FOR RECOMMENDATION **PUBLIC** **OPEN SESSION**

TO: Business Board

SPONSOR: Trevor Rodgers, Chief Financial Officer
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PRESENTER: Same as above.
CONTACT INFO:

DATE: June 5, 2022 for June 21, 2022

AGENDA ITEM: 6(a)

ITEM IDENTIFICATION:

Audited Financial Statements for the Fiscal Year ended April 30, 2022

JURISDICTIONAL INFORMATION:

In accordance with section 5 of the Business Board t*erms 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 20, 2022)
2. **Business Board [for recommendation] (June 21, 2022)**
3. Executive Committee [for endorsement and forwarding] (June 28, 2022)
4. Governing Council [for approval] (June 28, 2022)

PREVIOUS ACTION TAKEN:

None.

HIGHLIGHTS:

For the year ended April 30, 2022, the University recorded a positive net income of $416 million (10.9% of revenues). This net income on an accrual basis reflects infrastructure costs that were capitalized and not expensed in the year, offset by amortization expenses related to infrastructure spending in prior years. Capital investments during the year included projects like the UTM Science building, the Schwartz Reisman Innovation Centre West, a new Student Residence at UTSC, the Fitzgerald Building Revitalization, and the UTSC Instructional Centre Phase II. The positive net income also includes funds that have been set aside for future capital projects and other priorities, resulting in an increase of $184 million in central and divisional reserves.

The University's net assets increased by $429 million to a total of $8.5 billion. These net assets are comprised of the following:

- $3.2 billion of endowments, representing 37% of net assets;
- $5.7 billion of internally restricted net assets, which is further broken down into:
  - $2.3 billion in land
  - $1.7 billion of investment in other capital assets[1]
  - ($0.7 billion) in net unfunded liability associated with pension and other employee future benefits
  - $1.6 billion in capital projects and infrastructure reserves
  - $284 million of operating contingency reserves
  - $475 million in other reserves held for future spending; and
- ($314 million) of deficit.

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

As the COVID-19 global pandemic continued to evolve throughout 2021-22, the University was able to adapt to changing public health measures, delivering a vibrant, world-class educational experience while keeping students, staff, faculty, and librarians safe and healthy. Demand for programs remained strong and many on-campus academic activities were able to resume. Residence operations experienced higher than anticipated occupancy levels in fall 2021, generating operating results that were significantly better than budget. However, the number of faculty, staff, students and visitors attending, working, and visiting the University remained somewhat lower than normal. Food Services and Transportation Services were particularly affected, and these operations incurred net losses of $9.1 million.

As ancillary operations continue on the path to recovery, the University will work with each unit to assess their financial health and may provide additional support to assist with annual deficit reductions in cases where the reduction would jeopardize the unit's ongoing sustainability. In 2021-22, the University provided ancillary units with $5.5 million in support. Ancillary units will be expected to reduce to zero any accumulated deficits over a five-year period.

[1] This figure represents internal monies previously spent by the University for capital projects which will be reduced over time as these capital assets are amortized.

After years of planning and discussion together with other Ontario universities, the administrations, faculty associations, unions and non-represented staff of the University of Toronto, University of Guelph and Queen's University have developed a new jointly sponsored multi-employer pension plan, the University Pension Plan Ontario ("UPP"), which is open to other Ontario universities. The UPP was formally established on January 1, 2020, to cover employees, retired employees, and other members under the currently existing plans at all three universities. The assets and liabilities of the University's registered pension plan ("RPP") were transferred to the UPP as at July 1, 2021 (the "Effective Date"). As of the Effective Date, the accrual of benefits and contributions under the UPP commenced for members of the RPP, all of whom transferred to the UPP, and benefits and contributions under the RPP ceased. The University amended the RPP to allow for the July 1, 2021, transfer of assets and liabilities into the UPP and the subsequent termination of the RPP. The plan reported an actuarial surplus of $792.5 million on a transfer basis as of July 1, 2021.

The University remains responsible to fund any net pension obligations (determined based on the UPP actuarial assumptions) related to service up to the transition date of July 1, 2021, with any deficits to be funded over 15 years. The net pension obligations may fluctuate in the future based on changes to the UPP's actuarial assumptions and for changes in experience in future periods, which will continue to be the responsibility of the University to fund for the first 10 years, after which the responsibility for such changes becomes gradually shared over the next 10 years with the other participants of the UPP, after which the responsibility is totally shared with all participants. The University does not recognize any share of the UPP's pension surplus or deficit in its financial statements, but accounts for contributions to the UPP on a defined contribution basis.

Immediately following the successful closure of the Boundless campaign on December 31, 2018, with $2.641 billion raised, the University entered the quiet phase of the new Defy Gravity campaign that will elevate the University's position as one of the world's leading public universities and advance the University community's outsized impact in solving complex social, economic, and health problems. The campaign will seek to raise $4 billion for the University's highest priorities, a target that reflects the ambition and scale of the University's community and its potential for global impact. Beginning January 1, 2019, the campaign has seen significant growth in fundraising momentum and alumni engagement, reaching record levels in 2021.

For the period May 1, 2021, to April 30, 2022, the University raised a total of $410 million.[2] This amount includes $365 million in pledges and gifts (donations) and $45 million in philanthropic research grants from non-government sources. This is the second year in a row that the amount raised exceeds $400 million.

FINANCIAL IMPLICATIONS:

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[2] This number includes federated universities and other affiliated institutions, but excludes donations to partner hospitals.

RECOMMENDATION:

Be It Recommended to the Governing Council

THAT the University of Toronto audited financial statements for the year ended April 30, 2022, be approved.

DOCUMENTATION PROVIDED:

- *Financial report including the audited financial statements and highlights*
- *Supplementary Financial Report, 2022.*

Financial Report 2022

April 30, 2022

University of Toronto Financial Services

UNIVERSITY OF TORONTO

DEFY GRAVITY

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RESULTS AT A GLANCE

ENROLMENT

Student enrolment increased by 1.1% to

85,747 FTE

REVENUE

Revenue decreased by 4.2% year-over-year to

$3.8 billion

NET INCOME

Positive net income of 10.9% of revenues before allocations to reserves

$416 million

DEBT

Debt burden is 2.6% of expenses based on outstanding debt of

$889 million

ENDOWMENTS

Donations of $57 million and 1.5% return in LTCAP result in market value of

$3.2 billion

CAPITAL ASSETS

Value of capital assets after $496 million additions and $213 million amortization

$5.5 billion

Highlights

Established in 1827, the University of Toronto (the "University") is Canada's top-ranked university, providing world-class research and teaching to over 95,000 students across our three campuses: St. George (downtown Toronto), Scarborough ("UTSC") and Mississauga ("UTM").

As one of the largest universities in North America, the University provides students with a broad range of academic programs and courses, while a unique college system offers the rich learning experience of small, close-knit communities. The following financial report reveals a vibrant university in positive financial shape approaching its bicentennial year in 2027.

Over the past 5 years, the University has benefited from the Ontario and Federal governments' continued financial support for higher education and advanced research, helping to ensure access, increase graduate enrolment, and finance vital infrastructure. During that same period, the University has grown significantly, with an increase of over eight per cent in the number of students.

Looking ahead, the University of Toronto remains focused on implementing the priorities articulated in the Towards 2030 academic plan. The University's Three Priorities provide institutional context for divisional academic planning, which in turn leads to investment in specific initiatives and activities throughout the University:

- Finding new ways to take advantage of prime locations in the Greater Toronto Area. This includes deepening relationships with local partners and heightening contributions to the success of the GTA as one of the world's most diverse and dynamic metropolitan regions;
- Strengthening international partnerships with other great universities, by facilitating student mobility and faculty exchanges, as well as joint initiatives in research, conferences, and teaching; and
- Developing new, innovative curricula and non-curricular activities that enhance the student experience, to re-imagine undergraduate education. This includes embracing the demand to prepare students for the labour market and the opportunities of the digital age.

As the University builds upon its great success to date, it will continue to draw on the talent and leadership of faculty and staff, as well as the loyalty and generosity of alumni and benefactors. At the same time, the University will need strong support from government partners—at all levels—that recognize the University's unique and critical role within Canadian higher education.

Financial Results and Challenges

In fiscal 2022, the University's net assets increased by $429 million to a total of $8.5 billion. This increase was a result of $416 million in net income, and reflects capital infrastructure costs that were capitalized and not expensed in the year offset by amortization expense. These capital investments included projects like the UTM Science building, the Schwartz Reisman Innovation Centre West, a new Student Residence at UTSC, the Fitzgerald Building Revitalization, and the UTSC Instructional Centre Phase II. The positive net income also includes funds set aside for future capital projects and other priorities, resulting in an increase of $184 million in central and divisional reserves.

Impact of COVID-19 on financial results

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization declared to constitute a pandemic, resulted in governments worldwide enacting emergency measures to combat the spread of the virus. In 2021, members of the University of Toronto community rose to the unprecedented challenge of the COVID-19 pandemic with remarkable generosity, patience, and creativity. The University delivered on three fundamental elements of the University's core mission as it continued its work in terms of teaching, research, and other business remotely, by

- ensuring that students could complete their academic work by offering courses through alternative means when needed,
- continuing to provide a place to live for those students in residence who were unable to return home, and
- supporting the critical COVID-19 and time-sensitive research endeavors of the University's world class scholars.

Levels of on-campus activity were significantly reduced in 2020-21, and campus services such as residences, food, and parking were particularly hard hit. Each residence operation took precautions to prevent the spread of the virus, including reductions to bed inventory and operating capacity to allow for physical distancing. Revenues for residence, parking, and food service operations decreased significantly. During this time, higher operating costs associated with additional cleaning, sanitation, communication, and staff absentee coverage were also experienced. In order to mitigate these revenue shortfalls and cost increases, ancillary operations reduced or delayed non-critical capital and major maintenance projects, avoided discretionary costs, applied temporary staff layoffs, and froze hiring. In many cases, the magnitude of revenue reductions made it impossible to avoid financial losses.

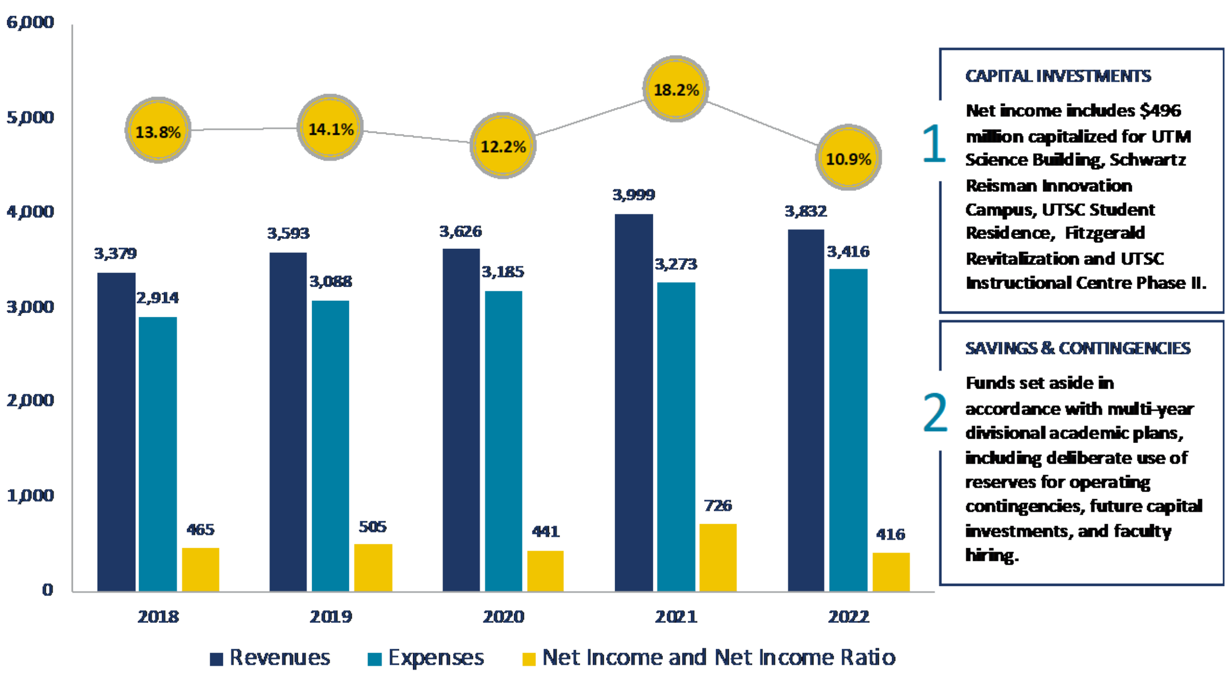
As the COVID-19 global pandemic continued to evolve throughout 2021-22, the University remained flexible to ensure continuity of academic and research programs. Experience gained throughout the pandemic allowed faculty and staff to adapt to changing public health measures, delivering a vibrant, world-class educational experience while keeping students, staff, faculty, and librarians safe and healthy. Demand for programs remained strong and some on-campus activities were able to resume. Residence operations experienced higher than anticipated occupancy levels in fall 2021, generating operating results that were significantly better than budget. However, levels of on-campus activity remained lower than normal. Food Services and Transportation Services were particularly affected, as revenues for these services primarily depend on faculty, staff, students and visitors attending, working, and visiting the University. These operations incurred net losses of $9.1 million.

Under normal circumstances, service ancillaries are expected to operate without subsidy from the University's operating budget and rely solely on revenue from the services they provide. The University is allowing ancillary operations to incur deficits totaling up to $50 million in the aggregate over the next five years. Deficits will be allowed only in those ancillary units where it is necessary to do so, after considering cost containment strategies, levels of operating reserves, and necessary funding for critical infrastructure projects. Units with sufficient reserves will continue without need to carry a deficit. This approach is intended to ensure that the level of the ancillary deficits will be only as high as absolutely necessary. Ancillary units will be expected to reduce to zero any deficits over a five-year period. In 2021-22, the University provided ancillary units with $5.5 million in support. The University will work with each unit to assess their financial health each year and may provide additional support to assist with annual deficit reductions in cases where the reduction would jeopardize the unit's ongoing sustainability.

