DRAFT

UNIVERSITY OF
TORONTO

FINANCIAL REPORT

April 30, 2008

Courtesy of Beth Learn

46280

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HIGHLIGHTS

Year Ended April 30, 2008

(With comparative figures at April 30, 2007)

(Millions of dollars)

	2008	2007	% Change
Income Statement			
Revenues	$ 1,948.9	$ 1,942.0	0.4%
Expenses	$ 1,898.3	$ 1,807.5	5.0%
Net Income	$ 50.6	$ 134.5	-62.4%
Balance Sheet			
Assets	$ 4,305.3	$ 4,200.8	2.5%
Liabilities	$ 2,131.0	$ 2,024.3	5.3%
Net Assets	$ 2,174.3	$ 2,176.5	-0.1%
Net Assets Composed of:			
Endowments	$ 1,754.8	$ 1,822.7	-3.7%
Investment in Capital Assets	$ 371.9	$ 282.2	31.8%
Internally Restricted Net Assets	$ 279.5	$ 266.7	4.8%
Unrestricted Deficit	$ (231.9)	$ (195.1)	18.9%
	$ 2,174.3	$ 2,176.5	
Long-term Debt	$ 556.3	$ 556.7	-0.1%
Long-term Debt as % of Net Assets	25.6%	25.6%	
Student FTE's (November 1)	62,301	61,210	1.8%
Total Number of Students (November 1)	73,016	71,202	2.5%

HIGHLIGHTS

The University of Toronto (the "University") was established in 1827 and is Canada's largest and most comprehensive university.

Enrolment at the University is more than 73,000 full-time and part-time students (62,301 full-time equivalents), making the University of Toronto 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 students learning experiences enriched by individual cultures in a smaller community. The University is located on three campuses: St. George (downtown Toronto), Scarborough and Mississauga.

The University of Toronto'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. Specific goals for the current planning period are:

- Every student will have the opportunity for an outstanding and unique experience at the University of Toronto.
- The University will bring together scholars and students from diverse disciplines to meet scholarly challenges through interdisciplinary, interdepartmental, and interdivisional collaborations across campuses and with affiliated institutions.
- Mechanisms will be introduced to clearly link our undergraduate, graduate, and professional academic programs to strong research experiences.
- Our scholarship and academic programmes will be relevant to, and have an impact on, the broader community (locally, nationally or internationally) through outreach and engagement in the processes of public policy.
- We will endeavour to achieve equity and diversity in all our activities to ensure that we reflect our local and global community.

Key opportunities and challenges over the past several years and continuing forward are the need to accommodate student enrolment growth and research growth and to move forward on the University's other goals, all of which have both operational and capital requirements.

Key drivers of financial performance are:

1) **Growth in student enrolment** has generated both additional revenues and additional expenses and has fuelled the need for additional space for teaching, for office space, for student activity, and for residence accommodations.

2) **Growth in research activity** has generated additional direct expenses which are offset by additional revenues. Growth in research results in the need for additional space and renovated space for conducting research as well as increasing the indirect costs which are not fully recovered by the University.

3) **Growth in salaries and benefits** has increased both expenses and liabilities due to growth in staffing and the cost of providing pensions and other employee future benefits.

4) **Growth in space** has required long-term borrowing to augment capital grants and donations, which increases liabilities and interest expense. Capital grants received increase liabilities (deferred capital contributions) which are recorded as revenue over time to match the amortization expense.

5) **Donations:** Expendable donations provide additional revenue in support of designated activities. Endowed donations are added directly to the endowment. Although they are not available to spend, the investment income earned on endowments is available for use.

6) **Growth in endowments** provides additional investment income in support of designated activities, mostly endowed chairs and student aid, and enhances the balance sheet by increasing the University's net assets.

7) **Investment earnings** are variable, even with investment policies with modest risk profiles. Investment returns in any given year may dictate whether the University experiences net income or a net loss for the year.

The Income Statement

The following are the key drivers of financial performance of the income statement:

- Growth in student enrolment increases student fee revenues, government grants for general purposes, sales, services and sundry income (which include residence fees), salaries and benefits expense and materials and supplies expense.

- Growth in research activity affects research revenues, salaries and benefits expense and materials and supplies expense.

- Growth in space affects building construction and renovations, interest and amortization expense.

- Receipt of donations.

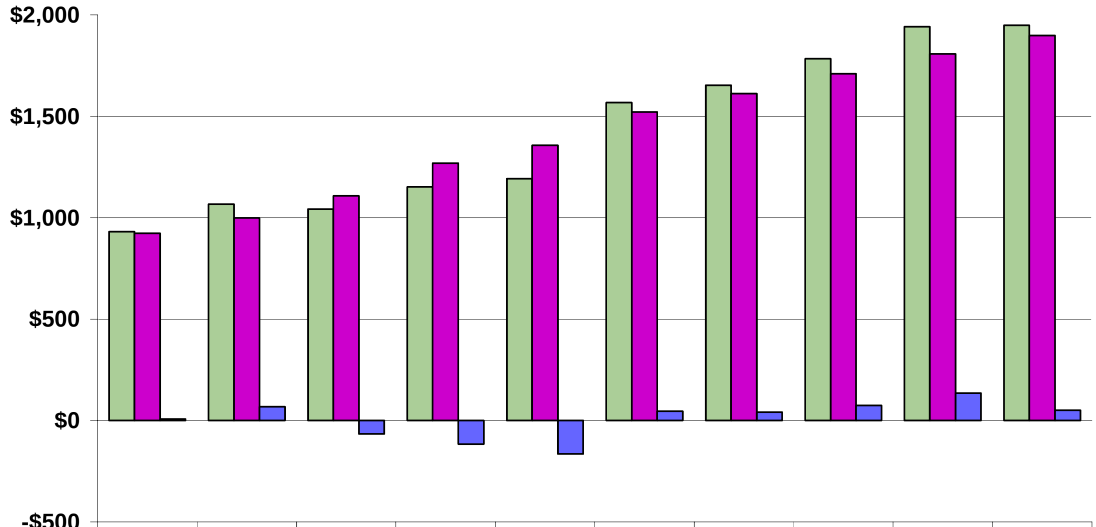
- Investment performance.

Revenues for the year ended April 30, 2008 were $1.95 billion, expenses were $1.90 billion and net income was $50.6 million.

Revenues have grown by 109.4% since 1999 primarily due to an increased number of students combined with increased research activities. Expenses have continued to rise due both to inflation and to the increased number of faculty and staff to accommodate these increased levels of activities. The net losses in 2001 through to 2003 were mainly attributed to investment losses on expendable funds and on internally restricted endowments as a result of poor investment markets.

In 2008, $1.22 billion or 62.7% of revenues was from student fees and government grants provided in support of student enrolments. An additional $362.8 million represented government and other grants and contracts for restricted purposes. Together these three sources accounted for 81.3% of revenues for the year.

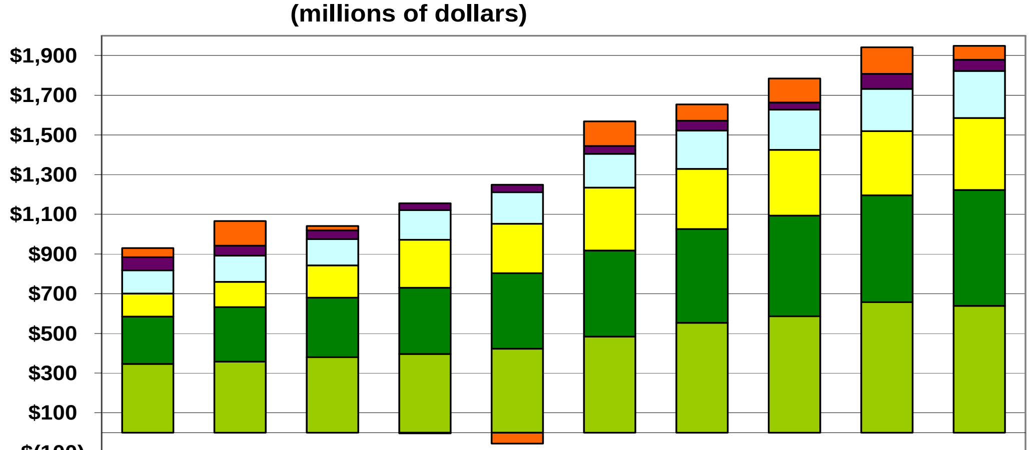
Revenues and Expenses
for the year ended April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues	930.5	1,066.6	1,041.6	1,152.1	1,192.7	1,568.1	1,653.8	1,784.3	1,942.0	1,948.9
Expenses	923.0	998.6	1,107.5	1,268.4	1,357.1	1,521.5	1,612.6	1,709.3	1,807.5	1,898.3
Net income (loss)	7.5	68.0	(65.9)	(116.3)	(164.4)	46.6	41.2	75.0	134.5	50.6

In 2008, expendable donations amounted to $56.2 million. Investment income was $69.9 million. (Note that, in accordance with Canadian generally accepted accounting principles (GAAP), endowed donations and investment income allocated for the preservation of capital on externally restricted endowments are not recorded as revenue, rather they are added directly to endowments on the balance sheet.)

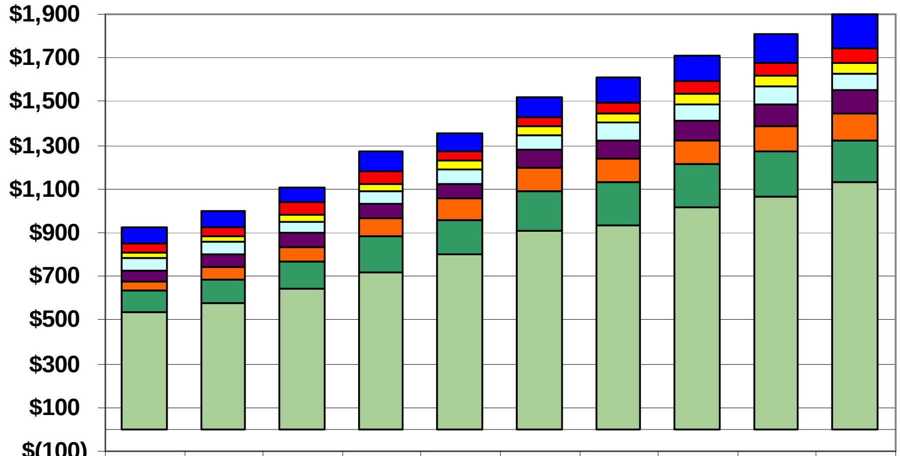
Revenues by Category
for the year ended April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total revenues	930.5	1,066.6	1,041.6	1,152.1	1,192.7	1,568.1	1,653.8	1,784.3	1,942.0	1,948.9
Investment income (losses)	46.7	125.1	22.1	(3.4)	(55.6)	123.9	82.8	120.0	134.4	69.9
Expendable donations	65.3	49.6	44.3	34.3	36.6	39.4	48.0	37.0	74.8	56.2
Other sales and services	117.5	131.6	132.2	149.6	159.4	170.2	194.8	202.2	212.9	237.4
Restricted grants and contracts	116.7	127.5	162.5	241.7	248.7	317.2	302.4	332.2	323.9	362.8
Student fees	238.2	275.1	299.8	333.7	380.9	433.1	472.3	505.7	538.9	583.6
Government grants	346.1	357.7	380.7	396.2	422.7	484.3	553.5	587.2	657.1	639.0

In 2008, expenses for the year amounted to $1.9 billion, of which $1.1 billion, or 59.4%, was for salaries and benefits.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total expenses	923.0	998.6	1,107.5	1,268.4	1,357.1	1,521.5	1,612.6	1,709.3	1,807.5	1,898.3
Other	72.1	71.9	63.0	84.1	87.7	96.7	116.3	114.7	127.3	153.4
Repairs and maintenance	44.8	44.0	59.3	57.3	38.8	38.3	48.8	54.2	61.4	65.2
Utilities	24.3	27.0	32.3	35.1	39.1	38.2	44.5	51.1	52.5	53.0
Cost of sales and services	53.3	54.9	55.8	63.0	67.4	70.7	77.6	79.1	77.7	76.5
Amortization of capital assets	53.6	57.9	60.2	61.4	71.1	76.8	83.5	91.4	99.1	104.1
Scholarships, fellowships, bursaries	38.6	55.9	68.6	86.7	98.8	108.8	110.9	106.5	115.9	125.0
Materials and supplies	100.2	109.9	125.9	166.1	153.4	184.2	194.7	200.0	211.7	193.7
Salaries and benefits	536.1	577.1	642.4	714.7	800.8	907.8	936.3	1,012.3	1,061.9	1,127.4

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 this Financial Report. Materials and supplies amounted to $193.7 million, or 10.2% of total expenses. Scholarships, fellowships and bursaries were $125.0 million, or 6.6%. Utilities expense amounted to $53.0 million, or 2.8%. Repairs and maintenance amounted to $65.2 million or 3.4%. Most renovations to buildings are not expensed but are capitalized during the year as capital assets in accordance with the University's accounting policies.

The Balance Sheet

The following are the key factors affecting the balance sheet:

- Growth in pension and benefit costs affects liabilities and, where such liabilities are unfunded, reduces internally restricted net assets.
- Growth in space to support enrolment and research growth affects capital assets and long-term debt. Capital assets are accounted for in the financial statements at cost and not at fair value.
- Growth in endowments is derived from endowed donations and grants, and investment returns which are added to endowments for capital preservation.

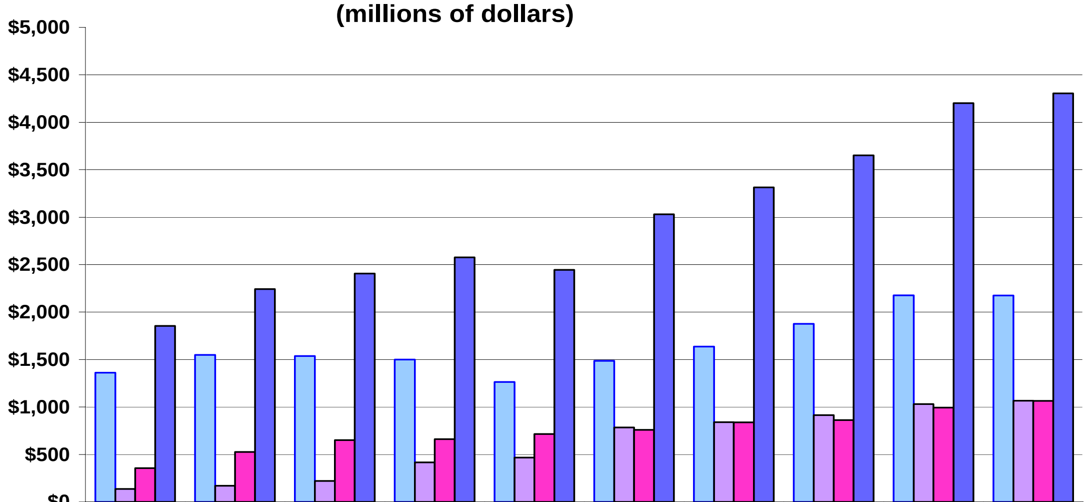
At April 30, 2008, assets were $4.30 billion, liabilities were $2.13 billion and net assets were $2.17 billion. Assets and liabilities have grown since 1999 due to the construction of additional space to accommodate the increased number of students and increased research activities and due to growth in endowments. The University has obligations not recorded in the financial statements of $140.7 million related to employee future benefits that will be recorded in the financial statements in accordance with generally accepted accounting principles.

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 grants, and 2) from investment income (loss) on externally restricted endowments (which is not made available for spending) which do not flow through the income statement but rather are added (deducted) directly to the endowment balance in accordance with GAAP, and
- the change in the fair value of interest rate swap contracts in accordance with GAAP.

Between 2007 and 2008, net assets remained relatively unchanged at $2.17 billion mainly as a result of $50.6 million net income, offset by a reduction of $67.9 million in endowments as described above.

Assets, Liabilities and Net assets
at April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net assets	1,361.5	1,547.7	1,535.9	1,500.5	1,264.2	1,487.0	1,636.1	1,876.4	2,176.5	2,174.3
Liabilities	135.4	169.2	219.4	415.4	465.7	784.6	840.0	913.9	1,030.6	1,066.8
Deferred contributions	357.2	525.7	650.9	661.7	715.3	758.9	837.7	861.9	993.7	1,064.2
Assets	1,854.1	2,242.6	2,406.2	2,577.6	2,445.2	3,030.5	3,313.8	3,652.2	4,200.8	4,305.3

Net assets consisted of the following:

- $1,754.8 million of endowments, representing 80.7% of net assets.
- $371.9 million of investment in capital assets.
- $279.5 million of internally restricted net assets, and
- ($231.9) million of unrestricted deficit.

The $231.9 million unrestricted deficit is largely due to the internal financing of capital construction in accordance with the University’s debt strategy (see Space section of this document).

The $279.5 million in internally restricted net assets mainly reflects the setting aside of net assets for the University's supplemental retirement arrangement of $184.1 million, divisional operating fund allocations unspent at year-end and carried forward for one-time only expenditure in future years of $244.8 million, other unspent funds of $86.7 million, departmental trust funds of $71.7 million partially offset by the unfunded liability associated with employee future benefits of $307.8 million.

The $371.9 million investment in capital assets represents internal monies spent by the University for capital projects, which will be reduced over time as the assets are amortized.

The $1.75 billion in endowments represents over 4,750 individual endowment funds, which are restricted in nature, and for which the principal may not be spent based on the direction of donors or Governing Council.

The Role of the Government of Ontario

In fiscal 2008, about $1.22 billion, or 62.7% of revenues, comprised student fees and government operating grants provided in support of student enrolments. The provincial government provides operating grants and regulates tuition fees for most programmes.

The Ontario Budget of May 11, 2005 announced a major funding allocation of $6.2 billion for universities and colleges over the period from 2004 to 2010, including funding for graduate expansion, for additional undergraduate medical students, for tuition freeze compensation and for additional quality enhancement funds. However, according to the Council of Ontario Universities, university enrolments across Ontario have far outpaced projections with 14,000 more students enrolled over government projections made in 2005.

