FOR APPROVAL | **PUBLIC** | **OPEN SESSION**

TO: Governing Council

SPONSOR: Trevor Rodgers, Chief Financial Officer
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PRESENTER: See above.
CONTACT INFO:

DATE: June 21, 2023 for June 27, 2023

AGENDA ITEM: 4

ITEM IDENTIFICATION:

Audited financial statements – April 30, 2023

JURISDICTIONAL INFORMATION:

In accordance with section 5 of the Business Board terms of reference, the Board recommends the approval of the annual audited financial statements to Governing Council. The Audit Committee reviews with the administration and the external auditors the University's annual audited financial statements and the external auditors' report thereon, satisfies itself with respect to the integrity of the statements and the fairness of their presentation, and recommends them for approval to the Business Board. As part of this review, the Audit Committee reviews the signed statement of administrative responsibility in connection with the preparation of the financial statements and reviews relevant written communications from the external auditors, including any schedule of unadjusted differences.

GOVERNANCE PATH:

1. Audit Committee [for recommendation] (June 19, 2023)
2. Business Board [for recommendation] (June 20, 2023)
3. Executive Committee [for endorsement and forwarding] (June 27, 2023)
4. **Governing Council [for approval] (June 27, 2023)**

PREVIOUS ACTION TAKEN:

None.

HIGHLIGHTS:

As we emerge from the COVID-19 global pandemic, the University continues to be in a strong financial position. Throughout the pandemic, demand for our programs remained strong. Our faculty, librarians, and staff worked tirelessly to ensure operational continuity and our students demonstrated outstanding resiliency, adapting to changes required to meet public health measures.

The World Health Organization has declared an end to the COVID-19 global health emergency, and the University has turned its focus from crisis management towards planning for the future. The University expects to continue as an in-person institution but acknowledges that there are benefits and demand for a greater selection of online courses going forward. The Provost has established a University Resilience Project Team (RPT) to build upon the work and insights gained over the last two years, capitalize on the innovations developed during the pandemic, and build strategies for long-term institutional resilience.

Despite the strong recovery in 2023, the University faces challenges ahead. Revenues are expected to grow at a slower rate compared to the past decade due to a reduced pace of enrolment growth and limits on domestic and international fees. This comes at a time of increasing pressures on expenses. Compensation costs are likely to increase as we exit the Bill 124 wage increase moderation period. High inflation is increasing the costs of goods and services overall, with particular pressures on energy costs and construction. This will lead to some difficult decisions as divisions work to fund their highest priorities.

For the year ended April 30, 2023, the University recorded a positive net income of $551 million (12.9% of revenues). This net income on an accrual basis reflects infrastructure costs that were capitalized and not expensed in the year, offset by amortization expenses related to infrastructure spending in prior years. The positive net income also includes funds that have been set aside for future capital projects and other priorities, resulting in an increase of $395 million in central and divisional reserves.

The University's net assets increased by $531 million to a total of $9.0 billion. These net assets are comprised of the following:

- $3.3 billion of endowments, representing 37% of net assets;
- $6.3 billion of internally restricted net assets, which is further broken down into:
    - $2.4 billion in land
    - $1.9 billion of investment in other capital assets[1]
    - ($0.7 billion) in net unfunded liability associated with pension and other employee future benefits, including the pension special payment reserve
    - $1.8 billion in capital projects and infrastructure reserves

[1] This figure represents internal monies previously spent by the University for capital projects which will be reduced over time as these capital assets are amortized.

  - $331 million of operating contingency reserves
  - $539 million in other reserves held for future spending; and
- ($483 million) of deficit.

The deficit is largely due to the internal financing of capital construction in accordance with the University's debt strategy.

Fiscal 2023 saw the continued recovery in ancillary operations from the effects experienced over the previous two years due to the pandemic. Combined net income from ancillary operations increased to $10.9 million from net losses of $47.7 million in 2021 and $1.4 million in 2022. As restrictions on capacity relaxed, residences were able to return to full occupancy. The increased presence of students, faculty, and staff on campus saw a partial rebound in demand for most services. However, residual impacts from the pandemic – particularly related to continuing flexible work arrangements which have reduced the population of staff and faculty on campus from pre-pandemic levels – had a negative effect on revenues from parking and food service facilities, which incurred a combined net loss of $6.4 million.

The University continues to invest in vital capital infrastructure. In 2023, the University spent an $536 million on capital asset additions, including projects like the Schwartz Reisman Innovation Campus, the UTM Science Building, a new UTSC Student Residence, a new student residence at the St. George campus, the Fitzgerald Building Revitalization, the Academic Wood Tower, and the UTSC Instructional Centre II.

In 2023, $2.2 billion of revenues were from student fees as enrolment continues to be strong, increasing 7% over the last 5 years. Government grants provided in support of student enrolments amounted to $719 million. Together these two sources account for 68.4% of revenues for the year.

During the year, the University raised a total of $308 million.[2] This amount includes $256 million in pledges and gifts (donations) and $52 million in philanthropic research grants from non-government sources. Following the successful closure of the Boundless campaign in 2019, with $2.641 billion raised, the University entered the quiet phase of the new Defy Gravity campaign, that will also seek to engage 225,000 alumni in one million contributions of time and talent and to raise $4 billion for the University's highest priorities—a target that reflects the ambition and scale of the University's community and its potential for global impact. The Defy Gravity campaign will elevate the University's position as one of the world's leading public universities and advance the University community's outsized impact in solving complex social, economic, and health problems.

Despite rising interest rates and considerable volatility in capital markets, the Expendable Funds Investment Pool achieved a return of 2.8% (net of all fees and expenses) and Long-

[2] This number includes federated universities and other affiliated institutions but excludes donations to partner hospitals.

term Capital Appreciation Pool realized a return of 4.3% (net of all fees and expenses) during fiscal year 2023.

Endowments increased by $100 million to $3.3 billion this year, driven by positive investment returns of $138 million (net of investment fees), $55 million in endowed donations and grants, and $22 million in University matching funds, offset by $115 million in distributions.

The University continues to be successful at generating funding for research, including support for personnel, operations, and infrastructure. Government and other grants received in 2023 for restricted purposes totaled $508 million, including $459 million for research and $49 million for capital infrastructure and other purposes.

In 2023, the University paid $2.2 billion for salaries and employee benefits comprising 59.9% of the University's $3.7 billion in expenses, which is predominantly funded from University operating funds (mostly student fees and government grants). The University is a member of the University Pension Plan Ontario ("UPP"), which is a multi-employer defined benefit pension plan. On July 1, 2021 (the "Effective Date"), all members of the University's registered pension plan ("RPP") along with the assets and liabilities of the RPP, were transferred to the UPP. The University remains responsible to fund any net pension obligations related to service up to the transition date of July 1, 2021, for the first 10 years, after which the responsibility for such changes becomes gradually shared over the next 10 years with the other participants of the UPP. The net pension obligations may fluctuate in the future based on changes to the UPP's actuarial assumptions and for changes in experience in future periods. The University has set aside $89 million in a pension special payments reserve to fund any future obligations.

Additional details on expenses include:

- $346 million for scholarships, fellowships, and bursaries (9.3% of total expenses)
- $287 million for materials, supplies and services (7.7% of total expenses)
- $214 million for amortization of capital assets (5.7% of total expenses)
- $137 million for inter-institutional contributions (3.7% of total expenses)

FINANCIAL IMPLICATIONS:

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RECOMMENDATION:

Be It Resolved

THAT the University of Toronto audited financial statements for the year ended April 30, 2023 be approved.

DOCUMENTATION PROVIDED:

- Financial report including the audited financial statements and highlights.
- Supplementary Financial Report

Financial Report 2023

April 30, 2023

University of Toronto Financial Services

UNIVERSITY OF TORONTO

DEFY GRAVITY

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RESULTS AT A GLANCE

ENROLMENT

Student enrolment increased by 0.6% to

86,297 FTE

REVENUE

Revenue increased by 11.6% year-over-year to

$4.3 billion

NET INCOME

Positive net income of 12.9% of revenues before allocations to reserves

$551 million

DEBT

Debt burden is 2.1% of expenses based on outstanding debt of

$895 million

ENDOWMENTS

Donations and grants of $55 million and 4.3% return in LTCAP result in market value of

$3.3 billion

CAPITAL ASSETS

Value of capital assets after $536 million additions and $214 million amortization

$5.8 billion

Highlights

Established in 1827, the University of Toronto (the “University”) is Canada’s top-ranked university, providing world-class research and teaching to over 97,000 students across our three campuses: downtown Toronto (“St. George”), Scarborough (“UTSC”) and Mississauga (“UTM”).

As one of the largest universities in North America, the University provides students with a broad range of academic programs and courses, while a unique college system offers the rich learning experience of small, close-knit communities. The following financial report reveals a vibrant university in positive financial shape approaching its bicentennial year in 2027.

Over the past 5 years, the University has benefited from the Ontario and Federal governments’ continued financial support for higher education and advanced research, helping to ensure access, increase graduate enrolment, and finance vital infrastructure. During that same period, the University has grown significantly, with an increase of 7% in the number of students.

Looking ahead, the University of Toronto remains focused on implementing the priorities articulated in the Towards 2030 academic plan. The University’s Three Priorities provide institutional context for divisional academic planning, which in turn leads to investment in specific initiatives and activities throughout the University:

- Finding new ways to take advantage of prime locations in the Greater Toronto Area. This includes deepening relationships with local partners and heightening contributions to the success of the GTA as one of the world’s most diverse and dynamic metropolitan regions;
- Strengthening international partnerships with other great universities, by facilitating student mobility and faculty exchanges, as well as joint initiatives in research, conferences, and teaching; and
- Developing new, innovative curricula and non-curricular activities that enhance the student experience, to re-imagine undergraduate education. This includes embracing the demand to prepare students for the labour market and the opportunities of the digital age.

As the University builds upon its great success to date, it will continue to draw on the talent and leadership of faculty and staff, as well as the loyalty and generosity of alumni and benefactors. At the same time, the University will need strong support from government partners—at all levels—that recognize the University’s unique and critical role within Canadian higher education.

Financial Results and Challenges

As we emerge from the COVID-19 global pandemic, the University continues to be in a strong financial position. Throughout the pandemic, our faculty, librarians, and staff worked tirelessly to ensure operational continuity while maintaining excellence in our academic and research programs. Our students demonstrated outstanding resiliency and adapted to changes required to meet public health measures. Demand for our programs remained strong, and our scholars had an outsized impact on pandemic-related research and through contributions to health care and public health planning.

The World Health Organization has now declared an end to COVID-19 as a global health emergency, and the University has also begun to turn focus away from crisis management and back towards planning for the future. As is often the case with historic events like this, the pandemic has led to innovations that will benefit the institution as we move forward. The University expects to continue as an in-person institution but acknowledges that there are benefits and demand for a greater selection of online courses going forward. The Provost has established a University Resilience Project Team (RPT) to build upon the work and insights gained over the last two years, capitalize on the innovations developed during the pandemic, and build strategies for long-term institutional resilience.

In fiscal 2023, the University’s net assets increased by $531 million to a total of $9.0 billion. This increase was a result of $551 million in net income, which reflects funds set aside for future capital projects and other priorities, resulting in an increase of $395 million in central and divisional reserves. The positive net income also includes capital infrastructure costs that were capitalized and not expensed in the year offset by amortization expense. These capital investments included projects such as the UTM Science building, the Schwartz Reisman Innovation Campus, new Student Residences at UTSC and St. George, the Fitzgerald Building Revitalization, and the UTSC Instructional Centre II.

Fiscal 2023 saw the beginning of recovery in ancillary operations from the effects experienced over the previous two years due to the pandemic. As restrictions on capacity relaxed, residences were able to return to full occupancy. The increased presence of students, faculty, and staff on campus saw a partial rebound in demand for most services. However, residual impacts from the pandemic – particularly related to continuing flexible work arrangements which have reduced the population of staff and faculty on campus from pre-pandemic levels – had a negative effect on revenues from parking and some food service facilities.

Despite the strong recovery in 2023, the University faces challenges ahead. Revenues are expected to grow at a slower rate compared to the past decade due to a reduced pace of enrolment growth and limits on domestic and international fees. This comes at a time of increasing pressures on expenses. Compensation costs are likely to increase as we exit the Bill 124 wage increase moderation period. High inflation is increasing the costs of goods and services overall, with particular pressures on energy costs and construction. This will lead to some difficult decisions as divisions work to fund their highest priorities.

Statement of Operations

Over the past five years, the number of students at the University has grown by 7%. This substantial increase in enrolment has raised revenues from student fees and government grants while also increasing expenses in salaries and benefits, due to the resulting growth in faculty and staff and related salary increases. In turn, higher numbers of students, faculty, and staff have increased the need for construction and renovations, which impact operating expenses as well as interest and amortization expenses. Planning for these capital infrastructure needs has included a prudent increase in financial reserves.

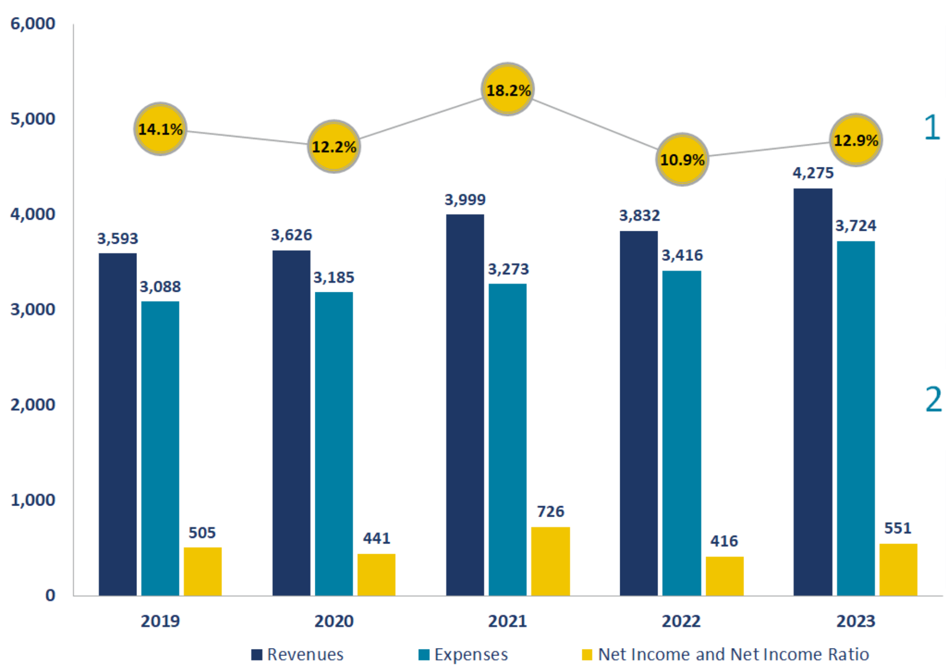
The University continues to welcome a large community of international students. Experience and data show consistently that this is an important factor in academic excellence and global competitiveness, as well as a major benefit to the regional and national economy. To mitigate the ways international student recruitment can be affected by geopolitical developments, the University has successfully pursued initiatives to diversify global recruitment. Fall 2022 saw significant progress in diversifying the incoming class of international students, which included students from 135 countries and less than half from any single source.

Fiscal year ending April 30, 2023:

Revenues:	$4.3 billion
Expenses:	$3.7 billion
Net income:	$551 million

The net income of $551 million primarily reflects funds being used for capital infrastructure combined with funds set aside in accordance with multi-year divisional academic plans. These plans call for deliberate use of reserves for operating contingencies, future capital investment in academic facilities and other amenities, and faculty hiring.

Figure 1: Revenue and Expenses
($ millions) for the year ended April 30



CAPITAL INVESTMENTS

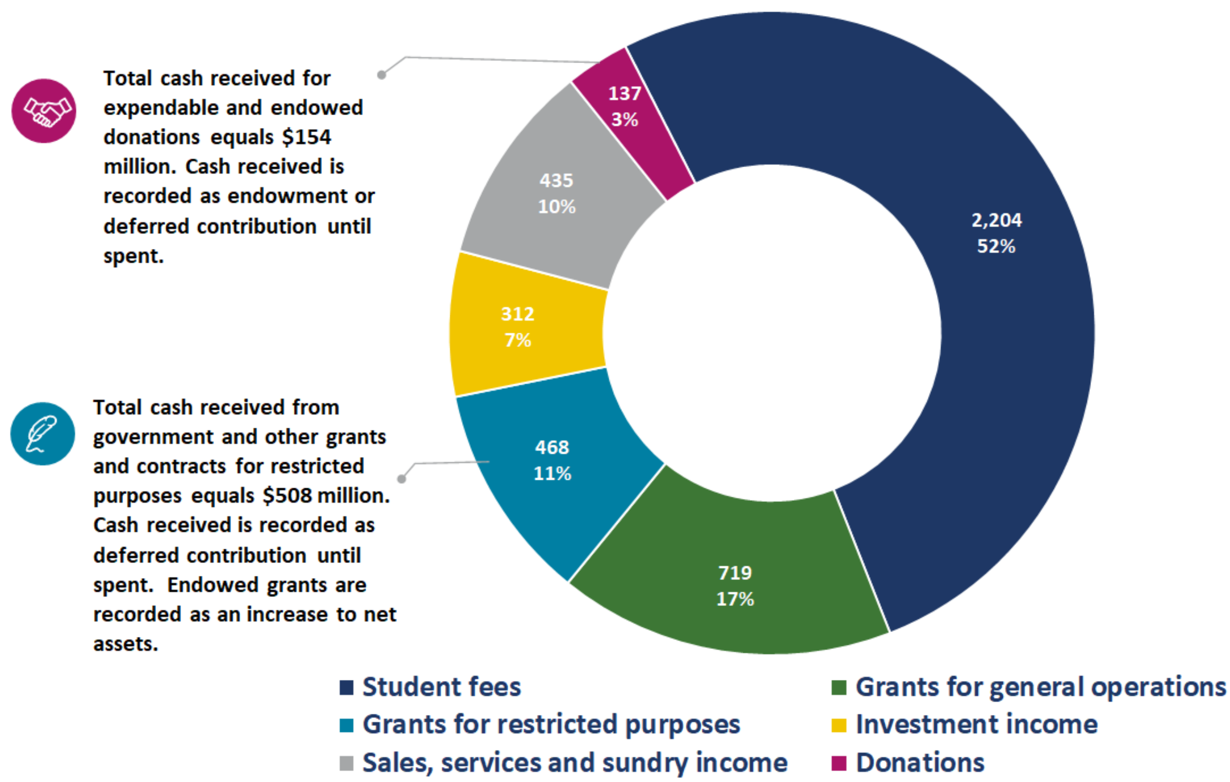
Net income includes $536 million capitalized for UTM Science Building, Schwartz Reisman Innovation Campus, UTSC Student Residence, Downtown Student Residence and UTSC Instructional Centre

SAVINGS & CONTINGENCIES

Funds set aside in accordance with multi-year divisional academic plans, including deliberate use of reserves for operating contingencies, future capital investments, and faculty hiring.

