



**FOR RECOMMENDATION**

**PUBLIC**

**OPEN SESSION**

**TO:** Business Board

**SPONSOR:** Sheila Brown, Chief Financial Officer  
**CONTACT INFO:** 416-978-2065, [sheila.brown@utoronto.ca](mailto:sheila.brown@utoronto.ca)

**PRESENTER:** Sheila Brown, Chief Financial Officer  
**CONTACT INFO:** 416-978-2065, [sheila.brown@utoronto.ca](mailto:sheila.brown@utoronto.ca)

**DATE:** June 1, 2018 for June 19, 2018

**AGENDA ITEM:** 2

**ITEM IDENTIFICATION:**

Audited financial statements – April 30, 2018

**JURISDICTIONAL INFORMATION:**

In accordance with section 5 of the Business Board *Terms of Reference*, the Board recommends the approval of the annual audited financial statements to Governing Council. The Audit Committee reviews with the administration and the external auditors the University's annual audited financial statements and the external auditors' report thereon, satisfies itself with respect to the integrity of the statements and the fairness of their presentation, and recommends them for approval to the Business Board. As part of this review, the Audit Committee reviews the signed statement of administrative responsibility in connection with the preparation of the financial statements and reviews relevant written communications from the external auditors, including any schedule of unadjusted differences.

**GOVERNANCE PATH:**

1. Audit Committee [for recommendation] (June 18, 2018)
2. **Business Board [for recommendation] (June 19, 2018)**
3. Executive Committee [for endorsement and forwarding] (June 27, 2018)
4. Governing Council [for approval] (June 27, 2018)

**PREVIOUS ACTION TAKEN:**

None.

## HIGHLIGHTS:

In fiscal 2018, net assets increased by \$486 million to \$5.9 billion mainly as a result of:

- A net income of \$465 million. This net income was mainly as a result of making a number of strategic infrastructure investments that are capitalized and are not expensed in the year, offset by the amortization expense of \$83 million on internally funded capital assets. These capital investments include:
  - the acquisition of a key parcel of land located within the footprint of the St. George Campus for a total cost of \$125 million and other lands at a cost of \$7 million;
  - research lab renovations in the amount of \$77 million (and an additional \$88 million that was funded by the Federal and Provincial governments);
  - investing in a number of buildings including UTM's North Building B (\$58 million), the Myhal Centre for Engineering Innovation & Entrepreneurship (\$39 million), UTSC's Highland Hall (\$25 million) and other buildings totalling \$38 million;
  - equipment purchases, library acquisitions and other capital assets totalling \$100 million.
- An increase in externally restricted endowments of \$100 million. Good investment returns increased the value of our endowments by \$61 million combined with additional endowed donations of \$39 million. The University has a clear link between academic planning and fundraising priorities that assures donors that the priorities they are being asked to support are critical to the achievement of approved teaching and research objectives. This link is an essential element in the success of the University's Boundless fundraising campaign.
- The employee future benefits discount rate was reduced by 0.20% (5.55% instead of 5.75%). This resulted in an increase in the plan's deficit and a decrease in net assets of \$79 million net of other gains and losses.

Net assets are composed of the following:

- \$2.5 billion of endowments, representing 42.1% of net assets,
- \$3.5 billion of internally restricted net assets, and
- (\$68 million) of deficit.

The \$3.5 billion of internally restricted net assets comprises:

- \$2.3 billion in land,
- \$976 million of other investment in capital assets (representing internal monies previously spent by the University for capital projects which will be reduced over time as these capital assets are amortized),
- (\$903 million) in net unfunded liability associated with pension and other employee future benefits,
- \$455 million of operating contingency cash reserves, and
- \$702 million in capital and other cash reserves held for future spending.

The deficit of \$68 million is largely due to the internal financing of capital construction in accordance with the University's debt strategy (see the "Debt" section of these highlights).

With respect to the operating fund, the net increase in the cumulative operating surplus for the year was \$19.0 million, resulting in a cumulative operating surplus at April 30, 2018 of \$53.6 million, whereas the long-range operating budget called for a break even position.

**FINANCIAL IMPLICATIONS:**

None

**RECOMMENDATION:**

Be It Recommended

THAT the University of Toronto audited financial statements for the year ended April 30, 2018, be approved.

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**DOCUMENTATION PROVIDED:**

*- Financial report including the audited financial statements, highlights and supplementary report.*



# UNIVERSITY OF TORONTO

## FINANCIAL REPORT

**April 30, 2018**



**Science Research Building (UTSC)**

**Photo courtesy of Ken Jones**

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# HIGHLIGHTS

Year Ended April 30, 2018

(with comparative figures at April 30, 2017)

(millions of dollars)

|   | 2018     | 2017     | %<br>Increase |
|---|----------|----------|---------------|
| <b><u>Statement of Operations</u></b>       |          |          |               |
| Revenues                                    | \$ 3,379 | \$ 3,216 | 5.1%          |
| Expenses                                    | \$ 2,914 | \$ 2,799 | 4.1%          |
| Net Income                                  | \$ 465   | \$ 417   | 11.5%         |
| <b><u>Balance Sheet</u></b>                 |          |          |               |
| Assets                                      | \$ 9,894 | \$ 9,205 | 7.5%          |
| Liabilities                                 | \$ 3,951 | \$ 3,748 | 5.4%          |
| Net Assets                                  | \$ 5,943 | \$ 5,457 | 8.9%          |
| <b><u>Net Assets Composed of:</u></b>       |          |          |               |
| Endowments                                  | \$ 2,504 | \$ 2,380 |               |
| Investment in land and other capital assets | \$ 3,253 | \$ 2,867 |               |
| Other                                       | \$ 186   | \$ 210   |               |
|   | \$ 5,943 | \$ 5,457 |               |
| <hr/>                                       |          |          |               |
| Total Debt Policy Limit                     | \$ 1,571 | \$ 1,503 | 4.5%          |
| Policy Debt Burden Ratio                    | 5.0%     | 5.0%     |               |
| Actual Debt Burden Ratio                    | 3.4%     | 3.5%     |               |
| <hr/>                                       |          |          |               |
| Student FTEs (November 1)                   | 79,262   | 78,291   | 1.2%          |
| Total Number of Students (November 1)       | 90,077   | 88,766   | 1.5%          |

## HIGHLIGHTS

The University of Toronto (the “University”) was established in 1827 and is Canada’s largest university, recognized as a global leader in research and teaching.

The University has over 90,000 full-time and part-time students (79,262 full-time equivalents), making it one of the largest universities in North America in terms of enrolment. The University’s size and academic resources provide its students with a wide range of academic programmes and courses, while its unique college system offers learning experiences enriched by individual cultures in a smaller community. The University is located on three campuses: St. George (downtown Toronto), Scarborough (UTSC) and Mississauga (UTM).

This financial report does 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.

### Current Financial Results and Challenges

In fiscal 2018, net assets increased by \$486 million to \$5.9 billion mainly as a result of:

- A net income of \$465 million. This net income was mainly as a result of making a number of strategic infrastructure investments that are capitalized and are not expensed in the year, offset by the amortization expense of \$83 million on internally funded capital assets. These capital investments include:
  - the acquisition of a key parcel of land located within the footprint of the St. George campus for a total cost of \$125 million and other lands at a cost of \$7 million;
  - research lab renovations in the amount of \$77 million (and an additional \$88 million that was funded by the Federal and Provincial governments);
  - investing in a number of buildings including UTM’s North Building B (\$58 million), the Myhal Centre for Engineering Innovation & Entrepreneurship (\$39 million), UTSC’s Highland Hall (\$25 million) and other buildings totalling \$38 million;
  - equipment purchases, library acquisitions and other capital assets totalling \$100 million.
- An increase in externally restricted endowments of \$100 million. Good investment returns increased the value of our endowments by \$61 million combined with additional endowed donations of \$39 million. The University has a clear link between academic planning and fundraising priorities that assures donors that the priorities they are being asked to support are critical to the achievement of approved teaching and research objectives. This link is an essential element in the success of the University’s Boundless fundraising campaign.
- The employee future benefits discount rate was reduced by 0.20% (5.55% instead of 5.75%). This resulted in an increase in the plans’ deficit and a decrease in net assets of \$79 million net of other gains and losses.

Over the past ten years, the University has grown significantly with an increase of over 25.9% in the number of students to 79,262 full-time equivalents (FTEs). The University also benefited from the Ontario and Federal governments’ visionary investments in higher education and research, ensuring access, fostering growth in graduate enrolment, and financing vital infrastructure. Societal changes are challenging our status as a preferred producer of knowledge and we continue to face intense competition from multiple sources, as the dissemination of knowledge explodes throughout the online world.

We will need to continue to draw on the ingenuity, creativity and efficiency of our faculty and staff, and the loyalty and generosity of our benefactors in order to meet these formidable challenges if we hope to maintain and advance our global standing. Other strategies that will ensure our success in meeting these challenges include exploring new and imaginative ways to take advantage of our location in the Toronto region, and to deepen our relationships with our local partners. We must think more strategically about how

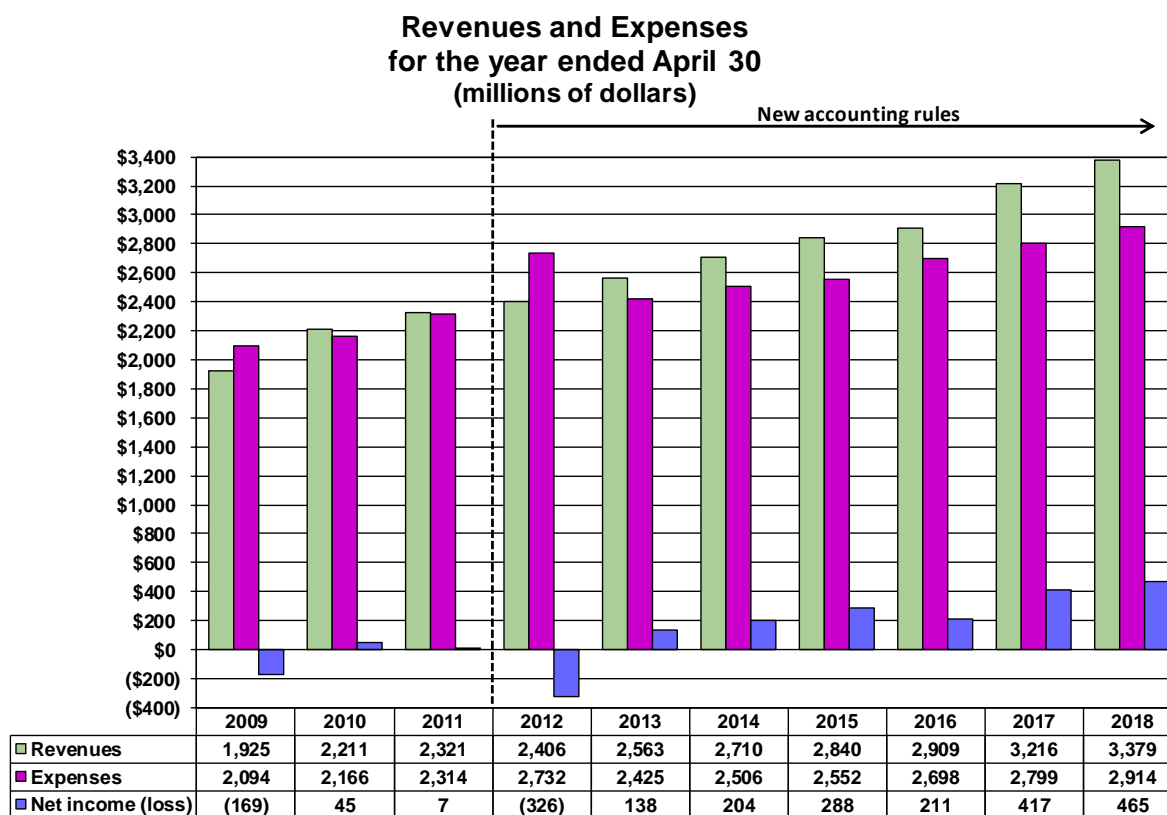
we strengthen our international partnerships with other great universities in other great world cities, allowing us to foster not just student mobility and faculty exchanges, but also joint research projects, joint conferences, joint teaching and even joint degrees. The rise of digital technologies and the need for ‘job-ready’ graduates demands that we re-examine and perhaps even reinvent undergraduate education. We will need to build on the excellent work in this area and rededicate ourselves to the enrichment of undergraduate teaching and learning.

We will need the support from our government partners, at all levels, to recognize, through their funding and their policies, that institutions like the University play a unique and differentiated role within Canadian higher education.

### The Statement of Operations

The consolidated statement of operations is mainly impacted by the growth in student enrolments, which increases student fees revenue, government grants and salaries and benefits expense due to the resulting growth in faculty and staff and related salary increases. This growth has increased the need for construction and renovations which impact operating expenses, interest and amortization expense.

Revenues for the year ended April 30, 2018 were \$3.4 billion and expenses<sup>1</sup> were \$2.9 billion for a net income of \$465 million, primarily reflecting funds being set aside in accordance with multi-year divisional academic plans that called for prudent and deliberate use of reserves for operating contingencies and future capital investment in academic facilities and for faculty hiring.

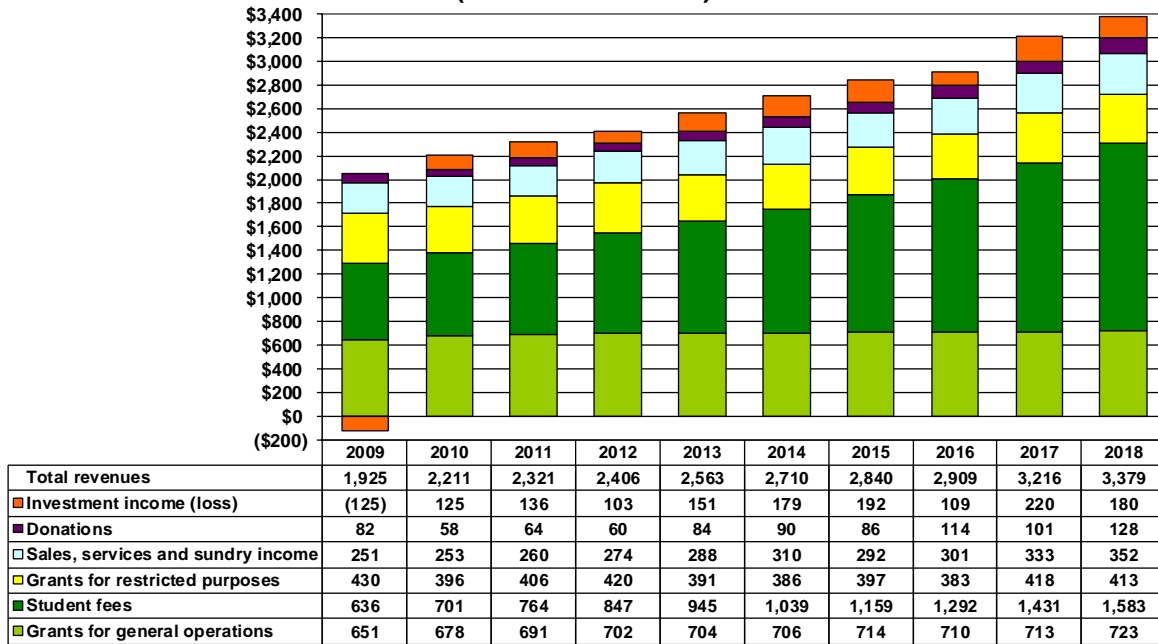


<sup>1</sup> Effective May 1, 2011, the adoption of new accounting rules resulted in recording the full impact of the deficits in its employee future benefit plans on the consolidated balance sheet and the changes in the deficits in the consolidated statement of operations. Effective May 1, 2012, any remeasurements are recognized directly in net assets instead of being recorded in the consolidated statement of operations.



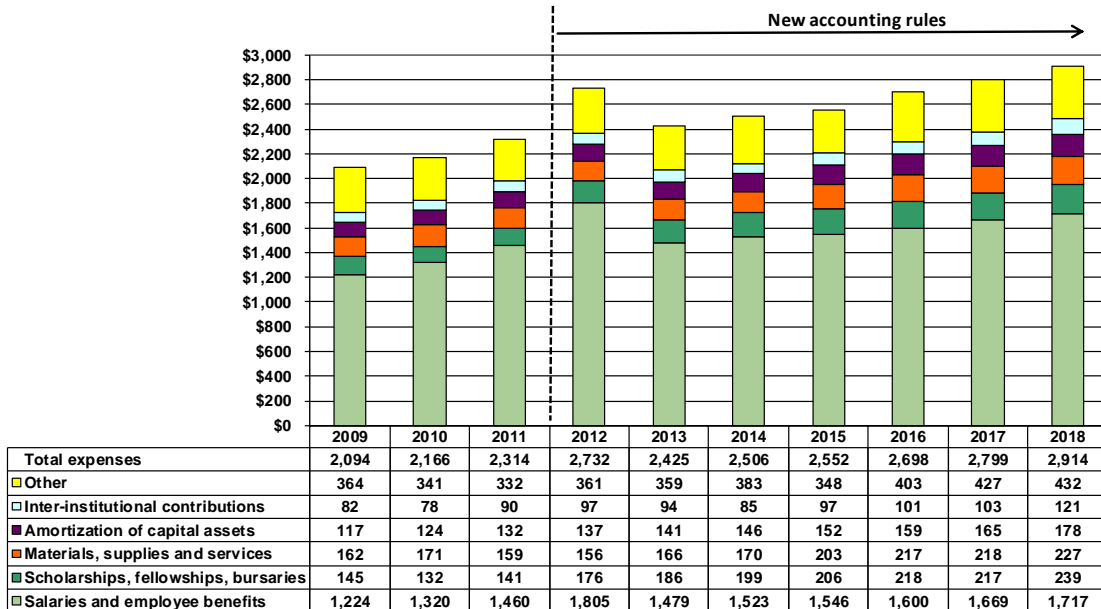
In 2018, \$2.3 billion or 68.2% of revenues were from student fees and government grants provided in support of student enrolments. An additional \$413 million represented government and other grants and contracts for restricted purposes. Together these three sources accounted for 80.5% of revenues for the year.

**Revenues by Category  
for the year ended April 30  
(millions of dollars)**



In 2018, expenses for the year amounted to \$2.9 billion, of which \$1.7 billion, or 58.9%, was for salaries and employee benefits.

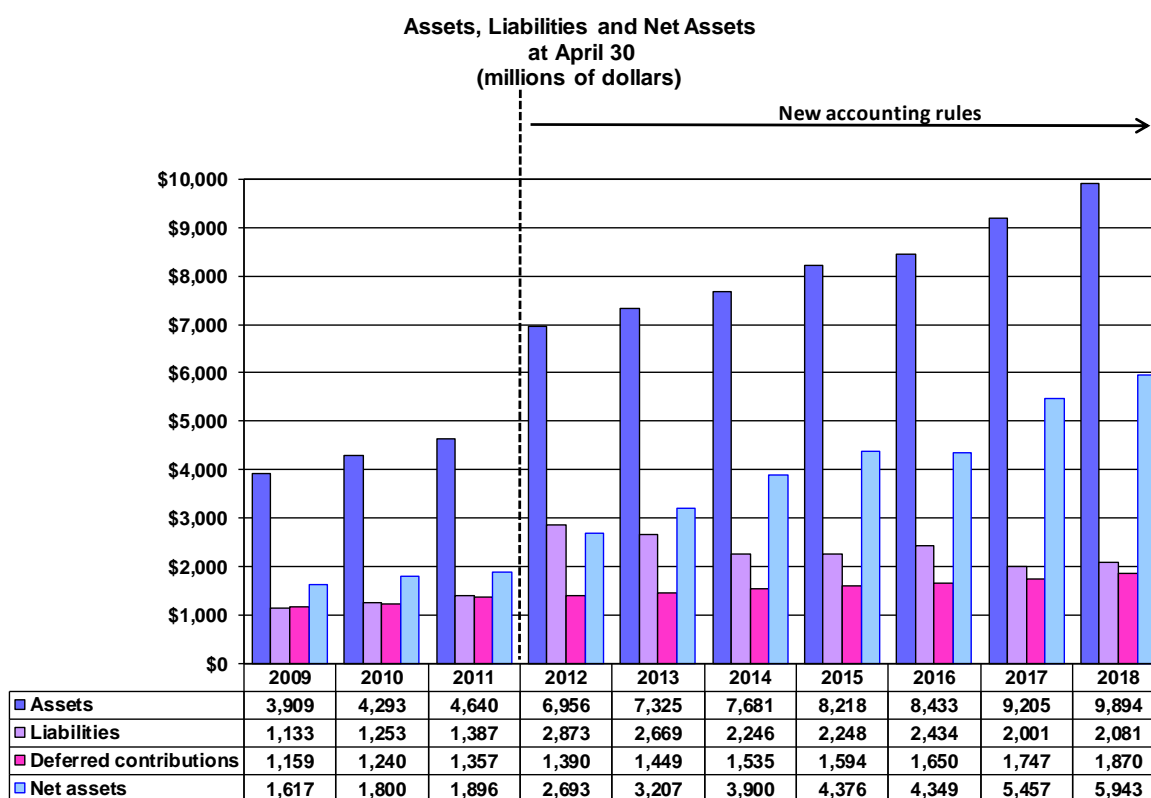
**Expenses by Category  
for the year ended April 30  
(millions of dollars)**



It is important to note that faculty and staff salaries and benefits relating to teaching, research and administrative activities are predominantly funded from University operating funds (mostly student fees and government grants). Additional details are provided in the “Salaries and Benefits” section of these highlights. Scholarships, fellowships and bursaries were \$239 million, or 8.2% of total expenses. Materials, supplies and services were \$227 million, or 7.8% of total expenses, and inter-institutional contributions were \$121 million or 4.2% of total expenses.

## The Balance Sheet

At April 30, 2018, assets were \$9.9 billion, liabilities were \$4.0 billion and net assets were \$5.9 billion. Assets and liabilities have grown since 2009 mainly due to the growth in endowments as a result of good investment returns in most years, receiving endowed donations, combined with the construction of additional space to accommodate the increased number of students. In addition, the adoption of changes in accounting standards effective May 1, 2011, resulted in recording some of the University’s land at fair value and full recording of its pensions and other employee future benefit obligations on the consolidated balance sheet. The impact was a \$2.1 billion increase in assets (capital assets), a \$934 million increase in liabilities (unfunded employee future benefits), and a net increase of \$1.1 billion in net assets at May 1, 2011.



Net assets reflect the University’s net worth. Net assets change over time only through:

- the net income or net loss for the year,
- the change in endowments derived from 1) endowed donations, and 2) from investment income on externally restricted endowments (representing income earned above the amount made available for spending) which does not flow through the consolidated statement of operations but rather is added directly to the endowment balance in accordance with current generally accepted accounting principles for not-for-profit organizations, and
- Effective May 1, 2012, remeasurements and other items are recognized directly in net assets instead of being recorded in the consolidated statement of operations. Remeasurements and other items include

(i) any difference between the actual investment return on pension plan assets and the investment return used in valuing the pension obligation and (ii) the net actuarial gains and losses on all employee future benefits.

Net assets increased by \$486 million to \$5.9 billion in 2018 as a result of net income of \$465 million, endowed donations of \$39 million, \$61 million increase in externally restricted endowments offset by \$79 million in remeasurements and other items relating to employee future benefits (primarily due to a decrease in the discount rate).

Net assets are composed of the following:

- \$2.5 billion of endowments, representing 42.1% of net assets,
- \$3.5 billion of internally restricted net assets, and
- (\$68 million) of deficit.

The deficit of \$68 million is largely due to the internal financing of capital construction in accordance with the University's debt strategy (see the "Debt" section of these highlights).

The \$3.5 billion of internally restricted net assets comprises:

- \$2.3 billion in land,
- \$976 million of other investment in capital assets (representing internal monies previously spent by the University for capital projects which will be reduced over time as these capital assets are amortized),
- (\$903 million) in net unfunded liability associated with pension and other employee future benefits,
- \$455 million of operating contingency cash reserves, and
- \$702 million in capital and other cash reserves held for future spending.

The \$2.5 billion of endowments represent 6,260 individual endowment funds, which are restricted in nature based on the direction of donors or Governing Council.

## **The Role of the Government of Ontario**

The Provincial government provides operating grants and regulates tuition fees for domestic students in publicly-funded programs. The Provincial government also invests in student financial support, research and infrastructure.

### **Operating Grants**

In November 2013, the Province released its new framework for the postsecondary sector entitled *Ontario's Differentiation Policy Framework for Postsecondary Education*. The new framework relies on differentiation as a primary policy driver for the system, which builds on, and focuses on, the unique strengths of each institution.

In April 2014, the Province signed the first Strategic Mandate Agreements (SMA1) with each university and college covering the period of 2014-17. The central premise of the University's key area of differentiation is based on provincial recognition that "the University is a globally recognized, comprehensive, and research-intensive institution with a distinct leadership role in Ontario's postsecondary education system. The University's broad range of program offerings and research activity has a major economic and social impact, locally and globally."

In October 2017, the University signed its second Strategic Mandate Agreement (SMA2) with the Province for the period 2017-20. The agreement re-confirms the University's leadership role in research and innovation in Ontario. It establishes an enrolment planning framework for the next three years, including funding for 631 new masters and 198 new doctoral student spaces by Fall 2019. In response to Ontario's changing demographics, the University and Province also agreed to a reduction of 1,800 domestic undergraduate spaces at the St. George campus by Fall 2019. Domestic undergraduate enrolment at UTSC and UTM will be held constant at current levels over the period of the agreement.

In December 2015, the Province released its University Funding Model Reform Consultation Report, entitled *Focus on Outcomes, Centre on Students*. The 2016 Ontario Budget confirmed the government's intention to move forward with implementing changes to the university funding formula with the following key objectives: improving student outcomes; promoting differentiation by linking funding to SMAs; and providing additional stability to institutions through enrolment planning and predictability.

The second Strategic Mandate Agreement begins the transition to this new funding framework, including stable funding for enrolment within a negotiated enrolment corridor. Existing enrolment-related grants (base operating grant plus historical targeted grants for previous growth in undergraduate, graduate, teacher education, nursing, and medicine programs) have been rolled into a single Core Operating Grant. Going forward, funding for domestic enrolment will remain stable provided the University maintains a five-year average enrolment within  $\pm 3\%$  of its negotiated target, excluding the funded graduate enrolment growth noted above. In 2017-18, this Core Operating Grant funding was \$582 million.

Under the new funding framework, the University will also receive differentiation funding tied to performance in priority areas such as student experience; innovation, economic development and community engagement; research excellence and impact; access and equity; and innovative teaching. A new differentiation envelope has been created by combining the University's existing share of the Access to Higher Education Quality Fund and Key Performance Indicator grants, with \$36 million re-directed from the University's existing enrolment-related grants. The allocation of differentiation funding in 2017-18 is \$65 million. The differentiation envelope will be revenue-neutral throughout the period of SMA2 (through fiscal 2020) while the Province consults with the sector to refine metrics and targets, which will be tied to funding for SMA3 (beginning in fiscal 2021).

The 2012 Ontario Budget announced two International Student Recovery (ISR) operating grant reductions. The first reduction eliminated the previous subsidies for non-PhD international students that were provided to institutions to pay their portion of municipal taxes. The second ISR was a reduction, in the words of the government, of the "indirect support through operating grants" that it provided to non-PhD international students. The second ISR component was a reduction in operating grants of \$750 for each international student enrolled and was being phased in over four years with full implementation by 2016-17. The University's operating grants were reduced by \$12 million related to these two recoveries in 2017-18, and will continue to be reduced, as a result of international enrolment increases, to a projected \$13 million by 2019-20. In 2017-18, international students comprised 22.5% of total undergraduate enrolment and 16.8% of total graduate enrolment, more than doubling the percentage over the last ten years.

