangible capital assets and associated amortization. These activities are primarily funded from provincial or federal grants, donations and designated from other sources.	A surplus is anticipated in the capital fund largely due to internally financed deferred maintenance and other capital projects, and assets. The amount of surplus will be reduced over time as the Ministry allows the operating grant funds to be restricted for capital purposes.
Projects (R)	This includes all *restricted projects* including externally funded research and specific purpose projects.	No bottom-line impact is anticipated in restricted projects as revenue is deferred and amortized to income at the same rate that the expenditures are recorded.
Related Entities	This includes organizations that are incorporated into SFU's financial statements, such as SFU Foundation, SFU Community Trust, Western Canadian Universities Marine Sciences Society (WCUMSS), and Great Northern Way Campus Trust (GNWCT).	A slight surplus is anticipated in the current and outer years for related entities.

Changes from AEST Budget

The table below reflects the changes between AEST's budget for 2022-23 relative to SFU's forecast for this quarter.

Table 2: Changes from Ministry's Budget

Forecast Changes					Note
(in millions $)	**AEST Budget**	**Q2 Forecast**	**Variance $**	**%**	
	A	*B*	*B-A*		
Revenues					
Government grants and contracts					
Province of BC	280.6	289.1	8.5	3%	1
Less: Restricted for capital purposes	(10.0)	(6.1)	3.9	-	2
Federal Government	65.0	61.2	(3.8)	-6%	3
Other Governments	3.4	3.4	-	0%	
Tuition					
Credit courses	305.5	287.6	(17.9)	-6%	4
Non-credit courses another student fees	26.5	25.0	(1.5)	-6%	5
Sales of goods & services	38.8	35.1	(3.7)	-10%	6
Donations, non-government grants & contracts	62.9	64.5	1.6	3%	
Investment income	32.1	34.7	2.6	8%	7
Amortization of deferred capital contributions	39.0	39.0	-	0%	
Other revenue	11.4	12.0	0.6	5%	
Total Revenues	855.3	845.5	(9.7)	-1%	
Expenses					
Salaries & Benefits	554.3	555.3	1.0	0%	8
Supplies and operating	70.8	65.1	(5.7)	-8%	9
Amortization of tangible capital assets	78.5	78.5	-	0%	
Professional and contracted services	49.4	53.5	4.1	8%	10
Scholarships and bursaries	47.4	47.3	(0.1)	0%	
Travel and personnel	17.3	13.8	(3.5)	-20%	11
Cost of goods sold	2.4	2.2	(0.2)	-8%	
Interest on long-term debt	9.5	8.8	(0.7)	-8%	
Utilities	11.8	13.3	1.4	12%	12
Total Expenses	841.4	837.7	(3.7)	0%	
Annual Operating Surplus (for Ministry)	13.9	7.8	(6.0)	-43%	

Quarter 2 Forecast Changes:

1. The increase in the Provincial Grant relates to a collective agreement settlement for APSA, and is offset by increased compensation costs.
2. The Restriction for capital purposes has been updated to reflect uncertainties regarding fall and spring enrolments, but with an anticipated restriction related to the First Peoples' Gathering House.
3. The decrease relates to an accounting change to eliminate the impact of TRIUMF as a related entity, as TRIUMF has now been incorporated.

4. The decrease in credit course tuition revenues relates to the budget shortfall from summer session, and the anticipated shortfall primarily relating to international undergrad enrolments, for the fall and spring sessions.
5. The decrease relates to a loss in anticipated royalty revenue due to the softening of Fraser International College enrolments, and a slight decrease in non-credit revenues.
6. The decrease in sales and services revenues is primarily related to a delay in the opening of student housing and slower than expected recovery in the Ancillary Services (Bookstore and Meeting, Events and Conferences), with revenue reductions offset by operating cost savings.
7. The increase in projected investment income is primarily related to re-balancing required in accordance with policy B10.09 *Investment Governance Policy*, with the re-balancing triggering the realization of gains.
8. Compensation costs are anticipated to be higher due to the APSA salary settlement (funded by the increase in the provincial operating grant), and offset by a reduction due to the incorporation of TRIUMF and lower expenses anticipated for pensions and employee future benefits.
9. The decrease in expenses is mainly associated with the removal of TRIUMF from SFU's statement of operations, lower long-term debt payments in Residence & Housing due to the delayed opening of the student housing mater plan, and lower operating expenses anticipated in the internally restricted research funds.
10. The increased cost arises from project related costs, such as the implementation of the technology security plan and increased contract service and catering costs.
11. The decrease relates to continued travel savings from operating funds and internal restricted projects.
12. The increase in utilities relates to the newly added CORIX plant, where higher heating cost is anticipated, offset by savings in gas and electricity costs.

