



# UNIVERSITY OF TORONTO

## FINANCIAL REPORT

**April 30, 2009**



Courtesy of Beth Learn

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# HIGHLIGHTS

Year Ended April 30, 2009

(With comparative figures at April 30, 2008)

(Millions of dollars)

	2009	2008	% Change
<b><u>Income Statement</u></b>			
Revenues	\$ 1,899.5	\$ 1,948.9	-2.5%
Expenses	<u>\$ 2,068.7</u>	<u>\$ 1,898.3</u>	<u>9.0%</u>
Net Income (Loss)	<u>\$ (169.2)</u>	<u>\$ 50.6</u>	<u>-434.4%</u>
<b><u>Balance Sheet</u></b>			
Assets	\$ 3,909.0	\$ 4,305.3	-9.2%
Liabilities	<u>\$ 2,291.9</u>	<u>\$ 2,131.0</u>	<u>7.6%</u>
Net Assets	<u>\$ 1,617.1</u>	<u>\$ 2,174.3</u>	<u>-25.6%</u>
<b><u>Net Assets Composed of:</u></b>			
Endowments	\$ 1,286.3	\$ 1,754.8	-26.7%
Internally Restricted Net Assets	\$ 562.8	\$ 651.4	-13.6%
Unrestricted Deficit	<u>\$ (232.0)</u>	<u>\$ (231.9)</u>	0.0%
	<u>\$ 1,617.1</u>	<u>\$ 2,174.3</u>	
<hr/>			
Long-term Debt	\$ 554.0	\$ 556.3	-0.4%
Long-term Debt as % of Net Assets	34.3%	25.6%	
<hr/>			
Student FTEs (November 1)	62,934	62,301	1.0%
Total Number of Students (November 1)	73,685	73,016	0.9%

## HIGHLIGHTS

The University of Toronto (the “University”) was established in 1827 and is Canada’s largest and most comprehensive university.

Enrolment at the University is more than 73,500 full-time and part-time students (62,934 full-time equivalents), making the University of Toronto one of the largest universities in North America in terms of enrolment.

The University’s size and academic resources provide its students with a wide range of academic programmes and courses, while its unique college system offers students learning experiences enriched by individual cultures in a smaller community. The University is located on three campuses: St. George (downtown Toronto), Scarborough and Mississauga.

Key drivers of financial performance are:

- 1) **Growth in student enrolment** has generated both additional revenues and additional expenses and has fuelled the need for additional space for teaching, for office space, for student activity, and for residence accommodations.
- 2) **Growth in research activity** has generated additional direct expenses which are offset by additional revenues. Growth in research results in the need for additional space and renovated space for conducting research as well as an increase in indirect costs which are not fully recovered by the University.
- 3) **Growth in salaries and benefits** has increased both expenses and liabilities due to growth in staffing and the cost of providing pensions and other employee future benefits.
- 4) **Growth in space** has required long-term borrowing to augment capital grants and donations, which increases liabilities and interest expense. Capital grants received increase liabilities (deferred capital contributions) which are recorded as revenue over time to match the amortization expense.
- 5) **Donations:** Expendable donations provide additional revenue in support of designated activities. Endowed donations are added directly to the endowment.
- 6) **Growth in endowments** over time provides additional investment income in support of designated activities, mostly endowed chairs and student aid, and enhances the balance sheet by increasing the University’s net assets. During 2008-09, financial market losses have resulted in disappointing investment results affecting both endowment values and investment earnings.
- 7) **Investment earnings** are variable, even with investment policies with modest risk profiles. Investment returns in any given year may dictate whether the University experiences net income or a net loss for the year.

The University, like other organizations, has not been immune to the shockwaves of the current economic crisis and the ongoing turbulence in the world’s financial markets.

### The Income Statement

The following are the key drivers of financial performance of the income statement:

- Growth in student enrolment increases student fee revenues, government grants for general purposes, sales, services and sundry income (which include residence fees), salaries and benefits expense and materials and supplies expense.
- Growth in research activity affects research revenues, salaries and benefits expense and materials and supplies expense.
- Growth in space affects building construction and renovations, operating, interest and amortization expense.
- Receipt of donations.

- Investment performance.

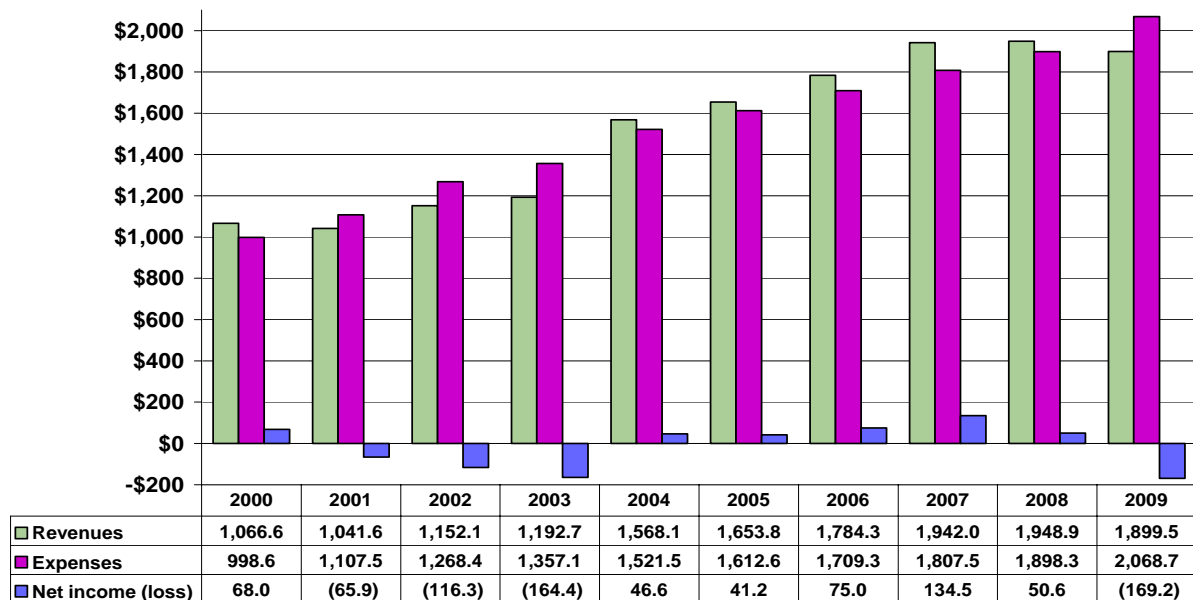
Revenues for the year ended April 30, 2009 were \$1.90 billion, expenses were \$2.07 billion and the net loss was \$169.2 million. This loss was primarily due to investment losses of \$146.7 million which flowed through the statement of operations. The \$146.7 million investment loss reported in the statement of operations was made up of the following: \$83.3 million on internally restricted endowments and \$63.4 million on other investments in the long-term capital appreciation pool.

Total investment losses for the year amounted to \$608.4 million. The remaining \$461.7 million (\$608.4M-\$146.7M), which was incurred with respect to externally restricted endowments, was reported directly on the balance sheet as a reduction to endowments, as required by generally accepted accounting rules (see the “Balance Sheet” section of this document for further details).

These financial results demonstrate that the University essentially operated on budget and in a break-even mode in 2008-09, with the exception of these one year investment losses resulting from the severe disruptions in financial markets.

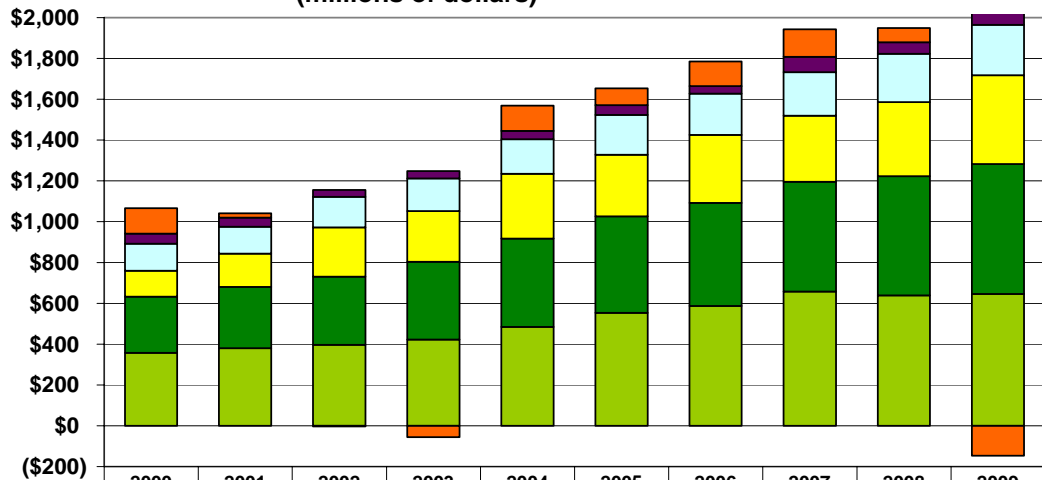
In response to these investment losses, the University has suspended its 2009 allocation for spending from the endowments in order to preserve their underlying value (see the “Endowments” section of this document for further details). Faculties and divisions have reached into other reserves to meet critical commitments, such as endowed professorships, chairs and needs-based student aid that would normally have been met from endowment distributions. In addition, the University’s 2009-10 operating budget has been structured to enable individual faculties and divisions to run deficits, where necessary, that are to be repaid over the next five years, to ensure that those commitments are met. All decisions are being made in light of preserving our core academic mission, providing good donor stewardship and to ensure that the University meets its obligations.

**Revenues and Expenses  
for the year ended April 30  
(millions of dollars)**



In 2009, \$1.28 billion or 67.5% of revenues were from student fees and government grants provided in support of student enrolments. An additional \$434.5 million represented government and other grants and contracts for restricted purposes. Together these three sources accounted for 90.4% of revenues for the year.

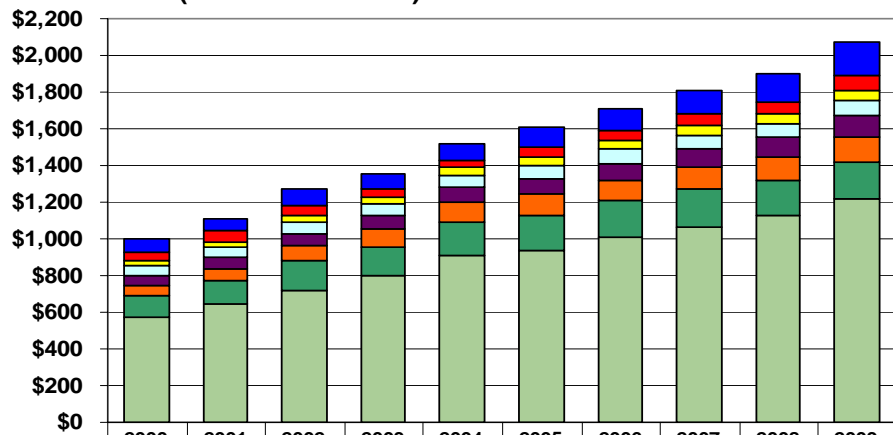
**Revenues by Category  
for the year ended April 30  
(millions of dollars)**



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Total revenues</b>	1,066.6	1,041.6	1,152.1	1,192.7	1,568.1	1,653.8	1,784.3	1,942.0	1,948.9	1,899.5
Investment income (losses)	125.1	22.1	(3.4)	(55.6)	123.9	82.8	120.0	134.4	69.9	(146.7)
Expendable donations	49.6	44.3	34.3	36.6	39.4	48.0	37.0	74.8	56.2	82.1
Other sales and services	131.6	132.2	149.6	159.4	170.2	194.8	202.2	212.9	237.4	247.2
Restricted grants and contracts	127.5	162.5	241.7	248.7	317.2	302.4	332.2	323.9	362.8	434.5
Student fees	275.1	299.8	333.7	380.9	433.1	472.3	505.7	538.9	583.6	636.4
Government grants	357.7	380.7	396.2	422.7	484.3	553.5	587.2	657.1	639.0	646.0

In 2009, expenses for the year amounted to \$2.07 billion, of which \$1.2 billion, or 58.9%, was for salaries and benefits.

**Expenses by Category  
for the year ended April 30  
(millions of dollars)**



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Total expenses</b>	998.6	1,107.5	1,268.4	1,357.1	1,521.5	1,612.6	1,709.3	1,807.5	1,898.3	2,068.7
Other	71.9	63.0	84.1	87.7	96.7	116.3	114.7	127.3	153.4	178.8
Repairs and maintenance	44.0	59.3	57.3	38.8	38.3	48.8	54.2	61.4	65.2	82.5
Utilities	27.0	32.3	35.1	39.1	38.2	44.5	51.1	52.5	53.0	51.0
Cost of sales and services	54.9	55.8	63.0	67.4	70.7	77.6	79.1	77.7	76.5	80.5
Amortization of capital assets	57.9	60.2	61.4	71.1	76.8	83.5	91.4	99.1	104.1	117.2
Scholarships, fellowships, bursaries	55.9	68.6	86.7	98.8	108.8	110.9	106.5	115.9	125.0	144.6
Materials and supplies	109.9	125.9	166.1	153.4	184.2	194.7	200.0	211.7	193.7	195.8
Salaries and benefits	577.1	642.4	714.7	800.8	907.8	936.3	1,012.3	1,061.9	1,127.4	1,218.3

It is important to note that 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). Additional details are provided in the Salaries and Benefits section of this Financial Report. Materials and supplies amounted to \$195.8 million, or 9.5% of total expenses. Scholarships, fellowships and bursaries were \$144.6 million, or 7.0%. Utilities expense amounted to \$51.0 million, or 2.5%. Repairs and maintenance amounted to \$82.5 million or 4.0%. Most renovations to buildings are not expensed but are capitalized during the year as capital assets in accordance with the University's accounting policies.

## **The Balance Sheet**

The following are the key factors affecting the balance sheet:

- Growth in pension and benefit costs affects liabilities and, where such liabilities are unfunded, reduces internally restricted net assets.
- Growth in space to support enrolment and research growth affects capital assets and long-term debt. Capital assets are accounted for in the financial statements at cost and not at fair value.
- Growth in endowments is derived from endowed donations and grants, and investment returns (losses) which are added to (deducted from) endowments for capital preservation.

At April 30, 2009, assets were \$3.91 billion, liabilities were \$2.29 billion and net assets were \$1.62 billion. Assets and liabilities have grown since 2000 due to the construction of additional space to accommodate the increased number of students and increased research activities and due to growth in endowments. The University has obligations not recorded in the financial statements of \$540.1 million related to employee future benefits that will be recorded in the financial statements in accordance with generally accepted accounting principles.

Net assets reflect the University's net worth. Net assets change over time only through:

- the net income or net loss for the year,
- the change in endowments derived from 1) endowed donations and grants, and 2) from investment income (loss) on externally restricted endowments (which is not made available for spending) which do not flow through the income statement but rather are added (deducted) directly to the endowment balance in accordance with GAAP, and
- the change in the fair value of interest rate swap contracts in accordance with GAAP.

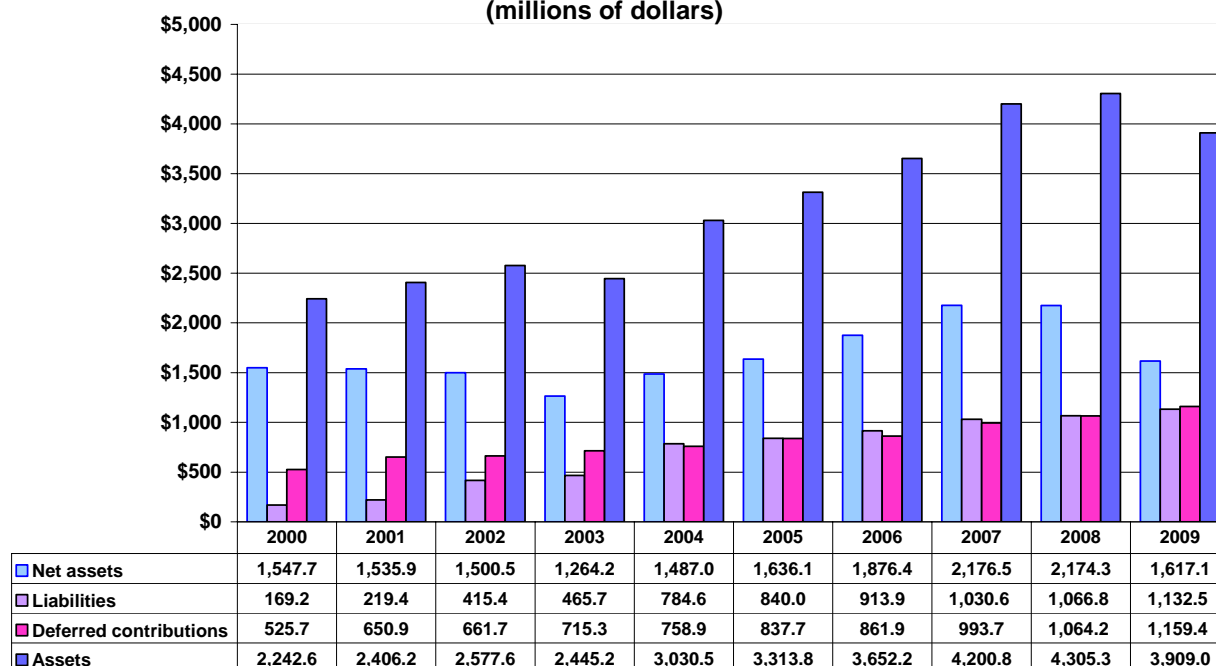
Net assets decreased from \$2.17 billion in 2008 to \$1.62 billion in 2009 mainly as a result of a net loss of \$169.2 million and a \$461.7 million loss on externally restricted endowments, offset by endowed donations and grants of \$76.4 million.

Net assets consisted of the following:

- \$1,286.3 million of endowments, representing 79.5% of net assets.
- \$562.8 million of internally restricted net assets of which \$383.8 million represents investment in capital assets
- (\$232.0) million of unrestricted deficit.

The \$232.0 million unrestricted deficit is largely due to the internal financing of capital construction in accordance with the University's debt strategy (see "Space" section of this document).

**Assets, Liabilities and Net Assets  
at April 30  
(millions of dollars)**



The \$562.8 million in internally restricted net assets mainly reflects \$383.8 million of investment in capital assets representing internal monies previously spent by the University for capital projects which will be reduced over time as the assets are amortized. Internally restricted net assets also includes \$179.0 million of reserves set aside which include funds for the University's supplemental retirement and pension arrangements of \$131.0 million, divisional reserves of \$241.3 million, alterations and renovations funds of \$62.9 million, departmental trust funds of \$67.7 million and other reserves of \$26.3 million, partially offset by the unfunded liability associated with employee future benefits of \$350.2 million.

The \$1.29 billion in endowments represent over 4,950 individual endowment funds, which are restricted in nature, and for which the principal may not be spent, based on the direction of donors or Governing Council.

### **The Role of the Government of Ontario**

In fiscal 2009, \$1.28 billion or 67.5% of revenues comprised student fees and government operating grants provided in support of student enrolments. The provincial government provides operating grants and regulates tuition fees for domestic students in publicly-funded programmes.

The Ontario Budget of May 11, 2005 announced a major funding allocation of \$6.2 billion for universities and colleges over the period from 2004 to 2010, including funding for graduate expansion, for additional undergraduate medical students, for tuition freeze compensation and for additional quality enhancement funds. This announcement included a targeted increase in graduate enrolment of 14,000 students by 2009 for the Ontario system. In 2005, the University made a submission for 4,470 additional graduate students over 2004-05 levels (2,330 in phase one by 2007-08 and 2,140 in phase two) and submitted a plan for this expansion, which was approved by Governing Council. The necessary operating funding is assured by the Province for the first phase combined with the related capital funding, which will be provided in the form of a stream of payments over 20 years. In February 2009, the Province announced Phase 2 allocations for graduate expansion across Ontario, bringing the total increase to 15,000. The University of Toronto has been allocated an additional 588 spaces bringing the total expansion target for eligible graduate students to 2,722 relative to 2004-05 levels. Universities will be able to convert up to 5% of graduate spaces between PhD and Master's as they work toward end state



targets; however they are expected to reach the end state targets by 2013-14, which is two years after the full implementation of the Reaching Higher graduate funding. Funding will flow over three years, starting in 2009-10. The University of Toronto is modifying divisional plans to ensure graduate expansion targets are achieved.

On March 8, 2006, the Government of Ontario announced a new tuition framework for the Province. Universities may increase tuition fees by up to 4.5% for domestic students entering most programmes and by no more than 4% for in-programme students. Tuition may increase by a maximum of 8% in professional programs such as Law, Medicine and Engineering and in graduate programs, provided that the average increase across the University does not exceed 5%. The tuition schedule adopted by the University reflected this new framework. At the same time, the government also introduced a student access guarantee to ensure that no student is denied access to higher education for financial reasons, which is in line with the long-established policy of the University. This guarantee has also been incorporated in the University's multi-year agreement with the Province for 2006-07 to 2008-09. The University remains committed to the goal of accessibility and to working with the provincial and federal governments to achieve this goal. During 2009, the University spent \$144.6 million on student aid, a significant increase from \$55.9 million in 2000.

On March 25, 2008, the Government of Ontario released its 2008-09 budget that pledged a range of investments for post-secondary education and research. The Ontario Budget included an investment of an additional \$200 million under the University Campus Renewal funding program for the maintenance and renewal of university facilities. In 2008-09, the University received \$37.7 million as its share of funding under this program. The funds will be used to improve energy efficiency, for campus safety and security, and to renew aging infrastructure. In 2008-09, the University received another \$25.0 million in capital funding to lever other funds for the new School of Global Affairs to build on its existing strengths to educate Ontarians at a graduate level in the various disciplines required for effective globalization. The Ontario Budget also included a commitment to invest \$250 million over the next five years in the Ontario Research Fund for research infrastructure, providing matching funds for awards from the Canada Foundation for Innovation to help recruit top researchers from around the world and retain them in light of growing competition from universities in other jurisdictions.

