UNIVERSITY OF TORONTO

FINANCIAL SERVICES

TO: Business Board

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DATE: February 13, 2013 for March 4, 2013

AGENDA ITEM:

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2013, prepared as of January 31, 2013

JURISDICTIONAL INFORMATION:

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

PREVIOUS ACTION TAKEN:

On March 5, 2012, the Business Board concurred with the Academic Board that the Operating Budget Report for 2012-13 be approved. On June 14, 2012 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2012 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.

This forecast reflects the restatement of the 2012 financial statements as a result of the CICA's new Not-for-Profit accounting guidelines which were presented to the Business Board for information on April 2, 2012. These changes resulted in an increase of about $1 billion to net assets, and the reflection in expenses each year of the full value of any changes in employee benefit expense. There is an appendix at the back of document that explains the changes in further detail and shows the conversion of April 30, 2012 results from the old rules to the new ones. Apart from these changes, this forecast is in the same format as previous years.

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, 2013 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- LTCAP investment return of 5.0%.
- Endowment payout of $70.4 million for 2012/13.
- Divisional reserves remain unchanged from last year.

This forecast projects revenues of $2.49 billion, expenses of $2.54 billion, and a net loss of $43.8 million (1.8% of revenues) for the year ending April 30, 2013. It projects net assets of $2.8 billion, comprised of $1.56 billion endowments, $2.55 billion investment in capital assets, ($1.18 billion) in internally restricted net assets, and $133.2 million unrestricted deficit. The unrestricted deficit of $133.2 million is comprised of $8.4 million operating fund deficit, $78.2 million ancillary operations deficit, and $46.6 million capital fund deficit.

The projected operating fund cumulative deficit of $8.4 million at April 30, 2013 is $1.3 million higher than the budgeted $7.1 million cumulative deficit due to a $9.9 million shortfall in provincial operating grants, partially offset by increased tuition revenue of $5.5 million, higher than budgeted investment income of $1.4 million and savings in operating expenses of $1.7 million.

A sensitivity analysis on page 2 shows the impact of varying LTCAP investment return on net assets at -2.0%, 3.0%, 5.0% and 8.0% for the year.

RECOMMENDATION:

For information.

UNIVERSITY OF TORONTO

Financial Forecast to April 30, 2013

as at January 31, 2013

University of Toronto
Forecast
Sensitivity analysis
For the fiscal year ending April 30, 2013
(millions of dollars)

Impact of LTCAP investment returns on Net Assets:	-2.0%	3.0%	5.0%	8.0%
Revenues	2,460.7	2,483.2	2,492.3	2,505.8
Expenses (excluding Employee Future Benefit expenses above budget)	2,434.2	2,434.2	2,434.2	2,434.2
Net Income before the following:	26.5	49.0	58.1	71.6
Less: Employee Future Benefit expenses above budget	101.9	101.9	101.9	101.9
Net loss	**(75.4)**	**(52.9)**	**(43.8)**	**(30.3)**
Preservation (drawdown) of capital for externally restricted endowments	(86.3)	(21.3)	4.6	43.6
Externally endowed contributions	31.0	31.0	31.0	31.0
Net assets, beginning of year- restated (see Appendix A)	2,805.3	2,805.3	2,805.3	2,805.3
Net assets, end of year	**2,674.6**	**2,762.1**	**2,797.1**	**2,849.6**
Net assets, end of year:				
Unrestricted deficit	(133.2)	(133.2)	(133.2)	(133.2)
Internally restricted - Central & Divisional reserves	604.5	610.5	613.0	616.6
Internally restricted - Unfunded employee future benefit liability	(1,800.4)	(1,794.7)	(1,792.5)	(1,789.1)
Internally restricted - Investment in capital assets	2,548.6	2,548.6	2,548.6	2,548.6
Endowments	1,455.1	1,530.9	1,561.2	1,606.7
	2,674.6	**2,762.1**	**2,797.1**	**2,849.6**
Unrestricted deficit by fund:				
Operating fund	(8.4)	(8.4)	(8.4)	(8.4)
Ancillary operations	(78.2)	(78.2)	(78.2)	(78.2)
Capital fund	(46.6)	(46.6)	(46.6)	(46.6)
Restricted funds	0.0	0.0	0.0	0.0
	(133.2)	**(133.2)**	**(133.2)**	**(133.2)**

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.

