# University of Toronto Financial Forecast to April 30, 2008

## as at January 22, 2008

43579

**University of Toronto**
**Forecast**
**Sensitivity analysis**
**For the fiscal year ending April 30, 2008**

**Impact of LTCAP investment returns on endowments:**

| | -3.5% | 0.0% | 3.5% | 7.0% |
|---|---|---|---|---|
| **Revenues** | **1,908.0** | **1,918.7** | 1,929.3 | **1,940.0** |
| **Expenses** | 1,920.3 | 1,920.3 | 1,920.3 | 1,920.3 |
| **Net Income (loss)** | **(12.3)** | **(1.6)** | 9.0 | **19.7** |
| **Investment income (loss) on externally restricted endowments for preservation of capital** | **(101.1)** | **(49.0)** | 3.1 | **55.2** |
| **Externally endowed contributions** | 51.1 | 51.1 | 51.1 | 51.1 |
| **Transfer of Endowment to UTS** | (15.6) | (15.6) | (15.6) | (15.6) |
| **Net assets, beginning of year** | 2,176.5 | 2,176.5 | 2,176.5 | 2,176.5 |
| **Net assets, end of year** | **2,098.6** | **2,161.4** | 2,224.1 | **2,286.9** |
| **Net assets, end of year:** | | | | |
| **Unrestricted deficit** | (199.9) | (199.9) | (199.9) | (199.9) |
| **Internally restricted** | 246.9 | 246.9 | 246.9 | 246.9 |
| **Investment in capital assets** | 318.6 | 318.6 | 318.6 | 318.6 |
| **Endowments** | **1,733.0** | **1,795.8** | 1,858.5 | **1,921.3** |
| | **2,098.6** | **2,161.4** | 2,224.1 | **2,286.9** |
| **Unrestricted deficit by fund:** | | | | |
| **Operating fund** | (48.0) | (48.0) | (48.0) | (48.0) |
| **Ancillary operations** | (84.4) | (84.4) | (84.4) | (84.4) |
| **Capital fund** | (67.5) | (67.5) | (67.5) | (67.5) |
| **Restricted funds** | 0.0 | 0.0 | 0.0 | 0.0 |
| | (199.9) | (199.9) | (199.9) | (199.9) |

**Impact of $30 million reduction in divisional carryforward & LTCAP investment returns on endowments:**

| | | | | |
|---|---|---|---|---|
| **Net income (loss)** | (42.3) | (31.6) | (21.0) | (10.3) |
| **Net assets, end of year** | 2,068.6 | 2,131.4 | 2,194.1 | 2,256.9 |
| **Internally restricted** | 216.9 | 216.9 | 216.9 | 216.9 |

# 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, 2008 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 3.5%

A sensitivity analysis on page 2 shows the impact of varying LTCAP investment return on endowments at -3.5%, 0%, 3.5% and 7% for the year and shows the impact if the divisional carry forward funds are reduced by $30 million.

**UNIVERSITY OF TORONTO**
**FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT**
**For the fiscal year ending April 30, 2008**
(with comparative figures at April 30, 2007; millions of dollars)