### **Tuition Fees and Student Aid**

University tuition fees for domestic students are regulated by the Provincial government. For the seven-year period ending in 2012-13, the University was regulated under a tuition framework permitting universities to increase tuition fees by up to 4.5% for domestic students entering most programmes and by no more than 4% for in-programme students. Tuition fees could increase by a maximum of 8% in professional programmes such as Law, Medicine and Engineering and in graduate programmes. The overall institutional average increase could not exceed 5%.

In 2013, the government of Ontario announced a new four-year tuition framework effective 2013-14 to 2016-17. In December 2016, the government extended this framework for an additional two years to 2018-19. The framework allows universities to increase fees by up to 3% for domestic students entering most programmes and for in-programme students. Tuition fees may increase by a maximum of 5% in professional programmes and the framework reduces the overall annual cap from 5% to 3%.

The tuition framework continues to be accompanied by an accessibility guarantee. A Tuition Set Aside formula requires a specific amount to be set aside by universities for student aid, so that universities ensure accessibility, regardless of a student's financial means; this is in line with the long-established policy of the University. The University remains committed to the goal of accessibility and to working with the Provincial and Federal governments to achieve the goal of access. In 2018, the University spent \$239 million on scholarships, fellowships and bursaries, a significant increase from \$145 million in 2009.

The 2016 Ontario and Federal Budgets included significant changes to the provincial student aid programs, the Ontario Student Assistance Program (OSAP) and Canada Student Grants (CSG). The two levels of government continue to make improvements to these programs. In its 2016 Budget, Ontario announced a restructuring of OSAP, to be completed in two phases. In 2017-18, most Ontario student grants, including the Ontario Tuition Grant, were folded into a single Ontario Student Grant which is an upfront, income-based grant that provides tuition support and needs-based support.

### **Capital Funding**

In the 2008 Ontario Budget, the government pledged a range of investments for postsecondary education and research. The Ontario Budget included an investment of an additional \$200 million under the University Campus Renewal funding program for the maintenance and renewal of university facilities. In 2008-09, the University received \$38 million as its share of funding under this program. The funds were used to improve energy efficiency, for campus safety and security, and to renew aging infrastructure. In 2008-09, the University also received another \$25 million in capital funding to lever other funds for the Munk School of Global Affairs.

The Ontario government released its 2009-10 budget centred on helping the Province weather the economic downturn and preparing for its recovery by moving to a more innovative, high-value, and green economy. To that end, the Ontario Budget made a large-scale capital investment in Ontario's colleges and universities by earmarking \$780 million in funding for universities and colleges over two years, to be matched with Federal funding through its Knowledge Infrastructure Program in support of campus renewal and new infrastructure. The University spent \$151 million to build instructional and laboratory complexes at the Mississauga and Scarborough campuses as well as an Innovation Centre for the Canadian Mining Industry at the St. George campus. An additional \$53 million in funding to support the Mississauga campus' Davis and North building renovations was committed by the Province in the following year as part of Phase 2 of their long-term capital strategy.

Other recent capital investments made by the Province include:

- \$25 million to support construction of the Mississauga campus' Health Science Centre.
- \$23 million to support the construction of the Goldring Centre for High Performance Sport.
- \$50 million from each of the Federal and Provincial governments to support the construction of the Pan Am Aquatics Centre at the Scarborough campus.
- \$15 million in funding for the Centre for Engineering Innovation and Entrepreneurship to continue strengthening the Innovation SuperCorridor and help support the expansion of experiential learning opportunities for engineering students.
- \$14 million from the Provincial government and \$84 million from the Federal government (Postsecondary Institutions Strategic Investment Fund) toward the University's laboratory retrofit project.

### **Other Recent Ontario Budget Priorities**

The 2012 Ontario Budget concentrated on the government's plan to eliminate the deficit while protecting investments in health care and education. Overall it provided for 1.9% average annual growth increases for the postsecondary sector for 2012-13 to 2014-15. While the government's commitments to growth and the Ontario Tuition Grant have been maintained, some expenditure reductions have been implemented. These include the elimination of the Ontario Trust for Student Support matching program and the Ontario Work Study Program support, resulting in further reductions in provincial support of \$6 million per year.

The 2013 Ontario Budget concentrated on making strategic investments for a prosperous future and protecting public services, while working towards balancing the books. The government agreed to make a \$295 million investment over two years to support employment opportunities for youth. During 2014-15, the government phased out the Graduate Nursing Tuition Waivers program that provided support to graduate nursing students.

The 2014 Ontario Budget contained very little related to the postsecondary sector. The 2014 Ontario Budget was passed in July 2014 after the June 12, 2014 election.

The 2015 Ontario Budget again focused on managing growth in spending. The postsecondary sector was provided with net 0% increase in spending, with undergraduate and graduate enrolment growth funding being offset by reductions in other areas of sector spending. Most notably, the Policy Levers Savings Targets and student recovery reductions to operating grants implemented in 2013 remains in place.

The 2016 Ontario Budget included significant changes to provincial student aid programs. While no new funding was invested, the Ontario Student Assistance Program (OSAP) has been streamlined and made more transparent to students by creating a single major upfront grant – the Ontario Student Grant, starting in 2017-18.

The government of Ontario returned to a balanced budget for 2017-18. No additional funds for growth in undergraduate and graduate enrolment beyond previous commitment levels were identified. However, program expenditures in the postsecondary education sector were projected to grow at an average annual rate of 2.5% between 2015–16 and 2019–20, including investments in infrastructure projects and Highly Skilled Workforce initiatives.

The 2018 Ontario Budget projected a 0.9% increase for the postsecondary sector, primarily related to support for students through OSAP. The budget included an increase of \$1.2 billion for the sector over three years to support growth in OSAP participation, and offset reductions to required parental and spousal contributions starting in 2018-19.

### **Financial Planning**

Revenues are expected to increase modestly over the next several years, primarily as a result of graduate expansion, tuition fee increases, and increasing international enrolment. With the potential for new revenues tied primarily to enrolment growth, ongoing expense containment measures, including productivity improvements, will continue to be required.

The long-range academic and budget plan for 2018-19 to 2022-23 incorporates the latest provincial information on tuition and operating grants. The plan assumes various updated assumptions and also assumes that the pension deficit payments will continue, and in fact, increase.

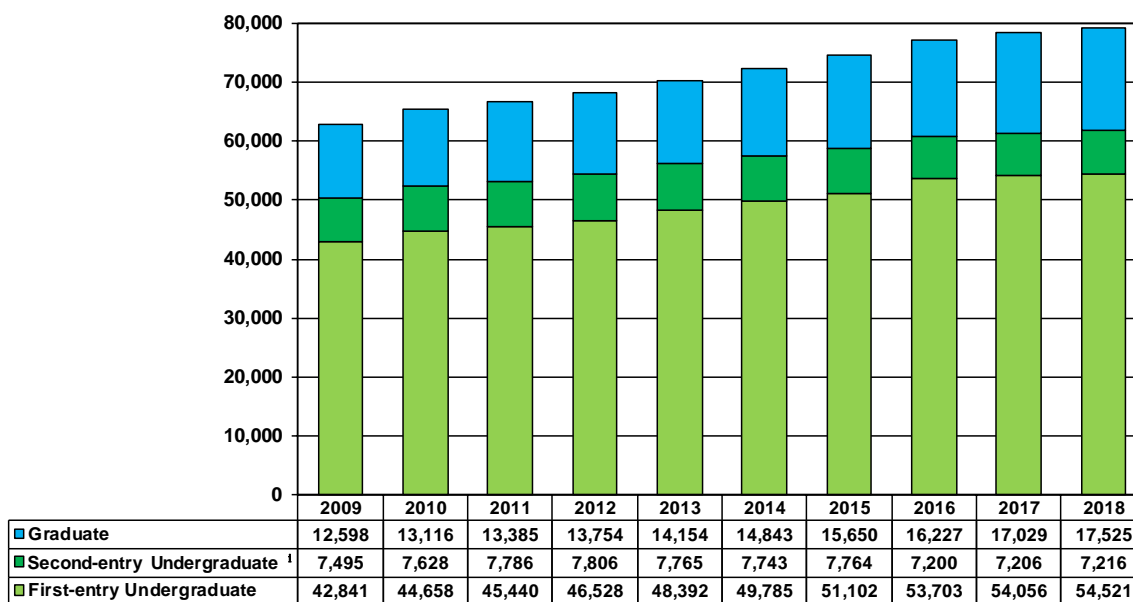
### **Student Enrolment**

The demand for student spaces has increased significantly since 2009 as a result of increased population growth in Ontario and participation rates. The University has increased enrolment to accommodate this additional student demand with student FTE enrolment increasing from 62,934 in 2009 to 79,262 in 2018, an increase of 25.9%. More than 50% of the direct entry undergraduate student body is drawn from the Greater Toronto Area.

Tuition fees for domestic students increased in accordance with the tuition framework set by the Provincial government. Student fees revenue increased by \$152 million to \$1.6 billion from last year as a result of student fee increases and enrolment growth.

Although the University has received full average funding for additional students, neither ongoing government grants nor regulated tuition fees have dealt adequately with the issue of inflation, which has resulted in the need for continued cost containment through productivity improvements to maintain financial health.

### Number of Undergraduate and Graduate Student FTEs as at November 1



<sup>1</sup> Second-entry undergraduate programmes include professional programmes in the Faculty of Medicine, Law, Nursing, Pharmacy, Dentistry and OISE/UT (prior to 2016).

Since 2009, student aid (scholarships, fellowships and bursaries) has increased by 64.8% to \$239 million. This amount excludes amounts provided by the federated universities. The University has a commitment under our policy on student financial aid which ensures that no qualified student will be prevented from beginning or completing his or her education due to financial need and also makes substantial funds available over and above the amounts outlined here.

### Research and Capital Infrastructure

In 2018, following a year of research and broad consultation, the University launched a new five-year Institutional Strategic Research Plan (ISRP). The ISRP continues to express the University’s core commitment to supporting excellence in research and innovation across our three campuses and with our community partners. The consultation feedback helped shape the themes and subthemes and align them with current and potential future areas of research and innovation while reflecting the breadth of the University’s research within a flexible framework. Feedback also helped to refine our strategic objectives and the metrics by which we will measure our success. The ISRP provides support and direction but is not meant to limit individual faculty member or divisional research priorities.

The ISRP highlights the scope of scholarship at the University and identifies seven thematic areas designed to facilitate excellence and collaboration both within the University and with partner organizations and to address issues of local, national, and global importance. The ISRP also identifies five strategic objectives to enable the University to continue to increase its research excellence:

- Demonstrating our leadership in research and innovation;
- Fostering collaborations, partnerships and engagement;
- Advancing equity, inclusion and diversity;
- Supporting the integration of research and innovation in the student experience; and,
- Strengthening the institutional supports that foster research and innovation excellence.

The ISRP highlights the environment and approach that will allow our researchers to continue to do their outstanding work, and that will support the University’s research capacity and productivity by attracting

and retaining superb talent; by building strategic research programs and linkages of research, education, and training; and by leveraging strategic partnerships and resources for the benefit of society.

Strong research funding support from both the Provincial and Federal governments are key to the realization of the objectives of the ISRP, including supporting operating grants and research infrastructure that help the University to attract and retain top research talent from across Canada and around the world.

In 2017, the Federal government commissioned Canada's Fundamental Science Review, headed by a prestigious panel led by the University of Toronto's President Emeritus Dr. David Naylor. The panel found that per capita federal investment in fundamental or curiosity-driven research had slumped in recent decades and made a comprehensive set of 35 recommendations. Members of the Canadian and University of Toronto research community, including students, participated in the efforts to raise awareness of their work and the need for support.

Responding to several of the Fundamental Science Review Report's findings, the 2018 Federal Budget contained multi-year provisions for research funding—investments that are a critical element of a national strategy to advance knowledge and build Canada's prosperity. The budget provided \$925 million in new funding for investigator-led research through Canada's three federal research councils over the next five years, including \$355 million each for the Natural Sciences and Engineering Research Council and the Canadian Institutes of Health Research, and \$215 million for the Social Sciences and Humanities Research Council. The 2018 budget also included:

- The introduction of 250 new chairs through the Canada Research Chair program, with an investment of \$210 million over five years to better support early-career researchers, while increasing diversity and creating more opportunity for women among nominated researchers.
- \$763 million over five years for scientific research infrastructure through the Canada Foundation for Innovation (CFI). This includes \$160 million for increased support to Canada's nationally important research facilities through the foundation's Major Science Initiatives Fund. The government also proposed to establish permanent funding at an ongoing level of \$462 million per year by 2023-24 for research tools and infrastructure through CFI.
- \$21 million was allocated to increase diversity in science.
- \$275 million was earmarked for a new Tri-Agency fund that will support research that is international, interdisciplinary, fast-breaking and higher-risk.
- \$231 million over five years was set for the Research Support Fund – a critical program that assists universities with the institutional costs of research, such as facility costs and technology transfer supports – but does not substantially increase the proportion of funding for these costs. For 2017-18 the University recovered the institutional costs of tri-agency research at a rate of just over 19% of direct costs while in reality the rate incurred adds up to more than 55%. The University will continue to work with government with the goal of ensuring that the full costs of research are supported.
- \$572.5 million over five years to implement a Digital Research Infrastructure Strategy to deliver more open and equitable access to advanced computing and big data resources to researchers across Canada.

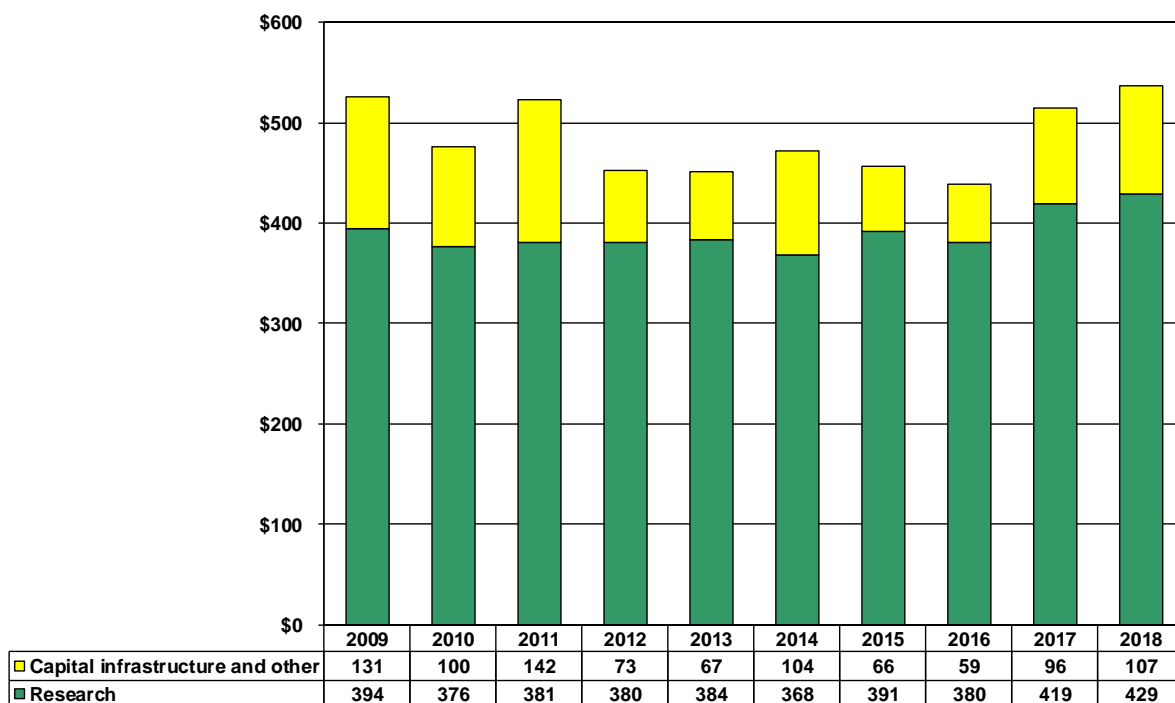
In 2017, the Provincial government established a panel of experts to review the Ontario Research Fund - Research Excellence and Ontario Research Fund - Research Infrastructure programs, as well as the Early Researcher Awards, to confirm that they are successful in attracting and retaining the world's best scientists and innovators to Ontario. The Expert Review Panel will advise on the current design of existing programs, their breadth and effectiveness, as well as identify any gaps and how to address them. At the conclusion of its review, the Expert Review Panel will prepare a written report with its findings that is to be presented to the Minister of Research, Innovation and Science in 2018.

The University continues to expand its efforts in the innovation and entrepreneurship space, and in 2017 opened ONRamp, a 15,000 square foot hub for student entrepreneurship activity.



The University continues to be successful at generating funding for research, including direct and infrastructure funding.

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



These financial statements do not account for grants awarded, but account for research funding received as follows:

- Research grants are recorded as revenue when the related expenditures are incurred.
- Unspent research grants are recorded as deferred contributions.

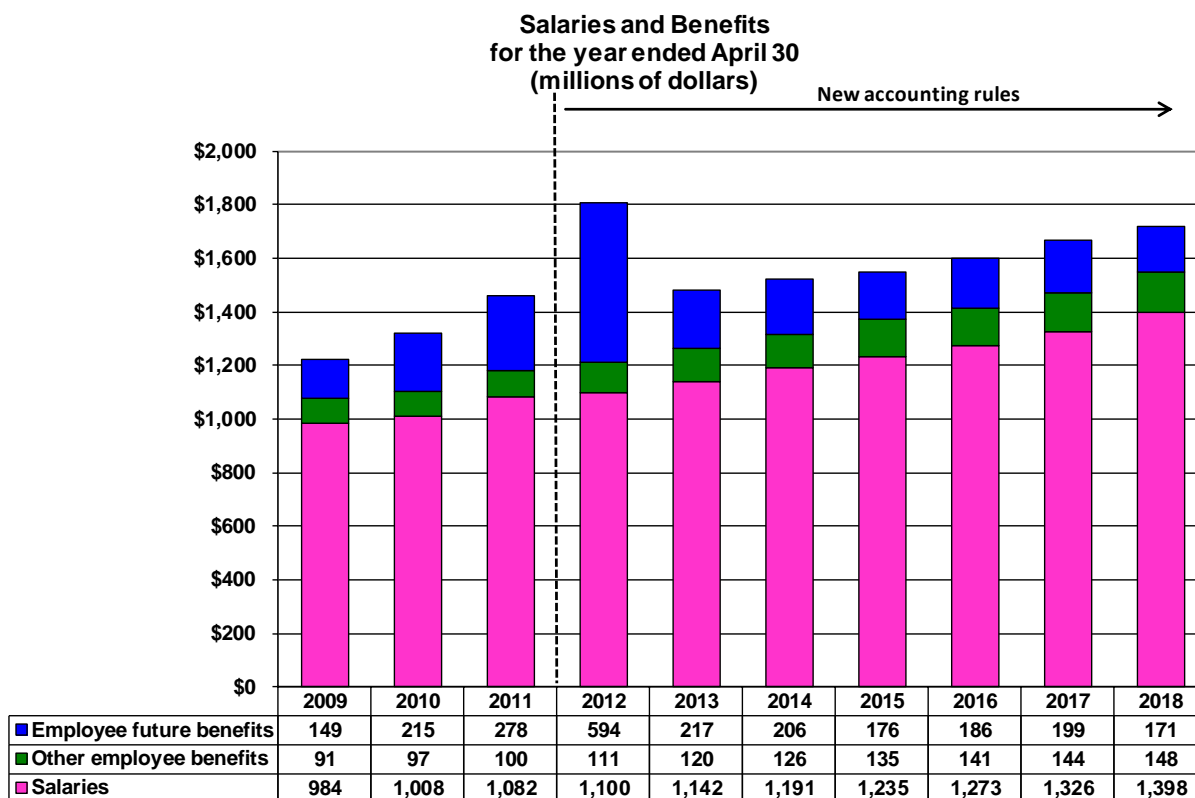
Government and other grants received in 2018 for restricted purposes totalled \$536 million and comprised \$429 million for research and \$107 million for capital infrastructure and other purposes. These were reported as follows: \$413 million as revenue from grants for restricted purposes and \$123 million as deferred contributions and deferred capital contributions.

It is important to note that research funding can only be spent on research activities, but the amounts received do not adequately cover the full direct and indirect costs of research activities. The Fundamental Science Review Report did recommend that the Federal government should increase its support for such costs and the University continues to advocate for these resources. It should be noted that new programs are anticipated to provide indirect cost support at a rate of 25%, above the rate of approximately 19% the University receives for general Tri-Agency Programs.

While research funding was fairly stable in the first part of this decade, there has been a small increase in recent years due to the introduction of programs such as the Canada First Research Excellence Fund. With the new funding announced in the 2018 budget, we anticipate further growth in research funding. One hallmark of the successful combination of the innate strength of the University researcher community and the intense institutional focus is the achievement of the goal of an increased Canada Research Chair allocation to 275, representing an increase of 20 from 2017.

## Salaries and Benefits

Over the period 2009 to 2018, salaries and benefits<sup>2</sup> increased from \$1.2 billion to \$1.7 billion. This is the result of negotiated compensation increases for employee groups as well as an increase of 27.8% in the total number of faculty and staff over that time period. In 2018, the University had 3,126 faculty, 165 librarians, 6,817 administrative staff and 5,607 teaching and graduate assistants.<sup>3</sup>



The following agreements were in effect in fiscal 2018:

- Three-year agreement with administrative and technical staff, represented by the United Steelworkers, starting July 1, 2017 to June 30, 2020 for across-the-board salary increases of 1.8% on July 1, 2017 (plus 0.7% one-time only adjustment to June 30, 2017 base salary), 2.0% across-the-board effective for both July 1, 2018 and July 1, 2019.
- Two-year agreement with its faculty and librarians starting July 1, 2018 to June 30, 2020 for across-the-board salary increases of 1.9% on July 1, 2018, and 2.0% on July 1, 2019 that is distributed as a 1% increase to all salaries, together with an additional \$1,630 per full-time faculty and librarian.
- Four-year agreement with sessional lecturers and instructional assistants (non-student) and writing instructors starting September 1, 2017 to August 31, 2021 for across-the-board salary increases of 2.0% on September 1, 2018, September 1, 2019 and September 1, 2020.

<sup>2</sup> Effective May 1, 2011, the University started to account for its employee future benefits obligations (pensions and other employee future benefits) using the immediate recognition approach which has the impact of fully recording the deficit in its pension plan and employee future benefits other than pensions on the consolidated balance sheet and the changes in the deficits in the consolidated statement of operations. Effective May 1, 2012, remeasurements (which include any difference between the actual return on plan assets and the return used in valuing employee future benefits obligations, and any actuarial gains and losses) are recognized directly in net assets instead of being recorded in the consolidated statement of operations.

<sup>3</sup> A total of 12,441 Sessional, Clinical and Research Associates also have teaching and research responsibilities.

- Three-year agreement with teaching assistants starting January 1, 2018 to December 31, 2020. Compensation increases of 1.8% occurred on February 8, 2018 (effective ratification date), 2.0% increase on January 1, 2019 and January 1, 2020.

The University anticipates incurring additional costs of approximately \$3 million resulting from the passage of the Fair Workplaces, Better Jobs Act. The additional costs are primarily related to changes to personal emergency leave, however there are also additional costs relating to equal pay for equal work, and for bringing minimum wage earners to the new minimums as of January 1, 2018 and January 1, 2019.

Employee benefits expense for the year of \$319 million is made up of employee future benefits expense of \$171 million and other employee benefits expense of \$148 million. Other employee benefits expense includes, for example, the cost of legislative benefits (e.g. Canada Pension Plan and Employment Insurance), medical benefits for active staff, educational support, life insurance and several types of leaves.

Employee future benefits represent benefits to be provided to employees in the future based on service in the current year. They include pensions, long-term disability insurance, cost of living adjustments for survivor income, and medical benefits for pensioners. These are accounted for using the accrual basis of accounting and therefore reflect the cost of providing these benefits irrespective of the amount of funding provided in support of these benefits.

| <b><u>April 30, 2018</u></b> | <b><u>Pension plan</u></b> | <b><u>Other benefit plans</u></b> |
|------------------------------|----------------------------|-----------------------------------|
| <b>Plan status:</b>          |                            |                                   |
| Assets                       | <b>\$5.1 billion</b>       | <b>\$103 million*</b>             |
| Obligations                  | <b>\$5.4 billion</b>       | <b>\$591 million</b>              |
| Deficit                      | <b>\$319 million</b>       | <b>\$488 million</b>              |
|                              |                            |                                   |
| <b><u>April 30, 2017</u></b> | <b><u>Pension plan</u></b> | <b><u>Other benefit plans</u></b> |
| <b>Plan status:</b>          |                            |                                   |
| Assets                       | \$4.7 billion              | \$97 million*                     |
| Obligations                  | \$5.0 billion              | \$594 million                     |
| Deficit                      | \$296 million              | \$497 million                     |

\*Assets set aside by the University

The University records its pension obligation net of the fair value of plan assets on its balance sheet using funding assumptions that are thoroughly reviewed annually.

The pension plan's deficit increased from \$296 million in 2017 to \$319 million in 2018. This increase of \$23 million is mainly due to a 0.2% reduction in the discount rate to 5.55%, offset by investment returns on pension plan assets exceeding expected returns, and by required going concern special payments into the plan of \$79 million.

In 2010, the Province introduced a pension solvency funding relief process to allow certain public sector entities to amortize their solvency deficits over ten years instead of five. The University was approved for Stage 1 of the provincial solvency funding relief in 2011 and adopted a pension contribution strategy in May 2012 (based on an actuarial valuation as at July 1, 2011) to deal with the pension deficit and to enhance the long-term sustainability of the plan while mitigating the impact on the core operating budget to the extent possible. This strategy included: (1) two lump sum payments of \$150 million, in fiscal year 2012 and in fiscal year 2014, made into the registered plan, (2) increased annual special payments, and (3) the use of non-cash letters of credit to address net solvency special payments. This strategy called for an

increase in the annual pension special payments budget to \$97 million by 2015-16 from \$27 million in 2010-11. The University received governance approval for internal borrowing of up to \$150 million to be transferred into the pension plan as required. As stated above, the University transferred a \$150 million lump sum payment (\$113 million of which was internally borrowed) into the pension plan during fiscal year 2012. In fiscal 2014, the University made another \$150 million lump sum payment (\$122 million from funds set aside for its supplemental retirement arrangement and \$28 million which was internally borrowed).

In 2014-15, the University was approved for Stage 2 of the of the Provincial solvency fund relief program. In 2016-17, the Ontario government provided additional Stage 3 solvency funding relief measures for certain public sector plans. This amendment requires the University to make minimum special payments sufficient to liquidate 25% of the solvency deficiency over seven years and to cover interest applied on the remaining 75% of the solvency deficit not being amortized. Based on the most recent actuarial valuation at July 1, 2017, net solvency deficit payments of \$21 million will begin July 1, 2018, after giving effect to the one-year deferral provision related to the start of required solvency payments. This is in addition to the minimum required going concern pension special payments of \$45 million per year. However, the University expects this drop in required funding to be temporary due to the new pension funding rules being implemented by the Province (see below) and, therefore, the University will continue to budget \$79 million per year for going concern special payments (the previous minimum requirement) in the short and medium term. The current long-term operating budget increases the pension special payments and related costs by an additional \$5 million per year from \$102 million in 2016-17 to \$132 million in 2022-23.

The Province has recently announced long-awaited reforms to pension funding requirements. The elements of the new framework are as follows:

- Universities will only be required to make special solvency payments if the solvency funding status is less than 85%, with any deficiency amortized over 5 years;
- The amortization period for the going concern deficit will be reduced to ten years from 15 years, and a reserve factor (Provision for Adverse Deviation) will be applied to both accrued liabilities and current service costs; and
- The Province will increase the Pension Benefits Guarantee Fund monthly guarantee, which will likely require higher premiums.

These changes are likely to increase funding requirements over the required current levels (\$45 million plus \$21 million effective July 1, 2018) with solvency funding relief.

