University of Toronto Toronto Ontario M5S 1A1

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

TO: Audit Committee

SPONSOR: Felix Chee
CONTACT INFO: 416-978-5850, felix.chee@utoronto.ca

DATE: October 14 for October 29, 2003 meeting

AGENDA ITEM: 5

ITEM IDENTIFICATION:

Pension Plans: Annual Financial Report 2003

JURISDICTIONAL INFORMATION:

The Audit Committee is responsible for reviewing the annual financial report and recommending the annual financial statements for approval to the Business Board.

PREVIOUS ACTION TAKEN:

Committee received, reviewed and recommended the 2002 Annual Financial Report.

HIGHLIGHTS:

The University of Toronto provides pension benefits to its employees via contributory defined benefit pension plans registered under and subject to the Ontario Pension Benefits Act and via a supplemental retirement arrangement. The Governing Council of the University of Toronto is the registered plan administrator. The current plans provide pension benefits for eligible employees, currently members of the academic, librarian, administrative and unionized staff of the University, the OISE division of the University, and its related affiliated organizations.

For investment purposes the University of Toronto pension plan and the plan for its OISE employees are pooled for investment purposes into a pension Master Trust. This pooling enables both funds to enjoy economies of scale and eliminates discrepancies in investment performance.

A Supplemental Retirement Arrangement (SRA) has been in place since July 1, 1996 to provide eligible members of the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan with additional retirement income to compensate for the limitations prescribed under the Income Tax Act (Canada).

Since 1998, the accrued liabilities of the University of Toronto Pension Plan have grown at a compound annual growth rate of 6.6%, while accrued liabilities in the SRA have grown at a compound annual growth rate of 7.3%. The accrued liability in the SRA was $108.6 million at July 1, 2003.

As at July 1, 2003 the market value of the pension Master Trust was $1.9 billion with the University of Toronto Pension Plan holding 95.4% of the assets of the Master Trust and the University of Toronto (OISE) Pension Plan holding the remaining 4.6%.

For the periods ended June 30, 2003, the four-year annualized return of the pension Master Trust was 2.3% and the one-year return was 0.4% before fees and expenses. However, the Pension Fund outperformed its one-year market indices benchmark rate of return by 0.4 percentage points. Fees and expenses totaled $13.4 million or 0.688% of plan assets. The management expense ratio was 0.561%.

The University of Toronto Pension Plan had a market deficit of $203.5 million and an actuarial surplus of $2.2 million at July 1, 2003. The solvency ratio as at July 1, 2003, is 1.02.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

A pension strategy to deal with the market deficit is being considered, and will be included in the long-range budget currently being developed for the six year period from 2004-2005 through 2009-2010.

RECOMMENDATION:

That the two pension funds' financial statements be recommended for approval by the Business Board.

DRAFT

University of Toronto Pension Plans

Annual Financial Report

For the Year Ended June 30, 2003

VELUT ARBOR ÆVO

Vice-President, Business Affairs
October 2003

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Introduction

The following is a financial report on the University of Toronto Pension Plan and the University of Toronto Ontario Institute for Studies in Education (OISE) Pension Plan for the year ended June 30, 2003. The accompanying audited financial statements provide a description of both plans, a summary of significant accounting policies and a statement of net assets available for the benefit of members as invested in the pension Master Trust.

Over the last three years a number of changes have been made to the financial management and investment of plan assets. Since May 1, 2000 the University of Toronto Asset Management Corporation (UTAM), a wholly owned subsidiary of the University of Toronto, has overseen the investment of the University's assets, including its pension funds. Since August 1, 2000, the assets of both pension plans have been combined for investment purposes into a single Pension Master Trust.

Pension Arrangements

The University of Toronto Pension Plan (RPP) was established in 1966 as a contributory defined benefit plan. Benefits to employees are determined by a prescribed benefit formula as defined in the plan and the cost of those benefits, after prescribed employee contributions, determines the University's funding obligations.

The University of Toronto became responsible for the University of Toronto (OISE) Pension Plan in 1996. This plan is similarly a defined benefit plan and covers University of Toronto employees who were previously OISE employees and are either continuing employees of the University or retirees. All new employees in the OISE/UT Division become members of the University of Toronto Pension Plan.

Each plan continues to be administered separately, as each is a separate legal entity subject to the Ontario Pension Benefits Act.

The supplemental retirement arrangement (SRA) was established effective July 1, 1996, to provide eligible members of the University of Toronto Pension Plan and University of Toronto (OISE) Pension Plan with additional retirement income to compensate for the limitations prescribed under the regulations to the Income Tax Act (Canada) on the amount of lifetime retirement benefits payable from a registered pension plan. The SRA is not required to be, and shall not be, registered with the federal government or any provincial government.

Participation Data

U of T Pension Plan (RPP)	1998	1999	2000	2001	2002	2003	CAGR * since 1998
Active Participants	6,141	6,137	6,381	6,504	6,759	7,141	3.1%
Retired Participants	3,318	3,409	3,543	3,642	3,813	3,942	3.5%
Terminated Vested Participants	352	362	396	677	724	489	6.8%
Suspended, Exempt or Pending Status	803	957	987	868	1,033	1,447	12.5%
Total	**10,614**	**10,865**	**11,307**	**11,691**	**12,329**	**13,019**	**4.2%**

U of T (OISE) Pension Plan	1998	1999	2000	2001	2002	2003	CAGR * since 1998
Active Participants	239	227	218	210	194	176	(5.9%)
Retired Participants	116	117	115	119	129	131	2.5%
Terminated Vested Participants	16	13	13	16	12	16	0.0%
Total	**371**	**357**	**346**	**345**	**335**	**323**	**(2.7%)**

* CAGR represents the compound annual growth rate.

Governance

Policy and Administration

The Governing Council of the University of Toronto is the administrator and sponsor of the pension plans. The Vice-President, Human Resources is responsible for the formulation of pension plan policy, employee communication and benefits administration. The Vice-President, Business Affairs is responsible for the financial administration of the funds including liaison with the trustee, actuarial consulting, investment management and external audit.

Plan Advisors

Investments	University of Toronto Asset Management Corporation
Auditors	Ernst & Young LLP
Actuary & Consultant	Hewitt Associates LLC
Trustee & Custodian	State Street Trust Company of Canada

Financial Highlights

U of T Pension Plan (RPP) Financial Data ($ millions) For years ended June 30	1998	1999	2000	2001	2002	2003	CAGR * Since 1998
Accrued Liabilities	1,503.3	1,575.1	1,680.2	1,770.5	1,904.9[1]	2,066.7	6.6%
Market Value of Assets	2,038.0	2,008.7	2,259.4	2,062.9	1,940.0	1,863.2	(1.8%)
Market Value of Surplus(Deficit)	534.7	433.6	579.2	292.4	35.1	(203.5)	(182.4%)
Actuarial Value of Assets **	1,830.6	1,927.2	2,072.0	2,108.2	2,098.9	2,068.9	2.5%
Actuarial Value of Surplus ***	327.4	352.1	391.9	337.7	194.0	2.2	(63.2%)
Current Service Cost	48.0	49.0	53.0	55.4	59.6	67.3	7.0%
Employee Contributions	6.0	4.0	1.9	0.8	10.7	24.0	31.9%
Retirement Payments	57.7	64.6	68.0	73.5	78.2	88.1	8.8%

