



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

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

PRESENTER: Same as above.
CONTACT INFO:

DATE: January 16, 2020 for February 3, 2020

AGENDA ITEM: 3

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2020, prepared as of January 16, 2020

JURISDICTIONAL INFORMATION:

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

GOVERNANCE PATH:

1. Business Board [for information] (February 3, 2020)

PREVIOUS ACTION TAKEN:

On February 4, 2019 the Business Board was provided the University's financial forecast for the year ended April 30, 2019. On June 18, 2019 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2019 and recommended them to Governing Council for approval. On March 18, 2019, the Business Board concurred with the Academic Board that the Operating Budget Report for 2019-20 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 2020 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, 2020 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 3.3%, representing the actual return from May 1, 2019 to November 30, 2019.
- Endowment payout of \$92 million for 2019/20.
- \$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.
- \$219 million in capital asset additions during 2020 of which \$201 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 0.0%, 3.3%, 4.0% and 6.0% 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 \$402 million, at 3.3% investment return rate. Net income is projected to range from \$373 million (at 0% investment return) to \$425 million (at 6% investment return). Net assets are projected to be \$6.8 billion, at the 3.3% investment return rate. The projected range is from \$6.5 billion (at 0% investment return) to \$7.0 billion (at 6% investment return).

The operating fund unrestricted surplus is projected to be \$22 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, 2020, as at January 16, 2020*



UNIVERSITY OF TORONTO

Financial Forecast to April 30, 2020

as at January 16, 2020



Photo courtesy of Roberta Baker

University of Toronto
Financial Forecast
Sensitivity analysis
For the fiscal year ending April 30, 2020
(millions of dollars)

Impact of investment returns on Net Income and Net Assets:	0.0%	3.3%	4.0%	6.0%
Revenues	3,645	3,674	3,680	3,697
Expenses	3,272	3,272	3,272	3,272
Net Income	373	402	408	425
Remeasurement of pensions and other employee future benefits	(299)	(121)	(82)	26
Preservation (drawdown) of capital for externally restricted endowments	(78)	(4)	11	55
Externally endowed contributions	40	40	40	40
Net assets, beginning of year	6,450	6,450	6,450	6,450
Net assets, end of year	6,486	6,767	6,827	6,996
<u>Net assets, end of year:</u>				
Deficit	(189)	(189)	(189)	(189)
Internally restricted funds	569	763	805	923
Investment in land and other capital assets	3,549	3,549	3,549	3,549
Endowments	2,557	2,644	2,662	2,713
	6,486	6,767	6,827	6,996
<u>Deficit by fund:</u>				
Operating fund	22	22	22	22
Ancillary operations	(27)	(27)	(27)	(27)
Capital fund	(184)	(184)	(184)	(184)
Restricted funds	0	0	0	0
	(189)	(189)	(189)	(189)

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 2020 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, 2020 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 3.3%, representing the actual return from May 1, 2019 to November 30, 2019.
- Endowment payout of \$92 million for 2019/20.
- \$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.
- \$219 million in capital asset additions during 2020 of which \$201 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 0.0%, positive 3.3%, 4.0% and 6.0% 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, 2020

(with comparative figures at April 30, 2019)
(millions of dollars)

	Forecast				Actual	
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2020 Total	2019 Total
REVENUES						
Student fees	1,765	11	1		1,777	1,728
Government grants for general operations	756				756	727
Government and other grants for restricted purposes	12	1	65	405	483	469
Sales, services and sundry income	139	213			352	362
Investment Income: Endowment	72			47	119	120
Other	81	1	4	4	90	85
Donations			8	89	97	102
	<u>2,825</u>	<u>226</u>	<u>78</u>	<u>545</u>	<u>3,674</u>	<u>3,593</u>
EXPENSES						
Salaries	1,325	10		223	1,558	1,472
Employee benefits	340	2		24	366	349
Scholarships, fellowships and bursaries	230			34	264	255
Materials, supplies and services	138	2		106	246	222
Amortization of capital assets	16	19	157	2	194	189
Repairs, maintenance and leases	108	26	6	7	147	135
Cost of sales and services		132			132	117
Inter-institutional contributions	50			105	155	155
Utilities	49	12		1	62	49
Travel and conferences	38			23	61	57
Interest on long-term debt	26	10		2	38	38
Other	35			14	49	50
	<u>2,355</u>	<u>213</u>	<u>163</u>	<u>541</u>	<u>3,272</u>	<u>3,088</u>
Net income (loss)	470	13	(85)	4	402	505
Net transfers (1)	(482)	(13)	70	(4)	(429)	(599)
Net change in surplus/(deficit) for the year	(12)		(15)		(27)	(94)
Surplus (Deficit), beginning of year	34	(27)	(169)		(162)	(68)
Surplus (Deficit), end of year	22	(27)	(184)		(189)	(162)
Internally restricted net assets	349	47	276	91	763	591
Investment in land and other capital assets		112	3,437		3,549	3,428
Endowments				2,644	2,644	2,593
Net assets, end of year	<u>371</u>	<u>132</u>	<u>3,529</u>	<u>2,735</u>	<u>6,767</u>	<u>6,450</u>

(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 \$81 million, from \$3.6 billion in 2019 to \$3.7 billion. Total expenses are forecasted to increase by \$184 million, from \$3.1 billion in 2019 to \$3.3 billion.