The Ontario government continues to work with the Broader Public Sector to develop longer term solutions for the future, such as the possible creation of a jointly sponsored pension plan. The University is participating together with Queen's University and the University of Guelph and their respective employee groups to develop a multi-employer defined benefit jointly sponsored pension plan for the Ontario university sector. There has been significant progress with the three universities and employee groups (representing the majority of pension plan participants at the three institutions) coming to agreement on a design for the new plan. A number of issues remain, some employee groups have not agreed to participate, and a number of challenges need to be overcome for implementation to occur. The three universities are continuing to work together, with employee groups, mediators, and advisors to advance this project. Key challenges include obtaining consent from active and retired plan members, having appropriate regulations enacted by the Ontario government, and creating the plan and its operation. This initiative is forward-looking and would not address the going concern or solvency deficits, which reflect past experience.

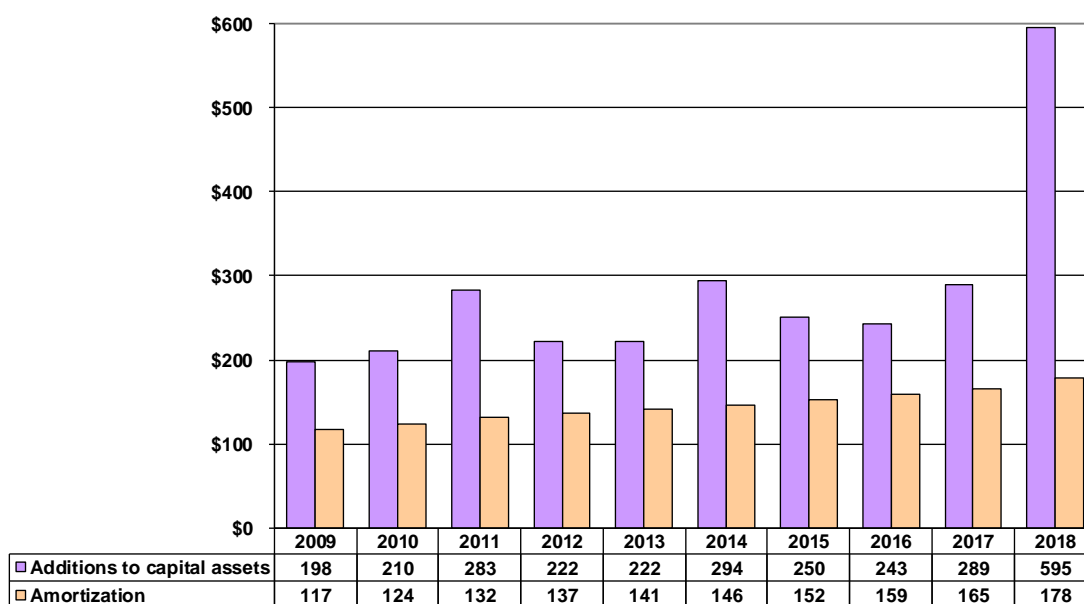
The obligation for employee future benefits other than pension at April 30, 2018 is \$591 million. This obligation is also determined based on actuarial valuations using funding assumptions. The annual current service and finance costs are included in the consolidated statement of operations and any actuarial gains or losses are recorded directly in net assets instead of being reported in the consolidated statement of operations.

## Space

The University has undertaken an ambitious capital construction program to significantly expand space capacity to accommodate increased numbers of students and to expand and update research infrastructure. This program included a significant expansion of the Mississauga and Scarborough campuses and considerable expansion and renovation on the St. George campus. Space capacity is being further expanded due to the additional space requirements arising from graduate student expansion and undergraduate medical student expansion.

Additionally, the University has future obligations for deferred and pending maintenance, which are currently estimated at \$659 million, excluding campus/utility infrastructure and including asbestos containment and removal. The University has integrated its capital programs by pooling the various funds available and prioritizing maintenance and renewal requests. The University is participating with all other Ontario universities in a continuing study that uses a more detailed and customized auditing approach that will incorporate the associated costs of professional services and consulting fees in determining the deferred and pending maintenance obligations of every university in the Province. The long-range academic and budget plan for 2018-19 through 2022-23 includes funding to arrest further deterioration of the physical infrastructure.

**Capital Investment in Infrastructure**  
for the year ended April 30  
(millions of dollars)



Governments have also provided funding for capital projects over the years to assist the University. In 2010 and 2011, the University spent \$151 million allocated from the Knowledge Infrastructure Program towards the construction of instructional and laboratory facilities at its Mississauga and Scarborough campuses as well as an Innovation Centre for the Canadian Mining Industry at its St. George campus.

In 2014, the increase in additions to capital assets was mainly as a result of the University receiving funding for the construction of the Pan Am Aquatics Centre and Field House. In 2017, the University spent \$30 million on the construction of the Myhal Centre for Engineering Innovation and Entrepreneurship building, \$17 million on the John H. Daniels Faculty of Architecture, Landscape, and Design building and \$23 million on the UTM North Building.

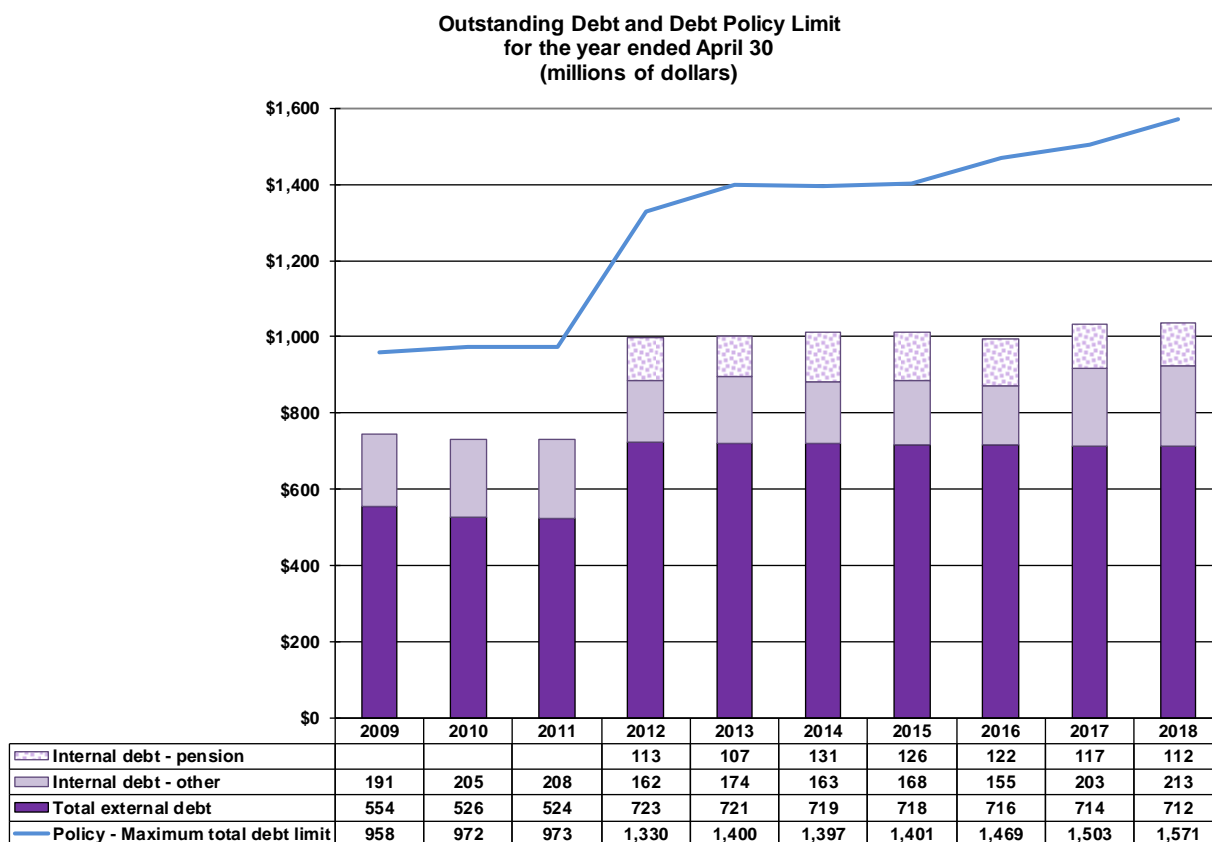
The University renovated over 546 research laboratories at a cost of \$195 million (\$84 million funded by the Federal government's Postsecondary Strategic Investment Fund, \$14 million from the Province's Facilities Renewal Program and \$97 from divisional funds) to support collaboration, flexibility of space allocation, and to support integrated basic science research platforms. Of this amount, \$30 million was spent in 2017 and \$165 million was spent in 2018.

In 2018, the University also acquired a key parcel of land on its St. George campus that includes a 15-storey tower that fronts onto College Street, and two buildings on Russell Street, for a total cost of \$125 million that will support the University's academic mission for years to come. The University also spent \$178 million on the construction of buildings including UTM's North Building B (\$59 million), the Myhal Centre for Engineering Innovation & Entrepreneurship (\$43 million) and UTSC's Highland Hall (\$25 million).

## Debt

In November 2012, the University revised its debt strategy resulting in a change to a debt policy limit based on a debt burden ratio of 5.0% (interest plus principal repayments divided by adjusted total expenditures).

The University is committed to prudently and strategically allocating debt to high priority capital projects and to support the pension plan. The debt strategy provides for a total debt limit of about \$1.6 billion at April 30, 2018, made up of actual and planned external debt of \$1.2 billion plus \$350 million in internal financing, of which \$150 million is for pensions.



In 2018, the actual outstanding external debt is made up of \$710 million (gross of \$1 million of issue costs and premiums) of debentures and \$2 million (excluding the fair value impact of \$2 million of interest rate swap contracts) of other long-term debt. At April 30, 2018, the actual debt burden ratio was 3.4%, well below the 5.0% policy limit.

The University's credit ratings are Aa2 (Moody's), AA+ (Standard & Poor's) and AA (DBRS Limited), which ranks the University as a strong investment-grade credit, with two credit rating agencies rating the University above the Province of Ontario.

## Donations

Academic priorities that cannot be completely funded through internal resources may become approved priorities for fundraising. The Provost must approve all initiatives before they become priorities for fundraising.

Fundraising in support of academic plans of the University's faculties, colleges, schools, and divisions, overseen by the Provost with the involvement of principals, deans and faculty, continues to play a critical role in the success of the University. The clear link with institutional planning enables the University to assure donors that the priorities they are being asked to support are critical to the achievement of teaching and research objectives. As it has in the past, this link is an essential element in the success of the University's Boundless fundraising campaign publicly launched in November 2011. This campaign is the largest fundraising campaign in Canadian university history.

Thanks to the commitment and generosity of its donors, the Boundless campaign surpassed its original \$2.0 billion goal six months ahead of schedule. Thousands of alumni and friends from around the world contributed to this milestone, which is unprecedented in Canadian philanthropic history and places the University among just 31 universities worldwide that have raised \$2.0 billion or more in a fundraising campaign. Building on this impressive success and momentum, the University expanded the Boundless campaign goal to \$2.4 billion. The campaign is scheduled to conclude in December 2018.

In more practical terms, the financial support of our donors has lifted the student experience, increased student financial aid, enhanced the University's facilities and infrastructure, enabled the recruitment and retention of faculty members, and provided substantial program and research funding for our faculty and students.

| <b>Total Fundraising Performance (pledges, gifts and grants)<br/>for the year ended April 30<br/>(millions of dollars)</b> |  |   |                     |
|--|--|---|---------------------|
| <b><u>Year</u></b>   | <b><u>Pledges<br/>and Gifts<br/>Raised</u></b> | <b><u>Philanthropic<br/>Research<br/>Grants</u></b> | <b><u>Total</u></b> |
| 2018   | 219  | 30  | 249                 |
| 2017   | 212  | 63  | 275                 |
| 2016   | 197  | 36  | 233                 |
| 2015   | 195  | 53  | 248                 |
| 2014   | 169  | 33  | 202                 |
| 2013   | 212  | 15  | 227                 |
| 2012   | 130  | 16  | 146                 |
| 2011   | 99   | 14  | 113                 |
| 2010   | 120  | 28  | 148                 |
| 2009   | 105  | 34  | 139                 |

For the period May 1, 2017 to April 30, 2018, a total of \$249 million was raised for the University (including federated universities and other affiliated institutions, but excluding donations to partner hospitals). This amount includes \$219 million in pledges and gifts (donations) and \$30 million in

philanthropic research grants that are recorded as government and other grants revenue for restricted purposes.

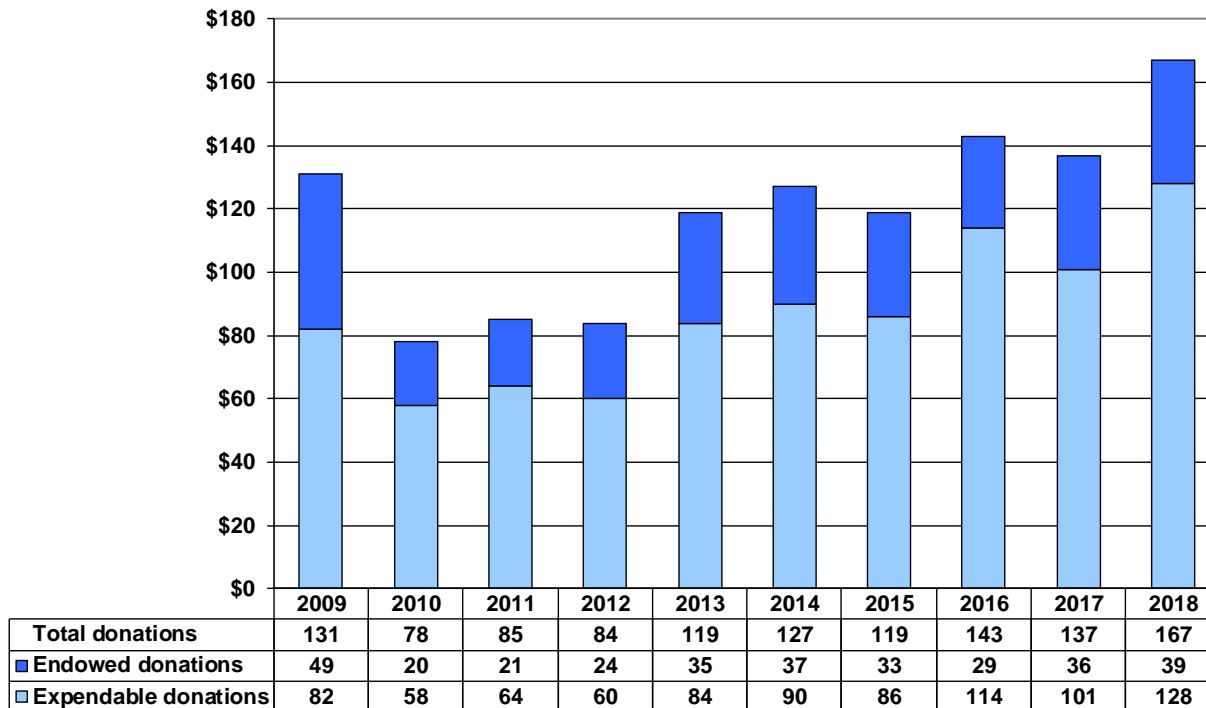
Donations revenue recorded in the University’s financial statements does not include donations to the federated universities – Victoria University, University of St. Michael’s College, and The University of Trinity College – nor does it include philanthropic research grants (which are recorded as government and other grants revenue for restricted purposes).

Donations are recorded in the financial statements as follows:

- Unrestricted expendable donations are recorded as revenue when received;
- Restricted expendable donations are recorded as revenue when the related expenditures are incurred;
- Unspent restricted expendable donations are recorded as liabilities (deferred contributions or deferred capital contributions); and
- Endowed donations are not recorded as revenue. They are added directly to endowments, as additions to net assets.

In 2018, donations received by the University (excluding receipts by the federated universities, other affiliated institutions, philanthropic research grants and donations to partner hospitals) totalled \$167 million and were reported as follows: \$128 million in expendable donations was reported as revenue, and \$39 million was added directly to endowments. It should be noted that the following graph tracks donations received by fiscal year. There is usually a lag between the growth in pledges and related commitments, and the actual cash receipt of funds.

**Total Cash and Gifts-in-Kind Donations Received  
for the year ended April 30  
(millions of dollars)**





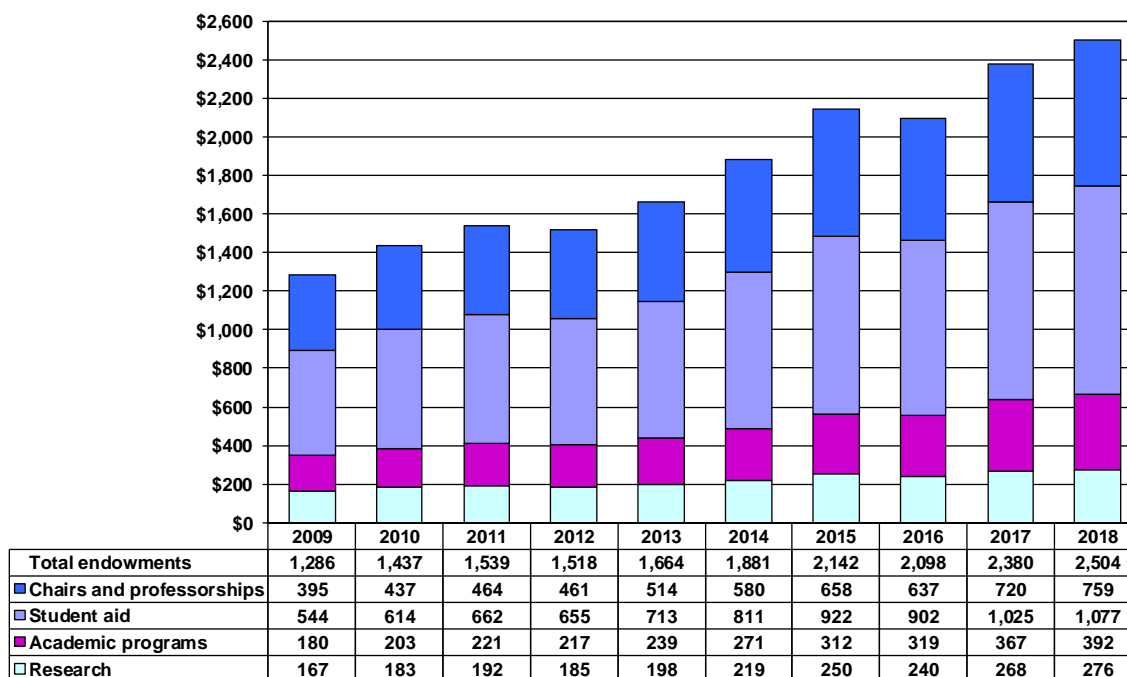
## Endowments

Endowments are restricted funds that are subject to restrictions relating both to capital and to investment earnings. The investment income earned on endowments are subject to the University's preservation of capital policy and must be used in accordance with purposes agreed between the University and donors, or determined by Governing Council. Endowments are not available for use in support of general operating activities.

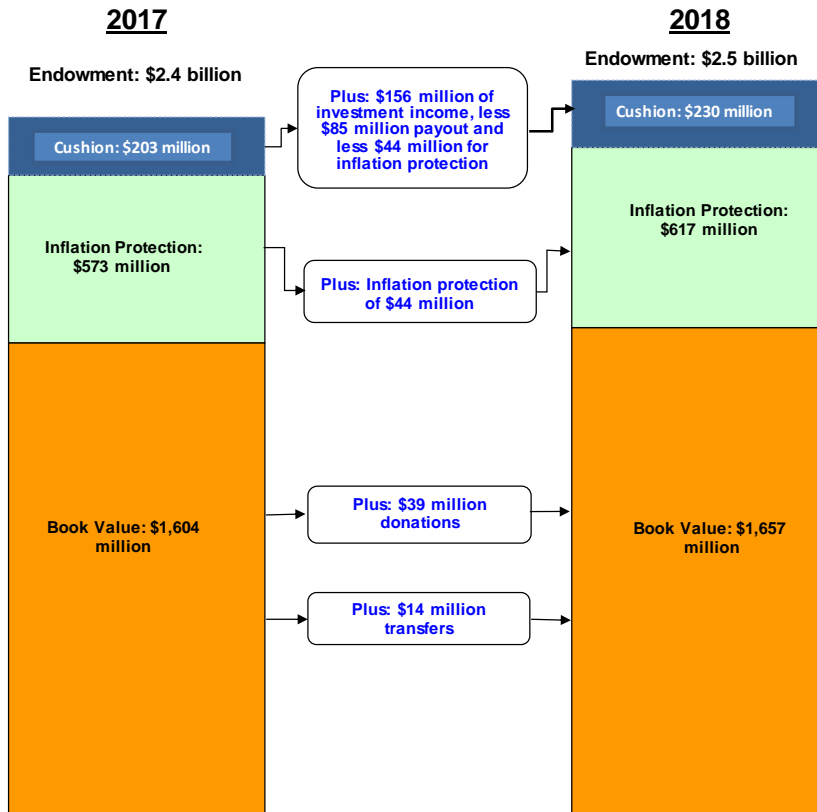
Endowments are managed in a unitized pool with an annual spending rate. The University's endowment spending objective is to provide a predictable amount for spending (payout) each year that increases with inflation. To do this, the University preserves capital by constraining the annual spending rate and setting funds aside when investment returns are good. This strategy protects against inflation and creates a cushion from which funds can be released to maintain spending when there is a moderate downturn in the financial markets. The annual spending rate is expected to be within a corridor of 3% to 5% of opening market value of endowments.

In 2009, as a result of severe financial market losses, the University suspended the endowment distribution in order to preserve the underlying value of its endowments, so as not to change the baseline for future growth in our endowed funds. The endowment reserve, so carefully and responsibly built up as a protective cushion, did its job by absorbing the brunt of the extreme volatility in the financial markets. Without this suspension, the University could have impeded its ability to return to the usual endowment distribution levels as the investments supporting the endowments recovered their value. Meanwhile, critical commitments such as endowed professorships and chairs, as well as endowed support for needs-based student aid were met from other sources of funds. With an improvement in the financial markets in 2010, the University reinstated its annual endowment distribution.

**Endowments at Fair Value  
at April 30  
(millions of dollars)**

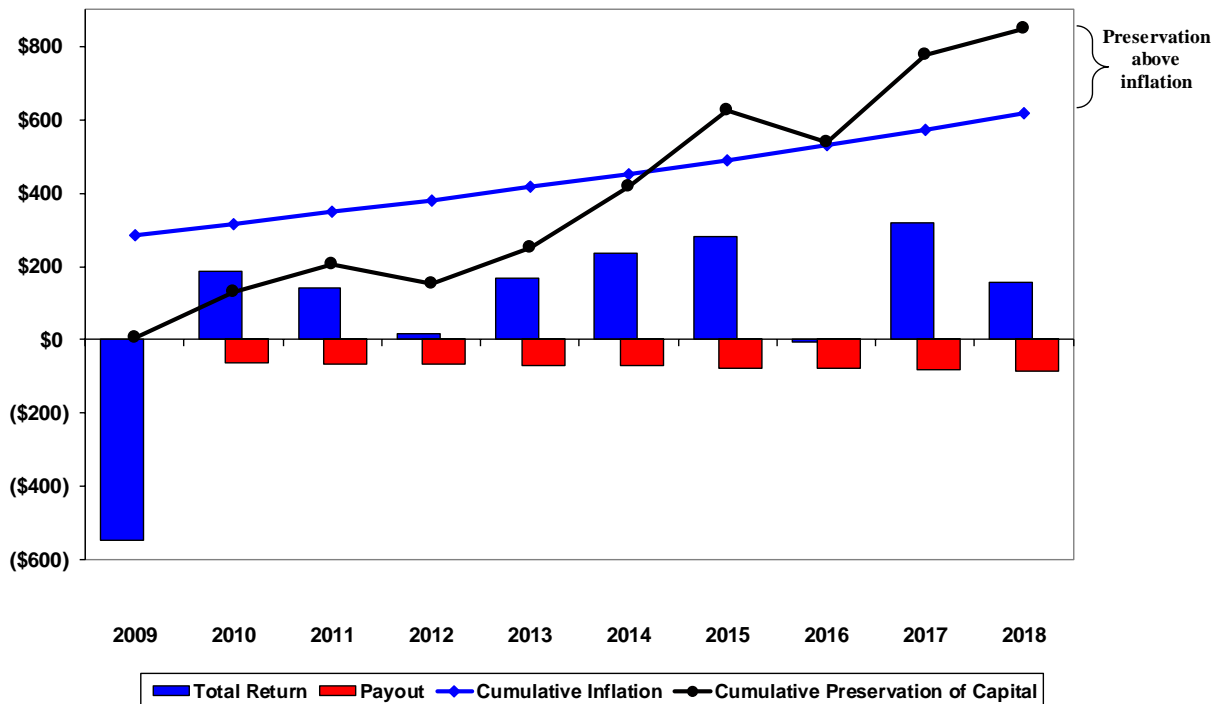


In 2018, the University's endowment value was \$2.5 billion with full inflation protection of \$617 million and preservation above inflation (cushion) of \$230 million against any possible future market downturn. The majority of endowments are in support of student aid (\$1.1 billion) and chairs and professorships (\$759 million).



The following diagram shows the preservation of capital and payout over the ten-year period starting in 2009:

**Endowment cumulative preservation of capital compared to cumulative inflation with total return and payout for the year ended April 30 (in millions)**



At April 30, 2018, there were over 6,260 individual endowment funds, usually supported by an agreement between the University and a donor, or reflecting a collection of small donations with common restrictions. The total fair value of endowments increased by \$124 million as follows:

- \$61 million increase on externally restricted endowments, consisting of a \$134 million investment gain and \$73 million withdrawn for payout;
- \$10 million increase on internally restricted endowments, consisting of a \$22 million investment gain and \$12 million withdrawn for payout;
- \$39 million of externally endowed donations; and
- \$14 million transfer from the deficit.

## Investment Earnings

Total investment earnings for the year amounted to \$210 million (net of \$31 million in fees and other expenses) consisting of \$156 million gain on investments held for endowments and \$54 million income on investments other than those held for endowments. These earnings were recorded in the financial statements as follows:

- Of the \$156 million gain on investments held for endowments (net of \$25 million in fees and other expenses), \$61 million was recorded as a direct increase to endowments in the consolidated statement of changes in net assets, and \$73 million (payout for externally restricted endowments) and \$22 million of investment gain on internally restricted endowments were recorded as investment income in the consolidated statement of operations.
- \$54 million on investments other than those held for endowments (net of \$6 million in fees and other expenses) was recorded as investment income in the consolidated statement of operations.

Almost all of the University's investments are invested in the long-term capital appreciation pool (LTCAP) or the expendable funds investment pool (EFIP). The University establishes the investment risk and return objectives for each of these pools via a University Funds Investment Policy which is approved by the Business Board. These objectives reflect the liability requirements, and aim to produce steady, predictable returns for the University. It is important to note that, while the aim of the risk and return objectives is to produce steady, predictable investment returns for the University, there is nonetheless variability in investment returns on an annual basis. The actual investment return is a key determinant of whether the University records a net income or a net loss for the year.

The investment risk and return targets are operationalized by the President of the University with input from the Investment Committee. The Investment Committee reports to the President of the University and provides expert advice to the University Administration, collaborating extensively with the University Administration and with the management at the University of Toronto Asset Management Corporation<sup>4</sup> (UTAM) management staff on investment objectives and investment activities. The President of the University and the UTAM Board have agreed that, consistent with the foregoing, the Investment Committee approves various elements of strategy execution proposed by UTAM management, and provides monitoring and oversight of investment performance. A detailed review of investment performance, which is managed and measured on a calendar year basis by UTAM, is available on the UTAM web site at [www.utam.utoronto.ca](http://www.utam.utoronto.ca).

