

2021/22 Financial Results

June 13, 2022

Sheridan acknowledges that all of its campuses reside on land that for thousands of years before us was the traditional Territory of the Mississaugas of the Credit First Nation, Anishinaabe Nation, Huron-Wendat and the Haudenosaunee Confederacy. It is our collective responsibility to honour and respect those who have gone before us, those who are here, and those who have yet to come. We are grateful for the opportunity to be working on this land.

1.0 Introduction

The 2021/22 fiscal year saw the continuation of the pandemic along with the ongoing volatility and uncertainty associated with it, including continually shifting pandemic restrictions both locally, nationally and abroad. Sheridan planned for this uncertainty and the financial results achieved in 2021/22 exceeded expectations. Moreover, Sheridan has positioned itself for future growth and is on a path toward long term financial sustainability.

This report is intended to complement Sheridan's 2021/22 Financial Statements. First, an overview of Sheridan's core business, including the structure, regulatory framework, market and environmental scan will be provided. Second, Sheridan's objectives and strategies will be presented to provide an overview of the strategic planning process, enterprise risk management approach and activities-based budget approach. The third section will focus on Sheridan's capability to deliver including an analysis of liquidity, capital and key risks. Next, an analysis and discussion of the 2021/22 financial results will be presented as well as the future outlook. Finally, the report will conclude with a discussion of key performance indicators.

2.0 Core Business

Structure, Core Business and Regulatory Environment

The Sheridan College Institute of Technology and Advanced Learning (Sheridan) is established and governed by the Ontario Colleges of Applied Arts and Technology Act, and its associated regulations and policy framework. The Ontario Ministry of Colleges and Universities establishes a policy framework that Sheridan must operate within, including tuition and fees, investments and entrepreneurial activities.

Sheridan is an agency of the Crown and provides postsecondary and vocationally oriented education and training. Sheridan is governed by a Board of Governors and operations are run by the President. The Provost oversees academic programming which is delivered through six academic units:

- Faculty of Animation, Arts & Design,
- Faculty of Applied Health & Community Studies,
- Faculty of Applied Science & Technology,
- Faculty of Humanities & Social Sciences,
- Pilon School of Business, and
- Continuing and Professional Studies.

Sheridan offers more than 140 full-time programs, including 35+ degree programs in addition to certificate, diploma, advanced diploma and graduate certificate credentials. Sheridan educates learners both domestically (within Canada) and around the world. Sheridan currently educates 22,500 full-time students, 3,700 part-time students and 14,995 continuing and professional studies enrolments. Included in these enrolment figures are 8,200 international students from over 110 countries. Sheridan also engages in applied research projects, attracting over \$5 million in external funding each year.

Market

The postsecondary education market in Ontario consists of 24 publicly assisted colleges and 18 publicly assisted universities. There are also a significant number of private career colleges operating in the province. To a lesser extent, Sheridan also competes with global post-secondary institutions to recruit international students.

The Ontario public college market realized \$5.1 billion in revenues in 2020/21 across the 24 colleges. Sheridan, with \$350.9 million in revenues, has 6.9% market share. Colleges in general are financially healthy with \$3.4 billion in net assets as of March 31, 2021. Sheridan's net assets were \$284.2 million, representing 8.4% of the sector.

Environmental Scan

Table 1 provides a summary of the key internal (strengths and weaknesses) and external (opportunities and threats) factors that directly impact Sheridan's long-term financial sustainability.

Table 1 – Strengths, Weaknesses, Opportunities, Threats

Strengths
<ul style="list-style-type: none"> • Reputation for quality programs where graduates are in demand globally. • Destination of choice for international students, particularly from India, as shown through strong application demand for 2022/23. • Healthy financial reserves provide a safety net to protect against downturns as well as funds to invest to one-time initiatives and capital. • Offering financial incentives to support recruitment efforts and improve competitiveness while also address student financial challenges. • Strong relationship with Sheridan Student Union provides mutual support for long term planning and fee setting.
Weaknesses
<ul style="list-style-type: none"> • Declining domestic enrolment continues to pose a challenge despite significant efforts to try and reverse the trend. • High price points for international programs compared to key provincial rivals could impact recruitment if students become more price sensitive. • Under investment in capital resulting in aging facilities at Davis and Trafalgar which can ultimately impact recruitment efforts. • Collaborative programs with high financial contribution are winding down resulting in significant revenue impacts.
Opportunities
<ul style="list-style-type: none"> • Partnership opportunities are emerging that could provide innovative academic programming initiatives and revenue generation. • International diversification to attract students from new markets to protect against both local and global competition. • The campus master plan provides opportunities to address capital infrastructure concerns and pursue partnership and alternative revenue generation opportunities. • Investment opportunities – there is a market for investors seeking alternative income sources and significant interest is being expressed for debt financing solutions.
Threats
<ul style="list-style-type: none"> • International market increasingly competitive locally via private partnerships and globally via competitive immigration policies and faster visa processing times. Political concerns in Brampton threaten ability to grow international enrolment at Davis. • Domestic market continues to be challenging with emerging threat from universities taking college market share. • High inflation levels pose a threat to increasing our costs but also impact affordability of higher education with unemployment and higher basic living costs. • Government policy continues to pose a threat with the tuition policy significantly impacting revenue and funding frameworks limiting opportunity for increased operating funding. No significant capital funding on the horizon either federally or provincially.