U of T (OISE) Pension Plan Financial Data ($ millions) For years ended June 30	1998	1999	2000	2001	2002	2003	CAGR * Since 1998
Accrued Liabilities	64.1	65.9	69.4	73.8	77.9[1]	83.4	5.4%
Market Value of Assets	97.5	95.5	109.0	100.2	94.7	90.5	(1.5%)
Market Value of Surplus(Deficit)	33.4	29.6	39.6	26.4	16.8	7.1	(26.6%)
Actuarial Value of Assets **	88.7	92.8	100.9	103.6	103.4	101.4	2.7%
Actuarial Value of Surplus ***	24.6	26.9	31.5	29.8	25.5	18.0	(6.1%)
Current Service Cost	2.2	2.2	2.3	2.2	2.2	2.3	0.9%
Employee Contributions	0.2	0.1	0.0	0.0	0.3	0.6	24.6%
Retirement Payments	1.6	1.6	1.7	2.0	1.9	2.3	7.5%

1. The accrued liabilities increased as a result of enhancements to pension benefits for pensioners effective July 1, 2002 and augmentations to pension benefits as of February 1, 2003.

* CAGR represents the compound annual growth rate.

** Since neither the book value nor the market value is necessarily an ideal measure, other methods are often used to smooth out valuation results. The method for this valuation assumes an annual growth rate equal to the valuation interest rate followed by a 33-1/3% adjustment toward market value.

*** The actuarial surplus is the amount by which the actuarial value of assets exceeds the accrued liability.

The University was not permitted to make contributions for current service cost into either pension fund for the current plan year, since the July 1, 2002 actuarial surplus exceeded the greater of 10% of the accrued liability or twice the total current service cost. Section 147.2 of the Income Tax Act (Canada) requires that excess surplus be used to reduce or eliminate the current service cost. Since the late 1980's the pension plans have been in an actuarial surplus position, therefore no employer contributions have been made except for a couple of years in the early 1990's.

Employees experienced a pension contribution holiday from 1997 to 2002. The faculty 100% pension contribution holiday started on July 1, 1997 and ended on June 30, 2001. The staff 100% pension contribution holiday began on October 1, 1997 and ended on June 30, 2001. Both the faculty and staff experienced a 50% contribution holiday from July 1, 2001 to June 30, 2002. Full employee pension contributions resumed July 1, 2002.

The SRA current service cost and past service cost are recognized as part of the University's pension expense for the year in the same way as our two registered plans.

Supplemental Retirement Arrangement Financial Data ($ millions) For years ended June 30	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**CAGR * Since 1998**
Accrued Liabilities	76.2	102.4	107.9	116.8	131.8[1]	108.6[2]	7.3%

1. The accrued liability of the SRA plan increased as a result of enhancements to pension benefits for pensioners who retired up to and including June 30, 1996 and augmentations to pension benefits as of February 1, 2003.

2. The Federal budget of February 2003 announced increases in the defined benefit maximum limits under the Income Tax Act (Canada). As a result, the SRA liability as of July 1, 2003 declined by $37.5 million as a greater portion of the total pension benefit is now payable from the registered pension plan.

* CAGR represents the compound annual growth rate.

In October 1997, the Business Board approved a funding strategy whereby funds would be set a side for specific purposes to fund the SRA liability. A funding strategy was put in place whereby the amount equal to the unfunded liability would be set aside over a five year period. Any subsequent plan improvements and changes in market conditions were also to be funded over the five year period.

The University assets in the SRA fund were $91,241,347 as of June 30, 2003, a CAGR of 22.7% since 1998. In accordance with an Advance Income Tax Ruling which the University has received, such assets do not constitute trust property, are available to satisfy University creditors, may be applied to any other purpose that the University may determine from time to time, are commingled with other assets of the University, and are not subject to the direct claim of any members.

The funds set aside are invested in the University's Long Term Capital Appreciation Pool (LTCAP) and appear as an asset on the University's financial statement.

The following is a summary of the CAGR since 1998 to the RPP and the SRA:

- Accrued liabilities in the RPP increased annually by 6.6%
- Accrued liabilities in the SRA increased annually by 7.3%
- Market value of assets in the RPP decreased annually by 1.8%
- Market value of assets in the SRA increased annually by 22.7%
- Retiree participants in the RPP increased annually by 3.5%
- Active participants in the RPP increased annually by 3.1%

As at July 1, 2003 the RPP had an actuarial surplus of $2.2 million and a market deficit of $203.5 million. The difference will be reflected in the actuarial surplus over the next two years. The Federal budget of February 2003 announced increases in the defined benefit maximum pension limits under the Income Tax Act. As a result, an accrued liability of $37.5 million shifted from the SRA to the RPP. The continued poor market performance has caused the RPP asset to decline further resulting in a deficit market position. The RPP solvency ratio, which is a measure of the assets market value as compared to the solvency liability of the Plan (before escalated adjustments) as calculated by the actuaries, has declined from 1.19 as at July 1, 2002 to 1.02 as at July 1, 2003.

It is also important to note that the SRA accrued liability continues to grow at a faster rate than the RPP accrued liability even after the February 2003 Federal budget announcement. Salary increases over time are resulting in an increasing number of employees with salaries greater than the maximum salary limits prescribed under the regulations to the Income Tax Act. Additionally, pension plan improvements over time have resulted in a lowering of the maximum salary limit, further adding to the SRA liability.

The next section of this report will focus on the investment policy and investment performance to June 30, 2003. The final section of this report will introduce our current activities, which are designed to respond to the current investment climate.

Investment Policies

The pension Master Trust combines for investment purposes the assets of the University of Toronto Pension Fund and the University of Toronto (OISE) Pension Fund. The Master Trust was created on August 1, 2000 to provide the two funds' assets with the same economies of scale, diversification and investment performance.

The Pension Fund Master Trust Investment Policy was approved by the Business Board of the Governing Council of the University of Toronto on April 7, 2003. In connection with the requirements of the Financial Services Commission of Ontario, the Business Board annually reviews the investment policies and goals and will confirm or amend the policy as appropriate.

The Governing Council has delegated the daily oversight and management of the plan's assets to the University of Toronto Asset Management Corporation (UTAM), in accordance with the amended service agreement dated May 14, 2003 between the Governing Council and UTAM.

UTAM establishes mandates and assigns responsibility to external investment managers for the management of the portfolios. Funds may be allocated to internal or external managers as deemed appropriate.