In 2023, $2.9 billion or 68.4% of revenues were from student fees and government grants provided in support of student enrolments. An additional $468 million represented government and other grants and contracts for restricted purposes. Together these three sources accounted for 79.3% of revenues for the year. As noted above, sales, services, and sundry income (residence, parking, and food service operations) have seen substantial improvement, but continue to experience some negative impacts due to reduced activities on campus because of the pandemic.

Figure 2: Revenues by Category
($ millions)



In 2023, the University paid $2.2 billion for salaries and employee benefits comprising 59.9% of the University's $3.7 billion in expenses. Faculty and staff salaries and benefits relating to teaching, research and administrative activities are predominantly funded from University operating funds (mostly student fees and government grants).[1] Additional details on expenses include:

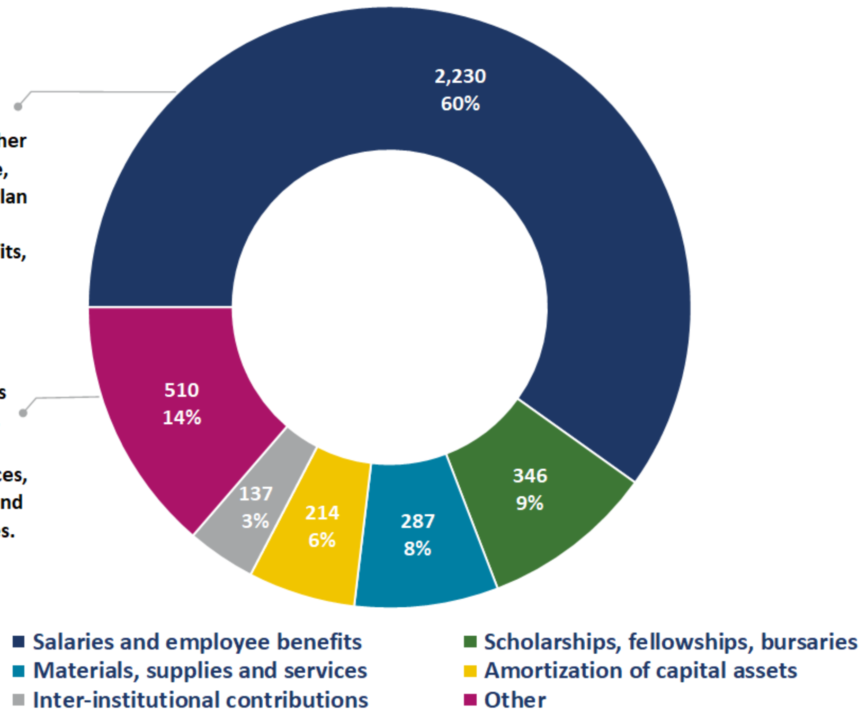
- $346 million for scholarships, fellowships, and bursaries (9.3% of total expenses)
- $287 million for materials, supplies and services (7.7% of total expenses)
- $214 million for amortization of capital assets (5.7% of total expenses)
- $137 million for inter-institutional contributions (3.7% of total expenses)

[1] Additional details are provided in the "Salaries and Benefits" section below.

Figure 3: Expenses by Category
($ millions)

Compensation includes $1.8 billion in salaries, plus future benefits expenses of $203 million and other benefit expenses of $206 million. Other benefits include, for example, the cost of Canada Pension Plan and Employment Insurance contributions, medical benefits, educational support, and life insurance.

The category "other" includes repairs, maintenance, leases, cost of sales and services, utilities, travel and conferences, interest on long-term debt, and miscellaneous other expenses.



Balance Sheet

Fiscal year ending April 30, 2023:

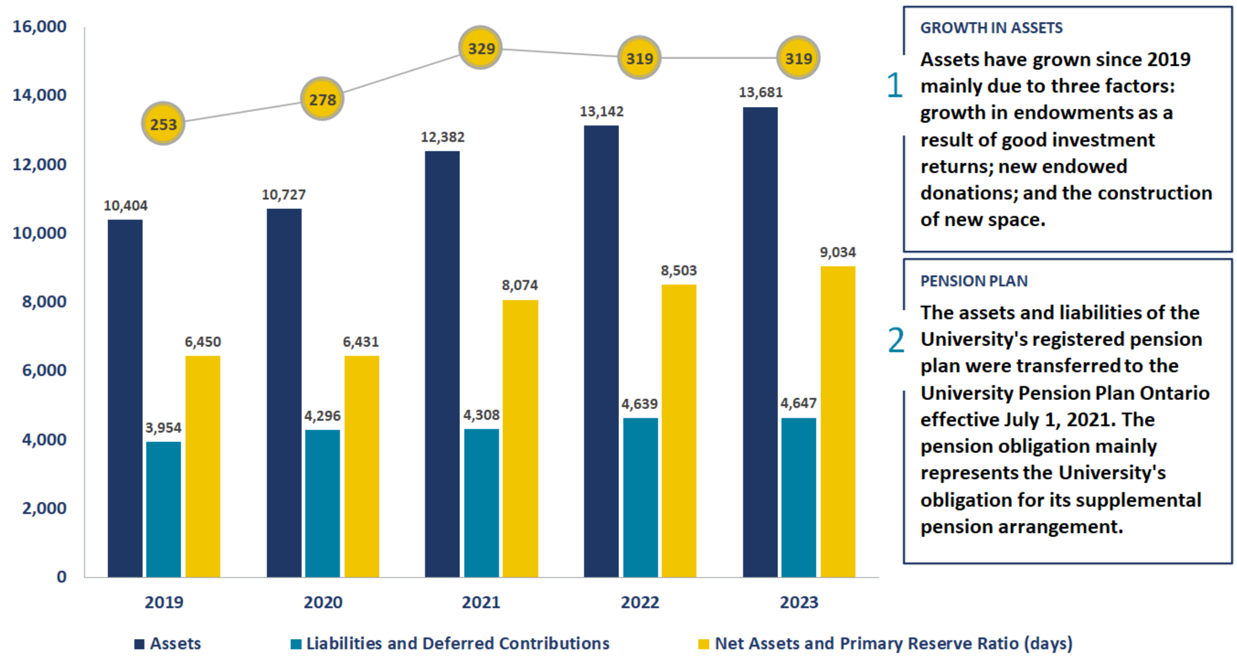
Assets:	$13.7 billion
Liabilities:	$4.7 billion
Net assets:	$9.0 billion

Assets have grown since 2019 mainly due to three factors: the growth in endowments as a result of investment returns; the receipt of endowed donations; and the construction of additional space to accommodate the increased number of students.

Net assets[2] increased by $531 million to $9.0 billion in 2023. This increase is mainly due to net income of $551 million, endowed donations and grants of $55 million, gain on externally restricted endowments of $22 million, offset by $97 million in remeasurements on employee future benefit obligations.

[2] Net assets reflect the University's net worth and change over time through the net income or net loss for the year, and changes in endowments. Changes in endowments may derive from receipt of endowed donations and investment income on externally restricted endowments (representing income earned above the amount made available for spending). Such income does not flow through the consolidated statement of operations but rather is added directly to the endowment balance in accordance with current generally accepted accounting principles for not-for-profit organizations.

Figure 4: Assets, Liabilities and Net Assets
($ millions) for the year ended April 30



Net assets are composed of the following:

- $3.3 billion of endowments, representing 36.2% of net assets,
- $6.3 billion of internally restricted net assets, and
- ($483 million) of deficit.[3]

The $3.3 billion of endowments represent over 7,100 individual endowment funds, which are restricted by Governing Council or donor agreements to approved academic priorities. Endowment funds for student aid and support totaled $1.4 billion in 2023.

The $6.3 billion of internally restricted net assets comprises:

- $2.4 billion in land
- $1.9 billion of investment in other capital assets[4]
- ($0.7 billion) in net unfunded liability associated with pension and other employee future benefits, including the pension special payment reserve
- $1.8 billion in capital projects and infrastructure reserves
- $331 million of operating contingency reserves
- $539 million in other reserves held for future spending

[3] The deficit is largely due to the internal financing of capital construction in accordance with the University's debt strategy (see the "Debt" section below).
[4] This figure represents internal monies previously spent by the University for capital projects which will be reduced over time as these capital assets are amortized.

Deferred contributions increased by $22 million in 2023, mainly due to unspent donations and research grants.

Role of the Government of Ontario

The provincial government provides operating grants and regulates tuition fees for domestic students in publicly funded programs. The provincial government also invests in student financial support, research, and infrastructure.

Provincial Operating Grants[5]

The Ontario post-secondary education system operates under a differentiation policy framework. The framework is operationalized through a series of institutional Strategic Mandate Agreements, which specify the role of each university in the system and how they will build on institutional strengths to drive system-wide objectives and government priorities.

Fiscal year 2020-21 was the first year of the University's third Strategic Mandate Agreement with the Province ("SMA3"). With the implementation of SMA3, a significant portion of existing operating grant revenue is being re-directed to a differentiation envelope tied to performance metrics.

Over the course of 2019, the Council of Ontario Universities worked with the Ministry of Colleges and Universities to introduce mechanisms to the SMA3 performance-based funding formula that increase predictability and minimize volatility for institutions. For funding purposes, each university is measured against its own past performance, not against other institutions. Targets are established formulaically, taking into consideration past performance and the variability of results in recent years. Each target includes a range of allowable performance outcomes, with partial funding provided if performance falls below the allowable performance range.

As Canada's leading research-intensive university, performance-based funding allows the University to benchmark its strengths in areas such as innovation, research funding, and graduate employment, and have funding reflect its achievements in these areas. The University has allocated its performance-based funding envelope among ten metrics and may re-weight the metrics each year in response to changing priorities. However, in recognition of the potential impact of the COVID-19 pandemic on performance metrics, the Province suspended any financial impacts from the new funding framework for the first three years of the SMA3 period. In March, 2023, the Province confirmed that the new framework will be activated in year four, which will inform operating grant allocations in the University's 2024-25 fiscal year given the slip-year nature of the model. Performance-based funding will represent 10% and 25% of total Provincial operating grants in 2023-24 and 2024-25, respectively. The University exceeded all of its metrics targets in the first three years of the SMA3 evaluation period and does not anticipate any reductions to funding when the performance-based framework is activated.

The SMA3 also sets out a multi-year enrolment plan. In response to Ontario's changing demographics, the University and the Province have agreed to hold constant the level of domestic undergraduate enrolment at the University of Toronto over the period of the agreement. The University will be eligible for full enrolment funding provided it maintains a five-year average enrolment within ±3% of its target. This excludes separately funded enrolment expansions in nursing and the Scarborough Academy of Medicine & Integrated Health described below.

[5] For more information on Ontario's operating grants, see the Appendix entry for Provincial Operating Grants.

In May 2022, the Government announced funding to support the new Scarborough Academy of Medicine and Integrated Health (SAMIH), which will expand enrolment in our MD, Physical Therapy, and undergraduate life sciences programs on the Scarborough campus. In addition, the physician assistant program and a portion of our nurse practitioner program will be delivered through SAMIH. The Government is also providing funding for a modest expansion of our undergraduate nursing program as part of their broader strategy to address health sector workforce shortages.

Tuition Fees and Student Aid[6]

On January 17, 2019, the Province announced a 10% cut to domestic tuition fees beginning in 2019-20, and a freeze at that level for 2020-21. The freeze was subsequently extended through 2023-24. Tuition fees paid by international students are not regulated by the Province and were therefore unaffected. The tuition fee freeze is applied to domestic students enrolled in all programs that are funded via the provincial operating grant, including direct entry undergraduate, second entry and professional master's, and doctoral stream programs. The cumulative impact of the 10% reduction and four-year freeze is a reduction in domestic student fee revenue of approximately $167 million in 2023 relative to the previous 3% framework, which had a differential impact across the University depending on program mix and divisional revenue sources. Strategies used to mitigate the impact included changes to faculty and staff hiring plans, deferral of capital projects, service reductions, and operating cost efficiencies.

Student fees revenue increased by $83 million from last year to $2.2 billion mainly because of increased international fees and enrolment growth.

The University remains committed to the goal of accessibility and to working with the Provincial and Federal governments to support access. In 2023, the University spent $346 million on scholarships, fellowships, and bursaries, a 35.7% increase from $255 million in 2019.

The Province's 2019 changes to the Ontario Student Assistance Program ("OSAP") have reduced the overall amount of non-repayable student aid for students, including the University's regulatory obligation to cover unmet financial need as defined by OSAP under the Student Access Guarantee. However, the University remains firm in its internal access guarantee that financial circumstances should not stand in the way of a qualified domestic student entering or completing their degree and has provided additional needs-based support to students beyond the government requirements.

Capital Funding

In 2022, the Province announced an investment of $583 million over three years to help colleges and universities provide a modern and safe learning environment, both virtually and on campuses. This funding will help modernize classrooms and support virtual learning projects that increase access to post-secondary education for students. This investment incudes $493 million through the Facilities Renewal Program to help with the critical maintenance repairs, upgrades, and renewal of existing facilities. The University receives about $11 million in annual funding under this program.

Capital investments made by the Province to the University since 2019 include:

- $34 million under the Greenhouse Gas Campus Retrofit Program to support a number of projects to reduce greenhouse gas emissions across the three campuses in fiscal 2019.

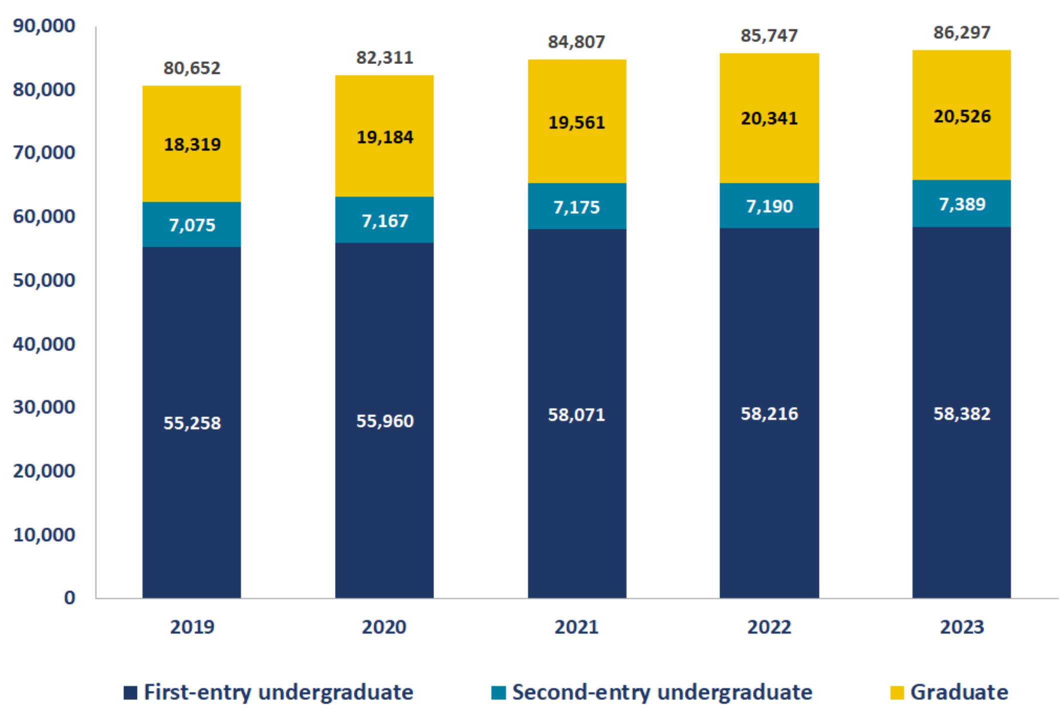
[6] For more information on provincial policies, see the Appendix entry for Tuition Fees and Student Aid.

Student Enrolment

Demand for student spaces has increased significantly since 2019 as a result of population growth in Ontario, increased higher education participation rates and a growing reputation around the globe as a destination of choice for international students. The University has increased enrolment to accommodate this additional student demand with student FTE enrolment increasing from 80,652 in 2019 to 86,297 in 2023, an increase of 7.0%. Given the current limits on domestic enrolment under the Government's SMA3 enrolment corridor, the majority of growth over this period has been in international enrolment as part of the University's academic plan. Approximately 2/3 of domestic students entering direct entry undergraduate programs come from the Greater Toronto Area.

Although the University has received full average funding from the Province for enrolment of additional domestic students under previous expansion programs, neither government grants nor regulated tuition fees have kept pace with inflation over time. Tuition fees for international students are set at a level that takes into consideration the full cost of providing a program and with reference to fees at peer Canadian and US universities.

Figure 5: Number of FTE Undergraduate and Graduate Students as at November 1



Financial Planning

Revenues are expected to increase modestly over the next several years, primarily as a result of increasing international enrolment, domestic enrolment changes within the ±3% flexibility of the fixed provincial funding envelope, and modest fee increase assumptions. Since the potential for new revenues is primarily tied to enrolment growth, the University will need to continue pursuing initiatives to increase the effectiveness of service delivery and expense containment measures to ensure that resources are directed to the highest priorities.

The long-range academic and budget plan for 2023-24 to 2027-28 incorporates the freeze of domestic tuition fees for 2023-24 and assumes a return to a framework of modest annual fee increases in future years. With enrolment growth slowing and limits to domestic and international tuition fees, revenue growth is anticipated to slow over the next five years. This will have a differential impact on each division, depending on program mix and divisional revenue sources, although the University Fund component of the University's budget allocation model can be used to help smooth some of the most significant impacts. Adjustments to divisional budgets will differ based on local priorities but will include some combination of changes to faculty and staff hiring plans, deferral of capital projects, service reductions, and operating cost efficiencies.

Research and Capital Infrastructure

The 2018-23 Institutional Strategic Research Plan ("ISRP")[7] articulates an approach that empowers our researchers to continue their outstanding work. Strong research funding support from the Provincial and Federal governments, and a broad range of other public and private sector entities, are key to the University's research and innovation preeminence, including support for research operations and infrastructure that help the University to attract and retain top research talent from across Canada and around the world.

University researchers, scholars and innovators are successful in securing funds from a rich array of national and international sources, including the federal and provincial governments, the not-for-profit sector, and private-sector partnerships.

One hallmark of the successful combination of the innate strength of the University research community and the intense institutional focus is the achievement of the goal of increased Canada Research Chair ("CRC") allocations over five years. The University currently holds 330 CRC's compared to 275 in 2019, and has the highest allocation in the country by a margin of more than 130 Chairs. In order to increase the participation of underrepresented groups nationally in the CRC Program, institutions are required to progressively meet targets for the representation of four designated groups (women and gender minorities, Indigenous peoples, racialized minorities, and persons with disabilities) among their chair cohorts, leading up to a December 2029 deadline. The University is surpassing its equity targets for CRCs in all four federally designated groups.