Table 4: Forecast Assumptions

Where appropriate, the current year forecasted figures take into consideration the General Ledger (GL) year-to-date results for the 5-month period April 1, 2022 to Aug 31, 2022.

Province of BC:

The following table reflects the items incorporated into the forecast. No information has been published regarding the next provincial bargaining mandate, but it is anticipated that it will be cost neutral to SFU. The impact of the provincial funding review is also not yet known.

Key Assumptions (in millions $)	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Provincial Operating grant, beginning	271.2	273.0	273.0	273.0
Surrey Expansion	-	-	-	-
Sustainable Services Negotiating Mandate	1.8	-	-	-
Provincial Operating grant, ending	**273.0**	**273.0**	**273.0**	**273.0**
Misc other grants [1]	1.0	1.0	1.0	1.0
Restriction of Operating Grant for Capital Purposes [2]	(6.1)	(10.0)	(10.0)	(10.0)
Other Funds [3]	21.2	13.1	13.1	13.1
Total Consolidated	**289.1**	**277.1**	**277.1**	**277.1**

NOTE 1: Misc. other grants include smaller operating grants for activities such as BC-Electronic Library Network and a grant in lieu of property taxes.
NOTE 2: The adjustment reflects the estimated restriction in operating grant for capital purposes.
NOTE 3: Includes specific known grants and a placeholder for research and other specific purpose grants based upon historical trend.
NOTE 4: The total consolidated figure ties to the current year's Province of BC grant less the Restricted for Capital Purposes figures in Table 2.

Tuition & Student Fees:

Forecast assumptions for 2023-24 through 2025-26 have been rolled forward from the previous year's forecast, pending discussions about fees as part of the processes for the relevant year's budget cycle.

Key Assumptions - Rate Increases	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Domestic tuition	2.0%	2.0%	2.0%	2.0%
International tuition - new students	4.0%	4.0%	4.0%	4.0%
International tuition - existing students	4.0%	4.0%	4.0%	4.0%
Graduate tuition (no internat'l differential)	2.0%	2.0%	2.0%	2.0%
Graduate tuition (existing internat'l differential)	4.0%	4.0%	4.0%	4.0%
Student fees	2.0%	2.0%	2.0%	2.0%
Non-credit tuition fees	1.0%	1.0%	1.0%	1.0%

Student FTEs in the table below reflect anticipated FTEs for 2022-23, with the outer year projections based upon the Senate approved Enrolment Plan. However, FTEs may change based upon enrolment levels projected and approved by SCEMP (Oct/22).

Key Assumptions - Projected Enrolments (for non-coop activity FTEs)	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Undergrad_Domestic	16,634	16,536	16,536	16,536
Undergrad_International	4,399	4,817	4,817	4,937
Graduate_Total	3,540	3,634	3,634	3,690

SFU SIMON FRASER UNIVERSITY
ENGAGING THE WORLD

The Ministry requires a breakdown between domestic & international for all student fee-related revenues (Credit Courses + Non-Credit Courses and other Student Fees), with the following provided based upon current projected trends for non-credit, graduate and student fees.

Key Assumptions - Revenue Generated by (in millions $)	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Domestic Tuition & Fees	154.5	158.1	161.9	166.4
International Tuition & Fees	158.0	177.3	181.8	187.3
Total Tuition & Student Fees	312.6	335.4	343.7	353.7

Salaries & Benefits:

Key Assumptions - Rate Increases	**2022-23**	**2023-24**	**2024-25**	**2025-26**
General Wage Increase	0.0%	0.0%	0.0%	0.0%
Step Increases (CUPE, APSA/APEX)	1.0%	1.0%	1.0%	1.0%
Career Progress Increases (SFUFA)	2.5%	2.5%	2.5%	2.5%

General wage increases are assumed to be zero. Salary settlements (GWI) are expected to be cost neutral, with the PSEC-approved collective agreement settlements expected to be offset by a provincial grant increase.

Employee compensation includes defined benefit pensions, post-retirement benefits, and long-term disability benefits, which the university is obligated to provide after active service. The expenses of providing these plans are determined through actuarial measurements.

