UNIVERSITY OF TORONTO

# FINANCIAL REPORT

**April 30, 2020**

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# HIGHLIGHTS

**Year Ended April 30, 2020**

**(with comparative figures at April 30, 2019)**

**(millions of dollars)**

| | 2020 | 2019 | % Change |
|---|---|---|---|
| **Statement of Operations** | | | |
| Revenues | $ 3,626 | $ 3,593 | 0.9% |
| Expenses | $ 3,185 | $ 3,088 | 3.1% |
| Net Income | $ 441 | $ 505 | -12.7% |
| **Balance Sheet** | | | |
| Assets | $ 10,727 | $ 10,404 | 3.1% |
| Liabilities | $ 4,296 | $ 3,954 | 8.6% |
| Net Assets | $ 6,431 | $ 6,450 | -0.3% |
| **Net Assets Composed of:** | | | |
| Endowments | $ 2,510 | $ 2,593 | |
| Investment in land and other capital assets | $ 3,525 | $ 3,428 | |
| Other | $ 396 | $ 429 | |
| | $ 6,431 | $ 6,450 | |
| **Total Debt Policy Limit** | $ 1,846 | $ 1,712 | 7.8% |
| **Policy Debt Burden Ratio** | 5.0% | 5.0% | |
| **Actual Debt Burden Ratio** | 2.9% | 3.3% | |
| **Student FTEs (November 1)** | 82,311 | 80,652 | 2.1% |
| **Total Number of Students (November 1)** | 93,081 | 91,286 | 2.0% |

# Highlights

Established in 1827, the University of Toronto is Canada's top-ranked university, providing world-class research and teaching to over 93,000 students across our three campuses: St. George (downtown Toronto), Scarborough ("UTSC") and Mississauga ("UTM").

As one of the largest universities in North America, U of T provides our students with a broad range of academic programs and courses, while our unique college system offers the rich learning experiences of small, close-knit communities. The following financial report reveals a vital university in excellent shape as we approach our bicentennial in 2027.[1]

Over the past 5 years, the University benefited from the Ontario and Federal governments' investments in higher education and advanced research, helping to ensure access, increase graduate enrolment, and finance vital infrastructure. During that same period, the University has grown significantly, with an increase of over 6.7% in the number of students.

Looking ahead, we will continue implementing our central priorities and find new ways to take advantage of our prime locations in the Greater Toronto Area. This includes deepening our relationships with local partners and heightening our contributions to the success of the GTA as one of the world's most diverse and dynamic metropolitan regions.

We will also strengthen our international partnerships with other great universities, by facilitating student mobility and faculty exchanges, as well as joint initiatives in research, conferences, and teaching.

In addition, we will develop new, innovative curricula and non-curricular activities that enhance the student experience, to re-imagine undergraduate education. This includes embracing the demand for "job-ready" graduates and the opportunities of the digital age.

As we build upon U of T's great success to date, the University will continue drawing on the talent and leadership of our faculty and staff, as well as the loyalty and generosity of our alumni and benefactors. At the same time, we will also need strong support from our government partners—at all levels—that recognize the University's unique and critical role within Canadian higher education.

## Current Financial Results and Challenges

In fiscal 2020, net assets decreased by $19 million to $6.4 billion, mainly as a result of the following:

- An increase of $441 million from net income that is mainly due to the strategic investment in infrastructure. The University set aside an additional $264 million for future capital infrastructure[2] generated from increased revenues and tight expense control. The University also incurred capital infrastructure costs of $200 million that are capitalized and not expensed in the year offset by $103 million in related amortization expense. These capital investments include projects like the Schwartz Reisman Innovation Centre West, UTM Science building, UTM Meeting Place and St. George Student Commons as well as over $96 million for equipment purchases, library acquisitions and other capital asset acquisitions.

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[1] The financial report does 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 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.

[2] The University has $1.07 billion in reserves for capital projects and infrastructure that will be required over the next few years as it has entered into $917 million in contractual obligations with external builders.

- A decrease of $374 million primarily due to lower-than-expected investment returns on assets of the pension plan.
- A decrease of $120 million due to an investment loss on externally restricted endowments offset by endowed donations of $34 million. These donations support academic planning and are critical to the success of the University's teaching and research objectives.

### Impact of COVID-19 on financial results

The ongoing outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. Members of the University of Toronto community have risen to the unprecedented challenge of the COVID-19 pandemic with remarkable generosity, patience and creativity. The University is delivering on three fundamental elements of the University's core mission as it continued its work in terms of teaching, research and other business remotely; by

- ensuring that students completed their term by offering courses through alternative means without in-person meetings or class sessions,
- providing a place to live for those students in residence who were unable to return home, and
- supporting the critical COVID-19 and time-sensitive research endeavors of our world-class scholars.

The University asked students who lived in residence, and who were able to return home, to do so while continuing to provide a welcoming home for international students, students whose family members were in self-isolation and out-of-province students who needed more time to make travel arrangements. As a result of these measures, residence operations revenues decreased by $5 million and parking and food service operations revenues decreased by $7 million due to the reduced activities on campus.

The University provided over $3 million to more than 2,800 undergraduate students who were facing difficult financial circumstances due to the pandemic – everything from last-minute flights to overdue rent through its Emergency Student Bursary Fund.

The University's research activities have continued, when possible, remotely. Research labs conducting critical COVID-19 related research and time-sensitive critical projects have continued. The Toronto COVID-19 Action Fund has supported 36 research projects with approximately $9 million in support of high-impact research by the University and its hospital partners that contributed to the global fight against the novel coronavirus. The projects, which ranged from medical interventions to measures aimed at supporting the economy and vulnerable populations, were chosen on the basis of their potential to have a positive impact on individuals, communities and public health systems within a timeframe of a year or less.

Around the globe, philanthropists are giving generously to support their communities and help address the global COVID-19 crisis. The Temerty Foundation helped lead a wider movement of donors by providing a $10 million gift to the Faculty of Medicine and its hospital partners during this time of great need. The Dean's COVID-19 Priority Fund will directly support front-line clinical faculty members and trainees fighting this pandemic, as well as researchers seeking to improve testing, accelerate vaccine research and create better treatments and prevention strategies.

The pandemic has also adversely impacted global commercial activity and contributed to the significant volatility in certain equity and debt markets. This has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. In this fiscal year, the fair value of the University's endowments decreased by $135 million as the investment returns did not meet the targeted return and pension plan assets decreased by $376 million primarily due to lower-than-expected investment returns.

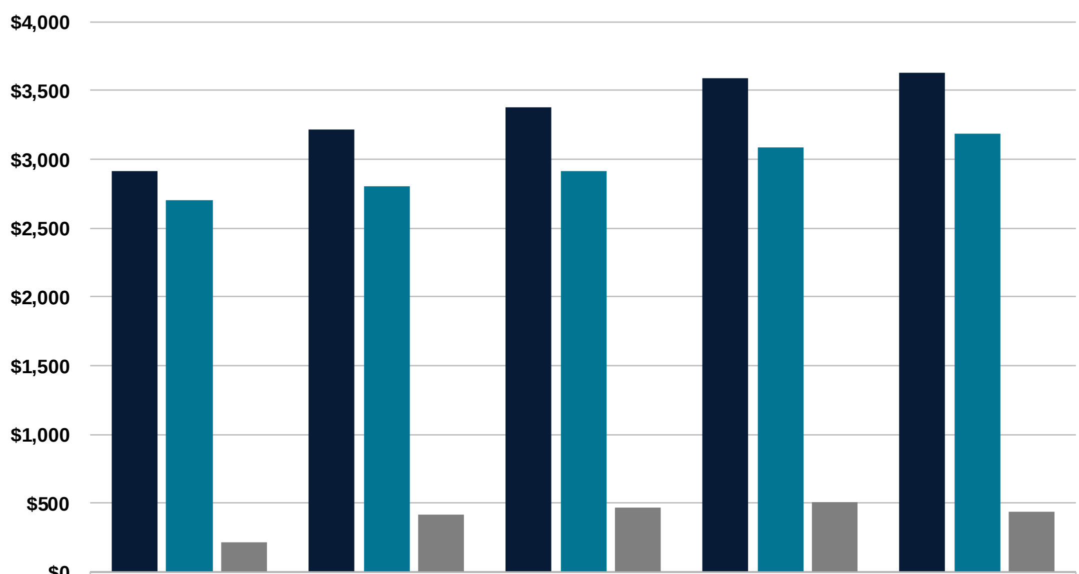
The extent of such adverse effects on the University's business and future financial and operational performance are uncertain and difficult to assess. The financial impacts will depend on future developments, including the duration, spread and severity of the outbreak, physical distancing requirements, the duration and geographic scope of related travel advisories and restrictions, and the extent of disruptions to businesses globally and the subsequent impact on the economy.

## Statement of Operations

Over the past 5 years, the number of students at the University has grown 6.7%. This substantial increase in enrolment has raised revenues from student fees and government grants while also increasing expenses in salaries and benefits, due to the resulting growth in faculty and staff and related salary increases. In turn, higher numbers of students, faculty, and staff have increased the need for construction and renovations, which impact operating expenses as well as interest and amortization expenses. Planning for these capital infrastructure needs has included a prudent increase in our financial reserves.

The University also continues to welcome a large community of international students. Experience and data show consistently that this is an important factor in our academic excellence and global competitiveness, as well as a major benefit to the regional and national economy. To mitigate the ways international student recruitment can be affected by geopolitical developments, the University has successfully pursued initiatives to diversify global recruitment and also increased our accumulation of current financial reserves.

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




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Revenues | 2,909 | 3,216 | 3,379 | 3,593 | 3,626 |
| Expenses | 2,698 | 2,799 | 2,914 | 3,088 | 3,185 |
| Net income | 211 | 417 | 465 | 505 | 441 |

Fiscal year ending April 30, 2020:

Revenues: $3.6 billion

Expenses: $3.2 billion

Net income: $441 million

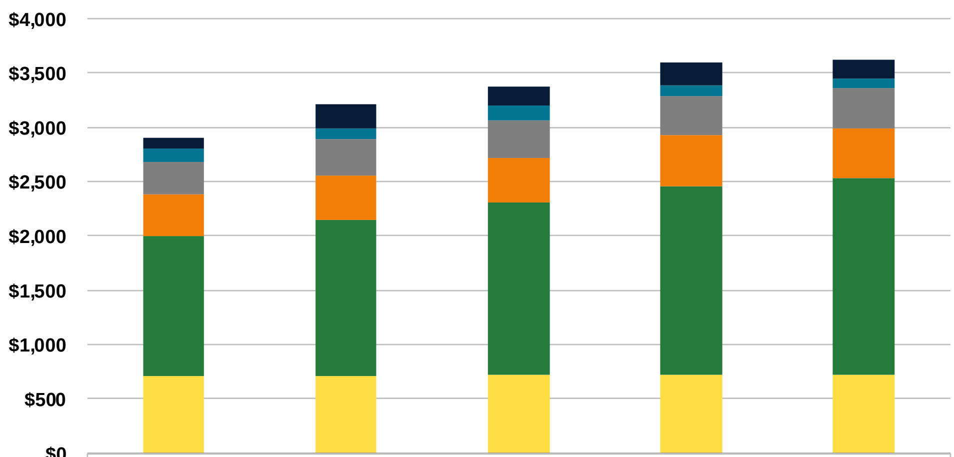
Our net income of $441 million primarily reflects funds being set aside in accordance with multi-year divisional academic plans. These plans call for deliberate use of reserves for operating contingencies, future capital investment in academic facilities and other amenities, and faculty hiring.

In 2020, $2.5 billion or 69.8% of revenues were from student fees and government grants provided in support of student enrolments. An additional $463 million represented government and other grants and contracts for restricted purposes. Together these three sources accounted for 82.6% of revenues for the year. Sales, services and sundry income (residence, parking and food service operations) were negatively impacted due to reduced activities on campus as a result of the pandemic.

**Revenues by Category**

for the year ended April 30

(millions of dollars)



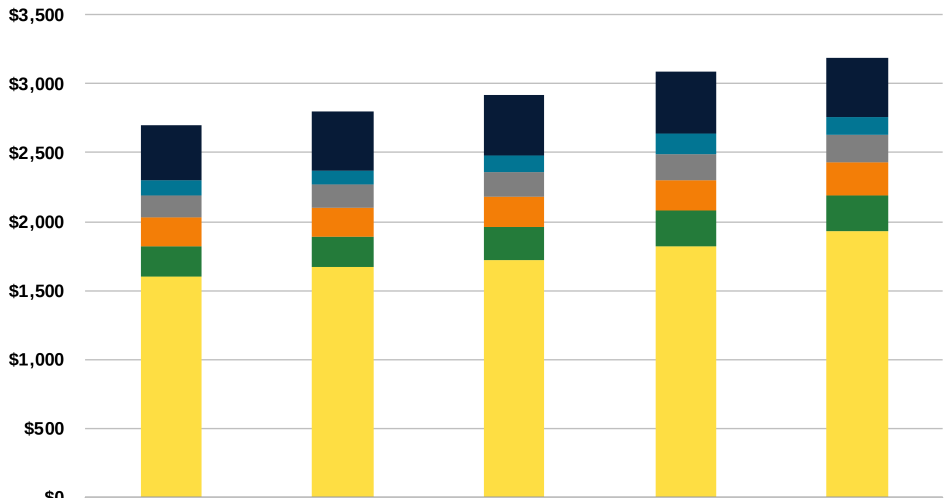

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Total revenues | 2,909 | 3,216 | 3,379 | 3,593 | 3,626 |
| Investment income | 109 | 220 | 180 | 205 | 178 |
| Donations | 114 | 101 | 128 | 102 | 85 |
| Sales, services and sundry income | 301 | 333 | 352 | 362 | 368 |
| Grants for restricted purposes | 383 | 418 | 413 | 469 | 463 |
| Student fees | 1,292 | 1,431 | 1,583 | 1,728 | 1,813 |
| Grants for general operations | 710 | 713 | 723 | 727 | 719 |

In 2020, the University paid $1.9 billion for salaries and employee benefits comprising 60.7% of the University’s $3.2 billion in expenses. Faculty and staff salaries and benefits relating to teaching, research and administrative activities are predominantly funded from University operating funds (mostly student fees and government grants).[3] Additional details on expenses include:

- $259 million for scholarships, fellowships and bursaries (8.1% of total expenses)
- $233 million for materials, supplies and services (7.3% of total expenses)
- $132 million for inter-institutional contributions (4.1% of total expenses)

[3] Additional details are provided in the “Salaries and Benefits” section below.

