UNIVERSITY OF TORONTO

OFFICE OF THE GOVERNING COUNCIL

TO:	Business Board
SPONSOR: **CONTACT INFO:**	Sheila Brown, Chief Financial Officer 416-978-2065, sheila.brown@utoronto.ca
PRESENTER: **CONTACT INFO:**	Sheila Brown, Chief Financial Officer 416-978-2065, sheila.brown@utoronto.ca
DATE:	February 10, 2014 for March 3, 2014

AGENDA ITEM:

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2014, prepared as of February 10, 2014

JURISDICTIONAL INFORMATION:

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

GOVERNANCE PATH:

1. **Business Board (March 3, 2014)**

PREVIOUS ACTION TAKEN:

On March 4, 2013, the Business Board concurred with the Academic Board that the Operating Budget Report for 2013-14 be approved. On June 13, 2013 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2013 and recommended them for Governing Council for approval.

HIGHLIGHTS:

This forecast projects the revenues, expenses, net income 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 for 2014 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.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2014 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- Investment return (LTCAP and pension/benefits) of 6.0%.
- Endowment payout of $72.5 million for 2013/14.
- Divisional reserves increasing $20.0 million for 2013/14.

A sensitivity analysis on page 2 shows the impact of varying investment returns (LTCAP and pension/benefits) on net income and net assets at 3.0%, 6.0%, 9.0% and 12.0% for the year. It also shows forecasted net income under all four scenarios.

Incorporating all of the above, net income for the year is projected to be $85.4 million, at the 6% investment return rate. The projected range is from $70.5 million (at 3% investment return) to $111.6 million (at 12%). Net assets are projected to be $3.4 billion, at the 6% investment return rate. The projected range is from $3.25 billion (at 3%) to $3.69 billion (at 12%).

The operating fund unrestricted deficit is projected to be $20.8 million, as compared to a budgeted cumulative deficit of $3.5 million. This change is primarily due to decreases in provincial operating grants and lower tuition fees than budgeted due to the new tuition framework, along with higher hydro rates and consumption. The sensitivity analysis does not impact this figure.

Finally, please note that accounting rules are changing again this year. The changes included in this projection are described in an appendix to the forecast and are reflected in adjustments to the opening 2013 numbers. These changes will result in less fluctuation in the net income number from one year to the next. The impact of these changes is shown in Appendix A.

FINANCIAL IMPLICATIONS:

Refer to highlights.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

Financial Forecast to April 30, 2014, as at February 10, 2014

UNIVERSITY OF TORONTO

Financial Forecast to April 30, 2014

as at February 10, 2014

University of Toronto
Financial Forecast
Sensitivity analysis
For the fiscal year ending April 30, 2014
(millions of dollars)

Impact of investment returns on Net Income and Net Assets:	3.0%	6.0%	9.0%	12.0%
Revenues	2,601.1	2,616.0	2,630.6	2,642.2
Expenses	2,530.6	2,530.6	2,530.6	2,530.6
Net Income	**70.5**	**85.4**	**100.0**	**111.6**
Remeasurement of pensions and other employee future benefits for investment returns	(31.0)	58.5	148.0	237.5
Preservation (drawdown) of capital for externally restricted endowments	(19.4)	23.1	65.7	108.2
Externally endowed contributions	29.2	29.2	29.2	29.2
Net assets, beginning of year- restated (see Appendix A)	3,204.3	3,204.3	3,204.3	3,204.3
Net assets, end of year	**3,253.6**	**3,400.5**	**3,547.2**	**3,690.8**
Net assets, end of year:				
Unrestricted deficit	(129.2)	(129.2)	(129.2)	(129.2)
Internally restricted - Cash reserves	681.8	686.1	690.3	694.6
Internally restricted - Unfunded employee future benefit liability	(1,598.4)	(1,505.6)	(1,412.9)	(1,323.4)
Internally restricted - Investment in capital assets	2,622.9	2,622.9	2,622.9	2,622.9
Endowments	1,676.5	1,726.3	1,776.1	1,825.9
	3,253.6	**3,400.5**	**3,547.2**	**3,690.8**
Unrestricted deficit by fund:				
Operating fund	(20.8)	(20.8)	(20.8)	(20.8)
Ancillary operations	(66.1)	(66.1)	(66.1)	(66.1)
Capital fund	(42.3)	(42.3)	(42.3)	(42.3)
Restricted funds	0.0	0.0	0.0	0.0
	(129.2)	**(129.2)**	**(129.2)**	**(129.2)**