3.0 Objectives and Strategy

This section of the report will provide an overview of Sheridan's strategic plan and planning process, the Enterprise Risk Management Framework and Activities Based Budget approach.

3.1 Strategic Plan, Goals & Targets

Sheridan's operations are guided by Sheridan 2024, the 5-year strategic plan. The strategic plan is showing in Figure 1 and consists of four priorities and five enablers.

Sheridan undertakes an annual planning exercise to identify specific activities or initiatives that will move Sheridan to achieving the goals in the Strategic plan. These initiatives are monitored throughout the year.

Sheridan's budget and financial planning processes are integrated within the strategic planning process. Financial resource needs are identified as part of the planning process and then built into Sheridan's budget.

Figure 1 – Strategic Plan



Sheridan also reports on key metrics and targets with a dashboard that is discussed with management and the Board of Governors on an annual basis:

- Proportion of Graduates Participating in Experiential Learning
- Graduate Employment Rate in a related field
- Graduation Rate
- Student Satisfaction Rate
- Total Full Time Enrolment
- Number of Start-Up Companies Assisted
- Overall Institutional Reputation Score
- Employee Engagement Rate
- Financial Health Indicators Global Diversity, Equity & Inclusion Benchmark (GDEIB) Score
- Sustainability Tracking, Assessment and Rating System (STARS) Rating

3.2 Enterprise Risk Framework

Sheridan has implemented a formal enterprise risk management framework. This includes a management level committee that meets on a regular basis to monitor existing risks, discuss emerging risks and otherwise re-prioritize risks. Risks are evaluated and prioritized using a likelihood and impact matrix and then action plans are developed for the top risks. These top risks are then discussed with Sheridan's Board of Governors regularly throughout the year

3.3 Activities Based Budgeting

In support of Sheridan's long-term strategies and financial sustainability, an Activities Based Budgeting (ABB) framework has been developed and implemented to guide Sheridan's budget activities. The 2022/23 budget is the first budget to be developed in accordance with this new framework. The main reasons for moving to ABB are:

- Driving individual departmental accountability for their own budgets, rather than centralized control over budgets,
- Establishing appropriate incentives for engaging in activities that lead to better academic and financial outcomes,
- Promoting the delivery of effective, competitive administrative services,
- Reducing silos between departments and increases transparency and openness, and
- Enabling better, more relevant information for unit leaders to make evidence-based decisions.

4.0 Capability to Deliver Results

This section of the report will provide an overview of the resources that Sheridan has available to execute its operations, including liquidity and capital assets. This section will also discuss the top risks for delivering results.

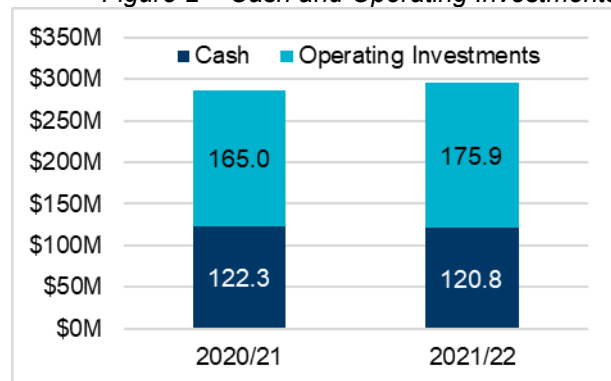
4.1 Liquidity

Cash and Operating Investments

Sheridan currently has sufficient cash and operating investments on hand to fund its operations. The combined value increased year-over-year from \$287.4 million to \$296.7 million (see Figure 2). Operating investments are for funds that are not required in the short term and are invested in guaranteed investment certificates.

Sheridan prepares a rolling cash flow forecast that is updated monthly and uses that to support operating investment decisions.

Figure 2 – Cash and Operating Investments



Debt and debt capacity

Sheridan’s long-term debt increased year-over-year from \$46.8 million to \$76.2 million (see Figure 3). This increase was due to the \$32.6 million loan for HMC C-Wing.