This forecast also reflects the restatement of the 2012 financial statements as a result of the CICA's new Not-for-Profit accounting guidelines. The estimated impact of the new accounting guidelines were previously communicated to the Business Board on April 2, 2012. A reconciliation of the changes to the 2012 statement of net assets and the statement of operations is shown in Appendix A. Listed below are the major adjustments to the 2012 financial statements:

- The University recognized cumulative actuarial losses related to employee future benefits which increased total accrued pension and other future benefit obligations by $1,107.8 million with a corresponding decrease to internally restricted net assets. The 2012 statement of operations were restated to reflect an increase in employee future benefit expenses (includes the cost of pensions) of $242.8 million as a result of the adoption of the immediate recognition approach at May 1, 2011.

- The University elected to record its land at fair market value at May 1, 2011 which resulted in an increase of $2.07 billion in capital assets with a corresponding increase to investment in capital assets.

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, 2013 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- LTCAP investment return of 5.0%.
- Endowment payout of $70.4 million for 2012/13.
- Divisional reserves remain unchanged from last year.

A sensitivity analysis on page 2 shows the impact of varying LTCAP investment return on net assets at -2.0%, 3.0%, 5.0% and 8.0% for the year.

UNIVERSITY OF TORONTO

FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT

For the fiscal year ending April 30, 2013

(with comparative figures at April 30, 2012)

(millions of dollars)

	Forecast					Restated
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2013 Total	2012 Total
REVENUES						
Government grants for operations	712.9				712.9	702.2
Student fees	882.5	7.5	1.5		891.5	847.4
Donations		0.7	11.8	71.9	84.4	59.9
Government and other grants and contracts	4.0	0.4	60.6	340.8	405.8	420.3
Investment Income: Endowment	50.9			34.7	85.6	75.2
Other	31.9	0.5	0.9	1.7	35.0	27.0
Sales, services and sundry income	127.5	149.6			277.1	271.3
	1,809.7	158.7	74.8	449.1	2,492.3	2,403.3
EXPENSES						
Salaries	966.8	6.3		193.3	1,166.4	1,100.5
Employee future benefits	291.3	1.4		13.1	305.8	542.3
Other employee benefits	110.4	0.5		4.7	115.6	111.0
Materials and supplies	83.0	1.8		137.6	222.4	222.2
Scholarships, fellowships and bursaries	152.8			25.5	178.3	176.3
Amortization of capital assets	10.9	13.1	117.8	1.8	143.6	137.0
Cost of sales and services		91.8			91.8	84.6
Utilities	43.2	8.9		1.5	53.6	53.0
Repairs and maintenance	52.6	18.1	4.1	6.9	81.7	81.7
Travel and conferences	22.7			21.1	43.8	43.6
Interest on long-term debt	22.2	15.6		1.9	39.7	34.3
External contracted services	20.3			22.6	42.9	46.5
Telecommunications	10.8			1.5	12.3	11.9
Other	19.5		4.1	14.6	38.2	35.8
	1,806.5	157.5	126.0	446.1	2,536.1	2,680.7
Net income (loss)	3.2	1.2	(51.2)	3.0	(43.8)	(277.4)
Net transfer between funds	(29.8)	0.2	23.9	5.7	0.0	
Transfer of capital assets	(66.5)		66.5			
Unrealized gain on swap contracts			0.0		0.0	
Change in internally restricted	99.1	(0.7)	1.3	(1.2)	98.5	306.6
Change in investment in capital assets		2.8	(48.3)		(45.5)	5.1
Transfers of donations to endowments				(6.7)	(6.7)	(3.3)
Transfer from (to) internally restricted endowments				(0.8)	(0.8)	7.7
Net change in surplus/(deficit) for the year	6.0	3.5	(7.8)	0.0	1.7	38.7
Deficit, beginning of year	(14.4)	(81.7)	(38.8)		(134.9)	(173.6)
Deficit, end of year	(8.4)	(78.2)	(46.6)	0.0	(133.2)	(134.9)
Internally restricted net assets	(1,282.6)	13.2	17.2	72.7	(1,179.5)	(1,081.0)
Investment in capital assets		93.0	2,455.6		2,548.6	2,503.1
Endowments				1,561.2	1,561.2	1,518.1
Net assets, end of year	(1,291.0)	28.0	2,426.2	1,633.9	2,797.1	2,805.3

Projected Changes in Operations and Deficit

Total revenues are expected to increase by $89.0 million, from $2.40 billion in 2012 to $2.49 billion, mainly due to increased revenues from student fees and donations.

