

Financial Statements

**University of Toronto Asset
Management Corporation**
December 31, 2010

INDEPENDENT AUDITORS' REPORT

To the Directors of
University of Toronto Asset Management Corporation

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **University of Toronto Asset Management Corporation**, which comprise the balance sheet as at December 31, 2010 and the statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 23, 2011.

Ernst & Young LLP

Chartered Accountants

University of Toronto Asset Management Corporation

BALANCE SHEET

As at December 31

	2010 \$	2009 \$
ASSETS		
Current		
Cash	47,282	237,754
Due from University of Toronto <i>[notes 6[a] and [e]]</i>	496,159	—
Accounts receivable	43,176	50,000
Prepaid expenses	55,844	41,523
Total current assets	642,461	329,277
Capital assets, net <i>[note 4]</i>	301,747	309,498
Total assets	944,208	638,775
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	642,461	188,903
Due to University of Toronto <i>[notes 6[a] and [e]]</i>	—	140,374
Total current liabilities	642,461	329,277
Deferred capital contributions <i>[note 5]</i>	301,747	309,498
Total liabilities	944,208	638,775
Net assets	—	—
	944,208	638,775

See accompanying notes

University of Toronto Asset Management Corporation

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31

	2010	2009
	\$	\$
EXPENSES <i>[note 6]</i>		
Staffing	3,724,956	2,932,102
Occupancy	229,300	269,753
Consulting fees	127,060	158,294
Office supplies and services	77,220	84,874
Professional fees	388,341	200,290
Communications and information technology support	266,529	234,770
Travel	187,960	108,080
Amortization of capital assets	64,578	39,814
	5,065,944	4,027,977
RECOVERIES AND OTHER INCOME		
Recoveries from University of Toronto <i>[note 6]</i>	5,001,366	3,988,163
Amortization of deferred capital contributions <i>[note 5]</i>	64,578	39,814
	5,065,944	4,027,977
Net income for the year	—	—
Net assets, beginning of year	—	—
Net assets, end of year	—	—

See accompanying notes

University of Toronto Asset Management Corporation

STATEMENT OF CASH FLOWS

Year ended December 31

	2010 \$	2009 \$
OPERATING ACTIVITIES		
Net income for the year	—	—
Add (deduct) items not involving cash		
Amortization of capital assets	64,578	39,814
Amortization of deferred capital contributions	(64,578)	(39,814)
	—	—
Changes in non-cash working capital balances related to operations		
Accounts receivable	6,824	104,386
Prepaid expenses	(14,321)	2,023
Accounts payable and accrued liabilities	453,558	(17,393)
Due to (from) University of Toronto	(636,533)	115,330
Cash provided by (used in) operating activities	(190,472)	204,346
INVESTING ACTIVITIES		
Purchase of capital assets	(56,827)	(54,073)
Cash used in investing activities	(56,827)	(54,073)
FINANCING ACTIVITIES		
Deferred capital contributions to fund purchase of capital assets	56,827	54,073
Cash provided by financing activities	56,827	54,073
Net increase (decrease) in cash during the year	(190,472)	204,346
Cash, beginning of year	237,754	33,408
Cash, end of year	47,282	237,754

See accompanying notes

University of Toronto Asset Management Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. RELATIONSHIP WITH THE UNIVERSITY OF TORONTO

University of Toronto Asset Management Corporation ["UTAM"] is a corporation without share capital incorporated on April 25, 2000 by the Governing Council of the University of Toronto [the "Governing Council"] under the Corporations Act (Ontario). UTAM is a non-profit organization under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

The principal objectives of UTAM are to create added value by providing both current and future financial resources for the University of Toronto ["U of T"] and its pension funds that will contribute to globally recognized education and research.

2. BASIS OF PRESENTATION

These financial statements present the financial position, results of operations and cash flows of UTAM as a separate legal entity. The securities representing the investments of the funds of U of T are held on behalf of U of T in the names of such trustees or nominees as may be directed by UTAM, but not in the name of UTAM.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of UTAM have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of recoveries and expenses during the reporting period. Actual results could differ from those estimates.

