INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the University of Toronto, which comprise the balance sheet as at April 30, 2011 and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
June XX, 2011.

Chartered Accountants
Licensed Public Accountants

UNIVERSITY OF TORONTO
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2011

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

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

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

2. Summary of significant accounting policies and reporting practices

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

a) Investments and investment income (loss) -

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

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

1. Short-term notes and treasury bills are valued based on cost plus accrued income, which approximates fair value.

2. Bonds and publicly traded equities are determined based on the latest bid prices.

3. Investments in pooled funds are valued at their reported net asset value per unit.

4. Infrequently traded securities are based on quoted market yields or prices of comparable securities, as appropriate.

5. Real estate directly held by the University is valued at cost and, when donated, at the value determined through an appraisal process at the date of donation.

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

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

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded as revenue in the statement of operations except for investment income earned on deferred contributions and the amount in excess of what is made available for spending and losses on externally restricted endowments, which are recorded as a direct increase (decrease) to 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 debt, equity and currency futures, options, swaps and forward contracts. These contracts are generally supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

The University accounts for interest rate swap contracts as hedges when they qualify for hedge accounting. Hedges are documented at inception, detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. For derivatives in hedging relationships, the effective portion of the gain or loss is recorded as a direct increase (decrease) in net assets, and the ineffective portion, if any, is recognized in the statement of operations. Derivative financial instruments that do not qualify for hedge accounting are carried at fair value, with changes in fair value during the year recorded in the statement of operations. When a derivative financial instrument no longer qualifies as an effective hedge, hedge accounting is discontinued prospectively and the cumulative gain or loss recognized previously in net assets in respect of the hedging relationship is recognized in the statement of operations over the remaining useful life of the hedged item using the effective interest rate method. When the derivative financial instrument or the hedge item is terminated or sold, hedge accounting is discontinued and the cumulative gain or loss recognized previously in net assets in respect of the hedging relationship is immediately recognized in the statement of operations under investment income (loss).

c) 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.

d) Inventory valuation -

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

e) Employee benefit plans -

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

Pension plan assets are valued at fair value for purposes of calculating expected return on plan assets. The cost of pension and other post-employment benefits (primarily medical benefits and dental care) related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefits prorated on service method, and using estimates of the usage frequency and cost of services covered and management's best estimates of investment yields, salary changes, withdrawals, mortality rates and expected health care costs. The University's actuarial gains or losses (resulting from factors such as changes in actuarial assumptions and experience gains or losses), past service costs arising from plan amendments and transitional assets/obligations are amortized over the average remaining service life of active employees, currently 14 years (2009 – 14 years). A valuation allowance is recorded against an accrued benefit asset if the asset, less unamortized past service costs and unamortized actuarial losses, exceeds the present value of future service costs of the current active employees. Liabilities are discounted using current interest rates on long-term bonds.

f) Capital assets -

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

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

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

g) 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. Unsecured debentures and other long-term debt are reported net of related premiums, discounts and transaction issue costs.

h) Revenue recognition -

The University follows the deferral method of accounting for contributions, which include donations and government grants. Contributions externally restricted for purposes other than endowment are recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for amortizable capital assets are deferred and amortized over the lives of the related capital assets. Deferred contributions and amortization of deferred capital contributions recognized as revenue in the current year are first presented in the statement of operations as donations and investment income to the extent that restricted amounts have been received in the current year excluding amounts recorded as a direct increase to endowments. Any difference is recorded as government and other grants for restricted purposes. Endowment contributions and contributions of non-amortizable capital assets are recognized as direct increases in net assets in the year in which they are received. The University actively fundraises and unrestricted donations and contributed rare books and other collections are recorded in the statement of operations when received since pledges are not legally enforceable claims. Student fees are recognized as revenue when courses and seminars are held. Sales and services revenues are recognized at point of sale for goods or when the service has been provided.

i) Foreign currency translation -

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

j) Accounting estimates -

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the assumptions used in the determination of the fair value of financial instruments and the valuation of pension and other retirement benefit obligations. Actual results could differ from those estimates.

