

Financial Planning and Strategy



THE UNIVERSITY OF
CHICAGO

Prepared for the UChicagoGRAD Workshop
May 4, 2017

Outline

- Balance Sheet Overview
- Endowment
- Changes in Net Assets
- Budget Overview
- Questions to Track
 - How do you read a balance sheet in a higher education context?
 - What are some of the chief concerns of a budget officer in a higher education context?
 - How do you effectively manage a program budget?
 - How do you create metrics to report on the successful use of a budget?

Consolidated Balance Sheet – Summary

Following is a high-level summary of the consolidated balance sheet as of June 30, 2016 with comparative totals as of June 30, 2015.

(\$ in thousands)

	2016				Consolidated 2015
	University	Medical Center	MBL	Consolidated	
ASSETS					
Cash	48,579	20,335	3,205	72,119	198,355
Patient accounts receivable	21,971	288,401	-	310,372	232,078
Pledges receivable	603,814	4,150	4,708	612,672	522,820
Endowment	6,045,003	879,940	76,263	7,001,206	7,539,960
Other investments	938,343	51,636	8,338	998,317	825,125
Land, buildings, equipment, and books	3,185,722	1,380,132	108,727	4,674,581	4,409,265
Other assets	271,595	77,441	7,296	356,332	345,604
Total assets	<u>11,115,027</u>	<u>2,702,035</u>	<u>208,537</u>	<u>14,025,599</u>	<u>14,073,207</u>
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	409,990	502,965	10,048	923,003	827,935
Self-insurance program liability	250,642	6,305	-	256,947	270,903
Pension and other postretirement benefit obligations	557,136	13,140	-	570,276	478,141
Notes and bonds payable	3,628,943	856,294	27,983	4,513,220	4,185,939
Other liabilities	310,675	7,678	5,017	323,370	268,238
Total liabilities	<u>5,157,386</u>	<u>1,386,382</u>	<u>43,048</u>	<u>6,586,816</u>	<u>6,031,156</u>
Net Assets:	<u>5,957,641</u>	<u>1,315,653</u>	<u>165,489</u>	<u>7,438,783</u>	<u>8,042,051</u>
Total liabilities and net assets	<u>11,115,027</u>	<u>2,702,035</u>	<u>208,537</u>	<u>14,025,599</u>	<u>14,073,207</u>

Consolidated Endowment – University Only

- The University's endowment totaled \$6.0 billion at June 30, 2016, 54 percent of total assets.
- 98 percent of the endowment is merged into one fund referred to as the Total Return Investment Pool (TRIP).
- The endowment decreased by \$416.8 million in FY2016, primarily a result of investment losses of \$152.3 million impacting the University's ability to support endowment payout of \$415.4 million. This combined decrease of \$567.6 million was partially offset by endowment gifts and transfers to create funds functioning as endowment of \$150.8 million.
- TRIP rates of return (one year, three year, five year, ten year, and twenty year) for the past six years are shown below:

Period of Years	FY11	FY12	FY13	FY14	FY15	FY16
1	18.85%	6.85%	6.59%	12.70%	4.85%	-1.88%
3	3.49%	14.72%	10.60%	8.70%	8.00%	5.05%
5	6.84%	4.21%	4.76%	12.60%	9.84%	5.70%
10	8.32%	9.70%	10.02%	9.60%	8.37%	6.25%
20	11.23%	11.03%	10.71%	11.20%	10.64%	9.60%

- The University utilizes the total return concept in calculating endowment payout. If endowment income received is not sufficient to support the total return objective, the balance is provided from accumulated capital gains. If income received is in excess of the objective, the balance is reinvested in the endowment. Over the past five years investment returns of 1.48 billion have not been sufficient to support endowment payout of \$1.81 billion over this same time-period.
- The FY2016 endowment payout of \$415.4 million includes regular payout of \$339.1 million and \$76.3 million of additional payout approved by the Board of Trustees to fund strategic initiatives, support development activities, and provide operating support.

Endowment – University Only (continued)

The following is a summary of endowment activity for the past five years.

