Financial Statements

University of Toronto Press Incorporated

April 30, 2006

AUDITORS' REPORT

To the Directors of
University of Toronto Press Incorporated

We have audited the balance sheet of **University of Toronto Press Incorporated** as at April 30, 2006 and the statements of income and accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Press' 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 Press as at April 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
June 21, 2006.

Chartered Accountants

University of Toronto Press Incorporated (note 1)

BALANCE SHEET
(thousands of dollars)

As at April 30	2006	2005
ASSETS		
Current		
Cash	1,303	3,672
Trade accounts receivable (note 3)	5,275	5,887
Inventories (note 4)	7,668	8,365
Prepaid expenses	408	718
Current assets held for sale (note 10)	1,356	1,639
Total current assets	16,010	20,281
Capital assets		
Capital assets, net (note 5)	2,068	1,971
Capital assets held for sale, net (notes 5 and 10)	195	311
Total capital assets	2,263	2,282
	18,273	22,563
LIABILITIES AND ACCUMULATED SURPLUS		
Current		
Accounts payable and accrued liabilities	10,047	11,654
Advances held to finance production costs	868	1,089
Deferred revenue	561	646
Due to University of Toronto (note 1)	4,316	6,901
Current liabilities held for sale (note 10)	817	958
Total current liabilities	16,609	21,248
Accumulated surplus (note 6)	1,664	1,315
	18,273	22,563

See accompanying notes

University of Toronto Press Incorporated

STATEMENT OF INCOME AND ACCUMULATED SURPLUS
(thousands of dollars)

Year ended April 30	2006	2005
Revenue (note 1)	49,999	51,664
Cost of sales		
Outside purchases (note 7(b))	33,742	34,911
Gross margin	16,257	16,753
Operating expenses (note 1)		
Staff costs	10,002	9,969
Other	6,388	6,800
	16,390	16,769
Other income		
Supplemental income (notes 1 and 7(a))	498	511
Income from continuing operations	365	495
Loss from discontinued operations (note 10)	(16)	(169)
Net income for the year	349	326
Accumulated surplus, beginning of year	1,315	989
Accumulated surplus, end of year	1,664	1,315

See accompanying notes

University of Toronto Press Incorporated

STATEMENT OF CASH FLOWS
(thousands of dollars)

Year ended April 30	2006	2005
OPERATING ACTIVITIES		
Net income for the year	349	326
Add item not involving cash		
Depreciation and amortization	699	714
	1,048	1,040
Net change in non-cash working capital balances related to operations	(152)	1,960
Cash provided by operating activities	896	3,000
INVESTING ACTIVITIES		
Purchase of capital assets	(681)	(570)
Proceeds from disposal of capital assets	1	24
Cash used in investing activities	(680)	(546)
FINANCING ACTIVITIES		
Net change in loan from the University of Toronto	(2,585)	(726)
Cash used in financing activities	(2,585)	(726)
Net increase (decrease) in cash during the year	(2,369)	1,728
Cash, beginning of year	3,672	1,944
Cash, end of year	1,303	3,672

See accompanying notes

NOTES TO FINANCIAL STATEMENTS
(Tabular amounts in thousands of dollars)

April 30, 2006

1. RELATIONSHIP AND TRANSACTIONS WITH UNIVERSITY OF TORONTO

University of Toronto Press Incorporated (the "Press") is incorporated without share capital under the laws of the Province of Ontario and is controlled by the University of Toronto (the "University"). The Press is non-taxable under Section 149(1)(l) of the Income Tax Act (Canada).

The University has provided funding in the form of a loan to the Press for which there are no specific terms of repayment. Interest on the amount exceeding $3,000,000 is charged at the 90-day treasury bill rate plus 0.25%. During 2006, interest payable to the University on this portion amounted to $81,000 (2005 - $147,000). The portion below $3,000,000 bears interest at a rate agreed upon between the Press and the University. For 2006 and 2005, there is no interest payable to the University on this portion. Due to the lack of specific terms of repayment, the fair value of this loan cannot be determined.

The cost of land used by the Press is included in the financial statements of the University and is not shown in the financial statements of the Press.

The Press sells printing, stationery and computer equipment to the University departments in the normal course of business. Revenue from sales on account to the University departments during 2006 amounted to approximately $4,500,000 (2005 - $5,000,000). Of these sales to the University, $1,246,000 (2005 - $1,297,000) are associated with assets held for sale (note 10). The Press also rents certain premises from the University and pays operating costs to the University for other premises. During 2006, rent and operating costs paid to the University amounted to $768,000 (2005 - $670,000).

The University administers externally endowed funds with a total balance of $2,799,000 (2005 - $2,492,000) to support publishing activities of the Press. Income of $84,000 (2005 - $82,000) was earned by the endowed funds during the year and is included in supplemental income in the statement of income and accumulated surplus of the Press. An additional $12,000 (2005 - $12,000) of endowment income was earned and is included in the operating profits of the Journals Division.

The Press and others make contributions to the George Meadows/University of Toronto Press Inc. Scholarly Publishing Fund (the "Fund"), an internally endowed fund on the books of the University. As at April 30, 2006, the balance of the Fund is $1,620,000 (2005 - $1,477,000). Accumulated expendable income on the Fund is $265,000 (2005 - $242,000). During the year, an amount of $40,000 (2005 – $40,000) from the accumulated expendable income was received by the Press and netted against other operating expenses.

