UNIVERSITY OF
TORONTO

Financial Forecast to April 30, 2012

as at January 10, 2012

University of Toronto
Forecast
Sensitivity analysis
For the fiscal year ending April 30, 2012
(millions of dollars)

Impact of LTCAP investment returns on Net Assets:	-4.0%	0.0%	2.0%	4.0%
Revenues	**2,341.0**	**2,359.5**	2,368.8	**2,378.0**
Expenses (excluding Employee Future Benefit expenses above budget)	2,343.0	2,343.0	2,343.0	2,343.0
Net Income (loss)	(2.0)	16.5	25.8	35.0
Less: Employee Future Benefit expenses above budget	134.4	134.4	134.4	134.4
Net loss	**(136.4)**	**(117.9)**	(108.6)	**(99.4)**
Preservation (drawdown) of capital for externally restricted endowments	**(110.0)**	**(58.1)**	(32.1)	**(6.2)**
Externally endowed contributions	40.5	40.5	40.5	40.5
Net assets, beginning of year	1,896.4	1,896.4	1,896.4	1,896.4
Net assets, end of year	**1,690.5**	**1,760.9**	1,796.2	**1,831.3**
Net assets, end of year:				
Unrestricted deficit	(148.7)	(148.7)	(148.7)	(148.7)
Internally restricted - Central & Divisional reserves	559.5	563.2	565.1	566.9
Internally restricted - Unfunded Employee Future Benefit liability	(583.3)	(578.1)	(575.5)	(572.9)
Investment in capital assets	411.4	411.4	411.4	411.4
Endowments	**1,451.6**	**1,513.1**	1,543.9	**1,574.6**
	1,690.5	**1,760.9**	1,796.2	**1,831.3**
Unrestricted deficit by fund:				
Operating fund	(16.7)	(16.7)	(16.7)	(16.7)
Ancillary operations	(85.7)	(85.7)	(85.7)	(85.7)
Capital fund	(46.3)	(46.3)	(46.3)	(46.3)
Restricted funds	0.0	0.0	0.0	0.0
	(148.7)	(148.7)	(148.7)	(148.7)

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, 2012 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

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

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.

UNIVERSITY OF TORONTO

FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT

For the fiscal year ending April 30, 2012

(with comparative figures at April 30, 2011)

(millions of dollars)

	Forecast					
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2012 Total	2011 Total
REVENUES						
Government grants for operations	710.9				710.9	691.0
Student fees	786.9	7.4	2.5		796.8	764.3
Donations		0.5	6.2	54.0	60.7	63.7
Government and other grants and contracts	3.5	0.4	64.9	352.7	421.5	406.4
Investment Income: Endowment	53.3			25.2	78.5	91.7
Other	33.4	0.4	0.8	1.3	35.9	43.9
Sales, services and sundry income	118.3	146.0	0.2		264.5	260.1
	1,706.3	154.7	74.6	433.2	2,368.8	2,321.1
EXPENSES						
Salaries and benefits	1,319.6	8.2		241.9	1,569.7	1,459.9
Materials and supplies	85.1	1.7		137.7	224.5	206.3
Scholarships, fellowships and bursaries	151.4				151.4	141.4
Amortization of capital assets	9.9	13.0	114.1	0.6	137.6	132.1
Cost of sales and services		87.9			87.9	80.4
Utilities	44.7	9.4			54.1	51.0
Repairs and maintenance	57.7	16.7	5.8	4.0	84.2	79.8
Travel and conferences	21.2			21.1	42.3	40.9
Interest on long-term debt	17.3	16.3		1.3	34.9	32.6
External contracted services	28.1			19.6	47.7	49.6
Telecommunications	10.1			1.4	11.5	11.2
Other	16.2		3.3	12.1	31.6	28.7
	1,761.3	153.2	123.2	439.7	2,477.4	2,313.9
Net income (loss)	(55.0)	1.5	(48.6)	(6.5)	(108.6)	7.2
Net transfer between funds	(15.8)	1.1	12.0	2.7	0.0	
Transfer of capital assets	(48.3)		48.3			
Change in internally restricted	97.0	(0.6)	4.7	(0.1)	101.0	45.8
Change in investment in capital assets		27.7	1.2		28.9	(27.1)
Transfers of donations to endowments				(2.1)	(2.1)	(2.1)
Transfer from (to) internally restricted endowments				6.0	6.0	(10.9)
Net change in surplus/(deficit) for the year	(22.1)	29.7	17.6	(0.0)	25.2	12.9
Deficit, beginning of year	5.4	(115.4)	(63.9)		(173.9)	(186.8)
Deficit, end of year	(16.7)	(85.7)	(46.3)	(0.0)	(148.7)	(173.9)
Internally restricted	(123.8)	12.1	31.4	69.9	(10.4)	90.6
Investment in capital assets		93.9	317.5		411.4	440.3
Endowments				1,543.9	1,543.9	1,539.4
Net assets, end of year	(140.5)	20.3	302.6	1,613.8	1,796.2	1,896.4