(\$ in thousands)

	FY12	FY13	FY14	FY15	FY16
Total investment return	\$ 248,904	\$ 382,273	\$ 766,864	\$ 234,870	\$ (152,264)
Endowment payout	(333,014)	(328,734)	(346,307)	(391,435)	(415,371)
Net investment return	(84,110)	53,539	420,557	(156,565)	(567,635)
Other changes:					
Gifts	59,076	70,668	99,128	94,642	114,495
Transfers to create funds functioning as endowment	23,004	46,582	37,913	55,296	24,445
Other changes	12,436	14,760	15,688	8,182	11,889
Total other changes	94,516	132,010	152,729	158,120	150,829
Net increase (decrease) in endowment	10,406	185,549	573,286	1,555	(416,806)
Endowment at beginning of year	5,691,013	5,701,419	5,886,968	6,460,254	6,461,809
End of year	\$ 5,701,419	\$ 5,886,968	\$ 6,460,254	\$ 6,461,809	\$ 6,045,003
Trip formula payout	\$ 286,660	\$ 277,241	\$ 297,388	\$ 319,849	\$ 336,157
Payout from separately invested endowment	6,968	10,372	7,573	3,123	2,966
Special payouts:					
Alumni Relations and Development	21,388	18,718	19,466	20,245	21,055
Strategic investments	17,998	22,403	21,880	21,482	21,513
Financial Framework FFE draw	-	-	-	26,736	33,680
	\$ 333,014	\$ 328,734	\$ 346,307	\$ 391,435	\$ 415,371

Consolidated Changes in Net Assets - Summary

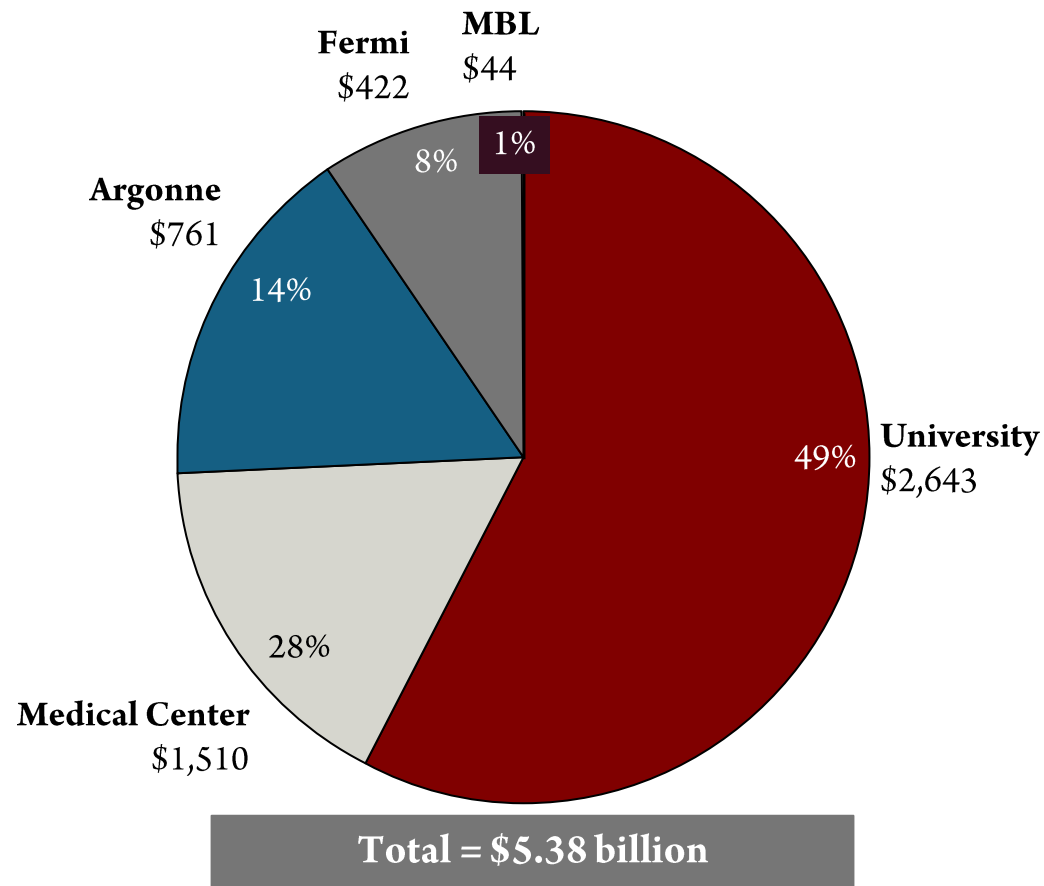
(\$ in thousands)

