FOR ENDORSEMENT AND FORWARDING	**PUBLIC**	**CLOSED SESSION**

TO: Executive Committee

SPONSOR: Sheila Brown, Chief Financial Officer
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca

PRESENTER: Same as above.
CONTACT INFO:

DATE: June 18, 2019 for June 25, 2019

AGENDA ITEM: 1(a)

ITEM IDENTIFICATION:

Audited Financial Statements for the Fiscal Year ended April 30, 2019

JURISDICTIONAL INFORMATION:

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

GOVERNANCE PATH:

1. Audit Committee [for recommendation] (June 17, 2019)
2. Business Board [for recommendation] (June 18, 2019)
3. **Executive Committee [for endorsement and forwarding] (June 25, 2019)**
4. Governing Council [for approval] (June 25, 2019)

PREVIOUS ACTION TAKEN:

None.

HIGHLIGHTS:

In fiscal 2019, net assets increased by $507 million to $6.5 billion, mainly as a result of a net income of $505 million. This net income is chiefly the product of a number of strategic infrastructure investments that are capitalized and are not expensed in the year, offset by the amortization expense of $98 million on internally funded capital assets.

These capital investments include:

- renovations that reduced the University's greenhouse gas emissions and improved the energy efficiency of its campuses at a cost of $22 million (and an additional $33 million funded under the Provincial government's Greenhouse Gas Campus Retrofits Program);
- investing in a number of buildings including UTM's North Building B ($14 million), UTSC's Highland Hall ($14 million), UTM Meeting Place ($11 million), Student Commons ($8 million) and other building improvements totalling $37 million;
- the acquisition of real estate located within the footprint of the St. George campus for a total cost of $12 million;
- research lab renovations in the amount of $7 million;
- equipment purchases, library acquisitions and other capital asset acquisitions totalling $82 million;
- an increase of $397 million in reserves set aside for capital infrastructure generated from increased revenues and tight expense control. (The University has $809 million in reserves for capital projects and infrastructure that will be required over the next few years. It has entered into $576 million in contractual obligations with external builders. The cost of deferred and pending maintenance that will have to be completed in the future is currently estimated at $936 million.)

The increase in net assets of $507 million is also due to an increase in externally restricted endowments of $75 million. Investment returns increased the value of our endowments by $35 million combined with additional endowed donations of $40 million. The University has a clear link between academic planning and fundraising priorities that assures donors that the priorities they are being asked to support are critical to the achievement of approved teaching and research objectives. This link is an essential element in the success of the University's Boundless fundraising campaign.

Finally, the above increases in net assets were partly offset by a decrease in net assets of $73 million relating to employee future benefits. This has come about mainly because of a change in the mortality assumption to value pension liabilities, as well as actual investment returns on assets of the pension plan that are slightly less than expected.

Net assets are composed of the following:

- $2.6 billion of endowments, representing 40.2% of net assets,
- $4.0 billion of internally restricted net assets, and
- ($162 million) of deficit.

The $4.0 billion of internally restricted net assets comprises:

- $2.3 billion in land,
- $1.1 billion of investment in other capital assets (representing internal monies previously spent by the University for capital projects which will be reduced over time as these capital assets are amortized),
- ($912 million) in net unfunded liability associated with pension and other employee future benefits,
- $809 million in capital projects and infrastructure reserves
- $360 million of operating contingency reserves, and
- $334 million in other reserves held for future spending.

The deficit of $162 million is largely due to the internal financing of capital construction in accordance with the University's debt strategy.

With respect to the operating fund, the net decrease in the cumulative operating surplus for the year was $20 million, resulting in a cumulative operating surplus at April 30, 2018 of $34 million, whereas the long-range operating budget called for a break even position.

FINANCIAL IMPLICATIONS:

None

RECOMMENDATION:

Be It Recommended

THAT the following recommendation be endorsed and forwarded to the Governing Council:

THAT the University of Toronto audited financial statements for the year ended April 30, 2019, be approved.

DOCUMENTATION PROVIDED:

- Financial Report 2019 (April 30, 2019) include Audited Financial Statements for the Fiscal Year ended April 30, 2019

UNIVERSITY OF
TORONTO

FINANCIAL REPORT

April 30, 2019

Photo courtesy of Roberta Baker

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HIGHLIGHTS

Year Ended April 30, 2019

(with comparative figures at April 30, 2018)
(millions of dollars)

	2019	2018	% Change
Statement of Operations			
Revenues	$ 3,593	$ 3,379	6.3%
Expenses	$ 3,088	$ 2,914	6.0%
Net Income	$ 505	$ 465	8.6%
Balance Sheet			
Assets	$ 10,393	$ 9,894	5.0%
Liabilities	$ 3,943	$ 3,951	-0.2%
Net Assets	$ 6,450	$ 5,943	8.5%
Net Assets Composed of:			
Endowments	$ 2,593	$ 2,504	
Investment in land and other capital assets	$ 3,428	$ 3,253	
Other	$ 429	$ 186	
	$ 6,450	$ 5,943	
Total Debt Policy Limit	$ 1,712	$ 1,571	9.0%
Policy Debt Burden Ratio	5.0%	5.0%	
Actual Debt Burden Ratio	3.3%	3.4%	
Student FTEs (November 1)	80,652	79,262	1.8%
Total Number of Students (November 1)	91,286	90,077	1.3%

HIGHLIGHTS

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

The University has over 91,000 full-time and part-time students (80,652 full-time equivalents), making it one of the largest universities in North America. The University's size and academic resources provide its students with a wide range of academic programs and courses, while its unique college system offers learning experiences enriched by individual cultures in a smaller community. The University is located on three campuses: St. George (downtown Toronto), Scarborough (UTSC) and Mississauga (UTM).

Over the past ten years, the University has grown significantly, with an increase of over 23.3% in the number of students. During this period, the University also benefited from the Ontario and Federal governments' investments in higher education and advanced research, helping to ensure access, increase graduate enrolment, and finance vital infrastructure. At the same time, however, we are facing increasingly intense competition from peer institutions in key jurisdictions around the world, while social and technological changes are challenging the status of universities in general as a preferred source of knowledge and information.

We must meet these formidable challenges if we are to maintain and enhance our role as Canada's leading university. To do so, we will continue implementing our long-term strategy, through our clearly articulated vision of the University's central priorities. We will keep finding new ways to take advantage of our location in the Toronto region. This includes deepening our relationships with local partners, and heightening our contributions to the success of the GTA as one of the world's most diverse and dynamic metropolitan regions. We will keep strengthening our international partnerships with other great universities, according to our strategic and sharply-focused plan. This involves ongoing efforts to facilitate student mobility and faculty exchanges, as well as joint initiatives in research, conferences, teaching and even joint degrees. In addition, we will build on our record of innovation in curriculum renewal and other aspects of the student experience, to re-imagine and perhaps even reinvent undergraduate education. This includes our continuing responsiveness to the demand for 'job ready' graduates, as well as the challenges and opportunities of the digital age.

To succeed on all these fronts, we will keep drawing on the talent, creativity and efficiency of our faculty and staff, as well as the loyalty and generosity of our alumni and benefactors. At the same time, we will also need strong support from our government partners, at all levels. In particular, it is crucial that public policies and funding decisions reflect a robust appreciation of the University's differentiated and indeed unique role within Canadian higher education.

This financial report does not include the assets, liabilities and operations of Victoria University, The University of Trinity College, University of St. Michael's College, Sunnybrook Health Sciences Centre and the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate, non-controlled corporate body.

Current Financial Results and Challenges

In fiscal 2019, net assets increased by $507 million to $6.5 billion, mainly as a result of a net income of $505 million. This net income is chiefly the product of a number of strategic infrastructure investments that are capitalized and are not expensed in the year, offset by the amortization expense of $98 million on internally funded capital assets.

These capital investments include:

- renovations that reduced the University's greenhouse gas emissions and improved the energy efficiency of its campuses at a cost of $22 million (and an additional $33 million funded under the Provincial government's Greenhouse Gas Campus Retrofits Program);

- investing in a number of buildings including UTM's North Building B ($14 million), UTSC's Highland Hall ($14 million), UTM Meeting Place ($11 million), Student Commons ($8 million) and other building improvements totalling $37 million;
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- an increase of $397 million in reserves set aside for capital infrastructure generated from increased revenues and tight expense control. (The University has $809 million in reserves for capital projects and infrastructure that will be required over the next few years. It has entered into $576 million in contractual obligations with external builders. The cost of deferred and pending maintenance that will have to be completed in the future is currently estimated at $936 million.)

The increase in net assets of $507 million is also due to an increase in externally restricted endowments of $75 million. Investment returns increased the value of our endowments by $35 million combined with additional endowed donations of $40 million. The University has a clear link between academic planning and fundraising priorities that assures donors that the priorities they are being asked to support are critical to the achievement of approved teaching and research objectives. This link is an essential element in the success of the University's Boundless fundraising campaign.

Finally, the above increases in net assets were partly offset by a decrease in net assets of $73 million relating to employee future benefits. This has come about mainly because of a change in the mortality assumption to value pension liabilities, as well as actual investment returns on assets of the pension plan that are slightly less than expected.

The Statement of Operations

As noted above, the number of students at the University has grown very substantially, by 23% over the past 10 years. This increase in enrolment is the main source of impact on the consolidated statement of operations. It raises revenues from student fees and government grants while also increasing expenses in salaries and benefits, due to the resulting growth in faculty and staff and related salary increases. In turn, higher numbers of students, faculty, and staff has increased the need for construction and renovations, which impact operating expenses as well as interest and amortization expenses. Prudence in planning for these capital infrastructure needs is a significant factor in our increased financial reserves.

The University also continues to welcome a large community of international students. Experience and data show consistently that this is an important factor in our academic excellence and global competitiveness, as well as a major benefit to the regional and national economy. We are mindful, however, of the need to avoid over-reliance on any given source of international students. This has led to our successful initiatives in recent years to diversify our global recruitment strategy. At the same time, geopolitical developments have indicated the need to be prepared for relatively sudden external impacts on that strategy. This in turn has been a factor in the accumulation of our current financial reserves.

Revenues for the year ended April 30, 2019 were $3.6 billion and expenses[1] were $3.1 billion for a net income of $505 million, primarily reflecting funds being set aside in accordance with multi-year divisional academic plans These plans call for prudent and deliberate use of reserves for operating contingencies and future capital investment in academic facilities and other amenities, as well as for faculty hiring.

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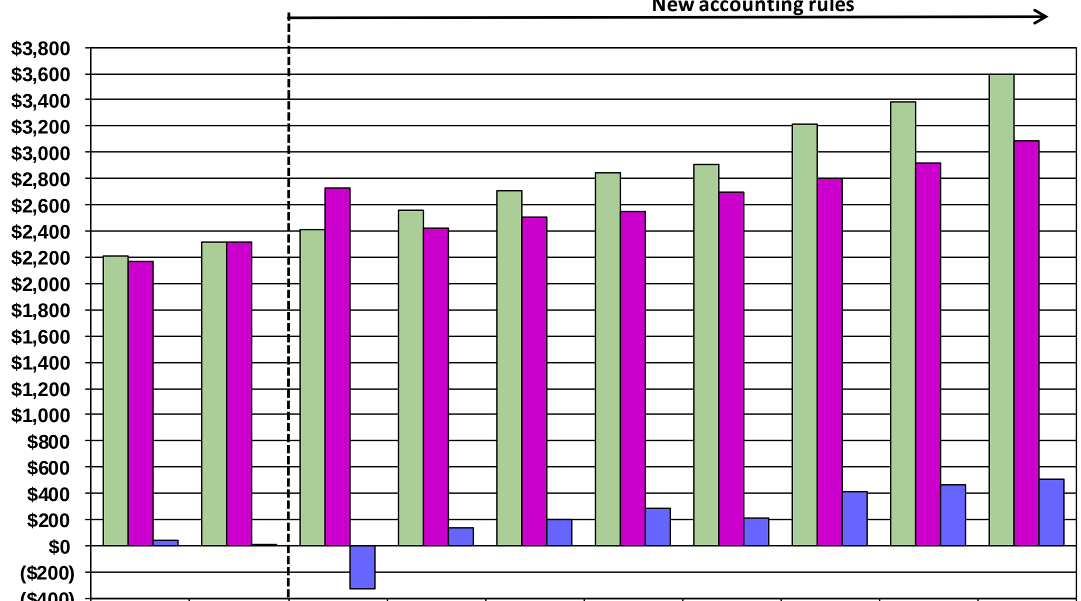
[1] Effective May 1, 2011, the adoption of new accounting rules resulted in recording the full impact of the deficits in its employee future benefit plans on the consolidated balance sheet and the changes in the deficits in the consolidated statement of operations. Effective May 1, 2012, any remeasurements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

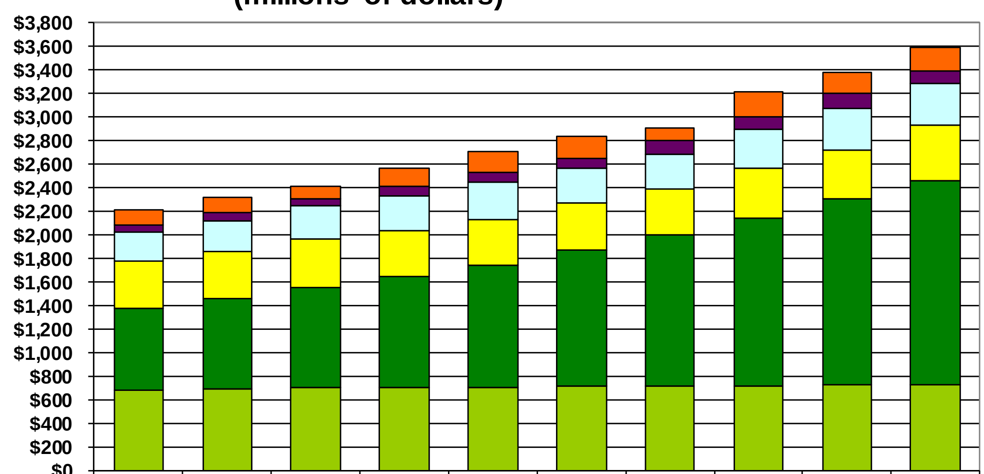
Revenues and Expenses
for the year ended April 30
(millions of dollars)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	2,211	2,321	2,406	2,563	2,710	2,840	2,909	3,216	3,379	3,593
Expenses	2,166	2,314	2,732	2,425	2,506	2,552	2,698	2,799	2,914	3,088
Net income (loss)	45	7	(326)	138	204	288	211	417	465	505

In 2019, $2.5 billion or 68.3% of revenues were from student fees and government grants provided in support of student enrolments. An additional $469 million represented government and other grants and contracts for restricted purposes. Together these three sources accounted for 81.4% of revenues for the year.

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total revenues	2,211	2,321	2,406	2,563	2,710	2,840	2,909	3,216	3,379	3,593
Investment income	125	136	103	151	179	192	109	220	180	205
Donations	58	64	60	84	90	86	114	101	128	102
Sales, services and sundry income	253	260	274	288	310	292	301	333	352	362
Grants for restricted purposes	396	406	420	391	386	397	383	418	413	469
Student fees	701	764	847	945	1,039	1,159	1,292	1,431	1,583	1,728
Grants for general operations	678	691	702	704	706	714	710	713	723	727

In 2019, expenses for the year amounted to $3.1 billion, of which $1.8 billion, or 59.0%, was for salaries and employee benefits.

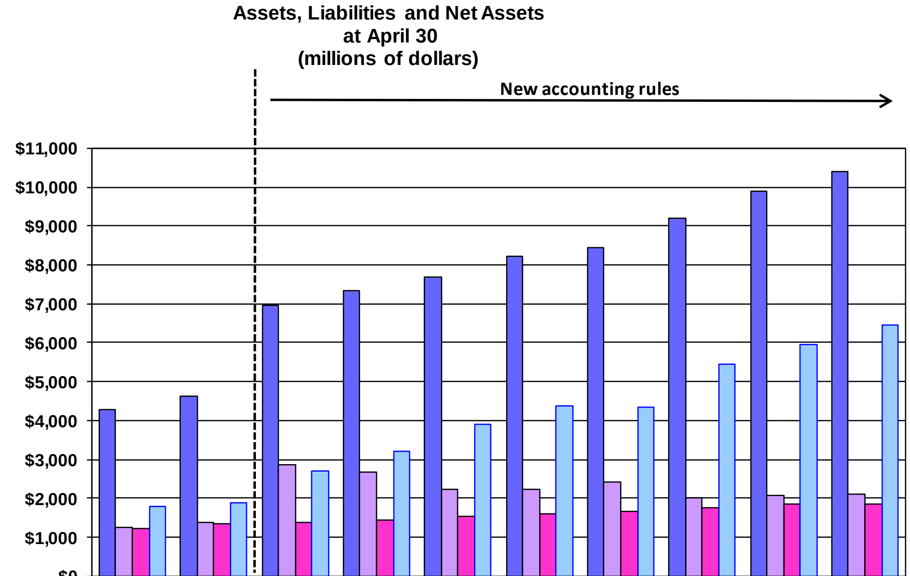
It is important to note that faculty and staff salaries and benefits relating to teaching, research and administrative activities are predominantly funded from University operating funds (mostly student fees and government grants). Additional details are provided in the "Salaries and Benefits" section of these highlights. Scholarships, fellowships and bursaries were $255 million, or 8.3% of total expenses. Materials, supplies and services were $222 million, or 7.2% of total expenses, and inter-institutional contributions were $155 million or 5.0% of total expenses.

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total expenses	2,166	2,314	2,732	2,425	2,506	2,552	2,698	2,799	2,914	3,088
Other	341	332	361	359	383	348	403	427	432	446
Inter-institutional contributions	78	90	97	94	85	97	101	103	121	155
Amortization of capital assets	124	132	137	141	146	152	159	165	178	189
Materials, supplies and services	171	159	156	166	170	203	217	218	227	222
Scholarships, fellowships, bursaries	132	141	176	186	199	206	218	217	239	255
Salaries and employee benefits	1,320	1,460	1,805	1,479	1,523	1,546	1,600	1,669	1,717	1,821

The Balance Sheet

At April 30, 2019, assets were $10.4 billion, liabilities were $3.9 billion and net assets were $6.5 billion. Assets and liabilities have grown since 2010 mainly due to the growth in endowments as a result of good investment returns in most years, receiving endowed donations, combined with the construction of additional space to accommodate the increased number of students.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Assets	4,293	4,640	6,956	7,325	7,681	8,218	8,433	9,205	9,894	10,393
Liabilities	1,253	1,387	2,873	2,669	2,246	2,248	2,434	2,001	2,081	2,099
Deferred contributions	1,240	1,357	1,390	1,449	1,535	1,594	1,650	1,747	1,870	1,844
Net assets	1,800	1,896	2,693	3,207	3,900	4,376	4,349	5,457	5,943	6,450

In addition, the adoption of changes in accounting standards effective May 1, 2011, resulted in recording some of the University's land at fair value and full recording of its pensions and other employee future benefit obligations on the consolidated balance sheet. The impact was a $2.1 billion increase in assets (capital assets), a $934 million increase in liabilities (unfunded employee future benefits), and a net increase of $1.1 billion in net assets at May 1, 2011.

