



University of Toronto

VICE-PRESIDENT, BUSINESS AFFAIRS – FINANCIAL SERVICES DEPARTMENT

TO: Business Board

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DATE: January 8, 2004 for January 19, 2004

AGENDA ITEM: 10

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2004, prepared as of December 15, 2003.

JURISDICTIONAL INFORMATION:

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

PREVIOUS ACTION TAKEN:

On April 7, 2003 the Business Board concurred with the Academic Board that the Operating Budget for 2003-04 be approved. On June 19, 2003, the Business Board reviewed the University's financial statements for the year ended April 30, 2003 and recommended them to Governing Council for approval.

HIGHLIGHTS:

The attached forecast of the University's financial position at April 30, 2004 differs from past forecasts by going beyond the operating fund and the endowment to project the revenues, expenses, net loss, and change in capital for the entire University. It includes accounting estimates for pension and benefits expense and liability and for depreciation.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2004 using current year-to-date actual figures and estimation based on trend analysis of prior years. We have good information on most centrally controlled revenues and expenses, but little or no information at this time, other than historical information, on divisionally controlled revenues or expenses.

Collectively, these forward looking estimates are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by this forecast. Thus, this forecast should be viewed as a ballpark estimate of the year-end results, given the resources and information available.

We will be continuing to work to refine these estimates as the year progresses and will provide regular updates. We are also continuing to work to try to improve our information from divisions. This forecast contains several elements:

- 1) The forecasted statement of operations and statement of changes in capital project the net loss and capital at April 30, 2004, with comparison to April 30, 2003.
- 2) The operating fund forecast for 2003-04 provides a variance analysis for the Operating Budget Report for 2003-04.
- 3) Operating funds committed for specific purposes provides explanation of a portion of the statement of changes in capital.
- 4) The endowment forecast provides explanation of a portion of the statement of changes in capital.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

Projected Net Loss:

This forecast projects a \$60.2 million net loss at April 30, 2004, as compared to a \$164.4 million net loss at April 30, 2003. This improvement results primarily from projected investment revenue of \$69.9 million this year, as compared to a \$55.6 million loss last year, an improvement of \$125.5 million.

Projected Capital:

This forecast projects an increase in capital from \$1.2642 billion to \$1.2784 billion, an improvement of \$14.2 million. This improvement is the sum of the \$60.2 million net loss, \$34.4 million investment gain on externally restricted endowments (which is not included in investment revenue) and \$40.0 million projected endowed donations and grants. The capital of \$1.2784 billion is projected to be composed of \$1.1686 billion endowment, \$151.7 million equity in capital assets, \$8.6 million negative for committed capital and \$33.3 million cumulative deficit.

Projected Cumulative Deficit and Committed Capital:

This forecast projects a \$33.3 million cumulative deficit as compared to last year's cumulative deficit of \$67.2 million. The improvement is primarily due to a transfer of \$88.1 million from committed capital.

Committed capital, which primarily reflects divisional carry-forwards offset by pension and employee future benefits, is projected to decline by the same amount, reducing it from \$79.5 million to a negative \$8.6 million, primarily due to increases in pension and benefits liabilities.

At this time, we have not received divisional forecasts; therefore, committed capital includes divisional carry-forwards at \$68.0 million, unchanged from last year. The divisional carry-forward number, and thus the committed capital number, will be updated once that information has been received.

Projected Operating Fund Deficit:

The operating fund projects a cumulative deficit of \$16.2 million at April 30, 2004, as compared to a budgeted cumulative deficit of \$14.6 million and a budgeted Governing Council maximum deficit of \$14.7 million. This \$16.2 million cumulative deficit is about half of the University's overall projected cumulative deficit of \$33.3 million. Almost all the rest represents depreciation of financed capital projects.

RECOMMENDATION:

For information.

