UNIVERSITY OF TORONTO

FINANCIAL SERVICES

TO: Audit Committee

SPONSOR: Sheila Brown
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DATE: April 19 for April 29, 2013 meeting.

AGENDA ITEM: 4

ITEM IDENTIFICATION:

Draft audited financial statements and notes– April 30, 2013.

JURISDICTIONAL INFORMATION:

The Audit Committee is responsible for reviewing the annual audited financial statements and recommending them for approval to the Business Board. Each year, the committee reviews proposed changes to the financial statements and notes at the meeting prior to the review of the financial statements. The committee is also responsible for assessing the adequacy of public disclosure of financial information.

PREVIOUS ACTION TAKEN:

The impact of the new accounting rules were reviewed at the March 21, 2012 meeting of the Audit Committee and at the April 2, 2012 meeting of the Business Board.

HIGHLIGHTS:

The proposed changes to the financial statements and notes are a result of adopting new accounting standards for not-for-profit organizations in fiscal 2013. These standards are required to be adopted retrospectively. To that end, the University is required to prepare the following consolidated balance sheets (statement 1) using the new standards: its opening balance sheet position (May 1, 2011) and its 2012 balance sheet which were previously prepared under the old accounting standards. The impact of adopting the new accounting standards on the 2012 consolidated statement of operations (Statement 2) and the opening net assets are detailed in note 2 B – First time adoption of accounting standards for not-for-profit-organizations.

The following table provides a reconciliation of the net assets as at May 1, 2011 and the net loss for the year ended April 30, 2012 as presented under previous GAAP with those computed under GAAP.

	Net loss for the year ended April 30, 2012	Net assets at May 1, 2011
Net loss and net assets - Previous GAAP	**(34.5)**	**1,896.4**
Employee future benefits:		
Recognition of unamortized transitional asset (i)	**(19.2)**	**67.2**
Immediate recognition approach (ii)	**(272.2)**	**(995.4)**
Election to recognize land at fair value (iii)		**2,067.9**
Measurement of publicly traded securities (iv)	**(0.1)**	**1.0**
Net loss and net assets – GAAP	**(326.0)**	**3,037.1**

The most significant changes are applying the immediate recognition approach to account for employee future benefits (decrease in net assets of $928.2 million) and electing to recognize land at fair value (increase in net assets of $2,068 million). Balance sheet related notes must also disclose the opening balance at May 1, 2011 (see notes 3, 4, 5, 13, 14, 15 and 23).

Changes to the notes have been underlined. The following notes have been added for 2013:

a) Note 6 – Government remittances are required to be disclosed under the new accounting standards.
b) Note 22 – Financial risks are now a separate note.

The following notes included in 2012 were removed in 2013 as they are no longer required:

a) Future accounting policy changes
b) Capital management
c) First generation pilot project initiatives note disclosure is not required in 2013.

FINANCIAL AND/OR PLANNING IMPLICATIONS:
None

RECOMMENDATION:
Receipt of the draft financial statements and notes for 2013 for information.

Audited Consolidated Financial Statements

April 30, 2013

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

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

The administration has prepared the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations developed by The Canadian Institute of Chartered Accountants. The administration believes the consolidated financial statements present fairly the University's financial position as at April 30, 2013, 2012 and May 1, 2011, and the results of its operations and its cash flows for the years ended April 30, 2013 and 2012. In order to achieve the objective of fair presentation in all material respects, reasonable estimates and judgments were employed. Additionally, management has ensured that financial information presented elsewhere in this Financial Report has been prepared in a manner consistent with that in the consolidated financial statements.

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

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

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

The consolidated financial statements for the year ended April 30, 2013 and 2012 have been reported on by Ernst & Young LLP, Chartered Accountants, the auditors appointed by Governing Council. The independent auditors' report outlines the scope of their audits and their opinion on the presentation of the information included in the consolidated financial statements.

Sheila Brown Chief Financial Officer	David Naylor President

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the University of Toronto, which comprise the balance sheets as at April 30, 2013 and 2012, and May 1, 2011, and the statements of operations, changes in net assets and cash flows for the years ended April 30, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2013 and 2012, and May 1, 2011 and the results of its operations and its cash flows for the years ended April 30, 2013 and 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Toronto, Canada,
June XX 2013.