On March 26, 2009, the Government of Ontario released its 2009-10 budget centred on helping the Province weather the current economic downturn and preparing for its recovery by moving to a more innovative, high-value, and green economy. To that end, the Ontario Budget is making a large-scale capital investment in Ontario's colleges and universities by earmarking the following funding related to post-secondary education:

- \$780 million in funding for universities and colleges over two years, to be matched with Federal funding through its Knowledge Infrastructure Program in support of campus renewal and new infrastructure.
- \$150 million in one-time-only operating relief for colleges and universities in support of enrolment growth and fiscal pressures, of which the University received \$16.0 million.
- \$10 million to expand graduate fellowship endowments, of which the University received \$2.4 million.
- \$715 million aimed at supporting innovation in Ontario including \$300 million over six years for research infrastructure funding through the Ontario Research Fund to be used to match \$300 million in Canada Foundation for Innovation funds; \$100 million over four years for additional operating funds for biomedical research and \$250 million over five years for a new Emerging Technologies Fund.

## **Financial Planning**

Revenues are expected to continue to increase over the next several years as a result of continuing growth and the government announcements outlined above, however the increase in operating funds provided by the Province will grow at a slower rate since there is no planned increase in per-student funding. On the

other hand, expenses are expected to increase at a faster rate as a result of cost of living increases and other necessary expenses. This will require ongoing expense containment measures including productivity improvements.

The 2009-10 operating budget has been structured to enable individual faculties and divisions to run deficits, where necessary, the aggregate sum of which will not exceed \$45 million to ensure that their commitments are met. These divisional deficits are to be repaid over the next five years. The long-range academic and budget plan for 2009-10 to 2013-2014 reflects the tuition framework, the undergraduate medical student expansion plans, graduate expansion plans and quality enhancement funding assumptions, as well as other updated assumptions.

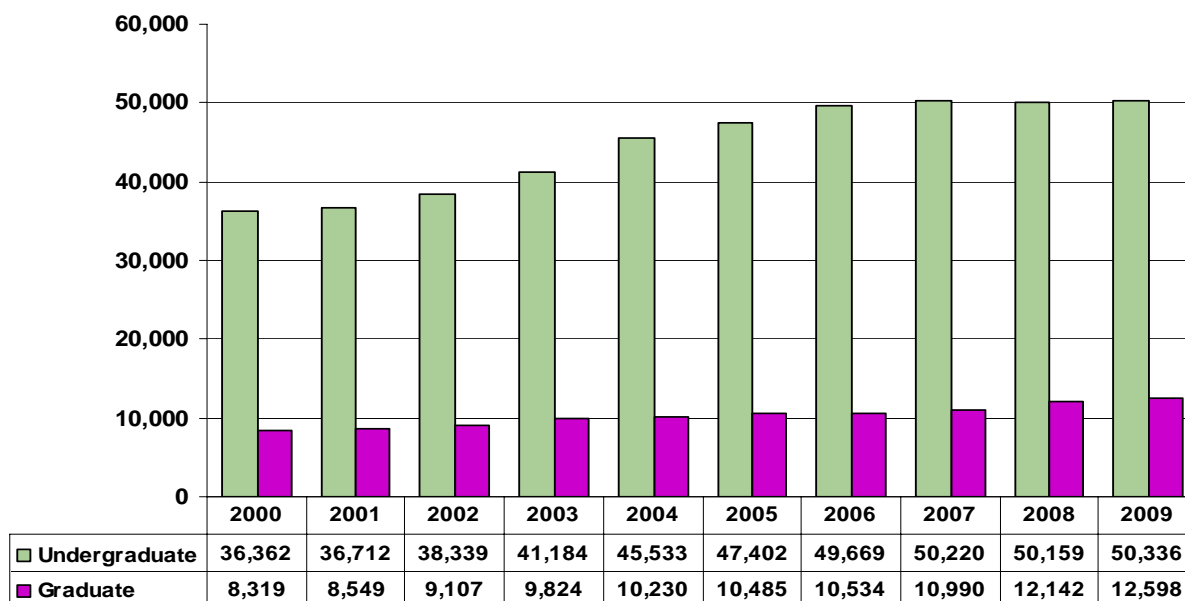
### Student Enrolment

The demand for student spaces has increased significantly as a result of increased population growth and participation rates since 2000 combined with the effect of the elimination of grade 13 in Ontario, which impacted the entering classes of 2002, 2003, and 2004. More than 72% of the direct entry undergraduate student body is drawn from the greater Toronto area.

The University has increased enrolment to accommodate this additional student demand and student full-time equivalent enrolment increased from 44,681 in 2000 to 62,934 in 2009, an increase of 40.9%.

The provincial government provides full average funding for each additional student beyond the numbers enrolled in 2000-01. Government grants for general operations increased to \$646.0 million for 2009 from \$639.0 million for 2008, an increase of 1.1% due primarily to an increase in sustainability, undergraduate and graduate expansion funding partially offset by a decrease in quality funding.

**Number of Undergraduate and Graduate Student FTEs  
as at November 1**



Tuition fees for domestic students increased in accordance with the tuition framework set by the provincial government. Student fees revenue increased to \$636.4 million for 2009 from \$583.6 million for 2008 as a result of student fee increases and enrolment growth.

Although the University has received nearly full average funding for additional students, neither on-going government grants nor regulated tuition fees have dealt adequately with the issue of inflation, which has

resulted in the need for continuing cost containment through productivity improvements to maintain financial health.

Since 2000, student aid (scholarships, fellowships and bursaries) increased by 158.7% to \$144.6 million in 2009 while over the same period, student fees revenue increased by 131.3%. This amount excluded student aid provided by the federated universities since 2000. This growth illustrates the strong commitment the University of Toronto has made under our policy on student financial aid, which guarantees that no qualified student will be prevented from beginning or completing his or her education due to financial need.

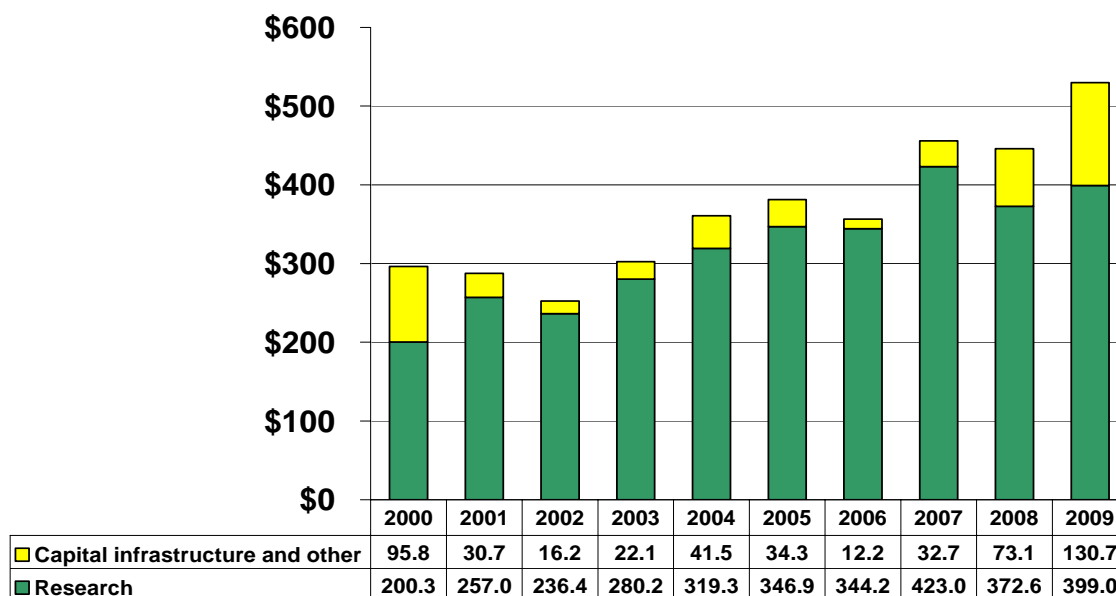
### Research and Capital Infrastructure

Enabling research is a strategic objective of the University. Research, scholarship, and research training constitute integral elements of the academic programme. The University’s long-standing strategic approach to research planning has been to highlight research strengths in six broad academic areas:

- the Humanities;
- the Social Sciences;
- Advanced Science and Technologies;
- Biomedical, Health and Life Sciences;
- Physical, Environmental, Earth and Space Science Related Studies; and
- Mathematical and Computational Science Related Studies.

The focus on research strength and excellence across the spectrum of academic disciplines has positioned the University well to mobilize research clusters and respond to the research funding opportunities and university-government-private sector partnership opportunities arising out of the Federal government’s Science and Technology Strategy priorities and the research and innovation priorities set out in the provincial government’s Ontario Innovation Agenda.

**Government and Other Grants and Contracts  
Received for Restricted Purposes  
for the year ended April 30  
(millions of dollars)**



From digital media and regenerative medicine to alternative energy technologies and clean technologies, the University is working with and facilitating collaborative work in its research community to take best advantage of research and related industry partnership and commercialization funding opportunities resulting from these new government strategies. The University is allocating resources as necessary to avail of funding related to the federal and provincial priority sectors and also to seek to advance research in these areas, joining with other universities, and drawing on the support of government programmes and private sector partners in Canada and around the world.

In recent years, both the federal and provincial governments have invested heavily in research infrastructure as well as in their more traditional area of direct support for research. The University has been successful in a number of competitions for research funding and research infrastructure (see the “Space” section of this document for further details).

Funding received for research is accounted for as follows:

- Research grants and contracts are recorded as revenue when spent.
- Unspent research grants and contracts are recorded as deferred contributions.

Government and other grants and contracts received in 2009 for restricted purposes, which are mostly research grants, totaled \$529.7 million, and were reported as follows: \$408.7 million as revenue from grants for restricted purposes, \$25.8 million as contract research revenue and \$95.2 million as deferred contributions and deferred capital contributions. The \$529.7 million comprised \$399.0 million for research and \$130.7 million mostly for capital infrastructure.

Research grant funding has increased by 99.2% since 2000. The increase in research funding is mainly due to increased funding made available from the federal and provincial governments and to the success of University of Toronto researchers in attracting research awards.

It is important to note that research revenues can only be spent on research activities, but the amounts received do not adequately cover the full direct and indirect costs of research activities.

Capital infrastructure funding increased from \$73.1 million in 2008 to \$130.7 million in 2009 mainly as a result of receiving an additional \$12.1 million for capital renewal, receiving \$27.8 million in infrastructure support for the Martin Prosperity Institute and \$25.0 million for the new School of Global Affairs offset by \$15.1 million received in 2008 for the Robarts library.

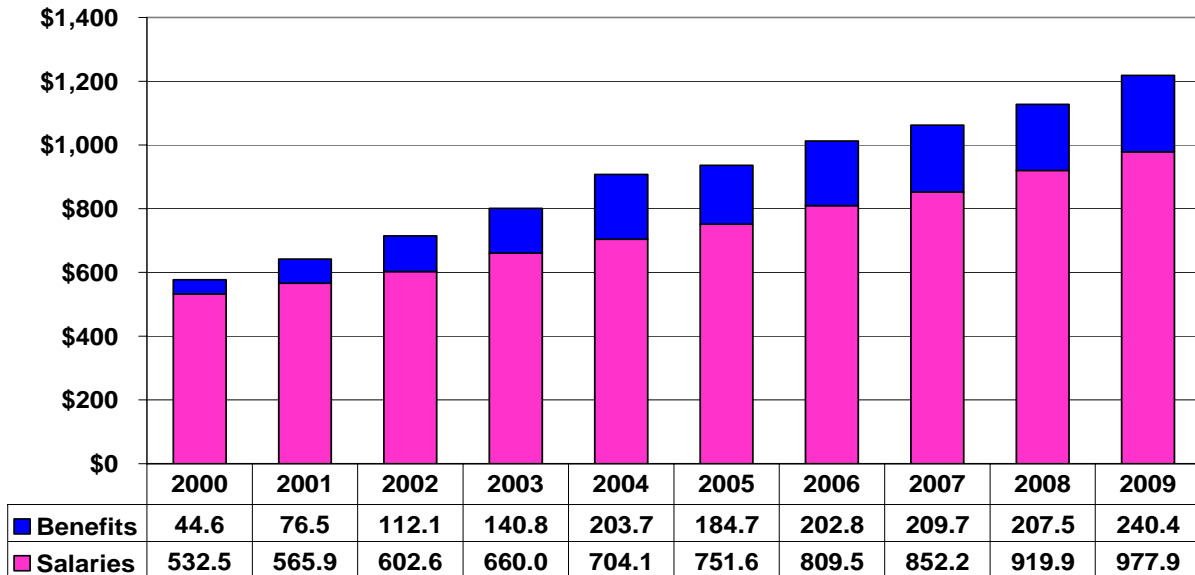
### **Salaries and Benefits**

Salaries and benefits expense increased to \$1.22 billion in 2009 due to negotiated salary increases for employee groups and due to the additional number of faculty and staff required to deal with the growth in students and research activity.

The University has entered into the following settlements, which together cover over 80% of employees:

- Two year mediated settlement for faculty and librarians with across the board increases of 3.0% on July 1 and 0.5% on January 1 each year for 2007-08 and 2008-09.
- Three year agreement with administrative staff represented by the United Steelworkers for salary increases of effectively 3% per year starting July 1, 2008 to July 1, 2010 and 0.5% effective January 1, 2009.
- Three year agreement with sessional lecturers and instructional assistants (non-student) and writing instructors starting September 1, 2006.
- Three year agreement with teaching assistants starting May 1, 2008 for salary increases of effectively 3% per year starting September 1, 2008 to September 1, 2010 and 0.5% effective January 1, 2009.

**Salaries and Benefits  
for the year ended April 30  
(millions of dollars)**



The University provides its employees with defined pension benefits, life insurance, survivor income benefits, long-term disability insurance, medical benefits, vision benefits, memberships in University facilities, vacation, educational support, and several types of leave. Benefits expense for the year was \$240.4 million comprised of employee future benefits expense of \$143.9 million and other benefits expense of \$96.5 million. The increase in benefits from last fiscal year is mainly due to a \$26.5 million increase in pension expense. It should be noted that salaries and benefits represent 71.7% of operating fund expenses.

Employee future benefits represent benefits 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 benefits are accounted for on an 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. Since 2000, the cost of providing these benefits has increased by \$195.8 million, mainly as a result of an increasing number of staff, as well as improved retiree pension benefits, and due to changes in accounting rules which are explained further below.

Pension benefits, which are based on salaries capped at \$150,000, are provided through a combination of registered pension plans to the Income Tax Act maximum of approximately \$127,892 and a non-registered supplemental retirement arrangement (SRA) between \$127,892 (increasing to about \$133,000 in 2009 and 3.5% thereafter) and the maximum of \$150,000. The University set aside \$131.0 million as internally restricted net assets at April 30, 2009 related to its pension and supplemental retirement arrangement obligations.

Beginning in 2001, accounting rules required that expenses and liabilities for employee future benefits be reported on an accrual basis instead of on a pay as you go (funding) basis. Liabilities were also required by GAAP to be valued using current long-term bond rates instead of using long-term asset return assumptions for funding purposes. This requirement gave rise to both current and past service liabilities which are being added to the liabilities recorded on the financial statements over 14 years. The addition over time of unfunded employee future benefits liabilities is increasing the liabilities section of the balance sheet without a corresponding increase in assets. It is therefore also reducing the net assets section of the balance sheet and constraining our ability to grow and our capacity to borrow.

The main reason for the decrease in the obligations from 2008 is an increase in the rate used to discount the obligations as prescribed by generally accepted accounting rules. The main reason for the decrease in the fair value of the pension plan assets is a result of poor investment markets.

<u>April 30, 2009</u>	<u>Pension plans</u>	<u>Other benefit plans</u>
<b>Plan status:</b>		
Assets	<b>\$1.98 billion</b>	<b>\$40.6 million</b>
Obligations	<b>\$2.76 billion</b>	<b>\$318.5 million</b>
Deficit	<b>\$784.0 million</b>	<b>\$277.9 million</b>
<b>Recorded in financial statements:</b>		
Liability	<b>\$90.7 million</b>	<b>\$300.1 million</b>
Expense	<b>\$94.2 million</b>	<b>\$49.7 million</b>

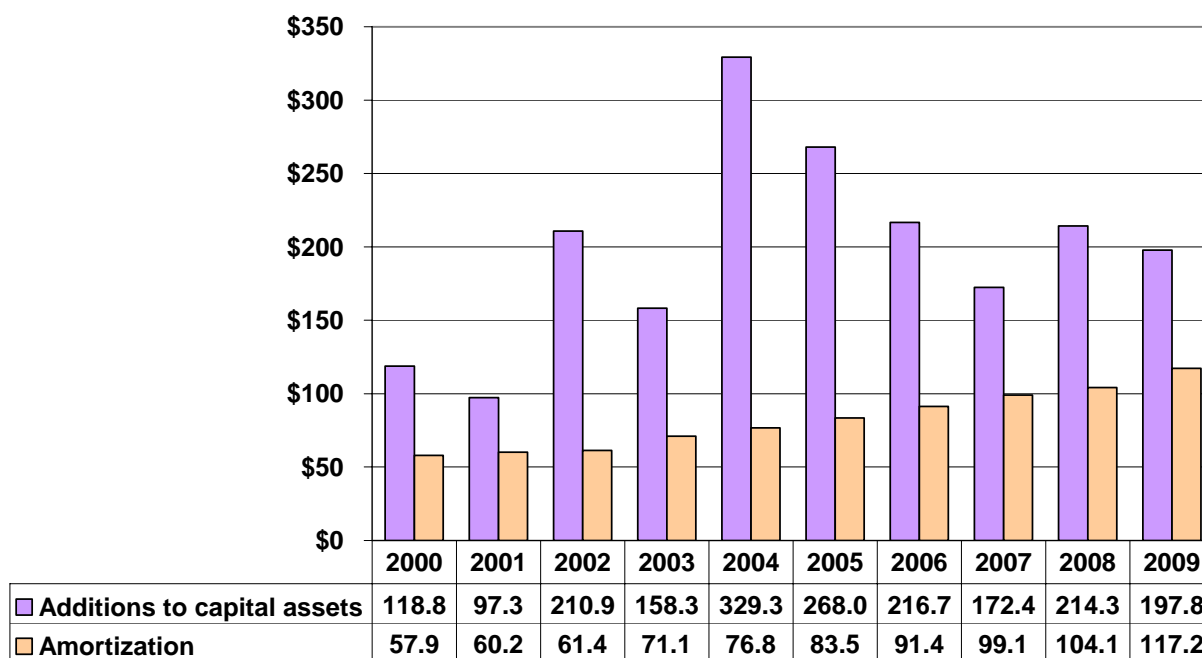
<u>April 30, 2008</u>	<u>Pension plans</u>	<u>Other benefit plans</u>
<b>Plan status:</b>		
Assets	\$2.90 billion	\$37.1 million
Obligations	\$3.24 billion	\$369.3 million
Deficit	\$337.5 million	\$332.2 million
<b>Recorded in financial statements:</b>		
Liability	\$87.9 million	\$257.0 million
Expense	\$67.7 million	\$45.9 million

## Space

The University has undertaken an ambitious capital construction program to significantly expand space capacity to accommodate increased numbers of students and to expand and update research infrastructure. This program began in 1999 and included a significant expansion of the University of Toronto at Mississauga and at Scarborough and considerable expansion and renovation on the St. George campus. Space capacity is being further expanded due to the additional space requirements arising from graduate student expansion and undergraduate medical student expansion.

The estimated cost of the projects currently approved and initiated since 1999 is \$1.4 billion. The University has identified the additional capital requirements associated with the graduate and medical school expansion for which the provincial government provides capital funding in the form of a stream of payments intended to cover principal and interest payments on borrowing undertaken by the University.

**Capital Investment in Infrastructure  
for the year ended April 30  
(millions of dollars)**



Additionally, the University has future obligations of deferred and pending maintenance, which are currently estimated at \$357.0 million, including asbestos containment and removal. The University has integrated its capital programs by pooling the various funds available and prioritizing maintenance and renewal requests. The University is participating with all other Ontario universities in a continuing study that is analyzing, in some detail and on a uniform basis, the deferred and pending maintenance obligations of every university in the Province. The long-range academic and budget plan for 2009-10 through 2013-14 includes funding to arrest further deterioration of the physical infrastructure.

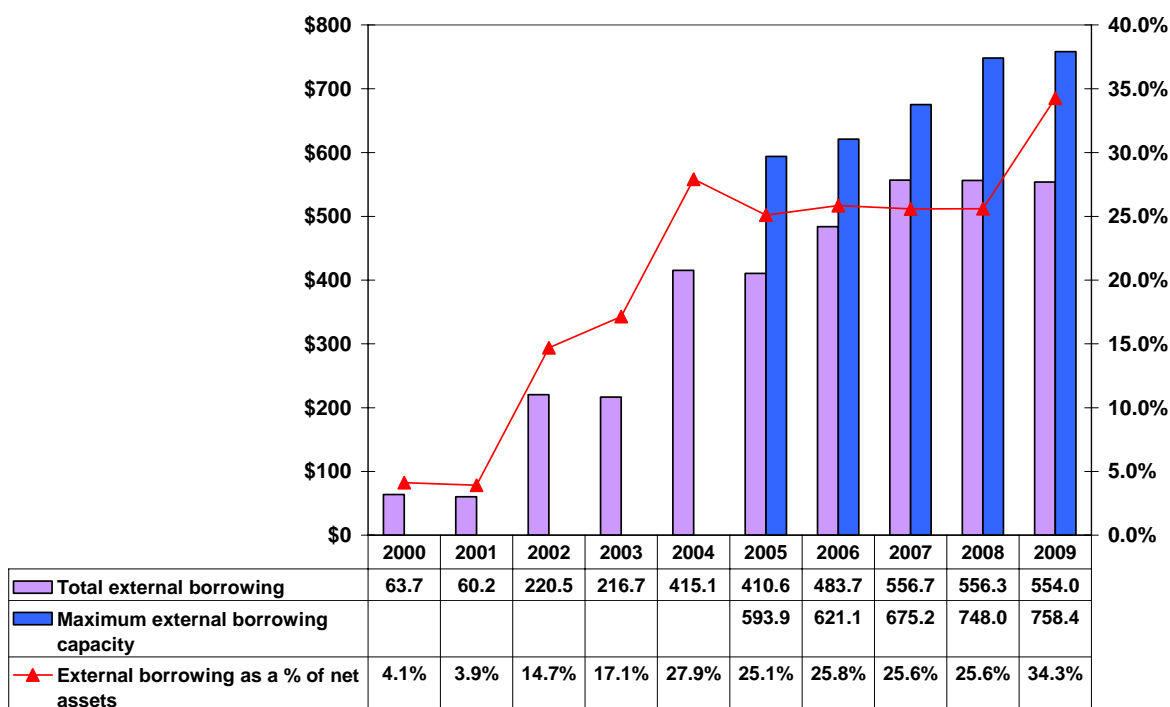
Governments have also provided funding over the years to assist the University. The 2009 Federal Budget announced \$2 billion for university and college infrastructure refurbishment and new construction initiatives to advance research and development in universities and pledged \$750 million over three years to the Canada Foundation for Innovation to support leading edge research infrastructure. Also, the March 26, 2009 Ontario Budget announced a number of infrastructure initiatives (see “The Role of the Government of Ontario” section of this document). During the year, the University also received \$5.1 million from the Province of Ontario’s Facilities Renewal Program.