**University of Toronto
Forecast
to April 30, 2004**
(at December 15, 2003)



University of Toronto
Forecast 2003-2004

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UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN OPERATIONS
For the fiscal year ended April 30, 2004
 (with comparative actual figures at April 30, 2003)
 (millions of dollars)

	Forecasted Actuals 2004	Actuals 2003
	\$	\$
Revenues	1,412.9	1,192.7
Expenses	<u>1,473.1</u>	<u>1,357.1</u>
Net Loss	(60.2)	(164.4)
Investment gain/(loss) on externally restricted endowments	34.4	(111.8)
Externally endowed contributions (page 8)	40.0	39.9
Capital, beginning of year	<u>1,264.2</u>	<u>1,500.5</u>
Capital, end of year	<u><u>1,278.4</u></u>	<u><u>1,264.2</u></u>

FORECASTED STATEMENT OF CHANGES IN CAPITAL

Endowments	1,168.6	1,062.3
Equity in capital assets	151.7	189.6
Committed capital	(8.6)	79.5
Unrestricted capital (deficit)	<u>(33.3)</u>	<u>(67.2)</u>
Capital, end of year	<u><u>1,278.4</u></u>	<u><u>1,264.2</u></u>

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Changes made up of:

Net loss	(60.2)
Investment gains on externally restricted endowments	34.4
Endowed donations and grants	<u>40.0</u>
	<u><u>14.2</u></u>

UNIVERSITY OF TORONTO
Operating Fund Forecast
For the year ending April 30, 2004
(millions of dollars)

	Budget	Forecasted Actuals	Variance to Budget fav/(unfav)
	\$	\$	\$
Revenue (page 4)	977.6 ^[1]		
Amortization of Investment Losses	<u>(10.0)</u>	967.6	989.6 ^[3]
			22.0
Expense (page 6)	(967.9) ^[1]	(991.9) ^[3]	(24.0)
Sub-total	<u>(0.3)</u>	<u>(2.3)</u>	<u>(2.0)</u>
Transfer from Capital Fund	19.7 ^[1]	19.7	-
Annual Surplus	<u>19.4</u>	<u>17.4</u>	<u>(2.0)</u>
Deficit, beginning of year	(34.0) ^[1]	(33.6) ^[2]	0.4
CUMULATIVE DEFICIT	<u><u>(14.6)</u></u>	<u><u>(16.2)</u></u>	<u><u>(1.6)</u></u>

^[1] As per the Budget Report for 2003-2004 (see pages 9 & 10)

^[2] This is the actual deficit for fiscal year ending April 30, 2003

^[3] Actual revenues and expenses as reported in the financial statements will differ from these figures by the difference in faculties and divisions, between budgeted and actual allocations. These differences, whether positive or negative, are carried forward to next year as "funds committed". (See page 7 for more details)

University of Toronto
Forecast 2003-2004 (Operating Fund)
Explanation of Major General University Operating Revenue and Expense Variances

GU - General University items that have an economic impact on the surplus or deficit position
 DIV - Divisional items whether positive or negative, are carried forward to the next year as funds committed (see page 7)

Name	Budgeted (\$ amounts in millions of dollars)	Projected	Variance	Explanation
OPERATING REVENUES				
GU: Provincial Grants	412.9	428.8	15.9	The favourable variance of \$15.9 million in government grants is due to: (a) a favourable \$5.4 million enrolment growth negotiated in the April 2003 Enrolment Target Agreement with MTCU and higher than planned Summer/Fall enrolments. (b) a \$4.4 million unfavourable variance from the Accessibility Fund. The Accessibility Fund of \$4.4 million funded by MTCU for 2003-2004 will not materialize. As this funding source has adverse financial implications on all Ontario universities, COU has taken the lead position to negotiate a final settlement. c) a favourable \$0.3 million in performance based funds. This fund is based on factors associated with student graduation and employment rates. d) a favourable \$14.6 million in the Ministry's announcement of Quality Assurance Fund. The funds were announced as part of the 2003 Ontario Budget in May 2003 and therefore was not part of the 2003-2004 Budget Report.
GU: Student Fees	320.2	329.5	9.3	The university provides an enrolment count to the Ministry of Training, Colleges and Universities as at November 1, 2003. This count forms the basis for this forecast of student fees, which are expected to be over budget by \$9.3 million. The increase is due to an increase in the number of students negotiated in the April 2003 Enrolment Target Agreement with MTCU.
GU/DIV: Endowment Income	28.7	28.7	0.0	The endowment income budget of \$28.7 million is comprised of \$18.4 million in general university income and \$10.3 million in divisional revenue. The \$18.4 million is related to a book entry made to report student aid paid from restricted funds in the operating fund. This income budget is offset by an expense budget in the same amount, and any variance will be offset by an opposite variance in the expense budget, resulting in no impact to the deficit position. The \$10.3 million is related to the Endowed Chair Program and Ontario Graduate Scholarships (OGS & OGSST). The variance for this item will be part of the divisional carryforward with no impact to the deficit position.
GU: Federal Grants	29.3	29.3	0.0	Composed of: Canada Research Chairs \$29.3 million. At this time there is no forecasted variance.