Projected Changes in Operations and Deficit

Total revenues are expected to increase by $47.7 million, from $2.32 billion in 2011 to $2.37 billion, mainly due to increased revenues from student fees and government grants for operating purposes.

Total expenses are forecasted to increase by $163.5 million, from $2.31 billion in 2011 to $2.48 billion, partly as a result of increased unfunded pension and other employee future benefit expense.

This forecast projects a ($108.6 million) net loss at April 30, 2012. This projected net loss includes:

($55.0 million) net loss for the operating fund.
$1.5 million net gain for ancillary operations.
($48.6 million) net loss for the capital fund.
($6.5 million) net loss for restricted funds.

The ($108.6 million) net loss represents a net deterioration of $115.8 million from last year's net income of $7.2 million. The main reasons are:

- $163.5 million increase in expenses, primarily due to the cost of providing pensions, negotiated increases in salaries and benefits for employee groups and as a result of additional number of faculty and staff.

- $67.5 million increase in government operating grants, student fees and other grants and contract revenue.

- $21.2 million decrease in investment income, mainly as a result of the forecasted LTCAP investment return of 2.0% compared to last year's investment return of 9.9%. A change in the LTCAP investment return would impact this result (assuming everything else remains the same) as shown on page 2:

    - At -4.0 % return ($136.4 million) net loss.
    - At 0.0 % return ($117.9 million) net loss.
    - At 2.0 % return ($108.6 million) net loss. – current forecast
    - At 4.0 % return ($99.4 million) net loss.

Projected Changes in Net Assets

This forecast projects a decrease in net assets from $1.9 billion at April 30, 2011 to $1.8 billion at April 30, 2012. The decrease of $100.2 million results from a projected net loss of $108.6 million and a drawdown of capital for externally restricted endowments of $32.1 million, partially offset by $40.5 million in projected endowed donations and grants. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same) as shown on page 2:

- At -4.0% return $1.69 billion net assets.
- At 0.0% return $1.76 billion net assets.
- At 2.0% return $1.80 billion net assets. – current forecast
- At 4.0% return $1.83 billion net assets.

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING APRIL 30, 2012
(with comparative figures for the year ended April 30, 2011; in millions of dollars)

	Forecast					
	Unrestricted deficit $	Internally restricted $	Investment in capital assets $	Endowments $	2012 Total $	2011 Total $
Net assets, beginning of year	(173.9)	90.6	440.3	1,539.4	1,896.4	1,800.0
Net income (loss)	(108.6)				(108.6)	7.2
Net change in internally restricted	101.0	(101.0)				
Net change in investment in capital assets	28.9		(28.9)			
Transfer from internally restricted endowments - investment income	6.0			(6.0)		
Transfer to endowments - donations	(2.1)			2.1		
Preservation (drawdown) of capital for externally restricted endowments				(32.1)	(32.1)	64.2
Externally endowed contributions						
- donations				36.4	36.4	21.4
- grants and other				4.1	4.1	3.6
Net assets, end of year	(148.7)	(10.4)	411.4	1,543.9	1,796.2	1,896.4

The projected net assets of $1.80 billion are composed of the following, each of which is discussed further in the following sections:

($148.7 million) unrestricted net deficit
($10.4 million) internally restricted net assets
$411.4 million investment in capital assets
$1.54 billion endowments

Projected Unrestricted Deficit:

This forecast projects a cumulative unrestricted deficit of ($148.7 million) at April 30, 2012, as compared to last year's cumulative deficit ($173.9 million), comprised as follows:

($16.7 million) operating fund unrestricted deficit
($85.7 million) ancillary operations unrestricted deficit
($46.3 million) capital fund deficit.

