Sheridan | 2024
Defining our Future

# 2020/21 Financial Results

JUNE 16, 2021

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

2020/21 was marked by the global covid-19 pandemic that had significant health, social and financial impacts on people and organizations around the world. Sheridan is no different and to succeed during the pandemic required significant shifts in programs and services and financial agility to weather the storm.

It's also important to note that Sheridan remains in good financial health. Through historical prudent financial management, Sheridan has built up healthy reserves and maintains cash and short term operating investments that are available to meet the challenges of the pandemic and set Sheridan up for success in a volatile, uncertain, complex and ambiguous future world post pandemic.

As discussed in the budget report, Sheridan is managing its finances in accordance with the following five budget principles:

1. Continue to advance the strategic plan through the year three objectives.
2. Prioritize strategies that minimize the impact on permanent staff and students.
3. Prioritize programs and services that support broader community impact.
4. Prioritize enrolment recovery and revenue generating opportunities to improve the bottom-line and re-invest to support the strategic plan.
5. Prioritize operational efficiency strategies to reduce costs while maintaining or improving value.

These principles will help ensure the long-term financial sustainability of Sheridan.

The purpose of this report is to provide context and explanation for Sheridan's 2020/21 financial results. This report will provide an overview of the pandemic impact on enrolment followed by an analysis of significant financial results in revenues, expenses and net assets.

# 2.0 Pandemic Context and Enrolment

The pandemic created a great deal of uncertainty which significantly impacted Sheridan's ability to forecast and manage financials. The following are a summary of key pandemic events that impacted this past year's financials:

In the spring 2020 term, the pandemic was in the early days of what was initially expected to be a short-term impact of various restrictions. Program delivery was quickly pivoted to an online format, however pandemic restrictions impacted many student's decisions to attend post-secondary, especially international students. It also became clear that the pandemic would create unexpected costs due to personal protective equipment, cleaning, and security needs. Management implemented a discretionary spending freeze to preserve cash flow and financial sustainability.

In June, the Board approved the pandemic budget that included a commitment to continually review the budget during the year due to the uncertainty. This budget contemplated various enrolment scenarios that would leave an impact of anywhere from $80 to $197 million in decreased revenues. The Board ultimately approved a $30.8M deficit budget.

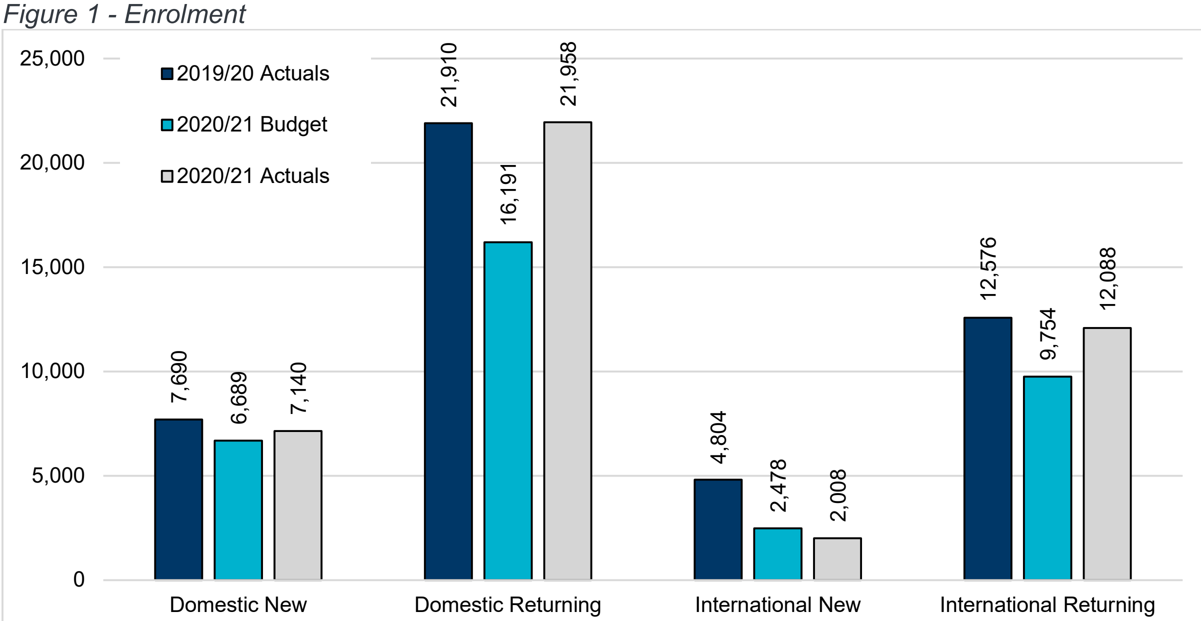
Uncertainty continued in the fall with the introduction of policies related to study permits for virtual learning as well as the designated institution list. Sheridan was initially delayed in being approved for the designated institution list which created further concern around Sheridan's ability to recruit international students. This was later resolved, and recruitment efforts rebounded. Also in the fall, surprise measures were implemented which limited attendance for in-person classes which also resulted in forecasted expenses related to increased teaching costs.

The uncertainty continued in the winter with the resumption of a full lockdown and stay at home order. While in the end these challenges didn't significantly impact Sheridan programs, it still created uncertainty and the need to contemplate increased expenditures to meet health and safety requirements as workplace inspections ramped up.

The following chart shows the actual enrolment results, how they compare to 2019/20 and the approved budget. Key highlights include:

- Domestic new student enrolment declined by 550 compared to 2019/20 but ended up better than the approved budget.
- Domestic returning students also performed significantly better than budget with the pandemic having minimal impact on retention.
- International new student enrolment declined significantly compared to 2019/20 and came in below budget. This was due to the various pandemic related restrictions and visa delays impacting student's ability to attend Sheridan.
- Similar to domestic, international returning enrolments came in better than expected with higher than usual retention rates for international students.

*Figure 1 - Enrolment*

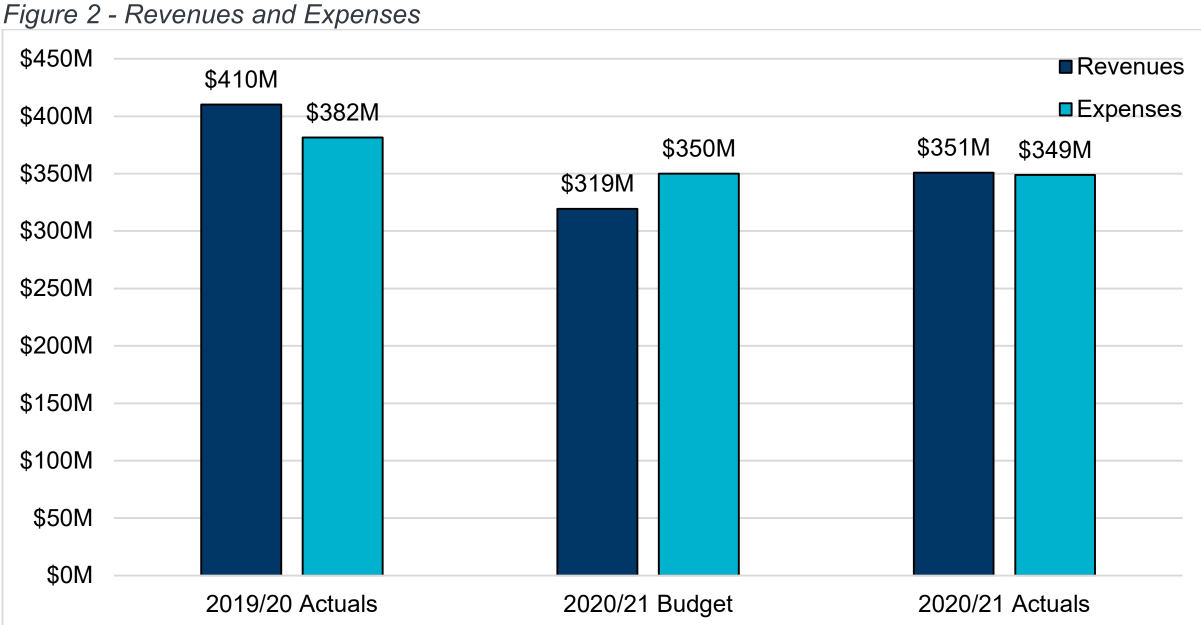


# 3.0 Revenues and Expenses

Sheridan's Statement of revenues and expenses shows our overall surplus results. This section of the report will discuss key trends in revenues and expenses and how those compare to the approved budget.

