UNIVERSITY OF TORONTO

FINANCIAL SERVICES

TO: Business Board

SPONSOR: Sheila Brown
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca
DATE: January 20, 2012 for January 30, 2012

AGENDA ITEM: **4**

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2012, prepared as of January 10, 2012

JURISDICTIONAL INFORMATION:

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

PREVIOUS ACTION TAKEN:

On March 7, 2011, the Business Board concurred with the Academic Board that the Operating Budget Report for 2011-12 be approved. On June 16, 2011 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2011 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, 2012 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- A $40 million increase in divisional reserves.
- LTCAP investment return of 2.0%.
- Endowment payout of $68.9 million for 2011/12.

This forecast projects revenues of $2.37 billion, expenses of $2.48 billion, and a net loss of $108.6 million for the year ending April 30, 2012 after recording $134.4 million in unfunded employee future benefit expenses. It projects net assets of $1.8 billion, comprised of $1.54 billion endowments, $411.4 million investment in capital assets, ($10.4 million) in internally restricted net assets, and $148.7 million unrestricted deficit. The unrestricted deficit of $148.7 million is comprised of $16.7 million operating fund deficit, $85.7 million ancillary operations deficit, and $46.3 million capital fund deficit.

The projected operating fund cumulative deficit of $16.7 million at April 30, 2012 is $4.3 million below the budgeted $21.0 million cumulative deficit, mainly due to higher tuition fee revenue of $9.4 million and higher than budgeted investment income of $2.4 million.

A sensitivity analysis on page 2 shows the impact of varying LTCAP investment return on net assets at -4.0%, 0.0%, 2.0% and 4.0% for the year**.**

A further sensitivity analysis was performed to assess the impact of a 1% difference in the discount rate for employee future benefits expense. This expense item was calculated as at May 1, 2011. If the discount rate at May 1, 2011 had been 1% higher (6.6% rather than 5.6%), the pension and other benefits expense would have been $50 million lower. This would have resulted in a net loss that would be $50 million less and internally restricted net assets that would be $50 million higher.

RECOMMENDATION:

For information.