k) Contributed services and materials -

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

l) Financial instruments -

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

m) Allocation of costs -

The University allocates salary and benefit costs related to personnel who work directly on managing capital projects to construction in progress and also allocates a project management fee based on 3.5% of construction, furnishings and equipment and landscaping costs.

n) <u>Future accounting policy changes</u> -

<u>In November 2010, the Accounting Standards Board of the CICA issued Part III of the CICA Handbook that sets out the accounting standards for not-for-profit organizations that are effective for fiscal years beginning on or after January 1, 2012, with an option to early-adopt. The University is currently evaluating the impact of these standards.</u>

3. Capital management

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

University's objective is to have sufficient liquid resources to continue operating even if adverse financial events were to occur and to provide it with the flexibility to take advantage of opportunities that will advance its mission. The need for sufficient liquid resources is considered in the preparation of its annual operating and capital budgets with actual operating results compared to the budgets on a regular basis and by the monitoring and forecasting of cash flows on a daily basis. The University attempts to minimize the use of its line of credit of $25 million which can be used in the event that sufficient cash flow is not available to cover operating and capital expenditures. In addition, the University can issue unsecured debentures or enter into other long-term debt to assist with the financing of capital assets and annually sets its maximum external borrowing capacity to 40% of net assets averaged over five years. As at April 30, 2011, the University has met its objective of having sufficient liquid resources to meet its current obligations and external borrowing was at % of net assets averaged over 5 years.

4. Employee benefit plans

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

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

The latest actuarial valuation for the pension plans and for other retirement benefit plans was performed as of July 1, 2010. The next required actuarial valuations for the registered plans will be July 1, 2011. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year. The employee benefits expense for the year includes pension expense of $ million (2010 - $168.1 million) and other retirement benefits expense of $ million (2010 - $36.8 million).

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

(millions of dollars)

	2011		2010	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligation			3,489.0	436.5
Fair value of plan assets			2,222.1	36.2
Plan deficit			(1,266.9)	(400.3)
Amount recorded as a liability			(161.0)	(329.7)
Unamortized net actuarial gain (loss)			(1,150.2)	(63.3)
Unamortized transitional asset (obligation)			127.6	(41.1)
Unamortized past service cost			(83.3)	(2.4)
Plan assets recorded as investments				36.2
Plan deficit			(1,266.9)	(400.3)

In addition to the plan assets, the University has set aside $ million (2010 - $152.0 million) as internally restricted net assets at April 30, 2011 related to its pension and supplemental retirement arrangement obligations (note 14).

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

	2011		2010	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligation:				
Discount rate	**%**	**%**	6.00%	6.00%
Rate of compensation increase	**%**	**%**	4.25%	4.25%
Rate of inflation	**%**	**%**	2.25%	2.25%
Benefit cost:				
Discount rate	**%**	**%**	7.75%	7.75%
Expected long-term rate of return on plan assets	**%**	**N/A**	6.25%	N/A
Rate of compensation increase	**%**	**%**	4.25%	4.25%
Rate of inflation	**%**	**%**	2.25%	2.25%

For measurement purposes, an % annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011. The rate of increase was assumed to decrease gradually to 5.0% by 2017 and remain at that level thereafter.

The pension benefit plans' assets are invested as follows:

	2011	2010
Equity securities	**%**	52.5%
Debt securities	**%**	24.4%
Pooled funds - equity	**%**	22.8%
Other	**%**	0.3%
Total	**%**	100.0%

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

(millions of dollars)

	2011		2010	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Funding by employer			97.9	16.9
Funding by employees			36.3	4.5
Benefits paid			160.4	18.5

5. Investments

Direct investments are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio. This classification required $ million (2010 - $436.4 million) of pooled funds, $ million (2010 - $55.5 million) in hedge funds and $ million (2010 - $264.7 million) of cash, money market funds, short-term notes and treasury bills set aside related to derivative contracts to be reclassified to their appropriate investment category. The fair values of investments are as follows:

	(millions of dollars)	
	2011	2010
Cash, money market funds, short-term notes and treasury bills		426.9
Government and corporate bonds		628.0
Canadian equities		233.6
United States equities		229.2
Other international equities		270.0
Hedge funds		280.6
Private equity and debt interests		239.7
Real asset interests		83.9
		2,391.9
Less amounts reported as:		
Short-term investments		426.9
		1,965.0