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

- the net income or net loss for the year,
- the change in endowments derived from 1) endowed donations, and 2) from investment income on externally restricted endowments (representing income earned above the amount made available for spending) which does not flow through the consolidated statement of operations but rather is added directly to the endowment balance in accordance with current generally accepted accounting principles for not-for-profit organizations, and
- Effective May 1, 2012, remeasurements and other items are recognized directly in net assets instead of being recorded in the consolidated statement of operations. Remeasurements and other items include (i) any difference between the actual investment return on pension plan assets and the investment return used in valuing the pension obligation and (ii) the net actuarial gains and losses on all employee future benefits.

Net assets increased by $507 million to $6.5 billion in 2019 as a result of net income of $505 million, endowed donations of $40 million, $35 million increase in externally restricted endowments offset by $73 million in remeasurements and other items relating to employee future benefits (primarily due to a change in the mortality assumption and actual investment returns slightly less than expected returns on assets of the pension plan).

Net assets are composed of the following:

- $2.6 billion of endowments, representing 40.2% of net assets,
- $4.0 billion of internally restricted net assets, and
- ($162 million) of deficit.

The deficit of $162 million is largely due to the internal financing of capital construction in accordance with the University's debt strategy (see the "Debt" section of these highlights).

The $4.0 billion of internally restricted net assets comprises:

- $2.3 billion in land,
- $1.1 billion of investment in other capital assets (representing internal monies previously spent by the University for capital projects which will be reduced over time as these capital assets are amortized),
- ($912 million) in net unfunded liability associated with pension and other employee future benefits,
- $809 million in capital projects and infrastructure reserves
- $360 million of operating contingency reserves, and
- $334 million in other reserves held for future spending.

The $2.6 billion of endowments represent over 6,400 individual endowment funds, which are restricted in nature based on the direction of donors or Governing Council.

The Role of the Government of Ontario

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

Operating Grants

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

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

The 2016 Ontario Budget confirmed the government's intention to move forward with implementing changes to the university funding formula with the following key objectives: improving student outcomes; promoting differentiation by linking funding to SMAs; and providing additional stability to institutions through enrolment planning and predictability.

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

The second Strategic Mandate Agreement begins the transition to this new funding framework, including stable funding for enrolment within a negotiated enrolment corridor. Existing enrolment-related grants (base operating grant plus historical targeted grants for previous growth in undergraduate, graduate, teacher education, nursing, and medicine programs) have been rolled into a single Core Operating Grant. Going forward, funding for domestic enrolment will remain stable provided the University maintains a five-year average enrolment within ±3% of its negotiated target, excluding the funded graduate enrolment growth noted above. In 2018-19, this Core Operating Grant funding was $578 million.

Under the new funding framework, the University will also receive differentiation funding tied to performance in priority areas such as student experience; innovation, economic development and community engagement; research excellence and impact; access and equity; and innovative teaching. A new differentiation envelope has been created by combining the University's existing share of the Access to Higher Education Quality Fund and Key Performance Indicator grants, with $36 million re-directed from the University's existing enrolment-related grants. The allocation of differentiation funding in 2018-19 was $65 million. While the differentiation envelope is associated with performance metrics under SMA2, those metrics will not impact the level of funding during this period (through fiscal 2020).

The 2019 Ontario Budget announced the Government's plan to significantly increase the proportion of university funding that will be linked to performance metrics in the Strategic Mandate Agreement (SMA3) period (2020-2025). Beginning in fiscal 2021, the proportion of base operating grant funding in the differentiation envelope will increase from the current 10% level to 25%. Additional funding will shift from the Core Operating Grant to the differentiation envelope annually until this proportion reaches 60% in fiscal 2025. Through the SMA3, the Government will link funding allocations in the differentiation envelope to a set of 10 performance metrics with institution-specific targets. Details on the metrics and funding mechanism will be developed over the next year in time for phased implementation starting in fiscal 2021.

Tuition Fees and Student Aid

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

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

In January, 2019, the Provincial government announced a 10% cut to domestic tuition fees beginning in 2019–20, and a freeze at that level for 2020–21. The tuition fee reduction applies to domestic students enrolled in all programs that are funded via the provincial operating grant, including direct entry undergraduate, second entry and professional master's, and doctoral stream programs. Tuition paid by international students is unregulated, and will therefore be unaffected. This new framework does not affect fiscal 2019; however, it will result in a reduction in domestic fee revenue for fiscal 2020.

The tuition framework continues to be accompanied by an accessibility guarantee. A Tuition Set Aside formula requires a specific amount to be set aside by universities for student aid, so that universities ensure accessibility, regardless of a student's financial means; this is in line with the long-established policy of the University. The University remains committed to the goal of accessibility and to working with the Provincial and Federal governments to achieve the goal of access. In 2019, the University spent $255 million on scholarships, fellowships and bursaries, a significant increase from $132 million in 2010.

The 2016 Ontario and Federal Budgets included significant changes to student aid programs, the Ontario Student Assistance Program *(*OSAP) and Canada Student Grants (CSG), including a restructuring of OSAP to be completed in two phases. In 2017-18, most Ontario student grants, including the Ontario Tuition Grant, were folded into a single Ontario Student Grant which is an upfront, income-based grant that provides tuition support and needs-based support. In 2018-19, the expected parental/spousal financial contribution towards a student's postsecondary costs were reduced meaning that more students qualified for OSAP assistance.

The 2019 Ontario Budget announced a new set of changes to OSAP for the 2019-20 academic year. Changes to OSAP include a reduction in the income threshold under which students qualify for non-repayable aid (grants), an increase in the proportion of aid provided as loans, and increases in required parental and student contributions to the cost of education. The government stated that they would target OSAP funds to students with the greatest financial need, distributing a larger proportion of grant funding to students with family incomes of less than $50,000. These changes are expected to reduce the overall amount of student aid payable to students, including the University's regulatory obligation to cover any unmet financial need as defined by OSAP under the Student Access Guarantee. However, the University remains firm in our internal access guarantee – that financial circumstances should not stand in the way of a qualified student entering or completing their degree.

Capital Funding

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

Other recent capital investments made by the Province include:

- $25 million to support construction of the Mississauga campus' Health Science Centre.
- $23 million to support the construction of the Goldring Centre for High Performance Sport.
- $50 million from each of the Federal and Provincial governments to support the construction of the Pan Am Aquatics Centre at the Scarborough campus.
- $15 million in funding for the Myhal Centre for Engineering Innovation and Entrepreneurship to continue strengthening the Innovation SuperCorridor and help support the expansion of experiential learning opportunities for engineering students.
- $14 million from the Provincial government and $84 million from the Federal government (Postsecondary Institutions Strategic Investment Fund) toward the University's laboratory retrofit project.
- $33 million under the Greenhouse Gas Campus Retrofit Program to support a number of projects to reduce greenhouse gas emissions across the three campuses.

Other Recent Ontario Budget Priorities

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

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

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

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

Targets and international student recovery reductions to operating grants implemented in 2013 remained in place.

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

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

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

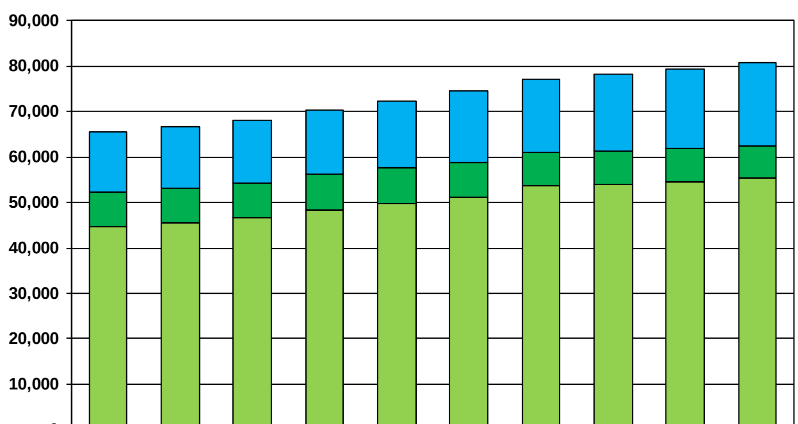
Student Enrolment

The demand for student spaces has increased significantly since 2010 as a result of increased population growth in Ontario and participation rates. The University has increased enrolment to accommodate this additional student demand with student FTE enrolment increasing from 65,402 in 2010 to 80,652 in 2019, an increase of 23.3%. More than 50% of the direct entry undergraduate student body is drawn from the Greater Toronto Area.

Tuition fees for domestic students increased in accordance with the tuition framework set by the Provincial government. Student fees revenue increased by $145 million to $1.7 billion from last year as a result of student fee increases and enrolment growth.

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

Number of Undergraduate and Graduate Student FTEs
as at November 1



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Graduate	13,116	13,385	13,754	14,154	14,843	15,650	16,227	17,029	17,525	18,319
Second-entry Undergraduate [1]	7,628	7,786	7,806	7,765	7,743	7,764	7,200	7,206	7,216	7,075
First-entry Undergraduate	44,658	45,440	46,528	48,392	49,785	51,102	53,703	54,056	54,521	55,258

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

Since 2010, student aid (scholarships, fellowships and bursaries) has increased by 93.2% to $255 million. This amount excludes amounts provided by the federated universities. The University has a commitment under our policy on student financial aid which ensures that no qualified student will be prevented from beginning or completing his or her education due to financial need and also makes substantial funds available over and above the amounts outlined here.

Financial Planning

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

The long-range academic and budget plan for 2019-20 to 2023-24 incorporates the latest provincial information on tuition and operating grants, including the impact of a 10% cut to domestic tuition fees beginning in 2019-20, and a freeze at that level for 2020-21. The domestic tuition fee reduction will have a differential impact on each division, depending on program mix and divisional revenue sources. Adjustments to divisional budgets will differ based on local priorities, but will include some combination of changes to faculty and staff hiring plans, deferral of capital projects, service reductions, and operating cost efficiencies. The plan assumes various updated assumptions and also assumes that the pension deficit payments will continue, and in fact, increase.

Research and Capital Infrastructure

In 2018, following a year of research and broad consultation, the University launched a new five-year Institutional Strategic Research Plan (ISRP). The ISRP continues to express the University's core commitment to supporting excellence in research and innovation across our three campuses and with our community partners. The consultation feedback helped shape the themes and subthemes and align them with current and potential future areas of research and innovation while reflecting the breadth of the University's research within a flexible framework. Feedback also helped to refine our strategic objectives and the metrics by which we will measure our success.

The ISRP provides support and direction but is not meant to limit individual faculty member or divisional research priorities. The ISRP highlights the scope of scholarship at the University and identifies seven thematic areas designed to facilitate excellence and collaboration both within the University and with partner organizations and to address issues of local, national, and global importance. Of note, the ISRP formed the basis for developing the proposal for the Schwartz Reisman Institute of Technology and Society, demonstrating the value of broad institutional engagement in identifying research priorities.

The ISRP also identifies five strategic objectives to enable the University to continue to increase its research excellence:

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

The ISRP highlights the environment and approach that will allow our researchers to continue to do their outstanding work, and that will support the University's research capacity and productivity by attracting and retaining superb talent; by building strategic research programs and linkages of research, education, and training; and by leveraging strategic partnerships and resources for the benefit of society.

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

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

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

- The introduction of 250 new chairs through the Canada Research Chair program, with an investment of $210 million over five years to better support early-career researchers, while increasing diversity and creating more opportunity for women among nominated researchers.
- $763 million over five years for scientific research infrastructure through the Canada Foundation for Innovation (CFI). This includes $160 million for increased support to Canada's nationally important research facilities through the foundation's Major Science Initiatives Fund. The government also proposed to establish permanent funding at an ongoing level of $462 million per year by 2023-24 for research tools and infrastructure through CFI.
- $21 million was allocated to increase diversity in science.
- $275 million was earmarked for the New Frontiers in Research Fund that will support research that is international, interdisciplinary, fast-breaking and higher-risk.
- $231 million over five years was set for the Research Support Fund – a critical program that assists universities with the institutional costs of research, such as facility costs and technology transfer supports – but does not substantially increase the proportion of funding for these costs. In addition, rather than allocating the funding increase as consecutive top-ups to the Research Support Fund, as done in the past, the government will segregate it as an Incremental Project Grants envelope that comes with more stringent accountability requirements. For 2018- 19 the University recovered the institutional costs of tri-agency research as Research Support Fund, adding up to a recovery rate of 18% relative to direct costs, and as Incremental Project Grant, increasing that recovery rate to 20%. By contrast the institutional costs of research incurred by the University add up to a rate of more than 55%. The University will continue to work with the government with the goal of ensuring that the full costs of research are supported.
- $573 million over five years to implement a Digital Research Infrastructure Strategy to deliver more open and equitable access to advanced computing and big data resources to researchers across Canada.

These significant investments from the 2018 Federal Budget will continue to flow out to institutions over the next several years.

In the 2019 Federal Budget, the government followed up the multi-year investments in research announced in 2018 with new investments and initiatives, including:

- $114 million over five years, starting in 2019–20, with $27 million per year ongoing, to the federal granting councils to create 500 more master's level scholarship awards annually and 167 more three-year doctoral scholarship awards annually through the Canada Graduate Scholarship program.

- The creation of a Strategic Science Fund - Support for Third-Party Research Organizations for federal investments in third-party science and research starting in 2022–23. The Fund will operate using a principles-based framework for allocating federal funding that includes competitive, transparent processes that will help protect and promote research excellence. Going forward, the selection of recipient organizations and corresponding level of support will be determined through the Fund's competitive allocation process, with advice from the expert panel and informed by the Minister of Science's overall strategy. The Minister of Science will provide details on the Fund in 2019.

In 2019, the Provincial government announced the creation of an Expert Panel tasked with delivering a report on how Ontario can maximize commercialization opportunities for the postsecondary sector and its partners. This panel includes representation from the postsecondary, industry, technology and innovation, and venture capital and investment sectors, as well as intellectual property law expertise. The results of this panel's work are intended to inform an action plan for a provincial intellectual property framework.

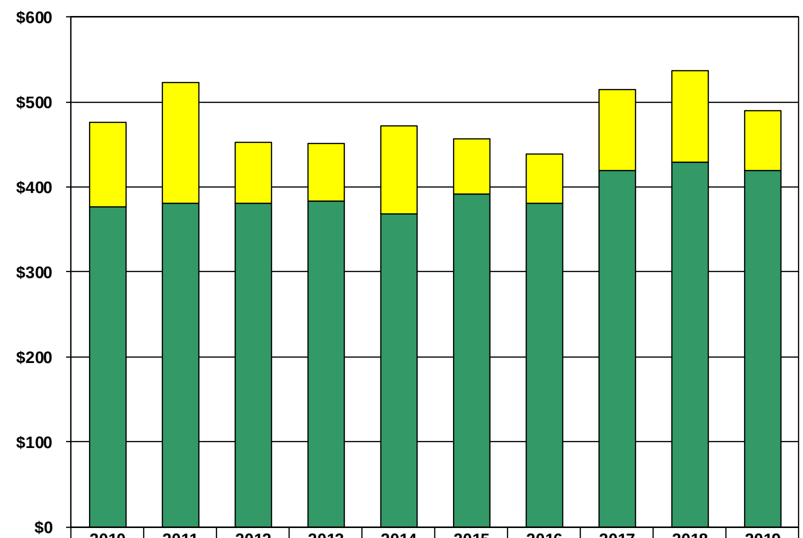
The University continues to expand its efforts in the innovation and entrepreneurship space, and in 2017 opened ONRamp, a 15,000 square foot hub for student entrepreneurship activity. Further expansion of these activities is intended as part of the development of the Schwartz Reisman Innovation Centre.

The University continues to be successful at generating funding for research, including direct and infrastructure funding. These financial statements do not account for grants awarded, but account for research funding received as follows:

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

Government and other grants received in 2019 for restricted purposes totalled $489 million and comprised $419 million for research and $70 million for capital infrastructure and other purposes. These were reported as follows: $469 million as revenue from grants for restricted purposes and $20 million as deferred contributions and deferred capital contributions.

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Capital infrastructure and other	100	142	73	67	104	66	59	96	107	70
Research	376	381	380	384	368	391	380	419	429	419

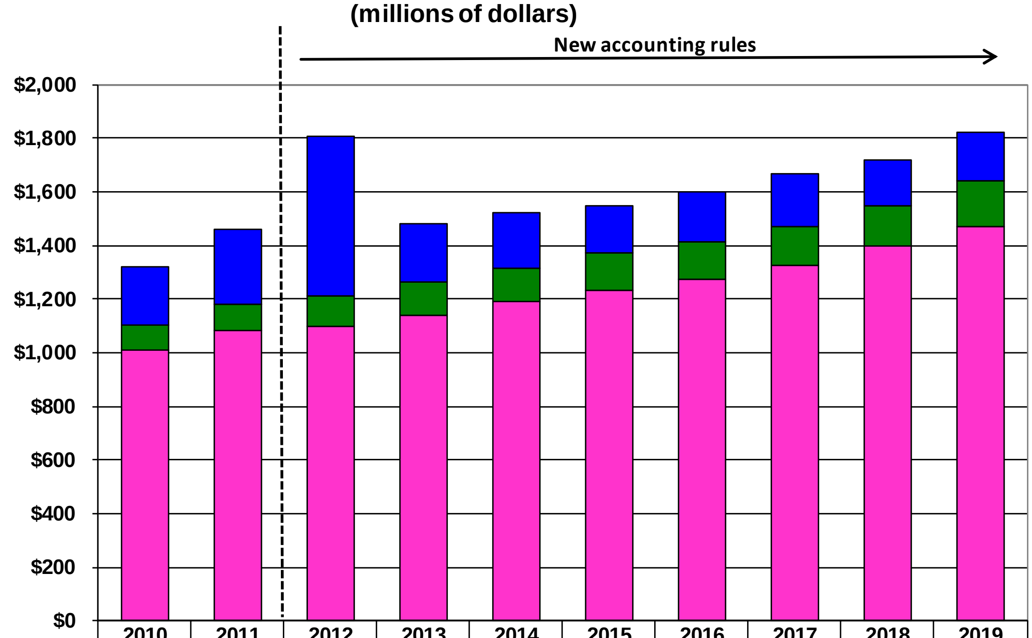
It is important to note that research funding can only be spent on research activities, but the amounts received do not adequately cover the full direct and indirect costs of research activities. The Fundamental Science Review Report did recommend that the Federal government should increase its support for such costs and the University continues to advocate for these resources. It should be noted that new programs such as those funded by the New Frontiers in Research Fund provide indirect cost support at a rate of 25%, above the rate of approximately 20% the University receives for general Tri-Agency programs, and that this support is not subject to the onerous reporting obligations incurred with the Incremental Project Grant.

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

Salaries and Benefits

Over the period 2010 to 2019, salaries and benefits[2] increased from $1.3 billion to $1.8 billion. This is the result of negotiated compensation increases for employee groups as well as an increase of 27.3% in the total number of faculty and staff over that time period. In 2019, the University had 3,160 faculty, 165 librarians, 6,807 administrative staff and 5,548 teaching and graduate assistants.[3]

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Employee future benefits	215	278	594	217	206	176	186	199	171	181
Other employee benefits	97	100	111	120	126	135	141	144	148	168
Salaries	1,008	1,082	1,100	1,142	1,191	1,235	1,273	1,326	1,398	1,472

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

[3] A total of 12,470 Sessional, Clinical and Research Associates also have teaching and research responsibilities.

