FOR INFORMATION **PUBLIC** **OPEN SESSION**

TO:	Business Board
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PRESENTER: **CONTACT INFO:**	Trevor Rodgers, Chief Financial Officer 416-978-2065, trevor.rodgers@utoronto.ca
DATE:	January 24, 2024 for Jan 31, 2024
AGENDA ITEM:	5

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2024, prepared as of January 12, 2024.

JURISDICTIONAL INFORMATION:

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

GOVERNANCE PATH:

1. **Business Board (For Information] (January 31, 2024)**

PREVIOUS ACTION TAKEN:

On February 1, 2023 the Business Board was provided the University's financial forecast for the year ended April 30, 2023. On June 20, 2023 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2023 and recommended them to Governing Council for approval. On March 15, 2023, the Business Board concurred with the Academic Board that the Operating Budget Report for 2023-24 be approved.

HIGHLIGHTS:

This forecast projects the revenues, expenses, net income and changes in net assets for the entire University across all four funds – operating, ancillary, capital, and restricted - including accounting estimates for pension and benefits' expense and liability, and for depreciation.

This forecast should be viewed as a reasonable ballpark estimate of the year-end results, given the resources and information available. It contains forward looking information, which is subject to risks and uncertainties that could cause the actual results to differ materially from those contained in this forecast.

At this time, we have good information on some revenues and expenses for 2024 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary significantly from year to year, especially this year due to global conflicts in Ukraine and the Middle East, the recent rise in inflation, rising interest rates, and slowing global growth.
- We have interim information on divisionally controlled revenues and expenses.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2024 using current year-to-date actual figures and estimation based on trend analysis of prior years. The key assumptions are:

- Forecasted investment gain for the long-term capital appreciation pool (LTCAP) of 4.3%.
- Endowment payout of $120 million for 2023-24.
- $200 million drawdown from capital reserves for planned capital expansion and $369 million allocated for approved capital projects.
- $351 million in capital asset additions during 2023-24 of which $70 million is funded from current year revenues with the remainder from reserves.

<u>Sensitivity Analysis:</u>

A sensitivity analysis on page 2 of the report shows the impact of varying investment returns for LTCAP on net income and net assets at -2.0%, 0.0%, 4.3% (forecast), and 6.0% for the year. It also shows forecasted net income under all four scenarios.

<u>Conclusion:</u>

Net income for the year is projected to be $242 million, assuming a 4.3% return on long term investments. Net income is projected to range from $168 million (at -2.0% investment return) to $262 million (at 6.0% investment return). Net assets are projected to be $9.48 billion, at the 4.3% investment return rate. The projected range is from $9.22 billion (at -2.0% investment return) to $9.54 billion (at 6.0% investment return).

The operating fund unrestricted deficit is projected to be ($29 million), as compared to the budgeted cumulative surplus of nil. This change is primarily due to a decrease in budgeted tuition fees partially offset by an increase in EFIP investment income. Lower international undergraduate enrolment and domestic graduate enrolment contributed to the decrease in tuition fees.

FINANCIAL IMPLICATIONS:

Refer to highlights.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

Financial Forecast to April 30, 2024, as at January 12, 2024

Financial Forecast to April 30, 2024

as at January 12, 2024

University of Toronto Financial Services

UNIVERSITY OF TORONTO

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INTRODUCTION

This financial forecast projects the revenues, expenses, net income and net assets for the University of Toronto fiscal year ending April 30, 2024 across all funds – operating, ancillary, capital, and restricted - including accounting estimates for pension and benefits expense and liability, and for depreciation. It should be viewed as a reasonable ballpark estimate of the year-end results, given the resources and information available.

The forecast contains forward-looking information which is subject to risks and uncertainties that could cause the actual results to differ materially from those contained in this forecast. At this time, we have good information on most revenues and expenses for 2024 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary significantly from year to year, especially this year due to global conflicts in Ukraine and the Middle East, the recent rise in inflation, rising interest rates, and slowing global growth.
- The distributed nature of the University's operations allocates responsibility for some revenues and a significant portion of expenses at the division and department level. While units have provided interim information on these items, final year-end results may differ based on actual revenues and expenditures recorded in the final four months of the fiscal year.