### **Borrowing**

The approved borrowing strategy provides for a maximum borrowing amount of \$958.4 million at April 30, 2009, comprised of external borrowing of \$758.4 million (40% of net assets averaged over 5 years) plus \$200.0 million in internal financing. In 2009, the outstanding external borrowing is comprised of \$510.0 million (gross of \$3.0 million of issue costs) of debentures and \$44.0 million (net of fair value impact of \$8.2 million of interest rate swaps less \$0.3 million due to an interest-free loan) of other long-term debt. At April 30, 2009, outstanding external borrowing represented 29.2% of net assets averaged over 5 years.

The University’s credit ratings are Aa1 (Moody’s), AA (Standard and Poor’s) and AA (Dominion Bond Rating Service), which ranks the University as a strong investment-grade credit equal to the Province of Ontario.

**External Borrowing Outstanding  
for the year ended April 30  
(millions of dollars)**



**Donations**

Academic priorities that cannot be completely funded through internal resources become approved priorities for fundraising. Priorities are assessed on an annual basis and revised as necessary. The Provost must approve all initiatives before they become priorities for fundraising.

The decision to hold fundraising as servant to the academic plans of its faculties, colleges, schools, and divisions, overseen by the Provost with the involvement of principals, deans and faculty, continues to play a critical role in the success of all advancement programs at the University. The clear link with institutional planning enables the University to assure donors that the priorities they are being asked to support are critical to the achievement of teaching and research objectives. This link established an environment that contributed to the success of the 1997 campaign, which reached its \$1 billion goal by the end of 2003, one year ahead of schedule.

The total of new pledges raised for the University (including federated universities and other affiliated institutions) for the year ending April 30, 2009 was \$106.3 million compared to \$183.0 million in 2008. The decline in new pledges and gifts is attributed to the economic downturn which particularly affected the acquisition of major gifts, typically driven by appreciated securities.

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. Donations are recorded in the financial statements as follows:

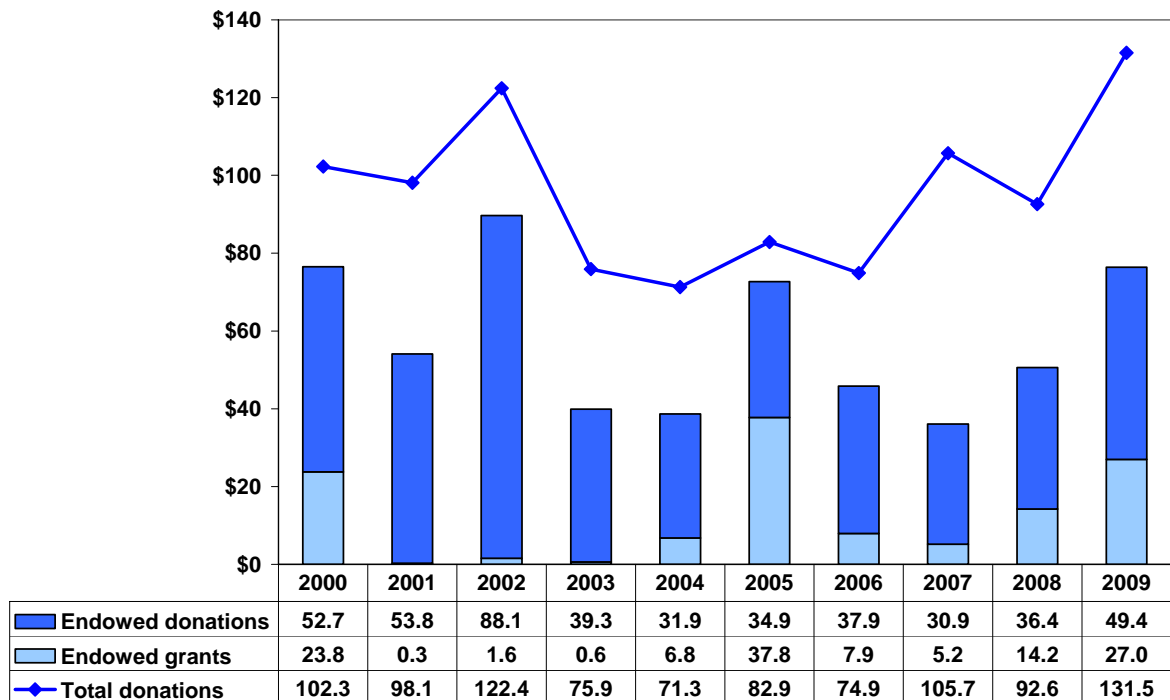
- Unrestricted expendable donations are recorded as revenue when received;
- Restricted expendable donations are recorded as revenue when spent;
- Unspent restricted expendable donations are recorded as liabilities (deferred contributions or deferred capital contributions); and



- Endowed donations are not recorded as revenue. They are added directly to endowments, as additions to net assets.

In 2009, donations received by the University (excluding receipts by the federated universities and other affiliated organizations) totalled \$131.5 million and were reported as follows: \$82.1 million in expendable donations was reported as revenue and \$49.4 million was added directly to endowments. Government grants and other endowed contributions totalled \$27.0 million. These were added directly to endowments and were provided in support of scholarships for Ontario-resident students with financial aid and to support the implementation of the vision of the Dunlap Institute of Astronomy and Astrophysics. It should be noted that the graph on the next page tracks the cash received by fiscal year. There is usually a lag between the growth in pledges and related commitments, and the actual cash receipt of funds.

**Endowed Contributions and Total Donations Received  
for the year ended April 30  
(millions of dollars)**

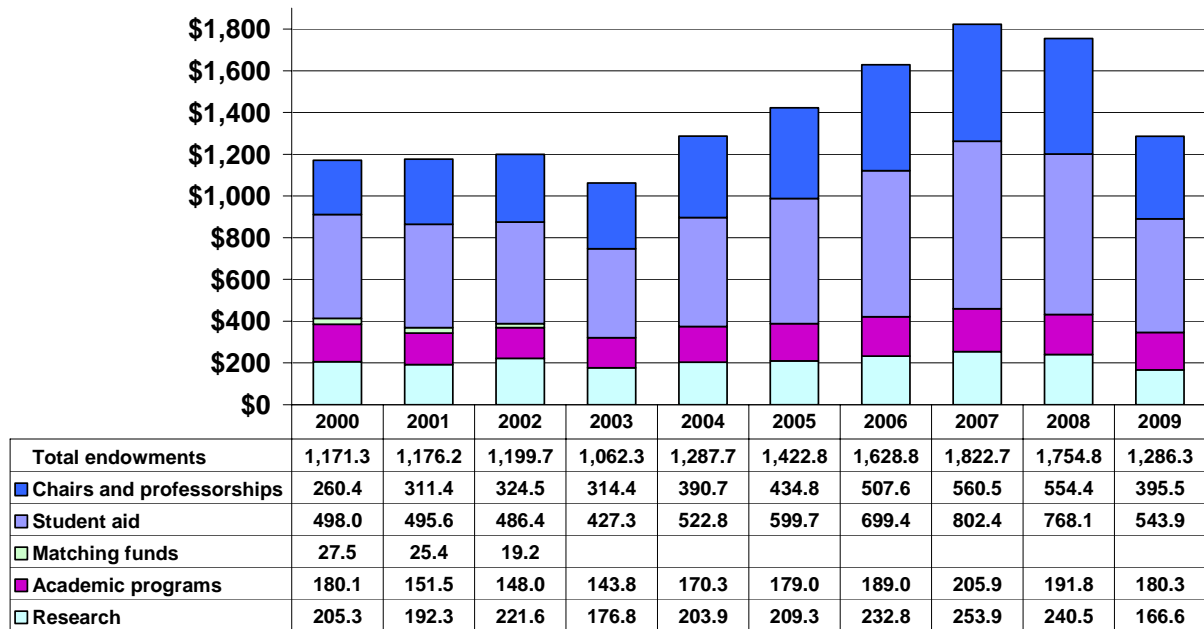


## Endowments

Endowments are restricted funds which must be used in accordance with purposes agreed between the University and donors, or determined by Governing Council. Endowments are not available for use in support of general operating activities.

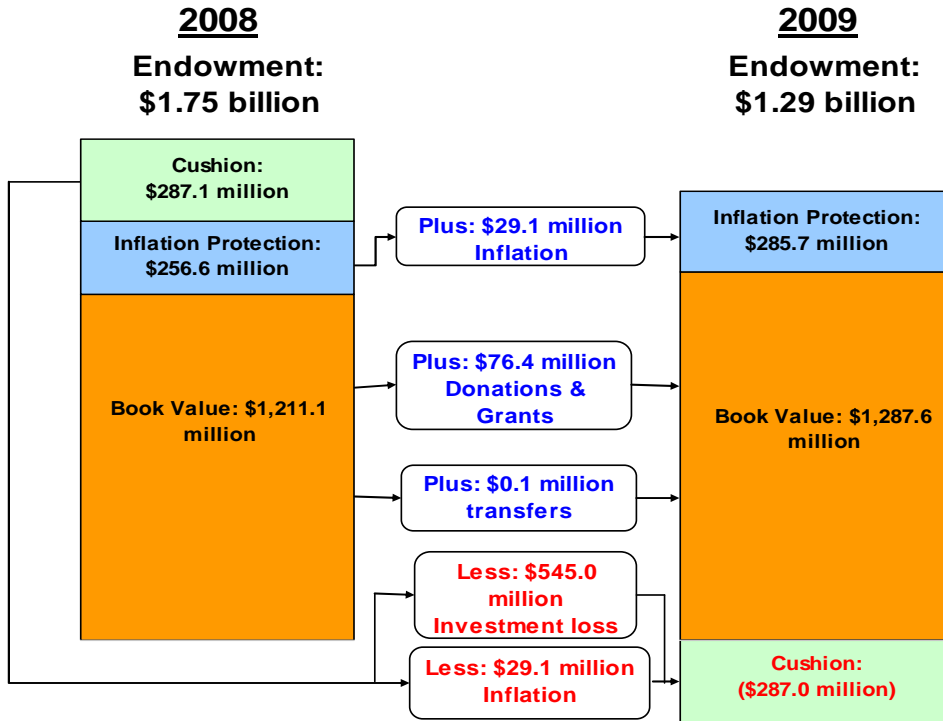
Endowments are managed in a unitized pool with an annual spending rate. The University's endowment spending objective is to provide a predictable amount for spending (payout) each year that increases with inflation. To do this, the University preserves capital by constraining the annual spending rate and setting funds aside when investment returns are good. This strategy protects against inflation and creates a cushion 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 fall within 3% to 5% of opening market value of endowments.

**Endowments at Fair Value  
at April 30  
(millions of dollars)**



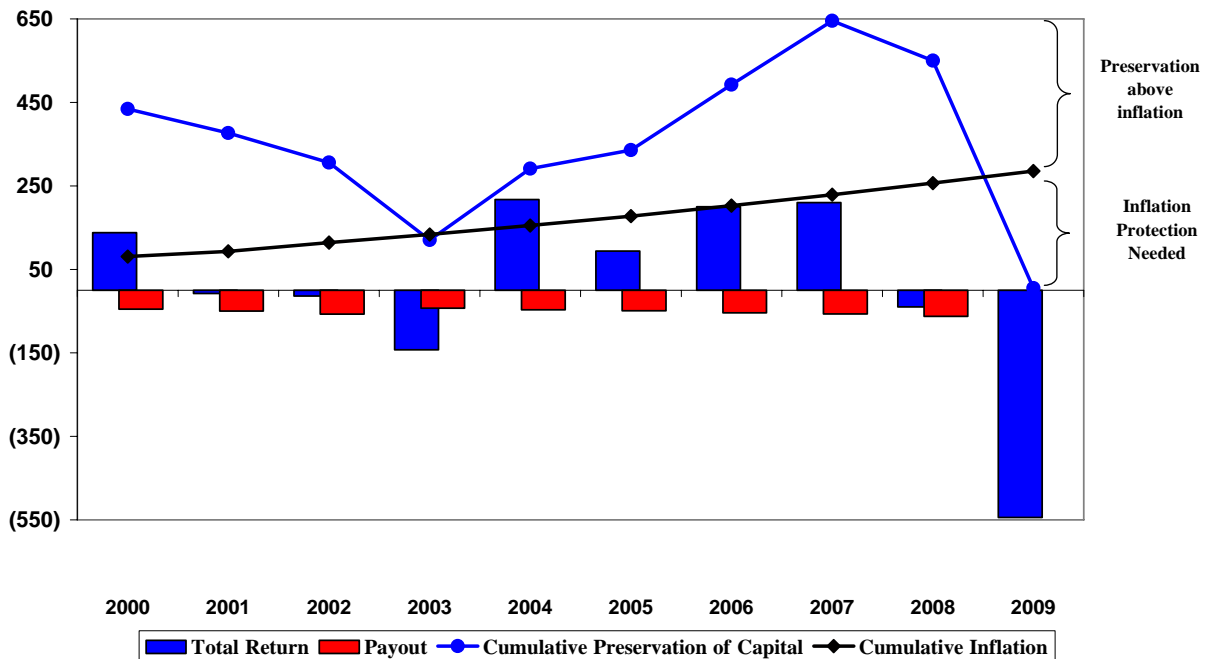
This year, as a result of severe financial market losses, the University suspended the endowment distribution in order to preserve the underlying value of its endowments. The endowment reserve, so carefully and responsibly built up as a protective cushion, has done its job by absorbing the brunt of the extreme volatility in the financial markets. The University decided not to erode the endowment capital further by suspending the endowment spending allocation so not to change the baseline for future growth in our endowed funds. Without this suspension, the University could have impeded its ability to return to the usual endowment distribution levels as the investments supporting the endowments recover their value. This prudent management of the endowment is part of the responsible stewardship of funds that was designed to support the University’s faculty, staff and students for generations to come. Meanwhile, critical commitments such as endowed professorships and chairs, as well as endowed support for needs-based student aid are being met from other sources of funds.

For 2008-09, the investment losses of \$545.0 million on endowments eroded both the 2008 inflation protection of \$256.6 million and the cushion of \$287.1 million. The endowment value at April 30, 2009 is \$1,286.3 million which is below the book value by \$1.3 million.



The following diagram shows the preservation of capital and payout over a ten year period starting in 2000.

Endowment cumulative preservation of capital compared to cumulative inflation with total return and payout for the year ended April 30 (in millions)



At April 30, 2009, there were over 4,950 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 total fair value of endowments was \$1.29 billion at April 30, 2009, representing a decrease of \$468.5 million comprised of:

- \$49.4 million of externally endowed donations;
- \$27.0 million of endowed government grants and other;
- (\$545.0 million) investment loss on endowments, of which \$461.7 is from externally restricted endowments and \$83.3 million is from internally restricted endowments.
- \$0.1 million transfer from unrestricted deficit.

### **Investment Earnings**

In 2009, the University reported an investment loss of \$146.7 million (2008 – income of \$69.9 million) consisting of a \$83.3 million loss on internally restricted endowments and a \$63.4 million loss on investments other than those held for endowments.

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 objective for each of these pools, reflecting the liability requirements, and with the aim of producing steady, predictable returns for the University.

The University of Toronto Asset Management Corporation (UTAM) is a wholly owned investment management subsidiary of the University, governed by its own Board of Directors. UTAM develops and executes appropriate investment strategies and determines the policy asset mix, based on the risk and return objectives established by the University. 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](http://www.utam.utoronto.ca).

It is important to note that, while the aim of the risk and return objectives is to produce steady, predictable investment returns for the University, there is nonetheless variability in investment returns on an annual basis, and that the actual investment return is a key determinant of whether the University records a net income or net loss for the fiscal year.

### **LTCAP**

The fair value of LTCAP was \$1.45 billion at April 30, 2009, of which \$1.23 billion was for endowments, representing 84.8% of the balance invested in LTCAP.

The investment risk and return targets for LTCAP are a 4.0% real investment return after investment fees and expenses and inflation, and a 10% standard deviation risk target, over a ten year period. This means that the real return is expected to be between minus 6% and 14%, two thirds of the time over a ten year period. The University's overriding objective with respect to investment performance is the achievement of this return target within the specified risk target. The return target was exceeded from 2004 to 2007.

The table below summarizes the 1-year LTCAP investment performance for years ending April 30 and compares it to the University's investment return target.

## 1-Year Annual Rates of Return

Year Ended April 30	LTCAP Annual Actual Return*	University Objective (4% plus CPI)
<b>2009</b>	<b>(31.0%)</b>	<b>4.4%</b>
2008	(2.0%)	5.7%
2007	13.7%	6.2%
2006	15.8%	6.4%
2005	7.4%	6.4%
2004	23.1%	5.6%

\*Returns are net of all investment fees and expenses. The 2004 to 2007 annual returns exclude returns on private investment interests.

### EFIP

The investment policy for EFIP reflects its three categories of funds: very short-term investments managed by the University, funds loaned internally to support capital projects and funds managed by UTAM. The return objective and risk tolerance for each category of EFIP funds is as follows:

	<b>Risk Tolerance</b>	<b>Return Objective</b>
<b>Investments managed by U of T in a money market fund</b>	Minimal risk	30-day Treasury bill return
<b>Internal loans</b>	Minimal risk	Appropriate spread over Government of Canada bond of similar duration
<b>Funds managed by UTAM</b>	Minimal risk (standard deviation measure is not appropriate for short-term durations)	1-year Treasury bill return + 50 basis points within minimal risk targets

The returns for the 2009 fiscal year were as follows:

	<b>Fair Value at April 30, 2009</b>	<b>Total Return for Year Ended April 30, 2009</b>
<b>Investments managed by U of T in a money market fund</b>	<b>\$ 72.9 million</b>	<b>2.7%</b>
<b>Internal loans</b>	<b>\$196.6 million</b>	<b>6.07%</b>
<b>Funds managed by UTAM</b>	<b>\$716.2 million</b>	<b>1.06%</b>

The returns for the 2008 fiscal year were as follows:

	<b>Fair Value at April 30, 2008</b>	<b>Total Return for Year Ended April 30, 2008</b>
<b>Investments managed by U of T in a money market fund</b>	\$138.2 million	4.33%
<b>Internal loans</b>	\$149.3 million	6.18%
<b>Funds managed by UTAM</b>	\$618.7 million	3.63%

The 1-year Treasury bill plus 50 basis points target for EFIP funds held by UTAM was not achievable in fiscal 2008 without an increase in risk beyond the “minimum risk” tolerance established by the University. Therefore, the “minimum risk” target prevailed over the return target and actual returns achieved for this year reflect this priority selection.

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*(signed)*  
Catherine J. Riggall  
Vice-President, Business Affairs

\_\_\_\_\_  
*(signed)*  
Sheila Brown  
Chief Financial Officer

**Audited Financial Statements**

**April 30, 2009**

## STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

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

The administration has prepared the financial statements in accordance with Canadian generally accepted accounting principles developed by The Canadian Institute of Chartered Accountants. The administration believes the financial statements present fairly the University's financial position as at April 30, 2009 and the results of its operations and its cash flows for the year then ended. In order to achieve the objective of fair presentation in all material respects, the use of 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 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 loss and that the accounting records are a reliable basis for the preparation of financial statements.

Hewitt Associates Corp. has been retained by the University in order to provide an estimate of the University's current year position for pension and other employee future benefits. Management has provided the valuation actuary with the information necessary for the completion of the University's 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 financial statements and this Financial Report principally through the Business Board and its Audit Committee. The majority of 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 financial statements for the year ended April 30, 2009 have been reported on by Ernst & Young LLP, Chartered Accountants, the auditors appointed by Governing Council. The auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

\_\_\_\_\_  
*(signed)*  
Catherine J. Riggall  
Vice-President, Business Affairs

\_\_\_\_\_  
*(signed)*  
David Naylor  
President



## AUDITORS' REPORT

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

We have audited the financial statements of **University of Toronto** as at and for the year ended April 30, 2009 comprising the following:

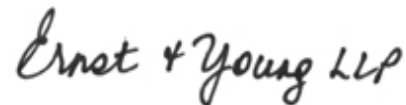
- Balance sheet
- Statement of operations
- Statement of changes in net assets
- Statement of cash flows

These financial statements are the responsibility of the administration of the University. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
May 29, 2009.



