UNIVERSITY OF TORONTO

OFFICE OF THE GOVERNING COUNCIL

**FOR INFORMATION** **PUBLIC** **OPEN SESSION**

**TO:** Business Board

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**PRESENTER:** Sheila Brown, Chief Financial Officer
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**DATE:** January 7, 2015 for January 26, 2015

**AGENDA ITEM:** 10

## ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2015, prepared as of January 7, 2015.

## JURISDICTIONAL INFORMATION:

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

## GOVERNANCE PATH:

1. **Business Board (January 26, 2015)**

## PREVIOUS ACTION TAKEN:

On March 3, 2014, the Business Board concurred with the Academic Board that the Operating Budget Report for 2014-15 be approved. On June 12, 2014 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2014 and recommended them for Governing Council for approval.

## HIGHLIGHTS:

This forecast projects the revenues, expenses, net income and changes in net assets for the entire University across all four funds – operating, ancillary, capital, and restricted - including accounting estimates for pension and benefits' expense and liability and for depreciation.

This forecast should be viewed as a reasonable ballpark estimate of the year-end results, given the resources and information available. It contains forward looking information, which is subject to risks and uncertainties that could cause the actual results to differ materially from those contained in this forecast.

At this time we have good information on some revenues and expenses for 2015 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary from year to year.
- We have interim information on divisionally controlled revenues and expenses.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2015 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- Investment return (LTCAP and pension/benefits) of 7.3%.
- Endowment payout of $76.3 million for 2014/15.
- Increase of $72.8 million in divisional and central general reserves and $76.8 million for future divisional capital expenditures, of which both contribute to the creation of net income for the year.

A sensitivity analysis on page 2 of the report shows the impact of varying investment returns (LTCAP and pension/benefits) on net income and net assets at 3.0%, 7.3%, 9.0% and 11.0% for the year. It also shows forecasted net income under all four scenarios.

Incorporating all of the above, net income for the year is projected to be $194.4 million, at the 7.3% investment return rate. The projected range is from $174.2 million (at 3% investment return) to $211.9 million (at 11% investment return). Net assets are projected to be $3.9 billion, at the 7.3% investment return rate. The projected range is from $3.67 billion (at 3% investment return) to $4.42 billion (at 11% investment return).

The operating fund unrestricted deficit is projected to be $5.7 million, as compared to a budgeted cumulative deficit being reduced to nil. This change is primarily due to decreases in provincial operating grants. The sensitivity analysis does not impact this figure.

## FINANCIAL IMPLICATIONS:

Refer to highlights.

## RECOMMENDATION:

For information.

## DOCUMENTATION PROVIDED:

Financial Forecast to April 30, 2015, as at January 7, 2015

UNIVERSITY OF
TORONTO

# Financial Forecast to April 30, 2015

## as at January 7, 2015

**University of Toronto**
**Financial Forecast**
**Sensitivity analysis**
**For the fiscal year ending April 30, 2015**
**(millions of dollars)**