The policy asset mix for the pension Master Trust approved by the University of Toronto Business Board in April 2003 was as follows:

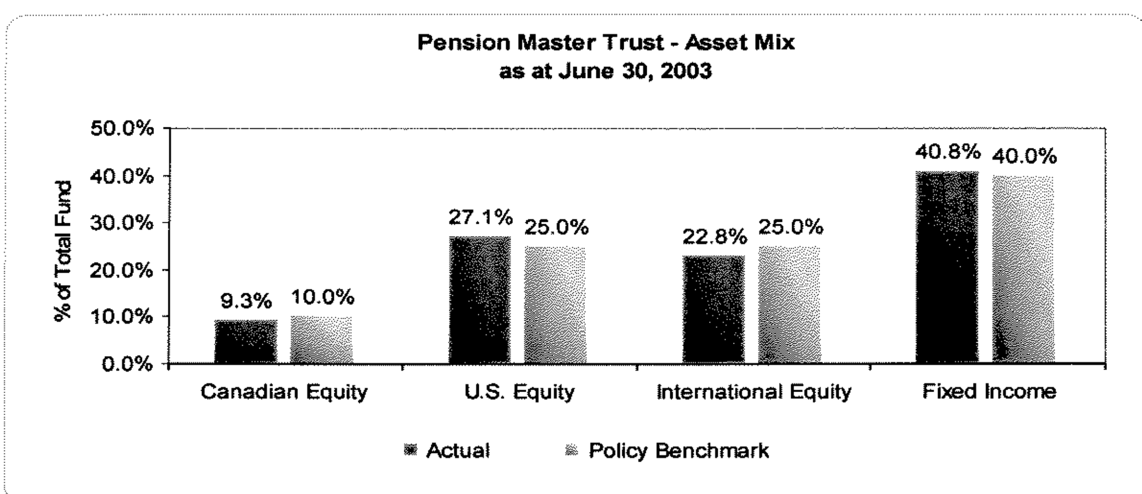
	Long-Term Asset Mix		
	Minimum	Normal	Maximum
Equity	50%	60%	70%
Debt	30%	40%	50%

The overall allocation between equity and fixed income were held at the normal policy weight of 60% equity and 40% fixed income throughout the year. However, a number of changes in the structure of the equity component were made in order to adapt to the current investment environment, including additions to actively managed portfolios, hedge funds, and enhanced index funds.

These changes were made to take advantage of niche strategies, particularly in small capitalization stocks, which out performed the broad market indices.

The chart below shows the actual asset weights as at June 30, 2003 relative to the policy benchmark.

Asset Mix as at June 30, 2003 - Actual Versus Policy Weights



At June 30, 2003, the pension Master Trust had a 28.5% foreign content. The Income Tax Act (Canada) stipulates that foreign content shall not exceed 30% of the book value of the plans' assets.

The University of Toronto Pension Plan held 95.4% of the Assets of the Master Trust, with the University of Toronto (OISE) Pension Plan holding the remaining 4.6% at June 30, 2003.

Investment Performance

For the period ended June 30, 2003, the one-year return of the pension Master Trust was 0.4%, before fees and expenses. For the better part of the twelve-months ended June 30, 2003, markets were negative and volatile. While markets have rebounded since March 2003, the appreciation of the Canadian dollar also added additional volatility to the pension return.

The bias toward small capitalization equity and high degree of diversification enabled the pension Master Trust to outperform its one-year benchmark by 0.4%.

The pension Master Trust has a long-term horizon, so the investment performance is evaluated over a multi-year period. To assess how the pension Master Trust return compares to the markets, it is compared to a market index benchmark comprising five major market indices - Canadian equities, U.S. equities, international equities and Canadian bonds. To assess how the pension Master Trust meets University expectations, it is compared to the University's return objective of **consumer's price index (CPI) plus 4%.** It is also compared to the **median balanced fund** return of an appropriate investment fund universe, which is comprised of funds with a similar asset mix and return objective.

The pension Master Trust four-year annualized return, as at June 30, 2003, was 2.3%. The pension Master Trust exceeded the market index benchmark by 1.9%, but fell short of meeting both the **CPI plus 4%** objective and the **Median balanced fund** objective by 4.2% and 1.7% respectively.

Periods Ended June 30	One-Year Annual Rates of Return				Four-Year Annualized Rates of Return			
	Pension Fund	Market Indices Benchmark	CPI Plus 4%	Median Balanced	Pension Fund	Market Indices Benchmark	CPI Plus 4%	Median Balanced
2003	0.4	0.0	6.9	1.4	2.3	0.4	6.5	4.0
2002	-2.0	-4.9	5.3	1.0	2.8	1.4	6.3	4.9
2001	-4.9	-9.5	7.3	-2.6	7.0	7.5	6.2	8.0
2000	17.2	22.0	6.9	17.4	13.7	16.1	5.8	14.8

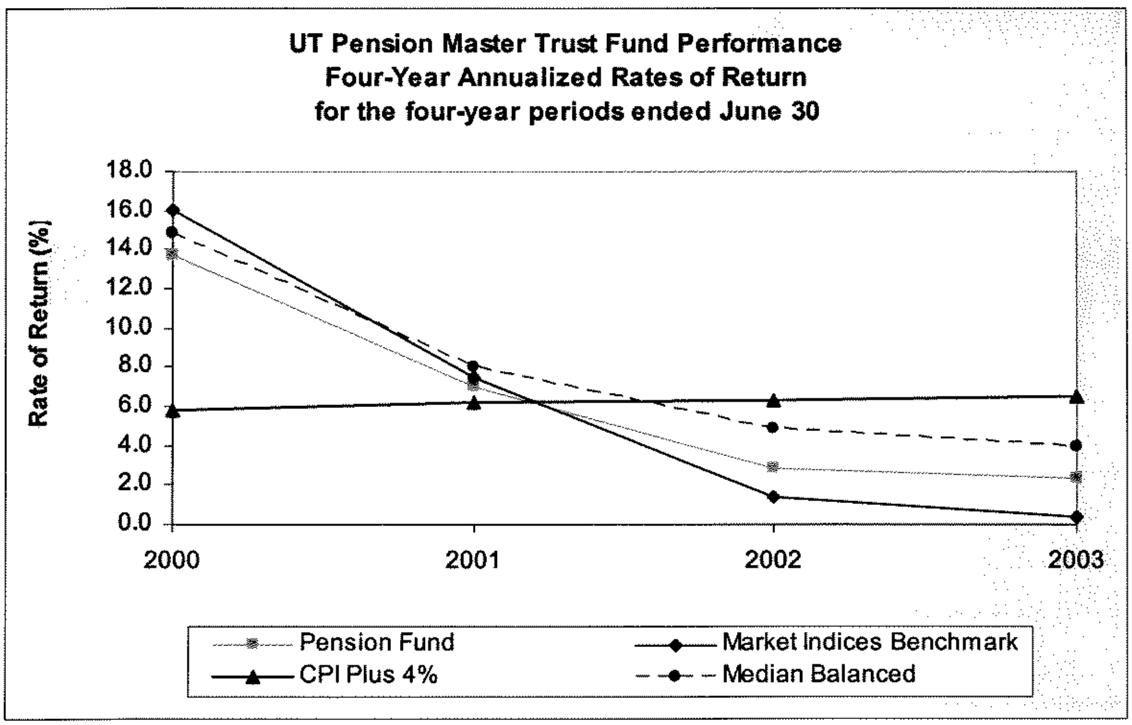
Notes:

Pension Fund returns are for the Master Trust, a combination of the University of Toronto Pension Fund and the University of Toronto (OISE) Pension Fund. The Master Trust was formed on August 1, 2000.

The **Market Indices Benchmark** is for comparison of relative returns and is composed of 10% TSE 300 Index, 25% Russell 3000 Index, 25% MSCI EAFE Index, 24% SC Universe Bond Index and 16% SC Long Term Bond Index. This Benchmark has been in effect since January 1, 2001. For the period July 1, 1997 to December 31, 2000, the policy benchmark had been 40% TSE 300 Index, 10% S&P 500 Index, 10% MSCI EAFE Index, and 40% SC Universe Bond Index.

