

Financial Statements

**University of Toronto Asset
Management Corporation**

December 31, 2005

AUDITORS' REPORT

To the Directors of
University of Toronto Asset Management Corporation

We have audited the balance sheet of **University of Toronto Asset Management Corporation** as at December 31, 2005 and the statement of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 20, 2006.

Ernst + Young LLP

Chartered Accountants

University of Toronto Asset Management Corporation

BALANCE SHEET

As at December 31

| | 2005 | 2004 |
|--|----------------|----------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | 22,281 | 1,602 |
| Due from University of Toronto <i>[note 6]</i> | 436,125 | 443,816 |
| Accounts receivable | — | 8,059 |
| Prepaid expenses | 17,599 | 70,094 |
| Total current assets | 476,005 | 523,571 |
| Capital assets, net <i>[note 4]</i> | 374,655 | — |
| | 850,660 | 523,571 |
| LIABILITIES AND NET ASSETS | | |
| Current | | |
| Accounts payable and accrued liabilities | 476,005 | 383,541 |
| Deferred compensation plan payable <i>[note 7]</i> | — | 140,030 |
| Total current liabilities | 476,005 | 523,571 |
| Deferred capital contributions <i>[note 5]</i> | 374,655 | — |
| Net assets | — | — |
| | 850,660 | 523,571 |

See accompanying notes

University of Toronto Asset Management Corporation

**STATEMENT OF OPERATIONS AND
CHANGES IN NET ASSETS**

Year ended December 31

| | 2005 | 2004 |
|---|------------------|------------------|
| | \$ | \$ |
| EXPENSES | | |
| Staffing <i>[note 6]</i> | 2,199,037 | 2,806,690 |
| Reorganization charges <i>[note 8]</i> | 540,152 | 977,618 |
| Relocation | 30,348 | — |
| Occupancy | 159,778 | 141,697 |
| Consulting fees | 201,956 | 137,993 |
| Office supplies and services | 81,042 | 87,508 |
| Professional fees | 122,018 | 125,696 |
| Communications and information technology support | 306,198 | 403,827 |
| Travel | 81,479 | 85,372 |
| Amortization of leasehold improvements | 2,997 | — |
| | 3,725,005 | 4,766,401 |
| RECOVERIES AND OTHER INCOME | | |
| Recoveries from University of Toronto <i>[note 6]</i> | 3,696,745 | 4,734,837 |
| Amortization of deferred capital contributions | 2,997 | — |
| Other income | 25,263 | 31,564 |
| | 3,725,005 | 4,766,401 |
| Net income for the year | — | — |
| Net assets, beginning of year | — | — |
| Net assets, end of year | — | — |

See accompanying notes

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

1. RELATIONSHIP WITH THE UNIVERSITY OF TORONTO

University of Toronto Asset Management Corporation ["UTAM"] is a corporation without share capital incorporated on April 25, 2000 by the Governing Council of the University of Toronto [the "Governing Council"] under the Corporations Act (Ontario). UTAM is a non-profit organization under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

The principal objectives of UTAM are to create added value by providing both current and future financial resources for the University of Toronto ["U of T"] and its pension funds that will contribute to globally recognized education and research.

2. BASIS OF PRESENTATION

These financial statements present the financial position and operations of UTAM as a separate legal entity. The securities representing the investments of the funds of U of T are held on behalf of U of T in the names of such trustees or nominees as may be directed by UTAM, but not in the name of UTAM.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of UTAM have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

Financial instruments

The carrying values of UTAM's financial instruments approximate their fair values.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of recoveries and expenses during the reporting period. Actual results could differ from those estimates.

Capital assets

Leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the lease term of ten years and six months [note 6[d]].

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Revenue recognition

Recoveries from U of T are recorded when expenses are incurred. Recoveries related to the purchase of capital assets are deferred and amortized over the life of the related capital asset. Service revenue is recorded when services are rendered.

Employee future benefits

UTAM's contributions to U of T's employee future benefit plans are expensed when due [note 6[b]].

4. CAPITAL ASSETS

Capital assets consist of the following:

| | 2005 | | Net book value |
|------------------------|---------|--------------------------|----------------|
| | Cost | Accumulated amortization | |
| | \$ | \$ | \$ |
| Leasehold improvements | 377,652 | 2,997 | 374,655 |

5. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of recoveries from U of T received in connection with the purchase of capital assets. The amortization of deferred capital contributions is recorded as income in the statement of operations and changes in net assets. The continuity of deferred capital contributions is as follows:

| | 2005 | 2004 |
|--|----------------|------|
| | \$ | \$ |
| Balance, beginning of year | — | — |
| Recoveries received during the year related to capital asset purchases | 377,652 | — |
| Amortization of deferred capital contributions | (2,997) | — |
| Balance, end of year | 374,655 | — |

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6. RELATED PARTY TRANSACTIONS

- [a] In accordance with the amended and restated Service and UTAM Personnel Agreement dated May 14, 2003 between the Governing Council of U of T and UTAM, U of T will reimburse UTAM for its services an amount which will enable it to recover the appropriate costs of operations. The U of T reimburses UTAM on a quarterly basis based on the approved budget. As at December 31, 2005, \$436,125 is due from U of T [\$443,816 in 2004], reflecting the net amount yet to be reimbursed.
- [b] Eligible employees of UTAM are members of U of T's pension plan and participate in other employee future benefit plans offered by U of T. In 2005, contributions of \$85,143 [\$94,937 in 2004] related to these plans have been expensed.
- [c] UTAM obtains certain services from U of T, such as payroll, IT support and internal audit. There is a charge for some of these services. U of T pays UTAM's salaries, benefits and certain other costs and is reimbursed by UTAM.
- [d] UTAM and U of T are currently negotiating a lease for the premises now occupied by UTAM. The lease will be signed by U of T, however, the lease payments will be paid by UTAM.
- [e] Transactions with U of T are measured at the exchange amount which is the amount of consideration agreed to by the parties. Amounts due to/from U of T are non-interest bearing and due on demand.

7. DEFERRED COMPENSATION PLAN

Effective 2004, UTAM entered into a revised incentive compensation plan with its employees, which is based on the achievement of specific benchmarks and objectives approved by its Board of Directors. On approval of the Board of Directors after year end, the full amount, which is recorded as a payable in the current year's financial statements, is paid out immediately.

The previous compensation agreement contained a deferral component whereby 50% of the amount payable was paid out immediately and the balance was deferred, to be expensed over the vesting period which did not exceed three years. The payment of the deferred compensation was subject to the employees meeting certain conditions of employment. As at December 31, 2005, there are no amounts payable in connection with the deferred compensation plan [\$140,030 in 2004].

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8. REORGANIZATION CHARGES

During 2005 and 2004, UTAM undertook a number of staff reorganization initiatives. The one-time staff costs associated with these initiatives are presented as reorganization charges.

9. STATEMENT OF CASH FLOWS

A separate statement of cash flows has not been presented, since, in the opinion of management, the information it would contain is readily apparent from the other financial statements.

10. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 financial statements.