University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

Memorandum to:	Business Board	
From:	Felix Chee	
For:	Meeting of April 8, 2002	Agenda Item: 4(a)

Item Identification: **Operating Fund Forecast for the year ending April 30, 2002**

Sponsor: Felix Chee, Vice-President, Business Affairs

Basis of Business Board's Jurisdiction:

The Business Board's Terms of Reference anticipate the receipt of regular reports on matters affecting the finances of the University.

Action Sought:

Receipt of the report for information.

Highlights:

The projected deficit for the year is $4.9 million, as compared to the budgeted deficit of $3.2 million.

Revenues are expected to be $9.2 million higher than budget. This increase is primarily due to increased federal indirect cost grant ($14.6 million) and student fees ($10.5 million), offset by lower investment income ($16.2 million).

Expenses are forecast to be $10.9 million higher. The key variances include:

Unbudgeted Graduate Student Support	$ 5.4 million
Increased Enrolment	6.9
Increased Faculty Hiring/Retention	5.2
Higher Utility Costs	2.2
Higher Legal Costs	1.7
	$21.4 million

Offset by:

Not spending on Student Graduate Endowment	
Increase of investment performance	$(7.2) million
Lower Staff Benefit Costs	(2.2)
Other	(1.1)
Net Increase	$10.9 million

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UNIVERSITY OF TORONTO
Operating Fund Forecast
For the year ending April 30, 2002
(millions of dollars)

	Budget	Forecasted Actuals	Variance to Budget fav/(unfav)
	$	$	$
Revenue (page 2)	812.7 [1]	**821.9** [3]	9.2
Expense (page 4)	(815.9) [1]	**(826.8)** [3]	(10.9)
DEFICIT, FOR THE YEAR	(3.2)	**(4.9)**	(1.7)
Deficit, beginning of year	(9.8) [1]	**(11.1)** [2]	(1.3)
DEFICIT, END OF YEAR	(13.0)	**(16.0)**	(3.0)

[1] As per the Budget Report for 2001-2002

[2] This is the actual deficit for fiscal year ending April 30, 2001

[3] Actual revenues and expenses as reported in the financial statements will differ from these figures by the difference in faculties and divisions, between budgeted and actual allocations. These differences, whether positive or negative, are carried forward to next year as "funds committed". (See page 5 for more details)

University of Toronto
Operating Fund Forecast 2001-2002
Explanation of Major General University Operating Revenue and Expense Variances

GU - General University items that have an economic impact on the surplus or deficit position
DIV - Divisional items whether postive or negative, are carried forward to the next year as funds committed (see page 6)

Name	Budgeted	Projected	Variance	Explanation
	($ amounts in millions of dollars)			
OPERATING REVENUES				
GU: Provincial Grants	373.8	373.8	0.0	The variance has two major components which can be explained as follows: The favourable variance of $3.9 million in government grants is due to: (a) $6.7 million decrease in base operating grants where the budget had assumed a 2% inflation increase (b) $2.0 million increase in performance-based funding and $8.6 million increase in enrolment growth funding (from a province wide total of $25.8 million) for graduate and undergraduate levels. In the Ontario Budget 2000, the government announced the establishment of the Research Performance Fund to assist universities and other research institutions with their overhead costs. The Ministry of Energy, Science and Technology is responsible for the administration of these funds.. The demand on this funding exceeded the Ministry's expectations and thereby a reduction in all payments were pro-rated among universities which resulted in an unfavourable variance of $3.9 million.
GU: Federal Grants	14.3	14.3	0.0	Composed of: Canada Research Chairs $14.3 million
GU: Student Fees	237.4	247.9	10.5	The university provides an enrolment count to the Ministry of Training, Colleges and Universities as at November 1, 2001. This count forms the basis for this forecast of student fees, which are expected to be over budget by $10.5 million.
GU/DIV: Endowment Income	34.1	34.4	0.3	Endowment income budget of $34.1 million is comprised of: $25.9 million general university income (variances on this item will impact the surplus or deficit position) and $8.2 million in divisional revenue (variances in this item are carried forward to the following year). This projection is essentially on target. The endowment spending rate of 5% of market value smoothed over four years will be maintained for fiscal 2002.
GU: Investment Income	20.4	4.2	(16.2)	The unfavourable investment variance of $16.2 million is due to a lower forecasted overall investment income yield of 2.41% as compared to the budgeted yield of 7.61%, resulting in a negative variance of 5.2%. Returns from long-term investments were lower than anticipated due to poor equity market performance. This was partially offset by a higher than anticipated return on fixed income investments.

Name	Budgeted	Projected	Variance	Explanation
	($ amounts in millions of dollars)			
GU: Federal Indirect Cost Grant	0.0	14.6	14.6	In December 2001, the Federal government had announced that the government will begin to fund the indirect cost of federally funded research, and included an initial fund of $200 million for the fiscal 2001-02 year. Full details of the program have not yet been released, but we would conservatively estimate that this fund will provide $14.6 million in net additional revenue to the University of Toronto.
GU: Stewardship and Investment Management Fee	6.9	6.9	0.0	These fees represent costs associated with endowment stewardship and indirect costs of investment management which are incurred within the University. These fees are recovered from the long-term capital appreciation pool, the expendable funds investment pool, and in the case of the latter fee, from pension funds. This projection is on target.
GU: Other Income	21.7	21.7	0.0	Composed primarily of: overhead on contract research ($11.9 million), application fees ($4.8 million), contributions from ancillary operations ($2.5 million), overhead charged to academic prgrams ($1.9 million) and property rentals ($0.3 million) .
DV - Divisional Income	104.1	104.1	0.0	This category is comprised of revenue items which are budgeted in divisions and include $62.9 million in student fees for self-funded programs such as the executive MBA, $38.8 million for revenue from services, and $2.3 million in government grants received directly by divisions. Any variances in this category are carried forward to the following year as funds committed and thereby do not have an economic impact on the surplus or deficit position.
Total Revenues	**812.7**	821.9	9.2	
As a % of Budget	100.0%	101.1%	1.1%	

