UNIVERSITY OF TORONTO

OFFICE OF THE GOVERNING COUNCIL

FOR INFORMATION | **PUBLIC** | **OPEN SESSION**

TO: Business Board

SPONSOR: Sheila Brown, Chief Financial Officer
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca

PRESENTER: Sheila Brown, Chief Financial Officer
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca

DATE: January 4, 2017 for January 23, 2017

AGENDA ITEM: 7

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2017, prepared as of January 4, 2017

JURISDICTIONAL INFORMATION:

Review of regular reports on matters affecting the finances of the University.

GOVERNANCE PATH:

1. **Business Board [for information] (January 23, 2017)**

PREVIOUS ACTION TAKEN:

On February 29, 2016, the Business Board concurred with the Academic Board that the Operating Budget Report for 2016-17 be approved. On June 16, 2016 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2016 and recommended them for Governing Council for approval.

HIGHLIGHTS:

This forecast projects the revenues, expenses, net income and changes in net assets for the entire University across all four funds – operating, ancillary, capital, and restricted - including accounting estimates for pension and benefits' expense and liability and for depreciation.

This forecast should be viewed as a reasonable ballpark estimate of the year-end results, given the resources and information available. It contains forward looking information, which is subject to risks and uncertainties that could cause the actual results to differ materially from those contained in this forecast.

At this time we have good information on some revenues and expenses for 2017 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary from year to year.
- We have interim information on divisionally controlled revenues and expenses.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2017 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- Investment return (LTCAP and pension/benefits) of 6.8%, representing the actual return from May 1, 2016 to November 30, 2016.
- Endowment payout of $81.1 million for 2016/17.
- Increase of $101.4 million in divisional and central general reserves and $37.7 million for future divisional capital expenditures, of which both contribute to the creation of net income for the year.

A sensitivity analysis on page 2 of the report shows the impact of varying investment returns (LTCAP and pension/benefits) on net income and net assets at 3.0%, 6.8%, 8.0% and 10.0% for the year. It also shows forecasted net income under all four scenarios.

Incorporating all of the above, net income for the year is projected to be $178.4 million, at the 6.8% investment return rate. The projected range is from $155.5 million (at 3% investment return) to $197.8 million (at 10% investment return). Net assets are projected to be $4.70 billion, at the 6.8% investment return rate. The projected range is from $4.45 billion (at 3% investment return) to $4.90 billion (at 10% investment return).

The operating fund unrestricted surplus is projected to be $16.0 million, as compared to the budgeted cumulative surplus of nil. This change is primarily due to an increase in international undergraduate tuition revenues. The sensitivity analysis does not impact this figure.

FINANCIAL IMPLICATIONS:

Refer to highlights.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

Financial Forecast to April 30, 2017, as at January 4, 2017

UNIVERSITY OF TORONTO

Financial Forecast to April 30, 2017

as at January 4, 2017

University of Toronto
Financial Forecast
Sensitivity analysis
For the fiscal year ending April 30, 2017
(millions of dollars)

Impact of investment returns on Net Income and Net Assets:	3.0%	6.8%	8.0%	10.0%
Revenues	3,111.1	3,134.0	3,141.3	3,153.4
Expenses	2,955.6	2,955.6	2,955.6	2,955.6
Net Income	**155.5**	**178.4**	**185.7**	**197.8**
Remeasurement of pensions and other employee future benefits	(65.2)	89.0	138.3	219.7
Preservation (drawdown) of capital for externally restricted endowments	(15.6)	52.3	73.9	109.7
Externally endowed contributions	28.0	28.0	28.0	28.0
Net assets, beginning of year	4,348.9	4,348.9	4,348.9	4,348.9
Net assets, end of year	**4,451.6**	**4,696.6**	**4,774.8**	**4,904.1**
Net assets, end of year:				
Unrestricted deficit	(93.9)	(93.9)	(93.9)	(93.9)
Internally restricted - Cash reserves	986.6	995.3	998.1	1,002.7
Internally restricted - Unfunded employee future benefit liability	(1,424.0)	(1,267.2)	(1,217.1)	(1,134.3)
Internally restricted - Investment in capital assets	2,866.2	2,866.2	2,866.2	2,866.2
Endowments	2,116.7	2,196.2	2,221.5	2,263.4
	4,451.6	**4,696.6**	**4,774.8**	**4,904.1**
Unrestricted deficit by fund:				
Operating fund	16.0	16.0	16.0	16.0
Ancillary operations	(37.6)	(37.6)	(37.6)	(37.6)
Capital fund	(72.3)	(72.3)	(72.3)	(72.3)
Restricted funds	0.0	0.0	0.0	0.0
	(93.9)	**(93.9)**	**(93.9)**	**(93.9)**

Introduction

This forecast projects the revenues, expenses, net income and changes in net assets for the entire University across all four funds – operating, ancillary, capital, and restricted - including accounting estimates for pension and benefits' expense and liability and for depreciation.

