UNIVERSITY OF TORONTO

OFFICE OF THE GOVERNING COUNCIL

FOR INFORMATION	PUBLIC	OPEN SESSION

TO: Business Board

SPONSOR: Trevor Rodgers, Chief Financial Officer
CONTACT INFO: 416-978-2065, trevor.rodgers@utoronto.ca

PRESENTER: Trevor Rodgers, Chief Financial Officer
CONTACT INFO: 416-978-2065, trevor.rodgers@utoronto.ca

DATE: January 22, 2025 for January 29, 2025

AGENDA ITEM: 6

ITEM IDENTIFICATION:

Forecast of University Financial Results at April 30, 2025, prepared as of January 15, 2025.

JURISDICTIONAL INFORMATION:

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

GOVERNANCE PATH:

1. **Business Board [For information] (January 29, 2025)**

PREVIOUS ACTION TAKEN:

On January 31, 2024 the Business Board was provided the University's financial forecast for the year ended April 30, 2024. On June 19, 2024 the Business Board reviewed the University's audited financial statements for the year ended April 30, 2024 and recommended them to Governing Council for approval. On March 13, 2024, the Business Board concurred with the Academic Board that the Operating Budget Report for 2024-25 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 most revenues and expenses for 2024-25 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary significantly from year to year. This year there is uncertainty surrounding the incoming U.S. administration's economic policies, ongoing global conflicts in Ukraine and the Middle East, and sluggish global economic 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, 2025 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 10.0%.
- Endowment payout of $129 million for 2024-25.
- $85 million drawdown from capital reserves for planned capital expansion and $129 million allocated for approved capital projects.
- $414 million in capital asset additions during 2024-25 of which $64 million is funded from current year revenues with the remainder from reserves and internal debt.

Sensitivity Analysis:

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%, 5.0%, 8.0%, and 10.0% (forecast) for the year. It also shows forecasted net income under all four scenarios.

Conclusion:

Net income for the year is projected to be $143 million, assuming a 10.0% return on long term investments. Net income is projected to range from $38 million (at 2.0% investment return) to $143 million (at the forecasted 10.0% investment return). Net assets are projected to be $10.29 billion, at the 10.0% investment return rate. The projected range is from $9.93 billion (at 2.0% investment return) to $10.29 billion (at the forecasted 10.0% investment return).

The forecasted net income for the year of $143 million results in an unfavourable variance of $91 million compared to budget, as strong investment returns have been offset by growth in expenses and a shortfall in tuition fee revenue. Forecasted results reflect the planning environment of lower revenue growth compared to the past decade, at a time of increasing pressures on expenses.

FINANCIAL IMPLICATIONS:

Refer to highlights.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

- Financial Forecast to April 30, 2025, as at January 15, 2025

Financial Forecast to April 30, 2025

as at January 15, 2025

University of Toronto Financial Services

Table of Contents

INTRODUCTION

This financial forecast projects the revenues, expenses, net income and net assets for the University of Toronto fiscal year ending April 30, 2025 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 2024-25 but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary significantly from year to year. This year there is uncertainty surrounding the incoming U.S. administration's economic policies, ongoing global conflicts in Ukraine and the Middle East, and sluggish global economic 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 forecasts of 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, 2025 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 10.0% and an annual return in the expendable funds investment pool (EFIP) of 6.2% based on actual results through the end of November;
- Endowment spending allocation of $129 million for 2024-25 (representing 4.5% of the 10-year average market value of the endowment pool), leaving an accumulated reserve of $718 million in the endowment to protect against future market downturns;
- Drawdown of $85 million from capital reserves for capital expansion and an additional $129 million allocated from operating reserves 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 $371 million during 2024-25, of which $64 million is funded from the current year revenues with the remainder from reserves and internal debt from the University debt program. 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%, 5.0%, 8.0%, and 10.0% (forecast) 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.