Name	Budgeted (\$ amounts in millions of dollars)	Projected	Variance	Explanation
GU: Indirect Cost Recovery on Federal Research Grants	15.8	15.2	(0.6)	This represents Federal government funding of the indirect costs of federally funded research. The sharing agreement of the federal indirect cost of research grant with the affiliated hospitals has been finalized and resulted in a reduction in the grant available to the University of \$0.6 million.
GU: Stewardship and Investment Management Fee	7.6	7.6	0.0	These fees represent costs associated with endowment stewardship of \$5.7 million and indirect costs of investment management of \$1.9 million which are incurred within the University. These fees are recovered from the long-term capital appreciation pool, the expendable funds investment pool, and in the case of the latter fee, from pension funds. The intent is to recover these funds as planned.
GU: Investment Income Adjust: Amortization of Loss	11.3 (10.0) <u>1.3</u>	15.4 (14.1) <u>1.3</u>	4.1 (4.1) <u>0.0</u>	The favourable investment income variance of \$4.1 million is due to a forecasted overall investment income return of 4.7%, which is higher than the budgeted return of 3.9% resulting in a positive variance of 0.8%. In addition, net capital is projected to be slightly higher than the budget, but the increase is mostly offset by a higher than anticipated distribution to pool participants. The \$4.1 million favourable variance reduces unamortized investment losses from previous years, hence reducing planned amortizations in future years.
GU: Other Income	27.4	24.8	(2.6)	This budget item is composed primarily of: overhead on contract research (\$10.8 million), application fees (\$6.0 million), overhead charged to academic programs (\$1.8 million), contributions from parking (\$1.0 million) and ancillary operations (\$0.87 million).
				The research overhead unfavourable variance of \$2.6 million is due to 1) \$1.6 million in overhead from research grant funding commitments made by the technology sector which will not materialize this year and 2) an unfavourable variance of \$1.0 million as a result of the ancillary operation decision to finance the debt associated with the BCIT parking garage combined with an increase in the ancillary parking operations capital reserve requirement. The ancillary is therefore unable to contribute to the operating budget as originally planned.
DIV - Divisional Income	124.4	124.4	0.0	This category is comprised of revenue items which are budgeted in divisions and include \$79.3 million in student fees for self-funded programs (i.e. executive MBA) or student ancillary fees, \$40.8 million for revenue from services, and \$4.3 million in government grants received directly by divisions. Any variances in this category are carried forward to the following year as funds committed and thereby do not have an economic impact on the surplus or deficit position.
Total Revenues	967.6	989.6	22.0	
As a % of Budget	100.0%	102.3%	2.3%	

Name	Budgeted	Projected	Variance	Explanation
	(\$ amounts in millions of dollars)	in millions of dollars)		
OPERATING EXPENDITURES				
GU: Staff Benefits	0.0	0.0	0.0	Staff benefits are budgeted centrally and that projected cost is budgeted to be recovered from divisions using a standard costing method. At the time of this forecast there is no variance to report on a budget of \$107.1 million.
GU: Enrolment Growth Fund	27.2	41.0	(13.8)	The budget report includes a strategy that provides funding for academic divisions whose enrolment is greater than the target enrolment assumed in the budget. An unfavourable variance of \$13.8 million is due to a combination of 1) increase in allocations of \$9.2 million to divisions for enrolment growth, negotiated in the April 2003 Enrolment Target Agreement with MTCU and higher than planned for Summer and Fall enrolments 2) \$1.9 million for enhancements to the Student Information Systems (SIS) and 3) \$2.7 million to support student housing.
GU: COPC Contingency	3.9	3.6	0.3	The COPC Contingency utilizes a pooled approach to address possible variances. The favourable variance of \$0.3 million is comprised primarily of (a) favourable increase of \$1.8 million in foreign currency fluctuations due to exchange rates being lower than budgeted rates increases; (b) an increase in operating costs on new space at 500 University Ave of \$0.9 million and Toronto District School Board Building of \$0.4 million and (c) an unfavourable variance of \$0.2 million due to other items such as the Job Evaluation program re USWA Release Time.
GU: Utilities	25.7	25.7	0.0	The utilities budget comprises the costs for steam, oil, gas, power, water, and chilled water, as well as the costs of operating the central steam plant, electrical distribution and co-generation facilities. There is no variance expected at this time.
GU: Legal Expenses	2.8	3.8	(1.0)	The university is anticipating an unexpected increase in legal expenses resulting from recent litigation.
Canada Research Chair Recovery	29.6	31.8	(2.2)	The unfavourable variance of \$2.2 million is due to the lower than budgeted overhead recovery expectation which is not being anticipated in future. Since the inception of the CRC program, actual chair counts have been lower in fiscal years 2001-2002 and 2002-2003 for a shortfall of \$1.2 million and again for 2003-2004 resulting in a shortfall of \$1.0 million.
OTO Budget Reduction	(7.3)	0.0	(7.3)	The 2003-2004 Budget Report reflected an OTO clawback of 1.46% (or \$7.3 million) which would be reduced or eliminated if increased revenue was realized through a number of potential sources. One of these unexpected sources was the Quality Assurance Fund from MTCU to support the quality of postsecondary education.