This announcement included a targeted increase in graduate enrolment of 14,000 students by the year 2009 for the Ontario system. In 2005, the University made a submission for 4,470 additional graduate students over 2004-05 levels (2,330 in phase one by 2007-08 and 2,140 in phase two) and submitted a plan for this expansion, which was approved by Governing Council. The necessary operating funding is assured by the Province for the first phase combined with the related capital funding, which will be provided in the form of a stream of payments over 20 years. The magnitude and timeline for the second phase is contingent on the availability of government funding. In 2007-8, the University revised its phase two submission to 720.

On March 8, 2006, the Government of Ontario announced a new tuition framework for the Province. Universities may increase tuition fees by up to 4.5% for entering students in most programs and by no more than 4% for in-program students. Tuition may increase by a maximum of 8% in professional programs such as Law, Medicine and Engineering and in graduate programs, provided that the average increase across the university does not exceed 5%. The tuition schedule adopted by the University reflected this new framework. At the same time, the government also introduced a student access guarantee to ensure that no student is denied access to higher education for financial reasons, which is in line with the long-established policy of the University. This guarantee has also been incorporated in the University's multi-year agreement with the Province for 2006-07 to 2008-09. The University remains committed to the goal of accessibility and to working with the provincial and federal governments to achieve this goal. During 2008, the University spent $125.0 million on student aid, a significant increase from $38.6 million in 1999.

On March 25, 2008, the Government of Ontario released its 2008-09 budget that pledged a range of investments for post-secondary education and research. The Ontario Budget included an investment of $200.0 million in incremental funds under the University Campus Renewal funding program for the maintenance and renewal of university facilities, of which the University was allocated $37.7 million. The funds will be used to improve energy efficiency, campus safety and security, and renew aging infrastructure. The Ontario Budget also pledged $25.0 million in capital funding to lever other funds for the new Munk School of International Studies to build on its existing strengths to educate Ontarians at a graduate level in the various disciplines required for effective globalization. The Ontario Budget also included a commitment to invest $250 million over the next five years in the Ontario Research Fund for research infrastructure, providing matching funds for awards from the Canada Foundation for Innovation to help recruit top researchers from around the world and retain them in light of growing competition from universities in other jurisdictions.

Financial Planning

Revenues are expected to continue to increase over the next several years as a result of continuing growth and the government announcements outlined above, however the increase in operating funds provided by the Province will grow at a slower rate since there is no planned increase in per-student funding. On the other hand, expenses are expected to increase at a faster rate as a result of cost of living increases and other necessary expenses, requiring ongoing expense containment measures.

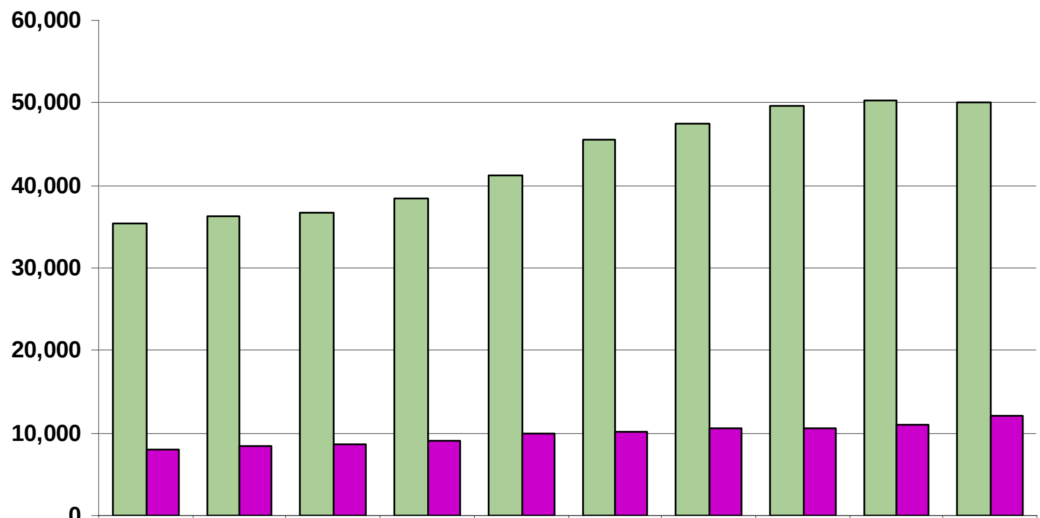
The long-range academic and budget plan for 2008-9 to 2012-2013 reflects the new tuition framework, the undergraduate medical student expansion plans, graduate expansion plans and quality enhancement funding assumptions, as well as other updated assumptions.

Student Enrolment

The demand for student spaces has increased significantly as a result of increased population growth and participation rates since 1999 combined with the effect of the elimination of grade 13 in Ontario, which impacted the entering classes of 2002, 2003, and 2004. More than 73% of the direct entry undergraduate student body is drawn from the greater Toronto area.

The University has increased enrolment to accommodate this additional student demand and student full-time equivalent enrolment increased from 43,340 in 1999 to 62,301 in 2008.

Number of Undergraduate and Graduate Student FTEs as at November 1



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Undergraduate	35,305	36,362	36,712	38,339	41,184	45,533	47,402	49,669	50,220	50,159
Graduate	8,035	8,319	8,549	9,107	9,824	10,230	10,485	10,534	10,990	12,142

The provincial government provides full average funding for each additional student beyond the numbers enrolled in 2000-01. Government grants for general operations decreased to $639.0 million for 2008 from $657.1 million for 2007, a decrease of 2.8% due primarily to the receipt in 2007 of incremental funds to alleviate immediate cost pressures, partially offset by an increase in graduate expansion and quality funding.

Tuition fees for domestic students increased in accordance with the new tuition framework set by the provincial government. Student fees revenue increased to $583.6 million for 2008 from $538.9 million for 2007 as a result of student fee increases and enrolment growth.

Although the University has received nearly full average funding for additional students, neither on-going government grants nor regulated tuition fees have dealt adequately with the issue of inflation, which has resulted in the need for continuing cost containment to maintain financial health.

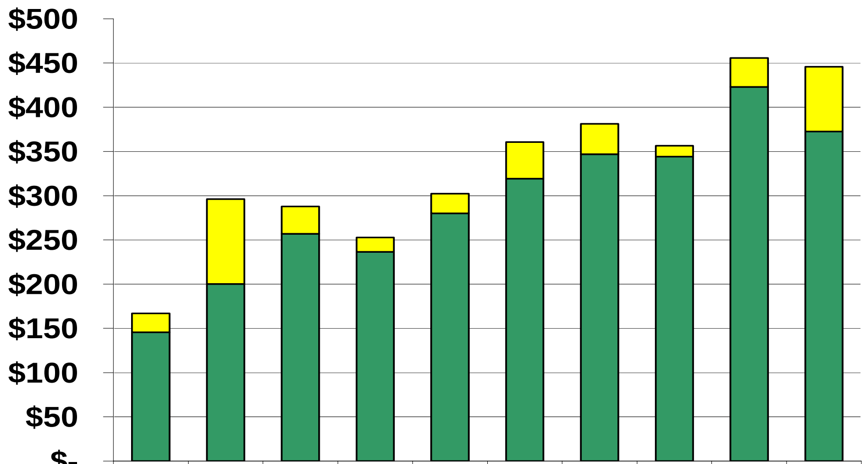
Student aid (scholarships, fellowships and bursaries) was $125.0 million for 2008 representing an increase of 223.8% (excluding student aid provided by the federated universities) since 1999. Over the same period, student fees revenue increased by 145.0%. Endowments in support of student aid comprised $397.2 million in 1999 compared to $768.1 million in 2008. This growth illustrates the strong commitment the University of Toronto has made under our policy on student financial aid, which guarantees that no qualified student will be prevented from beginning or completing his or her education due to financial need.

Research Activity

Enabling research is a strategic objective, with research, scholarship, and research training constituting integral elements of the academic programme. The University's long-standing Strategic Research Plan highlights research themes in six broad academic areas:

- the Humanities;
- the Social Sciences;
- Advanced Science and Technologies;
- Biomedical, Health and Life Sciences;
- Physical, Environmental, Earth and Space Science Related Studies; and
- Mathematical and Computational Science Related Studies.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Capital infrastructure and other	21.3	95.8	30.7	16.2	22.1	41.5	34.3	12.2	32.7	73.1
Research	145.6	200.3	257.0	236.4	280.2	319.3	346.9	344.2	423.0	372.6

Crosscutting these areas of research, the university has strengths in each of the priority sectors focused on both the federal government's Science and Technology Strategy and the provincial government's Innovation Agenda. From digital media and regenerative medicine to alternative energy technologies and clean manufacturing, the university is working with and facilitating collaborative work in its research community to take best advantage of research and related commercialization funding opportunities resulting from these new government strategies. The university is allocating resources as necessary to support funding related to the federal and provincial priority sectors and also to seek to advance research in these areas using the resources of other universities, government programmes, and private sector partners in Canada and around the world.

In recent years, both the federal and provincial governments have invested heavily in research infrastructure as well as in their more traditional area of direct support for research. The University has been successful in a number of competitions for research funding and research infrastructure (also see Space section of this document).

Funding received for research is accounted for as follows:

- research grants and contracts are recorded as revenue when spent.
- unspent research grants and contracts are recorded as deferred contributions.

Government and other grants and contracts received in 2008 for restricted purposes, which are mostly research grants, totaled $445.7 million, and were reported as follows: $339.9 million as revenue from grants for restricted purposes, $22.9 million as contract research revenue and $82.9 million as deferred contributions and deferred capital contributions. The $445.7 million comprised $372.6 million for research and $73.1 million mostly for capital infrastructure.

Research grant funding has increased by 155.9% since 1999. The increase in research funding is mainly due to increased funding made available from the federal and provincial governments and to the success of University of Toronto researchers in attracting research awards. The decrease in grant funding in 2008 is mainly due to receiving one-time-only funding as a result of the March 22, 2007 Ontario Budget.

It is important to note that research revenues can only be spent on research activities, but the amounts received do not adequately cover the full direct and indirect costs of research activities.

Salaries and Benefits

Salaries and benefits expense increased to $1.13 billion in 2008 due to negotiated salary increases for employee groups and due to the additional number of faculty and staff required to deal with the growth in students and research activity. The University's faculty and staff have increased from 10,103 in September 1999 to 12,788 in September 2007.

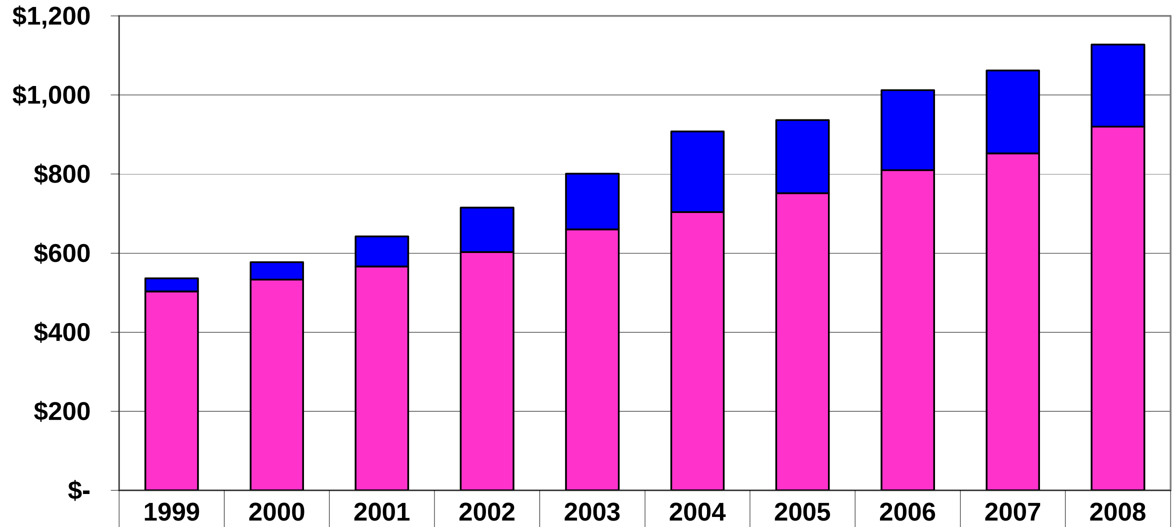
The University has entered into the following settlements, which together cover 80% of employees:

- Two year mediated settlement for faculty and librarians with across the board increases of 3.0% on July 1 and 0.5% on January 1 each year for 2007-08 and 2008-09.
- Three year agreement with administrative staff represented by the United Steelworkers for salary increases of effectively 3% per year starting July 1, 2005.
- Three year agreement with sessional lecturers and instructional assistants (non-student) and writing instructors starting September 1, 2006.
- Three year agreement with teaching assistants starting May 1, 2005.

The University provides its employees with defined pension benefits, life insurance, survivor income benefits, long-term disability insurance, medical benefits, vision benefits, memberships in University facilities, vacation, educational support, and several types of leave. Benefits expense for the year was $207.5 million comprised of employee future benefits expense of $113.6 million and other benefits expense of $93.9 million. It should be noted that salaries and benefits represents 71.7% of operating fund expenses.

Employee future benefits represent benefits 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 benefits are accounted for on an 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. Since 1999, the cost of providing these benefits has increased by $174.2 million, mainly as a result of an increasing number of staff, as well as improved retiree pension benefits, and due to changes in accounting rules which are explained further below.

Salaries and Benefits
for the year ended April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Benefits	33.3	44.6	76.5	112.1	140.8	203.7	184.7	202.8	209.7	207.5
Salaries	502.8	532.5	565.9	602.6	660.0	704.1	751.6	809.5	852.2	919.9

Pension benefits, which are based on salaries capped at $150,000, are provided through a combination of registered pension plans to the Income Tax Act maximum of approximately $121,400 and a non-registered supplemental retirement arrangement (SRA) between $121,400 (increasing to about $133,000 by 2009 and 3.5% thereafter) and the maximum of $150,000. The assets internally set aside for the SRA totaled $184.1 million at April 30, 2008 and were recorded as investments and as internally restricted net assets.

Beginning in 2001, accounting rules required that expenses and liabilities for employee future benefits be reported on an accrual basis instead of on a pay as you go (funding) basis. Liabilities were also required by GAAP to be valued using current long-term bond rates instead of using long-term asset return assumptions for funding purposes. This requirement gave rise to both current and past service liabilities which are being added to the liabilities recorded on the financial statements over 14 years. The addition over time of unfunded employee future benefits liabilities is increasing the liabilities section of the balance sheet without a corresponding increase in assets. It is therefore also reducing the net assets section of the balance sheet and constraining our ability to grow and our capacity to borrow.

The main reason for the decrease in the obligations from 2007 is an increase in the rate used to discount the obligations. The main reason for the decrease in the fair value of the pension plan assets as shown on the next page is a result of poor investment markets.

April 30, 2008	**Pension plans**	**Other benefit plans**
Plan status:		
Assets	**$2.90 billion**	**$37.1 million**
Obligations	**$3.24 billion**	**$369.3 million**
Deficit	**$337.5 million**	**$332.2 million**
Recorded in financial statements:		
Liability	**$87.9 million**	**$257.0 million**
Expense	**$67.7 million**	**$45.9 million**

April 30, 2007	**Pension plans**	**Other benefit plans**
Plan status:		
Assets	$3.01 billion	$32.6 million
Obligations	$3.26 billion	$362.0 million
Deficit	$250.9 million	$329.4 million
Recorded in financial statements:		
Liability	$98.6 million	$215.8 million
Expense	$76.7 million	$45.2 million

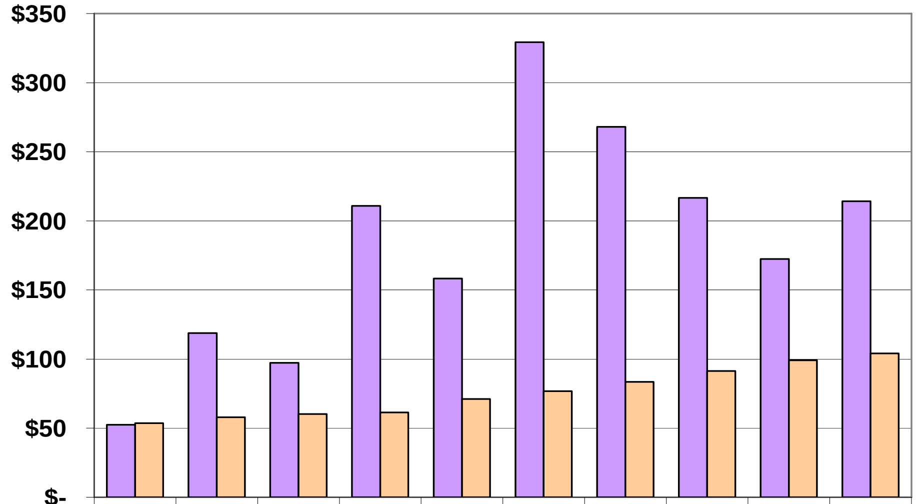
Space

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 began in 1999 and included a significant expansion of the University of Toronto at Mississauga and at Scarborough 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 and undergraduate medical student expansion.

The estimated cost of the projects currently approved and initiated since 1999 is $1.4 billion. The University is currently evaluating the additional capital requirements associated with the graduate and medical school expansion for which the provincial government provides capital funding in the form of a stream of payments intended to cover principal and interest payments on borrowing undertaken by the University. There are also other projects with a high academic priority that will need to be included.

Additionally, the University has future obligations of deferred and pending maintenance, which are currently estimated at $399.0 million, 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 is analyzing, in some detail and on a uniform basis, the deferred and pending maintenance obligations of every university in the Province. The long-range academic and budget plan for 2008-09 through 2012-2013 includes funding to arrest further deterioration of the physical infrastructure. During the year, the University also received $25.6 million from the Province of Ontario's Campus Renewal Program.

