UNIVERSITY OF TORONTO

OFFICE OF THE GOVERNING COUNCIL

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

TO: Business Board

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PRESENTER: Sheila Brown, Chief Financial Officer
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DATE: January 16, 2019 for February 4, 2019

AGENDA ITEM: 8

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2019, prepared as of January 16, 2019

JURISDICTIONAL INFORMATION:

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

GOVERNANCE PATH:

1. **Business Board [for information] (February 4, 2019)**

PREVIOUS ACTION TAKEN:

On January 29, 2018 the Business Board was provided the University's financial forecast for the year ended April 30, 2018. On June 19, 2018 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2018 and recommended them to Governing Council for approval. On March 21, 2018, the Business Board concurred with the Academic Board that the Operating Budget Report for 2018-19 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 2019 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary significantly 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, 2019 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 negative 1.4%, representing the actual return from May 1, 2018 to November 30, 2018.
- Endowment payout of $85 million for 2018/19.
- $200 million in divisional savings that increase reserves for planned capital expansion, faculty start-up funding and research infrastructure, and funds to match future donations.
- $254 million in capital asset additions during 2019 of which $180 million is funded from current year revenues with the remainder from reserves.

<u>Sensitivity Analysis:</u>

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 negative 5.0%, negative 1.4%, 0.0% and 3.0% 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.

<u>Conclusion:</u>

Incorporating all of the above, net income for the year is projected to be $431 million, at the negative 1.4% investment return rate. Net income is projected to range from $403 million (at negative 5% investment return) to $467 million (at 3% investment return). Net assets are projected to be $5.9 billion, at the negative 1.4% investment return rate. The projected range is from $5.6 billion (at negative 5% investment return) to $6.3 billion (at 3% investment return).

The operating fund unrestricted surplus is projected to be $19 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, 2019, as at January 16, 2019

UNIVERSITY OF TORONTO

Financial Forecast to April 30, 2019

as at January 16, 2019

Photo courtesy of Roberta Baker

University of Toronto
Financial Forecast
Sensitivity analysis
For the fiscal year ending April 30, 2019
(millions of dollars)

Impact of investment returns on Net Income and Net Assets:	-5.0%	-1.4%	0.0%	3.0%
Revenues	3,513	3,541	3,553	3,577
Expenses	3,110	3,110	3,110	3,110
Net Income	**403**	**431**	**443**	**467**
Remeasurement of pensions and other employee future benefits	(587)	(405)	(333)	(181)
Preservation (drawdown) of capital for externally restricted endowments	(180)	(103)	(73)	(9)
Externally endowed contributions	40	40	40	40
Net assets, beginning of year	5,943	5,943	5,943	5,943
Net assets, end of year	**5,619**	**5,906**	**6,020**	**6,260**
Net assets, end of year:				
Deficit	(152)	(152)	(152)	(152)
Internally restricted funds	10	207	286	451
Investment in land and other capital assets	3,420	3,420	3,420	3,420
Endowments	2,341	2,431	2,466	2,541
	5,619	**5,906**	**6,020**	**6,260**
Deficit by fund:				
Operating fund	19	19	19	19
Ancillary operations	(20)	(20)	(20)	(20)
Capital fund	(151)	(151)	(151)	(151)
Restricted funds	0	0	0	0
	(152)	**(152)**	**(152)**	**(152)**

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.

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At this time we have good information on some revenues and expenses for 2019 but also have some significant uncertainties:

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- Endowment payout of $85 million for 2018/19.
- $200 million in divisional savings that increase reserves for planned capital expansion, faculty start-up funding and research infrastructure, and funds to match future donations.
- $254 million in capital asset additions during 2019 of which $180 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 negative 5.0%, negative 1.4%, 0.0% and 3.0% 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, 2019

(with comparative figures at April 30, 2018)

(millions of dollars)

	Forecast					Actual
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2019 Total	2018 Total
REVENUES						
Student fees	1,713	11	1		1,725	1,583
Government grants for general operations	741				741	723
Government and other grants for restricted purposes	12		72	409	493	413
Sales, services and sundry income	129	203			332	352
Investment Income: Endowment	68			28	96	119
Other	52	1	2	3	58	61
Donations			3	93	96	128
	2,715	215	78	533	3,541	3,379
EXPENSES						
Salaries	1,246	9		218	1,473	1,398
Employee benefits	304	2		23	329	319
Scholarships, fellowships and bursaries	226			34	260	239
Materials, supplies and services	138	2		103	243	227
Amortization of capital assets	16	18	147	2	183	178
Repairs, maintenance and leases	100	24	2	10	136	118
Cost of sales and services		125			125	113
Inter-institutional contributions	36			114	150	121
Utilities	49	12		2	63	56
Travel and conferences	35			22	57	54
Interest on long-term debt	20	11		2	33	38
Other	37		4	17	58	53
	2,207	203	153	547	3,110	2,914
Net income (loss)	508	12	(75)	(14)	431	465
Net transfers **(1)**	(543)	(5)	19	14	(515)	(474)
Net transfer between funds	(201)	(3)	195	9		
Transfer of capital assets	(87)		87			
Change in internally restricted	(255)	4	(102)	(5)	(358)	(64)
Change in investment in capital assets		(6)	(161)		(167)	(386)
Transfers of donations to endowments				(8)	(8)	(14)
Transfer to internally restricted endowmwnts				18	18	(10)
Net change in surplus/(deficit) for the year	(35)	7	(56)		(84)	(9)
Surplus (Deficit), beginning of year	54	(27)	(95)		(68)	(59)
Surplus (Deficit), end of year	19	(20)	(151)		(152)	(68)
Internally restricted net assets	(166)	30	264	79	207	254
Investment in land and other capital assets		108	3,312		3,420	3,253
Endowments				2,431	2,431	2,504
Net assets, end of year	(147)	118	3,425	2,510	5,906	5,943