Sheridan needs the approval of the provincial government before taking on additional long-term debt. As part of the analysis, the government uses two key metrics: Debt to Assets ratio and Debt Servicing ratio (Table 2). Based on the provincial benchmarks, Sheridan can take on approximately \$115 million in additional long-term debt.

Figure 3 – Long-term Debt

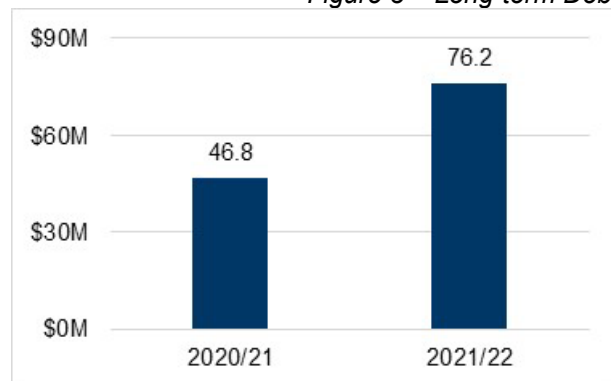


Table 2 – Debt Capacity Metrics

	2020/21	2021/22	Benchmark
Debt to Assets Ratio	22.82%	24.13%	35% or less
Debt Servicing Ratio	1.44%	1.43%	3% or less

4.1 Property, Plant & Equipment

In 2021/22, Sheridan completed the Hazel McCallion Campus Phase 2A (HMC2A) project. HMC2A is a 70,000 sq. ft. facility currently under construction. It will be comprised of an athletics facility with a gym, track and fitness, Student Union space which includes a lounge,

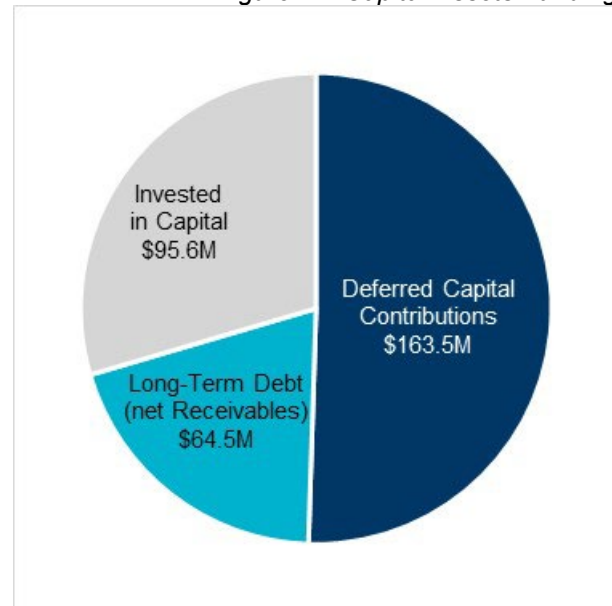
2021/22 Management Analysis

food services and office space and a flexible meeting space for general use. This project is jointly funded by Sheridan Student Union and Sheridan College.

Per Figure 4, the net book value of Sheridan's capital assets is \$323.6 million. This is funded as follows:

- \$163.5 million (51%) from capital contributions, including government capital grants, research capital grants and donations restricted for capital,
- \$64.5 million (20%) which is calculated as \$76.2 million in long-term debt less \$11.7 million in receivables for future student fees intended to pay portions of the Davis gym and HMC C-wing debts.
- \$95.6 million (30%) from Sheridan's accumulated surplus which essentially represents operating funds invested in capital.

Figure 4 – Capital Assets Funding



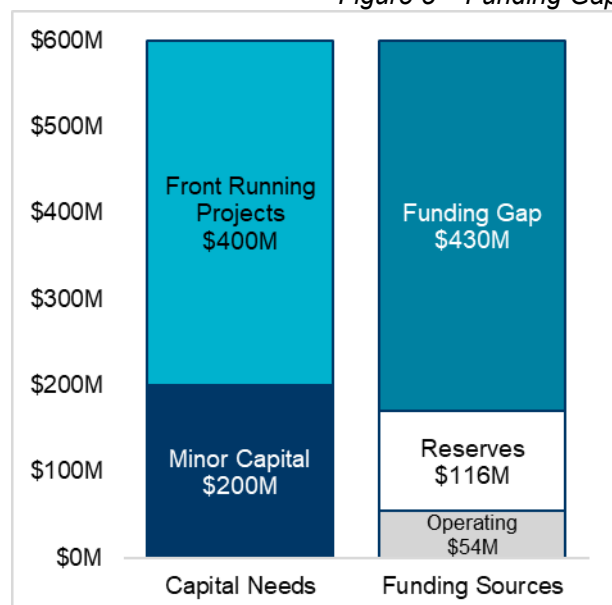
Future Outlook

Sheridan has also developed a campus master plan to guide future capital development and ensure that Sheridan has the space and facilities needed to meet its long-term strategic goals. Sheridan's Campus Master Plan provides a road map to transform our built environment over the next 30 years. The capital budget identifies two building developments, the related site infrastructure and the funding required to support the construction of these projects.

