



# University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS – FINANCE

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TO: Business Board

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DATE: January 20, 2009 for February 11, 2009

AGENDA ITEM:

## **ITEM IDENTIFICATION:**

Forecast of University Financial Results at April 30, 2009, prepared as of January 20, 2009

## **JURISDICTIONAL INFORMATION:**

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

## **PREVIOUS ACTION TAKEN:**

On March 5, 2008, the Business Board concurred with the Academic Board that the Operating Budget Report for 2008-09 be approved. On June 19, 2008 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2008 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:

- Investment returns are, as always, uncertain and can vary from year to year.
- We have interim information on divisionally controlled revenues and expenses, since divisions are currently reviewing their forecasts of their year-end results.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2009 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- A \$20 million reduction of divisional reserves.
- LTCAP investment loss of 20.0%.
- No endowment payout for 2008/09.

This forecast projects revenues of \$1.91 billion, expenses of \$2.06 billion, and a net loss of \$157.9 million for the year ending April 30, 2009. It projects net assets of \$1.8 billion, comprised of \$1.4889 billion endowments, \$384.5 million investment in capital assets, \$171.8 million in internally restricted net assets, and \$237.6 million unrestricted deficit. The unrestricted deficit of \$237.6 million is comprised of \$62.3 million operating fund deficit, \$111.4 million ancillary operations deficit, and \$63.9 million capital fund deficit.

The projected operating fund cumulative deficit of \$62.3 million at April 30, 2009 is higher by \$18.4 million than the budgeted \$43.9 million cumulative deficit mainly due to lower than projected investment income of \$12.4 million.

A sensitivity analysis on page 2 shows the impact of varying LTCAP investment return on net assets at -5.0%, -10.0%, -20.0% and -30.0% for the year. **Note the -5.0% and -10.0% scenarios assume an endowment payout of \$65.3 million.**

#### **FINANCIAL AND/OR PLANNING IMPLICATIONS:**

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. 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, 2009**

**as at January 20, 2009**



**University of Toronto**  
**Forecast**  
**Sensitivity analysis**  
**For the fiscal year ending April 30, 2009**

<b>Impact of LTCAP investment returns on Net Assets:</b>				
	-5.0%	-10.0%	-20.0%	-30.0%
<b>Revenues</b>	<b>2,001.8</b>	<b>1,974.6</b>	1,906.6	<b>1,852.5</b>
<b>Expenses</b>	<u>2,064.5</u>	<u>2,064.5</u>	2,064.5	<u>2,064.5</u>
<b>Net loss</b>	<b>(62.7)</b>	<b>(89.9)</b>	(157.9)	<b>(212.0)</b>
<b>Investment loss on externally restricted endowments for preservation of capital</b>	<b>(126.0)</b>	<b>(197.7)</b>	(289.5)	<b>(430.7)</b>
<b>Externally endowed contributions</b>	80.7	80.7	80.7	80.7
<b>Net assets, beginning of year</b>	<u>2,174.3</u>	<u>2,174.3</u>	2,174.3	<u>2,174.3</u>
<b>Net assets, end of year</b>	<u><b>2,066.3</b></u>	<u><b>1,967.4</b></u>	<u>1,807.6</u>	<u><b>1,612.3</b></u>
<b><u>Net assets, end of year:</u></b>				
<b>Unrestricted deficit</b>	(237.6)	(237.6)	(237.6)	(237.6)
<b>Internally restricted</b>	233.5	221.0	171.8	146.7
<b>Investment in capital assets</b>	384.5	384.5	384.5	384.5
<b>Endowments</b>	<u>1,685.9</u>	<u>1,599.5</u>	1,488.9	<u>1,318.7</u>
	<u><b>2,066.3</b></u>	<u><b>1,967.4</b></u>	<u>1,807.6</u>	<u><b>1,612.3</b></u>
<b><u>Unrestricted deficit by fund:</u></b>				
<b>Operating fund</b>	(62.3)	(62.3)	(62.3)	(62.3)
<b>Ancillary operations</b>	(111.4)	(111.4)	(111.4)	(111.4)
<b>Capital fund</b>	(63.9)	(63.9)	(63.9)	(63.9)
<b>Restricted funds</b>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
	<u><b>(237.6)</b></u>	<u><b>(237.6)</b></u>	<u><b>(237.6)</b></u>	<u><b>(237.6)</b></u>

## 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 revenues and expenses 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, since divisions are currently reviewing their forecasts of their year-end results.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2009 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- A reduction in divisional reserves of \$20 million.
- LTCAP investment loss of 20.0%.
- No endowment payout for 2008/09.