This forecast to April 30, 2024 has been produced using a combination of methods based on current year-to-date actual figures and trend analysis of prior years. The key assumptions that underlie the forecast are:

- An annual investment return in the long-term capital appreciation pool (LTCAP) of 4.3% and an annual return in the expendable funds investment pool (EFIP) of 2.6% based on actual results through the end of November;
- Endowment spending allocation of $120 million for 2023-24 (representing 3.9% of the 5-year average market value of the endowment pool), leaving an accumulated reserve of $224 million in the endowment to protect against future market downturns;
- Drawdown of $200 million from capital reserves for capital expansion and an additional $369 million allocated for approved capital projects. These planned allocations are not expensed in the current year and are reflected as savings compared to the cash-based operating budget; and
- Capital asset additions of $351 million during 2023-24, of which $70 million is funded from the current year revenues with the remainder from reserves. These costs are capitalized and not expensed in the current year.

Throughout this report, a sensitivity analysis is provided to show the impact of varying investment returns for LTCAP on the University's forecast of net income and net assets. Scenarios include investment returns at -2.0%, 0.0%, 4.3% (forecast), and 6.0% for the year.

Variability in the investment return for LTCAP has an impact on the value of externally restricted endowments (reported directly on the balance sheet), and on the investment income in internally restricted endowments (reported on the statement of operations), both of which have an impact on the value of the University's net assets. A summary of the forecasted results under these scenarios is provided below.

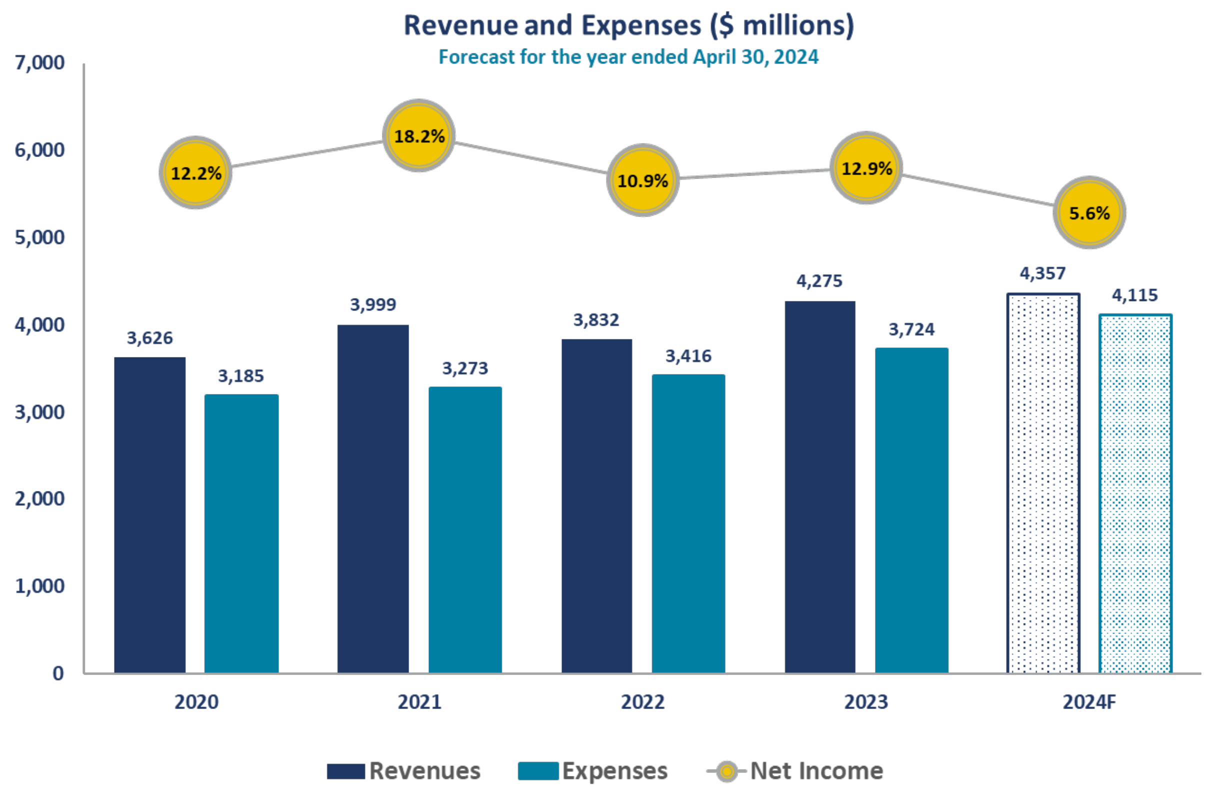
Table 1: University of Toronto Financial Forecast Sensitivity Analysis
For the Year Ended April 30, 2024
($ millions)