| | | | | |
|---|---|---|---|---|
| **Impact of investment returns on Net Income and Net Assets:** | 3.0% | 7.3% | 9.0% | 11.0% |
| **Revenues** | 2,780.6 | 2,800.8 | 2,808.9 | 2,818.3 |
| **Expenses** | 2,606.4 | 2,606.4 | 2,606.4 | 2,606.4 |
| **Net Income** | **174.2** | **194.4** | **202.5** | **211.9** |
| **Remeasurement of pensions and other employee future benefits** | (428.9) | (277.0) | (216.5) | 161.1 |
| **Preservation (drawdown) of capital for externally restricted endowments** | (16.9) | 52.9 | 80.6 | 113.0 |
| **Externally endowed contributions** | 38.5 | 38.5 | 38.5 | 38.5 |
| **Net assets, beginning of year** | 3,900.2 | 3,900.2 | 3,900.2 | 3,900.2 |
| **Net assets, end of year** | **3,667.1** | **3,909.0** | **4,005.3** | **4,424.7** |
| **Net assets, end of year:** | | | | |
| **Unrestricted deficit** | (116.1) | (116.1) | (116.1) | (116.1) |
| **Internally restricted - Cash reserves** | 828.4 | 835.0 | 837.6 | 840.6 |
| **Internally restricted - Unfunded employee future benefit liability** | (1,646.6) | (1,492.4) | (1,430.9) | (1,052.2) |
| **Internally restricted - Investment in capital assets** | 2,683.8 | 2,683.8 | 2,683.8 | 2,683.8 |
| **Endowments** | 1,917.6 | 1,998.7 | 2,030.9 | 2,068.6 |
| | **3,667.1** | **3,909.0** | **4,005.3** | **4,424.7** |
| **Unrestricted deficit by fund:** | | | | |
| **Operating fund** | (5.7) | (5.7) | (5.7) | (5.7) |
| **Ancillary operations** | (55.9) | (55.9) | (55.9) | (55.9) |
| **Capital fund** | (54.5) | (54.5) | (54.5) | (54.5) |
| **Restricted funds** | 0.0 | 0.0 | 0.0 | 0.0 |
| | **(116.1)** | **(116.1)** | **(116.1)** | **(116.1)** |

## Introduction

This forecast projects the revenues, expenses, net income and changes in net assets for the entire University across all four funds – operating, ancillary, capital, and restricted - including accounting estimates for pension and benefits' expense and liability and for depreciation.

This forecast should be viewed as a reasonable ballpark estimate of the year-end results, given the resources and information available. It contains forward looking information, which is subject to risks and uncertainties that could cause the actual results to differ materially from those contained in this forecast.

At this time we have good information on some revenues and expenses for 2015 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary from year to year.

- We have interim information on divisionally controlled revenues and expenses.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2015 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- Investment return (LTCAP and pension/benefits) of 7.3%.
- Endowment payout of $76.3 million for 2014/15.
- Increase of $72.8 million in divisional and central general reserves and $76.8 million for future divisional capital expenditures, of which both contribute to the creation of net income for the year.

The sensitivity analysis on page 2 shows the impact of varying investment returns (LTCAP and pension/benefits) on net income and net assets at 3.0%, 7.3%, 9.0% and 11.0% for the year.

## UNIVERSITY OF TORONTO

### FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT

**For the fiscal year ending April 30, 2015**

(with comparative figures at April 30, 2014)

(millions of dollars)