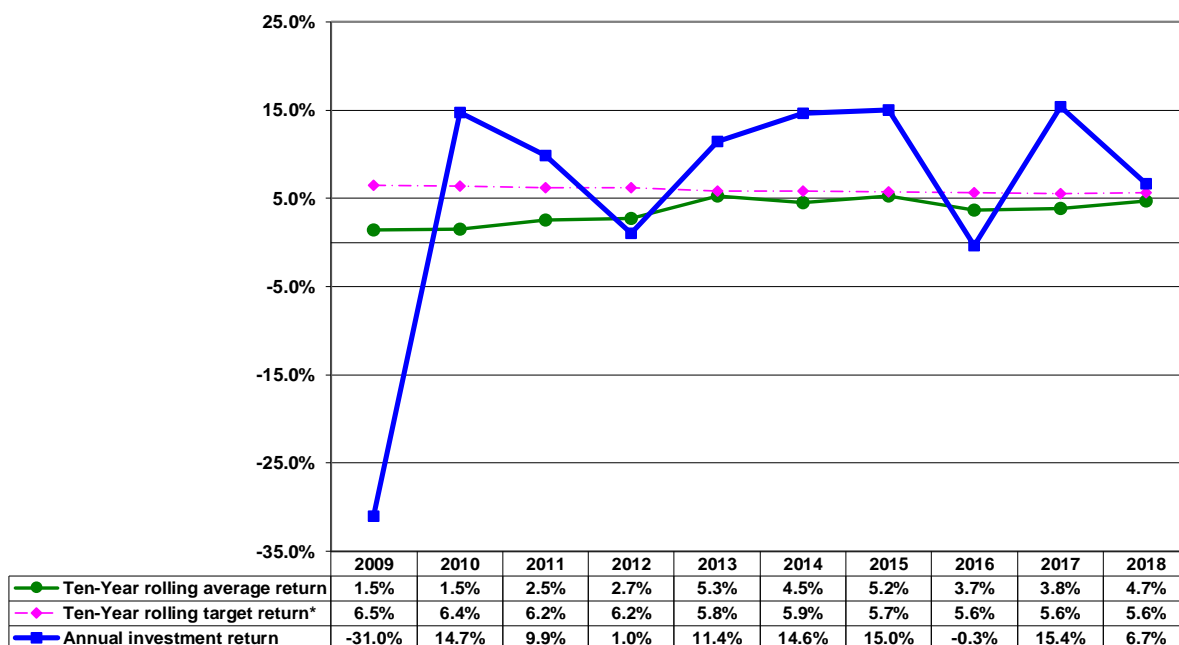
Governance oversight of investments is provided by the Business Board, by the Pension Committee (for pension plan assets), and by the UTAM Board which provides oversight of the operations of UTAM.

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<sup>4</sup> The University of Toronto Asset Management Corporation is a separate non-share capital corporation whose members are appointed by the University. Such of the funds invested in LTACP, EFIP and/or the Pension Master Trust that the University desires to have invested by UTAM, are invested on behalf of the University in accordance with a Business Board approved Delegation of Authority from the University to UTAM.

## LTCAP

Long-Term Capital Appreciation Pool (LTCAP)  
Ten-Year Rolling Average Returns with Annual Returns



\*The ten-year rolling returns are geometric average returns.

The fair value of LTCAP was \$2.9 billion at April 30, 2018, of which \$2.5 billion was for endowments, representing 85.4% of the balance invested in LTCAP.

In order to meet planned spending allocations to LTCAP unitholders, the investment target is a real investment return of at least 4% over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. Prior to June 2017, the investment return and risk targets for LTCAP were a 4% investment return plus inflation, net of investment fees, and a 10% return volatility risk target (representing one standard deviation), over a ten-year period. The actual return in 2018 was 6.7%, above the ten-year rolling average target return of 5.6%.

## EFIP

The investment policy for EFIP reflects very short-term investments managed by the University and funds managed by UTAM. The return objective and risk tolerance for each category of EFIP funds (excluding funds loaned internally) is as follows:

|  | Risk Tolerance | Return Objective                              |
|--|----------------|---|
| <b>Investments managed by the University</b> | Minimal risk   | 30-day Treasury bill return                   |
| <b>Funds managed by UTAM</b>                 | Minimal risk   | 1-year Treasury bill return + 50 basis points |

The returns for the 2018 fiscal year were as follows:

|  | <b>Fair Value at<br/>April 30, 2018</b> | <b>Total Return for Year<br/>Ended April 30, 2018</b> |
|--|---|---|
| <b>Investments managed by the<br/>University</b> | <b>\$70 million</b>                     | <b>1.61%</b>  |
| <b>Funds managed by UTAM</b>                     | <b>\$1.8 billion</b>                    | <b>1.44%</b>  |

The returns for the 2017 fiscal year were as follows:

|  | Fair Value at<br>April 30, 2017 | Total Return for Year<br>Ended April 30, 2017 |
|--|---------------------------------|---|
| Investments managed by the<br>University | \$102 million                   | 1.02%   |
| Funds managed by UTAM                    | \$1.7 billion                   | 1.72%   |

**Audited Consolidated Financial Statements**

**April 30, 2018**

## STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

The administration of the University of Toronto is responsible for the preparation of the consolidated financial statements, the notes thereto and all other financial information contained in this Financial Report.

The administration has prepared the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations developed by the Chartered Professional Accountants of Canada. The administration believes that the consolidated financial statements present fairly the University's financial position as at April 30, 2018 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, reasonable estimates and judgments were employed. Additionally, management has ensured that financial information presented elsewhere in this Financial Report has been prepared in a manner consistent with that in the consolidated financial statements.

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

Aon Hewitt has been retained by the University in order to provide an estimate of the University's liability for pension and other employee future benefits. Management has provided the valuation actuary with the information necessary for the completion of the University's actuarial 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 consolidated financial statements and this Financial Report principally through the Business Board and its Audit Committee. 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 consolidated financial statements for the year ended April 30, 2018 have been reported on by Ernst & Young LLP, the auditors appointed by Governing Council. The independent auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the consolidated financial statements.

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Sheila Brown  
Chief Financial Officer

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Meric S. Gertler  
President

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the **University of Toronto**, which comprise the consolidated balance sheet as at April 30, 2018 and the consolidated 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 consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the **University of Toronto** as at April 30, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Toronto, Canada  
June 27, 2018



**UNIVERSITY OF TORONTO**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT APRIL 30**  
(millions of dollars)

|   | <u>2018</u>  | <u>2017</u>  |
|---|--------------|--------------|
| <b>ASSETS</b>   |              |              |
| Current   |              |              |
| Cash and cash equivalents   | 70           | 102          |
| Short-term investments at fair value (note 3)                     | 1,414        | 1,321        |
| Accounts receivable (notes 3 and 18)                              | 78           | 90           |
| Inventories and prepaid expenses                                  | 22           | 22           |
|   | <u>1,584</u> | <u>1,535</u> |
| Long-term government assistance receivable                        | 83           | 62           |
| Investments at fair value (notes 3 and 18)                        | 3,337        | 3,135        |
| Capital assets, net (note 4)                                      | 4,890        | 4,473        |
|   | <u>9,894</u> | <u>9,205</u> |
| <b>LIABILITIES</b>  |              |              |
| Current   |              |              |
| Accounts payable and accrued liabilities (notes 3, 6, 8 and 18)   | 458          | 395          |
| Deferred contributions (note 9)                                   | 616          | 557          |
|   | <u>1,074</u> | <u>952</u>   |
| Accrued pension liability (note 5)                                | 319          | 296          |
| Employee future benefit obligation<br>other than pension (note 5) | 591          | 594          |
| Senior unsecured debentures (note 7)                              | 709          | 709          |
| Other long-term debt (note 8)                                     | 4            | 7            |
| Deferred capital contributions (note 10)                          | 1,254        | 1,190        |
|   | <u>3,951</u> | <u>3,748</u> |
| <b>NET ASSETS (Statement 3)</b>                                   |              |              |
| Deficit   | (68)         | (59)         |
| Internally restricted (note 11)                                   | 3,507        | 3,136        |
| Endowments (notes 12, 13 and 14)                                  | 2,504        | 2,380        |
|   | <u>5,943</u> | <u>5,457</u> |
|   | <u>9,894</u> | <u>9,205</u> |
| Contingencies and commitments (notes 3, 20, 21 and 22)            |              |              |

(See accompanying notes)

On behalf of Governing Council:

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Claire M.C. Kennedy  
Chair

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Meric S. Gertler  
President

## Statement 2

**UNIVERSITY OF TORONTO**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE FISCAL YEAR ENDED APRIL 30**  
(millions of dollars)

|   | <u>2018</u>  | <u>2017</u>  |
|---|--------------|--------------|
| <b>REVENUES</b>   |              |              |
| Student fees  | 1,583        | 1,431        |
| Government grants for general operations                      | 723          | 713          |
| Government and other grants for restricted purposes (note 17) | 413          | 418          |
| Sales, services and sundry income                             | 352          | 333          |
| Investment income (notes 3 and 12)                            | 180          | 220          |
| Donations (note 16)   | 128          | 101          |
|   | <u>3,379</u> | <u>3,216</u> |
| <b>EXPENSES</b>   |              |              |
| Salaries  | 1,398        | 1,326        |
| Employee benefits (note 5)                                    | 319          | 343          |
| Scholarships, fellowships and bursaries                       | 239          | 217          |
| Materials, supplies and services                              | 227          | 218          |
| Amortization of capital assets                                | 178          | 165          |
| Inter-institutional contributions                             | 121          | 103          |
| Repairs, maintenance and leases                               | 118          | 115          |
| Cost of sales and services                                    | 113          | 106          |
| Utilities   | 56           | 63           |
| Travel and conferences  | 54           | 51           |
| Interest on long-term debt                                    | 38           | 38           |
| Other   | 53           | 54           |
|   | <u>2,914</u> | <u>2,799</u> |
| <b>NET INCOME</b>   | <u>465</u>   | <u>417</u>   |

(See accompanying notes)

**UNIVERSITY OF TORONTO**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEAR ENDED APRIL 30**  
(millions of dollars)

|  | <u>Deficit</u> | <u>Internally<br/>restricted<br/>(note 11)</u> | <u>Endowments<br/>(note 12)</u> | <u>2018<br/>Total</u> | <u>2017<br/>Total</u> |
|--|----------------|--|---------------------------------|-----------------------|-----------------------|
| Net assets, beginning of year  | (59)           | 3,136  | 2,380                           | 5,457                 | 4,349                 |
| Net income   | 465            |  |                                 | 465                   | 417                   |
| Net change in internally<br>restricted (note 11)                               | (371)          | 371  |                                 |                       |                       |
| Remeasurements and other items (note 5)  | (79)           |  |                                 | (79)                  | 452                   |
| Investment gain on externally<br>restricted endowments (note 12)               |                |  | 61                              | 61                    | 203                   |
| Externally endowed contributions<br>- donations (note 16)                      |                |  | 39                              | 39                    | 36                    |
| Transfer to internally restricted<br>endowments (note 12)<br>- investment gain | (10)           |  | 10                              |                       |                       |
| Transfer to endowments (note 12)<br>- donations                                | (6)            |  | 6                               |                       |                       |
| - matching funds   | (8)            |  | 8                               |                       |                       |
| Net assets, end of year  | <u>(68)</u>    | <u>3,507</u>                                   | <u>2,504</u>                    | <u>5,943</u>          | <u>5,457</u>          |

(See accompanying notes)

**UNIVERSITY OF TORONTO**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED APRIL 30**  
(millions of dollars)

|  | <u>2018</u>  | <u>2017</u>  |
|--|--------------|--------------|
| <b>OPERATING ACTIVITIES</b>  |              |              |
| Net income   | 465          | 417          |
| Add (deduct) non-cash items:   |              |              |
| Amortization of capital assets   | 178          | 165          |
| Amortization of deferred capital contributions   | (74)         | (70)         |
| Net capital gains from investments   | (149)        | (194)        |
| Employee future benefits expense   | 171          | 199          |
| Employee future benefits contributions   | (230)        | (221)        |
| Net change in other non-cash items (note 15)   | 115          | 116          |
|  | <u>476</u>   | <u>412</u>   |
| <b>INVESTING ACTIVITIES</b>  |              |              |
| Net purchase of short-term investments   | (93)         | (282)        |
| Net sale (purchase) of investments   | 7            | (5)          |
| Purchase of capital assets   | (576)        | (284)        |
|  | <u>(662)</u> | <u>(571)</u> |
| <b>FINANCING ACTIVITIES</b>  |              |              |
| Contributions for capital asset purchases  | 117          | 113          |
| Other long-term debt repayments  | (2)          | (2)          |
| Endowment contributions  |              |              |
| - donations  | 39           | 36           |
|  | <u>154</u>   | <u>147</u>   |
| <b>Net decrease in cash and cash equivalents during the year</b>                             | <b>(32)</b>  | <b>(12)</b>  |
| <b>Cash and cash equivalents, beginning of year</b>  | <b>102</b>   | <b>114</b>   |
| <b>Cash and cash equivalents, end of year</b>  | <b>70</b>    | <b>102</b>   |
| <b>Supplemental cash flow information</b>  |              |              |
| Increase in capital asset acquisitions funded by<br>accounts payable and accrued liabilities | <u>19</u>    | <u>5</u>     |
| Increase in contributions receivable<br>related to capital asset purchases                   | <u>21</u>    | <u>1</u>     |

(See accompanying notes)

**UNIVERSITY OF TORONTO**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**APRIL 30, 2018**

## **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 postsecondary 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 consolidated 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 consolidated 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**

These consolidated financial statements have been prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada (“GAAP”) and includes the significant accounting policies summarized below:

### **a) Investments and investment income -**

Investments are carried at fair value except for the real estate directly held by the University for investment purposes. Fair value amounts represent estimates of the consideration that would be agreed on 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 consolidated financial statements is determined as follows:

1. Short-term notes and treasury bills are valued at fair value.
2. Publicly traded equities are valued based on the latest closing prices. Bonds are recorded at fair value, which is determined based on valuation techniques.
3. Investments in pooled funds are valued at their reported net asset value per unit.
4. Infrequently traded securities are valued based on quoted market yields or prices of comparable securities as appropriate.

5. Real estate directly held by the University for investment purposes is originally valued at cost and, when donated, at the value determined through an appraisal process at the date of donation. Subsequently, real estate is valued at cost less any provision for impairment.
6. The values of private investments, which comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets, infrastructure 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 that the carrying amount of these financial instruments is a reasonable estimate of fair value. Because private 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, consisting of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded as revenue in the consolidated statement of operations except for investment income earned on externally restricted endowments, for which only the amount made available for spending is recorded as revenue. In years where the investment income earned is in excess of the amount made available for spending, the excess is recorded as a direct increase in endowments. In years where the investment income earned is below the amount made available for spending, the shortfall is recorded as a direct decrease in 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, forward contracts and repurchase agreements. 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. The fair value of derivative financial instruments reflects the daily quoted market amount of those 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.

Derivative financial instruments are carried at fair value, with changes in fair value during the year recorded in the consolidated statement of operations.

**c) Investments in significantly influenced entities and interests in joint venture arrangements -**

Joint ventures and investments in for-profit entities subject to significant influence are accounted for using the equity method, whereby the investment is initially recorded at cost, net of any impairment and adjusted thereafter for the University's share of the entity's net surplus or deficit and any further impairments. Any distributions received are accounted for as a reduction in the investment.

**d) 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. Senior unsecured debentures and other long-term debt are reported net of related premiums, discounts and transaction issue costs.

**e) Other financial instruments -**

Other financial instruments, including accounts receivable, government assistance receivable and accounts payable and accrued liabilities, are initially recorded at their fair value. They are not subsequently revalued and continue to be carried at this value, which represents cost, net of any provisions for impairment.

**f) 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.

**g) Inventory valuation -**

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

**h) Employee benefit plans -**

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for most of its employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the accrued obligation net of the fair value of plan assets in the consolidated balance sheet. Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets. The accrued liability for funded employee future benefit plans is determined using a roll-forward technique to estimate the accrued liability using funding assumptions from the most recent actuarial valuation report prepared at least every three years. The accrued liability for unfunded plans is prepared on a basis consistent with funded plans. Employee future benefit plans' assets are measured at fair value as at the date of the consolidated balance sheet.

**i) 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%      |

The University allocates salary and benefit costs related to personnel who work directly on managing capital projects through a project management fee based on 3.25% of construction, furnishings and equipment, and landscaping costs for projects up to \$75 million and 2.50% of construction, furnishings and equipment, and landscaping costs for projects above \$75 million.

The value of contributed library, art and other special collections has been excluded from the consolidated balance sheet except for a nominal value of \$1. Donated collections are recorded as revenue at values based on appraisals by independent appraisers and are expensed in the year received. Purchased collections are expensed in the year they are acquired.

When collections are deaccessioned and then sold, proceeds from the sale are included in deferred contributions and recognized as revenue when the cost of insurance, cleaning, restoration and conservation of works in the collection are expensed.

**j) Revenue recognition -**

The University follows the deferral method of accounting for contributions, which include donations and government grants.

The University actively fundraises and unrestricted donations, contributed rare books and other collections are recorded as revenue when received or receivable if amounts can be reasonably estimated and collection

is reasonably assured. Due to the uncertainty involved in collecting pledged donations, they are not recognized until received.

Contributions externally restricted for purposes other than endowment are deferred when initially recorded in the accounts and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for the purposes designated by external parties. Externally restricted contributions received towards the acquisition of depreciable capital assets are deferred when initially recorded in the accounts and amortized to revenue on the same basis as the related capital assets are amortized.

Endowment contributions and contributions of non-amortizable capital assets are recorded as direct increases in net assets in the year in which they are received or receivable.

Student fees are recorded as revenue when courses and seminars are held. Sales, services and sundry income revenues are recorded at point of sale for goods or when the service has been provided.

**k) 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 that they relate to investments, in which case they are recognized in the same manner as investment income.

**l) Use of accounting estimates -**

The preparation of consolidated financial statements in conformity with GAAP 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, the valuation of pension and other retirement benefit obligations and the recording of contingencies. Actual results could differ from those estimates.

**m) 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 consolidated financial statements.

### **3. Investments**

Direct investments are classified based on the intent of the investment strategies of the underlying portfolio.

Short-term investments consist of cash, money market funds, short-term notes and treasury bills. International equities include developed equity markets in Europe, Australasia and the Far East (EAFE) and exclude the United States and Canada. Global equities include all developed equity markets as well as various emerging equity markets. Investments in the “other” category consist mainly of absolute return hedge funds.



The fair values of investments are as follows:

|   | (millions of dollars)     |                   |
|---|---------------------------|-------------------|
|   | <b>April 30,<br/>2018</b> | April 30,<br>2017 |
| Short-term investments                          | <b>1,414</b>              | 1,321             |
| Government and corporate bonds                  | <b>1,373</b>              | 1,241             |
| Canadian equities                               | <b>291</b>                | 265               |
| United States equities                          | <b>585</b>                | 546               |
| International equities                          | <b>443</b>                | 415               |
| Emerging markets equities                       | <b>287</b>                | 277               |
| Global equities                                 | <b>146</b>                | 137               |
| Other   | <b>212</b>                | 254               |
|   | <b>4,751</b>              | 4,456             |
| Less amounts reported as short-term investments | <b>(1,414)</b>            | (1,321)           |
|   | <b>3,337</b>              | 3,135             |

Included in the above investment classification are hedge funds, private investments and real assets, which have been classified as follows:

|                     | April 30, 2018<br>(millions of dollars) |                      |                              |                           |                                 |                                    |              |
|---------------------|---|----------------------|------------------------------|---------------------------|---------------------------------|------------------------------------|--------------|
|                     | Government<br>and<br>corporate<br>bonds | Canadian<br>equities | United<br>States<br>equities | International<br>equities | Emerging<br>markets<br>equities | Global<br>equities<br>and<br>other | Total        |
| Hedge funds         | 44                                      |                      | 217                          | 12                        | 64                              | 243                                | 580          |
| Private investments | 163                                     | 37                   | 115                          | 12                        | 51                              |                                    | 378          |
| Real assets         | 25                                      | 24                   | 13                           | 19                        |                                 | 13                                 | 94           |
|                     | <b>232</b>                              | <b>61</b>            | <b>345</b>                   | <b>43</b>                 | <b>115</b>                      | <b>256</b>                         | <b>1,052</b> |

|                     | April 30, 2017<br>(millions of dollars) |                      |                              |                           |                                 |                                    |            |
|---------------------|---|----------------------|------------------------------|---------------------------|---------------------------------|------------------------------------|------------|
|                     | Government<br>and<br>corporate<br>bonds | Canadian<br>equities | United<br>States<br>equities | International<br>equities | Emerging<br>markets<br>equities | Global<br>equities<br>and<br>other | Total      |
| Hedge funds         | 44                                      |                      | 27                           |                           | 3                               | 254                                | 328        |
| Private investments | 202                                     | 42                   | 92                           | 17                        | 32                              |                                    | 385        |
| Real assets         | 24                                      | 32                   | 19                           | 23                        |                                 | 13                                 | 111        |
|                     | <b>270</b>                              | <b>74</b>            | <b>138</b>                   | <b>40</b>                 | <b>35</b>                       | <b>267</b>                         | <b>824</b> |

The University's investments are managed using two pools: the expendable funds investment pool ("EFIP") and the long-term capital appreciation pool ("LTCAP"). The LTCAP mainly includes endowment funds and the voluntary sinking fund established to repay the University's debenture principal (note 7) at maturity.

Investments for each pool consist of the following:

|                                | (millions of dollars) |              |                |       |
|--------------------------------|-----------------------|--------------|----------------|-------|
|                                | <b>April 30, 2018</b> |              | April 30, 2017 |       |
|                                | <b>EFIP</b>           | <b>LTCAP</b> | EFIP           | LTCAP |
| Short-term investments         | <b>1,390</b>          | <b>24</b>    | 1,284          | 37    |
| Government and corporate bonds | <b>439</b>            | <b>934</b>   | 437            | 804   |
| Canadian equities              |                       | <b>291</b>   |                | 265   |
| United States equities         | <b>1</b>              | <b>584</b>   | 1              | 545   |
| International equities         |                       | <b>443</b>   |                | 415   |
| Emerging markets equities      |                       | <b>287</b>   |                | 277   |
| Global equities                |                       | <b>146</b>   |                | 137   |
| Other                          |                       | <b>212</b>   |                | 254   |
|                                | <b>1,830</b>          | <b>2,921</b> | 1,722          | 2,734 |

In fiscal 2018, the University's investment income of \$180 million (2017 - \$220 million) recorded in the consolidated statement of operations consists of income related to investments held for endowments of \$120 million (2017 - \$138 million), gross of \$25 million (2017 - \$22 million) in fees and other expenses, and income of \$60 million (2017 - \$82 million) on investments other than those held for endowments, gross of \$6 million (2017 - \$5 million) in fees and other expenses.

During the year, the University recognized an investment loss of \$20 million (2017 - gain of \$16 million) as a result of the 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 that would generate any material changes in investment income.

### Uncalled commitments

As at April 30, 2018, approximately 9.9% (2017 - 11.1%) of the University's investments are 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 asset 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, 2018, the University had uncalled commitments of approximately \$465 million (2017 - \$405 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund, but is generally between three to five years from the date the private fund closes. In practice, for a variety of reasons, the total amount committed to a private fund is very rarely all called.

## Derivative financial instruments

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

(millions of dollars)

|   | April 30, 2018 |                   | April 30, 2017 |                   |
|---|----------------|-------------------|----------------|-------------------|
|   | Notional value | Fair value        | Notional value | Fair value        |
| Derivative-related receivables              |                |                   |                |                   |
| Foreign currency forward contracts          |                |                   |                |                   |
| - United States dollars                     | 37             |                   | 147            | 4                 |
| - Other                                     | 220            | 2                 | 2              | 4                 |
|   |                | <u>2</u>          |                | <u>4</u>          |
| Equity and bond futures contracts           |                |                   |                |                   |
| - United States dollars                     |                |                   | 104            | 1                 |
| - Other                                     | 51             |                   | 1              | 1                 |
|   |                | <u>          </u> |                | <u>1</u>          |
| Total return equity and bond swap contracts | 272            | 3                 | 446            | 3                 |
| <b>Total derivative-related receivables</b> |                | <u>5</u>          |                | <u>8</u>          |
| Derivative-related payables                 |                |                   |                |                   |
| Foreign currency forward contracts          |                |                   |                |                   |
| - United States dollars                     | 569            | (9)               | 883            | (17)              |
| - Other                                     | 16             |                   | 179            | (7)               |
|   |                | <u>(9)</u>        |                | <u>(24)</u>       |
| Equity and bond futures contracts           |                |                   |                |                   |
| - United States dollars                     | 48             | (2)               | 3              |                   |
| - Other                                     |                |                   | 42             |                   |
|   |                | <u>(2)</u>        |                | <u>          </u> |
| Total return equity and bond swap contracts | 136            | (3)               |                |                   |
| Total interest rate swap contracts (note 8) | 14             | (2)               | 16             | (3)               |
| <b>Total derivative-related payables</b>    |                | <u>(16)</u>       |                | <u>(27)</u>       |
| <b>Derivative-related net payable</b>       |                | <u>(11)</u>       |                | <u>(19)</u>       |

The maturity dates of the currency forward and futures contracts as at April 30, 2018 range from May 2018 to September 2018. The maturity dates of the total return equity swap contracts as at April 30, 2018 range from May 2018 to October 2018. Collateral has been provided against these contracts as of April 30, 2018 in the form of short-term investments with a fair value of \$2 million (2017 - \$6 million).

The interest rate swap contracts result in the University fixing a weighted average long-term interest rate of 6.9% (2017 - 6.8%) on certain debt obligations instead of paying a weighted average short-term floating interest rate of 1.5% (2017 - 1.2%). These long-term contracts were entered into during those 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 the notional amount. The fair value of the interest rate swap contracts of \$2 million (2017 - \$3 million) is included in other long-term debt (note 8).

The University may enter into repurchase (or reverse repurchase) agreements that involve the sale (or purchase) of bonds to (from) a financial institution and the simultaneous agreement to repurchase (resell) that same security for a fixed price, reflecting a rate of interest, on a specific date. The affected securities sold (or purchased) under these agreements are not derecognized (or recognized) as investments as the University (or the seller) retains substantially all the risks and rewards of ownership. The difference between the sale and repurchase price (or purchase and resell price) is treated as interest expense (income) and is recognized over the life of the agreement using the effective interest rate method. These transactions involve risks that the value of the securities being relinquished (acquired) may be different than the price to be paid (received) on the expiry date or that the other party to the agreement will be unable or unwilling to complete the transaction as scheduled, which may result in losses to the University. As at April 30, 2018, the University had entered into a number of these agreements with expiry dates in May 2018. The amount that the University has committed to repurchase securities under repurchase agreements is recognized as a net investment-related payable of \$340 million (2017 - \$257 million).

#### 4. Capital assets

(millions of dollars)

|                               | April 30, 2018 |                          | April 30, 2017 |                          |
|-------------------------------|----------------|--------------------------|----------------|--------------------------|
|                               | Total cost     | Accumulated amortization | Total cost     | Accumulated amortization |
| Land                          | 2,277          |                          | 2,191          |                          |
| Buildings (note 8)            | 3,442          | 1,207                    | 3,054          | 1,123                    |
| Equipment and furnishings     | 1,697          | 1,380                    | 1,609          | 1,315                    |
| Library books                 | 697            | 636                      | 664            | 607                      |
|                               | <u>8,113</u>   | <u>3,223</u>             | <u>7,518</u>   | <u>3,045</u>             |
| Less accumulated amortization | <u>(3,223)</u> |                          | <u>(3,045)</u> |                          |
| Net book value                | <u>4,890</u>   |                          | <u>4,473</u>   |                          |

The University develops replacement property values of buildings and contents for insurance purposes using various sources and valuation methods that conform to insurance industry practice and standards. The insured replacement value of buildings is approximately \$5.2 billion and contents is approximately \$2.6 billion, which includes library books of approximately \$0.9 billion.