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




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Total expenses | 2,698 | 2,799 | 2,914 | 3,088 | 3,185 |
| Other | 403 | 427 | 432 | 446 | 426 |
| Inter-institutional contributions | 101 | 103 | 121 | 155 | 132 |
| Amortization of capital assets | 159 | 165 | 178 | 189 | 201 |
| Materials, supplies and services | 217 | 218 | 227 | 222 | 233 |
| Scholarships, fellowships, bursaries | 218 | 217 | 239 | 255 | 259 |
| Salaries and employee benefits | 1,600 | 1,669 | 1,717 | 1,821 | 1,934 |

## Balance Sheet

Fiscal year ending April 30, 2020:

Assets: $10.7 billion

Liabilities: $ 4.3 billion

Net assets: $ 6.4 billion

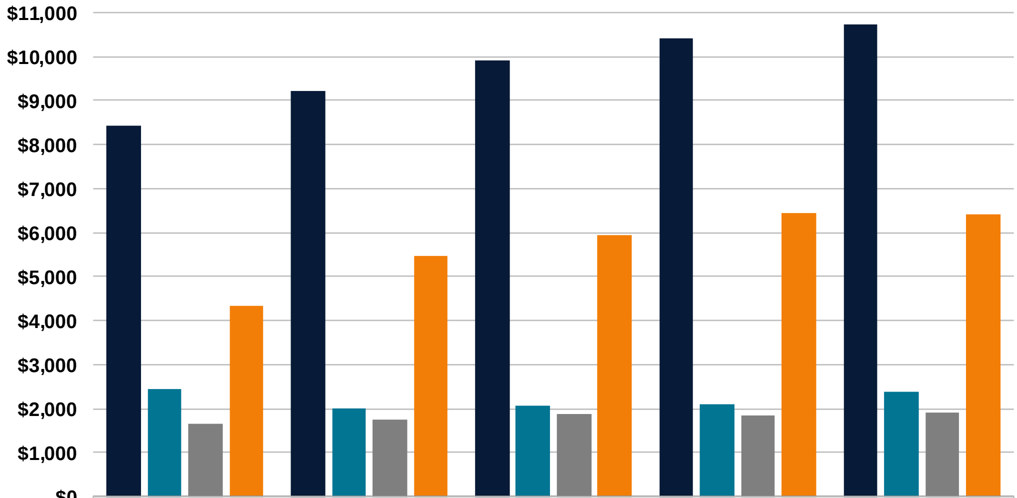
Assets have grown since 2016 mainly due to three factors: the growth in endowments as a result of good investment returns in most years; the receipt of endowed donations; and the construction of additional space to accommodate the increased number of students.[4]

Net assets decreased by $19 million to $6.4 billion in 2020. This decrease is due to a net income of $441 million, endowed donations of $34 million, offset by $120 million decrease in externally restricted endowments and $374 million in remeasurements and other items relating to employee future benefits, primarily due to actual investment returns less than expected returns on assets of the pension plan.

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

## Assets, Liabilities and Net Assets

at April 30
(millions of dollars)




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Assets | 8,443 | 9,220 | 9,903 | 10,404 | 10,727 |
| Liabilities | 2,434 | 2,001 | 2,081 | 2,099 | 2,393 |
| Deferred contributions | 1,660 | 1,762 | 1,879 | 1,855 | 1,903 |
| Net assets | 4,349 | 5,457 | 5,943 | 6,450 | 6,431 |

Net assets are composed of the following:

- $2.5 billion of endowments, representing 39.0% of net assets,
- $4.0 billion of internally restricted net assets, and
- ($124 million) of deficit.[5]

The $2.5 billion of endowments represent over 6,500 individual endowment funds, which are restricted at the direction of donors or Governing Council.

The $4.0 billion of internally restricted net assets comprises:

- $2.3 billion in land
- $1.2 billion of investment in other capital assets[6]
- ($1.2 billion) in net unfunded liability associated with pension and other employee future benefits
- $1.1 billion in capital projects and infrastructure reserves
- $277 million of operating contingency reserves
- $386 million in other reserves held for future spending

[5] The deficit is largely due to the internal financing of capital construction in accordance with the University's debt strategy (see the "Debt" section below).

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

## Role of the Government of Ontario

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

### Provincial Operating Grants[7]

U of T's first Strategic Mandate Agreement with the Province – 2014-17 ("SMA1") confirmed that "the University is a globally recognized, comprehensive, and research-intensive institution with a distinct leadership role in Ontario's post-secondary education system. The University's broad range of program offerings and research activity has a major economic and social impact, locally and globally."

The second Strategic Mandate Agreement – 2017-20 ("SMA2") re-confirmed the University's leadership role in research and innovation in Ontario. It also established an enrolment planning framework, including stable funding for enrolment within a negotiated enrolment corridor. In response to Ontario's changing demographics, the University and Province agreed to a reduction of 1,800 domestic undergraduate spaces at the St. George campus by Fall 2019, and agreed to hold domestic undergraduate enrolment at UTSC and UTM constant over the period of the agreement. Going forward, funding for domestic enrolment will remain stable provided the University maintains a five-year average enrolment within ±3% of this negotiated target.

Under the new funding framework, separate program-specific enrolment grants were rolled into a single Core Operating Grant.[8] However, the SMA2 continued to include a separate funding envelope for graduate enrolment expansion, with 631 new masters and 198 new doctoral student spaces at the University of Toronto by Fall 2019.

The SMA2 established a new Differentiation Envelope by combining the University's existing share of the Access to Higher Education Quality Fund and Key Performance Indicator grants, with $36 million re-directed from the University's existing enrolment-related grants. The total allocation of differentiation funding in 2019-20 increased from $29 million to $65 million. While the differentiation envelope was notionally associated with performance metrics under SMA2, those metrics did not impact the level of funding during this period (through fiscal 2020).

Fiscal year 2020-21 was to be the first year of the University's third Strategic Mandate Agreement with the Province ("SMA3"). In Budget 2019, the Province announced that an increased percentage of funding for colleges and universities will be allocated through the Differentiation Envelope and tied to performance outcomes. Performance based funding will increase to 25 per cent of total Provincial operating grants in 2020-21 and gradually rise to 60 per cent of operating grants by 2024-25. Funding will be conditional on achieving performance targets on a series of metrics. The number of performance indicators will be phased in, from six in 2020-21 to 10 in 2024-25. However, the Province recently announced that the implementation of the SMA3 and performance-based funding will be postponed indefinitely while the Province deals with the current COVID-19 outbreak.

In March 2020, the Province announced $25 million in emergency funding to help colleges, universities and Indigenous institutes to transition to remote learning, purchase cleaning and medical supplies and support students to succeed in their studies as the Province continues to tackle the COVID-19 pandemic.

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

[8] Existing enrolment-related grants include base operating grant plus historical targeted grants for previous growth in undergraduate, graduate, teacher education, nursing, and medicine programs.

### Tuition Fees and Student Aid: U of T[9]

In fiscal 2020, in accordance with the tuition framework set by the Provincial government, domestic tuition fees were reduced by 10% and will remain at that level for fiscal 2021. Tuition fees paid by international students are unregulated, and will therefore be unaffected. The tuition fee reduction and freeze for 2021 applies to domestic students enrolled in all programs that are funded via the provincial operating grant, including direct entry undergraduate, second entry and professional master's, and doctoral stream programs. This represents a reduction in domestic student fee revenue of $88 million in 2019-20 that has a differential impact within the University, depending on program mix and divisional revenue sources. Stratagies used to mitigate the impact included changes to faculty and staff hiring plans, deferral of capital projects, service reductions, and operating cost efficiencies.

Student fees revenue increased by $85 million to $1.8 billion from last year mainly as a result of increased international fees and enrolment growth.

The University remains committed to the goal of accessibility and to working with the Provincial and Federal governments to achieve the goal of access. In 2020, the University spent $259 million on scholarships, fellowships and bursaries, a significant increase from $218 million in 2016.

The Province's 2019 changes to the Ontario Student Assistance Program ("OSAP") are expected to reduce the overall amount of student aid payable to students, including the University's regulatory obligation to cover any unmet financial need as defined by OSAP under the Student Access Guarantee. However, the University remains firm in our internal access guarantee that financial circumstances should not stand in the way of a qualified student entering or completing their degree.

### Capital Funding

Capital investments made by the Province since 2016 include:

- $15 million in funding for the Myhal Centre for Engineering Innovation & Entrepreneurship to continue strengthening the Innovation SuperCorridor and help support the expansion of experiential learning opportunities for engineering students (fiscal 2017).
- $14 million from the Provincial government and $84 million from the Federal government (Post-secondary Institutions Strategic Investment Fund) toward the University's laboratory retrofit project (fiscal 2017 and 2018).
- $33 million under the Greenhouse Gas Campus Retrofit Program to support a number of projects to reduce greenhouse gas emissions across the three campuses (fiscal 2019).

## Student Enrolment

The demand for student spaces has increased significantly since 2016 as a result of population growth in Ontario and increased participation rates. The University has increased enrolment to accommodate this additional student demand with student FTE enrolment increasing from 77,130 in 2016 to 82,311 in 2020, an increase of 6.7%. More than 50% of the direct entry undergraduate student body is drawn from the Greater Toronto Area.

Although the University has received full average funding for additional students, over time, neither ongoing government grants nor regulated tuition fees have kept pace with inflation. In response, the University has sought to contain costs and maintain financial health by improving productivity.

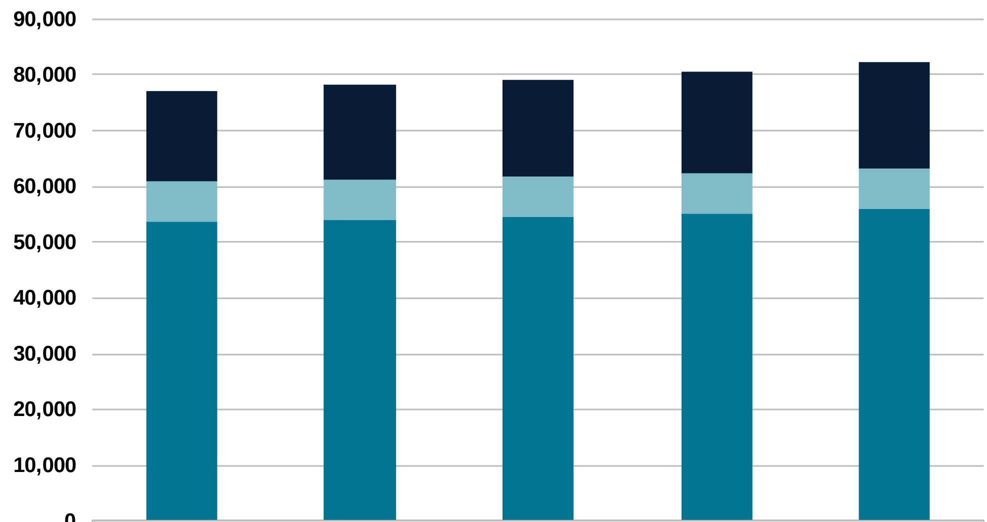
[9] For more information on provincial policies, see the Appendix entry for Tuition Fees and Student Aid.

### Number of Undergraduate and Graduate Student FTEs

Since 2016, student aid (scholarships, fellowships and bursaries, excluding amounts provided by the federated universities) has increased by 18.8% to $259 million. The University's student financial aid policy ensures that no qualified student will be prevented from beginning or completing his or her education due to financial need and also makes substantial funds available over and above the amounts outlined here. In addition, the University provided over $3 millon to students who were facing difficult financial circumstances due to the pandemic.

**Number of Undergraduate and Graduate Student FTEs**

as at November 1




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Graduate | 16,227 | 17,029 | 17,525 | 18,319 | 19,184 |
| Second-entry undergraduate | 7,200 | 7,206 | 7,216 | 7,075 | 7,167 |
| First-entry undergraduate | 53,703 | 54,056 | 54,521 | 55,258 | 55,960 |

## Financial Planning

Revenues are expected to increase modestly over the next several years, primarily as a result of graduate expansion and increasing international enrolment. Since the potential for new revenues is primarily tied to enrolment growth, the University will need to continue pursuing productivity improvements and other expense containment measures.

The long-range academic and budget plan for 2020-21 to 2024-25 incorporates the freeze of domestic tuition fees for 2020-21. The 2019-20 domestic tuition fee reduction had a differential impact on each division, depending on program mix and divisional revenue sources. Adjustments to divisional budgets will differ based on local priorities, but will include some combination of changes to faculty and staff hiring plans, deferral of capital projects, service reductions, and operating cost efficiencies. The plan assumes various updated assumptions and also assumes that the pension deficit payments will continue, and in fact, increase.

## Research and Capital Infrastructure

The 2018-23 Institutional Strategic Research Plan ("ISRP")[10] articulates an approach that empowers our researchers to continue their outstanding work. Strong research funding support from the Provincial and Federal governments, and a broad range of other public and private sector entities, are key to the University's research and innovation preeminence, including support for research operations and infrastructure that help the University to attract and retain top research talent from across Canada and around the world.

U of T researchers, scholars and innovators are successful in securing funds from a rich array of national and international sources, including the federal and provincial governments, the not-for-profit sector and private-sector partnerships.[11] In 2019, the University earned 40 of the 275 newly created Canada Research Chairs ("CRC") announced in the 2018 Federal Budget, and now has an allocation of 315 CRCs, the highest in the country by at least 100 Chairs.