Sheridan has significant capital requirements including \$200 million for 5-year minor capital needs as well as at least \$400 million for front running projects. On an ongoing basis, Sheridan conducts various assessments to refine and prioritize the funding needs. Recent analysis shows that as the Sheridan's assets continue to age, funding needs are likely to increase over the next five to ten years.

Currently, Sheridan has \$116 million in capital reserves and \$54 million available from existing operating budget sources including government and research grants, and program fees. A comparison between the funding needs and funding gap is shown in Figure 5.

Figure 5 – Funding Gap



4.4 Risks

The top risks that are included in Sheridan's Enterprise Risk Management framework that are relevant to long-term financial sustainability include the following:

International Enrolment

Sheridan has action plans to mitigate the risk of not reaching enrolment targets for international students. As discussed in the results section below, the pandemic has impacted international enrolment due to travel restrictions, visa processing delays and increased global competition. Mitigation strategies include geographical diversification, recruitment incentives, and analysis of growth opportunities.

Domestic Enrolment

Similarly, Sheridan has action plans to address the risk of losing market share for domestic students. Sheridan is like other Ontario colleges that have experienced a consistent but gradual decline in domestic enrolment over the past decade. Mitigation strategies include various tactics to improve the student experience and student success. Sheridan is also investing in additional budget for marketing.

Operating Funding

This is the risk that operating funding requirements for day-to-day operations are not met. This risk is closely linked with the enrolment-based risks discussed above. Additional mitigation strategies for this risk include the introduction of activities-based budgeting to support effective fiscal management practices across the college. Also, Sheridan is exploring innovative partnership opportunities to support revenue generation.

5.0 Results and Outlook

This section will provide an overview of the financial results for 2021/22, including actual results compared to pre-pandemic (2019/20 fiscal year) and actual results compared to the 2021/22 approved budget. This section will conclude with a summary of Sheridan’s financial outlook.

5.1 Results

Enrolment

The pandemic had a significant impact on enrolment, especially for international students due to travel restrictions, visa processing delays and other changes to programming delivery formats. Figure 6 shows the multi-year enrolment trend and Figure 7 shows the comparison from budgeted enrolments to actuals. Key highlights include:

- International enrolments declined by 30% since pre-pandemic (2019/20), however, actual enrolments in 2021/22 were 7% better than the budget expectations.
- Domestic enrolments have declined by 6% over the past two years, however, this decline was expected, and actual enrolments are consistent with the expected budget.

Figure 6 - Multi-year Enrolment Trend

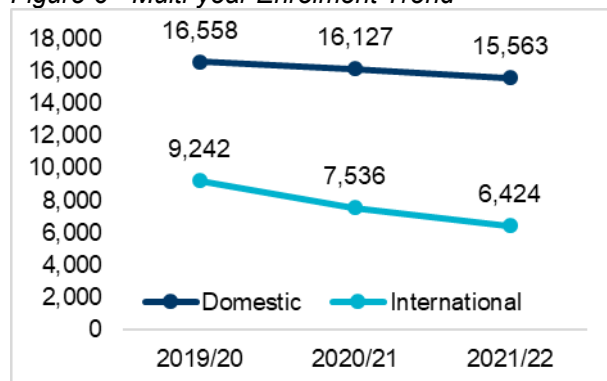
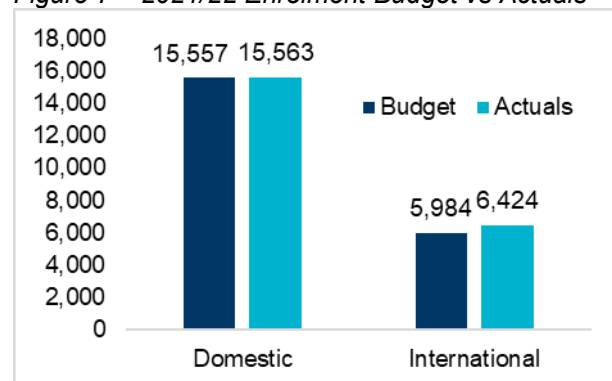


Figure 7 – 2021/22 Enrolment Budget vs Actuals



Operating Income

As shown in Figure 8, Revenues have declined by \$57.2 million or 14% from pre-pandemic (2019/20) but exceeded budget expectations by \$16.7 million or 5% (Figure 9). This can be broken down as follows:

- Tuition and fee revenues have declined by \$40.9 million or 16% compared to pre-pandemic because of the enrolment decline discussed above. Figure 10 shows the breakdown of tuition and fee revenues.
 - Domestic tuition revenues have remained relatively consistent to pre-pandemic and the approved budget.
 - International tuition revenues have declined by \$38.1 million compared to pre-pandemic which is entirely due to enrolment, however, exceeding budget expectations by \$5.1 million.