Statement of Operations

Over the past 5 years, the number of students at the University has grown 8.2%. This substantial increase in enrolment has raised 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 have increased the need for construction and renovations, which impact operating expenses as well as interest and amortization expenses. Planning for these capital infrastructure needs has included a prudent increase in financial reserves.

Figure 1: Revenue and Expenses
($ millions) for the year ended April 30



The University also continues to welcome a large community of international students. Experience and data show consistently that this is an important factor in academic excellence and global competitiveness, as well as a major benefit to the regional and national economy. To mitigate the ways international student recruitment can be affected by geopolitical developments, the University has successfully pursued initiatives to diversify global recruitment and increased contributions to operating reserves.

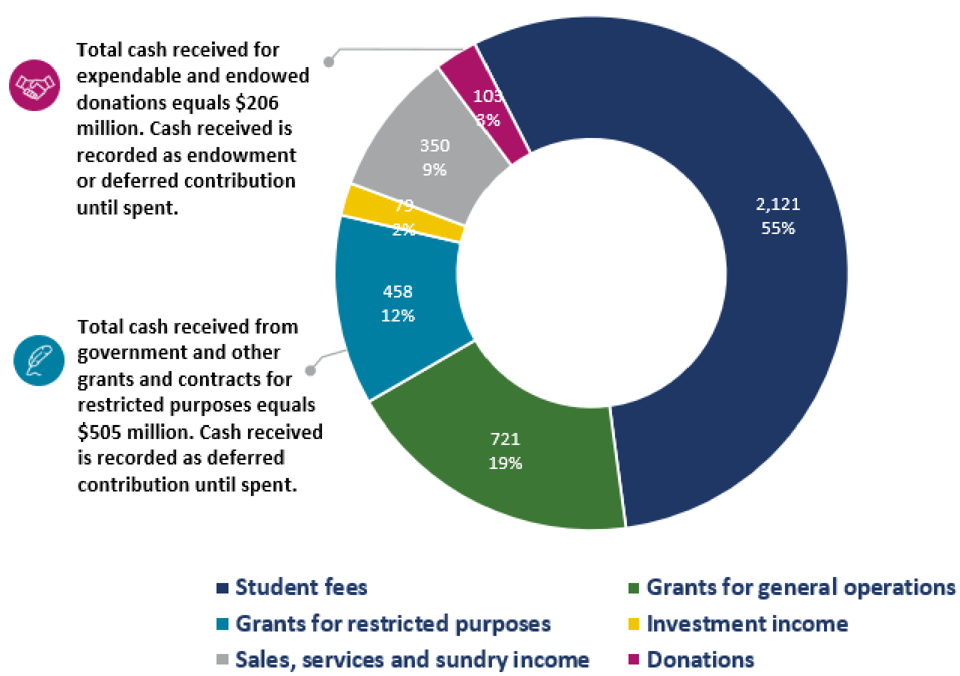
Fiscal year ending April 30, 2022:

Revenues:	$3.8 billion
Expenses:	$3.4 billion
Net income:	$416 million

The net income of $416 million primarily reflects funds being used for capital infrastructure combined with funds set aside in accordance with multi-year divisional academic plans. These plans call for deliberate use of reserves for operating contingencies, future capital investment in academic facilities and other amenities, and faculty hiring.

In 2022, $2.8 billion or 74.2% of revenues were from student fees and government grants provided in support of student enrolments. An additional $458 million represented government and other grants and contracts for restricted purposes. Together these three sources accounted for 86.1% of revenues for the year. As noted above, sales, services, and sundry income (residence, parking, and food service operations) were negatively impacted due to reduced activities on campus because of the pandemic.

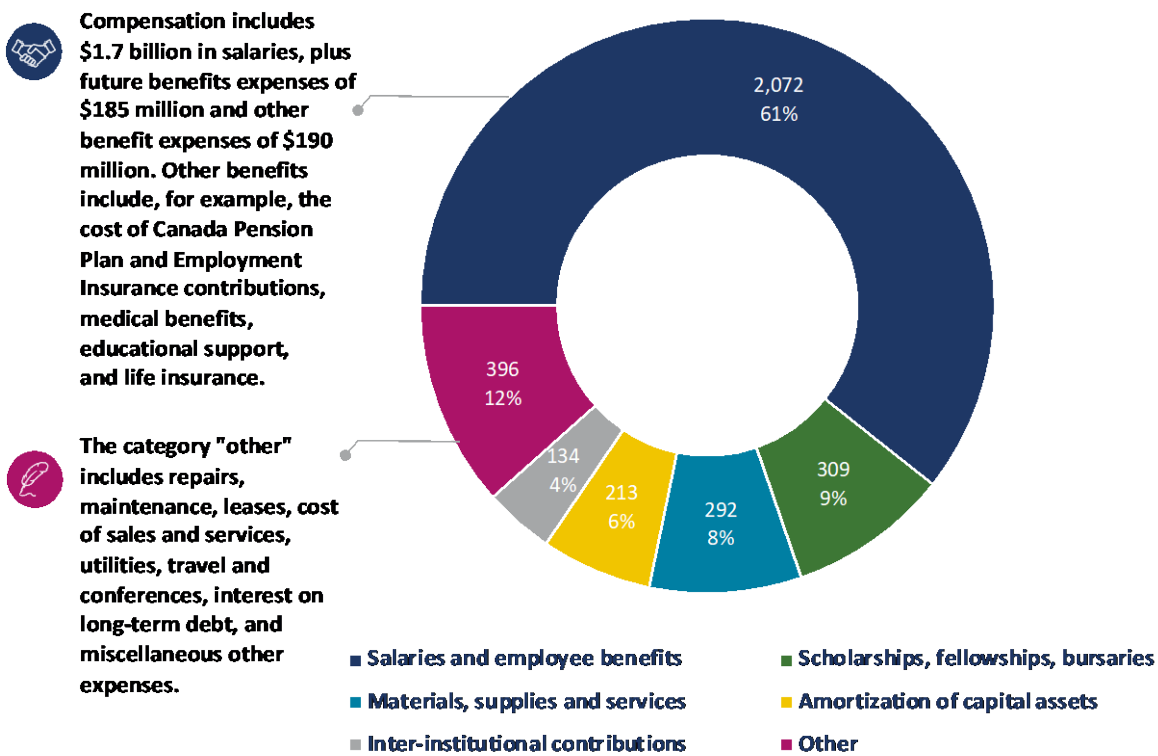
Figure 2: Revenues by Category



In 2022, the University paid $2.1 billion for salaries and employee benefits comprising 60.7% of the University's $3.4 billion in expenses. 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).[1] Additional details on expenses include:

- $309 million for scholarships, fellowships, and bursaries (9.0% of total expenses)
- $292 million for materials, supplies and services (8.5% of total expenses)
- $134 million for inter-institutional contributions (3.9% of total expenses)

Figure 3: Expenses by Category



Balance Sheet

Fiscal year ending April 30, 2022:

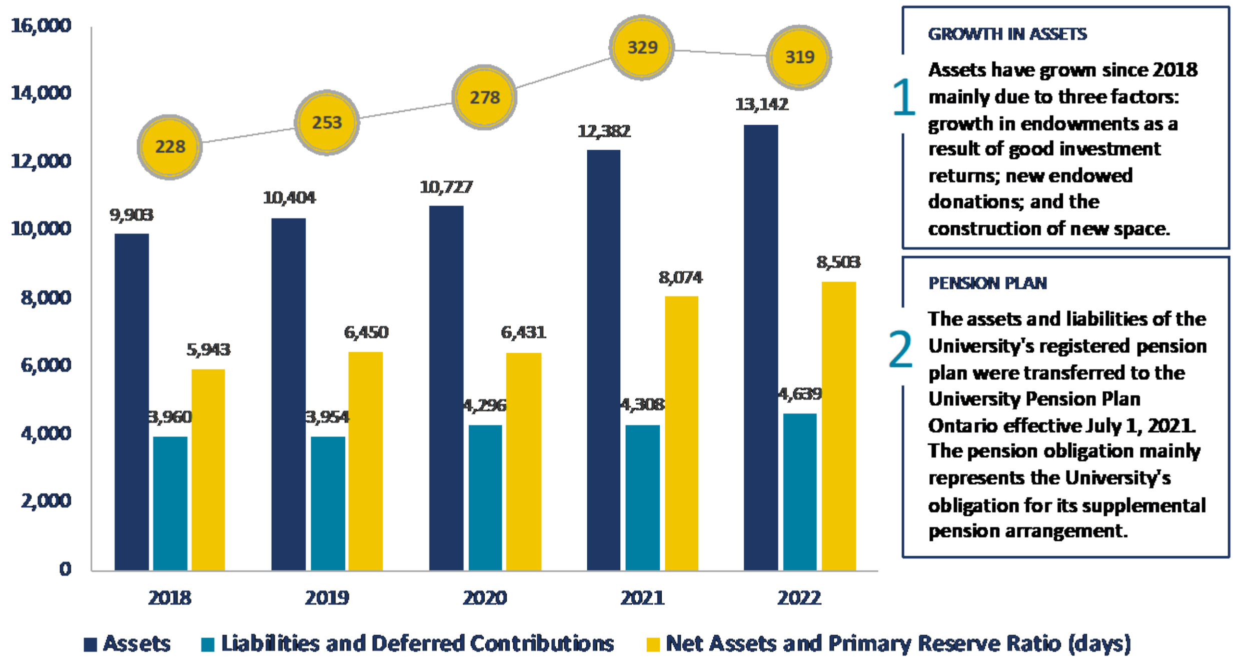
Assets:	$13.1 billion
Liabilities:	$4.6 billion
Net assets:	$8.5 billion

Assets have grown since 2018 mainly due to three factors: the growth in endowments as a result of good investment returns in most years; the receipt of endowed donations; and the construction of additional space to accommodate the increased number of students.

[1] Additional details are provided in the "Salaries and Benefits" section below.

Net assets[2] increased by $429 million to $8.5 billion in 2022. This increase is mainly due to net income of $416 million, and endowed donations of $57 million offset by $54 million loss on externally restricted endowments.

Figure 4: Assets, Liabilities and Net Assets
($ millions) for the year ended April 30



Net assets are composed of the following:

- $3.2 billion of endowments, representing 37% of net assets,
- $5.7 billion of internally restricted net assets, and
- ($314 million) of deficit.[3]

The $3.2 billion of endowments represent over 6,900 individual endowment funds, which are restricted by Governing Council or donor agreements to approved academic priorities. Endowment funds for student aid and support increased to $1.4 billion in 2022.

The $5.7 billion of internally restricted net assets comprises:

- $2.3 billion in land

[2] Net assets reflect the University's net worth and change over time through the net income or net loss for the year, and changes in endowments. Changes in endowments may derive from receipt of endowed donations and investment income on externally restricted endowments (representing income earned above the amount made available for spending). Such income 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.
[3] The deficit is largely due to the internal financing of capital construction in accordance with the University's debt strategy (see the "Debt" section below).

- $1.7 billion of investment in other capital assets[4]
- ($0.7 billion) in net unfunded liability associated with pension and other employee future benefits
- $1.6 billion in capital projects and infrastructure reserves
- $284 million of operating contingency reserves
- $475 million in other reserves held for future spending

Deferred contributions increased by $125 million in 2022, mainly due to unspent donations and research grants.

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.

Provincial Operating Grants[5]

The Ontario post-secondary education system operates under a differentiation policy framework. The framework is operationalized through a series of institutional Strategic Mandate Agreements, which specify the role of each university in the system and how they will build on institutional strengths to drive system-wide objectives and government priorities.

Fiscal year 2020-21 was the first year of the University's third Strategic Mandate Agreement with the Province ("SMA3"). With the implementation of SMA3, a significant portion of existing operating grant revenue will be re-directed to a differentiation envelope tied to performance metrics.

Over the course of 2019, the Council of Ontario Universities worked with the Ministry of Colleges and Universities to introduce mechanisms to the SMA3 performance-based funding formula that increase predictability and minimize volatility for institutions. For funding purposes, each university is measured against its own past performance, not against other institutions. Targets are established formulaically, taking into consideration past performance and the variability of results in recent years. Each target includes a range of allowable performance outcomes, with partial funding provided if performance falls below the allowable performance range.

As Canada's leading research-intensive university, performance-based funding allows the University to benchmark its strengths in areas such as innovation, research funding, and graduate employment, and have funding reflect its achievements in these areas. The University has allocated its performance-based funding envelope among ten metrics and may re-weight the metrics each year in response to changing priorities. However, given the potential impact of the COVID-19 pandemic on performance metrics, the Province has committed to suspending any financial impacts from the new funding formula until the third year, which will inform operating grant allocations in the University's 2023-24 fiscal year given the slip-year nature of the model. Performance-based funding will represent 10% and 25% of total Provincial operating grants in 2023-24 and 2024-25, respectively.

[4] This figure represents internal monies previously spent by the University for capital projects which will be reduced over time as these capital assets are amortized.
[5] For more information on Ontario's operating grants, see the Appendix entry for Provincial Operating Grants.

The SMA3 also sets out a multi-year enrolment plan. In response to Ontario's changing demographics, the University and the Province have agreed to hold constant the level of domestic undergraduate enrolment at the University of Toronto over the period of the agreement. The University will be eligible for full enrolment funding provided it maintains a five-year average enrolment within ±3% of its target.

In March 2021, the Province announced $106 million in additional one-time funding to address COVID-19 related expenses at the most financially impacted colleges and universities. The funding was intended to support institutions with financial sustainability challenges. All small universities received an allocation while support for medium and large universities considered financial impacts relative to operating reserves. For large universities such as the University of Toronto, support was provided only if COVID-related tuition losses exceeded 40% of operating reserves. The University of Toronto did not experience an enrolment shortfall and, therefore, was not eligible for an allocation under this program.

