University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS – FINANCE

TO: Business Board

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DATE: December 21, 2006 for January 15, 2007

AGENDA ITEM:

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2007, prepared as of December 21, 2006

JURISDICTIONAL INFORMATION:

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

PREVIOUS ACTION TAKEN:

On March 27, 2006, the Business Board concurred with the Academic Board that the Operating Budget Report for 2006-07 be approved. On June 22, 2006 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2006 and recommended them to Governing Council for approval.

HIGHLIGHTS:

This forecast projects the revenues, expenses, net loss 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 centrally controlled revenues and expenses but also have some significant uncertainties:

- The Ontario government has not yet finalized the funding arrangements for 2006-07 quality fund allocations.

- The November 1, 2006 enrolment count, which is needed to firm up the government grant and tuition fee numbers, has not yet been finalized.

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

- We also have little or no information, other than historical information, on divisionally controlled revenues or expenses, since divisions are currently submitting their forecasts of their year-end results. Therefore, we have assumed that divisional revenue and expenditure patterns will be similar to those occurring last year.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2007 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- No change in divisional carry forwards.
- LTCAP investment return of 3.6%
- $10.4 million shortfall in receipt of quality funds.

This forecast projects revenues of $1.80 billion, expenses of $1.83 billion, and a net loss of $30.7 million for the year ending April 30, 2007. It projects net assets of $1.9 billion, comprised on $1.678 billion endowments, $306.1 million investment in capital assets, $108.5 million in internally restricted net assets, and $206.5 million unrestricted deficit. The unrestricted deficit of $206.5 million is comprised of $85.8 million operating fund deficit, $91.0 million ancillary operations deficit, and $29.7 million capital fund deficit.

The projected operating fund cumulative deficit of $85.8 million at April 30, 2007 is higher by $21.2 million than the budgeted $64.6 million cumulative deficit due primarily to an expected $10.4 million shortfall in quality funding from the Ontario government and to a revenue and expense net projected shortfall of $9.1 million due to graduate and international enrolment projected to be lower than budget and due to revised estimates of funding available for undergraduate growth. However, it is important to note that the November 1, 2006 enrolment count has not yet been finalized.

A sensitivity analysis on page 2 shows the impact of varying LTCAP investment return on endowments at 0%, 3.6%, 7% and 10% for the year, and shows the impact if the $10.4 million quality funds would be received before the end of the year.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The Government of Ontario has committed to substantial investments in post-secondary education. The manner in which these new investments will be allocated to specific colleges and universities continues to be developed. Certain funds that were originally anticipated by the University to flow for quality initiatives have not yet been allocated. However, the University anticipates that these funds will be allocated to institutions in an appropriate manner and that the University will receive a commensurate share.

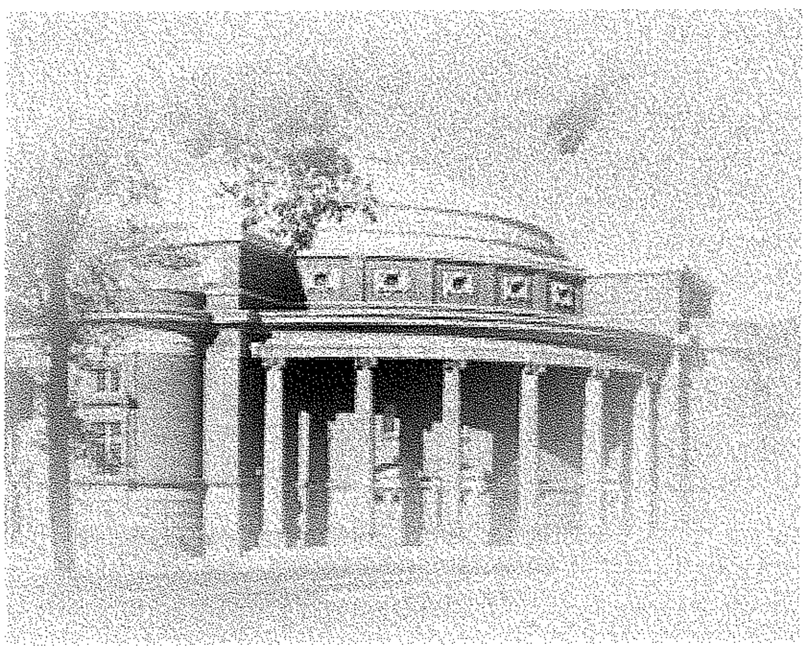
The University is already planning for budget reductions identified in the long-range plan. All divisions have academic plans that take these reductions into account and the University continues to improve efficiency of operations through cost containment measures. Given the new provincial investment in higher education, the University was able to slightly reduce the level of budget reductions originally anticipated. The University continues to advocate for increases to government grants and tuition fees from the provincial government and research funding and graduate student support from the federal government.