Name	Budgeted	Projected	Variance	Explanation
	(\$ amounts in millions of dollars)			
GU/DIV: Other General and Divisional Expenses	886.0	886.0	0.0	Divisional differences, whether positive or negative, are carried forward to next year as funds committed. General university variances impact the the surplus or deficit position.
Total Expenses	967.9	991.9	(24.0)	
As a % of Budget	100.0%	102.5%	-2.5%	

University of Toronto
Forecast 2003-2004
Operating Funds Committed For Specific Purposes

Description		Planned April 30, 2004	Forecast April 30, 2004	Variance
	Divisional appropriations carried forward *	68.0	68.0	-
1	Research overhead	6.3	6.8	0.5
2	Other	10.8	10.8	-
	Funding sub-total	85.1	85.6	0.5
3	Employee future benefits other than pensions	(68.0)	(97.1)	(29.1)
4	Vacation pay liability	(9.8)	(10.3)	(0.5)
5	VEARP repayments	(3.9)	(4.2)	(0.3)
6	Pension liability	(30.0)	(102.0)	(72.0)
7	EFIP investment losses deferred	(47.6)	(33.5)	14.1
	Non-funding sub-total	(159.3)	(247.1)	(87.8)
		(74.2)	(161.5)	(87.3)

* includes purchase orders

- 1) Research overhead: Research overhead recoveries from customers in the calendar year are appropriated and available for spending in the following fiscal year.
- 2) Other: These represent unspent funds in respect of approved capital projects in progress at the end of the fiscal year and various initiatives to enhance the quality, structure and organization of programs and activities.
- 3) Employee future benefits other than pensions: these benefits include medical plans for pensioners, long-term disability and survivor income benefits. The future cost of these benefits must be recorded as an expense when earned instead of being expensed when premiums are paid. The amount shown above, which has been determined by the university's actuary, is recorded as a reduction to funds committed since this cost will be paid by divisions in future years or the prospective method. This amount is estimated to increase to \$158.1 million in the future.
- 4) Vacation pay liability: a vacation pay expense and a corresponding liability must be recorded to show the cost of vacation earned but not taken by non-academic employees. In the future, the divisions will incur these accrued vacation pay expenses.
- 5) VEARP repayments: the cost incurred under the voluntary early academic retirement program (VEARP) must be recorded as an expense when an individual decides to retire and the university agrees, not when the actual retirement occurs. Certain faculties pay the cost of early retirements over a maximum of three years.
- 6) Pension liability: The pension plan liability is recorded as a reduction in funds committed since the cost will be paid by divisions in future years.
- 7) EFIP investment losses deferred to future years: prior year's investment losses incurred by the expendable funds investment pool for the period to April 30, 2003 are being written-off against operations over 5 years from 2002-2003 to 2006-2007. The improving position of the fund is due to favourable investment returns thereby allowing for a further write-off than planned. Minimal losses are expected after April 30, 2003 due to a planned change to the long-term investment strategy.