The following chart shows Sheridan's 2020/21 revenues and expenses compared to 2019/20 actuals and the 2020/21 budget. Revenues declined year-over-year by $59.4 million, however came in significantly higher than the approved budget by $31.6 million. Actual expenses were also reduced year over year by $32.6 million and came in slightly under budget by $1.2 million.

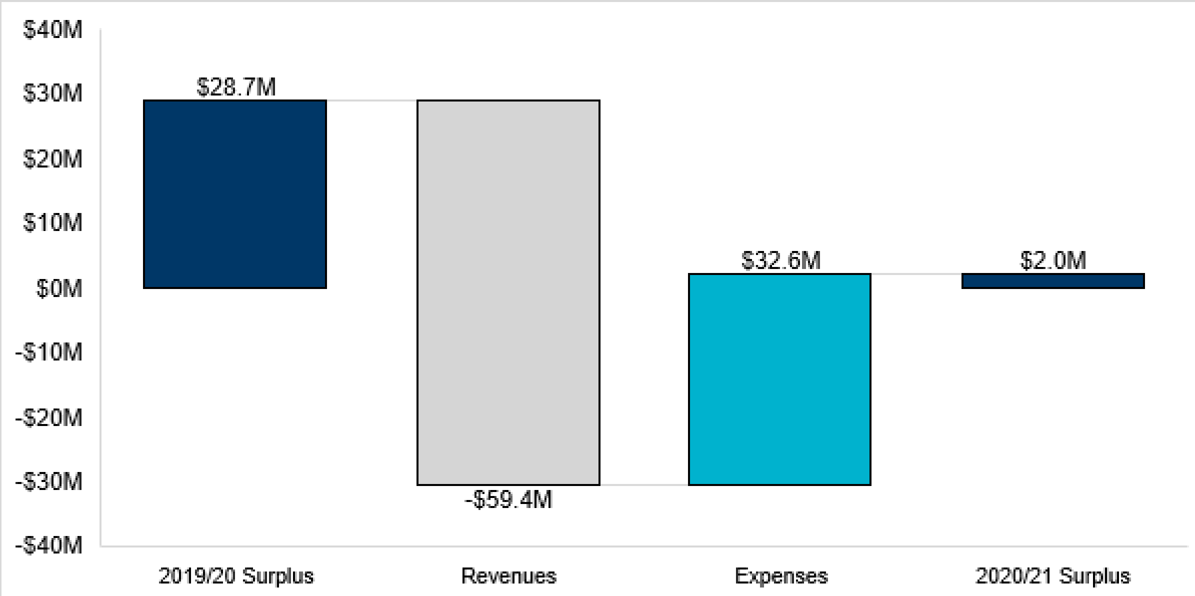
*Figure 2 - Revenues and Expenses*




## 3.1 Surplus / Deficit

The following waterfall chart shows the change from Sheridan's surplus of $28.7 million in 2019/20 to $2.0 million in 2020/21. Revenues declined by $59.4 million from $410.2 million in 2019/20 to $350.9 million in 2020/21. This revenue loss was offset by reduced spending. Expenses declined by $32.6 million from $381.5 million in 2019/20 to $348.9 million in 2020/21.

*Figure 3 - Surplus / Deficit*

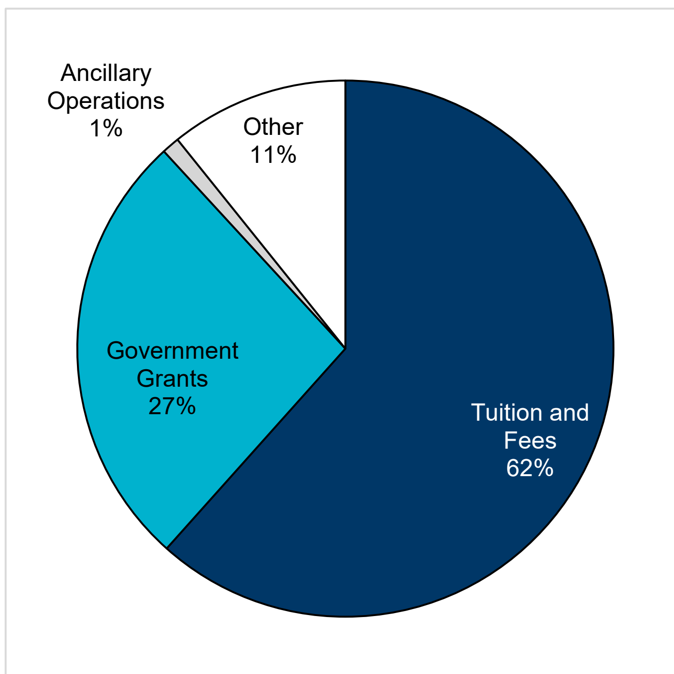



## 3.2 Revenue

Sheridan's revenue sources are shown in the chart to the right. In 2020/21, the proportion of revenue from various sources are as follows:

- 62% from tuition and fees of which the majority is from international tuition revenues.
- 27% from government grants which is primarily from the enrolment based and performance based funding envelopes.
- 12% from other sources including ancillary operations, research, amortization of deferred contributions, gain on disposal of assets and miscellaneous.

*Figure 4 - Revenue Sources*

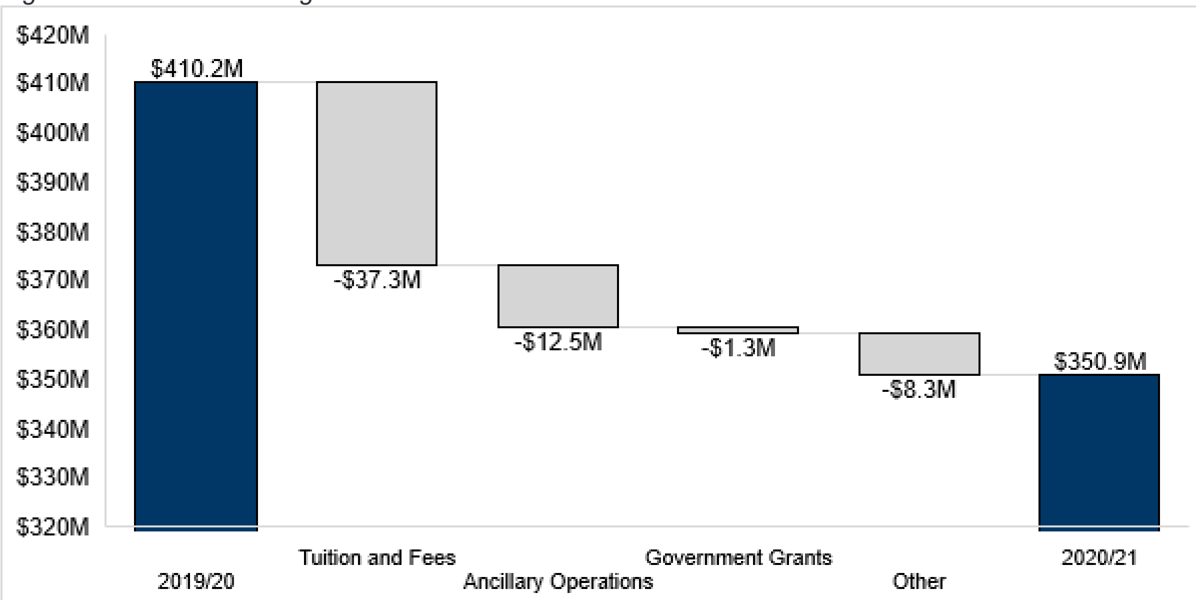



Sheridan's revenues declined by $59.4 million this past year from $410.2 million in 2019/20 to $350.9 million in 2020/21. This decrease is broken down in the following chart and summarized below with additional details in the subsequent sections:

- Tuition and fees revenue have decreased by $37.3 million due to lower enrolment.
- Ancillary operations revenue decreased by $12.5 million due to less on campus activity for parking, residence and food services.
- Government grant revenue decreased by $1.3 million.

- Other revenues, including amortization of deferred contributions, decreased by $8.3 million. This was not directly related to the pandemic and is discussed in further detail below.