The **operating fund** cumulative deficit at April 30, 2012, is projected to be ($16.7 million) as compared to the budgeted cumulative deficit of ($21.0 million). The projected favorable variance of $4.3 million is due to:

($1.3 million) projected decrease in provincial operating grants on a budget of $637.7 million, due to the following:
- $2.8 million projected increase in undergraduate accessibility funding.
- ($3.5 million) projected decrease in the Graduate Expansion funding, due to lower than expected enrolments.
- ($0.9 million) projected decrease in Performance KPI funding, due to a decrease in our share of the graduate degree completion rate.
- $0.3 million projected increase in other various provincial grant items.

$2.4 million higher projected investment income due to higher than budgeted investment capital.
$9.4 million higher than projected tuition fee revenue, primarily a result of higher than planned international undergraduate enrolments.
($3.0 million) expected negative variance on pension expense due to increase in current service costs resulting from changes in the actuarial assumptions in the pension plans.
($3.2 million) other projected negative variances.

Please note that if the LTCAP investment return is -4.0%, the operating fund cumulative deficit is still projected to be ($16.7 million) at April 30, 2012, as LTCAP returns only impact the endowment and internally restricted balances.

The **ancillary operations** cumulative deficit is projected to be ($85.7 million) at April 30, 2012, a projected deficit decrease of $29.7 million from 2011. The current year decrease is mainly the result of using funding from the Series E Debenture (issued in December 2011) to fund the previously internally financed capital assets with the impact of reducing both the deficit and the investment in capital assets. The ancillary fund deficit is primarily due to the internal financing of capital assets, which has the impact of increasing both the deficit and the investment in capital assets.

The **capital fund** cumulative deficit is projected to be ($46.3 million) at April 30, 2012, a projected deficit decrease of $17.6 million from 2011. The current year decrease is mainly the result of using funding from the Series E Debenture (issued in December 2011) to fund the previously internally financed capital projects with the impact of reducing both the deficit and the investment in capital assets partially offset by the internally funding of new capital projects. 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 and departmental trust funds of $565.1 million, offset by the unfunded portion of pension and employee benefits of $575.5 million. Internally restricted net assets are currently projected to decline from $90.6 million to ($10.4 million), mainly as a result of increasing employee future benefits expense as discussed on P.5 of this report.

Projected Investment in Capital Assets:

The $411.4 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 decrease from $440.3 million in 2011 to $411.4 million at April 30, 2012 primarily due to the use of funding from the Series E Debenture (issued in December 2011) to replace internal bridge financing of capital projects.

Projected Endowments:

This forecast projects endowments at $1.54 billion at April 30, 2012, an increase of $4.5 million from 2011, comprised as follows:

	(millions of dollars)	
	Forecasted Fiscal Year 2012	**Fiscal Year 2011**
Opening Balance, May 1	1,539.4	1,437.2
Investment income		
Preservation (drawdown) of capital for externally restricted endowments	(32.1)	64.2
Preservation (drawdown) of capital for internally restricted endowments	(6.0)	10.9
Available for payout	68.9	65.8
Less: endowment payout	(68.9)	(65.8)
Externally endowed contributions		
- donations	36.4	21.4
- grants and other	4.1	3.6
Transfer to endowments from		
- donations	2.1	2.1
- operating matching funds	0.0	0.0
Balance	1,543.9	1,539.4

This forecast assumes an LTCAP investment return on endowments of 2.0%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At -4.0% return $1.45 billion endowments.
- At 0.0% return $1.51 billion endowments.
- At 2.0% return $1.54 billion endowments. – current forecast
- At 4.0% return $1.57 billion endowments.