Chartered Accountants  
Licensed Public Accountants

## UNIVERSITY OF TORONTO

## BALANCE SHEET

April 30, 2009

(with comparative figures as at April 30, 2008)

(millions of dollars)

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current		
Cash and cash equivalents (note 5)	66.8	138.8
Short-term investments (note 5)	756.4	416.9
Accounts receivable (note 5)	119.9	95.4
Inventories and prepaid expenses	14.4	15.8
	<u>957.5</u>	<u>666.9</u>
Long-term accounts receivable	30.8	21.4
Investments (note 5)	1,388.3	2,165.2
Capital assets, net (note 6)	1,532.4	1,451.8
	<u>3,909.0</u>	<u>4,305.3</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (notes 5 and 11)	182.8	163.5
Deferred contributions (note 12)	328.4	346.1
	<u>511.2</u>	<u>509.6</u>
Accrued pension liability (note 4)	90.7	87.9
Employee future benefit obligation other than pension (note 4)	300.1	257.0
Series A senior unsecured debenture (note 7)	158.8	158.8
Series B senior unsecured debenture (note 8)	199.1	199.1
Series C senior unsecured debenture (note 9)	74.7	74.7
Series D senior unsecured debenture (note 10)	74.4	74.4
Other long-term debt (note 11)	51.9	51.4
Deferred capital contributions (note 13)	831.0	718.1
	<u>2,291.9</u>	<u>2,131.0</u>
<b>NET ASSETS (Statement 3)</b>		
Unrestricted deficit	(232.0)	(231.9)
Internally restricted (note 14)	562.8	651.4
Endowments (notes 15, 16 and 17)	1,286.3	1,754.8
	<u>1,617.1</u>	<u>2,174.3</u>
	<u>3,909.0</u>	<u>4,305.3</u>

(See accompanying notes)

On behalf of Governing Council:

*(signed)*


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 John F. Petch  
 Chair
*(signed)*


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 David Naylor  
 President

**UNIVERSITY OF TORONTO**  
**STATEMENT OF OPERATIONS**  
**FOR THE FISCAL YEAR ENDED APRIL 30, 2009**  
(with comparative figures for the year ended April 30, 2008)  
(millions of dollars)

	<u>2009</u>	<u>2008</u>
<b>REVENUES</b>		
Government grants for general operations	646.0	639.0
Student fees	636.4	583.6
Government and other grants for restricted purposes (note 20)	408.7	339.9
Sales, services and sundry income	247.2	237.4
Investment income (loss) (note 5)	(146.7)	69.9
Donations (note 19)	82.1	56.2
Contract research	25.8	22.9
	<u>1,899.5</u>	<u>1,948.9</u>
<b>EXPENSES</b>		
Salaries and benefits (note 4)	1,218.3	1,127.4
Materials and supplies	195.8	193.7
Scholarships, fellowships and bursaries	144.6	125.0
Amortization of capital assets (note 6)	117.2	104.1
Cost of sales and services	80.5	76.5
Utilities	51.0	53.0
Repairs and maintenance	82.5	65.2
Travel and conferences	42.6	40.4
Interest on long-term debt	33.7	33.0
External contracted services	28.8	31.3
Telecommunications	12.5	11.7
Other	61.2	37.0
	<u>2,068.7</u>	<u>1,898.3</u>
<b>NET INCOME (LOSS)</b>	<u>(169.2)</u>	<u>50.6</u>

(See accompanying notes)

**UNIVERSITY OF TORONTO**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEAR ENDED APRIL 30, 2009**  
(with comparative figures for the year ended April 30, 2008)  
(millions of dollars)

	<b>Unrestricted deficit</b>	<b>Internally restricted (note 14)</b>	<b>Endowments (note 15)</b>	<b>2009 Total</b>	<b>2008 Total</b>
Net assets, beginning of year	(231.9)	651.4	1,754.8	2,174.3	2,171.7
Net income (loss)	(169.2)			(169.2)	50.6
Net change in internally restricted (note 14)	88.6	(88.6)			
Investment loss on externally restricted endowments (note 15)			(461.7)	(461.7)	(86.1)
Externally endowed contributions					
- donations (note 19)			49.4	49.4	36.4
- grants and other			27.0	27.0	14.2
Transfer from internally restricted endowments (note 15)					
- investment loss	83.3		(83.3)		
Transfer to endowments					
- matching funds	(0.1)		0.1		
Transfer from deferred contributions (note 12)					3.8
Transfer of endowments to University of Toronto Schools					(15.6)
Unrealized loss on swap contracts (note 5)	(2.7)			(2.7)	(0.7)
Net assets, end of year	<b>(232.0)</b>	<b>562.8</b>	<b>1,286.3</b>	<b>1,617.1</b>	<b>2,174.3</b>

(See accompanying notes)

**UNIVERSITY OF TORONTO**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED APRIL 30, 2009**  
(with comparative figures for the year ended April 30, 2008)  
(millions of dollars)

	<u>2009</u>	<u>2008</u>
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	<b>(169.2)</b>	50.6
Add (deduct) non-cash items:		
Amortization of capital assets	<b>117.2</b>	104.1
Amortization of deferred capital contributions	<b>(52.5)</b>	(47.0)
Net capital losses from investments	<b>184.0</b>	30.0
Net change in accrued pension liability	<b>2.8</b>	(10.7)
Net change in employee future benefit obligation other than pension	<b>43.1</b>	41.2
Net change in other non-cash items (note 18)	<b>(30.9)</b>	35.0
	<u><b>94.5</b></u>	<u>203.2</u>
<b>INVESTING AND FINANCING ACTIVITIES</b>		
Net purchase of short-term investments	<b>(339.5)</b>	(65.2)
Net sale (purchase) of investments	<b>131.2</b>	(70.4)
Purchase of capital assets	<b>(197.8)</b>	(214.3)
Contributions for capital asset purchases	<b>165.4</b>	114.6
Other long-term debt		
- issued		1.3
- repayments	<b>(2.2)</b>	(2.0)
Transfer of funds to University of Toronto Schools		
- endowments		(15.6)
- deferred capital contributions		(1.9)
Endowment contributions		
- donations	<b>49.4</b>	36.4
- grants and other	<b>27.0</b>	14.2
	<u><b>(166.5)</b></u>	<u>(202.9)</u>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>	<b>(72.0)</b>	0.3
<b>Cash and cash equivalents, beginning of year</b>	<u><b>138.8</b></u>	<u>138.5</u>
<b>Cash and cash equivalents, end of year</b>	<u><u><b>66.8</b></u></u>	<u><u>138.8</u></u>

(See accompanying notes)

**UNIVERSITY OF TORONTO**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2009**

## **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 of Toronto’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 financial statements include the assets, liabilities, revenues, expenses and other transactions of all of the operations and organizations, including wholly owned subsidiaries, under the jurisdiction of Governing Council. These 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 and reporting practices**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

### **a) Change in accounting policies -**

Effective May 1, 2008, the University adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Section 1535: Capital Disclosures, which require the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the University’s objectives, policies and processes for managing capital. The adoption of these recommendations only required additional disclosures, which are provided in note 3.

Effective May 1, 2008, the University adopted retroactively the changes recommended by CICA 4400: Financial Statement Presentation for Not-For-Profit Organizations that eliminate the requirement to separately disclose the amount of net assets invested in capital assets and suggest that the amount may be included in internally restricted net assets. As a result, the University has reclassified the prior year financial statements to include the amount of net assets invested in capital assets as at April 30, 2008 of \$371.9 million and April 30, 2009 of \$383.8 million in internally restricted net assets (note 14).

## **b) Investments and investment income -**

Investments are carried at fair value except for the real estate directly held by the University. Fair value amounts represent estimates of the consideration that would be agreed upon 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 financial statements is determined as follows:

1. Short-term notes and treasury bills are valued based on cost plus accrued income, which approximates fair value.
2. Publicly traded bonds and equities are determined based on the latest bid prices.
3. Investments in pooled funds are valued at their reported net asset value per unit.
4. Infrequently traded securities are based on quoted market yields or prices of comparable securities, as appropriate.
5. Real estate directly held by the University is valued at cost and, when donated, at the value determined through an appraisal process at the date of donation.
6. Private investment interests, which comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets and commodities, are determined based on the latest valuations provided by the external investment managers of the fund (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 the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative 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.

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

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded as revenue in the statement of operations except for investment income earned on deferred contributions, losses on externally restricted endowments and the amount in excess of what is made available for spending on externally restricted endowments, which are recorded as a direct increase (decrease) to endowments.

## **c) 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 debt, equity and currency futures, options, swaps and forward contracts. These contracts are generally supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

Hedges are documented at inception, detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. For derivatives in hedging relationships, the effective portion of the gain or loss is recorded as a direct increase (decrease) in net assets, and the ineffective portion, if any, is recognized in the statement of operations. The University accounts for interest rate swap contracts

as hedges. Derivative financial instruments that do not qualify for hedge accounting are carried at fair value, with changes in fair value during the year recorded in the statement of operations.

**d) Cash and cash equivalents -**

Cash and cash equivalents represent operating cash on deposit and units in a money market fund.

**e) Inventory valuation -**

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

**f) Employee benefit plans -**

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for substantially all of its employees.

Pension plan assets are valued at fair value for purposes of calculating expected return on plan assets. The cost of pension and other post-employment benefits (primarily medical benefits and dental care) related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefits prorated on service method, and using estimates of the usage frequency and cost of services covered and management's best estimates of investment yields, salary changes, withdrawals, mortality rates and expected health care costs. The University's actuarial gains or losses (resulting from factors such as changes in actuarial assumptions and experience gains or losses), past service costs arising from plan amendments and transitional assets/obligations are amortized over the average remaining service life of active employees, currently 14 years (2008 – 14 years). A valuation allowance is recorded against an accrued benefit asset if the asset, less unamortized past service costs and unamortized actuarial losses, exceeds the present value of future service costs of the current active employees. Liabilities are discounted using current interest rates on long-term bonds.

**g) Capital assets -**

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	2.5%
Equipment and furnishings	5% - 20%
Library books	20%

Contributed rare books and other collections are expensed in the year received.

**h) 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. Premiums, discounts and transaction costs related to the issuance of unsecured debentures and other long-term debt are reported net of the carrying value of the related debt.

**i) Revenue recognition -**

The University follows the deferral method of accounting for contributions, which include donations and government grants. Contributions externally restricted for purposes other than endowment are recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for amortizable capital assets are deferred and amortized over the lives of the related capital assets. Deferred contributions and amortization of capital contributions recognized as revenue in the current year are first presented in the statement of operations as donations and investment income to the extent that restricted amounts have been received in the current year excluding amounts recorded as a direct increase to endowments. Any difference is recorded as government and other grants for restricted purposes. Endowment contributions and contributions of non-amortizable capital assets are recognized as direct



increases in net assets in the year in which they are received. The University actively fundraises and unrestricted donations are recorded when received since pledges are not legally enforceable claims. Student fees are recognized as revenue when courses and seminars are held. Sales and services revenues are recognized at point of sale or when the service has been provided.

**j) 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 they relate to investments, in which case they are recognized in the same manner as investment income (loss).

**k) Accounting estimates -**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 relate to the assumptions used in the determination of the fair value of financial instruments and the valuation of pension and other retirement benefit obligations. Actual results could differ from those estimates.

**l) 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 financial statements.

**m) Financial instruments -**

The University has chosen to apply CICA 3861: Financial Instruments – Disclosure and Presentation in place of CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments – Presentation.

**n) Future accounting policy changes -**

The CICA has issued revisions to the 4400 series and certain other sections to amend or improve certain parts of the CICA Handbook that relate to not-for-profit organizations. With respect to presentation, these changes include making the disclosure of net assets invested in capital assets optional; making CICA 1540: Cash Flow Statements applicable to not-for-profit organizations; and requiring the reporting of revenues and expenses on a gross basis in the statement of operations unless not required by other guidance. These changes in accounting policies must be adopted by years beginning on or after January 1, 2009, with early adoption permitted. Management has adopted the recommendations related to the disclosure of net assets invested in capital assets and is assessing the impact of the other revisions and the timing of their adoption. However, the impact will be limited to reclassification of numbers in the statements and additional disclosures.

In February 2008, the Accounting Standards Board amended CICA 1000: Financial Statement Concepts to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the balance sheet. The amendments are effective for financial statements for fiscal years beginning on or after October 1, 2008. These amendments are not expected to have an impact on the financial statements.

### **3. Capital management**

In managing capital, the University focuses on liquid resources available for operations. Its liquid resources are managed through the University's expendable funds investment pool ("EFIP"). The

University's objective is to have sufficient liquid resources to continue operating even if adverse financial events were to occur and to provide it with the flexibility to take advantage of opportunities that will advance its mission. The need for sufficient liquid resources is considered in the preparation of its annual operating and capital budgets with actual operating results compared to budget on a regular basis and by the monitoring and forecasting of cash flows on a daily basis. The University attempts to minimize the use of its line of credit of \$25 million which can be used in the event that sufficient cash flow is not available to cover operating and capital expenditures. In addition, the University can issue unsecured debentures or enter into other long-term debt to assist with the financing of capital assets and annually sets its maximum external borrowing capacity to 40% of net assets averaged over five years. As at April 30, 2009, the University has met its objective of having sufficient liquid resources to meet its current obligations and external borrowing was at 29.2% of net assets averaged over 5 years.

#### 4. Employee benefit plans

The University has a number of funded and unfunded defined benefit plans that provide pension, other retirement and post-employment benefits to most of its employees. Its defined benefit pension plans (including the supplemental retirement arrangement) are based on years of service and the highest average salary received in any 36 months. Pension benefits will increase annually by 75% of the increase in the Consumer Price Index ("CPI") to a maximum CPI increase of 8%, plus 60% of the increase in CPI in excess of 8%.

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

The latest actuarial valuation for the pension plans and for other retirement benefit plans was performed as of July 1, 2008. The next required actuarial valuations for the registered plans will be July 1, 2011. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year. The employee benefits expense for the year includes pension expense of \$94.2 million (2008 - \$67.7 million) and other retirement benefits expense of \$49.7 million (2008 - \$45.9 million).

Information about the University's defined benefit plans as at April 30 is as follows:

	(millions of dollars)			
	2009		2008	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligation	2,764.8	318.5	3,241.3	369.3
Fair value of plan assets	1,980.8	40.6	2,903.8	37.1
Plan deficit	<b>(784.0)</b>	<b>(277.9)</b>	(337.5)	(332.2)
Amount recorded as a liability	<b>(90.7)</b>	<b>(300.1)</b>	(87.9)	(257.0)
Unamortized net actuarial gain (loss)	<b>(756.7)</b>	<b>36.1</b>	(332.3)	(46.8)
Unamortized transitional asset (obligation)	<b>157.3</b>	<b>(51.6)</b>	187.1	(62.1)
Unamortized past service cost	<b>(93.9)</b>	<b>(2.9)</b>	(104.4)	(3.4)
Plan assets recorded as investments		<b>40.6</b>		37.1
Plan deficit	<b>(784.0)</b>	<b>(277.9)</b>	(337.5)	(332.2)

In addition to the plan assets, the University has set aside \$131.0 million (2008 - \$184.1 million) as internally restricted net assets at April 30, 2009 related to its pension and supplemental retirement arrangement obligations (note 14).

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligation and benefit cost are as follows:

	2009		2008	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
<b>Accrued benefit obligation:</b>				
Discount rate	7.75%	7.75%	6.00%	6.00%
Rate of compensation increase	4.25%	4.25%	4.25%	4.25%
Rate of inflation	2.25%	2.25%	2.25%	2.25%
<b>Benefit cost:</b>				
Discount rate	6.00%	6.00%	5.25%	5.25%
Expected long-term rate of return on plan assets	6.25%	N/A	6.25%	N/A
Rate of compensation increase	4.25%	4.25%	4.25%	4.25%
Rate of inflation	2.25%	2.25%	2.25%	2.25%

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009. The rate of increase was assumed to decrease gradually to 5.0% by 2019 and remain at that level thereafter.

The pension benefit plans' assets are invested as follows:

	2009	2008
Equity securities	44.9%	56.3%
Debt securities	5.3%	21.7%
Pooled funds - equity	23.8%	13.5%
Other	26.0%	8.5%
Total	100.0%	100.0%

The table below outlines the funding provided by the University and its employees and the benefits paid under the University's defined benefit plans:

(millions of dollars)

	2009		2008	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Funding by employer	91.4	15.8	78.4	14.5
Funding by employees	34.8	3.5	32.8	3.9
Benefits paid	157.6	17.5	155.5	16.6

## 5. Investments

Direct investments are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio. This classification required \$285.9 million (2008 - \$374.2 million) of pooled funds, \$46.8 million (2008 - \$366.9 million) in hedge funds and \$11.1 million (2008 - \$0.3 million) of cash, money market funds, short-term notes and treasury bills set aside related to derivative contracts to be reclassified to their appropriate investment category. The fair values of investments are as follows:

	(millions of dollars)	
	<b>2009</b>	2008
Cash, money market funds, short-term notes and treasury bills	<b>823.2</b>	555.7
Government and corporate bonds	<b>364.7</b>	651.1
Canadian equities	<b>125.1</b>	288.9
United States equities	<b>137.3</b>	300.0
Other international equities	<b>166.8</b>	412.6
Hedge funds	<b>309.3</b>	250.0
Private equity and debt interests	<b>201.4</b>	160.1
Real asset interests	<b>83.7</b>	102.5
	<b>2,211.5</b>	2,720.9
Less amounts reported as:		
Cash and cash equivalents	<b>66.8</b>	138.8
Short-term investments	<b>756.4</b>	416.9
	<b>1,388.3</b>	2,165.2

The University's investments are managed using two pools. The long-term capital appreciation pool ("LTCAP") mainly includes endowment funds and all other funds are managed in EFIP. The asset mix for each pool is as follows:

	(millions of dollars)			
	<b>2009</b>		2008	
	<b>EFIP</b>	<b>LTCAP</b>	EFIP	LTCAP
Cash, money market funds, short-term notes and treasury bills	<b>492.2</b>	<b>331.0</b>	429.4	126.3
Government and corporate bonds	<b>232.4</b>	<b>132.3</b>	219.3	431.8
Canadian equities	<b>0.2</b>	<b>124.9</b>		288.9
United States equities		<b>137.3</b>		300.0
Other international equities		<b>166.8</b>		412.6
Hedge funds	<b>47.9</b>	<b>261.4</b>	97.6	152.4
Private equity and debt interests		<b>201.4</b>		160.1
Real asset interests		<b>83.7</b>		102.5
	<b>772.7</b>	<b>1,438.8</b>	746.3	1,974.6

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to foreign exchange risk, interest rate price risk and market and credit risks. To manage these risks within reasonable risk tolerances, the University, through the University of Toronto Asset Management Corporation, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual

investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below).

In 2009, the University's investment loss of \$146.7 million recorded in the statement of operations consists of a loss related to investments held for internally restricted endowments of \$83.3 million (note 15) and a loss of \$63.4 million on investments other than those held for endowments.

In 2008, the University's investment income of \$69.9 million consisted of a loss related to investments held for internally restricted endowments of \$6.2 million and the amount made available for spending of \$52.5 million related to externally restricted endowments (note 15) and income of \$23.6 million on investments other than those held for endowments.

During the year, the University recognized an investment loss of \$39.3 million (2008 – income of \$6.7 million) as a change in fair value that was 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 which would generate any material changes in investment income (loss).

## **Derivative financial instruments**

### **Description**

The University has entered into equity index futures contracts which oblige it to pay the difference between a predetermined amount and the market value of certain equities when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount.

The University has entered into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The University has significant contracts outstanding held in the U.S. dollar, Euro, Japanese yen and British pound, among others.

The University has entered into interest rate swap contracts in order to manage the interest rate cash flow exposure associated with certain long-term debt obligations. The contracts have the effect of converting the floating rate of interest on certain long-term debt to a fixed rate. These contracts are accounted for as hedges.

The notional amounts of the derivative financial instruments do not represent amounts exchanged between parties and are not a measure of the University's exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

### **Risks**

The University is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

## Terms and conditions

The notional and fair values of the financial instruments are as follows:

	(millions of dollars)			
	2009		2008	
	Notional value	Fair value	Notional value	Fair value
Foreign currency forward contracts				
- U.S. dollars	606.0	9.4	1,001.1	7.8
- International	103.1	3.8	326.9	6.3
		<u>13.2</u>		<u>14.1</u>
Equity and commodity index futures contracts				
- Canadian			80.7	3.9
- United States	311.3	12.1	172.5	7.9
- International			124.1	10.8
		<u>12.1</u>		<u>22.6</u>
Interest rate swap contracts (note 11)	31.0	<u>(8.2)</u>	32.5	<u>(5.5)</u>

The fair value of the foreign currency forward and equity and commodity index futures contracts of \$25.3 million (2008 – \$36.7 million) is reported as \$26.2 million (2008 - \$38.2 million) in accounts receivable and \$0.9 million (2008 - \$1.5 million) in accounts payable and accrued liabilities.

The interest rate swap agreements are designated as hedges for accounting purposes, which results in interest expense related to certain long-term debt being recorded in the financial statements at the hedged rates rather than at the contractual interest rates. The interest rate swap contracts result in the University fixing a weighted average long-term interest rate of 6.71% (2008 - 6.74%) on certain debt obligations instead of paying a weighted average short-term floating interest rate of 2.38% (2008 – 4.51%). These long-term contracts were entered into in years when interest rates were higher than current rates. These swap agreements require a periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The cash settlement is the difference between the contractual rate of interest and the current market rate, based on a notional amount. The fair value of the interest rate swap contracts of \$8.2 million (2008 - \$5.5 million) is included in other long-term debt. The change in the fair value of \$2.7 million (2008 - \$0.7 million) is recorded as an increase in unrestricted deficit in the statement of changes in net assets.

## Uncalled commitments

As at April 30, 2009, approximately 12.2% (2008 – 9.0%) of the University's investment portfolio is 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 and real assets 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, 2009, the University had uncalled commitments of approximately \$240.6 million (2008 - \$246.0 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called. The University generally makes commitments to newly formed private investment funds each year as part of an overall investment program centered on such funds.