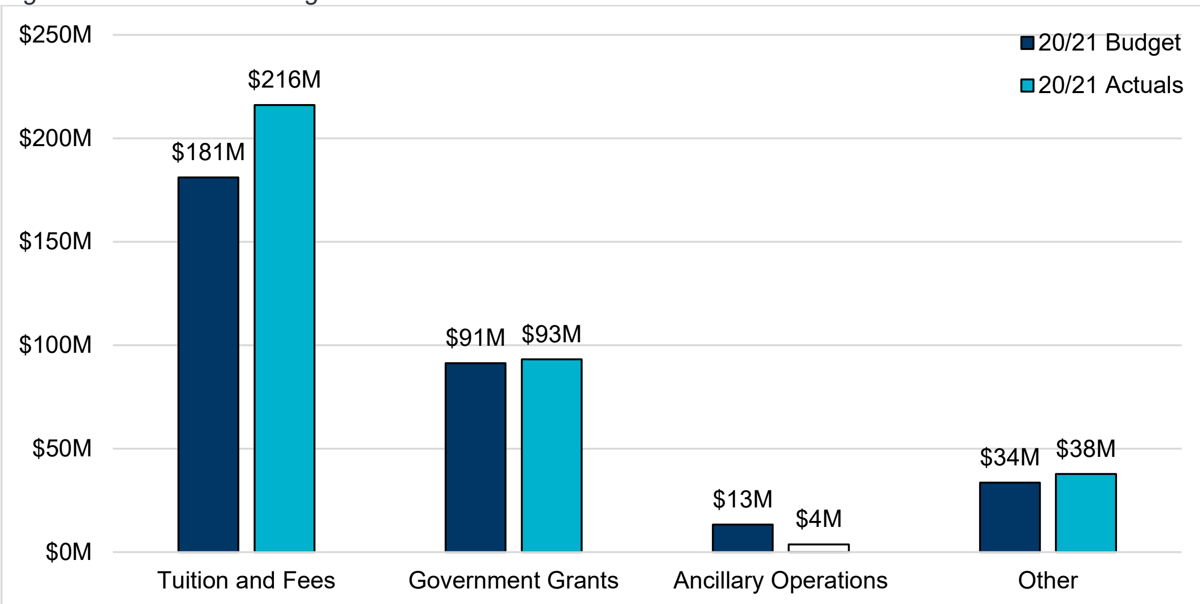
*Figure 5 - Revenue Change 19/20 to 20/21*




In comparison to the approved budget, revenues improved by $31.6 million from a budget of $319.3 million to actuals of $350.9 million. This can be broken down as follows:

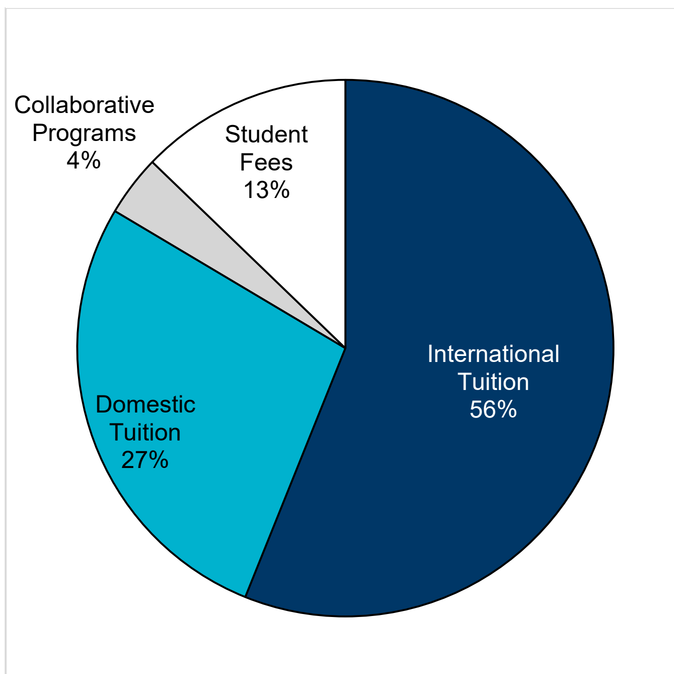
- $35.1 million from tuition and fees due to better than expected enrolment, both for international and domestic students.
- A reduction of $9.6 million in ancillary operations revenue due to restrictions in on campus activity for parking, residence and food services.
- $1.8 million from government grants including additional capital funding and some improvements to special purpose grants such as mental health funding.
- $4.3 million from other revenues primarily related to the proceeds on the sale of land for Trafalgar road widening purposes.

*Figure 6 - Revenues: Budget to Actuals*




## Tuition and Fees

*Figure 7 - Tuition and Fee Sources*




The breakdown of tuition and fees revenue is shown on the chart below and is summarized as follows:

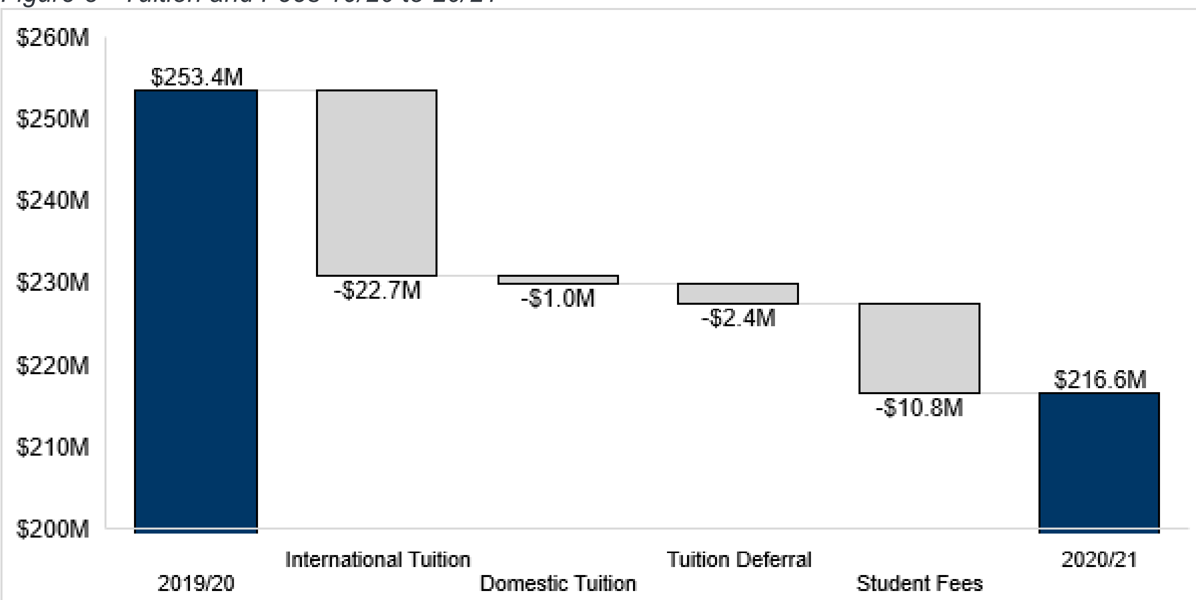
- 55% from international tuition revenues
- 28% from domestic tuition revenues
- 13% from student fees including compulsory ancillary fees, program fees and various user charges. Approximately 1/3 of this revenue would be from international students with the remaining 2/3 from domestic students.
- 4% from Sheridan's share of the tuition revenue for the partnerships with University of Toronto Mississauga and York University.

Sheridan's tuition and fees revenue declined by $37.3 million this past year from $253.4 million in 2019/20 to $216.2 million in 2020/21. This decrease is broken down in the following chart and summarized below:

- $22.7 million decrease in international tuition revenue due to pandemic related travel restrictions and government delays in processing study permit applications.

- $1.0 million decrease in domestic tuition revenue again due to pandemic restrictions on program delivery but also partially attributed to the government's policy on tuition and fees which required a 10% decrease to domestic tuition in 2019/20 and freeze thereafter. Prior to this policy, domestic tuition rates were typically increased by 3% per year.
- $2.4 million decrease related to the tuition deferral. This is a result of the delayed start to the Winter 2021 semester which increases the percentage of winter 2021 revenues that will now be recognized in 2021/22 fiscal year instead.
- $10.8 million decrease in student fee revenue. This is due to lower enrolment as well as fee reductions that were implemented each term to reflect the shift in delivery of programs and services from in-person to online or hybrid.