The following agreements were in effect in fiscal 2019:

- Three-year agreement with administrative and technical staff, represented by the United Steelworkers, starting July 1, 2017 to June 30, 2020 for across-the-board salary increases of 1.8% on July 1, 2017 (plus 0.7% one-time only adjustment to June 30, 2017 base salary), and 2.0% across-the-board effective for both July 1, 2018 and July 1, 2019.

- Two-year agreement with its faculty and librarians starting July 1, 2018 to June 30, 2020 for across-the-board salary increases of 1.9% on July 1, 2018, and 2.0% on July 1, 2019 that is distributed as a 1% increase to all salaries, together with an additional $1,630 per full-time faculty and librarian.

- Four-year agreement with sessional lecturers, instructional assistants (non-student) and writing instructors starting September 1, 2017 to August 31, 2021 for across-the-board salary increases of 2.0% on September 1, 2018, September 1, 2019 and September 1, 2020.

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

Employee benefits expense for the year of $349 million is made up of employee future benefits expense of $181 million and other employee benefits expense of $168 million. Other employee benefits expense includes, for example, the cost of legislative benefits (e.g. Canada Pension Plan and Employment Insurance), medical benefits for active staff, educational support, life insurance and several types of leaves.

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

April 30, 2019	**Pension plan**	**Other benefit plans**
Plan status:		
Assets	**$5.3 billion**	**$107 million***
Obligations	**$5.6 billion**	**$625 million**
Deficit	**$308 million**	**$518 million**
April 30, 2018	**Pension plan**	**Other benefit plans**
Plan status:		
Assets	$5.1 billion	$103 million*
Obligations	$5.4 billion	$591 million
Deficit	$319 million	$488 million

*Assets set aside by the University

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

The pension plan's deficit decreased from $319 million in 2018 to $308 million in 2019. This decrease of $11 million is mainly due to required going concern special payments into the plan of $73 million offset by a change in the mortality assumption to value pension liabilities and actual investment returns slightly less than expected returns on assets of the pension plan.

In 2010, the Province introduced a pension solvency funding relief process to allow certain public sector entities to amortize their solvency deficits over ten years instead of five. The University was approved for Stage 1 of provincial solvency funding relief in 2011 and adopted a pension contribution strategy in May 2012 (based on an actuarial valuation as at July 1, 2011) to deal with the pension deficit and to enhance the long-term sustainability of the plan while mitigating the impact on the core operating budget to the extent possible. This strategy included: (1) two lump sum payments of $150 million, in fiscal year 2012 and in fiscal year 2014, made into the registered plan, (2) increased annual special payments, and (3) the use of non-cash letters of credit to address net solvency special payments. This strategy called for an increase in the annual pension special payments budget to $97 million by 2015-16 from $27 million in 2010-11. The University received governance approval for internal borrowing of up to $150 million to be transferred into the pension plan as required. As stated above, the University transferred a $150 million lump sum payment ($113 million of which was internally borrowed) into the pension plan during fiscal year 2012. In fiscal 2014, the University made another $150 million lump sum payment ($122 million from funds set aside for its supplemental retirement arrangement and $28 million which was internally borrowed).

In 2014-15, the University was approved for Stage 2 of provincial solvency funding relief. In 2016-17, the Ontario government provided additional Stage 2 solvency funding relief measures for certain public sector plans. This amendment required the University to make minimum special payments sufficient to liquidate 25% of the solvency deficiency over seven years and to cover interest applied on the remaining 75% of the solvency deficit not being amortized. Based on the most recently filed actuarial valuation as at July 1, 2017, net solvency deficit payments of $21 million began July 1, 2018, after giving effect to the one-year deferral provision related to the start of required solvency payments. This is in addition to the minimum required going concern pension special payments of $45 million per year. However, the University expects this drop in required funding to be temporary due to the new pension funding rules being implemented by the Province (see below). The current long-term operating budget increases the pension special payments and related costs by an additional $5 million per year from $117 million in 2019-20 to $137 million in 2023-24.

The Province has introduced pension funding reform effective May 1, 2018. Under the new rules:

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

The full impact on the University of these changes will be reflected in the next funding valuation, which will be no later than as of July 1, 2020.

The University is participating together with Queen's University and the University of Guelph and their respective employee groups to develop a multi-employer defined benefit jointly sponsored pension plan for the Ontario university sector. There has been significant progress with the three universities and employee groups (representing the majority of pension plan participants at the three institutions) coming to agreement on a design for the new plan. The three universities are continuing to work together, with employee groups, mediators, and advisors to advance this project. Once the consent process is completed and assuming a positive outcome, the necessary regulatory approvals are required before the JSPP is effective. This initiative is forward-looking and would not address the going concern or solvency deficits, which reflect past experience. Under a JSPP, if and when approved, we expect that the three universities involved will be required to fund their initial pension deficits over a period of time (anticipated to be 15 years).

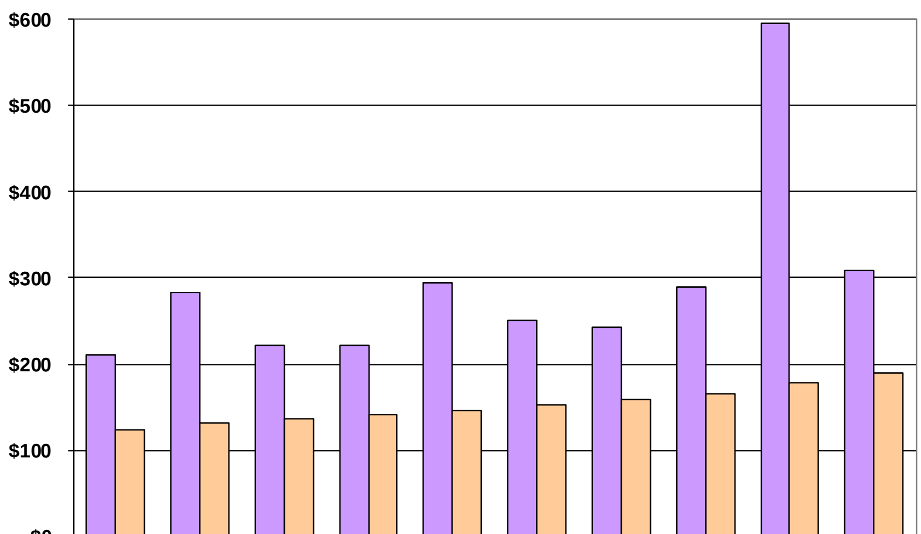
The obligation for employee future benefits other than pension at April 30, 2019 is $625 million. This obligation is also determined based on actuarial valuations using funding assumptions. The annual current service and finance costs are included in the consolidated statement of operations and any actuarial gains or losses are recorded directly in net assets instead of being reported in the consolidated statement of operations.

Space

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

Additionally, the University has future obligations for deferred and pending maintenance, which are currently estimated at $936 million, excluding campus/utility infrastructure and including asbestos containment and removal. The University has integrated its capital programs by pooling the various funds available and prioritizing maintenance and renewal requests. The University is participating with all other Ontario universities in a continuing study that has recently been changed to incorporate the associated costs of professional services and consulting fees in determining the deferred and pending maintenance obligations of every university in the Province. The long-range academic and budget plan for 2019-20 through 2023-24 includes funding to arrest further deterioration of the physical infrastructure.

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Additions to capital assets	210	283	222	222	294	250	243	289	595	308
Amortization	124	132	137	141	146	152	159	165	178	189

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

In 2018, the University renovated over 546 research laboratories at a cost of $195 million ($84 million funded by the Federal government's Postsecondary Strategic Investment Fund, $14 million from the Province's Facilities Renewal Program and $97 million from divisional funds) to support collaboration, flexibility of space allocation, and to support integrated basic science research platforms. Of this amount, $30 million was spent in 2017 and $165 million was spent in 2018. The University also acquired a key parcel of land on its St. George campus that includes a 15-storey tower that fronts onto College Street, and two buildings on Russell Street, for a total cost of $125 million that will support the University's academic mission for years to come. The University also spent $178 million on the construction of buildings including UTM's North Building B ($59 million), the Myhal Centre for Engineering Innovation & Entrepreneurship ($43 million) and UTSC's Highland Hall ($25 million).

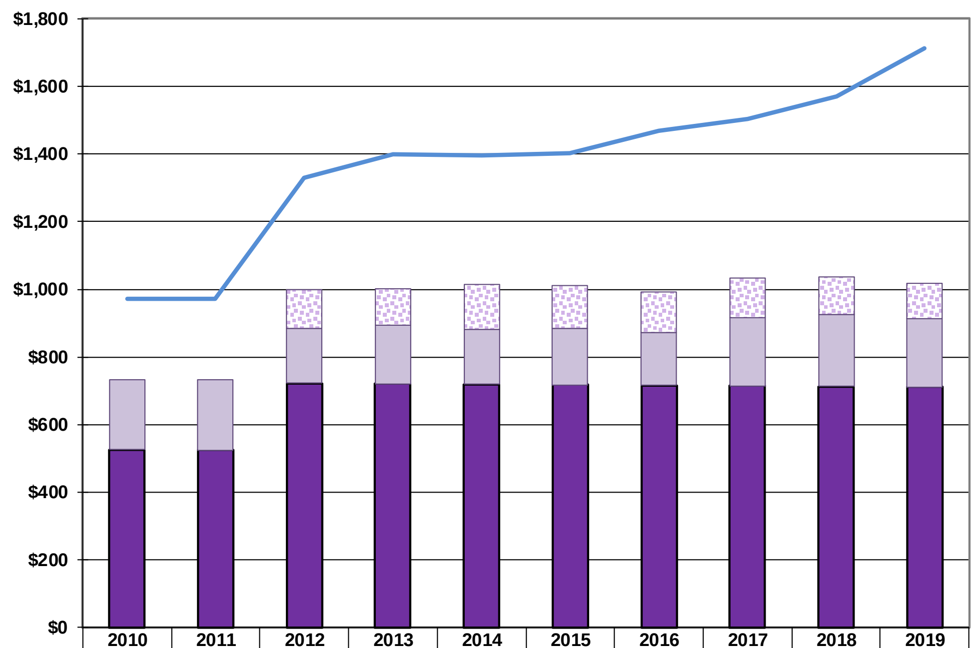
In 2019, the University received funding through the Greenhouse Gas Campus Retrofits Program that assisted it in completing renovations to reduce greenhouse gas emissions and to improve the energy efficiency of its campuses ($55 million), and completed both UTM's North Building B ($14 million) and UTSC's Highland Hall ($14 million).

Debt

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

The University is committed to prudently and strategically allocating debt to high priority capital projects and to supporting the pension plan. The debt strategy provides for a total debt limit of about $1.7 billion at April 30, 2019, made up of actual and planned external debt of $1.3 billion plus $350 million in internal financing.

Outstanding Debt and Debt Policy Limit
for the year ended April 30
(millions of dollars)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Internal debt - pension			113	107	131	126	122	117	112	106
Internal debt - other	205	208	162	174	163	168	155	203	213	201
Total external debt	526	524	723	721	719	718	716	714	712	711
Policy - Maximum total debt limit	972	973	1,330	1,400	1,397	1,401	1,469	1,503	1,571	1,712

In 2019, the actual outstanding external debt is made up of $710 million (gross of $1 million of issue costs and premiums) of debentures and $1 million (excluding the fair value impact of $1 million of interest rate swap contracts) of other long-term debt. At April 30, 2019, the actual debt burden ratio was 3.3%, well below the 5.0% policy limit.

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

Donations

In 2011, the University of Toronto publicly launched the most ambitious fundraising campaign in Canadian history with a goal of securing $2 billion built on the twin pillars of meeting global challenges and preparing global leaders. In 2016, with enthusiastic donor support, the University boldly expanded its campaign goal to $2.4 billion.

Boundless: the Campaign for the University of Toronto closed on December 31, 2018, and raised over $2.6 billion surpassing our expanded goal and setting a new record for philanthropy in Canada. The extraordinary success of the Boundless campaign is a symbol of the collective belief of 104,059 donors from around the world in the University's ability to push beyond the frontiers of research, transform lives through excellence in education, and address the critical issues facing humanity today. Examples of the teaching and research objectives supported by our donors in the Boundless campaign include: $406 million raised for student scholarships and programs, $856 million raised for innovative programs and leading-edge research, $264 million raised in faculty support including 82 chairs and professorships supported or established, and $600 million raised for capital projects which supported 41 critical infrastructure initiatives.

Fundraising continues with increasingly ambitious goals, playing a critical role in the success of the University. All fundraising conducted on behalf of the University's faculties, colleges, schools, and divisions is done in service to academic plans and priorities approved by the Provost with the involvement of principals, deans and faculty.

Total Fundraising Performance (pledges, gifts and grants)
for the year ended April 30
(millions of dollars)

Year	Pledges and Gifts Raised	Philanthropic Research Grants	Total
2019	323	55	378
2018	219	30	249
2017	212	63	275
2016	197	36	233
2015	195	53	248
2014	169	33	202
2013	212	15	227
2012	130	16	146
2011	99	14	113
2010	120	28	148

For the period May 1, 2018 to April 30, 2019, a total of $378 million was raised for the University (including federated universities and other affiliated institutions, but excluding donations to partner hospitals). This amount includes $323 million in pledges and gifts (donations) and $55 million in philanthropic research grants from non-government sources.

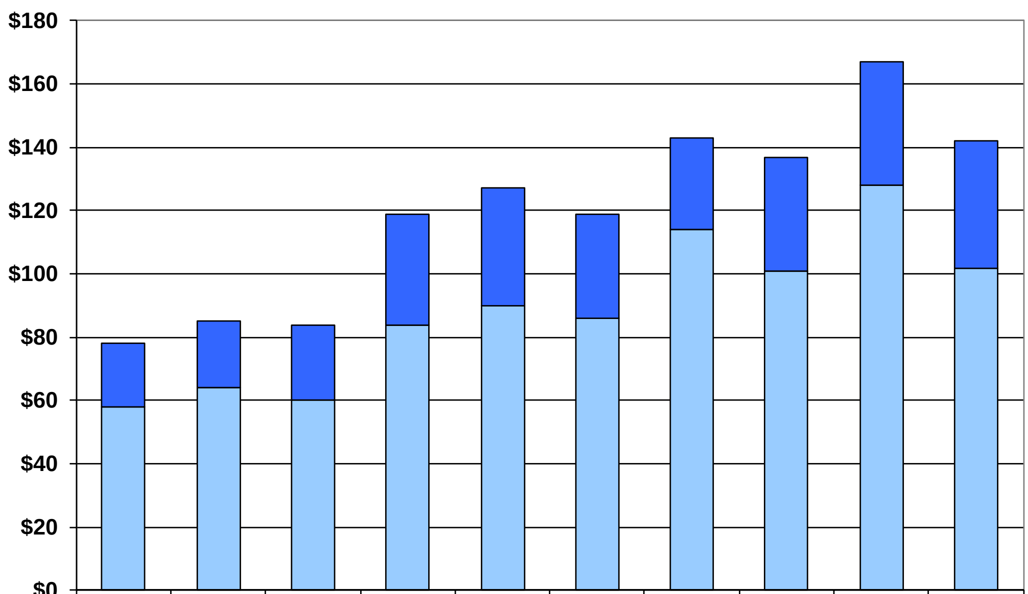
Donations revenue recorded in the University's financial statements does not include donations to the federated universities – Victoria University, University of St. Michael's College, and The University of Trinity College – nor does it include philanthropic research grants (which are recorded as government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

Donations are recorded in the financial statements as follows:

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

In 2019, donations received by the University (excluding receipts by the federated universities, other affiliated institutions, philanthropic research grants and donations to partner hospitals) totalled $142 million and were reported as follows: $102 million in expendable donations was reported as revenue, and $40 million was added directly to endowments. It should be noted that the following graph tracks donations received by fiscal year. There is usually a lag between the growth in pledges and related commitments, and the actual cash receipt of funds.

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total donations	78	85	84	119	127	119	143	137	167	142
Endowed donations	20	21	24	35	37	33	29	36	39	40
Expendable donations	58	64	60	84	90	86	114	101	128	102

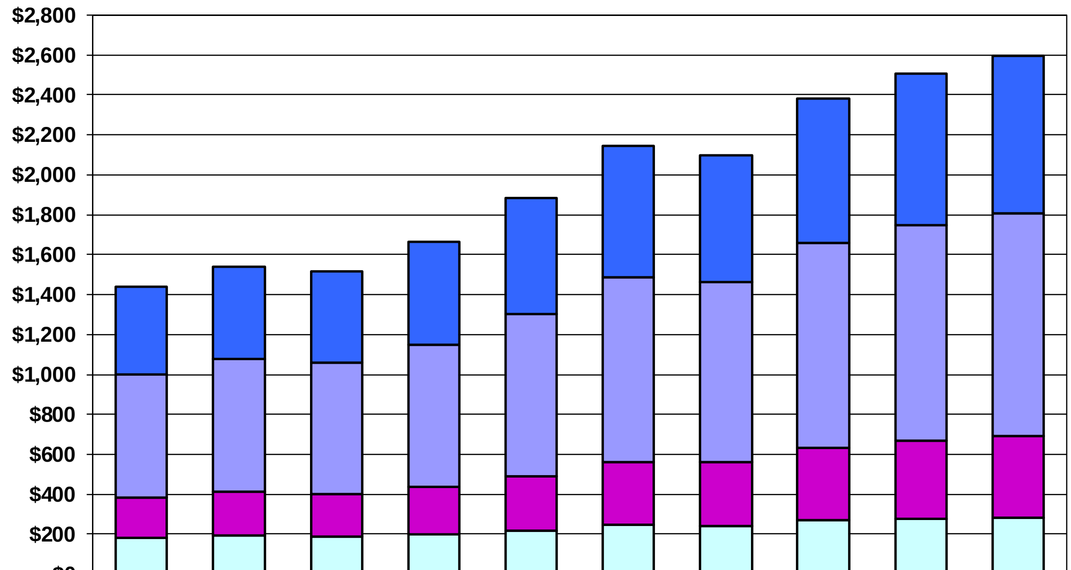
Endowments

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

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

In 2019, the University's endowment value was $2.6 billion with full inflation protection of $663 million and preservation above inflation (provision for investment return fluctuations) of $225 million against a possible future market downturn. The majority of endowments are in support of student aid ($1.1 billion) and chairs and professorships ($784 million).