	2016			Consolidated 2015	
	University	Medical Center	MBL		Consolidated
GAAP excess (deficiency) of operating revenue over expenses before FFE draw	(63,680)	82,641	(9,372)	9,589	(13,365)
FFE draw	33,680	-	-	33,680	26,736
GAAP excess (deficiency) of operating revenue over expenses	\$ (30,000)	\$ 82,641	\$ (9,372)	\$ 43,269	\$ 13,371
Pledges and other non-operating gifts	312,844	3,687	6,772	323,303	225,254
Investment (losses), net of endowment payout	(567,650)	(65,829)	(6,515)	(639,630)	(168,883)
Pension plan curtailment (partial)	45,926	-	-	45,926	-
Pension and other postretirement benefit plan changes, net of benefit expense	(138,423)	(4,429)	(87)	(142,939)	(29,718)
Change in value of derivative instruments	(21,545)	(50,775)	(1,819)	(74,139)	(18,775)
Loss on debt refinancing	(16,946)	-	-	(16,946)	(70,958)
University operating support provided to MBL	(9,010)	-	9,010	-	-
Other changes	(129,345)	(11,189)	(1,578)	(142,112)	(101,162)
(Decrease) in net assets	(554,149)	(45,894)	(3,225)	(603,268)	(150,871)
Net assets beginning of year	6,511,790	1,361,547	168,714	8,042,051	8,192,922
Net assets end of year	\$ 5,957,641	\$ 1,315,653	\$ 165,489	\$ 7,438,783	\$ 8,042,051

Budget Overview - Consolidated

FY2016 Consolidated Expenses (inclusive of financial aid)

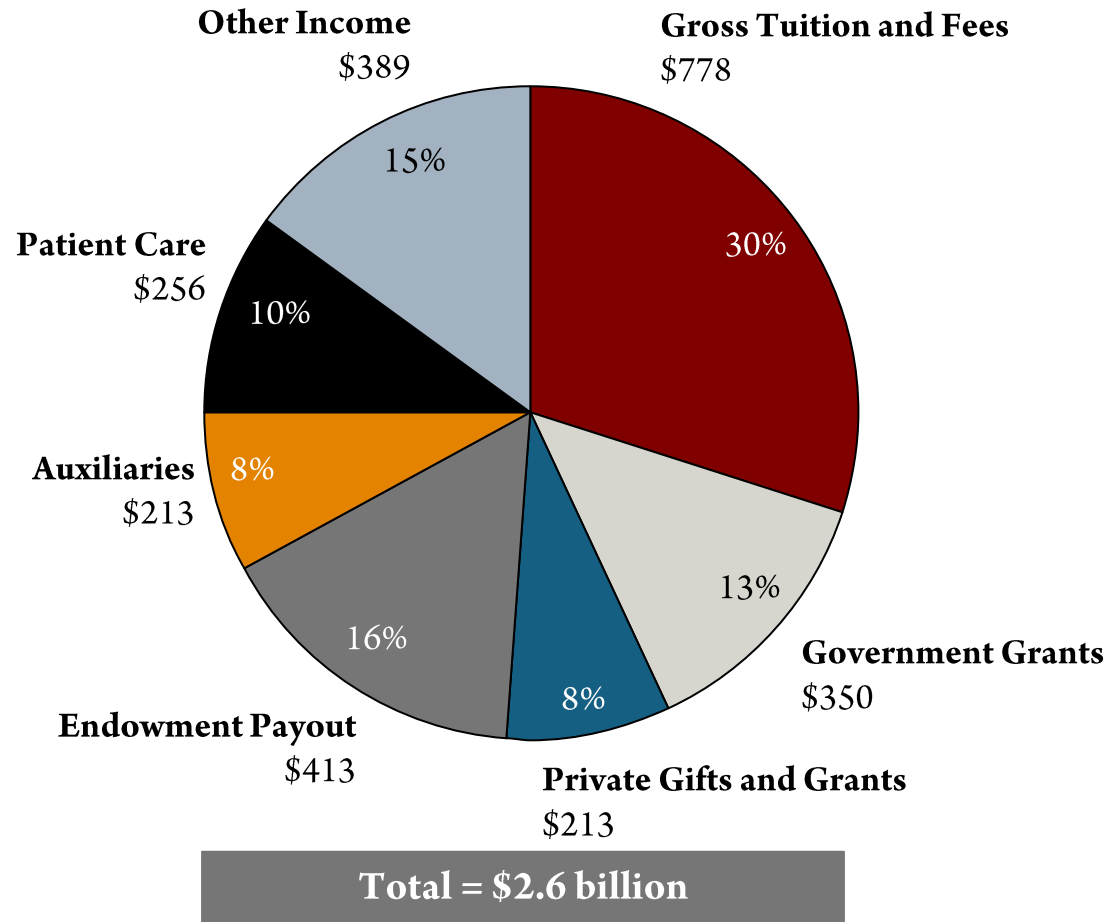
\$ in millions



Revenue: Operating Revenue Breakdown (University)