SFU SIMON FRASER UNIVERSITY

BOARD OF GOVERNORS

MEMORANDUM

ITEM TITLE	**2022-23 Quarter 2 Operating Variances**
DATE	Nov 2, 2022
COMMITTEE	Appropriate Board committee by terms of reference Finance & Administration Committee
SESSION	Open/closed as appropriate, pursuant to the Board Rules, section 8 Open
ACTION REQUESTED **2.C**	☒ For Information/Discussion ☐ Committee to Recommend, Board to Approve ☐ Committee to Approve, Board for Information ☐ Board to Approve
BOARD AGENDA	To maximize the efficiency and effectiveness of the Board meeting, Committee to Recommend/Board to Approve items that are routine and/or non-controversial, and do not require debate, discussion or explanation at the full Board meeting, may be appropriate to include on the Board's consent agenda ☐ Consent Agenda ☒ Regular Agenda
SUBMITTED BY	Alison Blair, AVP Finance
RECOMMENDED BY	Martin Pochurko, Vice-President Finance & Administration [Executive signature required] ABlair Acting VPFA
ENDORSED BY PRESIDENT	[President signature required] Joy Johnson, President and Vice-Chancellor JJohnson

REASON(S) WHY THIS ITEM IS BEFORE THE BOARD

This report is brought before the Board to provide an update on progress for the Board approved budget and to support both the Finance and Administration Committee and the Board of Governors in fulfilling their financial accountability role.

EXECUTIVE SUMMARY

This report compares the operating budget relative to the actual activities during the first half of the fiscal year. The Quarter 2 report reflects activities one month into the start of the next academic year. As fall tuition revenues for the October – December period have been deferred and will be brought into revenue in the Quarter 3 report, the tuition shortfall for fall and summer of just under $9M is not fully reflected in this report. The tuition shortfall is due to lower than budgeted international enrolments for both the summer and the fall session. Other variances are primarily attributable to timing, with results anticipated to be close to budget by year's end.

CONSIDERATIONS

There continue to be uncertainties surrounding the year's tuition revenue, particularly with respect to international enrolments in the spring session. However, a shortfall is anticipated for spring session. The budgetary impact of the tuition shortfall is anticipated to be shared across the institution by financing from contingency with a small budget adjustment (1%) to the VP portfolios across the institution. Contingency was increased during the pandemic in order to ensure that there were sufficient reserves to offset unanticipated events such as this – whether pandemic-related or due to other unexpected events.

NEXT STEPS

The operating variances will continue to be monitored, with a determination made following Quarter 3 regarding any adjustment to the amount of the operating grant that is restricted for capital purposes.

ATTACHED SUPPLEMENTARY MATERIALS

FY23 Quarter 2 Operating Variances

Quarterly Financial Review

September 30, 2022

(in thousands $) **Revenues**	**Notes**	**Budget**	**Quarter-to-date (QTD)** **Actual**	**Variance**	**Annual Budget**	**Progress to Budget**
Province of BC		136,567	140,683	4,116	273,135	■■■■■□□□□□
Other Governments	1	5,216	4,454	(761)	10,431	■■■■□□□□□□
Credit Tuition Fees		130,096	123,842	(6,255)	304,436	■■■■□□□□□□
Non-Credit Tuition & Student Fees		11,555	11,536	(20)	24,511	■■■■■□□□□□
Investment Income	2	1,594	8,403	6,810	8,585	■■■■■■■■■■
Sales of Goods and Services	3	1,893	2,747	854	3,942	■■■■■■■□□□
Other Non-Governmental Funding	4	9,834	8,933	(901)	27,536	■■■□□□□□□□
Total Revenues		**296,755**	**300,598**	**3,843**	**652,575**	■■■■■□□□□□
Expenses & Interfunds by Portfolio						
President		632	838	(206)	1,258	■■■■■■■□□□
General Counsel & University Secretariat		1,584	1,625	(41)	3,100	■■■■■□□□□□
VP Academic	5	210,140	195,788	14,352	412,427	■■■■■□□□□□
VP Advancement & Alumni Engagement	6	4,116	4,486	(370)	8,053	■■■■■■□□□□
VP External Relations	7	21,452	19,624	1,828	34,090	■■■■■■□□□□
VP Finance & Administration		36,265	36,882	(617)	63,183	■■■■■■□□□□
VP Research & International	8	20,146	24,069	(3,923)	40,262	■■■■■■□□□□
VP People, Equity, & Inclusion	9	6,261	4,312	1,949	6,797	■■■■■■□□□□
General University Requirements	10	19,179	18,054	1,124	84,989	■■□□□□□□□□
Total Expenses & Interfunds		**319,773**	**305,677**	**14,097**	**654,158**	■■■■■□□□□□
Surplus (Deficit)		**(23,018)**	**(5,079)**	**17,939**	**(1,583)**	

Notes: (YTD Variances <> $250k and 5%)

1. The unfavourable variance is mainly due to some of the cohort cancellations that took place in the Beedie Digital Innovation Leadership Program, offset by the savings in operating expenses.

2. The favourable variance is due to portfolio rebalancing of the investment portfolio at the end of June, which has triggered a large realized gain in July, contributing to most of the variance.

3. The favourable variance is due to higher than expected revenues for summer camps.

4. The unfavourable variance is mainly due to some of the cohort cancellations that took place in the Beedie Digital Innovation Leadership Program, offset by the savings in operating expenses.

