University of Toronto

VICE-PRESIDENT, BUSINESS AFFAIRS – FINANCE DIVISION

TO: Business Board

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AGENDA ITEM: 5

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2006, prepared as of December 21, 2005.

JURISDICTIONAL INFORMATION:

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

PREVIOUS ACTION TAKEN:

On April 4, 2005 the Business Board concurred with the Academic Board that the Operating Budget Report for 2005-2006 be approved. On June 23, 2005, the Business Board reviewed the University's audited financial statements for the year ended April 30, 2005 and recommended them to Governing Council for approval.

HIGHLIGHTS:

This forecast projects the revenues, expenses, net loss, and change in net assets for the entire University, including accounting estimates for pension and benefit expense, liabilities and for depreciation.

This forecast has been produced using a combination of current year-to-date actual figures and projections to April 30, 2006. Projections were based on trend analysis of prior years. 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 centrally controlled revenues and expenses, but we also have some significant uncertainties. The November 1, 2005 enrolment count, which is needed to firm up the government grant and tuition fee numbers have been determined. Planning and Budget is confident that the estimated number of students is sound.

Key uncertainties are: (a) that the government has not yet finalized the government funding arrangements for 2005-06 and (b) the University has not yet received the arbitrator's report for salaries and benefits arrangements retroactive to July 1, 2005 for faculty and librarians.

We also have little or no information, other than historical information, on divisionally controlled revenues or expenses, since divisions are in the process of providing us with their forecasts of their year-end results. Therefore, we have assumed that divisional revenue and expenditure patterns will be similar to those which occurred last year.

We will continue 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 Changes in Operations, Statement of Changes in Net Asset*, and *Forecasted Statement of Operations and Changes in Deficit* project the net loss and net assets at April 30, 2006, with comparison to April 30, 2005.

2) The *Operating Fund Forecast* provides a variance analysis for the *Operating Budget Report* for 2005-06.

3) The *Operating Fund Internally Restricted Net Assets Forecast* provides an explanation of the operating fund portion of the statement of changes in net assets.

4) The *Endowment Forecast* provides explanation of a portion of the statement of changes in net assets.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

Projected Net Loss:

This forecast projects a $17.4 million net loss at April 30, 2006 with projected revenues of $1.7 billion. This projected net loss includes:

$11.3 million net income for the operating fund.
($10.7 million) net loss for ancillary operations.
($41.7 million) net loss for the capital fund.
$23.7 million net income for restricted funds.

This $17.4 million projected net loss represents a net deterioration of $58.6 million from last year's net income of $41.2 million. The $58.6 million change is mainly explained by the receipt in 2005 of a $26.0 million grant for deferred maintenance revenues that is not projected to be repeated in 2006.

Revenues are forecasted to increase by $45.5 million over last year. If last year's deferred maintenance is excluded as one time only events, other revenues are projected to rise by $71.5 million from last year, primarily due to projected increases in government grants and tuition fees.

Expenses are forecasted to increase by $104.1 million over last year. Salaries and benefits are higher by $74.9 million, materials and supplies are higher by $9.2 million, utilities are higher by $7.0 million, scholarships, fellowships and bursaries are higher by $5.0 million and repairs and maintenance are higher by $6.1 million from last year.

The largest increase is in salaries and benefits, and reflects both growing numbers of staff (reflecting enrolment growth), increases to salaries and benefits rates including the increase in pension expense of $15.0 million.

Projected Net Assets:

This forecast projects an increase in net assets from $1.636 billion to $1.694 billion at April 30, 2006, an improvement of $58.8 million. This improvement results from $40.6 million projected endowed donations and grants and $35.6 million investment gain on externally restricted endowments (which is not included in investment revenue), offset by the $17.4 million projected net loss.

The net assets are projected to be comprised of $1.520 billion endowment, $304.6 million investment in capital assets and $74.8 million internally restricted net assets, partially offset by the $204.5 million (cumulative) unrestricted deficit.

The borrowing strategy approved by the Business Board in June provides for a maximum external borrowing capacity limit of 40% of net assets smoothed over 5 years. The 5 year smoothed net assets would be $1.517 billion at April 30, 2006, resulting in a maximum external borrowing capacity of $607 million, representing an increase of $13 million from April 2005.

Projected Unrestricted Net Assets (Cumulative Deficit) and Internally Restricted Net Assets:

This forecast projects a $204.5 million cumulative unrestricted deficit at April 30, 2006, as compared to last year's cumulative deficit of $144.8 million. The increase in the cumulative deficit is primarily due to the internal financing of capital projects in accordance with the approved borrowing strategy which resulted in an $83.5 million deficit in ancillaries and a $54.1 million deficit in the capital fund.

Internally restricted net assets, which primarily reflect divisional carry-forwards offset by pension and employee future benefits, is currently projected to decline from $91.7 million to $74.8 million, primarily due to a $30.9 million increase in employee future benefits expense offset by a $10.6 million decrease in EFIP investment losses.

At this time, we have not received divisional forecasts. Once we have received divisional forecasts, which will occur over the next couple of weeks, the divisional carry-forward number, and thus the internally restricted number, will be updated.

Projected Operating Fund Deficit (Operating Unrestricted Net Assets):

The operating fund forecast shown on pages 3-5 compares the approved operating budget, which is cash based, with the projected results for the year.

Operating fund revenues are projected to be $1.171 billion and expenses are projected to be $1.193 billion at April 30, 2006, for a deficit of $22.0 million. After transfers to other net asset categories the project operating fund deficit for the year is projected to be $23.2 million, increasing the operating cumulative deficit to $61.1 million.

The projected operating fund cumulative deficit of $61.1 million at April 30, 2006 is $5.8 million higher than the budgeted cumulative deficit of $55.3 million.

The budgeted Governing Council maximum cumulative deficit of 1.5% of operating fund revenue is currently projected at $18.4 million as of April 30, 2010.

Plans for Dealing with the Higher Operating Fund Deficit:

The six-year long range budget plan that commenced in 2004-05 projected an increased deficit for this year and provided for a 5% expense reduction for the 2006-07 year. The Provincial Government announced a $6.2 billion allocation to universities and colleges in May 2005. Final details regarding all of these allocations have not yet been confirmed. The size of the expense reductions might have been reduced, but Principals and Deans were aware that they would have to implement the full reduction if new revenues were not identified. It has now become apparent that this will likely not be possible and Principals and Deans have now been advised to prepare for a 5% reduction in 2006-07.

No further action is required for the current year. A budget for 2006-07 will be brought forward pending the outcome of the ongoing discussions with the provincial government regarding government funding and tuition fee policy. Any revised budget will also need to take account of the results of the arbitrator's award to faculty and librarians if it is higher than budgeted.

RECOMMENDATION:

For information.