RECOMMENDATION:

For information.

University of Toronto Financial Forecast to April 30, 2007

as at December 21, 2006



University of Toronto
Forecast Sensitivity Analysis
For the fiscal year ending April 30, 2007

Impact of various LTCAP investment returns on endowments:

LTCAP investment returns on endowments	0.0%	3.6%	7.0%	10.0%
Revenues	1,792.4	1,802.3	1,812.0	1,820.4
Expenses	1,833.0	1,833.0	1,833.0	1,833.0
Net Income (loss)	(40.6)	(30.7)	(21.0)	(12.6)
Investment income on externally restricted endowments for preservation of capital	(46.4)	-	45.7	85.2
Externally endowed contributions	40.4	40.4	40.4	40.4
Net assets, beginning of year	1,876.4	1,876.4	1,876.4	1,876.4
Net assets, end of year	1,829.8	1,886.1	1,941.5	1,989.4
Net assets, end of year				
Unrestricted deficit	(206.5)	(206.5)	(206.5)	(206.5)
Internally restricted	108.5	108.5	108.5	108.5
Investment in capital assets	306.1	306.1	306.1	306.1
Endowments	1,621.7	1,678.0	1,733.4	1,781.3
	1,829.8	1,886.1	1,941.5	1,989.4
Unrestricted deficit by fund:				
Operating fund	(85.8)	(85.8)	(85.8)	(85.8)
Ancillary operations	(91.0)	(91.0)	(91.0)	(91.0)
Capital fund	(29.7)	(29.7)	(29.7)	(29.7)
Restricted funds				
	(206.5)	(206.5)	(206.5)	(206.5)

Impact of various LTCAP investment returns on endowments and additional $10.4 million in quality funding:

Net income (loss)	(30.2)	(20.3)	(10.6)	(2.2)
Net assets, end of year	1,840.2	1,896.5	1,951.9	1,999.8
Unrestricted deficit	(196.1)	(196.1)	(196.1)	(196.1)
Operating fund unrestricted deficit	(75.4)	(75.4)	(75.4)	(75.4)

Forecasted results.

Introduction

This forecast projects the revenues, expenses, net loss 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 centrally controlled revenues and expenses but also have some significant uncertainties:

- The Ontario government has not yet finalized the funding arrangements for 2006-07 quality fund allocations.
- The November 1, 2006 enrolment count, which is needed to firm up the government grant and tuition fee numbers, has not yet been finalized.
- Investment returns are, as always, uncertain and can vary from year to year.
- We also have little or no information, other than historical information, on divisionally controlled revenues or expenses, since divisions are currently submitting their forecasts of their year-end results. Therefore, we have assumed that divisional revenue and expenditure patterns will be similar to those occurring last year.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2007 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- No change in divisional carry forwards.
- LTCAP investment return of 3.6%
- $10.4 million shortfall in receipt of quality funds.

A sensitivity analysis on page 2 shows the impact of varying LTCAP investment return on endowments at 0%, 3.6%, 7% and 10% for the year, and shows the impact if the $10.4 million quality funds would be received before the end of the year.

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT
For the fiscal year ending April 30, 2007
(with comparative figures at April 30, 2006; millions of dollars)

	Forecast					
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2007 Total	2006 Total
REVENUES						
Government grants for operations	606.4				606.4	587.2
Student fees	510.4	5.8	1.0		517.2	505.7
Donations		1.3	4.0	35.6	40.9	37.0
Government grants for restricted purposes		(0.8)	33.8	289.8	322.8	310.6
Contract research	5.7			18.6	24.3	21.6
Investment Income: Endowment	37.4			18.9	56.3	80.8
Other	21.1	1.5	0.0	10.2	32.8	39.2
Sales, services and sundry income	75.0	126.4	0.2		201.6	202.2
	1,256.0	134.2	39.0	373.1	1,802.3	1,784.3
EXPENSES						
Salaries and benefits	889.2	10.9		192.8	1,092.9	1,012.3
Materials and supplies	78.9	2.7		131.8	213.4	200.0
Scholarships, fellowships and bursaries	113.1				113.1	106.5
Amortization of capital assets	7.0	10.3	78.9		96.2	91.4
Cost of sales and services		81.7			81.7	79.1
Utilities	46.6	8.4			55.0	51.1
Repairs and maintenance	40.6	11.2	2.0	2.9	56.7	54.2
Travel and conferences	14.9			18.9	33.8	32.6
Interest	13.3	19.6			32.9	29.3
External contracted services	16.1			8.0	24.1	22.5
Telecommunications	10.0			1.5	11.5	11.0
Other	12.8			8.9	21.7	19.3
	1,242.5	144.8	80.9	364.8	1,833.0	1,709.3
Net income (loss)	13.5	(10.6)	(41.9)	8.3	(30.7)	75.0
Net transfer between funds	(16.8)	1.6	15.0	0.2	0.0	
Transfer of capital assets	(37.8)		37.8			
Change in internally restricted	14.8	(0.3)	11.5	0.3	26.3	(43.1)
Change in investment in capital assets		(1.9)	(20.3)		(22.2)	(17.5)
Transfers of donations to endowments				(8.8)	(8.8)	(13.9)
Transfer from internally restricted endowments				0.0	0.0	(26.8)
Net change in surplus/(deficit) for the year	(26.3)	(11.2)	2.1	0.0	(35.4)	(26.3)
Deficit, beginning of year	(59.5)	(79.8)	(31.8)		(171.1)	(144.8)
Deficit, end of year	(85.8)	(91.0)	(29.7)	0.0	(206.5)	(171.1)
Internally restricted	(90.3)	10.3	(34.5)	223.0	108.5	134.8
Investment in capital assets		85.5	220.6		306.1	283.9
Endowments				1,678.0	1,678.0	1,628.8
Net assets, end of year	(176.1)	4.8	156.4	1,901.0	1,886.1	1,876.4