The federal Research Support Fund ("RSF") contributes to the institutional (also known as "indirect") costs of tri-agency funded research. Additional funding is provided through the federal Incremental Project Grant program. In 2021-22, the RSF and the Incremental Project Grant provided critical indirect cost support at a combined rate of 20% of direct costs. In contrast, the actual institutional costs of research incurred by the University correspond to a rate of more than 56%. This gap (37%) constrains our potential as an internationally competitive research institution and requires the redirection of funds to indirect costs of research from other operations, including our teaching function. The University will continue to work with the government with the goal of ensuring that the full costs of research are supported.

In 2022, the Federal government announced $125 million over five years, starting in 2022-23, and $25 million ongoing, for the Research Support Fund to build capacity within post-secondary institutions to

[7] For more information, see the Appendix entry on the Institutional Strategic Research Plan.

identify, assess, and mitigate potential risks to research security. The University's new Office of Research Security, launched in 2022, provides geopolitical advice to researchers so they can better understand the new dynamics in government research security policy. This service supports U of T's ongoing efforts to assist researchers in identifying, managing, and addressing risks related to international research collaboration.

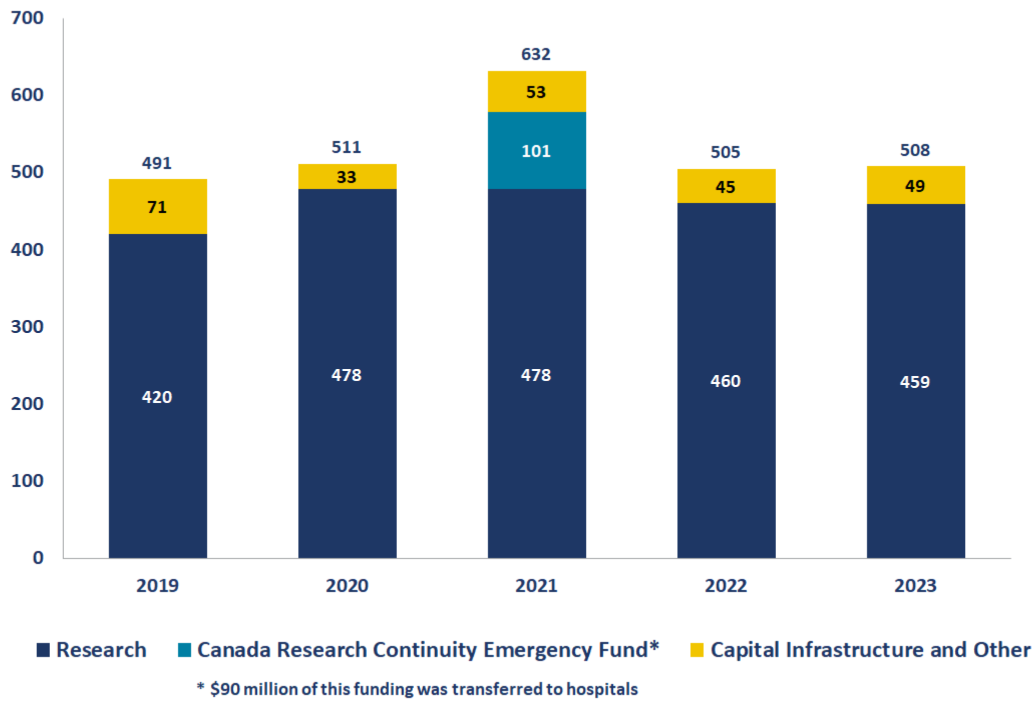
The University enhanced support for Institutional Strategic Initiatives including the creation of more large-scale, cross-disciplinary initiatives to pursue bold ideas that address the world's challenges. In 2019, the Schwartz Reisman Institute for Technology and Society was established with the support of a major philanthropic gift, drawing on the University's strength in the social sciences, physical sciences, and humanities and to explore the benefits and challenges of AI, biotechnology, and other technological advances for society. The Centre for Research and Applications in Fluidic Technologies (CRAFT)**,** established in 2020, is a partnership between the University and the National Research Council to advance microfluidics and the deployment of this technology in point-of-care diagnostics, organ-on-a-chip devices, and organ-scale tissue substitutes. These advances will contribute to improving the health of Canadians and lay the foundation of a thriving, internationally competitive industry sector. The Tanenbaum Institute for Science in Sport at the University of Toronto, established in 2023, will be a global centre of excellence for high-performance sport science and sports medicine. Also established in 2023, the Institute for Pandemics will help the public and policymakers better navigate the next global outbreak.

The University continues to attract investment in the future of research and innovation. In 2023, the University received $35 million in critical research infrastructure funding from the federal government's Canada Foundation for Innovation's (CFI) Biosciences Research Infrastructure Fund (BRIF), to revitalize the Toronto High Containment Facility (THCF), an investment that positions the facility to play a significant role in addressing future pandemic and health threats in Ontario and Canada. The investment is the largest CFI grant U of T has received to date and will support the University's $85-million plan to modernize the 20-year-old facility. In 2023, U of T was the only Canadian university chosen for the Schmidt Futures program, which invested $148 million in nine universities globally with the goal of accelerating scientific research through the application of artificial intelligence. This investment launched the Eric and Wendy Schmidt AI in Science Postdoctoral fellowship, a large-scale initiative supporting the work of early career scholars in engineering and the natural sciences, mathematics, chemistry or physics, to foster the uptake of leading-edge artificial intelligence tools in research. The University will host 110 postdoctoral fellows throughout the six-year program.

The University continues to expand its efforts in the innovation and entrepreneurship space, including the development of the Schwartz Reisman Innovation Campus. In 2023, the Canadian Hub for Health Intelligence and Innovation in Infectious Diseases (HI^3) was established. Led and anchored by the University, HI^3 is a collaborative, multidisciplinary, and multi-sector coalition of over 80 partners, forming a powerful network to support a robust domestic pipeline of life-saving vaccines and therapeutics targeting existing and emerging infectious threats. HI^3 is one of five newly created hubs established with support from the Canada Biomedical Research Fund (CBRF), which is part of a larger investment in Canada's Biomanufacturing and Life Sciences Strategy.

The University has been awarded a $200-million grant from the Canada First Research Excellence Fund (CFREF) to revolutionize the speed and impact of scientific discovery through its Acceleration Consortium. The funding – the largest federal research grant ever awarded to a Canadian university – will support the consortium's work on "self-driving labs" that combine artificial intelligence, robotics and advanced computing to discover new materials and molecules in a fraction of the usual time and cost. Applications include everything from life-saving medications and biodegradable plastics to low-carbon cement and renewable energy.

Figure 6: Government and Other Grants and Contracts Received for Restricted Purposes
($ millions) for the year ended April 30



The University continues to be successful at generating funding for research, including support for personnel, operations, and infrastructure. These financial statements account for funds received as follows:

- Research grants are recorded as revenue when the related expenditures are incurred.
- Unspent research grants are recorded as deferred contributions

Government and other grants received in 2023 for restricted purposes totaled $508 million, including $459 million for research and $49 million for capital infrastructure and other purposes. These were reported as follows: $468 million as revenue from grants for restricted purposes, $36 million as deferred contributions and deferred capital contributions, and $4 million as a direct addition to endowments.

Salaries and Benefits

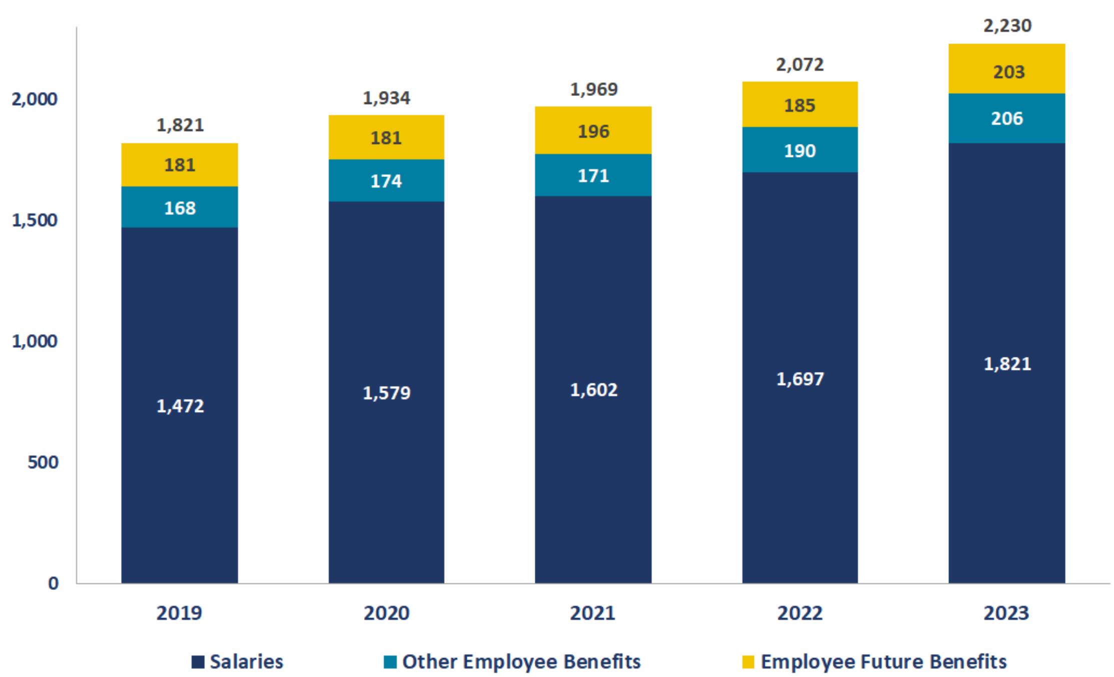
Over the period 2019 to 2023, salaries and benefits increased from $1.8 billion to $2.2 billion. This is the result of negotiated compensation increases for employee groups as well as an increase of 18.0% in the total number of faculty and staff over that time period.

In 2023, the University had 3,434 faculty, 169 librarians, 9,056 administrative staff and 5,990 teaching and graduate assistants.[8]

The following are the most current agreements to April 30, 2023:

- Two-year agreement with administrative and technical staff, represented by the United Steelworkers (USW), starting July 1, 2021, to June 30, 2023, with 1% across-the-board salary increase at July 1, 2021, and 1% at July 1, 2022.
- Three-year agreement with its faculty and librarians starting July 1, 2020, to June 30, 2023, with salary and benefits improvements agreed for the first two years, including across-the-board salary increases of 1.0% on July 1, 2020, and 1% on July 1, 2021.
- Three-year agreement with the Canadian Union of Public Employees (CUPE), Local 3902, Unit 3 representing employees engaged in teaching, lab demonstration, tutoring, or marking/grading on contracts of less than one year starting September 1, 2021, to August 31, 2024, for across-the-board salary increases of 4% on September 1, 2021, 4% on September 1, 2022, and 3% on September 1, 2023.
- Three-year agreement with the CUPE, Local 3902, Unit 1 representing students, mainly graduate students, working as teaching assistants, teaching laboratory assistants, markers, graders, and instructors starting January 1, 2021, to December 31, 2023. Compensation increases of 1% occurred on January 1, 2021 (effective ratification date), and 1% increases on January 1, 2022, and January 1, 2023.

Figure 7: Salaries and Benefits
($ millions) for the year ended April 30



[8] A total of 13,069 Sessional, Clinical and Research Associates also have teaching and research responsibilities.

Employee benefits expenses of $409 million for the year is made up of employee future benefits expenses of $203 million and other employee benefits expenses of $206 million.[9] Other employee benefits expenses include, for example, the cost of legislated benefits (e.g., Canada Pension Plan and Employment Insurance), medical benefits for active staff, educational support, life insurance and several types of leaves.

The University is a member of the University Pension Plan Ontario (“UPP”), which is a multi-employer defined benefit pension plan. The UPP was formally established on January 1, 2020, to cover employees, retired employees, and other members under the currently existing plans at the University, University of Guelph and Queen’s University. The assets and liabilities of the University’s registered pension plan (“RPP”) were transferred to the UPP as at July 1, 2021 (the “Effective Date”). As of the Effective Date, the accrual of benefits and contributions under the UPP commenced for members of the RPP, all of whom transferred to the UPP, and benefits and contributions under the RPP ceased. The plan reported an actuarial surplus of $792.5 million on a transfer basis as of July 1, 2021.

The University remains responsible to fund any net pension obligations (determined based on the UPP actuarial assumptions) related to service up to the transition date of July 1, 2021, with any deficits to be funded over 15 years. The net pension obligations may fluctuate in the future based on changes to the UPP’s actuarial assumptions and for changes in experience in future periods, which will continue to be the responsibility of the University to fund for the first 10 years, after which the responsibility for such changes becomes gradually shared over the next 10 years with the other participants of the UPP, after which the responsibility is totally shared with all participants. The University does not recognize any share of the UPP’s pension surplus or deficit in its financial statements, but accounts for contributions to the UPP on a defined contribution basis.

At April 30, 2023, the accrued pension obligation of $136 million in the University’s financial statements relates mainly to its supplemental pension arrangement. The obligation for employee future benefits other than pension at April 30, 2023 is $803 million. The obligation is determined based on actuarial valuations using accounting assumptions. The annual current service and finance costs are included in the consolidated statement of operations and any actuarial gains or losses are recorded directly in net assets instead of being reported in the consolidated statement of operations.

April 30, 2023	Pension obligations	Other benefit plans
Plan status:		
Assets	**$7 million***	**$135 million**
Obligations	**$136 million**	**$803 million**
Deficit	**$129 million**	**$668 million**

[9] Employee future benefits represent benefits to be provided to employees in the future based on service in the current year. They include pensions, long-term disability insurance, cost of living adjustments for survivor income, and medical benefits for pensioners. These are accounted for using the accrual basis of accounting and therefore reflect the cost of providing these benefits irrespective of the amount of funding provided in support of these benefits.

April 30, 2022	Pension obligations	Other benefit plans
Plan status:		
Assets	$4 million	$140 million
Obligations	$126 million	$688 million
Deficit	$122 million	$548 million

* In addition to these assets, the University has set aside a pension special payment reserve of $89 million in internally restricted net assets.

Space

The University has undertaken an ambitious capital construction program to accommodate increased numbers of students and expand and update research infrastructure. This program includes a significant expansion of the Mississauga and Scarborough campuses and further expansion and renovation on the St. George campus. Additional space requirements are partially due to growth in the numbers of graduate students and undergraduate medical students.

The University's future obligations for deferred and pending maintenance of all academic and administrative buildings (excluding campus/utility infrastructure and asbestos containment and removal) across all three campuses increased from $821 million in 2022 to $961 million in 2023. Some of the growth can be attributed to high inflation as the cost of non-residential building construction in Toronto grew at the highest rate of all Canadian metropolitan areas. This obligation will continue to be managed strategically to ensure the reliability of building systems and prevent unexpected failures and incidents. The St. George campus is also planning deferred maintenance in the context of climate change. It is well established that climate change poses a significant risk to physical infrastructure. Decarbonization and infrastructure resilience are key prevention and mitigation strategies being employed alongside deferred maintenance.

The University continues to participate with all other Ontario universities in a study to assess the deferred maintenance liability. The methodology has recently been updated to include the associated costs of professional services and consulting fees in determining the deferred and pending maintenance obligations of every university in the Province. The long-range academic and budget plan for 2022-23 through 2026-27 includes funding to arrest further deterioration of the physical infrastructure.

In 2019, the University received funding through the Greenhouse Gas Campus Retrofits Program that assisted with the completion of renovations to reduce greenhouse gas emissions and to improve the energy efficiency of its campuses ($55 million) and completed both UTM's North Building B ($14 million) and UTSC's Highland Hall ($14 million).

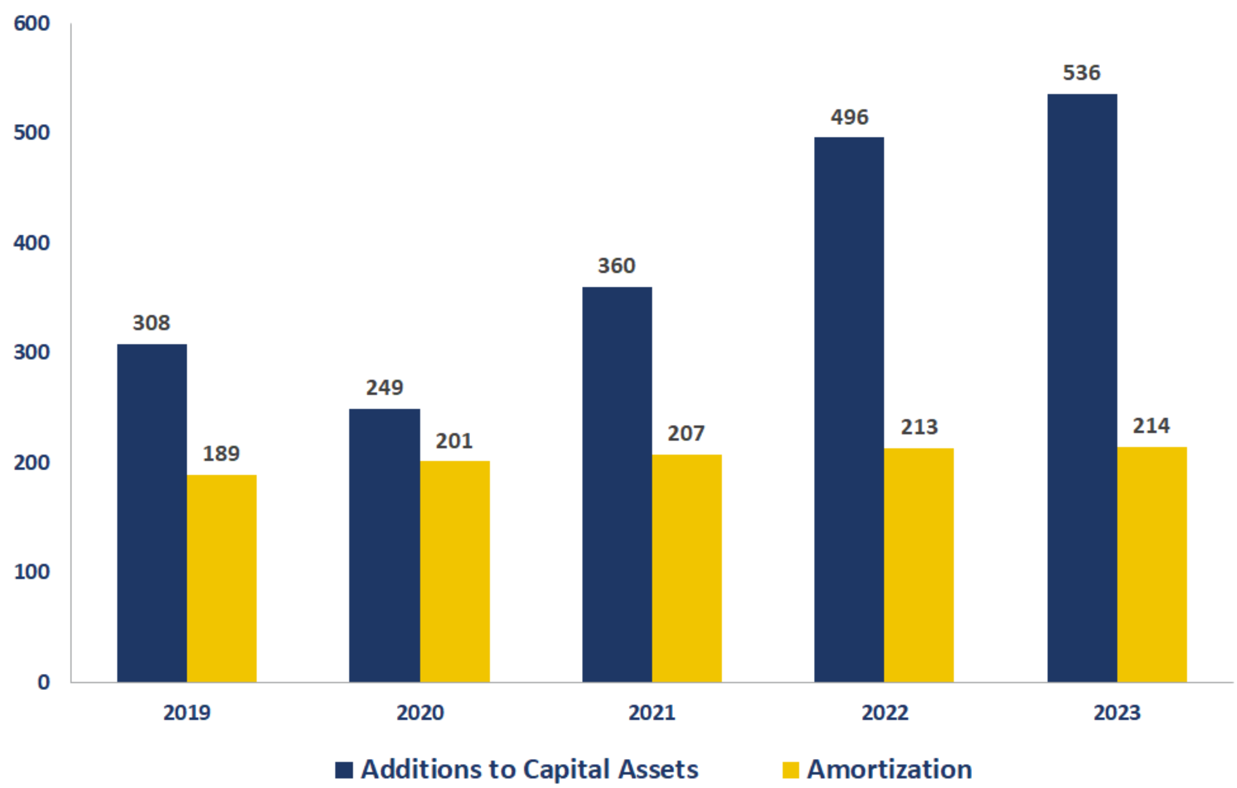
In 2020, the University spent $13 million on the construction of the Schwartz Reisman Innovation Campus, $9 million on the UTM Meeting Place and Design building and $7 million on the UTM Science Building.