The University holds a wide range of library, art and other special collections that are protected and preserved for public exhibition, education, research and the furtherance of public service. Rare books and special collections include manuscripts, archives, and cartographic, graphic, film, audio and video materials. The University rarely disposes of items in these collections.

As at April 30, 2018, the University had \$179 million (2017 - \$172 million) in construction in progress that was included in buildings, which will not be amortized until the buildings are put into use.

## 5. 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 plan (including the supplemental retirement arrangement) is based on years of service and the highest average salary received in any 36 months. Pension benefits will increase annually by an amount equal to the greatest of 75% of the increase in the Consumer Price Index (“CPI”) for the previous year up to 8%, plus 60% of the increase in CPI above 8%, or the increase in the CPI for the previous year minus four percentage points. Other retirement benefit plans are contributory health care plans with retiree contributions adjusted annually, such as extended health, semi-private and dental care. Another plan also provides for long-term disability income benefits after employment, but before retirement.

The employee benefits expense for the year includes pension expense of \$119 million (2017 - \$149 million), other retirement benefits expense of \$52 million (2017 - \$50 million) and other employee benefits of \$148 million (2017 - \$144 million). Remeasurements, which are recorded in the consolidated statement of changes in net assets, rather than in the consolidated statement of operations, are as follows:

(millions of dollars)

|  | <u>April 30, 2018</u>       |                            | <u>April 30, 2017</u> |                     |
|--|-----------------------------|----------------------------|-----------------------|---------------------|
|  | <b>Pension benefit plan</b> | <b>Other benefit plans</b> | Pension benefit plan  | Other benefit plans |
| Difference between actual and expected return on plan assets | <b>36</b>                   |                            | 410                   |                     |
| Actuarial gains (losses)                                     | <b>(146)</b>                | <b>31</b>                  | 43                    | (1)                 |
|  | <b>(110)</b>                | <b>31</b>                  | 453                   | (1)                 |

The significant actuarial assumptions adopted in measuring the University’s accrued benefit obligation and benefits cost are set out below.

|  | <u>April 30, 2018</u>       |                            | <u>April 30, 2017</u> |                     |
|--|-----------------------------|----------------------------|-----------------------|---------------------|
|  | <b>Pension benefit plan</b> | <b>Other benefit plans</b> | Pension benefit plan  | Other benefit plans |
| <b>Accrued benefit obligation:</b>               |                             |                            |                       |                     |
| Discount rate                                    | <b>5.55%</b>                | <b>5.55%</b>               | 5.75%                 | 5.75%               |
| Rate of compensation increase                    | <b>4.00%</b>                | <b>4.00%</b>               | 4.00%                 | 4.00%               |
| Rate of inflation                                | <b>2.00%</b>                | <b>2.00%</b>               | 2.00%                 | 2.00%               |
| <b>Benefits cost:</b>                            |                             |                            |                       |                     |
| Discount rate                                    | <b>5.75%</b>                | <b>5.75%</b>               | 5.75%                 | 5.75%               |
| Expected long-term rate of return on plan assets | <b>5.75%</b>                |                            | 5.75%                 |                     |
| Rate of compensation increase                    | <b>4.00%</b>                | <b>4.00%</b>               | 4.00%                 | 4.00%               |
| Rate of inflation                                | <b>2.00%</b>                | <b>2.00%</b>               | 2.00%                 | 2.00%               |

To measure the accrued benefit obligation other than pension as at April 30, 2018, a 7.3% annual rate of increase in the per capita cost of covered health care benefits was assumed with the rate of increase decreasing gradually to 4.5% in 2030 and remaining at that level thereafter.

The latest actuarial valuations for the pension plan and for other retirement benefit plans was performed as at July 1, 2017. The next required actuarial valuations for the registered plan will be as at July 1, 2020. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year.

Information about the University's benefit plans, which are mainly defined benefit plans, is as follows:

(millions of dollars)

|                            | <b>April 30, 2018</b>       |                            | April 30, 2017       |                     |
|----------------------------|-----------------------------|----------------------------|----------------------|---------------------|
|                            | <b>Pension benefit plan</b> | <b>Other benefit plans</b> | Pension benefit plan | Other benefit plans |
| Accrued benefit obligation | <b>5,387</b>                | <b>591</b>                 | 5,021                | 594                 |
| Fair value of plan assets  | <b>5,068</b>                |                            | 4,725                |                     |
| Plan deficit               | <b>(319)</b>                | <b>(591)</b>               | (296)                | (594)               |

In addition to the plan assets, as at April 30, 2018, the University has set aside investments of \$16 million (2017 - \$16 million) for its pension obligations (note 11) and \$103 million (2017 - \$97 million) for its other benefit plans.

## **6. Government remittances payable**

As at April 30, 2018, accounts payable and accrued liabilities include government remittances payable of \$38 million (2017 - \$36 million).

## 7. Senior unsecured debentures

Senior unsecured debentures comprise the following:

|  | (millions of dollars)     |                   |
|--|---------------------------|-------------------|
|  | <b>April 30,<br/>2018</b> | April 30,<br>2017 |
| Series A senior unsecured debenture bearing interest at 6.78% payable semi-annually on January 18 and July 18, with the principal amount maturing on July 18, 2031       | <b>160</b>                | 160               |
| Series B senior unsecured debenture bearing interest at 5.841% payable semi-annually on June 15 and December 15, with the principal amount maturing on December 15, 2043 | <b>200</b>                | 200               |
| Series C senior unsecured debenture bearing interest at 4.937% payable semi-annually on May 16 and November 16, with the principal amount maturing on November 16, 2045  | <b>75</b>                 | 75                |
| Series D senior unsecured debenture bearing interest at 4.493% payable semi-annually on June 13 and December 13, with the principal amount maturing on December 13, 2046 | <b>75</b>                 | 75                |
| Series E senior unsecured debenture bearing interest at 4.251% payable semi-annually on June 7 and December 7, with the principal amount maturing on December 7, 2051    | <b>200</b>                | 200               |
| Net unamortized transaction costs  | <b>(1)</b>                | (1)               |
|  | <b><u>709</u></b>         | <u>709</u>        |

Net unamortized transaction costs comprise premiums and transaction issue costs.

A voluntary sinking fund (note 3) was established for the purpose of accumulating funds to repay the University's debenture principal at maturity. The value of the fund included in investments as at April 30, 2018 amounted to \$344 million (2017 - \$281 million).

## 8. Other long-term debt

Other long-term debt consists of mortgages of \$2 million (2017 - \$3 million) maturing in 2020 and 2021 against which the related properties are pledged as security (note 4), term loans of \$2 million (2017 - \$3 million) maturing from 2019 and 2021 and the fair value of interest rate swap contracts of \$2 million (2017 - \$3 million) (note 3). The current portion of other long-term debt of \$2 million (2017 - \$2 million) is included in accounts payable and accrued liabilities. The weighted average effective interest rate of the mortgages and term loans, after giving effect to the interest rate swap contracts, was 5.7% (2017 - 5.7%) and 6.9% (2017 - 6.7%), respectively. Anticipated requirements to meet the principal portion of the other long-term debt repayments, net of interest rate swap contracts are as follows: 2019 - \$2 million, 2020 - \$1 million, 2021 - \$1 million.

## 9. Deferred contributions

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

|   | (millions of dollars)     |                   |
|---|---------------------------|-------------------|
|   | <b>April 30,<br/>2018</b> | April 30,<br>2017 |
| Balance, beginning of year                  | <u>557</u>                | <u>504</u>        |
| Add grants, donations and investment income | 552                       | 520               |
| Less recognized as revenue during the year  | <u>(493)</u>              | <u>(467)</u>      |
| Balance, end of year                        | <u><u>616</u></u>         | <u><u>557</u></u> |

The deferred contributions must be spent for the following purposes as follows:

|                               | (millions of dollars)     |                   |
|-------------------------------|---------------------------|-------------------|
|                               | <b>April 30,<br/>2018</b> | April 30,<br>2017 |
| Research                      | <u>292</u>                | <u>271</u>        |
| Student aid (notes 13 and 14) | 88                        | 82                |
| Other restricted purposes     | <u>236</u>                | <u>204</u>        |
|                               | <u><u>616</u></u>         | <u><u>557</u></u> |

## 10. 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 recognized as revenue in the consolidated 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)     |                     |
|--|---------------------------|---------------------|
|  | <b>April 30,<br/>2018</b> | April 30,<br>2017   |
| Balance, beginning of year                               | <u>1,190</u>              | <u>1,146</u>        |
| Less amortization of deferred capital contributions      | (74)                      | (70)                |
| Add contributions recognized for capital asset purchases | <u>138</u>                | <u>114</u>          |
| Balance, end of year                                     | <u><u>1,254</u></u>       | <u><u>1,190</u></u> |

This balance represents:

|  | (millions of dollars)     |                     |
|--|---------------------------|---------------------|
|  | <b>April 30,<br/>2018</b> | April 30,<br>2017   |
| Amount used to purchase capital assets | <u>1,227</u>              | <u>1,141</u>        |
| Amount to be spent on capital assets   | 27                        | 49                  |
|  | <u><u>1,254</u></u>       | <u><u>1,190</u></u> |



## 11. Internally restricted net assets

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

|  | (millions of dollars)     |                           |
|--|---------------------------|---------------------------|
|  | <u>April 30,<br/>2018</u> | <u>April 30,<br/>2017</u> |
| Investment in land and other capital assets  | 3,253                     | 2,867                     |
| Employee benefits                            |                           |                           |
| Pension                                      | (431)                     | (413)                     |
| Other plans                                  | (488)                     | (497)                     |
| Pension plan reserve (note 5)                | 16                        | 16                        |
| Capital projects and infrastructure reserves | 412                       | 511                       |
| Operating contingencies                      | 455                       | 389                       |
| Research support                             | 155                       | 146                       |
| Departmental trust funds                     | 74                        | 70                        |
| Student assistance                           | 44                        | 32                        |
| Other funds                                  | 17                        | 15                        |
|  | <u>3,507</u>              | <u>3,136</u>              |

### a) Investment in land and other capital assets -

Investment in land and other capital assets represents the amount of net assets that are not available for other purposes because they have been used to fund the purchase of 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) Employee benefits -

Internally restricted net assets have been reduced by the portion of employee future benefits obligations to be funded by future operating budgets offset by a pension plan reserve.

### c) Capital projects and infrastructure reserves -

These represent unspent funds at the end of the fiscal year, in respect of capital projects and alterations and renovations in progress that are part of the University's major infrastructure building and renewal program less amounts spent without funding on hand.

### d) Operating contingencies -

These funds represent departmental operating reserves available for spending by divisions to protect against possible adverse circumstances such as changes in student enrolment due to geopolitical events, investment return fluctuations and salary cost escalations.

### e) Research support -

These funds represent departmental funds reserved for Canada Research Chairs and related research allowances, start-up research funds and funds provided to faculty and librarians under an expense reimbursement program.

### f) Departmental trust funds -

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

**g) Student assistance -**

These funds represent departmental operating funds available to provide scholarships, bursaries and other student assistance.

**h) Other funds -**

These funds are held primarily 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 case, Governing Council may have the right to subsequently decide to remove the designation. 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.

The change in net assets restricted for endowments consists of the following:

|   | (millions of dollars) |                       |              |                       |                       |              |
|---|-----------------------|-----------------------|--------------|-----------------------|-----------------------|--------------|
|   | April 30, 2018        |                       |              | April 30, 2017        |                       |              |
|   | Externally restricted | Internally restricted | Total        | Externally restricted | Internally restricted | Total        |
| Balance, beginning of year  | 2,021                 | 359                   | 2,380        | 1,779                 | 319                   | 2,098        |
| Donations (note 16)   | 39                    |                       | 39           | 36                    |                       | 36           |
| Investment income, net of fees and expenses of \$25 (2017 - \$22) | 134                   | 22                    | 156          | 272                   | 47                    | 319          |
| Investment income made available for spending                     | (73)                  | (12)                  | (85)         | (69)                  | (12)                  | (81)         |
| Transfer of donations and matching funds from deficit             | 8                     | 6                     | 14           | 3                     | 5                     | 8            |
| Balance, end of year  | <u>2,129</u>          | <u>375</u>            | <u>2,504</u> | <u>2,021</u>          | <u>359</u>            | <u>2,380</u> |

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 for spending. The investment policy has set the real rate of return objective of at least 4% over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. 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 endowment funds, where the fair value of the endowment is below the donated capital and does not have sufficient accumulated reinvestment income, endowment capital is used in the current year for programs as this is deemed prudent by the University. This amount is expected to be recovered by future net investment income. As at April 30, 2018, endowments with original gift value of \$28.0 million (2017 - \$7.31 million) had a fair value of \$27.9 million (2017 - \$7.27 million), and a deficiency of \$0.1 million (2017 - \$0.04 million). In fiscal 2018, \$8.02 (2017 - \$7.86) per unit of LTCAP was made available for spending, representing 3.56% (2017 - 3.88%) of the opening fair value per unit of the endowment pool.

### 13. 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 endowed donations.

|   | (thousands of dollars)   |               |                          |            |
|---|--------------------------|---------------|--------------------------|------------|
|   | March 31, 2018*          |               | March 31, 2017*          |            |
|   | University<br>of Toronto | Affiliates    | University<br>of Toronto | Affiliates |
| Endowments at book value, beginning of year | 79,988                   | 14,931        | 73,036                   | 15,192     |
| Donations received                          | 134                      | 8             | 660                      | 16         |
| University matching                         |                          | 5             | 163                      |            |
| Transfer from (to) expendable funds         | 1,713                    | 676           | 6,129                    | (277)      |
| Endowments at book value, end of year       | <u>81,835</u>            | <u>15,620</u> | 79,988                   | 14,931     |
| Cumulative unrealized gains                 | <u>4,904</u>             |               | <u>2,070</u>             |            |
| Endowments at fair value, end of year       | <u>86,739</u>            |               | <u>82,058</u>            |            |

|   | (thousands of dollars)   |              |                          |            |
|---|--------------------------|--------------|--------------------------|------------|
|   | March 31, 2018*          |              | March 31, 2017*          |            |
|   | University<br>of Toronto | Affiliates   | University<br>of Toronto | Affiliates |
| Expendable funds available for awards,<br>beginning of year | 4,378                    | 1,697        | 4,351                    | 1,483      |
| Realized investment income                                  | 4,686                    | 1,429        | 9,013                    | 522        |
| University matching and contribution                        | 90                       |              | 96                       |            |
| Transfer from (to) endowment balance                        | (1,713)                  | (676)        | (6,129)                  | 277        |
| Bursaries awarded   | (2,892)                  | (614)        | (2,953)                  | (585)      |
| Expendable funds available for awards,<br>end of year       | <u>4,549</u>             | <u>1,836</u> | 4,378                    | 1,697      |
| Number of award recipients                                  | <u>937</u>               | <u>261</u>   | 1,053                    | 291        |

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

Endowments at book value in this note represent contributions received plus a portion of realized investment income. The expendable funds available for awards are included in deferred contributions (note 9) on the

consolidated balance sheet. The endowments and expendable fund balances of the affiliates (Victoria University, The University of Trinity College, University of St. Michael's College and the Toronto School of Theology) are not included in these consolidated financial statements.

#### 14. 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.

Endowments at book value in this note represent contributions received plus a portion of realized investment income. The expendable funds available for awards are included in deferred contributions (note 9) on the consolidated balance sheet. The endowments and expendable fund balances of the affiliates (Victoria University, The University of Trinity College, University of St. Michael's College and the Toronto School of Theology) are not included in these consolidated financial statements.

##### Phase 1:

(thousands of dollars)

|  | <b>April 30,<br/>2018</b> | April 30,<br>2017 |
|--|---------------------------|-------------------|
| Endowments at book value, beginning of year              | <b>338,893</b>            | 315,866           |
| Donations  | <b>152</b>                | 657               |
| Transfer from expendable funds                           | <b>9,673</b>              | 22,370            |
| Endowments at book value, end of year                    | <b>348,718</b>            | 338,893           |
| Cumulative unrealized gains                              | <b>35,443</b>             | 33,742            |
| Endowments at fair value, end of year                    | <b>384,161</b>            | 372,635           |
| Expendable funds available for awards, beginning of year | <b>29,982</b>             | 30,201            |
| Realized investment income                               | <b>22,998</b>             | 35,256            |
| Transfer to endowment balance                            | <b>(9,673)</b>            | (22,370)          |
| Bursaries awarded  | <b>(12,884)</b>           | (13,105)          |
| Expendable funds available for awards, end of year       | <b>30,423</b>             | 29,982            |
| Number of award recipients                               | <b>3,268</b>              | 3,407             |

**Phase 2:**

(thousands of dollars)

|  | April 30, 2018        |            | April 30, 2017        |            |
|--|-----------------------|------------|-----------------------|------------|
|  | University of Toronto | Affiliates | University of Toronto | Affiliates |
| Endowments at book value, beginning of year              | 45,053                | 5,156      | 42,377                | 5,065      |
| Donations  | 1                     |            |                       | 5          |
| Transfer from expendable funds                           | 1,157                 | 21         | 2,676                 | 86         |
| Endowments at book value, end of year                    | 46,211                | 5,177      | 45,053                | 5,156      |
| Cumulative unrealized losses                             | (180)                 |            | (384)                 |            |
| Endowments at fair value, end of year                    | 46,031                |            | 44,669                |            |
| Expendable funds available for awards, beginning of year | 3,438                 | 603        | 3,421                 | 340        |
| Realized investment income                               | 2,753                 | 258        | 4,223                 | 583        |
| Transfer to endowment balance                            | (1,157)               | (21)       | (2,676)               | (86)       |
| Bursaries awarded  | (1,376)               | (248)      | (1,530)               | (234)      |
| Expendable funds available for awards, end of year       | 3,658                 | 592        | 3,438                 | 603        |
| Number of award recipients                               | 536                   | 117        | 529                   | 113        |

**15. Net change in other non-cash items**

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

|  | (millions of dollars) |                |
|--|-----------------------|----------------|
|  | April 30, 2018        | April 30, 2017 |
| Accounts receivable                      | 12                    | 26             |
| Inventories and prepaid expenses         |                       | (2)            |
| Accounts payable and accrued liabilities | 44                    | 39             |
| Deferred contributions                   | 59                    | 53             |
|  | 115                   | 116            |

**16. Donations**

During the year, the University received donations of \$167 million (2017 - \$137 million). Of that amount, \$39 million (2017 - \$36 million) is recorded as a direct addition to endowments (note 12) and is not recorded as donations revenue.

**17. Government and other grants for restricted purposes**

During the year, the University received \$429 million (2017 - \$419 million) of government and other grants for research and \$107 million (2017 - \$96 million) for capital infrastructure and other purposes, of which

\$413 million (2017 - \$418 million) was recorded as revenue and \$123 million (2017 - \$97 million) was deferred (see notes 9 and 10).

## **18. Financial instruments**

The University is exposed to various financial risks through transactions in financial instruments.

### **Foreign currency risk**

The University is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar. To manage foreign currency risk, the hedging policy as at April 30, 2018 is to hedge 50% (2017 - 50%) of the currency exposure within the United States equity and EAFE equity benchmark asset classes, and to hedge 0% (2017 - 0%) of the currency exposure in all other benchmark asset classes.

### **Credit risk**

The University is exposed to credit risk in connection with its accounts receivable, its short-term and fixed income investments and derivative contracts because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. Accounts receivable are recorded net of an allowance for doubtful accounts of \$7 million (2017 - \$6 million). As at April 30, 2018, the University held \$491 million (2017 - \$470 million) of fixed income securities that have AAA or AA credit ratings.

### **Interest rate risk**

The University is exposed to interest rate risk with respect to its investments in fixed income securities because the fair value will fluctuate due to changes in market interest rates.

### **Liquidity risk**

The University is exposed to liquidity risk to the extent that it will encounter difficulty in meeting obligations associated with its financial liabilities.

### **Other price risk**

The University is exposed to other price risk through changes in market prices (other than changes arising from interest rate or foreign currency risks) in connection with its investments in equity securities and equity pooled funds.

## **19. Joint ventures**

### **a) Toronto Pan Am Sports Centre Inc. -**

The Toronto Pan Am Sports Centre Inc. (TPASC) is a jointly owned and controlled corporation (a joint corporation pursuant to the *Business Corporations Act* (Ontario) and the *City of Toronto Act* (2006)) by the University and the City of Toronto for the purpose of operating the Toronto Pan Am Sports Centre facilities that include a premier aquatics centre as well as a state-of-the-art training and competition venue. This joint venture is accounted for in these consolidated financial statements using the equity method; therefore, the University recognizes 50% of the joint venture's excess (deficiency) of revenues over expenses in its consolidated statement of operations and as an investment on the consolidated balance sheet.

The following financial information for TPASC was prepared in accordance with Canadian Public Sector Accounting Standards and represents the University's 50% share. Any differences in the reporting framework

are not material to the University's consolidated financial statements. Separately audited financial statements are prepared for TPASC (year ended December 31, 2017).

|  | (millions of dollars) |                      |
|--|-----------------------|----------------------|
|  | December 31,<br>2017  | December 31,<br>2016 |
| Total financial and non-financial assets | <u>7</u>              | <u>7</u>             |
| Total financial liabilities              | <u>1</u>              | <u>1</u>             |
| Accumulated surplus                      | <u>6</u>              | <u>6</u>             |
| Revenues                                 | <u>6</u>              | 5                    |
| Expenses                                 | <u>6</u>              | <u>6</u>             |
| Operating deficit                        | <u></u>               | <u>(1)</u>           |
| Cash flows used in operating activities  |                       | (1)                  |
| Cash flows used in investing activities  | (2)                   | (3)                  |
| Cash flows from financing activities     | <u>2</u>              | <u>2</u>             |
| Net increase (decrease) in cash          | <u></u>               | <u>(2)</u>           |

As at December 31, 2017, the University's share of the accumulated surplus of \$6 million (2016 - \$6 million) represents unspent funds designated in support of major maintenance and capital requirements. No amounts have been recorded in these consolidated financial statements as the University's share of the accumulated surplus is not contemplated to be and is not readily realizable by the University.

During the year, the University paid \$2 million (2017 - \$2 million) in user fees to TPASC representing its share of the cost for using the facilities. During the year, the City of Toronto and the University each acquired an additional 2,499 (2017 - 4,999) common shares of TPASC in exchange for a total of \$2 million (2017 - \$4 million) representing funding from the Legacy Funding agreement dated December 18, 2014, to be contributed to TPASC to fund capital reserves and operating costs. These transactions occurred in the normal course of business and have been recorded at their exchange amounts, which is the amount agreed upon by both parties.

The construction of the Toronto Pan Am Sports Centre was governed by virtue of an agreement prior to the establishment of TPASC. The University has recorded \$90 million (2017 - \$90 million) in capital assets (note 4), representing the University's 50% share of the construction cost of the facility.

**b) TRIUMF -**

The University is a member, with 12 other universities, of a joint venture called 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 1/13 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 consolidated financial statements (see note 22b).

The following financial information for TRIUMF was prepared in accordance with Canadian Public Sector Accounting Standards, including accounting standards that apply to government not-for-profit organizations,

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)                     |                   |
|----------------------------------|---|-------------------|
|                                  | <b>March 31,<br/>2018<br/>(unaudited)</b> | March 31,<br>2017 |
| Total assets                     | <u>50</u>                                 | <u>48</u>         |
| Total liabilities                | <u>9</u>                                  | <u>20</u>         |
| Total fund balances              | <u>41</u>                                 | <u>28</u>         |
| Revenues                         | <u>95</u>                                 | <u>75</u>         |
| Expenses                         | <u>82</u>                                 | <u>71</u>         |
| Excess of revenues over expenses | <u>13</u>                                 | <u>4</u>          |

## 20. MaRS Phase 2 Investment Trust

During fiscal 2016, the University acquired a 20% interest in MaRS Phase 2 Investment Trust (the “Trust”), a unit trust governed by the laws of the Province of Ontario, established by deed of trust dated July 15, 2011, with MaRS Discovery District, a charitable organization, as settlor for \$31 million. The Trust was established to develop and manage a 20-storey state-of-the-art building that is a world-class convergence centre dedicated to improving commercial outcomes from Canada’s science, technology and social innovations. This investment is accounted for using the equity method. The University has assessed the investment value in the Trust upon acquisition and as a result, the University has written down the investment to nil at April 30, 2016. There has been no changes to the investment value as at April 30, 2017 and April 30, 2018.

During the year, the University made payments of \$11 million (2017 - \$13 million) to the Trust for leasing certain premises and its related operating costs.

The future base rent lease payments for space rentals are as follows:

|            | (millions<br>of dollars) |
|------------|--------------------------|
| 2019       | 5                        |
| 2020       | 5                        |
| 2021       | 5                        |
| 2022       | 5                        |
| 2023       | 5                        |
| Thereafter | <u>101</u>               |
|            | <u>126</u>               |

These transactions occurred in the normal course of business and have been recorded at their exchange amounts, which is the amount agreed upon by both parties.



## 21. Other commitments

a) The estimated cost to complete construction and renovation projects in progress as at April 30, 2018, which will be funded by government grants, donations and operations, is approximately \$410 million (2017 - \$424 million).

b) The future base rent lease payments for space rentals are as follows:

|            | (millions<br>of dollars) |
|------------|--------------------------|
| 2019       | 10                       |
| 2020       | 9                        |
| 2021       | 8                        |
| 2022       | 8                        |
| 2023       | 7                        |
| Thereafter | <u>108</u>               |
|            | <u>150</u>               |

c) The future annual payments under various operating equipment leases are approximately \$9 million.

## 22. 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. As at April 30, 2018, the amount of loans guaranteed was \$8 million (2017 - \$8 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 that requires all members to be severally responsible for their share of the decommissioning costs 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, TRIUMF has put in place a plan for funding the cost of decommissioning that 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. As at April 30, 2018, the University believes that it has valid defences and appropriate insurance coverage in place on certain claims that 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 required.