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

	(millions of dollars)			
	2011		2010	
	EFIP	**LTCAP**	EFIP	LTCAP
Cash, money market funds, short-term notes and treasury bills			556.3	3.7
Government and corporate bonds			302.4	325.6
Canadian equities			0.2	233.4
United States equities				229.2
Other international equities				270.0
Hedge funds			34.6	246.0
Private equity and debt interests				239.7
Real asset interests				83.9
			893.5	1,631.5

In 2011, the University's investment income of $ million (2010 - $124.9 million) recorded in the statement of operations consists of income related to investments held for endowments of $ million (2010

- $96.2 million) (note 15) and income of $ million (2010 - $28.7 million) on investments other than those held for endowments.

During the year, the University recognized an investment loss of $ million (2010 – $6.6 million) as a change in fair value that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates for certain of its investments. Management believes there are no other reasonable assumptions for these investments which would generate any material changes in investment income (loss).

Risk management

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to market risk which encompasses a variety of financial risks, such as foreign currency risk, interest rate risk, price risk, and credit risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which the University's investments are held can significantly impact the value of these investments. To manage these risks within reasonable risk tolerances, the University, through the University of Toronto Asset Management Corporation, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below). To manage foreign currency risk, a 50% hedging policy has been implemented for the University's investments beginning on January 1, 2009. Previous to this date, the University had a 100% hedging policy for its foreign currency risk. Credit risk of financial instruments is the risk of loss arising from the potential failure of a counterparty, debtor or issuer to honour its contractual obligations. At April 30, 2011, $ million (2010 – $418.0 million) or % (2010 – 66.6%) of government and corporate bonds have AAA or AA credit ratings.

Derivative financial instruments

Description

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

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

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

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

Risks

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

Terms and conditions

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

(millions of dollars)

	2011		2010	
	Notional value	**Fair value**	Notional value	Fair value
Foreign currency forward contracts				
- U.S. dollars			441.7	(1.0)
- Other international			70.5	1.5
				0.5
Equity and commodity index futures contracts				
- United States			317.7	(4.1)
				(4.1)
Interest rate swap contracts (note 11)				
- Designated as hedges			8.7	(1.2)
- Not designated as hedges			20.8	(4.4)
				(5.6)

The fair value of the foreign currency forward and equity and commodity index futures contracts of negative $ million (2010 – negative $3.6 million) is reported as $ million (2010 - $1.7 million) in accounts receivable and $ million (2010 - $5.3 million) in accounts payable and accrued liabilities.

Certain interest rate swap agreements are designated as hedges for accounting purposes, which results in interest expense related to certain long-term debt to be recorded in the financial statements at the hedged rates rather than at the contractual interest rates. These interest rate swap contracts result in the University fixing a weighted average long-term interest rate of % (2010 - 6.71%) on certain debt obligations instead of paying a weighted average short-term floating interest rate of % (2010 – 0.52%). These long-term contracts were entered into in years when interest rates were higher than current rates. These swap agreements require a periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The cash settlement is the difference between the contractual rate of interest and the current market rate, based on a notional amount. The fair value of the interest rate swap contracts of $ million (2010 - $1.2 million) is included in other long-term debt (note 11). The decrease in the negative fair value of these interest swap contracts designated as hedges of $ million (2010 – decrease of $0.8 million) is recorded as a decrease in unrestricted deficit in the statement of changes in net assets.

During 2010, interest rate swap contracts with a notional value of $20.8 million were no longer designated as a hedge due to the settlement of the related loans. The fair value of $6.3 million previously recognized as a direct decrease in net assets together with the change in fair value of $1.9 million (net loss of $4.4 million) was included in investment income (loss) in the statement of operations.