Chartered Accountants
Licensed Public Accountants

Statement 1

UNIVERSITY OF TORONTO
CONSOLIDATED BALANCE SHEETS
(millions of dollars)

	April 30 2013	April 30 2012	May 1 2011
ASSETS			
Current			
Cash and cash equivalents		121.0	99.3
Short-term investments (note 3)		663.9	535.1
Accounts receivable (note 22)		84.7	104.8
Inventories and prepaid expenses		23.5	16.9
		893.1	756.1
Long-term accounts receivable		45.2	36.8
Investments (note 3)		2,095.6	2,085.7
Capital assets, net (note 4)		3,921.9	3,837.1
		6,955.8	6,715.7
LIABILITIES			
Current			
Accounts payable and accrued liabilities (notes 6, 12 and 22)		278.1	248.0
Deferred contributions (note 13)		371.2	370.3
		649.3	618.3
Accrued pension liability (note 5)		1,250.2	1,040.3
Employee future benefit obligation other than pension (note 5)		616.8	506.9
Series A senior unsecured debenture (note 7)		158.9	158.9
Series B senior unsecured debenture (note 8)		199.1	199.1
Series C senior unsecured debenture (note 9)		74.7	74.7
Series D senior unsecured debenture (note 10)		74.4	74.4
Series E senior unsecured debenture (note 11)		201.5	
Other long-term debt (note 12)		19.1	19.7
Deferred capital contributions (note 14)		1,018.3	986.3
		4,262.3	3,678.6
NET ASSETS (Statement 3)			
Unrestricted deficit		(134.9)	(173.6)
Internally restricted (note 15)		1,310.3	1,670.6
Endowments (notes 16, 17 and 18)		1,518.1	1,540.1
		2,693.5	3,037.1
		6,955.8	6,715.7

Contingencies and commitments (notes 24 and 25)

(See accompanying notes)

On behalf of Governing Council:

Richard B. Nunn
Chair

David Naylor
President

Statement 2

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

	2013	2012
REVENUES		
Government grants for general operations		702.2
Student fees		847.4
Government and other grants and contracts for restricted purposes (note 21)		420.3
Sales, services and sundry income		273.3
Investment income (notes 3 and 16)		102.9
Donations (note 20)		59.9
		2,406.0
EXPENSES		
Salaries		1,100.5
Employee future benefits (note 5)		593.6
Other employee benefits		111.0
Materials and supplies		222.2
Scholarships, fellowships and bursaries		176.3
Amortization of capital assets		137.0
Cost of sales and services		84.6
Repairs and maintenance		81.7
Utilities		53.0
External contracted services		46.5
Travel and conferences		43.6
Interest on long-term debt		34.3
Telecommunications		11.9
Other		35.8
		2,732.0
NET INCOME (LOSS)		(326.0)

(See accompanying notes)

1. Description

The Governing Council of the University of Toronto, which operates under the name University of Toronto (the "University"), is a corporation under the University of Toronto Act, a statute of the Legislative Assembly of Ontario. The University is an institution dedicated to providing 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 of the operations and organizations, including wholly owned subsidiaries, under the jurisdiction of the 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 and <u>first-time adoption of accounting standards for not-for-profit organizations.</u>

A. Significant accounting policies

These consolidated financial statements have been prepared in accordance <u>with Part III of the Canadian Institute of Chartered Accountants ("CICA") Accounting Handbook – Accounting Standards for Not-for-profit Organizations, which sets out generally accepted accounting principles for not-for-profit organizations in Canada ("GAAP") and includes</u> 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 <u>for investment purposes</u>. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values.

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

1. Short-term notes and treasury bills are valued based at fair value.

2. Publicly traded equities are valued based on the latest <u>closing</u> prices. <u>Short-term investments and bonds are recorded at fair value which is determined based on valuation techniques.</u>

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

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

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

6. The values of private investments, which comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets, infrastructure assets and commodities, are determined based on the latest valuations provided by the external investment managers of the fund (typically December 31), adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because 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.