	Sensitivity on LTCAP Investment Returns			
Change in Net Assets	**-2.0%**	**0.0%**	**4.3%**	**6.0%**
Revenues	4,283	4,307	4,357	4,377
Expenses	4,115	4,115	4,115	4,115
Net Income	**168**	**192**	**242**	**262**
Preservation (drawdown) of capital for				
externally restricted endowments	(159)	(103)	19	66
Externally endowed contributions	46	46	46	46
Remeasurement of employee future benefits	135	135	135	135
Net assets, beginning of year	9,034	9,034	9,034	9,034
Net assets, end of year	**9,224**	**9,304**	**9,476**	**9,543**
Total Net Assets Comprised of:				
Operating fund deficit	(29)	(29)	(29)	(29)
Ancillary operations deficit	(35)	(35)	(35)	(35)
Capital fund deficit	(469)	(469)	(469)	(469)
Restricted fund deficit	-	-	-	-
Total Unrestricted Deficit	**(532)**	**(532)**	**(532)**	**(532)**
Internally restricted funds	2,043	2,057	2,087	2,099
Investment in land and other capital assets	4,562	4,562	4,562	4,562
Endowments	3,151	3,217	3,359	3,414
Total net assets	**9,224**	**9,304**	**9,476**	**9,543**

PROJECTED NET INCOME

Total revenues are expected to increase by $82 million from 2023. Total expenses are forecasted to increase by $391 million, from $3.7 billion in 2023 to $4.1 billion. Net income is projected to be $242 million (5.6%) for the year ended April 30, 2024. This represents a decrease of $309 million from last year's net income of $551 million and primarily reflects the impact of significant salary increases from recent settlements with the University's largest employee groups, modest revenue growth due to the ongoing Provincial freeze on tuitions, and increased cost due to inflation.

Figure 1: Forecast of Net Income for the Year Ending April 30, 2024



The net income of $242 million is targeted for in-year capital allocations, as well as contributions to reserves for future capital expansion, faculty start-up funding and research infrastructure, and funds to match future donations.

Sensitivity Analysis – Net Income

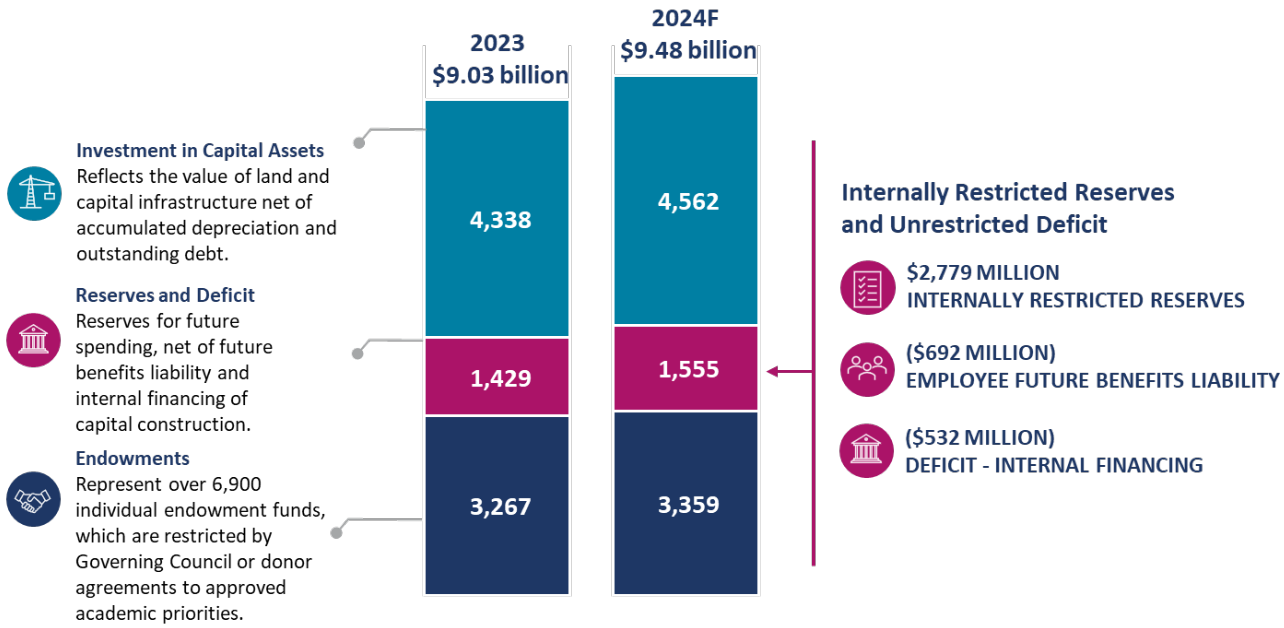
A change in the investment return in LTCAP would impact this result (assuming everything else remains the same) as follows, reflecting the change in investment income on internally restricted endowments:

- At -2.0% return $168 million net income
- At 0.0% return $192 million net income
- At 4.3% return $242 million net income (current forecast)
- At 6.0% return $262 million net income

PROJECTED CHANGES IN NET ASSETS

This forecast projects an increase in net assets from $9.03 billion at April 30, 2023 to $9.48 billion at April 30, 2024. The increase of $442 million results from the projected net income of $242 million, $46 million in projected endowed contributions, $19 million in investment income net of spending from externally restricted endowments, and a direct increase in net assets of $135 million from remeasurement of employee future benefits primarily due to actuarial gains on our post-retirement medical plans. Each of the categories of net assets is described in further detail below.

Figure 2: Forecast of Net Assets at April 30, 2024



Projected Unrestricted Deficit

This forecast projects a cumulative deficit of ($532 million) at April 30, 2024, as compared to last year's cumulative deficit ($483 million). The $532 million deficit is comprised of:

- ($29 million) operating fund unrestricted deficit as compared to the budgeted cumulative surplus of nil. The projected unfavorable variance of $29 million is primarily due to $57 million shortfall in tuition fee revenue from lower international undergraduate enrolment and lower domestic graduate enrollment. Favourable variances of $23 million in EFIP investment income and $5 million in other expenses compared to budget partially offset the unfavourable variance in tuition revenues.
- ($469 million) unrestricted deficit in the capital fund is due primarily to the internal debt component of the University debt program. These internal loans will be paid down over time via blended principal and interest payments.
- ($34 million) unrestricted deficit in ancillary operations primarily due to losses sustained during the COVID-19 pandemic, which will be paid down over the next few years as ancillary operations recover. These operations depend on faculty, staff, students, and visitors attending, working, and visiting all three campuses.

Projected Internally Restricted Net Assets

Internally restricted net assets (reserves) are projected to increase from $1.9 billion to $2.1 billion. Internally restricted net assets reflects the positive reserves of $2.8 billion (assets), offset by the unfunded portion of pension and employee benefits of $692 million (liabilities). The increase in internally restricted net assets is due to a decrease in the unfunded employee future benefit expense obligations as a result of slower growth in plan membership than in past years and additional funds set aside for the University's pension contingency reserve.

Projected Investment in Land and other Capital Assets

The $4.6 billion investment in capital assets represents the value of land and internal monies previously spent by the University on capital projects which will be reduced over time as the depreciable assets are amortized. This amount is projected to increase from $4.3 billion in 2023 to $4.6 billion in 2024 primarily due to $351 million in capital asset additions, partially offset by amortization on internally funded capital assets of $127 million.