| | Forecast | | | | | |
|---|---|---|---|---|---|---|
| | Operating fund | Ancillary Operations | Capital fund | Restricted funds | 2008 Total | 2007 Total |
| **REVENUES** | | | | | | |
| Government grants for operations | 651.0 | | | | 651.0 | 657.1 |
| Student fees | 557.2 | 6.2 | 0.7 | | 564.1 | 538.9 |
| Donations | | | 10.3 | 33.7 | 44.0 | 74.8 |
| Government grants for restricted purposes | | 0.5 | 28.4 | 319.1 | 348.0 | 304.3 |
| Contract research | 4.8 | | | 16.3 | 21.1 | 19.6 |
| Investment Income: Endowment | 41.4 | | | 18.2 | 59.6 | 80.7 |
| Other | 22.0 | 1.0 | 1.7 | 5.5 | 30.2 | 53.7 |
| Sales, services and sundry income | 80.9 | 130.0 | 0.4 | | 211.3 | 212.9 |
| | 1,357.3 | 137.7 | 41.5 | 392.8 | 1,929.3 | 1,942.0 |
| **EXPENSES** | | | | | | |
| Salaries and benefits | 917.8 | 6.6 | | 210.0 | 1,134.4 | 1,061.9 |
| Materials and supplies | 81.7 | 3.0 | | 135.5 | 220.2 | 211.7 |
| Scholarships, fellowships and bursaries | 117.9 | | | | 117.9 | 115.9 |
| Amortization of capital assets | 8.3 | 10.8 | 80.5 | 0.3 | 99.9 | 99.1 |
| Cost of sales and services | | 84.6 | | | 84.6 | 77.7 |
| Utilities | 48.0 | 9.2 | | | 57.2 | 52.5 |
| Repairs and maintenance | 35.6 | 12.5 | 4.2 | 10.0 | 62.3 | 61.4 |
| Travel and conferences | 18.0 | | | 20.8 | 38.8 | 35.7 |
| Interest | 13.2 | 17.8 | | | 31.0 | 31.0 |
| External contracted services | 21.5 | | | 13.5 | 35.0 | 30.5 |
| Telecommunications | 9.6 | | | 1.5 | 11.1 | 10.6 |
| Other | 16.6 | | | 11.3 | 27.9 | 19.5 |
| | 1,288.2 | 144.5 | 84.7 | 402.9 | 1,920.3 | 1,807.5 |
| **Net income (loss)** | 69.1 | (6.8) | (43.2) | (10.1) | 9.0 | 134.5 |
| Net transfer between funds | (19.5) | 0.4 | 16.2 | 2.9 | 0.0 | |
| Transfer of capital assets | (38.9) | | 38.9 | | | |
| Change in internally restricted | 7.6 | 0.6 | 7.2 | 4.4 | 19.8 | (131.9) |
| Change in investment in capital assets | | 1.7 | (38.1) | | (36.4) | 1.7 |
| Transfers of donations to endowments | | | | 3.4 | 3.4 | (4.1) |
| Transfer from internally restricted endowments | | | | (0.6) | (0.6) | (24.2) |
| **Net change in surplus/(deficit) for the year** | 18.3 | (4.1) | (19.0) | (0.0) | (4.8) | (24.0) |
| Deficit, beginning of year | (66.3) | (80.3) | (48.5) | | (195.1) | (171.1) |
| **Deficit, end of year** | (48.0) | (84.4) | (67.5) | (0.0) | (199.9) | (195.1) |
| **Internally restricted** | 166.0 | 8.8 | 2.5 | 69.6 | 246.9 | 266.7 |
| **Investment in capital assets** | | 79.6 | 239.0 | | 318.6 | 282.2 |
| **Endowments** | | | | 1,858.5 | 1,858.5 | 1,822.7 |
| **Net assets, end of year** | 118.0 | 4.0 | 174.1 | 1,928.1 | 2,224.1 | 2,176.5 |

## Projected Changes in Operations and Deficit

This forecast projects a $9 million net income at April 30, 2008 on projected revenues of $1.93 billion. This projected net income includes:

$69.1 million net income for the operating fund.
($6.8 million) net loss for ancillary operations.
($43.2 million) net loss for the capital fund.
($10.1 million) net loss for restricted funds.

This $9 million net income represents a net deterioration of $125.5 million from last year's net income of $134.5 million. The main reasons are:

- $38.1 million in additional restricted funds research grant revenue.

- $44.6 million decline in investment income, assuming an LTCAP return of 3.5% compared to last year's return of 13.7%. 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 -3.5 % return ($12.3 million) net loss.
    - At 0.0 % return ($1.6 million) net loss.
    - At 3.5 % return $9.0 million net income.
    - At 7.0 % return $19.7 million net income.

- $111.8 million additional operating and restricted fund expenses as divisions are expected to maintain their divisional funds balance carried forward as compared to last year's increase of $92.6 million. Last year's increase was a result of receiving a number of grants late in the fiscal year.

Revenues are expected to remain the same as last year at $1.9 billion with increased revenues from student fees and government grants for restricted being offset by a decrease in investment income.

Expenses are forecasted to increase from $1.81 billion in 2007 to $1.92 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.

It should be noted that while the university continues to be fiscally responsible as shown by these projections, this has only been achieved as a result of significant budget reductions within all divisions of the university. The university must continue to reduce expenses not only to create surpluses to eliminate the operating deficit, but also to ensure that it can operate within its revenue base.

## Projected Changes in Net Assets

This forecast projects an increase in net assets from $2.1765 billion at April 30, 2007 to $2.2241 billion at April 30, 2008. This growth of $47.6 million results from $51.1 million projected endowed donations and grants, projected net income of $9.0 million and $3.1 million investment income on endowments for the preservation of capital, partially offset by the $15.6 million transfer of the UTS endowment. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same) as shown on page 2:

- At -3.5% return $2.0986 billion net assets.
- At 0.0% return $2.1614 billion net assets.
- At 3.5% return $2.2241 billion net assets.
- At 7.0% return $2.2869 billion net assets.