Introduction

This forecast projects the revenues, expenses, net income 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 for 2014 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.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2014 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- Investment return (LTCAP and pension/benefits) of 6.0%.
- Endowment payout of $72.5 million for 2013/14.
- Divisional reserves increasing $20.0 million for 2013/14.

The sensitivity analysis on page 2 shows the impact of varying investment returns (LTCAP and pension/benefits) on net income and net assets at 3.0%, 6.0%, 9.0% and 12.0% for the year.

This forecast also reflects the University's decision to early implement retrospectively the new accounting changes for employee future benefits for Not-for-Profit Organizations. The impact of these changes are as follows:

1) Actuarial gains and losses and differences in actual and expected investment returns (referred to as "remeasurements"), will be included as a separate component in the statement of changes in net assets, rather than on the statement of operations. This will have no impact on total net assets but is considered a positive change for the University since it will remove from the statement of operations yearly variability due to investment returns.

2) The University will now use funding discount assumptions to value all its defined benefit obligations rather than accounting discount assumptions. As a result of this change, the internally restricted net assets at April 30, 2013 increased by $216.1 million.

A reconciliation of the changes to the 2013 statement of net assets and the statement of operations is shown in Appendix A.

UNIVERSITY OF TORONTO

FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT

For the fiscal year ending April 30, 2014

(with comparative figures at April 30, 2013)

(millions of dollars)

	Forecast					Restated
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2014 Total	2013 Total
REVENUES						
Government grants for operations	724.5				724.5	703.6
Student fees	1,013.4	8.2	1.8		1,023.4	944.7
Donations		0.7	8.8	37.2	46.7	83.7
Government and other grants and contracts	4.0	0.6	63.5	368.1	436.2	391.5
Investment Income: Endowment	54.6			35.8	90.4	98.5
Other	31.1	0.4	1.1	1.4	34.0	52.8
Sales, services and sundry income	105.8	155.0			260.8	288.5
	1,933.4	164.9	75.2	442.5	2,616.0	2,563.3
EXPENSES						
Salaries	1,006.1	6.5		185.8	1,198.4	1,142.1
Employee future benefits	190.5	1.4		14.1	206.0	220.5
Other employee benefits	118.8	0.5		4.7	124.0	119.9
Materials and supplies	83.1	2.1		144.5	229.7	212.6
Scholarships, fellowships and bursaries	171.8			24.6	196.4	186.3
Amortization of capital assets	10.0	13.1	119.3	1.5	143.9	141.2
Cost of sales and services		94.0			94.0	87.9
Utilities	43.6	9.7		2.3	55.6	51.9
Repairs and maintenance	66.8	19.1	3.5	2.3	91.7	88.2
Travel and conferences	26.4			19.2	45.6	43.2
Interest on long-term debt	22.4	15.2		1.6	39.2	39.9
External contracted services	27.8			22.9	50.7	46.6
Telecommunications	12.0			1.1	13.1	12.3
Other	21.5		4.5	16.3	42.3	36.9
	1,800.8	161.6	127.3	440.9	2,530.6	2,429.5
Net income (loss)	132.6	3.3	(52.1)	1.6	85.4	133.8
Net transfer between funds	(62.2)	1.8	53.6	6.8		
Transfer of capital assets	(57.0)		57.0			
Change in internally restricted	(81.1)	(1.1)	18.9	1.9	(61.4)	(56.3)
Remeasurement of pensions and other employee future benefits	58.5				58.5	
Change in investment in capital assets		3.1	(74.8)		(71.7)	(48.1)
Transfers of donations to endowments				(6.3)	(6.3)	(9.8)
Transfer to internally restricted endowments				(4.0)	(4.0)	(14.4)
Net change in surplus/(deficit) for the year	(9.2)	7.1	2.6	(0.0)	0.5	5.2
Deficit, beginning of year	(11.6)	(73.2)	(44.9)		(129.7)	(134.9)
Deficit, end of year	(20.8)	(66.1)	(42.3)	(0.0)	(129.2)	(129.7)
Internally restricted net assets	(955.8)	14.7	49.4	72.2	(819.5)	(880.9)
Investment in capital assets		90.8	2,532.1		2,622.9	2,551.2
Endowments				1,726.3	1,726.3	1,663.7
Net assets, end of year	(976.6)	39.4	2,539.2	1,798.5	3,400.5	3,204.3