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

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

b) Derivative financial instruments -

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

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

c) Other financial instruments -

Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value based on market conditions and are not subsequently re-valued and therefore are carried at their initial fair value which represents cost, net of any provisions for impairment.

c) 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.

d) Inventory valuation -

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

e) Employee benefit plans -

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for substantially all of its employees <u>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, adjusted for any valuation allowance, in the consolidated balance sheets. Actuarial gains and losses and past service costs are included in the cost for the year. The accrued liability for registered pension plans is determined based on an actuarial valuation report prepared for funding purposes. This report is required to be prepared at least on a triennial basis by the applicable regulations. The pension plans' assets are measured at fair value at the date of the consolidated balance sheets. The accrued liability for employee future benefits other than registered pension plans is determined based on an actuarial valuation using accounting assumptions that is prepared at least every three years. In years where an actuarial valuation is not prepared, the University uses a roll-forward technique to estimate the accrued liability using assumptions from the most recent actuarial valuation report.</u>

f) Capital assets -

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

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

Contributed rare books and other collections are expensed in the year received. Fine art and rare book collections are valued by the appropriate University officers.

g) 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. Unsecured debentures and other long-term debt are reported net of related premiums, discounts and transaction issue costs.

h) Revenue recognition -

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

i) 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 they relate to investments, in which case they are recognized in the same manner as investment income.

j) Accounting estimates -

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

k) 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.

l) Allocation of costs -

The University allocates salary and benefit costs related to personnel who work directly on managing capital projects to construction in progress and also allocates a project management fee based on 3.5% of construction, furnishings and equipment and landscaping costs.

B. First-time adoption of accounting standards for not-for-profit organizations

These consolidated financial statements are the first consolidated financial statements which the University has prepared in accordance with Part III of the CICA Handbook – Accounting, which constitutes generally accepted accounting principles for not-for-profit organizations in Canada (“GAAP”). In preparing its opening balance sheet as at May 1, 2011 (the “Transition Date”), the organization has applied CICA 1501, *First-time Adoption*.

The accounting policies that the University has used in the preparation of its May, 1, 2011 opening balance sheet have resulted in certain adjustments to balances which were presented in the balance sheet prepared in accordance with Part V of the CICA Handbook – Accounting (“Previous GAAP”). These adjustments were recorded directly to the University’s net assets at the Transition Date using the transitional provisions set out in CICA 1501 and are described below. CICA 1501 provides a number of elective exemptions related to standards in Part III of the CICA Handbook. The University has elected to value land at fair value.

The following table provides a reconciliation of the net assets as at May 1, 2011 and the net loss for the year ended April 30, 2012 as presented under Previous GAAP with those computed under GAAP.

	Net loss for the year ended April 30, 2012	Net assets at May 1, 2011
Net loss and net assets - Previous GAAP	**(34.5)**	**1,896.4**
Employee future benefits:		
Recognition of unamortized transitional asset (i)	**(19.2)**	**67.2**
Immediate recognition approach (ii)	**(272.2)**	**(995.4)**
Election to recognize land at fair value (iii)		**2,067.9**
Measurement of publicly traded securities (iv)	**(0.1)**	**1.0**
Net loss and net assets – GAAP	**(326.0)**	**3,037.1**

i) Recognition of unamortized transitional asset

Under Previous GAAP, a $67.2 million net transitional asset related to employee future benefits had not been recognized in the consolidated financial statements. CICA 1501 requires this amount to be recognized in opening net assets at the Transition Date. At the Transition Date, the employee future benefit obligation other than pension increased by $30.6 million, the accrued pension liability decreased by $97.8 million and internally restricted net assets increased by $67.2 million. The University's net loss for the year increased by $19.2 million.

ii) Immediate recognition approach

The University has made the accounting policy choice to apply the immediate recognition approach to account for its employee future benefits. As such, the deficit related to these plans, after recognizing the impact of the net transitional asset, was recorded in the balance sheet at the Transition Date. At the Transition Date, the employee future benefit obligation other than pension increased by $97.1 million, the accrued pension liability increased by $904.6 million, investments increased by $6.3 million and internally restricted net assets decreased by $995.4 million. The University's net loss for the year ended April 30, 2012 increased by $272.2 million comprised of an increase in employee future benefits expense of $274.9 million offset by an increase in investment income of $0.7 million and an increase of $2.0 million in sales, services and sundry income.

iii) Election to recognize land at fair value

Using an elective exemption available at the Transition Date, the University has measured its land at estimated fair values at the Transition Date. At the Transition Date, the carrying amount of capital assets increased by $2,067.9 million with a corresponding increase in internally restricted net assets.

iv) Measurement of publicly traded securities

Under Previous GAAP, the University was required to use bid prices to value its publicly traded securities instead of closing prices. CICA 1501 permits the use of closing prices. The initial recognition of publicly traded securities at closing prices rather than bid prices at the Transition Date resulted in an increase in investments of $1.0 million with a corresponding decrease of $0.3 million in unrestricted deficit and a $0.7 million increase in endowments. The University's net loss for the year ended April 30, 2012 also increased by $0.1 million related to internally designated endowments.