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

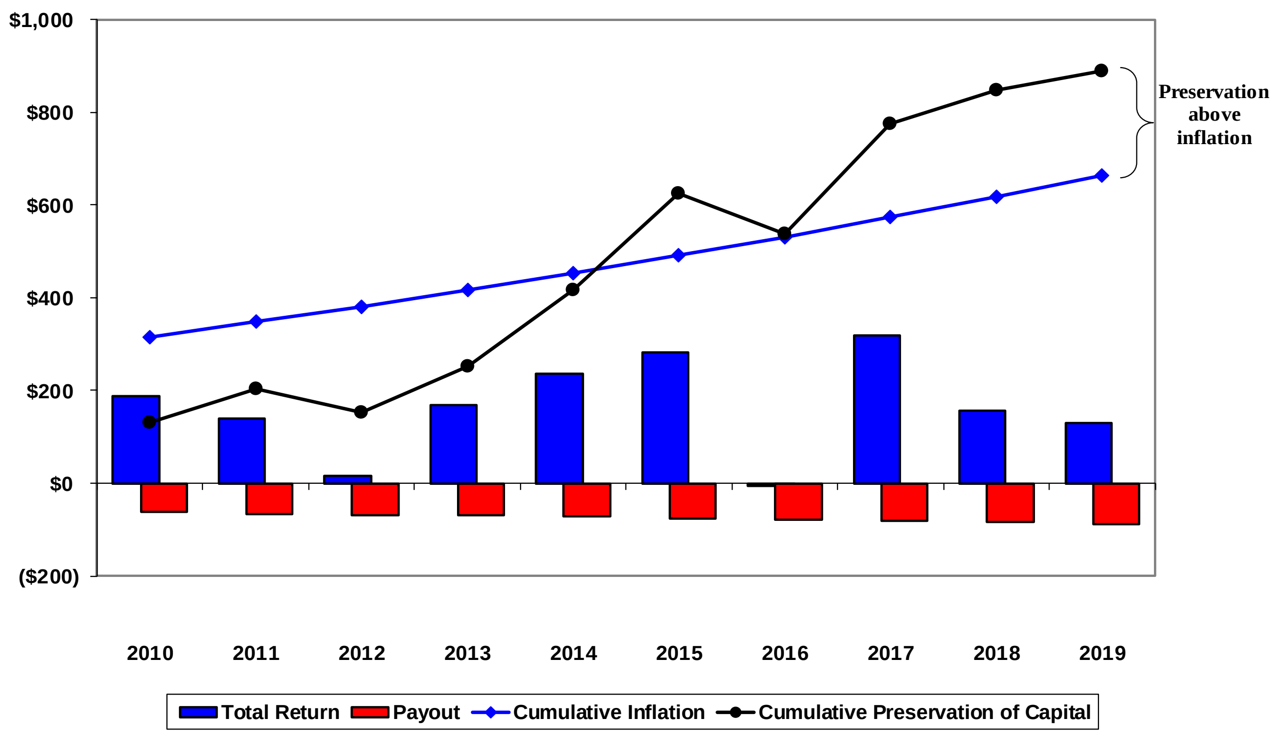


	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total endowments	1,437	1,539	1,518	1,664	1,881	2,142	2,098	2,380	2,504	2,593
Chairs and professorships	437	464	461	514	580	658	637	720	759	784
Student aid	614	662	655	713	811	922	902	1,025	1,077	1,116
Academic programs	203	221	217	239	271	312	319	367	392	413
Research	183	192	185	198	219	250	240	268	276	280

At April 30, 2019, there were over 6,400 individual endowment funds, usually supported by an agreement between the University and a donor, or reflecting a collection of small donations with common restrictions. The total fair value of endowments increased by $89 million as follows:

- $35 million increase on externally restricted endowments, consisting of a $110 million investment gain and $75 million withdrawn for payout;
- $6 million increase on internally restricted endowments, consisting of a $19 million investment gain and $13 million withdrawn for payout;
- $40 million of externally endowed donations; and
- $8 million transfer from the deficit.

The following diagram shows the preservation of capital and payout over the ten-year period starting in 2010:



Investment Earnings

Total investment earnings for the year amounted to $240 million (gross of $32 million in fees and other expenses) consisting of $154 million gain on investments held for endowments and $86 million income on investments other than those held for endowments. These earnings were recorded in the financial statements as follows:

- Of the $154 million gain on investments held for endowments (gross of $25 million in fees and other expenses), $35 million was recorded as a direct increase to endowments in the consolidated statement of changes in net assets, and $119 million was recorded as investment income in the consolidated statement of operations, of which $88 million was made available for spending, $25 million in fees and other expenses and $6 million was added to endowments.
- $86 million on investments other than those held for endowments (gross of $7 million in fees and other expenses) was recorded as investment income in the consolidated statement of operations.

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

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

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

LTCAP

The fair value of LTCAP was $3.0 billion at April 30, 2019, of which $2.6 billion was for endowments, representing 84.6% of the balance invested in LTCAP.

In order to meet planned spending allocations to LTCAP unitholders, the investment target is a real investment return of at least 4% over 10-year periods, net of all investment fees and expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. Prior to June 2017, the investment return and risk targets for LTCAP were a 4% investment return plus inflation, net of investment fees, and a 10% return volatility risk target (representing one standard deviation), over a ten-year period. The actual return in 2019 was 5.2%.

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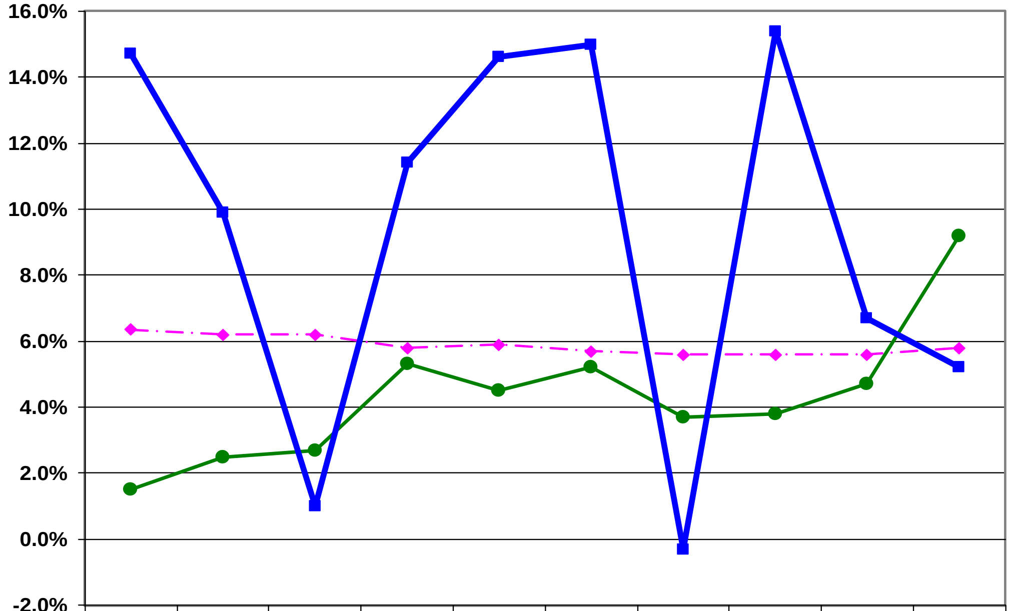
[4] The University of Toronto Asset Management Corporation is a separate non-share capital corporation whose members are appointed by the University. Such of the funds invested in LTACP, EFIP and/or the Pension Master Trust that the University desires to have invested by UTAM, are invested on behalf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

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Ten-Year rolling average return	1.5%	2.5%	2.7%	5.3%	4.5%	5.2%	3.7%	3.8%	4.7%	9.2%
Ten-Year rolling target return*	6.4%	6.2%	6.2%	5.8%	5.9%	5.7%	5.6%	5.6%	5.6%	5.8%
Annual investment return	14.7%	9.9%	1.0%	11.4%	14.6%	15.0%	-0.3%	15.4%	6.7%	5.2%

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

EFIP

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

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

The returns for the 2019 fiscal year were as follows:

	Fair Value at April 30, 2019	**Total Return for Year Ended April 30, 2019**
Investments managed by the University	**$112 million**	**2.12%**
Funds managed by UTAM	**$2.1 billion**	**2.54%**

The returns for the 2018 fiscal year were as follows:

	Fair Value at April 30, 2018	Total Return for Year Ended April 30, 2018
Investments managed by the University	$70 million	1.61%
Funds managed by UTAM	$1.8 billion	1.44%

Audited Consolidated Financial Statements

April 30, 2019

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

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

The administration has prepared the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations developed by the Chartered Professional Accountants of Canada. The administration believes that the consolidated financial statements present fairly the University's financial position as at April 30, 2019 and the results of its operations and its cash flows for the year then ended. In order to achieve the objective of fair presentation in all material respects, reasonable estimates and judgments were employed. Additionally, management has ensured that financial information presented elsewhere in this Financial Report has been prepared in a manner consistent with that in the consolidated financial statements.

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

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

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

The consolidated financial statements for the year ended April 30, 2019 have been reported on by Ernst & Young LLP, the auditors appointed by Governing Council. The independent auditor's report outlines the scope of their audit and their opinion on the presentation of the information included in the consolidated financial statements.

Sheila Brown
Chief Financial Officer

Meric S. Gertler
President

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of the **University of Toronto** [the "University"], which comprise the consolidated balance sheet as at April 30, 2019, and the consolidated statement of operations, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as at April 30, 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian accounting standards for not-for-profit organizations. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the University in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Financial Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Financial Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Toronto, Canada
June 25, 2019

Statement 1

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

	2019	2018
ASSETS		
Current		
Cash and cash equivalents	**112**	70
Short-term investments at fair value (note 3)	**1,905**	1,414
Accounts receivable (notes 3 and 17)	**103**	78
Inventories and prepaid expenses	**22**	22
	2,142	1,584
Long-term government assistance receivable		83
Investments at fair value (notes 3 and 17)	**3,242**	3,337
Capital assets, net (note 4)	**5,009**	4,890
	10,393	9,894
LIABILITIES		
Current		
Accounts payable and accrued liabilities (notes 3, 6 and 7)	**455**	458
Deferred contributions (note 8)	**616**	616
	1,071	1,074
Accrued pension liability (note 5)	**308**	319
Employee future benefit obligation other than pension (note 5)	**625**	591
Long-term debt (note 7)	**711**	713
Deferred capital contributions (note 9)	**1,228**	1,254
	3,943	3,951
NET ASSETS (Statement 3)		
Deficit	**(162)**	(68)
Internally restricted (note 10)	**4,019**	3,507
Endowments (notes 11, 12 and 13)	**2,593**	2,504
	6,450	5,943
	10,393	9,894

Contingencies and commitments (notes 3, 19, 20 and 21)

(See accompanying notes)

On behalf of Governing Council:

Claire M.C. Kennedy
Chair

Meric S. Gertler
President

Statement 2

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

	2019	2018
REVENUES		
Student fees	**1,728**	1,583
Government grants for general operations	**727**	723
Government and other grants for restricted purposes (note 16)	**469**	413
Sales, services and sundry income	**362**	352
Investment income (notes 3 and 11)	**205**	180
Donations (note 15)	**102**	128
	3,593	3,379
EXPENSES		
Salaries	**1,472**	1,398
Employee benefits (note 5)	**349**	319
Scholarships, fellowships and bursaries	**255**	239
Materials, supplies and services	**222**	227
Amortization of capital assets	**189**	178
Inter-institutional contributions	**155**	121
Repairs, maintenance and leases	**135**	118
Cost of sales and services	**117**	113
Utilities	**49**	56
Travel and conferences	**57**	54
Interest on long-term debt	**38**	38
Other	**50**	53
	3,088	2,914
NET INCOME	**505**	465

(See accompanying notes)

Statement 3

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

	Deficit	Internally restricted (note 10)	Endowments (note 11)	2019 Total	2018 Total
Net assets, beginning of year	(68)	3,507	2,504	5,943	5,457
Net income	505			505	465
Net change in internally restricted (note 10)	(512)	512			
Remeasurements and other items (note 5)	(73)			(73)	(79)
Investment gain on externally restricted endowments (note 11)			35	35	61
Externally endowed contributions - donations (note 15)			40	40	39
Transfer to internally restricted endowments (note 11) - investment gain	(6)		6		
Transfer to endowments (note 11) - donations	(4)		4		
- matching funds	(4)		4		
Net assets, end of year	(162)	4,019	2,593	6,450	5,943

(See accompanying notes)

Statement 4

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

	2019	2018
OPERATING ACTIVITIES		
Net income	**505**	465
Add (deduct) non-cash items:		
Amortization of capital assets	**189**	178
Amortization of deferred capital contributions	**(70)**	(74)
Net capital gains from investments	**(170)**	(149)
Employee future benefits expense	**181**	171
Employee future benefits contributions	**(231)**	(230)
Net change in other non-cash items (note 14)	**1**	115
	405	476
INVESTING ACTIVITIES		
Net purchase of short-term investments	**(491)**	(93)
Net sale of investments	**300**	7
Purchase of capital assets	**(331)**	(576)
	(522)	(662)
FINANCING ACTIVITIES		
Contributions for capital asset purchases	**121**	117
Long-term debt repayments	**(2)**	(2)
Endowment contributions		
- donations	**40**	39
	159	154
Net increase (decrease) in cash during the year	**42**	(32)
Cash and cash equivalents, beginning of year	**70**	102
Cash and cash equivalents, end of year	**112**	70
Supplemental cash flow information		
Increase (decrease) in capital asset acquisitions funded by accounts payable and accrued liabilities	**(23)**	19
Increase (decrease) in contributions receivable related to capital asset purchases	**(31)**	21

(See accompanying notes)

1. Description

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

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

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

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

2. Summary of significant accounting policies

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

a) Investments and investment income -

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

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

i. Short-term notes and treasury bills are valued based on cost plus accrued interest, which approximates fair value. Money market funds are valued based on closing quoted market prices.

ii. Bonds and publicly traded equities are valued based on quoted market prices. If quoted market prices are not available for bonds, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

iii. Investments in pooled funds (other than private investment interests and hedge funds) are valued at their reported net asset value per unit.

iv. Hedge funds are valued based on the most recently available reported net asset value per unit, adjusted for the expected rate of return of the fund through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

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

vi. Real estate directly held by the University for investment purposes is originally valued at cost and, when donated, at the value determined through an appraisal process at the date of donation. Subsequently, real estate is valued at cost less any provision for impairment.

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

Investment income, consisting of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded as revenue in the consolidated statement of operations except for investment income earned on externally restricted endowments, for which only the amount made available for spending is recorded as revenue. In years where the investment income earned is in excess of the amount made available for spending, the excess is recorded as a direct increase in endowments. In years where the investment income earned is below the amount made available for spending, the shortfall is recorded as a direct decrease in endowments.

b) Derivative financial instruments -

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity and currency futures, options, swaps, forward contracts and repurchase agreements. These contracts are generally supported by liquid assets with a fair value approximately equal to the fair value of the instruments underlying the derivative contract. The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

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

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

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

d) Senior unsecured debentures and other long-term debt -

Senior unsecured debentures and other long-term debt are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method. Senior unsecured debentures and other long-term debt are reported net of related premiums, discounts and transaction issue costs.

e) Other financial instruments -

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

f) Cash and cash equivalents -

Cash and cash equivalents consist of balances with banks and investments in money market funds. Cash and investments meeting the definition of cash and cash equivalents held for investing rather than liquidity purposes are classified as investments.

g) Inventory valuation -

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

h) Employee benefit plans -

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

i) Capital assets -

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

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

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

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

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

j) Revenue recognition -

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

The University actively fundraises and unrestricted donations, contributed rare books and other collections are recorded as revenue when received or receivable if amounts can be reasonably estimated and collection is reasonably assured. Due to the uncertainty involved in collecting pledged donations, they are not recognized until received.

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

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

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

k) Foreign currency translation -

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

l) Use of accounting estimates -

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the assumptions used in the determination of the fair value of financial instruments where the values are based on non-observable inputs that are supported by little or no market activity, the valuation of pension and other retirement benefit obligations and the recording of contingencies. Actual results could differ from those estimates.

m) Contributed services and materials -

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

3. Investments

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

Short-term investments consist of cash, money market funds, short-term notes and treasury bills. International equities include developed equity markets in Europe, Australasia and the Far East (“EAFE”) and exclude the

United States and Canada. Global equities include all developed equity markets as well as various emerging equity markets. Investments in the "other" category consist mainly of absolute return hedge funds.

The fair values of investments are as follows:

	(millions of dollars)	
	April 30, 2019	April 30, 2018
Short-term investments	**1,905**	1,414
Government and corporate bonds	**1,172**	1,373
Canadian equities	**300**	291
United States equities	**610**	585
International equities	**461**	443
Emerging markets equities	**303**	287
Global equities	**158**	146
Other	**238**	212
	5,147	4,751
Less amounts reported as short-term investments	**(1,905)**	(1,414)
	3,242	3,337

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

	April 30, 2019 (millions of dollars)						
	Government and corporate bonds	**Canadian equities**	**United States equities**	**International equities**	**Emerging markets equities**	**Global equities and other**	**Total**
Hedge funds	**45**		**214**		**24**	**271**	**554**
Private investments	**211**	**36**	**181**	**6**	**53**		**487**
Real assets	**29**	**28**	**8**	**20**		**14**	**99**
	285	**64**	**403**	**26**	**77**	**285**	**1,140**

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

The University's investments are managed using two pools: the expendable funds investment pool ("EFIP") and the long-term capital appreciation pool ("LTCAP"). The LTCAP mainly includes endowment funds, the voluntary sinking fund established to repay the University's debenture principal (note 7) at maturity and funds set aside to cover long-term disability payments (note 5).

Investments for each pool consist of the following:

	(millions of dollars)			
	April 30, 2019		April 30, 2018	
	EFIP	**LTCAP**	EFIP	LTCAP
Short-term investments	**1,873**	**32**	1,390	24
Government and corporate bonds	**233**	**939**	439	934
Canadian equities		**300**		291
United States equities	**1**	**609**	1	584
International equities		**461**		443
Emerging markets equities		**303**		287
Global equities		**158**		146
Other		**238**		212
	2,107	**3,040**	1,830	2,921

In fiscal 2019, the University's investment income of $205 million (2018 - $180 million) recorded in the consolidated statement of operations consists of income related to investments held for endowments of $119 million (2018 - $120 million), gross of $25 million (2018 - $25 million) in fees and other expenses (note 11), and income of $86 million (2018 - $60 million) on investments other than those held for endowments, gross of $7 million (2018 - $6 million) in fees and other expenses.

During the year, the University recognized an investment gain of $14 million (2018 - loss of $20 million) as a result of the change in fair value of its investments that were estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates for certain of its investments. Management believes there are no other reasonable assumptions for these investments that would generate any material changes in investment income.

Uncalled commitments

As at April 30, 2019, approximately 11.4% (2018 - 9.9%) of the University's investments are invested in private funds managed by third-party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real asset investments (e.g., real estate, infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2019, the University had uncalled commitments of approximately $483 million (2018 - $465 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund, but is generally between three to five years from the date the private fund closes. In practice, for a variety of reasons, the total amount committed to a private fund is very rarely all called.

Derivative financial instruments

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

	(millions of dollars)			
	April 30, 2019		April 30, 2018	
	Notional value	**Fair value**	Notional value	Fair value
Derivative-related receivables				
Foreign currency forward contracts				
- United States dollars	**24**		37	
- Other	**187**	**2**	220	2
		2		2
Equity and bond futures contracts				
- United States dollars	**25**	**1**		
- Other	**18**		51	
		1		
Total return equity and bond swap contracts	**501**	**10**	272	3
Total derivative-related receivables		**13**		5
Derivative-related payables				
Foreign currency forward contracts				
- United States dollars	**709**	**(9)**	569	(9)
- Other	**120**		16	
		(9)		(9)
Equity and bond futures contracts				
- United States dollars	**1**		48	(2)
- Other	**2**			
				(2)
Total return equity and bond swap contracts			136	(3)
Total interest rate swap contracts	**11**	**(1)**	14	(2)
Total derivative-related payables		**(10)**		(16)
Derivative-related net payable		**3**		(11)

Derivative-related receivables and payables are included in accounts receivable and accounts payable and accrued liabilities respectively, in the consolidated balance sheet. The maturity dates of the currency forward and futures contracts as at April 30, 2019 range from May 2019 to September 2019. The maturity dates of the total return equity swap contracts as at April 30, 2019 range from May 2019 to April 2020. Collateral has been provided against these contracts as of April 30, 2019 in the form of short-term investments with a fair value of $2 million (2018 - $2 million).