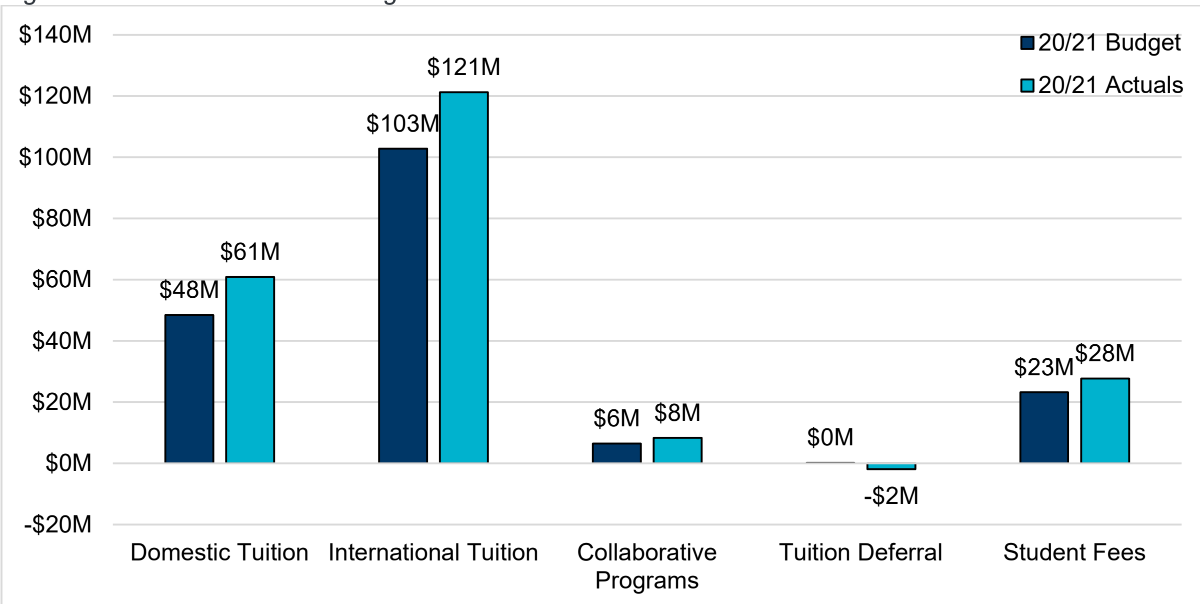
*Figure 8 - Tuition and Fees 19/20 to 20/21*




In comparison to the approved budget, tuition and fee revenues improved by $35.1 million from a budget of $181.1 million to actuals of $216.2 million. This increase is due to higher than expected enrolment as explained previously. This can be broken down as follows:

- $12.5 million above budget for domestic tuition revenues.
- $18.4 million above budget for international tuition revenues.
- $1.9 million above budget for collaborative program revenues.
- A decrease of $2.2 million from budget for the tuition deferral due to the delayed start of the winter 2021 term which pushes a greater proportion of revenue into 2021/22 fiscal year.
- $4.5 million above budget for student fee revenues.

*Figure 9 - Tuition and Fees: Budget to Actuals*

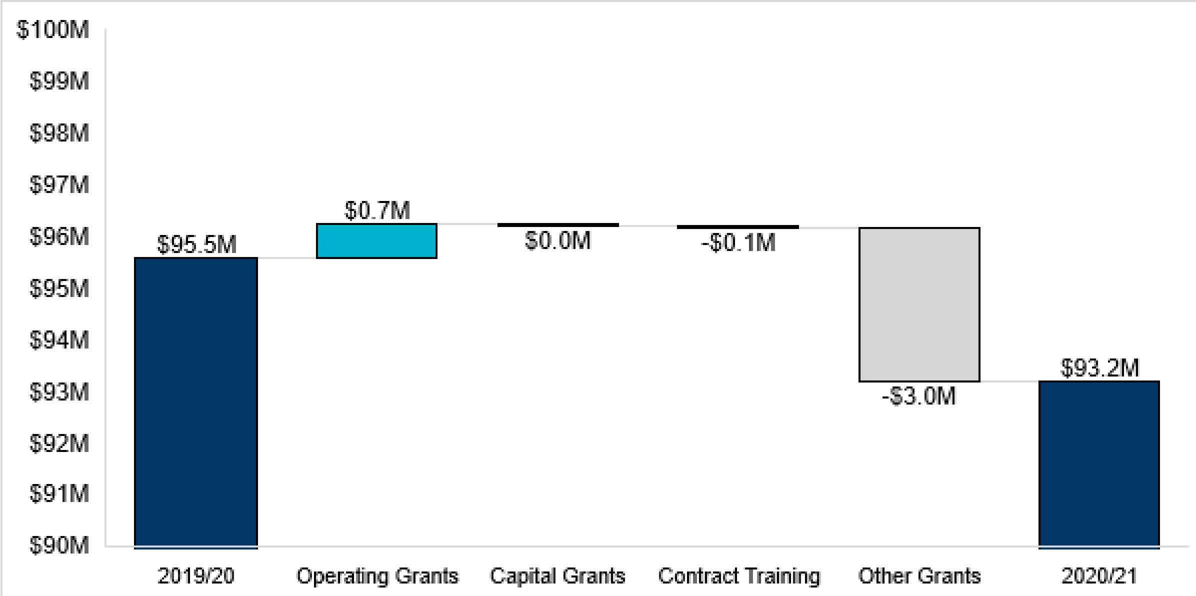



## Government Grants

Government grants were primarily unchanged from 2019/20 to 2020/21. Key changes are summarized in the chart below and as follows:

- The government is continuing the implementation of performance based funding. Each year, a greater percentage of operating grants will be tied to performance metrics, however, due to the pandemic, the government has guaranteed performance funding at 100% for 2020/21.
- In addition, operating grants are higher due to a decrease in the international student recovery amount given that international enrolments are lower. Per government policy, colleges lose $375 per international student per term.
- The government has also made minor improvements to some special purpose grants, particularly those that support mental health for students and staff.
- The large change in other grants is due to the end of various training contracts with the federal government in 2019/20. This was Sheridan's decision as the funding was insufficient to cover the total operating costs.

*Figure 10 - Grants 19/20 to 20/21*

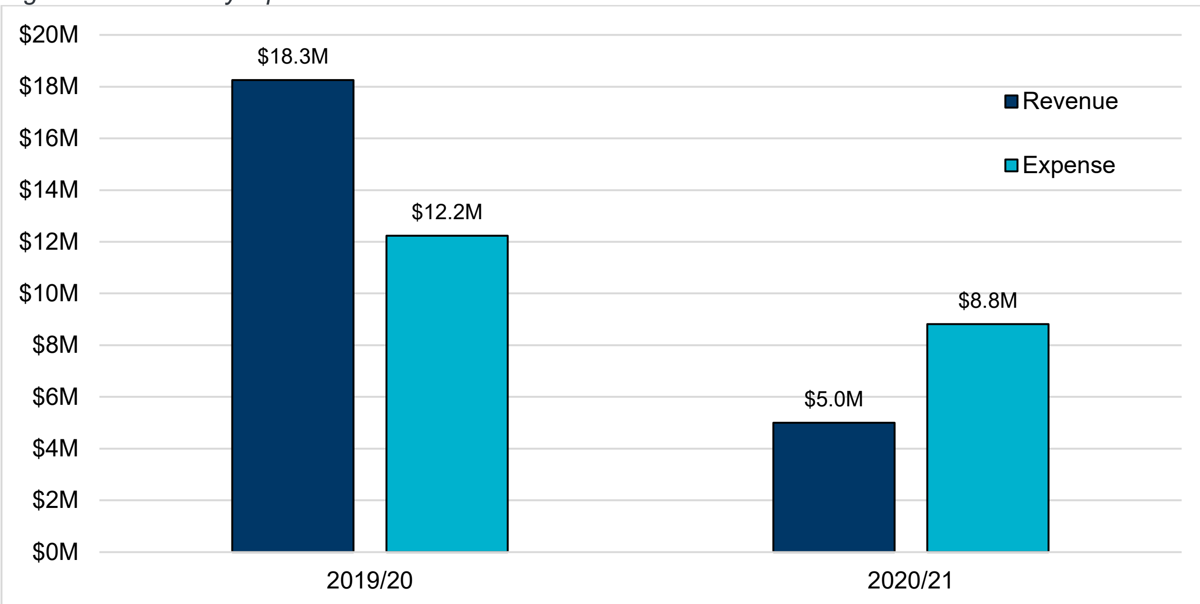



## Ancillary Operations

Ancillary operations were significantly impacted by the pandemic. The chart below shows the comparison from 2019/20 to 2020/21 for revenues and expenses. Key highlights include:

- Revenues for 2020/21 also include one card fee revenues that are reported under student fees revenue above as well as some other sources that are reported as other revenues.
- Overall, ancillary operations realized a revenue loss of $13.3 million that is offset by an expense reduction of $3.4 million in 2020/21. The main drivers of this are:
    - Residence revenue was down $7.5 million but offset by lower expenses by $2.0 million.
    - Parking revenues were down by $2.6 million with only a small reduction in expenses.
    - Food services, bookstore and print shop revenue was down $1.4 million.
    - Conference centre and services revenue was down by $0.9 million and offset by a $0.4 million reduction in expenses.