2. Investments

The fair values of investments are as follows: (millions of dollars)

	April 30, 2013	April 30, 2012	May 1, 2011
Cash, money market funds, short-term notes and treasury bills		663.9	535.1
Government and corporate bonds		771.9	660.6
Canadian equities		354.9	262.9
United States equities		150.2	247.2
Other international equities		204.1	310.8
Hedge funds		265.4	269.3
Private equity and debt interests		214.2	238.6
Real asset interests		134.9	96.3
		2,759.5	2,620.8
Less amounts reported as short-term investments:		663.9	535.1
		2,095.6	2,085.7

Direct investments are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio. This classification resulted in $ million (April 30, 2012 - $78.5 million; May 1, 2011 - $240.4 million) of cash, money market funds, short-term notes and treasury bills set aside related to derivative contracts, $ million (April 30, 2012- $24.7 million; May 1, 2011 - NIL) in other international equities, $ million (April 30, 2012 - NIL; May 1, 2011 - $61.6 million) in hedge funds being reclassified to $ million (April 30, 2012 - $15.8 million; May 1, 2011 - $19.3 million) in government and corporate bonds, $ million (April 30, 2012 - $44.0 million; May 1, 2011 - $4.3 million) in Canadian equities, $ million (April 30, 2012 - $43.4 million; May 1, 2011 - $216.1 million) in United States equities, and $ million (April 30, 2012 - NIL; May 1, 2011 - $62.3 million) in other international equities.

The University's investments are managed using two pools. The long-term capital appreciation pool ("LTCAP") mainly includes endowment funds. All other funds, including cash and cash equivalents of $ million (April 30, 2012 - $121.0 million, May 1, 2011 - $99.3 million) reported in current assets, are managed in the expendable funds investment pool (EFIP). The asset mix for each pool is as follows:

	(millions of dollars)					
	April 30, 2013		April 30, 2012		May 1, 2011	
	EFIP	**LTCAP**	EFIP	LTCAP	EFIP	LTCAP
Cash, money market funds, short-term notes and treasury bills			777.5	7.4	630.9	3.5
Government and corporate bonds			329.4	442.5	291.8	368.8
Canadian equities			0.2	354.7	0.2	262.7
United States equities				150.2		247.2
Other international equities				204.1		310.8
Hedge funds			5.0	260.4	30.9	238.4
Private equity and debt interests				214.2		238.6
Real asset interests				134.9		96.3
			1,112.1	1,768.4	953.8	1,766.3

Substantially all of the University's publicly traded investments held for the LTCAP are held in unitized investment pooled funds which are managed by the University of Toronto Asset Management Corporation, a wholly owned subsidiary of the University. These funds include two fixed income funds, a Canadian equity fund, a United States equity fund and an international equity fund. As at April 30, 2013, the total fair value of the University's investments in these pooled funds is $ million (April 30, 2012 - $817.0 million).

In 2013, the University's investment income of $ million (2012 - $102.9 million) recorded in the statements of operations consists of income related to investments held for endowments of $ million (2012 - $75.2 million) (note 16) and income of $ million (2012 - $27.7 million) on investments other than those held for endowments.

During the year, the University recognized an investment gain of $ million (2012 - $2.5 million) as a change in fair value that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates for certain of its investments. Management believes there are no other reasonable assumptions for these investments which would generate any material changes in investment income.

Derivative financial instruments

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

	(millions of dollars)			
	2013		2012	
	Notional value	**Fair value**	Notional value	Fair value
Foreign currency forward contracts				
- U.S. dollars			477.2	6.1
- Other international			253.0	(0.4)
				5.7
Equity and commodity index futures contracts				
- United States			43.4	0.9
- Other international			34.6	0.2
				1.1
Interest rate swap contracts (note 12)			26.0	(6.7)

The fair value of the foreign currency forward and equity and commodity index futures contracts of $ million (2012 - $6.8 million) is reported as $ million (2012 - $7.8 million) in accounts receivable and $ million (2012 - $1.0 million) in accounts payable and accrued liabilities.