Tuition Fees and Student Aid[6]

On January 17, 2019, the Province announced a 10% cut to domestic tuition fees beginning in 2019-20, and a freeze at that level for 2020-21. The freeze was subsequently extended through 2022-23. Tuition fees paid by international students are not regulated by the Province and were therefore unaffected. The tuition fee freeze is applied 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. The 10% reduction and two-year freeze resulted a reduction in domestic student fee revenue of approximately $139 million in 2022 relative to the previous 3% framework, which had a differential impact across the University depending on program mix and divisional revenue sources. Strategies used to mitigate the impact included changes to faculty and staff hiring plans, deferral of capital projects, service reductions, and operating cost efficiencies.

Student fees revenue increased by $126 million from last year to $2.1 billion mainly because of increased international fees and enrolment growth.

The University remains committed to the goal of accessibility and to working with the Provincial and Federal governments to support access. In 2022, the University spent $309 million on scholarships, fellowships, and bursaries, a 29.3% increase from $239 million in 2018.

The Province's 2019 changes to the Ontario Student Assistance Program ("OSAP") have reduced the overall amount of non-repayable student aid for students, including the University's regulatory obligation to cover unmet financial need as defined by OSAP under the Student Access Guarantee. However, the University remains firm in its internal access guarantee that financial circumstances should not stand in the way of a qualified student entering or completing their degree and has provided additional needs-based support to students beyond the government requirements. The University has also provided more than $12 million in emergency bursaries to students over the last two years to help them with financial pressures due to the COVID-19 pandemic.

Capital Funding

In 2022, the Province announced an investment of $583 million over three years to help colleges and universities provide a modern and safe learning environment, both virtually and on campuses. This funding will help modernize classrooms and support virtual learning projects that increase access to post-secondary education for students. This investment incudes $493 million through the Facilities

[6] For more information on provincial policies, see the Appendix entry for Tuition Fees and Student Aid.

Renewal Program to help with the critical maintenance repairs, upgrades, and renewal of existing facilities.

Capital investments made by the Province to the University since 2018 include:

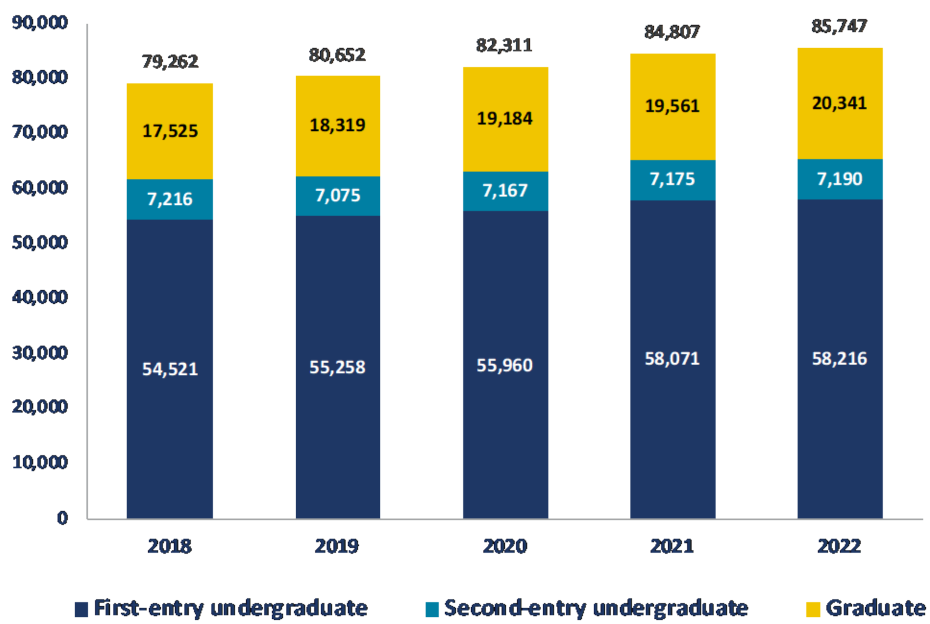
- $14 million from the provincial government and $84 million from the Federal government's Post-secondary Institutions Strategic Investment Fund (SIF) toward the University's Lab Innovation for Toronto (LIFT) laboratory retrofit project in fiscal 2017 and 2018; and
- $33 million under the Greenhouse Gas Campus Retrofit Program to support a number of projects to reduce greenhouse gas emissions across the three campuses in fiscal 2019.

Student Enrolment

The demand for student spaces has increased significantly since 2018 as a result of population growth in Ontario, increased higher education participation rates and a growing reputation around the globe as a destination of choice for international students. The University has increased enrolment to accommodate this additional student demand with student FTE enrolment increasing from 79,262 in 2018 to 85,747 in 2022, an increase of 8.2%. Approximately 66% of the domestic direct entry undergraduate student body is drawn from the Greater Toronto Area.

Although the University has received full average funding from the Province for enrolment of additional domestic students, neither government grants nor regulated tuition fees have kept pace with inflation over time. Tuition fees for international students are set at a level that takes into consideration the full cost of providing a program and with reference to fees at peer Canadian and US universities.

Figure 5: Number of FTE Undergraduate and Graduate Students as at November 1



Financial Planning

Revenues are expected to increase modestly over the next several years, primarily as a result of increasing international enrolment, domestic enrolment changes within the ±3% flexibility of the fixed provincial funding envelope, and modest fee increase assumptions. Since the potential for new revenues is primarily tied to enrolment growth, the University will need to continue pursuing productivity improvements and other expense containment measures.

The long-range academic and budget plan for 2022-23 to 2026-27 incorporates the freeze of domestic tuition fees for 2022-23 and assumes a return to a framework of modest annual fee increases in future years. The 2019-20 domestic tuition fee reduction and subsequent three-year freeze has had 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.

Research and Capital Infrastructure

The 2018-23 Institutional Strategic Research Plan (“ISRP”)[7] articulates an approach that empowers our researchers to continue their outstanding work. Strong research funding support from the Provincial and Federal governments, and a broad range of other public and private sector entities, are key to the University’s research and innovation preeminence, including support for research operations and infrastructure that help the University to attract and retain top research talent from across Canada and around the world.

University researchers, scholars and innovators are successful in securing funds from a rich array of national and international sources, including the federal and provincial governments, the not-for-profit sector, and private-sector partnerships. In 2019, the University earned 40 of the 275 newly created Canada Research Chairs (“CRC”) announced in the 2018 Federal Budget, and now has an allocation of 315 CRCs, the highest in the country by a margin of more than 100 Chairs. The University is surpassing its equity targets for CRCs in all four federally designated groups.

In 2019-20, the federal Research Support Fund contributed to the institutional (also known as “indirect”) costs of tri-agency funded research, at a rate of 18% of direct costs. Additional funding provided through the federal Incremental Project Grant program increases the rate to 21%. In contrast, the actual institutional costs of research incurred by the University correspond 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.

The University enhanced support for Institutional Strategic Initiatives including the creation of more large-scale, cross-disciplinary initiatives to pursue bold ideas that address the world’s challenges. In 2019, the Schwartz Reisman Institute for Technology and Society was established with the support of a major philanthropic gift, drawing on the University’s strength in the social sciences, physical sciences, and humanities and to explore the benefits and challenges of AI, biotechnology, and other technological advances for society. The Centre for Research and Applications in Fluidic Technologies (CRAFT), established in 2020, is a partnership between the University and the National Research Council to advance microfluidics and the deployment of this technology in point-of-care diagnostics, organ-on-a-

[7] For more information, see the Appendix entry on the Institutional Strategic Research Plan.

chip devices, and organ-scale tissue substitutes. These advances will contribute to improving the health of Canadians and lay the foundation of a thriving, internationally competitive industry sector.

In 2020, the Federal government announced over $1 billion for research on COVID-19, including research on medical countermeasures, antivirals, vaccine development and support for clinical trials. In the first competition from these funds, over $52 million was allocated for developing and implementing measures to rapidly detect, manage, and reduce the transmission of COVID-19. Nearly $6 million of this funding was awarded to researchers based at the University or one of its affiliated hospitals.

The Canada Research Continuity Emergency Fund (CRCEF) provided $450 million in funding to support universities, health research institutes, and individual researchers in order to maintain essential research related activities during the pandemic, bringing over $100 million to the University and the Toronto Academic Health Science Network (TAHSN). In concert with academic divisions, affiliated hospitals and donors, the University also provided over $10 million in funding via a COVID-19 rapid response competition which funded research with strong potential to positively impact individuals, communities, society, and public health systems in the near term.

In 2022, the Federal government announced $125 million over five years, starting in 2022-23, and $25 million ongoing, for the Research Support Fund to build capacity within post-secondary institutions to identify, assess, and mitigate potential risks to research security; and $34 million over five years, starting in 2022-23, and $8 million ongoing, to enhance Canada's ability to protect our research, and to establish a Research Security Centre that will provide advice and guidance directly to research institutions. The budget also proposes to provide $38 million over four years, starting in 2023-24, and $13 million ongoing for the federal granting councils to add new, internationally recruited Canada Excellence Research Chairs in the fields of science, technology, engineering, and mathematics and $41 million over 5 years, starting in 2022-23, and $10 million ongoing to support targeted scholarships and fellowships for promising Black student researchers.

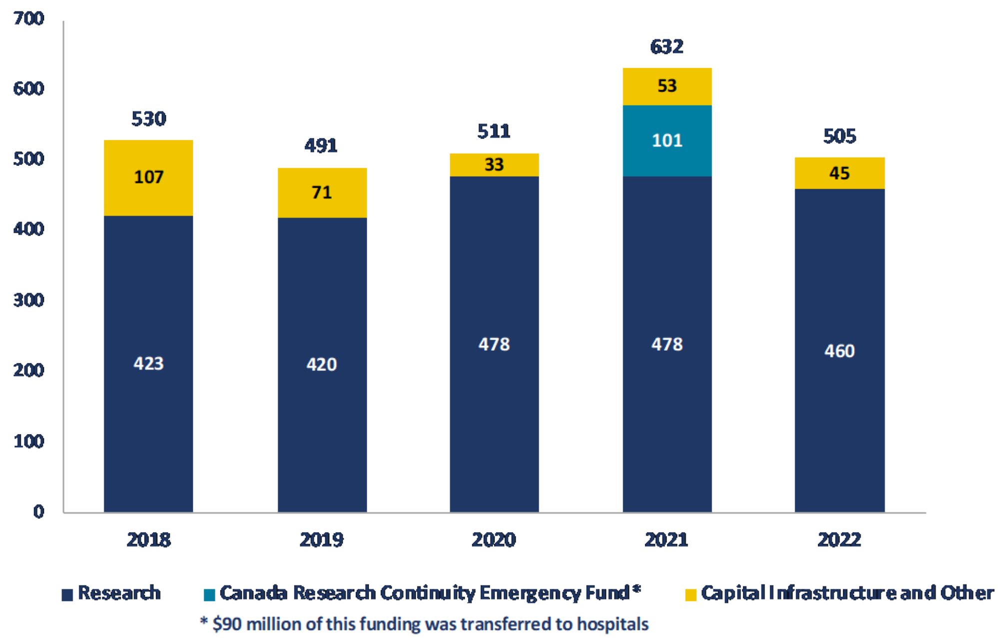
The University continues to expand its efforts in the innovation and entrepreneurship space, including the development of the Schwartz Reisman Innovation Campus. In 2020, the provincial government released the report of its Expert Panel on Intellectual Property: Intellectual Property in Ontario's Innovation Ecosystem. In 2020, the University created an IP Education Program that seeks to increase IP knowledge and protection across Ontario. Free to the University community, this interactive, online training program equips students, postdoctoral fellows, faculty, and staff from across disciplines with a foundation in IP and its application in today's knowledge economy.

The University continues to be successful at generating funding for research, including support for personnel, operations, and infrastructure. These financial statements account for funds 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 2022 for restricted purposes totaled $505 million, including $460 million for research and $45 million for capital infrastructure and other purposes. These were reported as follows: $458 million as revenue from grants for restricted purposes and $47 million as deferred contributions and deferred capital contributions.

Figure 6: Government and Other Grants and Contracts Received for Restricted Purposes
($ millions) for the year ended April 30



One hallmark of the successful combination of the innate strength of the University research community and the intense institutional focus is the achievement of the goal of increased Canada Research Chair allocations over five years.

Salaries and Benefits

Over the period 2018 to 2022, salaries and benefits increased from $1.7 billion to $2.1 billion. This is the result of negotiated compensation increases for employee groups as well as an increase of 12.7% in the total number of faculty and staff over that time period.

In 2022, the University had 3,365 faculty, 163 librarians, 8,087 administrative staff and 6,268 teaching and graduate assistants.[8]

The following are the most current agreements to April 30, 2022:

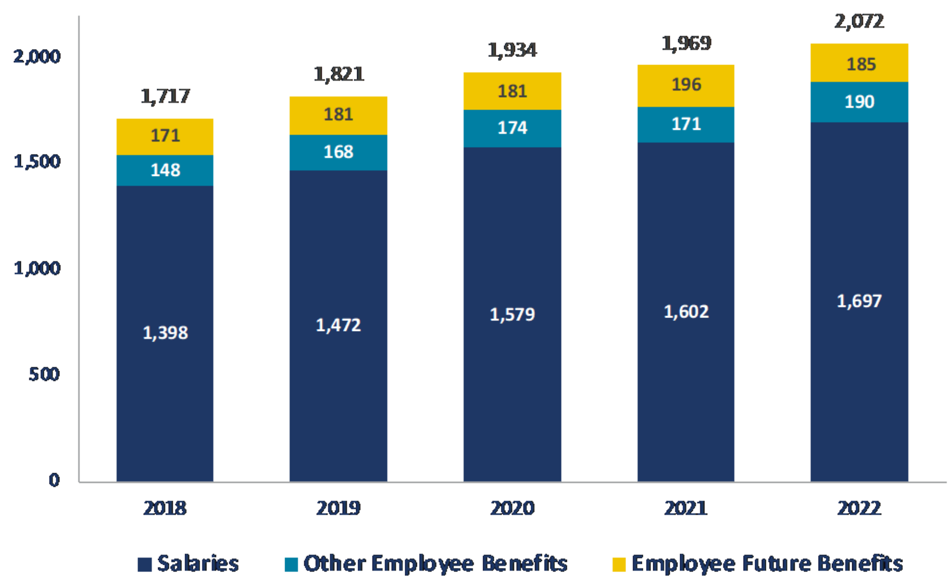
- Two-year agreement with administrative and technical staff, represented by the United Steelworkers (USW), starting July 1, 2021, to June 30, 2023, with 1% across-the-board salary increase at July 1, 2021, and 1% at July 1, 2022.
- Three-year agreement with its faculty and librarians starting July 1, 2020, to June 30, 2023, with salary and benefits improvements agreed for the first two years and across-the-board salary increases of 1.0% on July 1, 2020, and 1% on July 1, 2021.
- Four-year agreement with the Canadian Union of Public Employees (CUPE), Local 3902, Unit 3 representing employees engaged in teaching, lab demonstration, tutoring, or marking/grading

[8] A total of 13,132 Sessional, Clinical and Research Associates also have teaching and research responsibilities.

on contracts of less than one year starting September 1, 2017, to August 31, 2021, for across-the-board salary increases of 2% on September 1, 2018, September 1, 2019, and September 1, 2020.

