

***DRAFT***

**UNIVERSITY OF TORONTO  
FINANCIAL REPORT  
APRIL 30, 2002**

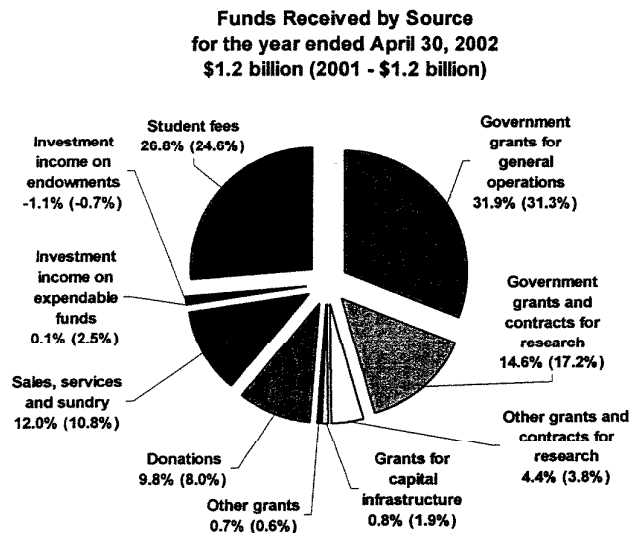
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**University of Toronto  
Financial Highlights  
April 30, 2002**

The University received funding of \$1.2 billion from a variety of sources, as illustrated in the pie chart. This funding was recorded as follows: \$1.1 billion as revenue, \$89.7 million of donations and grants as endowment capital, and \$10.9 million of funds received and not yet spent as deferred contributions.

Expenses were \$1.3 billion for the year and exceeded revenues by \$125.1 million. After taking account of transfers, the decrease in funds committed and the increase in investment in capital assets, the deficit for the year was \$12.7 million and the cumulative deficit was \$32.0 million. This deficit was in line with the University's financial plans.

The University's assets were \$2.6 billion at year-end as compared to \$2.4 billion the previous year. Liabilities were \$1.1 billion as compared to \$870.3 million the previous year largely due to the issue of the \$160.0 million series A senior unsecured debentures and a \$23.0 million increase in the employee future benefit obligation.

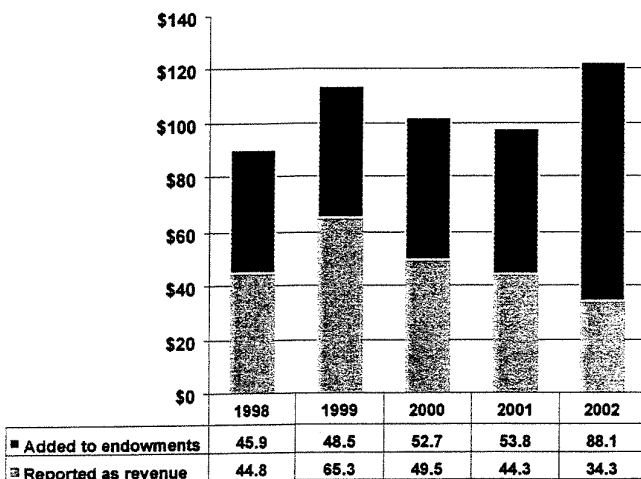


Donation receipts for the year totalled \$122.4 million of which \$34.3 million was recorded as revenue and \$88.1 million was added directly to endowment capital. These amounts do not include donations to the federated universities, Victoria, St. Michael's and Trinity.

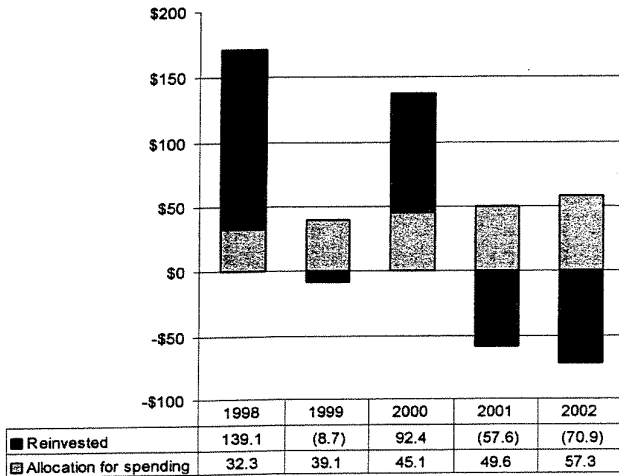
For the five-year period from 1998 to 2002, the University received \$527.2 million in donations, of which \$238.2 million was reported as revenue and \$289.0 million was added to endowment capital. The latter figure included \$103.2 million for endowed chairs, \$99.4 million for student aid, \$53.6 million for research and \$32.8 million for a variety of other purposes.

There was an investment loss for the year of \$12.2 million comprising income of \$1.4 million on expendable funds and a loss of \$13.6 million on endowment funds. A \$70.9 million transfer from previously reinvested endowment earnings to the expendable funds was required to enable an allocation of \$57.3 million for program expenditures and to cover the investment loss on endowment funds.