(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 $162 million, from $3.4 billion in 2018 to $3.5 billion. Total expenses are forecasted to increase by $196 million, from $2.9 billion in 2018 to $3.1 billion.

This forecast project's a net income of $431 million at April 30, 2019. The $431 million net income represents a decrease of $34 million from last year's net income of $465 million. The forecasted net income of $431 million is primarily generated through divisional savings of $200 million for capital expansion, faculty start-up funding and research infrastructure, and funds to match future donations and $167 million in capital asset additions in 2019 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 -5.0 % return $403 million net income.
- At -1.4 % return $431 million net income. – current forecast
- At 0.0 % return $443 million net income.
- At 3.0 % return $467 million net income.

Projected Changes in Net Assets

This forecast projects a decrease in net assets from $5.94 billion at April 30, 2018 to $5.91 billion at April 30, 2019. The decrease of $37 million results from the remeasurement of pensions and other employee future benefits due to projected investment returns below expected returns on assets of the pension plan, which is a direct reduction of net assets of $405 million, and investment losses of $103 million on externally restricted endowments partially offset by a projected net income of $431 million and $40 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 -5.0% return $5.6 billion net assets.
- At -1.4% return $5.9 billion net assets. – current forecast
- At 0.0% return $6.0 billion net assets.
- At 3.0% return $6.3 billion net assets.

The projected net assets of $5.9 billion are composed of the following, each of which is discussed further in the following sections:

($152 million) unrestricted net deficit
$207 million internally restricted net assets
$3.4 billion investment in capital assets
$2.4 billion in endowments

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING APRIL 30, 2019
(with comparative figures for the year ended April 30, 2018; in millions of dollars)

	Forecast					Actual
	Unrestricted deficit	**Internally restricted**	**Investment in land & other capital assets**	**Endowments**	**2019 Total**	2018 Total
Net assets, beginning of year	**(68)**	**254**	**3,253**	**2,504**	**5,943**	5,457
Net Income	**431**				**431**	465
Net change in internally restricted	**47**	**(47)**				
Remeasurement of pensions and other employee future benefits	**(405)**				**(405)**	(79)
Net change in investment in land and other capital assets	**(167)**		**167**			
Transfer to endowments	**10**			**(10)**		
Investment gain (loss) on externally restricted endowments				**(103)**	**(103)**	61
Externally endowed contributions				**40**	**40**	39
Net assets, end of year	**(152)**	**207**	**3,420**	**2,431**	**5,906**	5,943

Projected Unrestricted Deficit:

This forecast projects a cumulative deficit of ($152 million) at April 30, 2019, as compared to last year's cumulative deficit ($68 million). The $152 million deficit is comprised of:

- $19 million operating fund unrestricted surplus as compared to the budgeted cumulative surplus of nil. The projected favorable variance of $19 million is due to $21 million more tuition fee revenue than budgeted mainly due to international undergraduate enrolment and utilities savings of $4 million, partially offset by unfavourable expense variances of $5 million and an investment loss of $1 million. Please note that if the investment return (LTCAP and pension/benefits) is negative 5.0%, the operating fund cumulative surplus is still projected to be $19 million at April 30, 2019, as the investment return variations included in this forecast only impact the endowment and internally restricted balances.

- ($171 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 $254 million in 2018 to $207 million at April 30, 2019, 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 $207 million reflects the positive reserves of $1,460 million (assets), mostly offset by the unfunded portion of pension and employee benefits of ($1,253 million) (liabilities).

Projected Investment in Land and other Capital Assets:

The $3.42 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 $3.25 billion in 2018 to $3.42 billion in 2019 primarily due to $254 million in capital asset additions, partially offset by amortization on internally funded capital assets of $87 million.

Projected Endowments:

This forecast projects endowments at $2.43 billion at April 30, 2019, a decrease of $73 million from 2018, comprised as follows:

	(millions of dollars)	
	Forecasted Fiscal Year 2019	Fiscal Year 2018
Opening Balance, May 1	2,504	2,380
Investment income (loss)	(36)	156
Less: endowment payout	(85)	(85)
Endowed contributions and transfers	48	53
Balance	2,431	2,504

This forecast assumes an LTCAP investment return on endowments of negative 1.4%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At -5.0% return $2.34 billion endowments.
- At -1.4% return $2.43 billion endowments. – current forecast
- At 0.0% return $2.47 billion endowments.
- At 3.0% return $2.54 billion endowments.