

Financial Statements

**University of Toronto Asset
Management Corporation**
December 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Directors of
University of Toronto Asset Management Corporation

We have audited the accompanying financial statements of **University of Toronto Asset Management Corporation**, which comprise the statements of financial position as at December 31, 2011 and January 1, 2011, and the statements of net income, comprehensive income and changes in net assets and cash flows for the year ended December 31, 2011, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, based on the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants, 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 **University of Toronto Asset Management Corporation** as at December 31, 2011 and January 1, 2011, and its financial performance and its cash flows for the year ended December 31, 2011 in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist **University of Toronto Asset Management Corporation** to meet the requirements of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Directors of **University of Toronto Asset Management Corporation** and the Ontario Securities Commission, and should not be used by parties other than the Directors of **University of Toronto Asset Management Corporation** or the Ontario Securities Commission.

Toronto, Canada,
March 23, 2012.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

University of Toronto Asset Management Corporation

STATEMENTS OF FINANCIAL POSITION

As at

	December 31, 2011 \$	January 1, 2011 \$
ASSETS		
Current		
Cash	52,112	47,282
Due from University of Toronto [notes 6[a] and [e]]	148,949	496,159
Accounts receivable [note 6[f]]	80,000	43,176
Prepaid expenses	28,960	55,844
Total current assets	310,021	642,461
Capital assets, net [note 4]	276,379	301,747
Total assets	586,400	944,208
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	310,021	642,461
Total current liabilities	310,021	642,461
Deferred capital contributions [note 5]	276,379	301,747
Total liabilities	586,400	944,208
Net assets	—	—
	586,400	944,208

See accompanying notes

On behalf of the Board:

Director

Director

University of Toronto Asset Management Corporation

**STATEMENT OF NET INCOME, COMPREHENSIVE
INCOME AND CHANGES IN NET ASSETS**

Year ended December 31

	2011
	\$
<hr/>	
EXPENSES <i>[note 6]</i>	
Staffing	3,700,325
Communications and information technology support	321,532
Professional fees	282,142
Occupancy	203,981
Consulting fees	177,284
Travel	122,381
Office supplies and services	68,845
Amortization of capital assets	68,294
	<hr/> 4,944,784
<hr/>	
RECOVERIES AND OTHER INCOME	
Recoveries from University of Toronto <i>[note 6]</i>	4,876,490
Amortization of deferred capital contributions <i>[note 5]</i>	68,294
	<hr/> 4,944,784
Net income and comprehensive income for the year	<hr/> —
Net assets, beginning of year	<hr/> —
Net assets, end of year	<hr/> <hr/> —

See accompanying notes

University of Toronto Asset Management Corporation

STATEMENT OF CASH FLOWS

Year ended December 31

	2011 \$
<hr/>	
OPERATING ACTIVITIES	
Net income and comprehensive income for the year	—
Add (deduct) items not involving cash	
Amortization of capital assets	68,294
Amortization of deferred capital contributions	(68,294)
	<hr/>
Changes in non-cash working capital balances related to operations	
Due from University of Toronto	347,210
Accounts receivable	(36,824)
Prepaid expenses	26,884
Accounts payable and accrued liabilities	(332,440)
Cash provided by operating activities	<hr/> 4,830 <hr/>
INVESTING ACTIVITIES	
Purchase of capital assets	(42,926)
Cash used in investing activities	<hr/> (42,926) <hr/>
FINANCING ACTIVITIES	
Deferred capital contributions to fund purchase of capital assets	42,926
Cash provided by financing activities	<hr/> 42,926 <hr/>
Net increase in cash during the year	4,830
Cash, beginning of year	47,282
Cash, end of year	<hr/> 52,112 <hr/>

See accompanying notes

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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) in Canada. UTAM is a non-profit organization under the Income Tax Act (Canada) and, as such, is exempt from income taxes. UTAM is registered as a portfolio manager and an investment fund manager in Ontario. UTAM is domiciled in the Province of Ontario, Canada and its registered office address is at 101 College Street, Suite 350, Toronto, Ontario, Canada.