5. See Academic Page

6. The unfavourable variance is due to the timing of internal salary recoveries and higher than expected consulting expenses.

7. The favourable variance is due to delays in expenditures for WOSK Strategic Initiative and the Aboriginal Strategic Initiative. Expecting the surplus to be spent at year-end.

8. The unfavourable variance is due to a timing difference as costs/recoveries for the BC Electronic Library Network Consortium were budgeted monthly instead of in the particular month the large transactions occur. At year-end, the Consortium is anticipated to end with a surplus.

9. The favourable variance is due to the timing of additional funding received in the first two quarters while the expenses will be incurred throughout the fiscal year. Staff resignations and delays in recruitment also contribute to the variance.

10. The favourable variance is due to lower pension expenses in the admin union pension.

Quarterly Financial Review

September 30, 2022

(in thousands $) **Faculties**	**Notes**	**Quarter-to-date (QTD)** **Budget**	 **Actual**	 **Variance**	**Annual** **Budget**	**Progress to Budget**
Faculty of Applied Sciences	1	20,898	19,440	1,458	41,859	■■■■■□□□□□
Faculty of Arts & Social Sciences	2	36,523	34,527	1,996	70,266	■■■■■□□□□□
Beedie School of Business	3	26,608	22,847	3,762	52,692	■■■■□□□□□□
Faculty of Comm, Art & Technology		12,301	12,226	75	25,417	■■■■■□□□□□
Faculty of Education	4	12,868	11,966	902	23,557	■■■■■□□□□□
Faculty of Environment	5	7,830	6,480	1,349	14,999	■■■■□□□□□□
Faculty of Health Sciences	6	5,172	4,376	796	10,639	■■■■□□□□□□
Faculty of Science	7	26,471	28,365	(1,894)	57,894	■■■■■□□□□□
Lifelong Learning	8	5,980	4,741	1,239	9,538	■■■■■□□□□□
Graduate Studies		1,275	1,305	(30)	2,421	■■■■■□□□□□
Subtotal Expenses & Interfunds		**155,926**	**146,274**	**9,652**	**309,283**	■■■■■□□□□□
Other VPA Units						
AVP Indigenous		250	-	250	-	□□□□□□□□□□
VPA Academic Support Units	9	17,818	13,009	4,809	39,687	■■■□□□□□□□
Student Services		21,620	21,351	268	38,876	■■■■■□□□□□
U/G Scholarships, Bursaries & Awards		6,726	6,419	307	15,746	■■■■□□□□□□
Grad Scholarships, Bursaries & Awards	10	7,800	8,736	(936)	8,836	■■■■■■■■■■
Subtotal Expenses & Interfunds		**54,214**	**49,514**	**4,699**	**103,144**	■■■■■□□□□□
Total Expenses & Interfunds		**210,140**	**195,788**	**14,352**	**412,427**	■■■■■□□□□□

Notes: (YTD Variances <> $250k and 5%)

1. The favourable variance is due to staff resignations, delays in recruitment and Faculty Start-up grant transfers.
2. The favourable variance is mainly due to the transfers of APSA GWI and additional FY23 reference point funding in Q1. Fewer Teaching Assistants were hired in the first two quarters but it is expected that more will be hired in Fall/Spring semesters.
3. The favourable variance is due to unfilled staff/academic positions, timing of the salary recoveries, and lower than expected expenses in Executive Education programs. In addition, there is a timing difference due to providing the full year of additional FY23 reference point funding in Q1.
4. The favourable variance is due to delays in projects and the timing of reimbursements of Faculty Associates salary costs to the school districts.
5. The favourable variance is due to savings from a few unfilled Faculty/Staff positions and timing of Teaching Assistants spending. In addition, there is a timing difference due to providing the full year of additional FY23 reference point funding in Q1.
6. The favourable variance is due to vacant staff positions, timing of sessional, Teaching Assistant salary costs and internal salary charges. In addition, there is a timing difference due to providing the full year of additional FY23 reference point funding in Q1.
7. The unfavourable variance is due to the timing of internal salary recoveries and the need for more Limited Term Lecturers to address higher than expected student enrollment. The projected budget short-fall has also contributed to the variance.
8. The favourable variance is due to lower instructional related costs due to timing of the payments and program cancellations. Unfilled positions, the timing of the transfer of APSA GWI funding and other cost savings on operational expenditures also contribute to the favourable variance.
9. The favourable variance is due to delays and cancellations of some of the strategic initiative funding transfers as well as lower operating expenses in anticipation of enrollment deficit contributions and lower FIC tuition revenues. In addition, a $2M capital project transfer towards the Art Museum was not reflected in Q2.
10. The unfavourable variance is due to the front loading of scholarship funds for new students to address high inflation, and higher than expected disbursement in the Fall semester as a result of a change in the Scholarship Allocation Model.