**Donations Received  
for the year ended April 30  
(millions of dollars)**

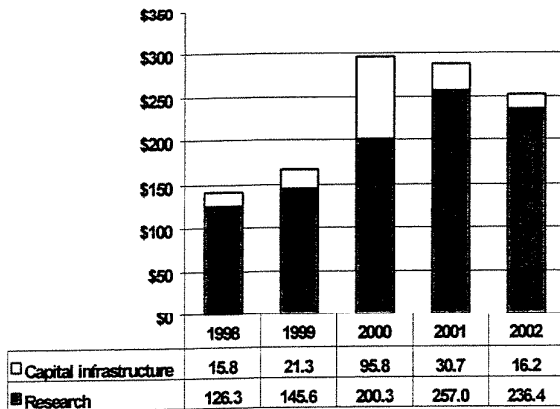


**Investment Income on Endowments  
for the year ended April 30  
(millions of dollars)**



The University's endowment capital preservation policy provides for program-spending allocation of 5% of the market value of endowment assets smoothed over four years. Investment returns greater than 5% are added to endowment capital thus enabling the University to maintain program spending allocations in years where investment returns are less than 5%. The investment return, net of fees, on endowments for the year was -1.1% (-0.7% the previous year), reflecting adverse investment markets.

**Government and Other Grants and Contracts  
Received for Restricted Purposes  
for the year ended April 30  
(millions of dollars)**

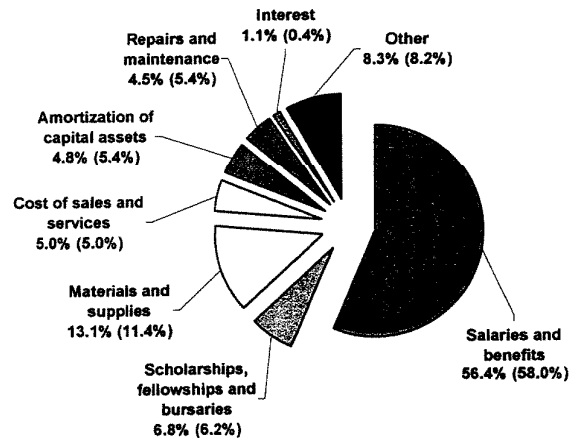


Grants and contracts received from government and other sources for restricted purposes totalled \$252.6 million, an increase of 77.8% from 1998. This amount was recorded as follows: \$241.7 million as revenue and \$10.9 million as deferred contributions.

Of the \$252.6 million, \$236.4 million was for research and \$16.2 million was received for capital infrastructure. The decrease in capital infrastructure funding is mainly due to a decrease in Superbuild Renewal funding. The decrease of \$20.6 million in research funding was primarily from the Federal and Provincial governments.

In December 2001, the Federal government recognized that universities should be reimbursed for the indirect costs of research with the announcement of a one-time only funding of \$200 million. The University received \$14.6 million for indirect costs, which contributed to the increase in government grants for general operations by \$15.5 million to \$396.2 million.

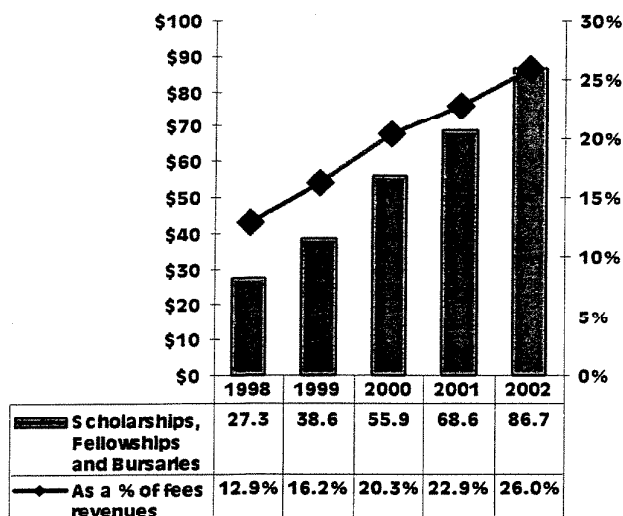
**Expenses by Category  
for the year ended April 30, 2002**



Expenses were \$1.3 billion as compared to \$1.1 billion the previous year. The largest component of expense was salaries and benefits of \$714.7 million, which increased by 11.3% over the previous year. The increase comprised \$34.6 million in benefits expense (including \$20.5 million in pension expense) and \$37.7 million in salaries expense.

Student aid (scholarships, fellowships and bursaries) was \$86.7 million, an increase of 26.4% over the previous year, and 217.6% over the five-year period 1998 – 2002 (excluding student aid provided by the federated universities). Student fees were \$333.7 million, an increase of 11.3% over the previous year and an increase of 57.5% over the five-year period 1998 - 2002. Student aid has grown from 12.9% of student fees in 1998 to 26.0% of student fees in 2002. The student aid endowment now stands at \$486.4 million, which is 40.5% of the University's total endowment and represents an increase of 56.9% over the five-year period 1998 - 2002.

