NIPISSING UNIVERSITY

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Policy Name:	Capital Debt Policy
Responsible Department:	Vice-President, Finance and Administration
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Purpose

The purpose of the Capital Debt Policy and Capital Debt Guidelines is to define:

- Responsibilities for the approval of new University external capital debt (borrowing);
- Maximum limits on the amount of total external capital debt incurred by the University; and
- Reporting on external capital debt.

A. General Information

The intent of this policy is to align the strategic use of debt with the University's investment policies to manage the overall cost of capital, minimize long-term costs for debt service and ensure the overall level of risk does not exceed acceptable levels. This policy provides a discipline and framework that will be used by management to evaluate the appropriate use of debt in capital financing plans.

B. Policy

1.0 Capital borrowing will only be undertaken by administration after the Board of Governors has approved the capital project. Such approval shall include the total cost of the

Capital Debt Policy Page 2 of 4 project, source(s) of funds for debt repayment, and the period of time over which the debt is planned to be repaid.

2.0 The University will seek to borrow funds from external financial organizations in an effective and competitive manner taking into consideration factors such as term, cost of funds, security required and repayment options. Where external financing is reasonably attainable, internal funds generated from overall University cash flow not immediately required to meet their targeted purpose may be advanced to finance projects until external financing is obtained. In these cases, any advanced funds will be charged to the project at an internal rate of interest.

3.0 The University will manage its overall debt to maintain an acceptable credit rating to ensure that the University can continue to issue debt and finance capital investments at favorable interest rates.

C. Guidelines

4.0 Whenever possible, loans shall be made on an unsecured basis. Mortgages may be given for residence-related debt.

5.0 The University has selected the following key ratios as benchmarks for the maximum level of debt. Debt shall be measured as total external debt.

Compliance with these ratios should ensure that Nipissing maintains a strong credit rating and continuing access to new debt that may be required.

a) ***Interest Burden Ratio***: This ratio measures the percentage of total expenses used to cover the University's cost of servicing its debt. The ratio must be lower than 2.0%.
b) ***Debt per Student FTE***: This ratio measures the amount of total capital debt on a per FTE basis. The amount of total debt shall remain less than $8,500 per student FTE.
c) ***Ratio of Debt to Total Revenues***: This ratio measures the amount of total debt as a percentage of revenues. The ratio shall remain less than 48%.

D. Reporting

7.0 Administration shall report annually, or as needed, to the Board of Governors' Audit & Finance Committee on:

- current and projected debt levels; and
- compliance with the debt ratios listed above.

The Vice President, Finance and Administration shall review this policy every three years to determine whether amendments are necessary. Any substantial amendments shall be reported to the Audit & Finance Committee for information purposes.