*Figure 11 - Ancillary Operations 19/20 to 20/21*

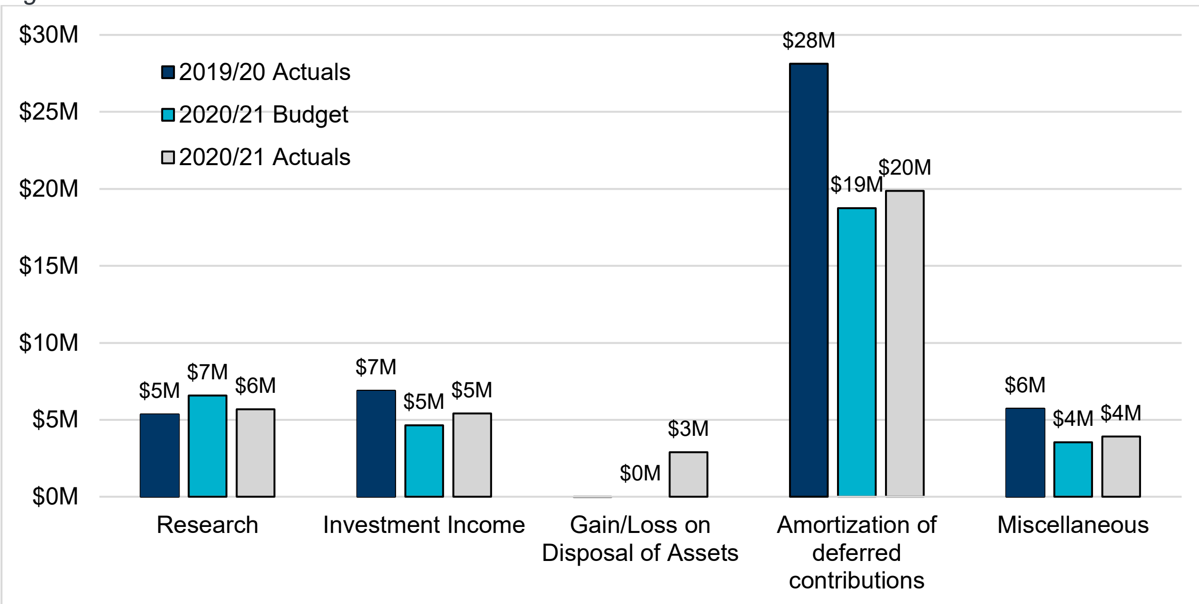



## Other Revenues

Other revenues were $8.3 million lower than 2019/20 but were $4.3 million higher than budget. These variances can be explained as follows:

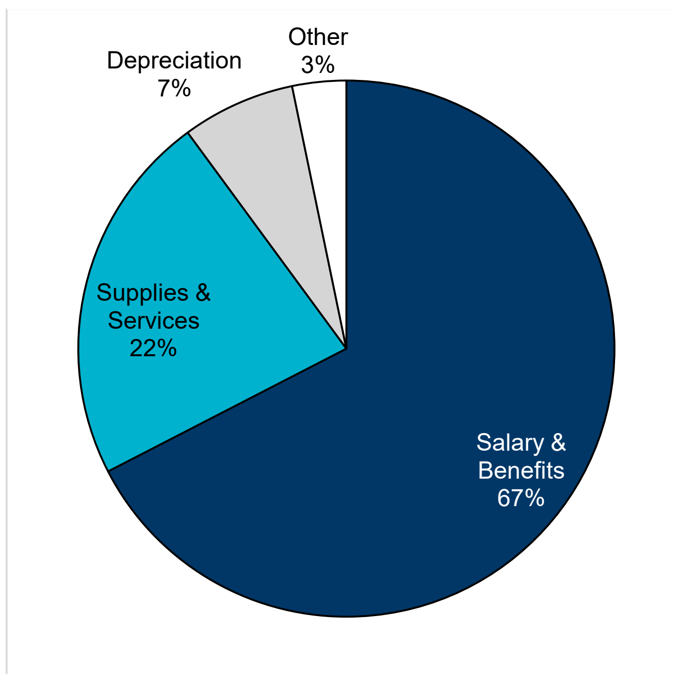
- A small, year-over-year increase of $332k for research revenues, however below budget by $887k due to the timing of projects (revenue is recognized proportionately as the project is completed).
- A year-over-year decline of $1.5 million from investment income due to lower interest rates as a result of the pandemic, however, this was slightly above budget by $767k.
- A year-over-year increase of $2.9 million related to the gain on sale realized on the sale of Trafalgar land for road widening purposes. This revenue was not forecasted at the time of the budget approval.
- A year-over-year decline of $8.3 million for amortization of deferred contributions. This is due to a one-time withdrawal in 2019/20 by the Sheridan Student Union for capital needs related to HMC2A and other student centre projects.

*Figure 12 - Other Revenues*




## 3.3 Expenses

*Figure 13 - Expense Sources*




Sheridan's expenses are shown in the chart to the right. In 2020/21, the proportion of expenses from various sources are as follows:

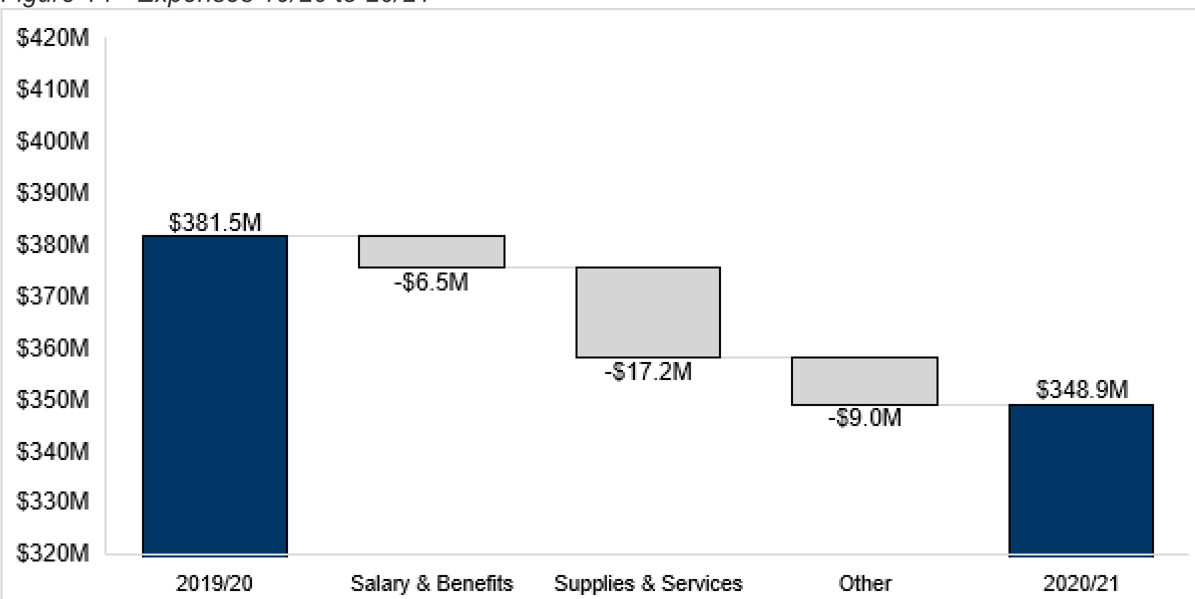
- 67% for salary and benefit expenditures.
- 22% for supplies and services
- 7% for depreciation of capital assets.
- 3% for other expenses including expenses related to deferred contributions. These are for awards, bursaries and other restricted spending.

Sheridan's expenses declined by $32.6 million this past year from $381.5 million in 2019/20 to $348.9 million in 2020/21. This decrease is broken down in the following chart and summarized below with additional details in the subsequent sections:

- Salary & Benefits expenditures have decreased by $6.5 million due to a hiring freeze, voluntary retirement program and some part-time staff layoffs due to limited on campus activity.

- Supplies and services expenditures decreased by $17.2M due to a discretionary spending freeze and lower expenses related to pandemic restrictions for on campus programs and services including:
    - $5.7 million from reduced utilities, maintenance and cleaning costs.
    - $4.9 million from reduced supplies.
    - $3.9 million from reduced ancillary operations expenditures.
    - $3.7 million from reduced training and professional development and travel costs.
    - This is offset by an increase of $1.0 million spread across other expense types.
- Other expenditures decreased by $9.0 million primarily due to a one-time withdrawal in 2019/20 by the SSU from the Student Centre fund for the HMC2A project and other student centre needs.