## 6. Capital assets

(millions of dollars)

	2009		2008	
	Total cost	Accumulated amortization	Total cost	Accumulated amortization
Land	71.8		46.1	
Buildings	1,836.5	684.0	1,764.7	643.1
Equipment and furnishings	1,074.2	822.6	999.1	773.1
Library books	446.2	389.7	421.0	362.9
	<u>3,428.7</u>	<u>1,896.3</u>	<u>3,230.9</u>	<u>1,779.1</u>
Less accumulated amortization	<u>(1,896.3)</u>		<u>(1,779.1)</u>	
Net book value	<u>1,532.4</u>		<u>1,451.8</u>	

The University develops replacement property values of buildings and contents for insurance purposes using various sources and valuation methods which conform to insurance industry practice and standards. Fine art and rare book collections are valued by the appropriate University officers. The insured replacement value of buildings is approximately \$3.7 billion and contents is approximately \$1.9 billion, which includes library books of approximately \$0.7 billion.

As at April 30, 2009, the University had \$35.5 million (2008 - \$94.3 million) in construction in progress that was included in buildings.

## 7. Series A senior unsecured debenture

On July 18, 2001, the University issued Series A senior unsecured debenture in the aggregate principal amount of \$160.0 million at a price of \$999.62 for proceeds of \$159.9 million. The debenture bears interest at 6.78%, which is payable semi-annually on January 18 and July 18 with the principal amount to be repaid on July 18, 2031. The proceeds of the issuance have been primarily used to finance capital projects including real estate acquisitions and the construction of student residences and parking facilities. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2009 was \$199.4 million (2008 - \$211.3 million) compared to a carrying value of \$158.8 million (2008 - \$158.8 million).

## 8. Series B senior unsecured debenture

On December 15, 2003, the University issued Series B senior unsecured debenture in the aggregate principal amount of \$200.0 million at a price of \$1,000 for proceeds of \$200.0 million. The debenture bears interest at 5.841%, which is payable semi-annually on June 15 and December 15 with the principal amount to be repaid on December 15, 2043. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2009 was \$229.6 million (2008 - \$247.1 million) compared to a carrying value of \$199.1 million (2008 - \$199.1 million).

## 9. Series C senior unsecured debenture

On November 16, 2005, the University issued Series C senior unsecured debenture in the aggregate principal amount of \$75.0 million at a price of \$1,000 for proceeds of \$75.0 million. The debenture bears interest at 4.937%, which is payable semi-annually on May 16 and November 16 with the principal amount to be repaid on November 16, 2045. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of

the debenture at April 30, 2009 was \$75.1 million (2008 - \$80.2 million) compared to a carrying value of \$74.7 million (2008 - \$74.7 million).

## 10. Series D senior unsecured debenture

On December 13, 2006, the University issued Series D senior unsecured debenture in the aggregate principal amount of \$75.0 million at a price of \$1,000 for proceeds of \$75.0 million. The debenture bears interest at 4.493%, which is payable semi-annually on June 13 and December 13 with the principal amount to be repaid on December 13, 2046. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2009 was \$69.1 million (2008 - \$74.6 million) compared to a carrying value of \$74.4 million (2008 - \$74.4 million).

## 11. Other long-term debt

Other long-term debt consists of mortgages of \$13.3 million (2008 - \$13.7 million) maturing from 2010 to 2020 against which the related properties are pledged as security, term loans of \$32.7 million (2008 - \$34.4 million) maturing from 2009 to 2024, of which the current portion of \$2.3 million (2008 - \$2.2 million) is included in accounts payable and accrued liabilities, and the fair value of the interest rate swap contracts of \$8.2 million (2008 - \$5.5 million). The weighted average effective interest rate of the mortgages and term loans, after giving effect to the interest rate swaps, was 7.24% (2008 - 7.24%) and 6.61% (2008 - 6.64%), respectively. The fair value of other long-term debt at April 30, 2009 was \$54.2 million (2008 - \$53.6 million) compared to a carrying amount of \$54.2 million (2008 - \$53.6 million). Anticipated requirements to meet the principal portion of the other long-term debt repayments over the next five years are as follows: 2010 - \$2.3 million, 2011 - \$8.0 million, 2012 - \$2.5 million, 2013 - \$2.5 million, 2014 - \$2.6 million.

## 12. Deferred contributions

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

	(millions of dollars)	
	<b>2009</b>	2008
Balance, beginning of year	<b>346.1</b>	341.3
Grants, donations and investment income	<b>480.5</b>	463.5
Transfer to University of Toronto Schools		(6.7)
Transfer to endowments		(2.4)
Purchase of land		(1.4)
Recognized as revenue during the year	<b>(498.2)</b>	(448.2)
Balance, end of year	<b>328.4</b>	346.1

The deferred contributions will be spent as follows:

	(millions of dollars)	
	<b>2009</b>	2008
Research	<b>191.3</b>	201.9
Student aid	<b>38.2</b>	55.7
Other restricted purposes	<b>98.9</b>	88.5
	<b>328.4</b>	346.1



### 13. 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 recorded as revenue in the 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)	
	2009	2008
Balance, beginning of year	718.1	652.4
Less amortization of deferred capital contributions	(52.5)	(47.0)
Less transfer to University of Toronto Schools		(1.9)
Add contributions received for capital asset purchases	165.4	114.6
Balance, end of year	831.0	718.1

This balance represents:

	(millions of dollars)	
	2009	2008
Amount used for the purchase of capital assets	698.4	632.6
Amount to be spent on capital assets	132.6	85.5
	831.0	718.1

### 14. Internally restricted net assets

	(millions of dollars)	
	2009	2008
Investment in capital assets	383.8	371.9
Unexpended operating funds		
Net divisional reserves carried forward	241.3	244.8
Employee future benefits		
Pensions	(90.7)	(87.9)
Other	(259.5)	(219.9)
Supplemental retirement arrangement (note 4)	118.6	184.1
Pension plan reserve (note 4)	12.4	
Departmental trust funds	67.7	71.7
Alterations and renovations	62.9	62.9
Research overhead	13.7	12.1
Other funds	12.6	11.7
	562.8	651.4

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

#### a) Investment in capital assets -

Investment in capital assets represents the amount of net assets that are not available for other purposes because they have been invested in 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) Unexpended operating funds -**

Divisions are permitted to carry forward unspent budgets at the end of each year for expenditure in the following year. These amounts include reserves for operating contingencies, reserves for future commitments and other employee future benefit costs and unfilled purchase orders that have been committed for goods or services to be received in the following year. These reserves have been reduced by the vacation pay accrual, representing the unfunded cost of vacation credits earned but not taken by administrative employee groups at year end, and by the voluntary early retirement liability for faculty and librarians, representing the unfunded liability of voluntary early retirement incentive costs paid to or committed to specific faculty members. This category has also been reduced by the unfunded portion of employee future benefits obligations offset by funds set aside to meet the future obligations of the supplemental retirement arrangement.

**c) Departmental trust funds -**

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

**d) Alterations and renovations -**

These represent unspent funds in respect of approved alterations and renovations projects in progress at the end of the fiscal year less amounts spent without funding on hand.

**e) Research overhead -**

Research overhead recoveries from customers in calendar year 2008 are appropriated and available for spending in the following fiscal year.

**f) Other funds -**

These funds are 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.

## **15. 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 endowment principal is required to be maintained intact subject to the University's preservation of capital policy. 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.

Investment income on endowments, which comprises of interest, dividend income and realized and unrealized gains and losses, is recorded in the statement of operations when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. 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. The investment policy has set the real rate of return objective at 4% with the aim of providing steady, predictable investment returns. Due to poor investment markets, no amount was made available for spending from endowments in fiscal 2009. In fiscal 2008, \$7.65 per unit of LTCAP was made available for spending, representing 3.5% of the opening fair value per unit of the endowment pool. The amount made available for spending must normally fall between a range of 3% to 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 individual endowment funds without sufficient accumulated reinvestment income, endowment capital is used in the current year. This amount is expected to be recovered by future net investment income.

In 2009, there was an investment loss of \$461.7 million on externally restricted endowments which was deducted from endowment net assets and an \$83.3 million loss on internally restricted endowments which was recorded as part of investment loss in the statement of operations and was offset by a transfer from internally restricted endowments to unrestricted deficit.

In 2008, there was an investment loss of \$33.6 million on externally restricted endowments. In accordance with the preservation of capital policy, this loss and the amount made available for spending of \$52.5 million, which total \$86.1 million, were deducted from endowment net assets. The amount made available for spending of \$52.5 million was recorded as income in the statement of operations. There was a \$6.2 million loss on internally restricted endowments which was recorded as a reduction of investment income in the statement of operations and was offset by a transfer from internally restricted endowments to unrestricted deficit. The amount made available for spending from internally restricted endowments of \$9.6 million was also transferred to the unrestricted deficit, thereby reducing the unrestricted deficit by that amount.

Net assets restricted for endowments consist of the following:

	(millions of dollars)	
	<b>2009</b>	2008
Externally restricted endowments	<b>1,081.2</b>	1,465.1
Internally restricted endowments	<b>205.1</b>	289.7
	<b><u>1,286.3</u></b>	<u>1,754.8</u>

## 16. Ontario Student Opportunity Trust Fund

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund (“OSOTF”) matching program to award student aid as a result of raising an equal amount of endowed donations. The University also matched certain of these endowed donations.

<b>Phase 1:</b>	(thousands of dollars)	
	<b>2009</b>	2008
Endowments at book value, beginning of year	<b>354,144</b>	354,910
University matching (transfer to University of Toronto Schools)		(13,012)
Transfer (to) from expendable funds	<b>(68,028)</b>	12,246
Endowments at book value, end of year	<b>286,116</b>	354,144
Cumulative unrealized losses	<b>(46,771)</b>	(9,908)
Endowments at fair value, end of year	<b><u>239,345</u></b>	<u>344,236</u>
Expendable funds available for awards, beginning of year	<b>23,590</b>	22,163
Realized investment income (loss)	<b>(68,025)</b>	24,857
Transfer (to) from endowment balance	<b>68,028</b>	(12,246)
Bursaries awarded	<b>(11,271)</b>	(11,184)
Expendable funds available for awards, end of year	<b><u>12,322</u></b>	<u>23,590</u>
Number of award recipients	<b><u>3,657</u></b>	<u>3,595</u>

**Phase 2:**

(thousands of dollars)

	2009		2008	
	University of Toronto	Affiliates	University of Toronto	Affiliates
Endowments at book value, beginning of year	42,486	5,180	42,284	5,253
Transfer (to) from expendable funds	(3,909)	(556)	202	(73)
University matching	2			
Endowments at book value, end of year	<u>38,579</u>	<u>4,624</u>	42,486	5,180
Cumulative unrealized losses	<u>(9,838)</u>		<u>(906)</u>	
Endowments at fair value, end of year	<u>28,741</u>		<u>41,580</u>	
Expendable funds available for awards, beginning of year	2,328	189	2,085	164
Realized investment income (loss)	(3,907)	(414)	1,792	139
Transfer (to) from endowment balance	3,909	556	(202)	73
Bursaries awarded	<u>(1,328)</u>	<u>(163)</u>	<u>(1,347)</u>	<u>(187)</u>
Expendable funds available for awards, end of year	<u>1,002</u>	<u>168</u>	2,328	189
Number of award recipients	<u>508</u>	<u>92</u>	<u>575</u>	<u>87</u>

Book value in this note represents contributions received plus a portion of realized investment income.

The expendable funds available for awards are included in deferred contributions (note 12) on the balance sheet.

The endowments and expendable balances of the affiliates are not included in these financial statements.

## 17. 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 of these endowed donations.

(for the year ended March 31)*	(thousands of dollars)			
	2009		2008	
	University of Toronto	Affiliates	University of Toronto	Affiliates
Endowments at book value, beginning of year	49,020	7,352	34,548	4,812
Donations received	1,591	759	3,593	829
Government matching received	4,680	643	4,693	1,684
University matching	85	63	312	
Transfer (to) from expendable funds	(9,199)	(713)	5,874	27
Endowments at book value, end of year	46,177	8,104	49,020	7,352
Cumulative unrealized losses	(12,246)		(8,080)	
Endowments at fair value, end of year	33,931		40,940	
Expendable funds available for awards, beginning of year	1,300	(14)	906	45
Realized investment income (loss)	(8,738)	(715)	6,925	72
Donations received	10			
University matching			38	
Transfer (to) from endowment balance	9,199	713	(5,874)	(27)
Bursaries awarded	(1,270)	(127)	(695)	(104)
Expendable funds available for awards, end of year	501	(143)	1,300	(14)
Number of award recipients	506	59	292	50

\*As per Ministry of Training, Colleges and Universities guidelines.

## 18. Net change in other non-cash items

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

	(millions of dollars)	
	2009	2008
Accounts receivable	(33.9)	25.0
Inventories and prepaid expenses	1.4	(2.6)
Deferred contributions before transfers to internally restricted net assets and endowments	(17.7)	8.6
Accounts payable and accrued liabilities	19.3	4.0
	(30.9)	35.0

## 19. Donations

During the year, the University received donations of \$131.5 million (2008 - \$92.6 million). Of that amount, \$49.4 million (2008 - \$36.4 million) is recorded as a direct addition to endowments in accordance with the accounting policy and is not recorded as donations revenue.

## 20. Government and other grants for restricted purposes

During the year, the University received \$373.2 million (2008 - \$349.7 million) of government and other grants for research and \$130.7 million (2008 - \$73.1 million) for capital infrastructure, of which \$95.2 million (2008 - \$82.9 million) was deferred and \$408.7 million (2008 - \$339.9 million) was recorded as revenue.

## 21. Related entity

The University is a member, with six other universities, of a joint venture called the Tri-universities Meson Facility (“TRIUMF”), Canada’s national laboratory for particle and nuclear physics located on the University of British Columbia (“UBC”) campus. TRIUMF is an unincorporated registered charity and each university has an undivided 1/8 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 are not included in these financial statements (see also note 23(b)).

The following financial information at March 31 for TRIUMF was prepared in accordance with Canadian generally accepted accounting principles except that all capital assets and related provisions for decommissioning costs, if any, are expensed in the year in which the costs are incurred.

	(millions of dollars)	
	2009	2008
	(unaudited)	
Total assets	17.1	16.6
Total liabilities	13.7	11.4
Total fund balances	3.4	5.2
Revenues	59.8	67.7
Expenses	61.6	66.4
Excess (deficiency) of revenues over expenses	(1.8)	1.3

## 22. Other commitments

- The estimated cost to complete construction and renovation projects in progress at April 30, 2009, which will be funded by government grants, donations and operations, is approximately \$191.3 million (2008 - \$199.2 million).
- The annual payments under various operating leases are approximately \$15.0 million.

## 23. Contingencies

- 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. At April 30, 2009, the amount of loans guaranteed was \$8.4 million (2008 - \$8.3 million). The University’s estimated exposure under these guarantees is not material.

- b) The members of the TRIUMF joint venture and the Canadian Nuclear Safety Commission (“CNSC”) approved a decommissioning plan which requires all members to be severally responsible for their share of the decommissioning costs, which were estimated at \$44.0 million as of November 2007, 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, the University’s share was estimated at \$5.5 million. TRIUMF has put in place a plan for funding the cost of decommissioning which does not require any payments from the joint venture partners.
- c) The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. At April 30, 2009, the University believes it has valid defenses and appropriate insurance coverage in place on certain claims which are not expected to have a material impact on the University's financial position. There also exist 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 liability is determinable or adjustments to the amount recorded are determined to be required.
- d) The University was formerly a member of a reciprocal exchange of insurance risks in association with 56 other Canadian universities. This self-insurance co-operative is named the Canadian Universities Reciprocal Insurance Exchange (“CURIE”) and involves a contractual agreement to share the insurable property and liability risks of member universities arising during the period of membership. Effective January 1, 2008, the University terminated its membership in CURIE and obtained insurance coverage in the commercial market.

As a consequence, the University will no longer be eligible to receive its 8.5% pro-rata share of any potential future surplus distribution and will continue to share in any deficits generated by claims arising during the University’s period of membership in CURIE. As at December 31, 2008, the latest financial statements available, CURIE had a surplus of \$17.7 million (2007 - \$16.8 million). The University believes it will not have to make any payments to CURIE.

**Appendix**  
**Supplementary Report**  
**By Fund**  
**April 30, 2009**  
**(Unaudited)**



## HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2009

(Millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
<b>Statement of Operations</b>					
Revenues	\$ 1,350.6	\$ 144.9	\$ 63.0	\$ 341.0	\$ 1,899.5
Expenses	\$ 1,384.1	\$ 144.7	\$ 108.0	\$ 431.9	\$ 2,068.7
Net Income (Loss)	\$ (33.5)	\$ 0.2	\$ (45.0)	\$ (90.9)	\$ (169.2)
<b>Balance Sheet</b>					
Assets	\$ 761.3	\$ 307.7	\$ 1,143.9	\$ 1,696.1	\$ 3,909.0
Liabilities	\$ 736.6	\$ 305.7	\$ 907.5	\$ 342.1	\$ 2,291.9
Net Assets	\$ 24.7	\$ 2.0	\$ 236.4	\$ 1,354.0	\$ 1,617.1
<b>Net Assets composed of:</b>					
Endowments				\$ 1,286.3	\$ 1,286.3
Investment in Capital Assets		\$ 101.0	\$ 282.8		\$ 383.8
Internally Restricted Net Assets	\$ 76.7	\$ 11.3	\$ 23.3	\$ 67.7	\$ 179.0
Unrestricted Deficit	\$ (52.0)	\$ (110.3)	\$ (69.7)		\$ (232.0)
	\$ 24.7	\$ 2.0	\$ 236.4	\$ 1,354.0	\$ 1,617.1

## HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2008

(Millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
<b>Statement of Operations</b>					
Revenues	\$ 1,379.2	\$ 133.8	\$ 66.2	\$ 369.7	\$ 1,948.9
Expenses	\$ 1,275.9	\$ 136.6	\$ 90.7	\$ 395.1	\$ 1,898.3
Net Income (Loss)	\$ 103.3	\$ (2.8)	\$ (24.5)	\$ (25.4)	\$ 50.6
<b>Balance Sheet</b>					
Assets	\$ 788.5	\$ 310.7	\$ 1,031.5	\$ 2,174.6	\$ 4,305.3
Liabilities	\$ 661.4	\$ 308.6	\$ 812.9	\$ 348.1	\$ 2,131.0
Net Assets	\$ 127.1	\$ 2.1	\$ 218.6	\$ 1,826.5	\$ 2,174.3
<b>Net Assets composed of:</b>					
Endowments				\$ 1,754.8	\$ 1,754.8
Investment in Capital Assets		\$ 104.7	\$ 267.2		\$ 371.9
Internally Restricted Net Assets	\$ 173.1	\$ 10.8	\$ 23.9	\$ 71.7	\$ 279.5
Unrestricted Deficit	\$ (46.0)	\$ (113.4)	\$ (72.5)		\$ (231.9)
	\$ 127.1	\$ 2.1	\$ 218.6	\$ 1,826.5	\$ 2,174.3

## PURPOSE OF THIS SUPPLEMENTARY REPORT

The University of Toronto's financial statements report the University's assets, liabilities, net assets, revenues and expenses on a single column basis. The purpose of this supplementary report is to show the University's financial statement information by fund in a format consistent with how the University manages its finances, that is, by fund. Schedules 1 and 2 show the balance sheet and statement of operations and changes in unrestricted deficit by fund.

**The operating fund** includes teaching and administrative activities supported mainly by government operating grants, student fees and sales of supplies and services.

**Ancillary operations** include residences, food and beverage services, parking, Hart House, Real Estate Division and U of T Press. All ancillary assets, liabilities, net assets, revenues and expenses are recorded in this fund.

**The capital fund** includes all capital assets – land, buildings, furnishings, computers, etc. - except for those of the ancillary operations. Contributions to the University for capital assets other than ancillaries are recorded in this fund.

**Restricted funds** include donations (including endowments), research grants and contracts. Each donation, usually supported by an agreement between the University and the donor, or a collection of small donations with similar purpose, is recorded in its own fund, and managed according to agreed upon terms and conditions. Each research grant or contract is recorded in its own fund and managed in accordance with the terms and conditions required by the sponsor of the funds. There are several thousand individual restricted funds.

The key drivers of financial performance described in the financial highlights affect the various funds as follows:

- Student enrolment growth is mostly reflected in the operating fund and in ancillary operations.
- Growth in research activity is reflected in restricted funds.
- Salaries and benefits growth is mostly reflected in the operating fund.
- Growth in space is reflected in ancillary operations (residences and parking facilities) and the capital fund (all other facilities, including academic teaching and research facilities).
- Donations are reflected in restricted funds.
- Endowments are reflected in restricted funds.
- Investment earnings are reflected in all funds, but predominantly in the operating fund and in restricted funds.