This forecast projects a net income of \$402 million at April 30, 2020. The \$402 million net income represents a decrease of \$103 million from last year's net income of \$505 million. The forecasted net income of \$402 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 \$201 million in capital asset additions in 2020 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:

- o At 0.0 % return \$373 million net income.
- o At 3.3 % return \$402 million net income. – current forecast
- o At 4.0 % return \$408 million net income.
- o At 6.0 % return \$425 million net income.

Projected Changes in Net Assets

This forecast projects an increase in net assets from \$6.4 billion at April 30, 2019 to \$6.8 billion at April 30, 2020. The increase of \$317 million results from the a projected net income of \$402 million and \$40 million in projected endowed contributions partially offset by a direct reduction of net assets of \$121 million from remeasurement of pensions and other employee future benefits due to projected investment returns below expected returns on assets of the pension plan, and by \$4 million due to the need to draw down the capital balance to cover the endowment payout. 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:

- o At 0.0% return \$6.5 billion net assets.
- o At 3.3% return \$6.8 billion net assets. – current forecast
- o At 4.0% return \$6.8 billion net assets.
- o At 6.0% return \$7.0 billion net assets.

The projected net assets of \$6.8 billion are composed of the following, each of which is discussed further in the following sections:

- (\$189 million) unrestricted deficit
- \$763 million internally restricted net assets
- \$3.5 billion investment in capital assets
- \$2.6 billion in endowments

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING APRIL 30, 2020

(with comparative figures for the year ended April 30, 2019; in millions of dollars)

	Forecast				Actual	
	Unrestricted deficit	Internally restricted	Investment in land & other capital assets	Endowments	2020 Total	2019 Total
Net assets, beginning of year	(162)	591	3,428	2,593	6,450	5,943
Net Income	402				402	505
Net change in internally restricted	(172)	172				
Remeasurement of pensions and other employee future benefits	(121)				(121)	(73)
Net change in investment in land and other capital assets	(121)		121			
Transfer to endowments	(15)			15		
Investment gain (loss) on externally restricted endowments				(4)	(4)	35
Externally endowed contributions				40	40	40
Net assets, end of year	(189)	763	3,549	2,644	6,767	6,450

Projected Unrestricted Deficit:

This forecast projects a cumulative deficit of (\$189 million) at April 30, 2020, as compared to last year's cumulative deficit (\$162 million). The \$189 million deficit is comprised of:

- o \$22 million operating fund unrestricted surplus as compared to the budgeted cumulative surplus of nil. The projected favorable variance of \$22 million is due to \$17 million more tuition fee revenue than budgeted mainly due to international undergraduate enrolment and utilities savings of \$5 million. Please note that if the investment return (LTCAP and pension/benefits) is 0.0%, the operating fund cumulative surplus is still projected to be \$22 million at April 30, 2020, as the investment return variations included in this forecast only impact the endowment and internally restricted balances.
- o (\$211 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 increase from \$591 million in 2019 to \$763 million at April 30, 2020, mainly due to increased savings in divisional reserves for future capital expenditures partially offset by an increase in unfunded employee future benefit expense obligations as a result lower investment returns as compared to actuarial investment assumptions. Internally restricted net assets balance of \$763 million reflects the positive reserves of \$1,724 million (assets), offset by the unfunded portion of pension and employee benefits of (\$961 million) (liabilities).

Projected Investment in Land and other Capital Assets:

The \$3.5 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 \$3.4 billion in 2019 to \$3.5 billion in 2020 primarily due to \$219 million in capital asset additions, partially offset by amortization on internally funded capital assets of \$98 million.

Projected Endowments:

This forecast projects endowments at \$2.6 billion at April 30, 2020, an increase of \$51 million from 2019, comprised as follows:

	(millions of dollars)	
	Forecasted Fiscal Year 2020	Fiscal Year 2019
Opening Balance, May 1	2,593	2,504
Investment income (loss)	86	129
Less: endowment payout	(92)	(88)
Endowed contributions and transfers	56	48
Balance	<u>2,644</u>	<u>2,593</u>

This forecast assumes an LTCAP investment return on endowments of 3.3%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- o At 0.0% return \$2.6 billion endowments.
- o At 3.3% return \$2.6 billion endowments. – current forecast
- o At 4.0% return \$2.7 billion endowments.
- o At 6.0% return \$2.7 billion endowments.