**Appendix**  
**Supplementary Report**  
**By Fund**  
**April 30, 2018**  
**(Unaudited)**

## HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2018

(millions of dollars)

|                                       | Operating Fund | Ancillary Operations | Capital Fund | Restricted Funds | Total      |
|---------------------------------------|----------------|----------------------|--------------|------------------|------------|
| <b><u>Statement of Operations</u></b> |                |                      |              |                  |            |
| Revenues                              | \$ 2,576.7     | \$ 200.0             | \$ 77.6      | \$ 524.1         | \$ 3,378.4 |
| Expenses                              | \$ 2,073.7     | \$ 185.5             | \$ 149.1     | \$ 505.2         | \$ 2,913.5 |
| Net Income (Loss)                     | \$ 503.0       | \$ 14.5              | \$ (71.5)    | \$ 18.9          | \$ 464.9   |
| <b><u>Balance Sheet</u></b>           |                |                      |              |                  |            |
| Assets                                | \$ 1,540.1     | \$ 313.1             | \$ 4,827.3   | \$ 3,213.0       | \$ 9,893.5 |
| Liabilities                           | \$ 1,503.1     | \$ 203.7             | \$ 1,609.0   | \$ 634.8         | \$ 3,950.6 |
| Net Assets                            | \$ 37.0        | \$ 109.4             | \$ 3,218.3   | \$ 2,578.2       | \$ 5,942.9 |
| <b><u>Net Assets composed of:</u></b> |                |                      |              |                  |            |
| Endowments                            |                |                      |              | \$ 2,504.3       | \$ 2,504.3 |
| Investment in Capital Assets          |                | \$ 101.7             | \$ 3,151.0   |                  | \$ 3,252.7 |
| Internally Restricted                 | \$ (16.6)      | \$ 33.9              | \$ 162.5     | \$ 73.9          | \$ 253.7   |
| Surplus (Deficit)                     | \$ 53.6        | \$ (26.2)            | \$ (95.2)    |                  | \$ (67.8)  |
|                                       | \$ 37.0        | \$ 109.4             | \$ 3,218.3   | \$ 2,578.2       | \$ 5,942.9 |

## HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2017

(millions of dollars)

|                                       | Operating Fund | Ancillary Operations | Capital Fund | Restricted Funds | Total      |
|---------------------------------------|----------------|----------------------|--------------|------------------|------------|
| <b><u>Statement of Operations</u></b> |                |                      |              |                  |            |
| Revenues                              | \$ 2,431.8     | \$ 188.1             | \$ 76.1      | \$ 520.5         | \$ 3,216.5 |
| Expenses                              | \$ 2,006.7     | \$ 175.9             | \$ 136.2     | \$ 480.8         | \$ 2,799.6 |
| Net Income (Loss)                     | \$ 425.1       | \$ 12.2              | \$ (60.1)    | \$ 39.7          | \$ 416.9   |
| <b><u>Balance Sheet</u></b>           |                |                      |              |                  |            |
| Assets                                | \$ 1,455.5     | \$ 311.1             | \$ 4,403.1   | \$ 3,036.0       | \$ 9,205.7 |
| Liabilities                           | \$ 1,475.4     | \$ 216.2             | \$ 1,470.9   | \$ 586.1         | \$ 3,748.6 |
| Net Assets                            | \$ (19.9)      | \$ 94.9              | \$ 2,932.2   | \$ 2,449.9       | \$ 5,457.1 |
| <b><u>Net Assets composed of:</u></b> |                |                      |              |                  |            |
| Endowments                            |                |                      |              | \$ 2,380.2       | \$ 2,380.2 |
| Investment in Capital Assets          |                | \$ 98.5              | \$ 2,768.3   |                  | \$ 2,866.8 |
| Internally Restricted                 | \$ (54.5)      | \$ 32.3              | \$ 221.7     | \$ 69.7          | \$ 269.2   |
| Surplus (Deficit)                     | \$ 34.6        | \$ (35.9)            | \$ (57.8)    |                  | \$ (59.1)  |
|                                       | \$ (19.9)      | \$ 94.9              | \$ 2,932.2   | \$ 2,449.9       | \$ 5,457.1 |

## **PURPOSE OF THIS SUPPLEMENTARY REPORT**

The University of Toronto's financial statements report the University's assets, liabilities, net assets, revenues and expenses on a single column basis. The purpose of this supplementary report is to show the University's financial statement information by fund in a format consistent with how the University manages its finances, that is, by fund. Schedules 1 and 2 show the balance sheet and statement of operations and changes in surplus (deficit) by fund.

**The operating fund** includes teaching and administrative activities supported mainly by government operating grants, student fees and sales of supplies and services.

**Ancillary operations** include residences, food and beverage services, parking, Hart House, Residential Housing and U of T Press. All ancillary assets, liabilities, net assets, revenues and expenses are recorded in this fund.

**The capital fund** includes all capital assets – land, buildings, furnishings, computers, etc. - except for those of ancillary operations. Contributions to the University for capital assets other than ancillaries are recorded in this fund.

**Restricted funds** include donations (including endowments), research grants and contracts. Each donation, usually supported by an agreement between the University and the donor, or a collection of small donations with similar purpose, is recorded in its own fund, and managed according to agreed upon terms and conditions. Each research grant or contract is recorded in its own fund and managed in accordance with the terms and conditions required by the sponsor of the funds. There are several thousand individual restricted funds.

The key drivers of financial performance described in the financial highlights affect the various funds as follows:

- Student enrolment growth is mostly reflected in the operating fund and in ancillary operations.
- Growth in research activity is reflected in restricted funds.
- Salaries and benefits growth is mostly reflected in the operating fund.
- Growth in space is reflected in ancillary operations (residences and parking facilities) and the capital fund (all other facilities, including academic teaching and research facilities).
- Donations are mainly reflected in restricted funds.
- Endowments are reflected in restricted funds.
- Investment earnings are reflected in all funds, but predominantly in the operating fund and in restricted funds.

**Schedule 1**  
**(Unaudited)**  
**UNIVERSITY OF TORONTO**  
**BALANCE SHEET**  
**April 30, 2018**  
(with comparative figures at April 30, 2017)  
(millions of dollars)

|  | <u>Operating<br/>fund</u> | <u>Ancillary<br/>operations</u> | <u>Capital<br/>fund</u> | <u>Restricted<br/>funds</u> | <u>2018<br/>Total</u> | <u>2017<br/>Total</u> |
|--|---------------------------|---------------------------------|-------------------------|-----------------------------|-----------------------|-----------------------|
| <b>ASSETS</b>  |                           |                                 |                         |                             |                       |                       |
| Current  |                           |                                 |                         |                             |                       |                       |
| Cash and short-term investments                          | 1,465.6                   | 58.8                            | 104.8                   | (145.7)                     | 1,483.5               | 1,422.9               |
| Accounts receivable                                      | 60.3                      | 13.2                            |                         | 4.9                         | 78.4                  | 90.1                  |
| Inventories and prepaid expenses                         | 14.2                      | 7.0                             |                         | 0.7                         | 21.9                  | 22.2                  |
| Long-term government assistance receivable               |                           |                                 | 83.2                    |                             | 83.2                  | 61.6                  |
| Investments at fair value                                |                           |                                 |                         | 3,336.6                     | 3,336.6               | 3,135.8               |
| Capital assets, net                                      |                           | 234.1                           | 4,639.3                 | 16.5                        | 4,889.9               | 4,473.1               |
|  | <u>1,540.1</u>            | <u>313.1</u>                    | <u>4,827.3</u>          | <u>3,213.0</u>              | <u>9,893.5</u>        | <u>9,205.7</u>        |
| <b>LIABILITIES</b>                                       |                           |                                 |                         |                             |                       |                       |
| Current  |                           |                                 |                         |                             |                       |                       |
| Accounts payable and<br>accrued liabilities              | 338.1                     | 29.4                            | 71.1                    | 18.8                        | 457.4                 | 395.0                 |
| Deferred contributions                                   |                           |                                 |                         | 616.0                       | 616.0                 | 557.3                 |
| Accrued pension liability                                | 319.3                     |                                 |                         |                             | 319.3                 | 296.2                 |
| Employee future benefit obligation<br>other than pension | 590.9                     |                                 |                         |                             | 590.9                 | 594.4                 |
| Internal loans   | 253.1                     | 167.3                           | (420.4)                 |                             |                       |                       |
| Senior unsecured debentures                              |                           |                                 | 708.9                   |                             | 708.9                 | 708.8                 |
| Other long-term debt                                     | 1.7                       | 1.2                             | 0.9                     |                             | 3.8                   | 7.0                   |
| Deferred capital contributions                           |                           | 5.8                             | 1,248.5                 |                             | 1,254.3               | 1,189.9               |
|  | <u>1,503.1</u>            | <u>203.7</u>                    | <u>1,609.0</u>          | <u>634.8</u>                | <u>3,950.6</u>        | <u>3,748.6</u>        |
| <b>NET ASSETS</b>  |                           |                                 |                         |                             |                       |                       |
| Surplus (deficit)  | 53.6                      | (26.2)                          | (95.2)                  |                             | (67.8)                | (59.1)                |
| Internally restricted                                    | (16.6)                    | 33.9                            | 162.5                   | 73.9                        | 253.7                 | 269.2                 |
| Investment in capital assets                             |                           | 101.7                           | 3,151.0                 |                             | 3,252.7               | 2,866.8               |
| Endowments   |                           |                                 |                         | 2,504.3                     | 2,504.3               | 2,380.2               |
|  | <u>37.0</u>               | <u>109.4</u>                    | <u>3,218.3</u>          | <u>2,578.2</u>              | <u>5,942.9</u>        | <u>5,457.1</u>        |
|  | <u>1,540.1</u>            | <u>313.1</u>                    | <u>4,827.3</u>          | <u>3,213.0</u>              | <u>9,893.5</u>        | <u>9,205.7</u>        |

**Schedule 2  
(Unaudited)  
UNIVERSITY OF TORONTO  
STATEMENT OF OPERATIONS AND CHANGES IN SURPLUS (DEFICIT)  
FOR THE YEAR ENDED APRIL 30  
(millions of dollars)**

|   | Operating<br>fund | Ancillary<br>operations | Capital<br>fund | Restricted<br>funds | 2018<br>Total  | 2017<br>Total  |
|---|-------------------|-------------------------|-----------------|---------------------|----------------|----------------|
| <b>REVENUES</b>   |                   |                         |                 |                     |                |                |
| Student fees  | 1,571.7           | 9.8                     | 0.8             |                     | 1,582.3        | 1,431.1        |
| Government grants for general operations                | 723.3             |                         |                 |                     | 723.3          | 713.3          |
| Government and other grants for restricted purposes     |                   | 0.4                     | 52.6            | 360.3               | 413.3          | 417.6          |
| Sales, services and sundry income                       | 162.9             | 188.6                   | 0.2             |                     | 351.7          | 333.1          |
| Investment Income                                       | 118.8             | 0.9                     | 2.3             | 58.2                | 180.2          | 220.8          |
| Donations   |                   | 0.3                     | 21.7            | 105.6               | 127.6          | 100.6          |
|   | <u>2,576.7</u>    | <u>200.0</u>            | <u>77.6</u>     | <u>524.1</u>        | <u>3,378.4</u> | <u>3,216.5</u> |
| <b>EXPENSES</b>   |                   |                         |                 |                     |                |                |
| Salaries  | 1,187.8           | 8.2                     |                 | 202.3               | 1,398.3        | 1,326.2        |
| Employee benefits                                       | 294.6             | 2.2                     |                 | 21.8                | 318.6          | 342.6          |
| Scholarships, fellowships and bursaries                 | 205.7             |                         |                 | 33.4                | 239.1          | 217.0          |
| Materials, supplies and services                        | 121.8             | 2.0                     |                 | 102.8               | 226.6          | 217.9          |
| Amortization of capital assets                          | 14.3              | 18.1                    | 143.6           | 2.2                 | 178.2          | 165.2          |
| Repairs, maintenance and leases                         | 87.8              | 20.2                    | 0.7             | 9.6                 | 118.3          | 115.3          |
| Cost of sales and services                              |                   | 112.7                   |                 |                     | 112.7          | 106.2          |
| Inter-institutional contributions                       | 33.9              |                         |                 | 87.3                | 121.2          | 103.3          |
| Utilities   | 43.1              | 10.4                    |                 | 1.8                 | 55.3           | 62.9           |
| Travel and conferences                                  | 32.5              |                         |                 | 21.1                | 53.6           | 50.3           |
| Interest on long-term debt                              | 19.7              | 11.7                    | 4.8             | 2.2                 | 38.4           | 38.4           |
| Other   | 32.5              |                         |                 | 20.7                | 53.2           | 54.3           |
|   | <u>2,073.7</u>    | <u>185.5</u>            | <u>149.1</u>    | <u>505.2</u>        | <u>2,913.5</u> | <u>2,799.6</u> |
| <b>Net income (loss)</b>                                | 503.0             | 14.5                    | (71.5)          | 18.9                | 464.9          | 416.9          |
| <b>Net transfer between funds</b>                       | (171.1)           |                         | 161.7           | 9.4                 |                |                |
| <b>Transfer of capital assets funding</b>               | (196.0)           |                         | 196.0           |                     |                |                |
| <b>Change in internally restricted</b>                  | (116.9)           | (1.6)                   | 59.1            | (4.2)               | (63.6)         | (257.9)        |
| <b>Change in investment in capital assets</b>           |                   | (3.2)                   | (382.7)         |                     | (385.9)        | (122.7)        |
| <b>Transfers of donations to endowments</b>             |                   |                         |                 | (13.9)              | (13.9)         | (7.9)          |
| <b>Transfer to internally<br/>restricted endowments</b> |                   |                         |                 | (10.2)              | (10.2)         | (35.5)         |
| <b>Net change in<br/>surplus (deficit) for the year</b> | 19.0              | 9.7                     | (37.4)          |                     | (8.7)          | (7.1)          |
| <b>Surplus (deficit), beginning of year</b>             | 34.6              | (35.9)                  | (57.8)          |                     | (59.1)         | (52.0)         |
| <b>Surplus (deficit), end of year</b>                   | <u>53.6</u>       | <u>(26.2)</u>           | <u>(95.2)</u>   |                     | <u>(67.8)</u>  | <u>(59.1)</u>  |

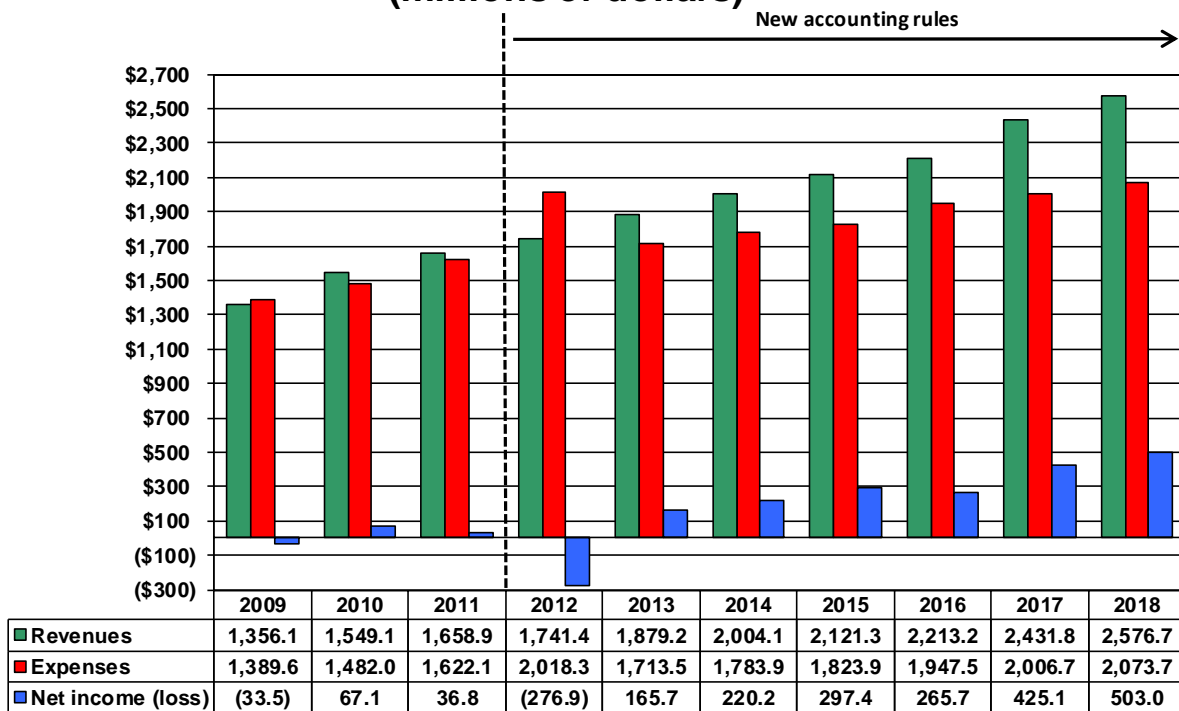
## OPERATING FUND

The *operating fund* includes teaching and administrative activities supported mainly by government operating grants, student fees and sales of supplies and services.

Operating fund revenues for the year were \$2.6 billion; expenses were \$2.1 billion resulting in a net income of \$503.0 million. Growth in operating fund revenues and expenses primarily reflected planned and expected increases in the number of students.

Effective in fiscal 2012, the University accounts for its employee future benefits (pensions and other employee future benefits) using the immediate recognition approach which has the impact of fully recording the deficit from its pension plan and employee future benefits other than pensions on the balance sheet and statement of operations. The net loss in 2012 resulted from recording the actual return on plan assets and actuarial gains and losses in the statement of operations. Beginning in fiscal 2013, the difference between actual and expected return on plan assets and actuarial gains (losses) (remeasurements) are recognized directly in net assets and do not flow through the statement of operations.

### Operating Fund Revenues and Expenses for the year ended April 30 (millions of dollars)

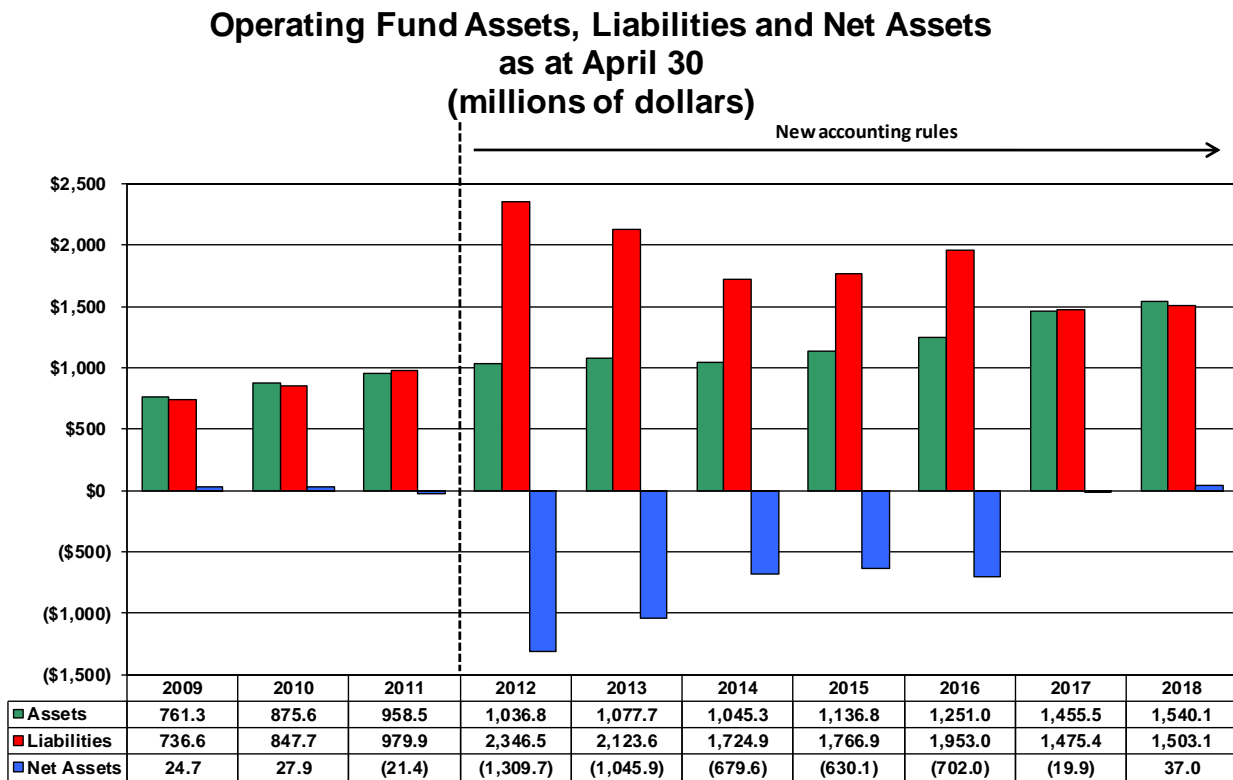


The cumulative operating surplus at April 30, 2018 is \$53.6 million, whereas the long-range operating budget called for a break even position.

The 2018 net income in the operating fund is a result of:

|   |               |
|---|---------------|
| Capital asset expenditures not shown as expenses but transferred to the capital fund and added to the balance sheet as capital assets | <b>196.0</b>  |
| Net change in employee future benefit obligations (excluding remeasurements)  | <b>70.3</b>   |
| Transfers to other funds not expensed in the operating fund   | <b>171.1</b>  |
| Last year's general university saving distributed to academic divisions   | <b>(34.6)</b> |
| General University saving for University priorities   | <b>53.6</b>   |
| Unspent funds added to reserves   | <b>46.6</b>   |
|   | <b>503.0</b>  |

Operating fund assets at April 30, 2018 were \$1.5 billion, liabilities were \$1.5 billion, and net assets were \$37.0 million.



The net assets increased from negative \$19.9 million in 2017 to \$37.0 million in 2018 mainly due to the following:

- \$503.0 million net income for the year.
- (\$79.0 million) increase in employee future benefit obligations from remeasurement calculations reported as a direct decrease in net assets.
- (\$367.1 million) net transfers to other funds.



The transfers to other funds were as follows:

- \$196.0 million to the capital fund to reflect operating funding of capital asset expenditures recorded as capital assets in the capital fund.
- \$162.1 million to the capital fund for various projects.
- \$11.2 million to restricted funds in support of various matching funds initiatives.
- \$2.2 million from various ancillary operations in support of operating activities and scholarships.

There are two categories of net assets for the operating fund as follows:

- \$53.6 million surplus.
- (\$16.6 million) of negative internally restricted net assets.

The \$53.6 million surplus is the “cumulative surplus” of the operating fund which is referenced in the University’s Operating Budget Report. The cumulative surplus has increased from \$34.6 million at April 30, 2017 to \$53.6 million at April 30, 2018, due to the following:

- \$503.0 million net income.
- (\$367.1 million) net transfers to other funds as noted above.
- (\$116.9 million) change in internally restricted net assets, mainly due to an increase in divisional reserves and employee future benefit obligations reserves (excluding remeasurments).

Internally restricted net assets of negative \$16.6 million mainly includes divisional reserves of \$835.4 million, funds set aside for capital projects of \$43.9 million and funds set aside from research overhead of \$3.7 million offset by \$902.5 million of net unfunded liabilities consisting of \$414.4 million associated with its pension plan and \$488.1 million associated with its employee future benefits other than pensions that will have to be paid from future years’ operating fund revenues.

Schedule 3 is a summary of operating fund reserves that comprise the negative \$16.6 million in internally restricted net assets. Included in this schedule are plans by divisions detailing how reserves carried forward will be spent on a one-time only basis, or in the event of a deficit, a plan for its elimination, using the following categories:

**Infrastructure Reserve** - This category is intended to capture funds that have been reserved by the division in anticipation of new building construction, renovations to facilities, infrastructure upgrades such as computer networking, equipment replacement, etc.

**Research** - Funds reserved for research are to be included in this category. This includes funds allocated to Principal Investigators as a result of the expense reimbursement program for Faculty and Librarians, overheads, research allowance or start-up funds. Also included are funds reserved for Canada Research Chairs and any related research allowance.

**Student Assistance** - This category captures funds reserved for scholarships, bursaries and other student assistance.

**Endowment Matching** - This category captures funds reserved to match future external donor contributions. The division must have a written plan that defines what type of contributions it will match (i.e. chairs and professorships, student aid, academic programs and research), with a set limit for the matching.

**Operating Contingency** - This category is intended to capture divisional operating contingency reserves. Funds in this category include reserves for anticipated budget reductions, voluntary early retirement payouts, increases in university-wide costs, and fluctuations in revenues due to enrolment shortfalls and lower investment returns. The total operating reserve contingency would normally fall in range of 5% to 10% of the division's total operating expense budget. Divisions with greater distributed risk (i.e. large international enrolment, significant growth, high levels of external revenue, etc.) may establish larger operating contingency reserves.

**Schedule 3  
(Unaudited)  
UNIVERSITY OF TORONTO  
SUMMARY OF OPERATING FUND RESERVES  
AT APRIL 30, 2018**  
(with comparative figures at April 30, 2017)  
(thousands of dollars)

|   | <u>2018</u>      | <u>2017</u>      |
|---|------------------|------------------|
|   | <u>Total</u>     | <u>Total</u>     |
| <b><u>Divisional reserves</u></b>                                   |                  |                  |
| Academic  | 665,548          | 621,054          |
| Academic services   | 12,876           | 13,357           |
| Student services  | 20,738           | 16,147           |
| Student assistance  | 11,290           | 10,138           |
| Facilities & services   | 21,895           | 26,017           |
| Administration  | 33,315           | 38,479           |
| General university  | 69,764           | 63,236           |
| <b>Total divisional reserves</b>                                    | <u>835,426</u>   | <u>788,428</u>   |
| <b><u>Central reserves</u></b>                                      |                  |                  |
| Research overhead   | 3,711            | 6,437            |
| Capital projects reserves   | 43,862           | 42,525           |
| University investment infrastructure fund                           | (72)             | 100              |
| Priorities fund   | 4,653            | 4,644            |
| Loss on interest rate swaps   | (1,718)          | (2,856)          |
| <b>Total central reserves</b>                                       | <u>50,436</u>    | <u>50,850</u>    |
| <b><u>Employee benefit reserves</u></b>                             |                  |                  |
| Pension   | (430,844)        | (412,952)        |
| Pension plan reserve  | 16,444           | 16,444           |
| Medical benefits  | (523,384)        | (528,800)        |
| Other plans   | 35,267           | 31,564           |
| <b>Total employee benefit reserves</b>                              | <u>(902,517)</u> | <u>(893,744)</u> |
| <b>Total internally restricted net assets</b>                       | <u>(16,655)</u>  | <u>(54,466)</u>  |
| Net change in internally restricted for the year                    | <u>37,811</u>    |                  |
| <b><u>Consisting of:</u></b>  |                  |                  |
| Change in internally restricted reported in statement of operations | 116,860          |                  |
| Reported as remeasurements in statement of changes in net assets    | (79,049)         |                  |
|   | <u>37,811</u>    |                  |

**Schedule 3**  
**(Unaudited)**  
**UNIVERSITY OF TORONTO**  
**SUMMARY OF OPERATING FUND RESERVES**  
**AT APRIL 30, 2018**  
(with comparative figures at April 30, 2017)  
(thousands of dollars)

|  | 2018                      |                |                       |                       |                          | 2017           |                |
|--|---------------------------|----------------|-----------------------|-----------------------|--------------------------|----------------|----------------|
|  | Infrastructure<br>Reserve | Research       | Student<br>Assistance | Endowment<br>Matching | Operating<br>Contingency | Total          | Total          |
| <b>ACADEMIC:</b>   |                           |                |                       |                       |                          |                |                |
| <b>Arts and Science, TYP, SCS:</b>                               |                           |                |                       |                       |                          |                |                |
| Faculty of Arts and Science                                      | 48,602                    | 52,218         | 12,087                | 422                   | 123,686                  | 237,015        | 210,425        |
| Transitional Year Programme                                      | 75                        | 41             | 18                    |                       | 627                      | 761            | 645            |
| UTSC academic  | 41,287                    | 13,822         | 745                   |                       | 47,749                   | 103,603        | 72,355         |
| UTM academic   | 3,368                     | 15,707         |                       |                       | 5,885                    | 24,960         | 40,902         |
| School of Continuing Studies                                     | 3,000                     |                | 938                   |                       | 2,842                    | 6,780          | 4,720          |
|  | <u>96,332</u>             | <u>81,788</u>  | <u>13,788</u>         | <u>422</u>            | <u>180,789</u>           | <u>373,119</u> | <u>329,047</u> |
| <b>Health sciences:</b>  |                           |                |                       |                       |                          |                |                |
| Faculty of Dentistry   | 5,552                     | 3,293          | 155                   |                       | 4,347                    | 13,347         | 10,384         |
| Faculty of Medicine  | 4,453                     | 25,716         | 5,654                 | 2,287                 | (7,701)                  | 30,409         | 40,592         |
| Dalla Lana School of Public Health                               |                           | 2,789          | 1,449                 |                       | 5,761                    | 9,999          | 7,923          |
| Lawrence S. Bloomberg Faculty of Nursing                         | 680                       | 1,381          | 42                    |                       | 2,009                    | 4,112          | 4,809          |
| Leslie Dan Faculty of Pharmacy                                   |                           | 4,768          | 769                   |                       | 9,874                    | 15,411         | 19,584         |
| Faculty of Kinesiology & Physical Education                      | 1,136                     | 1,277          | 486                   | 1,000                 | 1,805                    | 5,704          | 3,753          |
|  | <u>11,821</u>             | <u>39,224</u>  | <u>8,555</u>          | <u>3,287</u>          | <u>16,095</u>            | <u>78,982</u>  | <u>87,045</u>  |
| <b>Other professional faculties:</b>                             |                           |                |                       |                       |                          |                |                |
| Faculty of Applied Science<br>and Engineering                    | 9,160                     | 24,080         | 1,812                 |                       | 44,378                   | 79,430         | 74,799         |
| John H. Daniels Faculty of Architecture,<br>Landscape and Design |                           | 573            | 10                    |                       | (3,580)                  | (2,997)        | 3,620          |
| Rotman School of Management                                      | 518                       | 1,364          | 2,283                 | 4,100                 | 1,605                    | 9,870          | (633)          |
| OISE/UT  | 4,900                     | 3,100          | 646                   |                       | 27,590                   | 36,236         | 32,007         |
| Faculty of Forestry  | 125                       | 1,301          | 956                   | 2,500                 | 521                      | 5,403          | 4,689          |
| Faculty of Law   |                           | 1,403          | 543                   |                       | 2,375                    | 4,321          | 11,086         |
| Faculty of Information   |                           | 416            | 727                   |                       | 2,566                    | 3,709          | 874            |
| Faculty of Music   | 965                       | 520            | 250                   |                       | (7,886)                  | (6,151)        | (4,488)        |
| Factor-Inwentash Faculty of Social Work                          | 277                       | 355            | 933                   |                       | 327                      | 1,892          | 7,426          |
|  | <u>15,945</u>             | <u>33,112</u>  | <u>8,160</u>          | <u>6,600</u>          | <u>67,896</u>            | <u>131,713</u> | <u>129,380</u> |
| <b>Other academic costs:</b>                                     |                           |                |                       |                       |                          |                |                |
| University-wide reserves   | 26,495                    | 262            | 17                    |                       | 85,988                   | 112,762        | 105,838        |
| Vacation Pay accrual - Academic                                  |                           |                |                       |                       | (31,028)                 | (31,028)       | (30,256)       |
| <b>TOTAL ACADEMIC</b>  | <u>150,593</u>            | <u>154,386</u> | <u>30,520</u>         | <u>10,309</u>         | <u>319,740</u>           | <u>665,548</u> | <u>621,054</u> |