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- Other tuition revenue includes Sheridan's share of the collaborative programs with University of Toronto Mississauga (UTM) and other corporate training initiatives. These revenues have improved by \$4.4 million compared to pre-pandemic and \$4.6 million compared to the approved budget. This is due to a 20% increase in enrolment in the UTM programs.
- Student fee revenues have declined by \$8.2 million compared to pre-pandemic. This is due to enrolment as well as revisions to fee rates to reflect changes to program delivery and services available to students from pandemic restrictions. Student fee revenues were better than budget by \$3.2 million due to enrolment.
- Ancillary operations revenues have declined by \$7.5 million or 46% due to pandemic measures impacting parking, food services, residence, and conference activities.
- Amortization of deferred contribution revenue decreased by \$7.1 million compared to pre-pandemic primarily due to a large one-time withdrawal by the Sheridan Student Union in 2019/20 to fund their capital initiatives.
- Remaining revenues, including government grants, research grants and investment income, had a net improvement of \$1.0 million compared to pre-pandemic.

Figure 8 - Multi-year Income Trend

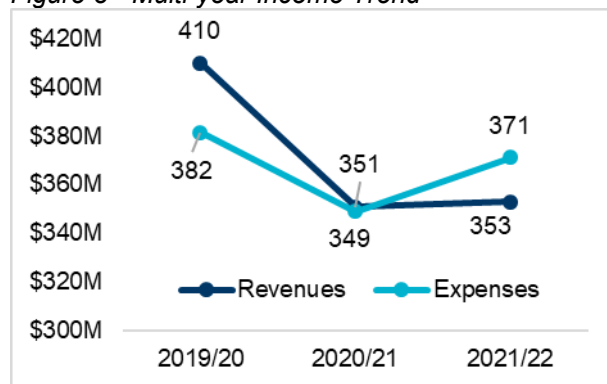


Figure 9 – 2021/22 Budget vs Actuals

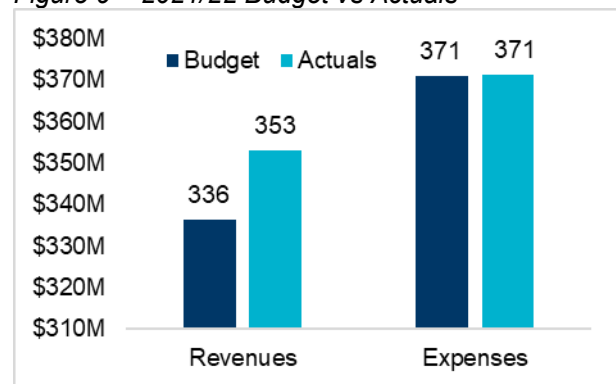
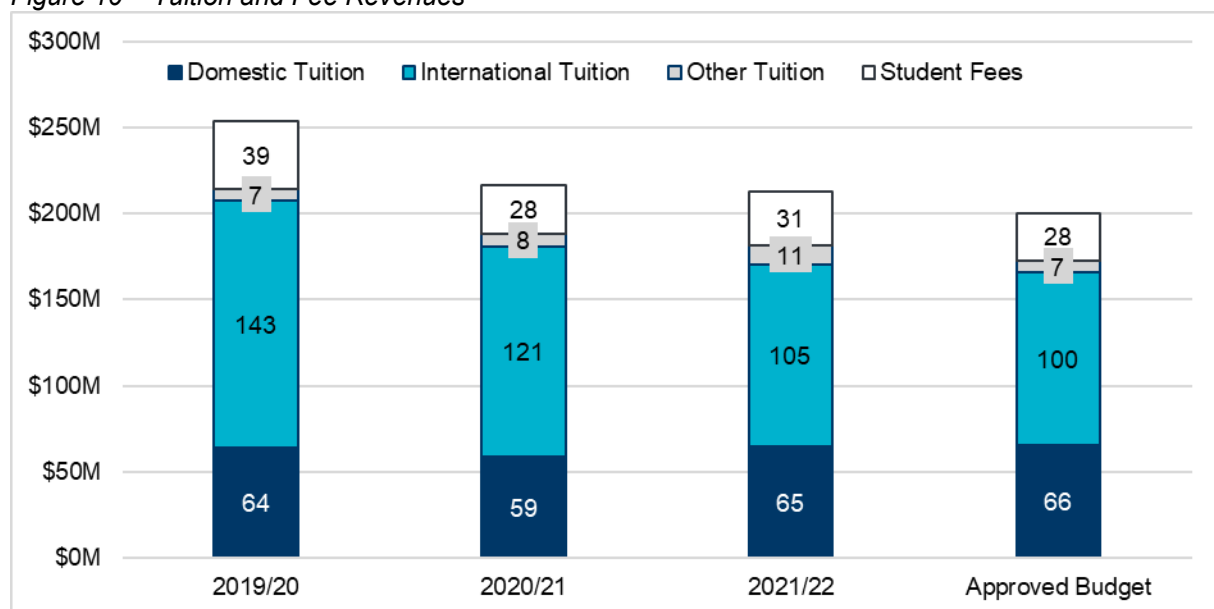