The interest rate swap contracts result in the University fixing a weighted average long-term interest rate of % (2012 - 6.67%) on certain debt obligations instead of paying a weighted average short-term floating interest rate of % (2012 - 1.28%). These long-term contracts were entered into during those years when interest rates were higher than current rates. These swap agreements require a periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The cash settlement is the difference between the contractual rate of interest and the current market rate, based on a notional amount. The fair value of the interest rate swap contracts of $ million (2012 - $6.7 million) is included in other long-term debt (note 12).

Uncalled commitments

As at April 30, 2013, approximately % (April 30, 2012 - 11.7%; May 1, 2011 - 11.9%) of the University's investment portfolio is invested in private funds managed by third-party managers. These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real assets 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. At April 30, 2013, the University had uncalled commitments of approximately $ million (April 30, 2012 - $90.4 million; May 1, 2011 - $103.2 million). The capital committed is called by the manager over a pre-defined investment period, which varies by fund, but is generally about three to five years from the date the private fund closes. In practice, for a variety of reasons, the total amount committed to a private fund is very rarely all called.

4. Capital assets

(millions of dollars)

	April 30, 2013		April 30, 2012		May 1, 2011	
	Total cost	**Accumulated amortization**	Total cost	Accumulated amortization	Total cost	Accumulated amortization
Land			2,162.1		2,144.5	
Buildings (note 12)			2,247.6	819.2	2,146.5	771.6
Equipment and furnishings			1,274.3	995.4	1,195.7	932.9
Library books			526.8	474.3	502.3	447.4
			6,210.8	2,288.9	5,989.0	2,151.9
Less accumulated amortization			(2,288.9)		(2,151.9)	
Net book value			3,921.9		3,837.1	

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

As at April 30, 2013, the University had $ million (April 30, 2012 - $136.1 million; May 1, 2011 - $147.2 million) in construction in progress that was included in buildings which will not be amortized until the buildings are put in use.

5. Employee benefit plans

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

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

The latest actuarial valuation for the pension plans and for other retirement benefit plans was performed as of July 1, 2012. The next required actuarial valuations for the registered plans will be July 1, 2014. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year. The employee benefits expense for the year includes pension expense of $ million (2012 - $464.6 million) and other retirement benefits expense of $ million (2012 - $129.1 million).

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

(millions of dollars)	April 30, 2013		April 30, 2012		May 1, 2011	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligation			3,855.7	616.8	3,493.5	506.9
Fair value of plan assets			2,605.5	55.1	2,453.2	48.1
Plan deficit			(1,250.2)	(561.7)	(1,040.3)	(458.8)

In addition to the plan assets, at April 30, 2013 the University has investments set aside of $ million (April 30, 2012 - $123.7 million; May 1, 2011 - $130.1 million) for its pension and supplemental retirement arrangement obligations (note 15).

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

	April 30, 2013		April 30, 2012		May 1, 2011	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligation:						
Discount rate	**%**	**%**	6.50%	4.80%	6.50%	5.6%
Rate of compensation increase	**%**	**%**	4.50%	4.50%	4.50%	4.50%
Rate of inflation	**%**	**%**	2.50%	2.50%	2.50%	2.50%
Benefit cost:						
Discount rate	**%**	**%**	6.50%	5.60%		
Expected long-term rate of return on plan assets	**%**	**N/A**	6.50%	N/A		
Rate of compensation increase	**%**	**%**	4.50%	4.50%		
Rate of inflation	**%**	**%**	2.50%	2.50%		

To measure the accrued benefit obligation other than pension as at May 1, 2011, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed with the rate of increase decreasing gradually to 5.0% in 2017. As at April 30, 2012, an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed with the rate of increase decreasing gradually to 4.5% by 2021 and remaining at that level thereafter. There were no changes to these trend rates in measuring the obligation for the year ended April 30, 2013.

6. Government remittances payable

As at April 30, 2013, accounts payable and accrued liabilities include government remittances payable of $ million (April 30, 2012 - $24.8 million; May 1, 2011 - $24.4 million).

7. Series A senior unsecured debenture

On July 18, 2001, the University issued Series A senior unsecured debenture in the aggregate principal amount of $160.0 million at a unit price of $999.62 for proceeds of $159.9 million. The debenture bears interest at 6.78%, which is payable semi-annually on January 18 and July 18 with the principal amount to be repaid on July 18, 2031. The proceeds of the issuance have been used primarily to finance capital projects. The University has spent all of the proceeds of the debenture.