FY2016 Operating Revenues

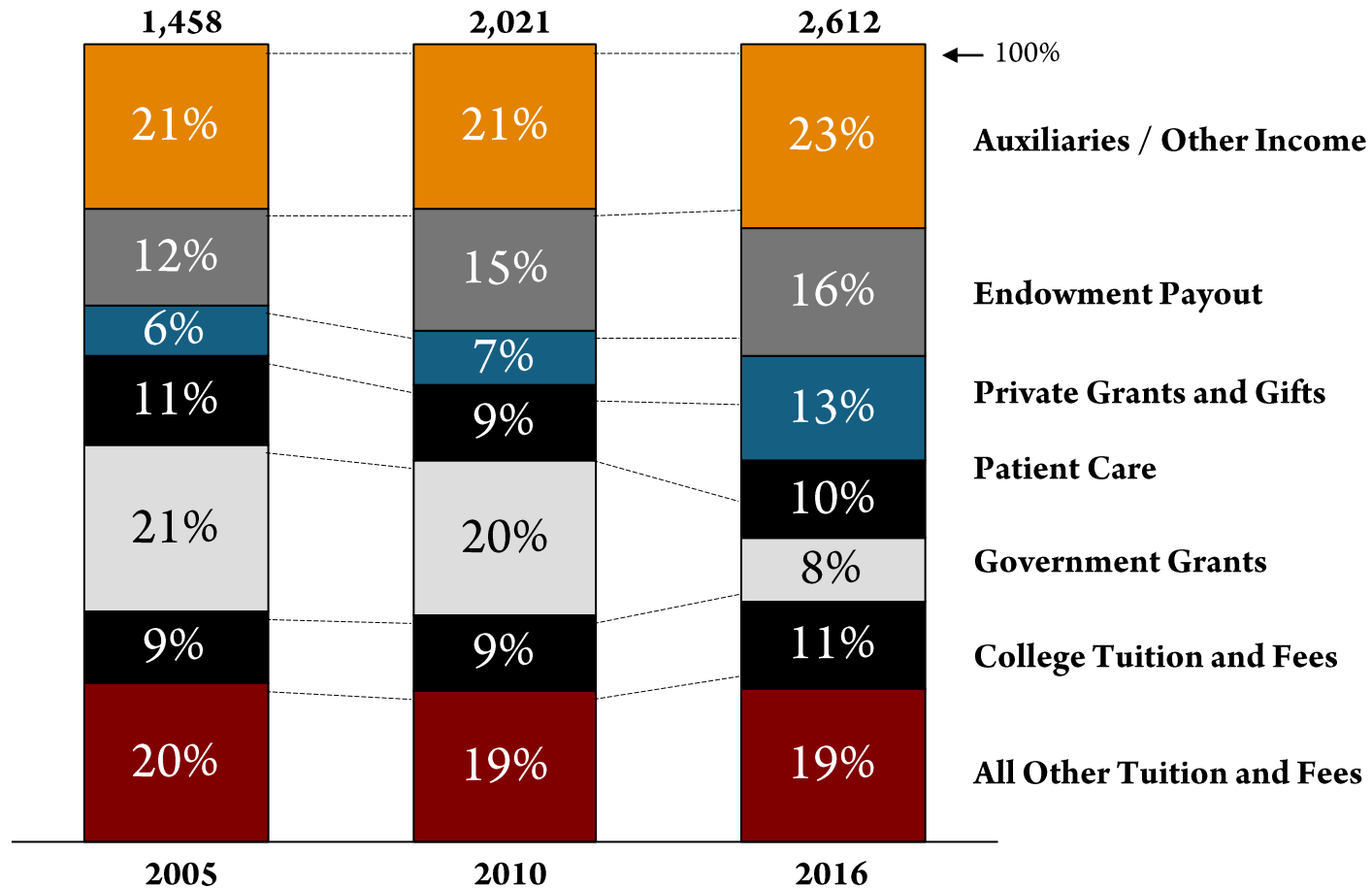
\$ in millions



Revenue: Change in Composition (University)