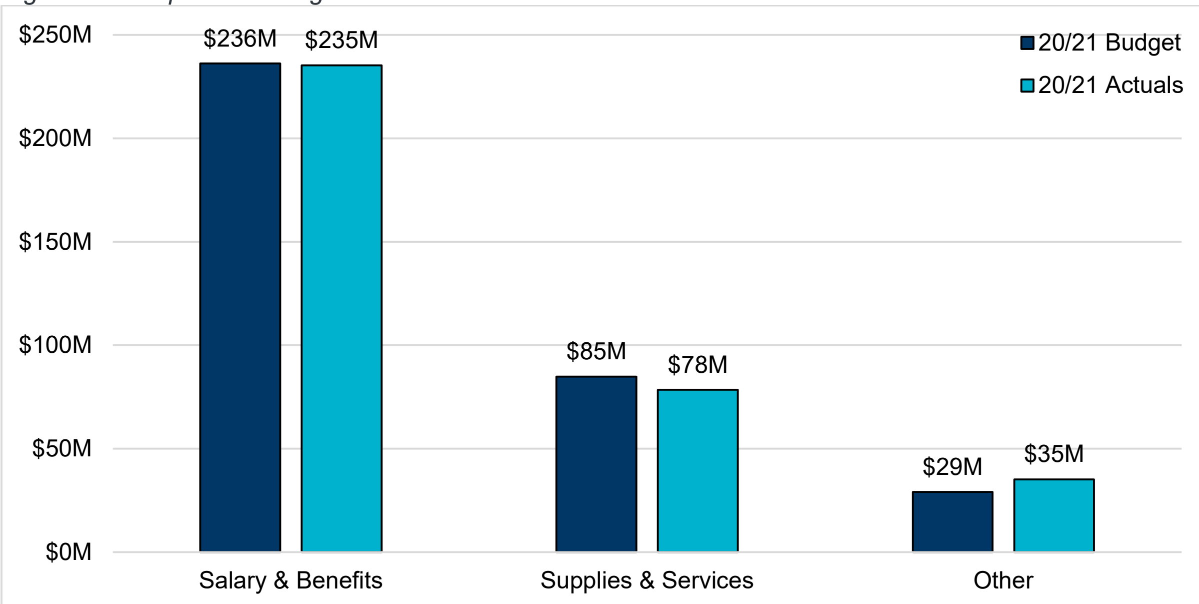
*Figure 14 - Expenses 19/20 to 20/21*




In comparison to the approved budget, expenses improved by $1.2 million from a budget of $350.0 million to actuals of $348.9 million. This can be broken down as follows:

- $1.0 million from lower than budgeted salary and benefit spending which includes:
    - An increase of $1.2 million over budget on full-time salary and benefits
    - A decrease of $2.8 million under budget on part-time salary and benefits
    - An increase of $0.7 million on post employment obligations, including vacation pay, sick leave and future benefits.
- $0.2 million from lower than budgeted non-salary spending.

*Figure 15 - Expenses Budget to Actual*




# 4.0 Assets, Liabilities and Net Assets

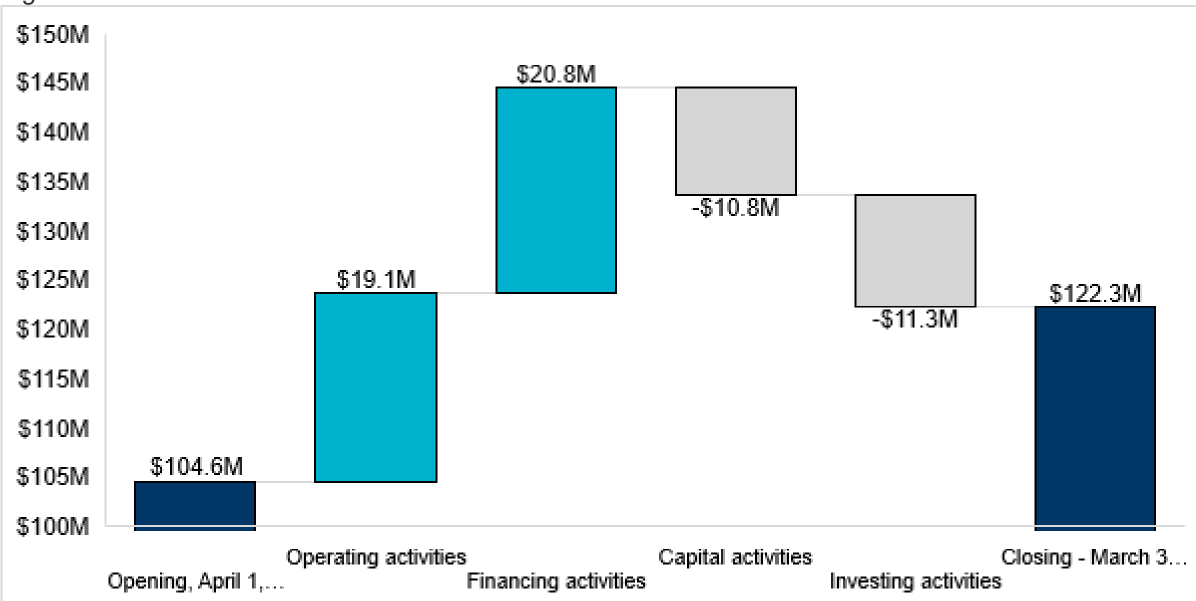
This section of the report provides an overview of some of the key areas from the Statement of Financial Position including cash, operating investments, accounts receivables, endowment fund, loans, restricted funds and net assets / accumulated surplus.

## 4.1 Cash and Operating Investments

Overall, Sheridan's cash balance increased by $17.8 million during 2020/21 from an opening balance of $104.6 million to a closing balance on March 31, 2021 of $122.3 million. The cash flow statement details the changes throughout the year and is summarized below:

- $19.1 million from operating activities is driven by the day-to-day revenues and expenses of the college including payments from students, grants received, payment of wages and vendor invoices, etc…
- $20.8 million from financing activities is driven by $23.6M in loan advances  received over 2020/21 from the OFA for the HMC2A project less $3.0M for principal payments on the four existing long-term loans for the Davis and Trafalgar residences, Davis gymnasium and Davis A-wing.
- $10.8 million for capital activities including $2.9M in contributions received for capital assets plus $3.6M proceeds on the disposal of capital assets less the purchase of $17.2M in new capital assets.
- $11.3 million for investing activities that is driven by the increase in the market value of our endowment assets which is recognized in deferred contributions under operating activities.

*Figure 16 - Cash: 19/20 to 20/21*




In addition to cash, Sheridan hold's funds not required in the short-term in three guaranteed investment certificates totaling $163.8 million as outlined in the following table. These investments were acquired in the early stages of the pandemic as a way to mitigate the risk of market volatility and expected drop in interest rates which did materialize shortly thereafter. Sheridan's bank savings rate dropped from 2.35% to 0.85% during the early stages of the pandemic so these investments are preserving more than $3.2 million worth of interest revenue that otherwise would have been lost.

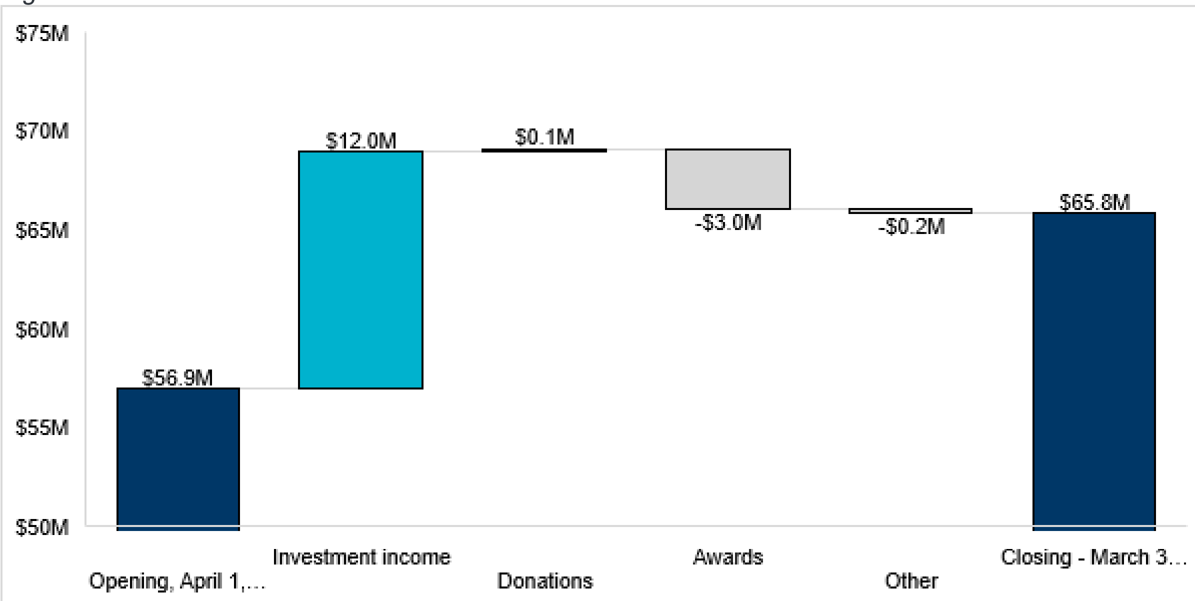
*Figure 17 - Operating Investments*

| In $ thousands | Maturity | Yield | Principal |
|---|---|---|---|
| DUCA Credit Union | February 2022 | 3.00% | 41,280 |
| Meridian Credit Union | March 2022 | 2.85% | 81,600 |
| Meridian Credit Union | April 2022 | 2.70% | 40,917 |
| **Balance as of March 31, 2021** | | **2.85%** | **163,797** |