**Student Aid: Scholarships, Fellowships and Bursaries as a Percentage of Student Fees Revenue**  
(millions of dollars)



This growth illustrates the strong commitment the University of Toronto has made under our policy on student financial aid, which guarantees that no qualified student will be prevented from beginning or completing his or her education due to financial need.

The University has entered a period of enrolment growth in response to demographic changes and to the elimination of Grade 13. The Province of Ontario announced in May 2001 that

it would provide an additional \$220 million in base funding for Ontario universities by 2003-2004.

The University's enrolment plans are based on the assumption that we will receive the full amount of funding for each additional student as we increase enrolment over the next several years.

### Capital plan

As a result of enrolment growth, the University has developed a capital plan for capital construction and acquisitions exceeding \$500 million. During 2001-2002, construction continued on campus with a variety of projects including the Bahen Centre for Information Technology with a total estimated completion cost of \$124.0 million. The University acquired the Medical Arts building and apartments for family housing at 30-35 Charles Street.

### Series A senior unsecured debenture:

On July 18, 2001, the University issued \$160.0 million worth of 6.78% series A senior unsecured debentures with a maturity of July 18, 2031. The proceeds will be used to finance capital projects including the construction of student residences and parking facilities, and real estate acquisitions.

### Employee future benefit obligation:

The University provides employee future benefits other than pension such as long-term disability coverage and medical benefits to pensioners. The University's liability for employee future benefits increased from \$41.3 million to \$64.3 million. This includes \$41.3 million relating to medical benefits, \$18.8 million relating to long-term disability obligations, and \$4.2 relating to other benefits.

**Endowments:**

Endowments for the year increased by \$23.5 million to \$1,199.7 million. We are grateful for the generous support of our donors for the receipt of \$88.1 million of endowed donations (not including endowments of the federated universities, Victoria, St. Michael's and Trinity). A \$70.9 million transfer from previously reinvested endowment earnings to expendable funds was also made to enable an allocation for program expenditures and to cover the investment loss on endowment funds.

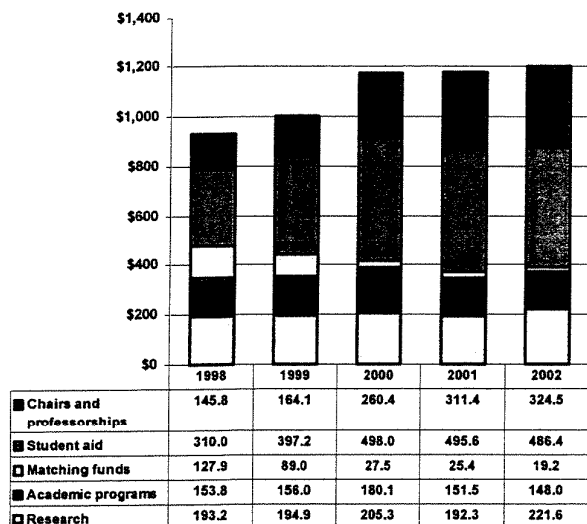
This endowment of \$1.2 billion represents a strong base of support for student aid and academic programs and we will continue to strive to increase it.

The success of the matching fund programs resulted in funds available for matching to be allocated to endowed chairs and professorships and to student aid endowments leaving \$19.2 million for future matching.

**Deferred maintenance and capital renewal:**

The University's deferred maintenance and capital renewal requirements are currently estimated at \$210 million. The Vice-President, Business Affairs is currently integrating the Universities' capital programs by pooling the various funds available and prioritizing maintenance and renewal requests. In an effort to provide additional data to assist in the prioritizing of projects, the University is participating, with all other Ontario universities, in a five-year study that is analyzing, in some detail and on a uniform basis, the deferred maintenance obligations of every university in the province.

**Endowments  
for the year ended April 30  
(millions of dollars)**



Felix Chee  
Vice-President, Business Affairs

## STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

The administration of the University is responsible for the preparation of the financial statements, the notes thereto and all other financial information contained in this annual report.

The administration has prepared the financial statements in accordance with Canadian generally accepted accounting principles developed by the Canadian Institute of Chartered Accountants. The administration believes the financial statements present fairly the University's financial position as at April 30, 2002 and the results of its operations and its cash flows for the year then ended. In order to achieve the objective of fair presentation in all material respects, the use of reasonable estimates and judgements were employed. Additionally, management has ensured that financial information presented elsewhere in this annual report has been prepared in a manner consistent with that in the financial statements.

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

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

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

The financial statements for the year ended April 30, 2002 have been reported on by Ernst & Young LLP, Chartered Accountants, the auditors appointed by Governing Council. The auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

Felix Chee  
Vice-President, Business Affairs

Robert J. Birgeneau  
President

## AUDITORS' REPORT

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

We have audited the financial statements of **University of Toronto** as at and for the year ended April 30, 2002 comprising the following:

- Balance sheet
- Statement of operations
- Statement of changes in deficit
- Statement of changes in net assets
- Statement of cash flows

These financial statements are the responsibility of the administration of the University. 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 the administration, 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 University as at April 30, 2002 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,  
May 31, 2002.