UTAM was formed by the University of Toronto ["U of T"] to engage in professional investment management activities in order to manage the investment assets of U of T, which currently comprise its Endowment Fund, Expendable Fund and Pension Fund, through a formal delegation of authority and investment management agreement between UTAM and U of T.

The financial statements of UTAM were authorized for issue by the Board of Directors on March 21, 2012.

2. BASIS OF ACCOUNTING

These financial statements are prepared in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants [the "framework"]. This framework requires the financial statements relating to a financial year beginning in 2011 be prepared in accordance with International Financial Reporting Standards ["IFRS"], except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27 *Consolidated and Separate Financial Statements*, comparative information relating to the preceding year must be excluded, and the first day of the financial year to which the financial statements relates must be used as the date of transition to the framework. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, and as a result the financial statements may not be suitable for another purpose.

These financial statements present the financial position, financial performance and cash flows 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.

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

The financial statements of UTAM have been prepared on a going concern basis and on the historical cost basis. UTAM's presentation currency is the Canadian dollar, which is also UTAM's functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of accounting standards

The financial statements of UTAM have been prepared in accordance with the basis of accounting outlined in Note 2. For all periods up to and including the year ended December 31, 2010, UTAM prepared its financial statements in accordance with Part V of the CICA Handbook – *Pre-changeover accounting standards* ["Previous GAAP"]. The framework that UTAM used in the preparation of its opening statement of financial position as at January 1, 2011 has resulted in no significant adjustments to balances which were presented in the statement of financial position prepared in accordance with Previous GAAP.

There were no significant differences as at January 1, 2011 under Previous GAAP with that computed under the framework for net assets.

Future accounting changes

Financial instruments

IFRS 9 *Financial Instruments* was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Fair value measurement

IFRS 13 *Fair Value Measurement* establishes the definition of fair value and sets out a single IFRS framework for measuring fair value and the required disclosures. This standard is effective for annual periods beginning on or after January 1, 2013.

UTAM will adopt these standards when they become effective. UTAM is currently reviewing these standards to determine the effect on the financial statements.

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are summarized as follows:

Critical accounting estimates and judgments

The preparation of financial statements in conformity with the framework 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.

UTAM based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments, may change due to market changes or circumstances arising beyond the control of UTAM. Such changes are reflected in the assumptions when they occur.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics or UTAM's designation of such instruments. UTAM has classified all its financial assets as loans and receivables, and all its financial liabilities as other financial liabilities. All of UTAM's financial instruments are carried at either cost or amortized cost which approximates fair value largely due to the short-term nature of these instruments. Unless otherwise noted, it is management's opinion that UTAM is not exposed to significant risks arising from these financial instruments.

UTAM's management has established a control environment that endeavors to ensure significant operating risks are reviewed regularly and that controls are operating as intended including assessing and mitigating the various financial risks that could impact UTAM's financial position and financial performance.

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[a] Market risk

Market risk is the risk of a financial loss resulting from adverse changes in underlying market factors, such as interest rates, foreign exchanges rates, and equity prices. A description of each component of market risk is described below:

[i] Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the future cash flows or fair values of financial instruments. As at December 31, 2011, UTAM has no significant assets or liabilities subject to interest rate risk.

[ii] Currency risk

Currency risk is the risk that fluctuations in exchange rates will result in losses to the Company on monetary assets and liabilities denominated in foreign currencies. While certain expenses are paid in foreign currencies, these amounts are not significant. As at December 31, 2011, UTAM has no significant assets or liabilities denominated in a foreign currency, and has no significant exposure to currency risk.

[iii] Equity risk

Equity risk is the risk of gain or loss due to the changes in the price and the volatility of individual equity instruments and equity indexes. UTAM is not exposed to equity risk as at December 31, 2011.

[b] Liquidity risk

Liquidity risk is the risk that UTAM will encounter difficulties in meeting obligations associated with financial liabilities. UTAM monitors its current and expected cash flow requirements to ensure it has sufficient cash to meet its liquidity requirements. The operation of UTAM is funded by U of T.

