



**FOR INFORMATION**

**PUBLIC**

**OPEN SESSION**

**TO:** Business Board

**SPONSOR:** Sheila Brown, Chief Financial Officer  
**CONTACT INFO:** 416-978-2065, [sheila.brown@utoronto.ca](mailto:sheila.brown@utoronto.ca)

**PRESENTER:** Sheila Brown, Chief Financial Officer  
**CONTACT INFO:** 416-978-2065, [sheila.brown@utoronto.ca](mailto:sheila.brown@utoronto.ca)

**DATE:** January 15, 2021 for February 3, 2021

**AGENDA ITEM:** 5

**ITEM IDENTIFICATION:**

Forecast of University Financial Results at April 30, 2021, prepared as of January 15, 2021.

**JURISDICTIONAL INFORMATION:**

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

**GOVERNANCE PATH:**

1. Business Board [for information] (February 3, 2021)

**PREVIOUS ACTION TAKEN:**

On February 3, 2020 the Business Board was provided the University's financial forecast for the year ended April 30, 2020. On June 18, 2020 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2020 and recommended them to Governing Council for approval. On March 18, 2020, the Business Board concurred with the Academic Board that the Operating Budget Report for 2020-21 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 2021 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary significantly from year to year, especially this year due to the COVID-19 pandemic.
- 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, 2021 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 7.0%. This conservative estimate takes into account the returns from May to October that were around 7.8% and excludes the 6% return for November that may be returned before April 30 due to the continued market volatility.
- Endowment payout of \$95 million for 2020/21.
- \$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.
- \$281 million in capital asset additions during 2021 of which \$200 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 5%, 7% and 10% 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 \$475 million, at 7% investment return rate. Net income is projected to range from \$457 million (at 5% investment return) to \$502 million (at 10% investment return). Net assets are projected to be \$7.2 billion, at the 7% investment return rate. The projected range is from \$7.0 billion (at 5% investment return) to \$7.4 billion (at 10% investment return).

The operating fund unrestricted surplus is projected to be \$72 million, as compared to the budgeted cumulative surplus of nil. This change is primarily due to an increase in summer undergraduate enrollment and 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, 2021, as at January 15, 2021



# UNIVERSITY OF TORONTO

**Financial Forecast  
to April 30, 2021**

**as at January 15, 2021**



Photo courtesy of Roberta Baker

**University of Toronto**  
**Financial Forecast**  
**Sensitivity analysis**  
**For the fiscal year ending April 30, 2021**  
**(millions of dollars)**

<b>Impact of investment returns on Net Income and Net Assets:</b>	5.0%	7.0%	10.0%
<b>Revenues</b>	3,785	3,803	3,830
<b>Expenses</b>	3,328	3,328	3,328
<b>Net Income</b>	<b>457</b>	<b>475</b>	<b>502</b>
<b>Remeasurement of pensions and other employee future benefits</b>	(16)	91	251
<b>Preservation (drawdown) of capital for externally restricted endowments</b>	28	71	136
<b>Externally endowed contributions</b>	127	127	127
<b>Net assets, beginning of year</b>	6,431	6,431	6,431
<b>Net assets, end of year</b>	<b>7,027</b>	<b>7,195</b>	<b>7,447</b>
<b><u>Net assets, end of year:</u></b>			
<b>Deficit</b>	(104)	(104)	(104)
<b>Internally restricted funds</b>	779	896	1,071
<b>Investment in land and other capital assets</b>	3,682	3,682	3,682
<b>Endowments</b>	2,670	2,721	2,798
	<b>7,027</b>	<b>7,195</b>	<b>7,447</b>
<b><u>Deficit by fund:</u></b>			
<b>Operating fund</b>	72	72	72
<b>Ancillary operations</b>	(58)	(58)	(58)
<b>Capital fund</b>	(118)	(118)	(118)
<b>Restricted funds</b>	0	0	0
	<b>(104)</b>	<b>(104)</b>	<b>(104)</b>

## 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 2021 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary significantly from year to year, especially this year due to the COVID-19 pandemic.
- 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, 2021 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 7%. This conservative estimate takes into account the returns from May to October that were around 7.8% and excludes the 6% return for November that may be returned before April 30 due to the continued market volatility.
- Endowment payout of \$95 million for 2020/21.
- \$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.
- \$281 million in capital asset additions during 2021 of which \$200 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 5%, 7%, and 10% 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, 2021**

(with comparative figures at April 30, 2020)

(millions of dollars)

	Forecast				Actual	
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2021 Total	2020 Total
<b>REVENUES</b>						
Student fees	2,015	6	1		2,022	1,813
Government grants for general operations	752				752	719
Government and other grants for restricted purposes	11		78	392	481	463
Sales, services and sundry income	108	91	2		201	367
Investment Income: Endowment	70			51	121	101
Other	100	1	1	2	104	78
Donations			5	117	122	85
	3,056	98	87	562	3,803	3,626
<b>EXPENSES</b>						
Salaries	1,383	8		221	1,612	1,579
Employee benefits	367	2		22	391	355
Scholarships, fellowships and bursaries	230			39	269	259
Materials, supplies and services	157	1		89	247	233
Amortization of capital assets	16	13	176	2	207	201
Repairs, maintenance and leases	145	18	11	4	178	131
Cost of sales and services		92			92	113
Inter-institutional contributions	50			159	209	132
Utilities	40	8			48	50
Travel and conferences	3			3	6	54
Interest on long-term debt	26	9		2	37	38
Other	23			9	32	40
	2,440	151	187	550	3,328	3,185
<b>Net income (loss)</b>	616	(53)	(100)	12	475	441
Net transfers (1)	(573)	16	114	(12)	(455)	(403)
Net transfer between funds	(75)	(2)	68	9		
Transfer of capital assets	(116)		116			
Change in internally restricted	(382)	21	83	(7)	(285)	(303)
Change in investment in capital assets		(3)	(153)		(156)	(97)
Transfers of donations to endowments				(1)	(1)	(18)
Transfer to internally restricted endowments				(13)	(13)	15
<b>Net change in surplus/(deficit) for the year</b>	43	(37)	14		20	38
Surplus (Deficit), beginning of year	29	(21)	(132)		(124)	(162)
<b>Surplus (Deficit), end of year</b>	72	(58)	(118)		(104)	(124)
<b>Internally restricted net assets</b>	489	36	271	100	896	520
<b>Investment in land and other capital assets</b>		104	3,578		3,682	3,525
<b>Endowments</b>				2,721	2,721	2,510
<b>Net assets, end of year</b>	561	82	3,731	2,821	7,195	6,431