**Schedule 3  
(Unaudited)  
UNIVERSITY OF TORONTO  
SUMMARY OF OPERATING FUND RESERVES  
AT APRIL 30, 2018**

(with comparative figures at April 30, 2017)  
(thousands of dollars)

|  | 2018                      |            |                       |                       |                          | 2017          |               |
|--|---------------------------|------------|-----------------------|-----------------------|--------------------------|---------------|---------------|
|  | Infrastructure<br>Reserve | Research   | Student<br>Assistance | Endowment<br>Matching | Operating<br>Contingency | Total         | Total         |
| <b>ACADEMIC SERVICES:</b>              |                           |            |                       |                       |                          |               |               |
| St. George Libraries                   |                           | 493        |                       |                       | 4,413                    | 4,906         | 5,958         |
| UTSC library                           | 2,932                     | 61         |                       |                       | 2,580                    | 5,573         | 4,957         |
| UTM library                            | 330                       | 40         |                       |                       | 866                      | 1,236         | 966           |
| Library - Electronic Acquisitions      |                           |            |                       |                       | 1,161                    | 1,161         | 1,476         |
| <b>TOTAL ACADEMIC SERVICES</b>         | <b>3,262</b>              | <b>594</b> |                       |                       | <b>9,020</b>             | <b>12,876</b> | <b>13,357</b> |
| <b>STUDENT SERVICES:</b>               |                           |            |                       |                       |                          |               |               |
| St. George campus                      | 478                       |            | 878                   |                       | 1,169                    | 2,525         | 2,657         |
| UTSC campus                            | 5,350                     |            | 14                    |                       | 5,128                    | 10,492        | 8,561         |
| UTM campus                             |                           |            |                       |                       | 3,452                    | 3,452         | 3,120         |
| Athletics and Recreation               | 2,354                     | 44         | 715                   |                       | 1,156                    | 4,269         | 1,809         |
| <b>TOTAL STUDENT SERVICES</b>          | <b>8,182</b>              | <b>44</b>  | <b>1,607</b>          |                       | <b>10,905</b>            | <b>20,738</b> | <b>16,147</b> |
| <b>STUDENT ASSISTANCE:</b>             |                           |            |                       |                       |                          |               |               |
| St. George campus                      |                           |            | 11,210                |                       |                          | 11,210        | 10,089        |
| UTSC campus                            |                           |            | 31                    |                       |                          | 31            | 44            |
| UTM campus                             |                           |            | 49                    |                       |                          | 49            | 5             |
| <b>TOTAL STUDENT ASSISTANCE</b>        |                           |            | <b>11,290</b>         |                       |                          | <b>11,290</b> | <b>10,138</b> |
| <b>FACILITIES &amp; SERVICES</b>       |                           |            |                       |                       |                          |               |               |
| St. George campus                      |                           |            |                       |                       | 10,759                   | 10,759        | 11,318        |
| UTSC campus                            | 3,534                     |            |                       |                       | 6,806                    | 10,340        | 8,812         |
| UTM campus                             | 534                       |            |                       |                       | 262                      | 796           | 5,887         |
| <b>TOTAL FACILITIES &amp; SERVICES</b> | <b>4,068</b>              |            |                       |                       | <b>17,827</b>            | <b>21,895</b> | <b>26,017</b> |

**Schedule 3  
(Unaudited)  
UNIVERSITY OF TORONTO  
SUMMARY OF OPERATING FUND RESERVES  
AT APRIL 30, 2018**

(with comparative figures at April 30, 2017)  
(thousands of dollars)

|   | 2018                   |                  |                    |                    |                       | 2017           |                |
|---|------------------------|------------------|--------------------|--------------------|-----------------------|----------------|----------------|
|   | Infrastructure Reserve | Student Research | Student Assistance | Endowment Matching | Operating Contingency | Total          | Total          |
| <b>ADMINISTRATION:</b>                      |                        |                  |                    |                    |                       |                |                |
| Office of the Governing Council             |                        |                  |                    |                    | 1,166                 | 1,166          | 1,179          |
| Office of the President                     |                        |                  |                    |                    | 24                    | 24             | 41             |
| Convocation and Institutional events        |                        |                  |                    |                    | 285                   | 285            | 338            |
| Chief Financial Officer                     |                        |                  |                    |                    | 2,186                 | 2,186          | 1,919          |
| Vice-President and Provost                  | 878                    | 219              | 434                |                    | 4,615                 | 6,146          | 8,288          |
| Vice-President - Research and Innovation    |                        |                  | 50                 |                    | 4,488                 | 4,538          | 3,958          |
| Vice-President - Communications             |                        |                  |                    |                    | 2,801                 | 2,801          | 1,741          |
| Vice-President - Advancement                |                        |                  |                    |                    | 2,107                 | 2,107          | 2,438          |
| Vice-President - International              |                        |                  |                    |                    | 321                   | 321            | 256            |
| Chief Government Relations                  |                        |                  |                    |                    | 221                   | 221            | 295            |
| Vice-President - University Operations      |                        |                  |                    |                    | 6,606                 | 6,606          | 11,779         |
| Vice-President - Human Resources and Equity | 123                    |                  |                    |                    | 3,408                 | 3,531          | 3,330          |
| UTSC campus                                 | 1,685                  |                  |                    |                    | 8,479                 | 10,164         | 8,236          |
| UTM campus                                  | 16                     |                  |                    |                    | 1,569                 | 1,585          | 3,064          |
| Vacation Pay accrual - Administration       |                        |                  |                    |                    | (8,366)               | (8,366)        | (8,383)        |
| <b>TOTAL ADMINISTRATION:</b>                | <b>2,702</b>           | <b>219</b>       | <b>484</b>         |                    | <b>29,910</b>         | <b>33,315</b>  | <b>38,479</b>  |
| <b>GENERAL UNIVERSITY:</b>                  |                        |                  |                    |                    |                       |                |                |
| Vice-President - Human Resources and Equity |                        |                  |                    |                    | 1,981                 | 1,981          | 1,490          |
| CFO - LTBP expendable funds                 |                        |                  |                    |                    | 56,353                | 56,353         | 49,100         |
| Vice-President - University Operations      | 2,601                  | 27               |                    |                    | 8,802                 | 11,430         | 12,646         |
| <b>TOTAL GENERAL UNIVERSITY</b>             | <b>2,601</b>           | <b>27</b>        |                    |                    | <b>67,136</b>         | <b>69,764</b>  | <b>63,236</b>  |
| <b>TOTAL DIVISIONAL RESERVES</b>            | <b>171,408</b>         | <b>155,270</b>   | <b>43,901</b>      | <b>10,309</b>      | <b>454,538</b>        | <b>835,426</b> | <b>788,428</b> |

## Comparison of the Operating Fund Financial Results to the Operating Budget

It is important to compare the year-end results to budget to assess how well the budget has estimated the actual outcome. However, there are differences between the operating budget and the operating fund financial results that must be adjusted before the comparison can occur. These differences are summarized as follows:

- The financial statements are prepared on an accrual basis following Canadian generally accepted accounting principles for not-for-profit organizations in Canada (“GAAP”), while the operating budget projects cash receipts and expenditures.
- The financial statements include amortization of capital assets while the operating budget includes estimated cash outlays for these assets.
- The financial statements include the costs of pensions and other benefits in accordance with GAAP, while the operating budget includes the projected cash premiums and funding to be paid in the year.

These differences require a (\$21.9) million adjustment to financial statement revenues and a \$56.7 million adjustment to expenses to make the numbers comparable to budget. Once these adjustments have been made, it is possible to compare the operating budget with the year-end results and to assess how closely actual results conformed to plan. In summary, the adjustments between the financial statements and the operating budget are as follows:

|                         | Financial<br>Statements | Adjustments | Adjusted<br>Financial<br>Statements | Operating<br>budget | Favourable<br>(unfavourable)<br>variance | %<br>Variance |
|-------------------------|-------------------------|-------------|-------------------------------------|---------------------|--|---------------|
| Operating fund revenues | 2,576.7                 | (21.9)      | 2,554.8                             | 2,434.9             | 119.9                                    | 4.9%          |
| Operating fund expenses | 2,073.7                 |             |                                     |                     |  |               |
| Capital asset transfer  | 196.0                   |             |                                     |                     |  |               |
|                         | 2,269.7                 | 56.7        | 2,326.4                             | 2,434.9             | 108.5                                    | 4.5%          |
| Net income              | 307.0                   | (78.6)      | 228.4                               |                     | 228.4                                    |               |

Total operating fund revenues, after adjustments, were \$2,554.8 million, compared to budgeted revenues of \$2,434.9 million, resulting in a favourable variance of \$119.9 million, or 4.9%. This favourable variance was primarily due to:

- a favourable provincial funding variance of \$10.1 million as a result of as a result of higher than planned base operating grant that flowed to the University under the new provincial funding framework as well as additional funding for graduate spaces,
- a favourable tuition fee variance of \$31.3 million primarily as a result of undergraduate international enrolments exceeding targets,
- a favourable investment income variance of \$4.1 million due to higher than budgeted investment returns in the expendable investment pool,
- a \$17.0 million increase in student fees from academic programmes for which no provincial government funding is provided, and
- a favourable variance of \$54.5 million in divisional sales and services.

Total operating fund expenses, after adjustments, were \$2,326.4 million, as compared to budgeted expenses of \$2,434.9 million resulting in a favourable variance of \$108.5 million primarily due to underspending in academic divisions. A detailed analysis is shown below.

**Schedule 4**  
**(Unaudited)**  
**UNIVERSITY OF TORONTO**  
**COMPARISON OF ACTUAL OPERATING FUND RESULTS WITH**  
**ORIGINAL BUDGET FOR THE YEAR ENDED APRIL 30, 2018**  
(millions of dollars)

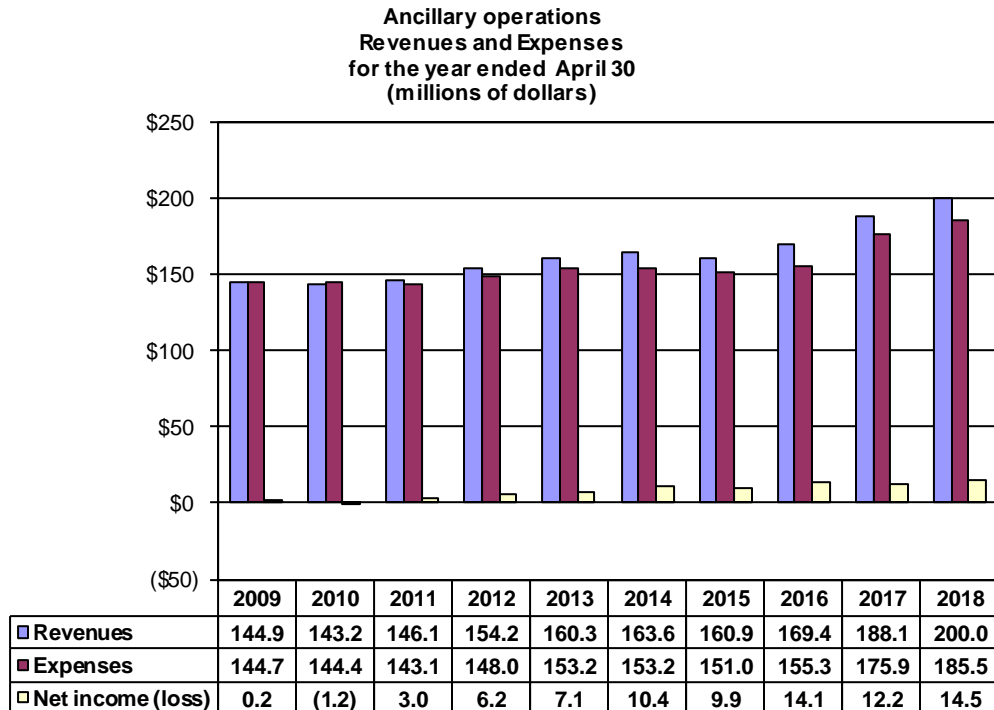
|  | <u>ACTUAL</u>     |                    | <u>BUDGET</u>  | <u>VARIANCE</u>       |              |
|--|-------------------|--------------------|----------------|-----------------------|--------------|
|  | Financial         | Adjusted           | Original       | Favourable            |              |
|  | <u>Statements</u> | <u>Financial</u>   | <u>budget</u>  | <u>(Unfavourable)</u> |              |
|  |                   | <u>Statements</u>  |                |                       |              |
|  |                   | <u>Adjustments</u> |                |                       |              |
| <b>REVENUES</b>                                |                   |                    |                |                       |              |
| <b>General university income:</b>              |                   |                    |                |                       |              |
| Provincial grants                              | 647.0             |                    | 647.0          | 636.9                 | 10.1         |
| Indirect cost recovery of grants and contracts | 50.0              | 0.9                | 50.9           | 51.0                  | (0.1)        |
| Student fees                                   | 1,344.0           |                    | 1,344.0        | 1,312.7               | 31.3         |
| Investment income:                             |                   |                    |                |                       |              |
| Endowment (chairs and student aid)             | 63.5              |                    | 63.5           | 60.7                  | 2.8          |
| Other  | 55.2              | (14.9)             | 40.3           | 36.2                  | 4.1          |
| Sundry income                                  | 25.7              | (7.9)              | 17.8           | 16.0                  | 1.8          |
| Municipal taxes                                | 5.0               |                    | 5.0            | 5.0                   |              |
|  | <u>2,190.4</u>    | <u>(21.9)</u>      | <u>2,168.5</u> | <u>2,118.5</u>        | <u>50.0</u>  |
| <b>Divisional income:</b>                      |                   |                    |                |                       |              |
| Provincial grants                              | 34.0              |                    | 34.0           | 35.5                  | (1.5)        |
| Student fees                                   | 212.3             |                    | 212.3          | 195.3                 | 17.0         |
| Sales and services                             | 140.0             |                    | 140.0          | 85.6                  | 54.4         |
|  | <u>386.3</u>      |                    | <u>386.3</u>   | <u>316.4</u>          | <u>69.9</u>  |
|  | <u>2,576.7</u>    | <u>(21.9)</u>      | <u>2,554.8</u> | <u>2,434.9</u>        | <u>119.9</u> |
| <b>EXPENSES</b>                                |                   |                    |                |                       |              |
| Academic                                       | 1,275.5           | 108.2              | 1,383.7        | 1,476.8               | 93.1         |
| Academic services                              | 101.1             | 2.1                | 103.2          | 92.4                  | (10.8)       |
| Student services                               | 90.1              | 2.2                | 92.3           | 94.3                  | 2.0          |
| Student assistance                             | 210.0             | 0.2                | 210.2          | 225.9                 | 15.7         |
| Physical plant maintenance and services        | 94.4              | 2.5                | 96.9           | 110.9                 | 14.0         |
| Physical plant utilities                       | 52.3              | (1.6)              | 50.7           | 65.6                  | 14.9         |
| Alterations and renovations                    | 24.5              | (24.5)             |                |                       |              |
| Administration                                 | 215.4             | 6.8                | 222.2          | 204.8                 | (17.4)       |
| Amortization                                   | 14.3              | (14.3)             |                |                       |              |
| Interest expense                               | 19.7              | (19.7)             |                |                       |              |
| General university expense                     | 166.4             | (5.2)              | 161.2          | 158.2                 | (3.0)        |
| Municipal taxes                                | 6.0               |                    | 6.0            | 6.0                   |              |
|  | <u>2,269.7</u>    | <u>56.7</u>        | <u>2,326.4</u> | <u>2,434.9</u>        | <u>108.5</u> |
| Operating results before the following:        | 307.0             | (78.6)             | 228.4          |                       | 228.4        |
| Change in internally restricted funds          | (116.9)           | 78.6               | (38.3)         |                       | (38.3)       |
| Transfers                                      | (171.1)           |                    | (171.1)        |                       | (171.1)      |
| <b>NET CHANGE IN SURPLUS FOR THE YEAR</b>      | <u>19.0</u>       |                    | <u>19.0</u>    |                       | <u>19.0</u>  |

## ANCILLARY OPERATIONS

*Ancillary operations* include service ancillaries (residences, food and beverage services, parking, and Hart House) and business ancillaries (Residential Housing and U of T Press). All ancillary assets, liabilities, net assets, revenues and expenses are recorded in this fund.

Ancillary revenues grew from \$144.9 million in 2009 to \$200 million in 2018, expenses grew from \$144.7 million to \$185.5 million, and the net result changed from a net income of \$0.2 million in 2009 to a net income of \$14.5 million in 2018. Residence fees over the past nine years have been increased to keep pace with increased expenses, including large fixed rate principal and interest payments on borrowing.

The St. George Food and Beverage services changed its business model as of August 1, 2016 to support the new operation that combines residential, retail and catering operations from the former St. George operation, the Chestnut Residence, and New College. Under this model, the food service operation is done in-house instead of being outsourced to a third party resulting in the sales from St. George Food and Beverage Services to be recorded as revenue on a gross basis instead of reporting only the commission earned on food sales from a third party. This change in model leads to an increase in both total revenues and total expenses in 2017 and 2018.

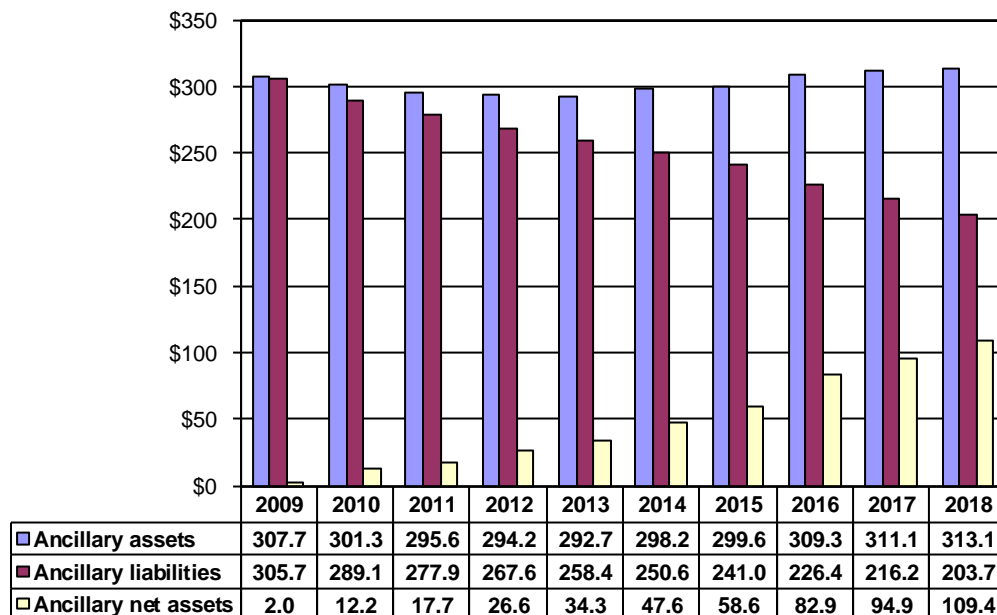


Ancillaries as a group generated net income of \$14.5 million in 2018. After transfers out of \$3.2 million from the net asset category of investment in capital assets, which reflected the internal financing of capital assets less \$1.6 million committed for future spending, the deficit decreased by \$9.7 million from \$35.9 million at April 30, 2017 to \$26.2 million at April 30, 2018.



Ancillary assets increased from \$307.7 million in 2009 to \$313.1 million in 2018 and liabilities decreased from \$305.7 million in 2009 to \$203.7 million in 2018 as ancillaries paid down their capital financing. Net assets grew from \$2.0 million to \$109.4 million over the same period, essentially reflecting the continued success of service operations with filling residence and parking spaces, while reducing their debt burden.

**Ancillary operations  
Balance Sheet  
as at April 30  
(millions of dollars)**



At April 30, 2018, net assets were \$109.4 million, an increase of \$14.5 million from April 30, 2017, due to the following:

- \$14.5 million net income for the year.
- \$2.2 million to the operating fund in support of operating activities and scholarships.
- \$2.2 million from restricted funds and the capital fund.

There are three categories of net assets for ancillary operations which together total \$109.4 million. They are:

- (\$26.2 million) in deficit.
- \$33.9 million in internally restricted net assets.
- \$101.7 million in investment in capital assets.

The investment in capital assets category reflects capital construction of facilities which have been funded by internal borrowing of the University’s own funds, resulting in a corresponding increase in deficit. Over time, investment in capital assets will be reduced as the capital assets are amortized, and the deficit will be decreased by the amount of that amortization.

Schedule 5 shows details by ancillary operation.

**Schedule 5**  
**UNIVERSITY OF TORONTO**  
**ANCILLARY OPERATIONS**  
**STATEMENT OF NET ASSETS**  
**FOR THE YEAR ENDED APRIL 30, 2018**  
(with comparative figures for the year ended Apr 30, 2017)  
(thousands of dollars)

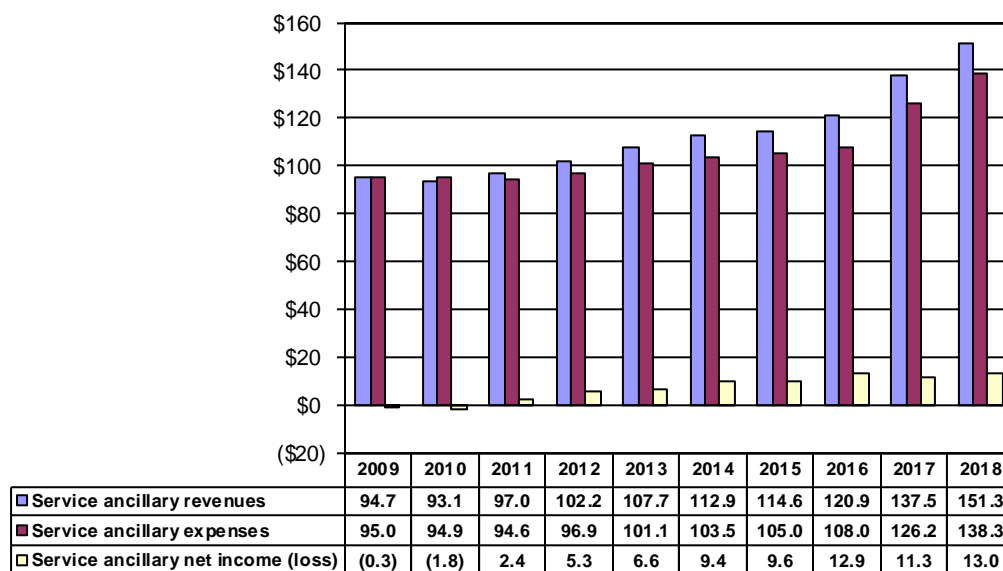
|                                    | Revenues | Expenses | Commitments<br>and<br>Transfers | Surplus/(Deficit) |          | Investment in<br>Capital Assets | Internally<br>Restricted | 2018<br>Total<br>Net Assets | 2017<br>Total<br>Net Assets |
|------------------------------------|----------|----------|---------------------------------|-------------------|----------|---------------------------------|--------------------------|-----------------------------|-----------------------------|
|                                    |          |          |                                 | Opening           | Closing  |                                 |                          |                             |                             |
|                                    | \$       | \$       | \$                              | \$                | \$       | \$                              | \$                       | \$                          | \$                          |
| <b>Residences</b>                  |          |          |                                 |                   |          |                                 |                          |                             |                             |
| Graduate House                     | 4,805    | 4,036    | 191                             | (8,004)           | (7,044)  | 12,261                          | 900                      | 6,117                       | 5,313                       |
| Scarborough                        | 8,558    | 7,025    | (1,602)                         | 1,677             | 1,608    | 2,677                           | 3,235                    | 7,520                       | 5,838                       |
| Mississauga                        | 14,404   | 12,997   | 1,422                           | (6,143)           | (3,314)  | 10,069                          | 260                      | 7,015                       | 4,627                       |
| University College                 | 7,443    | 7,911    | (1,551)                         | 4,623             | 2,604    | 2,167                           | 2,062                    | 6,834                       | 7,447                       |
| Innis College                      | 3,704    | 3,020    | (220)                           | 1,310             | 1,774    | 316                             | 1,856                    | 3,945                       | 3,386                       |
| New College                        | 10,146   | 9,553    | 1,440                           | (6,264)           | (4,231)  | 2,539                           | 600                      | (1,092)                     | (2,918)                     |
| Family Housing                     | 9,211    | 7,236    | (1,341)                         | 1,683             | 2,317    | 201                             | 3,250                    | 5,768                       | 4,193                       |
| Woodsworth College                 | 4,997    | 4,128    | 1,105                           | (14,781)          | (12,808) | 17,443                          | 3,000                    | 7,634                       | 6,767                       |
| 89 Chestnut                        | 15,863   | 14,523   | (1,069)                         | (9,990)           | (9,719)  | 8,185                           | 863                      | (670)                       | (1,832)                     |
|                                    | 79,131   | 70,429   | (1,625)                         | (35,889)          | (28,813) | 55,858                          | 16,026                   | 43,071                      | 32,821                      |
| <b>Food/Beverage Service</b>       |          |          |                                 |                   |          |                                 |                          |                             |                             |
| St. George                         | 31,921   | 31,955   | (1,467)                         | (1,948)           | (3,449)  | 2,771                           | 71                       | (607)                       | (31)                        |
| Scarborough                        | 982      | 785      | (299)                           | 299               | 197      | 407                             | 271                      | 875                         | 778                         |
| Mississauga                        | 2,506    | 1,849    | (623)                           | 502               | 536      | 596                             | 3,596                    | 4,728                       | 3,914                       |
| University College                 | 4,361    | 4,029    | 308                             | (241)             | 399      | 239                             | 670                      | 1,307                       | 1,125                       |
|                                    | 39,770   | 38,618   | (2,081)                         | (1,388)           | (2,317)  | 4,013                           | 4,608                    | 6,303                       | 5,786                       |
| <b>Parking</b>                     |          |          |                                 |                   |          |                                 |                          |                             |                             |
| St. George                         | 6,836    | 7,346    | 899                             | 1,495             | 1,884    | 7,545                           | 500                      | 9,929                       | 9,271                       |
| Scarborough                        | 3,826    | 2,237    | 13                              | (406)             | 1,196    | 5,430                           | 272                      | 6,898                       | 5,639                       |
| Mississauga                        | 4,244    | 3,265    | (1,033)                         | (6,918)           | (6,972)  | 17,462                          | 0                        | 10,490                      | 11,472                      |
|                                    | 14,906   | 12,848   | (121)                           | (5,829)           | (3,892)  | 30,437                          | 772                      | 27,317                      | 26,382                      |
| <b>Hart House</b>                  | 17,490   | 16,398   | (1,062)                         | 1,139             | 1,169    | 4,770                           | 11,319                   | 17,259                      | 16,167                      |
| <b>University of Toronto Press</b> | 45,920   | 44,959   | (280)                           | 6,828             | 7,509    | 2,287                           | 0                        | 9,796                       | 8,835                       |
| <b>Residential Housing</b>         | 2,739    | 2,201    | 362                             | (757)             | 143      | 4,354                           | 1,227                    | 5,724                       | 4,957                       |
|                                    | 48,659   | 47,160   | 82                              | 6,071             | 7,652    | 6,641                           | 1,227                    | 15,520                      | 13,792                      |
| <b>Total without the Swap</b>      | 199,957  | 185,454  | (4,807)                         | (35,896)          | (26,201) | 101,719                         | 33,952                   | 109,470                     | 94,948                      |
| Fair value of Interest Rate Swap   |          |          |                                 |                   |          |                                 | (14)                     | (14)                        | (58)                        |
| <b>Total with the Swap</b>         | 199,957  | 185,454  | (4,807)                         | (35,896)          | (26,201) | 101,719                         | 33,938                   | 109,456                     | 94,890                      |

## Service Ancillaries

*Service ancillaries* had revenues of \$151.3 million and expenses of \$138.3 million, with a net income of \$13.0 million for the year. Service ancillary revenues have increased by 59.8% since 2009 and expenses have risen by 45.6% during the same period. This increase is due to the expansion of residences, food and beverage and parking services to deal with the growth in student enrolment. Residence fees over the past nine years have been increased to keep pace with increased expenses, including large fixed rate principal and interest payments on borrowing.