Operating Revenues

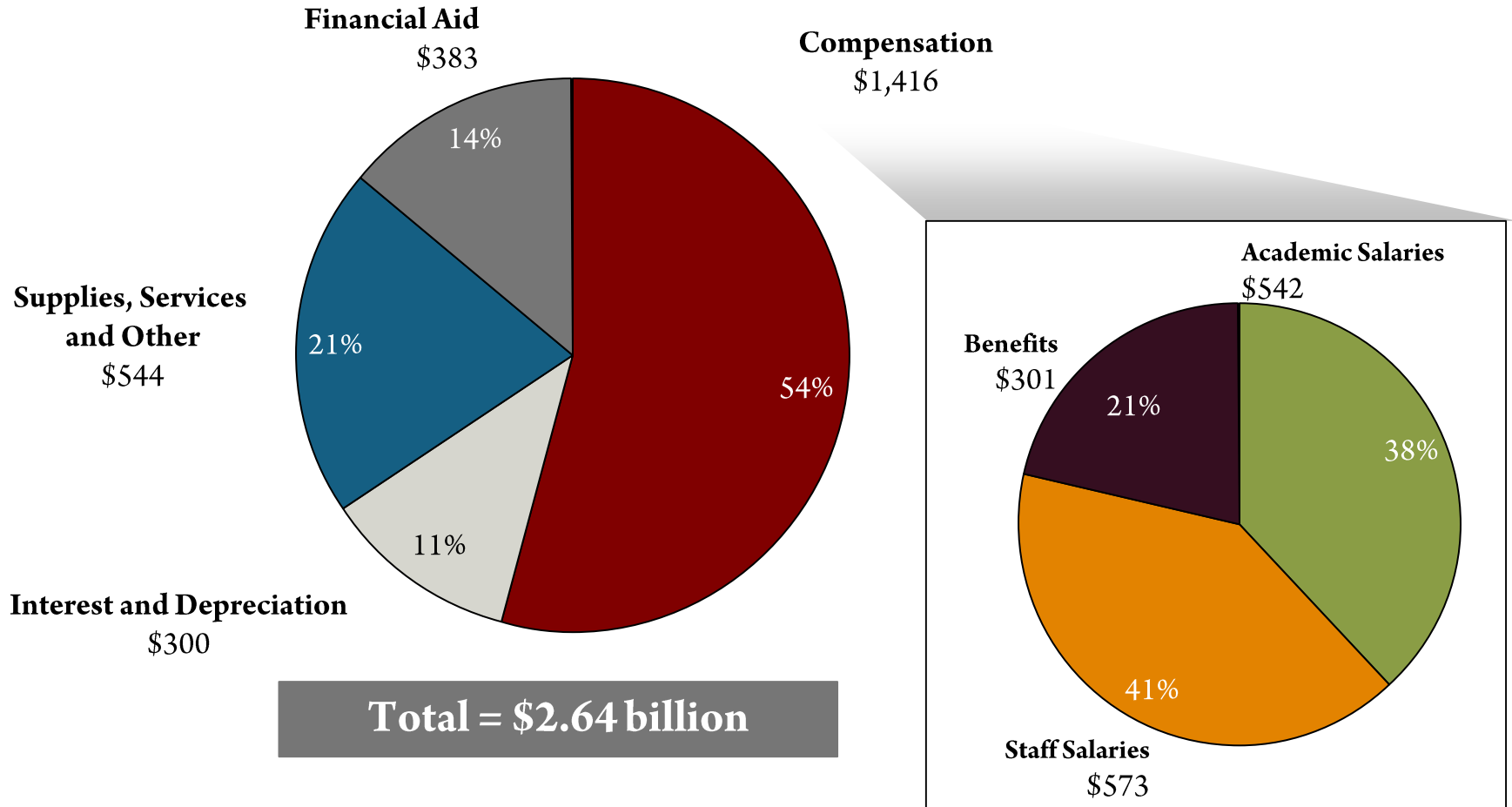
% of total operating revenue / \$ in millions



Expenses: Operating Expense Breakdown (University)