**UNIVERSITY OF TORONTO**
**FORECASTED STATEMENT OF CHANGES IN NET ASSETS**
**FOR THE YEAR ENDING APRIL 30, 2008**
(with comparative figures for the year ended April 30, 2007; in millions of dollars)

| | Forecast | | | | | |
|---|---|---|---|---|---|---|
| | **Unrestricted deficit $** | **Internally restricted $** | **Investment in capital assets $** | **Endowments $** | **2008 Total $** | 2007 Total $ |
| Net assets, beginning of year | **(195.1)** | **266.7** | **282.2** | **1,822.7** | **2,176.5** | 1,876.4 |
| Net income (loss) | **9.0** | | | | **9.0** | 134.5 |
| Net change in internally restricted | **19.8** | **(19.8)** | | | | |
| Net change in investment in capital assets | **(36.4)** | | **36.4** | | | |
| Transfer to internally restricted endowments - investment income | **(0.6)** | | | **0.6** | | |
| Transfer to endowments - donations | **(2.0)** | | | **2.0** | | |
| - matching funds | **(0.8)** | | | **0.8** | | |
| Investment income on externally restricted endowments | | | | **3.1** | **3.1** | 129.5 |
| Transfer of endowment to UTS | **6.2** | | | **(21.8)** | **(15.6)** | |
| Externally endowed contributions - donations | | | | **40.0** | **40.0** | 30.9 |
| - Ontario grants | | | | **11.1** | **11.1** | 5.2 |
| Net assets, end of year | **(199.9)** | **246.9** | **318.6** | **1,858.5** | **2,224.1** | 2,176.5 |

The projected net assets of $2.2241 billion are composed of the following, each of which is discussed further in the following sections:

($199.9 million) unrestricted net deficit
$246.9 million internally restricted net assets,
$318.6 million investment in capital assets
$1.8585 billion endowments.

**Projected Unrestricted Deficit:**

This forecast projects a $199.9 million cumulative unrestricted deficit at April 30, 2008, as compared to last year's cumulative deficit of $195.1 million, comprised as follows:

($48.0 million) operating fund unrestricted deficit
($84.4 million) ancillary operations unrestricted deficit
($67.5 million) capital fund deficit.

The **operating fund** cumulative deficit is projected to be $48.0 million at April 30, 2008. This is a projected decrease of $20.0 million over the budgeted cumulative deficit of $68.0 million due to:

$12.9 million lower cumulative deficit at April 30, 2007 than budgeted.

$3.6 million projected increase in provincial operating grants on a budget of $565.2 million, due to the following:

- $1.3 million projected increase in provincial operating grants with respect to quality fund reallocations.
- $4.6 million projected increase in provincial operating grants based on preliminary estimates of funding available for undergraduate enrolment growth.
- ($3.1 million) projected shortfall in provincial operating grants based on estimates of 2007-08 graduate enrolment growth.
- $0.8 million net other positive variances.

$1.9 million projected increase in tuition fees primarily based on projected increase in domestic undergraduate enrolment.

$1.6 million expected positive variance on utilities expense due to lower natural gas and hydro rates and lower consumption than budgeted.

It should be noted that the $12.9 million decrease in cumulative deficit as at April 30, 2007, was partially due to government funding received late in 2007 which will be used to fund future capital construction and the cost associated with higher enrolments.

The **ancillary operations** cumulative deficit is projected to be $84.4 million at April 30, 2008, an increase of $4.1 million over 2007 mainly due to the projected net loss for the year of $6.8 million reflecting primarily losses in residence operations resulting from residence expansion.

The **capital fund** cumulative deficit is projected to be $67.5 million at April 30, 2008, as compared to $48.5 million at April 30, 2007. 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 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 $266.7 million to $246.9 million.

**Projected Investment in Capital Assets:**

The $318.6 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 $282.2 million in 2007 to $318.6 million at April 30, 2008 due to an increase in internal funding of capital projects partially offset by depreciation.

**Projected Endowments:**

This forecast projects endowments at $1.8585 billion at April 30, 2008, an increase of $35.8 million from 2007, comprised as follows:

| | Forecasted Fiscal Year 2008 | Fiscal Year 2007 |
|---|---|---|
| Opening Balance, May 1 | 1,822.7 | 1,628.8 |
| Investment income | | |
| Preservation of capital for externally restricted endowments | 3.1 | 129.5 |
| Preservation of capital for internally restricted endowments | 0.6 | 24.2 |
| Available for payout | 59.0 | 56.5 |
| Less: endowment payout | (59.0) | (56.5) |
| Externally endowed contributions | | |
| - donations | 40.0 | 30.9 |
| - Ontario grants | 11.1 | 5.2 |
| Transfer to UTS | (21.8) | 0.0 |
| Transfer to endowments from | | |
| donations | 2.0 | 1.5 |
| operating matching funds | 0.8 | 2.6 |
| Balance | 1,858.5 | 1,822.7 |

This forecast assumes an LTCAP investment return on endowments of 3.5%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At -3.5% return $1.7330 billion net assets.
- At 0.0% return $1.7958 billion net assets.
- At 3.5% return $1.8585 billion net assets.
- At 7.0% return $1.9213 billion net assets.