UNIVERSITY OF TORONTO

FINANCIAL SERVICES

TO: Audit Committee and Business Board

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DATE: March 14, 2012 for March 21, 2012.

AGENDA ITEM: **Business Board Item 7**

ITEM IDENTIFICATION:

Impact of New Accounting Rules

JURISDICTIONAL INFORMATION:

The Audit Committee is responsible for assessing the adequacy of public disclosure of financial information. The Audit Committee is also responsible for reviewing the annual audited financial statements and recommending them for approval to the Business Board.

PREVIOUS ACTION TAKEN:

None

HIGHLIGHTS:

The purpose of this report is to summarize the impact of implementing the Canadian Institute of Chartered Accountants' (CICA) new Not-for-Profit Accounting guidelines (Part III) on the University of Toronto (U of T) financial statements. This report focuses on the key changes of the new section which impact the University, namely employee future benefits, valuing capital assets at fair value and measuring financial instruments. These issues are analyzed only from the perspective of U of T's financial statements, and for the comparability and consistency between U of T's financial statements and the financial statements of its pension plans. Where policy choices are available, this report presents the pros and cons of each option. We have settled on the following:

1. **Employee Future Benefits** – apply the immediate recognition approach for all the University defined benefit plans and measure the obligations using funding assumptions. At May 1, 2011, the University has unamortized net actuarial losses of $1,268.9 million, unamortized past service costs of $74.7 million, and unamortized transitional assets of $67.2 million using accounting assumptions to measure the liability. The result of changing to the immediate recognition approach would be a reduction in net assets at the date of transition (May 1, 2011) of $1,276.4 million ($1,268.9 + $74.7 - $67.2). The result of changing from accounting assumptions to funding assumptions would be an increase in net assets at the date of transition by approximately $350 million. The net result of the above changes would be a decrease in net assets of approximately $926 million ($1,276.4 - $350).

2. **Capital Assets** – value U of T lands at fair value, using a certified appraisal acceptable to our external auditors. The land is currently recorded at $76.6 million and has been appraised at $2,161.6 million which results in a net increase in net assets of $2,085 million ($2,161.6 - $76.6).

3. **Financial Assets and Financial Liabilities** – elect to measure equities not publicly traded and other financial assets, including fixed income and all derivatives at fair value. Closing prices are required to be used instead of bid prices for bonds and publicly traded equities which results in an increase in net assets of $1.1 million.

In short, this integrated package of changes cleans up the balance sheet by recording virtually all assets and liabilities which are not currently included. It also reduces reader confusion around pensions by utilizing the same funding assumptions for the University's financial statements as those used for the pension plans.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

A net increase in net assets at the date of transition of approximately $1.2 billion.

RECOMMENDATION:

For information.