This forecast should be viewed as a reasonable ballpark estimate of the year-end results, given the resources and information available. It contains forward looking information, which is subject to risks and uncertainties that could cause the actual results to differ materially from those contained in this forecast.

At this time we have good information on some revenues and expenses for 2017 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary from year to year.
- We have interim information on divisionally controlled revenues and expenses.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2017 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- Investment return (LTCAP and pension/benefits) of 6.8%, representing the actual return from May 1, 2016 to November 30, 2016.
- Endowment payout of $81.1 million for 2016/17.
- Increase of $101.4 million in divisional and central general reserves and $37.7 million for future divisional capital expenditures, of which both contribute to the creation of net income for the year.

The sensitivity analysis on page 2 shows the impact of varying investment returns (LTCAP and pension/benefits) on net income and net assets at 3.0%, 6.8%, 8.0% and 10.0% for the year.

UNIVERSITY OF TORONTO

FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT

For the fiscal year ending April 30, 2017

(with comparative figures at April 30, 2016)

(millions of dollars)

	Forecast					
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2017 Total	2016 Total
REVENUES						
Student fees	1,382.8	10.9	0.7		1,394.4	1,291.7
Government grants for general operations	731.6				731.6	710.1
Government and other grants and contracts	4.0	0.6	60.8	349.8	415.2	382.9
Sales, services and sundry income	144.9	189.8	0.2		334.9	301.6
Investment Income: Endowment	62.9			50.3	113.2	87.6
Other	49.9	0.6	1.3	1.4	53.2	21.5
Donations		0.3	11.1	80.1	91.5	113.6
	2,376.1	202.2	74.1	481.6	3,134.0	2,909.0
EXPENSES						
Salaries	1,155.2	9.8		191.6	1,356.6	1,272.8
Employee future benefits	199.1				199.1	185.6
Other employee benefits	127.8	2.0		21.0	150.8	140.9
Scholarships, fellowships and bursaries	203.8			30.5	234.3	218.5
Materials and supplies	113.0	2.2		80.4	195.6	162.3
Amortization of capital assets	21.8	16.1	127.5	2.2	167.6	158.6
Repairs and maintenance	129.6	23.3	3.3	3.9	160.1	124.8
Cost of sales and services		114.5			114.5	88.7
Inter-institutional research contributions				74.8	74.8	68.3
Utilities	50.7	12.9		2.5	66.1	61.4
External contracted services	32.0			29.4	61.4	54.8
Travel and conferences	33.9			21.7	55.6	47.8
Interest on long-term debt	23.5	12.7		2.3	38.5	38.5
Telecommunications	13.6			1.3	14.9	11.1
Other	52.4		5.1	8.2	65.7	64.3
	2,156.4	193.5	135.9	469.8	2,955.6	2,698.4
Net income (loss)	219.7	8.7	(61.8)	11.8	178.4	210.6
Net transfers **(1)**	(314.8)	(17.5)	34.8	(11.8)	(309.3)	20.6
Remeasurement of pensions and other employee future benefits	89.0				89.0	(193.7)
Net change in surplus/(deficit) for the year	(6.1)	(8.8)	(27.0)	0.0	(41.9)	37.5
Deficit, beginning of year	22.1	(28.8)	(45.3)		(52.0)	(89.5)
Deficit, end of year	16.0	(37.6)	(72.3)	0.0	(93.9)	(52.0)
Internally restricted net assets	(533.7)	21.5	172.7	67.6	(271.9)	(440.9)
Investment in capital assets		106.4	2,759.8		2,866.2	2,744.1
Endowments				2,196.2	2,196.2	2,097.7
Net assets, end of year	(517.7)	90.3	2,860.2	2,263.8	4,696.6	4,348.9

(1) Net transfers consist mainly of operating funds transferred to the capital fund for future expenditures, capital expenditures that will be depreciated in the capital fund in future years and funds set aside as internally restricted net assets.

Projected Changes in Operations and Deficit

Total revenues are expected to increase by $225.0 million, from $2.91 billion in 2016 to $3.13 billion. Total expenses are forecasted to increase by $257.2 million, from $2.70 billion in 2016 to $2.96 billion.

This forecast project's a net income of $178.4 million at April 30, 2017. The $178.4 million net income represents a net decrease of $32.2 million from last year's net income of $210.6 million. The net income of $178.4 million was mainly generated through expenditure savings for academic priorities and future capital projects.

A change in the investment return (LTCAP and pension/benefits) would impact this result (assuming everything else remains the same) as shown on page 2:

- At 3.0 % return $155.5 million net income.
- At 6.8 % return $178.4 million net income. – current forecast
- At 8.0 % return $185.7 million net income.
- At 10.0 % return $197.8 million net income.