8. Series B senior unsecured debenture

On December 15, 2003, the University issued Series B senior unsecured debenture in the aggregate principal amount of $200.0 million at a unit price of $1,000 for proceeds of $200.0 million. The debenture bears interest at 5.841%, which is payable semi-annually on June 15 and December 15 with the principal amount to be repaid on December 15, 2043. The proceeds of the issuance have been used primarily to finance capital projects. The University has spent all of the proceeds of the debenture.

9. Series C senior unsecured debenture

On November 16, 2005, the University issued Series C senior unsecured debenture in the aggregate principal amount of $75.0 million at a unit price of $1,000 for proceeds of $75.0 million. The debenture bears interest at 4.937%, which is payable semi-annually on May 16 and November 16 with the principal amount to be repaid on November 16, 2045. The proceeds of the issuance have been used primarily to finance capital projects. The University has spent all of the proceeds of the debenture.

10. Series D senior unsecured debenture

On December 13, 2006, the University issued Series D senior unsecured debenture in the aggregate principal amount of $75.0 million at a unit price of $1,000 for proceeds of $75.0 million. The debenture bears interest at 4.493%, which is payable semi-annually on June 13 and December 13 with the principal amount to be repaid on December 13, 2046. The proceeds of the issuance have been used primarily to finance capital projects. The University has spent all of the proceeds of the debenture.

11. Series E senior unsecured debenture

On December 7, 2011, the University issued Series E senior unsecured debenture in the aggregate principal amount of $100.0 million at a unit price of $1,000 for proceeds of $100.0 million. On February 7, 2012, the University issued additional Series E senior unsecured debenture in the aggregate principal amount of $100.0 million at a price of $1,026 for proceeds of $102.6 million. The debenture bears interest at 4.251%, which is payable semi-annually on June 7 and December 7 with the principal amount to be repaid on December 7, 2051. <u>To date, the University has spent $ million of the proceeds on capital assets.</u>

12. Other long-term debt

Other long-term debt consists of mortgages of $ million (April 30, 2012 - $6.0 million; May 1, 2011 - $6.6 million) maturing in 2019 and 2020 against which the related properties are pledged as security, term loans of $ million (April 30, 2012 - $7.9 million; May 1, 2011 - $8.7 million) maturing from 2017 to 2020. The current portion of other long-term debt of $ million (April 30, 2012 - $1.5 million; May 1, 2011 - $1.4 million) is included in accounts payable and accrued liabilities. The weighted average effective interest rate of the mortgages and term loans, after giving effect to the interest rate swap contracts, was % (April 30, 2012 - 5.6%; May 1, 2011 - 5.6%) and % (April 30, 2012 - 6.5%; May 1, 2011 - 6.5%), respectively. Anticipated requirements to meet the principal portion of the other long-term debt repayments over the next five years are as follows: 2014 - $ million, 2015 - $ million, 2016 - $ million, 2017 - $ million, 2018 - $ million.

13. 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, 2013	April 30, 2012	May 1, 2011
Balance, beginning of year		370.3	357.9
Grants, donations and investment income		451.6	454.1
Recognized as revenue during the year		(450.7)	(441.7)
Balance, end of year		371.2	370.3

The deferred contributions must be spent as follows:

		(millions of dollars)	
	April 30, 2013	April 30, 2012	May 1, 2011
Research		185.6	200.3
Student aid		62.3	58.0
Other restricted purposes		123.3	112.0
		371.2	370.3

14. Deferred capital contributions

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

		(millions of dollars)	
	April 30, 2013	April 30, 2012	May 1, 2011
Balance, beginning of year		986.3	881.7
Less amortization of deferred capital contributions		(64.0)	(65.1)
Add contributions recognized for capital asset purchases		96.0	169.7
Balance, end of year		1,018.3	986.3

This balance represents:

		(millions of dollars)	
	April 30, 2013	April 30, 2012	May 1, 2011
Amount used for the purchase of capital assets		958.2	935.3
Amount to be spent on capital assets		60.1	51.0
		1,018.3	986.3