| | Forecast | | | | | |
|---|---|---|---|---|---|---|
| | Operating fund | Ancillary Operations | Capital fund | Restricted funds | 2015 Total | 2014 Total |
| **REVENUES** | | | | | | |
| Student fees | 1,126.5 | 8.8 | 0.8 | | 1,136.1 | 1,039.0 |
| Government grants for general operations | 725.9 | | | | 725.9 | 706.0 |
| Government and other grants and contracts | 4.0 | 0.5 | 52.1 | 335.2 | 391.8 | 386.5 |
| Sales, services and sundry income | 141.4 | 159.1 | | | 300.5 | 309.8 |
| Investment Income: Endowment | 55.5 | | | 46.2 | 101.7 | 112.7 |
| Other | 45.5 | 0.4 | 1.2 | 2.1 | 49.2 | 65.9 |
| Donations | | 0.3 | 19.2 | 76.1 | 95.6 | 90.3 |
| | 2,098.8 | 169.1 | 73.3 | 459.6 | 2,800.8 | 2,710.2 |
| **EXPENSES** | | | | | | |
| Salaries | 1,073.7 | 7.3 | | 192.4 | 1,273.4 | 1,190.7 |
| Employee future benefits | 157.0 | 1.4 | | 17.1 | 175.5 | 206.2 |
| Other employee benefits | 125.9 | 0.5 | | 4.3 | 130.7 | 126.0 |
| Materials and supplies | 80.3 | 1.7 | | 135.4 | 217.4 | 206.5 |
| Scholarships, fellowships and bursaries | 177.9 | | | 31.2 | 209.1 | 199.1 |
| Amortization of capital assets | 11.2 | 13.9 | 123.8 | 1.5 | 150.4 | 146.2 |
| Repairs and maintenance | 76.4 | 17.7 | 3.2 | 6.2 | 103.5 | 96.0 |
| Cost of sales and services | | 94.0 | | | 94.0 | 87.7 |
| Utilities | 46.1 | 10.8 | | 1.8 | 58.7 | 59.1 |
| External contracted services | 24.1 | | | 26.6 | 50.7 | 49.0 |
| Travel and conferences | 25.0 | | | 19.9 | 44.9 | 43.6 |
| Interest on long-term debt | 22.3 | 14.3 | | 1.6 | 38.2 | 38.8 |
| Telecommunications | 11.2 | | | 1.1 | 12.3 | 12.0 |
| Other | 32.9 | | 4.1 | 10.6 | 47.6 | 45.0 |
| | 1,864.0 | 161.6 | 131.1 | 449.7 | 2,606.4 | 2,505.9 |
| **Net income (loss)** | 234.8 | 7.5 | (57.8) | 9.9 | 194.4 | 204.3 |
| Net transfers **(1)** | 51.0 | (1.7) | 51.7 | (9.9) | 91.1 | (506.9) |
| Remeasurement of pensions and other employee future benefits | (277.0) | | | | (277.0) | 307.7 |
| **Net change in surplus/(deficit) for the year** | 8.8 | 5.8 | (6.1) | (0.0) | 8.5 | 5.1 |
| Deficit, beginning of year | (14.5) | (61.7) | (48.4) | | (124.6) | (129.7) |
| **Deficit, end of year** | (5.7) | (55.9) | (54.5) | (0.0) | (116.1) | (124.6) |
| **Internally restricted net assets** | (869.3) | 17.5 | 127.1 | 67.3 | (657.4) | (467.8) |
| **Investment in capital assets** | | 90.8 | 2,593.0 | | 2,683.8 | 2,611.8 |
| **Endowments** | | | | 1,998.7 | 1,998.7 | 1,880.8 |
| **Net assets, end of year** | (875.0) | 52.4 | 2,665.6 | 2,066.0 | 3,909.0 | 3,900.2 |

**(1)** Net transfers consist mainly of operating funds transferred to the capital fund for future expenditures, capital expenditures that will be depreciated in the capital fund in future years and funds set aside as internally restricted net assets.

## Projected Changes in Operations and Deficit

Total revenues are expected to increase by $90.6 million, from $2.71 billion in 2014 to $2.8 billion. Total expenses are forecasted to increase by $100.5 million, from $2.51 billion in 2014 to $2.61 billion.

This forecast projects a $194.4 million net income at April 30, 2015. The $194.4 million net income represents a net decrease of $9.9 million from last year's net income of $204.3 million. The net income of $194.4 million was mainly generated through expenditure savings for future capital projects and other academic priorities.

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

- At 3.0 % return — $174.2 million net income.
- At 7.3 % return — $194.4 million net income. – current forecast
- At 9.0 % return — $202.5 million net income.
- At 11.0 % return — $211.9 million net income.

## Projected Changes in Net Assets

This forecast projects an increase in net assets from $3.90 billion at April 30, 2014 to $3.91 billion at April 30, 2015. The increase of $8.8 million results from a projected net income of $194.4 million, decrease in internally restricted assets of $277.0 million due to the remeasurement of pensions and other employee future benefits, an investment gain of $52.9 million on externally restricted endowments, and $38.5 million in projected endowed contributions. Varying assumptions for the investment return (LTCAP and pension/benefits) would affect this result (assuming everything else remains the same) as shown on page 2:

- At 3.0% return — $3.67 billion net assets.
- At 7.3% return — $3.91 billion net assets. – current forecast
- At 9.0% return — $4.01 billion net assets.
- At 11.0% return — $4.42 billion net assets.