Figure 10 – Tuition and Fee Revenues

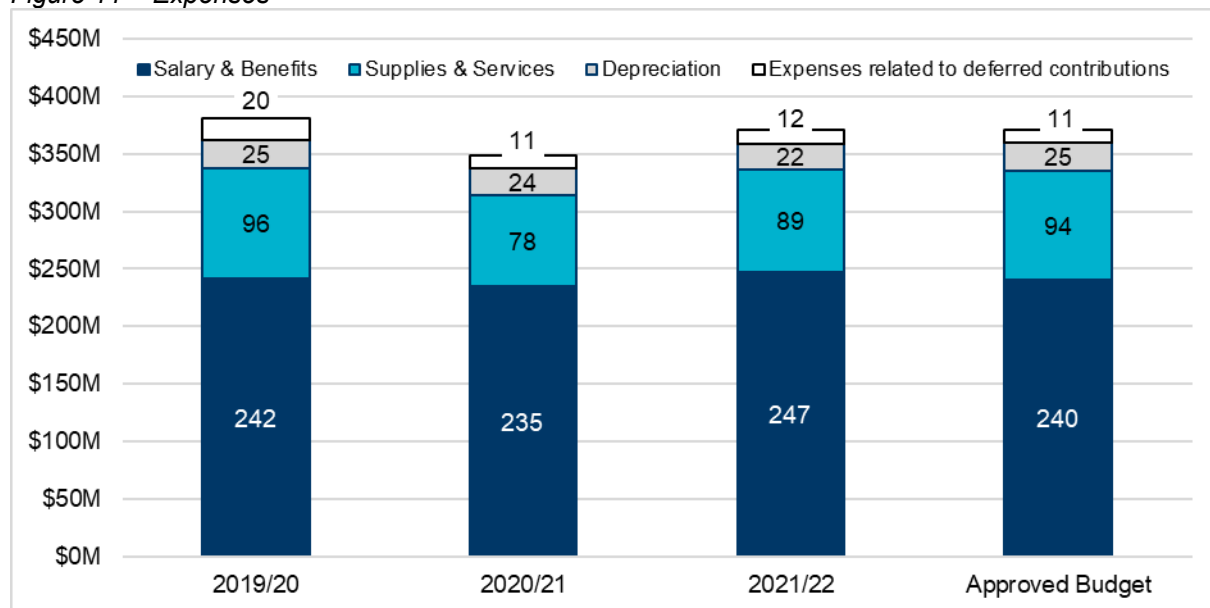


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Expenses have declined by \$10.3 million (3%) compared to pre-pandemic and are up \$0.1 million compared to budget. Figure 11 shows a breakdown of expenses.

- Salary and Benefit expenses are \$5.8 million higher than pre-pandemic. This is mainly due to cost-of-living increases and collective agreement requirements, offset by reduced staffing requirements due to lower enrolments and pandemic restrictions for on-campus activities. Expenses were \$7.1 million higher than budget due to pandemic related restrictions that required smaller class sizes and hybrid delivery models along with resources required for pandemic related screening and security needs.
- Supply and services expenses are down \$6.2 million compared to pre-pandemic and down \$4.9 million below the approved budget. There were some increased spending needs related to the pandemic (e.g., cleaning and screening requirements), however, those were offset through planned cost reductions that were identified as part of the budget process.
- Expenses related to deferred contributions were down by \$7.4 million compared to pre-pandemic due to the one-time Sheridan Student Union withdrawal of funds for capital purposes discussed in the revenue section above. These expenses were consistent with the approved budget.
- Depreciation expense has declined by \$2.5 million compared to pre-pandemic and lower than budget by \$2.9 million. This is due to slower than expected capital spending as a result of pandemic related delays for construction and repair projects.

