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

TO: Business Board

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DATE: January 11, 2018 for January 29, 2018

AGENDA ITEM: 7

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2018, prepared as of January 11, 2018.

JURISDICTIONAL INFORMATION:

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

GOVERNANCE PATH:

1. **Business Board [for information] (January 29, 2018)**

PREVIOUS ACTION TAKEN:

On January 23, 2017 the Business Board was provided the University's financial forecast for the year ended April 30, 2017. On June 15, 2017 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2017 and recommended them to Governing Council for approval. On February 27, 2017, the Business Board concurred with the Academic Board that the Operating Budget Report for 2017-18 be approved.

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 2018 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, 2018 using current year-to-date actual figures and estimation based on trend analysis of prior years. The key assumptions are:

- Investment return (LTCAP and pension/benefits) of 5.4%, representing the actual return from May 1, 2017 to November 30, 2017.
- Endowment payout of $84 million for 2017/18.
- $100 million in divisional savings that increase reserves.
- $444 million in capital asset additions of which $277 million is funded from current year revenues with the remainder from reserves.

Sensitivity Analysis:

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%, 5.4%, 7.0% and 9.0% for the year. It also shows forecasted net income under all four scenarios.

A change in divisional savings has an equal and similar impact on net income (an increase in savings increases net income and vice-versa). A change in the amount of capital asset additions funded by current year revenues would have a similar impact on net income (an increase in capital asset additions increases net income and vice-versa). Any change in net income increases or decreases net assets.

Conclusion:

Incorporating all of the above, net income for the year is projected to be $391 million, at the 5.4% investment return rate. Net income is projected to range from $374 million (at 3% investment return) to $417 million (at 9% investment return). Net assets are projected to be $5.8 billion, at the 5.4% investment return rate. The projected range is from $5.6 billion (at 3% investment return) to $6.0 billion (at 9% investment return).

The operating fund unrestricted surplus is projected to be $43 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, 2018, as at January 11, 2018

UNIVERSITY OF TORONTO

Financial Forecast to April 30, 2018

as at January 11, 2018

University of Toronto
Financial Forecast
Sensitivity analysis
For the fiscal year ending April 30, 2018
(millions of dollars)

Impact of investment returns on Net Income and Net Assets:	3.0%	5.4%	7.0%	9.0%
Revenues	3,339	3,356	3,368	3,382
Expenses	2,965	2,965	2,965	2,965
Net Income	**374**	**391**	**403**	**417**
Remeasurement of pensions and other employee future benefits	(255)	(143)	(65)	29
Preservation (drawdown) of capital for externally restricted endowments	(11)	37	70	111
Externally endowed contributions	28	28	28	28
Net assets, beginning of year	5,457	5,457	5,457	5,457
Net assets, end of year	**5,593**	**5,770**	**5,893**	**6,042**
Net assets, end of year:				
Unrestricted deficit	(95)	(95)	(95)	(95)
Internally restricted funds	47	168	252	354
Investment in land and other capital assets	3,235	3,235	3,235	3,235
Endowments	2,406	2,462	2,501	2,548
	5,593	**5,770**	**5,893**	**6,042**
Unrestricted deficit by fund:				
Operating fund	43	43	43	43
Ancillary operations	(37)	(37)	(37)	(37)
Capital fund	(101)	(101)	(101)	(101)
Restricted funds	0	0	0	0
	(95)	**(95)**	**(95)**	**(95)**

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 2018 but also have some significant uncertainties:

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- Endowment payout of $84 million for 2017/18.
- $100 million in divisional savings that increase reserves.
- $444 million in capital asset additions of which $277 million is funded from current year revenues with the remainder from reserves.

Sensitivity Analysis:

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%, 5.4%, 7.0% and 9.0% for the year. It also shows forecasted net income under all four scenarios.

A change in divisional savings has an equal and similar impact on net income (an increase in savings increases net income and vice-versa). A change in the amount of capital asset additions funded by current year revenues would have a similar impact on net income (an increase in capital asset additions increases net income and vice-versa). Any change in net income increases or decreases net assets.

UNIVERSITY OF TORONTO

FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT

For the fiscal year ending April 30, 2018

(with comparative figures at April 30, 2017)

(millions of dollars)

	Forecast					Actual
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2018 Total	2017 Total
REVENUES						
Student fees	1,563	10	1		1,574	1,431
Government grants for general operations	731				731	713
Government and other grants for restricted purposes	19		63	384	466	418
Sales, services and sundry income	121	198	2		321	333
Investment Income: Endowment	65			47	112	138
Other	56	1	1	3	61	82
Donations			9	82	91	101
	2,555	209	76	516	3,356	3,216
EXPENSES						
Salaries	1,183	11		196	1,390	1,326
Employee benefits	339			22	361	343
Scholarships, fellowships and bursaries	190			33	223	217
Materials, supplies and services	118	2		105	225	218
Amortization of capital assets	16	17	137	2	172	165
Repairs, maintenance and leases	89	22		9	120	115
Cost of sales and services		124			124	106
Inter-institutional contributions	33			106	139	103
Utilities	52	13		1	66	63
Travel and conferences	33			20	53	51
Interest on long-term debt	24	12		2	38	38
Other	40		5	9	54	54
	2,117	201	142	505	2,965	2,799
Net income (loss)	438	8	(66)	11	391	417
Net transfers **(1)**	(430)	(9)	23	(11)	(427)	(424)
Net change in surplus/(deficit) for the year	8	(1)	(43)		(36)	(7)
Surplus (Deficit), beginning of year	35	(36)	(58)		(59)	(52)
Surplus (Deficit), end of year	43	(37)	(101)		(95)	(59)
Internally restricted net assets	(28)	29	101	66	168	269
Investment in land and other capital assets		111	3,124		3,235	2,867
Endowments				2,462	2,462	2,380
Net assets, end of year	15	103	3,124	2,528	5,770	5,457

(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 or spent on capital assets.