In 2019-20 the federal Research Support Fund contributed to the institutional (also known as "indirect") costs of tri-agency funded research, at a rate of 18% of direct costs. Including funding provided through the federal Incremental Project Grant program, the rate increases to 21%. In contrast, the institutional costs of research incurred by the University add up to a rate of more than 55%. The University will continue to work with the government with the goal of ensuring that the full costs of research are supported.

The University enhanced support for Institutional Strategic Initiatives including the creation of more large-scale, cross-disciplinary initiatives to pursue bold ideas that address the world's challenges. In 2019, the Schwartz Reisman Institute for Technology and Society was established with a major philanthropic gift, drawing on U of T's strength in the sciences, humanities and social sciences to explore the benefits and challenges of AI, biotechnology and other technological advances for society.

In 2020, the Federal government announced over $1.0 billion for research on COVID-19, including research on medical countermeasures, antivirals, vaccine development and support for clinical trials. In the first competition from these funds over $52 million has been allocated to 96 projects led by researchers across the country that will focus on developing and implementing measures to rapidly detect, manage, and reduce the transmission of COVID-19. Nearly $6 million of this funding has come to researchers based at the University or one of its affiliated hospitals. Further allocations of funding will follow and the University expects to participate in a number of these programs. The Federal government also announced over $291 million to support student and post-doctoral fellows through the federal granting councils. The University is also very active in the "Ontario Together" rapid response research program. In concert with academic divisions, affiliated hospitals and donors, the University also mounted a $9 million COVID-19 rapid response competition to fund research with strong potential to positively impact individuals, communities, society and public health systems in the near term.

The University continues to expand its efforts in the innovation and entrepreneurship space, and in 2017 opened ONRamp, a 15,000 square foot hub for student entrepreneurship activity. Further expansion of these activities is intended as part of the development of the Schwartz Reisman Innovation Centre. In 2020, the Provincial government released the report of its Expert Panel on Intellectual Property: Intellectual Property in Ontario's Innovation Ecosystem. The results of the Panel's work are intended to inform an action plan for a provincial intellectual property framework. For the post-secondary sector, the recommendations include the development of educational offerings for students in order to build capacity in intellectual property literacy.

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

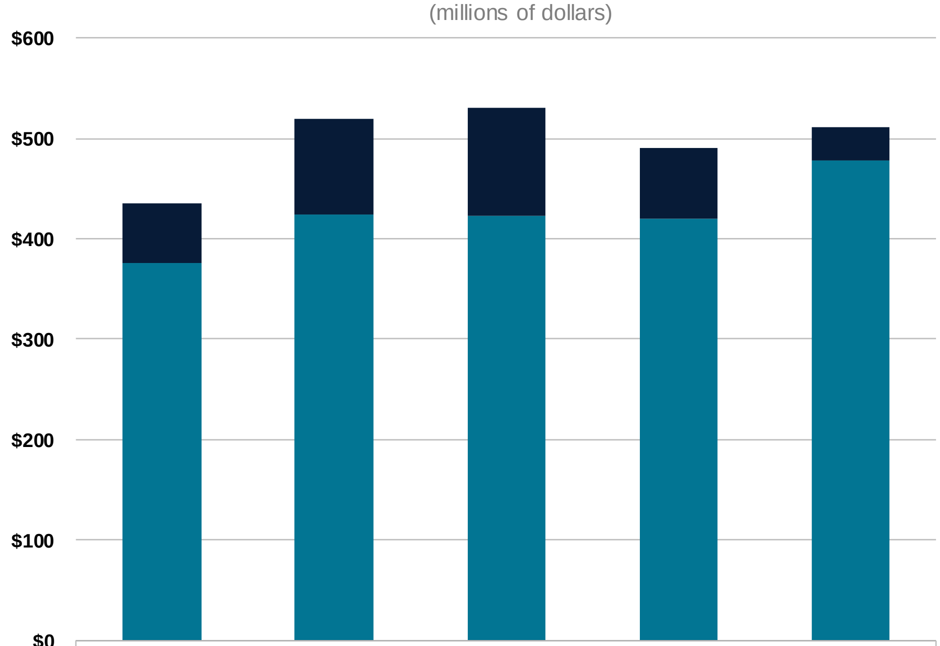
The University continues to be successful at generating funding for research, including support for personnel, operations and infrastructure. These financial statements account for funds received as follows:

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

Government and other grants received in 2020 for restricted purposes totalled $511 million and comprised $478 million for research and $33 million for capital infrastructure and other purposes. These were reported as follows: $463 million as revenue from grants for restricted purposes and $48 million as deferred contributions and deferred capital contributions.

**Government and Other Grants and Contracts Received for Restricted Purposes**

for the year ended April 30
(millions of dollars)




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Capital infrastructure and other | 59 | 96 | 107 | 71 | 33 |
| Research | 376 | 424 | 423 | 420 | 478 |

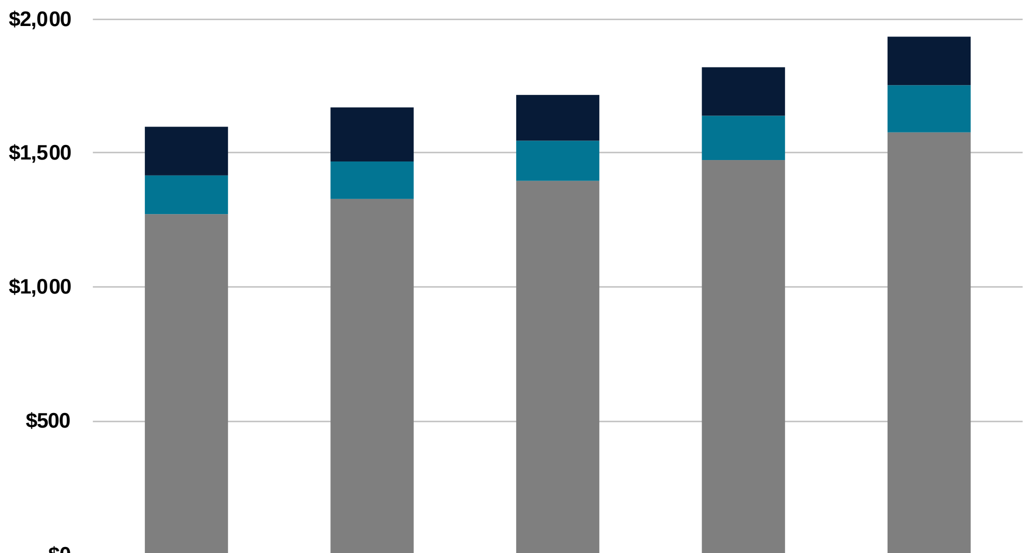
One hallmark of the successful combination of the innate strength of the University researcher community and the intense institutional focus is the achievement of the goal of an increased Canada Research Chair allocations.

## Salaries and Benefits

Over the period 2016 to 2020, salaries and benefits increased from $1.6 billion to $1.9 billion. This is the result of negotiated compensation increases for employee groups as well as an increase of 17.9% in the total number of faculty and staff over that time period. In 2020, salaries expense includes the cost of a special retirement program for faculty members and librarians, as well as a one-time special salary adjustment to match increases in employee pension contributions during the year to ensure the long-term sustainability of the pension plan.

In 2020, the University had 3,207 faculty, 170 librarians, 6,974 administrative staff and 5,853 teaching and graduate assistants.[12]

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




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Employee future benefits | 186 | 199 | 171 | 181 | 181 |
| Other employee benefits | 141 | 144 | 148 | 168 | 174 |
| Salaries | 1,273 | 1,326 | 1,398 | 1,472 | 1,579 |

The following agreements were in effect in fiscal 2020:

- Three-year agreement with administrative and technical staff, represented by the United Steelworkers, starting July 1, 2017 to June 30, 2020 for across-the-board salary increases of 1.8% (plus 0.7% one-time-only adjustment to June 30, 2017 base salary), and 2% across-the-board effective for both July 1, 2018 and July 1, 2019.
- Two-year agreement with its faculty and librarians starting July 1, 2018 to June 30, 2020 for across-the-board salary increases of 1.9% on July 1, 2018, and 2% on July 1, 2019 that is distributed as a 1% increase to all salaries, together with an additional $1,630 per full-time faculty and librarian.
- Four-year agreement with sessional lecturers, instructional assistants (non-student) and writing instructors starting September 1, 2017 to August 31, 2021 for across-the-board salary increases of 2% on September 1, 2018, September 1, 2019 and September 1, 2020.
- Three-year agreement with teaching assistants starting January 1, 2018 to December 31, 2020. Compensation increases of 1.8% occurred on February 8, 2018 (effective ratification date), and 2% increases on January 1, 2019 and January 1, 2020.

[12] A total of 12,101 Sessional, Clinical and Research Associates also have teaching and research responsibilities.

Employee benefits expenses for the year of $355 million is made up of employee future benefits expenses of $181 million and other employee benefits expenses of $174 million.[13] Other employee benefits expenses include, for example, the cost of legislated benefits (e.g. Canada Pension Plan and Employment Insurance), medical benefits for active staff, educational support, life insurance and several types of leaves.

| April 30, 2020 | Pension plan | Other benefit plans |
|---|---|---|
| **Plan status:** | | |
| Assets | **$5.3 billion** | **$107 million*** |
| Obligations | **$5.9 billion** | **$644 million** |
| Deficit | **$606 million** | **$537 million** |

| April 30, 2019 | Pension plan | Other benefit plans |
|---|---|---|
| **Plan status:** | | |
| Assets | $5.3 billion | $107 million* |
| Obligations | $5.6 billion | $625 million |
| Deficit | $308 million | $518 million |

*Assets set aside by the University

The University records its pension obligation net of the fair value of plan assets on its balance sheet using funding assumptions that are thoroughly reviewed annually.

The pension plan's deficit increased from $308 million in 2019 to $606 million in 2020. This increase is mainly due to actual investment returns being less than expected returns on assets of the pension plan offset by going concern special payments into the plan of $73 million.[14]

The Province introduced pension funding reform effective May 1, 2018. The full impact on the University of these changes will be reflected in the next funding valuation, which will be no later than as of July 1, 2020. The current long-term operating budget increases the pension special payments and related costs budget by an additional $5 million per year from $122 million in 2020-21 to $137 million in 2023-24, and maintaining at this level to 2024-25.

The University administrations, faculty associations, unions and non-represented staff at the University of Toronto, University of Guelph and Queen's University have been working to develop a new jointly sponsored pension plan ("JSPP"), that would cover employees and retired employees in the existing plans at all three universities, with contributions and accrual of benefits to be effective from a future date. Before this can occur, a highly regulated approval process must take place, which includes a consent process for members and other persons entitled to benefits under the existing plans, and the necessary regulatory approvals. The consent process was completed in June 2019 with the required consent threshold for

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

[14] For more information, see the Appendix entry on Pension Solvency Funding Relief.

each of the existing plans being surpassed, enabling the conversion to the JSPP to proceed. Only once the remaining necessary regulatory approvals are obtained will the assets and liabilities of the Plan be transferred to the new JSPP as at the effective date of accrual of benefits under the new plan (anticipated to be July 1, 2021). Under the JSPP, the three universities involved will be required to fund their initial pension deficits over a period of 15 years.

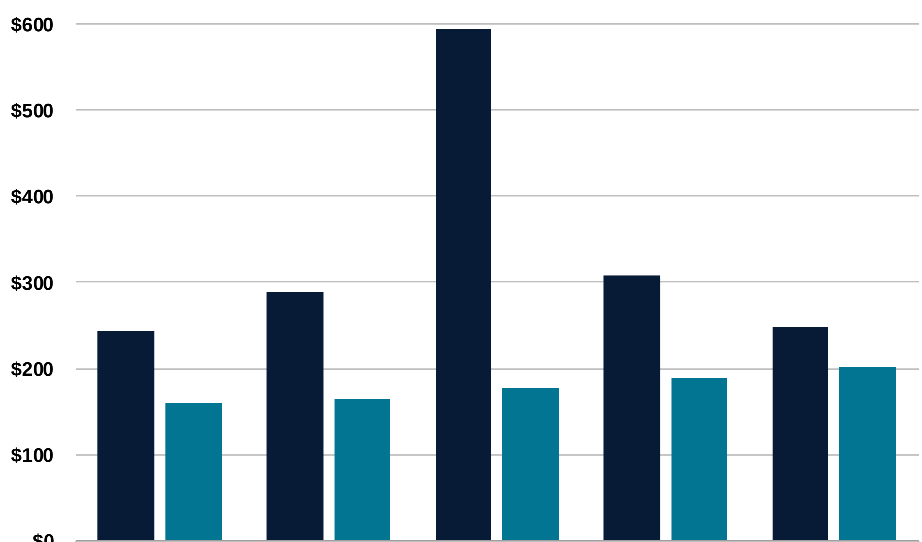
The obligation for employee future benefits other than pension at April 30, 2020 is $644 million. This obligation is also determined based on actuarial valuations using funding assumptions. The annual current service and finance costs are included in the consolidated statement of operations and any actuarial gains or losses are recorded directly in net assets instead of being reported in the consolidated statement of operations.

## Space

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

The University has future obligations for deferred and pending maintenance, which are currently estimated at $984 million, excluding campus/utility infrastructure and including asbestos containment and removal. The University has integrated its capital programs by pooling the various funds available and prioritizing maintenance and renewal requests.

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




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Additions to capital assets | 243 | 289 | 595 | 308 | 249 |
| Amortization | 159 | 165 | 178 | 189 | 201 |

The University is participating with all other Ontario universities in a continuing study that has recently been changed to incorporate the associated costs of professional services and consulting fees in determining the deferred and pending maintenance obligations of every university in the Province. The long-range academic and budget plan for 2020-21 through 2024-25 includes funding to arrest further deterioration of the physical infrastructure.

In 2017, the University spent $30 million on the construction of the Myhal Centre for Engineering Innovation & Entrepreneurship building, $17 million on the John H. Daniels Faculty of Architecture, Landscape, and Design building and $23 million on the UTM North Building B.