Figure 11 – Expenses



Surplus / Deficit

As a result of the pandemic, Sheridan incurred an \$18.2 million deficit in 2021/22 (Figure 12), however, this is still significantly better than the approved budget deficit of \$35 million. This loss was expected and planned for with a \$35 million pandemic contingency in Sheridan's unrestricted reserves.

Figure 12 – Surplus / Deficit

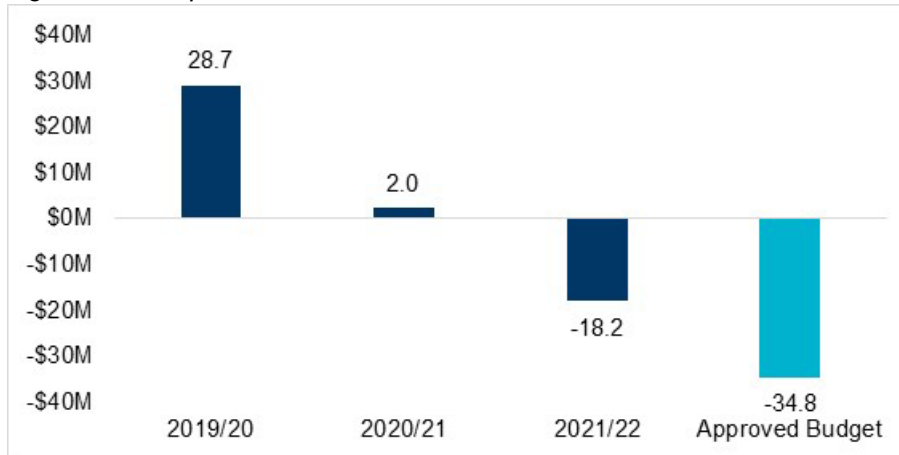


Table 3 provides a further breakdown of the \$18.2 million deficit and distinguishes operating from capital and reserve spending.:

- \$19.9 million in expenses was funded by internally restricted reserves, i.e., using accumulated surplus from previous years that has been reserved for specific purposes. This is \$5.6 million more in spending than 2020/21 but \$1.7 million less than the approved budget.
- \$22.1 million is for the capital asset depreciation expense. This is \$1.7 million less than last year but \$2.9 million better than budget.
- \$8.7 million of the 2021/22 revenues were from the amortization of deferred capital contributions. This is relatively consistent with last year and the approved budget.
- \$53.3 million was spend on capital additions which includes \$39.2 million for the HMC C-Wing addition that was completed during the fiscal year.
- \$43.0 million of the capital additions is funded from external sources including:
 - \$32.6 million in new long-term debt for HMC C-Wing of which \$10.5 million will be paid back by the Sheridan Student Union. This is also offset by \$3.0 in repayments on existing long-term debt.
 - \$23.9 million in deferred capital contributions which includes \$16.0 million from the Sheridan Student Union for HMC C-Wing and \$7.9 million from government and research capital grants.
- The total impact on Sheridan's unrestricted operating reserves is therefore a \$4.7 million surplus. This means that after excluding reserve spending and capital activity (especially with the completion of HMC C-Wing), Sheridan improved its unrestricted net assets by \$4.7 million.

Table 3 – Surplus / Deficit Breakdown

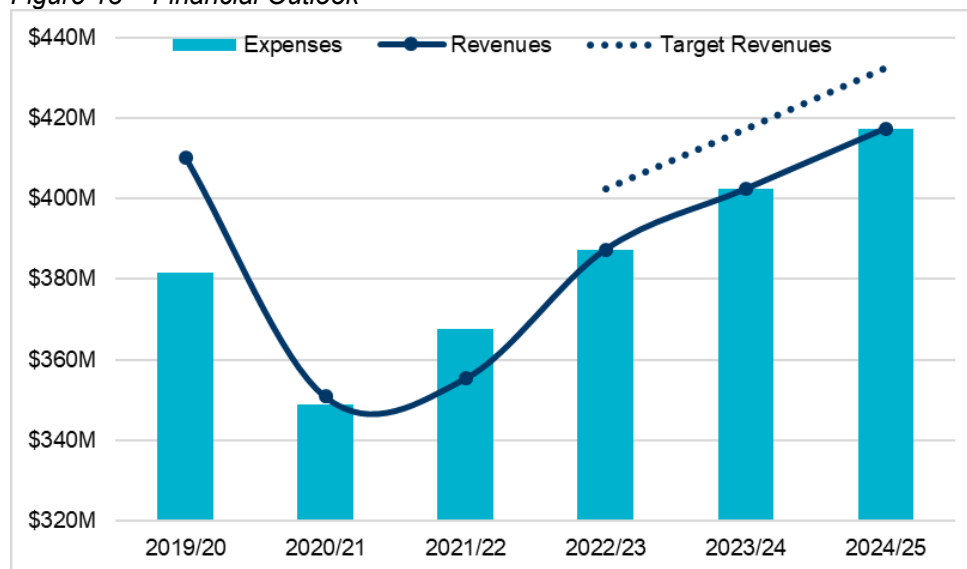
In \$ millions	2021/22	2020/21	2021/22 Budget
Surplus / (Deficit)	(18.2)	2.0	(34.8)
Less Spending from Internally Restricted Reserves	19.9	14.3	21.6
Less Spending on Capital:			
Depreciation expense	22.1	23.8	25.0
Deferred capital contribution revenue	(8.7)	(8.5)	(9.2)
Gain on disposal and sale of land adjustments	-	(1.8)	-
Capital additions	(53.3)	(8.6)	(20.0)
Capital funding from external sources	43.0	3.6	2.1
Impact on Operating Unrestricted Reserves	4.7	24.8	(15.3)