15. Internally restricted net assets

	(millions of dollars)		
	April 30, 2013	April 30, 2012	May 1, 2011
Investment in capital assets		2,503.1	2,508.2
Operating fund reserves			
Net divisional reserves		437.2	360.7
Employee benefits			
Pensions		(1,360.0)	(1,040.3)
Other plans		(561.7)	(458.8)
Supplemental retirement arrangement (note 6)		121.3	130.1
Pension plan reserve (note 6)		2.4	
Departmental trust funds		71.5	69.8
Alterations and renovations		75.3	82.7
Research overhead		19.7	16.9
Other funds		1.5	1.3
		1,310.3	1,670.6

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

a) Investment in capital assets -

Investment in 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) Operating fund reserves -

Divisions set aside as reserves funds that have not been spent at the end of each year. These amounts include reserves for operating contingencies, reserves for future commitments and other employee future benefit costs and unfilled purchase orders that have been committed for goods or services to be received in the following year. These reserves have been reduced by the vacation pay accrual, representing the unfunded cost of vacation credits earned but not taken by administrative employee groups at year end, and by the voluntary early retirement liability for faculty and librarians, representing the unfunded liability of voluntary early retirement incentive costs paid to or committed to specific faculty members. This category has also been reduced by the portion of employee future benefits obligations to be funded by future operating budgets offset by funds set aside to meet the future obligations of the supplemental retirement arrangement and a pension plan reserve.

c) Departmental trust funds -

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

d) Alterations and renovations -

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

e) Research overhead -

Research overhead recoveries from customers in calendar year 2012 are appropriated and available for spending in the following fiscal year.

f) Other funds -

These funds are 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.

16. Endowments

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

University policy has been established with the objective of protecting the real value of the endowments by limiting the amount of income made available for spending and requiring the reinvestment of income not made available. The investment policy has set the real rate of return objective at 4% with the aim of providing steady, predictable investment returns. The amount made available for spending must normally fall between a range of 3% to 5% of the fair value per unit of the endowment pool. In any particular year, should net investment income be insufficient to fund the amount to be made available for spending or if the investment return is negative, the amount that is made available for spending is funded by the accumulated reinvested income. However, for individual endowment funds without sufficient accumulated reinvestment income, endowment capital is used in the current year. This amount is expected to be recovered by future net investment income. In fiscal 2013, $7.56 (2012 - $7.56) per unit of LTCAP was made available for spending, representing % (2012 – 4.51%) of the opening fair value per unit of the endowment pool.

<u>In 2013, investment earnings of $ million (net of fees and expenses of $ million) were earned on endowments, of which $ million was made available for spending and recorded as investment income, $ million was the preservation of capital on internally restricted endowments, which was recorded as investment income and then transferred from unrestricted net assets to endowments, and the balance of $ million was the preservation of capital on externally restricted endowments which was recorded as a direct increase to endowments.</u>

In 2012, investment earnings of $<u>17.5 million</u> (net of fees and other expenses of $14.0 million) were earned on endowments, of which <u>$15.2 million</u> was earned on externally restricted endowments and <u>$2.3 million</u> on internally restricted endowments. An amount of $58.9 million was made available for spending on externally restricted endowments and recorded as investment income and the difference of <u>$43.7 million</u> between the amount made available for spending and the investment earnings was recorded as a direct decrease to endowments. An amount of $10.0 million was made available for spending on internally restricted endowments, of which <u>$2.3 million</u> was recorded as investment income and the difference was transferred from endowments to unrestricted net assets.

Net assets restricted for endowments consist of the following:

	(millions of dollars)		
	April 30, 2013	April 30, 2012	May 1, 2011
Externally restricted endowments		1,287.3	1,302.3
Internally restricted endowments		230.8	237.8
		1,518.1	1,540.1

17. 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. The University also matched certain of these endowed donations.

Phase 1:	(thousands of dollars)	
	2013	2012
Endowments at book value, beginning of year		291,476
Transfer to expendable funds		(1,573)
Endowments at book value, end of year		289,903
Cumulative unrealized losses		(23,285)
Endowments at fair value, end of year		266,618
Expendable funds available for awards, beginning of year		20,958
Realized investment income		10,854
Transfer from endowment balance		1,573
University contribution		3
Bursaries awarded		(10,518)
Expendable funds available for awards, end of year		22,870
Number of award recipients		3,449

Phase 2:	(thousands of dollars)			
	2013		2012	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year			39,464	4,972
Transfer to expendable funds			(197)	(5)
Endowments at book value, end of year			39,267	4,967
Cumulative unrealized losses			(7,214)	
Endowments at fair value, end of year			32,053	

Expendable funds available for awards, beginning of year		2,627	256
Realized investment income		1,303	167
Transfer from endowment balance		197	5
University contribution			
Bursaries awarded		(1,113)	(172)
Expendable funds available for awards, end of year		3,014	256
Number of award recipients		512	100

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 13) on the 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.

