UNIVERSITY OF TORONTO

OFFICE OF THE GOVERNING COUNCIL

FOR INFORMATION	PUBLIC	OPEN SESSION

TO: Business Board

SPONSOR: Trevor Rodgers, Chief Financial Officer
CONTACT INFO: 416-978-2065, trevor.rodgers@utoronto.ca

PRESENTER: Same as above.
CONTACT INFO:

DATE: January 19, 2022 for February 2, 2022

AGENDA ITEM: 5

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2022, prepared as of January 19, 2022

JURISDICTIONAL INFORMATION:

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

GOVERNANCE PATH:

1. **Business Board [For Information] (February 2, 2022)**

PREVIOUS ACTION TAKEN:

On February 3, 2021 the Business Board was provided the University's financial forecast for the year ended April 30, 2021. On June 17, 2021 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2021 and recommended them to Governing Council for approval. On March 17, 2021, the Business Board concurred with the Academic Board that the Operating Budget Report for 2021-22 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 2022 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, 2022 using current year-to-date actual figures and estimation based on trend analysis of prior years. The key assumptions are:

- Forecasted investment return for the Long term capital appreciation pool (LTCAP) of 6.5%.
- Endowment payout of $110 million for 2021/22.
- $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.
- $379 million in capital asset additions during 2022 of which $200 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 for LTCAP on net income and net assets at 1.0%, 3.0%, 6.5%(forecast) and 8.0% 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 $501 million, at 6.5% investment return rate. Net income is projected to range from $447 million (at 1.0% investment return) to $516 million (at 8.0% investment return). Net assets are projected to be $8.7 billion, at the 6.5% investment return rate. The projected range is from $8.5 billion (at 1.0% investment return) to $8.8 billion (at 8.0% investment return).

The operating fund unrestricted surplus is projected to be $9 million, as compared to the budgeted cumulative surplus of nil. This change is primarily due to an increase in summer undergraduate enrolment and a modest 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, 2022, as at January 19, 2022*

Financial Forecast to April 30, 2022

as at January 19, 2022

University of Toronto Financial Services

UNIVERSITY OF TORONTO

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University of Toronto
Financial Forecast
Sensitivity analysis
For the fiscal year ending April 30, 2022
(millions of dollars)

Impact of investment returns on Net Income and Net Assets:	1.0%	3.0%	6.5%	8.0%
Revenues	3,915	3,935	3,969	3,984
Expenses	3,468	3,468	3,468	3,468
Net Income	**447**	**467**	**501**	**516**
Remeasurement of employee future benefits	30	30	30	30
Preservation (drawdown) of capital for externally restricted endowments	(67)	(14)	81	122
Externally endowed contributions	41	41	41	41
Net assets, beginning of year	8,074	8,074	8,074	8,074
Net assets, end of year	**8,525**	**8,598**	**8,727**	**8,783**
Net assets, end of year:				
Deficit	(264)	(264)	(264)	(264)
Internally restricted funds	1,685	1,695	1,714	1,722
Investment in land and other capital assets	3,973	3,973	3,973	3,973
Endowments	3,131	3,194	3,304	3,352
	8,525	**8,598**	**8,727**	**8,783**
Surplus(deficit) by fund:				
Operating fund	9	9	9	9
Ancillary operations	(51)	(51)	(51)	(51)
Capital fund	(222)	(222)	(222)	(222)
Restricted funds	0	0	0	0
	(264)	**(264)**	**(264)**	**(264)**

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 2022 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, 2022 using current year-to-date actual figures and estimation based on trend analysis of prior years. The key assumptions are:

- Forecasted investment return long term capital appreciation pool (LTCAP) of 6.5%.
- Endowment payout of $110 million for 2021/22.
- $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.
- $379 million in capital asset additions during 2022 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 for LTCAP on net income and net assets at 1.0%, 3.0%, 6.5%(forecast) and 8.0% 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.

PROJECTED CHANGES IN OPERATIONS AND DEFICIT

Total revenues are expected to decrease by $30 million from 2021. Total expenses are forecasted to increase by $195 million, from $3.3 billion in 2021 to $3.5 billion.

This forecast project's a net income of $501 million at April 30, 2022. The $501 million net income represents a decrease of $225 million from last year's net income of $726 million. The forecasted net income of $501 million is primarily generated through divisional savings for capital expansion, faculty start-up funding and research infrastructure, and funds to match future donations and $379 million in capital asset additions in 2022 funded from current year revenues less amortization expenses on internally funded capital assets of $102 million.