Projected Changes in Operations and Deficit

Total revenues are expected to increase by $140 million, from $3.2 billion in 2017 to $3.4 billion. Total expenses are forecasted to increase by $166 million, from $2.8 billion in 2017 to $3.0 billion.

This forecast project's a net income of $391 million at April 30, 2018. The $391 million net income represents a decrease of $26 million from last year's net income of $417 million. The forecasted net income of $391 million is primarily generated through divisional savings of $100 million and $277 million in capital asset additions funded from current year revenues.

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 $374 million net income.
- At 5.4 % return $391 million net income. – current forecast
- At 7.0 % return $403 million net income.
- At 9.0 % return $417 million net income.

Projected Changes in Net Assets

This forecast projects an increase in net assets from $5.5 billion at April 30, 2017 to $5.8 billion at April 30, 2018. The increase of $313 million results from a projected net income of $391 million, investment gains of $37 million on externally restricted endowments and $28 million in projected endowed contributions, partially offset by a decrease in internally restricted assets of $143 million due to the remeasurement of pensions and other employee future benefits. 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 $5.6 billion net assets.
- At 5.4% return $5.8 billion net assets. – current forecast
- At 7.0% return $5.9 billion net assets.
- At 9.0% return $6.0 billion net assets.

The projected net assets of $5.8 billion are composed of the following, each of which is discussed further in the following sections:

($95 million) unrestricted net deficit
$168 million internally restricted net assets
$3.2 billion investment in capital assets
$2.5 billion in endowments

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING APRIL 30, 2018
(with comparative figures for the year ended April 30, 2017; in millions of dollars)

	Forecast					Actual
	Unrestricted deficit	Internally restricted	Investment in land & other capital assets	Endowments	2018 Total	2017 Total
Net assets, beginning of year	**(59)**	**269**	**2,867**	**2,380**	**5,457**	4,349
Net Income	**391**				**391**	417
Net change in internally restricted	**101**	**(101)**				
Remeasurement of pensions and other employee future benefits	**(143)**				**(143)**	452
Net change in investment in land and other capital assets	**(368)**		**368**			
Transfer to endowments	**(17)**			**17**		
Investment gain on externally restricted endowments				**37**	**37**	203
Externally endowed contributions				**28**	**28**	36
Net assets, end of year	**(95)**	**168**	**3,235**	**2,462**	**5,770**	5,457

Projected Unrestricted Deficit:

This forecast projects a cumulative unrestricted deficit of ($95 million) at April 30, 2018, as compared to last year's cumulative deficit ($59 million). The $95 million deficit is comprised of:

- $43 million operating fund unrestricted surplus as compared to the budgeted cumulative surplus of nil. The projected favorable variance of $43 million is due to $35 million more tuition fee revenue than budgeted mainly due to international undergraduate enrolment, utilities savings of $5 million, additional government grants of $4 million mainly due to an increase in graduate accessibility funding and investment income of $3 million partially offset by unfavourable expense variances of $4 million. Please note that if the investment return (LTCAP and pension/benefits) is 3.0%, the operating fund cumulative surplus is still projected to be $43 million at April 30, 2018, as the investment return variations included in this forecast only impact the endowment and internally restricted balances.

- ($138 million) unrestricted deficit of the other funds 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 are projected to decrease from $269 million in 2017 to $168 million at April 30, 2018, mainly due to increasing unfunded employee future benefit expense obligations as a result lower investment returns as compared to actuarial investment assumptions. Internally restricted net assets balance of $168 million reflects the cash reserves of $1,134 million, mostly offset by the unfunded portion of pension and employee benefits of ($966 million).

Projected Investment in Land and other Capital Assets:

The $3.23 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 $2.87 billion in 2017 to $3.23 billion in 2018 primarily due to $444 million in capital asset additions (including the acquisition of the CAMH property), partially offset by amortization on internally funded capital assets of $76 million.

Projected Endowments:

This forecast projects endowments at $2.46 billion at April 30, 2018, an increase of $82 million from 2017, comprised as follows:

	(millions of dollars)	
	Forecasted Fiscal Year 2018	Fiscal Year 2017
Opening Balance, May 1	2,380	2,098
Investment income	127	319
Less: endowment payout	(84)	(81)
Endowed contributions and transfers	39	44
Balance	2,462	2,380

This forecast assumes an LTCAP investment return on endowments of 5.4%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At 3.0% return $2.41 billion endowments.
- At 5.4% return $2.46 billion endowments. – current forecast
- At 7.0% return $2.50 billion endowments.
- At 9.0% return $2.55 billion endowments.