Name	Budgeted	Projected	Variance	Explanation
	($ amounts in millions of dollars)			
OPERATING EXPENDITURES				
GU: Student Graduate Aid Endowment	7.2	0.0	7.2	The two variances that relate to the graduate student endowment funds have been shown in detail to correspond with the following explanations: The budget for 2001-02 included a provision that all operating investment revenue in excess of $13.2 million (estimated at that time to be $7.2 million), would be earmarked for graduate student aid endowment and will be used to create a new endowment fund. Applying an aggressive investment strategy for expendable funds was expected to yield this additional investment revenue. The current forecast of investment revenue indicates that this will not be possible.
GU: Graduate Student Support	0.0	5.4	(5.4)	There are $3.0 million in matching commitments for graduate student aid that must be met from general operating revenue and $2.4 million in graduate student support to meet the funding guarantee.
GU: Staff Benefits From Variance Costs	0.0	(2.2)	2.2	Staff benefits are budgeted centrally and that projected cost is budgeted to be recovered from divisions using a standard costing method. Therefore, the approximately $100 million in staff benefits costs is included in the divisional expense shown below. However, any variance between the recoveries from divisions and actual benefits costs affects the surplus/deficit position. For this fiscal year, actual recoveries at a standard benefits rate of 19.5% are $2.2 million higher than benefit costs, which are running at about 19.1%.
GU: Enrolment Growth Fund	8.9	15.8	(6.9)	The budget report includes a strategy that provides funding for academic divisions whose enrolment is greater than the target enrolment assumed in the budget. An unfavourable variance of $6.9 million is due to the higher than anticipated increase in enrolment in the Arts and Science and Applied Science and Engineering.
GU: Faculty Hiring	0.0	3.2	(3.2)	The total expected additional expenditures is $6.0 million. After funding has been provided by the reallocation from capital project funding from the University Infrastructure Investment Fund of $2.0 million and surplus funds drawn from the Workers Safety Insurance Board of $0.8 million, an increase of $3.2 million is required to meet this obligation.
GU: Utilities	21.7	23.9	(2.2)	The unfavourable variance of $2.2 million is mainly the result of an increase in hydro rates of 11.57% or an increase from budget of $1.8 million. The budget did not anticipate a surcharge to raise money to retire the debt incurred by Ontario Hydro. Savings from lower natural gas prices have been offset by hydro costs incurred while maintenance was conducted on various projects such as the cogeneration and flue heat projects.

Name	Budgeted	Projected	Variance	Explanation
	($ amounts in millions of dollars)			
GU: Faculty Retention	0.5	2.5	(2.0)	Funds have been provided to allow for adjustments in academic salaries (including 19.5% in benefits) consistent with market factors.
GU: Legal Expenses	1.5	3.2	(1.7)	The university has experienced an unexpected increase in legal expenses resulting from current litigation.
GU/DIV: Other General and Divisional Expenses	776.1	775.0	1.1	Dvisional differences, whether positive or negative, are carried forward to next year as funds committed. General university variances impact the the surplus or deficit position.
Total Expenses	815.9	826.8	(10.9)	
As a % of Budget	100.0%	101.3%	-1.3%	

University of Toronto
Operating Fund Forecast 2001-2002
Funds Committed For Specific Purposes

	Description	Balance April 30, 2001	Forecast April 30, 2002	Variance
	Divisional appropriations carried forward	40.7	32.9	(7.8)
	Purchase order commitments	7.9	7.9	-
1	Research overhead	11.4	11.4	-
2	Other	5.9	5.0	(0.9)
	Funding sub-total	65.9	57.2	(8.7)
3	Employee future benefits other than pensions	(20.4)	(41.0)	(20.6)
4	Vacation pay liability	(8.6)	(9.0)	(0.4)
5	VEARP repayments	(7.0)	(4.5)	2.5
6	Deferred pension charge	22.3	4.4	(17.9)
	Non-funding sub-total	(13.7)	(50.1)	(36.4)
		52.2	7.1	(45.1)

1) Research overhead: Research overhead recoveries from customers in the calendar year are appropriated and available for spending in the following fiscal year.

2) Other: These represent unspent funds in respect of approved capital projects in progress at the end of the fiscal year and various initiatives to enhance the quality, structure and organization of programs and activities.

3) Employee future benefits other than pensions: these benefits include medical plans for pensioners, long-term disability and survivor income benefits. The future cost of these benefits must be recorded as an expense when earned instead of being expensed when premiums are paid. The amount shown above, which has been determined by the university's actuary, is recorded as a reduction to funds committed since this cost will be paid by divisions in future years.

4) Vacation pay liability: a vacation pay expense and a corresponding liability must be recorded to show the cost of vacation earned but not taken by non-academic employees. In the future, the divisions will incur these accrued vacation pay expenses.

5) VEARP repayments: the cost incurred under the voluntary early academic retirement program (VEARP) must be recorded as an expense when an individual decides to retire and the university agrees, not when the actual retirement occurs. Certain faculties pay the cost of early retirements over a maximum of three years.

6) Deferred pension charge: funds are set aside in an amount equal to the deferred pension charge for future years when the University will be required to record pension expense.