This leaves a closing balance in unrestricted reserves of \$19.1 million. Sheridan will be restricting these funds for future capital, strategic and operating priorities, leaving a balance of \$0 in unrestricted net assets and \$137.4 million in internally restricted net assets.

5.2 Outlook

Sheridan's approved 2022/23 Budget report provides a detailed outlook for Sheridan's expected financial performance next year and into the future. Figure 13 provides a visual summary of this outlook. International enrolment is expected to return to pre-pandemic levels in 2022/23 and Sheridan intends to continue to grow enrolment in the future. Based on this, Sheridan has approved a balanced budget for 2022/23. Moreover, Sheridan has identified revenue targets with a goal being to generate annual \$15 million surpluses that can then be reserved for long-term capital and strategic priorities, including the funding of the campus master plan and other deferred maintenance priorities.

Figure 13 – Financial Outlook



6.0 Key Performance Measures and Indicators

Table 4 shows the draft financial health indicators for 2021/22 compared to the previous two years. These measures are discussed below. These indicators are used by the provincial government to assess the financial health of each college.

Table 4 – Financial Health Metrics

Ratio	Benchmark	2021/22	2020/21	2019/20
Quick ratio	1.0 or higher	2.14	2.65	1.67
Total Debt to Assets	35% or less	24.13%	22.82%	19.96%
Debt Servicing ratio	3% or less	1.43%	1.44%	1.36%
Net Assets to Expense	60% or higher	106.80%	116.12%	106.96%
Surplus to Revenue	1.5% or higher	(5.16%)	0.57%	7.00%
Annual Surplus	Positive	(18,227,616)	2,008,820	28,720,402
Accumulated Surplus	Positive	233,002,515	251,230,127	249,221,307

6.1 Quick Ratio

This ratio is a measure of our ability to meet our short-term financial obligations by comparing current assets to current liabilities. Current assets include cash, accounts receivables and short-term investments (<1 year). Current liabilities include bank indebtedness, accounts payable and accrued liabilities.

Sheridan exceeds the Ministry benchmark, and we continue to have sufficient cash on hand to meet our short-term obligations. Sheridan’s ratio has decreased over 2020/21 due to \$135 million being re-invested in two-year GICs which are considered non-current assets and excluded from this ratio.

6.2 Debt to Assets Ratio & Debt Servicing Ratio

These ratios measure the amount of debt that we are carrying and the ability to make payments as well as the ability to borrow new funds. Sheridan exceeds the MCU benchmarks for both of these ratios. The increase in the debt to assets ratio is due to the HMC C-Wing long-term debt which caused total debt to increase by 8.7% (\$13.2 million increase) while total assets increased by 2.8% (\$18.4 million increase). The debt servicing ratio is unchanged from 2020/21 due to HMC C-Wing long-term debt re-payments not starting until 2022/23.

6.3 Net Assets to Expense Ratio

This metric measures the ability for us to continue operations in the event that there is a delay in revenue streams (e.g., ability to use reserves to sustain operations). Sheridan is well above the MCU benchmark for this metric. The decrease from 2020/21 is due to the \$18.2 million deficit which reduces net assets. Net assets decreased by 2.1% (\$8.6 million) while expenses increased by 6.4% (\$22.4 million)

6.4 Surplus and Accumulated Surplus Ratios

These metrics measure the size of our surplus/deficit compared to in-year revenue and gauge our ability to operate within a balanced budget and sustain operations for the future. Sheridan was below the Surplus to Revenue ratio benchmark of 1.50% due to the pandemic and the deficit of \$18.2 million is also below the benchmark of a surplus. This was an intentional strategy to use the accumulated surplus to mitigate pandemic related revenue losses and invest in Sheridan's future.