**Schedule 1  
(Unaudited)  
UNIVERSITY OF TORONTO  
BALANCE SHEET  
April 30, 2009**

(with comparative figures at April 30, 2008)  
(millions of dollars)

	<u>Operating fund</u>	<u>Ancillary operations</u>	<u>Capital fund</u>	<u>Restricted funds</u>	<u>2009 Total</u>	<u>2008 Total</u>
<b>ASSETS</b>						
<b>Current</b>						
Cash and short-term investments	706.4	(14.3)	(116.0)	247.1	823.2	555.7
Accounts receivable	48.7	10.5		60.7	119.9	95.4
Inventories and prepaid expenses	6.2	8.2			14.4	15.8
Long-term accounts receivable			30.8		30.8	21.4
Investments				1,388.3	1,388.3	2,165.2
Capital assets, net		303.3	1,229.1		1,532.4	1,451.8
	<u>761.3</u>	<u>307.7</u>	<u>1,143.9</u>	<u>1,696.1</u>	<u>3,909.0</u>	<u>4,305.3</u>
<b>LIABILITIES</b>						
<b>Current</b>						
Accounts payable and accrued liabilities	128.5	21.8	18.8	13.7	182.8	163.5
Deferred contributions				328.4	328.4	346.1
Accrued pension liability	90.7				90.7	87.9
Employee future benefit obligation other than pension	300.1				300.1	257.0
Internal loans	217.3	229.6	(446.9)			
Series A - senior unsecured debenture			158.8		158.8	158.8
Series B - senior unsecured debenture			199.1		199.1	199.1
Series C - senior unsecured debenture			74.7		74.7	74.7
Series D - senior unsecured debenture			74.4		74.4	74.4
Other long-term debt		44.8	7.1		51.9	51.4
Deferred capital contributions		9.5	821.5		831.0	718.1
	<u>736.6</u>	<u>305.7</u>	<u>907.5</u>	<u>342.1</u>	<u>2,291.9</u>	<u>2,131.0</u>
<b>NET ASSETS</b>						
Unrestricted deficit	(52.0)	(110.3)	(69.7)		(232.0)	(231.9)
Internally restricted	76.7	11.3	23.3	67.7	179.0	279.5
Investment in capital assets		101.0	282.8		383.8	371.9
Endowments				1,286.3	1,286.3	1,754.8
	<u>24.7</u>	<u>2.0</u>	<u>236.4</u>	<u>1,354.0</u>	<u>1,617.1</u>	<u>2,174.3</u>
	<u>761.3</u>	<u>307.7</u>	<u>1,143.9</u>	<u>1,696.1</u>	<u>3,909.0</u>	<u>4,305.3</u>

**Schedule 2**  
**(Unaudited)**  
**UNIVERSITY OF TORONTO**  
**STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED DEFICIT**  
**April 30, 2009**  
(with comparative figures at April 30, 2008)  
(millions of dollars)

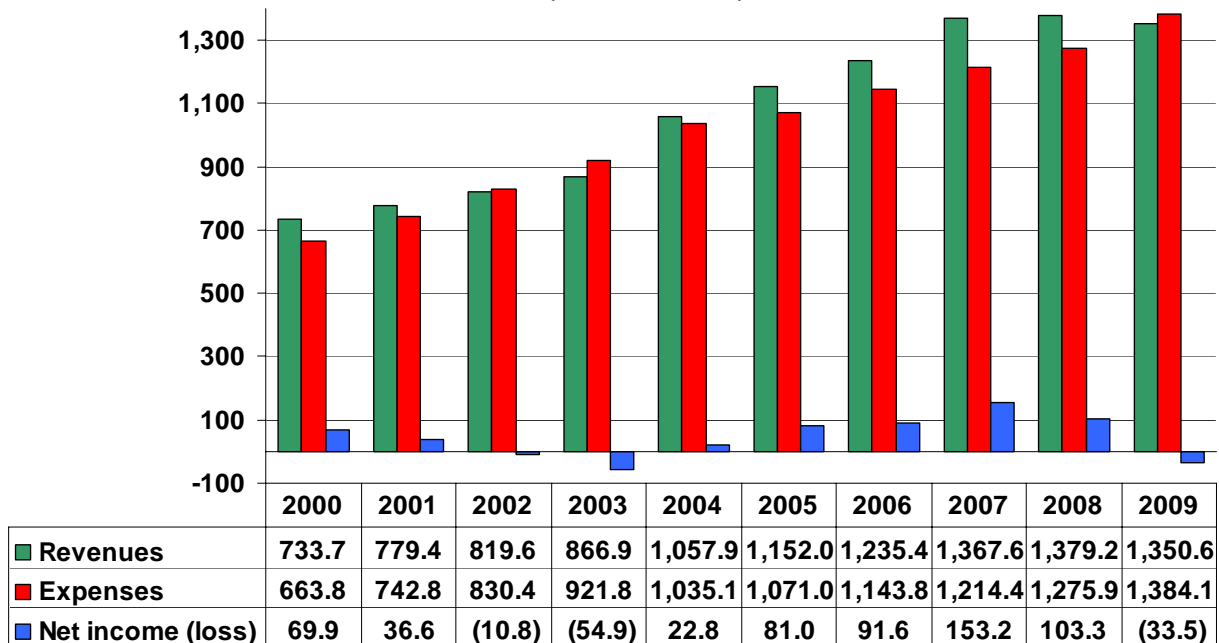
	Operating fund	Ancillary operations	Capital fund	Restricted funds	2009 Total	2008 Total
<b>REVENUES</b>						
Government grants for general operations	646.0				646.0	639.0
Student fees	629.7	6.4	0.3		636.4	583.6
Government and other grants for restricted purposes		(0.1)	50.8	358.0	408.7	339.9
Sales, services and sundry income	111.4	134.9	0.9		247.2	237.4
Investment Income (loss)						
Endowments	31.0			(114.3)	(83.3)	46.3
Other	(72.1)	2.3	3.2	3.2	(63.4)	23.6
Donations		1.4	7.8	72.9	82.1	56.2
Contract research	4.6			21.2	25.8	22.9
	<u>1,350.6</u>	<u>144.9</u>	<u>63.0</u>	<u>341.0</u>	<u>1,899.5</u>	<u>1,948.9</u>
<b>EXPENSES</b>						
Salaries	770.3	6.0		201.6	977.9	919.9
Benefits	221.5	1.4		17.5	240.4	207.5
Materials and supplies	61.5	2.3		132.0	195.8	193.7
Scholarships, fellowships and bursaries	144.6				144.6	125.0
Amortization of capital assets	9.2	11.9	95.7	0.4	117.2	104.1
Cost of sales and services		80.5			80.5	76.5
Utilities	42.1	8.9			51.0	53.0
Repairs and maintenance	50.2	15.7	10.2	6.4	82.5	65.2
Travel and conferences	21.1			21.5	42.6	40.4
Interest on long-term debt	14.3	18.0		1.4	33.7	33.0
External contracted services	20.8			8.0	28.8	31.3
Telecommunications	11.1			1.4	12.5	11.7
Other	17.4		2.1	41.7	61.2	37.0
	<u>1,384.1</u>	<u>144.7</u>	<u>108.0</u>	<u>431.9</u>	<u>2,068.7</u>	<u>1,898.3</u>
<b>Net income (loss)</b>	(33.5)	0.2	(45.0)	(90.9)	(169.2)	50.6
<b>Net transfer between funds</b>	(9.8)	2.0	3.9	3.9		
<b>Transfer of capital assets</b>	(59.1)		59.1			
<b>Unrealized loss on swap contracts</b>		(2.3)	(0.4)		(2.7)	(5.5)
<b>Change in internally restricted</b>	96.4	(0.4)	0.7	3.8	100.5	(12.8)
<b>Change in investment in capital assets</b>		3.6	(15.5)		(11.9)	(88.3)
<b>Transfers of donations to endowments</b>				(0.1)	(0.1)	3.4
<b>Transfer from internally   restricted endowments</b>				83.3	83.3	15.8
<b>Net change in unrestricted   deficit for the year</b>	(6.0)	3.1	2.8		(0.1)	(36.8)
<b>Unrestricted deficit, beginning of year</b>	(46.0)	(113.4)	(72.5)		(231.9)	(195.1)
<b>Unrestricted deficit, end of year</b>	<u>(52.0)</u>	<u>(110.3)</u>	<u>(69.7)</u>		<u>(232.0)</u>	<u>(231.9)</u>

## OPERATING FUND

The *operating fund* includes teaching and administrative activities supported mainly by government operating grants, student fees and sales of supplies and services.

Operating fund revenues for the year were \$1.35 billion, expenses were \$1.38 billion resulting in a net loss of \$33.5 million. Growth in operating fund revenues and expenses primarily reflected planned and expected increases in the number of students.

**Operating Fund Revenues and Expenses  
for the year ended April 30**  
(millions of dollars)



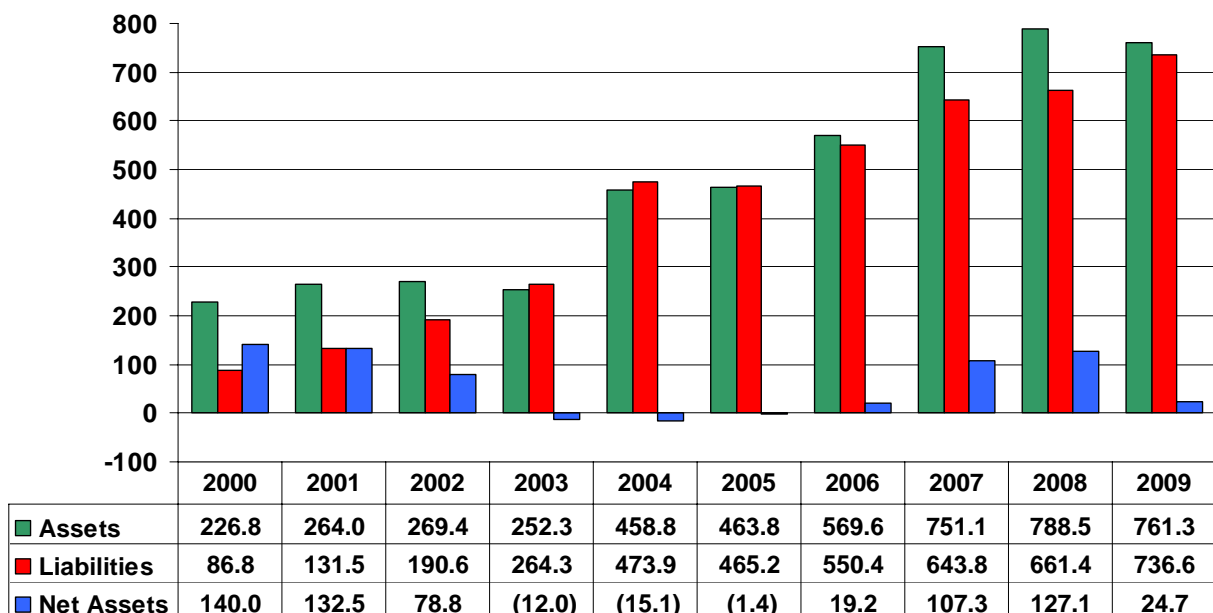
The 2009 net loss in the operating fund is a result of:

Capital expenditures not shown as expenses but transferred to the capital fund and added to the balance sheet as capital assets	<b>59.1</b>
Net increase in employee future benefit obligations	<b>(95.5)</b>
Transfers to other funds not expensed in the operating fund	<b>9.8</b>
Reduction in expenses by divisions required to cover the deficit	<b>11.2</b>
Last year's general university savings distributed to academic divisions	<b>(9.1)</b>
General University deficits to be charged to academic divisions in 2009-10	<b>(8.1)</b>
Divisional spending from funds carried forward	<b>(0.9)</b>
	<b>(33.5)</b>

The cumulative operating deficit at April 30, 2009 is \$52.0 million, whereas the long-range operating budget called for a cumulative operating deficit of \$43.9 million. Academic divisions will have to be charged \$8.1 million in 2009-10 to bring the actual cumulative deficit in line with the planned long-range budgeted deficit.

Operating fund assets at April 30, 2009 were \$761.3 million, liabilities were \$736.6 million, and net assets were \$24.7 million.

**Operating Fund Assets, Liabilities and Net Assets  
as at April 30  
(millions of dollars)**



The net assets for the year decreased from \$127.1 million in 2008 to \$24.7 million mainly due to the following:

- (\$33.5 million) net loss for the year.
- (\$68.9 million) net transfers to other funds.

The transfers to other funds were as follows:

- \$59.1 million to the capital fund to reflect capital asset expenditures in the operating fund and contributions to capital projects, which are both recorded in the capital fund.
- \$3.9 million to restricted funds in support of various matching funds initiatives.
- \$3.2 million to the capital fund for various projects.
- \$1.8 million subsidy to the ancillary operations for Woodsworth College and New College residences less \$0.6 million transfer from ancillary operations.
- \$1.5 million to ancillary operations to reduce the Innovations Foundation deficit.

There are two categories of net assets for the operating fund as follows:

- (\$52.0 million) unrestricted deficit.
- \$76.7 million internally restricted net assets.

The \$52.0 million unrestricted deficit is the “cumulative deficit” of the operating fund which is referenced in the University’s Operating Budget Report. The cumulative deficit has increased from \$46.0 million at April 30, 2008 to \$52.0 million at April 30, 2009, due to the following:

- (\$33.5 million) net loss.
- (\$68.9 million) net transfers to other funds as noted above.
- \$96.4 million transferred from the operating fund’s internally restricted net assets to fund current year’s expenditures and investment losses related to employee benefits.

Internally restricted net assets of \$76.7 million mainly include departmental reserves of \$241.3 million and funds set aside for infrastructure repairs of \$28.3 million offset by \$219.2 million of net unfunded liability associated with employee future benefits which will have to be paid from future years’ operating fund revenues.

Schedule 3 is a summary of reserves carried forward that comprise the \$76.7 million in internally restricted net assets. Included in this schedule are plans by academic divisions detailing how reserves carried forward will be spent on a one-time only basis, or in the event of a deficit, a plan for its elimination using the following categories:

a) Independently funded projects:

Included in this section are a number of projects housed in operating units which exist because they generate their own source of funds (i.e. self-funded units). Examples are continuing education programs and “fee for service” contracts. The funds generated are expected to only be applied to future expenses of that unit.

b) Research:

Funds set aside for research are included in this section. This includes funds allocated to Principal Investigators as a result of the expense reimbursement program for Faculty and Librarians, overheads, research allowance or start-up funds. Also included are funds set aside for Canada Research Chairs and EAF Chairs including any related research allowance.

c) Student assistance:

This category captures all funds set-aside for scholarships, bursaries and other student assistance.

d) Infrastructure:

This category is intended to capture funds that have been set-aside by the unit in anticipation of a major renovation to their facility; infrastructure upgrades, such as computer networking, security, equipment and furniture renewal; and associated moving costs.

e) Other academic purposes:

This section includes divisional funds that are used for purposes other than those identified above. Funds in this category include funds set-aside for anticipated budget reductions or to reserve against other fluctuations in revenue that impact divisions in accordance with the new budget model, voluntary early academic retirements, professional development, and start-up funds.

**Schedule 3  
(Unaudited)  
UNIVERSITY OF TORONTO  
SUMMARY OF RESERVES CARRIED FORWARD  
AT APRIL 30, 2009  
(with previous year comparative figures)  
(thousands of dollars)**

	<u>2008-09</u>	<u>2007-08</u>
	<u>Total</u>	<u>Total</u>
<b><u>Divisional Reserves</u></b>		
Academic	243,221	228,944
Academic services	6,615	5,885
Student services	5,959	6,516
Student assistance	7,335	7,602
Facilities & services	14,487	16,260
Administration	20,873	17,542
Administrative systems	993	701
General university	(50,117)	(30,484)
U of T Campaign	(8,069)	(8,202)
Net Divisional reserves	<u>241,297</u>	<u>244,764</u>
<b><u>Centrally held reserves</u></b>		
Pension charge commitment	(90,747)	(87,939)
Pension reserve	12,405	
Other employee future benefit obligation	(300,132)	(256,979)
Funds set aside for COLA, LTD and medical benefits	40,678	37,148
Funds set aside for SRA	118,626	184,061
Total	<u>(219,170)</u>	<u>(123,709)</u>
Research overhead	13,669	12,155
<b><u>Infrastructure</u></b>		
Accommodation & facilities directorate fund	28,253	28,181
<b><u>Other funds</u></b>		
University investment infrastructure fund	10,100	9,405
Transitional fund	560	560
Priorities fund	1,989	1,734
	<u>12,649</u>	<u>11,699</u>
Total internally restricted net assets	<u><u>76,698</u></u>	<u><u>173,090</u></u>



**Schedule 3  
(Unaudited)  
UNIVERSITY OF TORONTO  
SUMMARY OF RESERVES CARRIED FORWARD  
AT APRIL 30, 2009**

(with previous year comparative figures)  
(thousands of dollars)

	2008-09					2007-08	
	Independently Funded Projects	Research	Student Assistance	Infrastructure	Other	Total	Total
<b>ACADEMIC DIVISIONS:</b>							
<b>Arts and Science, colleges and schools:</b>							
Faculty of Arts and Science	1,601	28,210	(10,173)	774	(2,121)	18,291	39,263
University College	-	-	-	-	129	129	234
Innis College	-	-	-	-	262	262	308
Transitional Year Programme	132	22	94	-	99	347	377
Woodsworth College	500	10	800	600	174	2,084	3,005
UTSC academic	95	4,023	147	19,126	10,337	33,728	19,264
UTM academic	-	-	-	-	(11,174)	(11,174)	(14,172)
School of Continuing Studies	-	-	-	-	(3,946)	(3,946)	(4,421)
School of Graduate Studies	-	-	180	150	1,710	2,040	1,927
Graduate institutes and centres	33	103	695	252	2,451	3,534	5,038
	<u>2,361</u>	<u>32,368</u>	<u>(8,257)</u>	<u>20,902</u>	<u>(2,079)</u>	<u>45,295</u>	<u>50,823</u>
<b>Health sciences:</b>							
Faculty of Dentistry	290	344	-	-	5,655	6,289	5,447
Faculty of Medicine	15,155	19,397	10,582	4,149	41,294	90,577	89,608
Lawrence S. Bloomberg Faculty of Nursing	-	1,298	947	1,480	6,442	10,167	10,143
Leslie Dan Faculty of Pharmacy	2,318	2,212	19	-	3,748	8,297	5,577
Faculty of Physical Education and Health	345	277	-	250	4,421	5,293	2,005
	<u>18,108</u>	<u>23,528</u>	<u>11,548</u>	<u>5,879</u>	<u>61,560</u>	<u>120,623</u>	<u>112,780</u>
<b>Other professional faculties:</b>							
Faculty of Applied Science and Engineering	2,014	8,512	5,917	113	2,273	18,829	16,446
John H. Daniels Faculty of Architecture, Landscape and Design	-	-	-	-	(524)	(524)	(962)
Rotman School of Management	-	-	-	-	(6,840)	(6,840)	(2,035)
OISE/UT	4,700	2,800	2,600	15,400	5,102	30,602	23,605
Faculty of Forestry	14	685	133	20	584	1,436	1,115
Faculty of Law	-	947	665	-	83	1,695	1,976
Faculty of Information	669	237	(54)	-	2,149	3,001	2,996
Faculty of Music	1,731	151	-	-	904	2,786	2,270
Factor-Inwentash Faculty of Social Work	47	393	336	5,716	-	6,492	5,345
	<u>9,175</u>	<u>13,725</u>	<u>9,597</u>	<u>21,249</u>	<u>3,731</u>	<u>57,477</u>	<u>50,756</u>
<b>Other academic costs:</b>							
Provost Reserve Contingency	-	-	-	-	4,201	4,201	6,740
Transitional Fund	-	-	-	-	2,628	2,628	4,084
Faculty Recruitment Costs	-	-	-	-	4,988	4,988	3,009
Other	-	-	-	-	21,797	21,797	14,762
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,614</u>	<u>33,614</u>	<u>28,595</u>
Vacation Pay accrual	-	-	-	-	(11,511)	(11,511)	(10,759)
Voluntary Early Academic Retirement Program accrual	-	-	-	-	(2,277)	(2,277)	(3,251)
<b>TOTAL ACADEMIC DIVISIONS</b>	<u>29,644</u>	<u>69,621</u>	<u>12,888</u>	<u>48,030</u>	<u>83,038</u>	<u>243,221</u>	<u>228,944</u>

**Schedule 3  
(Unaudited)  
UNIVERSITY OF TORONTO  
SUMMARY OF RESERVES CARRIED FORWARD  
AT APRIL 30, 2009**  
(with previous year comparative figures)  
(thousands of dollars)

	<u>2008-09</u>	<u>2007-08</u>
	<u>Total</u>	<u>Total</u>
<b>ACADEMIC SERVICES:</b>		
U of T Computing	2,669	2,408
Robarts library	693	710
Information Commons	55	91
UTSC library	2,073	1,799
UTM library	589	602
Library - Electronic Acquisitions	536	275
<b>TOTAL ACADEMIC SERVICES</b>	<u>6,615</u>	<u>5,885</u>
<b>STUDENT SERVICES:</b>		
St. George campus	916	1,550
UTSC campus	3,496	3,188
UTM campus	1,547	1,778
<b>TOTAL STUDENT SERVICES</b>	<u>5,959</u>	<u>6,516</u>
<b>STUDENT ASSISTANCE:</b>		
Recruitment and retention	898	160
Graduate fellowships	1,122	652
UTSC campus	56	52
UTM campus	21	12
St. George campus	5,238	6,726
<b>TOTAL STUDENT ASSISTANCE</b>	<u>7,335</u>	<u>7,602</u>
<b>FACILITIES &amp; SERVICES</b>		
St. George campus	6,165	8,098
UTSC campus	4,275	4,506
UTM campus	4,047	3,656
<b>TOTAL FACILITIES &amp; SERVICES</b>	<u>14,487</u>	<u>16,260</u>

**Schedule 3**  
**(Unaudited)**  
**UNIVERSITY OF TORONTO**  
**SUMMARY OF RESERVES CARRIED FORWARD**  
**AT APRIL 30, 2009**  
(with previous year comparative figures)  
(thousands of dollars)

	<u>2008-09</u>	<u>2007-08</u>
	<u>Total</u>	<u>Total</u>
<b>CENTRAL ADMINISTRATION:</b>		
Office of the Governing Council	327	265
Office of the President	11	62
Institutional costs	774	395
Vice-President and Provost	6,860	5,706
Vice-President - Research	(645)	(131)
Vice-President and Chief Advancement Officer	(81)	117
Vice-President - University Relations	2,304	1,611
Vice-President - Business Affairs	3,733	3,004
Vice-President - Human Resources and Equity	1,195	1,112
UTSC campus	3,320	5,549
UTM campus	5,700	2,310
Vacation Pay accrual	<u>(2,625)</u>	<u>(2,458)</u>
<b>TOTAL CENTRAL ADMINISTRATION</b>	<u>20,873</u>	<u>17,542</u>
<b>ADMINISTRATIVE SYSTEMS:</b>		
AMS Integrated Systems	74	55
Student Record System	919	646
<b>TOTAL ADMINISTRATIVE SYSTEMS</b>	<u>993</u>	<u>701</u>
<b>GENERAL UNIVERSITY:</b>		
Vice-President - Human Resources and Equity	840	727
Vice-President - Business Affairs		
Long-term borrowing pool	(14,455)	3,842
Vice-President and Provost		
Matching Funds Program	(36,072)	(35,002)
Other	(430)	(51)
<b>TOTAL GENERAL UNIVERSITY</b>	<u>(50,117)</u>	<u>(30,484)</u>
<b>U of T Campaign</b>	<u>(8,069)</u>	<u>(8,202)</u>
	<u>241,297</u>	<u>244,764</u>

## Comparison of the Operating Fund Financial Results to the Operating Budget

It is important to compare the year-end results to budget to assess how well the budget has estimated the actual outcome. However, there are differences between the operating budget and the operating fund financial results that must be adjusted before the comparison can occur. These differences are summarized as follows:

- The financial statements are prepared on an accrual basis following Canadian generally accepted accounting principles (“GAAP”), while the operating budget projects cash receipts and expenditures.
- The financial statements include amortization of capital assets while the operating budget includes estimated cash outlays for these assets.
- The financial statements include the costs of pensions and other benefits in accordance with Canadian GAAP, while the operating budget includes the projected cash premiums to be paid for the year.