Chartered Accountants

## UNIVERSITY OF TORONTO

## BALANCE SHEET

April 30, 2002

(with comparative figures as at April 30, 2001)

(millions of dollars)

	2002 \$	2001 \$
<b>ASSETS</b>		
Accounts receivable	69.6	63.4
Inventories and prepaid expenses	12.4	11.5
Deferred pension charge (note 3)	5.7	22.3
Investments (note 4)	1,886.3	1,839.7
Capital assets, net (note 5)	618.8	469.3
	<u>2,592.8</u>	<u>2,406.2</u>
<b>LIABILITIES</b>		
Bank overdraft	15.2	23.9
Accounts payable and accrued liabilities	130.6	94.0
Employee future benefit obligation other than pension (note 3)	64.3	41.3
Long-term debt (note 7)	60.5	60.2
Series A senior unsecured debenture (note 8)	160.0	
	<u>430.6</u>	219.4
Deferred contributions (note 9)	266.7	278.9
Deferred capital contributions (note 10)	395.0	372.0
	<u>1,092.3</u>	<u>870.3</u>
<b>NET ASSETS (statement 4)</b>		
Unexpended assets:		
Deficit	(32.0)	(19.3)
Funds committed for specific purposes (note 11)	137.8	211.3
Investment in capital assets (note 6)	195.0	167.7
Endowments (notes 12 and 13)	1,199.7	1,176.2
	<u>1,500.5</u>	<u>1,535.9</u>
	<u>2,592.8</u>	<u>2,406.2</u>

On behalf of Governing Council:

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 Wendy M. Cecil  
 Chairman

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 Robert J. Birgeneau  
 President



## STATEMENT 2

## UNIVERSITY OF TORONTO

**STATEMENT OF OPERATIONS**  
**FOR THE FISCAL YEAR ENDED APRIL 30, 2002**  
(with comparative figures for the fiscal year ended April 30, 2001)  
(millions of dollars)

	2002		2001
	\$		\$
<b>REVENUES</b>			
Government grants for general operations	396.2		380.7
Student fees	333.7		299.8
Donations (note 15)			
Received	122.4		98.1
Externally restricted endowments	(88.1)	34.3	(53.8)
Government and other grants for restricted purposes			
Received for:			
Research	205.9		225.5
Capital infrastructure and other	16.2		30.7
Deferred for future spending	(10.9)	211.2	(125.2)
Contract research		30.5	31.5
Investment income (note 12)			
Endowments	(13.6)		(8.0)
Expendable	1.4	(12.2)	30.1
Sales, services and sundry income	149.6		132.2
	<u>1,143.3</u>		<u>1,041.6</u>
<b>EXPENSES</b>			
Salaries and benefits (note 3)	714.7		642.4
Materials and supplies	166.1		125.9
Scholarships, fellowships and bursaries	86.7		68.6
Cost of sales and services	63.0		55.8
Amortization of capital assets	61.4		60.2
Repairs and maintenance	57.3		59.3
Utilities	35.1		32.3
Travel and conferences	26.6		23.6
External contracted services	16.7		13.2
Interest	13.4		4.9
Telecommunications	9.4		9.5
Other	18.0		11.8
	<u>1,268.4</u>		<u>1,107.5</u>
<b>Revenues less expenses</b>	<u>(125.1)</u>		<u>(65.9)</u>

## STATEMENT 3

**STATEMENT OF CHANGES IN DEFICIT**  
**FOR THE FISCAL YEAR ENDED APRIL 30, 2002**  
(with comparative figures for the fiscal year ended April 30, 2001)  
(millions of dollars)

	2002		2001
	\$		\$
<b>Revenues less expenses</b>	<u>(125.1)</u>		<u>(65.9)</u>
Decrease in funds committed for specific purposes (note 11)	73.5		15.0
Increase in investment in capital assets (note 6)	(27.3)		(5.9)
Transfer of donations to endowment	(4.7)		(8.4)
Transfer from internally and externally restricted endowments (note 12)	70.9		57.6
Net change in deficit for the year	(12.7)		(7.6)
Deficit, beginning of year	(19.3)		(11.7)
<b>Deficit, end of year</b>	<u>(32.0)</u>		<u>(19.3)</u>

## UNIVERSITY OF TORONTO

STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED APRIL 30, 2002(with comparative figures for the year ended April 30, 2001)  
(millions of dollars)

	Unexpended assets				2002 Total \$	2001 Total \$
	Deficit \$	Funds committed for specific purposes (note 11) \$	Total \$	Investment in capital assets (note 6) \$		
Net assets, beginning of year	(19.3)	211.3	192.0	167.7	1,535.9	1,547.7
Revenues less expenses	(125.1)		(125.1)		(125.1)	(65.9)
Net change in funds committed for specific purposes (note 11)	73.5	(73.5)				
Net change in investment in capital assets (note 6)	(27.3)		(27.3)	27.3		
Transfer from internally and externally restricted endowments (note 12)	70.9		70.9	(70.9)		
Transfer of donations to endowments	(4.7)		(4.7)	4.7		
Externally endowed contributions					88.1	53.8
- donations					1.6	0.3
- Ontario grants						
Net assets, end of year	(32.0)	137.8	105.8	195.0	1,500.5	1,535.9