In 2021, the University spent an additional $35 million on the construction of the Schwartz Reisman Innovation Campus and $35 million on the UTM Science Building. The University also spent $30 million on the construction of the UTSC Student Residence, $14 million on the Robarts Library Pavilion, $10 million on the Fitzgerald Building Revitalization, $7 million on the Landscape of Landmark Quality, and $6 million on the UTSC Instructional Centre II.

In 2022, the University spent an additional $77 million on the construction of the Schwartz Reisman Innovation Campus, $61 million on the UTM Science Building, $46 million on the construction of the UTSC Student Residence, $27 million on the Fitzgerald Building Revitalization, and $21 million on the UTSC Instructional Centre II.

In 2023, the University spent an additional $43 million on the construction of the Schwartz Reisman Innovation Campus, $30 million on the UTM Science Building, $43 million on the construction of the UTSC Student Residence, $13 million on the Fitzgerald Building Revitalization, $21 million on the Academic Wood Tower and $47 million on the UTSC Instructional Centre II. The University also spent $22 million on a new student residence at the St. George campus.

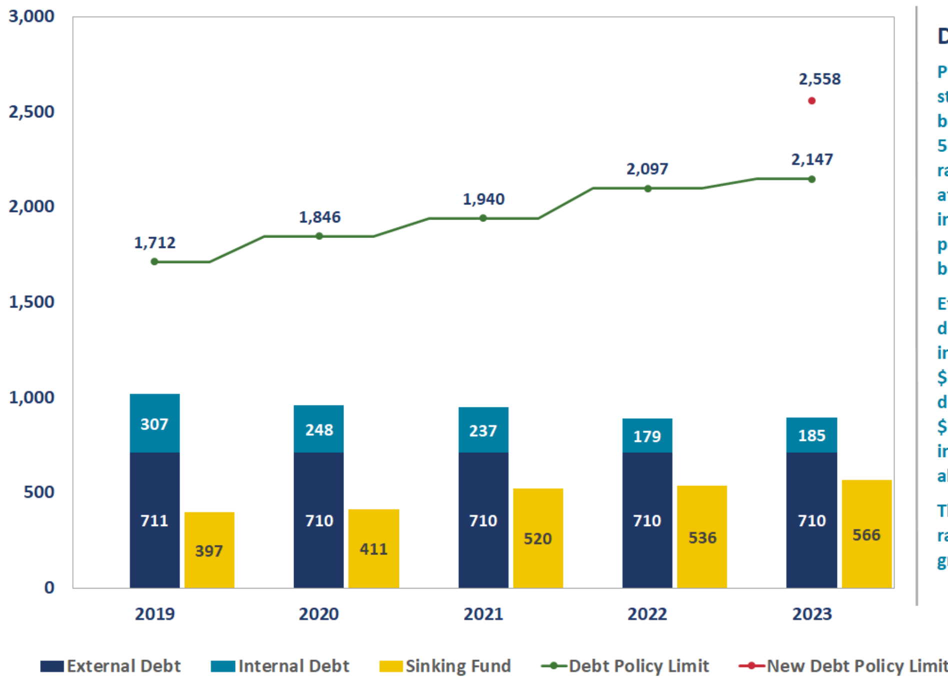
Figure 8: Capital Investment in Infrastructure
($ millions) for the year ended April 30



Debt

The University's debt strategy sets the debt policy limit based on a debt burden ratio of 5.0% (interest plus principal repayments divided by adjusted total expenditures). Effective May 1, 2023, the debt burden limit is increased to 6.0% using an expanded definition of debt that includes exposure to indirect (off balance sheet) debt held by joint venture partners.

Figure 9: Outstanding Debt and Debt Policy Limit
($ millions) for the year ended April 30



DID YOU KNOW ...

Prior to May 1, 2023, U of T's debt strategy set the debt policy limit based on a debt burden ratio of 5.0%. The current debt burden ratio is 2.1%, meaning U of T can afford an additional $100 million in annual principal and interest payments - equivalent to $1.25 billion of borrowing room.

Effective May 1, 2023, the revised debt burden ratio at 6% will increase the total debt limit to $2.56 billion, made up of external debt capacity of $1.49 billion plus $1.07 billion in internal financing, including indirect debt as noted above.

The University's credit ratings rank it as a strong investment-grade credit.

The University is committed to prudently and strategically allocating debt to high priority capital projects. At 5.0% debt burden ratio, the debt strategy provides for a total debt limit of $2.15 billion at April 30, 2023, made up of external debt capacity of $1.08 billion plus $1.07 billion in internal financing. Effective May 1, 2023, the revised debt burden ratio at 6% will increase the total debt limit by $411 million to $2.56 billion, made up of external debt capacity of $1.49 billion plus $1.07 billion in internal financing, including indirect debt as noted above.

In 2023, the actual outstanding external debt consists of $710 million (gross of $1 million of issue costs and premiums) of debentures, and outstanding internal debt of $185 million. At April 30, 2023, the actual debt burden ratio was 2.1%, well below the 5.0% policy limit. The University has a voluntary sinking fund in the amount of $566 million that was established for the purposes of accumulating funds to repay the principal of the University's debentures at maturity.

At April 30, 2023, the University's long-term credit ratings are Aa1 with stable outlook (Moody's Investors Service), AA+ with stable outlook (S & P Global Ratings), and AA with stable trends (DBRS Morningstar), which ranks the University as a strong investment-grade credit. All credit rating agencies rate the University above the Province of Ontario.

Donations

All fundraising conducted on behalf of the University's faculties, colleges, schools, and divisions is done in service to academic plans and priorities approved by the Provost with the involvement of Principals, Deans and faculty.

Immediately following the successful closure of the Boundless campaign on December 31, 2018, with $2.641 billion raised, the University entered the quiet phase of the new Defy Gravity campaign that will elevate the University's position as one of the world's leading public universities and advance the University community's outsized impact in solving complex social, economic, and health problems. The campaign will also seek to engage 225,000 alumni in one million contributions of time and talent and to raise $4 billion for the University's highest priorities—a target that reflects the ambition and scale of the University's community and its potential for global impact. Since January 1, 2019, the campaign has seen significant growth in fundraising momentum and alumni engagement, reaching record levels in 2021.

For the period May 1, 2022 to April 30, 2023, the University raised a total of $308 million.[10] This amount includes $256 million in pledges and gifts (donations) and $52 million in philanthropic research grants from non-government sources.

Total fundraising performance (pledges, gifts, and grants) for the years ended April 30 was as follows:

	(millions of dollars)		
Year	**Pledges and gifts raised**	**Philanthropic research grants**	**Total**
2023	256	52	308
2022	365	45	410
2021	406	39	445
2020	196	40	236
2019	323	55	378

Donations[11] are recorded in the financial statements as follows:

- Unrestricted expendable donations are recorded as revenue when received
- Restricted expendable donations are recorded as revenue when the related expenditures are incurred
- Unspent restricted expendable donations are recorded as liabilities (deferred contributions or deferred capital contributions)
- Endowed donations are not recorded as revenue, rather, they are added directly to endowments, as additions to net assets.

In 2023, donations received[12] by the University (excluding receipts by the federated universities, other affiliated institutions, philanthropic research grants and donations to partner hospitals) totaled $154 million and were reported as follows: $137 million in expendable donations was reported as revenue, of which $103 million was received in the current year and $34 million was received and deferred in prior years, and $51 million was added directly to endowments. It should be noted that the following graph

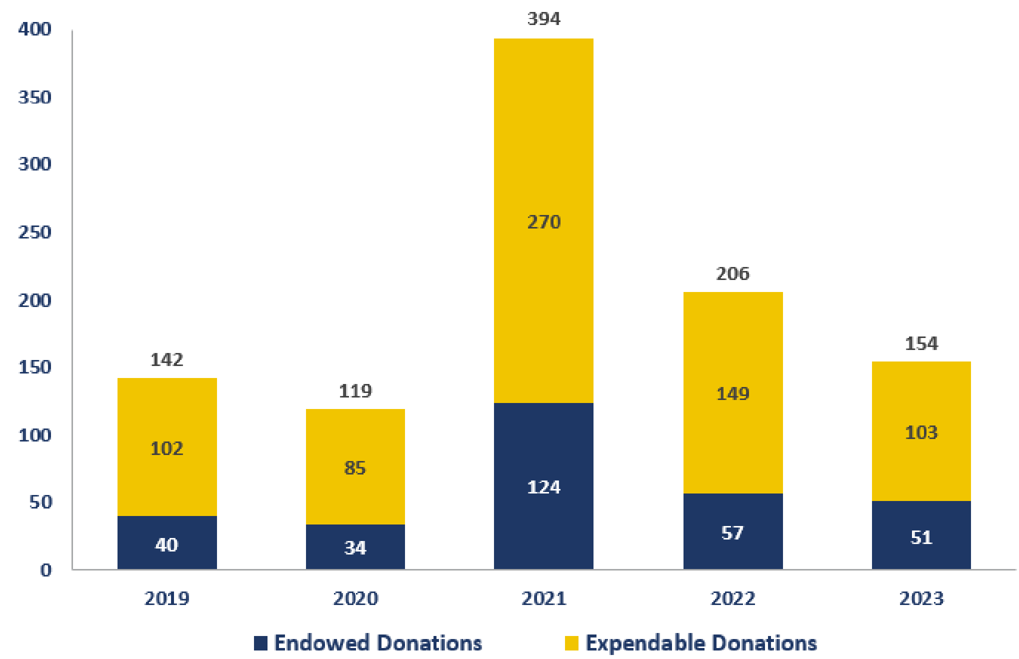
[10] This number includes federated universities and other affiliated institutions, but excludes donations to partner hospitals.

[11] Donations revenue recorded in the University's financial statements does not include donations to the federated universities: Victoria University, University of St. Michael's College, and The University of Trinity College. Nor does it include philanthropic research grants, which are recorded as government and other grants revenue for restricted purposes.

[12] In fiscal 2021, the University received $394 million in donations of which $250 million ($79 million endowed and $171 million expendable) was from the Temerty Foundation, established by James and Louise Temerty, making it the single largest gift in Canadian history.

tracks donations received by fiscal year. There is usually a lag between the growth in pledges and related commitments, and the actual cash receipt of funds.

Figure 10: Total Cash and Gifts-in-Kind Donations Received
($ millions) for the year ended April 30



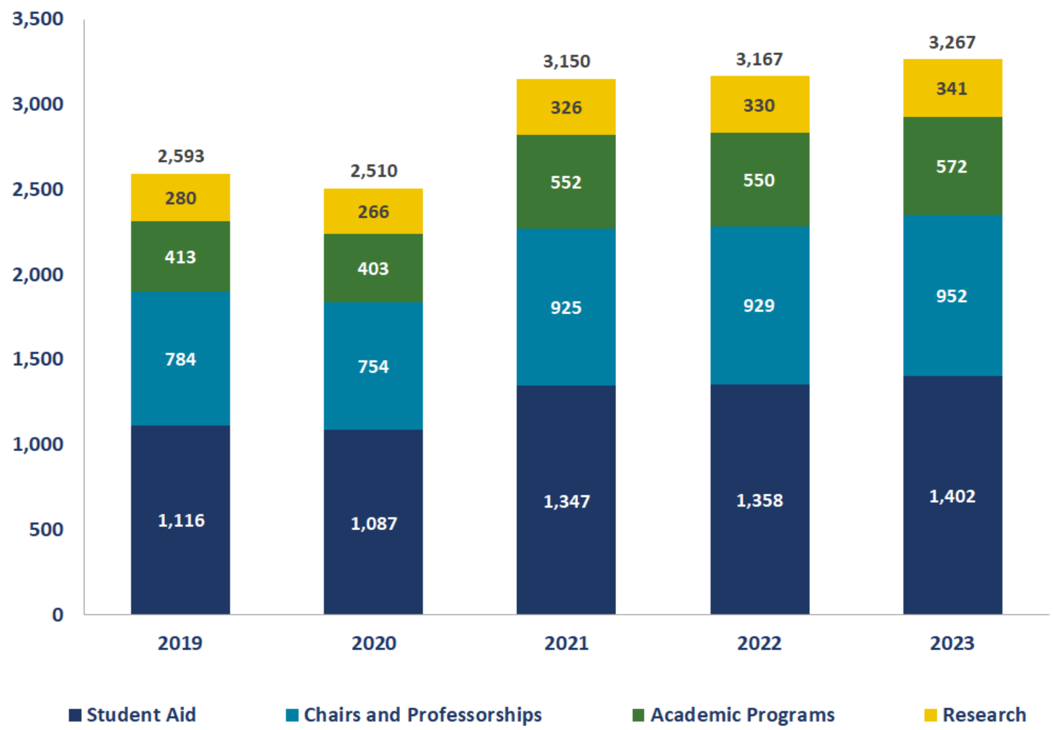
Endowments

Endowments are funds that are subject to restrictions relating both to capital and to investment earnings. The investment income earned on endowments are subject to the University's preservation of capital policy and must be used in accordance with purposes jointly agreed upon by the University and donors, or as determined by Governing Council. Endowments are not available for use in support of general operating activities.

Endowments are managed in a unitized pool with an annual spending rate. The University's endowment spending objective is to provide a predictable amount for spending (payout) each year that increases with inflation. To do this, the University preserves capital by constraining the annual spending rate and setting funds aside when investment returns are good. This strategy protects against inflation and creates a provision for investment return fluctuations from which funds can be released to maintain spending when there is a moderate downturn in the financial markets. The annual spending rate is expected to be between 3% and 5% of the opening market value of endowments.

At April 30, 2023, there were more than 7,100 individual endowment funds, usually supported by an agreement between the University and a donor or reflecting a collection of small donations with common restrictions. The University's endowment value was $3.3 billion (book value of $2.91 billion with full inflation protection of $870 million) and preservation above inflation (provision for investment return fluctuations) of $354 million against a possible future market downturn. The majority of endowments are in support of student aid ($1.4 billion) and chairs and professorships ($952 million).

Figure 11: Endowments at Fair Value
($ millions) at April 30



In fiscal 2023, the total fair value of endowments increased by $100 million as follows:

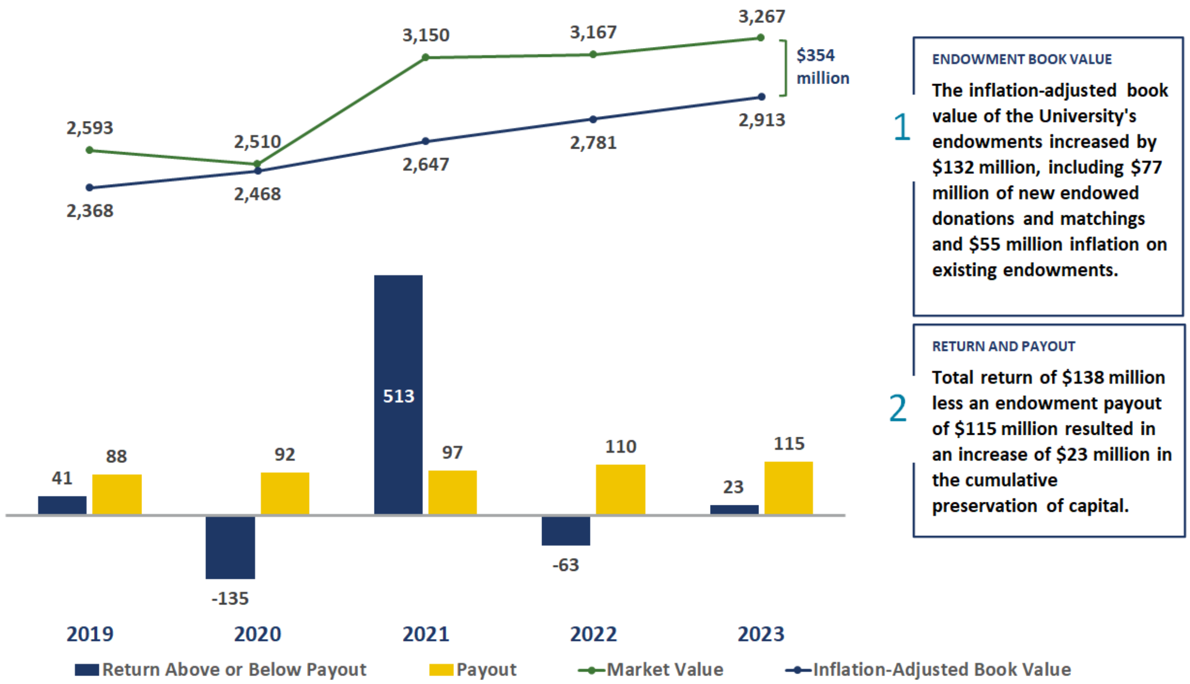
- $22 million increase on externally restricted endowments, consisting of a $121 million investment gain and a $99 million withdrawal for payout
- $1 million increase on internally restricted endowments, consisting of a $17 million investment gain and a $16 million withdrawal for payout
- $55 million of externally endowed donations and grants
- $22 million transfer into endowments

In fiscal 2022, the total fair value of endowments increased by $17 million as follows:

- $54 million decrease on externally restricted endowments, consisting of a $41 million investment gain and a $95 million withdrawal for payout
- $9 million decrease on internally restricted endowments, consisting of a $6 million investment gain and a $15 million withdrawal for payout
- $57 million of externally endowed donations
- $23 million transfer into endowments

The following diagram shows the preservation of capital and payout over the five-year period starting in 2019:

Figure 12: Endowment Market Value, Preservation of Capital, Return, and Payout
($ millions) for the year ended April 30



Investment Earnings

Total investment earnings for the year amounted to $334 million (gross of $54 million in fees and other expenses) consisting of $175 million gain on investments held for endowments and $159 million gain on other investments. These earnings were recorded in the financial statements as follows:

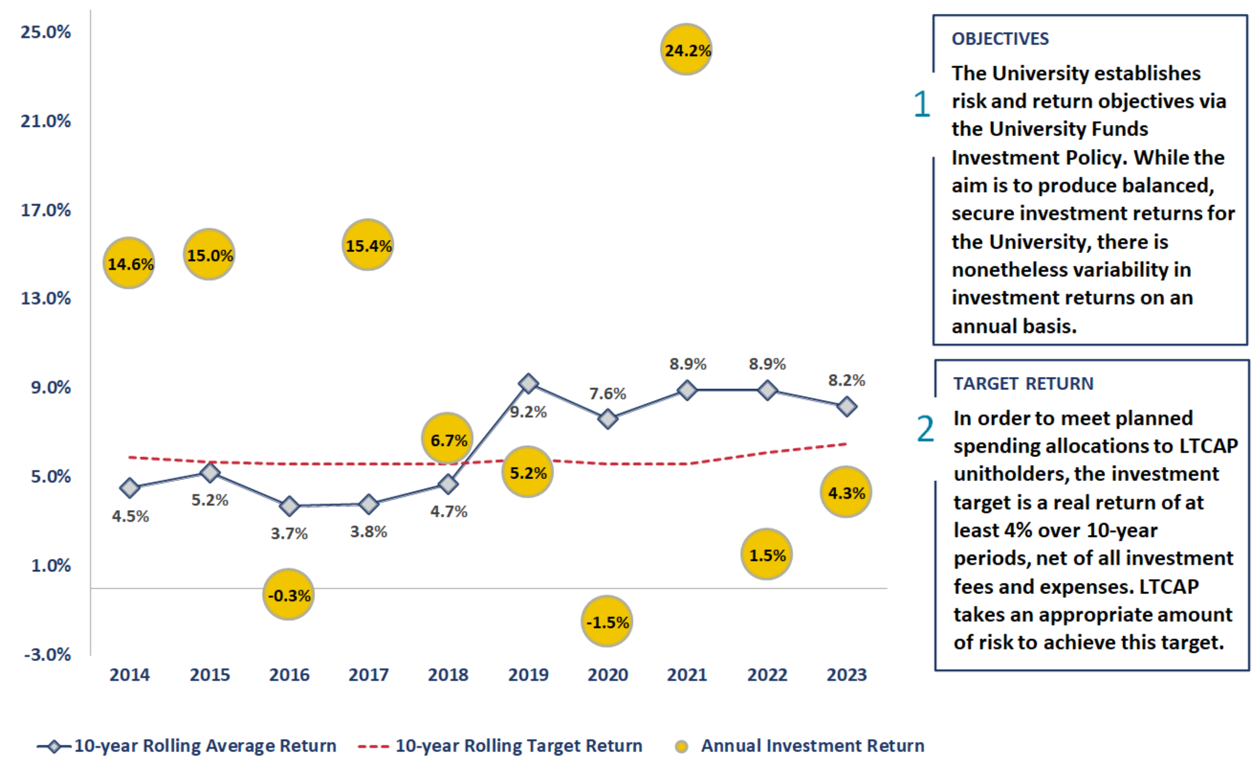
- $175 million gains on investments held for endowments (gross of $37 million in fees and other expenses), of which:
  - $22 million investment gain was recorded as a direct increase to endowments in the consolidated statement of changes in net assets
  - $153 million was recorded as investment income in the consolidated statement of operations, of which
    - $115 million was made available for spending
    - $37 million in fees and other expenses
    - $1 million gain on internally restricted endowments
- $159 million gain on other investments (gross of $17 million in fees and other expenses) was recorded as an increase of investment income in the consolidated statement of operations

Almost all of the University's investments are invested in the long-term capital appreciation pool ("LTCAP") or the expendable funds investment pool ("EFIP"). The University establishes the investment risk and return objectives for each of these pools via the University Funds Investment Policy, which is approved by the Business Board. These objectives reflect the liability requirements and aim to produce balanced, secure returns for the University. Nonetheless, there is variability in investment returns on an annual basis. The actual investment return is a key determinant of whether the University records a net income or a net loss for the year.[13]

Long-term Capital Appreciation Pool

The fair value of LTCAP was $3.9 billion at April 30, 2023, of which $3.3 billion was for endowments, representing 82.5% of the balance invested in LTCAP.

Figure 13: Long Term Capital Appreciation Pool (LTCAP) Returns
Annual and Ten-year Rolling Average



In order to meet planned spending allocations to LTCAP unitholders, the investment target is a real investment return of at least 4% over 10-year periods, net of all investment fees and expenses.[14] The University evaluates investment performance for the LTCAP against the target investment return and risk limits, as well as against the returns of a benchmark Reference Portfolio. The primary objective

[13] For more information, see the Appendix entry on Investment Earnings.

[14] Prior to June 2017, the investment return and risk targets for LTCAP were a 4% investment return plus inflation, net of all investment fees and expenses, and a 10% return volatility risk target (representing one standard deviation), over a ten-year period.

is the achievement of the LTCAP target investment return over the long term, while controlling risk within the specified risk limits. The Reference Portfolio serves as an objective yardstick for measuring the value gained or lost through UTAM's investment management activities compared to the returns that would be available in the market using a low-cost, passive investment approach. LTCAP takes an appropriate amount of risk to achieve its target. Despite considerable volatility in capital markets, LTCAP realized a return of 4.3% (net of all fees and expenses) during fiscal year 2023. LTCAP's fiscal year return benefited from a significant rebound in capital markets that began in Q4 2022. Over the same period, the Reference Portfolio returned 4.5%. UTAM continues to add significant value to investment performance over the long term.

Expendable Funds Investment Pool

The investment policy for EFIP reflects very short-term investments managed by the University and short-term and medium-term portfolios managed by the University of Toronto Asset Management Corporation ("UTAM").

EFIP is invested in fixed income instruments, swaps referencing a fixed income index, as well as cash and cash equivalent instruments. Fixed income investments are sensitive to interest rate movements, where, depending upon their duration,[15] they are subject to mark-to-market gains when interest rates decrease, and mark-to-market losses when interest rates increase. During the fiscal year, EFIP achieved a return of 2.8% (net of all fees and expenses). The primary driver of the return was the portfolio yield, although the return was negatively affected by the rise in interest rates. Over the same period, the benchmark recorded a return of 3.2%.

The EFIP short-term portfolio is invested in swaps that reference a Canadian short-term fixed income index, and in cash and cash equivalent instruments. The duration of this portfolio is approximately 1.3 years at the end of the fiscal year. The portion of this portfolio invested in cash and cash equivalents generated positive returns and was sufficient to offset the net losses arising from the interest rate swaps. Despite the negative impact of rising interest rates on the swaps' return, the cash and cash equivalent investments benefited from the higher interest rate. Overall, the EFIP short-term portfolio realized a return of 3.0% (net of all fees and expenses) during the fiscal year, which compared to its benchmark return of 2.8% over the same period.

The EFIP medium-term portfolio is invested in longer term fixed income securities. The duration of this portfolio is approximately 5.1 years at the end of the fiscal year. This portfolio's net return benefited less from the rise in interest rates than the EFIP short-term portfolio due to its longer interest rate duration exposure. During the fiscal year, the portfolio achieved a return of 1.8% (net of all fees and expenses). The return was primarily influenced by the portfolio yield, but it was adversely affected by both the increase in interest rates and the credit spread widening. The EFIP medium-term portfolio benchmark returned 4.1% in the fiscal year.

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[15] Duration is a measure of interest rate sensitivity of the price of a fixed income instrument. Duration is primarily impacted by a fixed income security's coupon rate, yield and remaining time to maturity. All things equal, an immediate increase in interest rates of 100 bps (1%) would result in a fixed income instrument with a duration of 5 years losing 5% of its value (i.e., the loss would be equivalent to its duration).

The return objective and risk tolerance for each category of EFIP funds (excluding funds loaned internally) is as follows:

	Risk Tolerance	Return Objective
Investments managed by the University	Minimal risk	30-day Treasury bill return
Short-term portfolio managed by UTAM	Minimal risk	50% of the 1-month Canadian Bankers' Acceptance rate plus 50% of the FTSE short-term universe ex Fossil Fuels Enhanced TRI
Medium-term portfolio managed by UTAM	Low risk of losses over a 3-to-5-year period (i.e., avoidance of permanent capital impairment) with mark-to-market fluctuations tolerated over shorter time horizons	FTSE Corporate BBB Index ex Fossil Fuels Enhanced TRI

The fair values and returns for the 2023 fiscal year were as follows:

	Fair Value	Total Return
Investments managed by the University	$221 million	3.51%
Short-term portfolio managed by UTAM	$2.6 billion	3.04%
Medium-term portfolio managed by UTAM	$951 million	1.85%

The fair values and returns for the 2022 fiscal year were as follows:

	Fair Value	Total Return
Investments managed by the University	$333 million	0.70%
Short-term portfolio managed by UTAM	$2.5 billion	-1.58%
Medium-term portfolio managed by UTAM	$751 million	-6.16%

Figure 14: Investment Returns for the year ended April 30, 2023

LONG TERM CAPITAL APPRECIATION $3.9B	**MEDIUM TERM EXPENDABLE $951M**	**SHORT TERM EXPENDABLE $2.6B**	**DAILY LIQUIDITY $221M**
+4.3%	+1.8%	+3.0%	+3.5%
Includes endowments, sinking fund, and other long term assets. Target is 4.0% real return over 10-year period.	**Funds set aside for spending in a 3-5 year horizon. Tolerance for some volatility, while avoiding permanent impairment of capital.**	**Funds set aside for short-term expenditure. Minimal tolerance for risk.**	**Funds managed by the University for day-to-day liquidity needs. Minimal tolerance for risk.**

RISK TOLERANCE AND RETURN OBJECTIVES

The University establishes the investment risk and return objectives for each of these pools via the University Funds Investment Policy, which is approved by the Business Board. These objectives reflect the University's liability requirements and aim to produce balanced, secure returns for the University over time.

Responsible Investing

The University of Toronto Asset Management Corporation ("UTAM") focuses exclusively on investing University-owned assets. UTAM incorporates environmental, social and governance (ESG) factors into its investment decision-making, stewardship activities (engagement, proxy voting and advocacy), and reporting and disclosure. The University believes that ESG factors can have a material impact on the long-term risk and return of a given investment and incorporating relevant and material ESG issues into the decision-making processes is consistent with the University's fiduciary duty.

A key component of the University of Toronto's 2021 climate announcement is the commitment to net zero emissions in the LTCAP portfolio by 2050. This commitment coincided with UTAM joining the Net-Zero Asset Owner Alliance. The Alliance has established a framework for setting interim targets on various decarbonization initiatives to guide members in achieving net zero emissions in their portfolios by 2050. In accordance with the Alliance's Target Setting Protocol, in 2022 UTAM established interim targets with respect to emissions, engagement and transition financing.

In October 2022, UTAM announced a new carbon footprint target for the LTCAP portfolio – a 50% reduction by 2030, using 2019 baseline levels. This target, measured in tonnes of CO_2 equivalent per million dollars invested ($tCO_2e/\$M$), includes the impact of carbon contributions from equities (including equity-like assets) and corporate bonds. Going forward, UTAM will report its progress only against this new target. UTAM's new carbon footprint target builds on the successful achievement of UTAM's previous carbon footprint goal. In 2019, UTAM committed to reducing the carbon footprint of the equity and equity like sub-portfolio of the LTCAP by 40% compared to 2017 levels by 2030. UTAM has met this target – almost a decade ahead of schedule.

By the end of 2022, UTAM had also implemented notable changes to reduce exposure to fossil fuel companies:

1. Since the commitment was announced in October 2021, UTAM delivered on its promise and has fully divested the LTCAP portfolio from all direct investments in fossil fuel companies. For those investments made indirectly – typically through pooled and commingled vehicles managed by third-party fund managers – UTAM will divest the LTCAP from its indirect investments in fossil fuel companies by no later than 2030. UTAM will also report regularly to stakeholders on its progress towards this goal.

2. In EFIP, there was no direct exposure to fossil fuel companies and, during 2022, UTAM eliminated all material indirect exposure to fossil fuel companies.

3. Effective October 1, 2022, UTAM has transitioned Reference Portfolio benchmarks to indexes that exclude fossil fuel companies.

4. UTAM made a new allocation to an active global equity manager that is a recognized leader in sustainable investing and excludes fossil fuel companies from its investment universe.

5. UTAM made a new commitment to a fund launched by a sustainability focused private equity manager.

6. UTAM partnered with RP Investment Advisors, a longstanding active corporate bond manager in the LTCAP, to seed a new strategy that excludes fossil fuel companies from its investment universe. This strategy is benchmarked to the newly launched FTSE All Corporate Ex Fossil Fuels Enhanced Bond Index.

7. UTAM engaged PricewaterhouseCoopers LLP (PwC) to verify, through a limited assurance review, UTAM's carbon footprint calculations and reporting. UTAM are committed to continuing this enhancement to its reporting each year.

Appendix A: Background Information

This appendix provides relevant background information that may be useful for understanding the highlights of the fiscal 2022 financial report given above.

Provincial Operating Grants

- October 2017: the Province signed the second Strategic Mandate Agreements (“SMA2”) with each university and college covering the period of 2017-20
- September 2020: the Province signed the third Strategic Mandate Agreements (“SMA3”) with each university and college covering the period of 2020-25
    - Over the five-year SMA3 period, the Province is gradually shifting the proportion of base operating grant funding in the differentiation envelope from 25% in 2021 and ultimately to 60% by fiscal 2025.
    - Through the SMA3, the Government is linking funding allocations in the differentiation envelope to a set of 10 performance metrics with institution-specific targets. Given the potential impact of the COVID-19 pandemic on performance metrics, the Province has committed to suspending any financial impacts from the new funding formula until at least 2022-23. Performance on the metrics will continue to be assessed annually but results will be decoupled from the differentiation funding envelope.

Tuition Fees and Student Aid

Ontario university tuition fees for domestic students are regulated by the provincial government.

- January 2019: the provincial government announced a 10% cut to domestic tuition fees beginning in 2019–20, and a freeze at that level for 2020–21
    - The tuition fee reduction applied to domestic students enrolled in all programs that are funded via the provincial operating grant, including direct entry undergraduate, second entry and professional master’s, and doctoral stream programs
    - Tuition paid by international students is unregulated, and is therefore unaffected
    - This new framework did not affect fiscal 2019; however, it resulted in a reduction in domestic tuition fee revenue for fiscal 2020.
- February 2019: the Ontario Budget announced a new set of changes to OSAP for the 2019-20 academic year
    - Changes to OSAP included a reduction in the income threshold under which students qualify for non-repayable aid (grants), an increase in the proportion of aid provided as loans, and increases in required parental and student contributions to the cost of education

    - The government targeted OSAP funds to students with the greatest financial need, distributing a larger proportion of grant funding to students with family incomes of less than $50,000

- April 2021: the provincial government announced a one-year extension of the domestic fee freeze for 2021-22 and introduced a new policy allowing for differentiated fees for out-of-province domestic students. Fees for Ontario residents would remain frozen while fees for non-Ontario resident domestic students as defined under the OSAP definitions, could be increased by up to 3%. Given the lateness of the announcement of the fee framework, coming at the start of the Summer 2021 session, the University opted to not implement differentiated out-of-province fees for 2021-22.

- March 2021: the provincial government announced an additional one-year extension of the domestic fee freeze for Ontario residents in 2022-23. The University will proceed with establishing differentiated fees for non-Ontario resident domestic students, with a 3% increase to fees for all undergraduate programs in 2022-23.

- March 2023: the provincial government announced an additional one-year extension of the domestic fee freeze for Ontario residents in 2023-24 and the launching of a blue-ribbon panel (the "panel") to address the sector's financial stability. The panel will provide advice and recommendations to the Minister of Colleges and Universities to help keep the postsecondary education sector financially strong and focused on providing the best student experience possible. The panel will be made up of leaders from the academic and business communities. They have expertise in postsecondary education, research and innovation, financial management, and economic development.

Other Ontario Budget Priorities

The 2019 Ontario Budget announced the planned significant shift of operating grant support towards performance-based outcomes funding through the differentiation envelope under SMA3. The budget rolled back funding related to the increases for the OSAP program implemented under the previous government. Operating grant plans included funding for completion of the previously announced graduate expansion program under SMA2 and planned new investments in mental health supports.

According to the 2020 Ontario Budget, the Government is not planning any material new investments in the post-secondary education sector over the next three years, including no inflationary increases to the University's operating grant. Areas of priority investment for the Government include: development, delivery, and expansion of Ontario's micro-credentials strategy; supporting the ongoing cost of the Ontario Student Assistance Program (OSAP); and continued investment in deferred maintenance.

Institutional Strategic Research Plan 2018–23

The Institutional Strategic Research Plan ("ISRP") expresses the University's core commitment to supporting excellence in research and innovation, across our three campuses in collaboration with our research and innovation partners. The themes of the ISRP reflect the breadth of the University's research within a flexible framework. Broad consultation helped shape and align these themes with current and potential future areas of research and innovation, and also helped to refine our strategic objectives and the metrics by which we will measure our success.

The ISRP identifies five strategic objectives to enable the University to continue to increase its research excellence:

- Demonstrating our leadership in research and innovation
- Fostering collaborations, partnerships, and engagement
- Advancing equity, inclusion, and diversity
- Supporting the integration of research and innovation in the student experience
- Strengthening the institutional supports that foster research and innovation excellence

Consultations are underway towards the development of the University's next strategic plan for 2024-2029.

Federal Investments in Research

In the 2019 Federal Budget, the government followed up the multi-year investments in research announced in 2018 with new investments and initiatives, including $114 million over five years, starting in 2019–20, with $27 million per year ongoing, to the federal granting councils to create 500 more master's level scholarship awards annually and 167 more three-year doctoral scholarship awards annually through the Canada Graduate Scholarship program

The 2020 Federal Budget was scheduled to be tabled in March 2020 but was postponed indefinitely as the government responded to the COVID-19 pandemic. The in-year economic and fiscal update was focused on targeted relief to families and businesses in response to the pandemic.

As a result, the 2021 Federal Budget was the first budget in more than two years. The government announced significant new investments in targeted research areas, including:

- $500 million over four years for the Canada Foundation for Innovation to support the bio-science capital and infrastructure needs of post-secondary institutions and research hospitals, and $250 million over four years for the federal research granting councils to create a new tri-council biomedical research fund

- $400 million over six years in support of a Pan-Canadian Genomics Strategy, including $137 million for Genome Canada to kick-start the new Strategy and complement the government's existing genomics research and innovation programming

- $444 million over ten years in support of the Pan-Canadian Artificial Intelligence Strategy, including $185 million to support the commercialization of artificial intelligence innovations and $162 million to help retain and attract top academic talent across Canada

- $360 million over seven years to launch a National Quantum Strategy. The strategy will amplify Canada's significant strength in quantum research; grow quantum-ready technologies, companies, and talent; and solidify Canada's global leadership in this area. This funding will also establish a secretariat at the Department of Innovation, Science and Economic Development to coordinate this work

In the 2022 Federal Budget the government announced research support focused primarily in science, technology, and engineering including:

- $750 million over six years to support the further growth and development of Canada's Global Innovation Clusters, of which many universities and research institutions are, which are meant to bring together government, academia, and industry to create new companies, jobs, intellectual property, and boost economic growth.