## 4.2 Endowment Fund

The value of Sheridan's endowment fund increased from $56.9 million to $65.8 million in 2020/21. This was primarily due to market volatility early on in the pandemic that caused a drop in the market in March 2020. Markets have since rebounded and that impact can be seen in the $12 million increase in investment income. In addition, the Board authorized increased spending from the endowment up to $3 million to support student financial aid. This limit was fully spent in 2020/21.

*Figure 18 - Endowment Fund: 19/20 to 20/21*

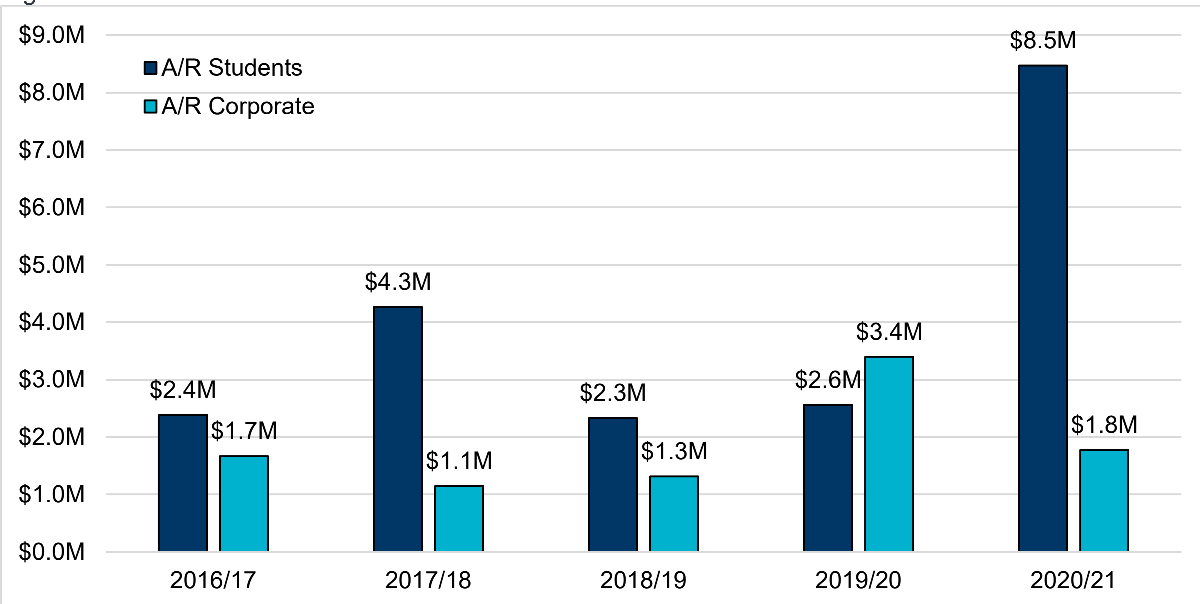



## 4.3 Accounts Receivable

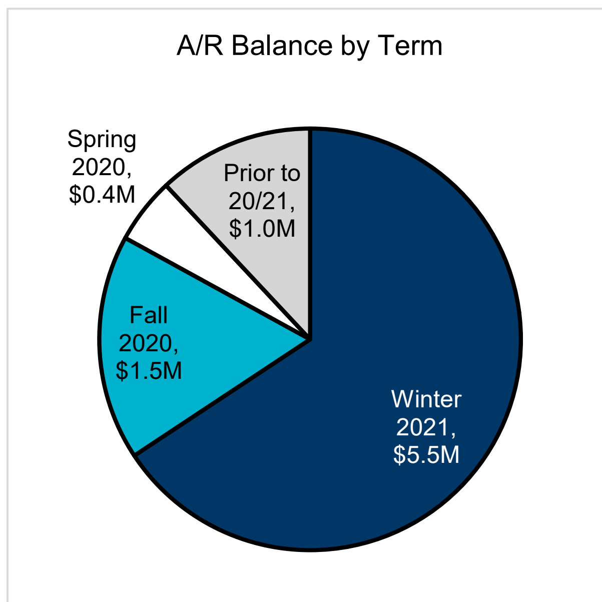
The student accounts receivable balance increased significantly in 2020/21 from $2.6 million at the end of 2019/20 to $8.5 million at March 31, 2021. This increase is due to the following factors:

- Introduction of more flexible payment options for students to support continued enrolment in times of financial hardship due to the pandemic. These supports included:
    - Introduction of a payment plan option starting in the spring 2020 term and continuing through the rest of the fiscal.
    - Lower deposit amounts to encourage students to accept offers of admission.
    - A promise guarantee in both the fall and winter terms that allowed students to attend beyond the normal withdraw date with a guaranteed full refund.
    - Loosened restrictions on account holds allowing students to register for subsequent terms even if they had a balance owing.
    - Suspended collections activities in the early phases of the pandemic to mitigate reputational risk.
- Changing the payment timelines and registration process so that now students only need to indicate an intent to register in advance of the term and have until day 10 of the term to pay. There may be students that completed the intent to register but didn't properly withdraw and thus have still been charged. This will be analyzed further once winter 2021 grades are available.
- Pandemic related hardships that have reduced income sources for students due to layoffs and other economic factors.

*Figure 19 - Historical A/R Balances*




The following chart shows the breakdown of the student A/R balance by term. There is a significant portion of outstanding amounts from the Winter 2021 term. As discussed above, this could be due to the new intent to register process. Once winter 2021 grades are available, we will be able to determine which students have charges but ultimately didn't complete their studies. Also, these students will be unable to register for subsequent terms until these balances are paid if these are students that continued. An appropriate response will be determined once this analysis has been completed.

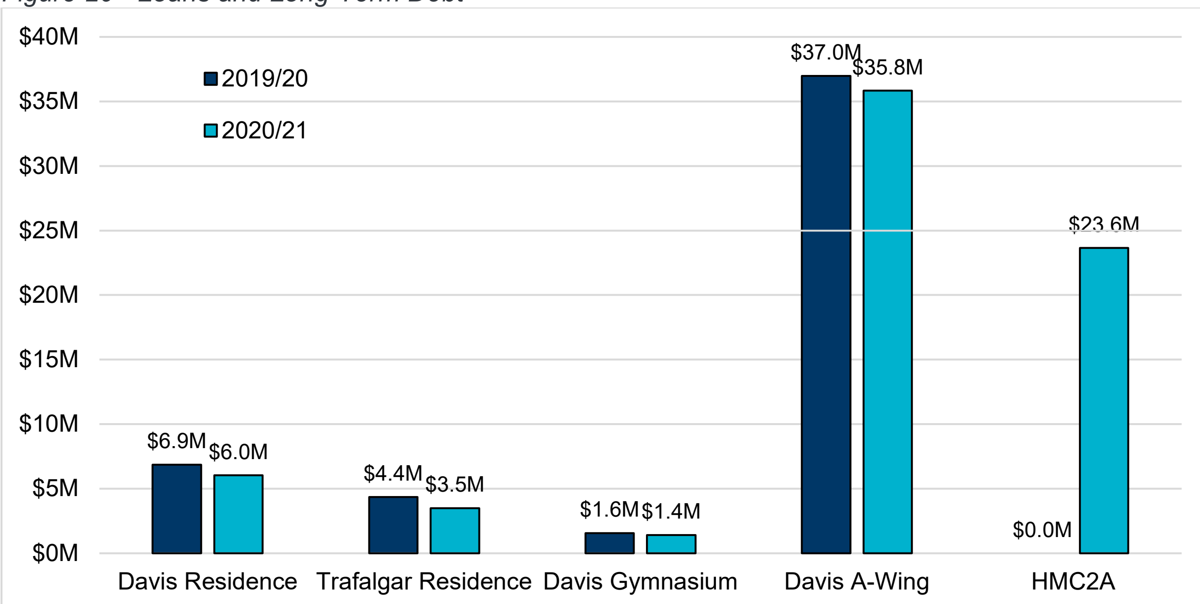



## 4.4 Loans and Long-Term Debt

Loans and long-term debt have increased from $49.8 in 2019/20 to $70.4 million at this year end. The significant increase is due to the new loan from the Ontario Financing Authority (OFA) for the HMC2A project. This loan is listed as a current liability as this is the first part of a two-part loan agreement whereby the first facility is a bridging loan that is due on a specific date and then converted into a 25-year facility 2 loan provided certain conditions are met. Due to delays in the HMC2A project, Sheridan is currently renegotiating the terms of the OFA loan for a revised completion date.