Projected Changes in Operations and Deficit

Total revenues are expected to increase by $52.7 million, from $2.56 billion in 2013 to $2.62 billion. Total expenses are forecasted to increase by $101.1 million, from $2.43 billion in 2013 to $2.53 billion.

This forecast projects an $85.4 million net income at April 30, 2014. The $85.4 million net income represents a net decrease of $48.4 million from last year's net income of $133.8 million. The main reasons for the $48.4 million decrease are, $101.1 million increase in expenses, $37.0 million decrease in expendable donations, $26.9 million decrease in investment income, mainly a result of the forecasted LTCAP investment return of 6% compared to last year's investment return of 11.4%, partially offset by $78.7 million increase in student fees and $44.7 million increase in government grants and contracts.

A change in the investment return (LTCAP and pension/benefits) would impact this result (assuming everything else remains the same) as shown on page 2:

- At 3.0 % return $70.5 million net income.
- At 6.0 % return $85.4 million net income. – current forecast
- At 9.0 % return $100.0 million net income.
- At 12.0 % return $111.6 million net income.

Projected Changes in Net Assets

This forecast projects an increase in net assets from $3.20 billion at April 30, 2013 to $3.40 billion at April 30, 2014. The increase of $196.2 million results from a projected net income of $85.4 million, an increase in internally restricted assets of $58.5 million from the remeasurement of pensions and other employee future benefits, an investment gain of $23.1 million on externally restricted endowments, and $29.2 million in projected endowed contributions. Varying assumptions for the investment return (LTCAP and pension/benefits) would affect this result (assuming everything else remains the same) as shown on page 2:

- At 3.0% return $3.25 billion net assets.
- At 6.0% return $3.40 billion net assets. – current forecast
- At 9.0% return $3.55 billion net assets.
- At 12.0% return $3.69 billion net assets.

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING APRIL 30, 2014
(with comparative figures for the year ended April 30, 2013; in millions of dollars)

	Forecast					Restated
	Unrestricted deficit	**Internally restricted**	**Investment in capital assets**	**Endowments**	**2014 Total**	2013 Total
Net assets, beginning of year (restated)	**(129.7)**	**(880.9)**	**2,551.2**	**1,663.7**	**3,204.3**	2,818.7
Net Income	**85.4**				**85.4**	133.8
Net change in internally restricted	**(61.4)**	**61.4**				
Remeasurement of pensions and other employee future benefits	**58.5**				**58.5**	130.4
Net change in investment in capital assets	**(71.7)**		**71.7**			
Transfer to endowments	**(10.3)**			**10.3**		
Investment gain on externally restricted endowments				**23.1**	**23.1**	86.8
Externally endowed contributions				**29.2**	**29.2**	34.6
Net assets, end of year	**(129.2)**	**(819.5)**	**2,622.9**	**1,726.3**	**3,400.5**	3,204.3

The projected net assets of $3.40 billion are composed of the following, each of which is discussed further in the following sections:

($129.2 million) unrestricted net deficit
($819.5 million) internally restricted net assets
$2,622.9 million investment in capital assets
$1.726 billion in endowments

Projected Unrestricted Deficit:

This forecast projects a cumulative unrestricted deficit of ($129.2 million) at April 30, 2014, as compared to last year’s cumulative deficit ($129.7 million).

The **operating fund** component of the unrestricted deficit is projected to be ($20.8 million) as compared to the budgeted cumulative deficit of ($3.5 million). The projected unfavorable variance of ($17.3 million) is due to $10.6 million less in government grants and domestic tuition fees, $2.7 million in higher program costs for student aid due to the increase in Ontario Student Assistance Program recipients, $3.1 million increase in utility costs resulting from higher hydro rates and consumption and $0.9 million increase in other costs.