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

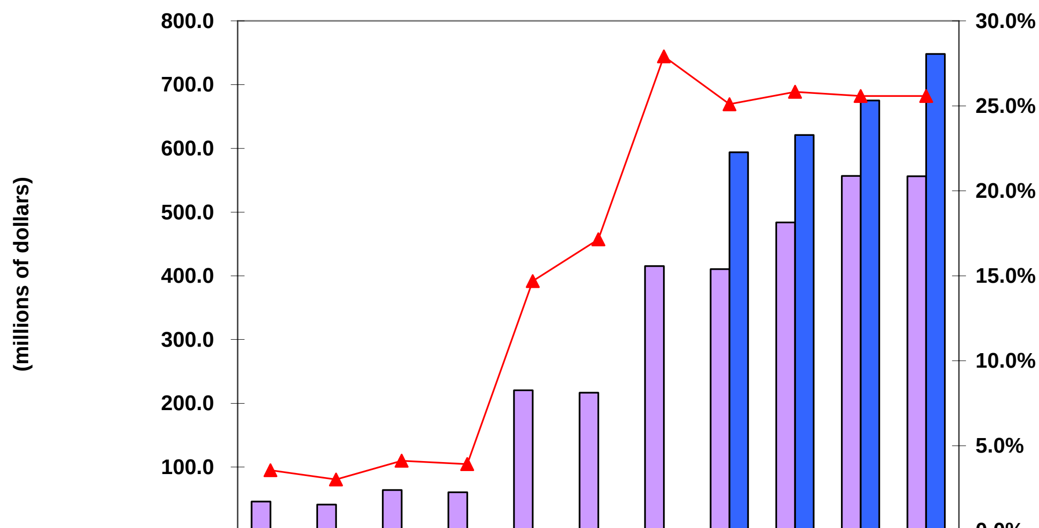


	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Additions to capital assets	52.4	118.8	97.3	210.9	158.3	329.3	268.0	216.7	172.4	214.3
Amortization	53.6	57.9	60.2	61.4	71.1	76.8	83.5	91.4	99.1	104.1

Borrowing

The capital plan calls for $875.9 million in borrowing which is expected to be financed by debt or from internal resources. To date, $556.3 million has been financed externally and $149.3 million has been financed internally.

External Borrowing Outstanding
for the year ended April 30



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total external borrowing	45.5	41.0	63.7	60.2	220.5	216.7	415.1	410.6	483.7	556.7	556.3
Maximum external borrowing capacity								593.9	621.1	675.2	748.0
External borrowing as a % of Net assets	3.6%	3.0%	4.1%	3.9%	14.7%	17.1%	27.9%	25.1%	25.8%	25.6%	25.6%

The approved borrowing strategy provides for a maximum borrowing amount of $948.0 million at April 30, 2008, comprised of external borrowing of $748.0 million (40% of net assets smoothed over 5 years) plus $200.0 million in internal financing. External borrowing is comprised of $510.0 million (gross of $3.0 million of issue costs) of debentures and $46.3 million (net of fair value impact of $5.5 million of interest rate swaps less $0.4 million due to an interest free loan) of other long-term debt.

The University's credit ratings are Aa1 (Moody's), AA (Standard and Poor's) and AA (Dominion Bond Rating Service), which ranks the University as a strong investment-grade credit equal to the Province of Ontario.

Donations

Academic priorities that cannot be completely funded through internal resources become approved priorities for fundraising. Priorities are assessed on an annual basis and revised as necessary. The Provost must approve all initiatives before they become priorities for fundraising.

The decision to hold fundraising as servant to the academic plans of its 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 all advancement programs. 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. This link established an environment that contributed to the success of the 1997 campaign, which reached its $1 billion goal by the end of 2003, one year ahead of schedule.

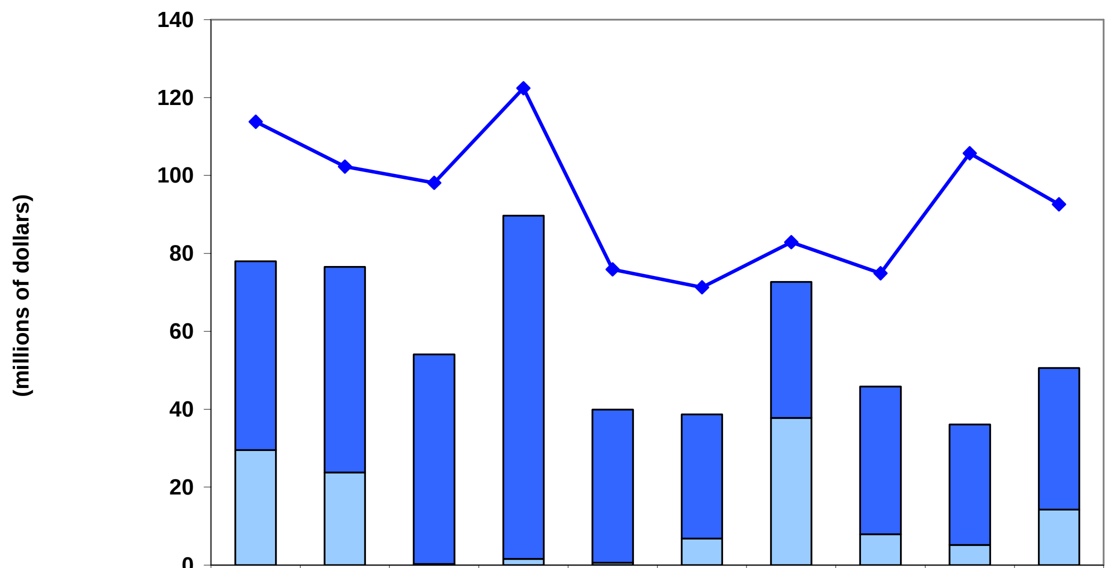
The total pledges raised for the University (including federated universities and other affiliated institutions) for the year ending April 30, 2008 was $183.0 million compared to $163.6 million in 2007. In recent years, there has been a shift from endowed to expendable giving as expendable donations provide immediate relief to the University's financial pressures and provide immediate funding towards capital infrastructure projects.

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. 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 spent;
- 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 2008, donations received by the University (excluding receipts by the federated universities and other affiliated organizations) totalled $92.6 million and were reported as follows: $56.2 million in expendable donations was reported as revenue and $36.4 million was added directly to endowments. Endowed grants received from the Government totalled $14.2 million. These were added directly to endowments and were provided in support of scholarships for Ontario resident students with financial aid and to fund endowed Ontario Research Chairs. It should be noted that the graph below tracks the cash received by fiscal year. There is usually a lag between the growth in pledges and related commitments, and the actual cash receipt of funds.

Endowed Contributions and Total Donations Received
for the year ended April 30

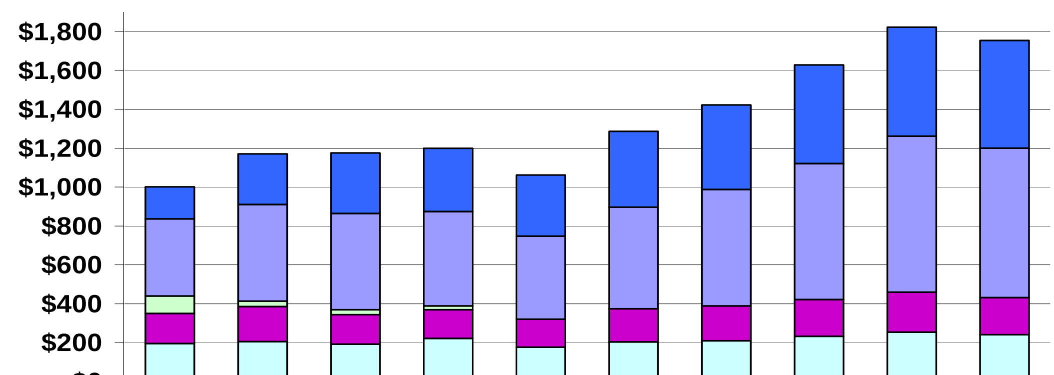


	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Endowed donations	48.5	52.7	53.8	88.1	39.3	31.9	34.9	37.9	30.9	36.4
Endowed grants	29.5	23.8	0.3	1.6	0.6	6.8	37.8	7.9	5.2	14.2
Total donations	113.8	102.3	98.1	122.4	75.9	71.3	82.9	74.9	105.7	92.6

Endowments

Endowments are RESTRICTED FUNDS which 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 at Fair Value
at April 30
(millions of dollars)



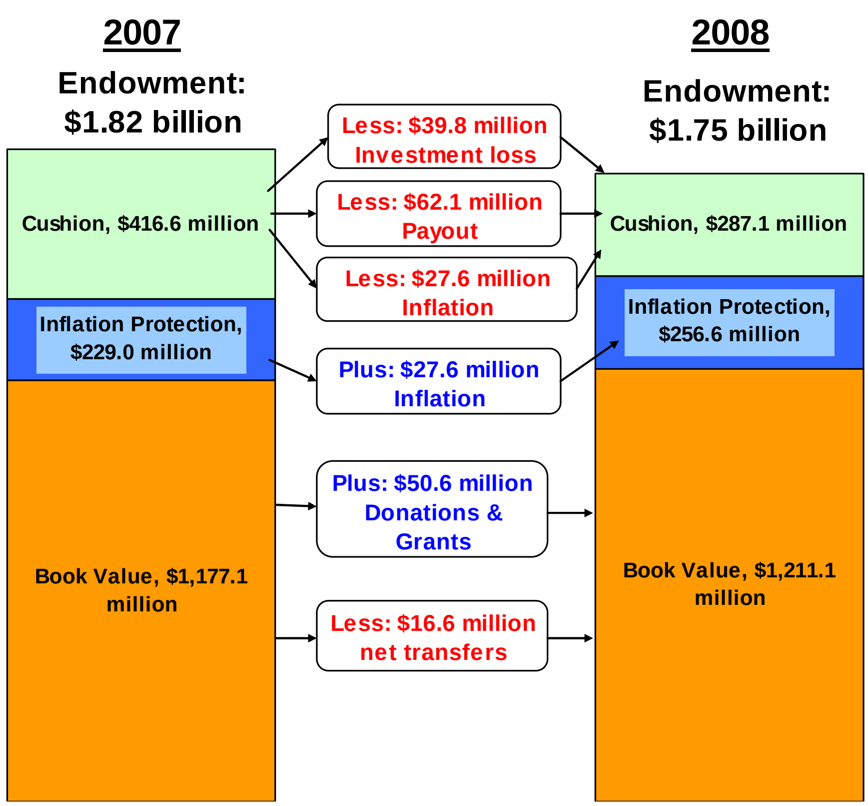
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total endowments	1,001.2	1,171.3	1,176.2	1,199.7	1,062.3	1,287.7	1,422.8	1,628.8	1,822.7	1,754.8
Chairs and professorships	164.1	260.4	311.4	324.5	314.4	390.7	434.8	507.6	560.5	554.4
Student aid	397.2	498.0	495.6	486.4	427.3	522.8	599.7	699.4	802.4	768.1
Matching funds	89.0	27.5	25.4	19.2						
Academic programs	156.0	180.1	151.5	148.0	143.8	170.3	179.0	189.0	205.9	191.8
Research	194.9	205.3	192.3	221.6	176.8	203.9	209.3	232.8	253.9	240.5

The decrease in the value of endowments from 2007 is mainly as a result of poor investment markets and a transfer of $21.8 million to UTS, of which $15.6 million was for student aid.

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.

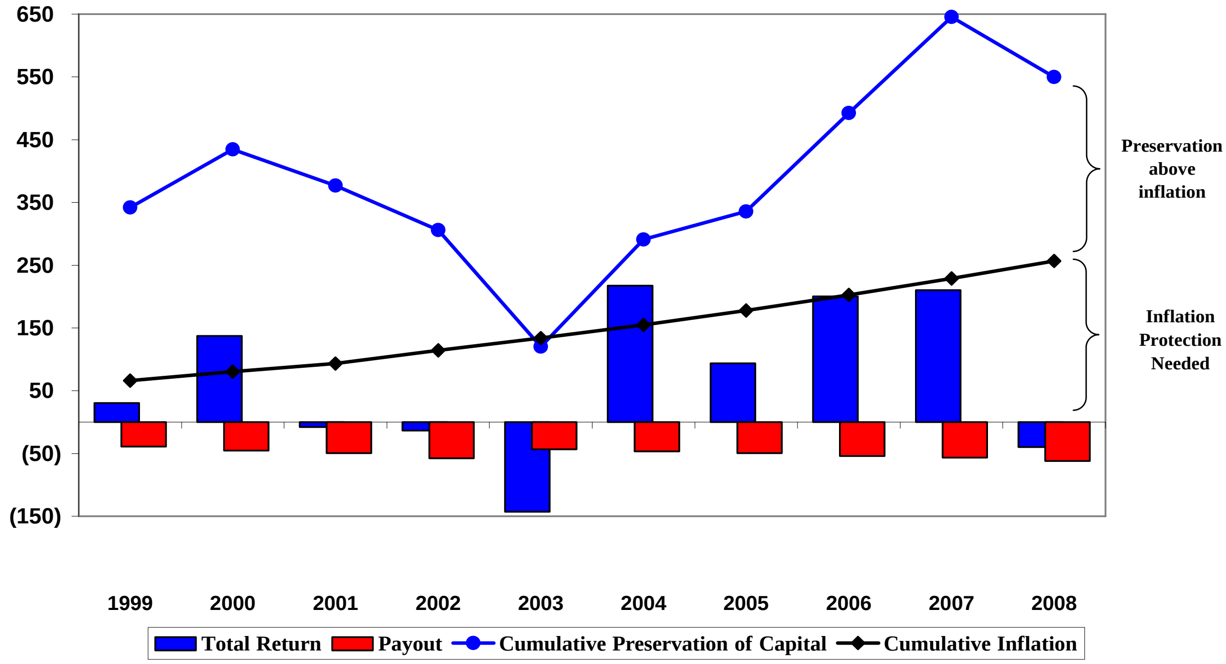
To do this, the University preserves capital by constraining the annual spending rate and setting funds aside when investment returns are good. This strategy protects against inflation and creates a cushion from which funds can be released to maintain spending in years when investment returns do not provide sufficient funding. The annual spending rate is expected to fall within 3% to 5% of opening market value of endowments.

For 2007-08, the endowment spending rate was $7.65 per unit, which provided $62.1 million for spending and represented 3.5% of the opening market value of endowments. The cushion declined by the amount of spending, by $39.8 million in investment losses, and by $27.6 million which was transferred from the cushion and added to inflation protection, as shown in the diagram below.



The following diagram shows the preservation of capital and payout over a ten year period starting in 1999.

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, 2008, there were over 4,850 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 was $1.75 billion at April 30, 2008, representing a decrease of $67.9 million comprised of:

- $36.4 million of externally endowed donations;
- $14.2 million of endowed government grants;
- ($21.8 million) transferred to University of Toronto Schools (UTS) under the terms of a long-term affiliation and license agreement;
- ($39.8 million) investment loss on internally and externally restricted endowments;
- ($52.5 million) reduction to make funds available for spending on externally restricted endowments;
- ($9.6 million) reduction to make funds available for spending on internally restricted endowments;
- $5.2 million of transfers from expendable funds and deferred contributions to endowments.

Investment Earnings

In 2008, the University reported investment income of $69.9 million (2007 - $134.4 million) consisting of $23.6 million income earned on expendable funds and $52.5 million of funds made available for spending on externally restricted endowments, offset by $6.2 million loss on internally restricted endowments. There was also an investment loss of $33.6 million on externally restricted endowments. In accordance with the capital preservation policy, the $52.5 million made available for spending and the $33.6 million loss on externally restricted endowments were deducted from endowment net assets.

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 objective for each of these pools, reflecting the liability requirements, and with the aim of producing steady, predictable returns for the University.

The University of Toronto Asset Management Corporation (UTAM) is a wholly owned investment management subsidiary of the University, governed by its own Board of Directors. UTAM develops and executes appropriate investment strategies and determines the policy asset mix, based on the risk and return objectives established by the University. 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.

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, and that the actual investment return is a key determinant of whether the University records a net income or net loss for the fiscal year.

LTCAP

The fair value of LTCAP was $2.0 billion at April 30, 2008, of which $1.75 billion was for endowments.

The investment risk and return targets for LTCAP are a 4.0% real investment return after investment fees and expenses and inflation, and a 10% standard deviation risk target, over a ten year period. This means that the real return is expected to be between minus 6% and 14%, two thirds of the time over a ten year period. The University's overriding objective with respect to investment performance is the achievement of this return target within the specified risk target. The return target was exceeded in each of the past four years from 2004 to 2007.

The table below summarizes the 1-year LTCAP investment performance for years ending April 30 and compares it to the University's investment return target.

1-Year Annual Rates of Return

Year Ended April 30	LTCAP annual actual return*	University objective (4% plus CPI)
2008	**(2.0%)**	**5.7%**
2007	13.7%	6.2%
2006	15.8%	6.4%
2005	7.4%	6.4%
2004	23.1%	5.6%

**Returns are net of all investment fees and expenses and exclude returns on private investment interests.*

EFIP

The investment policy for EFIP reflects its three categories of funds: very short-term investments managed by the University, funds loaned internally to support capital projects and funds managed by UTAM. The return objective and risk tolerance for each category of EFIP funds is as follows:

	Risk Tolerance	**Return Objective**
Investments managed by U of T in a money market fund	Minimal risk	30-day Treasury bill return
Internal loans	Minimal risk	Appropriate spread over Government of Canada bond of similar duration
Funds managed by UTAM	Minimal risk (standard deviation measure is not appropriate for short-term durations)	1 year Treasury bill return + 50 basis points within minimal risk targets

The returns for the 2008 fiscal year were as follows:

	Fair Value at April 30, 2008	**Total Return for Year Ended April 30, 2008**
Investments managed by U of T in a money market fund	**$138.2 million**	**4.33%**
Internal loans	**$149.3 million**	**6.18%**
Funds managed by UTAM	**$618.7 million**	**3.63%**

The returns for the 2007 fiscal year were as follows:

	Fair Value at April 30, 2007	**Total Return for Year Ended April 30, 2007**
Investments managed by U of T in a money market fund	$134.5 million	4.14%
Internal loans	$98.5 million	6.18%
Funds managed by UTAM	$594.7 million	5.71%

The 1-year Treasury bill plus 50 basis points target for EFIP funds held by UTAM was not achievable in fiscal 2008 without an increase in risk beyond the "minimum risk" tolerance established by the University. Therefore, the "minimum risk" target prevailed over the return target and actual returns achieved for this year reflect this priority selection.