In 2018, the University renovated more than 546 research laboratories at a cost of $195 million to support collaboration, flexibility of space allocation, and integrated basic science research platforms.[15] Of this amount, $30 million was spent in 2017 and $165 million was spent in 2018. The University also acquired a key parcel of land on its St. George campus that will support the University's academic mission for years to come. This parcel includes a 15-storey tower that fronts onto College Street, and two buildings on Russell Street, for a total cost of $125 million. The University also spent $178 million on the construction of buildings including UTM's North Building B ($59 million), the Myhal Centre for Engineering Innovation & Entrepreneurship ($43 million) and UTSC's Highland Hall ($25 million).

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

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

## Debt

The University's debt strategy sets the debt policy limit based on a debt burden ratio of 5.0% (interest plus principal repayments divided by adjusted total expenditures).

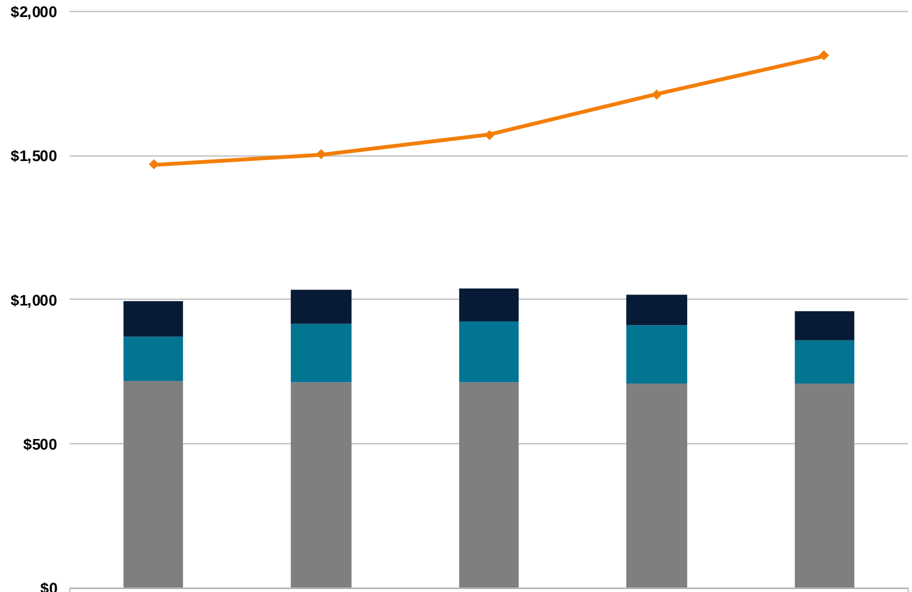
The University is committed to prudently and strategically allocating debt to high priority capital projects and to supporting the pension plan. The debt strategy provides for a total debt limit of about $1.8 billion at April 30, 2020, made up of actual and planned external debt of $1.1 billion plus $698 million in internal financing.

In 2020, the actual outstanding external debt consists of $710 million (gross of $1 million of issue costs and premiums) of debentures. At April 30, 2020, the actual debt burden ratio was 2.9%, well below the 5.0% policy limit.

The University's credit ratings are Aa1 stable (Moody's), AA+ stable (Standard & Poor's) and AA stable (DBRS Limited), which ranks the University as a strong investment-grade credit, with two credit rating agencies rating the University above the Province of Ontario.

[15] The total of $195 million includes $84 million funded by the Federal government's Post-secondary Strategic Investment Fund, $14 million from the Province's Facilities Renewal Program and $97 million from divisional funds.

**Outstanding Debt and Debt Policy Limit**
for the year ended April 30
(millions of dollars)




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Internal debt: pension | 122 | 117 | 112 | 106 | 100 |
| Internal debt: other | 155 | 203 | 213 | 201 | 148 |
| Total external debt | 716 | 714 | 712 | 711 | 710 |
| Policy: maximum total debt limit | 1,469 | 1,503 | 1,571 | 1,712 | 1,846 |

## Donations

In 2011, the University of Toronto publicly launched the most ambitious fundraising campaign in Canadian history, with a goal of securing $2 billion. The Boundless campaign was built on the twin pillars of meeting global challenges and preparing global leaders. In 2016, with enthusiastic donor support, the University boldly expanded its campaign goal to $2.4 billion.

Boundless: the Campaign for the University of Toronto closed on December 31, 2018, and raised over $2.6 billion, surpassing our expanded goal and setting a new record for philanthropy in Canada. The extraordinary success of the Boundless campaign expresses the collective belief of 104,059 donors from around the world, in the University's ability to push beyond the frontiers of research, transform lives through excellence in education, and address the critical issues facing humanity today. Examples of the teaching and research objectives supported by our donors in the Boundless campaign include:

- $406 million raised for student scholarships and programs
- $856 million raised for innovative programs and leading-edge research
- $264 million raised in faculty support including 82 chairs and professorships supported or established
- $600 million raised for capital projects which supported 41 critical infrastructure initiatives

Fundraising continues with increasingly ambitious goals, playing a critical role in the success of the University. All fundraising conducted on behalf of the University's faculties, colleges, schools, and divisions is done in service to academic plans and priorities approved by the Provost with the involvement of principals, deans and faculty.

For the period May 1, 2019 to April 30, 2020, the University raised a total of $236 million.[16] This amount includes $196 million in pledges and gifts (donations) and $40 million in philanthropic research grants from non-government sources.

Donations[17] are recorded in the financial statements as follows:

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

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

**(millions of dollars)**

| Year | Pledges and gifts raised | Philanthropic research grants | Total |
|---|---|---|---|
| 2020 | 196 | 40 | 236 |
| 2019 | 323 | 55 | 378 |
| 2018 | 219 | 30 | 249 |
| 2017 | 212 | 63 | 275 |
| 2016 | 197 | 36 | 233 |

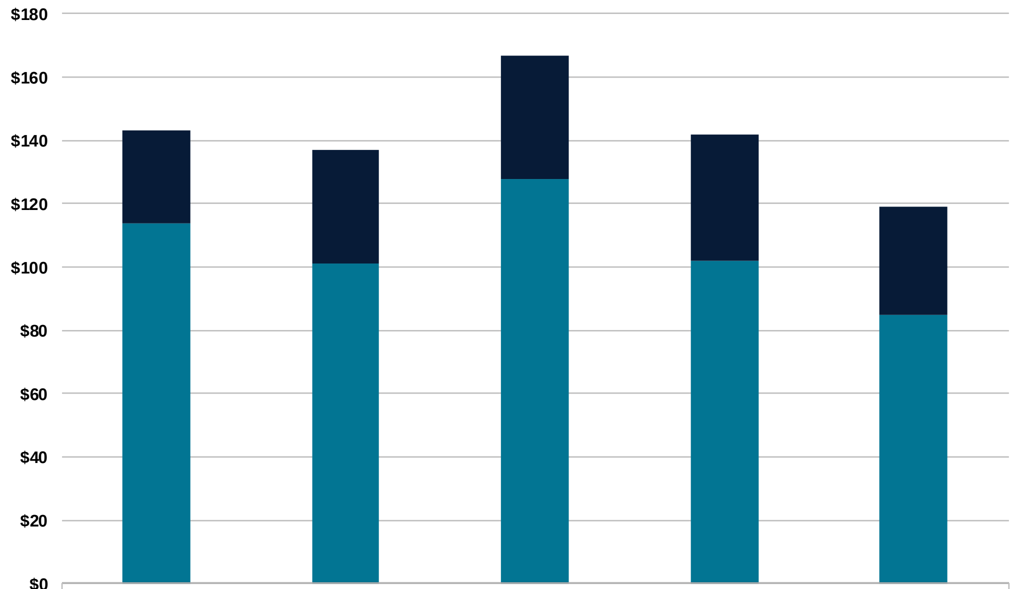
In 2020, donations received by the University (excluding receipts by the federated universities, other affiliated institutions, philanthropic research grants and donations to partner hospitals) totalled $119 million and were reported as follows: $85 million in expendable donations was reported as revenue, and $34 million was added directly to endowments. It should be noted that the above graph tracks donations received by fiscal year. There is usually a lag between the growth in pledges and related commitments, and the actual cash receipt of funds.

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

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

**Total Cash and Gifts-in-Kind Donations Received**

for the year ended April 30
(millions of dollars)




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Total donations | 143 | 137 | 167 | 142 | 119 |
| Endowed donations | 29 | 36 | 39 | 40 | 34 |
| Expendable donations | 114 | 101 | 128 | 102 | 85 |

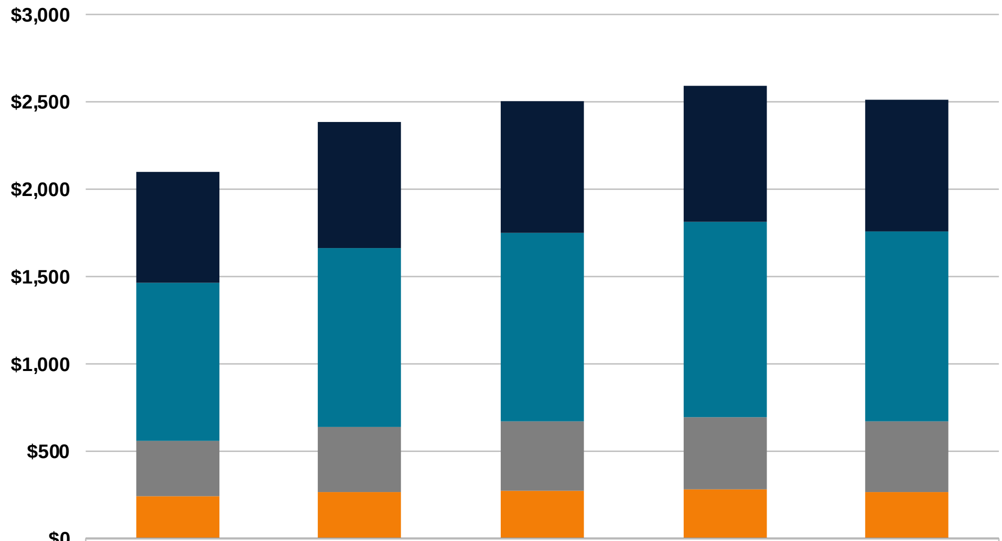
## Endowments

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

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

At April 30, 2020, there were more than 6,500 individual endowment funds, usually supported by an agreement between the University and a donor or reflecting a collection of small donations with common restrictions. The University's endowment value was $2.5 billion (book value of $1.8 billion) with full inflation protection of $711 million and preservation above inflation (provision for investment return fluctuations) of $42 million against a possible future market downturn. The majority of endowments are in support of student aid ($1.1 billion) and chairs and professorships ($754 million). The pandemic has adversely impacted global commercial activity and contributed to the significant volatility in certain equity and debt markets. This has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue.

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




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Total endowments | 2,098 | 2,380 | 2,504 | 2,593 | 2,510 |
| Chairs and professorships | 637 | 720 | 759 | 784 | 754 |
| Student aid | 902 | 1,025 | 1,077 | 1,116 | 1,087 |
| Academic programs | 319 | 367 | 392 | 413 | 403 |
| Research | 240 | 268 | 276 | 280 | 266 |

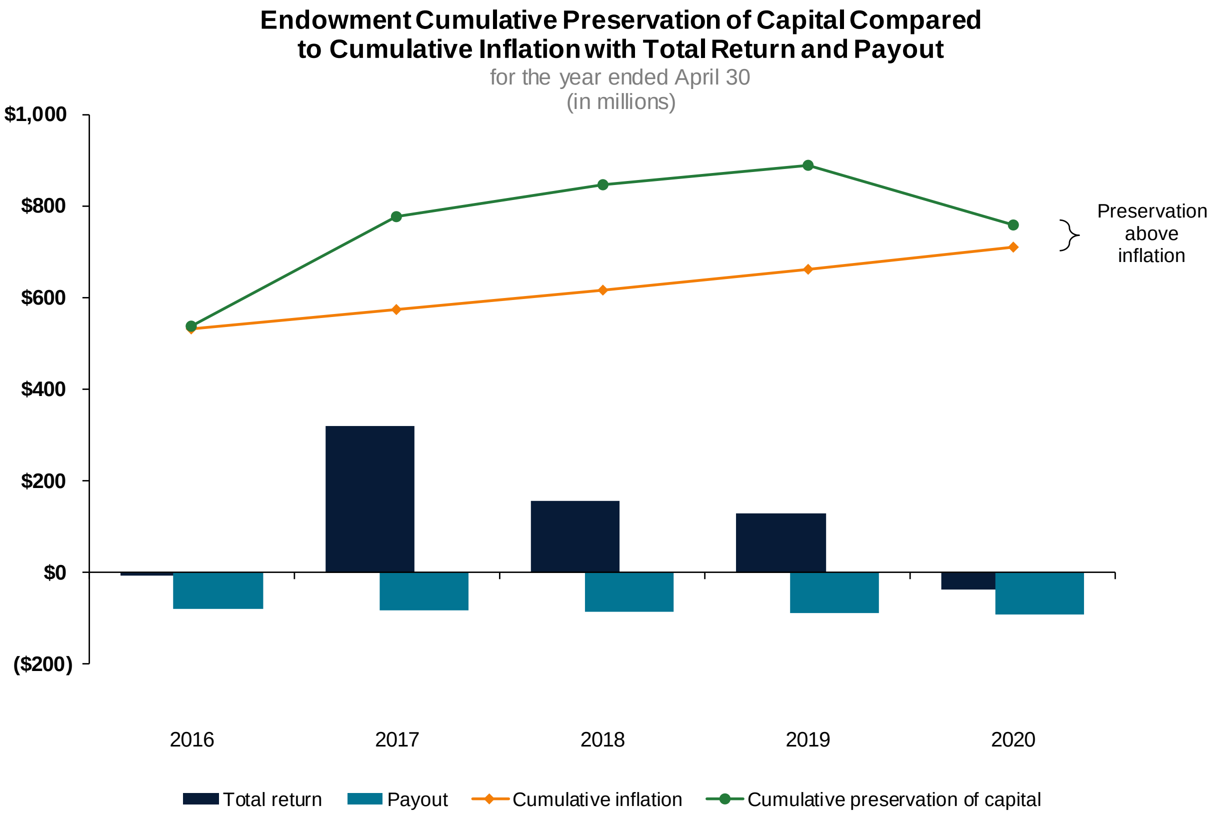
In fiscal 2020, the total fair value of endowments decreased by $83 million as follows:

- $120 million decrease on externally restricted endowments, consisting of a $41 million investment loss and a $79 million withdrawal for payout
- $15 million decrease on internally restricted endowments, consisting of a $2 million investment loss and a $13 million withdrawal for payout
- $34 million of externally endowed donations
- $18 million transfer from the deficit

In fiscal 2019, the total fair value of endowments increased by $89 million as follows:

- $35 million increase on externally restricted endowments, consisting of a $110 million investment gain and a $75 million withdrawal for payout
- $6 million increase on internally restricted endowments, consisting of a $19 million investment gain and a $13 million withdrawal for payout
- $40 million of externally endowed donations
- $8 million transfer from the deficit

The following diagram shows the preservation of capital and payout over the five-year period starting in 2016:




## Investment Earnings

Total investment earnings for the year amounted to $58 million (gross of $29 million in fees and other expenses) consisting of $20 million loss on investments held for endowments and $78 million income on other investments. These earnings were recorded in the financial statements as follows:

- $20 million loss on investments held for endowments (gross of $23 million in fees and other expenses), of which:
  - $120 million investment loss was recorded as a direct decrease to endowments in the consolidated statement of changes in net assets
  - $100 million was recorded as investment income in the consolidated statement of operations, of which
    - $92 million was made available for spending
    - $23 million in fees and other expenses
    - ($15 million) was deducted from endowments
- $78 million on other investments (gross of $6 million in fees and other expenses) was recorded as investment income in the consolidated statement of operations

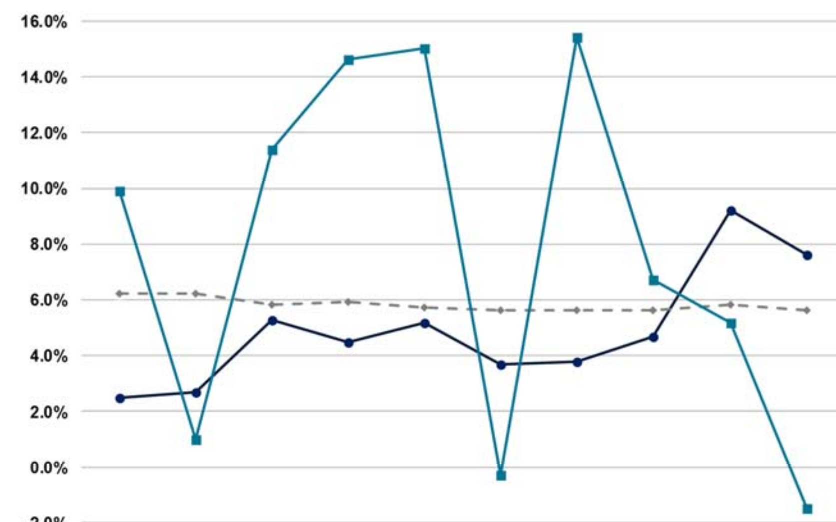
Almost all of the University's investments are invested in the long-term capital appreciation pool ("LTCAP") or the expendable funds investment pool ("EFIP"). The University establishes the investment risk and return objectives for each of these pools via the University Funds Investment Policy, which is approved by the Business Board. These objectives reflect the liability requirements and aim to produce steady, predictable returns for the University. 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. The actual investment return is a key determinant of whether the University records a net income or a net loss for the year.[18]

### LTCAP

The fair value of LTCAP was $3 billion at April 30, 2020, of which $2.5 billion was for endowments, representing 83.3% of the balance invested in LTCAP.

In order to meet planned spending allocations to LTCAP unitholders, the investment target is a real investment return of at least 4% over 10-year periods, net of all investment fees and expenses. LTCAP takes an appropriate amount of risk to achieve this target, but without undue risk of loss. Prior to June 2017, the investment return and risk targets for LTCAP were a 4% investment return plus inflation, net of all investment fees and expenses, and a 10% return volatility risk target (representing one standard deviation), over a ten-year period. The actual return in 2020 was a loss of 1.5%, net of all investment fees and expenses.

**Long-Term Capital Appreciation Pool (LTCAP)**
**Ten-Year Rolling Average Returns with Annual Returns**




| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Ten-year rolling average return | 2.5% | 2.7% | 5.3% | 4.5% | 5.2% | 3.7% | 3.8% | 4.7% | 9.2% | 7.6% |
| Ten-year rolling target return* | 6.2% | 6.2% | 5.8% | 5.9% | 5.7% | 5.6% | 5.6% | 5.6% | 5.8% | 5.6% |
| Annual investment return | 9.9% | 1.0% | 11.4% | 14.6% | 15.0% | -0.3% | 15.4% | 6.7% | 5.2% | -1.5% |

*The ten-year rolling returns are geometric average returns.

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

### EFIP

The investment policy for EFIP reflects very short-term investments managed by the University and short-term and medium-term portfolios managed by the University of Toronto Asset Management Corporation ("UTAM"). The return objective and risk tolerance for each category of EFIP funds (excluding funds loaned internally) is as follows:

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

The fair values and returns for the 2020 fiscal year were as follows:

| | Fair Value | Total Return |
|---|---|---|
| **Investments managed by the University** | $149 million | 2.09% |
| **Short-term portfolio managed by UTAM** | $2.2 billion | 3.38% |
| **Medium-term portfolio managed by UTAM** | $199 million | 0.94% |

Prior to October 2019, the return objective and risk tolerance for each category of EFIP funds (excluding funds loaned internally) were as follows:

| | Risk Tolerance | Return Objective |
|---|---|---|
| **Investments managed by the University** | Minimal risk | 30-day Treasury bill return |
| **Funds managed by UTAM** | Minimal risk | 1-year Treasury bill return + 50 basis points |

The fair values and returns for the 2019 fiscal year were as follows:

| | Fair Value | Total Return |
|---|---|---|
| **Investments managed by the University** | $112 million | 2.12% |
| **Funds managed by UTAM** | $2.1 billion | 2.54% |

## Appendix: Background Information

This appendix provides relevant background information that may be useful for understanding the highlights of the fiscal 2020 financial report given above.

### Provincial Operating Grants

- April 2014: the Province signed the first Strategic Mandate Agreements ("SMA1") with each university and college covering the period of 2014-17
- February 2016: the Ontario Budget confirmed the government's intention to move forward with implementing changes to the university funding formula with key objectives:
  - Improved student outcomes
  - Promoted differentiation by linking funding to SMA1
  - Provided additional stability to institutions through enrolment planning and predictability
- October 2017: the Province signed the second Strategic Mandate Agreements ("SMA2") with each university and college covering the period of 2017-20
- February 2019: the Ontario Budget announced the Government's plan to significantly increase the proportion of university funding that will be linked to performance metrics in the third Strategic Mandate Agreement – 2020-2025 ("SMA3")
  - Beginning in fiscal 2021, the proportion of base operating grant funding in the differentiation envelope will increase from the current 10% level to 25%
  - Additional funding will shift from the Core Operating Grant to the differentiation envelope annually until this proportion reaches 60% in fiscal 2025
  - Through the SMA3, the Government will link funding allocations in the differentiation envelope to a set of 10 performance metrics with institution-specific targets. Details on the metrics and funding mechanism will be developed over the next year in time for phased implementation starting in fiscal 2021. However, the Province recently announced that the implementation of the SMA3 and performance-based funding will be postponed indefinitely while the Province deals with the current COVID-19 outbreak

### Tuition Fees and Student Aid

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

- 2013: the Provincial government announced a new four-year tuition framework effective 2013-14 to 2016-17, and later extended the framework through 2018-19
  - The framework allowed universities to increase fees by up to 3% for domestic students entering most programs and for in-program students
  - Tuition fees could have increased by a maximum of 5% in professional programs and the framework reduced the overall annual cap from 5% to 3%
  - A Tuition Set Aside formula required a specific amount to be set aside by universities for student aid so that universities could ensure accessibility regardless of a student's financial means
- February 2016: Ontario and Federal Budgets included significant changes to the following student aid programs, the Ontario Student Assistance Program ("OSAP")

and the Canada Student Grants (“CSG”). The changes included a restructuring of OSAP to be completed in two phases, as follows:

  - 2017-18: most Ontario student grants, including the Ontario Tuition Grant, were folded into a single Ontario Student Grant which is an upfront, income-based grant that provided tuition support and needs-based support
  - 2018-19: the expected parental/spousal financial contribution towards a student’s post-secondary costs was reduced meaning that more students qualified for OSAP assistance

- January 2019: the Provincial government announced a 10% cut to domestic tuition fees beginning in 2019–20, and a freeze at that level for 2020–21
  - The tuition fee reduction applied to domestic students enrolled in all programs that are funded via the provincial operating grant, including direct entry undergraduate, second entry and professional master’s, and doctoral stream programs
  - Tuition paid by international students is unregulated, and will therefore be unaffected
  - This new framework did not affect fiscal 2019; however, it resulted in a reduction in domestic tuition fee revenue for fiscal 2020.
- February 2019: the Ontario Budget announced a new set of changes to OSAP for the 2019-20 academic year
  - Changes to OSAP included a reduction in the income threshold under which students qualify for non-repayable aid (grants), an increase in the proportion of aid provided as loans, and increases in required parental and student contributions to the cost of education
  - The government targeted OSAP funds to students with the greatest financial need, distributing a larger proportion of grant funding to students with family incomes of less than $50,000

### Other Ontario Budget Priorities

The 2016 Ontario Budget included significant changes to provincial student aid programs. While no new funding was announced, the OSAP was streamlined and made more transparent to students by creating a single major upfront grant – the Ontario Student Grant, starting in 2017-18.

The government of Ontario returned to a balanced budget for 2017-18. No additional funds for growth in undergraduate and graduate enrolment beyond previous commitment levels were identified. However, program expenditures in the post-secondary education sector were projected to grow at an average annual rate of 2.5% between 2015–16 and 2019–20, including investments in infrastructure projects and Highly Skilled Workforce initiatives.

The 2018 Ontario Budget projected a 0.9% increase for the post-secondary sector, primarily related to support for students through OSAP. The budget included an increase of $1.2 billion for the sector over three years to support growth in OSAP participation, and offset reductions to the required parental and spousal contributions starting in 2018-19.

### Institutional Strategic Research Plan (“ISRP”), 2018–23

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

While it provides support and direction, the ISRP is not meant to limit individual faculty member or divisional research priorities. The ISRP highlighted the scope of scholarship at the University and identified seven thematic areas designed to facilitate excellence and collaboration both within the University and with partner organizations and to address issues of local, national, and global importance. Of note, the ISRP formed the basis for developing the proposal for the Schwartz Reisman Institute of Technology and Society, demonstrating the value of broad institutional engagement in identifying research priorities.

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

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

### Fundamental Science Review and the 2018 Federal Budget

In 2017, the Federal government commissioned Canada's Fundamental Science Review, conducted by a prestigious panel led by the University of Toronto's President Emeritus Dr. David Naylor. The panel found that per capita federal investment in fundamental or curiosity-driven research had slumped in recent decades, and made a comprehensive set of 35 recommendations.

Responding to several of the Fundamental Science Review Report's findings, the 2018 Federal Budget contained multi-year provisions for research funding—investments that are a critical element of a national strategy to advance knowledge and build Canada's prosperity. The budget provided $925 million in new funding for investigator-led research through Canada's three federal research councils over the next five years, including $355 million each for the Natural Sciences and Engineering Research Council and the Canadian Institutes of Health Research, and $215 million for the Social Sciences and Humanities Research Council. The 2018 budget also included:

- The introduction of 275 new chairs through the Canada Research Chair program, with an investment of $210 million over five years to better support early-career researchers, while increasing diversity and creating more opportunity for women among nominated researchers
- $763 million over five years for scientific research infrastructure through the Canada Foundation for Innovation ("CFI"). This included $160 million for increased support to Canada's nationally important research facilities through the foundation's Major Science Initiatives Fund. The government also proposed to establish permanent funding at an ongoing level of $462 million per year by 2023-24 for research tools and infrastructure through CFI
- $21 million was allocated to increase diversity in science
- $275 million was earmarked for the New Frontiers in Research Fund that will support research that is international, interdisciplinary, fast-breaking and higher-risk
- $231 million over five years was set for the Research Support Fund – a critical program that assists universities with the institutional costs of research, such as facility costs and technology transfer supports – but does not substantially increase the proportion of funding for these costs. In addition, rather than allocating the funding increase as consecutive top-ups to the Research Support Fund, as done in the past, the government will segregate it as an Incremental Project Grants envelope that comes with more stringent accountability requirements

- $573 million over five years to implement a Digital Research Infrastructure Strategy to deliver more open and equitable access to advanced computing and big data resources to researchers across Canada

These significant investments from the 2018 Federal Budget will continue to flow out to institutions over the next several years. New programs such as those funded by the New Frontiers in Research Fund provide indirect cost support at a rate of 25%, above the rate of approximately 20% the University receives for general Tri-Agency programs, and this support comes without the additional administrative burden incurred with the Incremental Project Grant.