Uncalled commitments

As at April 30, 2011, approximately % (2010 – 12.2%) of the University's investment portfolio is invested in private funds managed by third-party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real assets investments (e.g., real estate, infrastructure) require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2011, the University had uncalled commitments of approximately $ million (2010 - $146.1 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund, but is generally about three to five years from the date the fund closes. In practice, for a variety of reasons, the total amount committed to a fund is very rarely all called. The University makes commitments to private investment funds from time to time as part of an overall investment program centered on such funds.

6. Capital assets

(millions of dollars)

	2011		2010	
	Total cost	**Accumulated amortization**	Total cost	Accumulated amortization
Land			72.2	
Buildings (note 11)			1,956.0	725.4
Equipment and furnishings			1,134.6	875.9
Library books			475.5	418.5
			3,638.3	2,019.8
Less accumulated amortization			(2,019.8)	
Net book value			1,618.5	

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

As at April 30, 2011, the University had $ million (2010 - $126.5 million) in construction in progress that was included in buildings.

7. Series A senior unsecured debenture

On July 18, 2001, the University issued Series A senior unsecured debenture in the aggregate principal amount of $160.0 million at a price of $999.62 for proceeds of $159.9 million. The debenture bears interest at 6.78%, which is payable semi-annually on January 18 and July 18 with the principal amount to be repaid on July 18, 2031. The proceeds of the issuance have been primarily used to finance capital projects including real estate acquisitions and the construction of student residences and parking facilities. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2011 was $ million (2010 - $193.4 million) compared to a carrying value of $ million (2010 - $158.8 million).

8. Series B senior unsecured debenture

On December 15, 2003, the University issued Series B senior unsecured debenture in the aggregate principal amount of $200.0 million at a price of $1,000 for proceeds of $200.0 million. The debenture bears interest at 5.841%, which is payable semi-annually on June 15 and December 15 with the principal amount to be repaid on December 15, 2043. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2011 was $ million (2010 - $221.8 million) compared to a carrying value of $ million (2010 - $199.1 million).

9. Series C senior unsecured debenture

On November 16, 2005, the University issued Series C senior unsecured debenture in the aggregate principal amount of $75.0 million at a price of $1,000 for proceeds of $75.0 million. The debenture bears interest at 4.937%, which is payable semi-annually on May 16 and November 16 with the principal amount to be repaid on November 16, 2045. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2011 was $ million (2010 - $72.5 million) compared to a carrying value of $ million (2010 - $74.7 million).

10. Series D senior unsecured debenture

On December 13, 2006, the University issued Series D senior unsecured debenture in the aggregate principal amount of $75.0 million at a price of $1,000 for proceeds of $75.0 million. The debenture bears interest at 4.493%, which is payable semi-annually on June 13 and December 13 with the principal amount to be repaid on December 13, 2046. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2011 was $ million (2010 - $66.7 million) compared to a carrying value of $ million (2010 - $74.4 million).

11. Other long-term debt

Other long-term debt consists of mortgages of $ million (2010 - $12.8 million) maturing from 2011 to 2020 against which the related properties are pledged as security, term loans of $ million (2010 - $10.0 million) maturing from 2011 to 2020, of which the current portion of $ million (2010 - $7.2 million) is included in accounts payable and accrued liabilities, and the fair value of all interest rate swap contracts of $ million (2010 - $5.6 million) (note 5). The weighted average effective interest rate of the mortgages and term loans, after giving effect to the interest rate swaps, was % (2010 - 7.24%) and % (2010 - 6.21%), respectively. The fair value of other long-term debt at April 30, 2011 was $ million (2010 - $28.4 million) compared to a carrying amount of $ million (2010 - $28.4 million). Anticipated requirements to meet the principal portion of the other long-term debt repayments over the next five years are as follows: 2012 - $ million, 2013 - $ million, 2014 - $ million, 2015 - $ million, 2016 - $ million.