- Three-year agreement with the CUPE, Local 3902, Unit 1 representing students, mainly graduate students, working as teaching assistants, teaching laboratory assistants, markers, graders, and instructors starting January 1, 2021, to December 31, 2023. Compensation increases of 1% occurred on January 1, 2021 (effective ratification date), and 1% increases on January 1, 2022, and January 1, 2023.

Figure 7: Salaries and Benefits
($ millions) for the year ended April 30



Employee benefits expenses of $375 million for the year is made up of employee future benefits expenses of $185 million and other employee benefits expenses of $190 million.[9] Other employee benefits expenses include, for example, the cost of legislated benefits (e.g., Canada Pension Plan and Employment Insurance), medical benefits for active staff, educational support, life insurance and several types of leaves.

April 30, 2022	Pension obligations	Other benefit plans
Plan status:		
Assets	**$4 million***	**$ 140 million***
Obligations	**$126 million**	**$ 688 million**
Deficit	**$122 million**	**$ 548 million**

[9] 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, 2021	Pension plan	Other benefit plans
Plan status:		
Assets	$6.0 billion	$140 million*
Obligations	$6.1 billion	$696 million
Deficit	$127 million	$556 million

*Assets set aside in internally restricted net assets by the University

After years of planning and discussion together with other Ontario universities, the administrations, faculty associations, unions and non-represented staff of the University of Toronto, University of Guelph and Queen's University have developed a new jointly sponsored multi-employer pension plan, the University Pension Plan Ontario ("UPP"), which is open to other Ontario universities. The UPP was formally established on January 1, 2020, to cover employees, retired employees, and other members under the currently existing plans at all three universities. The assets and liabilities of the University's registered pension plan ("RPP") were transferred to the UPP as at July 1, 2021 (the "Effective Date"). As of the Effective Date, the accrual of benefits and contributions under the UPP commenced for members of the RPP, all of whom transferred to the UPP, and benefits and contributions under the RPP ceased. The University amended the RPP to allow for the July 1, 2021, transfer of assets and liabilities into the UPP and the subsequent termination of the RPP. The plan reported an actuarial surplus of $792.5 million on a transfer basis as of July 1, 2021.

The University remains responsible to fund any net pension obligations (determined based on the UPP actuarial assumptions) related to service up to the transition date of July 1, 2021, with any deficits to be funded over 15 years. The net pension obligations may fluctuate in the future based on changes to the UPP's actuarial assumptions and for changes in experience in future periods, which will continue to be the responsibility of the University to fund for the first 10 years, after which the responsibility for such changes becomes gradually shared over the next 10 years with the other participants of the UPP, after which the responsibility is totally shared with all participants. The University does not recognize any share of the UPP's pension surplus or deficit in its financial statements, but accounts for contributions to the UPP on a defined contribution basis.

At April 30, 2022, the accrued pension obligation of $126 million in the University's financial statements relates mainly to its supplemental pension arrangement. The obligation for employee future benefits other than pension at April 30, 2022 is $688 million. The obligation is 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.

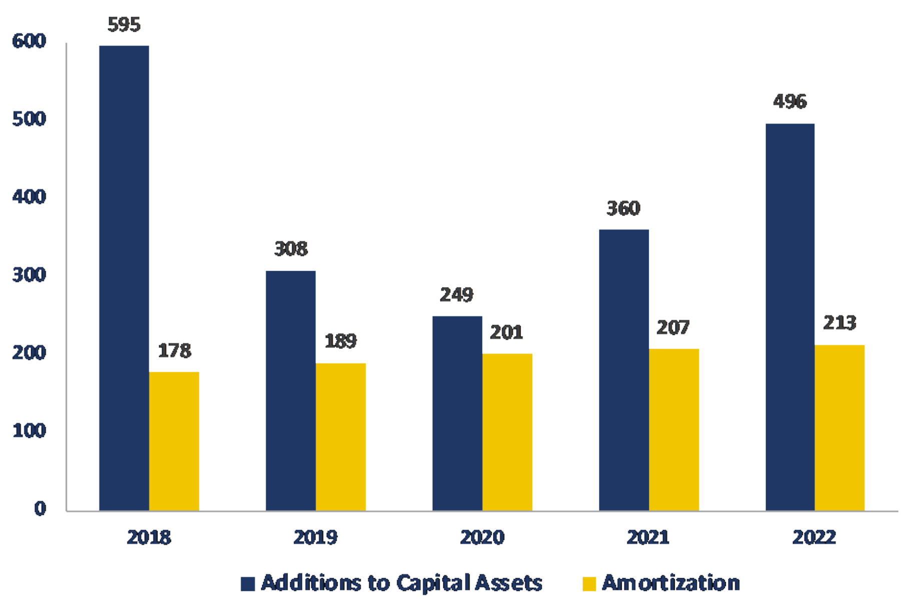
Space

The University has undertaken an ambitious capital construction program to accommodate increased numbers of students and expand and update research infrastructure. This program includes a significant expansion of the Mississauga and Scarborough campuses and further expansion and renovation on the St. George campus. Additional space requirements are partially due to growth in the numbers of graduate students and undergraduate medical students.

The University has future obligations for deferred and pending maintenance across all three campuses' academic and administrative buildings (excluding campus/utility infrastructure and asbestos containment and removal) currently estimated at $821 million. This obligation will continue to be managed strategically to ensure the reliability of building systems and prevent unexpected failures and incidents.

The University continues to participate with all other Ontario universities in a 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 2022-23 through 2026-27 includes funding to arrest further deterioration of the physical infrastructure.

Figure 8: Capital Investment in Infrastructure
($ millions) for the year ended April 30



In 2018, the University renovated more than 546 research laboratories at a cost of $195 million to support collaboration, flexibility of space allocation, and integrated basic science research platforms.[10] 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 will support the University's academic mission for years to come. This parcel includes a 15-storey tower that fronts onto College Street, and two buildings on Ursula Franklin Street, for a total cost of $125 million. 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 with the completion of renovations to reduce greenhouse gas emissions and to improve the

[10] The total of $195 million includes $84 million funded by the Federal government's Post-secondary Strategic Investment Fund, $14 million from the Province's Facilities Renewal Program and $97 million from divisional funds.

energy efficiency of its campuses ($55 million) and completed both UTM's North Building B ($14 million) and UTSC's Highland Hall ($14 million).

In 2020, the University spent $13 million on the construction of the Schwartz Reisman Innovation Centre West, $9 million on the UTM Meeting Place and Design building and $7 million on the UTM Science Building.

In 2021, the University spent an additional $35 million on the construction of the Schwartz Reisman Innovation Centre West and $35 million on the UTM Science Building. The University also spent $30 million on the construction of the UTSC Student Residence, $14 million on the Robarts Library Pavilion, $10 million on the Fitzgerald Revitalization, $7 million on the Landscape of Landmark Quality, and $6 million on the UTSC Instructional Centre II.

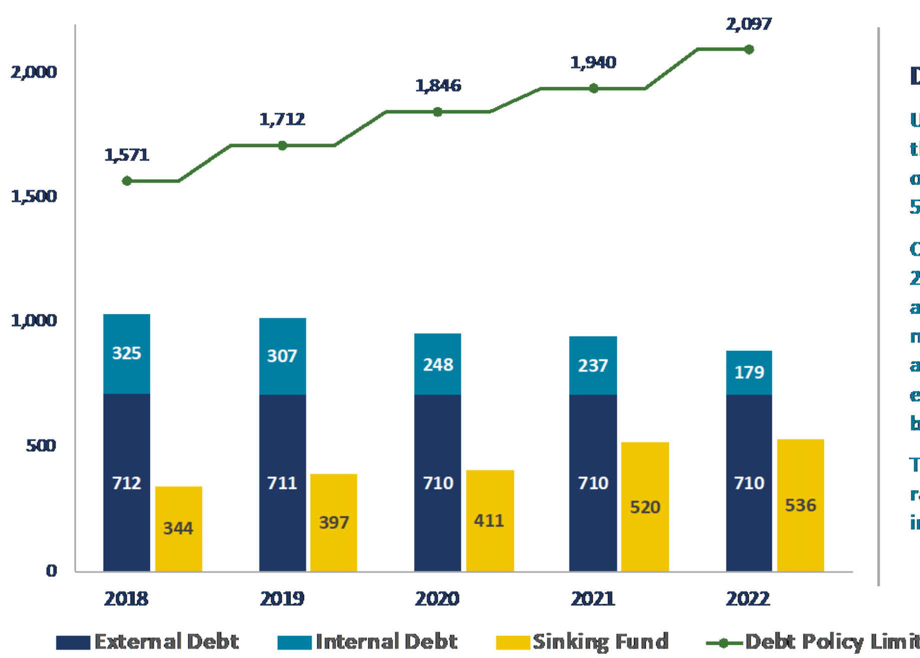
In 2022, the University spent an additional $77 million on the construction of the Schwartz Reisman Innovation Centre West, $61 million on the UTM Science Building, $46 million on the construction of the UTSC Student Residence, $27 million on the Fitzgerald Revitalization, and $21 million on the UTSC Instructional Centre II.

Debt

The University's debt strategy sets the 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. The debt strategy provides for a total debt limit of about $2.1 billion at April 30, 2022, made up of external debt capacity of $1.1 billion plus $1.0 billion in internal financing.

Figure 9: Outstanding Debt and Debt Policy Limit
($ millions) for the year ended April 30



DID YOU KNOW ...

U of T's debt strategy sets the debt policy limit based on a debt burden ratio of 5.0%

Current debt burden ratio is 2.6%, meaning U of T can afford an additional $92 million in annual principal and interest payments - equivalent to $1.2 billion of borrowing room at 5.5%

The University's credit ratings rank it as a strong investment-grade credit

In 2022, the actual outstanding external debt consists of $710 million (gross of $1 million of issue costs and premiums) of debentures, and outstanding internal debt of $179 million. At April 30, 2022, the actual debt burden ratio was 2.6%, well below the 5.0% policy limit. The University has a voluntary sinking fund in the amount of $536 million that was established for the purposes of accumulating funds to repay the principal of the University's debentures at maturity.

At April 30, 2022, the University's credit ratings are Aa1 stable (Moody's Investors Service), AA+ stable (S & P Global), and AA stable (DBRS Morningstar), which ranks the University as a strong investment-grade credit with all credit rating agencies rating the University above the Province of Ontario.

Donations

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.

Immediately following the successful closure of the Boundless campaign on December 31, 2018, with $2.641 billion raised, the University entered the quiet phase of the new Defy Gravity campaign that will elevate the University's position as one of the world's leading public universities and advance the University community's outsized impact in solving complex social, economic, and health problems. The campaign will also seek to engage 225,000 alumni in one million contributions of time and talent and to raise $4 billion for the University's highest priorities—a target that reflects the ambition and scale of the University's community and its potential for global impact. Since January 1, 2019, the campaign has seen significant growth in fundraising momentum and alumni engagement, reaching record levels in 2021.

For the period May 1, 2021 to April 30, 2022, the University raised a total of $410 million.[11] This is the second year that the University raised over $400 million. This amount includes $365 million in pledges and gifts (donations) and $45 million in philanthropic research grants from non-government sources.

Total fundraising performance (pledges, gifts, and grants) for the years ended April 30 was as follows:

	(millions of dollars)		
Year	**Pledges and gifts raised**	**Philanthropic research grants**	**Total**
2022	365	45	410
2021	406	39	445
2020	196	40	236
2019	323	55	378
2018	219	30	249

[11] This number includes federated universities and other affiliated institutions, but excludes donations to partner hospitals.

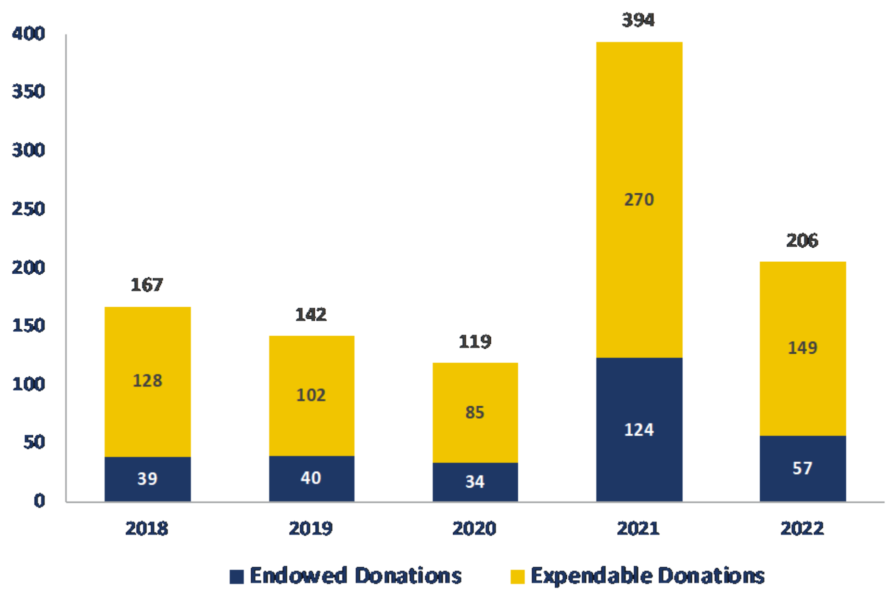
Donations[12] are recorded in the financial statements as follows:

- 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)
- Endowed donations are not recorded as revenue, rather, they are added directly to endowments, as additions to net assets.