FY2016 Operating Expenses

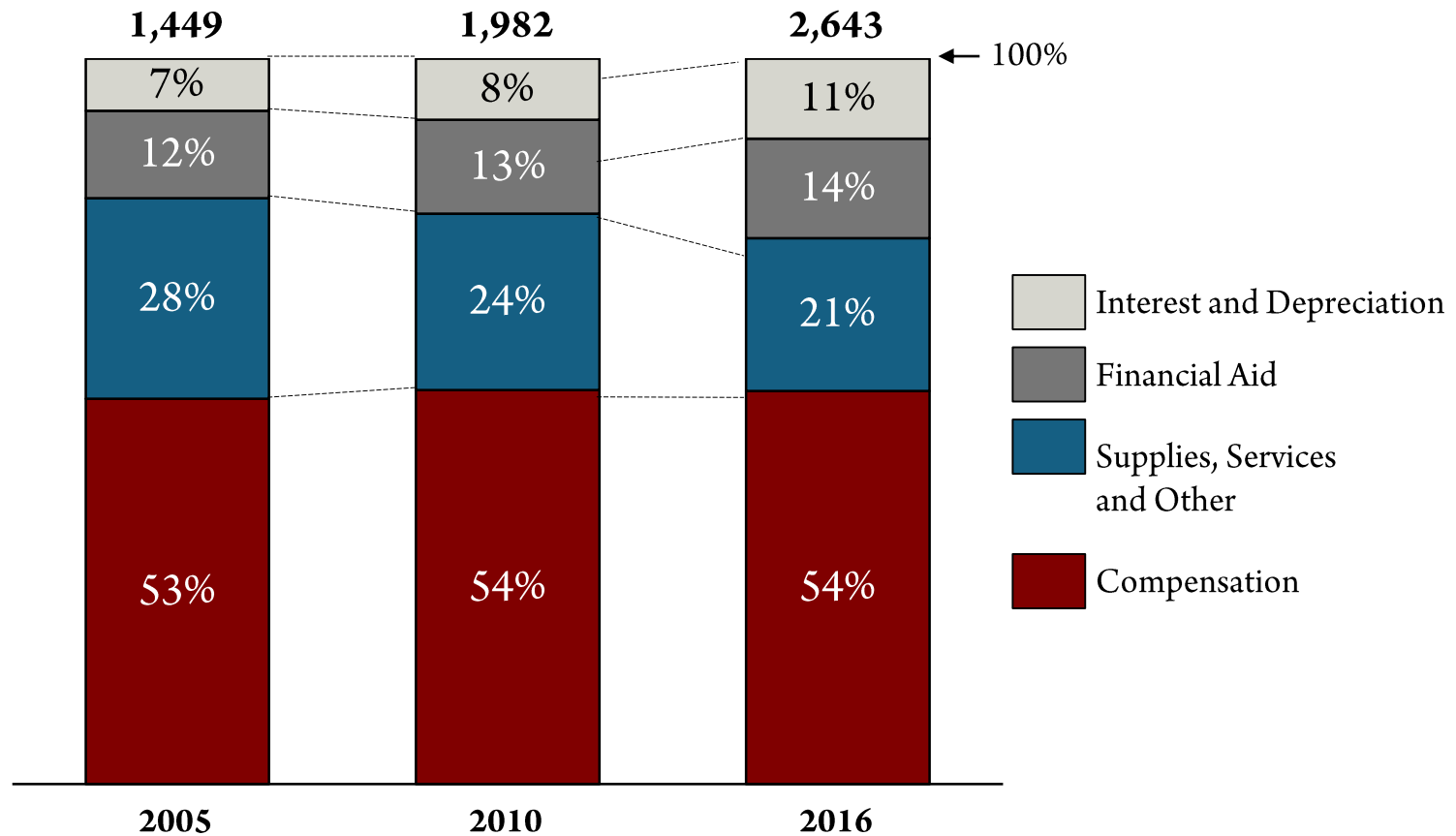
\$ in millions



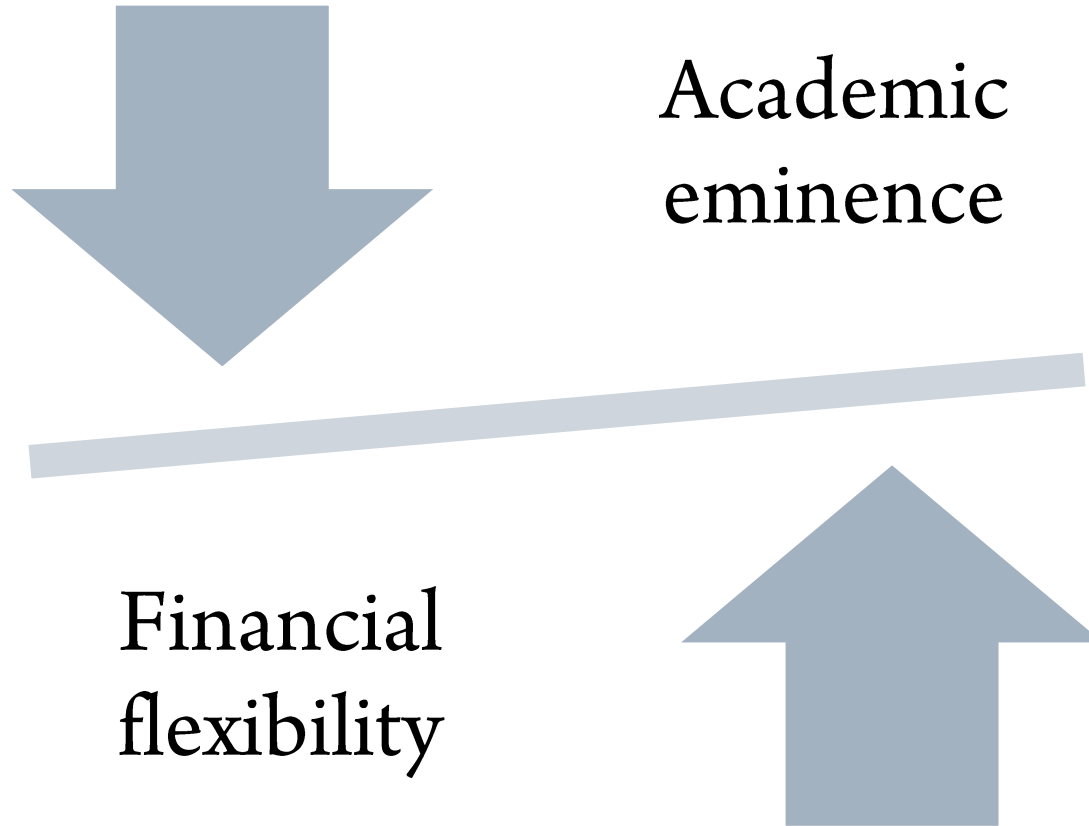
Expenses: Change in Composition (University)