The interest rate swap contracts result in the University fixing a weighted average long-term interest rate of 7.1% (2018 - 6.9%) on certain debt obligations instead of paying a weighted average short-term floating interest rate of 2.2% (2018 - 1.5%). These long-term contracts were entered into during those years when interest rates were higher than current rates. These swap agreements require a periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The cash settlement is the difference between the contractual rate of interest and the current market rate, based on the notional amount. The fair value of the interest rate swap contracts of $1 million (2018 - $2 million) is included in long-term debt (note 7).

The University may enter into repurchase (or reverse repurchase) agreements that involve the sale (or purchase) of bonds to (from) a financial institution and the simultaneous agreement to repurchase (resell) that same security for a fixed price, reflecting a rate of interest, on a specific date. The affected securities sold (or purchased) under these agreements are not derecognized (or recognized) as investments as the University (or the seller) retains substantially all the risks and rewards of ownership. The difference between the sale and repurchase price (or purchase and resell price) is treated as interest expense (income) and is recognized over the life of the agreement using the effective interest rate method. These transactions involve risks that the value of the securities being relinquished (acquired) may be different than the price to be paid (received) on the expiry date or that the other party to the agreement will be unable or unwilling to complete the transaction as scheduled, which may result in losses to the University. As at April 30, 2019, the University had entered into a number of these agreements with expiry dates in May 2019. The amount that the University has committed to repurchase securities under repurchase agreements is recognized as a net investment-related payable of $342 million (2018 - $340 million).

4. Capital assets

(millions of dollars)

	April 30, 2019		April 30, 2018	
	Total cost	**Accumulated amortization**	Total cost	Accumulated amortization
Land	**2,287**		2,277	
Buildings	**3,566**	**1,298**	3,442	1,207
Equipment and furnishings	**1,835**	**1,447**	1,697	1,380
Library books	**733**	**667**	697	636
	8,421	**3,412**	8,113	3,223
Less accumulated amortization	**(3,412)**		(3,223)	
Net book value	**5,009**		4,890	

The University develops replacement property values of buildings and contents for insurance purposes using various sources and valuation methods that conform to insurance industry practice and standards. The insured replacement value of buildings is approximately $5.5 billion and contents is approximately $2.7 billion, which includes library books of approximately $937 million.

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

As at April 30, 2019, the University had $125 million (2018 - $179 million) in construction in progress that was included in buildings, which will not be amortized until the buildings are put into use.

5. Employee benefit plans

The University has a number of funded and unfunded defined benefit plans that provide pension, other retirement and post-employment benefits to most of its employees. Its defined benefit pension plan (including the supplemental retirement arrangement) is based on years of service and the highest average salary received in any 36 months. Pension benefits will increase annually by an amount equal to the greatest of 75% of the increase in the Consumer Price Index ("CPI") for the previous year up to 8%, plus 60% of the increase in CPI above 8%, or the increase in the CPI for the previous year minus four percentage points. Other retirement benefit plans are contributory health care plans with retiree contributions adjusted annually, such as extended health, semi-private and dental care. Another plan also provides for long-term disability income benefits after employment, but before retirement.

The employee benefits expense for the year includes pension expense of $133 million (2018 - $119 million), other retirement benefits expense of $48 million (2018 - $52 million) and other employee benefits of $168 million (2018 - $148 million). Remeasurements, which are recorded in the consolidated statement of changes in net assets, rather than in the consolidated statement of operations, are as follows:

(millions of dollars)

	April 30, 2019		April 30, 2018	
	Pension benefit plan	**Other benefit plans**	Pension benefit plan	Other benefit plans
Difference between actual and expected return on plan assets	**(19)**		36	
Actuarial gains (losses)	**(41)**	**(13)**	(146)	31
	(60)	**(13)**	(110)	31

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

	April 30, 2019		April 30, 2018	
	Pension benefit plan	**Other benefit plans**	Pension benefit plan	Other benefit plans
Accrued benefit obligation:				
Discount rate	**5.55%**	**5.55%**	5.55%	5.55%
Rate of compensation increase	**4.00%**	**4.00%**	4.00%	4.00%
Rate of inflation	**2.00%**	**2.00%**	2.00%	2.00%
Benefits cost:				
Discount rate	**5.55%**	**5.55%**	5.75%	5.75%
Expected long-term rate of return on plan assets	**5.75%**		5.75%	
Rate of compensation increase	**4.00%**	**4.00%**	4.00%	4.00%
Rate of inflation	**2.00%**	**2.00%**	2.00%	2.00%

An actuarial valuation is performed for the pension plan annually. The latest actuarial valuation for the pension plan was performed as at July 1, 2018. The next required actuarial valuation to be filed will be as at July 1, 2020. The actuarial valuation for retirement benefit plans other than pension is performed every two years, the most recent being as at July 1, 2017. The University measures its accrued benefit obligation (using a roll-forward technique from the most recent actuarial valuation) and the fair value of plan assets for accounting purposes as at April 30 of each year.

To measure the accrued benefit obligation for retirement benefit plans other than pension as at April 30, 2019, the rate of increase in the per capita cost of covered health care benefits was assumed to be in the range of 4.0% to 4.5%, except for extended health care costs which are assumed to increase at 7.0% in 2019, with the rate of increase decreasing gradually to 4.5% in 2030 and remaining at that level thereafter

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

(millions of dollars)

	April 30, 2019		April 30, 2018	
	Pension benefit plan	**Other benefit plans**	Pension benefit plan	Other benefit plans
Accrued benefit obligation	**5,650**	**625**	5,387	591
Fair value of plan assets	**5,342**		5,068	
Plan deficit	**(308)**	**(625)**	(319)	(591)

In addition to the plan assets, as at April 30, 2019, the University has set aside investments of $20 million (2018 - $16 million) for its pension obligations (note 10) and $107 million (2018 - $103 million) for its other benefit plans.

The administrations, faculty associations, unions and non-represented staff at the University, University of Guelph and Queen's University have been working to develop a new jointly sponsored pension plan ("JSPP") effective January 1, 2020, that would cover employees and retired employees in the existing plans at all three universities, with contributions and accrual of benefits to be effective from a future date (anticipated to be July 1, 2021). Before this can occur, a highly regulated approval process must take place, which includes a consent process for active plan members, former plan members, retired members, and other persons entitled to benefits under the existing plans; and the necessary regulatory approvals. If and when this occurs, the assets and liabilities of the Plan would be transferred to the new JSPP.

6. Government remittances payable

As at April 30, 2019, accounts payable and accrued liabilities include government remittances payable of $40 million (2018 - $38 million).

7. Long term debt

Long-term debt consists of mortgages and term loans of $2 million (2018 - $4 million) and the following senior unsecured debentures:

	(millions of dollars)	
	April 30, 2019	April 30, 2018
Series A senior unsecured debenture bearing interest at 6.78% payable semi-annually on January 18 and July 18, with the principal amount maturing on July 18, 2031	**160**	160
Series B senior unsecured debenture bearing interest at 5.841% payable semi-annually on June 15 and December 15, with the principal amount maturing on December 15, 2043	**200**	200
Series C senior unsecured debenture bearing interest at 4.937% payable semi-annually on May 16 and November 16, with the principal amount maturing on November 16, 2045	**75**	75
Series D senior unsecured debenture bearing interest at 4.493% payable semi-annually on June 13 and December 13, with the principal amount maturing on December 13, 2046	**75**	75
Series E senior unsecured debenture bearing interest at 4.251% payable semi-annually on June 7 and December 7, with the principal amount maturing on December 7, 2051	**200**	200
Net unamortized transaction costs	**(1)**	(1)
	709	709

Net unamortized transaction costs comprise premiums and transaction issue costs.

A voluntary sinking fund (note 3) was established for the purpose of accumulating funds to repay the University’s debenture principal at maturity. The value of the fund included in investments as at April 30, 2019 amounted to $397 million (2018 - $344 million).

8. Deferred contributions

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

	(millions of dollars)	
	April 30, 2019	April 30, 2018
Balance, beginning of year	**616**	557
Add grants, donations and investment income	**527**	552
Less recognized as revenue during the year	**(527)**	(493)
Balance, end of year	**616**	616

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

	(millions of dollars)	
	April 30, 2019	April 30, 2018
Research	**273**	292
Student aid (notes 12 and 13)	**93**	88
Other restricted purposes	**250**	236
	616	616

9. Deferred capital contributions

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

	(millions of dollars)	
	April 30, 2019	April 30, 2018
Balance, beginning of year	**1,254**	1,190
Less amortization of deferred capital contributions	**(70)**	(74)
Less long-term government assistance receivable write-off	**(46)**	
Add contributions recognized for capital asset purchases	**90**	138
Balance, end of year	**1,228**	1,254

This balance represents:	(millions of dollars)	
	April 30, 2019	April 30, 2018
Amount used to purchase capital assets	**1,211**	1,227
Amount to be spent on capital assets	**17**	27
	1,228	1,254

10. Internally restricted net assets

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

	(millions of dollars)	
	April 30, 2019	April 30, 2018
Investment in land and other capital assets	**3,428**	3,253
Employee benefits		
Pension	**(414)**	(431)
Other plans	**(518)**	(488)
Pension plan reserve (note 5)	**20**	16
Capital projects and infrastructure reserves	**809**	412
Operating contingencies	**360**	455
Research support	**178**	155
Departmental trust funds	**85**	74
Student assistance	**52**	44
Other funds	**19**	17
	4,019	3,507

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

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

c) Capital projects and infrastructure reserves -
These represent reserves in respect of capital projects at various stages of planning, design, and construction, including:

- **Capital Projects in Progress -** $258 million (2018 - $163 million) – unspent funds at the end of the fiscal year, in respect of capital projects and alterations and renovations in progress that are part of the University's major infrastructure building and renewal program less amounts spent without funding on hand;
- **Reserves for future major capital projects -** $234 million (2018 - nil) – funds set aside for specific, major capital projects in the project planning stage with an anticipated project cost in excess of $5 million; and
- **Other divisional infrastructure reserves -** $317 million (2018 - $249 million) – funds held by divisions as a general reserve for alterations and renovations, as well as funds earmarked for capital projects in the project planning stage with an anticipated project cost less than $5 million.

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

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

f) Departmental trust funds -
These funds represent departmental trust funds available for spending by divisions with no external restrictions.

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

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

11. Endowments

Endowments consist of externally restricted donations received by the University and internal resources transferred by Governing Council in the exercise of its discretion. With respect to the latter case, Governing Council may have the right to subsequently decide to remove the designation. The investment income generated from endowments must be used in accordance with the various purposes established by donors or Governing Council. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided. The change in net assets restricted for endowments consists of the following:

(millions of dollars)

	April 30, 2019			April 30, 2018		
	Externally restricted	**Internally restricted**	**Total**	Externally restricted	Internally restricted	Total
Balance, beginning of year	**2,129**	**375**	**2,504**	2,021	359	2,380
Donations (note 15)	**40**		**40**	39		39
Investment income, net of fees and other expenses of $25 (2018 - $25) (note 3)	**110**	**19**	**129**	134	22	156
Investment income made available for spending	**(75)**	**(13)**	**(88)**	(73)	(12)	(85)
Transfer of donations and matching funds from deficit	**6**	**2**	**8**	8	6	14
Balance, end of year	**2,210**	**383**	**2,593**	2,129	375	2,504

University policy has been established with the objective of protecting the real value of the endowments by limiting the amount of income made available for spending and requiring the reinvestment of income not made available for spending. The investment policy has set the real rate of return objective of at least 4% over

10-year periods, net of all investment fees and other expenses, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss. The amount made available for spending must normally fall between a range of 3% to 5% of the fair value per unit of the endowment pool. In any particular year, should net investment income be insufficient to fund the amount to be made available for spending or if the investment return is negative, the amount that is made available for spending is funded by the accumulated reinvested income. However, for endowment funds, where the fair value of the endowment is below the donated capital and does not have sufficient accumulated reinvestment income, endowment capital is used in the current year for programs as this is deemed prudent by the University. This amount is expected to be recovered by future net investment income. As at April 30, 2019, there were no endowments with fair values below their original gift value. As at April 30, 2018, endowments with the original gift value of $28.0 million had a fair value of $27.9 million, and a deficiency of $0.1 million. In fiscal 2019, $8.18 (2018 - $8.02) per unit of LTCAP was made available for spending, representing 3.52% (2018 - 3.56%) of the opening fair value per unit of the endowment pool.

12. Ontario Student Opportunity Trust Fund

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund matching program to award student aid as a result of raising an equal amount of endowed donations.

Endowments at book value in this note represent contributions received plus a portion of realized investment income. The expendable funds available for awards are included in deferred contributions (note 8) on the consolidated balance sheet. The endowments and expendable fund balances of the affiliates (Victoria University, The University of Trinity College, University of St. Michael's College and the Toronto School of Theology) are not included in these consolidated financial statements.

Phase 1:	(thousands of dollars)	
	April 30, 2019	April 30, 2018
Endowments at book value, beginning of year	**348,718**	338,893
Donations	**1**	152
Transfer from expendable funds	**12,351**	9,673
Endowments at book value, end of year	**361,070**	348,718
Cumulative unrealized gains	**29,336**	35,443
Endowments at fair value, end of year	**390,406**	384,161
Expendable funds available for awards, beginning of year	**30,423**	29,982
Realized investment income	**25,895**	22,998
Transfer to endowment balance	**(12,351)**	(9,673)
Bursaries awarded	**(14,327)**	(12,884)
Expendable funds available for awards, end of year	**29,640**	30,423
Number of award recipients	**3,559**	3,268

Phase 2:

	(thousands of dollars)			
	April 30, 2019		April 30, 2018	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**46,211**	**5,177**	45,053	5,156
Donations		**118**	1	
Transfer from expendable funds	**1,455**	**58**	1,157	21
Endowments at book value, end of year	**47,666**	**5,353**	46,211	5,177
Cumulative unrealized losses	**(902)**		(180)	
Endowments at fair value, end of year	**46,764**		46,031	
Expendable funds available for awards, beginning of year	**3,658**	**592**	3,438	603
Realized investment income	**3,090**	**350**	2,753	258
Transfer to endowment balance	**(1,455)**	**(58)**	(1,157)	(21)
Bursaries awarded	**(1,846)**	**(263)**	(1,376)	(248)
Expendable funds available for awards, end of year	**3,447**	**621**	3,658	592
Number of award recipients	**634**	**130**	536	117

13. Ontario Trust for Student Support

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

	(thousands of dollars)			
	March 31, 2019*		March 31, 2018*	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**81,835**	**15,620**	79,988	14,931
Donations received	**356**	**12**	134	8
University matching	**25**	**3**		5
Transfer from (to) expendable funds	**2,622**	**(20)**	1,713	676
Endowments at book value, end of year	**84,838**	**15,615**	81,835	15,620
Cumulative unrealized gains	**2,333**		4,904	
Endowments at fair value, end of year	**87,171**		86,739	

	(thousands of dollars)			
	March 31, 2019*		March 31, 2018*	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Expendable funds available for awards, beginning of year	**4,549**	**1,836**	4,378	1,697
Realized investment income	**5,671**	**808**	4,686	1,429
Donations received	**10**			
University matching and contribution	**83**		90	
Transfer from (to) endowment balance	**(2,622)**	**20**	(1,713)	(676)
Bursaries awarded	**(3,130)**	**(806)**	(2,892)	(614)
Expendable funds available for awards, end of year	**4,561**	**1,858**	4,549	1,836
Number of award recipients	**1,031**	**333**	937	261

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

Endowments at book value in this note represent contributions received plus a portion of realized investment income. The expendable funds available for awards are included in deferred contributions (note 8) on the consolidated balance sheet. The endowments and expendable fund balances of the affiliates (Victoria University, The University of Trinity College, University of St. Michael's College and the Toronto School of Theology) are not included in these consolidated financial statements.

14. Net change in other non-cash items

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

	(millions of dollars)	
	April 30, 2019	April 30, 2018
Accounts receivable	**(19)**	12
Accounts payable and accrued liabilities	**20**	44
Deferred contributions		59
	1	115

15. Donations

During the year, the University received donations of $142 million (2018 - $167 million). Of that amount, $40 million (2018 - $39 million) is recorded as a direct addition to endowments (note 11) and is not recorded as donations revenue.

16. Government and other grants for restricted purposes

During the year, the University received $419 million (2018 - $429 million) of government and other grants for research and $70 million (2018 - $107 million) for capital infrastructure and other purposes, of which $469 million (2018 - $413 million) was recorded as revenue and $20 million (2018 - $123 million) was deferred (see notes 8 and 9).

17. Financial instruments

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

Foreign currency risk

The University is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar. To manage foreign currency risk, the hedging policy as at April 30, 2019 is to hedge 50% (2018 - 50%) of the currency exposure within the United States equity and EAFE equity benchmark asset classes, and to hedge 0% (2018 - 0%) of the currency exposure in all other benchmark asset classes.

Credit risk

The University is exposed to credit risk in connection with its accounts receivable, its short-term and fixed income investments and derivative contracts because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. Accounts receivable are recorded net of an allowance for doubtful accounts of $6 million (2018 - $7 million). As at April 30, 2019, the University held $427 million (2018 - $491 million) of fixed income securities that have AAA or AA credit ratings.

Interest rate risk

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

Liquidity risk

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

Other price risk

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

18. Joint ventures

a) Toronto Pan Am Sports Centre Inc. -

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

The following financial information for TPASC was prepared in accordance with Canadian Public Sector Accounting Standards and represents the University's 50% share. Any differences in the reporting framework are not material to the University's consolidated financial statements. Separately audited financial statements are prepared for TPASC (year ended December 31, 2018).

	(millions of dollars)	
	December 31, 2018	**December 31, 2017**
Total financial and non-financial assets	**9**	7
Total financial liabilities	**1**	1
Accumulated surplus	**8**	6
Revenues	**6**	6
Expenses	**6**	6
Operating surplus (deficit)		
Cash flows used in operating activities	**(1)**	
Cash flows used in investing activities	**(1)**	(2)
Cash flows from financing activities	**2**	2
Net change in cash		

As at December 31, 2018, the University's share of the accumulated surplus of $8 million (2017 - $6 million) represents unspent funds designated in support of major maintenance and capital requirements. No amounts have been recorded in these consolidated financial statements as the University's share of the accumulated surplus is not contemplated to be and is not readily realizable by the University.

During the year, the University paid $2 million (2018 - $2 million) in user fees to TPASC representing its share of the cost for using the facilities. During the year, the City of Toronto and the University each acquired an additional 5,086 (2018 – 2,499) common shares of TPASC in exchange for a total of $4 million (2018 - $2 million) representing funding from the Legacy Funding agreement dated December 18, 2014, to be contributed to TPASC to fund capital reserves and operating costs. These transactions occurred in the normal course of business and have been recorded at their exchange amounts, which is the amount agreed upon by both parties.