The projected net assets of $3.91 billion are composed of the following, each of which is discussed further in the following sections:

($116.1 million) unrestricted net deficit
($657.4 million) internally restricted net assets
$2,683.8 million investment in capital assets
$1.998 billion in endowments

UNIVERSITY OF TORONTO

FORECASTED STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDING APRIL 30, 2015

(with comparative figures for the year ended April 30, 2014; in millions of dollars)

| | Forecast | | | | | |
|---|---|---|---|---|---|---|
| | **Unrestricted deficit** | **Internally restricted** | **Investment in capital assets** | **Endowments** | **2015 Total** | 2014 Total |
| Net assets, beginning of year | **(124.6)** | **(467.8)** | **2,611.8** | **1,880.8** | **3,900.2** | 3,206.9 |
| Net Income | **194.4** | | | | **194.4** | 204.3 |
| Net change in internally restricted | **189.6** | **(189.6)** | | | | |
| Remeasurement of pensions and other employee future benefits | **(277.0)** | | | | **(277.0)** | 307.7 |
| Net change in investment in capital assets | **(72.0)** | | **72.0** | | | |
| Transfer to endowments | **(26.5)** | | | **26.5** | | |
| Investment gain on externally restricted endowments | | | | **52.9** | **52.9** | 144.2 |
| Externally endowed contributions | | | | **38.5** | **38.5** | 37.1 |
| Net assets, end of year | **(116.1)** | **(657.4)** | **2,683.8** | **1,998.7** | **3,909.0** | 3,900.2 |

**Projected Unrestricted Deficit:**

This forecast projects a cumulative unrestricted deficit of ($116.1 million) at April 30, 2015, as compared to last year's cumulative deficit ($124.6 million). The $116.1 million deficit is comprised of:

- ($5.7 million) operating fund unrestricted deficit as compared to the budgeted cumulative deficit being reduced to nil. The projected unfavorable variance of ($5.7 million) is due to $11.4 million less in government grants than budgeted, partially offset by more tuition fees revenue than budgeted of $4.6 million and a $1.1 million decrease in other costs. Please note that if the investment return (LTCAP and pension/benefits) is 3.0%, the operating fund cumulative deficit is still projected to be ($5.7 million) at April 30, 2015, as the investment return variations included in this forecast only impact the endowment and internally restricted balances.

- The balance of ($110.4 million) in unrestricted deficit is due primarily to the internal debt component of the University debt programme. Such internal loans will be paid down over time via blended principal and interest payments.

**Projected Internally Restricted Net Assets:**

Internally restricted net assets primarily reflect the unfunded portion of pension and employee benefits of ($1,492.4 million), partially offset by cash reserves of $835.0 million. Internally restricted net assets are currently projected to decrease from ($467.8 million) in 2014 to ($657.4 million) at April 30, 2015, mainly as a result of increasing employee future benefit expense obligations due to the adoption of the new pensioner mortality table/scale and other assumption changes.

**Projected Investment in Capital Assets:**

The $2,683.8 million investment in capital assets represents the value of land and internal monies spent by the University on capital projects which will be reduced over time as the depreciable assets are amortized. This amount is projected to increase from $2,611.8 million in 2014 to $2,683.8 million at April 30, 2015 primarily due to an increase in the internal funding of capital projects, partially offset by depreciation.

**Projected Endowments:**

This forecast projects endowments at $1.99 billion at April 30, 2015, an increase of $117.9 million from 2014, comprised as follows:

| | (millions of dollars) | |
|---|---|---|
| | Forecasted Fiscal Year 2015 | Fiscal Year 2014 |
| Opening Balance, May 1 | 1,880.8 | 1,663.7 |
| Investment income | 137.7 | 240.5 |
| Less: endowment payout | (76.3) | (72.6) |
| Endowed contributions and transfers | 56.5 | 49.2 |
| Balance | 1,998.7 | 1,880.8 |

This forecast assumes an LTCAP investment return on endowments of 7.3%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At 3.0% return $1.92 billion endowments.
- At 7.3% return $1.99 billion endowments. – current forecast
- At 9.0% return $2.03 billion endowments.
- At 11.0% return $2.07 billion endowments.