



# UNIVERSITY OF TORONTO

**Financial Forecast  
to April 30, 2010**

**as at January 20, 2010**



University of Toronto  
Forecast  
Sensitivity analysis  
For the fiscal year ending April 30, 2010

Impact of LTCAP investment returns on Net Assets:				
	6.0%	8.0%	10.0%	15.0%
Revenues	2,106.8	2,114.2	2,121.6	2,139.8
Expenses	2,165.0	2,165.0	2,165.0	2,165.0
Net loss	(58.2)	(50.8)	(43.4)	(25.2)
Investment gain on externally restricted endowments for preservation of capital	11.0	32.0	53.0	105.5
Externally endowed contributions	30.2	30.2	30.2	30.2
Net assets, beginning of year	1,617.1	1,617.1	1,617.1	1,617.1
Net assets, end of year	1,600.1	1,628.5	1,656.9	1,727.6
<u>Net assets, end of year:</u>				
Unrestricted deficit	(221.1)	(221.1)	(221.1)	(221.1)
Internally restricted	97.8	101.4	105.0	113.8
Investment in capital assets	392.6	392.6	392.6	392.6
Endowments	1,330.8	1,355.6	1,380.4	1,442.3
	1,600.1	1,628.5	1,656.9	1,727.6
<u>Unrestricted deficit by fund:</u>				
Operating fund	(42.6)	(42.6)	(42.6)	(42.6)
Ancillary operations	(107.4)	(107.4)	(107.4)	(107.4)
Capital fund	(71.1)	(71.1)	(71.1)	(71.1)
Restricted funds	0.0	0.0	0.0	0.0
	(221.1)	(221.1)	(221.1)	(221.1)

## 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, 2010 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- An increase in divisional reserves of \$15 million.
- LTCAP investment gain of 8.0%.
- Endowment payout of \$62.5 million for 2009/10.

A sensitivity analysis on page 2 shows the impact of varying LTCAP investment return on net assets at 6.0%, 8.0%, 10.0% and 15.0% for the year.

**UNIVERSITY OF TORONTO**  
**FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT**  
**For the fiscal year ending April 30, 2010**  
(with comparative figures at April 30, 2009)  
(millions of dollars)

	<b>Forecast</b>					
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2010 Total	2009 Total
<b>REVENUES</b>						
Government grants for operations	669.4				669.4	646.0
Student fees	654.3	6.6	0.3		661.2	636.4
Donations		1.4	5.3	60.2	66.9	82.1
Government grants for restricted purposes		(0.1)	60.9	291.7	352.5	408.7
Contract research	5.3			18.9	24.2	25.8
Investment Income: Endowment	26.5			41.6	68.1	(83.3)
Other	21.8	2.4	0.3	2.1	26.6	(63.4)
Sales, services and sundry income	106.5	138.8	0.0		245.3	247.2
	<u>1,483.8</u>	<u>149.1</u>	<u>66.8</u>	<u>414.5</u>	<u>2,114.2</u>	<u>1,899.5</u>
<b>EXPENSES</b>						
Salaries and benefits	1,090.5	7.8		218.1	1,316.4	1,218.3
Materials and supplies	70.4	2.4		128.3	201.1	195.8
Scholarships, fellowships and bursaries	130.7				130.7	144.6
Amortization of capital assets	9.2	12.3	101.3	0.5	123.3	117.2
Cost of sales and services		87.4			87.4	80.5
Utilities	40.8	9.5			50.3	51.0
Repairs and maintenance	50.2	16.9	8.0	6.5	81.6	82.5
Travel and conferences	21.1			19.7	40.8	42.6
Interest	14.3	17.1		1.4	32.8	33.7
External contracted services	20.8			9.1	29.9	28.8
Telecommunications	11.1			1.2	12.3	12.5
Other	35.4		2.3	20.7	58.4	61.2
	<u>1,494.5</u>	<u>153.4</u>	<u>111.6</u>	<u>405.5</u>	<u>2,165.0</u>	<u>2,068.7</u>
<b>Net income (loss)</b>	(10.7)	(4.3)	(44.8)	9.0	(50.8)	(169.2)
Net transfer between funds	(8.1)	4.7	1.1	2.3	0.0	
Transfer of capital assets	(50.2)		50.2			
Unrealized loss on swap contracts		0.0	0.0		0.0	(2.7)
Change in internally restricted	78.4	0.9	2.5	(4.2)	77.6	100.5
Change in investment in capital assets		1.6	(10.4)		(8.8)	(11.9)
Transfers of donations to endowments				(1.5)	(1.5)	(0.1)
Transfer from internally restricted endowments				(5.6)	(5.6)	83.3
<b>Net change in surplus/(deficit) for the year</b>	9.4	2.9	(1.4)	0.0	10.9	(0.1)
Deficit, beginning of year	(52.0)	(110.3)	(69.7)		(232.0)	(231.9)
<b>Deficit, end of year</b>	(42.6)	(107.4)	(71.1)	0.0	(221.1)	(232.0)
<b>Internally restricted</b>	(1.7)	10.4	20.8	71.9	101.4	179.0
<b>Investment in capital assets</b>		99.4	293.2		392.6	383.8
<b>Endowments</b>				1,355.6	1,355.6	1,286.3
<b>Net assets, end of year</b>	<u>(44.3)</u>	<u>2.4</u>	<u>242.9</u>	<u>1,427.5</u>	<u>1,628.5</u>	<u>1,617.1</u>

