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OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

TO: Business Board

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DATE: February 21, 2003 for March 3, 2003

AGENDA ITEM: **#3 (a)**

ITEM IDENTIFICATION:

Operating Fund and Endowment Forecasts for the Year Ending April 30, 2003

JURISDICTIONAL INFORMATION:

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

PREVIOUS ACTION TAKEN:

Concurrence with the Operating Fund Budget Report for 2002-2003.

HIGHLIGHTS:

The University's net assets include four categories: endowments, investment in capital assets, funds committed but not yet spent, and the deficit (or surplus). Within the University, financial budgeting and recordkeeping segregates all financial transactions into four funds: restricted funds, which are donations and research grants, capital funds, ancillary operations (residences, food, beverage and parking operations, Hart House, U of T Innovations Foundation, and U of T Asset Management Corporation) and the operating fund which reports all activity not included in any of the other three funds.

These forecasts project April 30, 2003 balances for the operating fund component of the deficit, for the operating fund component of funds committed, and for the endowment.

Operating Fund Deficit:

The projected operating fund deficit for the year is $16.0 million, as compared to the budgeted deficit of $4.4 million. The cumulative deficit is projected at $34.1 million, as compared to the budgeted cumulative deficit of $20.4 million. This $34.1 million deficit represents 3.9% of operating revenues.

Revenues are expected to be $4.1 million better than budget, assuming that $14.6 million in indirect cost recovery on federal research grants will be received. The federal government has announced this program in the recent federal budget. However, it is not yet clear whether the program will apply to costs incurred in the 2002-03 year. If it does not, the projected deficit will be worse by this amount. The revenue forecast is primarily due to a $12.9 million positive variance in student fees which is partly offset by a $3.1 million negative variance in investment income. The investment income projected reflects deferral of $40 million in investment losses to be written off against the deficit over the next four years.

Expenses are expected to be $15.7 million higher than budget, primarily due to $12.9 million in additional expenses due to enrolment growth.

Operating Funds Committed:

The operating funds committed category of net assets includes divisional carry forwards and unspent balances for research overhead and various other accounts. These unspent balances are offset by accruals for future expenses -vacation pay for administrative staff, for early retirements for employee future benefits and for pension - and for investment losses deferred to future years.

At April 30, 2002, the operating funds committed balance was a deficit of $1.4 million, composed of $72.9 million in funds carried forward, offset by $74.3 million in accruals for future expenses and investment losses. At April 30, 2003, it is projected to be a deficit of $97.1 million composed of $68.6 million in funds carried forward and $151.2 million in accruals for future expenses and investment losses. The key elements of the $151.2 million are $68.6 million for employee future benefits, $29.3 million pension liability, and $40.0 million in investment losses.

Endowment:

At April 30, 2002, the endowment had a market value of $1.2 billion. At April 30, 2003 it is projected to be $1.084 billion. The projected changes are an investment loss of $116.8 million, a payout to endowments of $42.8 million (based on a proposed, but not yet finalized, payout rate of $6.60 per unit), and $44 million in projected endowed donations and transfers from expendable funds.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The projections are inputs to the operating fund budget planning process for 2003-2004.

RECOMMENDATION:

N/A. This item is for information.