18. 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 of these endowed donations.

	(thousands of dollars)			
	2013		2012	
(for the year ended March 31)*	**University of Toronto**	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year			60,979	11,541
Donations received			3,434	1,140
Government matching received			2,479	949
University matching			113	174
Transfer from (to) expendable funds			(159)	(223)
Endowments at book value, end of year			66,846	13,581
Cumulative unrealized losses			(8,161)	
Endowments at fair value, end of year			58,685	

Expendable funds available for awards, beginning of year	2,623	436
Realized investment income	2,311	65
Donations received	6	5
University matching and contribution	121	
Transfer from (to) endowment balance	159	223
Bursaries awarded	(1,893)	(372)
Expendable funds available for awards, end of year	3,327	357
Number of award recipients	870	181

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

Endowments at book value in this note represent contributions received plus a portion of realized investment income. The expendable funds available for awards are included in deferred contributions (note 13) on the 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.

19. Net change in other non-cash items

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

	(millions of dollars)	
	2013	2012
Accounts receivable		20.1
Inventories and prepaid expenses		(6.6)
Deferred contributions		0.9
Accounts payable and accrued liabilities		27.9
		42.3

20. Donations

During the year, the University received donations of $ million (2012 - $83.5 million). Of that amount, $ million (2012 - $23.6 million) is recorded as a direct addition to endowments and is not recorded as donations revenue.

21. Government and other grants and contracts for restricted purposes

During the year, the University received $ million (2012 - $380.2 million) of government and other grants and contracts for research and $ million (2012 - $73.0 million) for capital infrastructure, of which $ million (2012 - $420.3 million) was recorded as revenue and $ million (2012 - $32.9 million) was deferred.

22. Financial instruments

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

Currency risk

The University is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar. To manage foreign currency risk, the current hedging policy, effective May 1, 2012, is to hedge 75% of non-emerging markets' currency exposures and 0% of emerging markets' currency exposures. Previously, a 50% hedging policy was in place for the university's investments.

Credit risk

The University is exposed to credit risk in connection with its accounts receivable and its short term and fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. Accounts receivable is recorded net of an allowance for doubtful accounts of $ million (April 30, 2012 - $6.6 million; May 1, 2011 - $5.8 million). At April 30, 2013, $ million (April 30, 2012 - $510.0 million, May 1, 2011- $422.5 million) or % (April 30, 2012 – 66.3%, May 1, 2011 – 64.2%) of government and corporate bonds have AAA or AA credit ratings.

Interest rate risk

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

Liquidity risk

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

Other price risk

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

23. TRIUMF

The University is a member, with ten other universities, of a joint venture called TRIUMF, Canada's national laboratory for particle and nuclear physics located on the University of British Columbia ("UBC") campus. TRIUMF is an unincorporated registered charity and each university has an undivided 1/11 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 (see also note 25(b)).

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

	(millions of dollars)		
	March 31, 2013 (unaudited)	March 31, 2012	April 1, 2011
Total assets		27.8	24.9
Total liabilities		18.9	16.9
Total fund balances		8.9	8.0
Revenues		77.4	70.3
Expenses		76.5	66.2
Excess of revenues over expenses		0.9	4.1

24. Other commitments

a) The estimated cost to complete construction and renovation projects in progress at April 30, 2013, which will be funded by government grants, donations and operations, is approximately $ million (2012 - $229.5 million).

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

25. Contingencies

a) The University has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. At April 30, 2013, the amount of loans guaranteed was $ million (2012 - $7.2 million). The University's estimated exposure under these guarantees is not material.

b) The members of the TRIUMF joint venture and the Canadian Nuclear Safety Commission ("CNSC") approved a decommissioning plan which requires all members to be severally responsible for their share of the decommissioning costs, which were estimated at $44.2 million as of November 2011, as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions of decommissioning the facilities, the University's share was estimated at $4.0 million at April 30, 2013. TRIUMF has put in place a plan for funding the cost of decommissioning which does not require any payments from the joint venture partners.

c) The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. At April 30, 2013, the University believes it has valid defenses and appropriate insurance coverage in place on certain claims which are not expected to have a material impact on the University's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.