## Projected Changes in Operations and Deficit

This forecast projects a (\$50.8 million) net loss at April 30, 2010 on projected revenues of \$2.11 billion. This projected net loss includes:

- (\$10.7 million) net loss for the operating fund.
- (\$4.3 million) net loss for ancillary operations.
- (\$44.8 million) net loss for the capital fund.
- \$9.0 million net gain for restricted funds.

This (\$50.8 million) net loss represents a net improvement of \$118.4 million from last year's net loss of (\$169.2 million). The main reasons are:

- \$241.4 million increase in investment income, mainly as a result of the forecasted LTCAP gain of 8.0% compared to last year's loss of 31.0%. A change in the LTCAP investment return on net assets would impact this result (assuming everything else remains the same) as shown on page 2:
  - At 6.0 % return (\$58.2 million) net loss.
  - At 8.0 % return (\$50.8 million) net loss.
  - At 10.0 % return (\$43.4 million) net loss.
  - At 15.0 % return (\$25.2 million) net loss.
- \$96.3 million increase in expenses, primarily due to large increases in recording pension and other employee future benefit expense.
- \$56.2 million decline in revenue reported as government grants for restricted purposes.
- \$48.2 million increase in government operating grant and student fee revenue.

Total revenues are expected to increase slightly from \$1.90 billion in 2009 to \$2.11 billion, due to investment gains and increased revenues from student fees and government grants for operating purposes.

Total expenses are forecasted to increase from \$2.07 billion in 2009 to \$2.16 billion mainly as a result of increases in salaries and benefits. This increase reflects the growing numbers of staff (reflecting enrolment growth) and increases to salary and benefit rates.

## Projected Changes in Net Assets

This forecast projects an increase in net assets from \$1.6171 billion at April 30, 2009 to \$1.6285 billion at April 30, 2010. This increase of \$11.4 million results from a projected investment gain on endowments of \$32.0 million and \$30.2 million projected endowed donations and grants, partially offset by a net loss of (\$50.8 million). Varying assumptions for the LTCAP investment gain would affect this result (assuming everything else remains the same) as shown on page 2:

- At 6.0% return                      \$1.6001 billion net assets.
- At 8.0% return                      \$1.6285 billion net assets. – current forecast
- At 10.0% return                     \$1.6569 billion net assets.
- At 15.0% return                     \$1.7276 billion net assets.

### UNIVERSITY OF TORONTO FORECASTED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDING APRIL 30, 2010

(with comparative figures for the year ended April 30, 2009; in millions of dollars)

	Forecast				
	Unrestricted deficit	Internally restricted	Investment in capital assets	Endowments	2010 Total
	\$	\$	\$	\$	\$
Net assets, beginning of year	(232.0)	179.0	383.8	1,286.3	1,617.1
Net income (loss)	(50.8)				(50.8)
Net change in internally restricted	77.6	(77.6)			
Net change in investment in capital assets	(8.8)		8.8		
Transfer from internally restricted endowments					
- investment income	(5.6)			5.6	
Transfer to endowments					
- donations	(1.4)			1.4	
- matching funds	(0.1)			0.1	
Investment income (loss) on externally restricted endowments				32.0	32.0
Externally endowed contributions					
- donations				26.0	26.0
- grants and other				4.2	4.2
Unrealized loss on swap contracts	0.0				0.0
Net assets, end of year	(221.1)	101.4	392.6	1,355.6	1,628.5