Catherine J. Riggall
Vice-President, Business Affairs

Sheila Brown
Chief Financial Officer

Audited Financial Statements

April 30, 2008

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

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

The administration has prepared the financial statements in accordance with Canadian generally accepted accounting principles developed by The Canadian Institute of Chartered Accountants. The administration believes the financial statements present fairly the University's financial position as at April 30, 2008 and the results of its operations and its cash flows for the year then ended. In order to achieve the objective of fair presentation in all material respects, the use of reasonable estimates and 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 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 loss and that the accounting records are a reliable basis for the preparation of financial statements.

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

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

The financial statements for the year ended April 30, 2008 have been reported on by Ernst & Young LLP, Chartered Accountants, the auditors appointed by Governing Council. The auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

Catherine J. Riggall	David Naylor
Vice-President, Business Affairs	President

AUDITORS' REPORT

To the Members of Governing Council of University of Toronto:

We have audited the financial statements of **University of Toronto** as at and for the year ended April 30, 2008 comprising the following:

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

These financial statements are the responsibility of the administration of the University. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
May 30, 2008.

Chartered Accountants
Licensed Public Accountants

Statement 1

UNIVERSITY OF TORONTO
BALANCE SHEET
April 30, 2008

(with comparative figures as at April 30, 2007)
(millions of dollars)

	2008	2007
ASSETS		
Current		
Cash and cash equivalents (note 4)	**138.8**	138.5
Short-term investments (note 4)	**416.9**	351.7
Accounts receivable (note 4)	**95.4**	141.8
Inventories and prepaid expenses	**15.8**	16.2
	666.9	648.2
Long-term accounts receivable	**21.4**	
Investments (note 4)	**2,165.2**	2,211.0
Capital assets, net (note 5)	**1,451.8**	1,341.6
	4,305.3	4,200.8
LIABILITIES		
Current		
Accounts payable and accrued liabilities (notes 4 and 11)	**163.5**	159.5
Deferred contributions (note 12)	**346.1**	341.3
	509.6	500.8
Accrued pension liability (note 3)	**87.9**	98.6
Employee future benefit obligation other than pension (note 3)	**257.0**	215.8
Series A senior unsecured debenture (note 7)	**158.8**	160.0
Series B senior unsecured debenture (note 8)	**199.1**	200.0
Series C senior unsecured debenture (note 9)	**74.7**	75.0
Series D senior unsecured debenture (note 10)	**74.4**	75.0
Other long-term debt (note 11)	**51.4**	46.7
Deferred capital contributions (note 13)	**718.1**	652.4
	2,131.0	2,024.3
NET ASSETS (Statement 3)		
Unrestricted deficit	**(231.9)**	(195.1)
Internally restricted (note 14)	**279.5**	266.7
Investment in capital assets (note 6)	**371.9**	282.2
Endowments (notes 15, 16 and 17)	**1,754.8**	1,822.7
	2,174.3	2,176.5
	4,305.3	4,200.8

On behalf of Governing Council:

John F. Petch
Chair

David Naylor
President

Statement 2

UNIVERSITY OF TORONTO
STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED APRIL 30, 2008
(with comparative figures for the year ended April 30, 2007)
(millions of dollars)

	2008	2007
REVENUES		
Government grants for general operations	**639.0**	657.1
Student fees	**583.6**	538.9
Government and other grants for restricted purposes (note 20)	**339.9**	304.3
Sales, services and sundry income	**237.4**	212.9
Investment income (note 4)	**69.9**	134.4
Donations (note 19)	**56.2**	74.8
Contract research	**22.9**	19.6
	1,948.9	1,942.0
EXPENSES		
Salaries and benefits (note 3)	**1,127.4**	1,061.9
Materials and supplies	**193.7**	211.7
Scholarships, fellowships and bursaries	**125.0**	115.9
Amortization of capital assets (note 5)	**104.1**	99.1
Cost of sales and services	**76.5**	77.7
Utilities	**53.0**	52.5
Repairs and maintenance	**65.2**	61.4
Travel and conferences	**40.4**	35.7
Interest on long-term debt	**33.0**	31.0
External contracted services	**31.3**	30.5
Telecommunications	**11.7**	10.6
Other	**37.0**	19.5
	1,898.3	1,807.5
NET INCOME	**50.6**	134.5

Statement 3

UNIVERSITY OF TORONTO
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED APRIL 30, 2008
(with comparative figures for the year ended April 30, 2007)
(millions of dollars)

	Unrestricted deficit	**Internally restricted (note 14)**	**Investment in capital assets (note 6)**	**Endowments (note 15)**	**2008 Total**	2007 Total
Net assets, beginning of year, as originally stated	**(195.1)**	**266.7**	**282.2**	**1,822.7**	**2,176.5**	1,876.4
Change in accounting policies (note 2)	**(4.8)**				**(4.8)**	
Net assets, beginning of year, as restated	**(199.9)**	**266.7**	**282.2**	**1,822.7**	**2,171.7**	
Net income	**50.6**				**50.6**	134.5
Net change in internally restricted (note 14)	**(12.8)**	**12.8**				
Net change in investment in capital assets (note 6)	**(88.3)**		**88.3**			
Investment income (loss) on externally restricted endowments (note 15)				**(86.1)**	**(86.1)**	129.5
Externally endowed contributions						
- donations (note 19)				**36.4**	**36.4**	30.9
- Ontario grants				**14.2**	**14.2**	5.2
Transfer from internally restricted endowments (note 15)						
- available for spending	**9.6**			**(9.6)**		
- investment loss	**6.2**			**(6.2)**		
Transfer to endowments						
- donations	**(2.1)**			**2.1**		
- matching funds	**(0.7)**			**0.7**		
Transfer from deferred contributions (note 12)			**1.4**	**2.4**	**3.8**	
Transfer of endowments to UTS (note 22)	**6.2**			**(21.8)**	**(15.6)**	
Unrealized loss on swap contracts (note 4)	**(0.7)**				**(0.7)**	
Net assets, end of year	**(231.9)**	**279.5**	**371.9**	**1,754.8**	**2,174.3**	2,176.5

Statement 4

UNIVERSITY OF TORONTO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED APRIL 30, 2008
(with comparative figures for the year ended April 30, 2007)
(millions of dollars)

	2008	2007
OPERATING ACTIVITIES		
Net income	**50.6**	134.5
Add (deduct) non-cash items:		
Amortization of capital assets (note 5)	**104.1**	99.1
Amortization of deferred capital contributions (note 13)	**(47.0)**	(36.7)
Net capital losses (gains) from investments	**30.0**	(54.1)
Net change in accrued pension liability	**(10.7)**	(1.4)
Net change in employee future benefit obligation other than pension	**41.2**	38.6
Net change in other non-cash items (note 18)	**35.0**	21.8
	203.2	201.8
INVESTING AND FINANCING ACTIVITIES		
Net purchase of short-term investments	**(65.2)**	(188.7)
Net sale (purchase) of investments	**(70.4)**	61.5
Purchase of capital assets (note 5)	**(214.3)**	(172.4)
Contributions for capital asset purchases (note 13)	**114.6**	92.7
Other long-term debt		
- issued	**1.3**	
- repayments	**(2.0)**	(2.0)
Series D senior unsecured debenture issue (note 10)		75.0
Transfer of funds to UTS (note 22)		
- endowments	**(15.6)**	
- deferred capital contributions	**(1.9)**	
Endowment contributions		
- donations (note 19)	**36.4**	30.9
- Ontario grants	**14.2**	5.2
	(202.9)	(97.8)
Net increase in cash and cash equivalents during the year	**0.3**	104.0
Cash and cash equivalents, beginning of year	**138.5**	34.5
Cash and cash equivalents, end of year	**138.8**	138.5

1. Description

The Governing Council of the University of Toronto, which operates under the name University of Toronto (the "University"), is a corporation under the University of Toronto Act, a statute of the Legislative Assembly of Ontario. The University is an institution dedicated to providing post-secondary education and to conducting research. The University of Toronto's vision is to be a leader among the world's best public universities in its discovery, preservation and sharing of knowledge through its teaching and research and its commitment to excellence and equity.

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

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

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

2. Summary of significant accounting policies and reporting practices

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

a) Change in accounting policies -

Effective May 1, 2007, the University adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Section 3855: Financial Instruments - Recognition and Measurement, CICA 3861: Financial Instruments - Disclosure and Presentation and CICA 3865: Hedges. CICA 3855 establishes standards for recognizing and measuring financial instruments, including the accounting treatment for changes in fair value. As required by CICA 3855 and consistent with the accounting policy for investments used to prepare the prior year's financial statements, investments continue to be presented at fair value. In accordance with CICA 3865, all derivatives are measured at fair value and included on the balance sheet. In prior years, no value was recorded on the balance sheet for contracts in a hedging relationship. Further, CICA 3855 requires that debt be recorded net of transaction costs related to the issuance of the debt. In prior years, these costs were included in inventories and prepaid expenses. As permitted by CICA 3855, the University's other financial assets and liabilities continue to be presented at amortized cost.

The adoption of CICA 3855, 3861 and 3865 did not have a significant impact on the financial statements in the prior or current year, except for the recording of the value of derivative financial instruments on the balance sheet and the reclassification of transaction costs related to the issuance of debt. As required by the transitional provisions of CICA 3855, the change in accounting policy was adopted retroactively, without restatement of the prior year's financial statements. The impact on the balance sheet as at May 1, 2007 of recording the derivative contracts at fair value is an increase in other long-term debt and an increase in unrestricted deficit of $4.8 million. In addition, inventories and prepaid expenses and total unsecured debentures were reduced by $3.0 million.

b) Investments and investment income -

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

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

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

2. Publicly traded bonds and equities are determined based on the latest bid prices.

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

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

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

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

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

Investment income, which consists of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded as revenue in the statement of operations except for investment income earned on deferred contributions and the amount in excess of what is made available for spending on externally restricted endowments, which is recorded as a direct increase to endowments.

c) Derivative financial instruments -

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity and currency futures, options, swaps and forward contracts. These contracts are generally supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

Hedges are documented at inception, detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. For derivatives in hedging relationships, the effective portion of the gain or loss is recorded as a direct increase (decrease) in net assets, and the ineffective portion, if any, is recognized in the statement of operations. The University accounts for interest rate swap contracts as hedges. Derivative financial instruments that do not qualify for hedge accounting are carried at fair value, with changes in value during the year recorded in the statement of operations.

d) Cash and cash equivalents -

Cash and cash equivalents represent operating cash on deposit and units in a money market fund.

e) Inventory valuation -

Retail inventories are carried at the lower of average cost and net realizable value.

f) Employee benefit plans -

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

Pension plan assets are valued at fair value for purposes of calculating expected return on plan assets. The cost of pension and other post-employment benefits (primarily medical benefits and dental care) related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefits prorated on service method, and using estimates of the usage frequency and cost of services covered and management's best estimates of investment yields, salary changes, withdrawals, mortality rates and expected health care costs. The University's actuarial gains or losses (such as changes in actuarial assumptions and experience gains or losses), past service costs arising from plan amendments and transitional assets/obligations are amortized over the average remaining service life of active employees, currently 14 years (2007 – 14 years). A valuation allowance is recorded against an accrued benefit asset if the asset, less unamortized past service costs and unamortized actuarial losses, exceeds the present value of future service costs of the current active employees. Liabilities are discounted using current interest rates on long-term bonds.

g) Capital assets -

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

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

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

h) 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. Premiums, discounts and transaction costs related to the issuance of unsecured debentures and other long-term debt are reported net of the carrying value of the related debt.

i) Revenue recognition -

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

j) 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.

k) Accounting estimates -

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

l) Contributed services and materials -

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

m) Future accounting policy changes -

The CICA has issued two new standards, CICA 3862: Financial Instruments - Disclosures and CICA 3863: Financial Instruments - Presentation, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

The CICA has also issued a new accounting standard, CICA 1535: Capital Disclosures, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing net assets.

These changes in accounting policies, which will be adopted effective May 1, 2008, will only require additional disclosures in the financial statements.

3. Employee benefit plans

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

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

The latest actuarial valuation for the pension plans and for other retirement benefit plans was performed as of July 1, 2007. The next required actuarial valuations for the registered plans will be July 1, 2010.

The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year. The employee benefits expense for the year includes pension expense of $67.7 million (2007 - $76.7 million) and other retirement benefits expense of $45.9 million (2007 - $45.2 million).

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

	(millions of dollars)			
	2008		2007	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligation	**3,241.3**	**369.3**	3,258.2	362.0
Fair value of plan assets	**2,903.8**	**37.1**	3,007.3	32.6
Plan deficit	**(337.5)**	**(332.2)**	(250.9)	(329.4)
Amount recorded as a liability	**(87.9)**	**(257.0)**	(98.6)	(215.8)
Unamortized net actuarial loss	**(332.3)**	**(46.8)**	(266.5)	(72.2)
Unamortized transitional asset (obligation)	**187.1**	**(62.1)**	216.8	(72.6)
Unamortized past service cost	**(104.4)**	**(3.4)**	(102.6)	(1.4)
Plan assets recorded as investments		**37.1**		32.6
Plan deficit	**(337.5)**	**(332.2)**	(250.9)	(329.4)

In addition to the plan assets, the University has set aside $184.1 million (2007 - $174.2 million) as internally restricted net assets at April 30, 2008 related to obligations of the supplemental retirement arrangement (note 14).

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

	2008		2007	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligation:				
Discount rate	**6.00%**	**6.00%**	5.25%	5.25%
Rate of compensation increase	**4.25%**	**4.25%**	4.25%	4.25%
Rate of inflation	**2.25%**	**2.25%**	2.25%	2.25%
Benefit cost:				
Discount rate	**5.25%**	**5.25%**	5.25%	5.25%
Expected long-term rate of return on plan assets	**6.25%**	**N/A**	6.25%	N/A
Rate of compensation increase	**4.25%**	**4.25%**	3.75%	3.75%
Rate of inflation	**2.25%**	**2.25%**	2.25%	2.25%

For measurement purposes, a 10% (2007 - 8.0%) annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008. The rate of increase was assumed to decrease gradually to 5.0% by 2017 and remain at that level thereafter.

The pension plans' assets are invested as follows:

	2008	2007
Equity securities	**56.3%**	58.5%
Debt securities	**21.7%**	22.3%
Pooled funds - equity	**13.5%**	11.0%
Other	**8.5%**	8.2%
Total	**100.0%**	100.0%

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

	(millions of dollars)			
	2008		2007	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Funding by employer	**79.3**	**14.5**	79.6	13.4
Funding by employees	**32.8**	**3.9**	31.4	3.8
Benefits paid	**155.5**	**16.6**	145.9	15.3

4. Investments

Direct investments are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio. This classification required $374.2 million (2007 - $318.3 million) of pooled funds, $366.9 million (2007 - $400.7 million) in hedge funds and $0.3 million (2007 - $204.6 million) of cash, money market funds, short-term notes and treasury bills set aside related to derivative contracts to be reclassified to their appropriate investment category. The fair values of investments are as follows:

	(millions of dollars)	
	2008	2007
Cash, money market funds, short-term notes and treasury bills	**555.7**	490.2
Government and corporate bonds	**651.1**	675.4
Canadian equities	**288.9**	309.8
United States equities	**300.0**	384.2
Other international equities	**412.6**	457.6
Hedge funds	**250.0**	206.3
Private equity and debt interests	**160.1**	88.3
Real asset interests	**102.5**	89.4
	2,720.9	2,701.2
Less amounts reported as:		
Cash and cash equivalents	**138.8**	138.5
Short-term investments	**416.9**	351.7
	2,165.2	2,211.0

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

	(millions of dollars)			
	2008		2007	
	EFIP	**LTCAP**	EFIP	LTCAP
Cash, money market funds, short-term notes and treasury bills	**429.4**	**126.3**	393.3	96.9
Government and corporate bonds	**219.3**	**431.8**	252.7	422.7
Canadian equities		**288.9**		309.8
United States equities		**300.0**		384.2
Other international equities		**412.6**		457.6
Hedge funds	**97.6**	**152.4**	94.4	111.9
Private equity and debt interests		**160.1**		88.3
Real asset interests		**102.5**		89.4
	746.3	**1,974.6**	740.4	1,960.8

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to foreign exchange risk, interest rate price risk and market and credit risks. To manage these risks within reasonable risk tolerances, the University, through the University of Toronto Asset Management Corporation, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below).

In 2008, the University's investment income of $69.9 million consists of a loss related to investments held for internally restricted endowments of $6.2 million and the amount made available for spending of $52.5 million related to externally restricted endowments (note 15) and income of $23.6 million on investments other than those held for endowments. In 2007, the University's investment income of $134.4 million reported as revenue was made up of income on endowments of $80.7 million and income of $53.7 million on other investments.

During the year, the University recognized as investment income $6.7 million (2007 - $1.4 million) as a change in fair value that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. Management believes there are no other reasonable assumptions for these investments which would generate any material changes in investment income.

Derivative financial instruments

Description

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

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

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

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

Risks

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

Terms and conditions

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

	(millions of dollars)			
	2008		2007	
	Notional value	**Fair value**	Notional value	Fair value
Foreign currency forward contracts				
- U.S. dollars	**1,001.1**	**7.8**	1,139.4	47.5
- International	**326.9**	**6.3**	393.6	9.1
		14.1		56.6
Equity and commodity index futures contracts				
- Canadian	**80.7**	**3.9**	103.6	2.6
- United States	**172.5**	**7.9**	407.2	12.8
- International	**124.1**	**10.8**	136.7	5.4
		22.6		20.8
Interest rate swap contracts	**32.5**	**(5.5)**	33.8	(4.8)

The fair value of the foreign currency forward and equity and commodity index futures contracts of $36.7 million (2007 – $77.4 million) is reported as $38.2 million (2007 - $80.8 million) in accounts receivable and $1.5 million (2007 - $3.4 million) in accounts payable and accrued liabilities.

The interest rate swap agreements are designated as hedges for accounting purposes, which results in interest expense related to certain long-term debt being recorded in the financial statements at the hedged rates rather than at the contractual interest rates. The interest rate swap contracts result in the University fixing a weighted average long-term interest rate of 6.74% (2007 - 6.74%) on certain debt obligations instead of paying a weighted average short-term floating interest rate of 4.51% (2007 – 4.5%). These long-term contracts were entered into in years when interest rates were higher than current rates. These swap agreements require a periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The cash settlement is the difference between the contractual rate of interest and the current market rate, based on a notional amount. The fair value of the interest rate swap contracts of $5.5 million is included in other long-term debt. The change in the fair value of $0.7 million is recorded as an increase in unrestricted deficit in the statement of changes in net assets.