CPI plus 4% is the real return objective designed to meet the Pension Funds' future obligations.

The **Median Balanced** Fund return is reported by Royal Bank Financial Group (formerly SEI). As at June 30, 2003, the median commitments to asset categories for balanced funds were 35.5% Canadian equities (TSE 300), 20.4% foreign equities (S&P 500 and EAFE), 36.5% bonds (SC Universe Bond) and 4.6% cash.



Fees and Expenses

Pension plan fees and expenses for the pension Master Trust totaled $13.4 million for 2002-2003, as compared to $11.8 million for 2001-2002. The increase was largely due to the increase of $0.7 million in investment management fees of external managers, due to the continuing diversification of investment mandates and the move towards more active investment strategies. The total fees and expenses for 2002-2003 were 0.688% of total trust assets as compared to 0.579% for 2001-2002. This change reflects both the slight increase in fees and the decline in plan assets.

The management expense ratio (MER) is a standard investment industry ratio that compares the costs of investment management, both direct and indirect, to the total assets under management. It includes expenses incurred by UTAM, all investment management fees, and the U of T investment management overhead fee. It excludes other pension administration costs, such as external audit fees, records administration and actuarial fees. It also uses the average market values for the year. The MER for the pension Master Trust was 0.561% for 2002-2003 and 0.502% for 2001-2002.

Current and Future Outlook

The historical information presented in this report allows us to draw certain conclusions about the financial health of our pension plans.

The OISE plan is a closed plan. Even with the current erosions in the market value of assets, the current asset base is larger than liabilities and it should be adequate to meet the remaining pension obligations for its member base.

With respect to the RPP, active participation has a CAGR of 3.1% and the number of retirements has a CAGR of 3.5% since 1998. Accrued liabilities in the RPP are growing at a CAGR of 6.6% while accrued liabilities in the SRA are growing at 7.3%. The RPP reported a market deficit of $203.5 million and an actuarial surplus of $2.2 million at July 1, 2003, mainly due to investment losses, pension improvements and employee and employer contribution holidays. The decline in the RPP assets has resulted in a solvency ratio (before escalated adjustments) of 1.02 as at July 1, 2003.

Looking forward, positive investment returns since June 30, 2003, have resulted in a gain of $55 million in RPP plan assets to September 30, 2003. A cautionary posture continues to prevail for the equity markets despite the recent positive trend. The University anticipates making contributions to the RPP of approximately $18.8 million in 2003-2004.

A pension strategy to deal with the market deficit is being considered, and will be included in the long-range budget currently being developed for the six year period from 2004-2005 through 2009-2010.

Felix Chee
Vice-President, Business Affairs

UNIVERSITY OF TORONTO
PENSION PLAN

FINANCIAL STATEMENTS

JUNE 30, 2003

University of Toronto Pension Plan

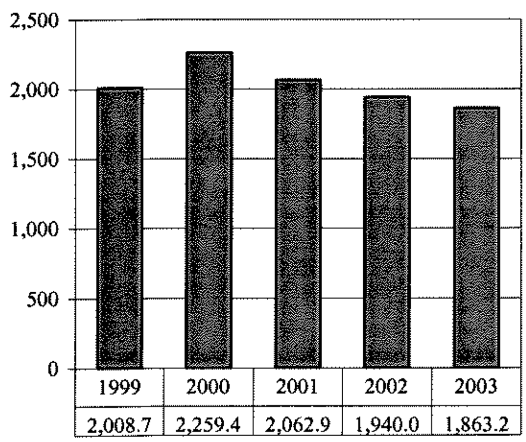
Highlights

The University of Toronto Pension Plan is a contributory defined benefit plan.

The net assets available for benefits were $1,863.2 million at June 30, 2003, a decline of $76.8 million or 4.0% from the previous year. This decline was a result of an overall unfavourable market performance.

For the five-year period from 1999 to 2003, the net assets available for benefits have decreased from $2,008.7 million to $1,863.2 million.

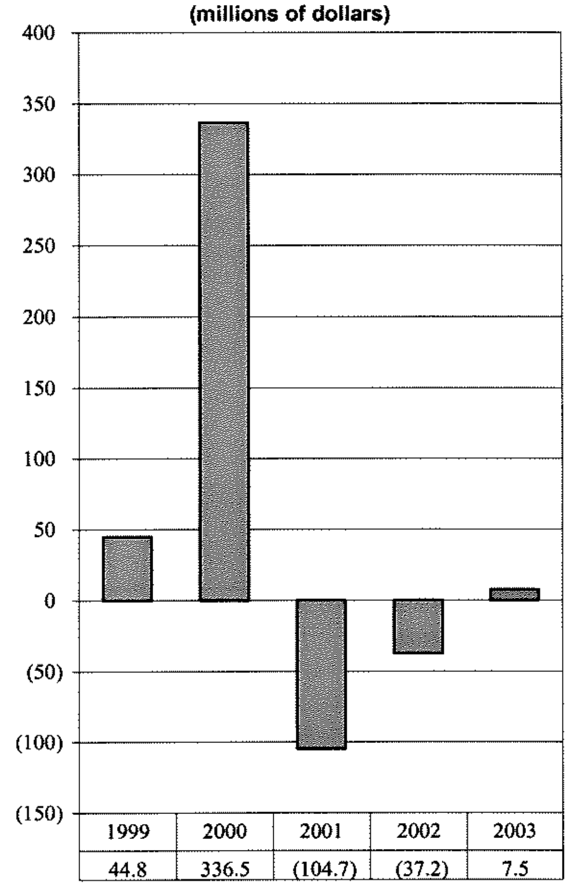
Net Assets Available (Market Value) for Benefits as at June 30 (millions of dollars)



The University of Toronto Master Trust holds the assets of the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan. At June 30, 2003 the University of Toronto Pension Plan assets represent 95.4% of the Master Trust. The University of Toronto Asset Management Corporation provides a high level of professional expertise to investment management of the Master Trust.

The total rate of investment return (including realized and unrealized gains and losses) for the pension Master Trust for the year ended June 30, 2003, was 0.41% (2002 – -2.00%) before fees and expenses. Although the return was marginally positive, it outperformed the investment policy benchmark return of 0.01% by 0.40%. This benchmark is composed of five major market indices representing Canadian equity, US equity, international equity and bonds. The last 12 months have been characterized by declining equity markets and the pension Master Trust has withstood the downturn well.

Total Return on Investments for the year ended June 30 (millions of dollars)

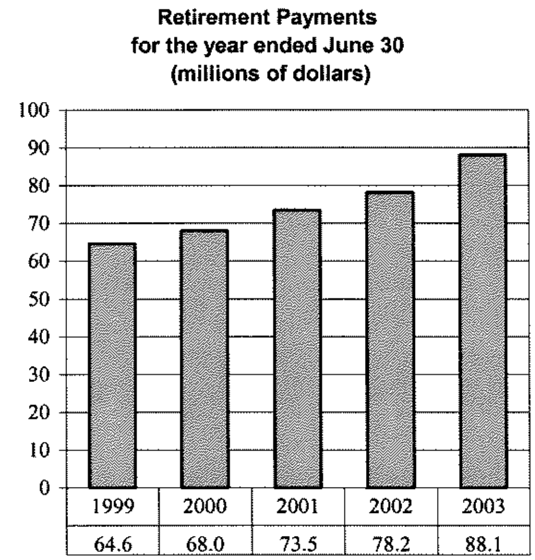


The University was not permitted to make contributions for current service cost into the University of Toronto pension fund for the current plan year, since the July 1, 2002 actuarial surplus exceeded the greater of 10% of the accrued liability or twice the total current service cost. Due to the decline in the investment markets, the University expects to make employer contributions of $18.8 million in 2004.