These differences require a \$83.8 million adjustment to the financial statements’ revenues and \$10.9 million to expenses to make the numbers comparable to budget. Once these adjustments have been made, it is possible to compare the operating fund budget with the year-end results and to assess how closely actual results conformed to plan. In summary, the adjustment between the financial statements and the operating budget is as follows:

	<u>Financial Statements</u>	<u>Adjustments</u>	<u>Adjusted Financial Statements</u>	<u>Original budget</u>	<u>Favourable (unfavourable) variance</u>	<u>% Variance</u>
Operating fund revenues	1,350.6	83.8	1,434.4	1,382.1	52.3	3.8%
Operating fund expenses	1,384.1					
Capital asset transfer	<u>59.1</u>					
	<u>1,443.2</u>	<u>10.9</u>	<u>1,454.1</u>	<u>1,363.9</u>	<u>(90.2)</u>	(6.6%)
Net income (loss)	<u>(92.6)</u>	<u>72.9</u>	<u>(19.7)</u>	<u>18.2</u>	<u>(37.9)</u>	

Total operating fund revenues, after adjustments, were \$1,434.4 million, as compared to budgeted revenues of \$1,382.1 million, resulting in a positive variance of \$52.3 million, or 3.8%. This positive variance was due primarily to:

- unexpected additional quality funding of \$6.9 million,
- unexpected additional undergraduate accessibility funding of \$5.3 million,
- unexpected sustainability funding of \$3.8 million,
- an unfavourable tuition fee variance of \$3.6 million primarily as a net result of lower undergraduate and graduate domestic enrolment and graduate international fees offset by higher undergraduate international enrolments.
- an unfavourable investment income variance of \$13.4 million due to investment returns of 1.83% compared to budgeted returns of 4.33% offset by higher than budgeted invested capital.
- an increase of \$9.8 million in unbudgeted divisional grants,
- a \$10.5 million increase in student fees from academic programs for which no provincial government funding is provided and,
- an increase of \$39.9 million in divisional sales and services.

Total operating fund expenses, after adjustments, were \$1,454.1 million, as compared to budgeted expenses of \$1,363.9 million resulting in a negative variance of \$90.2 million. This negative variance was primarily due to additional divisional expenses in support of the academic mission and the higher than budgeted cost of legal expenses of \$6.9 million offset by a saving in the utilities budget of \$2.6 million attributed to lower than anticipated costs of gas due to lower consumption and lower cost of steam due to favourable rates and lower than budgeted consumption. A detailed analysis is shown below.

**Schedule 4**  
**(Unaudited)**  
**UNIVERSITY OF TORONTO**  
**COMPARISON OF ACTUAL OPERATING FUND RESULTS WITH**  
**ORIGINAL BUDGET FOR THE YEAR ENDED APRIL 30, 2009**  
(millions of dollars)

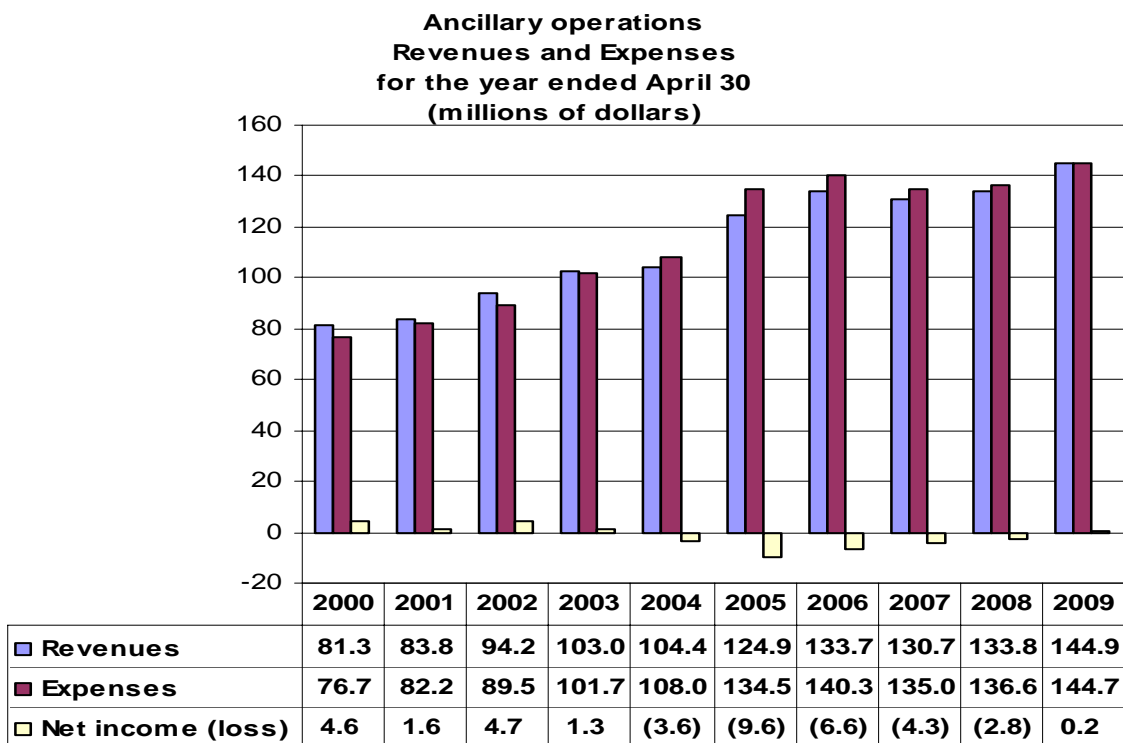
	<b>ACTUAL</b>		Adjusted Financial Statements	<b>BUDGET</b>	<b>VARIANCE</b>
	Financial Statements	Adjustments		Original budget	Favourable (Unfavourable)
<b>REVENUES</b>					
<b>General university income:</b>					
Provincial grants	601.9	0.0	601.9	583.5	18.4
Indirect cost recovery of grants and contracts	26.8	4.6	31.4	29.2	2.2
Student fees	503.3		503.3	506.9	(3.6)
Investment income:					
Endowment (chairs and student aid)	31.0		31.0	45.9	(14.9)
Other	(72.1)	83.8	11.7	25.1	(13.4)
Sundry income:					
Contract reseearch	4.6	(4.6)	0.0		0.0
Other	13.4		13.4	10.0	3.4
Municipal Taxes	4.9		4.9	4.9	
	<u>1,113.8</u>	<u>83.8</u>	<u>1,197.6</u>	<u>1,205.5</u>	<u>(7.9)</u>
<b>Divisional income:</b>					
Provincial grants	23.2		23.2	13.4	9.8
Student fees	116.3		116.3	105.8	10.5
Sales and services	97.3		97.3	57.4	39.9
	<u>236.8</u>	<u>0.0</u>	<u>236.8</u>	<u>176.6</u>	<u>60.2</u>
	<u>1,350.6</u>	<u>83.8</u>	<u>1,434.4</u>	<u>1,382.1</u>	<u>52.3</u>
<b>EXPENSES</b>					
Academic	897.1	21.5	918.6	862.7	(55.9)
Academic services	79.1		79.1	76.3	(2.8)
Student services	36.8		36.8	31.1	(5.7)
Student assistance	149.6		149.6	139.5	(10.1)
Physical plant maintenance and services	67.0		67.0	72.7	5.7
Physical plant utilities	52.8	(1.8)	51.0	53.6	2.6
Alterations and renovations	15.0		15.0		(15.0)
Administration	95.1	25.6	120.7	115.6	(5.1)
Amortization	9.2	(9.2)	0.0		
Interest expense	14.3	(14.3)	0.0		
General university expense	22.3	(10.9)	11.4	7.5	(3.9)
Municipal taxes	4.9		4.9	4.9	0.0
	<u>1,443.2</u>	<u>10.9</u>	<u>1,454.1</u>	<u>1,363.9</u>	<u>(90.2)</u>
Operating results before the following:	(92.6)	72.9	(19.7)	18.2	(37.9)
Repayment of Deficit		11.2	11.2	11.2	0.0
Change in internally restricted funds (Schedule 3)	96.4	(84.1)	12.3	0.0	12.3
Transfers	(9.8)		(9.8)	(18.2)	8.4
<b>NET CHANGE IN DEFICIT FOR THE YEAR</b>	<u>(6.0)</u>	<u>(0.0)</u>	<u>(6.0)</u>	<u>11.2</u>	<u>(17.2)</u>

## ANCILLARY OPERATIONS

*Ancillary operations* include service ancillaries (residences, food and beverage services, parking, and Hart House) and business ancillaries (Real Estate and U of T Press). All ancillary assets, liabilities, net assets, revenues and expenses are recorded in this fund.

Since 2000, a large expansion in residence, food and beverage and parking facilities has resulted in significant growth in revenues, expenses, assets and liabilities of ancillary operations.

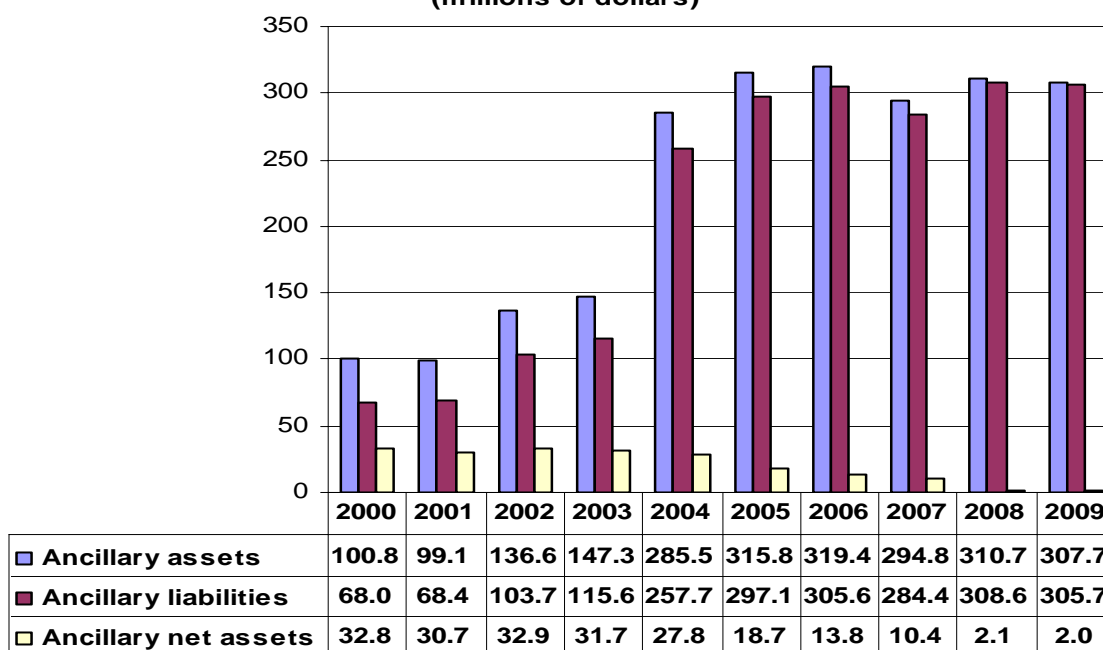
Ancillary revenues grew from \$81.3 million in 2000 to \$144.9 million in 2009, expenses grew from \$76.7 million to \$144.7 million, and the net income of \$4.6 million in 2000 became a loss of \$9.6 million by 2005 and has since improved to a net income of \$0.2 million in 2009. Almost all the capital expansion has been financed, and the net losses were primarily due to an increase in interest expense from \$3.0 million in 2000 to \$18.0 million in 2009.



Ancillaries as a group generated a net income of \$0.2 million. After transfers in of \$3.6 million from the net asset category of investment in capital assets which reflected the amortization of the capital assets financed internally by the University, other transfers in of \$1.6 million and the \$2.3 million reduction due to recording the fair value of interest rate swaps on the long-term debt, the unrestricted deficit decreased by \$3.1 million for the year to \$110.3 million.

Ancillary assets grew from \$100.8 million in 2000 to \$307.7 million while liabilities grew from \$68.0 million in 2000 to \$305.7 million in 2009. Net assets fell from \$32.8 million to \$2.0 million over the same period, essentially reflecting the impact of the additional amortization and interest expense on net income.

**Ancillary operations  
Balance Sheet  
for the year ended April 30  
(millions of dollars)**



At April 30, 2009, net assets were \$2.0 million, a reduction of \$0.1 million from April 30, 2008, due to the following:

- \$0.2 million net income for the year.
- (\$2.3 million) reduction as a result of prospectively recording directly in net assets the impact of holding interest rate swaps on long-term debt.
- \$1.8 million subsidy from the operating fund for Woodsworth College and New College residences less a (\$0.6 million) transfer to the operating fund mainly from the Mississauga conference services and Scarborough parking operations.
- (\$0.7 million) transferred to a restricted fund trust account for future maintenance and bursaries.
- \$1.5 million from the operating fund to reduce the Innovations Foundation deficit.

There are three categories of net assets for ancillary operations which together total \$2.0 million. They are:

- (\$110.3 million) in unrestricted deficit.
- \$11.3 million in internally restricted net assets
- \$101.0 million in investment in capital assets.

The investment in capital assets category reflects capital construction of facilities which have been funded by internal borrowing of the University's own funds, resulting in a corresponding increase in unrestricted deficit. Over time, investment in capital assets will be reduced as the capital assets are amortized, and unrestricted deficit will be decrease by the amount of that amortization.

Schedule 5 shows details by ancillary operation.

**Schedule 5**  
**UNIVERSITY OF TORONTO**  
**ANCILLARY OPERATIONS**  
**STATEMENT OF NET ASSETS**  
**FOR THE YEAR ENDED APRIL 30, 2009**  
(with comparative totals for 2008)  
(thousands of dollars)

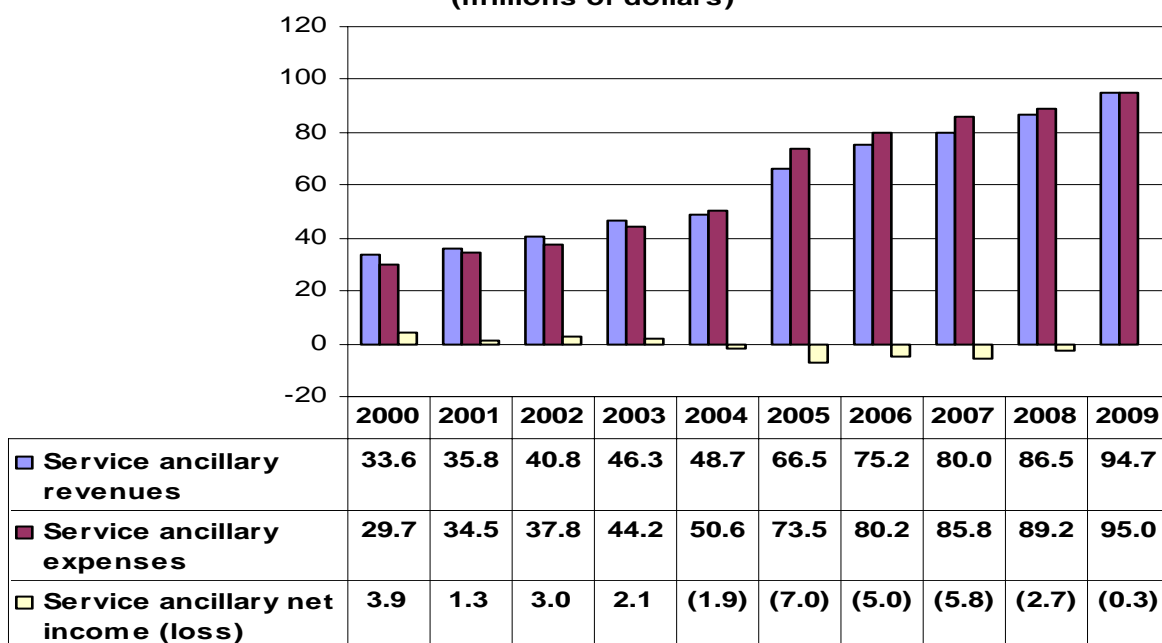
	Revenues	Expenses	Commitments and Transfers	Surplus/(Deficit)		Investment in Capital Assets	Internally Restricted	2009 Total Net Assets	2008 Total Net Assets
				Opening	Closing				
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Residences</b>									
Graduate House	3,386	3,424	38	(779)	(779)	2,816		2,037	2,108
Scarborough	5,473	5,303	166	(3,661)	(3,325)	4,090	961	1,726	1,555
Mississauga	9,309	9,847	814	(30,387)	(30,111)	24,770	526	(4,815)	(3,926)
University College	5,057	4,931	154	(1,752)	(1,472)	2,881	1,959	3,368	3,238
Innis College	2,658	2,453	(99)	951	1,057	430	1,137	2,624	2,544
New College	7,007	7,758	720	(10,129)	(10,160)	3,073	600	(6,487)	(6,088)
Family Housing	7,513	7,118	(874)	3,173	2,694	369	1,350	4,413	4,609
Woodsworth College	3,314	3,785	1,804	(24,742)	(23,409)	25,659		2,250	1,517
89 Chestnut	18,534	19,083	152	(10,618)	(11,015)	72		(10,943)	(10,594)
	<u>62,251</u>	<u>63,702</u>	<u>2,875</u>	<u>(77,944)</u>	<u>(76,520)</u>	<u>64,160</u>	<u>6,533</u>	<u>(5,827)</u>	<u>(5,037)</u>
<b>Food/Beverage Service</b>									
St. George	1,765	1,348	(152)	83	348	88	750	1,186	770
Scarborough	400	343	(90)	204	171	134	7	312	255
Mississauga	1,429	1,061	40	(673)	(265)	314	60	109	(258)
New College	602	623	140	(1,505)	(1,386)	1,387	38	39	60
University College	2,928	2,889	(96)	(126)	(183)	30	371	218	178
	<u>7,124</u>	<u>6,264</u>	<u>(158)</u>	<u>(2,017)</u>	<u>(1,315)</u>	<u>1,953</u>	<u>1,226</u>	<u>1,864</u>	<u>1,005</u>
<b>Parking</b>									
St. George	5,472	5,782	700	1,859	2,249	8,324	400	10,973	11,282
Scarborough	2,318	1,879	(189)	(6,753)	(6,503)	8,058	378	1,933	1,691
Mississauga	2,716	2,598	323	(11,601)	(11,160)	11,335	300	475	356
	<u>10,506</u>	<u>10,259</u>	<u>834</u>	<u>(16,495)</u>	<u>(15,414)</u>	<u>27,717</u>	<u>1,078</u>	<u>13,381</u>	<u>13,329</u>
<b>Hart House</b>	<u>14,870</u>	<u>14,771</u>	<u>(283)</u>	<u>707</u>	<u>523</u>	<u>2,534</u>	<u>2,144</u>	<u>5,201</u>	<u>5,102</u>
<b>University of Toronto Press</b>	48,469	47,700	63	119	951	2,691		3,642	2,873
<b>Residential Housing</b>	1,723	1,994	386	(1,109)	(994)	1,978	248	1,232	1,503
<b>University of Toronto - Innovations Foundation</b>			1,500	(11,866)	(10,366)			(10,366)	(11,866)
	<u>50,192</u>	<u>49,694</u>	<u>1,949</u>	<u>(12,856)</u>	<u>(10,409)</u>	<u>4,669</u>	<u>248</u>	<u>(5,492)</u>	<u>(7,490)</u>
<b>Total without the Swap</b>	<u>144,943</u>	<u>144,690</u>	<u>5,217</u>	<u>(108,605)</u>	<u>(103,135)</u>	<u>101,033</u>	<u>11,229</u>	<u>9,127</u>	<u>6,909</u>
Fair value of Interest Rate Swap				(4,779)	(7,111)			(7,111)	(4,779)
<b>Total with the Swap</b>	<u>144,943</u>	<u>144,690</u>	<u>5,217</u>	<u>(113,384)</u>	<u>(110,246)</u>	<u>101,033</u>	<u>11,229</u>	<u>2,016</u>	<u>2,130</u>



## Service Ancillaries

*Service ancillaries* had revenues of \$94.7 million and expenses of \$95.0 million, with a net loss of \$0.3 million for the year. Service ancillary revenues have increased by 181.8% since 2000 and expenses have risen by 219.9% due to expansion of residences, food and beverage and parking services to deal with the growth in student enrolment. The majority of this growth is due to the residence expansion with the addition of over 3,500 residence beds over the past seven years. This residence expansion has increased residence assets, liabilities, revenues and expenses considerably since 2000. Most residence operations have planned deficits for several years until residence fees can catch up with increased expenses, including large fixed rate principal and interest payments on borrowing.