5. Capital assets

(millions of dollars)

	2008		2007	
	Total cost	**Accumulated amortization**	Total cost	Accumulated amortization
Land	**46.1**		31.8	
Buildings	**1,764.7**	**643.1**	1,663.6	610.3
Equipment and furnishings	**999.1**	**773.1**	927.6	727.8
Library books	**421.0**	**362.9**	393.8	337.1
	3,230.9	**1,779.1**	3,016.8	1,675.2
Less accumulated amortization	**(1,779.1)**		(1,675.2)	
Net book value	**1,451.8**		1,341.6	

The University develops replacement property values of buildings and contents for insurance purposes using various sources and valuation methods which conform with insurance industry practice and standards. Fine art and rare book collections are valued by the appropriate University officers. The insured replacement value of buildings is approximately $3.7 billion and contents is approximately $2.3 billion, which includes library books of approximately $1.1 billion.

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

(millions of dollars)

		2008		2007
Balance, beginning of year		**1,341.6**		1,268.3
Purchase of capital assets funded by capital contributions	**77.8**		65.9	
Purchase of capital assets financed by debt (notes 10 and 11)	**1.6**		57.2	
Purchase of land (note 12)	**1.4**			
Purchase of capital assets internally funded	**133.5**	**214.3**	49.3	172.4
Less amortization of capital assets		**(104.1)**		(99.1)
Balance, end of year		**1,451.8**		1,341.6

As at April 30, 2008, the University had $94.3 million (2007 - $50.5 million) in construction in progress that was included in buildings.

6. Investment in capital assets

Investment in capital assets represents the following:

(millions of dollars)

	2008	2007
Capital assets, net	**1,451.8**	1,341.6
Less net book value of assets financed by:		
Debentures and other long-term debt (notes 7 to 11)	**(447.3)**	(457.7)
Deferred capital contributions (note 13)	**(632.6)**	(601.7)
Balance, end of year	**371.9**	282.2

The net change in investment in capital assets with an impact on the unrestricted deficit is as follows:

	(millions of dollars)	
	2008	2007
Other long-term debt principal repayments	**2.0**	2.0
Purchase of capital assets internally funded	**133.5**	49.3
Increase in investment in capital assets	**135.5**	51.3
Amortization expense	**104.1**	99.1
Less amount of amortization expense related to capital assets purchased with:		
a) debentures	**(9.9)**	(9.4)
b) restricted contributions	**(47.0)**	(36.7)
Decrease in investment in capital assets	**47.2**	53.0
Total increase (decrease)	**88.3**	(1.7)

7. Series A senior unsecured debenture

On July 18, 2001, the University issued Series A senior unsecured debenture in the aggregate principal amount of $160.0 million at a price of $999.62 for proceeds of $159.9 million. The debenture bears interest at 6.78%, which is payable semi-annually on January 18 and July 18 with the principal amount to be repaid on July 18, 2031. The proceeds of the issuance have been primarily used to finance capital projects including real estate acquisitions and the construction of student residences and parking facilities. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2008 was $211.3 million (2007 - $209.1 million) compared to a carrying value of $158.8 million (2007 - $160.0 million).

8. Series B senior unsecured debenture

On December 15, 2003, the University issued Series B senior unsecured debenture in the aggregate principal amount of $200.0 million at a price of $1,000 for proceeds of $200.0 million. The debenture bears interest at 5.841%, which is payable semi-annually on June 15 and December 15 with the principal amount to be repaid on December 15, 2043. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2008 was $247.1 million (2007 - $242.7 million) compared to a carrying value of $199.1 million (2007 - $200.0 million).

9. Series C senior unsecured debenture

On November 16, 2005, the University issued Series C senior unsecured debenture in the aggregate principal amount of $75.0 million at a price of $1,000 for proceeds of $75.0 million. The debenture bears interest at 4.937%, which is payable semi-annually on May 16 and November 16 with the principal amount to be repaid on November 16, 2045. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2008 was $80.2 million (2007 - $78.6 million) compared to a carrying value of $74.7 million (2007 - $75.0 million).

10. Series D senior unsecured debenture

On December 13, 2006, the University issued Series D senior unsecured debenture in the aggregate principal amount of $75.0 million at a price of $1,000 for proceeds of $75.0 million. The debenture bears interest at 4.493%, which is payable semi-annually on June 13 and December 13 with the principal amount to be repaid on December 13, 2046. The proceeds of the issuance are being primarily used to finance capital projects. To date, the University has spent $53.4 million (2007 - $42.8 million) of the proceeds on capital assets. The fair value of the debenture at April 30, 2008 was $74.6 million (2007 - $73.0 million) compared to a carrying value of $74.4 million (2007 - $75.0 million).

11. Other long-term debt

Other long-term debt consists of mortgages of $13.7 million (2007 - $14.2 million) maturing from 2010 to 2020 against which the related properties are pledged as security, and term loans of $39.9 million (2007 - $34.5 million) maturing from 2009 to 2024 of which the current portion of $2.2 million (2007 - $2.0 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 swaps, was 7.24% (2007 - 7.24%) and 6.64% (2007 - 6.69%) respectively. The fair value of other long-term debt at April 30, 2008 was $53.7 million (2007 - $53.5 million) compared to a carrying amount of $53.6 million (2007 - $48.7 million). Anticipated requirements to meet the principal portion of the other long-term debt repayments over the next five years are as follows: 2009 - $2.2 million, 2010 - $2.3 million, 2011 - $8.0 million, 2012 - $2.5 million, 2013 - $2.5 million.

12. Deferred contributions

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

	(millions of dollars)	
	2008	2007
Balance, beginning of year	**341.3**	265.5
Grants, donations and investment income	**421.5**	463.6
Transfer to University of Toronto Schools (note 22)	**(6.7)**	
Transfer to endowments	**(2.4)**	
Purchase of land	**(1.4)**	
Recognized as revenue during the year	**(406.2)**	(387.8)
Balance, end of year	**346.1**	341.3

The deferred contributions will be spent as follows:

	(millions of dollars)	
	2008	2007
Research	**201.9**	201.0
Student aid	**55.7**	55.5
Other restricted purposes	**88.5**	84.8
	346.1	341.3

13. Deferred capital contributions

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

	(millions of dollars) 2008	2007
Balance, beginning of year	**652.4**	596.4
Less amortization of deferred capital contributions	**(47.0)**	(36.7)
Less transfer to University of Toronto Schools (note 22)	**(1.9)**	
Add contributions received for capital asset purchases	**114.6**	92.7
Balance, end of year	**718.1**	652.4

This balance represents:

	(millions of dollars) 2008	2007
Amount used for the purchase of capital assets	**632.6**	601.7
Amount to be spent on capital assets	**85.5**	50.7
	718.1	652.4

14. Internally restricted

	(millions of dollars) 2008	2007
Departmental trust funds	**71.7**	74.0
Unexpended operating funds		
Net divisional carryforwards	**244.8**	239.0
Employee future benefits		
Pensions	**(87.9)**	(98.6)
Other	**(219.9)**	(183.2)
Supplemental retirement arrangement (note 3)	**184.1**	174.2
Research overhead	**12.1**	6.9
Alterations and renovations	**62.9**	45.0
Other funds	**11.7**	9.4
	279.5	266.7

Internally restricted funds set aside reflect the application of Governing Council policy as follows:

a) Departmental trust funds -

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

b) Unexpended operating funds -

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

c) Research overhead -

Research overhead recoveries from customers in calendar year 2007 are appropriated and available for spending in the following fiscal year.

d) Alterations and renovations -

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

e) Other funds -

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

15. Endowments

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

Investment income on endowments, which is comprised of interest, dividend income and realized and unrealized gains and losses, is recorded in the statement of operations when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. University policy has been established with the objective of protecting the real value of the endowments by limiting the amount of income made available for spending and requiring the reinvestment of income not made available. The investment policy has set the real rate of return objective at 4% with the aim of providing steady, predictable investment returns. The amount available for spending in fiscal 2008 was $7.65 per unit (2007 - $7.14) of LTCAP, representing 3.5% (2007 - 3.4%) of the opening fair value per unit of the endowment pool. This amount must fall between a range of 3% to 5% of the fair value per unit of the endowment pool. In any particular year, should net investment income be insufficient to fund the amount to be made available for spending or if the investment return is negative, the amount that is made available for spending is funded by the accumulated reinvested income. However, for individual endowment funds without sufficient accumulated reinvestment income, endowment capital is used in the current year. This amount is expected to be recovered by future net investment income.

In 2008, there was an investment loss of $33.6 million on externally restricted endowments. In accordance with the preservation of capital policy, this loss and the amount made available for spending of $52.5 million, which total $86.1 million, were deducted from endowment net assets. The amount made available for spending of $52.5 million was recorded as income in the statement of operations. There was a $6.2 million loss on internally restricted endowments which was recorded as a reduction of investment income in the statement of operations and was offset by a transfer from internally restricted endowments to unrestricted deficit. The amount made available for spending from internally restricted endowments of $9.6 million was also transferred to the unrestricted deficit, thereby reducing the unrestricted deficit by that amount.

In 2007, investment income of $210.2 million was earned on endowments, of which $56.5 million was made available for spending and recorded as investment income, $24.2 million was the preservation of capital on internally restricted endowments, which was recorded as investment income and then transferred from unrestricted net assets to endowments, and the balance of $129.5 million was the preservation of capital on externally restricted endowments which was recorded as a direct increase to endowments.

Net assets restricted for endowments consist of the following:

	(millions of dollars)	
	2008	2007
Externally restricted endowments	**1,465.1**	1,513.4
Internally restricted endowments	**289.7**	309.3
	1,754.8	1,822.7

16. Ontario Student Opportunity Trust Fund

Externally restricted endowments include grants provided by the government of Ontario from the Ontario Student Opportunity Trust Fund ("OSOTF") matching program to award student aid as a result of raising an equal amount of endowed donations. The University also matched certain of these endowed donations.

Phase 1:	(thousands of dollars)	
	2008	2007
Endowments at book value, beginning of year	**354,910**	334,261
University matching (transfer to University of Toronto Schools, note 22)	**(13,012)**	
Transfer from expendable funds	**12,246**	20,649
Endowments at book value, end of year	**354,144**	354,910
Cumulative unrealized gains (losses)	**(9,908)**	23,569
Endowments at fair value, end of year	**344,236**	378,479
Expendable funds available for awards, beginning of year	**22,163**	21,010
Realized investment income	**24,857**	32,845
Transfer to endowment balance	**(12,246)**	(20,649)
Bursaries awarded	**(11,184)**	(11,043)
Expendable funds available for awards, end of year	**23,590**	22,163
Number of bursaries awarded	**3,594**	5,210

Phase 2:

	(thousands of dollars)			
	2008		2007	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**42,284**	**5,253**	39,588	5,175
University matching			10	69
Transfers to OTSS program (note 17)			(269)	
Transfer from (to) expendable funds	**202**	**(73)**	2,955	9
Endowments at book value, end of year	**42,486**	**5,180**	42,284	5,253
Cumulative unrealized gains (losses)	**(906)**		1,600	
Endowments at fair value, end of year	**41,580**		43,884	
Expendable funds available for awards, beginning of year	**2,085**	**164**	1,768	113
Realized investment income	**1,792**	**139**	4,360	175
Transfer from (to) endowment balance	**(202)**	**73**	(2,955)	(9)
Bursaries awarded	**(1,347)**	**(187)**	(1,088)	(115)
Expendable funds available for awards, end of year	**2,328**	**189**	2,085	164
Number of bursaries awarded	**572**	**87**	469	54

Donations not matched by the government at March 31, 2005, the end of the Phase 2 OSOTF program, were allowed to be transferred to the Ontario Trust for Student Support ("OTSS") program and were then matched by the government (note 17).

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

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

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

17. Ontario Trust for Student Support

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

(for the year ended March 31)*	2008 University of Toronto	2008 Affiliates	2007 University of Toronto	2007 Affiliates
	(thousands of dollars)			
Endowments at book value, beginning of year	**34,548**	**4,812**	17,758	2,852
Donations received	**3,593**	**829**	7,416	907
Government matching received	**4,693**	**1,684**	5,197	714
University matching	**312**		286	195
Transfers from OSOTF program (note 16)			2,474	34
Transfer from expendable funds	**5,874**	**27**	1,417	110
Endowments at book value, end of year	**49,020**	**7,352**	34,548	4,812
Cumulative unrealized gains (losses)	**(8,080)**		316	
Endowments at fair value, end of year	**40,940**		34,864	
Expendable funds available for awards, beginning of year	**906**	**45**	261	7
Realized investment income	**6,925**	**72**	2,190	194
University matching	**38**			
Transfer to endowment balance	**(5,874)**	**(27)**	(1,417)	(110)
Bursaries awarded	**(695)**	**(104)**	(128)	(46)
Expendable funds available for awards, end of year	**1,300**	**(14)**	906	45
Number of bursaries awarded	**296**	**50**	139	30

*As per Ministry of Training, Colleges and Universities guidelines

18. Net change in other non-cash items

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

	(millions of dollars) 2008	2007
Accounts receivable	**25.0**	(59.3)
Inventories and prepaid expenses	**(2.6)**	(1.2)
Deferred contributions before transfers to investment in capital assets and endowments	**8.6**	75.8
Accounts payable and accrued liabilities	**4.0**	6.5
	35.0	21.8

19. Donations

During the year, the University received donations of $92.6 million (2007 - $105.7 million). Of that amount, $36.4 million (2007 - $30.9 million) is recorded as a direct addition to endowments in accordance with the accounting policy and is not recorded as donations revenue.

20. Government and other grants for restricted purposes

During the year, the University received $349.7 million (2007 - $403.4 million) of government and other grants for research and $73.1 million (2007 - $32.7 million) for capital infrastructure, of which $82.9 million (2007 - $131.8 million) was deferred and $339.9 million (2007 - $304.3 million) was recorded as revenue.

21. Related entity

The University is a member, with six other universities, of a joint venture called the Tri-universities Meson Facility ("TRIUMF"), Canada's national laboratory for particle and nuclear physics located on the University of British Columbia ("UBC") campus. TRIUMF is an unincorporated registered charity and each university has an undivided 1/7 interest in its assets, liabilities and obligations. The land and buildings it occupies are owned by UBC. The facilities and its operations are funded by Federal government grants and the University has made no direct financial contribution to date. TRIUMF's net assets are not contemplated to be and are not readily realizable by the University. The University's interest in the assets, liabilities and results of operations are not included in these financial statements (see also note 24(b)).

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

	(millions of dollars)	
	2008 (unaudited)	2007
Total assets	**16.6**	9.1
Total liabilities	**11.5**	5.3
Total fund balances	**5.1**	3.8
Revenues	**68.5**	59.9
Expenses	**67.2**	58.4
Excess of revenues over expenses	**1.3**	1.5

22. Transfer to University of Toronto Schools

On June 30, 2006, the University entered into a long-term affiliation and license agreement with the University of Toronto Schools ("UTS"), whereby the University agreed to cover certain expenses and to transfer to UTS, subject to court approval, assets which the University held in connection with endowed and expendable funds held for bursaries and scholarships, building and other purposes related to the operations of UTS. Court approval was obtained in August 2007 and $30.9 million was transferred to UTS. This transfer consisted of the following:

	(millions of dollars) 2008
Externally restricted endowment for bursaries and scholarships	**15.6**
Internally restricted endowments	**6.2**
Restricted expendable funds for buildings (note 13)	**1.9**
Restricted expendable funds for bursaries, scholarships and other purposes (note 12)	**6.7**
Unrestricted net assets	**0.5**
	30.9

The transfer of externally restricted endowments has been recorded as a direct decrease in endowment net assets; the transfer of expendable funds held for buildings was recorded as a direct decrease in deferred capital contributions; the transfer of funds held for expendable bursaries, scholarships and other purposes was recorded as a direct decrease in deferred contributions; the transfer of internally endowed funds was recorded as other expenses offset by a transfer from internally restricted endowments to unrestricted deficit; and the transfer of unrestricted net assets was recorded as other expenses in the statement of operations.

23. Other commitments

a) The estimated cost to complete construction and renovation projects in progress at April 30, 2008, which will be funded by government grants, donations and operations, is approximately $199.2 million (2007 - $124.9 million).

b) The annual payments under various operating leases are approximately $15.1 million.

24. Contingencies

a) The University has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. At April 30, 2008, the amount of loans guaranteed was $8.3 million (2007 - $8.0 million). The University's estimated exposure under these guarantees is not material.

b) The members of the TRIUMF joint venture and the Canadian Nuclear Safety Commission ("CNSC") approved a decommissioning plan which requires all members to be severally responsible for their share of the decommissioning costs, which were estimated at $42.0 million as of November 2007, as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions of decommissioning the facilities, the University's share was estimated at $6.0 million. TRIUMF has put in place a plan for funding the cost of decommissioning which does not require any payments from the joint venture partners.

c) The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. At April 30, 2008, the University believes it has valid defenses and appropriate insurance coverage in place on certain claims which are not expected to have a material impact on the University's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the liability is determinable or adjustments to the amount recorded are determined to be required.

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

Effective January 1, 2008, the University terminated its membership in CURIE and obtained insurance coverage in the commercial market.

As a consequence, the University will no longer be eligible to receive its 8.5% (2006 – 8.6%) pro-rata share of any potential future surplus distribution and will continue to share in any deficits generated by claims arising during the University's period of membership in CURIE. As of December 31, 2007, the latest financial statements available, CURIE had a surplus of $16.8 million (2006 - $16.5 million). The University believes it will not have to make any payments to CURIE and does not believe that there would be any surplus distribution in the near future.