The projected net assets of \$1.6285 billion are composed of the following, each of which is discussed further in the following sections:

- (\$221.1 million) unrestricted net deficit
- \$101.4 million internally restricted net assets
- \$392.6 million investment in capital assets
- \$1.3556 billion endowments

## Projected Unrestricted Deficit:

This forecast projects a (\$221.1 million) cumulative unrestricted deficit at April 30, 2010, as compared to last year's cumulative deficit of (\$232.0 million), comprised as follows:

(\$42.6 million) operating fund unrestricted deficit  
(\$107.4 million) ancillary operations unrestricted deficit  
(\$71.1 million) capital fund deficit.

The **operating fund** cumulative deficit is projected to be (\$42.6 million) at April 30, 2010. This is a projected deficit reduction of \$35.1 million below the budgeted cumulative deficit of (\$77.7 million) due to:

\$20.0 million projected under utilization of the budgeted \$45 million academic deficit finance fund.

\$15.0 million higher than projected tuition fee revenue, primarily a result of higher than planned domestic and international undergraduate enrolments.

\$8.8 million higher than projected investment income due to higher than budgeted investment returns.

\$2.8 million projected increase in provincial operating grants on a budget of \$594.5 million, due to the following:

- \$6.9 million projected increase in provincial operating grants with respect to Access to Higher Quality Education Fund as a result of an increase in funding under the province's "Reaching Higher" program.
- \$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.
- (\$5.5 million) projected decrease in undergraduate funding. Based on recent enrolment submissions to MTCU it is estimated that there will be a significant shortfall in the undergraduate Accessibility Grant. The shortfall is likely to be in the range of \$90-\$100 million (a discount of 44%) for the province or \$16 million for the University. The budget already anticipated a discount of \$4.5 million, resulting in a net shortfall of \$11.5 million, which is partially offset by \$6 million unbudgeted undergraduate growth.

\$2.6 million expected positive variance on utilities expense due to surplus from fixed rate gas supply for central plant, and lower hydro and steam consumption volumes than budgeted.

(\$11.8 million) higher than budgeted staff benefit expenses, primarily a result of increased costs for benefits.

(\$2.3 million) other expected negative variances.

Please note that if the LTCAP investment return is 6%, the operating fund cumulative deficit is still projected to be (\$42.6 million) at April 30, 2010, as LTCAP returns only impact the endowment and internally restricted balances.

The **ancillary operations** cumulative deficit is projected to be (\$107.4 million) at April 30, 2010, a projected deficit decrease of \$2.9 million from 2009. 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 (\$71.1 million) at April 30, 2010, as compared to (\$69.7 million) at April 30, 2009. 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 the unfunded portion of pension and employee benefits. Internally restricted net assets are currently projected to decline from \$179.0 million to \$101.4 million, mainly as a result of recording pension expense above the amount actually funded in the pension plans.

### Projected Investment in Capital Assets:

The \$392.6 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 \$383.8 million in 2009 to \$392.6 million at April 30, 2010 due to an increase in internal funding of capital assets partially offset by depreciation.

### Projected Endowments:

This forecast projects endowments at \$1.3556 billion at April 30, 2010, an increase of \$69.3 million from 2009, comprised as follows:

	<b>Forecasted Fiscal Year 2010</b>	<b>Fiscal Year 2009</b>
Opening Balance, May 1	1,286.3	1,754.8
Investment income		
Preservation of capital for externally restricted endowments	32.0	(461.7)
Preservation of capital for internally restricted endowments	5.6	(83.3)
Available for payout	62.5	0.0
Less: endowment payout	(62.5)	0.0
Externally endowed contributions		
- donations	26.0	49.4
- grants and other	4.2	27.0
Transfer to endowments from		
- donations	1.4	0.0
- operating matching funds	0.1	0.1
Balance	<u>1,355.6</u>	<u>1,286.3</u>

This forecast assumes an LTCAP investment return on endowments of 8.0%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At 6.0% return \$1.3308 billion endowments.
- At 8.0% return \$1.3556 billion endowments.
- At 10.0% return \$1.3804 billion endowments.
- At 15.0% return \$1.4423 billion endowments.