Total expenses are forecasted to decrease by $144.6 million, from $2.68 billion in 2012 to $2.54 billion, mainly attributed to the large reported employee future benefit expenses in the restated 2012 statement of operations, due to the new CICA Not-for-Profit accounting guidelines.

This forecast projects a ($43.8 million) net loss at April 30, 2013. This projected net loss includes:

$3.2 million net gain for the operating fund.
$1.2 million net gain for ancillary operations.
($51.2 million) net loss for the capital fund.
$3.0 million net gain for restricted funds.

The ($43.8 million) net loss represents a net increase of $233.6 million from last year's net loss of ($277.4 million). The main reasons are:

- $236.5 million decrease in employee future benefit expenses as a result of recognizing cumulative actuarial losses at May 1, 2011, offset by a $65.9 million increase in salaries.

- $44.1 million increase in student fees.

- $26.0 million increase in other expenses.

- $24.5 million increase in donations

- $18.4 million increase in investment income, mainly as a result of the forecasted LTCAP investment return of 5.0% compared to last year's investment return of 1.0%. A change in the LTCAP investment return would impact this result (assuming everything else remains the same) as shown on page 2:

    - At -2.0 % return ($75.4 million) net loss.
    - At 3.0 % return ($52.9 million) net loss.
    - At 5.0 % return ($43.8 million) net loss. – current forecast
    - At 8.0 % return ($30.3 million) net loss.

Projected Changes in Net Assets

This forecast projects a decrease in net assets from $2.81 billion at April 30, 2012 to $2.80 billion at April 30, 2013. The decrease of $8.8 million results from a projected net loss of $43.8 million, partially offset by an investment gain of $4.6 million on externally restricted endowments and $31 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 -2.0% return — $2.67 billion net assets.
- At 3.0% return — $2.76 billion net assets.
- At 5.0% return — $2.80 billion net assets. – current forecast
- At 8.0% return — $2.85 billion net assets.

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING APRIL 30, 2013
(with comparative figures for the year ended April 30, 2012; in millions of dollars)

	Forecast					Restated
	Unrestricted deficit $	**Internally restricted $**	**Investment in capital assets $**	**Endowments $**	**2013 Total $**	2012 Total $
Net assets, beginning of year	**(134.9)**	**(1,081.0)**	**2,503.1**	**1,518.1**	**2,805.3**	3,100.3
Net loss	**(43.8)**				**(43.8)**	(277.4)
Net change in internally restricted	**98.5**	**(98.5)**				
Net change in investment in capital assets	**(45.5)**		**45.5**			
Transfer to internally restricted endowments						
- investment gain	**(0.8)**			**0.8**		
Transfer to endowments						
- donations	**(4.8)**			**4.8**		
- matching funds	**(1.9)**			**1.9**		
Investment gain (loss) on externally restricted endowments				**4.6**	**4.6**	(43.7)
Externally endowed contributions						
- donations				**31.0**	**31.0**	23.6
- grants				**0.0**	**0.0**	2.5
Net assets, end of year	**(133.2)**	**(1,179.5)**	**2,548.6**	**1,561.2**	**2,797.1**	2,805.3

The projected net assets of $2.80 billion are composed of the following, each of which is discussed further in the following sections:

($133.2 million) unrestricted net deficit
($1,179.5 million) internally restricted net assets
$2,548.6 million investment in capital assets
$1.561 billion in endowments

Projected Unrestricted Deficit:

This forecast projects a cumulative unrestricted deficit of ($133.2 million) at April 30, 2013, as compared to last year's cumulative deficit ($134.9 million), comprised as follows:

($8.4 million) operating fund unrestricted deficit
($78.2 million) ancillary operations unrestricted deficit
($46.6 million) capital fund deficit.

The **operating fund** cumulative deficit at April 30, 2013, is projected to be ($8.4 million) as compared to the budgeted cumulative deficit of ($7.1 million). The projected unfavorable variance of ($1.3 million) is due to:

($9.9 million) projected decrease in provincial operating grants on a budget of $648.6 million, due to the following:

- $1.1 million projected increase as a result of increase enrolments in Post Graduate Medical Education.
- ($7.3 million) projected decrease in the Graduate expansion funding, due to lower than expected enrolments.
- ($3.5 million) projected decrease as a result of the discontinuance of the in Special Medical Research Grant funding from Ministry of Health.
- ($0.2 million) projected decrease in various provincial grant items.

$5.5 million higher than projected tuition fee revenue, primarily a result of higher than planned undergraduate enrolments.
$1.4 million higher projected investment income due to higher than budgeted investment capital.
$1.0 million expected positive variance in benefit expenses due to lower costs of various benefit programs.
$0.7 million other projected positive variances.