(See notes to financial statements)

**UNIVERSITY OF TORONTO**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED APRIL 30, 2002**  
(with comparative figures for the year ended April 30, 2001)  
(millions of dollars)

	<u>2002</u>	<u>2001</u>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Revenues less expenses	(125.1)	(65.9)
Add (deduct) non-cash items:		
Amortization of capital assets (note 5)	61.4	60.2
Amortization of deferred capital contributions (note 10)	(25.6)	(21.1)
Pension expense (income)	18.8	(1.7)
Employee future benefit expense	28.2	20.4
Net loss from investments	68.2	8.8
Change in other non-cash items (note 14)	9.9	93.8
	<u>35.8</u>	<u>94.5</u>
<b>INVESTING AND FINANCING ACTIVITIES</b>		
Purchase of investments, net	(114.8)	(127.7)
Purchase of capital assets (note 5)	(210.9)	(97.3)
Contributions for capital asset purchases (note 10)	48.6	74.7
Long-term debt principal repayments	(7.1)	(3.5)
Long-term debt obtained	7.4	
Series A senior unsecured debenture issue (note 8)	160.0	
Endowment contributions		
- donations	88.1	53.8
- Ontario grants	1.6	0.3
	<u>(27.1)</u>	<u>(99.7)</u>
Increase (decrease) in bank overdraft* during the year	(8.7)	5.2
Bank overdraft*, beginning of year	<u>23.9</u>	<u>18.7</u>
Bank overdraft*, end of year	<u>15.2</u>	<u>23.9</u>

\* representing cheques issued but not cashed

**UNIVERSITY OF TORONTO**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2002**

**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 mission is to be one of the top public research universities in the world with undergraduate, graduate and professional programs of excellent quality.

These financial statements include the assets, liabilities, net assets, revenues, expenses and other transactions of all of the operations and organizations under the jurisdiction of Governing Council. These financial statements do not include the assets, liabilities and operations of Victoria University, Trinity College, the University of St. Michael's College, Sunnybrook & Women's College Health Sciences Centre ("Sunnybrook & Women's") 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 has an economic beneficial interest in a Crown-controlled foundation, University of Toronto Foundation, which is not consolidated in these financial statements. The principal objectives of the Foundation are to solicit, receive and distribute money and other property to support education and research at the University and its federated and affiliated organizations.

The University holds title to the Sunnybrook & Women's land and buildings. The Sunnybrook & Women's 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 & Women's, a separate corporation, under a ground lease, which is perpetually renewable every twenty-one years at the option of the Board of Directors of Sunnybrook & Women's.

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 -**

Investments are carried at fair values. 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. Changes in fair values from one year to the next are reflected in the statement of operations and changes in deficit.

Fair values of investments are determined as follows:

1. Publicly traded bonds and equities are determined based on quoted market values.
2. Investments in pooled funds are valued at their net asset values.
3. Unlisted or infrequently traded securities are based on quoted market yields or comparable security prices, as appropriate.
4. Real estate is generally valued through an appraisal process, which utilizes discounted future cash flows. In estimating future cashflows certain assumptions are made with respect to future economic conditions and rates of return. The appraisal process is carried out periodically by accredited appraisers. A year-end estimate is then arrived at by considering the appraisals performed.

**b) Derivative financial instruments -**

Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes 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 supported by liquid assets with a market value equal to approximately the market value of the instruments underlying the derivative contract.

The fair value of derivative financial instruments reflects the daily quoted market amount of that instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments. Gains and losses on these instruments are recognized as investment income in the year in which the changes in fair value occur.

**c) Inventory valuation -**

Supplies and other inventories are carried at the lower of average cost or net realizable value.

**d) Employee benefit plans -**

The University has a defined benefit pension plan for its employees and provides other retirement benefits such as extended health, semi-private and dental care. The cost of pensions and other retirement benefits earned by employees is determined using the projected benefit actuarial method based on services rendered and management's best estimates regarding assumptions about a number of future conditions including investment returns, salary changes, withdrawals, mortality rates

and expected health care costs. Changes in management's best estimates resulting from changes in future conditions could require a change in the recognized amounts. The net actuarial gain or loss is amortized on a straight-line basis over the average remaining service life of the active employees. Assets of the pension fund and other benefit plans are valued using year-end market values.

**e) Capital assets -**

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

Buildings	2.5%
Co-generation facility	5%
Equipment and furnishings	10% - 15%
Library books	20%
Computers	20%

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

**f) 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 depreciable capital assets are deferred and amortized over the life of the related capital assets. Deferred contributions and amortization of capital contributions recognized as revenue in the current year are presented as donations revenue and investment income to the extent that restricted amounts have been received in the current year, with the difference recorded as government and other grants for restricted purposes. Endowment contributions and contributions of non-depreciable assets are recognized as direct increases in net assets in the year in which they are received. The University actively fundraises and unrestricted donations are recorded 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 or when the service has been provided.