Appendix

Supplementary Report

By Fund

April 30, 2008

(Unaudited)

HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2008

(Millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
Statement of Operations					
Revenues	$ 1,379.2	$ 133.8	$ 66.2	$ 369.7	$ 1,948.9
Expenses	$ 1,275.9	$ 136.6	$ 90.7	$ 395.1	$ 1,898.3
Net Income (Loss)	$ 103.3	$ (2.8)	$ (24.5)	$ (25.4)	$ 50.6
Balance Sheet					
Assets	$ 788.5	$ 310.7	$ 1,031.5	$ 2,174.6	$ 4,305.3
Liabilities	$ 661.4	$ 308.6	$ 812.9	$ 348.1	$ 2,131.0
Net Assets	$ 127.1	$ 2.1	$ 218.6	$ 1,826.5	$ 2,174.3
Net Assets composed of:					
Endowments				$ 1,754.8	$ 1,754.8
Investment in Capital Assets		$ 104.7	$ 267.2		$ 371.9
Internally Restricted Net Assets	$ 173.1	$ 10.8	$ 23.9	$ 71.7	$ 279.5
Unrestricted Deficit	$ (46.0)	$ (113.4)	$ (72.5)		$ (231.9)
	$ 127.1	$ 2.1	$ 218.6	$ 1,826.5	$ 2,174.3

HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2007

(Millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
Statement of operations					
Revenues	$ 1,367.6	$ 130.7	$ 43.8	$ 399.9	$ 1,942.0
Expenses	$ 1,214.4	$ 135.0	$ 87.0	$ 371.1	$ 1,807.5
Net Income (Loss)	$ 153.2	$ (4.3)	$ (43.2)	$ 28.8	$ 134.5
Balance Sheet					
Assets	$ 751.1	$ 294.8	$ 908.3	$ 2,246.6	$ 4,200.8
Liabilities	$ 643.8	$ 284.4	$ 746.2	$ 349.9	$ 2,024.3
Net Assets	$ 107.3	$ 10.4	$ 162.1	$ 1,896.7	$ 2,176.5
Net Assets composed of:					
Endowments				$ 1,822.7	$ 1,822.7
Investment in Capital Assets		$ 81.3	$ 200.9		$ 282.2
Internally Restricted Net Assets	$ 173.6	$ 9.4	$ 9.7	$ 74.0	$ 266.7
Unrestricted Deficit	$ (66.3)	$ (80.3)	$ (48.5)		$ (195.1)
	$ 107.3	$ 10.4	$ 162.1	$ 1,896.7	$ 2,176.5

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 unrestricted 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, Real Estate Division 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 the 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 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, 2008
(with comparative figures at April 30, 2007)
(millions of dollars)

	Operating fund	Ancillary operations	Capital fund	Restricted funds	2008 Total	2007 Total
ASSETS						
Current						
Cash and short-term investments	735.9	(20.0)	(130.3)	(29.9)	555.7	490.2
Accounts receivable	45.8	10.3		39.3	95.4	141.8
Inventories and prepaid expenses	6.8	9.0			15.8	16.2
Long-term accounts receivable			21.4		21.4	
Investments				2,165.2	2,165.2	2,211.0
Capital assets, net		311.4	1,140.4		1,451.8	1,341.6
	788.5	310.7	1,031.5	2,174.6	4,305.3	4,200.8
LIABILITIES						
Current						
Accounts payable and accrued liabilities	111.9	20.0	29.6	2.0	163.5	159.5
Deferred contributions				346.1	346.1	341.3
Accrued pension liability	87.9				87.9	98.6
Employee future benefit obligation other than pension	257.0				257.0	215.8
Internal loans	204.6	234.7	(439.3)			
Series A - senior unsecured debenture			158.8		158.8	160.0
Series B - senior unsecured debenture			199.1		199.1	200.0
Series C - senior unsecured debenture			74.7		74.7	75.0
Series D - senior unsecured debenture			74.4		74.4	75.0
Other long-term debt		44.4	7.0		51.4	46.7
Deferred capital contributions		9.5	708.6		718.1	652.4
	661.4	308.6	812.9	348.1	2,131.0	2,024.3
NET ASSETS						
Unrestricted deficit	(46.0)	(113.4)	(72.5)		(231.9)	(195.1)
Internally restricted	173.1	10.8	23.9	71.7	279.5	266.7
Investment in capital assets		104.7	267.2		371.9	282.2
Endowments				1,754.8	1,754.8	1,822.7
	127.1	2.1	218.6	1,826.5	2,174.3	2,176.5
	788.5	310.7	1,031.5	2,174.6	4,305.3	4,200.8

Schedule 2
(Unaudited)
UNIVERSITY OF TORONTO
STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED DEFICIT
April 30, 2008
(with comparative figures at April 30, 2007)
(millions of dollars)

	Operating fund	Ancillary operations	Capital fund	Restricted funds	2008 Total	2007 Total
REVENUES						
Government grants for general operations	639.0				639.0	657.1
Student fees	576.7	6.2	0.7		583.6	538.9
Government and other grants for restricted purposes		0.3	41.7	297.9	339.9	304.3
Sales, services and sundry income	104.5	125.2	7.7		237.4	212.9
Investment Income						
Endowments	42.0			4.3	46.3	80.7
Other	12.5	1.9	3.0	6.2	23.6	53.7
Donations		0.2	13.1	42.9	56.2	74.8
Contract research	4.5			18.4	22.9	19.6
	1,379.2	133.8	66.2	369.7	1,948.9	1,942.0
EXPENSES						
Salaries	725.3	5.3		189.3	919.9	852.2
Benefits	190.0	1.2		16.3	207.5	209.7
Materials and supplies	61.6	2.1		130.0	193.7	211.7
Scholarships, fellowships and bursaries	125.0				125.0	115.9
Amortization of capital assets	8.7	10.8	84.3	0.3	104.1	99.1
Cost of sales and services		76.5			76.5	77.7
Utilities	44.4	8.6			53.0	52.5
Repairs and maintenance	38.9	13.8	5.2	7.3	65.2	61.4
Travel and conferences	19.6			20.8	40.4	35.7
Interest on long-term debt	13.7	18.3		1.0	33.0	31.0
External contracted services	21.9			9.4	31.3	30.5
Telecommunications	10.4			1.3	11.7	10.6
Other	16.4		1.2	19.4	37.0	19.5
	1,275.9	136.6	90.7	395.1	1,898.3	1,807.5
Net income (loss)	103.3	(2.8)	(24.5)	(25.4)	50.6	134.5
Net transfer between funds	(19.7)	(0.7)	16.6	3.8		
Transfer of capital assets	(63.8)		63.8			
Unrealized loss on swap contracts		(4.8)	(0.7)		(5.5)	
Change in internally restricted	0.5	(1.4)	(14.3)	2.4	(12.8)	(131.9)
Change in investment in capital assets		(23.4)	(64.9)		(88.3)	1.7
Transfers of donations to endowments				3.4	3.4	(4.1)
Transfer from internally restricted endowments				15.8	15.8	(24.2)
Net change in unrestricted deficit for the year	20.3	(33.1)	(24.0)	(0.0)	(36.8)	(24.0)
Unrestricted deficit, beginning of year	(66.3)	(80.3)	(48.5)		(195.1)	(171.1)
Unrestricted deficit, end of year	(46.0)	(113.4)	(72.5)	(0.0)	(231.9)	(195.1)

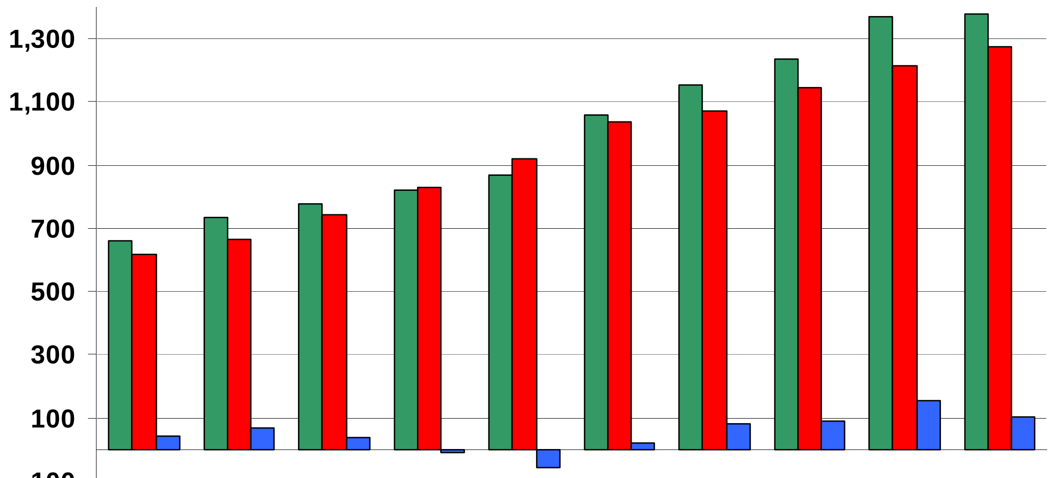
OPERATING FUND

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 $1.38 billion, expenses were $1.28 billion and net income was $103.3 million. Growth in operating fund revenues and expenses reflected primarily planned and expected increases in the number of students.

Operating Fund Revenues and Expenses for the year ended April 30

(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues	660.8	733.7	779.4	819.6	866.9	1,057.9	1,152.0	1,235.4	1,367.6	1,379.2
Expenses	618.2	663.8	742.8	830.4	921.8	1,035.1	1,071.0	1,143.8	1,214.4	1,275.9
Net income (loss)	42.6	69.9	36.6	(10.8)	(54.9)	22.8	81.0	91.6	153.2	103.3

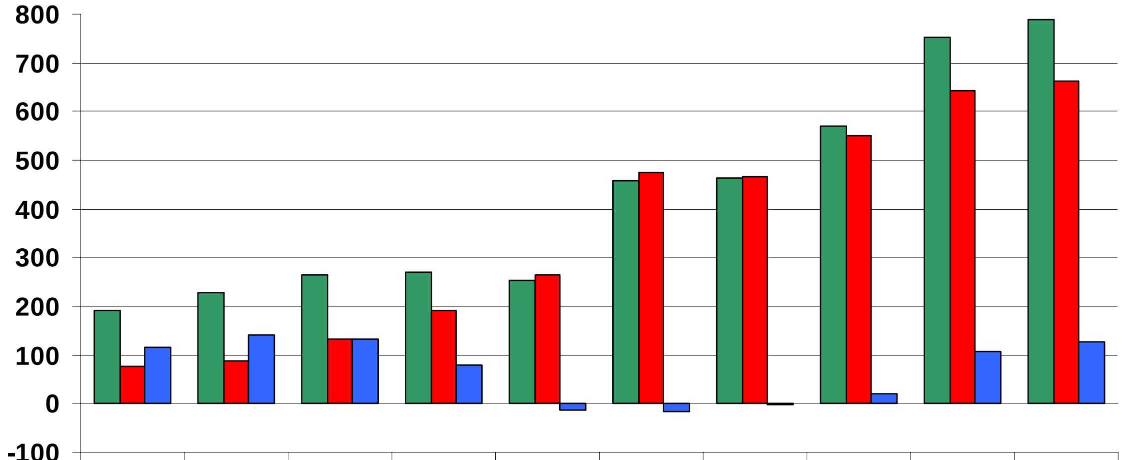
In 2008, the positive net income in the operating fund is as a result of:

Capital expenditures not shown as expenses but transferred to the capital fund and added to the balance sheet as capital assets	**63.8**
Transfers to other funds not expensed in the operating fund	**19.7**
Reduction in expenses by divisions required to cover deficit repayments	**11.2**
General university savings to be redistributed to divisions	**9.1**
Divisional spending from funds carried forward	**(0.5)**
	103.3

Operating fund assets at April 30, 2008 were $788.5 million, liabilities were $661.4 million, and net assets were $127.1 million.

Operating Fund Assets, Liabilities and Net Assets as at April 30

(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assets	192.1	226.8	264.0	269.4	252.3	458.8	463.8	569.6	751.1	788.5
Liabilities	76.5	86.8	131.5	190.6	264.3	473.9	465.2	550.4	643.8	661.4
Net Assets	115.6	140.0	132.5	78.8	(12.0)	(15.1)	(1.4)	19.2	107.3	127.1

The net assets for the year increased from $107.3 million in 2007 to $127.1 million mainly due to the following:

- $103.3 million net income for the year.
- ($83.5 million) net transfers to other funds.

The transfers to other funds were as follows:

- $79.9 million to the capital fund to reflect capital asset expenditures in the operating fund and contributions to capital projects, which are both recorded in the capital fund.
- $3.1 million to restricted funds in support of various matching funds initiatives.
- $1.7 million subsidy from the operating fund for Woodsworth College and New College residences less ($1.2 million) transfers to the operating fund mainly from the Mississauga and Scarborough parking operations and from the Residential Housing ancillary.

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

- ($46.0 million) unrestricted deficit.
- $173.1 million internally restricted net assets.

The $46.0 million unrestricted deficit is the "cumulative deficit" of the operating fund which is referenced in the University's Operating Budget Report. The cumulative deficit has decreased from $66.3 million at April 30, 2007 to $46.0 million at April 30, 2008, mainly due to the following:

- $103.3 million net income.
- ($83.5 million) net transfers to other funds as noted above.

- $0.5 million transferred from the operating fund's internally restricted net assets to fund current year's expenditures from divisional carryforwards from prior years.

Internally restricted net assets of $173.1 million mainly include departmental budget allocations not spent at year end and available for one-time only expenditure in the future years ($244.8 million) and funds set aside for infrastructure repairs ($28.2 million) which are offset by $123.7 million of net unfunded liability associated with employee future benefits. This liability will have to be paid from future years' operating fund revenues.

The internally restricted net assets decreased by $0.5 million to $173.1 million at April 30, 2008 due to the transfer to the unrestricted deficit category to reflect the net decrease in divisional carryforwards. Schedule 3 is a detailed list of divisional carryforwards and other commitments that comprise the $173.1 million in internally restricted net assets. Academic divisions outline a plan on how the carryforward funds 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.

b) Independently funded projects:

Included in this section are a number of projects housed in operating units which exist because they generate their own source of funds (i.e. self funded units). Examples are continuing education programs and "fee for service" contracts. The funds generated are expected to only be applied to future expenses of that unit.

b) Research:

Funds set aside for research are included in this section. This includes funds allocated to Principal Investigators as a result of the Faculty members and Librarians expense reimbursement program, overheads, research allowance or start-up funds. Also included are funds set aside for Canada Research Chairs and EAF Chairs including any related research allowance.

c) Student assistance:

This category captures all funds set-aside for scholarships, bursaries and other student assistance.

d) Infrastructure:

This category is intended to capture funds that have been set-aside by the unit in anticipation of a major renovation to their facility; infrastructure upgrades, such as computer networking, security, equipment and furniture renewal; and associated moving costs.

e) Other academic purposes:

This section includes divisional funds that are used for purposes other than those identified above. Funds in this category include funds set aside for anticipated budget reductions or to reserve against other fluctuations in revenue that impact divisions in accordance with the new budget model, voluntary early academic retirements, professional development, and start-up funds.

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND DIVISIONAL CARRYFORWARD OF UNSPENT FUNDS AND CENTRALLY HELD FUNDS COMMITTED FOR SPECIFIC PURPOSES
AT APRIL 30, 2008
(with previous year comparative figures)
(thousands of dollars)

	2007-08	2006-07
	Total	Total
Divisional Carryforwards		
Academic	228,944	237,465
Academic services	5,885	5,186
Student services	6,516	5,690
Student assistance	7,602	2,405
Facilities & services	16,260	10,988
Administration	17,542	14,593
Administrative systems	701	615
General university	(30,484)	(29,247)
U of T Campaign	(8,202)	(8,708)
Net Divisional carryforwards	244,764	238,987
Centrally held funds		
Pension charge commitment	(87,939)	(98,615)
Other employee future benefit obligation	(256,979)	(215,754)
Funds set aside for COLA and LTD	37,148	32,560
Funds set aside for SRA	184,061	174,228
Total	(123,709)	(107,581)
Research overhead	12,155	6,919
Infrastructure		
Accomodation & facilities directorate fund	28,181	25,874
Other funds		
University investment infrastructure fund	9,405	5,695
Transitional fund	560	560
Priorities fund	1,734	3,161
	11,699	9,416
Internally restricted	173,090	173,615

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND DIVISIONAL CARRYFORWARD OF UNSPENT FUNDS AND CENTRALLY HELD FUNDS COMMITTED FOR SPECIFIC PURPOSES
AT APRIL 30, 2008

(with previous year comparative figures)
(thousands of dollars)

	2007-08						2006-07
	Independently Funded Projects	Research	Student Assistance	Infrastructure	Other	Total	Total
ACADEMIC DIVISIONS:							
Arts and Science, colleges and schools:							
Faculty of Arts and Science	1,810	23,809	567	4,366	8,711	39,263	57,678
University College	-	-	-	234	-	234	186
Innis College	-	39	23	115	131	308	476
Transitional Year Programme	234	14	10	-	119	377	248
Woodsworth College	700	10	500	1,294	501	3,005	2,380
UTSC academic	392	4,062	67	10,147	4,596	19,264	17,109
UTM academic	-	-	-	-	(14,172)	(14,172)	(10,183)
School of Continuing Studies	-	-	-	-	(4,421)	(4,421)	(2,434)
School of Graduate Studies	-	-	-	350	1,577	1,927	1,548
Graduate institutes and centres	286	380	1,353	344	2,675	5,038	5,005
	3,422	28,314	2,520	16,850	(283)	50,823	72,013
Health sciences:							
Faculty of Dentistry	-	80	-	-	5,367	5,447	6,655
Faculty of Medicine	19,465	16,066	9,848	3,973	40,256	89,608	79,139
Lawrence S. Bloomberg Faculty of Nursing	-	968	109	2,871	6,195	10,143	8,596
Leslie Dan Faculty of Pharmacy	1,343	2,678	329	-	1,227	5,577	4,109
Faculty of Physical Education and Health	391	257	-	250	1,107	2,005	2,054
	21,199	20,049	10,286	7,094	54,152	112,780	100,553
Other professional faculties:							
Faculty of Applied Science							
and Engineering	894	6,502	3,648	3,289	2,113	16,446	17,645
Faculty of Architecture, Landscape,		-	-				
and Design	-	-	-	-	(962)	(962)	(130)
Rotman School of Management	-	-	-	-	(2,035)	(2,035)	(2,994)
OISE/UT	3,900	2,600	2,900	11,200	3,005	23,605	26,390
Faculty of Forestry	17	522	217	30	329	1,115	920
Faculty of Law	-	806	749	-	421	1,976	1,608
Faculty of Information Studies	560	241	97	-	2,098	2,996	2,786
Faculty of Music	954	127	-	-	1,189	2,270	1,662
Factor-Inwentash Faculty of Social Work	51	188	144	4,962	-	5,345	4,426
	6,376	10,986	7,755	19,481	6,158	50,756	52,313
Other academic costs:							
Provost Reserve Contingency	-	-	-	-	6,740	6,740	7,197
Transitional Fund	-	-	-	-	4,084	4,084	2,025
Faculty Recruitment Costs	-	-	-	-	3,009	3,009	925
Other	-	-	-	-	14,762	14,762	16,997
	-	-	-	-	28,595	28,595	27,144
Vacation Pay accrual	-	-	-	-	(10,759)	(10,759)	(9,977)
Voluntary Early Academic						-	
Retirement Program accrual	-	-	-	-	(3,251)	(3,251)	(4,581)
TOTAL ACADEMIC DIVISIONS	30,997	59,349	20,561	43,425	74,612	228,944	237,465