Please note that if the LTCAP investment return is -2.0%, the operating fund cumulative deficit is still projected to be ($8.4 million) at April 30, 2013, as LTCAP returns only impact the endowment and internally restricted balances.

The **ancillary operations** cumulative deficit is projected to be ($78.2 million) at April 30, 2013, a projected deficit decrease of $3.5 million from 2012. 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 ($46.6 million) at April 30, 2013, a projected deficit increase of $7.8 million from 2012. 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 the unfunded portion of pension and employee benefits of ($1,792.5 million), partially offset by divisional reserves and departmental trust funds of $613.0 million. Internally restricted net assets are currently projected to decline from ($1,081.0 million) in 2012 to ($1,179.5 million) at April 30, 2013, mainly as a result of increasing employee future benefit expense obligations.

Projected Investment in Capital Assets:

The $2,548.6 million investment in capital assets represents the market 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 $2,503.1 million in 2012 to $2,548.6 million at April 30, 2013 primarily due to increase in internal funding of capital projects partially offset by depreciation.

Projected Endowments:

This forecast projects endowments at $1.56 billion at April 30, 2013, an increase of $43.1 million from 2012, comprised as follows:

	(millions of dollars)	
	Forecasted Fiscal Year 2013	Fiscal Year 2012 *
Opening Balance, May 1	1,518.1	1,540.1
Investment income		
Preservation (drawdown) of capital for externally restricted endowments	4.6	(43.8)
Preservation (drawdown) of capital for internally restricted endowments	0.8	(7.6)
Available for payout	70.4	68.9
Less: endowment payout	(70.4)	(68.9)
Externally endowed contributions		
- donations	31.0	23.6
- grants and other	0.0	2.5
Transfer to endowments from		
- donations	4.8	2.4
- operating matching funds	1.9	0.9
Balance	1,561.2	1,518.1

* restated due to changes in accounting guidelines

This forecast assumes an LTCAP investment return on endowments of 5.0%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At -2.0% return $1.46 billion endowments.
- At 3.0% return $1.53 billion endowments.
- At 5.0% return $1.56 billion endowments. – current forecast
- At 8.0% return $1.61 billion endowments.

Appendix A

This forecast reflects the restatement of the 2012 financial statements as a result of the CICA's new Not-for-Profit accounting guidelines. The estimated impact of the new guidelines was previously communicated to the Business Board on April 2, 2012. Listed below are the adjustments to the 2012 financial statements:

- **Employee Future Benefits** – The University applied the immediate recognition approach for all the University defined benefit plans, measuring the obligations using funding assumptions similar to those used for the pension plans. The immediate recognition approach resulted in the University recognizing cumulative actuarial losses related to employee benefits, which increased total accrued pension and other future benefit obligations by $1,107.8 million with a corresponding decrease to internally restricted net assets. The 2012 statement of operations were restated to reflect an increase in employee future benefit expenses (includes the cost of pensions) of $242.8 million as a result of the adoption of the immediate recognition approach at May 1, 2011.

- **Capital Assets** – The University elected to record its land at fair market value at May 1, 2011 which resulted in an increase of $2,067.9 million in capital assets with a corresponding increase to investment in capital assets. A certified appraisal was obtained by the university and was deemed acceptable by our external auditors.

- **Investment Valuations** – Closing prices are required to be used instead of bid prices for valuing bonds and publicly traded equities which resulted in an increase in investments of $0.3 million.

Reconcilation of Statement of Net Assets
For the year ended April 30, 2012 (in millions of dollars)

	Unrestricted deficit	Internally restricted	Investment in capital assets	Endowments	Total
Net assets, before restatement	(135.2)	26.8	435.2	1,518.1	1,844.9
Land recorded at fair value			2,067.9		2,067.9
Cumulative actuarial losses on employee future benefits		(1,107.8)			(1,107.8)
Investments valued at closing price	0.3				0.3
Net assets, after restatement	(134.9)	(1,081.0)	2,503.1	1,518.1	2,805.3

Reconcilation of Statement of Operations
For the year ended April 30, 2012 (in millions of dollars)

	2012
Total Revenue before restatement	2,403.4
Investment value at closing price on internally restircted endowments	(0.1)
Total Revenue after restatement	2,403.3
Total Expense before restatement	2,437.9
Increase in employee future benefit expenses due to change in funding assumptions	242.8
Total Expense after restatement	2,680.7
Net loss, after restatement	(277.4)