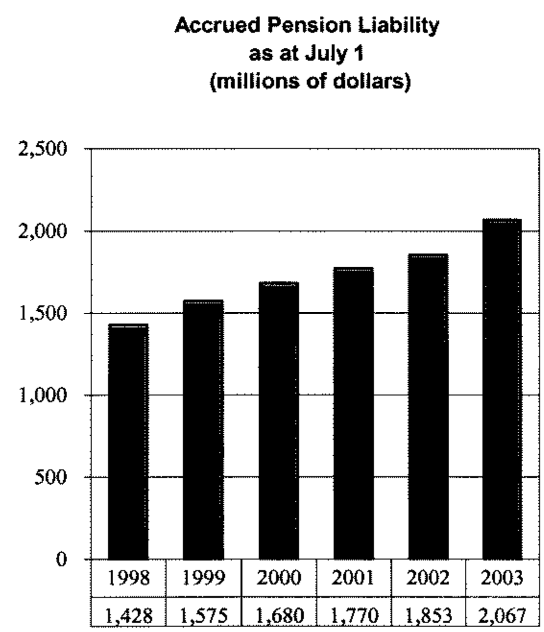
The University reached agreements with staff groups whereby members were able to enjoy contribution holidays provided there was excess surplus in the Plan (as defined under the Income Tax Act (Canada)). From July 1, 2001 to June 30, 2002 employees were on a 50% contribution holiday as negotiated. Effective July 1, 2002, employees resumed regular contributions which increased the plan by $24.0 million in 2003.

Pension plan fees and expenses for the University of Toronto Pension Plan totalled $12.6 million for 2002-2003, as compared to $11.1 million for 2001-2002. The increase was largely due to the increase of $0.7 million in investment management fees of external managers, due to the continuing diversification of investment mandates and the move towards more active investment strategies. There is no significant change in transfers from, or to, other plans.

Retirement payments increased in 2003 by $9.9 million as compared to 2002. This reflects the increasing number of pensioners as well as augmentations paid to pensioners.



Accrued pension liabilities have also increased steadily over the years as a result of Plan improvements and an increase in both active and retired participants in the Plan.



AUDITORS' REPORT

To the Administrator of the
University of Toronto Pension Plan

We have audited the statement of net assets available for benefits of the **University of Toronto Pension Plan** as at June 30, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan Administrator. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at June 30, 2003 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
September 30, 2003.

Chartered Accountants

UNIVERSITY OF TORONTO PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures as at June 30, 2002)
(thousands of dollars)

As at June 30

	2003	2002
	$	$
ASSETS		
Investments, at fair market value *(note 3(a))*	**1,857,797**	1,934,995
Prepaid expenses	**8,586**	7,652
	1,866,383	1,942,647
LIABILITIES		
Refunds in transit	**1,771**	1,386
Accrued expenses	**1,403**	1,310
	3,174	2,696
Net assets available for benefits	**1,863,209**	1,939,951

See accompanying notes

On behalf of the Governing Council of the University of Toronto:

Mr. F. Chee
Vice-President, Business Affairs

Mr. L. Charpentier
Secretary of the Governing Council

UNIVERSITY OF TORONTO PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures for the year ended June 30, 2002)
(thousands of dollars)

Year ended June 30

	2003 **$**	2002 $
INCREASE IN NET ASSETS		
Employee contributions *(note 4)*	**23,954**	10,666
Net investment gain from Master Trust *(note 3(b))*	**7,502**	-
Transfers from other plans	**851**	841
Total increase in net assets	**32,307**	11,507
DECREASE IN NET ASSETS		
Net investment loss from Master Trust *(note 3(b))*	**-**	37,177
Retirement payments	**88,141**	78,242
Refunds and transfers *(note 6)*	**8,320**	7,962
Fees and expenses *(note 7)*	**12,588**	11,047
Total decrease in net assets	**109,049**	134,428
Net decrease in net assets for the year	**(76,742)**	(122,921)
Net assets available for benefits, beginning of year	**1,939,951**	2,062,872
Net assets available for benefits, end of year	**1,863,209**	1,939,951

See accompanying notes

UNIVERSITY OF TORONTO PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

1. Description of Plan

The University of Toronto Pension Plan (the "Plan") is a defined benefit plan open to all full-time and part-time employees of the University of Toronto (the "University") meeting the eligibility conditions. The Governing Council of the University of Toronto acts as administrator for the Plan.

Member contributions are made in accordance with a prescribed formula. The University's contribution is determined annually on the basis of an actuarial valuation taking into account the assets of the Plan and all other relevant factors.

Contributions are made to the Plan to provide benefits in accordance with the Plan agreement.

This description is a summary only. For more complete information, reference may be made to the official Plan text. The Plan is registered under the Ontario Pension Benefits Act, 1990: Registration Number 0312827.

2. Summary of significant accounting policies

These financial statements have been prepared by the University in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

a) Investments and investment income

Investments, which include accrued income, are carried at fair value.

The Plan is invested in the University of Toronto Master Trust (the "Master Trust"). The unit value of the Master Trust is calculated based on the fair value of the underlying investments of the Master Trust. Net investment income (loss) includes interest, dividends, foreign exchange gains (losses), realized gains (losses) and net change in unrealized gains (losses) on investments held by the Master Trust.

2. b) **University of Toronto Master Trust**

Fair values of the investments held by the Master Trust are determined as follows:

(i) The fair values of publicly traded bonds and equities are determined based on quoted market values. Investments in pooled funds are valued at their unit values. Unlisted or infrequently traded securities are based on quoted market yields or comparable security prices, as appropriate. The real estate market values represent estimated year-end market values based on periodic cyclical appraisals by accredited appraisers.

(ii) Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes with respect to the Master Trust'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 supported by liquid assets with a market value approximately equal to the market value of the instruments underlying the derivative contract.

The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the Master Trust's derivative financial instruments. Gains and losses on these instruments are recognized as investment income in the year in which the changes in fair value occur.

(iii) Monetary assets denominated in foreign currencies are translated at the exchange rate in effect at the year-end.

Interest income is recorded by the Master Trust on an accrual basis. Dividends are recorded by the Master Trust as revenue on the record date. Unrealized gains and losses on investments are recorded by the Master Trust as a change in market value since the beginning of the year or since the date of purchase when purchased during the year.

Investment income and expenses denominated in foreign currencies are translated into Canadian dollars at the rate in effect at the date of the transaction. Gains or losses arising from those translations are included in investment income.

Purchases and sales of investments are recorded by the Master Trust on a trade date basis.

c) **Revenue and expense recognition**

All employer and employee contributions and other revenue are reflected in the year in which they are due. All expenses are recorded on an accrual basis.