**g) 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 prevailing on the transaction dates. Gains or losses arising from these translations are included in earnings.

**h) Contributed services and materials -**

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

**3. Employee benefit plans**

The University has a number of defined benefit plans providing pension, other retirement and post-employment benefits to most of its employees. The calculation of expense in connection with these plans is based on the current service cost of employee benefits, amortization of transitional amounts and the amortization of actuarial gains and losses on assets and liabilities.

The employee benefits expense for the year includes pension expense of \$18.8 million (2001 - income of \$1.7 million) and other retirement benefits expense of \$28.2 million (2001 - \$20.4 million).

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

	(millions of dollars)			
	2002		2001	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligation	2,039.4	172.7	1,939.3	156.6
Fair value of plan assets	2,123.1	27.7	2,195.8	26.7
Plan surplus (deficit)	83.7	(145.0)	256.5	(129.9)
Deferred pension charge	5.7		22.3	
Employee future benefit obligation other than pension		64.3		41.3

Included in the accrued benefit obligation of pension benefit plans is the unfunded supplementary retirement arrangement obligation of \$118.9 million (2001 - \$113.9 million) of which the University has set aside \$92.0 million (2001 - \$85.2 million) as funds committed for specific purposes to April 30, 2002. (note 11)

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

	2002		2001	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Discount rate	7.0%	7.0%	7.0%	7.0%
Expected long-term rate of return on plan assets	7.0%	N/A	7.0%	N/A
Rate of compensation increase	4.5%	4.5%	4.5%	4.5%

For measurement purposes, a 7.0% (2001- 7.4%) annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate of increase was assumed to decrease gradually to 5% for 2007 and remain at that level thereafter.

Other information about the University's defined benefit plans is as follows:

	2002		2001	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Employer's contributions	2.3	8.4	1.2	7.7
Employees' contributions	9.5	2.4	0.4	2.3
Benefits paid	91.1	10.6	87.1	10.0

#### 4. Investments

The market values of investments are as follows:

	(millions of dollars)	
	2002	2001
Short-term notes and treasury bills	214.8	183.3
Government & Corporate bonds	441.4	386.8
Canadian equities	117.6	138.6
United States equities	337.7	467.7
Other international equities	387.8	470.5
Hedge funds	345.1	152.0
Real estate	41.9	40.8
	<u>1,886.3</u>	<u>1,839.7</u>

During the year, \$1,204.0 million (2001 - \$1,508.0 million) of the University's investments were held in pooled funds and have been classified in the appropriate investment category.

Risk management relates to the understanding and active management of the risks associated with all areas of the University's financial instruments. Investments are primarily exposed to foreign currency, interest rate volatility, market and credit risk. The University has formal policies and procedures in place governing asset mix among equity, fixed income and real estate instruments, requires diversification within categories, and sets 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).

##### a) Derivative financial instruments

###### Description

The University has entered into equity 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 enters into foreign currency 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 a year. The University has significant contracts outstanding held in U.S. dollars, the Euro, Japanese yen and the British Pound.

The University has entered into interest rate swap agreements in order to manage the interest rate exposure associated with certain long-term debt obligations. The contracts have the effect of converting the floating rate of interest on certain debt to a fixed rate.

### Risks

The notional amounts of the forward instrument contracts 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.

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. The University limits its derivatives financial instruments' credit risk by dealing with counterparties that are at least rated A.

### Terms and conditions

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

	(millions of dollars)			
	2002		2001	
	Notional value	Fair value	Notional value	Fair value
Foreign exchange currency contracts:				
- U.S. dollars	525.2	7.0	290.6	6.0
- Global	178.5	(1.6)	259.6	7.8
		<u>5.4</u>		<u>13.8</u>
Equity index futures contracts				
- U.S. dollars	90.8	2.6		
Interest rate swap contracts	39.3	<u>(2.2)</u>	41.3	<u>(1.4)</u>

The interest rate swap contracts result in the University paying a fixed long-term interest rate of 6.72% (2001 – 6.72%) on certain debt obligations instead of paying a weighted average short-term floating interest rate of 3.39% (2001 – 5.78%).

## 5. Capital assets

	(millions of dollars)			
	2002		2001	
	Total Cost	Accumulated Amortization	Total Cost	Accumulated Amortization
Land	30.8		30.8	
Buildings	910.5	501.3	771.1	493.7
Equipment and furnishings	669.4	529.6	621.0	497.1
Library books	271.5	232.5	251.1	213.9
	<u>1,882.2</u>	<u>1,263.4</u>	1,674.0	1,204.7
Less accumulated amortization	<u>1,263.4</u>		<u>1,204.7</u>	
Net book value	<u><u>618.8</u></u>		<u><u>469.3</u></u>	

The University's insurer develops replacement values of buildings and contents for insurance purposes using an independent appraisal service. Fine art and rare book collections are valued by the appropriate University officers. The insured replacement value of buildings is \$2.2 billion (2001 - \$1.9 billion); contents is \$3.2 billion (2001 - \$2.9 billion), which includes library books of \$2.2 billion (2001 - \$2.0 billion).