In 2022, donations received[13] by the University (excluding receipts by the federated universities, other affiliated institutions, philanthropic research grants and donations to partner hospitals) totaled $206 million and were reported as follows: $103 million in expendable donations was reported as revenue, $57 million was added directly to endowments, and $46 million was deferred. 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.

Figure 10: Total Cash and Gifts-in-Kind Donations Received

($ millions) for the year ended April 30



[12] 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.

[13] In fiscal 2021, the University received $394 million in donations of which $250 million ($79 million endowed and $171 million expendable) was from the Temerty Foundation, established by James and Louise Temerty, making it the single largest gift in Canadian history.

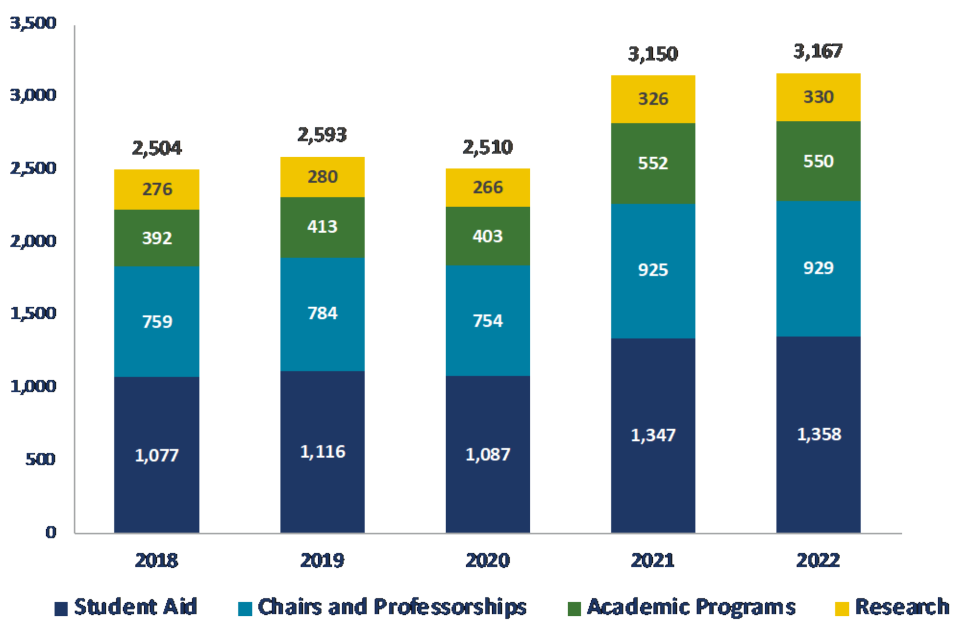
Endowments

Endowments are 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 jointly agreed upon by the University and donors, or as 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 between 3% and 5% of the opening market value of endowments.

At April 30, 2022, there were more than 6,900 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 University's endowment value was $3.2 billion (book value of $2.78 billion with full inflation protection of $814 million) and preservation above inflation (provision for investment return fluctuations) of $386 million against a possible future market downturn. The majority of endowments are in support of student aid ($1.4 billion) and chairs and professorships ($929 million).

Figure 11: Endowments at Fair Value
($ millions) at April 30



In fiscal 2022, the total fair value of endowments increased by $17 million as follows:

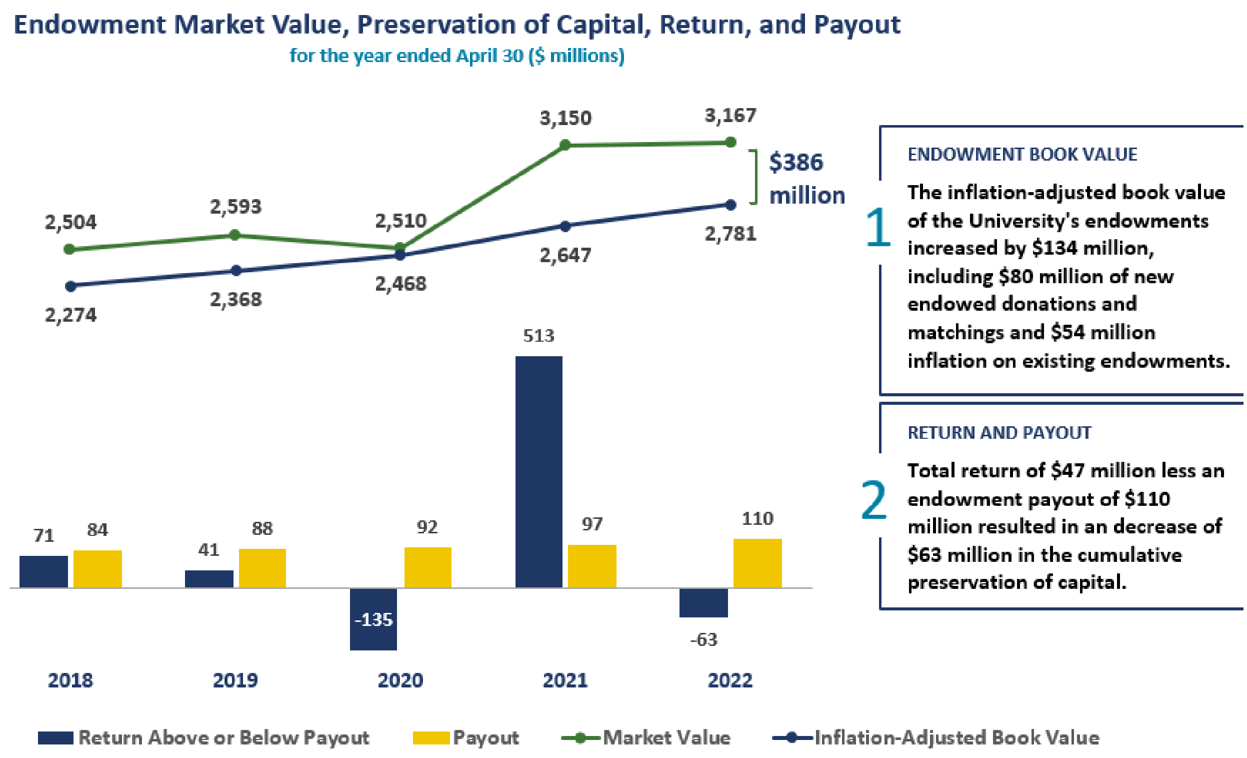
- $54 million decrease on externally restricted endowments, consisting of a $41 million investment gain and a $95 million withdrawal for payout
- $9 million decrease on internally restricted endowments, consisting of a $6 million investment gain and a $15 million withdrawal for payout
- $57 million of externally endowed donations
- $23 million transfer into endowments

In fiscal 2021, the total fair value of endowments increased by $640 million as follows:

- $445 million increase on externally restricted endowments, consisting of a $528 million investment gain and a $83 million withdrawal for payout
- $69 million increase on internally restricted endowments, consisting of a $83 million investment gain and a $14 million withdrawal for payout
- $124 million of externally endowed donations
- $2 million transfer into endowments.

The following diagram shows the preservation of capital and payout over the five-year period starting in 2018:

Figure 12: Endowment Market Value, Preservation of Capital, Return, and Payout
($ millions) for the year ended April 30



Investment Earnings

Total investment earnings for the year amounted to $25 million (gross of $52 million in fees and other expenses) consisting of $85 million gain on investments held for endowments and $60 million loss on other investments. These earnings were recorded in the financial statements as follows:

- $85 million gains on investments held for endowments (gross of $38 million in fees and other expenses), of which:
    - $54 million investment loss was recorded as a direct decrease to endowments in the consolidated statement of changes in net assets
    - $139 million was recorded as investment income in the consolidated statement of operations, of which
        - $110 million was made available for spending
        - $38 million in fees and other expenses
        - $9 million loss on internally restricted endowments
- $60 million loss on other investments (gross of $14 million in fees and other expenses) was recorded as a reduction of 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 the 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. 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.[14]

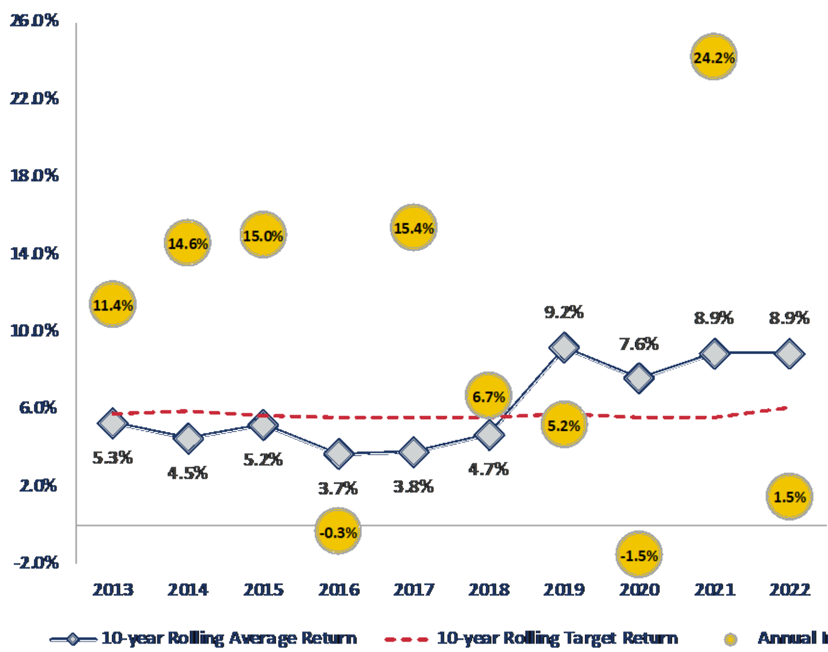
Long-term Capital Appreciation Pool

The fair value of LTCAP was $3.9 billion at April 30, 2022, of which $3.2 billion was for endowments, representing 82.8% 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. LTCAP takes 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 all investment fees and expenses, and a 10% return volatility risk target (representing one standard deviation), over a ten-year period. The actual return in 2022 was a gain of 1.5%, net of all investment fees and expenses. Fiscal 2022 was a challenging period for capital markets, driven primarily by geopolitical concerns and rising inflation. Despite realizing strong returns for the first eight months of the fiscal year of 9.7%, a significant market downturn for the last four months of the fiscal year resulted in the benchmark index returns of all three Reference Portfolio asset classes (i.e., equities, credit, and government bonds) generating returns of negative 7.5%.

[14] For more information, see the Appendix entry on Investment Earnings.

Figure 13: Long Term Capital Appreciation Pool (LTCAP) Returns
Annual and Ten-year Rolling Average



OBJECTIVES

1 **The University establishes risk and return objectives via the University Funds Investment Policy. While the aim is to produce steady, predictable investment returns for the University, there is nonetheless variability in investment returns on an annual basis.**

TARGET RETURN

2 **In order to meet planned spending allocations to LTCAP unitholders, the investment target is a real return of at least 4% over 10-year periods, net of all investment fees and expenses. LTCAP takes an appropriate amount of risk to achieve this target, but without undue risk of loss.**

Expendable Funds Investment Pool

The investment policy for EFIP reflects very short-term investments managed by the University and short-term and medium-term portfolios managed by the University of Toronto Asset Management Corporation ("UTAM").

EFIP is invested in fixed income instruments, swaps referencing a fixed income index, as well as cash and cash equivalent instruments. Fixed income investments are sensitive to interest rate movements, where, depending upon their duration,[15] they are subject to mark-to-market gains when interest rates decrease, and mark-to-market losses when interest rates increase. During the fiscal year, interest rates increased, resulting in an overall net loss from the portfolio's fixed income instruments (including from swaps on fixed income indexes). This net loss reflects both realized and unrealized gains and losses.

The EFIP short-term portfolio is invested in swaps that reference a Canadian short-term fixed income index, and in cash and cash equivalent instruments. The benchmark for the portion of this portfolio invested in swaps had an interest rate duration of approximately 3 years at the beginning of the fiscal year and returned -4.4% in the fiscal year. The portion of this portfolio invested in cash and cash equivalents generated positive returns; however, the return of this part of the portfolio was not sufficient to offset the net losses arising from the interest rate swaps.

[15] Duration is a measure of interest rate sensitivity of the price of a fixed income instrument. Duration is primarily impacted by a fixed income security's coupon rate, yield and remaining time to maturity. All things equal, an immediate increase in interest rates of 100 bps (1%) would result in a fixed income instrument with a duration of 5 years losing 5% of its value (i.e., the loss would be equivalent to its duration).

The EFIP medium-term portfolio is almost entirely invested in fixed income securities. The benchmark for this portfolio had an interest rate duration of approximately 7 years at the beginning of the fiscal year. This portfolio suffered greater net losses from the rise in interest rates than the net loss in the EFIP short-term portfolio due to its longer interest rate duration exposure. The EFIP medium-term portfolio benchmark returned -6.2% in the fiscal year.