12. Deferred contributions

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

	(millions of dollars)	
	2011	2010
Balance, beginning of year		328.4
Grants, donations and investment income		467.1
Recognized as revenue during the year		(437.6)
Balance, end of year		357.9

The deferred contributions will be spent as follows:

	(millions of dollars)	
	2011	2010
Research		194.4
Student aid		54.3
Other restricted purposes		109.2
		357.9

13. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations as government and other grants for restricted purposes. The changes in the deferred capital contributions balance for the year are as follows:

	(millions of dollars)	
	2011	2010
Balance, beginning of year		831.0
Less amortization of deferred capital contributions		(61.1)
Add contributions received for capital asset purchases		111.8
Balance, end of year		881.7

This balance represents:

	(millions of dollars)	
	2011	2010
Amount used for the purchase of capital assets		789.6
Amount to be spent on capital assets		92.1
		881.7

14. Internally restricted net assets

	(millions of dollars)	
	2011	2010
Investment in capital assets		413.2
Operating fund reserves		
Net divisional reserves carried forward		283.6
Employee future benefits		
Pensions		(161.0)
Other		(293.5)
Supplemental retirement arrangement (note 4)		127.2
Pension plan reserve (note 4)		24.8
Departmental trust funds		68.9
Alterations and renovations		67.1
Research overhead		14.0
Other funds		5.3
		549.6

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

a) Investment in capital assets -

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

b) Operating fund reserves -

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

c) Departmental trust funds -

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

d) Alterations and renovations -

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

e) Research overhead -

Research overhead recoveries from customers in calendar year 2010 are appropriated and available for spending in the following fiscal year.

f) Other funds -

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

15. Endowments

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

Investment income on endowments, which comprises interest, dividend income and realized and unrealized gains and losses, is recorded in the statement of operations when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. University policy has been established with the objective of protecting the real value of the endowments by limiting the amount of income made available for spending and requiring the reinvestment of income not made available. The investment policy has set the real rate of return objective at 4% with the aim of providing steady, predictable investment returns. The amount made available for spending must normally fall between a range of 3% to 5% of the fair value per unit of the endowment pool. In any particular year, should net investment income be insufficient to fund the amount to be made available for spending or if the investment return is negative, the amount that is made available for spending is funded by the accumulated reinvested income. However, for individual endowment funds without sufficient accumulated reinvestment income, endowment capital is used in the current year. This amount is expected to be recovered by future net investment income. In fiscal 2011, $7.41 (2010- $7.26) per unit of LTCAP was made available for spending, representing % (2010- 5.0%) of the opening fair value per unit of the endowment pool.

In 2011, investment income of $ million (2010 - $188.2 million) (net of fees and expenses of $ million (2010 - $14.7 million)) was earned on endowments, of which $ million (2010 - $62.4 million) was made available for spending and recorded as investment income, $ million (2010 - $19.1 million) was the preservation of capital on internally restricted endowments, which was recorded as investment income and then transferred from unrestricted net assets to endowments, and the balance of $ million (2010 - $106.7 million) was the preservation of capital on externally restricted endowments which was recorded as a direct increase to endowments.

Net assets restricted for endowments consist of the following:

	(millions of dollars)	
	2011	2010
Externally restricted endowments		1,212.0
Internally restricted endowments		225.2
		1,437.2

16. 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. The University also matched certain of these endowed donations.

Phase 1:	(thousands of dollars)	
	2011	2010
Endowments at book value, beginning of year		286,116
Transfer from (to) expendable funds		8,280
Endowments at book value, end of year		294,396
Cumulative unrealized losses		(31,959)
Endowments at fair value, end of year		262,437
Expendable funds available for awards, beginning of year		12,322
Realized investment income (loss)		20,244
Transfer from (to) endowment balance		(8,280)
University contribution		2,073
Bursaries awarded		(7,149)
Expendable funds available for awards, end of year		19,210
Number of award recipients		2,871

Phase 2:

	(thousands of dollars)			
	2011		2010	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year			38,579	4,624
Transfer from (to) expendable funds			994	355
University matching				
Endowments at book value, end of year			39,573	4,979
Cumulative unrealized losses			(8,059)	
Endowments at fair value, end of year			31,514	
Expendable funds available for awards, beginning of year			1,002	168
Realized investment income (loss)			2,431	497
Transfer from (to) endowment balance			(994)	(355)
University contribution			508	
Bursaries awarded			(788)	(129)
Expendable funds available for awards, end of year			2,159	181
Number of award recipients			371	75