The construction of the Toronto Pan Am Sports Centre was governed by virtue of an agreement prior to the establishment of TPASC. The University has recorded $90 million (2018 - $90 million) in capital assets (note 4), representing the University's 50% share of the construction cost of the facility.

b) TRIUMF -

The University is a member, with 13 other universities, of a joint venture called TRIUMF, Canada's national laboratory for particle and nuclear physics located on the University of British Columbia ("UBC") campus. TRIUMF is an unincorporated registered charity and each university has an undivided 1/14 interest in its assets, liabilities and obligations. The land and buildings it occupies are owned by UBC. The facilities and its operations are funded by federal government grants, and the University has made no direct financial contribution to date. TRIUMF's net assets are not contemplated to be and are not readily realizable by the University. The University's interest in the assets, liabilities and results of operations are not included in these consolidated financial statements (note 21b).

The following financial information for TRIUMF was prepared in accordance with Canadian Public Sector Accounting Standards, including accounting standards that apply to government not-for-profit organizations, except that all capital assets and related provisions for decommissioning costs, if any, are expensed in the year in which the costs are incurred.

	(millions of dollars)	
	March 31, 2019 (unaudited)	March 31, 2018
Total assets	**55**	50
Total liabilities	**9**	9
Total fund balances	**46**	41
Revenues	**87**	95
Expenses	**83**	82
Excess of revenues over expenses	**4**	13

19. MaRS Phase 2 Investment Trust

During fiscal 2016, the University acquired a 20% interest in MaRS Phase 2 Investment Trust (the "Trust"), a unit trust governed by the laws of the Province of Ontario, established by deed of trust dated July 15, 2011, with MaRS Discovery District, a charitable organization, as settlor for $31 million. The Trust was established to develop and manage a 20-storey state-of-the-art building that is a world-class convergence centre dedicated to improving commercial outcomes from Canada's science, technology and social innovations. This investment is accounted for using the equity method. The University has assessed the investment value in the Trust upon acquisition and as a result, the University has written down the investment to nil at April 30, 2016. There has been no changes to the investment value as at April 30, 2018 and April 30, 2019.

During the year, the University made payments of $9 million (2018 - $11 million) to the Trust for leasing certain premises and its related operating costs.

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

	(millions of dollars)
2020	**5**
2021	**5**
2022	**5**
2023	**5**
2024	**4**
Thereafter	**97**
	121

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

20. Other commitments

a) The estimated cost to complete construction and renovation projects in progress as at April 30, 2019, which will be funded by operations, donations and government grants, is approximately $576 million (2018 - $410 million).

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

	(millions of dollars)
2020	**11**
2021	**13**
2022	**13**
2023	**12**
2024	**11**
Thereafter	**131**
	191

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

21. Contingencies

a) The University has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. As at April 30, 2019, the amount of loans guaranteed was $9 million (2018 - $8 million). The University's estimated exposure under these guarantees is not material.

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

c) The University has identified potential asset retirement obligations related to the existence of asbestos in a number of its facilities. Although not a current health hazard, upon renovation or demolition of these facilities, the University may be required to take appropriate remediation procedures to remove the asbestos. As the University has no legal obligation to remove the asbestos in these facilities as long as the asbestos is contained and does not pose a public health risk, the fair value of the obligation cannot be reasonably estimated due to the indeterminate timing and scope of the removal. The asset retirement obligation for these assets will be recorded in the period in which a legal obligation exists or that there is certainty that the capital project will proceed and there is sufficient information to estimate fair value of the obligation.

d) The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. As at April 30, 2019, the University believes that it has valid defences and appropriate insurance coverage in place on certain claims that are not expected to have a material impact on the University's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are required.

22. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2019 consolidated financial statements.

Appendix

Supplementary Report

By Fund

April 30, 2019

(Unaudited)

HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2019

(millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
Statement of Operations					
Revenues	$ 2,756.2	$ 205.4	$ 78.4	$ 552.7	$ 3,592.7
Expenses	$ 2,192.7	$ 192.3	$ 160.7	$ 542.3	$ 3,088.0
Net Income (Loss)	$ 563.5	$ 13.1	$ (82.3)	$ 10.4	$ 504.7
Balance Sheet					
Assets	$ 1,742.1	$ 311.1	$ 5,025.5	$ 3,314.5	$ 10,393.2
Liabilities	$ 1,508.4	$ 189.6	$ 1,608.5	$ 636.3	$ 3,942.8
Net Assets	$ 233.7	$ 121.5	$ 3,417.0	$ 2,678.2	$ 6,450.4
Net Assets composed of:					
Endowments				$ 2,593.2	$ 2,593.2
Investment in Capital Assets		$ 99.9	$ 3,328.1		$ 3,428.0
Internally Restricted	$ 199.7	$ 48.1	$ 258.3	$ 85.0	$ 591.1
Surplus (Deficit)	$ 34.0	$ (26.5)	$ (169.4)		$ (161.9)
	$ 233.7	$ 121.5	$ 3,417.0	$ 2,678.2	$ 6,450.4

HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2018

(millions of dollars)

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

PURPOSE OF THIS SUPPLEMENTARY REPORT

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

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

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

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

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

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

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

Schedule 1
(Unaudited)
UNIVERSITY OF TORONTO
BALANCE SHEET
April 30, 2019
(with comparative figures at April 30, 2018)
(millions of dollars)

	Operating fund	Ancillary operations	Capital fund	Restricted funds	2019 Total	2018 Total
ASSETS						
Current						
Cash and short-term investments	1,657.1	68.8	248.5	42.9	2,017.3	1,483.5
Accounts receivable	70.0	13.6	6.3	13.6	103.5	78.4
Inventories and prepaid expenses	15.0	6.6			21.6	21.9
Long-term government assistance receivable						83.2
Investments at fair value				3,241.5	3,241.5	3,336.6
Capital assets, net		222.1	4,770.7	16.5	5,009.3	4,889.9
	1,742.1	311.1	5,025.5	3,314.5	10,393.2	9,893.5
LIABILITIES						
Current						
Accounts payable and accrued liabilities	355.8	30.2	48.2	20.4	454.6	457.4
Deferred contributions				615.9	615.9	616.0
Accrued pension liability	307.7				307.7	319.3
Employee future benefit obligation other than pension	625.1				625.1	590.9
Internal loans	218.4	153.8	(372.2)			
Long-term debt	1.4	0.3	709.3		711.0	712.7
Deferred capital contributions		5.3	1,223.2		1,228.5	1,254.3
	1,508.4	189.6	1,608.5	636.3	3,942.8	3,950.6
NET ASSETS						
Surplus (deficit)	34.0	(26.5)	(169.4)		(161.9)	(67.8)
Internally restricted	199.7	48.1	258.3	85.0	591.1	253.7
Investment in capital assets		99.9	3,328.1		3,428.0	3,252.7
Endowments				2,593.2	2,593.2	2,504.3
	233.7	121.5	3,417.0	2,678.2	6,450.4	5,942.9
	1,742.1	311.1	5,025.5	3,314.5	10,393.2	9,893.5

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

	Operating fund	Ancillary operations	Capital fund	Restricted funds	2019 Total	2018 Total
REVENUES						
Student fees	1,716.0	10.3	1.2		1,727.5	1,582.3
Government grants for general operations	726.5				726.5	723.3
Government and other grants for restricted purposes		0.5	59.2	409.7	469.4	413.3
Sales, services and sundry income	168.7	193.1	0.6		362.4	351.7
Investment Income	144.7	1.4	4.2	54.3	204.6	180.2
Donations		0.1	13.2	88.7	102.0	127.6
	2,755.9	205.4	78.4	552.7	3,592.4	3,378.4
EXPENSES						
Salaries	1,250.0	8.6		213.6	1,472.2	1,398.3
Employee benefits	323.3	2.4		23.2	348.9	318.6
Scholarships, fellowships and bursaries	220.8			34.0	254.8	239.1
Materials, supplies and services	116.2	2.2		102.9	221.3	226.6
Amortization of capital assets	14.6	19.2	153.0	2.3	189.1	178.2
Inter-institutional contributions	34.8			120.1	154.9	121.2
Repairs, maintenance and leases	103.1	21.4	3.3	7.3	135.1	118.3
Cost of sales and services		117.4			117.4	112.7
Utilities	38.0	10.3		1.0	49.3	55.3
Travel and conferences	34.6			22.0	56.6	53.6
Interest on long-term debt	21.0	10.8	4.4	2.2	38.4	38.4
Other	36.0			13.7	49.7	53.2
	2,192.4	192.3	160.7	542.3	3,087.7	2,913.5
Net income (loss)	563.5	13.1	(82.3)	10.4	504.7	464.9
Net transfer between funds	(184.0)	(1.1)	170.9	14.2		
Transfer of capital assets funding	(110.1)		110.1			
Change in internally restricted	(289.0)	(14.2)	(95.8)	(11.0)	(410.0)	(63.6)
Change in investment in capital assets		1.9	(177.1)		(175.2)	(385.9)
Transfers of donations to endowments				(7.8)	(7.8)	(13.9)
Transfer to internally restricted endowments				(5.8)	(5.8)	(10.2)
Net change in surplus (deficit) for the year	(19.6)	(0.3)	(74.2)		(94.1)	(8.7)
Surplus (deficit), beginning of year	53.6	(26.2)	(95.2)		(67.8)	(59.1)
Surplus (deficit), end of year	34.0	(26.5)	(169.4)		(161.9)	(67.8)

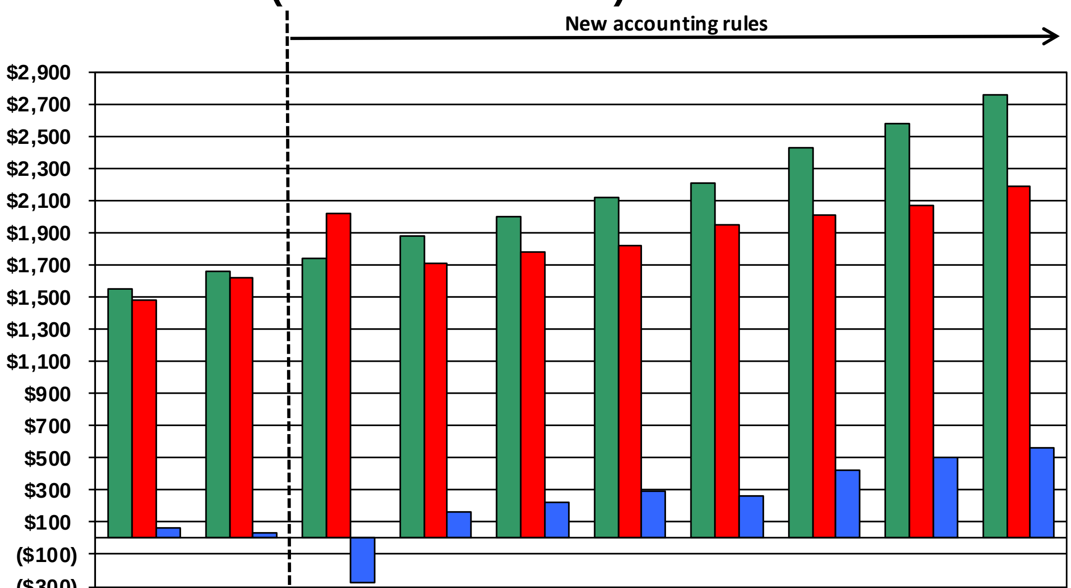
OPERATING FUND

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

Operating fund revenues for the year were $2.8 billion; expenses were $2.2 billion resulting in a net income of $564 million. Growth in operating fund revenues and expenses primarily reflected planned and expected increases in the number of students.

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

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



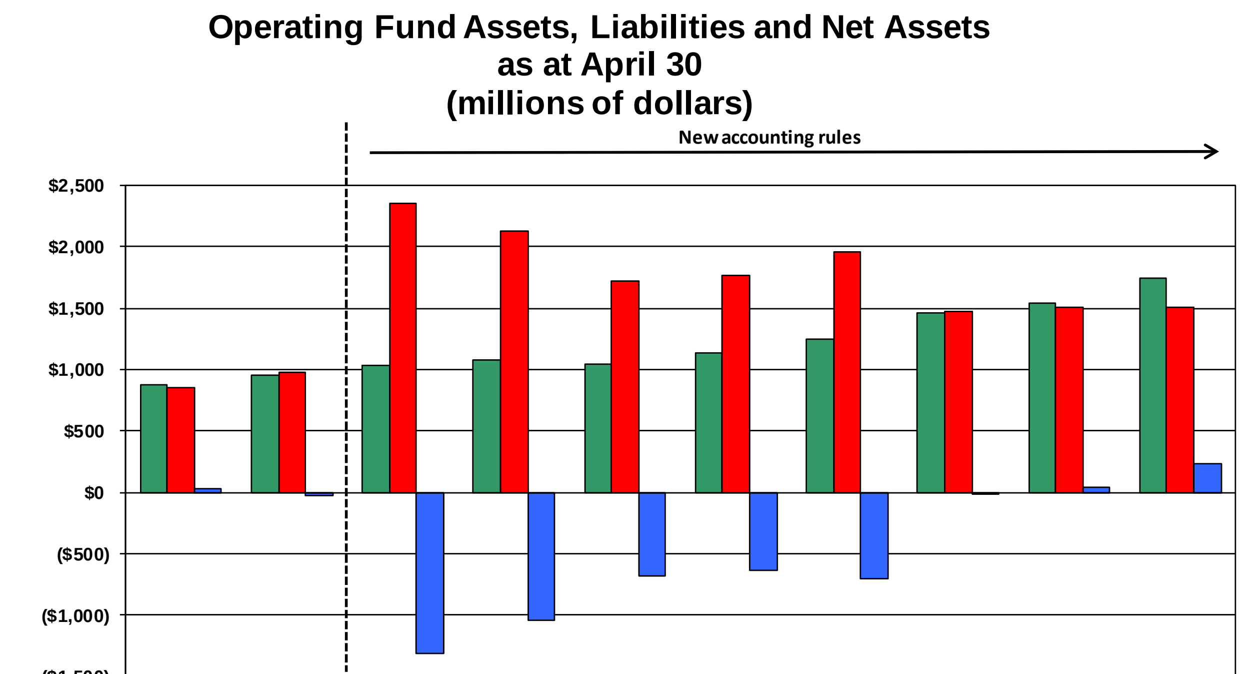
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	1,549.1	1,658.9	1,741.4	1,879.2	2,004.1	2,121.3	2,213.2	2,431.8	2,576.7	2,755.9
Expenses	1,482.0	1,622.1	2,018.3	1,713.5	1,783.9	1,823.9	1,947.5	2,006.7	2,073.7	2,192.4
Net income (loss)	67.1	36.8	(276.9)	165.7	220.2	297.4	265.7	425.1	503.0	563.5

The cumulative operating surplus at April 30, 2019 is $34 million, whereas the long-range operating budget called for a break even position.

The 2019 net income in the operating fund is a result of:

Capital asset expenditures not shown as expenses but transferred to the capital fund and added to the balance sheet as capital assets	**110**
Net change in employee future benefit obligations (excluding remeasurements)	**63**
Transfers to other funds not expensed in the operating fund	**184**
Last year's general university saving distributed to academic divisions	**(54)**
General University saving for University priorities	**35**
Unspent funds added to reserves	**226**
	564

Operating fund assets at April 30, 2019 were $1.7 billion, liabilities were $1.5 billion, and net assets were $234 million.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Assets	875.6	958.5	1,036.8	1,077.7	1,045.3	1,136.8	1,251.0	1,455.5	1,540.1	1,742.1
Liabilities	847.7	979.9	2,346.5	2,123.6	1,724.9	1,766.9	1,953.0	1,475.4	1,503.1	1,508.4
Net Assets	27.9	(21.4)	(1,309.7)	(1,045.9)	(679.6)	(630.1)	(702.0)	(19.9)	37.0	233.7

The net assets increased from $37 million in 2018 to $234 million in 2019 mainly due to the following:

- $564 million net income for the year.
- ($73 million) increase in employee future benefit obligations from remeasurement calculations reported as a direct decrease in net assets.
- ($294 million) net transfers to other funds.

The transfers to other funds were as follows:

- $110 million to the capital fund to reflect operating funding of capital asset expenditures recorded as capital assets in the capital fund.
- $184 million transfer mainly to the capital fund for various projects.

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

- $34 million surplus.
- $200 million of internally restricted net assets.

The $34 million surplus is the "cumulative surplus" of the operating fund which is referenced in the University's Operating Budget Report. The cumulative surplus has decreased from $54 million at April 30, 2018 to $34 million at April 30, 2019, mainly due to the following:

- $564 million net income.
- ($294 million) net transfers to other funds as noted above.
- ($289 million) change in internally restricted net assets, mainly due to an increase in capital project reserves and employee future benefit obligations reserves (excluding remeasurements).

Internally restricted net assets of $200 million mainly includes divisional reserves of $820 million, funds set aside for capital projects of $287 million and funds set aside for other purposes of $4 million offset by $912 million of net unfunded liabilities consisting of $394 million associated with its pension plan and $518 million associated with its employee future benefits other than pensions that will have to be paid from future years' operating fund revenues.