The St. George Food and Beverage services changed its business model as of August 1, 2016 to support the new operation that combines residential, retail and catering operations from the former St. George operation, the Chestnut Residence, and New College. Under this model, the food service operation is done in-house instead of being outsourced to a third party resulting in the sales from St. George Food and Beverage Services to be recorded as revenue on a gross basis instead of reporting only the commission earned on food sales from a third party. This change in model leads to an increase in both total revenues and total expenses in 2017 and 2018.

**Ancillary operations - Service Ancillaries  
Revenues and Expenses  
for the year ended April 30  
(millions of dollars)**

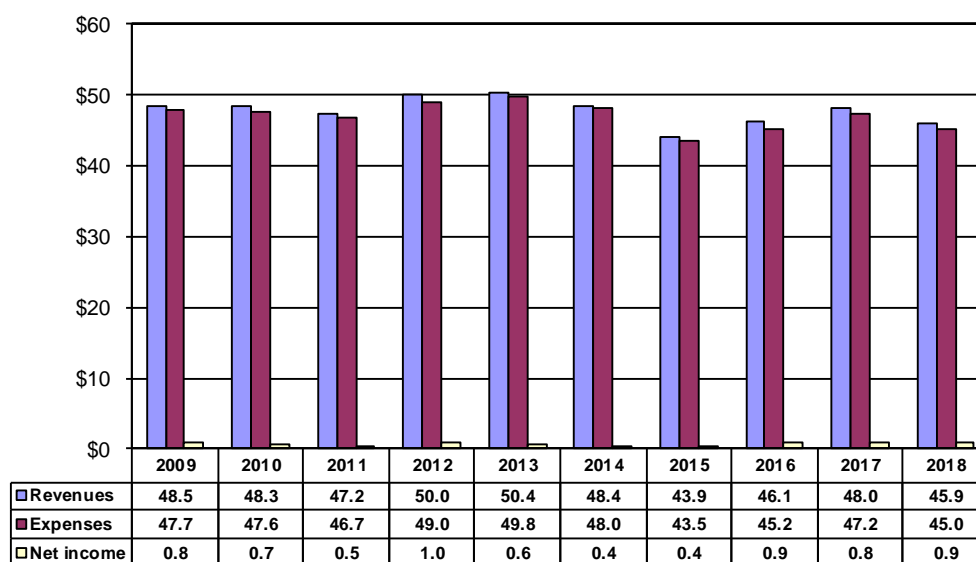


The long-term financial health of these operations is dependent upon filling the residence and parking spaces. Growth has largely been financed through long-term debt and through subsidies from their existing ancillary operations resulting in reduced operating margins.

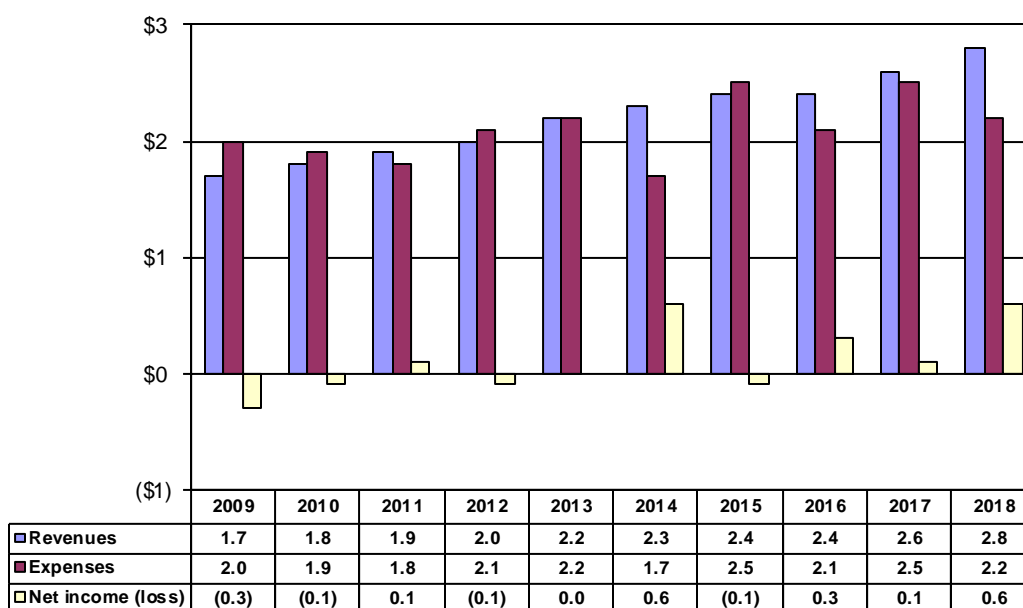
## Business Ancillaries

**Business ancillaries** consists of the University of Toronto Press and the Residential Housing operations that manages over 80 residential addresses with more than 160 rental units in the Huron-Sussex neighbourhood. These operations had combined revenues of \$48.7 million and expenses of \$47.2 million, for a net income of \$1.5 million in 2018.

**Ancillary operations - Business Ancillaries  
University of Toronto Press  
Revenues and Expenses  
for the year ended April 30  
(millions of dollars)**



**Ancillary operations - Business Ancillaries  
Residential Housing  
Revenues and Expenses  
for the year ended April 30  
(millions of dollars)**

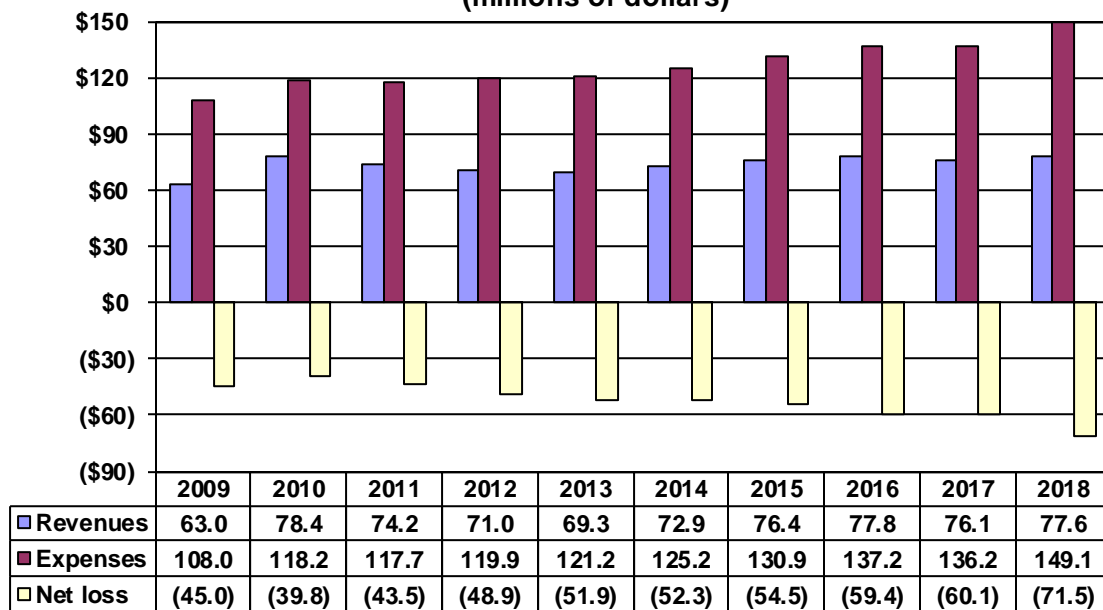


## CAPITAL FUND

*The capital fund* includes all capital assets – land, buildings, furnishings, computers, etc. - except for those of the ancillary operations. Contributions to the University for capital assets other than ancillaries are recorded in this fund. This fund also holds the vast majority of the University’s debt and in turn lends it out for capital construction and other projects to departments or operations that have the responsibility to repay the loan.

Capital fund revenues for the year were \$77.6 million and expenses were \$149.1 million, for a net loss of \$71.5 million. Revenues include an amount equal to the amortization of capital assets that were financed by grants and donations, while expenses include the amortization of capital assets.

**Capital Fund  
Revenues and Expenses  
for the year ended April 30  
(millions of dollars)**



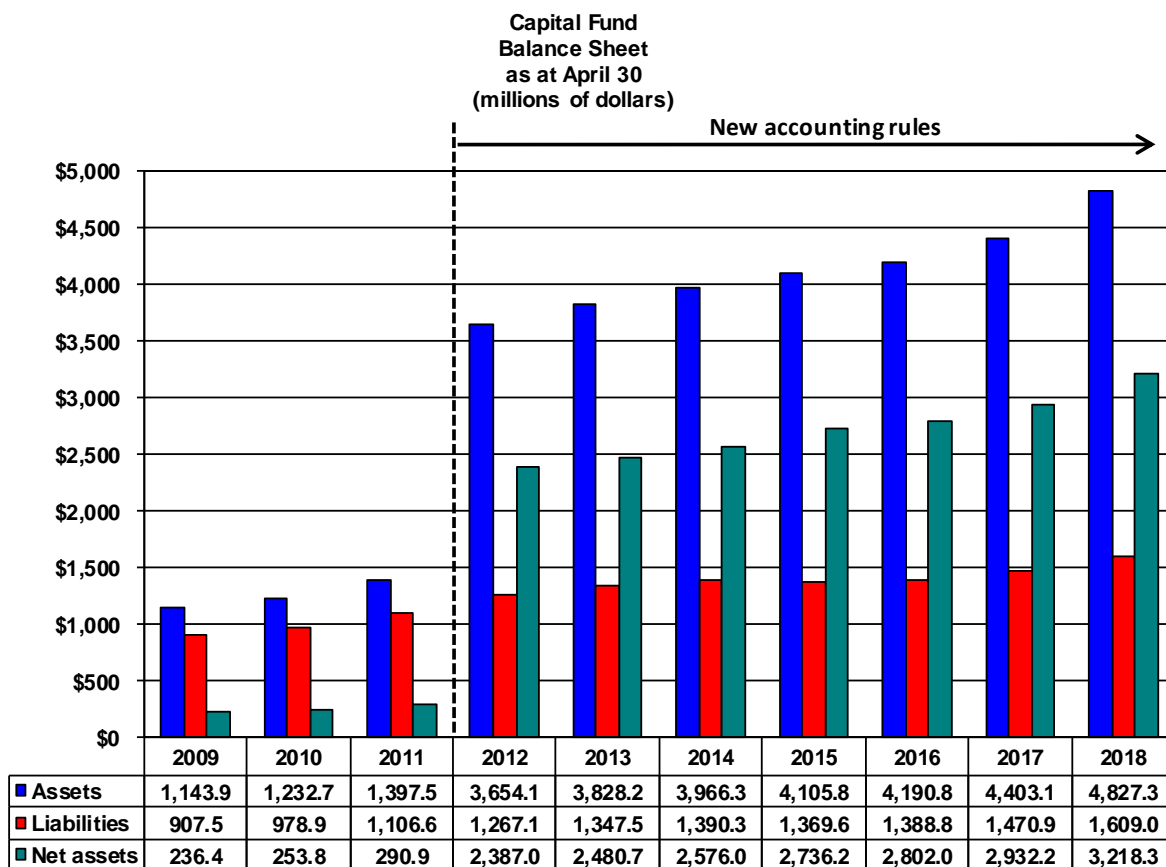
The reason for annual net losses in the capital fund is that a significant share of the revenue funding the amortization of capital assets and funding capital projects is recorded as revenue in the operating fund and transferred to the capital fund as an interfund transfer, and therefore is not reported in revenues or expenses of the capital fund.

In 2018, a total of \$357.7 million was transferred to the capital fund. This was made up of \$196.0 million in capital asset funding from the operating fund that must be transferred to the capital fund (where the assets are capitalized), combined with net transfers of \$161.7 million, mainly from the operating fund, in support of various capital projects.

Effective May 1, 2011, the University was required to adopt new accounting standards. These standards were required to be accounted for retrospectively. The University elected to recognize some of its land at fair value which increased its capital assets and internally restricted net assets in fiscal 2012 by \$2,067.9 million.

In 2018, capital fund assets were \$4.8 billion, liabilities were \$1.6 billion and net assets were \$3.2 billion. Net assets comprised \$3.2 billion investment in capital assets, \$162.5 million internally restricted funds offset by \$95.2 million in deficit.

The assets of the capital fund have grown from \$1.1 billion in 2009 to \$4.8 billion in 2018 primarily as a result of the University's large capital construction program over this period and recording some of its land at fair value as noted above. Liabilities have grown from \$907.5 million in 2009 to \$1.6 billion in 2018. This growth in liabilities reflects the increase in long-term debt to \$709.8 million, and growth in deferred capital contributions to \$1.2 billion. This growth is partly offset by loans to other funds of \$420.4 million since the external borrowing of long-term debt is recorded in the capital fund and loans are provided to departments or operations that have the responsibility to repay the loans. These loans are recorded as a liability in the operating fund or ancillary operations, as appropriate, and are recorded as a receivable in the capital fund.



## RESTRICTED FUNDS

*Restricted funds* include donations (including endowments), research grants and contracts. Each donation, usually supported by an agreement between the University and the donor, or a collection of small donations with similar purpose, is recorded in its own fund, and managed according to agreed upon terms and conditions. Each research grant or contract is also recorded in its own fund and managed in accordance with the terms and conditions required by the sponsor of the funds. There are over 18,100 individual restricted funds.

Restricted funds exclude research grants for capital assets and donations designated for capital assets, both of which are recorded in the capital fund. When restricted funds are provided for, or spent on, capital assets, they are recorded in the capital fund.

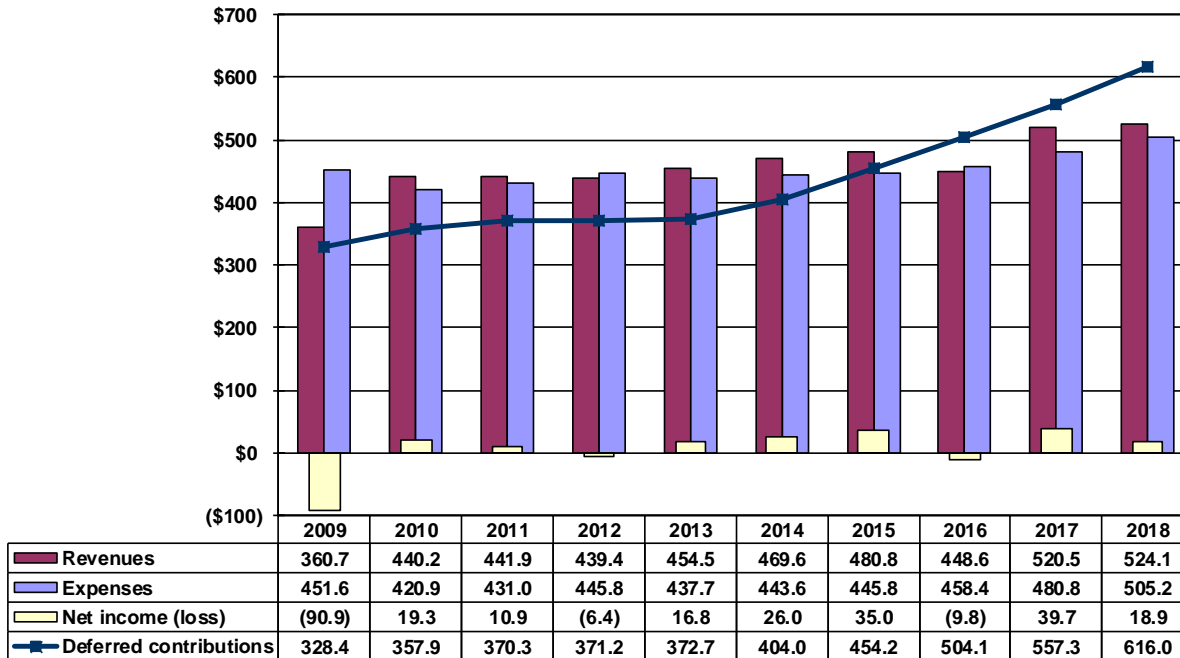
Financial reporting for restricted funds follows specific rules with respect to revenue recognition that differ from the rules for unrestricted receipts. They are:

- Restricted grants and expendable donations are recorded as revenue when spent, while unrestricted grants and expendable donations are recorded as revenue when received.
- Unspent restricted grants and donations are recorded as liabilities known as deferred contributions.
- Endowed donations are not recorded as revenue. They are added directly to the balance sheet as net assets.
- Investment earnings on externally restricted endowments that are made available for spending are recorded as revenue and the amount for preservation of capital is added directly to the balance sheet as net assets. In years where earnings are below the amount made available for spending, a drawdown is made from previously re-invested earnings. The amount made available for spending is recorded as revenue, and net assets on the balance sheet are reduced directly by the drawdown. Investment earnings or loss on internally restricted endowments are recorded in the income statement and the amount for preservation of capital or drawdown is recorded as a transfer to or from the endowment balance.

In 2009, investment losses reflected the very poor investment markets. No spending allocation was made from the endowments. Commitments normally met from the endowment payout were met from other sources of funds. After 2009, the University was able to make funds available for spending from the endowments.

In 2018, restricted funds revenues for the year were \$524.1 million and expenses were \$505.2 million, resulting in net income of \$18.9 million. Net income in any particular year mainly reflects the recording of unrestricted donations and investment income as revenue that has not yet been offset by expenses. A net loss in any particular year mainly reflects the recording of investment losses on internally restricted endowments funded by a transfer from endowed capital and/or expenses funded by internally restricted net assets.

**Restricted Funds**  
**Revenues, Expenses and Deferred Contributions**  
**for the Year Ended April 30**  
**(millions of dollars)**



Restricted funds' assets were \$3.2 billion, liabilities were \$634.8 million, and net assets were \$2.6 billion. Net assets comprised \$2.5 billion in endowments and \$73.9 million in internally restricted funds.

Restricted funds' net assets increased by \$128.3 million between April 30, 2017 and April 30, 2018 as a result of net income of \$18.9 million and a further \$109.4 million as follows:

a) transfers from other funds:

- \$8.7 million net from the operating fund and capital, mainly as matching funds.
- \$0.7 million net transfer from ancillary operations to fund future maintenance and bursaries.

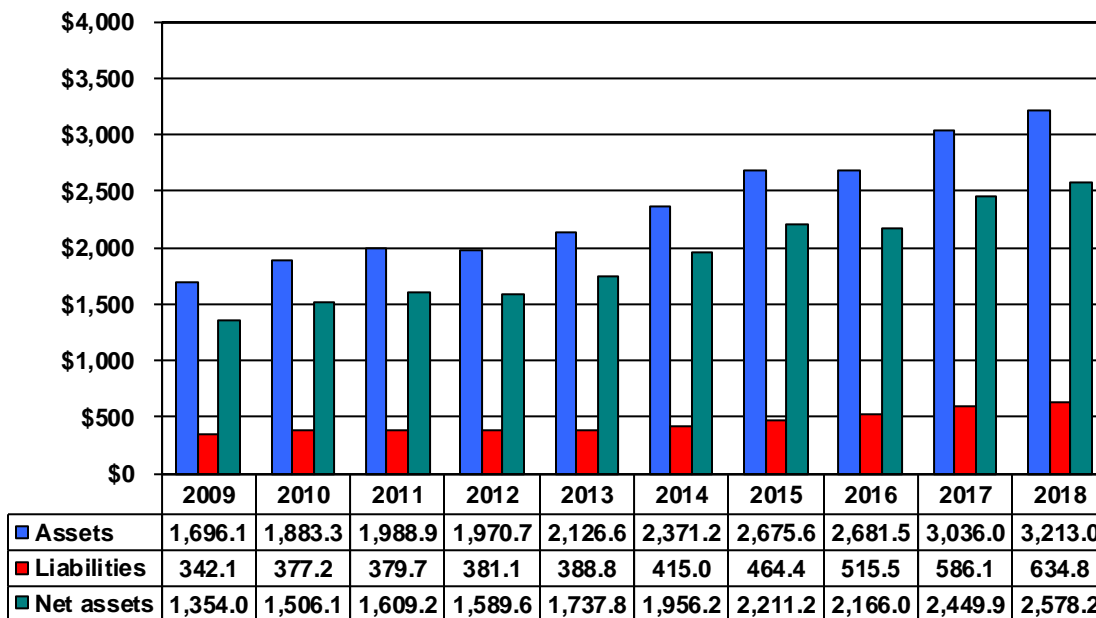
b) endowed contributions and investment gains on externally restricted endowments, which are not recorded as revenue, but are added directly to net assets:

- \$39.0 million endowed donations.
- \$61.0 million increase on externally restricted endowments, consisting of a \$134.0 million investment gain less \$73.0 million withdrawn for payout.



As noted above, the majority of unspent expendable restricted funds are NOT recorded as net assets, but rather are recorded as deferred contributions in the liabilities section of the balance sheet. Total liabilities have grown from \$342.1 million in 2009 to \$634.8 million in 2018 mainly as a result of the growth in research activity and restricted expendable donations that are reflected in deferred contributions until they are spent.

**Restricted Funds  
Balance Sheet  
as at April 30  
(millions of dollars)**



Net assets in restricted funds have grown from \$1.4 billion in 2009 to \$2.6 billion in 2018.

Schedule 6 reflects the change in endowment funds from April 30, 2017 to April 30, 2018 with the related expendable funds.

**Schedule 6  
(Unaudited)  
UNIVERSITY OF TORONTO  
RESTRICTED FUNDS  
ENDOWMENT AND EXPENDABLE FUNDS AT FAIR VALUES AT APRIL 30, 2018**  
(thousands of dollars)

|  | Endowment funds   |                                      |  |              | Expendable funds  |                   |  |  |            |                |                   |
|--|-------------------|--------------------------------------|--|--------------|-------------------|-------------------|--|--|------------|----------------|-------------------|
|  | April 30,<br>2017 | Donations,<br>and other<br>additions | Preservation<br>of capital<br>(note 1) | Transfers    | April 30,<br>2018 | April 30,<br>2017 | Donations,<br>grants<br>and other<br>additions | Distributed<br>investment<br>income/(loss)<br>(note 1) | Transfers  | Disbursements  | April 30,<br>2018 |
|  | \$                | \$                                   | \$                                     | \$           | \$                | \$                | \$   | \$   | \$         | \$             | \$                |
| Student aid (note 2)   | 523,915           | 19,070                               | 16,000                                 | 1,308        | 560,293           | 46,613            | 9,019  | (6,903)  | 3,664      | -              | 52,393            |
| Ontario Student Opportunity<br>Trust Fund - Phase I (note 2) | 372,635           | 152                                  | 11,351                                 | 23           | 384,161           | 29,982            | 9  | 455  | (23)       | -              | 30,423            |
| Ontario Student Opportunity<br>Trust Fund - Phase 2 (note 2) | 44,669            | 1                                    | 1,361                                  | -            | 46,031            | 3,438             | -  | 220  | -          | -              | 3,658             |
| Ontario Trust for Student Support (note 2)                   | 83,872            | 134                                  | 2,552                                  | 1            | 86,559            | 4,692             | -  | 70   | 83         | -              | 4,845             |
| Research funds   | 151,628           | 8                                    | 4,590                                  | 50           | 156,276           | 277,174           | 436,010  | 5,672  | 2,011      | 421,701        | 299,166           |
| Departmental funds   | 333,261           | 10,966                               | 9,980                                  | 3,450        | 357,657           | 222,906           | 73,991   | 38,105   | (3,468)    | 90,483         | 241,051           |
| Faculty endowment funds (note 2)                             | 720,485           | 14,016                               | 20,926                                 | 4,091        | 759,518           | 16,785            | 858  | 5,958  | 662        | 6,062          | 18,201            |
| Connaught fund   | 112,601           | -                                    | 3,430                                  | -            | 116,031           | 5,904             | -  | 4,044  | (2,867)    | 228            | 6,853             |
| l'Anson fund   | 3,284             | -                                    | 100                                    | -            | 3,384             | 883               | -  | 123  | (250)      | -              | 756               |
| Miscellaneous funds  | 33,807            | -                                    | 535                                    | -            | 34,342            | 18,612            | 40,598   | 303  | 627        | 27,537         | 32,603            |
|  | <u>2,380,157</u>  | <u>44,347</u>                        | <u>70,825</u>                          | <u>8,923</u> | <u>2,504,252</u>  | <u>626,989</u>    | <u>560,485</u>                                 | <u>48,047</u>  | <u>439</u> | <u>546,011</u> | <u>689,949</u>    |
| Comprising:  |                   |                                      |  |              |                   |                   |  |  |            |                |                   |
| Externally designated  | 2,021,051         | 39,375                               | 60,664                                 | 8,282        | 2,129,372         |                   |  |  |            |                |                   |
| Internally designated  | 359,106           | 4,972                                | 10,161                                 | 641          | 374,880           |                   |  |  |            |                |                   |
|  | <u>2,380,157</u>  | <u>44,347</u>                        | <u>70,825</u>                          | <u>8,923</u> | <u>2,504,252</u>  |                   |  |  |            |                |                   |
| Restricted   |                   |                                      |  |              |                   | 557,268           | 551,963  | 40,456   | 1,297      | 534,954        | 616,030           |
| Unrestricted   |                   |                                      |  |              |                   | 69,721            | 8,522  | 7,591  | (858)      | 11,057         | 73,919            |
|  |                   |                                      |  |              |                   | <u>626,989</u>    | <u>560,485</u>                                 | <u>48,047</u>  | <u>439</u> | <u>546,011</u> | <u>689,949</u>    |

**Notes:**

(1) Consisting of investment income on:

|                  |                |
|------------------|----------------|
| Endowment funds  | 116,367        |
| Expendable funds | <u>2,505</u>   |
|                  | <u>118,872</u> |

(2) Disbursements and corresponding distributed investment income for Student aid (\$25,961), Ontario Student Opportunity Trust Funds (\$14,269), Ontario Trust for Student Support (\$2,919) and Faculty Endowments (\$20,397) are reported in the Operating Fund.



UNIVERSITY OF  
TORONTO