**Ancillary operations - Service Ancillaries  
Revenues and Expenses  
for the year ended April 30  
(millions of dollars)**

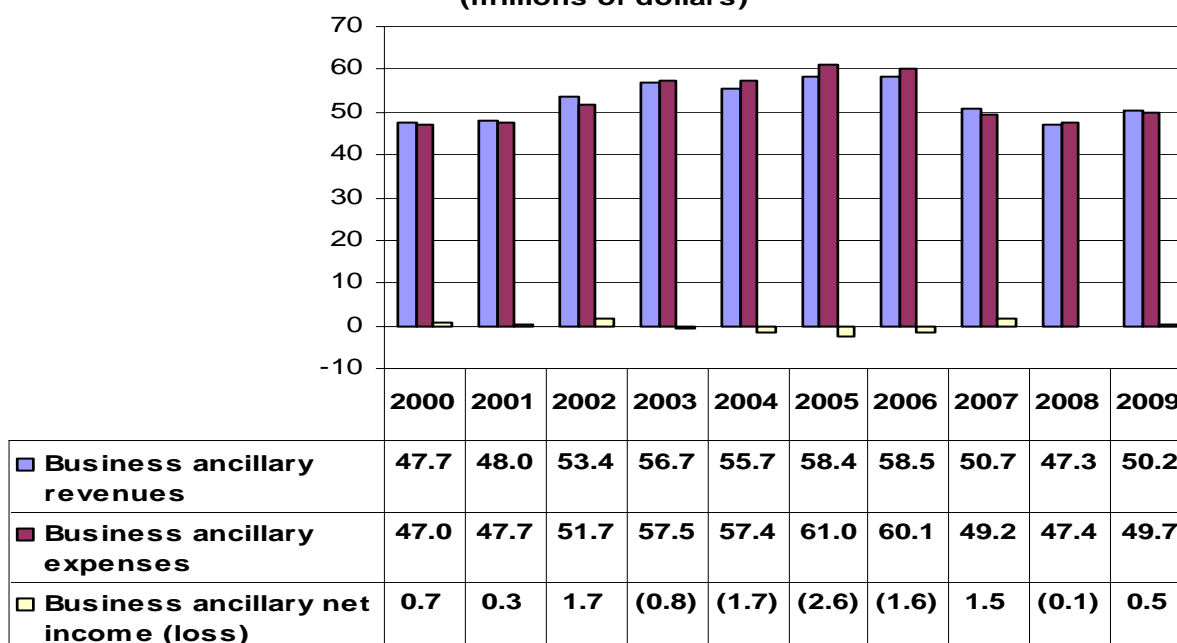


The long-term financial health of these operations is dependent upon filling the residence and parking spaces. Growth has largely been financed through long-term borrowing and through subsidy from the operating results of existing ancillary operations resulting in reduced operating margins. Where capital infrastructure growth has occurred, the individual ancillary operation is expected to break even annually in 5 years and cumulatively in 8 years.

## Business Ancillaries

**Business ancillaries** had revenues of \$50.2 million and expenses of \$49.7 million, for a net income of \$0.5 million for the year. The reduction in revenues since 2006 is a result of the transfer of the University of Toronto Innovations Foundation (UTIF) from ancillary operations to the operating fund (Vice-President, Research portfolio) effective May 1, 2006 and as a result of the U of T Press selling its printing division. The UTIF transfer within the University was made for two reasons. Firstly, UTIF had been unsuccessful at becoming economically viable as called for by its 2002 business plan. Secondly, the University has refocused its mission of transferring knowledge without taking the risks associated with investing in start-up technologies. The transfer within the University will permit closer relations with academic divisions, more disclosure and a clearer focus on the mission of knowledge transfer.

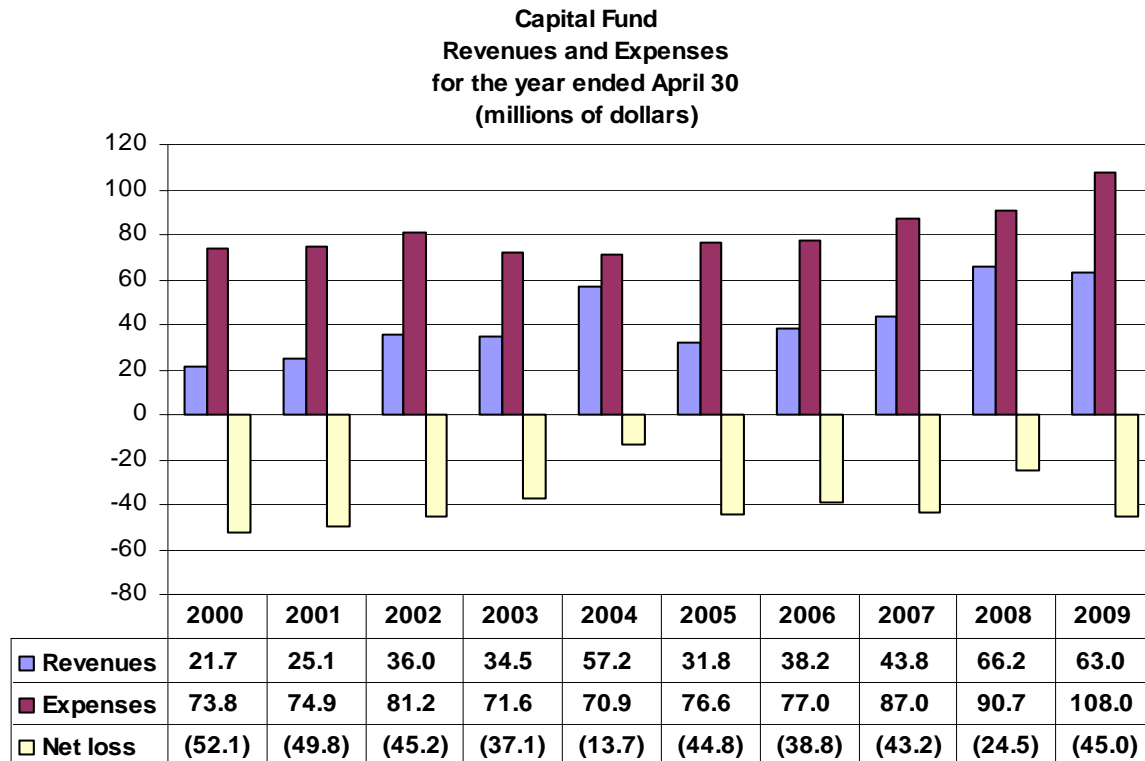
**Ancillary operations - Business Ancillaries  
Revenues and Expenses  
for the year ended April 30  
(millions of dollars)**



## CAPITAL FUND

*The capital fund* includes all capital assets – land, buildings, furnishings, computers, etc - except for those of the ancillary operations. Contributions to the University for capital assets other than ancillaries are recorded in this fund.

Capital fund revenues for the year were \$63.0 million and expenses were \$108.0 million, for a net loss of \$45.0 million. Revenues include an amount equal to the amortization of capital assets that were financed by grants and donations, while expenses include the amortization of all capital assets.



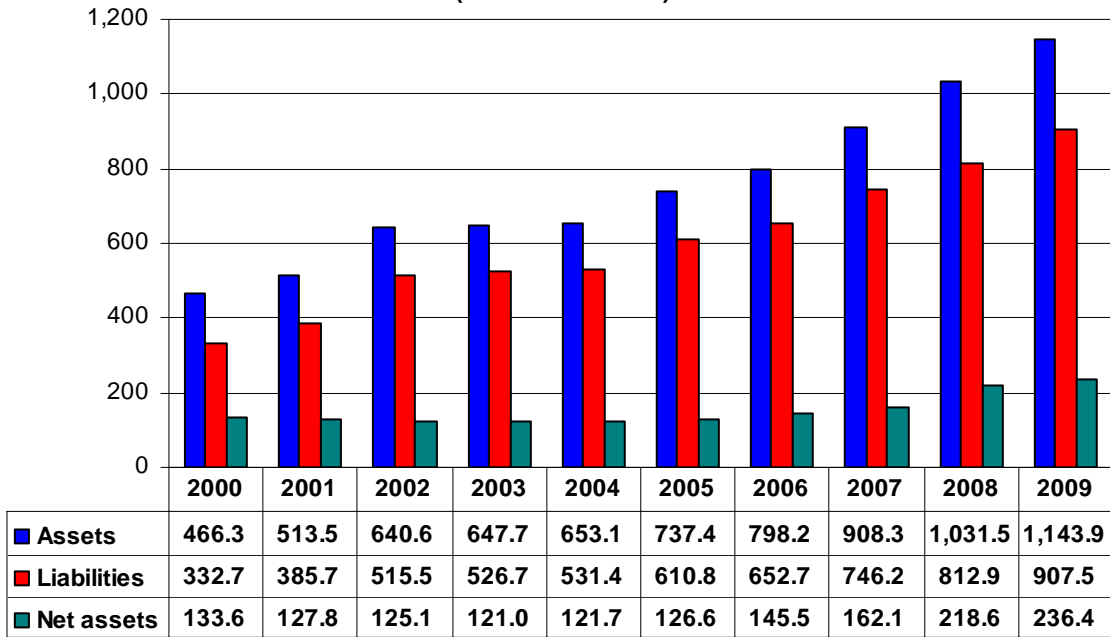
The reason for this loss is that a significant share of the revenue funding the amortization of capital assets and funding capital projects is recorded as revenue in the operating fund and transferred to the capital fund as an interfund transfer, and therefore is not reported in revenues or expenses of the capital fund.

A total of \$63.0 million was transferred to the capital fund to reflect \$59.1 million in capital asset expenditures in the operating fund that must be recorded in the capital fund combined with a transfer of \$3.2 million in contributions from the operating fund and \$0.7 million from restricted funds.

Capital fund assets were \$1,143.9 million, liabilities were \$907.5 million and net assets were \$236.4 million. Net assets comprised \$282.8 million investment in capital assets, partially offset by \$46.4 million in unrestricted deficit and internally restricted funds.

The assets of the capital fund have grown from \$466.3 million in 2000 to \$1,143.9 million in 2009 primarily as a result of the University's large capital construction program. Liabilities have also grown from \$332.7 million in 2000 to \$907.5 million in 2009. This growth in liabilities reflects the increase in long-term debt to \$514.1 million, and growth in deferred capital contributions to \$821.5 million. This growth is partly offset by internal loans of \$446.9 million because the borrowing of long-term debt is recorded in the capital fund and internal loans are provided to departments or operations that have the responsibility to repay the loans. These internal loans are recorded as a liability in the operating or ancillary fund, as appropriate, and are recorded as a receivable in the capital fund.

**Capital Fund  
Balance Sheet  
as at April 30  
(millions of dollars)**



## RESTRICTED FUNDS

*Restricted funds* include donations (including endowments), research grants and contracts. Each donation, usually supported by an agreement between the University and the donor, or a collection of small donations with similar purpose, is recorded in its own fund, and managed according to agreed upon terms and conditions. Each research grant or contract is also recorded in its own fund and managed in accordance with the terms and conditions required by the sponsor of the funds. There are over 16,000 individual restricted funds.

Restricted funds exclude research grants for capital assets and donations designated for capital assets, both of which are recorded in the capital fund. When restricted funds are provided for, or spent on, capital assets, they are recorded in the capital fund.

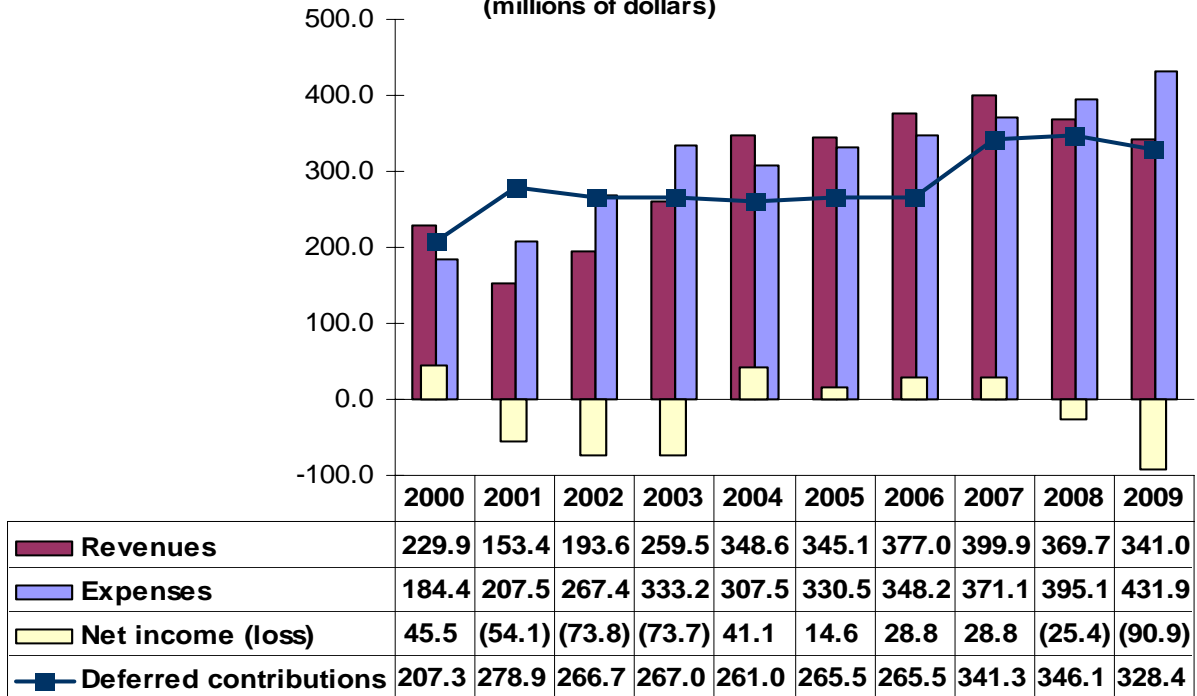
Financial reporting for restricted funds follows specific rules with respect to revenue recognition that differ from the rules for unrestricted receipts. They are:

- Restricted grants and expendable donations are recorded as revenue when spent, while unrestricted grants and expendable donations are recorded as revenue when received.
- Unspent restricted grants and donations are recorded as liabilities known as deferred contributions.
- Endowed donations are not recorded as revenue. They are added directly to the balance sheet as net assets.
- Investment earnings on externally restricted endowments that are made available for spending are recorded as revenue and the amount for preservation of capital is added directly to the balance sheet as net assets. In years where earnings are below the amount made available for spending, a drawdown is made from previously re-invested earnings. The amount made available for spending is recorded as revenue, and net assets on the balance sheet are reduced directly by the drawdown. Investment earnings or loss on internally restricted endowments are recorded in the income statement and the amount for preservation of capital or drawdown is recorded as a transfer to or from the endowment balance.

Restricted funds revenues for the year were \$341.0 million, expenses were \$431.9 million, and net loss was \$90.9 million. Net income in any particular year mainly reflects the recording of unrestricted donations and investment income as revenue that was not yet offset by expenses. A net loss in any particular year mainly reflects the recording of investment losses on internally restricted endowments funded by a transfer from endowed capital and/or expenses funded by internally restricted net assets.

In 2009, investment losses reflected the very poor investment markets, and as a result, no spending allocation has been made from the endowment. Commitments normally met from the endowment payout will continue to be met from other sources of funds.

**Restricted Funds  
Revenues, Expenses and Deferred Contributions  
for the Year Ended April 30  
(millions of dollars)**



At April 30, 2009, the restricted funds net assets decreased from April 30, 2008 by \$472.3 million as a result of a net loss of \$90.9 million and a further \$381.4 million, which was comprised as follows:

a) transfers from other funds:

- \$3.9 million from the operating fund as matching funds,
- \$0.7 million net transfer to fund future maintenance and bursaries offset by a \$0.7 million transfer to the capital fund.

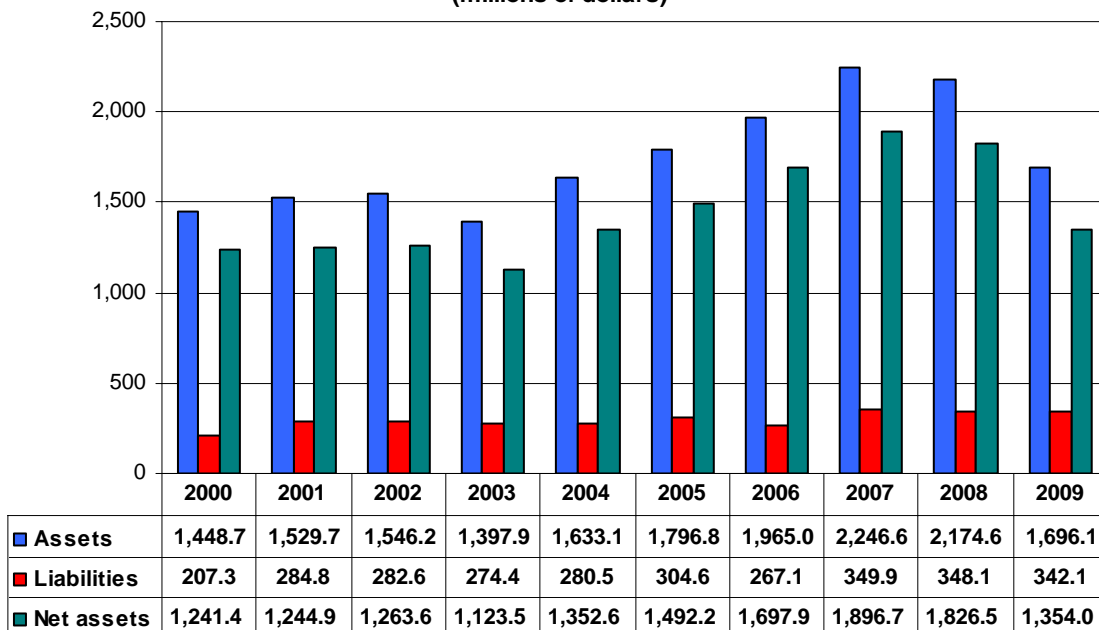
b) endowed contributions and investment losses on externally restricted endowments, which are not recorded as revenue, but are added (deducted) directly to (from) net assets:

- \$49.4 million endowed donations.
- \$27.0 Ontario grants and other endowed funds.
- (\$461.7 million) investment loss on externally restricted endowments.

Restricted funds assets were \$1.70 billion, liabilities were \$342.1 million, and net assets were \$1.36 billion. Net assets comprised \$1.29 billion in endowments and \$67.7 million in internally restricted funds.

As noted above, the majority of unspent expendable restricted funds are NOT recorded as net assets, but rather are recorded as deferred contributions in the liabilities section of the balance sheet. These liabilities have grown from \$207.3 million in 2000 to \$342.1 million in 2009 mainly as a result of the strong growth in research activity which is reflected in the expendable restricted funds on hand that have not yet been spent.

**Restricted Funds  
Balance Sheet  
as at April 30  
(millions of dollars)**



Net assets in restricted funds have grown from \$1.24 billion in 2000 to \$1.36 billion in 2009. Schedule 6 reflects the change in endowment funds from April 30, 2008 to April 30, 2009 with the related expendable funds.

**Schedule 6**  
**(Unaudited)**  
**UNIVERSITY OF TORONTO**  
**RESTRICTED FUNDS**  
**ENDOWMENT AND EXPENDABLE FUNDS AT FAIR VALUES AT APRIL 30, 2009**  
(thousands of dollars)

	Endowment funds				Expendable funds					April 30, 2009	
	April 30, 2008	Donations, and other additions	Preservation of capital (note 1)	Transfers	April 30, 2008	Donations, grants and other additions	Distributed Investment Income/(loss) (note 1)	Transfers	Disbursements		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Student aid (note 2)	338,804	8,961	(105,268)	(724)	241,773	32,915	7,400	(15,807)	76	-	24,584
Ontario Student Opportunity Trust Funds - Phase I (note 2)	344,236	-	(104,922)	31	239,345	23,590	-	(11,088)	(180)	-	12,322
Ontario Student Opportunity Trust Funds - Phase 2 (note 2)	41,580	-	(12,835)	(4)	28,741	2,328	-	(1,326)	-	-	1,002
Ontario Trust for Student Support (note 2)	43,454	6,358	(15,885)	85	34,012	1,827	33	(1,248)	400	-	1,012
Research funds	139,018	-	(41,599)	(955)	96,464	197,144	395,838	1,047	5,835	409,704	190,160
Departmental funds	157,425	52,483	(58,177)	240	151,971	134,573	65,166	852	(4,545)	64,501	131,545
Faculty endowment funds (note 2)	554,346	8,688	(169,449)	1,916	395,501	15,545	150	(1,165)	463	6,883	8,110
Connaught fund	98,468	-	(30,402)	-	68,066	4,757	-	83	(2,403)	168	2,269
l'Anson fund	3,061	-	(946)	-	2,115	449	-	9	-	-	458
Miscellaneous funds	34,361	(1)	(5,461)	(549)	28,350	4,662	21,324	694	4,216	6,283	24,613
	<u>1,754,753</u>	<u>76,489</u>	<u>(544,944)</u>	<u>40</u>	<u>1,286,338</u>	<u>417,790</u>	<u>489,911</u>	<u>(27,949)</u>	<u>3,862</u>	<u>487,539</u>	<u>396,075</u>
Comprising:											
Externally designated	1,465,066	76,418	(461,663)	1,444	1,081,265						
Internally designated	289,687	71	(83,281)	(1,404)	205,073						
	<u>1,754,753</u>	<u>76,489</u>	<u>(544,944)</u>	<u>40</u>	<u>1,286,338</u>						
Restricted						346,132	478,269	(28,826)	3,512	470,713	328,374
Unrestricted						71,658	11,642	877	350	16,826	67,701
						<u>417,790</u>	<u>489,911</u>	<u>(27,949)</u>	<u>3,862</u>	<u>487,539</u>	<u>396,075</u>

**Notes:**

(1) Consisting of investment income (loss) on:

Endowment funds	(575,960)
Expendable funds	3,067
	<u>(572,893)</u>

(2) Disbursements and corresponding distributed investment income for Students Awards (\$16,024), Ontario Student Opportunity Trust Funds (\$12,451), Ontario Trust for Student Support (\$1,308) and Faculty Endowments (\$1,231) are reported in the Operating Fund.





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