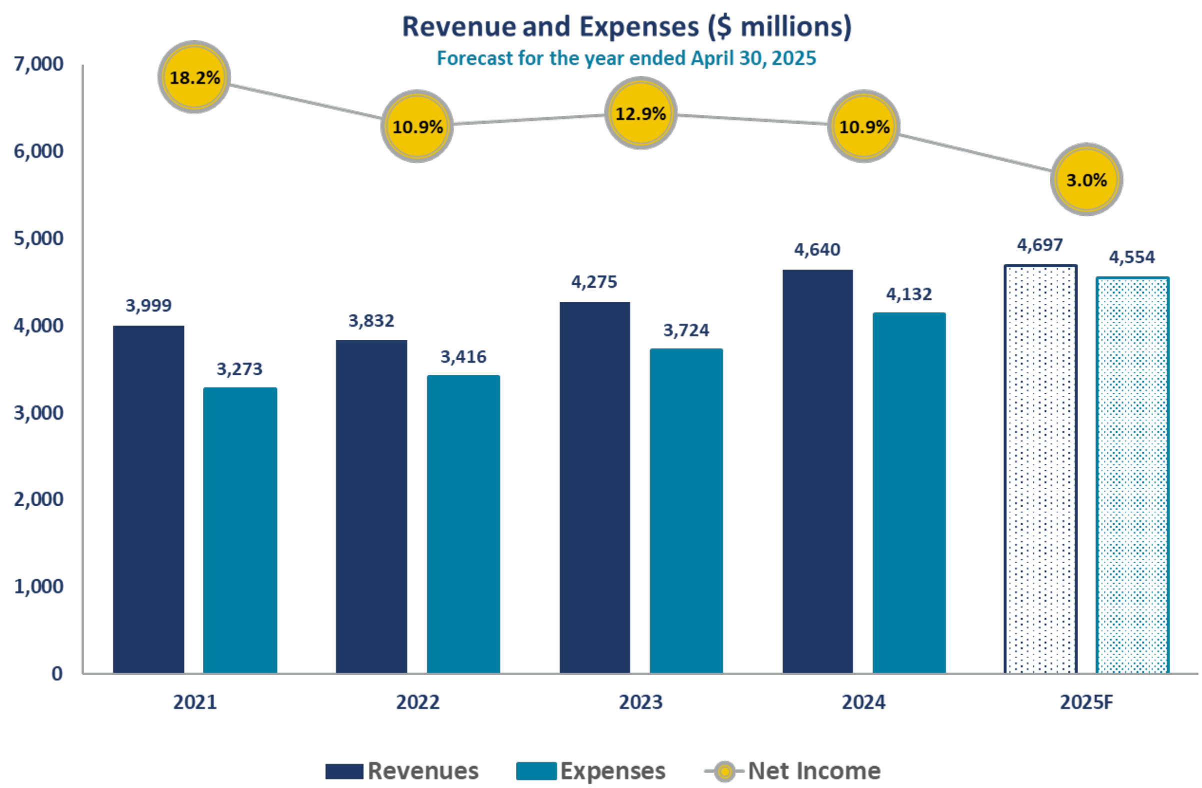
Table 1: University of Toronto Financial Forecast Sensitivity Analysis
For the Year Ended April 30, 2025
($ millions)

	Sensitivity on LTCAP Investment Returns			
Change in Net Assets	**2.0%**	**5.0%**	**8.0%**	**10.0%**
Revenues	4,592	4,631	4,671	4,697
Expenses	4,554	4,554	4,554	4,554
Net Income	**38**	**77**	**117**	**143**
Preservation (drawdown) of capital for				
externally restricted endowments	(48)	46	140	203
Externally endowed contributions	74	74	74	74
Remeasurement of employee future benefits	(88)	(88)	(88)	(88)
Net assets, beginning of year	9,957	9,957	9,957	9,957
Net assets, end of year	**9,933**	**10,066**	**10,199**	**10,289**
Total Net Assets Comprised of:				
Operating fund deficit	(25)	(25)	(25)	(25)
Ancillary operations deficit	(46)	(46)	(46)	(46)
Capital fund deficit	(474)	(474)	(474)	(474)
Restricted fund deficit	-	-	-	-
Total Unrestricted Deficit	**(545)**	**(545)**	**(545)**	**(545)**
Internally restricted funds	1,933	1,956	1,980	1,996
Investment in land and other capital assets	4,879	4,879	4,879	4,879
Endowments	3,666	3,776	3,885	3,959
Total net assets	**9,933**	**10,066**	**10,199**	**10,289**

PROJECTED NET INCOME

Total revenues are expected to increase by $57 million from 2023-24 to 2024-25. However, total expenses are forecasted to increase by $422 million, from $4.1 billion in 2024 to $4.6 billion. Net income is projected to be $143 million (3.0%) for the year ended April 30, 2025. This represents a decrease of $365 million from last year's net income of $508 million and primarily reflects growth in expenses due to inflation, including the impact of significant salary increases from settlements with the University's largest employee groups, and modest revenue growth due to the ongoing Provincial freeze on tuition and federal caps on international enrolment.