The other existing four long-term loans are all 25 year agreements that are in various stages of payback with the Trafalgar residence maturing in 2024, both Davis Residence and Davis gym maturing in 2027 and then the Davis A-wing in 2042.

*Figure 20 - Loans and Long-Term Debt*




## 4.4 Restricted Funds

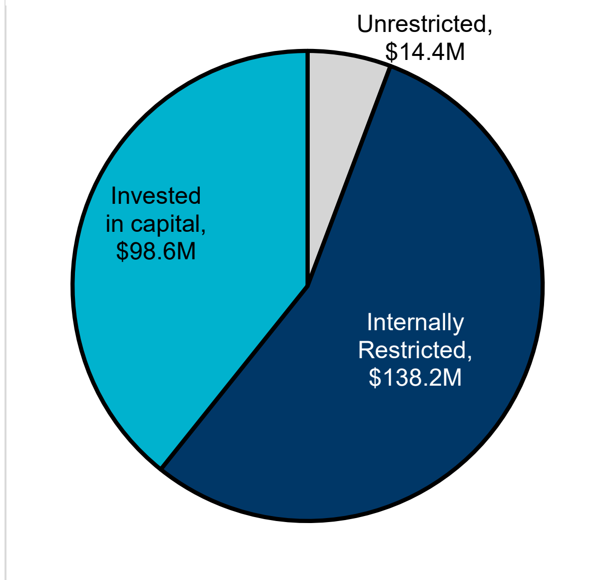
On the Statement of Financial position, there is a line item for Deferred contributions related to expenses of future periods in the amount of $48.3 million. This is specifically for external contributions that were received that are restricted for specific purposes as follows:

- $32.8 million for the returns generated on the endowment fund that are available to spend.
- $3.7 million for non-endowed bursaries and scholarships
- $5.9 million for other including various fund raising accounts for specific departments and programs.
- $5.9 million for the student centre which includes fees collected from students that must be spent on student centre buildings.

## 4.5 Accumulated Surplus

Sheridan's accumulated surplus of $251.2 million includes the cumulative difference between revenues and expenses since the inception of the college. The accumulated surplus is shown on the Statement of Financial Position and is broken down into the following components:

*Figure 21 - Accumulated Surplus*




- Unrestricted assets at $14.4 million which includes $35 million for operating that is being used as a contingency and offset by $20.6 million for post-employment obligations including vacation pay, employee future benefits and sick leave benefits.
- Internally restricted assets at $138.2 million which are further discussed below.
- Invested in capital assets at $98.6 million which are also described below.

### Internally Restricted Reserves

In 2020/21, $14.3 million was spent from internally restricted reserves, including the following:

- $2.8 million for project springboard projects
- $3.6 million for other strategic initiatives including strategic enrolment management, the campus master plan and Galvanizing Education Hub.
- $6.3 million for infrastructure funds and other capital spending needs.
- $0.9 million for financial aid spending
- $0.7 million for other operating needs.

For future years, the following reserves are proposed for Board approval:

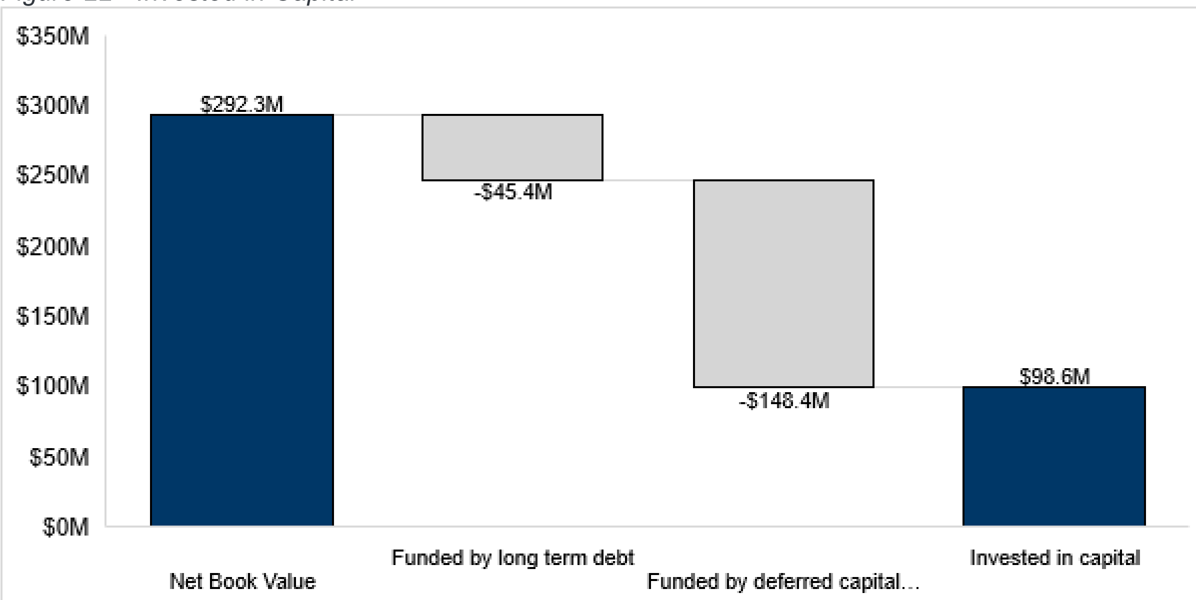
- $14.4 million for strategic initiatives including project springboard, Galvanizing Education initiatives, strategic enrolment management, sustainability and the campus master plan.
- $116.3 million for capital and infrastructure needs, including HMC, technology equipment including employee devices and academic technology, and ongoing maintenance needs.
- $6.5 million for various operating needs including budget rollovers, financial aid, research projects, professional development, insurance and AODA.

### Invested in Capital

The invested in capital amount of $98.6 million represents the amount of Sheridan's annual surpluses and deficits that have been invested in capital assets. While these funds are included in the total accumulated surplus, it is important to note that these funds could only be used for other purposes if the underlying assets were sold.

This amount is also calculated as the net book value (original cost less accumulated amortization) of Sheridan's assets less the amounts that are funded from external sources including long-term debt and deferred capital contributions.

*Figure 22 - Invested in Capital*




## 5.0 Financial Health Indicators

The following table shows the draft financial health indicators for 2020/21 compared to the previous two years. These measures are discussed below.

| Ratio | Benchmark | 2020/21 | 2019/20 | 2018/19 |
|---|---|---|---|---|
| Quick ratio | 1.0 or higher | 2.65 | 1.67 | 4.00 |
| Total Debt to Assets | 35% or less | 22.82% | 19.96% | 19.86% |
| Debt Servicing ratio | 3% or less | 1.44% | 1.36% | 1.25% |
| Net Assets to Expense | 60% or higher | 116.12% | 106.96% | 107.04% |
| Surplus to Revenue | 1.5% or higher | 0.57% | 7.00% | 11.92% |
| Annual Surplus | Positive | 2,008,820 | 28,720,402 | 48,010,208 |
| Accumulated Surplus | Positive | 251,230,127 | 249,221,307 | 220,500,905 |

### 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 includes 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 increased over 2019/20 due to $124 million in two-year GICs now becoming due within one year and thus being counted as a current asset.

## 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 from 2019/20 is due to $23.6 million in loans added for the HMC2A project.

## 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. Improvement from 2019/20 is due to lower expenses while still achieving a small surplus that increases net assets.

## Surplus and Accumulated Surplus Ratios

These metrics measure the size of our surplus/deficit relative 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 (but still achieved the other two metrics). This was an intentional strategy to use the accumulated surplus to mitigate pandemic related revenue losses.