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND DIVISIONAL CARRYFORWARD OF UNSPENT FUNDS AND CENTRALLY HELD FUNDS COMMITTED FOR SPECIFIC PURPOSES
AT APRIL 30, 2008
(with previous year comparative figures)
(thousands of dollars)

	2007-08	2006-07
	Total	Total
ACADEMIC SERVICES:		
U of T Computing	2,408	2,012
Robarts library	710	752
Information Commons	91	150
UTSC library	1,799	1,423
UTM library	602	574
Library - Electronic Acquisitions	275	275
TOTAL ACADEMIC SERVICES	5,885	5,186
STUDENT SERVICES:		
St. George campus	1,550	956
UTSC campus	3,188	2,318
UTM campus	1,778	2,416
TOTAL STUDENT SERVICES	6,516	5,690
STUDENT ASSISTANCE:		
Recruitment and retention	160	390
Graduate fellowships	652	794
UTSC campus	52	19
UTM campus	12	19
St. George campus	6,726	1,183
TOTAL STUDENT ASSISTANCE	7,602	2,405
FACILITIES & SERVICES		
St. George campus	8,098	6,002
UTSC campus	4,506	3,512
UTM campus	3,656	1,474
TOTAL FACILITIES & SERVICES	16,260	10,988

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND DIVISIONAL CARRYFORWARD OF UNSPENT FUNDS AND CENTRALLY HELD FUNDS COMMITTED FOR SPECIFIC PURPOSES
AT APRIL 30, 2008
(with previous year comparative figures)
(thousands of dollars)

	2007-08 Total	2006-07 Total
CENTRAL ADMINISTRATION:		
Office of the Governing Council	265	531
Office of the President	62	94
Institutional costs	395	457
Vice-President and Provost	5,706	2,935
Vice-President - Research	(131)	(28)
Vice-President and Chief Advancement Officer	117	(115)
Vice-President - Government and Institutional Relations	1,611	41
Vice-President - Business Affairs	3,004	1,364
Vice-President - Human Resources and Equity	1,112	868
UTSC campus	5,549	8,911
UTM campus	2,310	1,826
Vacation Pay accrual	(2,458)	(2,291)
TOTAL CENTRAL ADMINISTRATION	17,542	14,593
ADMINISTRATIVE SYSTEMS:		
AMS Integrated Systems	55	220
Student Record System	646	395
TOTAL ADMINISTRATIVE SYSTEMS	701	615
GENERAL UNIVERSITY:		
Vice-President - Human Resources and Equity	727	777
Vice-President - Business Affairs		
Long-term borrowing pool	3,842	4,595
Vice-President and Provost		
Matching Funds Program	(35,002)	(35,220)
Other	(51)	601
TOTAL GENERAL UNIVERSITY	(30,484)	(29,247)
U of T Campaign	(8,202)	(8,708)
	244,764	238,987

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 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 Canadian GAAP, while the operating budget includes the projected cash premiums to be paid for the year.
- The operating budget includes the Canada Research Chairs, which are classified as restricted funds, not as operating funds, in the financial statements.

These differences require a $50.8 million adjustment to the financial statements' revenues and $51.4 million to expenses to make the numbers comparable to budget. Once that adjustment has been made, it is possible to compare the operating fund budget with the year-end results and to assess how closely actual results conformed to plan. In summary, the adjustment between the financial statements and the operating budget is as follows:

	Financial Statements	Adjustments	Adjusted Financial Statements	Original budget	Favourable (unfavourable) variance	% Variance
Operating fund revenues	1,379.2	50.8	1,430.0	1,339.2	90.8	6.8%
Operating fund expenses	1,275.9					
Capital asset transfer	63.8					
	1,339.7	51.4	1,391.1	1,321.0	(70.1)	(5.3%)
Net income	39.5	(0.6)	38.9	18.2	20.7	

Total operating fund revenues, after adjustments, were $1,430.0 million, as compared to budgeted revenues of $1,339.2 million, a positive variance of $90.8 million, or 6.8%. This positive variance was due primarily to:

- unbudgeted scholarship funding of $11.2 million,
- unexpected additional quality funding of $10.7 million,
- unexpected clinical education funding of $4.1 million,
- a favourable tuition fee variance of $1.0 million primarily as a result of higher undergraduate domestic enrolment offset by lower undergraduate and graduate international enrolments.
- an increase of $26.6 million in unbudgeted divisional grants,
- an $12.0 million increase in student fees from academic programs for which no provincial government funding is provided and,
- an increase of $25.3 million in divisional sales and services.

Total operating fund expenses, after adjustments, were $1,391.1 million, as compared to budgeted expenses of $1,321.0 million resulting in a negative variance of $70.1 million. This negative variance was primarily due to additional divisional expenses in support of the academic mission offset by a saving in the utilities budget of $1.6 million attributed to lower than anticipated costs for electricity and gas due to a combination of block purchases at beneficial rates, higher electricity rebates and lower consumption due to moderate temperatures. 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, 2008
(millions of dollars)

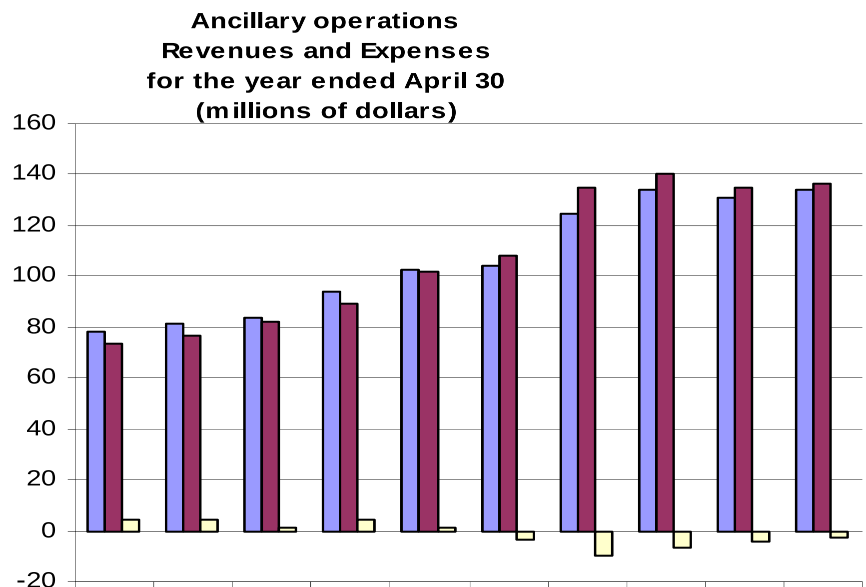
	ACTUAL			BUDGET	VARIANCE
	Financial Statements	Adjustments	Adjusted Financial Statements	Original budget	Favourable (Unfavourable)
REVENUES					
General university income:					
Provincial grants	613.8	(26.3)	587.5	565.2	22.3
Canada research chairs		40.2	40.2	40.2	
Indirect cost recovery of grants and contracts	26.6	4.5	31.1	30.5	0.6
Student fees	461.7	0.0	461.7	460.7	1.0
Investment income:					
Endowment (chairs and student aid)	42.0		42.0	40.3	1.7
Other	12.5	10.6	23.1	22.0	1.1
Sundry income:					
Contract resesearch	4.5	(4.5)			
Other	9.5		9.5	9.4	0.1
Municipal Taxes	4.8		4.8	4.8	
	1,175.4	24.5	1,199.9	1,173.1	26.8
Divisional income:					
Provincial grants	4.1	26.3	30.4	3.8	26.6
Student fees	106.7		106.7	94.7	12.0
Sales and services	93.0		93.0	67.6	25.4
	203.8	26.3	230.1	166.1	64.0
	1,379.2	50.8	1,430.0	1,339.2	90.8
EXPENSES					
Academic	836.0	59.7	895.7	842.5	(53.2)
Academic services	78.2	(2.7)	75.5	71.3	(4.2)
Student services	31.7		31.7	28.0	(3.7)
Student assistance	129.6	(19.7)	109.9	109.9	
Physical plant maintenance and services	69.4	(0.9)	68.5	66.1	(2.4)
Physical plant utilities	44.4	5.9	50.3	51.9	1.6
Alterations and renovations	17.2		17.2	0.6	(16.6)
Administration	89.0	8.2	97.2	102.3	5.1
Amortization	8.7	(8.7)			
Interest expense	13.7	(13.7)			
General university expense	17.0	23.3	40.3	43.6	3.3
Municipal taxes	4.8		4.8	4.8	
	1,339.7	51.4	1,391.1	1,321.0	(70.1)
Operating results before the following:	39.5	(0.6)	38.9	18.2	20.7
Repayment of Deficit		11.2	11.2	11.2	
Change in internally restricted funds (Schedule 3)	0.5	(10.6)	(10.1)		(10.1)
Transfers	(19.7)		(19.7)	(18.2)	(1.5)
NET CHANGE IN DEFICIT FOR THE YEAR	20.3	0.0	20.3	11.2	9.1

ANCILLARY OPERATIONS

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

Since 1999, a large expansion in residence, food and beverage and parking facilities has resulted in significant growth in revenues, expenses, assets and liabilities of ancillary operations.

Ancillary revenues grew from $77.9 million in 1999 to $133.8 million in 2008, expenses grew from $73.6 million to $136.6 million, and the net income of $4.3 million became a loss of $9.6 million by 2005 and has since improved to a loss of only $2.8 million in 2008. Almost all the capital expansion has been financed, and the net loss is primarily due to an increase in interest expense from less than $1 million in 1999 to $18.3 million in 2008.

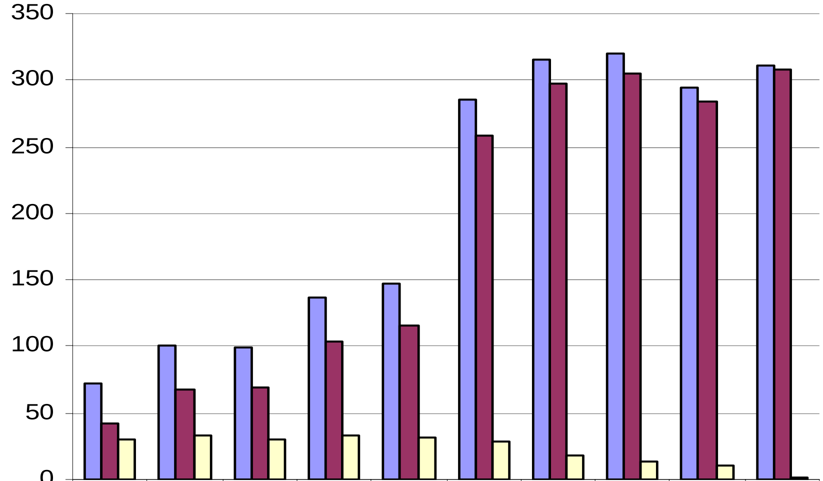


	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues	77.9	81.3	83.8	94.2	103.0	104.4	124.9	133.7	130.7	133.8
Expenses	73.6	76.7	82.2	89.5	101.7	108.0	134.5	140.3	135.0	136.6
Net income (loss)	4.3	4.6	1.6	4.7	1.3	(3.6)	(9.6)	(6.6)	(4.3)	(2.8)

The results for the year were a net loss of $2.8 million. After transfers out of $23.4 million to the net asset category of investment in capital assets which reflected the construction of the capital assets financed internally by the university, other transfers out of $2.1 million and the $4.8 million reduction due to recording the fair value of interest rate swaps on the long-term debt, the unrestricted deficit increased by $33.1 million for the year to $113.4 million.

Ancillary assets grew from $72.1 million in 1999 to $310.7 million while liabilities grew from $41.9 million in 1999 to $308.6 million in 2008. Net assets fell from $30.2 million to $2.1 million over the same period, essentially reflecting the impact of the additional amortization and interest expense on net income.

Ancillary operations
Balance Sheet
for the year ended April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Ancillary assets	72.1	100.8	99.1	136.6	147.3	285.5	315.8	319.4	294.8	310.7
Ancillary liabilities	41.9	68.0	68.4	103.7	115.6	257.7	297.1	305.6	284.4	308.6
Ancillary net assets	30.2	32.8	30.7	32.9	31.7	27.8	18.7	13.8	10.4	2.1

At April 30, 2008, net assets were $2.1 million, a reduction of $8.3 million from April 30, 2007, due to the following:

- ($2.8 million) net loss for the year.
- ($4.8 million) reduction as a result of prospectively recording directly in net assets the impact of holding interest rate swaps on long-term debt.
- $1.7 million subsidy from the operating fund for Woodsworth College and New College residences less a $1.2 million transfer to the operating fund mainly from the Mississauga and Scarborough parking operations and from the Residential Housing ancillary and $0.5 million transfer to the capital fund and restricted funds.
- $0.7 million transferred to a restricted fund trust account for future maintenance and bursaries.

There are three categories of net assets for ancillary operations which together total $2.1 million. They are:

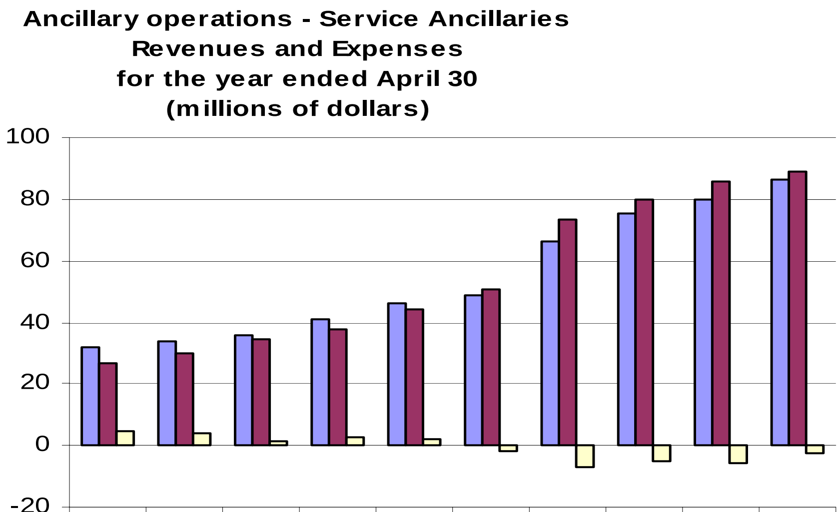
- ($113.4 million) in unrestricted deficit.
- $10.8 million in internally restricted net assets
- $104.7 million in investment in capital assets.

The investment in capital assets category reflects capital construction of facilities which have been funded by internal borrowing of the University's own funds, and which have resulted in a corresponding increase in unrestricted deficit. Over time, investment in capital assets will be reduced as the capital asset is amortized, and unrestricted net assets will increase by the amount of that amortization.

Schedule 5 shows details by ancillary operation.

Service Ancillaries

Service ancillaries had revenues of $86.5 million and expenses of $89.2 million, with a net loss of $2.7 million for the year. Service ancillary revenues have more than doubled since 1999 and expenses have risen by 230.4% due to expansion of residences, food and beverage and parking services to deal with the growth in student enrolment. The majority of this growth is due to the residence expansion with the addition of over 3,500 residence beds over the past seven years. This residence expansion increased residence assets, liabilities, revenues and expenses considerably since 1999. Most residence operations have planned deficits for several years until residence fees can catch up with increased expenses, including large fixed rate principal and interest payments on borrowing.



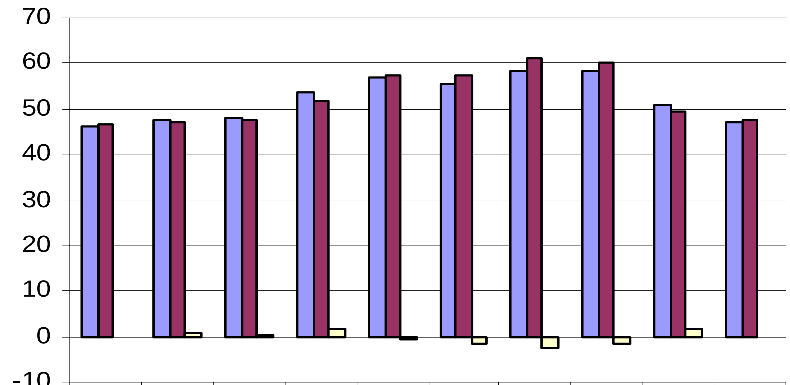
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Service ancillary revenues	31.7	33.6	35.8	40.8	46.3	48.7	66.5	75.2	80.0	86.5
Service ancillary expenses	27.0	29.7	34.5	37.8	44.2	50.6	73.5	80.2	85.8	89.2
Service ancillary net income (loss)	4.7	3.9	1.3	3.0	2.1	(1.9)	(7.0)	(5.0)	(5.8)	(2.7)

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 borrowing and through subsidy from the operating results of existing ancillary operations resulting in reduced operating margins. Where capital infrastructure growth has occurred, the individual ancillary operation is expected to break even annually in 5 years and cumulatively in 8 years.