- $100 million over six years to the federal granting councils to support post-secondary research in developing technologies and crop varieties that will allow for net-zero emission agriculture
- $125 million over five years, starting in 2022-23, and $25 million ongoing, for the Research Support Fund to build capacity within post-secondary institutions to identify, assess, and mitigate potential risks to research security; and $34 million over five years, starting in 2022-23, and $8 million ongoing, to enhance Canada's ability to protect our research, and to establish a Research Security Centre that will provide advice and guidance directly to research institutions.
- $47.8 million over five years, and $20.1 million ongoing, to improve the country's intellectual property performance through a new "lab to market" program that will help Canadian graduate students and academics patent their research
- $38 million over four years, starting in 2023-24, and $13 million ongoing for the federal granting councils to add new, internationally recruited Canada Excellence Research Chairs in the fields of science, technology, engineering, and mathematics and
- $41 million over 5 years, starting in 2022-23, and $10 million ongoing to support targeted scholarships and fellowships for promising Black student researchers.

In the 2023 Federal Budget, the government made no significant new commitments to research in the post-secondary sector.

Investment Earnings

The investment risk and return targets for University funds are operationalized by the President of the University with input from the Investment Committee. The Investment Committee reports to the President of the University and provides expert advice to the University Administration, collaborating extensively with the University Administration and with the management at UTAM on investment objectives and investment activities.

UTAM is a separate non-share capital corporation whose members are appointed by the University. The funds invested in LTCAP and EFIP that the University desires to have invested by UTAM are invested on behalf of the University in accordance with a Business Board approved Delegation of Authority from the University to UTAM.

The President of the University and the UTAM Board have agreed that consistent with the foregoing, the Investment Committee approves various elements of strategy execution proposed by UTAM management and provides monitoring and oversight of investment performance. A detailed review of investment performance, which is managed and measured on a calendar year basis by UTAM, is available on the UTAM web site at www.utam.utoronto.ca.

Governance oversight of investments is provided by the Business Board (for University funds) and by the UTAM Board which provides oversight of the operations of UTAM.

Audited Consolidated Financial Statements

For the year ended April 30, 2023

Statement of Administrative Responsibility

The administration of the University of Toronto (the "University") is responsible for the preparation of the consolidated financial statements, the notes thereto and all other financial information contained in this Financial Report.

The administration has prepared the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations developed by the Chartered Professional Accountants of Canada. The administration believes that the consolidated financial statements present fairly the University's consolidated financial position as at April 30, 2023, and its consolidated results of operations and its consolidated cash flows for the year then ended. In order to achieve the objective of fair presentation in all material respects, reasonable estimates and judgments were employed. Additionally, management has ensured that financial information presented elsewhere in this Financial Report has been prepared in a manner consistent with that in the consolidated financial statements.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the administration has developed and maintains a system of internal controls designed to provide reasonable assurance that University assets are safeguarded from permanent loss and that the accounting records are a reliable basis for the preparation of consolidated financial statements.

Aon has been retained by the University in order to provide an estimate of the University's liability for pension and other employee future benefits. Management has provided the valuation actuary with the information necessary for the completion of the University's actuarial report and retains ultimate responsibility for the determination and estimation of the pension and other employee future benefits liabilities reported.

Governing Council carries out its responsibility for review of the consolidated financial statements and this Financial Report principally through the Business Board and its Audit Committee. The members of the Audit Committee are not officers or employees of the University. The Audit Committee meets regularly with the administration, as well as the internal auditors and the external auditors, to discuss the results of audit examinations and financial reporting matters and to satisfy itself that each party is properly discharging its responsibilities. The auditors have full access to the Audit Committee with and without the presence of the administration.

The consolidated financial statements as at and for the year ended April 30, 2023 have been reported on by Ernst & Young LLP, the auditors appointed by Governing Council. The independent auditor's report outlines the scope of their audit and their opinion on the presentation of the information included in the consolidated financial statements.

Trevor Rodgers
Chief Financial Officer

Meric S. Gertler
President

Independent Auditor's Report

To the Members of Governing Council of the **University of Toronto**:

Opinion

We have audited the consolidated financial statements of the **University of Toronto** (the "University"), which comprise the consolidated balance sheet as at April 30, 2023, and the consolidated statement of operations, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as at April 30, 2023, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the University in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Financial Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Financial Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the University to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Toronto, Canada
June 27, 2023

Statement 1

UNIVERSITY OF TORONTO
CONSOLIDATED BALANCE SHEET
AS AT APRIL 30
(millions of dollars)

	2023	2022
ASSETS		
Current		
Cash and cash equivalents	**221**	333
Short-term investments at fair value (note 3)	**828**	865
Accounts receivable (note 3)	**115**	146
Inventories and prepaid expenses	**45**	47
	1,209	1,391
Investments at fair value (notes 3 and 17)	**6,657**	6,258
Capital assets, net (note 4)	**5,815**	5,493
	13,681	13,142
LIABILITIES		
Current		
Accounts payable and accrued liabilities (notes 3, 6 and 17)	**728**	847
Deferred contributions (note 8)	**1,054**	1,032
	1,782	1,879
Accrued pension liability (note 5)	**136**	126
Employee future benefit obligation		
other than pension (note 5)	**803**	688
Long-term debt (note 7)	**709**	709
Deferred capital contributions (note 9)	**1,217**	1,237
	4,647	4,639
NET ASSETS (Statement 3)		
Deficit	**(483)**	(314)
Internally restricted (note 10)	**6,250**	5,650
Endowments (notes 11, 12 and 13)	**3,267**	3,167
	9,034	8,503
	13,681	13,142

Contingencies, commitments and collections (notes 3, 4, 19, 20 and 21)

See accompanying notes

On behalf of Governing Council:

Janet L. Ecker
Chair

Meric S. Gertler
President

Statement 2

UNIVERSITY OF TORONTO
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED APRIL 30
(millions of dollars)

	2023	2022
REVENUES		
Student fees	**2,204**	2,121
Government grants for general operations	**719**	721
Government and other grants for restricted purposes (note 16)	**468**	458
Sales, services and sundry income	**435**	350
Investment income (notes 3 and 11)	**312**	79
Donations (note 15)	**137**	103
	4,275	3,832
EXPENSES		
Salaries	**1,821**	1,697
Employee benefits (note 5)	**409**	375
Scholarships, fellowships and bursaries	**346**	309
Materials, supplies and services	**287**	292
Amortization of capital assets	**214**	213
Repairs, maintenance and leases	**183**	170
Inter-institutional contributions	**137**	134
Cost of sales and services	**130**	106
Utilities	**55**	48
Travel and conferences	**50**	9
Interest on long-term debt	**38**	38
Other	**54**	25
	3,724	3,416
NET INCOME	**551**	416

See accompanying notes

Statement 3

UNIVERSITY OF TORONTO
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED APRIL 30
(millions of dollars)

	Deficit	Internally restricted (note 10)	Endowments (note 11)	2023 Total	2022 Total
Net assets, beginning of year	(314)	5,650	3,167	8,503	8,074
Adjustment for opening balance for employee future benefits and internally restricted net assets (note 2(n))	(84)			(84)	
Net change in internally restricted (note 10)	84	(84)			
Net assets, beginning of year, as restated	(314)	5,566	3,167	8,419	8,074
Net income	551			551	416
Net change in internally restricted (note 10)	(684)	684			
Remeasurements and other items (note 5)	(13)			(13)	10
Investment gain (loss) on externally restricted endowments (note 11)			22	22	(54)
Externally endowed contributions					
- donations (note 15)			51	51	57
- grants (note 16)			4	4	
Transfer to internally restricted endowments (note 11)					
- investment gain	(1)		1		
Transfer to endowments (note 11)					
- donations	(7)		7		
- matching funds	(15)		15		
Net assets, end of year	(483)	6,250	3,267	9,034	8,503

See accompanying notes

Statement 4

UNIVERSITY OF TORONTO
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED APRIL 30
(millions of dollars)

	2023	2022
OPERATING ACTIVITIES		
Net income	**551**	416
Add (deduct) non-cash items:		
Amortization of capital assets	**214**	213
Amortization of deferred capital contributions	**(74)**	(77)
Net unrealized gains from investments	**(250)**	(26)
Employee future benefits expense	**203**	185
Employee future benefits contributions	**(175)**	(184)
Net change in other non-cash items (note 14)	**(88)**	374
	381	901
INVESTING ACTIVITIES		
Net sale of short-term investments	**37**	212
Net purchase of investments	**(127)**	(606)
Purchase of capital assets	**(512)**	(468)
	(602)	(862)
FINANCING ACTIVITIES		
Contributions for capital asset purchases	**54**	45
Endowment contributions		
- donations	**51**	57
- grants	**4**	
	109	102
Net (decrease) increase in cash during the year	**(112)**	141
Cash and cash equivalents, beginning of year	**333**	192
Cash and cash equivalents, end of year	**221**	333
Supplemental cash flow information		
Increase in capital asset acquisitions funded by accounts payable and accrued liabilities	**24**	28

See accompanying notes

Notes to the Consolidated Financial Statements

1. Description

The Governing Council of the University of Toronto, which operates under the name University of Toronto (the “University”), is a corporation under the *University of Toronto Act*, a statute of the Legislative Assembly of Ontario. The University is an institution dedicated to providing post-secondary education and to conducting research. The University’s vision is to be a leader among the world’s best public universities in its discovery, preservation and sharing of knowledge through its teaching and research and its commitment to excellence and equity.

These consolidated financial statements include the assets, liabilities, revenues, expenses, and other transactions of all the operations and organizations, including wholly owned subsidiaries, under the jurisdiction of Governing Council. These consolidated financial statements do not include the assets, liabilities and operations of Victoria University, The University of Trinity College, University of St. Michael’s College, Sunnybrook Health Sciences Centre (“Sunnybrook”) and the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate, non-controlled corporate body with separate financial statements.

The University holds title to the land and original buildings of Sunnybrook. The land and original buildings were acquired for the sum of one dollar and are used for hospital purposes and for related medical research and teaching purposes. The property is leased to the Board of Directors of Sunnybrook, a separate corporation, under a ground lease, which is perpetually renewable every 21 years at the option of the Board of Directors of Sunnybrook.

The University is a registered charitable organization and, as such, is exempt from income taxes under the *Income Tax Act* (Canada).

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles (“GAAP”) for not-for-profit organizations in Canada and includes the significant accounting policies summarized below:

a. Investments and investment income

Investments are carried at fair value except for the real estate directly held by the University for investment purposes. Fair value amounts represent estimates of the consideration that would be agreed on between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price if one exists. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values.

The value of investments recorded in the consolidated financial statements is determined as follows:

i. Short-term notes and treasury bills are valued based on cost plus accrued interest, which approximates fair value. Money market funds are valued based on closing quoted market prices.

ii. Bonds and publicly traded equities are valued based on quoted market prices. If quoted market prices are not available for bonds, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

iii. Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.

iv. Hedge funds are valued based on the most recently available reported net asset value per unit, adjusted for the expected rate of return of the fund through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

v. Private investment interests consisting of private investments and real assets comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets, infrastructure assets and commodities. The investment managers of these interests perform and provide valuations of the underlying investments on a periodic basis. Annual financial statements of the private investment interests are audited and are also provided by the investment managers. The value of the investments in these interests is based on the latest valuations provided (typically December 31), adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes that the carrying amount of these financial instruments is a reasonable estimate of fair value. Because private investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

vi. Real estate directly held by the University for investment purposes is originally valued at cost and, when donated, at the value determined through an appraisal process at the date of donation. Subsequently, real estate is valued at cost less any provision for impairment.

Investment transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Investment income is recorded on an accrual basis, consisting of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses. Investment income is recorded as revenue in the consolidated statement of operations except for investment income earned on externally restricted endowments, for which only the amount made available for spending is recorded as revenue. In years where the investment income earned is more than the amount made available for spending, the excess is recorded as a direct increase in endowments. In years where the investment income earned is below the amount made available for spending, the shortfall is recorded as a direct decrease in endowments.

b. Derivative financial instruments

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include bonds, equity and currency futures, options, swaps and forward contracts. The majority of the notional exposure of the derivative financial instruments (except for currency derivatives) is backed by liquid assets (short-term investments), reducing the use of leverage. The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all the University's derivative financial instruments.

Derivative financial instruments are carried at fair value, with changes in fair value during the year recorded in the consolidated statement of operations.

c. *Investments in significantly influenced entities and interests in joint venture arrangements*

Joint ventures and investments in for-profit entities subject to significant influence are accounted for using the equity method, whereby the investment is initially recorded at cost, net of any impairment and adjusted thereafter for the University's share of the entity's net surplus or deficit and any further impairments. Any distributions received are accounted for as a reduction in the investment.

d. *Senior unsecured debentures and other long-term debt*

Senior unsecured debentures and other long-term debt are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method. Senior unsecured debentures and other long-term debt are reported net of related premiums, discounts and transaction issue costs.

e. *Other financial instruments*

Other financial instruments, including cash and cash equivalents, accounts receivable, government assistance receivable, and accounts payable and accrued liabilities, are initially recorded at their fair value. They are not subsequently revalued and continue to be carried at this value, which represents cost, net of any provisions for impairment.

f. *Cash and cash equivalents*

Cash and cash equivalents consist of balances with banks and investments in money market funds. Cash and investments meeting the definition of cash and cash equivalents held for investing rather than liquidity purposes are classified as investments.

g. *Inventory valuation*

Retail inventories are carried at the lower of cost, determined using the first-in, first-out method, and net realizable value.

h. *Employee benefit plans*

(i). Pension plans

The University is a member of the University Pension Plan Ontario ("UPP"), which is a multi-employer jointly sponsored, defined benefit plan. The University does not recognize any share of the UPP's pension surplus or deficit as insufficient information is available to identify the University's share of the underlying pension assets and liabilities. The University also accounts for its contributions to the UPP on a defined contribution basis. The University's contributions are expensed in the period they come due.

The University also provides an unfunded and unregistered Supplementary Account Plan ("SAP") effective July 1, 2021. The SAP is a defined contribution arrangement established to provide retirement income on the portion of eligible members' (faculty members, librarians, and professional or managerial staff, who are active members of the UPP) salary that is not covered by the UPP, up to a specified cap. The contribution of 10% of the eligible salary and the investment return based on the annual investment return (net of fees and expenses) earned under the UPP are expensed in the year they are earned by eligible members and credited to each member's notional account.

Prior to the SAP, the University had a Supplemental Retirement Arrangement ("SRA"), an unfunded and unregistered arrangement that is now closed for future accruals. The SRA provided defined benefits for retired and deferred vested members whose benefits exceeded the *Income Tax Act (Canada)* maximum pension at the time of their retirement or termination. Finance costs are expensed during the year, while remeasurements and other items, representing actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets. The accrued liability is determined using a roll-forward technique to estimate the accrued liability using accounting assumptions from the most recent actuarial valuation report.

(ii). Other employee benefits plans

The University maintains other retirement and post-employment benefits for most of its employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the accrued obligation net of the fair value of plan assets in the consolidated balance sheet. Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets. The accrued liability for unfunded plans is prepared using accounting assumptions. Employee future benefit plans' assets are measured at fair value as at the date of the consolidated balance sheet.

i. Capital assets and collections

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis using the following annual rates:

Buildings and land improvements	2.5% - 10%
Equipment and furnishings	4% - 20%
Library books	20%

The University allocates salary and benefit costs related to personnel who work directly on managing capital projects through a project management fee based on 3.25% of construction, furnishings and equipment, and landscaping costs for projects up to $75 million and 2.50% of those same costs for projects above $75 million.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not contribute to the University's ability to provide goods and services. Any impairment results in a write-down of the capital asset and an expense in the consolidated statement of operations. An impairment loss is not reversed if the fair value of the related capital asset subsequently increases.

The value of library, art and other special collections has been excluded from the consolidated balance sheet except for a nominal value of $1. Donated collections are recorded as revenue at values based on appraisals by independent appraisers and are expensed in the year received. Purchased collections are expensed in the year they are acquired.

When collections are deaccessioned and then sold, proceeds from the sale are included in deferred contributions and recognized as revenue when the cost of insurance, cleaning, restoration, and conservation of works in the collection are expensed.

j. Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants.

The University actively fundraises and unrestricted donations, contributed rare books and other collections are recorded as revenue when received or receivable if amounts can be reasonably estimated and collection is reasonably assured. Due to the uncertainty involved in collecting pledged donations, they are not recognized until received.

Contributions externally restricted for purposes other than endowment are deferred when initially recorded in the accounts and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for the purposes designated by external parties. Externally restricted contributions received towards the acquisition of depreciable capital assets are deferred when initially recorded in the accounts and amortized to revenue on the same basis as the related capital assets are amortized.

Endowment contributions and contributions of non-amortizable capital assets are recorded as direct increases in net assets in the year in which they are received or receivable.

Student fees are recorded as revenue when courses and seminars are held. Sales, services and sundry income revenues are recorded at point of sale for goods or when the service has been provided.

k. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at year-end. Operating revenues and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from these translations are included in income except to the extent that they relate to investments, in which case they are recognized in the same manner as investment income.

l. Use of accounting estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates include the assumptions used in the determination of the fair value of financial instruments where the values are based on non-observable inputs that are supported by little or no market activity, the valuation of pension and other retirement benefit obligations and the recording of contingencies. Actual results could differ from those estimates.

m. Contributed services and materials

Volunteers contribute an indeterminable number of hours per year. Because of the difficulty of determining their fair value, contributed services and materials are not recognized in the consolidated financial statements.

n. Change in accounting policy

During the year, the University adopted the amendments to accounting standards Section 3462, Employee Future Benefits and Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations. These amendments remove the accommodation which allowed organizations, under certain conditions, to make an accounting policy choice to measure their defined benefit obligations using either an actuarial valuation prepared for accounting purposes or an actuarial valuation prepared for funding purposes. These standards now require the University to value its defined benefit obligations using an actuarial valuation prepared for accounting purposes. The only impact of the change in accounting policy is a change in the discount rate used to measure the University's defined benefit obligations as at May 1, 2022, which is recorded as a direct reduction to opening net assets.

3. Investments

The University's investments are managed using two pools: the long-term capital appreciation pool ("LTCAP"), and the expendable funds investment pool ("EFIP"). LTCAP mainly includes endowment funds, the voluntary sinking fund (note 7) established to repay the principal of the University's debentures at maturity and funds set aside to cover long-term disability payments (note 5). EFIP consists mainly of the University's working capital for operations. The University of Toronto Asset Management Corporation ("UTAM") manages each of the pools according to the investment return target and risk tolerance of each pool as described in the University Funds Investment Policy. UTAM incorporates environmental, social and governance factors into its investment decision-making and practices active ownership in its management of both portfolios.