A sensitivity analysis on page 2 shows the impact of varying LTCAP investment return on net assets at -5.0%, -10.0%, -20.0% and -30.0% for the year. **Note the scenarios at -5.0% and -10.0% assume an endowment payout.**

**UNIVERSITY OF TORONTO**  
**FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT**  
**For the fiscal year ending April 30, 2009**  
(with comparative figures at April 30, 2008)  
(millions of dollars)

	<b>Forecast</b>					
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2009 Total	2008 Total
<b>REVENUES</b>						
Government grants for operations	659.0				659.0	639.0
Student fees	609.1	6.8	1.0		616.9	583.6
Donations		0.2	4.2	58.1	62.5	56.2
Government grants for restricted purposes		0.3	44.0	366.3	410.6	339.9
Contract research	5.3			20.5	25.8	22.9
Investment Income: Endowment	30.7			(90.0)	(59.3)	46.3
Other	(24.2)	2.1	2.1	5.5	(14.5)	23.6
Sales, services and sundry income	69.1	136.5	0.0		205.6	237.4
	<u>1,349.0</u>	<u>145.9</u>	<u>51.3</u>	<u>360.4</u>	<u>1,906.6</u>	<u>1,948.9</u>
<b>EXPENSES</b>						
Salaries and benefits	1,003.2	7.1		218.8	1,229.1	1,127.4
Materials and supplies	65.8	2.3		136.4	204.5	193.7
Scholarships, fellowships and bursaries	133.4				133.4	125.0
Amortization of capital assets	9.3	11.2	95.0	0.3	115.8	104.1
Cost of sales and services		84.9			84.9	76.5
Utilities	47.4	9.6			57.0	53.0
Repairs and maintenance	41.5	15.2	5.0	7.8	69.5	65.2
Travel and conferences	20.9			22.0	42.9	40.4
Interest	14.6	18.3		0.9	33.8	33.0
External contracted services	23.4			8.6	32.0	31.3
Telecommunications	11.1			1.6	12.7	11.7
Other	17.5		0.6	30.8	48.9	37.0
	<u>1,388.1</u>	<u>148.6</u>	<u>100.6</u>	<u>427.2</u>	<u>2,064.5</u>	<u>1,898.3</u>
<b>Net income (loss)</b>	(39.1)	(2.7)	(49.3)	(66.8)	(157.9)	50.6
Net transfer between funds	(7.7)	2.8	2.8	2.1	0.0	
Transfer of capital assets	(60.7)		60.7			
Unrealized loss on swap contracts		0.0	0.0		0.0	(5.5)
Change in internally restricted	91.2	(0.5)	9.4	7.6	107.7	(12.8)
Change in investment in capital assets		2.4	(15.0)		(12.6)	(88.3)
Transfers of donations to endowments				(2.2)	(2.2)	3.4
Transfer from internally restricted endowments				59.3	59.3	15.8
<b>Net change in surplus/(deficit) for the year</b>	(16.3)	2.0	8.6	0.0	(5.7)	(36.8)
Deficit, beginning of year	(46.0)	(113.4)	(72.5)		(231.9)	(195.1)
<b>Deficit, end of year</b>	(62.3)	(111.4)	(63.9)	0.0	(237.6)	(231.9)
<b>Internally restricted</b>	81.9	11.3	14.5	64.1	171.8	279.5
<b>Investment in capital assets</b>		102.3	282.2		384.5	371.9
<b>Endowments</b>				1,488.9	1,488.9	1,754.8
<b>Net assets, end of year</b>	<u>19.6</u>	<u>2.2</u>	<u>232.8</u>	<u>1,553.0</u>	<u>1,807.6</u>	<u>2,174.3</u>

## Projected Changes in Operations and Deficit

This forecast projects a (\$157.9 million) net loss at April 30, 2009 on projected revenues of \$1.91 billion. This projected net loss includes:

- (\$39.1 million) net loss for the operating fund.
- (\$2.7 million) net loss for ancillary operations.
- (\$49.3 million) net loss for the capital fund.
- (\$66.8 million) net loss for restricted funds.