Projected Changes in Operations and Deficit

This forecast projects a $30.7 million net loss at April 30, 2007 on projected revenues of $1.8 billion. This projected net loss includes:

$13.5 million net income for the operating fund.
($10.6 million) net loss for ancillary operations.
($41.9 million) net loss for the capital fund.
$ 8.3 million net income for restricted funds.

This $30.7 million net loss represents a net deterioration of $105.7 million from last year's net income of $75.0 million. The main reasons are:

- This forecast assumes a 3.6% return on LTCAP compared to last year's return of 15.8%, accounting for a $30.9 million decline in investment income. A change in the LTCAP investment return on endowments would impact this result (assuming everything else remains the same) as shown on page 2:
    - At 0.0% return ($40.6 million) net loss.
    - At 3.6% return ($30.7 million) net loss.
    - At 7.0% return ($21.0 million) net loss.
    - At 10.0% return ($ 12.6 million) net loss.
- This forecast assumes no change in divisional appropriations carried forward, which results in an increase in operating and restricted funds expenses by $69.4 million over last year.

Revenues are expected to increase slightly from $1.78 billion in 2006 to $1.80 billion mainly as a result of increased government operating funding and student fees offset by a decrease in investment income from last year.

Expenses are forecasted to increase from $1.71 billion in 2006 to $1.83 billion mainly as a result of the assumed additional divisional spending described above, with the largest increase being in salaries and benefits. This increase reflects both the growing numbers of staff (reflecting enrolment growth) and increases to salaries and benefits rates.

Projected Changes in Net Assets

This forecast projects an increase in net assets from $1.8764 billion at April 30, 2006 to $1.8861 billion at April 30, 2007. This growth of $9.7 million results from $40.4 million projected endowed donations and grants partially offset by the $30.7 million projected net loss. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same) as shown on page 2:

- At 0.0% return — $1.8298 billion net assets.
- At 3.6% return — $1.8861 billion net assets.
- At 7.0% return — $1.9415 billion net assets.
- At 10.0% return — $1.9894 billion net assets.

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING APRIL 30, 2007
(with comparative figures for the year ended April 30, 2006; in millions of dollars)

	Forecast					Actual
	Unrestricted deficit $	Internally restricted $	Investment in capital assets $	Endowments $	2007 Total $	2006 Total $
Net assets, beginning of year	(171.1)	134.8	283.9	1,628.8	1,876.4	1,636.1
Net income (loss)	(30.7)				(30.7)	75.0
Net change in internally restricted	26.3	(26.3)			0.0	
Net change in investment in capital assets	(22.2)		22.2		0.0	
Transfer from internally restricted endowments - investment income	0.0			0.0		
Transfer to endowments						
- donations	(2.8)			2.8		
- matching funds	(6.0)			6.0		
Investment gain on externally restricted endowments				0.0	0.0	119.5
Externally endowed contributions						
- donations				35.0	35.0	37.9
- Ontario grants				5.4	5.4	7.9
Net assets, end of year	(206.5)	108.5	306.1	1,678.0	1,886.1	1,876.4

The projected net assets of $1.8861 billion are composed of the following, each of which is discussed further in the following sections:

($206.5 million) unrestricted net deficit
$108.5 million internally restricted net assets,
$306.1 million investment in capital assets
$1.678 billion endowments.