Operating Expenses

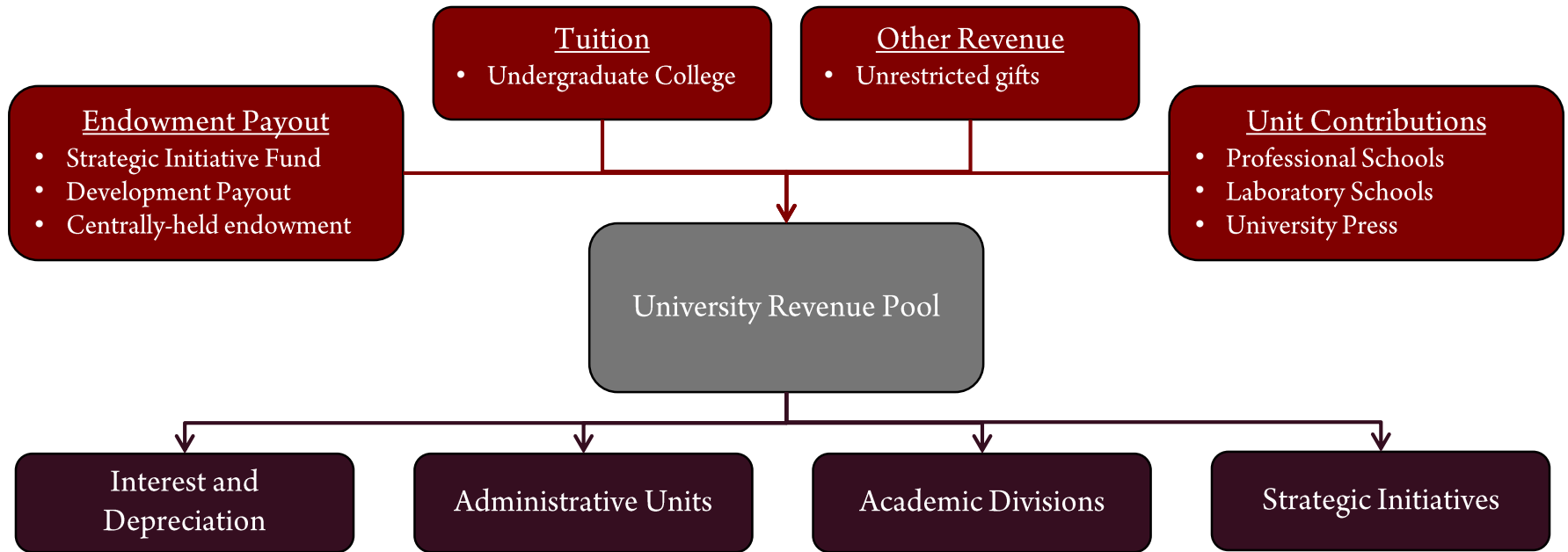
% of total operating revenue / \$ in millions