This (\$157.9 million) net loss represents a net deterioration of \$208.5 million from last year's net income of \$50.6 million. The main reasons are:

- \$70.7 million in additional restricted funds research grant revenue.
- \$53.3 million in additional government operating grant and student fee revenue.
- \$143.7 million decline in investment income, mainly as a result of the forecasted LTCAP loss of 20.0% compared to last year's loss of 2.0%. A change in the LTCAP investment return on net assets would impact this result (assuming everything else remains the same, except for investment return of -5.0% and -10.0% which include endowment payouts of \$65.3 million) as shown on page 2:
  - At -5.0 % return (\$62.7 million) net loss.
  - At -10.0 % return (\$89.9 million) net loss.
  - At -20.0 % return (\$157.9 million) net loss.
  - At -30.0 % return (\$212.0 million) net loss.
- \$166.2 million additional operating and restricted fund expenses which divisions are expected to fund from their divisional reserves, reducing them by \$20 million as compared to last year's small increase of \$5.8 million.

Total revenues are expected to decrease slightly from \$1.95 billion in 2008 to \$1.91 billion, due to large investment losses partially offset by increased revenues from student fees and government grants for operating and restricted purposes.

Total expenses are forecasted to increase from \$1.90 billion in 2008 to \$2.06 billion mainly as a result of increases in salaries and benefits. This increase reflects the growing numbers of staff (reflecting enrolment growth), increases to salaries and benefits rates and increase in research activities.

## Projected Changes in Net Assets

This forecast projects a decrease in net assets from \$2.1743 billion at April 30, 2008 to \$1.8076 billion at April 30, 2009. This reduction of (\$366.7 million) results from a projected net loss of (\$157.9 million) and (\$289.5 million) investment loss on endowments for direct reduction in capital, partially offset by \$80.7 million projected endowed donations and grants. Varying assumptions for the LTCAP investment loss would affect this result (assuming everything else remains the same, except for investment return of -5.0% and -10.0% which include endowment payouts of \$65.3 million) as shown on page 2:

- At -5.0% return                      \$2.0663 billion net assets.
- At -10.0% return                    \$1.9674 billion net assets.
- At -20.0% return                    \$1.8076 billion net assets. – current forecast
- At -30.0% return                    \$1.6123 billion net assets.

**UNIVERSITY OF TORONTO**  
**FORECASTED STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDING APRIL 30, 2009**  
(with comparative figures for the year ended April 30, 2008; in millions of dollars)

	Forecast				
	Unrestricted deficit	Internally restricted	Investment in capital assets	Endowments	2009 Total
	\$	\$	\$	\$	\$
Net assets, beginning of year	(231.9)	279.5	371.9	1,754.8	2,174.3
Change in accounting policies	0.0				0.0
Net income (loss)	(157.9)				(157.9)
Net change in internally restricted	107.7	(107.7)			
Net change in investment in capital assets	(12.6)		12.6		
Transfer from internally restricted endowments					
- available for spending	0.0			0.0	
- investment loss	59.3			(59.3)	
Transfer to endowments					
- donations	(2.2)			2.2	
Investment income (loss) on externally restricted endowments				(289.5)	(289.5)
Transfer from deferred contributions			0.0	0.0	0.0
Transfer of endowments to UTS	0.0			0.0	0.0
Externally endowed contributions					
- donations				55.9	55.9
- Ontario grants and other				24.8	24.8
Unrealized loss on swap contracts	0.0				0.0
Net assets, end of year	(237.6)	171.8	384.5	1,488.9	1,807.6

The projected net assets of \$1.8076 billion are composed of the following, each of which is discussed further in the following sections:

(\$237.6 million) unrestricted net deficit  
\$171.8 million internally restricted net assets  
\$384.5 million investment in capital assets  
\$1.4889 billion endowments



## Projected Unrestricted Deficit:

This forecast projects a (\$237.6 million) cumulative unrestricted deficit at April 30, 2009, as compared to last year's cumulative deficit of (\$231.9 million), comprised as follows:

(\$62.3 million) operating fund unrestricted deficit  
(\$111.4 million) ancillary operations unrestricted deficit  
(\$63.9 million) capital fund deficit.