Projected Unrestricted Deficit:

This forecast projects a $206.5 million cumulative unrestricted deficit at April 30, 2007, as compared to last year's cumulative deficit of $171.1 million, comprised as follows:

($ 85.8 million) operating fund unrestricted deficit
($ 91.0 million) ancillary operations unrestricted deficit
($29.7 million) capital fund deficit.

The **operating fund** cumulative deficit is projected to be $85.8 million at April 30, 2007. This is a projected increase of $21.2 million over the budgeted cumulative deficit of $64.6 million due to:

($ 4.2 million) higher cumulative deficit at April 30, 2006 than budgeted.
($17.6 million) projected shortfall in provincial operating grants on a budget of $563.1 million, due to the following:

- ($10.4 million) projected shortfall in provincial operating grants with respect to quality fund allocations. Some allocations have been announced; however no further announcements are expected by the Ministry prior to April 30, 2007.
- ($ 4.3 million) projected shortfall in provincial operating grants based on preliminary estimates of funding available for undergraduate enrolment growth.
- ($ 5.5 million) projected shortfall in provincial operating grants based on preliminary estimates of 2006-07 graduate enrolment growth.
- $2.6 million net other positive variances.

($ 6.3 million) projected shortfall in tuition fees based on projected shortfalls in graduate and international enrolment. However, the November 1, 2006 enrolment count has not yet been finalized.
$ 7.0 million expected positive expense variance due to the lower enrolment projected as compared to budget.
$ 2.7 million expected positive variance on utilities expense due to lower natural gas and hydro rates and lower consumption than budgeted.
($ 2.8 million) accumulated other negative variances known to date.

In the event that the budgeted $10.4 million in quality funds were received by the University prior to April 30, 2007, there would be the following impact:

- the operating fund cumulative unrestricted deficit would be reduced from $85.8 million to $75.4 million (assuming everything else remains the same), as compared to a budgeted cumulative unrestricted deficit of $64.6 million.

- The University's overall net loss would be reduced from $30.7 million to $20.3 million at the assumed 3.6% LTCAP investment return rates.

Please see the summary on page 2 for the impact of this change at other investment return rate assumptions.

The **ancillary operations** cumulative deficit is projected to be $91.0 million at April 30, 2006, an increase of $11.2 million over 2006 mainly due to the projected net loss for the year of $10.6 million reflecting primarily losses in residence operations resulting from residence expansion.

The **capital fund** cumulative deficit is projected to be $29.7 million at April 30, 2007, as compared to $31.8 million at April 30, 2006. The capital fund deficit is primarily due to the internal financing of capital projects.

Projected Internally Restricted Net Assets:

Internally restricted net assets primarily reflect divisional carry forwards, departmental trust funds and the Supplemental Retirement Arrangement offset by pension and employee benefits. Internally restricted net assets are currently projected to decline from $134.8 million to $108.5 million, primarily due to a $13.8 reduction in pension expense for the year (as a result of funding the plan in an amount larger than that recorded as pension expense) and a $34.7 million increase in other employee future benefits expense. This net increase in pension and other employee future benefits has two components:

1) Annual current service expense for additional service earned by employees during 2006-07 in respect of pensions and other employee future benefits.
2) A portion of the past service in respect of these benefits which is being added to the financial statements using the *prospective method*, over a 14 year period.

At this time, there are no variances being projected for divisional carry forwards since divisional forecasts are currently being submitted.

Projected Investment in Capital Assets:

The $306.1 million investment in capital assets represents internal monies spent by the University for capital projects which will be reduced over time as the assets are amortized. This amount is projected to increase from $283.9 million in 2006 to $306.1 million at April 30, 2007 due to an increase in internal funding of capital projects partially offset by depreciation.

Projected Endowments:

This forecast projects endowments at $1.678 billion at April 30, 2007, an increase of $49.2 million from 2006, comprised as follows:

	Forecasted Fiscal Year 2007	Actuals Fiscal Year 2006
Opening Balance, May 1	1,628.8	1,422.8
Investment income		
Preservation of capital for externally restricted endowments	0.0	119.5
Preservation of capital for internally restricted endowments	0.0	26.8
Available for payout	56.3	54.0
Less: endowment payout	(56.3)	(54.0)
Externally endowed contributions		
- donations	35.0	37.9
- Ontario grants	5.4	7.9
Transfer of donations and operating matching funds to endowment	8.8	13.9
Balance	1,678.0	1,628.8

This forecast assumes an LTCAP investment return on endowments of 3.6%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At 0.0% return $1.6217 billion net assets.
- At 3.6% return $1.6780 billion net assets.
- At 7.0% return $1.7334 billion net assets.
- At 10.0% return $1.7813 billion net assets.