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
Short-term portfolio managed by UTAM	Minimal risk	50% of the 1-month Canadian Bankers' Acceptance rate plus 50% of the FTSE short-term universe
Medium-term portfolio managed by UTAM	Low risk of losses over a 3-to-5-year period (i.e., avoidance of permanent capital impairment) with mark-to-market fluctuations tolerated over shorter time horizons	FTSE Corporate BBB Index

The fair values and returns for the 2022 fiscal year were as follows:

	Fair Value	Total Return
Investments managed by the University	$333 million	0.70%
Short-term portfolio managed by UTAM	$2.5 billion	-1.58%
Medium-term portfolio managed by UTAM	$751 million	-6.16%

The fair values and returns for the 2021 fiscal year were as follows:

	Fair Value	Total Return
Investments managed by the University	$492 million	0.65%
Short-term portfolio managed by UTAM	$2.4 billion	1.58%
Medium-term portfolio managed by UTAM	$404 million	7.35%

Figure 14: Investment Returns for the year ended April 30, 2022

LONG TERM CAPITAL APPRECIATION $3.9B	MEDIUM TERM EXPENDABLE $751M	SHORT TERM EXPENDABLE $2.5B	DAILY LIQUIDITY $333M
+1.5%	-6.2%	-1.6%	+0.7%
Includes endowments, sinking fund, and other long term assets. Target is 4.0% real return over 10-year period.	Funds set aside for spending in a 3-5 year horizon. Tolerance for some volatility, while avoiding permanent impairment of capital.	Funds set aside for short-term expenditure. Minimal tolerance for risk.	Funds managed by the University for day-to-day liquidity needs. Minimal tolerance for risk.

RISK TOLERANCE AND RETURN OBJECTIVES

The University establishes the investment risk and return objectives for each of these pools via the University Funds Investment Policy, which is approved by the Business Board. These objectives reflect the University's liability requirements and aim to produce steady, predictable returns for the University over time.

Responsible Investing

The University of Toronto Asset Management Corporation ("UTAM") focuses exclusively on investing University-owned assets. At April 30, 2022, UTAM managed two distinct investment portfolios: the Long-Term Capital Appreciation Pool (LTCAP) for the University's endowments; and the Expendable Funds Investment Pool (EFIP) for the University's short-term working capital. UTAM incorporates environmental, social and governance (ESG) factors into its investment decision-making, stewardship activities (engagement, proxy voting and advocacy), and reporting and disclosure. The University believes that ESG factors can have a material impact on the long-term risk and return of a given investment and incorporating relevant and material ESG issues into the decision-making processes is consistent with the University's fiduciary duty.

At the end of 2020, UTAM had achieved its initial stated carbon footprint reduction target of 40% per million dollars invested for the equity component of the Pension portfolio. Given its similar investment mandate, LTCAP saw a similar reduction in its carbon footprint. This significant reduction from 2017 levels was achieved well ahead of the 2030 target. The carbon footprint of the equity component of both LTCAP and Pension were further reduced in 2021. Compared to the 2017 baseline, the carbon footprint of the equity component of the LTCAP portfolios realized a cumulative reduction of 51.6% per million dollars invested to the end of 2021. Importantly, at the end of 2021, the absolute carbon emissions in LTCAP were 27.6% lower relative to 2017 levels.

In October 2021, the following commitments, among others, were announced by the University to further its commitment to environmental sustainability:

1. UTAM will divest from investments in fossil fuel companies in the LTCAP portfolio. As part of this commitment, UTAM will fully divest from all direct investments in fossil fuel companies within 12 months. For those investments made indirectly, typically through pooled and commingled vehicles managed by third-party investment managers, UTAM will divest from investment in fossil fuel companies by no later than 2030, and sooner if possible.
2. UTAM will achieve net zero carbon emissions associated with LTCAP no later than 2050.
3. UTAM will allocate at least 10% of the net asset value of LTCAP to sustainable and low-carbon investments by 2025.

In furtherance of these commitments, UTAM joined the United Nations–convened Net-Zero Asset Owner Alliance, making the University of Toronto the first university in the world to join this group of institutional investors. Membership in the Alliance compels signatories to achieve progressively more demanding targets every five years en route to net zero emissions within their investment portfolio, ensuring achievement of this ambitious objective in a transparent and accountable way. In 2022, UTAM will announce a carbon reduction target for LTCAP, consistent with the target setting protocol of the Net-Zero Asset Owner Alliance.

Appendix A: Background Information

This appendix provides relevant background information that may be useful for understanding the highlights of the fiscal 2022 financial report given above.

Provincial Operating Grants

- October 2017: the Province signed the second Strategic Mandate Agreements ("SMA2") with each university and college covering the period of 2017-20
- September 2020: the Province signed the third Strategic Mandate Agreements ("SMA3") with each university and college covering the period of 2020-25
    - Over the five-year SMA3 period, the Province is gradually shifting the proportion of base operating grant funding in the differentiation envelope from 25% in 2021 and ultimately to 60% by fiscal 2025.
    - Through the SMA3, the Government is linking funding allocations in the differentiation envelope to a set of 10 performance metrics with institution-specific targets. Given the potential impact of the COVID-19 pandemic on performance metrics, the Province has committed to suspending any financial impacts from the new funding formula until at least 2022-23. Performance on the metrics will continue to be assessed annually but results will be decoupled from the differentiation funding envelope.

Tuition Fees and Student Aid

Ontario university tuition fees for domestic students are regulated by the provincial government.

- 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 applied 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 is therefore unaffected
    - This new framework did not affect fiscal 2019; however, it resulted in a reduction in domestic tuition fee revenue for fiscal 2020.
- February 2019: the Ontario Budget announced a new set of changes to OSAP for the 2019-20 academic year
    - Changes to OSAP included 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 targeted 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

- April 2021: the provincial government announced a one-year extension of the domestic fee freeze for 2021-22 and introduced a new policy allowing for differentiated fees for out-of-province domestic students. Fees for Ontario residents would remain frozen while fees for non-Ontario resident domestic students as defined under the OSAP definitions, could be increased by up to 3%. Given the lateness of the announcement of the fee framework, coming at the start of the Summer 2021 session, the University opted to not implement differentiated out-of-province fees for 2021-22.
- March 2021: the provincial government announced an additional one-year extension of the domestic fee freeze for Ontario residents in 2022-23. The University will proceed with establishing differentiated fees for non-Ontario resident domestic students, with a 3% increase to fees for all undergraduate programs in 2022-23.

Other Ontario Budget Priorities

The 2019 Ontario Budget announced the planned significant shift of operating grant support towards performance-based outcomes funding through the differentiation envelope under SMA3. The budget rolled back funding related to the increases for the OSAP program implemented under the previous government. Operating grant plans included funding for completion of the previously announced graduate expansion program under SMA2 and planned new investments in mental health supports.

According to the 2020 Ontario Budget, the Government is not planning any material new investments in the post-secondary education sector over the next three years, including no inflationary increases to the University's operating grant. Areas of priority investment for the Government include: development, delivery, and expansion of Ontario's micro-credentials strategy; supporting the ongoing cost of the Ontario Student Assistance Program (OSAP); and continued investment in deferred maintenance.

Institutional Strategic Research Plan ("ISRP"), 2018–23

The ISRP expresses the University's core commitment to supporting excellence in research and innovation, across our three campuses in collaboration with our research and innovation partners. The themes of the ISRP reflect the breadth of the University's research within a flexible framework. Broad consultation helped shape and align these themes with current and potential future areas of research and innovation, and also helped to refine our strategic objectives and the metrics by which we will measure our success.

While it provides support and direction, the ISRP is not meant to limit individual faculty member or divisional research priorities. The ISRP highlighted the scope of scholarship at the University and identified 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 identified 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

Federal Investments in Research

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 275 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 included $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

- $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. 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 this support comes without the additional administrative burden incurred with the Incremental Project Grant.

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 ("Fund") 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 2020 Federal Budget was scheduled to be tabled in March 2020 but was postponed indefinitely as the government responded to the COVID-19 pandemic. The in-year economic and fiscal update was focused on targeted relief to families and businesses in response to the pandemic.

As a result, the 2021 Federal Budget was the first budget in more than two years. The government announced significant new investments in targeted research areas, including:

- $500 million over four years for the Canada Foundation for Innovation to support the bio-science capital and infrastructure needs of post-secondary institutions and research hospitals, and $250 million over four years for the federal research granting councils to create a new tri-council biomedical research fund
- $400 million over six years in support of a Pan-Canadian Genomics Strategy, including $137 million for Genome Canada to kick-start the new Strategy and complement the government's existing genomics research and innovation programming
- $444 million over ten years in support of the Pan-Canadian Artificial Intelligence Strategy, including $185 million to support the commercialization of artificial intelligence innovations and $162 million to help retain and attract top academic talent across Canada
- $360 million over seven years to launch a National Quantum Strategy. The strategy will amplify Canada's significant strength in quantum research; grow quantum-ready technologies, companies, and talent; and solidify Canada's global leadership in this area. This funding will also establish a secretariat at the Department of Innovation, Science and Economic Development to coordinate this work

Investment Earnings

The investment risk and return targets for University funds 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 UTAM on investment objectives and investment activities.

UTAM is a separate non-share capital corporation whose members are appointed by the University. The funds invested in LTCAP and EFIP 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.

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 (for University funds) and by the UTAM Board which provides oversight of the operations of UTAM.

Audited Consolidated Financial Statements

For the year ended April 30, 2022

UNIVERSITY OF TORONTO

DEFY GRAVITY

Statement of Administrative Responsibility

The administration of the University of Toronto (the "University") 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 consolidated financial position as at April 30, 2022, and its consolidated results of operations and its consolidated 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 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 as at and for the year ended April 30, 2022 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.

Trevor Rodgers
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, 2022, 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, 2022, 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 generally accepted auditing standards. 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the University to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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 28, 2022

Statement 1

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

	2022	2021
ASSETS		
Current		
Cash and cash equivalents	**333**	192
Short-term investments at fair value (note 3)	**865**	1,077
Accounts receivable (notes 3 and 17)	**146**	173
Inventories and prepaid expenses	**47**	50
	1,391	1,492
Investments at fair value (notes 3 and 17)	**6,258**	5,680
Capital assets, net (note 4)	**5,493**	5,210
	13,142	12,382
LIABILITIES		
Current		
Accounts payable and accrued liabilities (notes 3 and 6)	**847**	600
Deferred contributions (note 8)	**1,032**	907
	1,879	1,507
Accrued pension liability (note 5)	**126**	127
Employee future benefit obligation		
other than pension (note 5)	**688**	696
Long-term debt (note 7)	**709**	709
Deferred capital contributions (note 9)	**1,237**	1,269
	4,639	4,308
NET ASSETS (Statement 3)		
Deficit	**(314)**	(144)
Internally restricted (note 10)	**5,650**	5,068
Endowments (notes 11, 12 and 13)	**3,167**	3,150
	8,503	8,074
	13,142	12,382

Contingencies, commitments and collections (notes 3, 4, 19, 20 and 21)

See accompanying notes

On behalf of Governing Council:

Brian D. Lawson
Chair

Meric S. Gertler
President

Statement 2

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

	2022	2021
REVENUES		
Student fees	**2,121**	1,995
Government grants for general operations	**721**	723
Government and other grants for restricted purposes (note 16)	**458**	507
Sales, services and sundry income	**350**	268
Investment income (notes 3 and 11)	**79**	384
Donations (note 15)	**103**	122
	3,832	3,999
EXPENSES		
Salaries	**1,697**	1,602
Employee benefits (note 5)	**375**	367
Scholarships, fellowships and bursaries	**309**	279
Materials, supplies and services	**292**	255
Amortization of capital assets	**213**	207
Repairs, maintenance and leases	**170**	141
Inter-institutional contributions	**134**	226
Cost of sales and services	**106**	85
Utilities	**48**	47
Interest on long-term debt	**38**	38
Travel and conferences	**9**	4
Other	**25**	22
	3,416	3,273
NET INCOME	**416**	726

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)	2022 Total	2021 Total
Net assets, beginning of year	(144)	5,068	3,150	8,074	6,431
Net income	416			416	726
Net change in internally restricted (note 10)	(582)	582			
Remeasurements and other items (note 5)	10			10	348
Investment gain (loss) on externally restricted endowments (note 11)			(54)	(54)	445
Externally endowed contributions - donations (note 15)			57	57	124
Transfer to internally restricted endowments (note 11) - investment loss	9		(9)		
Transfer to and from endowments (note 11)					
- donations	(11)		11		
- matching funds	(12)		12		
Net assets, end of year	(314)	5,650	3,167	8,503	8,074

See accompanying notes

Statement 4

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

	2022	2021
OPERATING ACTIVITIES		
Net income	**416**	726
Add (deduct) non-cash items:		
Amortization of capital assets	**213**	207
Amortization of deferred capital contributions	**(77)**	(78)
Net unrealized gains from investments	**(26)**	(341)
Employee future benefits expense	**185**	196
Employee future benefits contributions	**(184)**	(275)
Net change in other non-cash items (note 14)	**374**	357
	901	792
INVESTING ACTIVITIES		
Net sale (purchase) of short-term investments	**212**	(3)
Net purchase of investments	**(606)**	(699)
Purchase of capital assets	**(468)**	(315)
	(862)	(1,017)
FINANCING ACTIVITIES		
Contributions for capital asset purchases	**45**	144
Endowment contributions		
- donations	**57**	124
	102	268
Net increase in cash during the year	**141**	43
Cash and cash equivalents, beginning of year	**192**	149
Cash and cash equivalents, end of year	**333**	192
Supplemental cash flow information		
Increase in capital asset acquisitions funded by accounts payable and accrued liabilities	**28**	45

See accompanying notes

Notes to the Consolidated Financial Statements

1. Description

The Governing Council of the University of Toronto, which operates under the name University of Toronto (the "University"), is a corporation under the *University of Toronto Act*, a statute of the Legislative Assembly of Ontario. The University is an institution dedicated to providing post-secondary education and to conducting research. The University's 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 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 ("GAAP") for not-for-profit organizations in Canada 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 comprise 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 and provide valuations of the underlying investments on a periodic basis. 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.

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

Investment income is recorded on an accrual basis, consisting of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses. Investment income 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 more than 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 bonds, equity and currency futures, options, swaps and forward contracts. The majority of the notional exposure of the derivative financial instruments (except for currency derivatives) is backed by liquid assets (short-term investments), reducing the use of leverage. 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 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

(i). Pension plans

The University is a member of the University Pension Plan Ontario ("UPP"), which is a multi-employer jointly sponsored, defined benefit plan. The University does not recognize any share of the UPP's pension surplus or deficit as insufficient information is available to identify the University's share of the underlying pension assets and liabilities. It therefore, also accounts for its contributions to the UPP on a defined contribution basis. The University's contributions are expensed in the period they come due.