Schedule 3 is a summary of operating fund reserves that comprise the $200 million in internally restricted net assets. Included in this schedule are plans by divisions detailing how reserves carried forward will be spent on a one-time only basis, or in the event of a deficit, a plan for its elimination, using the following categories:

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

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

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

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

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

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND RESERVES
AT APRIL 30, 2019
(with comparative figures at April 30, 2018)
(thousands of dollars)

	2019 Total	2018 Total
Divisional reserves		
Academic	626,665	665,548
Academic services	8,975	12,876
Student services	22,584	20,738
Student assistance	12,896	11,290
Facilities & services	37,795	21,895
Administration	30,270	33,057
General university	81,156	70,022
Total divisional reserves	820,341	835,426
Central reserves		
Capital		
Future major capital project reserves	234,334	(72)
Other infrastructure reseves	52,620	43,862
	286,954	43,790
Other		
Research overhead	3,769	3,711
Priorities fund	2,062	4,653
Loss on interest rate swaps	(1,441)	(1,718)
	4,390	6,646
Total central reserves	291,344	50,436
Employee benefit reserves		
Pension	(413,649)	(430,844)
Pension plan reserve	19,844	16,444
Medical benefits	(559,156)	(523,384)
Other plans	40,978	35,267
Total employee benefit reserves	(911,983)	(902,517)
Total internally restricted net assets	199,702	(16,655)
Net change in internally restricted for the year	216,357	
Consisting of:		
Change in internally restricted reported in statement of operations	289,039	
Reported as remeasurements in statement of changes in net assets	(72,682)	
	216,357	

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND RESERVES
AT APRIL 30, 2019
(with comparative figures at April 30, 2018)
(thousands of dollars)

	2019						2018
	Infrastructure Reserve	Research	Student Assistance	Endowment Matching	Operating Contingency	Total	Total
ACADEMIC:							
Arts and Science, TYP, SCS:							
Faculty of Arts and Science	48,010	51,695	15,396	3,033	54,900	173,034	237,015
Transitional Year Programme	75		15		778	868	761
UTSC academic	28,659	16,836	593		25,269	71,357	103,603
UTM academic	3,321	16,346			6,735	26,402	24,960
School of Continuing Studies	3,768		894		5,161	9,823	6,780
	83,833	84,877	16,898	3,033	92,843	281,484	373,119
Health sciences:							
Faculty of Dentistry	6,433	2,738	301		3,895	13,367	13,347
Faculty of Medicine	11,777	27,506	6,515	722	2,777	49,297	30,409
Dalla Lana School of Public Health		3,701	1,262		6,282	11,245	9,999
Lawrence S. Bloomberg Faculty of Nursing	680	1,379	82		1,842	3,983	4,112
Leslie Dan Faculty of Pharmacy	1,050	6,013	1,018	500	4,112	12,693	15,411
Faculty of Kinesiology & Physical Education	3,039	1,526	303	1,000	1,717	7,585	5,704
	22,979	42,863	9,481	2,222	20,625	98,170	78,982
Other professional faculties:							
Faculty of Applied Science and Engineering	10,593	38,829	4,876	1,060	23,520	78,878	79,430
John H. Daniels Faculty of Architecture, Landscape and Design	1,795	799	15		747	3,356	(2,997)
Rotman School of Management	10,134	2,237	2,446	4,000	4,052	22,869	9,870
OISE/UT	5,100	3,400	1,300		33,616	43,416	36,236
Faculty of Forestry	50	348	1,090	2,500	606	4,594	5,403
Faculty of Law		1,399	1,031		5,365	7,795	4,321
Faculty of Information		430			6,481	6,911	3,709
Faculty of Music	128	619	321		(12,408)	(11,340)	(6,151)
Factor-Inwentash Faculty of Social Work		440			2,044	2,484	1,892
	27,800	48,501	11,079	7,560	64,023	158,963	131,713
Other academic costs:							
University-wide reserves	30,840	294	100	1,741	88,535	121,510	112,762
Vacation Pay accrual - Academic					(33,462)	(33,462)	(31,028)
TOTAL ACADEMIC	165,452	176,535	37,558	14,556	232,564	626,665	665,548

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND RESERVES
AT APRIL 30, 2019

(with comparative figures at April 30, 2018)
(thousands of dollars)

	2019						2018
	Infrastructure Reserve	Research	Student Assistance	Endowment Matching	Operating Contingency	Total	Total
ACADEMIC SERVICES:							
St. George Libraries		531			1,313	1,844	4,906
UTSC library	2,265	73			2,821	5,159	5,573
UTM library	360	54			397	811	1,236
Library - Electronic Acquisitions					1,161	1,161	1,161
TOTAL ACADEMIC SERVICES	2,625	658			5,692	8,975	12,876
STUDENT SERVICES:							
St. George campus	962	-	569	-	1,403	2,934	2,525
UTSC campus	4,475	-	43	-	7,941	12,459	10,492
UTM campus	-	-	-	-	4,476	4,476	3,452
Athletics and Recreation	1,218	50	913	-	534	2,715	4,269
TOTAL STUDENT SERVICES	6,655	50	1,525		14,354	22,584	20,738
STUDENT ASSISTANCE:							
St. George campus			12,847			12,847	11,210
UTSC campus			38			38	31
UTM campus			11			11	49
TOTAL STUDENT ASSISTANCE			12,896			12,896	11,290
FACILITIES & SERVICES							
St. George campus	25,408				746	26,154	10,759
UTSC campus	5,669				5,439	11,108	10,340
UTM campus	50				483	533	796
TOTAL FACILITIES & SERVICES	31,127				6,668	37,795	21,895

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND RESERVES
AT APRIL 30, 2019
(with comparative figures at April 30, 2018)
(thousands of dollars)

	2019						2018
	Infrastructure Reserve	Research	Student Assistance	Endowment Matching	Operating Contingency	Total	Total
ADMINISTRATION:							
Office of the Governing Council					1,102	1,102	1,166
Office of the President					46	46	24
Convocation and Institutional events					165	165	285
Chief Financial Officer					2,353	2,353	2,186
Vice-President and Provost	1,472	130			4,152	5,754	6,146
Vice-President - Research and Innovation					2,252	2,252	4,538
Vice-President - Communications					3,790	3,790	2,801
Vice-President - Advancement					1,627	1,627	2,107
Vice-President - International					441	441	321
Chief Government Relations					139	139	221
Vice-President - University Operations					4,559	4,559	6,606
Vice-President - Human Resources and Equity	150	129			3,989	4,268	3,531
UTSC campus	383				12,003	12,386	10,164
UTM campus					785	785	1,585
Vacation Pay accrual - Administration					(9,397)	(9,397)	(8,624)
TOTAL ADMINISTRATION:	2,005	259	-		28,006	30,270	33,057
GENERAL UNIVERSITY:							
Vice-President - Human Resources and Equity					2,479	2,479	1,981
CFO - LTBP expendable funds					60,426	60,426	56,353
Vice-President - University Operations	8,422	101			9,728	18,251	11,688
TOTAL GENERAL UNIVERSITY	8,422	101			72,633	81,156	70,022
TOTAL DIVISIONAL RESERVES	216,286	177,603	51,979	14,556	359,917	820,341	835,426

Comparison of the Operating Fund Financial Results to the Operating Budget

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

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

These differences require a ($12) million adjustment to financial statement revenues and a $55 million adjustment to expenses to make the numbers comparable to budget. Once these adjustments have been made, it is possible to compare the operating budget with the year-end results and to assess how closely actual results conformed to plan. In summary, the adjustments between the financial statements and the operating budget are as follows:

	Financial Statements	Adjustments	Adjusted Financial Statements	Operating budget	Favourable (unfavourable) variance	% Variance
Operating fund revenues	2,755.9	(12.4)	2,743.5	2,638.4	105.1	4.0%
Operating fund expenses	2,192.4					
Capital asset transfer	110.1					
	2,302.5	55.2	2,357.7	2,638.4	280.7	10.6%
Net income	453.4	(67.6)	385.8		385.8	

Total operating fund revenues, after adjustments, were $2,744 million, compared to budgeted revenues of $2,638 million, resulting in a favourable variance of $105 million, or 4.0%. This favourable variance was primarily due to:

- a favourable tuition fee variance of $21 million primarily as a result of international enrolments exceeding targets,
- a favourable investment income variance of $5 million due to higher than budgeted investment returns in the expendable investment pool,
- a $8 million favourable variance in student fees from academic programs for which no provincial government funding is provided, and
- a favourable variance of $57 million in divisional sales and services.

Total operating fund expenses, after adjustments, were $2,357 million, as compared to budgeted expenses of $2,638 million resulting in a favourable variance of $281 million primarily due to underspending in academic divisions. A detailed analysis is shown below.

Schedule 4

(Unaudited)

UNIVERSITY OF TORONTO

COMPARISON OF ACTUAL OPERATING FUND RESULTS WITH ORIGINAL BUDGET FOR THE YEAR ENDED APRIL 30, 2019

(millions of dollars)

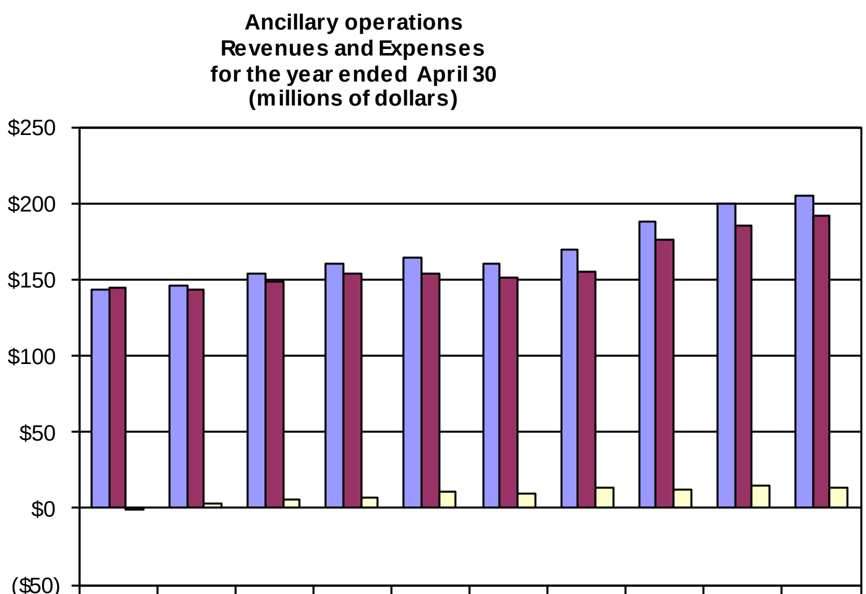
	ACTUAL			BUDGET	VARIANCE
	Financial Statements	Adjustments	Adjusted Financial Statements	Original budget	Favourable (Unfavourable)
REVENUES					
General university income:					
Provincial grants	645.3	0.4	645.7	645.6	0.1
Indirect cost recovery of grants and contracts	55.9	(0.9)	55.0	50.8	4.2
Student fees	1,481.5		1,481.5	1,460.7	20.8
Investment income:					
Endowment (chairs and student aid)	69.1		69.1	63.5	5.6
Other	75.6	(12.0)	63.6	58.4	5.2
Sundry income	22.9	0.1	23.0	19.6	3.4
Municipal taxes	4.9		4.9	4.9	
	2,355.2	(12.4)	2,342.8	2,303.5	39.3
Divisional income:					
Provincial grants	35.5		35.5	35.0	0.5
Student fees	219.1		219.1	210.8	8.3
Sales and services	146.1		146.1	89.1	57.0
	400.7		400.7	334.9	65.8
	2,755.9	(12.4)	2,743.5	2,638.4	105.1
EXPENSES					
Academic	1,338.5	7.7	1,346.2	1,605.3	259.1
Academic services	105.4	2.0	107.4	96.6	(10.8)
Student services	97.5	2.2	99.7	99.8	0.1
Student assistance	226.4	0.2	226.6	245.0	18.4
Physical plant maintenance and services	96.5	2.4	98.9	126.2	27.3
Physical plant utilities	55.5		55.5	61.0	5.5
Alterations and renovations	10.3	(10.3)			
Administration	242.7	6.9	249.6	228.7	(20.9)
Amortization	14.6	(14.6)			
Interest expense	21.0	(21.0)			
General university expense	88.0	79.7	167.7	169.7	2.0
Municipal taxes	6.1		6.1	6.1	
	2,302.5	55.2	2,357.7	2,638.4	280.7
Operating results before the following:	453.4	(67.6)	385.8		385.8
Change in internally restricted funds	(289.0)	67.6	(221.4)		(221.4)
Transfers	(184.0)		(184.0)		(184.0)
NET CHANGE IN SURPLUS FOR THE YEAR	(19.6)		(19.6)		(19.6)

ANCILLARY OPERATIONS

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

Ancillary revenues grew from $143 million in 2010 to $205 million in 2019, expenses grew from $144 million to $192 million, and the net result changed from a net loss of $1 million in 2010 to a net income of $13 million in 2019. Residence fees over the past years have been increased to keep pace with increased expenses, including large fixed rate principal and interest payments on borrowing.

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

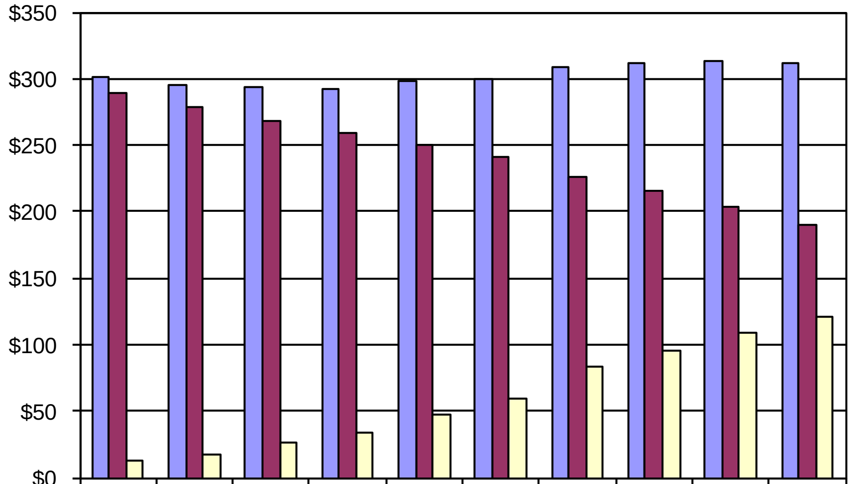


	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	143.2	146.1	154.2	160.3	163.6	160.9	169.4	188.1	200.0	205.4
Expenses	144.4	143.1	148.0	153.2	153.2	151.0	155.3	175.9	185.5	192.3
Net income (loss)	(1.2)	3.0	6.2	7.1	10.4	9.9	14.1	12.2	14.5	13.1

Ancillaries as a group generated net income of $13 million in 2019. After net transfers of $1 million less $14 million committed for future spending, the cumulative deficit is $27 million at April 30, 2019.

Ancillary assets increased from $301 million in 2010 to $311 million in 2019 and liabilities decreased from $289 million in 2010 to $190 million in 2019 as ancillaries paid down their capital financing. Net assets grew from $12 million to $121 million over the same period, essentially reflecting the continued success of service operations with filling residence and parking spaces, while reducing their debt burden.

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Ancillary assets	301.3	295.6	294.2	292.7	298.2	299.6	309.3	311.1	313.1	311.1
Ancillary liabilities	289.1	277.9	267.6	258.4	250.6	241.0	226.4	216.2	203.7	189.6
Ancillary net assets	12.2	17.7	26.6	34.3	47.6	58.6	82.9	94.9	109.4	121.5

At April 30, 2019, net assets were $121 million, an increase of $12 million from April 30, 2018, due to the following:

- $13 million net income for the year.
- $1 million transferred to other funds.
- There are three categories of net assets for ancillary operations which together total $121 million. They are:
- ($27 million) in deficit.
- $48 million in internally restricted net assets.
- $100 million in investment in capital assets.

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

Schedule 5 shows details by ancillary operation.

Schedule 5
UNIVERSITY OF TORONTO
ANCILLARY OPERATIONS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2019
(with comparative figures for the year ended Apr 30, 2018)
(thousands of dollars)

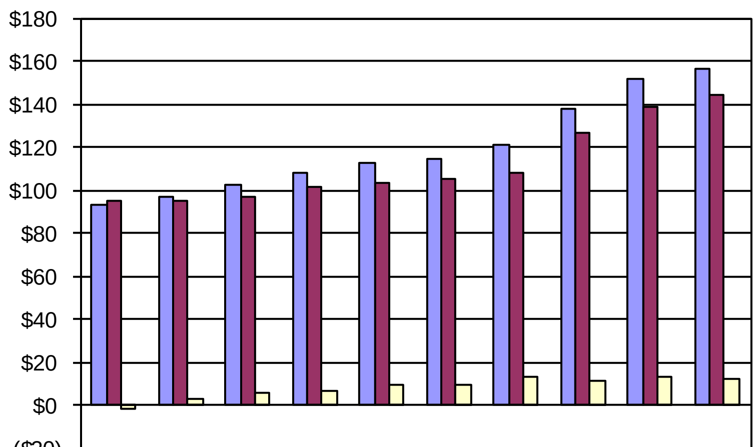
	Revenues	Expenses	Commitments and Transfers	Surplus/(Deficit) Opening	Surplus/(Deficit) Closing	Investment in Capital Assets	Internally Restricted	2019 Total Net Assets	2018 Total Net Assets
	$	$	$	$	$	$	$	$	$
Residences									
Graduate House	5,023	4,061	(77)	(7,044)	(6,159)	11,558	2,208	7,607	6,117
Scarborough	9,564	8,075	(1,734)	1,608	1,363	2,625	4,995	8,983	7,520
Mississauga	14,862	13,817	(876)	(3,314)	(3,145)	9,338	1,254	7,447	7,015
University College	7,702	7,518	(690)	2,604	2,098	3,115	1,654	6,867	6,834
Innis College	3,840	3,151	(1,752)	1,774	711	297	3,376	4,384	3,945
New College	10,116	9,933	1,795	(4,231)	(2,253)	2,195	600	542	(1,092)
Family Housing	9,561	7,477	(2,744)	2,317	1,657	412	4,500	6,569	5,768
Woodsworth College	5,037	4,331	1,225	(12,808)	(10,877)	16,217	3,000	8,340	7,635
89 Chestnut	16,819	15,636	889	(9,719)	(7,647)	8,073	582	1,008	(670)
	82,524	73,999	(3,964)	(28,813)	(24,252)	53,830	22,169	51,747	43,072
Food/Beverage Service									
St. George	32,133	33,239	(967)	(3,449)	(5,522)	2,658	347	(2,517)	(607)
Scarborough	1,022	851	(213)	197	155	515	276	946	875
Mississauga	3,264	2,808	1,604	536	2,596	746	2,620	5,962	4,728
University College	4,442	4,277	(178)	399	386	225	712	1,323	1,307
	40,861	41,175	246	(2,317)	(2,385)	4,144	3,955	5,714	6,303
Parking									
St. George	6,253	6,349	(1,733)	1,884	55	6,843	2,149	9,047	9,929
Scarborough	3,944	2,178	(7,254)	1,196	(4,292)	5,013	7,578	8,299	6,898
Mississauga	4,356	3,489	(318)	(6,972)	(6,423)	16,470	10	10,057	10,490
	14,553	12,016	(9,305)	(3,892)	(10,660)	28,326	9,737	27,403	27,317
Hart House	18,048	16,922	(1,130)	1,169	1,165	7,039	10,181	18,385	17,259
University of Toronto Press	46,612	46,222	439	7,509	8,338	1,848		10,186	9,796
Residential Housing	2,803	2,018	403	143	1,331	4,635	2,065	8,031	5,724
	49,415	48,240	842	7,652	9,669	6,483	2,065	18,217	15,520
Total without the Swap	205,401	192,352	(13,311)	(26,201)	(26,463)	99,822	48,107	121,466	109,471
Fair value of Interest Rate Swap							(0.2)	0	(14)
Total with the Swap	**205,401**	**192,352**	**(13,311)**	**(26,201)**	**(26,463)**	**99,822**	**48,107**	**121,466**	**109,457**

Service Ancillaries

Service ancillaries had revenues of $156 million and expenses of $144 million, with a net income of $12.0 million for the year. Service ancillary revenues have increased by 67.6% since 2010 and expenses have risen by 51.8% during the same period. This increase is due to the expansion of residences, food and beverage and parking services to deal with the growth in student enrolment. Residence fees over the past nine years have been increased to keep pace with increased expenses, including large fixed rate principal and interest payments on borrowing.