The table below shows the University's investments at fair value, mapped into the Reference Portfolio asset classes for the LTCAP and investment benchmarks for EFIP:

(millions of dollars)

	April 30, 2023			April 30, 2022		
	LTCAP	**EFIP**	**Total**	LTCAP	EFIP	Total
Short-term investments	**(515)**	**1,343**	**828**	(369)	1,234	865
Government and corporate bonds and other fixed income investments	**1,586**	**2,217**	**3,803**	1,556	1,982	3,538
Canadian equities	**42**	**1**	**43**	44	1	45
United States equities	**917**	**2**	**919**	873	2	875
International equities	**384**		**384**	333		333
Emerging markets equities	**160**		**160**	151		151
Global equities	**880**		**880**	816		816
Other	**468**		**468**	499	1	500
	3,922	**3,563**	**7,485**	3,903	3,220	7,123
Less amounts reported as short-term investments	**515**	**(1,343)**	**(828)**	369	(1,234)	(865)
Total long-term investments	**4,437**	**2,220**	**6,657**	4,272	1,986	6,258

The University has adopted an investment benchmark called the Reference Portfolio for LTCAP which, has an asset mix that reflects the University's long-term return objective and risk appetite for this pool. The Reference Portfolio is designed to be a simple portfolio that can be easily implemented, and it only includes public market asset classes. However, the actual investments in LTCAP include asset classes and strategies, such as hedge funds and private investments, that are not represented in the Reference Portfolio. These other investments have been reclassified and mapped to the most appropriate Reference Portfolio asset classes in the table above. In some cases, derivative financial instruments are used to obtain market exposures to various asset classes. The majority of the notional exposure of derivative financial instruments (except for currency derivatives) is backed by liquid assets (short-term investments), reducing the use of leverage. Leverage is however used to add government bond exposure to the LTCAP portfolio to enhance downside risk protection. The table above includes the notional exposure (including any mark-to-market gains/losses) of derivative financial instruments other than currency derivatives in the Reference Portfolio asset classes.

Short-term investments consist of cash and bank term deposits. The negative amount of short-term investments in the LTCAP represents the notional exposure of the derivative financial instruments that is not backed by liquid assets as a result of the use of leverage. International equities include developed equity markets in Europe, Australasia and the Far East ("EAFE") and exclude the United States and Canada. Global equities include all developed equity markets as well as various emerging equity markets. Investments in the "other" category consist mainly of absolute return hedge funds.

The table below shows the fair value of the same investments for each pool without the reallocation of short-term investments (related to derivative instruments), hedge funds, private investments and real assets to the relevant Reference Portfolio asset class or classes.

	(millions of dollars)					
	April 30, 2023			April 30, 2022		
	LTCAP	**EFIP**	**Total**	LTCAP	EFIP	Total
Short-term investments	**1,121**	**2,633**	**3,754**	1,236	2,462	3,698
Government and corporate bonds and other fixed income investments	**177**	**926**	**1,103**	178	755	933
Canadian equities	**1**	**1**	**2**	1	1	2
United States equities	**1**	**2**	**3**	1	2	3
International equities	**210**		**210**	178		178
Emerging markets equities	**83**		**83**	84		84
Global equities	**836**		**836**	780		780
Hedge funds	**655**		**655**	653		653
Private investments	**776**		**776**	734		734
Real assets	**62**		**62**	58		58
Other		**1**	**1**			
Total investments	**3,922**	**3,563**	**7,485**	3,903	3,220	7,123

In fiscal 2023, the University's investment income of $312 million (2022 - $79 million) recorded in the consolidated statement of operations consists of income related to investments held for endowments of $153 million (2022 - $139 million), gross of $37 million (2022 - $38 million) in fees and other expenses (note 11), and a gain of $159 million (2022 – loss of $60 million) on investments other than those held for endowments, gross of $17 million (2022 - $14 million) in fees and other expenses.

During the year, the University recognized an unrealized loss of $18 million (2022 – unrealized gain of $56 million) as a result of the change in fair value of its investments that were estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates for certain of its investments. Management believes there are no other reasonable assumptions for these investments that would generate any material changes in investment income.

Uncalled commitments

As at April 30, 2023, approximately 11.2% (2022 – 11.1%) of the University's investments are invested in private funds managed by third-party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments, private credit and real asset investments (e.g., real estate, infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2023, the University had uncalled commitments of approximately $814 million (2022 - $695 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund, but is generally between three and five years from the date the private fund closes. In practice, for a variety of reasons, the total amount committed to a private fund is typically not fully called.

Derivative financial instruments

The following table summarizes the notional and fair values of the University's derivative financial instruments:

	(millions of dollars)					
	April 30, 2023			April 30, 2022		
		Fair values			Fair values	
Contracts	**Notional value**	**Receivable**	**Payable**	Notional value	Receivable	Payable
Foreign currency forward						
United States dollars	**1,519**	**5**		2,231		(25)
Other	**407**	**3**		368	8	
Equity and bond futures	**111**	**1**	**(1)**	116	2	(2)
Equity and bond swap	**2,892**	**10**		2,826		(106)
Interest rate swap	**3**			5		
	4,932	**19**	**(1)**	5,546	10	(133)

Derivatives are financial contracts, the value of which is derived from changes in an underlying asset, index of prices or rates, interest rate, foreign exchange rate, etc. The University uses derivative financial instruments as a substitute for traditional investments to manage financial risks and to manage currency exposures. The University has entered into foreign currency forward contracts to manage its exposure to exchange rate fluctuations on investments denominated in foreign currencies in accordance with its hedging policy (note 17).

The University has entered into equity and bond futures contracts, and equity and bond swap contracts to obtain exposure to those asset classes. These derivatives are used as a substitute for traditional investments to obtain market exposures to these asset classes. Equity and bond futures contracts oblige the University to pay or receive the difference between a predetermined amount (the notional amount) and the market value at contract expiry. Equity and bond swap contracts are agreements for the exchange of cash flows based on the notional amount of the contract whereby one party commits to making payments based on the return of an underlying instrument in exchange for fixed or floating interest rate payments. To the extent the total return of the instrument or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the University will receive a payment from, or make a payment to, the counterparty.

The notional amounts above do not represent amounts exchanged between parties. Instead, they represent the contractual amount to which a rate or price is applied for computing the cash flows to be exchanged and are therefore not recorded as receivables or payables in the consolidated financial statements. The University may have contracts to buy and sell similar underlying assets; in these cases, the notional amounts are presented above on a gross basis.

Contracts with a positive mark-to-market (fair value) are recorded as receivables, while contracts with a negative mark-to-market are recorded as payables. These are included in accounts receivable, and accounts payable and accrued liabilities, respectively in the consolidated balance sheet. The maturity dates of the currency forwards and futures contracts as at April 30, 2023 range from May 2023 to September 2023. The maturity dates of the equity and bond swap contracts as at April 30, 2023 range from June 2023 to April 2024. Required collateral of $4 million (2022 - $4 million) has been provided to the relevant exchanges against the futures contracts as at April 30, 2023 in the form of short-term investments. As at April 30, 2023, the University had $2.5 billion (2022 - $2.5 billion) in short-term investments compared to the $3.0 billion (2022 - $2.9 billion) of notional value of equity and bond futures, and equity and bond swap contracts. Leverage is used to add government bond exposure to the LTCAP portfolio to enhance downside risk protection.

4. Capital assets

	(millions of dollars)			
	April 30, 2023		April 30, 2022	
	Total cost	**Accumulated amortization**	Total cost	Accumulated amortization
Land	**2,362**		2,329	
Buildings	**4,602**	**1,718**	4,254	1,606
Equipment and furnishings	**2,188**	**1,735**	2,095	1,663
Library books	**850**	**794**	822	764
Land improvements	**60**		26	
	10,062	**4,247**	9,526	4,033
Less accumulated amortization	**(4,247)**		(4,033)	
Net book value	**5,815**		5,493	

The University develops replacement property values of buildings and contents for insurance purposes using various sources and valuation methods that conform to insurance industry practice and standards. The insured replacement value of buildings is approximately $6.5 billion, and contents is approximately $2.7 billion, which includes library books of approximately $0.9 billion.

The University holds a wide range of library, art and other special collections that are protected and preserved for public exhibition, education, research and the furtherance of public service. Rare books and special collections include manuscripts, archives, and cartographic, graphic, film, audio and video materials. The University rarely disposes of items in these collections.

As at April 30, 2023, the University had $907 million (2022 - $601 million) of construction-in-progress that was included in buildings, and equipment and furnishings, which will not be amortized until the capital assets are put into use.

5. Employee benefit plans

The University has a number of funded and unfunded defined benefit plans that provide pension (including a supplementary account plan and supplemental retirement arrangement), other retirement and post-employment benefits to most of its employees.

The assets and liabilities, including the pension obligations, of the University's registered pension plan ("RPP") were transferred to the UPP as at July 1, 2021 (the "Effective Date"). As of the Effective Date, the accrual of benefits and contributions under the UPP commenced for members of the RPP, all of whom have been transferred to the UPP, and benefits and contributions under the RPP ceased. During fiscal 2021, the University amended the RPP to allow for the July 1, 2021 transfer of assets and liabilities into the UPP and the subsequent termination of the RPP.

As at July 1, 2021, the University transferred $792 million in excess of its defined benefit obligations to the UPP. Due to the uncertainty around the ability of the University to fully realize the RPP's accrued benefit surplus in the future under the UPP, the funding excess is not reflected in the University's consolidated financial statements in accordance with Canadian generally accepted accounting principles.

Any pension surplus or deficit of the UPP is a joint responsibility of the members and employers for service after the transition date of July 1, 2021, and may affect future contribution rates for members and employers. The University remains responsible to fund any net pension obligations (determined based on the UPP actuarial assumptions) related to service up to the transition date of July 1, 2021, over 15 years. The net pension obligations may fluctuate in the future based on changes to the UPP's actuarial assumptions and for changes in experience in future periods, which will continue to be the responsibility of the University to fund for the first 10 years, after which the responsibility for such changes becomes gradually shared over the next 10 years with the other members of the UPP, after which the responsibility is totally shared with all members.

Contribution rates are determined by the UPP Sponsors (representing employees and employers). The most recent actuarial valuation filed with pension regulators by the UPP as at January 1, 2022 indicated an actuarial surplus on a going concern basis of $1.2 billion.

Contributions made to the UPP during the year are included in employee benefits expense in the consolidated statement of operations and amounted to $130 million (2022 - $104 million).

Other retirement benefit plans are contributory health care plans with retiree contributions adjusted annually, such as extended health, semi-private and dental care. Another plan also provides for long-term disability income benefits after employment, but before retirement.

The employee benefits expense for the year includes pension expense of $141 million (2022 - $129 million), other retirement benefits expense of $62 million (2022 - $56 million) and other employee benefits of $206 (2022 - $190 million). Remeasurements, which are recorded in the consolidated statement of changes in net assets, rather than in the consolidated statement of operations, are as follows:

	(millions of dollars)			
	April 30, 2023		April 30, 2022	
	Pension benefit plan	**Other benefit plans**	Pension benefit plan	Other benefit plans
Difference between actual and expected return on plan assets			13	
Actuarial gains (losses)	**(2)**	**(3)**	(38)	54
Past service cost		**(8)**		(19)
	(2)	**(11)**	(25)	35

The actuarial valuation for retirement benefit plans other than pension is performed every two years, the most recent being as at July 1, 2021 for contributory health care plans and January 1, 2023 for both the long-term disability income benefits plan and the SRA. The University measures its accrued benefit obligation (using a roll-forward technique from the most recent actuarial valuation) and the fair value of plan assets for accounting purposes as at April 30 of each year.

To measure the accrued benefit obligation for retirement benefit plans, other than pension, as at April 30, 2023, the rate of increase in the per capita cost of covered health care benefits was assumed to be 4.25%, except for prescription drug costs, which are assumed to increase at 6.06% in 2023, with the rate of increase decreasing gradually to 4.25% in 2030 and remaining at that level thereafter.

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligation and benefits cost are set out below:

	April 30, 2023		April 30, 2022	
	Pension benefit plan	**Other benefit plans**	Pension benefit plan	Other benefit plans
Accrued benefit obligation:				
Discount rate*	**4.70%**	**4.85%**	5.35%	5.35%
Rate of compensation increase		**4.00%**		4.00%
Rate of inflation	**2.00%**	**2.00%**	1.75%	1.75%
Benefits cost:				
Discount rate*	**4.40%**	**4.70%**	5.35%	5.35%
Rate of compensation increase		**4.00%**		3.75%
Rate of inflation	**2.00%**	**2.00%**	2.00%	1.75%

* During the year, the University adopted the amendments to accounting standards Section 3462, Employee Future Benefits and Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations. As a result, the University revalued its defined benefit obligations using a discount rate appropriate under an accounting valuation at April 30, 2022, and immediately recognized the resulting actuarial loss of $84 million at May 1, 2022. The revised discount rate for the accrued benefit obligation at April 30, 2022 and the benefit cost for 2023 was 4.40% for its pension plans and 4.70% for its other benefit plans.

Information about the University's benefit plans, which are mainly defined benefit plans, is as follows:

(millions of dollars)

	April 30, 2023		April 30, 2022	
	Pension benefit plan	**Other benefit plans**	Pension benefit plan	Other benefit plans
Accrued benefit obligation	**136**	**803**	126	688
Fair value of plan assets				
Plan deficit	**(136)**	**(803)**	(126)	(688)

The accrued pension liability of $136 million (2022- $126 million) mainly represents the University's obligation for its supplemental retirement arrangement.

As at April 30, 2023, the University has set aside investments of $7 million (2022 - $4 million) for its Supplementary Account Plan, $89 million (2022 - nil) for its pension special payments obligations, and $135 million (2022 - $140 million) for its other benefit plans.

6. Government remittances payable

As at April 30, 2023, accounts payable and accrued liabilities include government remittances payable of $51 million (2022 - $51 million).

7. Long-term debt

Long-term debt consists of the following senior unsecured debentures:

	(millions of dollars)	
	April 30, 2023	April 30, 2022
Series A senior unsecured debenture bearing interest at 6.78% payable semi-annually on January 18 and July 18, with the principal amount maturing on July 18, 2031	**160**	160
Series B senior unsecured debenture bearing interest at 5.841% payable semi-annually on June 15 and December 15, with the principal amount maturing on December 15, 2043	**200**	200
Series C senior unsecured debenture bearing interest at 4.937% payable semi-annually on May 16 and November 16, with the principal amount maturing on November 16, 2045	**75**	75
Series D senior unsecured debenture bearing interest at 4.493% payable semi-annually on June 13 and December 13, with the principal amount maturing on December 13, 2046	**75**	75
Series E senior unsecured debenture bearing interest at 4.251% payable semi-annually on June 7 and December 7, with the principal amount maturing on December 7, 2051	**200**	200
Net unamortized transaction costs	**(1)**	(1)
	709	709

Net unamortized transaction costs comprise premiums and transaction issue costs. A voluntary sinking fund (note 3) was established for the purpose of accumulating funds to repay the principal of the University's debentures at maturity. The value of the fund included in investments as at April 30, 2023 amounted to $566 million (2022 - $536 million).

8. Deferred contributions

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balance are as follows:

	(millions of dollars)	
	April 30, 2023	April 30, 2022
Balance, beginning of year	**1,032**	907
Add grants, donations and investment income	**593**	651
Less amount recognized as revenue during the year	**(571)**	(526)
Balance, end of year	**1,054**	1,032

The deferred contributions must be spent for the following purposes:

	(millions of dollars)	
	April 30, 2023	April 30, 2022
Research	**450**	461
Student aid (notes 12 and 13)	**128**	121
Other restricted purposes	**476**	450
	1,054	**1,032**

9. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recognized as revenue in the consolidated statement of operations as government and other grants for restricted purposes.

The changes in the deferred capital contributions balance for the year are as follows:

	(millions of dollars)	
	April 30, 2023	April 30, 2022
Balance, beginning of year	**1,237**	1,269
Less amortization of deferred capital contributions	**(74)**	(77)
Add contributions recognized for capital asset purchases	**54**	45
Balance, end of year	**1,217**	1,237

This balance represents:

	April 30, 2023	April 30, 2022
Amount used to purchase capital assets	**1,118**	1,135
Amount to be spent on capital assets	**99**	102
	1,217	1,237

10. Internally restricted net assets

The change in internally restricted net assets consists of the following:

	(millions of dollars)	
	April 30, 2023	April 30, 2022
Investment in land and other capital assets	**4,338**	4,012
Employee benefits		
Pension	**(129)**	(128)
Other plans	**(668)**	(548)
Pension special payment reserve	**89**	
Capital projects and infrastructure reserves	**1,750**	1,555
Operating contingencies	**331**	284
Research support	**324**	282
Departmental trust funds	**107**	97
Student assistance	**63**	63
Other funds	**45**	33
	6,250	5,650
Adjustment for opening balance for employee benefits (note 2(n))		(84)
Balance, end of year and as restated	**6,250**	5,566

Internally restricted net assets are funds set aside that reflect the application of Governing Council policy.

a. Investment in land and other capital assets

Investment in land and other capital assets represents the amount of net assets that are not available for other purposes because they have been used to fund the purchase of capital assets. It consists of unamortized capital assets purchased with unrestricted resources (net of debt) plus the carrying amount of capital assets purchased with unrestricted resources (net of debt) that will not be amortized.

b. Employee benefits

Internally restricted net assets have been reduced by the portion of employee future benefits obligations to be funded by future operating budgets.

c. Pension special payment reserve

This reserve represents funds that have been set aside as a contingency against future pension special payment risk (note 5).

d. Capital projects and infrastructure reserves

These represent reserves in respect of capital projects at various stages of planning, design and construction, including:

- **Capital Projects in Progress -** $787 million (2022 - $699 million) – unspent funds at the end of the fiscal year, in respect of capital projects and alterations and renovations in progress that are part of the University's major infrastructure building and renewal program less amounts spent without funding on hand;

- **Reserves for future major capital projects -** $757 million (2022 - $666 million) – funds set aside for specific, major capital projects in the project planning stage with an anticipated project cost in excess of $5 million; and

- **Other divisional infrastructure reserves -** $206 million (2022 - $190 million) – funds held by divisions as a general reserve for alterations and renovations, as well as funds earmarked for capital projects in the project planning stage with an anticipated project cost less than $5 million.

e. Operating contingencies

These funds represent departmental operating reserves available for spending by divisions to protect against possible adverse circumstances such as changes in student enrolment due to geopolitical events, investment return fluctuations and salary cost escalations.

f. Research support

These funds represent departmental funds reserved for Canada Research Chairs and related research allowances, start-up research funds and funds provided to faculty and librarians under an expense reimbursement program.

g. Departmental trust funds

These funds represent departmental trust funds available for spending by divisions with no external restrictions.

h. Student assistance

These funds represent departmental operating funds available to provide scholarships, bursaries, and other student assistance.

i. Other funds

These funds are held primarily to support various initiatives to enhance the quality, structure, and organization of programs and activities, as well as the restructuring needed to adapt to the long-range budget plan and to improve the productivity of physical assets.