The University also provides an unfunded and unregistered Supplementary Account Plan ("SAP") effective July 1, 2021. The SAP is a defined contribution arrangement established to provide retirement income on the portion of eligible members' (faculty members, librarians, and professions or managerial staff, who are active members of the UPP) salary that is not covered by the UPP, up to a specified cap. The contribution of 10% of the eligible salary and the investment return based on the annual investment return (net of fees and expenses) earned under the UPP are expensed in the year they are earned by eligible members and credited to each members' notional account.

Prior to the SAP, the University had a Supplemental Retirement Arrangement ("SRA"), an unfunded and unregistered arrangement that is now closed for future accruals. The SRA provided defined benefits for retired and deferred vested members whose benefits exceeded the *Income Tax Act (Canada)* maximum pension at the time of their retirement or termination. Finance costs are expensed during the year, while remeasurements and other items, representing, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets. The accrued liability is determined using a roll-forward technique to estimate the accrued liability using funding assumptions from the most recent actuarial valuation report.

(ii). Other employee benefits plans

The University maintains 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 unfunded plans is prepared using funding assumptions. Employee future benefit plans' assets are measured at fair value as at the date of the consolidated balance sheet.

i. Capital assets and collections

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 and land improvements	2.5% - 10%
Equipment and furnishings	4% - 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 those same costs for projects above $75 million.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not contribute to the University's ability to provide goods and services. Any impairment results in a write-down of the capital asset and an expense in the consolidated statement of operations. An impairment loss is not reversed if the fair value of the related capital asset subsequently increases.

The value of 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 include 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

The University's investments are managed using two pools: the long-term capital appreciation pool ("LTCAP"), and the expendable funds investment pool ("EFIP"). The LTCAP mainly includes endowment funds, the voluntary sinking fund (note 7) established to repay the principal of the University's debentures at maturity and funds set aside to cover long-term disability payments (note 5). The EFIP consists mainly of the University's working capital for operations. The University of Toronto Asset Management Corporation ("UTAM") manages each of the pools according to its investment return target and risk tolerance as described in the University Funds Investment Policy. UTAM incorporates environmental, social and governance factors into its investment decision-making and practices active ownership in its management of both portfolios.

The table below shows the University's investments at fair value, mapped into the Reference Portfolio asset classes for the LTCAP and investment benchmarks for EFIP:

(millions of dollars)

	April 30, 2022			April 30, 2021		
	LTCAP	**EFIP**	**Total**	LTCAP	EFIP	Total
Short-term investments	**(369)**	**1,234**	**865**	(419)	1,496	1,077
Government and corporate bonds and other fixed income investments	**1,556**	**1,982**	**3,538**	1,452	1,558	3,010
Canadian equities	**44**	**1**	**45**	64		64
United States equities	**873**	**2**	**875**	820	1	821
International equities	**333**		**333**	368		368
Emerging markets equities	**151**		**151**	187		187
Global equities	**816**		**816**	838		838
Other	**499**	**1**	**500**	392		392
	3,903	**3,220**	**7,123**	3,702	3,055	6,757
Less amounts reported as short-term investments	**369**	**(1,234)**	**(865)**	419	(1,496)	(1,077)
Long-term investments	**4,272**	**1,986**	**6,258**	4,121	1,559	5,680

The University has adopted an investment benchmark called the Reference Portfolio for the LTCAP that includes an asset mix that reflects the long-term return objectives and risk appetite for this pool. The Reference Portfolio is designed to be a simple portfolio that can be easily implemented, and it only includes public market asset classes. However, the actual LTCAP includes additional asset classes and strategies such as hedge funds and private investments that are not in the Reference Portfolio. These other investments have been reclassified and mapped to the most appropriate Reference Portfolio asset classes in the table below. In some cases, derivative financial instruments are used to obtain market exposures to various asset classes. The majority of the notional exposure of derivative financial instruments (except for currency derivatives) is backed by liquid assets (short-term investments), reducing the use of leverage. Leverage is used to add government bond exposure to the portfolio to enhance downside risk protection. The table above includes the notional exposure of derivative financial instruments other than currency derivatives in the Reference Portfolio asset classes.

Short-term investments consist of cash, money market funds, short-term notes and treasury bills. The negative amount of short-term investments in the LTCAP represents the notional exposure of the derivative financial instruments that is not backed by liquid assets as a result of the use of leverage. 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.

In fiscal 2022, the University's investment income of $79 million (2021 - $384 million) recorded in the consolidated statement of operations consists of income related to investments held for endowments of $139 million (2021 - $196 million), gross of $38 million (2021 - $30 million) in fees and other expenses (note 11), and a loss of $60 million (2021 – gain of $188 million) on investments other than those held for endowments, gross of $14 million (2021 - $13 million) in fees and other expenses.

The table below shows the fair value of the same investments without the reallocation of short-term investments (related to derivative instruments), hedge funds, private investment and real assets to the relevant Reference Portfolio asset class or classes.

Investments without any reallocations for each pool consist of the following:

	(millions of dollars)					
	April 30, 2022			April 30, 2021		
	LTCAP	**EFIP**	**Total**	LTCAP	EFIP	Total
Short-term investments	**1,236**	**2,462**	**3,698**	1,181	2,669	3,850
Government and corporate bonds and other fixed income investments	**178**	**755**	**933**	193	385	578
Canadian equities	**1**	**1**	**2**	1		1
United States equities	**1**	**2**	**3**	1	1	2
International equities	**178**		**178**	202		202
Emerging markets equities	**84**		**84**	111		111
Global equities	**780**		**780**	747		747
Hedge funds	**653**		**653**	569		569
Private investments	**734**		**734**	626		626
Real assets	**58**		**58**	71		71
Total investments	**3,903**	**3,220**	**7,123**	3,702	3,055	6,757

During the year, the University recognized an unrealized gain of $56 million (2021 – $13 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, 2022, approximately 11.1% (2021 – 10.3%) 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, private credit 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, 2022, the University had uncalled commitments of approximately $695 million (2021 - $521 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund, but is generally between three and 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 typically not fully called.

Derivative financial instruments

Derivatives are financial contracts, the value of which is derived from changes in an underlying asset, index of prices or rates, interest rate, foreign exchange rate, etc. The University uses derivative financial instruments as a substitute for traditional investments, to manage financial risks and to manage currency exposures. The University has entered into foreign currency forward contracts to manage its exposure to exchange rate fluctuations on investments denominated in foreign currencies in accordance with its hedging policy (note 17).

The following table summarizes the notional and fair values of the University's derivative financial instruments:

(millions of dollars)

	April 30, 2022			April 30, 2021		
		Fair values			Fair values	
Contracts	**Notional value**	**Receivable**	**Payable**	Notional value	Receivable	Payable
Foreign currency forward						
United States dollars	**2,231**		**(25)**	1,064	26	
Other	**368**	**8**		374	15	
Equity and bond futures	**116**	**2**	**(2)**	119		
Equity and bond swap	**2,826**		**(106)**	2,731	35	(1)
Interest rate swap	**5**			7		(1)
	5,546	**10**	**(133)**	4,295	76	(2)

The University has entered into equity and bond futures contracts, and equity and bond swap contracts to obtain exposure to those asset classes. These derivatives are used as a substitute for traditional investments to obtain market exposures to various asset classes. Equity and bond futures contracts oblige the University to pay or receive the difference between a predetermined amount (the notional amount) and the market value at contract expiry. Equity and bond swap contracts are agreements for the exchange of cash flows based on the notional amount of the contract whereby one party commits to making payments based on the return of an underlying instrument in exchange for fixed or floating interest rate payments. To the extent the total return of the instrument or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the University will receive a payment from, or make a payment to, the counterparty.

The notional amounts above do not represent amounts exchanged between parties. Instead, they represent the contractual amount to which a rate or price is applied for computing the cash flows to be exchanged and are therefore not recorded as receivables or payables in the consolidated financial statements. The University may have contracts to buy and sell similar underlying assets; in these cases, the notional amounts are presented above on a gross basis.

Contracts with a positive mark-to-market (fair value) are recorded as receivables, while contracts with a negative mark-to-market are recorded as payables. These are included in accounts receivable, and accounts payables and accrued liabilities respectively, in the consolidated balance sheet. The maturity dates of the currency forwards and futures contracts as at April 30, 2022, range from June to December 2022. The maturity dates of the equity and bond swap contracts as at April 30, 2022, range from May 2022 to October 2022. Required collateral of $4 million (2021 - $4 million) has been provided to the relevant exchanges against the futures contracts as at April 30, 2022, in the form of short-term investments. As at April 30, 2022, the University had $2.5 billion (2021 - $2.5 billion) in short-term investments compared to the $2.9 billion (2021 - $2.9 billion) of notional value of equity and bond futures, and equity and bond swap contracts. Leverage is used to add government bond exposure to the portfolio to enhance downside risk protection.

4. Capital assets

(millions of dollars)

	April 30, 2022		April 30, 2021	
	Total cost	**Accumulated amortization**	Total cost	Accumulated amortization
Land	**2,329**		2,316	
Buildings	**4,254**	**1,606**	3,915	1,498
Equipment and furnishings	**2,095**	**1,663**	2,001	1,590
Library books	**822**	**764**	798	732
Land improvements	**26**			
	9,526	**4,033**	9,030	3,820
Less accumulated amortization	**(4,033)**		(3,820)	
Net book value	**5,493**		5,210	

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 $6.3 billion, and contents is approximately $2.6 billion, which includes library books of approximately $0.9 billion.

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

As at April 30, 2022, the University had $601 million (2021 - $322 million) of construction-in-progress that was included in buildings, and equipment and furnishings, which will not be amortized until the capital assets are put into use.

5. Employee benefit plans

The University has a number of funded and unfunded defined benefit plans that provide pension (including a supplementary account plan and supplemental retirement arrangement), other retirement and post-employment benefits to most of its employees.

After years of planning and discussion together with other Ontario universities, the administrations, faculty associations, unions and non-represented staff of the University, University of Guelph and Queen's University developed a new jointly sponsored multi-employer pension plan, UPP, which is also open to other Ontario universities. The UPP was formally established on January 1, 2020, to cover employees, retired employees and other members under the currently existing plans at all three universities. The assets and liabilities, including the pension obligations, of the University's registered pension plan ("RPP") were transferred to the UPP as at July 1, 2021 (the "Effective Date"). As of the Effective Date, the accrual of benefits and contributions under the UPP commenced for members of the RPP, all of whom have been transferred to the UPP, and benefits and contributions under the RPP ceased. During the prior year, the University amended the RPP to allow for the July 1, 2021, transfer of assets and liabilities into the UPP and the subsequent termination of the RPP.

As at July 1, 2021, the University transferred $792 million in excess of its defined benefit obligations to the UPP. Due to the uncertainty around the ability of the University to fully realize the RPP's accrued benefit surplus in the future under the UPP, the funding excess is not reflected in the University's consolidated financial statements, in accordance with Canadian generally accepted accounting principles.

Any pension surplus or deficit of the UPP is a joint responsibility of the members and employers for service after the transition date of July 1, 2021, and may affect future contribution rates for members and employers. The University remains responsible to fund any net pension obligations (determined based on the UPP actuarial assumptions) related to service up to the transition date of July 1, 2021, over 15 years. The net pension obligations may fluctuate in the future based on changes to the UPP's actuarial assumptions and for changes in experience in future periods, which will continue to be the responsibility of the University to fund for the first 10 years, after which the responsibility for such changes becomes gradually shared over the next 10 years with the other members of the UPP, after which the responsibility is totally shared with all members.

Contribution rates are determined by the UPP Sponsors (representing employees and employers). The most recent actuarial valuation filed with pension regulators by the UPP as at July 1, 2021 indicated an actuarial surplus on a going concern basis of $1.08 billion.

Contributions made to the UPP during the year are included in employee benefits expense in the consolidated statement of operations and amounted to $104 million.

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 $129 million (2021 - $143 million), other retirement benefits expense of $56 million (2021 - $53 million) and other employee benefits of $190 million (2021 - $171 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, 2022		April 30, 2021	
	Pension benefit plan	**Other benefit plans**	Pension benefit plan	Other benefit plans
Difference between actual and expected return on plan assets*	**13**		332	
Actuarial gains (losses)	**(38)**	**54**	45	(29)
Past service cost		**(19)**		
	(25)	**35**	377	(29)

*As at April 30, 2021, the difference between actual and expected return on plan assets was $973 million. Since there was uncertainty about the ability of the University to fully realize the RPP's accrued benefit asset in the future, only $332 million was recognized, bringing the RPP's accrued pension liability to NIL.

The actuarial valuation for retirement benefit plans other than pension is performed every two years, the most recent being as at July 1, 2021. 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, 2022, the rate of increase in the per capita cost of covered health care benefits was assumed to be 4.25%, except for extended health care costs, which are assumed to increase at 6.35% in 2022, with the rate of increase decreasing gradually to 4.25% in 2030 and remaining at that level thereafter.

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

	April 30, 2022		April 30, 2021	
	Pension benefit plan	**Other benefit plans**	Pension benefit plan	Other benefit plans
Accrued benefit obligation:				
Discount rate	**5.35%**	**5.35%**	5.60%	5.35%
Rate of compensation increase		**3.75%**	4.00%	3.75%
Rate of inflation	**1.75%**	**1.75%**	2.00%	1.75%
Benefits cost:				
Discount rate	**5.35%**	**5.35%**	5.55%	5.55%
Expected long-term rate of return on plan assets			5.55%	
Rate of compensation increase		**3.75%**	4.00%	4.00%
Rate of inflation	**2.00%**	**1.75%**	2.00%	2.00%

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

(millions of dollars)

	April 30, 2022		April 30, 2021	
	Pension benefit plan	**Other benefit plans**	Pension benefit plan	Other benefit plans
Accrued benefit obligation	**126**	**688**	6,109	696
Fair value of plan assets			5,982	
Plan deficit	**(126)**	**(688)**	(127)	(696)

The accrued pension liability of $126 million (2021- $127 million) mainly represents the University's obligation for its supplemental retirement arrangement.