Projected Changes in Net Assets

This forecast projects an increase in net assets from $4.35 billion at April 30, 2016 to $4.70 billion at April 30, 2017. The increase of $347.7 million results from a projected net income of $178.4 million, increase in internally restricted assets of $89 million due to the remeasurement of pensions and other employee future benefits, investment gain of $52.3 million on externally restricted endowments and $28.0 million in projected endowed contributions. Varying assumptions for the investment return (LTCAP and pension/benefits) would affect this result (assuming everything else remains the same) as shown on page 2:

- At 3.0% return $4.45 billion net assets.
- At 6.8% return $4.70 billion net assets. – current forecast
- At 8.0% return $4.77 billion net assets.
- At 10.0% return $4.90 billion net assets.

The projected net assets of $4.70 billion are composed of the following, each of which is discussed further in the following sections:

($93.9 million) unrestricted net deficit
($271.9 million) internally restricted net assets
$2.87 billion investment in capital assets
$2.20 billion in endowments

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING APRIL 30, 2017
(with comparative figures for the year ended April 30, 2016; in millions of dollars)

	Forecast					
	Unrestricted deficit	**Internally restricted**	**Investment in capital assets**	**Endowments**	**2017 Total**	2016 Total
Net assets, beginning of year	**(52.0)**	**(440.9)**	**2,744.1**	**2,097.7**	**4,348.9**	4,375.9
Net Income	**178.4**				**178.4**	210.6
Net change in internally restricted	**(169.0)**	**169.0**				
Remeasurement of pensions and other employee future benefits	**89.0**				**89.0**	(193.7)
Net change in investment in capital assets	**(122.1)**		**122.1**			
Transfer to endowments	**(18.2)**			**18.2**		
Investment gain(loss) on externally restricted endowments				**52.3**	**52.3**	(72.7)
Externally endowed contributions				**28.0**	**28.0**	28.8
Net assets, end of year	**(93.9)**	**(271.9)**	**2,866.2**	**2,196.2**	**4,696.6**	4,348.9

Projected Unrestricted Deficit:

This forecast projects a cumulative unrestricted deficit of ($93.9 million) at April 30, 2017, as compared to last year's cumulative deficit ($52 million). The increase in the cumulative deficit of $41.9 is mainly as a result of the issuance of additional internal debt to finance capital expenditures under the university debt programme. The $93.9 million deficit is comprised of:

- $16.0 million operating fund unrestricted surplus as compared to the budgeted cumulative surplus of nil. The projected favorable variance of $16.0 million is due to $14.8 million more tuition fee revenue than budgeted mainly due to international undergraduate enrolment and investment income of $3.9 million, partially offset by lower government grants of $5.3 million mainly due a decrease in graduate accessibility funding. Please note that if the investment return (LTCAP and pension/benefits) is 3.0%, the operating fund cumulative surplus is still projected to be $16 million at April 30, 2017, as the investment return variations included in this forecast only impact the endowment and internally restricted balances.

- ($109.9 million) unrestricted deficit is due primarily to the internal debt component of the University debt programme. Such internal loans will be paid down over time via blended principal and interest payments.

Projected Internally Restricted Net Assets:

Internally restricted net assets primarily reflect the unfunded portion of pension and employee benefits of ($1,267.2 million), partially offset by cash reserves of $995.3 million. Internally restricted net assets are currently projected to increase from ($440.9 million) in 2016 to ($271.9 million) at April 30, 2017, mainly as a result of decreasing unfunded employee future benefit expense obligations due to higher than expected investment returns.

Projected Investment in Capital Assets:

The $2.87 billion investment in capital assets represents the value of land and internal monies previously spent by the University on capital projects which will be reduced over time as the depreciable assets are amortized. This amount is projected to increase from $2.74 billion in 2016 to $2.87 billion at April 30, 2017 primarily due to an increase in the internal funding of capital projects, partially offset by depreciation.

Projected Endowments:

This forecast projects endowments at $2.20 billion at April 30, 2017, an increase of $98.5 million from 2016, comprised as follows:

	(millions of dollars)	
	Forecasted Fiscal Year 2017	Fiscal Year 2016
Opening Balance, May 1	2,097.7	2,142.1
Investment income	142.3	(7.6)
Less: endowment payout	(81.1)	(78.7)
Endowed contributions and transfers	37.3	41.9
Balance	2,196.2	2,097.7

This forecast assumes an LTCAP investment return on endowments of 6.8%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At 3.0% return $2.12 billion endowments.
- At 6.8% return $2.20 billion endowments. – current forecast
- At 8.0% return $2.22 billion endowments.
- At 10.0% return $2.26 billion endowments.