Business Ancillaries

Business ancillaries had revenues of $47.3 million and expenses of $47.4 million, for a net loss of $0.1 million for the year. The reduction in revenue since 2006 is a result of the transfer of the University of Toronto Innovations Foundation (UTIF) from ancillary operations to the operating fund (Vice-President, Research portfolio) effective May 1, 2006 and as a result of the U of T Press selling its printing division. The UTIF transfer within the University was made for two reasons. Firstly, UTIF had been unsuccessful at becoming economically viable as called for by its 2002 business plan. Secondly, the University has refocused its mission of transferring knowledge without taking the risks associated with investing in start-up technologies. The transfer within the University will permit closer relations with the faculties, more disclosure and a clearer focus on the mission of knowledge transfer.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Business ancillary revenues	46.2	47.7	48.0	53.4	56.7	55.7	58.4	58.5	50.7	47.3
Business ancillary expenses	46.6	47.0	47.7	51.7	57.5	57.4	61.0	60.1	49.2	47.4
Business ancillary net income (loss)	(0.4)	0.7	0.3	1.7	(0.8)	(1.7)	(2.6)	(1.6)	1.5	(0.1)

Schedule 5
UNIVERSITY OF TORONTO
ANCILLARY OPERATIONS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2008
(with comparative totals for 2007)
(thousands of dollars)

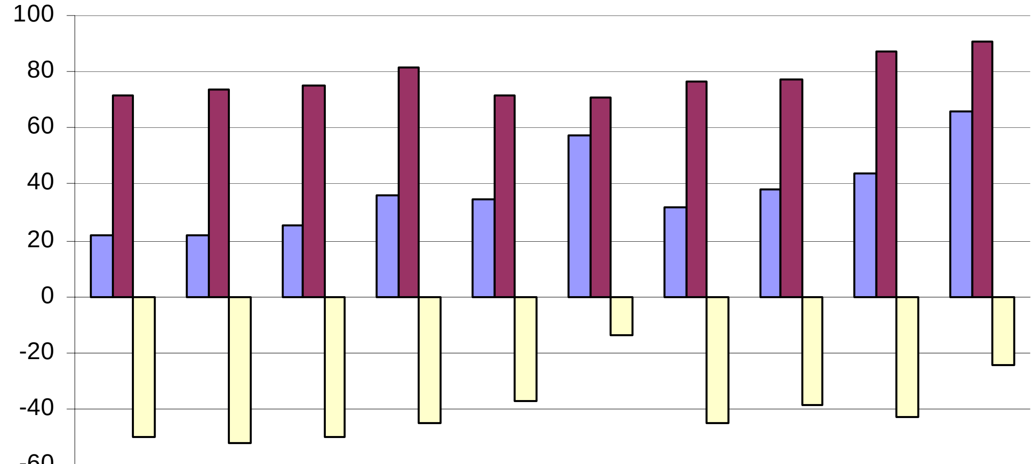
	Revenues	Expenses	Commitments and Transfers	Surplus/(Deficit) Opening	Surplus/(Deficit) Closing	Investment in Capital Assets	Internally Restricted	2008 Total Net Assets	2007 Total Net Assets
	$	$	$	$	$	$	$	$	$
Residences									
Graduate House	3,256	3,162	40	(913)	(779)	2,887		2,108	2,045
Scarborough	5,124	4,872	(481)	(3,432)	(3,661)	4,226	990	1,555	1,304
Mississauga	8,490	8,775	(25,792)	(4,310)	(30,387)	25,934	527	(3,926)	(3,641)
University College	4,793	5,109	172	(1,608)	(1,752)	3,123	1,867	3,238	3,551
Innis College	2,591	2,437	(100)	897	951	456	1,137	2,544	2,514
New College	5,986	8,156	779	(8,738)	(10,129)	3,441	600	(6,088)	(4,270)
Family Housing	7,698	7,149	(587)	3,211	3,173	56	1,380	4,609	4,650
Woodsworth College	3,208	3,798	1,373	(25,525)	(24,742)	26,259		1,517	903
89 Chestnut	16,002	18,163	(110)	(8,347)	(10,618)	24		(10,594)	(8,320)
	57,148	61,621	(24,706)	(48,765)	(77,944)	66,406	6,501	(5,037)	(1,264)
Food/Beverage Service									
St. George	1,780	1,880	31	152	83	112	575	770	868
Scarborough	337	294	113	48	204	49	2	255	212
Mississauga	1,159	865	(310)	(657)	(673)	355	60	(258)	(554)
New College	654	581	142	(1,720)	(1,505)	1,527	38	60	(14)
University College	2,748	2,796	(100)	22	(126)	60	244	178	226
	6,678	6,416	(124)	(2,155)	(2,017)	2,103	919	1,005	738
Parking									
St. George	5,569	5,573	417	1,446	1,859	9,023	400	11,282	11,286
Scarborough	2,329	1,828	(357)	(6,897)	(6,753)	8,027	417	1,691	1,382
Mississauga	2,778	2,615	(357)	(11,407)	(11,601)	11,657	300	356	643
	10,676	10,016	(297)	(16,858)	(16,495)	28,707	1,117	13,329	13,311
Hart House	11,966	11,139	(741)	621	707	2,498	1,897	5,102	4,275
University of Toronto Press	45,479	45,067	264	(557)	119	2,754		2,873	2,461
Residential Housing	1,773	2,289	110	(703)	(1,109)	2,224	388	1,503	2,767
University of Toronto - Innovations Foundation	37			(11,903)	(11,866)			(11,866)	(11,903)
	47,289	47,356	374	(13,163)	(12,856)	4,978	388	(7,490)	(6,675)
Fair value of Interest Rate Swaps					(4,779)			(4,779)	
	133,757	136,548	(25,494)	(80,320)	(113,384)	104,692	10,822	2,130	10,385

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.

Capital fund revenues for the year were $66.2 million and expenses were $90.7 million, for a net loss of $24.5 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 all capital assets.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues	21.9	21.7	25.1	36.0	34.5	57.2	31.8	38.2	43.8	66.2
Expenses	71.9	73.8	74.9	81.2	71.6	70.9	76.6	77.0	87.0	90.7
Net loss	(50.0)	(52.1)	(49.8)	(45.2)	(37.1)	(13.7)	(44.8)	(38.8)	(43.2)	(24.5)

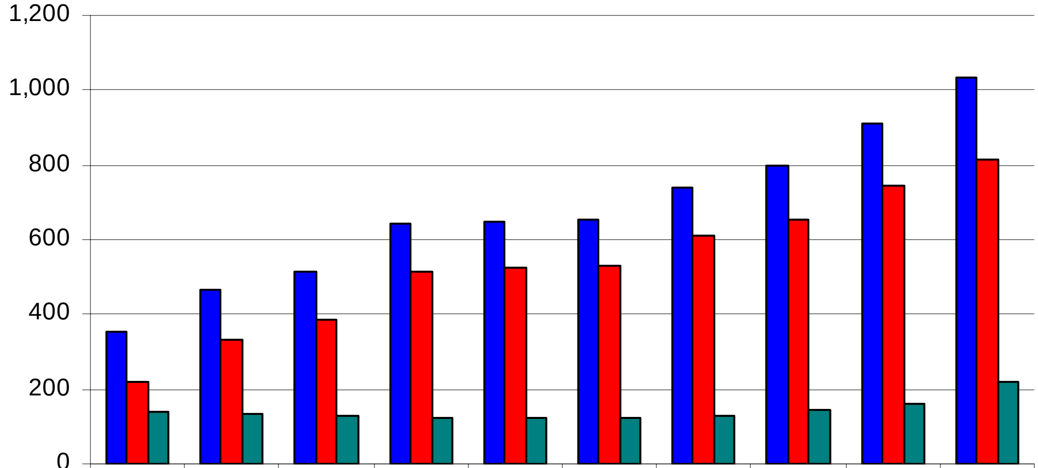
The reason for this loss is that a significant share of the revenue funding amortization of capital assets and funding capital projects is recorded as revenue in the operating fund and transferred to the capital fund as an interfund transfer, and therefore is not reported in revenues or expenses of the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

A total of $80.4 million was transferred to the capital fund to reflect $63.8 million in capital asset expenditures in the operating fund that must be recorded in the capital fund combined with $16.1 million in contributions from the operating fund and $0.5 million from ancillaries in support of capital projects.

Capital fund assets were $1,031.5 million, liabilities were $812.9 million and net assets were $218.6 million. Net assets comprised $267.2 million investment in capital assets, partially offset by $48.6 million in unrestricted and internally restricted deficits.

The assets of the capital fund have grown from $355.5 million in 1999 to $1,031.5 million in 2008 primarily as a result of the University's large capital construction program. Liabilities have also grown from $217.1 million in 1999 to $812.9 million in 2008. This growth in liabilities reflects the increase in long-term debt to $514.0 million, and growth in deferred capital contributions to $708.6 million. This growth is partly offset by internal loans of $439.3 million because the borrowing of long-term debt is recorded in the capital fund and internal loans are provided to departments or operations that have the responsibility to repay the loans. These internal loans are recorded as a liability in the operating or ancillary fund, as appropriate and are recorded as a receivable in the capital fund.

Capital Fund
Balance Sheet
as at April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assets	355.5	466.3	513.5	640.6	647.7	653.1	737.4	798.2	908.3	1,031.5
Liabilities	217.1	332.7	385.7	515.5	526.7	531.4	610.8	652.7	746.2	812.9
Net assets	138.4	133.6	127.8	125.1	121.0	121.7	126.6	145.5	162.1	218.6

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 recorded in its own fund and managed in accordance with the terms and conditions required by the sponsor of the funds. There are over 16,000 individual restricted funds.

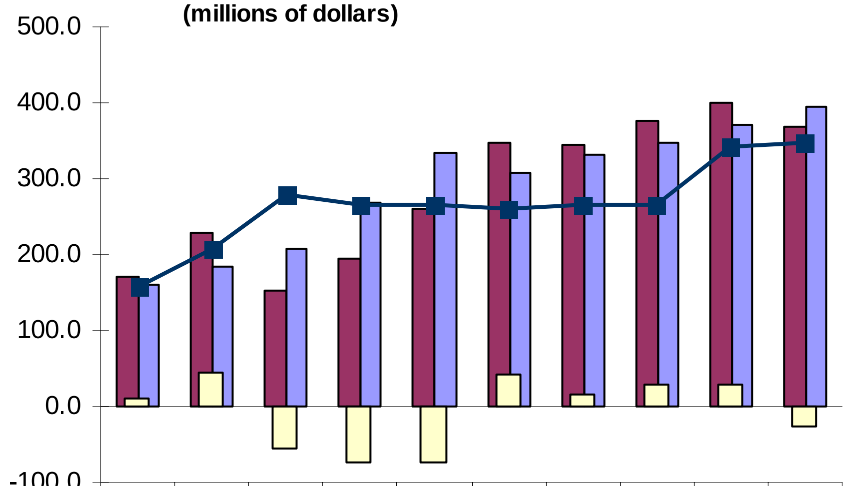
Restricted funds exclude research grants for capital assets and donations designated for capital assets, both of which are recorded in the capital fund. When restricted funds are provided for, or spent on, capital assets, they are recorded in the capital fund.

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.

Restricted funds revenues for the year were $369.7 million, expenses were $395.1 million, and net loss was $25.4 million. Net income in any particular year mainly reflects the recording of unrestricted donations and investment income as revenue that was not yet 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)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues	170.0	229.9	153.4	193.6	259.5	348.6	345.1	377.0	399.9	369.7
Expenses	159.3	184.4	207.5	267.4	333.2	307.5	330.5	348.2	371.1	395.1
Net income (loss)	10.7	45.5	(54.1)	(73.8)	(73.7)	41.1	14.6	28.8	28.8	(25.4)
Deferred contributions	157.0	207.3	278.9	266.7	267.0	261.0	265.5	265.5	341.3	346.1

At April 30, 2008, the restricted funds net assets decreased from April 30, 2007 by $70.3 million as a result of a net loss of $25.4 million and a further $44.9 million, which was comprised as follows:

a) transfers from other funds:

- $3.1 million from the operating fund as matching funds,
- $0.7 million net transfer to fund future maintenance and bursaries,

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

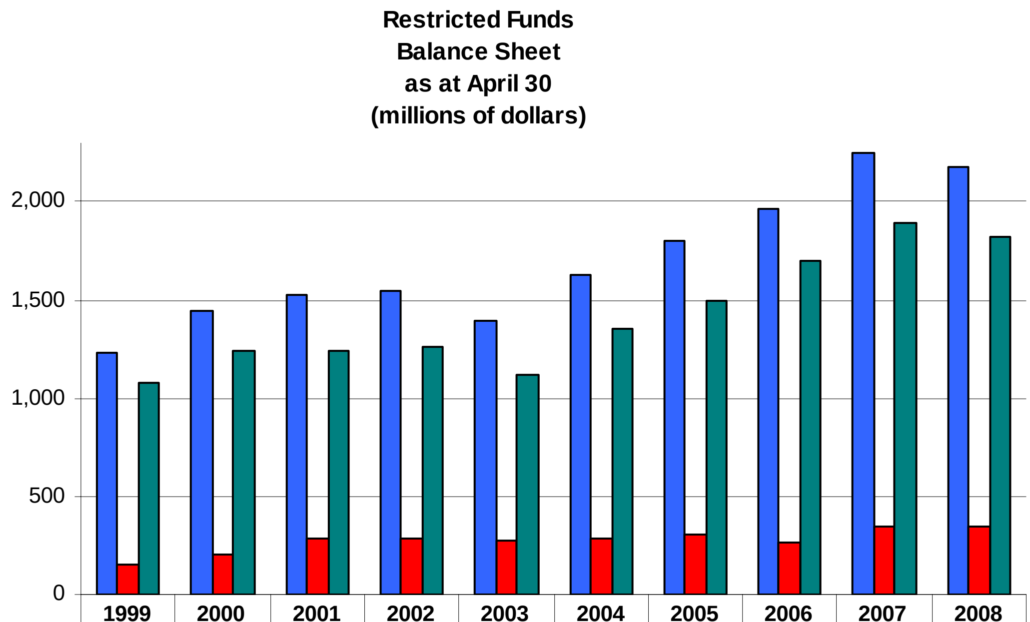
- $36.4 million endowed donations.
- $14.2 endowed Ontario government grants.
- ($86.1 million) investment loss on externally restricted endowments.

c) other transfers to (from) endowments:

- $2.4 million transferred from deferred contributions to endowments.
- ($15.6 million) transfer to the University of Toronto Schools.

Restricted funds assets were $2.17 billion, liabilities were $348.1 million, and net assets were $1.83 billion. Net assets comprised $1.75 billion in endowments and $71.7 million in internally restricted funds**.**

As noted above**,** the majority of unspent restricted funds are NOT recorded as net assets, but rather are recorded as deferred contributions in the liabilities section of the balance sheet. These liabilities have grown from $157.0 million in 1999 to $348.1 million in 2008 mainly as a result of the strong growth in research activity which is reflected in the expendable restricted funds on hand that have not yet been spent.



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assets	1,234.4	1,448.7	1,529.7	1,546.2	1,397.9	1,633.1	1,796.8	1,965.0	2,246.6	2,174.6
Liabilities	157.0	207.3	284.8	282.6	274.4	280.5	304.6	267.1	349.9	348.1
Net assets	1,077.4	1,241.4	1,244.9	1,263.6	1,123.5	1,352.6	1,492.2	1,697.9	1,896.7	1,826.5

Net assets in restricted funds have grown from $1.1 billion in 1999 to $1.8 billion in 2008 mainly due to the growth in endowments as a result of the generosity of our benefactors. Schedule 6 reflects the change in endowment funds from April 30, 2007 to April 30, 2008 with the related expendable funds.

Schedule 6

(Unaudited)

UNIVERSITY OF TORONTO

RESTRICTED FUNDS

ENDOWMENT AND EXPENDABLE FUNDS AT FAIR VALUES AT APRIL 30, 2008

(thousands of dollars)

	Endowment funds					Expendable funds					
	April 30, 2007	Donations, and other additions	Investment Loss (including) Payout (note 1)	Transfers	April 30, 2008	April 30, 2007	Donations, grants and other additions	Distributed Investment Income/(loss) (note 1)	Transfers (note 3)	Disbursements	April 30, 2008
	$	$		$	$	$	$	$	$	$	$
Student aid (note 2)	344,421	14,766	(19,022)	(1,361)	338,804	31,347	3,836	(3,578)	3,740	2,430	32,915
Ontario Student Opportunity Trust Funds - Phase I (note 2)	378,479	-	(21,267)	(12,976)	344,236	22,163	-	1,487	12,977	13,037	23,590
Ontario Student Opportunity Trust Funds - Phase 2 (note 2)	43,884	-	(2,315)	11	41,580	2,085	-	254	(11)	-	2,328
Ontario Trust for Student Support (note 2)	35,606	8,087	(546)	307	43,454	948	2	668	209	-	1,827
Research funds	146,671	13	(7,652)	(14)	139,018	193,521	367,717	7,054	3,823	374,971	197,144
Departmental funds	170,776	4,918	(12,005)	(6,264)	157,425	138,884	40,186	8,781	4,916	58,194	134,573
Faculty endowment funds (note 2)	560,497	22,944	(32,489)	3,394	554,346	13,549	511	7,597	(692)	5,420	15,545
Connaught fund	103,952	-	(5,484)	-	98,468	8,055	-	3,711	(6,842)	167	4,757
I'Anson fund	3,232	-	(171)	-	3,061	324	-	125	-	-	449
Miscellaneous funds	35,151	87	(929)	52	34,361	4,414	2,475	274	1,125	3,626	4,662
	1,822,669	50,815	(101,880)	(16,851)	1,754,753	415,290	414,727	26,373	19,245	457,845	417,790
Comprising:											
Externally designated	1,513,373	50,559	(86,048)	(12,818)	1,465,066						
Internally designated	309,296	256	(15,832)	(4,033)	289,687						
	1,822,669	50,815	(101,880)	(16,851)	1,754,753						
Restricted						341,266	404,965	16,687	13,620	430,406	346,132
Unrestricted						74,024	9,762	9,686	5,625	27,439	71,658
						415,290	414,727	26,373	19,245	457,845	417,790

Notes:

(1) Consisting of investment income (loss) on:

Endowment funds	(81,853)
Expendable funds	6,269
	(75,507)

(2) Disbursements and corresponding distributed investment income for Students Awards ($16,004), Ontario Student Opportunity Trust Funds ($12,530), Ontario Trust for Student Support ($716) and Faculty Endowments ($12,780) are reported in the Operating Fund.

(3) Includes a transfer of $1.4 million from departmental funds for the purchase of land.