3. **University of Toronto Master Trust**

On August 1, 2000, the Master Trust was established to facilitate the collective investment of the assets of the University's pension plans, in which each plan holds units of the Master Trust. The value of each unit held by the Plan increases or decreases every month based on the change in market value of the underlying assets of the Master Trust. This value is used as the basis for the purchase and sale of units by the pension plans in the following month.

a) Statement of net assets
(thousands of dollars)

As at June 30, 2003, the Plan held 20,050,301 (2002 – 20,975,967) of the 21,026,038 (2002 - 21,996,112) outstanding units of the Master Trust. The unit market value as at June 30, 2003 was $92.66 (2002 – $92.25). Investments held at market value by the Master Trust as at June 30 are as follows:

	2003 $	2002 $
Short-term notes and deposits	**24,806**	30,501
Common and preferred shares		
Canadian	**9,779**	6,995
Foreign	**359,544**	371,082
	369,323	378,077
Pooled Funds		
Canadian pooled bond funds		
TD Emerald Canadian Bond Index Fund	**517,254**	491,503
TD Emerald Canadian Long Bond Pooled Fund	**255,706**	323,325
Other	**8,438**	
Canadian pooled equity funds		
BGIC Active Canadian Equity Fund	**87,923**	66,530
Burgundy Small Cap Pension Fund	**38,352**	36,478
TD Emerald Enhanced Canadian Equity Pooled Fund	**38,340**	42,256
Hillsdale Canadian Aggressive Hedged Equity Fund	**3,619**	11,667
Hillsdale Canadian Market Neutral Equity Fund	**2,802**	10,842
Other	**27**	29
Foreign pooled equity funds		
Northwater Derivatives Fund III U.S.	**235,461**	244,669
Northwater Derivatives Fund International	**104,373**	46,388
Maverick Fund Limited	**37,600**	39,477
CCL Arrow Street Synthetic Fund	**33,229**	
Formula Unit Trust	**30,371**	40,119
Northwater Derivatives Fund Mid Cap	**26,425**	18,169
Northwater Derivatives Fund Small Cap	**21,129**	22,906
Liberty Square Offshore Fund	**20,390**	
GMO Diversified Futures Fund	**20,078**	
Salomon Brothers Investment Series Capital Fund	**14,710**	24,736
BGIC Synthetic EAFE Equity Index Fund		90,422
BPI International LP 1		50,815
K. Capital (U.S. Dollar) Ltd.		23,496
Other	**8,784**	18,273
	1,505,011	1,602,100
Derivative related net receivables *(note 3(d))*	**49,066**	18,503
	1,948,206	2,029,181
University of Toronto Pension Plan (95.4% of Master Trust)	**1,857,797**	1,934,995

b) <u>Statement of changes in net assets</u>
(thousands of dollars)

For the year ended June 30

	2003 $	2002 $
Net investment gain (loss)	**7,883**	(39,009)
Cash received on purchase of Master Trust units by pension plans	**25,386**	14,641
Cash paid on redemption of Master Trust units by pension plans	**(114,244)**	(109,718)
Net decrease in net assets for the year	**(80,975)**	(134,086)
Net assets, beginning of year	**2,029,181**	2,163,267
Net assets, end of year	**1,948,206**	2,029,181
University of Toronto Pension Plan (95.4% of Master Trust)	**1,857,797**	1,934,995

Net investment gain (loss) for the year ended June 30 for the Master Trust is comprised of the following:

	2003 $	2002 $
Common and preferred shares		
Canadian:		
Dividend income	**227**	7
Net realized and unrealized gains (losses)	**160**	(2,440)
Foreign:		
Dividend income	**7,575**	8,232
Net realized and unrealized losses	**(83,529)**	(18,718)
Foreign exchange gain (loss)	**54,392**	(5,440)
Interest on short-term notes and deposits	**269**	250
Other sources of income (loss)	**(108)**	495
Net investment income (loss) from pooled funds	**28,897**	(21,395)
	7,883	(39,009)
University of Toronto Pension Plan (95.4% of Master Trust)	**7,502**	(37,177)

The net gain (loss) was reported in the Plan's statement of changes in net assets available for benefits as net investment income (loss) from Master Trust.

c) **Individually significant investments**

The details of investments where the market value exceeds 1% of the total market value or book value of the Master Trust have been provided in note 3(a).

d) **Derivative financial instruments**

Description

The Master Trust has entered into equity futures contracts which oblige it to pay the difference between a predetermined amount and the market value of certain equities when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount.

The Master Trust enters into foreign currency contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The Master Trust has significant contracts outstanding held in U.S. dollars, the Euro, Japanese yen and British pound.

Risks

The notional amounts of the forward instrument contracts do not represent amounts exchanged between related parties and are not a measure of the Master Trust's exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

The Master Trust is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The Master Trust limits its derivative financial instruments' credit risk by dealing with counterparties that are at least rated "A".

Terms and conditions

The notional and fair value amounts of the financial instruments are as follows:

(millions of dollars)

	2003		2002	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency contracts:				
- U.S. dollars	**873.8**	**39.7**	678.7	23.5
- Global	**302.8**	**9.7**	444.5	(5.0)
		49.4		18.5
Equity futures contracts:				
- U.S. dollars	**15.1**	**(0.3)**	0.4	0.0

4. **Plan contributions**

Employer contributions were not permitted (as defined under the Income Tax Act (Canada)) since the Plan's assets exceeded the Plan's liabilities by more than 10% of the accrued pension liability based on the most recent actuarial valuation as at July 1, 2002.

The University reached an agreement with the Faculty Association and USWA (United Steel Workers of America) under the terms of which it was agreed that, provided there was excess surplus in the Plan (as defined under the Income Tax Act (Canada)) members would contribute half of the regular contributions from July 1, 2001 to June 30, 2002, and members would contribute the regular contribution to the Plan thereafter. These provisions also applied to the Professional/Managerial Group, the Confidential Group and other unions, subject to minor variations as negotiated.

5. **Voluntary Early Academic Retirement Program (VEARP)**

The University does not make contributions to the Plan for the cost of waiving the actuarial reduction when faculty and librarians retire under VEARP, in view of the Plan's surplus.

6. **Refunds and transfers**
(thousands of dollars)

Refunds and transfers consist of the following:

	2003	2002
	$	$
Refunds of contributions:		
Upon termination	**951**	529
Upon death	**1,827**	1,124
	2,778	1,653
Transfers to other plans upon termination	**5,542**	6,309
	8,320	7,962

7. **Fees and expenses**
(thousands of dollars)

Fees and expenses consist of the following:

	2003	2002
	$	$
Investment management fees:		
External managers	**7,401**	6,701
University of Toronto Asset Management Corporation	**2,101**	1,833
Trustee and custodial fees	**479**	219
Actuarial and consulting fees	**427**	388
Pension records administration	**533**	560
External audit fees	**34**	29
Administration cost – University of Toronto	**1,345**	1,178
Other fees	**268**	139
	12,588	11,047

8. **Obligations for pension benefits**
(thousands of dollars)

The actuarial present value of accrued pension benefits is determined by applying best estimate assumptions and the projected benefit method prorated on services. An actuarial valuation was performed as of July 1, 2003 by Hewitt Associates LLC, a firm of consulting actuaries.

