



University of Toronto

VICE-PRESIDENT, BUSINESS AFFAIRS – FINANCE DIVISION

TO: Business Board

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DATE: January 6, 2005 for January 17, 2005

AGENDA ITEM: 10

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2005, prepared as of January 3, 2005.

JURISDICTIONAL INFORMATION:

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

PREVIOUS ACTION TAKEN:

On April 14, 2004 the Business Board concurred with the Academic Board that the long-range budget framework, guidelines and projections for the period 2004-2010 be approved. On June 17, 2004, the Business Board reviewed the University's financial statements for the year ended April 30, 2004 and recommended them to Governing Council for approval.

HIGHLIGHTS:

Last year, the forecast was fundamentally changed to go beyond the operating fund and the endowment to project the revenues, expenses, net loss, and change in capital for the entire University. It included accounting estimates for pension and benefits expense and liability and for depreciation.

This year, that changed format has been further expanded with the addition of a *Forecasted Statement of Operations and Changes in Deficit*, showing major revenues and expenses on a line item basis by fund, following the same format, and providing the same level of detail, as that contained in the supplementary financial report.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2005 using current year-to-date actual figures and estimation 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 also have some significant uncertainties. Although we do not yet have the final November 1, 2004 enrolment count, which is needed to firm up the government grant and tuition fee numbers, Planning and Budget is confident that the estimates of the numbers of students are sound. However, a key risk factor is that the government has not yet decided whether it will provide full average funding for enrolment growth. This forecast assumes that full average funding will be provided.

We have little or no information, other than historical information, on divisionally controlled revenues or expenses, since divisions are just now 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 occurring last year.

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 Changes in Operations*, the *Statement of Changes in Capital*, and the new *Forecasted Statement of Operations and Changes in Deficit* project the net loss and capital at April 30, 2005, with comparison to April 30, 2004.
- 2) The *Operating Fund Forecast* for 2004-05 provides a variance analysis for the *Operating Budget Report* for 2004-05.
- 3) The *Operating Committed Capital Forecast* provides an explanation of the operating fund 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 \$17.8 million net loss at April 30, 2005 on projected revenues of \$1.5675 billion. This is a deterioration of \$64.4 million from last year. It results primarily from a reduction of \$57.7 million in projected investment revenue, from \$123.9 million last year to \$66.2 million this year.

Projected Capital:

This forecast projects an increase in capital from \$1.487 billion to \$1.5462 billion at April 30, 2005, an improvement of \$59.2 million. This improvement results from \$56.3 million projected endowed donations and grants and \$20.7 million investment gain on externally restricted endowments (which is not included in investment revenue), partially offset by the \$17.8 million net loss.

The capital of \$1.5462 billion is projected to be composed of \$1.3947 billion endowment, \$251.4 million equity in capital assets and \$50.3 million committed capital, partially offset by the \$150.2 million cumulative deficit.

The borrowing strategy approved by the Business Board in June 2004 projected that capital would stand at \$1.507 billion at April 30, 2005. The projected figure of \$1.5462 billion is an improvement of \$39.2 million over that June 2004 projection. If this projection holds, the 5 year smoothed capital would be \$1.467 billion at April 30, 2005, unchanged from that for 2003-04, leaving borrowing capacity unchanged.

Projected Cumulative Deficit and Committed Capital:

This forecast projects a \$150.2 million cumulative deficit at April 30, 2005, as compared to last year's cumulative deficit of \$47.7 million. This is primarily due to internal borrowing for capital projects in accordance with the approved borrowing strategy. Of this total deficit, \$42.2 million is in the operating fund, \$65.4 million is in ancillaries, and \$42.6 million is in the capital fund.

Committed capital, which primarily reflects divisional carry-forwards offset by pension and employee future benefits, is currently projected to decline from \$59.1 million

to \$50.3 million. 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 committed capital number, will be updated.

Projected Operating Fund Deficit:

The operating fund projects a cumulative deficit of \$42.2 million at April 30, 2005, as compared to a budgeted cumulative deficit of \$38.6 million.

The cumulative deficit at April 30, 2004, the end of the last six year planning period, was \$10.5 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.

RECOMMENDATION:

For information.