**University of Toronto
Forecast 2003-2004
Endowment Forecast**

	Fiscal Year 2003	Forecasted Fiscal Year 2004
Opening Balance, May 1	1,199.7	1,062.3
Investment earnings	(142.5)	89.9
Less: endowment payout	(43.0)	(46.9)
	(185.5)	43.0
Externally endowed donations and grants	39.9	40.0
Transfers of donations to endowments	8.2	23.3
Balance	1,062.3	1,168.6

University of Toronto
Forecast 2003-2004
Excerpt from Budget Report 2003-2004

Table 1: Long Range Budget Projection (\$M)

Table 1: Long Range Budget Projection (\$M)																				
Projection of Operating Revenue																				
Provincial Operating Grants																				
Tuition Fees																				
Total Grants plus Fees																				
Endowment Revenue for Chairs and Student Aid																				
Revenue from a New Endowment for Graduate Student Aid																				
Canada Research Chairs																				
Indirect Cost Recovery on Federal Research Grants																				
Stewardship and Investment Management Fees																				
Investment Income																				
Other Income																				
Divisional Income																				
Total Operating Revenue																				
Projection of Operating Expenditures																				
Operating Expenditures, Beginning of Budget Process for the Year																				
Changes in Operating Expenditures, Year-Over-Year:																				
Expenditures Funded by Endowment for Chairs and Student Aid																				
Partial Funding to Assist Divisions in Adjusting to Lower Endowment Payout																				
Expenditures Funded by Divisional Income																				
Contractual Obligations and Policy Commitments																				
OTO Changes in Contractual Obligations and Policy Commitments																				
Cost of Compensation Settlements																				
Compensation Savings Due to Faculty Retirements																				
Enrolment Growth Fund																				
Student Aid Reinvestment																				
New Graduate Student Aid Funds																				
Canada Research Chair Fund (CRCF)																				
Salary Budget Transfers to Canada Research Chairs Fund																				
Academic Priorities Funding (APF)																				
Funds Available through Reallocation																				
Quality Enhancement Funds from Tuition Revenue																				
Other																				
Allocation to Divisions from Federal Indirect Cost Recoveries																				
Administrative Priorities																				
Campaign Costs																				
Allocation to Rotman Under RCM, including MBA Fee Increases																				
Allocation to Scarborough Under RCM																				
Allocation of Revenue to OISE/UT																				
Budget Reductions Remaining from Previous Plan																				
Performance Based Funding																				
New Reduction Requirement																				
Reallocation Requirement																				
Operating Expenditure Budget For the year																				
Operating Surplus/(Deficit) for the year																				
Six Year Previous																				
Total																				
Change																				
Total																				
Variance																				

University of Toronto
Forecast 2003-2004
Excerpt from Budget Report 2003-2004

Table 2: Long Range Budget Projection (\$M)

	1998-99 Actual	1999-2000 Actual	2000-01 Actual	2001-02 Forecast	2002-03	2003-04
Planned Annual Operating Surplus/(Deficit)	\$ (15.1)	\$ (0.8)	\$ (5.4)	\$ (10.4)	\$ (17.0)	\$ -
Current Service Pension Savings Available for Reallocation		16.8	17.7	18.6	19.8	21.2
Required Contribution to Pension Plan						(18.8)
Redirection of Pension Savings Previously Allocated to UIIF	(15.1)	16.0	12.3	8.2	2.8	22.1
Transfer to Academic and Administrative Transitional funds	(2.5)	(3.6)	(1.8)			
Matching Fund Requirements						0.0
Amortization of Investment Losses				(9.0)	(7.2)	(10.0)
Transfer to Graduate Aid Endowment				(3.0)		
Transfer to Infrastructure Investment Fund		(14.3)	(14.1)	(14.8)		
	\$ (15.1)	\$ (0.8)	\$ (5.4)	\$ (20.4)	\$ (4.4)	\$ 12.1
One Time Only Deficit Control Measures	2.2	1.2	2.4	13.5		7.3
Budgeted Surplus/(Deficit) for the Year	\$ (12.9)	\$ 0.4	\$ (3.0)	\$ (6.9)	\$ (4.4)	\$ 19.4
Adjustment of Budget to Forecast Actual	\$ 5.2	\$ 0.7	\$ (2.4)	\$ (0.4)	\$ (11.6)	
Accumulated Surplus/(Deficit), Beginning of Year	1.4	(6.3)	(5.3)	(10.7)	(18.1)	(34.0)
Accumulated Surplus/(Deficit), End of Year	\$ (6.3)	\$ (5.3)	\$ (10.7)	\$ (18.1)	\$ (34.0)	\$ (14.6)
Maximum Deficit Permissible by Policy	\$ (9.4)	\$ (10.1)	\$ (11.3)	\$ (12.2)	\$ (13.3)	\$ (14.7)