The **operating fund** cumulative deficit is projected to be (\$62.3 million) at April 30, 2009. This is a projected deficit increase of \$18.4 million over the budgeted cumulative deficit of (\$43.9 million) due to:

\$1.8 million projected increase in provincial operating grants on a budget of \$585.3 million, due to the following:

- \$1.4 million projected increase in provincial operating grants with respect to Bachelor of Education grants that were not budgeted due to uncertainty in the continuation of this program.
- \$2.2 million projected increase in provincial operating grants based on preliminary estimates of funding available for undergraduate enrolment growth.
- \$3.5 million in additional Special Medical Research Grant funding from MOHLTC which was not budgeted due to the expiration of the contract which has subsequently been continued.
- (\$5.1 million) projected shortfall in provincial operating grants based on estimates of 2008-09 graduate enrolment growth.
- (\$0.2 million) net other negative variances.

(\$3.8 million) lower than projected tuition fee and other income, primarily a result of a shortfall in graduate fees partially offset by projected increase in undergraduate fees.

(\$12.4 million) lower than projected investment income due to lower than budgeted investment returns.

\$1.4 million expected positive variance on utilities expense due to lower hydro costs and steam rates, and lower consumption volumes than budgeted.

(\$5.4 million) other expected negative variances.

Please note that if the LTCAP investment return is -30%, the operating fund cumulative deficit is still projected to be (\$62.3 million) at April 30, 2009, as LTCAP returns only impact the endowment and internally restricted balances.

The **ancillary operations** cumulative deficit is projected to be (\$111.4 million) at April 30, 2009, a projected deficit decrease of \$2 million from 2008. The ancillary operations deficit is primarily due to the internal financing of capital projects, which has the impact of increasing both the deficit and the investment in capital assets.

The **capital fund** cumulative deficit is projected to be (\$63.9 million) at April 30, 2009, as compared to (\$72.5 million) at April 30, 2008. The capital fund deficit is primarily due to the internal financing of capital projects, which has the impact of increasing both the deficit and the investment in capital assets.

### **Projected Internally Restricted Net Assets:**

Internally restricted net assets primarily reflect divisional reserves, departmental trust funds and the Supplemental Retirement Arrangement offset by pension and employee benefits. Internally restricted net assets are currently projected to decline from \$279.5 million to \$171.8 million.

### **Projected Investment in Capital Assets:**

The \$384.5 million investment in capital assets represents internal monies spent by the University on capital projects which will be reduced over time as the assets are amortized. This amount is projected to increase from \$371.9 million in 2008 to \$384.5 million at April 30, 2009 due to an increase in internal funding of capital projects partially offset by depreciation.

### **Projected Endowments:**

This forecast projects endowments at \$1.4889 billion at April 30, 2009, a decrease of \$265.9 million from 2008, comprised as follows:

	<b>Forecasted Fiscal Year 2009</b>	<b>Fiscal Year 2008</b>
Opening Balance, May 1	1,754.8	1,822.7
Investment income		
Preservation of capital for externally restricted endowments	(289.5)	(86.1)
Preservation of capital for internally restricted endowments	(59.3)	(15.8)
Available for payout	0.0	62.0
Less: endowment payout	0.0	(62.0)
Externally endowed contributions		
- donations	55.9	36.4
- Ontario grants and other	24.8	14.2
Transfer to UTS	0.0	(21.8)
Transfer from deferred contributions		2.4
Transfer to endowments from		
- donations	2.2	2.1
- operating matching funds	0.0	0.7
Balance	<u>1,488.9</u>	<u>1,754.8</u>

This forecast assumes an LTCAP investment return on endowments of -20.0%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same, except for investment return of -5.0% and -10.0% which include endowment payouts of \$65.3 million):

- At -5.0% return                      \$1.6859 billion endowments.
- At -10.0% return                     \$1.5995 billion endowments.
- At -20.0% return                    \$1.4889 billion endowments.
- At -30.0% return                    \$1.3187 billion endowments.