(1) Net transfers consist mainly of operating funds either set aside for future spending or 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 \$177 million, from \$3.6 billion in 2020 to \$3.8 billion. Total expenses are forecasted to increase by \$143 million, from \$3.2 billion in 2020 to \$3.3 billion.

This forecast project's a net income of \$475 million at April 30, 2021. The \$475 million net income represents an increase of \$34 million from last year's net income of \$441 million. The forecasted net income of \$475 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 \$281million in capital asset additions in 2021 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 5 % return \$457 million net income.
- o At 7 % return \$475 million net income. – current forecast
- o At 10 % return \$502 million net income.

## Projected Changes in Net Assets

This forecast projects an increase in net assets from \$6.4 billion at April 30, 2020 to \$7.2 billion at April 30, 2021. The increase of \$764 million results from the a projected net income of \$475 million, \$127 million in projected endowed contributions, a direct increase of net assets of \$91million from remeasurement of pensions and other employee future benefits due to projected investment returns above expected returns on assets of the pension plan, and by \$71 million investment gain on externally restricted endowments. 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 5 % return \$7.0 billion net assets.
- o At 7 % return \$7.2 billion net assets. – current forecast
- o At 10 % return \$7.4 billion net assets.

The projected net assets of \$7.2 billion are composed of the following, each of which is discussed further in the following sections:

- (\$104 million) unrestricted deficit
- \$896 million internally restricted net assets
- \$3.7 billion investment in capital assets
- \$2.7 billion in endowments



**UNIVERSITY OF TORONTO**  
**FORECASTED STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDING APRIL 30, 2021**

(with comparative figures for the year ended April 30, 2020; in millions of dollars)

	Forecast				Actual	
	Unrestricted deficit	Internally restricted	Investment in land & other capital assets	Endowments	2021 Total	2020 Total
Net assets, beginning of year	(124)	520	3,525	2,510	6,431	6,450
Net Income	475				475	441
Net change in internally restricted	(376)	376				
Remeasurement of pensions and other employee future benefits	91				91	(374)
Net change in investment in land and other capital assets	(157)		157			
Transfer to endowments	(13)			13		
Investment gain (loss) on externally restricted endowments				71	71	(120)
Externally endowed contributions				127	127	34
Net assets, end of year	<u>(104)</u>	<u>896</u>	<u>3,682</u>	<u>2,721</u>	<u>7,195</u>	<u>6,431</u>

**Projected Unrestricted Deficit:**

This forecast projects a cumulative deficit of (\$104 million) at April 30, 2021, as compared to last year's cumulative deficit (\$124 million). The \$104 million deficit is comprised of:

- o \$72 million operating fund unrestricted surplus as compared to the budgeted cumulative surplus of nil. The projected favorable variance of \$72 million is primarily due to \$72 million more tuition fee revenue than budgeted from greater undergraduate enrolment in the summer and higher international undergraduate enrolment. Favorable variances in investment income of \$4 million and utilities savings of \$4 million is offset by reduced provincial operating grants of \$5 million and other unfavorable variances of \$3 million. Please note that if the investment return (LTCAP and pension/benefits) is 5%, the operating fund cumulative surplus is still projected to be \$72 million at April 30, 2021, as the investment return variations included in this forecast only impact the endowment and internally restricted balances.
- o (\$176 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. Ancillary operations (residence, food service, and parking) are also experiencing deficits due to the pandemic.

**Projected Internally Restricted Net Assets:**

Internally restricted net assets are projected to increase from \$520 million in 2020 to \$896 million at April 30, 2021, mainly due to increased savings in divisional reserves for future capital expenditures and an decrease in unfunded employee future benefit expense obligations as a result higher investment returns as compared to actuarial investment assumptions. Internally restricted net assets balance of \$896 million reflects the positive reserves of \$1,938 million (assets), offset by the unfunded portion of pension and employee benefits of (\$1,042 million) (liabilities).

### Projected Investment in Land and other Capital Assets:

The \$3.7 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 \$3.5 billion in 2020 to \$3.7 billion in 2021 primarily due to \$281 million in capital asset additions, partially offset by amortization on internally funded capital assets of \$100 million.

### Projected Endowments:

This forecast projects endowments at \$2.7 billion at April 30, 2021, an increase of \$211 million from 2020, comprised as follows:

	(millions of dollars)	
	Forecasted Fiscal Year 2021	Fiscal Year 2020
Opening Balance, May 1	2,510	2,593
Investment income (loss)	179	(43)
Less: endowment payout	(95)	(92)
Endowed contributions and transfers	127	52
Balance	<u>2,721</u>	<u>2,510</u>

This forecast assumes an LTCAP investment return on endowments of 7%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- o At 5% return \$2.7 billion endowments.
- o At 7% return \$2.7 billion endowments. – current forecast
- o At 10% return \$2.8 billion endowments.