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

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



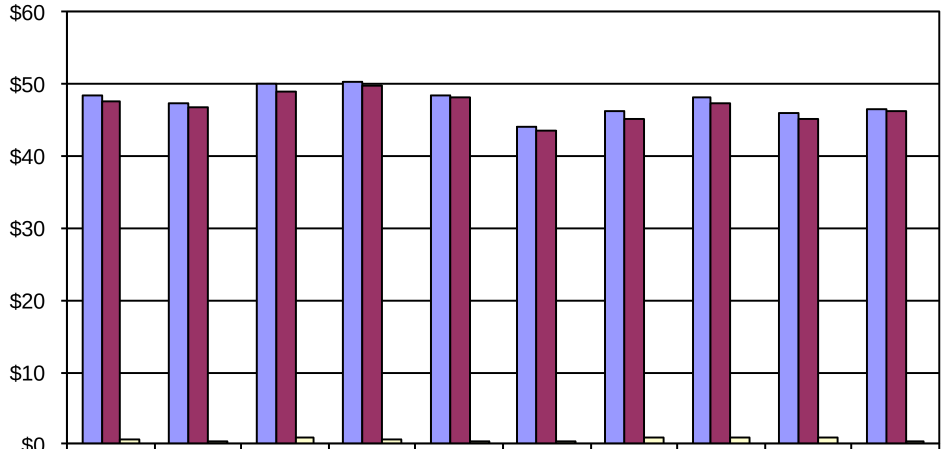
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Service ancillary revenues	93.1	97.0	102.2	107.7	112.9	114.6	120.9	137.5	151.3	156.0
Service ancillary expenses	94.9	94.6	96.9	101.1	103.5	105.0	108.0	126.2	138.3	144.1
Service ancillary net income (loss)	(1.8)	2.4	5.3	6.6	9.4	9.6	12.9	11.3	13.0	11.9

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

Business Ancillaries

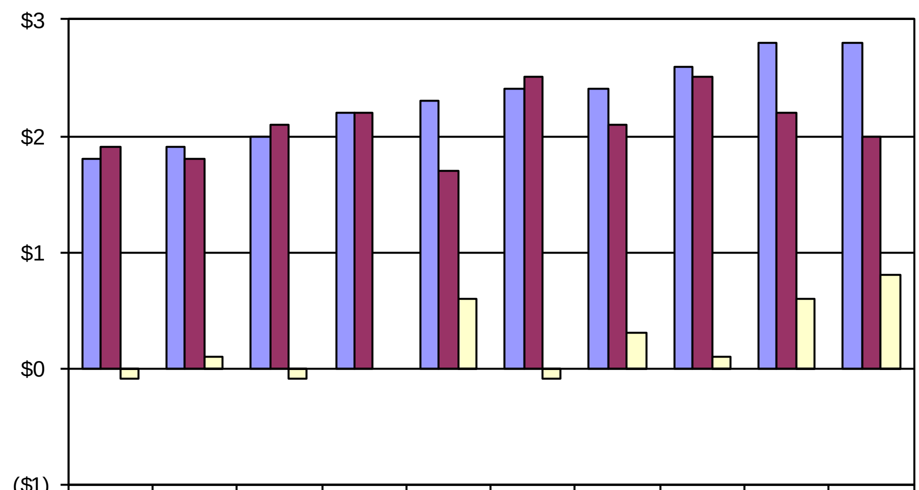
Business ancillaries consists of the University of Toronto Press and the Residential Housing operations that manages over 80 residential addresses with more than 160 rental units in the Huron-Sussex neighbourhood. These operations had combined revenues of $49 million and expenses of $48 million, for a net income of $1 million in 2019.

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	48.3	47.2	50.0	50.4	48.4	43.9	46.1	48.0	45.9	46.6
Expenses	47.6	46.7	49.0	49.8	48.0	43.5	45.2	47.2	45.0	46.2
Net income	0.7	0.5	1.0	0.6	0.4	0.4	0.9	0.8	0.9	0.4

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



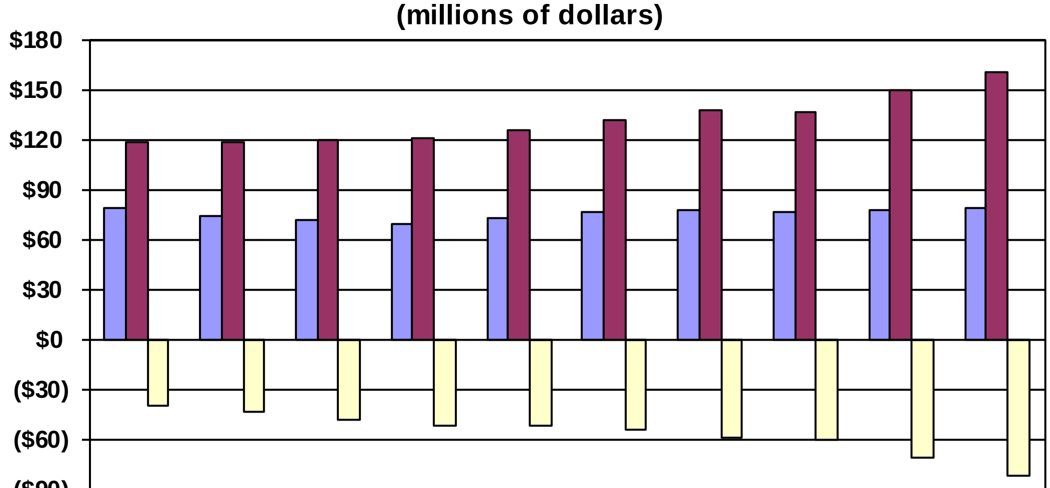
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	1.8	1.9	2.0	2.2	2.3	2.4	2.4	2.6	2.8	2.8
Expenses	1.9	1.8	2.1	2.2	1.7	2.5	2.1	2.5	2.2	2.0
Net income (loss)	(0.1)	0.1	(0.1)	0.0	0.6	(0.1)	0.3	0.1	0.6	0.8

CAPITAL FUND

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

Capital fund revenues for the year were $78 million and expenses were $161 million, for a net loss of $82 million. Revenues include an amount equal to the amortization of capital assets that were financed by grants and donations, while expenses include the amortization of capital assets.

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	78.4	74.2	71.0	69.3	72.9	76.4	77.8	76.1	77.6	78.4
Expenses	118.2	117.7	119.9	121.2	125.2	130.9	137.2	136.2	149.1	160.7
Net loss	(39.8)	(43.5)	(48.9)	(51.9)	(52.3)	(54.5)	(59.4)	(60.1)	(71.5)	(82.3)

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

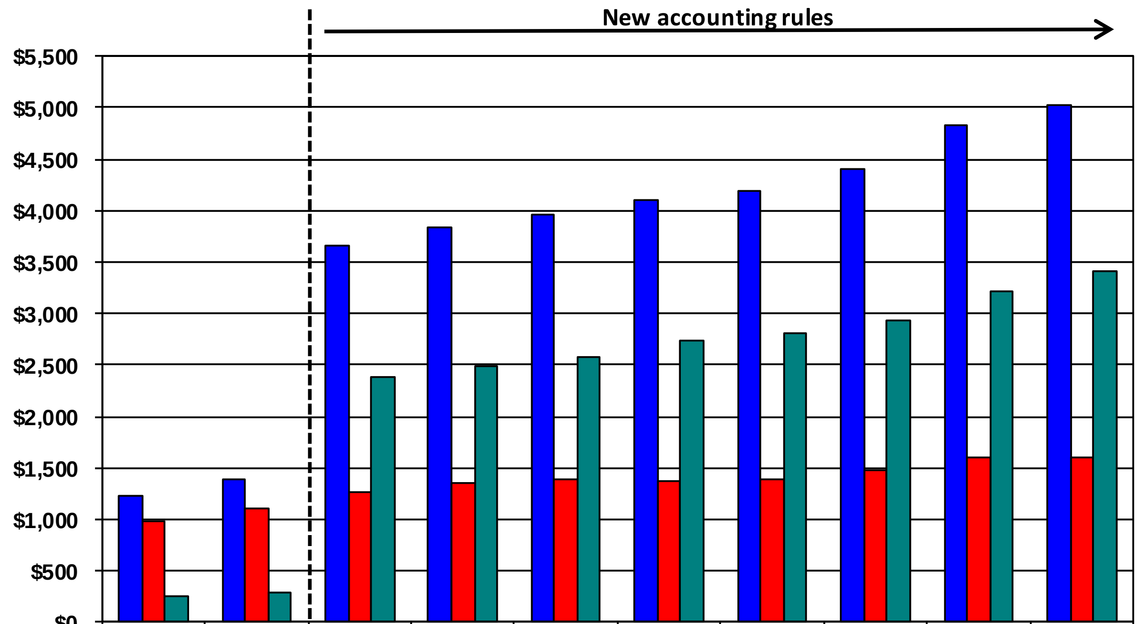
In 2019, a total of $281 million was transferred to the capital fund. This was made up of $110 million in capital asset funding from the operating fund that must be transferred to the capital fund (where the assets are capitalized), combined with net transfers of $171 million, mainly from the operating fund, in support of various capital projects.

Effective May 1, 2011, the University was required to adopt new accounting standards. These standards were required to be accounted for retrospectively. The University elected to recognize some of its land at fair value which increased its capital assets and internally restricted net assets in fiscal 2012 by $2.1 billion.

In 2019, capital fund assets were $5.0 billion, liabilities were $1.6 billion and net assets were $3.4 billion. Net assets comprised $3.3 billion investment in capital assets, $258 million internally restricted funds offset by $169 million in deficit.

The assets of the capital fund have grown from $1.2 billion in 2010 to $5.0 billion in 2019 primarily as a result of the University's large capital construction program over this period and recording some of its land at fair value as noted above. Liabilities have grown from $979 million in 2010 to $1.6 billion in 2019. This growth in liabilities reflects the increase in long-term debt to $709 million, and growth in deferred capital contributions to $1.2 billion. This growth is partly offset by loans to other funds of $372 million since the external borrowing of long-term debt is recorded in the capital fund and loans are provided to departments or operations that have the responsibility to repay the loans. These loans are recorded as a liability in the operating fund or ancillary operations, as appropriate, and are recorded as a receivable in the capital fund.

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Assets	1,232.7	1,397.5	3,654.1	3,828.2	3,966.3	4,105.8	4,190.8	4,403.1	4,827.3	5,025.5
Liabilities	978.9	1,106.6	1,267.1	1,347.5	1,390.3	1,369.6	1,388.8	1,470.9	1,609.0	1,608.5
Net assets	253.8	290.9	2,387.0	2,480.7	2,576.0	2,736.2	2,802.0	2,932.2	3,218.3	3,417.0

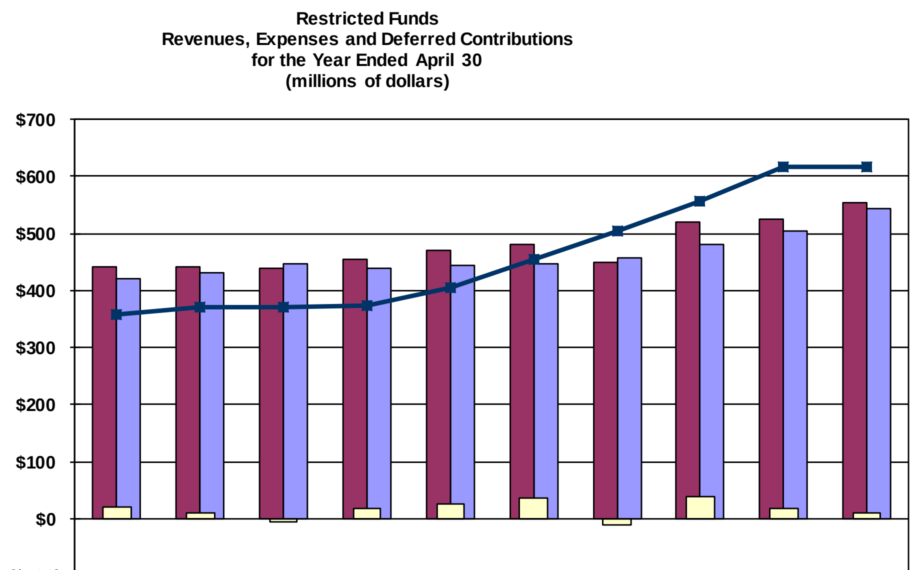
RESTRICTED FUNDS

Restricted funds include donations (including endowments), research grants and contracts. Each donation, usualy supported by an agreement between the University and the donor, or a collection of small donations with similar purpose, is recorded in its own fund, and managed according to agreed upon terms and conditions. Each research grant or contract is also recorded in its own fund and managed in accordance with the terms and conditions required by the sponsor of the fund. There are over 18,500 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.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	440.2	441.9	439.4	454.5	469.6	480.8	448.6	520.5	524.1	552.7
Expenses	420.9	431.0	445.8	437.7	443.6	445.8	458.4	480.8	505.2	542.3
Net income (loss)	19.3	10.9	(6.4)	16.8	26.0	35.0	(9.8)	39.7	18.9	10.4
Deferred contributions	357.9	370.3	371.2	372.7	404.0	454.2	504.1	557.3	616.0	615.9

In 2019, restricted funds revenues for the year were $553 million and expenses were $542 million, resulting in net income of $10 million. Net income in any particular year mainly reflects the recording of unrestricted donations and investment income as revenue that has not yet been offset by expenses. A net loss in any particular year mainly reflects the recording of investment losses on internally restricted endowments funded by a transfer from endowed capital and/or expenses funded by internally restricted net assets.

Restricted funds' assets were $3.3 billion, liabilities were $636 million, and net assets were $2.7 billion. Net assets comprised $2.6 billion in endowments and $85 million in internally restricted funds**.**

Restricted funds' net assets increased by $100 million between April 30, 2018 and April 30, 2019 as a result of net income of $10 million and a further $90 million as follows:

a) transfers of $14 million mainly from the operating fund,

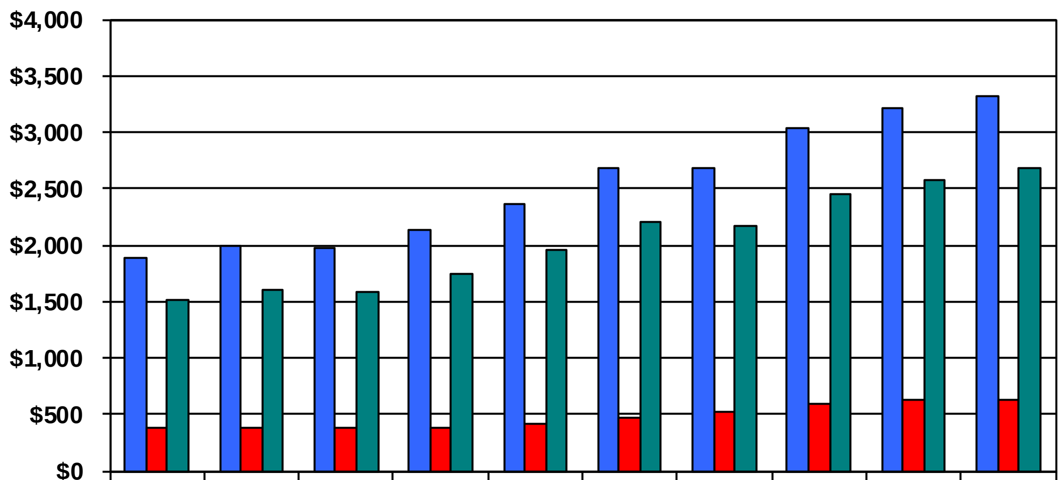
b) endowed contributions and investment gains on externally restricted endowments, which are not recorded as revenue, but are added directly to net assets:

- $40 million in endowed donations.

- $35 million increase on externally restricted endowments, consisting of a $110 million investment gain less $75 million withdrawn for payout.

As noted above**,** the majority of unspent expendable restricted funds are NOT recorded as net assets, but rather are recorded as deferred contributions in the liabilities section of the balance sheet. Total liabilities have grown from $377 million in 2010 to $636 million in 2019 mainly as a result of the growth in research activity and restricted expendable donations that are reflected in deferred contributions until they are spent.

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Assets	1,883.3	1,988.9	1,970.7	2,126.6	2,371.2	2,675.6	2,681.5	3,036.0	3,213.0	3,314.5
Liabilities	377.2	379.7	381.1	388.8	415.0	464.4	515.5	586.1	634.8	636.3
Net assets	1,506.1	1,609.2	1,589.6	1,737.8	1,956.2	2,211.2	2,166.0	2,449.9	2,578.2	2,678.2

Net assets in restricted funds have grown from $1.5 billion in 2010 to $2.7 billion in 2019.

Schedule 6 reflects the change in endowment funds from April 30, 2018 to April 30, 2019 with the related expendable funds.

UNIVERSITY OF TORONTO
RESTRICTED FUNDS
ENDOWMENT AND EXPENDABLE FUNDS AT FAIR VALUES AT APRIL 30, 2019
(thousands of dollars)

Endowment funds

	April 30, 2018	Donations, and other additions	Preservation of capital (note 1)	Transfers	April 30, 2019
	$	$		$	$
Student aid (note 2)	560,293	18,364	9,466	2,490	590,613
Ontario Student Opportunity		-			
Trust Fund - Phase I (note 2)	384,161	1	6,114	130	390,406
Ontario Student Opportunity					
Trust Fund - Phase 2 (note 2)	46,031	-	733	-	46,764
Ontario Trust for Student Support (not	86,559	364	1,382	26	88,331
Research funds	156,276	112	2,477	-	158,865
Departmental funds	357,657	13,329	6,598	1,152	378,736
Faculty endowment funds (note 2)	759,518	9,594	12,540	2,377	784,029
Connaught fund	116,031	-	1,846	-	117,877
I'Anson fund	3,384	-	54	-	3,438
Miscellaneous funds	34,342	-	154	(379)	34,117
	2,504,252	41,764	41,364	5,796	2,593,176
Comprising:					
Externally designated	2,129,372	39,715	35,544	5,232	2,209,863
Internally designated	374,880	2,049	5,820	564	383,313
	2,504,252	41,764	41,364	5,796	2,593,176

Expendable funds

	April 30, 2018	Donations, grants and other additions	Distributed investment income/(loss) (note 1)	Transfers	Disbursements	April 30, 2019
	$	$	$	$	$	$
Student aid (note 2)	52,393	11,473	(8,887)	4,126	50	59,055
Ontario Student Opportunity Trust Fund - Phase I (note 2)	30,423	7	(660)	(130)	-	29,640
Ontario Student Opportunity Trust Fund - Phase 2 (note 2)	3,658	-	(211)	-	-	3,447
Ontario Trust for Student Support (not	4,845	10	(66)	78	-	4,867
Research funds	299,166	429,035	5,865	4,087	456,589	281,564
Departmental funds	241,051	71,395	40,777	3,319	90,522	266,020
Faculty endowment funds (note 2)	18,201	505	7,057	421	5,747	20,437
Connaught fund	6,853	-	4,167	(3,971)	178	6,871
I'Anson fund	756	-	131	-	-	887
Miscellaneous funds	32,603	22,913	343	470	28,227	28,102
	689,949	535,338	48,516	8,400	581,313	700,890
Restricted	616,030	525,668	40,463	8,371	574,598	615,934
Unrestricted	73,919	9,670	8,053	29	6,715	84,956
	689,949	535,338	48,516	8,400	581,313	700,890

Notes:

(1) Consisting of investment income on:

Endowment funds	85,681
Expendable funds	4,199
	89,880

(2) Disbursements and corresponding distributed investment income for Student aid ($29,166), Ontario Student Opportunity Trust Funds ($16,180), Ontario Trust for Student Support ($3,127) and Faculty Endowments ($20,608) are reported in the Operating Fund.

UNIVERSITY OF
TORONTO