11. Endowments

Endowments consist of externally restricted donations received by the University and internal resources transferred by Governing Council in the exercise of its discretion. With respect to the latter case, Governing Council may have the right to subsequently decide to remove the designation. The investment income generated from endowments must be used in accordance with the various purposes established by donors or Governing Council. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

University policy has been established with the objective of protecting the real value of the endowments by limiting the amount of income made available for spending and requiring the reinvestment of income not made available for spending. The investment policy has set the real rate of return objective of at least 4% over 10-year periods, net of all investment fees and other expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. The amount made available for spending must normally fall between a range of 3% and 5% of the fair value per unit of the endowment pool. In any particular year, should net investment income be insufficient to fund the amount to be made available for spending or if the investment return is negative, the amount that is made available for spending is funded by the accumulated reinvested income. However, for endowment funds, where the fair value of the endowment is below the donated capital and does not have sufficient accumulated reinvestment income, endowment capital is used in the current year as this is deemed prudent by the University. This amount is expected to be recovered by future net investment income. As at April 30, 2023, there were 256 endowments with the original gift value of $91 million that had a fair value of $89 million and a deficiency of $2 million. As at April 30, 2022, there were 248 endowments with the original gift value of $82 million that had a fair value of $79 million, and a deficiency of $3 million. In fiscal 2023, $9.55 (2022 - $9.36) per unit of LTCAP was made available for spending, representing 4.00% (2022 – 3.94%) of the five-year average fair value per unit of the endowment pool.

The change in net assets restricted for endowments consists of the following:

	(millions of dollars)					
	April 30, 2023			April 30, 2022		
	Externally restricted	**Internally restricted**	**Total**	Externally restricted	Internally restricted	Total
Balance, beginning of year	**2,719**	**448**	**3,167**	2,702	448	3,150
Donations (notes 15 and 16)	**55**		**55**	57		57
Investment income, net of fees and other expenses of $37 (2022 - $38) (note 3)	**121**	**17**	**138**	41	6	47
Investment income made available for spending	**(99)**	**(16)**	**(115)**	(95)	(15)	(110)
Transfer of donations and matching funds from deficit	**10**	**12**	**22**	14	9	23
Balance, end of year	**2,806**	**461**	**3,267**	2,719	448	3,167

12. Ontario Student Opportunity Trust Fund

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund matching program to award student aid as a result of raising an equal amount of endowed donations.

Endowments at book value in this note represent contributions received plus a portion of realized investment income. The expendable funds available for awards are included in deferred contributions (note 8) on the consolidated balance sheet. The endowments and expendable fund balances of the affiliates (Victoria University, The University of Trinity College, University of St. Michael's College and the Toronto School of Theology) are not included in these consolidated financial statements.

Phase 1:

	(thousands of dollars)	
	April 30, 2023	April 30, 2022
Endowments at book value, beginning of year	**395,007**	386,681
Donations	**1**	
Transfer (to) from expendable funds	**(15,778)**	8,326
Endowments at book value, end of year	**379,230**	395,007
Cumulative unrealized gains	**62,225**	42,797
Endowments at fair value, end of year	**441,455**	437,804

	(thousands of dollars)	
	April 30, 2023	April 30, 2022
Expendable funds available for awards, beginning of year	**33,360**	31,350
Realized investment (loss) income	**(338)**	23,780
Transfer from (to) endowment balance	**15,778**	(8,326)
Bursaries awarded	**(14,282)**	(13,444)
Expendable funds available for awards, end of year	**34,518**	33,360
Number of award recipients	**3,027**	2,872

Phase 2:

	(thousands of dollars)			
	April 30, 2023		April 30, 2022	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**51,658**	**5,756**	50,674	5,598
Transfer (to) from expendable funds	**(1,964)**	**27**	984	158
Endowments at book value, end of year	**49,694**	**5,783**	51,658	5,756
Cumulative unrealized gains	**3,025**		705	
Endowments at fair value, end of year	**52,719**		52,363	

	(thousands of dollars)			
	April 30, 2023		April 30, 2022	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Expendable funds available for awards, beginning of year	**3,739**	**832**	3,531	733
Realized investment income (loss)	**(48)**	**431**	2,841	464
Transfer from (to) endowment balance	**1,964**	**(27)**	(984)	(158)
Bursaries awarded	**(1,635)**	**(262)**	(1,649)	(207)
Expendable funds available for awards, end of year	**4,020**	**974**	3,739	832
Number of award recipients	**492**	**125**	509	106

13. Ontario Trust for Student Support

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Trust for Student Support matching program to award student aid as a result of raising an equal amount of endowed donations. The University also matched certain endowed donations.

	(thousands of dollars)			
	March 31, 2023*		March 31, 2022*	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**95,617**	**16,301**	92,115	16,006
Donations received	**157**	**273**	1,372	8
University matching		**1**	11	2
Transfer (to) from expendable funds	**(4,557)**	**82**	2,119	285
Endowments at book value, end of year	**91,217**	**16,657**	95,617	16,301
Cumulative unrealized gains	**9,568**		8,700	
Endowments at fair value, end of year	**100,785**		104,317	

	(thousands of dollars)			
	March 31, 2023*		March 31, 2022*	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Expendable funds available for awards, beginning of year	**5,831**	**2,863**	5,208	2,465
Realized investment (loss) income	**(931)**	**1,115**	5,635	1,352
Donations received			2	
University matching and contribution	**46**		69	
Transfer from (to) endowment balance	**4,557**	**(82)**	(2,119)	(285)
Bursaries awarded	**(3,116)**	**(609)**	(2,964)	(669)
Expendable funds available for awards, end of year	**6,387**	**3,287**	5,831	2,863
Number of award recipients	**952**	**260**	937	270

*As per Ministry of Colleges and Universities guidelines.

Endowments at book value in this note represent contributions received plus a portion of realized investment income. The expendable funds available for awards are included in deferred contributions (note 8) on the consolidated balance sheet. The endowments and expendable fund balances of the affiliates (Victoria University, The University of Trinity College, University of St. Michael's College and the Toronto School of Theology) are not included in these consolidated financial statements.

14. Net change in other non-cash items

The net change in other non-cash items is as follows:

	(millions of dollars)	
	April 30, 2023	April 30, 2022
Accounts receivable	**31**	27
Inventories and prepaid expenses	**2**	3
Accounts payable and accrued liabilities	**(143)**	219
Deferred contributions	**22**	125
	(88)	374

15. Donations

During the year, the University raised pledges, gifts and philanthropic grants of $154 million (2022 - $206 million). In 2023, $137 million was recorded as revenue, of which $103 million was received in the current year and $34 million was received and deferred in prior years, and $51 million was recorded as a direct addition to endowments (note 11) and is not recorded as donations revenue. In 2022, $103 million was recorded as revenue, $57 million was recorded as a direct addition to endowments (note 11) and is not recorded as donations revenue, and $46 million was deferred.

16.Government and other grants for restricted purposes

During the year, the University received $459 million (2022 - $460 million) of government and other grants for research and $49 million (2022 - $45 million) for capital infrastructure and other purposes, of which $468 million (2022 - $458 million) was recorded as revenue, $36 million (2022 - $47 million) was deferred (see notes 8 and 9) and $4 million (2022 - nil) was recorded as a direct addition to endowments (note 11) and is not recorded as donations revenue.

17.Financial risks and risk management

The University is exposed to various financial risks through transactions in financial instruments. The majority of these risks are related to investments in the LTCAP. To manage the investment risk of the LTCAP portfolio, the University has set the benchmark Reference Portfolio with an asset mix that reflects its long-term return objectives and risk appetite. The University monitors and limits the active risk, which is defined as the volatility in the actual portfolio minus the volatility in the Reference Portfolio. The University uses risk systems and data management tools to evaluate risk exposures across multiple asset classes, as well as the total portfolio. If the measured risk of the portfolio exceeds the limit, actions will be taken to reduce the portfolio’s risks.

Foreign currency risk

The University is exposed to foreign currency risk from direct and indirect (e.g., pooled funds) investments that are denominated in currencies other than the Canadian dollar. Fluctuations caused by changes in the currency rates applied to these investments can result in a positive or negative effect on the fair value of the investments and on the cash flows from these investments. To manage foreign currency risk, the University has established a benchmark currency hedging policy for both the LTCAP and EFIP. In 2023, the benchmark policy for the LTCAP is to hedge 50% (2022– 50%) of the currency exposure of all the asset classes of the Reference Portfolio, with the exception of emerging markets which are unhedged. The benchmark policy for EFIP is to hedge 100% (2022 – 100%) of its non-Canadian currency exposure. As at April 30, 2023, the fair value of investments denominated in foreign currencies was $3.0 billion (2022- $2.8 billion), of which $1.9 billion (2022 - $1.8 billion) was hedged.

Credit risk

The University is exposed to credit risk in connection with its fixed income investments and derivative contracts because of the risk of a financial loss caused by a counterparty's potential inability or unwillingness to fulfil its contractual obligations. To manage the credit risk exposed from direct fixed income holdings or from the use of derivatives, limits are established for individual counterparties, and these are monitored regularly. The majority of the University's fixed income investments are in highly rated securities. As at April 30, 2023, 38% (2022 - 38%) of the University's bond exposure from derivative instruments and direct fixed income investments were either unrated or had market appropriate credit equivalent ratings of A or lower.

Interest rate risk

The University is exposed to interest rate risk with respect to its investments in bonds. As at April 30, 2023, the fair value of total investments in bonds was $3.8 billion (2022 - $3.5 billion), composed of $1.5 billion (2022 - $1.3 billion) of bonds indirectly held through pooled funds and $2.3 billion (2022 - $2.2 billion) of notional bond exposure arising from derivative financial instruments. As at April 30, 2023, the University did not hold bonds directly (2022 - $9 million) in its portfolios. The interest rate risk of fixed income exposures is managed based on the interest rate risk of the Reference Portfolio in LTCAP and based on the interest rate risk of the target portfolio in EFIP.

Liquidity risk

The University is exposed to liquidity risk if it does not maintain sufficient liquidity to manage its obligations associated with its derivative financial instruments, the funding of calls from private market funds and the annual LTCAP distribution for spending. The University has developed a system that models the potential liquidity needs of the LTCAP under stressed market conditions. This helps ensure that adequate cash and other sources of liquidity are available to meet all liquidity needs over an stress-test extended period. The same modelling analysis ensures that the University can, if necessary, rebalance LTCAP's asset mix to match the target asset class weights of the Reference Portfolio.

Other price risk

The University is exposed to other price risk through changes in market prices (other than changes arising from interest rates or foreign currencies) with respect to its investments in public equity, private equity, fixed income, real estate, infrastructure and hedge funds. The factors that cause the changes in market prices may affect a specific individual investment, its issuer, or they may affect similar securities traded in the market. This risk is managed by having a benchmark Reference Portfolio, which reflects the University's risk appetite, and by monitoring actual risk against the risk of the Reference Portfolio.

18. Joint ventures

a. Toronto Pan Am Sports Centre Inc.

The Toronto Pan Am Sports Centre Inc. ("TPASC") is a jointly owned and controlled corporation (a joint corporation pursuant to the *Business Corporations Act* (Ontario) and the *City of Toronto Act* (2006)) by the University and the City of Toronto for the purpose of operating the Toronto Pan Am Sports Centre facilities that include a premier aquatics centre as well as a state-of-the-art training and competition venue. This joint venture is accounted for in these consolidated financial statements using the equity method; therefore, the University recognizes 50% of the joint venture's excess (deficiency) of revenues over expenses in its consolidated statement of operations and as an investment on the consolidated balance sheet.

The following financial information for TPASC was prepared in accordance with Canadian Public Sector Accounting Standards and represents the University's 50% share. Any differences in the reporting framework are not material to the University's consolidated financial statements. Separately audited financial statements are prepared for TPASC (as at and year ended December 31, 2022).

	(millions of dollars)	
	December 31, 2022	December 31, 2021
Total financial and non-financial assets	**14**	13
Total financial liabilities	**1**	1
Accumulated surplus	**13**	12
Revenues	**6**	5
Expenses	**7**	6
Operating deficit	**(1)**	(1)
Cash flows used in operating activities	**(1)**	(1)
Cash flows used in investing activities	**(1)**	(1)
Cash flows from financing activities	**2**	2
Net change in cash		

As at December 31, 2022, the University's share of the accumulated surplus of $13 million (2021 - $12 million) represents unspent funds designated in support of major maintenance and capital requirements. No amounts have been recorded in these consolidated financial statements as the University's share of the accumulated surplus is not contemplated to be and is not readily realizable by the University.

During the year, the University paid $2 million (2022 - $2 million) in user fees to TPASC representing its share of the cost for using the facilities. During the year, the City of Toronto and the University each acquired an additional 5,360 (2022 – 5,340) common shares of TPASC in exchange for $2 million (2022 - $2 million) each representing funding from the Legacy Funding agreement dated December 18, 2014, to be contributed to TPASC to fund capital reserves and operating costs. These transactions occurred in the normal course of business and have been recorded at their exchange amounts, which is the amount agreed upon by both parties.

The construction of the Toronto Pan Am Sports Centre was governed by virtue of an agreement prior to the establishment of TPASC. The University has recorded $90 million (2022 - $90 million) in capital assets (note 4), representing the University's 50% share of the construction cost of the facility.

b. TRIUMF

The University is a member, with 13 other universities, of TRIUMF, Canada's national laboratory for particle and nuclear physics located on the University of British Columbia ("UBC") campus. TRIUMF is a joint venture and was an unincorporated registered charity prior to June 1, 2021. On June 1, 2021, TRIUMF transferred all of its assets and liabilities to TRIUMF Inc., a not-for-profit corporation. From that day onward, the University became a member of the corporation with the 20 other universities. Each university has an undivided 1/21 interest in its assets, liabilities and obligations. The land and buildings it occupies are owned by UBC. The facilities and its operations are funded by federal government grants, and the University has made no direct financial contribution to date. TRIUMF's net assets are not contemplated to be and are not readily realizable by the University. The University's interest in the assets, liabilities and results of operations of TRIUMF are not included in these consolidated financial statements (note 21c).

The following financial information for TRIUMF was prepared in accordance with Canadian Public Sector Accounting Standards, including accounting standards that apply to government not-for-profit organizations, except that all capital assets and related provisions for decommissioning costs, if any, are expensed in the year in which the costs are incurred. Any differences in the reporting framework are not material to the University's consolidated financial statements.

	(millions of dollars)	
	March 31, 2023 (unaudited)	March 31, 2022
Total assets	**59**	51
Total liabilities	**17**	10
Total fund balances	**42**	41
Revenues	**100**	99
Expenses	**99**	104
Excess (deficiency) of revenues over expenses	**1**	**(5)**

19. MaRS Phase 2 Investment Trust

During fiscal 2016, the University acquired a 20% interest in MaRS Phase 2 Investment Trust (the "Trust"), a unit trust governed by the laws of the Province of Ontario, established by deed of trust dated July 15, 2011 with MaRS Discovery District, a charitable organization, as settlor for $31 million. The Trust was established to develop and manage a 20-storey state-of-the-art building that is a world-class convergence centre dedicated to improving commercial outcomes from Canada's science, technology, and social innovations. This investment is accounted for using the equity method. The University has assessed the investment value in the Trust upon acquisition and as a result, the University has written down the investment to nil at April 30, 2016. There have been no changes to the investment value as at April 30, 2022 and 2023.

During the year, the University made payments of $13 million (2022 - $12 million) to the Trust for leasing certain premises and its related operating costs.

These transactions occurred in the normal course of business and have been recorded at their exchange amounts, which is the amount agreed upon by both parties.

The future base rent lease payments for space rentals are as follows:

	(millions of dollars)
2024	5
2025	4
2026	4
2027	6
2028	6
Thereafter	76
	101

20. Other commitments

a. The estimated cost to complete construction and renovation projects in progress as at April 30, 2023, which will be funded by operations and donations, is approximately $1.7 billion (2022 - $1.4 billion).

b. The future annual payments under various operating equipment leases are approximately $6 million.

c. The future base rent lease payments for space rentals are as follows:

	(millions of dollars)
2024	18
2025	18
2026	17
2027	18
2028	17
Thereafter	115
	203

21. Contingencies

a. The University has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. As at April 30, 2023, the amount of loans guaranteed was $12 million (2022 - $12 million). The University's estimated exposure under these guarantees is not material.

b. The University issues irrevocable standby letters of credit for its capital construction projects that guarantee payments to the City of Toronto if it fails to perform certain restorative work at the completion of its capital construction projects. As at April 30, 2023, the amount of outstanding letters of credit issued was $25 million (2022 - $19 million).

c. The members of TRIUMF and the Canadian Nuclear Safety Commission ("CNSC") approved a decommissioning plan that requires all members to be severally responsible for their share of the decommissioning costs as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions of decommissioning the facilities, TRIUMF has put in place a plan for funding the cost of decommissioning that does not require any payments from the joint venture partners.

d. The University has identified potential asset retirement obligations related to the existence of asbestos in a number of its facilities. Although not a current health hazard, upon renovation or demolition of these facilities, the University may be required to take appropriate remediation procedures to remove the asbestos. As the University has no legal obligation to remove the asbestos in these facilities as long as the asbestos is contained and does not pose a public health risk, the fair value of the obligation cannot be reasonably estimated due to the indeterminate timing and scope of the removal. The asset retirement obligation for these assets will be recorded in the period in which a legal obligation exists or when there is certainty that the capital project will proceed and there is sufficient information to estimate fair value of the obligation.

e. The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. As at April 30, 2023, the University believes that it has valid defences and appropriate insurance coverage in place on certain claims that are not expected to have a material impact on the University's consolidated financial position. There also exists other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are required.

f. On January 1, 2023, the University entered into a membership with a reciprocal exchange of insurance risks, named the Canadian Universities Reciprocal Insurance Exchange ("CURIE"). This self-insurance reciprocal, in association with 77 other Canadian universities, involves a subscriber agreement to share the insurable property and liability risks of member universities for a term of not less than five years. Plan members are required to pay annual deposit premiums, which are actuarially determined and expensed in the year. Plan members are subject to further assessment in proportion to their participation in the event premiums are insufficient to cover losses and expenses. As at December 31, 2022, the date of the latest financial statements available, CURIE was fully funded with surplus of $106 million.