[c] Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. UTAM does not have a significant exposure to any individual counterparty, except for U of T, which funds its operations. Therefore, credit risk is not a significant risk to UTAM as at December 31, 2011.

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

Capital assets

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

Leasehold improvements	term of lease
IT infrastructure equipment	5 years
Desktops and software	3 years

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.

Employee future benefits

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

Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at rates prevailing at the year end. Gains and losses resulting from foreign currency transactions are included in the statement of income, comprehensive income and changes in net assets.

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

4. CAPITAL ASSETS

Capital assets consist of the following:

	Leasehold improvements \$	IT infrastructure equipment \$	Desktops and software \$	Total \$
Cost				
Balance, January 1, 2011	444,723	81,777	—	526,500
Additions	963	4,429	37,534	42,926
Balance, December 31, 2011	445,686	86,206	37,534	569,426
Accumulated amortization				
Balance, January 1, 2011	210,664	14,089	—	224,753
Amortization	44,684	17,048	6,562	68,294
Balance, December 31, 2011	255,348	31,137	6,562	293,047
Net book value				
January 1, 2011	234,059	67,688	—	301,747
December 31, 2011	190,338	55,069	30,972	276,379

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 net income, comprehensive income and changes in net assets. The continuity of deferred capital contributions is as follows:

	2011 \$
Balance, January 1, 2011	301,747
Recoveries received during the year related to capital asset purchases	42,926
Amortization of deferred capital contributions	(68,294)
Balance, December 31, 2011	276,379

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

6. RELATED PARTY TRANSACTIONS

UTAM is a wholly-owned subsidiary of U of T.

- [a] In accordance with the amended and restated Service and UTAM Personnel Agreement dated May 14, 2003 and subsequently replaced by the Investment Management Agreement dated November 26, 2008 between the Governing Council and UTAM [the "Agreement"], U of T will reimburse UTAM for its services an amount which will enable it to recover the appropriate costs to support its operations. U of T reimburses UTAM on a quarterly basis based on the approved budget. As at December 31, 2011, \$148,949 [January 1, 2011 - 496,159] is due from U of T as a result of actual cost of operations exceeding reimbursements.
- [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. U of T's employee future benefit plans are defined benefit plans. In accordance with the Agreement, U of T pays for UTAM's employee benefits. In 2011, contributions of \$146,577 related to these plans have been expensed.
- [c] UTAM obtains certain services from U of T, such as payroll and IT support. There is a charge for some of these services, which is reimbursed by U of T in accordance with the Agreement. In 2011, these services totaled \$51,477.
- [d] The Governing Council entered into a lease with a term of ten years and six months commencing October 1, 2005 for the premises occupied by UTAM. UTAM will pay the following amounts to the landlord directly, which represent the minimum rent component of the lease obligations:

	\$
2012	106,724
2013	106,724
2014	106,724
2015	106,724
Thereafter	26,680
	<u>453,576</u>

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December 31, 2011

In addition to the above minimum rent payments, there are additional payments in respect of operating and tenant in-suite hydro costs that are subject to change annually based on market rates and actual usage. These components totaled \$91,143 in 2011. These expenses are reimbursed by U of T in accordance with the Agreement.

- [e] Transactions with U of T are in the normal course of operations and 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.
- [f] Transactions with key management personnel

Compensation of UTAM's key management personnel during the year ended December 31, 2011 is as follows:

	\$
Short-term employee benefits	2,103,589
Post-employment benefits	74,118
Other long-term benefits	93,516
	<u>2,271,223</u>

Forgivable loans

In 2011, forgivable loans granted to key management personnel totaled \$40,000. The total amount outstanding at December 31, 2011 is \$80,000. The terms of the loans stipulate that the loans will be forgiven when certain criteria are met.

7. CAPITAL MANAGEMENT

In managing capital, UTAM focuses on liquid resources available for operations. U of T provides funds as required to allow UTAM to meet its current obligations. As at December 31, 2011, UTAM has met its objective of having sufficient liquid resources to meet its current obligations.