In the 2019 Federal Budget, the government followed up the multi-year investments in research announced in 2018 with new investments and initiatives, including:

- $114 million over five years, starting in 2019–20, with $27 million per year ongoing, to the federal granting councils to create 500 more master's level scholarship awards annually and 167 more three-year doctoral scholarship awards annually through the Canada Graduate Scholarship program
- The creation of a Strategic Science Fund - Support for Third-Party Research Organizations ("Fund") for federal investments in third-party science and research starting in 2022–23. The Fund will operate using a principles-based framework for allocating federal funding that includes competitive, transparent processes that will help protect and promote research excellence. Going forward, the selection of recipient organizations and corresponding level of support will be determined through the Fund's competitive allocation process, with advice from the expert panel and informed by the Minister of Science's overall strategy. The Minister of Science will provide details on the Fund in 2019

The 2020 Federal Budget has been delayed as a result of the COVID-19 pandemic. Significant investments have already been made in related research and more are expected. Similarly, the Ontario Government released its 2020 Economic and Fiscal Update that included in-year expenditures only and focused on targeted relief in response to the pandemic.

### Pension Solvency Funding Relief

In 2014-15, the University was approved for Stage 2 of provincial solvency funding relief. In 2016-17, the Ontario government provided additional Stage 2 solvency funding relief measures for certain public sector plans. This amendment required the University to make minimum special payments sufficient to liquidate 25% of the solvency deficiency over seven years and to cover interest applied on the remaining 75% of the solvency deficit not being amortized. Based on the most recently filed actuarial valuation as at July 1, 2017, net solvency deficit payments of $21 million began July 1, 2018, after giving effect to the one-year deferral provision related to the start of required solvency payments. This is in addition to the minimum required going concern pension special payments of $45 million per year. However, the University expects this drop in required funding to be temporary due to the new pension funding rules implemented by the Province. The Province introduced this pension funding reform effective May 1, 2018. Under the new rules:

- Universities will only be required to make special solvency payments if the solvency funding status is less than 85%, with any deficiency amortized over 5 years;
- The amortization period for the going concern deficit will be reduced to 10 years from 15 years, and a reserve factor (Provision for Adverse Deviation) will be applied to both accrued liabilities and current service costs; and

The Province has increased the Pension Benefits Guarantee Fund monthly guarantee, which has resulted in higher premiums.

### Investment Earnings

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

The University of Toronto Asset Management Corporation is a separate non-share capital corporation whose members are appointed by the University. The funds invested in LTCAP, EFIP and/or the Pension Master Trust that the University desires to have invested by UTAM, are invested on behalf of the University in accordance with a Business Board approved Delegation of Authority from the University to UTAM

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

Governance oversight of investments is provided by the Business Board (for University funds), by the Pension Committee (for pension plan assets), and by the UTAM Board which provides oversight of the operations of UTAM.

# Audited Consolidated Financial Statements

## April 30, 2020

# Statement of Administrative Responsibility

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

The administration has prepared the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations developed by the Chartered Professional Accountants of Canada. The administration believes that the consolidated financial statements present fairly the University's financial position as at April 30, 2020 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, reasonable estimates and judgments were employed. Additionally, management has ensured that financial information presented elsewhere in this Financial Report has been prepared in a manner consistent with that in the consolidated financial statements.

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

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

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

The consolidated financial statements for the year ended April 30, 2020 have been reported on by Ernst & Young LLP, the auditors appointed by Governing Council. The independent auditor's report outlines the scope of their audit and their opinion on the presentation of the information included in the consolidated financial statements.

*(signed)*

Sheila Brown

Chief Financial Officer

*(signed)*

Meric S. Gertler

President

# Independent Auditor's Report

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

## Opinion

We have audited the consolidated financial statements of the **University of Toronto** [the "University"], which comprise the consolidated balance sheet as at April 30, 2020, and the consolidated statement of operations, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as at April 30, 2020, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

## Basis for opinion

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

## Other information

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

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

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

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

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

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

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

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

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

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

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

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

Toronto, Canada
June 25, 2020

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

**Statement 1**

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

| | **2020** | 2019 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash and cash equivalents | **149** | 112 |
| Short-term investments at fair value (note 3) | **1,074** | 1,905 |
| Accounts receivable (notes 3 and 17) | **219** | 114 |
| Inventories and prepaid expenses | **33** | 22 |
| | **1,475** | 2,153 |
| Investments at fair value (notes 3 and 17) | **4,195** | 3,242 |
| Capital assets, net (note 4) | **5,057** | 5,009 |
| | **10,727** | 10,404 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities (notes 3, 6 and 7) | **434** | 455 |
| Deferred contributions (note 8) | **700** | 627 |
| | **1,134** | 1,082 |
| Accrued pension liability (note 5) | **606** | 308 |
| Employee future benefit obligation other than pension (note 5) | **644** | 625 |
| Long-term debt (note 7) | **709** | 711 |
| Deferred capital contributions (note 9) | **1,203** | 1,228 |
| | **4,296** | 3,954 |
| **NET ASSETS (Statement 3)** | | |
| Deficit | **(124)** | (162) |
| Internally restricted (note 10) | **4,045** | 4,019 |
| Endowments (notes 11, 12 and 13) | **2,510** | 2,593 |
| | **6,431** | 6,450 |
| | **10,727** | 10,404 |

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

See accompanying notes

On behalf of Governing Council:

*(signed)*
Claire M.C. Kennedy
Chair

*(signed)*
Meric S. Gertler
President

Statement 2

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

| | **2020** | 2019 |
|---|---|---|
| **REVENUES** | | |
| Student fees | **1,813** | 1,728 |
| Government grants for general operations | **719** | 727 |
| Government and other grants for restricted purposes (note 16) | **463** | 469 |
| Sales, services and sundry income | **368** | 362 |
| Investment income (notes 3 and 11) | **178** | 205 |
| Donations (note 15) | **85** | 102 |
| | **3,626** | 3,593 |
| **EXPENSES** | | |
| Salaries | **1,579** | 1,472 |
| Employee benefits (note 5) | **355** | 349 |
| Scholarships, fellowships and bursaries | **259** | 255 |
| Materials, supplies and services | **233** | 222 |
| Amortization of capital assets | **201** | 189 |
| Inter-institutional contributions | **132** | 155 |
| Repairs, maintenance and leases | **131** | 135 |
| Cost of sales and services | **113** | 117 |
| Utilities | **50** | 49 |
| Travel and conferences | **54** | 57 |
| Interest on long-term debt | **38** | 38 |
| Other | **40** | 50 |
| | **3,185** | 3,088 |
| **NET INCOME** | **441** | 505 |

See accompanying notes

**UNIVERSITY OF TORONTO**

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

FOR THE FISCAL YEAR ENDED APRIL 30

(millions of dollars)

| | Deficit | Internally restricted (note 10) | Endowments (note 11) | 2020 Total | 2019 Total |
|---|---|---|---|---|---|
| Net assets, beginning of year | (162) | 4,019 | 2,593 | 6,450 | 5,943 |
| Net income | 441 | | | 441 | 505 |
| Net change in internally restricted (note 10) | (26) | 26 | | | |
| Remeasurements and other items (note 5) | (374) | | | (374) | (73) |
| Investment gain (loss) on externally restricted endowments (note 11) | | | (120) | (120) | 35 |
| Externally endowed contributions - donations (note 15) | | | 34 | 34 | 40 |
| Transfer to internally restricted endowments (note 11) - investment loss | 15 | | (15) | | |
| Transfer to endowments (note 11) - donations | (5) | | 5 | | |
| - matching funds | (13) | | 13 | | |
| Net assets, end of year | (124) | 4,045 | 2,510 | 6,431 | 6,450 |

See accompanying notes

**Statement 4**

**UNIVERSITY OF TORONTO**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED APRIL 30

(millions of dollars)

| | **2020** | 2019 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | **441** | 505 |
| Add (deduct) non-cash items: | | |
| Amortization of capital assets | **201** | 189 |
| Amortization of deferred capital contributions | **(78)** | (70) |
| Net unrealized gains from investments | **(146)** | (170) |
| Employee future benefits expense | **181** | 181 |
| Employee future benefits contributions | **(238)** | (231) |
| Net change in other non-cash items (note 14) | **(59)** | 1 |
| | **302** | 405 |
| **INVESTING ACTIVITIES** | | |
| Net purchase of short-term investments | **831** | (491) |
| Net sale of investments | **(927)** | 300 |
| Purchase of capital assets | **(254)** | (331) |
| | **(350)** | (522) |
| **FINANCING ACTIVITIES** | | |
| Contributions for capital asset purchases | **53** | 121 |
| Long-term debt repayments | **(2)** | (2) |
| Endowment contributions | | |
| - donations | **34** | 40 |
| | **85** | 159 |
| **Net increase in cash during the year** | **37** | 42 |
| **Cash and cash equivalents, beginning of year** | **112** | 70 |
| **Cash and cash equivalents, end of year** | **149** | 112 |
| **Supplemental cash flow information** | | |
| Decrease in capital asset acquisitions funded by accounts payable and accrued liabilities | **(5)** | (23) |
| Decrease in contributions receivable related to capital asset purchases | | (31) |

See accompanying notes

# UNIVERSITY OF TORONTO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## APRIL 30, 2020

## 1. Description

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

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

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

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

## 2. Summary of significant accounting policies

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

### a) Investments and investment income -

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

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

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

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

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

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

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

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

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

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

### b) Derivative financial instruments -

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

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

### c) Investments in significantly influenced entities and interests in joint venture arrangements -

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

### d) Senior unsecured debentures and other long-term debt -

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

### e) Other financial instruments -

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

### f) Cash and cash equivalents -

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

### g) Inventory valuation -

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

### h) Employee benefit plans -

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for most of its employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the accrued obligation net of the fair value of plan assets in the consolidated balance sheet. Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets. The accrued liability for funded employee future benefit plans is determined using a roll-forward technique to estimate the accrued liability using funding assumptions from the most recent actuarial valuation report prepared at least every three years. The accrued liability for unfunded plans is prepared on a basis consistent with funded plans. Employee future benefit plans' assets are measured at fair value as at the date of the consolidated balance sheet.

### i) Capital assets and collections -

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

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

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

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

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

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

### j) Revenue recognition -

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

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

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

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

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

### k) Foreign currency translation -

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

### l) Use of accounting estimates -

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

### m) Contributed services and materials –

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

### n) Change in accounting policy -

During the year, the University prospectively adopted the new accounting standard Section 4433, Tangible capital assets held by not-for-profit organizations of *CPA Canada Handbook – Accounting* (the "Handbook") as of May 1, 2019, that requires the University to follow the componentization guidelines of Section 3061, *Property, plant and equipment* of the Handbook, and the guidelines for the impairment of long-lived assets of Section 3063, *Impairment of long-lived assets of the Handbook*. The guidelines require capital assets to be separated into significant component parts and each component to be amortized in accordance with their useful lives. Partial impairments on tangible capital assets will now need to be considered. Section 4441, *Collections held by not-for-profit organizations* of the Handbook was also adopted retrospectively during the year. Collections will continue to be recorded at a nominal value. The changes did not have a material impact on these financial statements.

## 3. Investments

The University's investments are managed using two pools: the long-term capital appreciation pool ("LTCAP"), and the expendable funds investment pool ("EFIP"). The LTCAP mainly includes endowment funds, the voluntary sinking fund (note 7) established to repay the University's debenture principal at maturity and funds set aside to cover long-term disability payments (note 5). The EFIP consists mainly of the University's working capital for operations.

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

The table below shows the University's investments at fair value, mapped into the Reference Portfolio asset classes:

| | (millions of dollars) | | | | | |
|---|---|---|---|---|---|---|
| | **April 30, 2020** | | | April 30, 2019 | | |
| | **LTCAP** | **EFIP** | **TOTAL** | LTCAP | EFIP | TOTAL |
| Short-term investments | **(266)** | **1,340** | **1,074** | 32 | 1,873 | 1,905 |
| Government and corporate bonds | **1,148** | **1,025** | **2,173** | 939 | 233 | 1,172 |
| Canadian equities | **102** | | **102** | 300 | | 300 |
| United States equities | **492** | **1** | **493** | 609 | 1 | 610 |
| International equities | **297** | | **297** | 461 | | 461 |
| Emerging markets equities | **176** | | **176** | 303 | | 303 |
| Global equities | **709** | | **709** | 158 | | 158 |
| Other | **245** | | **245** | 238 | | 238 |
| | **2,903** | **2,366** | **5,269** | 3,040 | 2,107 | 5,147 |
| Less amounts reported as short-term investments | **266** | **(1,340)** | **(1,074)** | (32) | (1,873) | (1,905) |
| Long-term investments | **3,169** | **1,026** | **4,195** | 3,008 | 234 | 3,242 |

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

In fiscal 2020, the University's investment income of $178 million (2019 - $205 million) recorded in the consolidated statement of operations consists of income related to investments held for endowments of $100 million (2019 - $119 million gain), gross of $23 million (2019 - $25 million) in fees and other expenses (note 11), and income of $78 million (2019 - $86 million) on investments other than those held for endowments, gross of $6 million (2019 - $7 million) in fees and other expenses.

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

Investments for each pool consist of the following:

| | (millions of dollars) | | | | | |
|---|---|---|---|---|---|---|
| | **April 30, 2020** | | | April 30, 2019 | | |
| | **LTCAP** | **EFIP** | **TOTAL** | LTCAP | EFIP | TOTAL |
| Short-term investments | **928** | **2,166** | **3,094** | 545 | 1,873 | 2,418 |
| Government and corporate bonds | **183** | **199** | **382** | 529 | 233 | 762 |
| Canadian equities | **1** | | **1** | 98 | | 98 |
| United States equities | **1** | **1** | **2** | 78 | 1 | 79 |
| International equities | **136** | | **136** | 386 | | 386 |
| Emerging markets equities | **105** | | **105** | 153 | | 153 |
| Global equities | **502** | | **502** | 111 | | 111 |
| Hedge funds | **389** | | **389** | 554 | | 554 |
| Private investments | **593** | | **593** | 487 | | 487 |
| Real assets | **65** | | **65** | 99 | | 99 |
| Total investments | **2,903** | **2,366** | **5,269** | 3,040 | 2,107 | 5,147 |

During the year, the University recognized an unrealized gain of $5 million (2019 – $14 million) as a result of the change in fair value of its investments that were estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates for certain of its investments. Management believes there are no other reasonable assumptions for these investments that would generate any material changes in investment income.