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December 31, 2010

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	term of lease
IT infrastructure equipment	5 years

Revenue recognition

Recoveries from U of T are recorded when expenses are incurred. Recoveries related to the purchase of capital assets are deferred and amortized over the life of the related capital asset.

Employee future benefits

UTAM's contributions to U of T's employee future benefit plans are expensed when due [note 6[b]].

Future changes in accounting policies

Effective fiscal 2011, UTAM will be required to adopt International Financial Reporting Standards. UTAM is currently evaluating the impact of adopting these standards.

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NOTES TO FINANCIAL STATEMENTS

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4. CAPITAL ASSETS

Capital assets consist of the following:

	2010		
	Cost	Accumulated	Net
	\$	amortization	book
		\$	value
			\$
Leasehold improvements	444,723	210,664	234,059
IT infrastructure equipment	81,777	14,089	67,688
	526,500	224,753	301,747

	2009		
	Cost	Accumulated	Net
	\$	amortization	book
		\$	value
			\$
Leasehold improvements	415,600	160,175	255,425
IT infrastructure equipment	54,073	—	54,073
	469,673	160,175	309,498

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NOTES TO FINANCIAL STATEMENTS

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5. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of recoveries from U of T received in connection with the purchase of capital assets. The amortization of deferred capital contributions is recorded as income in the statement of operations and changes in net assets. The continuity of deferred capital contributions is as follows:

	2010	2009
	\$	\$
Balance, beginning of year	309,498	295,239
Recoveries received during the year related to capital asset purchases	56,827	54,073
Amortization of deferred capital contributions	(64,578)	(39,814)
Balance, end of year	301,747	309,498

6. RELATED PARTY TRANSACTIONS

- [a] In accordance with the amended and restated Service and UTAM Personnel Agreement dated May 14, 2003 and subsequently replaced by the Investment Management Agreement dated November 26, 2008 between the Governing Council and UTAM, U of T will reimburse UTAM for its services an amount which will enable it to recover the appropriate costs to support its operations. U of T reimburses UTAM on a quarterly basis based on the approved budget. As at December 31, 2010, \$496,159 is due from U of T as a result of actual cost of operations exceeding reimbursements [2009 - \$140,374 due to U of T as a result of reimbursements exceeding actual cost of operations].
- [b] Eligible employees of UTAM are members of U of T's pension plan and participate in other employee future benefit plans offered by U of T. In 2010, contributions of \$77,203 [2009 - \$113,677] related to these plans have been expensed.
- [c] UTAM obtains certain services from U of T, such as payroll and IT support. There is a charge for some of these services. U of T pays UTAM's salaries, benefits and certain other costs and is reimbursed by UTAM.

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NOTES TO FINANCIAL STATEMENTS

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- [d] The Governing Council entered into a lease with a term of ten years and six months commencing October 1, 2005 for the premises occupied by UTAM. UTAM will pay the following amounts to the landlord directly, which represent the minimum rent component of the lease obligations:

	\$
2011	106,724
2012	106,724
2013	106,724
2014	106,724
2015	106,724
Thereafter	26,680
	<u>560,300</u>

In addition to the above minimum rent payments, there are additional payments in respect of operating and tenant in-suite hydro costs that are subject to change annually based on market rates and actual usage. These components totaled \$113,892 in 2010 [2009 - \$152,478].

- [e] Transactions with U of T are measured at the exchange amount, which is the amount of consideration agreed to by the parties. Amounts due to/from U of T are non-interest bearing and due on demand.

7. CAPITAL MANAGEMENT

In managing capital, UTAM focuses on liquid resources available for operations. U of T provides funds as required to allow UTAM to meet its current obligations. As at December 31, 2010, the Corporation has met its objective of having sufficient liquid resources to meet its current obligations.

8. CONTINGENCIES

As at year end, there are certain claims outstanding. Management believes that reasonable provisions have been made in the accounts for these claims. In the event that there is a difference between the actual payments and provisions recorded, the appropriate adjustment will be recorded in the year during which a change in the liability amount is recognized.