The actuarial present value of accrued pension benefits as at July 1, 2003 and 2002 and the principal components of changes during the year are as follows:

	2003 **$**	2002 $
Actuarial present value of accrued Pension benefits, beginning of year	**1,904,858**	1,770,462
Interest on accrued benefits	**129,994**	120,944
Benefits accrued	**62,324**	58,033
Benefits paid	**(96,461)**	(86,204)
Experience (gain) loss	**22,590**	(10,349)
Plan amendments[1]		51,972
Legislative changes[2]	**43,415**	
Actuarial present value of accrued pension benefits, end of year	**2,066,720**	1,904,858

1. Reflects plan amendments effective July 1, 2002 and February 1, 2003.
2. The February 2003 Federal budget announced increases in the defined benefit limits under the Income Tax Act (Canada).

9. **Comparative financial statements**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2003 financial statements.

DRAFT

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

FINANCIAL STATEMENTS

JUNE 30, 2003

University of Toronto (OISE) Pension Plan

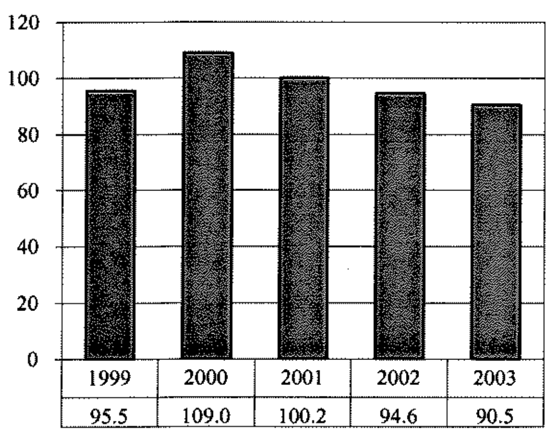
Highlights

The University of Toronto (OISE) Pension Plan is a contributory defined benefit plan.

The net assets available for benefits were $90.5 million at June 30, 2003, a decline of $4.1 million or 4.3% from the previous year. This decline was a result of an overall unfavourable market performance.

For the five-year period from 1999 to 2003, the net assets available for benefits have decreased from $95.5 million to $90.5 million.

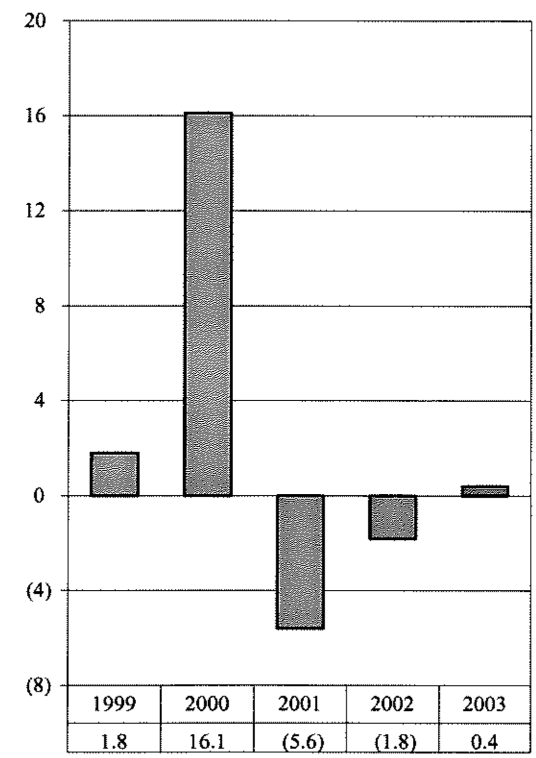
Net Assets Available (Market Value) for Benefits as at June 30 (millions of dollars)



The University of Toronto Master Trust holds the assets of the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan. At June 30, 2003 the University of Toronto (OISE) Pension Plan assets represent 4.6% of the Master Trust. The University of Toronto Asset Management Corporation provides a high level of professional expertise to investment management of the Master Trust.

The total rate of investment return (including realized and unrealized gains and losses) for the pension Master Trust for the year ended June 30, 2003 was 0.41% (2002 – -2.00%) before fees and expenses. Although the return was marginally positive, it outperformed the investment policy benchmark return of 0.01% by 0.40%. This benchmark is composed of five major market indices representing Canadian equity, US equity, international equity and bonds. The last 12 months have been characterized by declining equity markets and the pension Master Trust has withstood the downturn well.

Total Return on Investments for the year ended June 30 (millions of dollars)



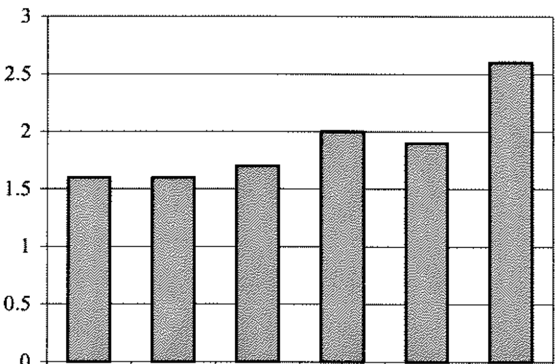
The University is currently not permitted to make contributions for current service cost into the OISE pension fund for the current plan year, since the July 1, 2002 actuarial surplus exceeds the greater of 10% of the accrued liability or twice the total current service cost.

The University reached agreements with staff groups whereby members were able to enjoy contribution holidays provided there was excess surplus in the Plan (as defined under the Income Tax Act (Canada)). From July 1, 2001 to June 30, 2002 employees were on a 50% contribution holiday as negotiated. Effective July 1, 2002 employees resumed regular contributions which increased the Plan by $0.6 million in 2003.

Pension Plan fees and expenses for the University of Toronto (OISE) Pension Plan totalled $0.8 million for 2002-2003, as compared to $0.7 million for 2001-2002. The increase was largely due to the increase of $0.1 million in investment management fees of external managers, due to the continuing diversification of investment mandates and the move towards more active investment strategies. Due to the greater number of terminations in 2003, refunds and transfers to other plans increased by $0.2 million over 2002.

Retirement payments increased in 2003 by $0.7 million, as compared to 2002. This reflects the increasing number of pensioners as well as augmentations paid to pensioners.

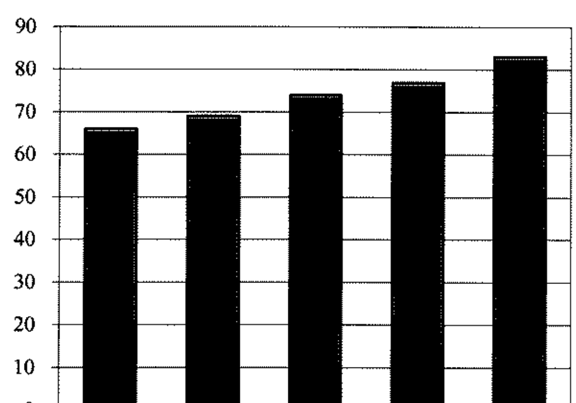
Retirement Payments
for the year ended June 30
(millions of dollars)



1998	1999	2000	2001	2002	2003
1.6	1.6	1.7	2.0	1.9	2.6

Accrued pension liabilities have also steadily increased over the years. Although both retired and active participants have slowly decreased, Plan improvements have offset the effect of the decrease, resulting in a net increase of total pension liability.

Accrued Pension Liability
as at July 1
(millions of dollars)



1999	2000	2001	2002	2003
66	69	74	77	83

AUDITORS' REPORT

To the Administrator of the
University of Toronto (OISE) Pension Plan

We have audited the statement of net assets available for benefits of the **University of Toronto (OISE) Pension Plan** as at June 30, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan Administrator. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at June 30, 2003 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
September 30, 2003.