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

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

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

17. Ontario Trust for Student Support

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

	(thousands of dollars)			
	2011		2010	
(for the year ended March 31)*	**University of Toronto**	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year			46,177	8,104
Donations received			3,087	366
Government matching received			4,071	545
University matching			160	76
Transfer from (to) expendable funds			1,405	464
Endowments at book value, end of year			54,900	9,555
Cumulative unrealized losses			(10,087)	
Endowments at fair value, end of year			44,813	
Expendable funds available for awards, beginning of year			501	(143)
Realized investment income (loss)			3,027	937
Donations received			18	3
University matching and contribution			972	
Transfer from (to) endowment balance			(1,405)	(464)
Bursaries awarded			(1,106)	(133)
Expendable funds available for awards, end of year			2,007	200
Number of award recipients			413	73

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

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

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

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

18. Net change in other non-cash items

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

	(millions of dollars)	
	2011	2010
Accounts receivable		12.5
Inventories and prepaid expenses		3.2
Deferred contributions		29.5
Accounts payable and accrued liabilities		51.6
		96.8

19. Donations

During the year, the University received donations of $ million (2010 - $77.2 million). Of that amount, $ million (2010 - $19.5 million) is recorded as a direct addition to endowments in accordance with the accounting policy and is not recorded as donations revenue.

20. Government and other grants for restricted purposes

During the year, the University received $ million (2010 - $358.5 million) of government and other grants for research and $ million (2010 - $99.7 million) for capital infrastructure, of which $ million (2010 - $378.0 million) was recorded as revenue and $ million (2010 - $80.2 million) was deferred.

21. Related entity

The University is a member, with ten other universities, of a joint venture called the Tri-universities Meson Facility ("TRIUMF"), Canada's national laboratory for particle and nuclear physics located on the University of British Columbia ("UBC") campus. TRIUMF is an unincorporated registered charity and each university has an undivided 1/11 interest in its assets, liabilities and obligations. The land and buildings it occupies are owned by UBC. The facilities and its operations are funded by Federal government grants and the University has made no direct financial contribution to date. TRIUMF's net assets are not contemplated to be and are not readily realizable by the University. The University's interest in the assets, liabilities and results of operations are not included in these financial statements (see also note 23(b)).

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

	(millions of dollars)	
	2011 **(unaudited)**	2010
Total assets		**18.5**
Total liabilities		**14.1**
Total fund balances		**4.4**
Revenues		**65.0**
Expenses		**64.5**
Excess of revenues over expenses		**0.5**

22. Other commitments

a) The estimated cost to complete construction and renovation projects in progress at April 30, 2011, which will be funded by government grants, donations and operations, is approximately $ million (2010 - $275.6 million).

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

23. 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. At April 30, 2011, the amount of loans guaranteed was $ million (2010 - $7.9 million). The University's estimated exposure under these guarantees is not material.

b) The members of the TRIUMF joint venture and the Canadian Nuclear Safety Commission ("CNSC") approved a decommissioning plan which requires all members to be severally responsible for their share of the decommissioning costs, which were estimated at $44.0 million as of November 2007, as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions of decommissioning the facilities, the University's share was estimated at $ million at April 30, 2011. TRIUMF has put in place a plan for funding the cost of decommissioning which does not require any payments from the joint venture partners.

c) The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. At April 30, 2011, the University believes it has valid defenses and appropriate insurance coverage in place on certain claims which are not expected to have a material impact on the University's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

d) The University was formerly a member of a reciprocal exchange of insurance risks in association with 56 other Canadian universities. This self-insurance co-operative is named the Canadian Universities Reciprocal Insurance Exchange ("CURIE") and involves a contractual agreement to share the insurable property and liability risks of member universities arising during the period of membership. Effective January 1, 2008, the University terminated its membership in CURIE and obtained insurance coverage in the commercial market.

As a consequence, the University is no longer eligible to receive its 8.5% pro-rata share of any potential future surplus distribution and will continue to share in any deficits generated by claims arising during the University's period of membership in CURIE. As at December 31, 2010, the latest financial statements available, CURIE had a surplus of $ million (2009 - $32.0 million). The University believes it will not have to make any payments to CURIE.