Please note that if the investment return (LTCAP and pension/benefits) is 3.0%, the operating fund cumulative deficit is still projected to be ($20.8 million) at April 30, 2014, as the investment return variations included in this forecast only impact the endowment and internally restricted balances.

The balance of $108.4 million ($129.2M – $20.8M) unrestricted deficit is due primarily to the internal debt component of the University debt programme. Such internal loans will be paid down over time via blended principal and interest payments.

Projected Internally Restricted Net Assets:

Internally restricted net assets primarily reflect the unfunded portion of pension and employee benefits of ($1,505.6 million), partially offset by cash reserves of $686.1 million. Internally restricted net assets are currently projected to improve from ($880.9 million) in 2013 to ($819.5 million) at April 30, 2014, mainly as a result of decreasing employee future benefit expense obligations due to the change to funding discount assumptions.

Projected Investment in Capital Assets:

The $2,622.9 million investment in capital assets represents the value of land and internal monies spent by the University on capital projects which will be reduced over time as the depreciable assets are amortized. This amount is projected to increase from $2,551.2 million in 2013 to $2,622.9 million at April 30, 2014 primarily due to an increase in the internal funding of capital projects, partially offset by depreciation.

Projected Endowments:

This forecast projects endowments at $1.73 billion at April 30, 2014, an increase of $62.6 million from 2013, comprised as follows:

	(millions of dollars)	
	Forecasted Fiscal Year 2014	**Fiscal Year 2013**
Opening Balance, May 1	1,663.7	1,518.1
Investment income	99.6	171.7
Less: endowment payout	(72.5)	(70.5)
Endowed contributions and transfers	35.5	44.4
Balance	1,726.3	1,663.7

This forecast assumes an LTCAP investment return on endowments of 6.0%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At 3.0% return — $1.68 billion endowments.
- At 6.0% return — $1.73 billion endowments. – current forecast
- At 9.0% return — $1.78 billion endowments.
- At 12.0% return — $1.83 billion endowments.

Appendix A

This forecast reflects the restatement of the 2013 financial statements as a result of the University early adopting new accounting changes of employee future benefits for Not-for-Profit Organizations. The impact of these change are as follows:

1) Actuarial gains and losses and differences in actual and expected investment returns (referred to as "remeasurements"), will be included as a separate component in the statement of changes in net assets, rather than on the statement of operations.

2) The University will now use funding discount assumptions to value all its defined benefit obligations rather than accounting discount assumptions. Detailed adjustments to the 2013 financial statements are as follows:

Statement of Changes in Net Assets

- As a result of changing to a funding discount rate, internally restricted net assets increased by $125.2 million at May 1, 2012 and $90.9 million in fiscal 2013. The overall impact on internally restricted net assets is an increase of $216.1 million as at April 30, 2013.

Statement of Operations

- The change in reporting of remeasurements resulted in removing a credit of $130.4 million from the employee future benefit expenses for the year ended April 30, 2013.
- As a result of changing to a funding discount rate, employee future benefit expenses were reduced by $90.9 million for the year ended April 30, 2013.

Reconcilation of Statement of Net Assets
For the year ended April 30, 2013 (in millions of dollars)

	Unrestricted deficit	Internally restricted	Investment in capital assets	Endowments	Total
Net assets, before restatement	(129.7)	(1,097.0)	2,551.2	1,663.7	2,988.2
Increase in employee future benefit expenses	(39.5)				(39.5)
Net change in internally restricted	(90.9)	90.9			
Impact of change to funding discount rates on opening balance May 1, 2012		125.2			125.2
Remeasurement of pensions and other other employee future benefits	130.4				130.4
Net assets, after restatement	(129.7)	(880.9)	2,551.2	1,663.7	3,204.3

Reconcilation of Statement of Operations
For the year ended April 30, 2013 (in millions of dollars)

		2013
Net Income, before restatement		173.3
Employee future benefit expenses		
Remeasurements	(130.4)	
Change to funding discount rates	90.9	
		(39.5)
Net Income, after restatement		133.8