Budget Challenges

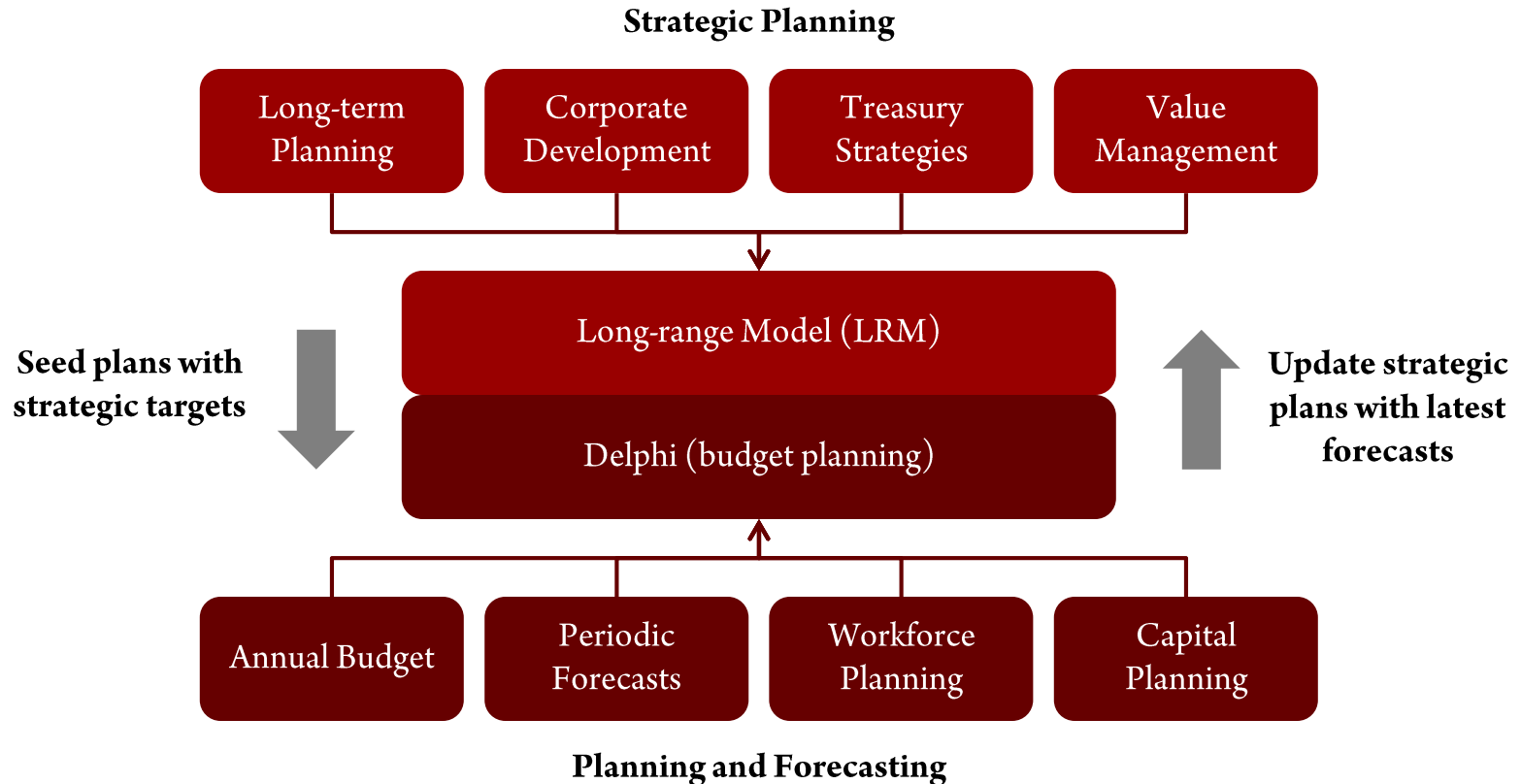


Budget Flow



Budget and Strategic Planning Integration

Through increased use of technology, the budget and strategic planning processes are closely aligned and updated easily



Budget and Strategic Planning Integration

Activity	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY17 Budget Approval by Board	▲												
FY Close and Financial Reporting		■											
Strategic Planning Process													
Financial Strategy Group Meetings					◆	◆	◆	◆	◆	◆	◆	◆	
Capital Planning Committee Meetings					◆	◆	◆	◆	◆	◆	◆	◆	
Trustee Committee Meetings						▲				▲			
Operating Budget Process													
Budget Office prepares Unit Targets			■										
Dean's Meetings				■									
Unit Budget Formation					■								
Provost Final Review and Approval											■		
Quarterly Operating Reviews					◆			◆				◆	
Capital Budgeting Process													
Annual Unit Submissions			■										
Provost Review and Approval					■								
Quarterly Capital Reviews			◆		◆			◆		◆			
FY18 Budget Approval by Board													▲