### Uncalled commitments

As at April 30, 2020, approximately 12.5% (2019 – 11.4%) of the University's investments are invested in private funds managed by third-party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real asset investments (e.g., real estate, infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2020, the University had uncalled commitments of approximately $502 million (2019 - $483 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund, but is generally between three to five years from the date the private fund closes. In practice, for a variety of reasons, the total amount committed to a private fund is very rarely called in its entirety.

### Derivative financial instruments

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

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

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

**(millions of dollars)**

| | **April 30, 2020** | | | April 30, 2019 | | |
|---|---|---|---|---|---|---|
| | | **Fair Values** | | | Fair Values | |
| **Contracts** | **Notional Value** | **Receivable** | **Payable** | Notional Value | Receivable | Payable |
| Foreign currency forward | | | | | | |
| United States dollars | **495** | **9** | | 733 | | (9) |
| Other | **256** | **2** | | 307 | 2 | |
| Equity and bond futures | **82** | **5** | **(6)** | 46 | 1 | |
| Equity and bond swap | **2,008** | **89** | | 501 | 10 | |
| Interest rate swap | **9** | | **(1)** | 11 | | (1) |
| | **2,850** | **105** | **(7)** | 1,598 | 13 | (10) |

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

Contracts with a positive mark-to-market (fair value) are recorded as receivables while contracts with a negative mark-to-market are recorded as payables. These are included in accounts receivable and accounts payables and accrued liabilities respectively, in the consolidated balance sheet. The maturity dates of the currency forwards and futures contracts as at April 30, 2020 range from May to September 2020. The maturity dates of the equity and bond swap contracts as at April 30, 2020 range from May to April 2021. Required collateral of $8 million (2019 - $2 million) has been provided to the relevant exchanges against the futures contracts as of April 30, 2020 in the form of short-term investments. Before fiscal 2020, the University typically held liquid assets to fully support the derivative financial instrument contracts (other than foreign currency forward contracts) with a fair value approximately equal to the net notional value of the derivative contracts resulting in little to no leverage due to these investments. At April 30, 2020, the University had $1.8 billion (2019 - $545 million) in short-term investments compared to the $2.1 billion (2019 - $547 million) of notional value of equity and bond futures and equity and bond swap contracts. Leverage is used to add government bond exposure to the portfolio to enhance downside risk protection.

## 4. Capital assets

| | (millions of dollars) | | | |
|---|---|---|---|---|
| | **April 30, 2020** | | April 30, 2019 | |
| | **Total cost** | **Accumulated amortization** | Total cost | Accumulated amortization |
| Land | **2,293** | | 2,287 | |
| Buildings | **3,680** | **1,395** | 3,566 | 1,298 |
| Equipment and furnishings | **1,929** | **1,519** | 1,835 | 1,447 |
| Library books | **768** | **699** | 733 | 667 |
| | **8,670** | **3,613** | 8,421 | 3,412 |
| Less accumulated amortization | **(3,613)** | | (3,412) | |
| Net book value | **5,057** | | 5,009 | |

The University develops replacement property values of buildings and contents for insurance purposes using various sources and valuation methods that conform to insurance industry practice and standards. The insured replacement value of buildings is approximately $5.6 billion and contents is approximately $2.7 billion, which includes library books of approximately $0.9 billion.

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

As at April 30, 2020, the University had $204 million (2019 - $125 million) in construction in progress that was included in buildings and equipment and furnishings, which will not be amortized until the capital assets are put into use.

## 5. Employee benefit plans

The University has a number of funded and unfunded defined benefit plans that provide pension, other retirement and post-employment benefits to most of its employees. Its defined benefit pension plan (including the supplemental retirement arrangement) is based on years of service and the highest average salary received in any 36 month period. Pension benefits will increase annually by an amount equal to the greater of 75% of the increase in the Consumer Price Index (“CPI”) for the previous year up to 8%, plus 60% of the increase in CPI above 8%, or the increase in the CPI for the previous year minus four percentage points. Other retirement benefit plans are contributory health care plans with retiree contributions adjusted annually, such as extended health, semi-private and dental care. Another plan also provides for long-term disability income benefits after employment, but before retirement.

The employee benefits expense for the year includes pension expense of $130 million (2019 - $133 million), other retirement benefits expense of $51 million (2019 - $48 million) and other employee benefits of $174 million (2019 - $168 million). Remeasurements, which are recorded in the consolidated statement of changes in net assets, rather than in the consolidated statement of operations, are as follows:

| | (millions of dollars) | | | |
|---|---|---|---|---|
| | **April 30, 2020** | | April 30, 2019 | |
| | **Pension benefit plan** | **Other benefit plans** | Pension benefit plan | Other benefit plans |
| Difference between actual and expected return on plan assets | **(376)** | | (19) | |
| Actuarial gains (losses) | **(31)** | **4** | (41) | (13) |
| Past service cost | **29** | | | |
| | **(378)** | **4** | (60) | (13) |

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

| | **April 30, 2020** | | April 30, 2019 | |
|---|---|---|---|---|
| | **Pension benefit plan** | **Other benefit plans** | Pension benefit plan | Other benefit plans |
| **Accrued benefit obligation:** | | | | |
| Discount rate | **5.55%** | **5.55%** | 5.55% | 5.55% |
| Rate of compensation increase | **4.00%** | **4.00%** | 4.00% | 4.00% |
| Rate of inflation | **2.00%** | **2.00%** | 2.00% | 2.00% |
| **Benefits cost:** | | | | |
| Discount rate | **5.55%** | **5.55%** | 5.55% | 5.55% |
| Expected long-term rate of return on plan assets | **5.55%** | | 5.55% | |
| Rate of compensation increase | **4.00%** | **4.00%** | 4.00% | 4.00% |
| Rate of inflation | **2.00%** | **2.00%** | 2.00% | 2.00% |

An actuarial valuation is performed for the pension plan annually. The latest actuarial valuation for the pension plan was performed as at July 1, 2019. The next required actuarial valuation to be filed will be as at July 1, 2020. The actuarial valuation for retirement benefit plans other than pension is performed every two years, the most recent being as at July 1, 2019. The University measures its accrued benefit obligation (using a roll-forward technique from the most recent actuarial valuation) and the fair value of plan assets for accounting purposes as at April 30 of each year.

To measure the accrued benefit obligation for retirement benefit plans other than pension as at April 30, 2020, the rate of increase in the per capita cost of covered health care benefits was assumed to be 4.25%, except for extended health care costs which are assumed to increase at 6.85% in 2020, with the rate of increase decreasing gradually to 4.25% in 2030 and remaining at that level thereafter.

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

(millions of dollars)

| | **April 30, 2020** | | April 30, 2019 | |
|---|---|---|---|---|
| | **Pension benefit plan** | **Other benefit plans** | Pension benefit plan | Other benefit plans |
| Accrued benefit obligation | **5,898** | **644** | 5,650 | 625 |
| Fair value of plan assets | **5,292** | | 5,342 | |
| Plan deficit | **(606)** | **(644)** | (308) | (625) |

In addition to the plan assets, as at April 30, 2020, the University has set aside investments of $27 million (2019 - $20 million) for its pension obligations (note 10) and $107 million (2019 - $107 million) for its other benefit plans.

The university administrations, faculty associations, unions and non-represented staff at the University of Toronto, University of Guelph and Queen's University have been working to develop a new jointly sponsored pension plan ("JSPP"), that would cover employees and retired employees in the existing plans at all three universities, with contributions and accrual of benefits to be effective from a future date. Before this can occur, a highly regulated approval process must take place, which includes a consent process for members and other persons entitled to benefits under the existing plans, and the necessary regulatory approvals. The consent process was completed in June 2019 with the required consent threshold for each of the existing plans being surpassed, enabling the conversion to the JSPP to proceed. Only once the remaining necessary regulatory approvals are obtained will the assets and liabilities of the Plan be transferred to the new JSPP as at the effective date of accrual of benefits under the new plan (anticipated to be July 1, 2021).

## 6. Government remittances payable

As at April 30, 2020, accounts payable and accrued liabilities include government remittances payable of $3 million (2019 - $40 million).

## 7. Long-term debt

Long-term debt consists of mortgages and term loans of nil (2019 - $2 million) and the following senior unsecured debentures:

| | (millions of dollars) | |
|---|---|---|
| | **April 30, 2020** | April 30, 2019 |
| Series A senior unsecured debenture bearing interest at 6.78% payable semi-annually on January 18 and July 18, with the principal amount maturing on July 18, 2031 | **160** | 160 |
| Series B senior unsecured debenture bearing interest at 5.841% payable semi-annually on June 15 and December 15, with the principal amount maturing on December 15, 2043 | **200** | 200 |
| Series C senior unsecured debenture bearing interest at 4.937% payable semi-annually on May 16 and November 16, with the principal amount maturing on November 16, 2045 | **75** | 75 |
| Series D senior unsecured debenture bearing interest at 4.493% payable semi-annually on June 13 and December 13, with the principal amount maturing on December 13, 2046 | **75** | 75 |
| Series E senior unsecured debenture bearing interest at 4.251% payable semi-annually on June 7 and December 7, with the principal amount maturing on December 7, 2051 | **200** | 200 |
| Net unamortized transaction costs | **(1)** | (1) |
| | **709** | 709 |

Net unamortized transaction costs comprise premiums and transaction issue costs.

A voluntary sinking fund (note 3) was established for the purpose of accumulating funds to repay the University's debenture principal at maturity. The value of the fund included in investments as at April 30, 2020 amounted to $411 million (2019 - $397 million).

## 8. Deferred contributions

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

| | (millions of dollars) | |
|---|---|---|
| | **April 30, 2020** | April 30, 2019 |
| Balance, beginning of year | **627** | 625 |
| Add grants, donations and investment income | **576** | 529 |
| Less recognized as revenue during the year | **(503)** | (527) |
| Balance, end of year | **700** | 627 |

The deferred contributions must be spent for the following purposes as follows:

| | (millions of dollars) | |
|---|---|---|
| | **April 30, 2020** | April 30, 2019 |
| Research | **333** | 283 |
| Student aid (notes 12 and 13) | **97** | 93 |
| Other restricted purposes | **270** | 251 |
| | **700** | 627 |

## 9. Deferred capital contributions

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

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

| | (millions of dollars) | |
|---|---|---|
| | **April 30, 2020** | April 30, 2019 |
| Balance, beginning of year | **1,228** | 1,254 |
| Less amortization of deferred capital contributions | **(78)** | (70) |
| Less long-term government assistance receivable write-off | | (46) |
| Add contributions recognized for capital asset purchases | **53** | 90 |
| Balance, end of year | **1,203** | 1,228 |

This balance represents:

| | **April 30, 2020** | April 30, 2019 |
|---|---|---|
| Amount used to purchase capital assets | **1,196** | 1,211 |
| Amount to be spent on capital assets | **7** | 17 |
| | **1,203** | 1,228 |

## 10. Internally restricted net assets

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

| | (millions of dollars) | |
|---|---|---|
| | **April 30, 2020** | April 30, 2019 |
| Investment in land and other capital assets | **3,525** | 3,428 |
| Employee benefits | | |
| Pension | **(707)** | (414) |
| Other plans | **(536)** | (518) |
| Pension plan reserve (note 5) | **27** | 20 |
| Capital projects and infrastructure reserves | **1,073** | 809 |
| Operating contingencies | **277** | 360 |
| Research support | **213** | 178 |
| Departmental trust funds | **93** | 85 |
| Student assistance | **56** | 52 |
| Other funds | **24** | 19 |
| | **4,045** | 4,019 |

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

### a) Investment in land and other capital assets -

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

### b) Employee benefits -

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

### c) Capital projects and infrastructure reserves -

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

- **Capital Projects in Progress -** $354 million (2019 - $258 million) – unspent funds at the end of the fiscal year, in respect of capital projects and alterations and renovations in progress that are part of the University's major infrastructure building and renewal program less amounts spent without funding on hand;
- **Reserves for future major capital projects -** $429 million (2019 - $234 million) – funds set aside for specific, major capital projects in the project planning stage with an anticipated project cost in excess of $5 million; and
- **Other divisional infrastructure reserves -** $290 million (2019 - $317 million) – funds held by divisions as a general reserve for alterations and renovations, as well as funds earmarked for capital projects in the project planning stage with an anticipated project cost less than $5 million.

### d) Operating contingencies -

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

### e) Research support -

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

### f) Departmental trust funds -

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

### g) Student assistance -

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

### h) Other funds -

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

## 11. Endowments

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

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

(millions of dollars)

| | **April 30, 2020** | | | April 30, 2019 | | |
|---|---|---|---|---|---|---|
| | **Externally restricted** | **Internally restricted** | **Total** | Externally restricted | Internally restricted | Total |
| Balance, beginning of year | **2,210** | **383** | **2,593** | 2,129 | 375 | 2,504 |
| Donations (note 15) | **34** | | **34** | 40 | | 40 |
| Investment income (loss), net of fees and other expenses of $23 (2019 - $25) (note 3) | **(41)** | **(2)** | **(43)** | 110 | 19 | 129 |
| Investment income made available for spending | **(79)** | **(13)** | **(92)** | (75) | (13) | (88) |
| Transfer of donations and matching funds from deficit | **9** | **9** | **18** | 6 | 2 | 8 |
| Balance, end of year | **2,133** | **377** | **2,510** | 2,210 | 383 | 2,593 |

University policy has been established with the objective of protecting the real value of the endowments by limiting the amount of income made available for spending and requiring the reinvestment of income not made available for spending. The investment policy has set the real rate of return objective of at least 4% over 10-year periods, net of all investment fees and other expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. The amount made available for spending must normally fall between a ranges 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 endowment funds, where the fair value of the endowment is below the donated capital and does not have sufficient accumulated reinvestment income, endowment capital is used in the current year as this is deemed prudent by the University. This amount is expected to be recovered by future net investment income. As at April 30, 2020, there were 551 endowments with the original gift value of $132 million that had a fair value of $128 million, and a deficiency of $4 million. The majority of these endowment were donated before the recent market downturn due to the global pandemic. As at April 30, 2019, there were no endowments with fair values below their original gift value. In fiscal 2020, $8.34 (2019 - $8.18) per unit of LTCAP was made available for spending, representing 3.53% (2019 - 3.52%) of the opening fair value per unit of the endowment pool.