Eligible employees of the Press are members of the University's pension plan for academic and administrative staff and participate in other employee future benefit plans offered by the University. In 2006, contributions of $581,000 (2005 - $539,000) related to these plans have been expensed.

NOTES TO FINANCIAL STATEMENTS
(Tabular amounts in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Press are in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

Revenue recognition

Retail sales are recorded as revenue when sales are made to customers.

Distribution service revenue is recorded at the time goods are shipped.

Publication sales are recognized when orders are shipped.

Sales associated with assets held for sale (note 10) are recognized when orders are shipped.

Grants received for publishing specific titles are applied against production costs at the time the title is published. Other grants available for general operating purposes are recognized as supplemental income when earned.

Prepaid subscriptions for periodicals are initially recorded as deferred revenue and recognized as revenue when the periodicals are published.

The Press generally accepts the return of published books from its customers in accordance with normal trade practice and accrues for such returns in its accounts.

Foreign currency translation

Monetary assets and liabilities to be settled in currencies other than Canadian dollars have been translated at rates of exchange in effect at the balance sheet date. Revenue and expenses have been translated at the rates in effect at the dates of the transactions. Gains and losses on foreign currency transactions are reflected in income.

Capital assets

Capital assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	40 years
Office furniture and fixtures	3 to 10 years
Computer hardware	3 to 5 years
Plant machinery and equipment	3 to 10 years
Leasehold improvements	Term of lease

Employee future benefits

Contributions to the University’s pension and other future employee benefit plans are expensed when due.

NOTES TO FINANCIAL STATEMENTS
(Tabular amounts in thousands of dollars)

Use of estimates

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

Inventories

(a) Bookstores

Inventories of purchased books, stationery, insignia and computer software and supplies intended for retail sale are valued at the lower of cost, determined using the retail inventory method, and net realizable value. Computer hardware intended for retail sale is valued at the lower of cost, determined on a specific-item basis, and net realizable value.

(b) Publishing

Publishing inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(c) Printing

Printing inventories of raw materials are valued at the lower of cost, determined on a weighted average basis, and replacement cost. Work-in-process is valued at the lower of cost, determined on a weighted average basis, and net realizable value, where cost includes raw materials, direct labour, outside purchases and manufacturing overhead.

3. ACCOUNTS RECEIVABLE

Through its various businesses, the Press has trade accounts receivable with many customers. The nature of the Canadian retail book trade results in one customer, in the normal course of business, accounting for approximately 14% (2005 - 16%) of the trade accounts receivable balance as at April 30, 2006.

NOTES TO FINANCIAL STATEMENTS
(Tabular amounts in thousands of dollars)

4. INVENTORIES

Inventories consist of the following:

	2006	2005
Bookstores	5,362	5,681
Publishing		
Publications	1,895	2,367
Work-in-process	356	266
Other (digital printing)	55	51
	7,668	8,365
Assets held for sale (note 10)		
Raw materials	126	267
Work-in-process	314	386
	440	653
	8,108	9,018

5. CAPITAL ASSETS

Capital assets consist of the following:

	2006			2005
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Buildings	2,000	1,147	853	903
Office furniture and fixtures and computer hardware	6,132	5,810	322	348
Plant machinery and equipment	1,368	1,304	64	102
Leasehold improvements	5,639	4,810	829	618
	15,139	13,071	2,068	1,971
Assets held for sale (note 10)	5,569	5,374	195	311
	20,708	18,445	2,263	2,282

NOTES TO FINANCIAL STATEMENTS
(Tabular amounts in thousands of dollars)

6. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

	2006	2005
Investment in capital assets, net	2,263	2,282
Deficit	(599)	(967)
	1,664	1,315

7. GOVERNMENT ASSISTANCE

(a) Under the federal government's Book Publishing Industry Development Program (BPIDP), the Press received a grant of $275,000 (2005 - $304,000). This amount has been included in supplemental income in the statement of income and accumulated surplus of the Press.

(b) Grants of $392,000 (2005 - $371,000) relating to the publishing of specific titles have been deducted from production costs.

8. LEASE COMMITMENTS

In the normal course of business, the Press enters into various operating leases for premises and equipment. Under these leases, the Press is committed to the following future annual payments:

2007	354
2008	250
2009	122
2010	122
	848

9. FINANCIAL INSTRUMENTS

The carrying values of financial assets and liabilities approximate their fair values unless otherwise noted.

The Press is subject to interest rate risk with respect to the amount due to the University and credit risk with respect to its accounts receivable.

NOTES TO FINANCIAL STATEMENTS
(Tabular amounts in thousands of dollars)

10. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On February 23, 2006, management announced it would be seeking a buyer for the Printing Division, and in the event that a buyer cannot be found the division would be closed. As the Printing Division does not fit with the strategic direction of the Press, the decision was made to sell the business. It is anticipated that the sale will include the transfer of business operations and all associated assets (except buildings and leasehold improvements).

Since the operations and assets of the Printing Division are available for sale at April 30, 2006, the assets, liabilities and operating results have been classified as assets held for sale on a retroactive basis in accordance with The Canadian Institute of Chartered Accountants section 3475.

For the year ending April 30, 2006, revenue for the Printing Division was $7,080,000 (2005 – $7,158,000).

11. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of 2006 financial statements.