The change in net book value of capital assets is due to the following:

	(millions of dollars)			
	2002		2001	
Balance, beginning of year		<u>469.3</u>		<u>432.2</u>
Purchase of capital assets funded by capital contributions	93.5		55.8	
Purchase of capital assets financed by Series A debenture (note 8)	54.5			
Purchase of capital assets internally funded	<u>62.9</u>	<u>210.9</u>	<u>41.5</u>	<u>97.3</u>
Less: Amortization of capital assets		<u>(61.4)</u>		<u>(60.2)</u>
Balance, end of year		<u><u>618.8</u></u>		<u><u>469.3</u></u>

## 6. Investment in capital assets

Investment in capital assets represents the following:

	(millions of dollars)	
	2002	2001
Capital assets, net	<u>618.8</u>	<u>469.3</u>
Less net value of assets financed by:		
Long-term debt and debenture (notes 7 & 8)	<u>(114.5)</u>	<u>(60.2)</u>
Deferred capital contributions (note 10)	<u>(309.3)</u>	<u>(241.4)</u>
Balance, end of year	<u><u>195.0</u></u>	<u><u>167.7</u></u>

The increase in investment in capital assets is as follows:

	(millions of dollars)	
	<u>2002</u>	<u>2001</u>
Long-term debt principal repayments	7.1	3.5
Purchase of capital assets internally financed	62.9	41.5
Increase in investment in capital assets	<u>70.0</u>	<u>45.0</u>
Long-term debt obtained during the year	7.4	
Amortization expense	61.4	60.2
Less: Amount of amortization expense related to capital assets purchased with:		
a) series A debenture	(0.5)	
b) restricted contributions	(25.6)	(21.1)
Decrease in investment in capital assets	<u>42.7</u>	<u>39.1</u>
Net increase	<u>27.3</u>	<u>5.9</u>

#### 7. Long-term debt

Long-term debt consists of mortgages of \$19.0 million (2001 – \$15.0 million) maturing from 2010 to 2029 and term loans of \$41.5 million (2001 – \$45.2 million) maturing from 2003 to 2024. The weighted average effective interest rate of the mortgages and term loans, after giving effect to the interest rate swaps, was 7.43% (2001 – 8.22%) and 6.78% (2001 – 7.17%) respectively. Anticipated requirements to meet the principal portion of the long-term debt repayments over the next five years are as follows:

2003 - \$1.8 million, 2004 - \$1.9 million, 2005 - \$1.7 million, 2006 - \$1.8 million, 2007 - \$1.9 million.

#### 8. Series A senior unsecured debenture

On July 18, 2001, the University issued Series A senior unsecured debentures in the aggregate principal amount of \$160.0 million at a price of \$999.62 for proceeds of \$159.9 million. The debentures bear 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 issue are being used to finance capital projects including the construction of student residences and parking facilities and real estate acquisitions. During the year, the University spent \$54.5 million of the proceeds on capital assets with the remainder to be spent in future years.

## 9. Deferred contributions

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

	(millions of dollars)	
	2002	2001
Balance, beginning of year	<u>278.9</u>	<u>207.3</u>
Grants, donations and investment income	265.4	292.5
Recognized as revenue during the year	<u>(277.6)</u>	<u>(220.9)</u>
Balance, end of year	<u>266.7</u>	<u>278.9</u>

The deferred contributions will be spent as follows:

	(millions of dollars)	
	2002	2001
Research	<u>163.3</u>	<u>185.8</u>
Student aid	41.6	37.9
Other restricted purposes	<u>61.8</u>	<u>55.2</u>
	<u>266.7</u>	<u>278.9</u>

## 10. Deferred capital contributions

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

	(millions of dollars)	
	2002	2001
Balance, beginning of year	<u>372.0</u>	<u>318.4</u>
Less amortization of deferred capital contributions	(25.6)	(21.1)
Add contributions received for capital asset purchases	<u>48.6</u>	<u>74.7</u>
Balance, end of year	<u>395.0</u>	<u>372.0</u>

This balance represents:

Amount used for the purchase of capital assets	<u>309.3</u>	<u>241.4</u>
Amount to be spent on capital assets	<u>85.7</u>	<u>130.6</u>
	<u>395.0</u>	<u>372.0</u>

## 11. Funds committed for specific purposes

	(millions of dollars)	
	<u>2002</u>	<u>2001</u>
Supplementary retirement arrangement	92.0	85.2
Departmental trust funds	70.3	74.9
Unexpended operating funds		
Net divisional carryforwards	51.8	60.1
Employee future benefits other than pensions	(42.8)	(20.4)
Investment income reserve	(22.6)	(4.8)
Research overhead	7.5	11.4
Infrastructure		
Alterations and renovations	12.8	10.9
Unfunded projects	(31.5)	(8.2)
Other funds	0.3	2.2
	<u>137.8</u>	<u>211.3</u>

The commitment of funds for specific purposes are internally restricted reflecting the application of Governing Council policy as follows:

### a) Supplementary retirement arrangement -

These funds, which will be accumulating over a number of years, have been set aside to meet future obligations of the supplementary retirement arrangement.