## 12. Ontario Student Opportunity Trust Fund

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

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

**Phase 1:**

| | (thousands of dollars) | |
|---|---|---|
| | **April 30, 2020** | April 30, 2019 |
| Endowments at book value, beginning of year | **361,070** | 348,718 |
| Donations | **452** | 1 |
| Transfer (to) from expendable funds | **(4,613)** | 12,351 |
| Endowments at book value, end of year | **356,909** | 361,070 |
| Cumulative unrealized gains | **13,833** | 29,336 |
| Endowments at fair value, end of year | **370,742** | 390,406 |

| | (thousands of dollars) | |
|---|---|---|
| | **April 30, 2020** | April 30, 2019 |
| Expendable funds available for awards, beginning of year | **29,640** | 30,423 |
| Realized investment income | **9,290** | 25,895 |
| Transfer from (to) endowment balance | **4,613** | (12,351) |
| Bursaries awarded | **(13,672)** | (14,327) |
| Expendable funds available for awards, end of year | **29,871** | 29,640 |
| Number of award recipients | **3,517** | 3,559 |

**Phase 2:**

| | (thousands of dollars) | | | |
|---|---|---|---|---|
| | **April 30, 2020** | | April 30, 2019 | |
| | **University of Toronto** | **Affiliates** | University of Toronto | Affiliates |
| Endowments at book value, beginning of year | **47,666** | **5,353** | 46,211 | 5,177 |
| Donations | | **3** | | 118 |
| Transfer (to) from expendable funds | **(535)** | **121** | 1,455 | 58 |
| Endowments at book value, end of year | **47,131** | **5,477** | 47,666 | 5,353 |
| Cumulative unrealized losses | **(2,762)** | | (902) | |
| Endowments at fair value, end of year | **44,369** | | 46,764 | |

| | (thousands of dollars) | | | |
|---|---|---|---|---|
| | **April 30, 2020** | | April 30, 2019 | |
| | **University of Toronto** | **Affiliates** | University of Toronto | Affiliates |
| Expendable funds available for awards,beginning of year | **3,447** | **621** | 3,658 | 592 |
| Realized investment income | **1,112** | **432** | 3,090 | 350 |
| Transfer from (to) endowment balance | **535** | **(121)** | (1,455) | (58) |
| Bursaries awarded | **(1,485)** | **(289)** | (1,846) | (263) |
| Expendable funds available for awards, end of year | **3,609** | **643** | 3,447 | 621 |
| Number of award recipients | **545** | **141** | 634 | 130 |

## 13. Ontario Trust for Student Support

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

Endowments at book value in this note represent contributions received plus a portion of realized investment income. The expendable funds available for awards are included in deferred contributions (note 8) on the consolidated balance sheet. The endowments and expendable fund balances of the affiliates (Victoria University, The University of Trinity

College, University of St. Michael's College and the Toronto School of Theology) are not included in these consolidated financial statements.

| | (thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2020*** | | March 31, 2019* | |
| | **University of Toronto** | **Affiliates** | University of Toronto | Affiliates |
| Endowments at book value, beginning of year | **84,838** | **15,615** | 81,835 | 15,620 |
| Donations received | **125** | **11** | 356 | 12 |
| University matching | | **2** | 25 | 3 |
| Transfer from (to) expendable funds | **(89)** | **168** | 2,622 | (20) |
| Endowments at book value, end of year | **84,874** | **15,796** | 84,838 | 15,615 |
| Cumulative unrealized gains (losses) | **(4,436)** | | 2,333 | |
| Endowments at fair value, end of year | **80,438** | | 87,171 | |

| | (thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2020*** | | March 31, 2019* | |
| | **University of Toronto** | **Affiliates** | University of Toronto | Affiliates |
| Expendable funds available for awards, beginning of year | **4,561** | **1,858** | 4,549 | 1,836 |
| Realized investment income | **2,971** | **1,058** | 5,671 | 808 |
| Donations received | | | 10 | |
| University matching and contribution | **78** | | 83 | |
| Transfer from (to) endowment balance | **89** | **(168)** | (2,622) | 20 |
| Bursaries awarded | **(2,948)** | **(682)** | (3,130) | (806) |
| Expendable funds available for awards, end of year | **4,751** | **2,066** | 4,561 | 1,858 |
| Number of award recipients | **1,042** | **284** | 1,031 | 333 |

*As per Ministry of Colleges and Universities guidelines.

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

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

| | (millions of dollars) | |
|---|---|---|
| | **April 30, 2020** | April 30, 2019 |
| Accounts receivable | **(105)** | (21) |
| Inventories and prepaid expenses | **(11)** | |
| Accounts payable and accrued liabilities | **(16)** | 20 |
| Deferred contributions | **73** | 2 |
| | **(59)** | 1 |

## 15. Donations

During the year, the University raised pledges, gifts and philanthropic grants of which $119 million (2019 - $142 million) was received. Of that amount, $34 million (2019 - $40 million) is recorded as a direct addition to endowments (note 11) and is not recorded as donations revenue. There is a lag between the time in which pledges and related commitments are made and the actual receipt of funds.

## 16. Government and other grants for restricted purposes

During the year, the University received $478 million (2019 - $420 million) of government and other grants for research and $33 million (2019 - $71 million) for capital infrastructure and other purposes, of which $463 million (2019 - $469 million) was recorded as revenue and $48 million (2019 - $22 million) was deferred (see notes 8 and 9).

## 17. Financial risks and risk management

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

### Foreign currency risks

The University is exposed to foreign currency risk from direct and indirect (e.g., pooled funds) investments that are denominated in currencies other than the Canadian dollar. Fluctuations caused by changes in the currency rates applied to these investments can result in a positive or negative effect on the fair value of the investments and on the cash flows from these investments. To manage foreign currency risk, the University has established a benchmark currency hedging policy for both the LTCAP and EFIP. In 2020, the benchmark policy for the LTCAP is to hedge 50% of the currency exposure of all the asset classes of the Reference Portfolio, with the exception of emerging markets which is unhedged. In 2019, the benchmark policy was to hedge 50% of the currency exposure within the United States equity and EAFE equity Reference Portfolio asset classes, with no hedging in all other Reference Portfolio asset classes. The benchmark policy for EFIP is to hedge 100% (2019 – 100%) of its non-Canadian currency exposure. At April 30, 2020, the fair value of investments denominated in foreign currency was $ 1.7 billion (2019 - $1.8 billion), of which $725 million (2019 - $833 million) was hedged.

### Credit risk

The University is exposed to credit risk in connection with its fixed income investments and derivative contracts because of the risk of a financial loss caused by a counterparty's potential inability or unwillingness to fulfill its contractual obligations. To manage the credit risk exposed from direct bond holdings or from the use of derivatives, fixed limits are established for individual counterparties and these are monitored regularly. The University invests the majority of its fixed income in high-grade securities. At April 30, 2020, only 23% (2019 - 29%) of the University's bond exposure from derivative instruments and direct fixed income investments had credit ratings of A or lower.

### Interest rate risk

The University is exposed to interest rate risk with respect to its investments in bonds. At April 30, 2020, the fair value of total investments in bonds was $2.2 billion (2019 - $1.2 billion), composed of $14 million (2019 - $600 million) of bonds directly held by the University, $676 million (2019 - $446 million) of bonds indirectly held through pooled funds and $1.5 billion (2019 - $126 million) of notional bond exposure arising from derivative financial instruments. This risk is managed by having a benchmark Reference Portfolio, which reflects the University's risk appetite, and by monitoring actual risk against the risk of the Reference Portfolio.

### Liquidity risk

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

### Other price risk

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

## 18. Joint ventures

### a) Toronto Pan Am Sports Centre Inc. -

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

The following financial information for TPASC was prepared in accordance with Canadian Public Sector Accounting Standards and represents the University’s 50% share. Any differences in the reporting framework are not material to the University’s consolidated financial statements. Separately audited financial statements are prepared for TPASC (year ended December 31, 2019).

| | (millions of dollars) | |
|---|---|---|
| | **December 31, 2019** | **December 31, 2018** |
| Total financial and non-financial assets | **11** | 9 |
| Total financial liabilities | **1** | 1 |
| Accumulated surplus | **10** | 8 |
| | | |
| Revenues | **6** | 6 |
| Expenses | **7** | 6 |
| Operating surplus (deficit) | **(1)** | |
| | | |
| Cash flows used in operating activities | | (1) |
| Cash flows used in investing activities | **(2)** | (1) |
| Cash flows from financing activities | **2** | 2 |
| Net change in cash | | |

As at December 31, 2019, the University’s share of the accumulated surplus of $10 million (2018 - $8 million) represents unspent funds designated in support of major maintenance and capital requirements. No amounts have been recorded in these consolidated financial statements as the University’s share of the accumulated surplus is not contemplated to be and is not readily realizable by the University.

During the year, the University paid $2 million (2019 - $2 million) in user fees to TPASC representing its share of the cost for using the facilities. During the year, the City of Toronto and the University each acquired an additional 5,150 (2019 – 5,086) common shares of TPASC in exchange for a total of $4 million (2019 - $4 million) representing funding from the Legacy Funding agreement dated December 18, 2014, to be contributed to TPASC to fund capital reserves and operating costs. These transactions occurred in the normal course of business and have been recorded at their exchange amounts, which is the amount agreed upon by both parties.

The construction of the Toronto Pan Am Sports Centre was governed by virtue of an agreement prior to the establishment of TPASC. The University has recorded $90 million (2019 - $90 million) in capital assets (note 4), representing the University's 50% share of the construction cost of the facility.

### b) TRIUMF -

The University is a member, with 13 other universities, of a joint venture called 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 1/14 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 consolidated financial statements (note 21c).

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

| | (millions of dollars) | |
|---|---|---|
| | **March 31, 2020 (unaudited)** | March 31, 2019 |
| Total assets | **55** | 55 |
| Total liabilities | **9** | 9 |
| Total fund balances | **46** | 46 |
| Revenues | **86** | 87 |
| Expenses | **85** | 83 |
| Excess of revenues over expenses | **1** | 4 |

## 19. MaRS Phase 2 Investment Trust

During fiscal 2016, the University acquired a 20% interest in MaRS Phase 2 Investment Trust (the "Trust"), a unit trust governed by the laws of the Province of Ontario, established by deed of trust dated July 15, 2011, with MaRS Discovery District, a charitable organization, as settlor for $31 million. The Trust was established to develop and manage a 20-storey state-of-the-art building that is a world-class convergence centre dedicated to improving commercial outcomes from Canada's science, technology and social innovations. This investment is accounted for using the equity method. The University has assessed the investment value in the Trust upon acquisition and as a result, the University has written down the investment to nil at April 30, 2016. There has been no changes to the investment value as at April 30, 2019 and 2020.

During the year, the University made payments of $12 million (2019 - $9 million) to the Trust for leasing certain premises and its related operating costs.

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

| | (millions of dollars) |
|---|---|
| 2021 | **5** |
| 2022 | **5** |
| 2023 | **5** |
| 2024 | **4** |
| 2025 | **4** |
| Thereafter | **92** |
| | **115** |

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

## 20. Other commitments

a) The estimated cost to complete construction and renovation projects in progress as at April 30, 2020, which will be funded by operations, donations and government grants, is approximately $917 million (2019 - $576 million).

b) The future annual payments under various operating equipment leases are approximately $9 million.

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

| | (millions of dollars) |
|---|---|
| 2021 | **14** |
| 2022 | **14** |
| 2023 | **15** |
| 2024 | **14** |
| 2025 | **13** |
| Thereafter | **134** |
| | **204** |

## 21. Contingencies

a) The University has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. As at April 30, 2020, the amount of loans guaranteed was $10 million (2019 - $9 million). The University's estimated exposure under these guarantees is not material.

b) The University issues irrevocable standby letters of credit for its capital construction projects that guarantee payments to the City of Toronto if it fails to perform certain restorative work at the completion of its capital construction projects. At April 30, 2020, the amount of outstanding letters of credit issued was $8 million (2019 - $6 million).

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

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

e) The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. As at April 30, 2020, the University believes that it has valid defences and appropriate insurance coverage in place on certain claims that are not expected to have a material impact on the University's 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 amount of the liability is able to be estimated or adjustments to the amount recorded are required.

## 22. COVID-19

In March 2020, the World Health Organization declared the spread of coronavirus ("COVID-19") to constitute a global pandemic. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of and within Canada, barring gathering of people and requirements to stay at home. These restrictions impacted the operations of the University and resulted in the closure of physical premises of all post-secondary institutions. The impact of COVID-19 also adversely impacted global commercial activity and contributed to the significant volatility in certain equity and debt markets. This led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue.

The extent of such adverse effects on the University's business and financial and operational performance are uncertain and difficult to assess. The financial impacts will depend on future developments, including the duration, spread and severity of the outbreak, physical distancing requirements, the duration and geographic scope of related travel advisories and restrictions, and the extent of disruptions to businesses globally and its related impact on the economy.

As at April 30, 2020, the University did not have significant adjustments to reflect the possible future impact of COVID-19. Investments are recorded at fair value which included the impact on financial markets as at year-end and extra emphasis was put on the collectability of receivables and other estimates within the financial statements as at April 30, 2020. Management has assessed the going concern assumptions and believes there are no issues, given the University has a strong working capital base and access to liquid resources to support operations in the coming year. Given the outcome and timeframe to a recovery from the current pandemic is highly unpredictable, it is not practicable to estimate and disclose its financial effect on future operations at this time.

## 23. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2020 consolidated financial statements.