Projected Endowments

This forecast projects endowments of $3.36 billion at April 30, 2024, an increase of $92 million from 2023, comprised as follows:

Table 2: Projected Endowment Balance at April 30, 2024
(millions of dollars)

	Forecast Fiscal Year 2024	Actual Fiscal Year 2023
Opening Balance, May 1	3,267	3,167
Investment income	142	138
Less: endowment payout	(120)	(115)
Endowed contributions and transfers	70	77
Balance	**3,359**	**3,267**

Sensitivity Analysis – Endowments and Net Assets

Varying assumptions for the investment return in LTCAP would affect this result (assuming everything else remains the same) as follows, reflecting both changes in the balance sheet value of externally restricted endowments and the investment income for internally restricted endowments:

- At -2.0% return $3.15 billion endowments $9.22 billion net assets
- At 0.0% return $3.21 billion endowments $9.30 billion net assets
- At 4.3% return $3.36 billion endowments $9.48 billion net assets (current forecast)
- At 6.0% return $3.41 billion endowments $9.54 billion net assets

COMPARISON TO OPERATING BUDGET

It is important to compare the forecasted year-end results to the original operating budget to assess how well the budget has estimated the actual outcome. However, there are differences between the operating budget and the financial statements that must be understood to ensure a meaningful comparison:

- The operating budget includes revenues and expenditures for the operating fund only, which includes the core teaching and administrative activities of the University that are supported mainly by government operating grants, student fees, and sales of goods and services. The financial forecast includes all funds – operating, restricted, capital, and ancillary.

- The operating budget includes allocations to internally restricted funds for future spending that are not assumed to be expensed within the fiscal year, such as planned savings for future capital projects, faculty start-up funding and research infrastructure, and funds to match future donations.

- The financial statements are prepared on an accrual basis following Canadian generally accepted accounting principles for not-for-profit organizations in Canada ("GAAP"), while the operating budget is based on a projection of cash receipts and expenditures. As a result, the forecast reflects the amortization of capital assets while the operating budget includes estimated cash outlays for these assets. Similarly, the forecast includes the costs of pensions and other benefits in accordance with GAAP, while the operating budget includes only the projected cash premiums and funding to be paid in the year.

After accounting for transfers to capital and allocations to internally restricted funds, the operating fund for the year ended April 30, 2024 is projected to generate a small surplus of $8 million, as increased investment income has been offset by increases in operating expenses.

Table 3: Operating Budget and Forecast for the Year Ended April 30, 2024

	Budget	Forecast	Variance
Operating Revenue	3,358	3,303	(55)
Operating Expense	(3,358)	(2,997)	361
Annual Surplus	**-**	**306**	**306**
Net Transfers from Operating Fund	-	(450)	(450)
Allocations to Internally Restricted Funds	-	152	152
Net change in deficit	-	8	8
Unrestricted deficit, beginning of year	-	(37)	(37)
Unrestricted deficit, end of year	**-**	**(29)**	**(29)**

Note that varying the rate of return on LTCAP does not impact the operating fund deficit amount, as the investment return variations included in this forecast only impact the endowment and internally restricted net asset balances.

FINANCIAL HEALTH METRICS

Forecasted financial health metrics are provided in the chart below. The Net Income (Loss) Ratio, Operating Ratio, and Primary Operating Reserve Ratio are expected to decline as a result of the forecasted increase in expenses. The Operating Ratio is expected to fall below the 7% threshold that defines low risk on that specific indicator under the MCU Financial Accountability Framework. The remaining metrics are forecasted to remain relatively stable at April 30, 2024, meaning that the overall assessment for the University of Toronto would remain in the 'low-risk' category.

APPENDIX A

Financial Accountability Framework Metric Definitions and Thresholds

Below are the financial metric definitions and corresponding thresholds as outlined in s.3.5 of the University Financial Accountability Framework Technical Manual.

Category	Metric	Metric Definition	Metric Scale From Left To Right	Medium Threshold More ← Favorable	High Threshold Less Favorable →
LIQUIDITY	Primary reserve days	(Expendable net assets / Total expenses) x 365 days	Descending	90 days	30 days
	Working capital ratio	Current assets / Current liabilities	Descending	1.25	1
SUSTAINABILITY	Viability ratio	Expendable net assets / Long-term debt	Descending	60%	30%
	Debt ratio	Total liabilities less deferred capital contribution / Total assets	Ascending	35%	55%
	Debt to revenue ratio	Long-term debt / Total revenue	Ascending	35%	50%
	Interest burden ratio	Interest expense / Total expenses less amortization	Ascending	2.0%	4.0%
PERFORMANCE	Surplus (deficit) ratio	Surplus (deficit) / Total revenue	Descending	1.5%	0%
	Net operating revenues ratio	Cash flow from operations / Total revenues	Descending	7%	2%

Source: University Financial Accountability Framework Technical Manual, September 20