Figure 1: Forecast of Net Income for the Year Ending April 30, 2025



The net income of $143 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

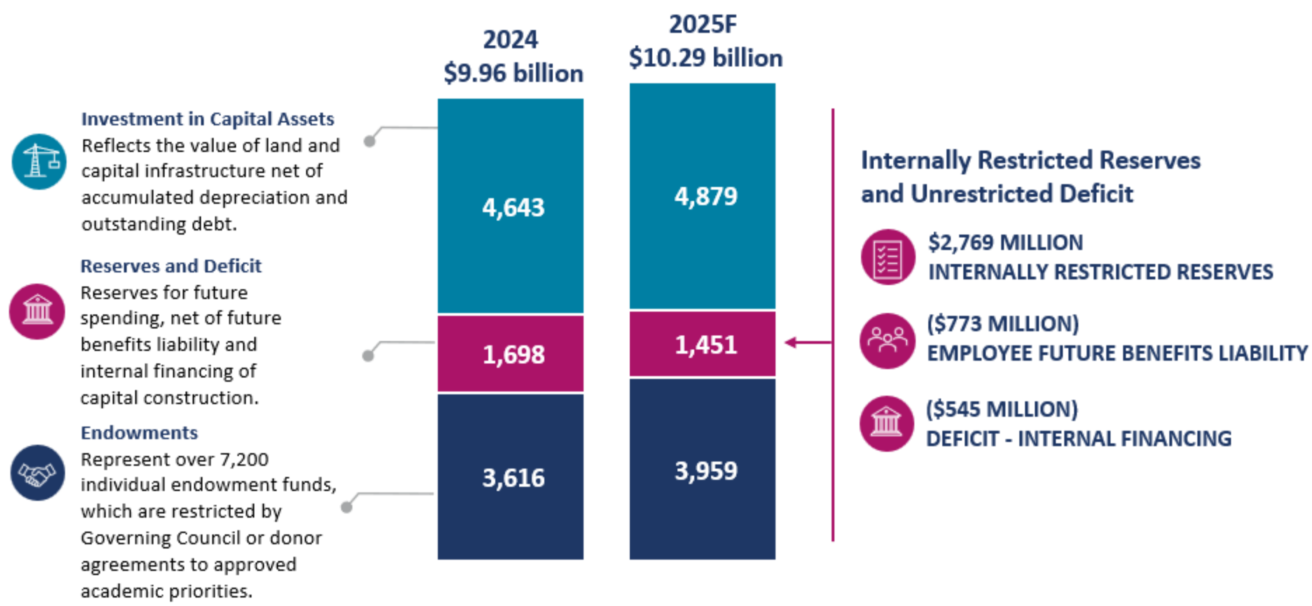
A change in the investment return in LTCAP would impact this result (assuming everything else remains the same) as follows, reflecting only the change in investment income on internally restricted endowments:

- At 2.0% return — $38 million net income
- At 5.0% return — $77 million net income
- At 8.0% return — $117 million net income
- At 10.0% return — $143 million net income (current forecast)

PROJECTED CHANGES IN NET ASSETS

This forecast projects an increase in net assets from $9.96 billion at April 30, 2024 to $10.29 billion at April 30, 2025. The increase of $332 million results from the projected net income of $143 million, $74 million in projected endowed contributions, $203 million in investment income net of spending from externally restricted endowments, and a direct decrease in net assets of $88 million from remeasurement of employee future benefits primarily due to actuarial losses 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, 2025



Projected Unrestricted Deficit

This forecast projects a cumulative deficit of ($545 million) at April 30, 2025, as compared to last year's cumulative deficit ($500 million). The $545 million deficit is comprised of:

- ($25 million) unrestricted deficit in the operating fund as compared to the budgeted cumulative surplus of nil. The projected unfavorable variance of $25 million is primarily due to a $28 million shortfall in tuition fee revenue, largely from weaker than planned international enrolment.
- ($474 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.
- ($46 million) unrestricted deficit in ancillary operations primarily due to the internal debt component of the University debt program used to fund capital asset acquisitions. Ancillary units have mostly recovered from losses sustained during the COVID-19 pandemic, with the exception of some food services and parking operations.