### b) Departmental trust funds -

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

### c) Unexpended operating funds -

Divisions are permitted to carry forward unspent budgets at the end of each year for expenditure in the following year. Funds for unfilled purchase orders have been committed for goods or services to be received in the following year. Funds are set aside equal to the deferred pension charge for future years when the University will be required to record pension expense. These amounts 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 also includes the unfunded portion of employee future benefits other than pension obligations and a portion of investment income (loss) earned on the unexpended asset balance.

**d) Research overhead -**

Research overhead recoveries from customers in calendar year 2001 are appropriated and available for spending in the following year.

**e) Alterations and renovations -**

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

**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.

**12. 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 cases, Governing Council may have the right to subsequently decide to remove the designation. The endowment principal is required to be maintained intact 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 is comprised of interest, dividend income and realized and unrealized gains and losses, is recorded in the statement of operations and changes in deficit 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 policy is based on the anticipated net long-term real rate of return on investments of 5%. In any particular year, should net investment income be insufficient to fund the amount to be made available for spending or 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.

During the year, a transfer of \$70.9 million (2001 - \$57.6 million) was required to cover the investment loss of \$13.6 million (2001 - \$8.0 million) and the \$57.3 million (2001 - \$49.6 million) made available for spending. As a result, transfers were recorded of \$50.4 million (2001 - \$43.5 million) from externally restricted endowments and \$20.5

million (2001 - \$14.1 million) from internally restricted endowments to unexpended assets for expenditures in the following year.

Net assets restricted for endowments consists of:

	(millions of dollars)	
	<u>2002</u>	<u>2001</u>
Externally restricted endowments	917.4	869.4
Internally restricted endowments	<u>282.3</u>	<u>306.8</u>
	<u><u>1,199.7</u></u>	<u><u>1,176.2</u></u>

The University transferred \$8.7 million (2001 - \$34.3 million) from internally restricted to externally restricted endowments as a result of being committed under gifting arrangements to match certain donations received during the year for chairs and professorships and for the student aid program.

### 13. 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.

	(millions of dollars)	
	<u>2002</u>	<u>2001</u>
Endowment balance, beginning of year	<u>327.2</u>	343.1
Donations		0.2
Matching grants from the Government of Ontario		0.2
Transfer to other funds	(3.3)	
Transfer to expendable funds	<u>(19.3)</u>	<u>(16.3)</u>
Endowment balance, end of year	<u><u>304.6</u></u>	<u><u>327.2</u></u>
Expendable funds available for awards, beginning of year	20.1	16.2
Transfer from endowment balance	19.3	16.3
Investment loss	(2.5)	(2.4)
Bursaries awarded	<u>(14.0)</u>	<u>(10.0)</u>
Expendable funds available for awards, end of year	<u><u>22.9</u></u>	<u><u>20.1</u></u>
Number of bursaries awarded	<u><u>4,640</u></u>	<u><u>3,295</u></u>

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

#### 14. Change in other non-cash items

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

	(millions of dollars)	
	2002	2001
Accounts receivable	(6.2)	(5.1)
Inventories and prepaid expenses	(0.9)	0.3
Deferred pension charge	(2.2)	(1.2)
Accounts payable and accrued liabilities	36.6	7.3
Employee future benefit obligation	(5.2)	20.9
Deferred contributions	(12.2)	71.6
	<u>9.9</u>	<u>93.8</u>

#### 15. Donations

During the year, the University received donations of \$122.4 million (2001 - \$98.1 million). Of that amount, \$88.1 million (2001 - \$53.8 million) is recorded as a direct addition to endowments in accordance with the accounting policy and is not recorded as donations revenue.

#### 16. University of Toronto Foundation

At the year-end, the University of Toronto Foundation ("Foundation"), a Crown-controlled foundation, had a balance of donations on hand of \$0.8 million (2001 - \$0.2 million).

The University acts as investment manager for the Foundation. At year end, investments include an amount of \$0.8 million (2001 - \$0.5 million) held for the Foundation offset by an equal amount in accounts payable.

#### 17. Other commitments

- a) The estimated cost to complete construction and renovation projects in progress at April 30, 2002, which will be funded by government grants, donations and operations, is approximately \$383.6 million (2001 - \$184.3 million).
- b) The annual payments under various operating leases are approximately \$5.7 million (2001 - \$5.1 million).

#### 18. 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, 2002, the amount of loans guaranteed was \$4.7 million (2001 - \$4.5 million). The University's estimated obligation under these guarantees is not material.



- b) The nature of the University's activities is such that there is usually litigation pending or in prospect at any one time. With respect to claims at April 30, 2002, the University believes it has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, such claims are not expected to have a material effect on the University's financial position.
- c) The University is a member of a reciprocal exchange of insurance risks in association with fifty 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.

The projected cost of claims is funded through members' premiums based on actuarial projections. As of December 31, 2001, CURIE had a surplus of \$7.2 million (2000 - \$6.7 million), of which the University's pro rata share is approximately 9.4% (2000 - 9.4%) on an ongoing basis.