As at April 30, 2022, the University has set aside investments of $4 million (2021- NIL) for its Supplementary Account Plan and $140 million (2021 - $140 million) for its other benefit plans.
On February 5, 2020, The Ontario Ministry of Finance (the "Ministry") agreed that the University, University of Guelph, and Queen's University would be exempt from their obligations to pay the Ministry the annual assessments for the Pension Benefits Guarantee Fund and, instead, would use these amounts totalling $20.7 million to May 1, 2022, to defray the cost of setting up the UPP. The University

is administering the funds on behalf of the three universities. During the year, the University incurred $7.7 million (2021 - $13 million) on behalf of the three universities in support of the UPP.

6. Government remittances payable

As at April 30, 2022, accounts payable and accrued liabilities include government remittances payable of $51 million (2021 - $45 million).

7. Long-term debt

Long-term debt consists of the following senior unsecured debentures:

	(millions of dollars)	
	April 30, 2022	April 30, 2021
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 principal of the University's debentures at maturity. The value of the fund included in investments as at April 30, 2022, amounted to $536 million (2021 - $520 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, 2022**	April 30, 2021
Balance, beginning of year	**907**	700
Add grants, donations and investment income	**651**	788
Less recognized as revenue during the year	**(526)**	(581)
Balance, end of year	**1,032**	907

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

(millions of dollars)	**April 30, 2022**	April 30, 2021
Research	**461**	428
Student aid (notes 12 and 13)	**121**	110
Other restricted purposes	**450**	369
	1,032	907

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, 2022**	April 30, 2021
Balance, beginning of year	**1,269**	1,203
Less amortization of deferred capital contributions	**(77)**	(78)
Add contributions recognized for capital asset purchases	**45**	144
Balance, end of year	**1,237**	1,269

This balance represents:

	April 30, 2022	April 30, 2021
Amount used to purchase capital assets	**1,135**	1,156
Amount to be spent on capital assets	**102**	113
	1,237	1,269

10.Internally restricted net assets

The change in internally restricted net assets consists of the following:

	(millions of dollars)	
	April 30, 2022	April 30, 2021
Investment in land and other capital assets	**4,012**	3,715
Employee benefits		
Pension	**(128)**	(221)
Other plans	**(548)**	(556)
Capital projects and infrastructure reserves	**1,555**	1,332
Operating contingencies	**284**	361
Research support	**282**	254
Departmental trust funds	**97**	102
Student assistance	**63**	60
Other funds	**33**	21
	5,650	5,068

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

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.

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 -** $699 million (2021 - $613 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 -** $666 million (2021 - $447 million) – 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 -** $190 million (2021 - $272 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.

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% and 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 as this is deemed prudent by the University. This amount is expected to be recovered by future net investment income. As at April 30, 2022, there were 248 endowments with the original gift value of $82 million that had a fair value of $79 million, and a deficiency of $3 million. As at April 30, 2021, there were no endowments with fair values below their original gift value. In fiscal 2022, $9.36 (2021 - $8.51) per unit of LTCAP was made available for spending, representing 3.94% (2021 – 3.8%) of the five-year average fair value per unit of the endowment pool.

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

	(millions of dollars)					
	April 30, 2022			April 30, 2021		
	Externally restricted	**Internally restricted**	**Total**	Externally restricted	Internally restricted	Total
Balance, beginning of year	**2,702**	**448**	**3,150**	2,133	377	2,510
Donations (note 15)	**57**		**57**	124		124
Investment income, net of fees and other expenses of $38 (2021 - $30) (note 3)	**41**	**6**	**47**	528	83	611
Investment income made available for spending	**(95)**	**(15)**	**(110)**	(83)	(14)	(97)
Transfer of donations and matching funds from deficit	**14**	**9**	**23**		2	2
Balance, end of year	**2,719**	**448**	**3,167**	2,702	448	3,150

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, 2022	April 30, 2021
Endowments at book value, beginning of year	**386,681**	356,909
Donations		152
Transfer from expendable funds	**8,326**	29,620
Endowments at book value, end of year	**395,007**	386,681
Cumulative unrealized gains	**42,797**	59,554
Endowments at fair value, end of year	**437,804**	446,235

	(thousands of dollars)	
	April 30, 2022	April 30, 2021
Expendable funds available for awards, beginning of year	**31,350**	29,871
Realized investment income	**23,780**	43,730
Transfer from to endowment balance	**(8,326)**	(29,620)
Bursaries awarded	**(13,444)**	(12,631)
Expendable funds available for awards, end of year	**33,360**	31,350
Number of award recipients	**2,872**	2,627

Phase 2:

	(thousands of dollars)			
	April 30, 2022		April 30, 2021	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**50,674**	**5,598**	47,131	5,477
Transfer from expendable funds	**984**	**158**	3,543	121
Endowments at book value, end of year	**51,658**	**5,756**	50,674	5,598
Cumulative unrealized gains	**705**		2,709	
Endowments at fair value, end of year	**52,363**		53,383	

	(thousands of dollars)			
	April 30, 2022		April 30, 2021	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Expendable funds available for awards, beginning of year	**3,531**	**733**	3,609	643
Realized investment income	**2,841**	**464**	5,231	484
Transfer to endowment balance	**(984)**	**(158)**	(3,543)	(121)
Bursaries awarded	**(1,649)**	**(207)**	(1,766)	(273)
Expendable funds available for awards, end of year	**3,739**	**832**	3,531	733
Number of award recipients	**509**	**106**	494	107

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, 2022*		March 31, 2021*	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**92,115**	**16,006**	84,874	15,796
Donations received	**1,372**	**8**	409	9
University matching	**11**	**2**		2
Transfer from expendable funds	**2,119**	**285**	6,832	199
Endowments at book value, end of year	**95,617**	**16,301**	92,115	16,006
Cumulative unrealized gains	**8,700**		7,421	
Endowments at fair value, end of year	**104,317**		99,536	

	(thousands of dollars)			
	March 31, 2022*		March 31, 2021*	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Expendable funds available for awards, beginning of year	**5,208**	**2,465**	4,751	2,066
Realized investment income	**5,635**	**1,352**	10,076	1,216
Donations received	**2**			
University matching and contribution	**69**		74	
Transfer to endowment balance	**(2,119)**	**(285)**	(6,832)	(199)
Bursaries awarded	**(2,964)**	**(669)**	(2,861)	(618)
Expendable funds available for awards, end of year	**5,831**	**2,863**	5,208	2,465
Number of award recipients	**937**	**270**	931	200

*As per Ministry of 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, 2022	April 30, 2021
Accounts receivable	**27**	46
Inventories and prepaid expenses	**3**	(17)
Accounts payable and accrued liabilities	**219**	121
Deferred contributions	**125**	207
	374	357

15.Donations

During the year, the University raised pledges, gifts and philanthropic grants of which $206 million (2021 - $394 million) was received. Of that amount, $103 million (2021 - $122 million) was recorded as revenue and $46 million (2021 - $148 million) was deferred, and $57 million (2021 - $124 million) was recorded as a direct addition to endowments (note 11) and is not recorded as donations revenue. There is a lag between the time in which pledges and related commitments are made and the actual receipt of funds.

16.Government and other grants for restricted purposes

During the year, the University received $460 million (2021 - $579 million) of government and other grants for research and $45 million (2021 - $53 million) for capital infrastructure and other purposes, of which $458 million (2021 - $507 million) was recorded as revenue and $47 million (2021 - $125 million) was deferred (see notes 8, and 9).

17.Financial risk and risk management

The University is exposed to various financial risks through transactions in financial instruments. The majority of these risks are related to investments in the LTCAP. To manage the risks of LTCAP investments, the University has set a benchmark Reference Portfolio with an asset mix that reflects the University's long-term return objectives and risk appetite and to monitor and limit active risk, defined as the risk in the actual portfolio minus the risk in the Reference Portfolio. The University uses risk systems and data management tools to evaluate risk exposures across multiple asset classes, as well as the total portfolio. If the measured risk of the portfolio exceeds the limit, actions will be taken to reduce the portfolio's risks.

Foreign currency risks

The University is exposed to foreign currency risk from direct and indirect (e.g., pooled funds) investments that are denominated in currencies other than the Canadian dollar. Fluctuations caused by changes in the currency rates applied to these investments can result in a positive or negative effect on the fair value of the investments and on the cash flows from these investments. To manage foreign currency risk, the University has established a benchmark currency hedging policy for both the LTCAP and EFIP. In 2022, the benchmark policy for the LTCAP is to hedge 50% (2021– 50%) of the currency exposure of all the asset classes of the Reference Portfolio, with the exception of emerging markets which are unhedged. The benchmark policy for EFIP is to hedge 100% (2021 – 100%) of its non-Canadian currency exposure. As at April 30, 2022, the fair value of investments denominated in foreign currency was $2.8 billion (2021- $2.3 billion), of which $1.8 billion (2021 - $1.2 billion) was hedged.

Credit risk

The University is exposed to credit risk in connection with its fixed income investments and derivative contracts because of the risk of a financial loss caused by a counterparty's potential inability or unwillingness to fulfil its contractual obligations. To manage the credit risk exposed from direct bond holdings or from the use of derivatives, fixed limits are established for individual counterparties, and these are monitored regularly. The University invests the majority of its fixed income in high-grade securities. As at April 30, 2022, 38% (2021 - 27%) of the University's bond exposure from derivative instruments and direct fixed income investments had credit ratings of A or lower.

Interest rate risk

The University is exposed to interest rate risk with respect to its investments in bonds. As at April 30, 2022, the fair value of total investments in bonds was $3.5 billion (2021 - $3.0 billion), composed of $9 million (2021 - $9 million) of bonds directly held by the University, $1.3 billion (2021 - $894 million) of bonds indirectly held through pooled funds and $2.2 billion (2021 - $2.1 billion) of notional bond exposure arising from derivative financial instruments. This risk is managed by having a benchmark Reference Portfolio, which reflects the University's risk appetite, and by monitoring actual risk against the risk of the Reference Portfolio.

Liquidity risk

The University is exposed to liquidity risk if it does not maintain sufficient liquidity to manage its obligations associated with its derivative financial instruments, the funding of calls from private market funds and the annual LTCAP distribution for spending. The University has developed a system that models the potential liquidity needs of the LTCAP under stressed market conditions. This helps ensure that adequate cash and other sources of liquidity are available to meet all liquidity needs over an extended period. The same modelling analysis ensures that the University can, if necessary, rebalance LTCAP's asset mix to match the target asset class weights of the Reference Portfolio.

Other price risk

The University is exposed to other price risk through changes in market prices (other than changes arising from interest rates or foreign currencies) with respect to its investments in public equity, private equity, real estate, infrastructure and hedge funds. The factors that cause the changes in market prices may affect a specific individual investment, its issuer, or they may affect similar securities traded in the market. This risk is managed by having a benchmark Reference Portfolio, which reflects the University's risk appetite, and by monitoring actual risk against the risk of the Reference Portfolio.

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 (as at and year ended December 31, 2021).

As at December 31, 2021, the University's share of the accumulated surplus of $12 million (2020 - $11 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 (2021 - $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 5,340 (2021 – 5,202) common shares of TPASC in exchange for $2 million (2021 - $2 million) each 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 (2021- $90 million) in capital assets (note 4), representing the University's 50% share of the construction cost of the facility.

	(millions of dollars)	
	December 31, 2021	December 31, 2020
Total financial and non-financial assets	**13**	12
Total financial liabilities	**1**	1
Accumulated surplus	**12**	11
Revenues	**5**	5
Expenses	**6**	6
Operating deficit	**(1)**	(1)
Cash flows used in operating activities	**(1)**	(1)
Cash flows used in investing activities	**(1)**	(1)
Cash flows from financing activities	**2**	2
Net change in cash		

b. TRIUMF

The University is a member, with 13 other universities, of TRIUMF, Canada's national laboratory for particle and nuclear physics located on the University of British Columbia ("UBC") campus. TRIUMF is a joint venture and was an unincorporated registered charity prior to June 1, 2021. On June 1, 2021, TRIUMF transferred all of its assets and liabilities to TRIUMF Inc., a not-for-profit corporation. From that day onward, the University became a member of the corporation with the 13 other universities. 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 21c).

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. Any differences in the reporting framework are not material to the University's consolidated financial statements.

	(millions of dollars)	
	March 31, 2022 (unaudited)	March 31, 2021
Total assets	**53**	54
Total liabilities	**12**	9
Total fund balances	**41**	45
Revenues	**98**	89
Expenses	**102**	89
Excess of revenues over expenses	**(4)**	

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 have been no changes to the investment value as at April 30, 2021 and 2022.

During the year, the University made payments of $12 million (2021 - $12 million) to the Trust for leasing certain premises and its related 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 future base rent lease payments for space rentals are as follows:

	(millions of dollars)
2023	**5**
2024	**4**
2025	**4**
2026	**5**
2027	**6**
Thereafter	**81**
	105

20. Other commitments

a. The estimated cost to complete construction and renovation projects in progress as at April 30, 2022, which will be funded by operations and donations, is approximately $1.4 billion (2021 - $1.3 billion).

b. The future annual payments under various operating equipment leases are approximately $8 million.

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

	(millions of dollars)
2023	**21**
2024	**23**
2025	**18**
2026	**16**
2027	**17**
Thereafter	**129**
	224

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, 2022, the amount of loans guaranteed was $12 million (2021 - $12 million). The University's estimated exposure under these guarantees is not material.

b. The University issues irrevocable standby letters of credit for its capital construction projects that guarantee payments to the City of Toronto if it fails to perform certain restorative work at the completion of its capital construction projects. As at April 30, 2022, the amount of outstanding letters of credit issued was $19 million (2021 - $12 million).

c. The members of TRIUMF 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.

d. 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.

e. 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, 2022, 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 consolidated 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.

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