Projected Internally Restricted Net Assets

Internally restricted net assets (reserves) are projected to decrease from $2.2 billion to $2.0 billion. The balance in internally restricted net assets reflects positive reserves of $2.8 billion (assets), offset by the unfunded portion of pension and employee benefits of $773 million (liabilities). The decrease in internally restricted net assets is due to a spending down of operating contingencies and capital project reserves, as well as an increase in unfunded employee future benefit expense obligations. The increase in these obligations is primarily due to the lower discount rate used to value the liability as a result of declining long-bond yields.

Projected Investment in Land and other Capital Assets

The $4.9 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 $4.6 billion in 2024 to $4.9 billion in 2025 primarily due to $414 million in capital asset additions, partially offset by amortization on internally funded capital assets of $157 million.

Projected Endowments

This forecast projects endowments of $3.96 billion at April 30, 2025, an increase of $343 million from 2024, comprised as follows:

Table 2: Projected Endowment Balance at April 30, 2025
(millions of dollars)

	Forecast Fiscal Year 2025	**Actual Fiscal Year 2024**
Opening Balance, May 1	3,616	3,267
Investment income	163	378
Less: endowment payout	(129)	(122)
Endowed contributions and transfers	106	93
Balance	**3,756**	**3,616**

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 $3.67 billion endowments $9.93 billion net assets
- At 5.0% return $3.78 billion endowments $10.07 billion net assets
- At 8.0% return $3.89 billion endowments $10.20 billion net assets
- At 10.0% return $3.96 billion endowments $10.29 billion net assets (current forecast)

COMPARISON TO CONSOLIDATED BUDGET

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

- The operating budget is primarily prepared on a cash basis and includes provisions for purchase of capital assets as well as allocations to reserves for future spending on capital projects, faculty start-up funding, research infrastructure, donation matching, and pension special payments.
- The financial statements are prepared on an accrual basis following Canadian generally accepted accounting principles for not-for-profit organizations in Canada ("GAAP"). Expenditures on capital assets and allocations for future spending are not expensed within the fiscal year. Instead, capital assets are amortized over their useful life. In addition, expenses for pensions and other benefits are based on actuarial valuations.
- As a result, adjustments are made to the operating budget in order to make it comparable to actuals under GAAP. The adjusted operating budget, along with the estimated activities in the ancillary, restricted, and capital funds, make up the consolidated budget.
- The fiscal forecast includes revenues and expenditures for the operating, ancillary, restricted, and capital funds.

Below is the comparison of the consolidated budget to the fiscal forecast for the year ended April 30, 2025. Net income for the year is expected to be approximately $143 million, which is an unfavourable variance of $91 million compared to budget, as strong investment returns have been offset by growth in expenses and a shortfall in tuition fee revenue. Forecasted results reflect the planning environment of lower revenue growth compared to the past decade, at a time of increasing pressures on expenses.

Table 3: Consolidated Budget and Forecast for the Year Ended April 30, 2025

	Operating Budget	Ancillary Operations	Restricted Funds	Capital	GAAP Adjustments	Budgeted Statement of Operations	Forecasted Statement of Operations	Variance
Revenues	**3,521.7**	**304.7**	**687.0**	**96.2**	**(31.2)**	**4,578.4**	4,696.7	118.3
Expenses	**3,275.3**	**278.4**	**671.9**	**203.9**	**(85.2)**	**4,344.3**	4,553.4	209.1
Allocations for Future Major Capital Projects	60.0				(60.0)	-		-
Capital Spending from Current Year Budget	101.0				(101.0)	-		-
Other multi-year allocations to be held in reserve	10.0				(10.0)	-		-
Pension Deficit Risk Contingency	75.4				(75.4)	-		-
	3,521.7	**278.4**	**671.9**	**203.9**	**(331.6)**	**4,344.3**	**4,553.4**	**209.1**
	-	**26.3**	**15.1**	**(107.7)**	**300.4**	**234.1**	**143.3**	**(90.8)**