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

- At 1.0% return $447 million net income
- At 3.0% return $467 million net income
- At 6.5% return $501 million net income (current forecast)
- At 8.0% return $516 million net income

PROJECTED CHANGES IN NET ASSETS

This forecast projects an increase in net assets from $8.1 billion at April 30, 2021 to $8.7 billion at April 30, 2022. The increase of $653 million results from the projected net income of $501 million, $41 million in projected endowed contributions, a direct increase of net assets of $30 million from remeasurement of employee future benefits primarily due to actuarial gains on our post-retirement medical plans, and by $81 million investment gain on externally restricted endowments. Varying assumptions for the investment return in LTCAP would affect this result (assuming everything else remains the same) as shown on page 2:

- At 1.0% return $8.5 billion net assets
- At 3.0% return $8.6 billion net assets
- At 6.5% return $8.7 billion net assets (current forecast)
- At 8.0% return $8.8 billion net assets

The projected net assets of $8.7 billion are composed of the following, each of which is discussed further in the following sections:

- ($264 million) unrestricted deficit
- $1.7 billion internally restricted net assets
- $4.0 billion investment in capital assets
- $3.3 billion in endowments

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING APRIL 30, 2022
(with comparative figures for the year ended April 30, 2021; in millions of dollars)

	Forecast					Actual
	Unrestricted deficit	**Internally restricted**	**Investment in land & other capital assets**	**Endowments**	**2022 Total**	2021 Total
Net assets, beginning of year	**(144)**	**1,353**	**3,715**	**3,150**	**8,074**	6,431
Net Income	**501**				**501**	726
Net change in internally restricted	**(361)**	**361**				
Remeasurement of employee future benefits	**30**				**30**	348
Net change in investment in land and other capital assets	**(258)**		**258**			
Transfer to endowments	**(32)**			**32**		
Investment gain on externally restricted endowments				**81**	**81**	445
Externally endowed contributions				**41**	**41**	124
Net assets, end of year	**(264)**	**1,714**	**3,973**	**3,304**	**8,727**	8,074

Projected Unrestricted Deficit

This forecast projects a cumulative deficit of ($264 million) at April 30, 2022, as compared to last year's cumulative deficit ($144 million). The $264 million deficit is comprised of:

- $9 million operating fund unrestricted surplus as compared to the budgeted cumulative surplus of nil. The projected favorable variance of $9 million is primarily due to $14 million more tuition fee revenue than budgeted from greater undergraduate enrolment in the summer and modestly higher international undergraduate enrolment. A shortfall in EFIP investment income of $8 million as compared to budget is partially offset by a favorable variance of $3 million in other expenses. Please note that if the investment return on LTCAP is 1.0%, the operating fund cumulative surplus is still projected to be $9 million at April 30, 2022, as the investment return variations included in this forecast only impact the endowment and internally restricted balances.

- ($222 million) unrestricted deficit in the capital fund 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.

- ($51 million) unrestricted deficit in food service operations, as these operations depend on faculty, staff, students, and visitors attending, working, and visiting all three campuses. Residence operations also incurred losses due to higher cleaning and sanitization costs combined with reduced bed inventory.

Projected Internally Restricted Net Assets

Internally restricted net assets are projected to increase from $1.4 billion in 2021 to $1.7 billion at April 30, 2022, 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 $1.7 billion reflects the positive reserves of $2.4 billion (assets), offset by the unfunded portion of pension and employee benefits of ($652 million) (liabilities).

Projected Investment in Land and other Capital Assets

The $4 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 $3.7 billion in 2021 to $4 billion in 2022 primarily due to $379 million in capital asset additions, partially offset by amortization on internally funded capital assets of $102 million.

Projected Endowments

This forecast projects endowments at $3.3 billion at April 30, 2022, an increase of $154 million from 2021, comprised as follows:

	(millions of dollars)	
	Forecasted Fiscal Year 2022	**Fiscal Year 2021**
Opening Balance, May 1	3,150	2,510
Investment income	206	610
Less: endowment payout	(110)	(97)
Endowed contributions and transfers	59	127
Balance	3,304	3,150

This forecast assumes an LTCAP investment return on endowments of 6.5%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At 1.0% return $3.1 billion endowments
- At 3.0% return $3.2 billion endowments
- At 6.5% return $3.3 billion endowments (current forecast)
- At 8.0% return $3.4 billion endowments