Chartered Accountants

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures as at June 30, 2002)
(thousands of dollars)

As at June 30

	2003 **$**	2002 $
ASSETS		
Investments, at fair market value *(note 3(a))*	**90,408**	94,186
Prepaid expenses	**234**	575
	90,642	94,761
LIABILITIES		
Accrued expenses	**102**	79
Net assets available for benefits	**90,540**	94,682

See accompanying notes

On behalf of the Governing Council of the University of Toronto:

Mr. F. Chee
Vice-President, Business Affairs

Mr. L. Charpentier
Secretary of the Governing Council

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures for the year ended June 30, 2002)
(thousands of dollars)

Year ended June 30

	2003 **$**	2002 $
INCREASE IN NET ASSETS		
Employee contributions *(note 4)*	**582**	309
Net investment gain from Master Trust *(note 3(b))*	**381**	-
Total increase in net assets	**963**	309
DECREASE IN NET ASSETS		
Net investment loss from Master Trust *(note 3(b))*	**-**	1,832
Retirement payments	**2,613**	1,855
Refunds and transfers *(note 5)*	**1,670**	1,467
Fees and expenses *(note 6)*	**822**	704
Total decrease in net assets	**5,105**	5,858
Net decrease in net assets for the year	**(4,142)**	(5,549)
Net assets available for benefits, beginning of year	**94,682**	100,231
Net assets available for benefits, end of year	**90,540**	94,682

See accompanying notes

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

1. Description of Plan

The University of Toronto Ontario Institute for Studies in Education (OISE) Pension Plan (the "Plan") is a defined benefit plan covering substantially all full-time and part-time employees of OISE who were members of the Plan as of June 30, 1996. Effective July 1, 1996, the Governing Council of the University of Toronto (the "University") acts as administrator for the Plan. Prior to July 1, 1996, the OISE Board of Governors acted as the administrator.

Member contributions are made in accordance with a prescribed formula. The University's contribution is determined annually on the basis of an actuarial valuation taking into account the assets of the Plan and all other relevant factors.

Contributions are made to the Plan to provide benefits in accordance with the Plan agreement.

This description is a summary only. For more complete information, reference may be made to the official Plan text. The Plan is registered under the Ontario Pension Benefits Act, 1990: Registration Number 0353854.

2. Summary of significant accounting policies

These financial statements have been prepared by the University in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

a) Investments and investment income

Investments, which include accrued income, are carried at fair value.

The Plan is invested in the University of Toronto Master Trust (the "Master Trust"). The unit value of the Master Trust is calculated based on the fair value of the underlying investments of the Master Trust. Net investment income (loss) includes interest, dividends, foreign exchange gains (losses), realized gains (losses) and net change in unrealized gains (losses) on investments held by the Master Trust.

b) University of Toronto Master Trust

Fair values of the investments held by the Master Trust are determined as follows:

(i) The fair values of publicly traded bonds and equities are determined based on quoted market values. Investments in pooled funds are valued at their unit values. Unlisted or infrequently traded securities are based on quoted market yields or comparable security prices, as appropriate. The real estate market values represent estimated year-end market values based on periodic cyclical appraisals by accredited appraisers.

(ii) Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes with respect to the Master Trust'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 supported by liquid assets with a market value approximately equal to the market value of the instruments underlying the derivative contract.

The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the Master Trust's derivative financial instruments. Gains and losses on these instruments are recognized as investment income in the year in which the changes in fair value occur.

(iii) Monetary assets denominated in foreign currencies are translated at the exchange rate in effect at the year-end.

Interest income is recorded by the Master Trust on an accrual basis. Dividends are recorded by the Master Trust as revenue on the record date. Unrealized gains and losses on investments are recorded by the Master Trust as a change in market value since the beginning of the year or since the date of purchase when purchased during the year.

Investment income and expenses denominated in foreign currencies are translated into Canadian dollars at the rate in effect at the date of the transaction. Gains or losses arising from those translations are included in investment income.

Purchases and sales of investments are recorded by the Master Trust on a trade date basis.

c) Revenue and expense recognition

All employer and employee contributions and other revenue are reflected in the year in which they are due. All expenses are recorded on an accrual basis.

3. University of Toronto Master Trust

On August 1, 2000, the Master Trust was established to facilitate the collective investment of the assets of the University's pension plans, in which each plan holds units of the Master Trust. The value of each unit held by the Plan increases or decreases every month based on the change in market value of the underlying assets of the Master Trust. This value is used as the basis for the purchase and sale of units by the pension plans in the following month.

a) Statement of net assets
(thousands of dollars)

As at June 30, 2003, the Plan held 975,737 (2002 - 1,020,145) of the 21,026,038 (2002 - 21,996,112) outstanding units of the Master Trust. The unit market value as at June 30, 2003 was $92.66 (2002 - $92.25). Investments held at market value by the Master Trust as at June 30 are as follows:

	2003 $	2002 $
Short-term notes and deposits	**24,806**	30,501
Common and preferred shares		
Canadian	**9,779**	6,995
Foreign	**359,544**	371,082
	369,323	378,077
Pooled Funds		
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Canadian pooled equity funds		
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Other	**8,784**	18,273
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	1,948,206	2,029,181
University of Toronto (OISE) Pension Plan (4.6% of Master Trust)	**90,408**	94,186

b) Statement of changes in net assets
(thousands of dollars)

For the year ended June 30

	2003	2002
	$	$
Net investment gain (loss)	**7,883**	(39,009)
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Canadian:		
Dividend income	**227**	7
Net realized and unrealized gains (losses)	**160**	(2,440)
Foreign:		
Dividend income	**7,575**	8,232
Net realized and unrealized losses	**(83,529)**	(18,718)
Foreign exchange gain (loss)	**54,392**	(5,440)
Interest on short-term notes and deposits	**269**	250
Other sources of income (loss)	**(108)**	495
Net investment income (loss) from pooled funds	**28,897**	(21,395)
	7,883	(39,009)
University of Toronto (OISE) Pension Plan (4.6% of Master Trust)	**381**	(1,832)

The net gain (loss) was reported in the Plan's statement of changes in net assets available for benefits as net investment gain (loss) from Master Trust.

c) **Individually significant investments**

The details of investments where the market value exceeds 1% of the total market value or book value of the Master Trust have been provided in note 3(a).

d) **Derivative financial instruments**

Description

The Master Trust has entered into equity futures contracts which oblige it to pay the difference between a predetermined amount and the market value of certain equities when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount.

The Master Trust enters into foreign currency contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The Master Trust has significant contracts outstanding held in U.S. dollars, the Euro, Japanese yen and British pound.

Risks

The notional amounts of the forward instrument contracts do not represent amounts exchanged between related parties and are not a measure of the Master Trust's exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

The Master Trust is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The Master Trust limits its derivative financial instruments' credit risk by dealing with counterparties that are at least rated "A".

Terms and conditions

The notional and fair value amounts of the financial instruments are as follows:

(millions of dollars)

	2003		2002	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency contracts:				
- U.S. dollars	**873.8**	**39.7**	678.7	23.5
- Global	**302.8**	**9.7**	444.5	(5.0)
		49.4		18.5
Equity futures contracts:				
- U.S. dollars	**15.1**	**(0.3)**	0.4	0.0

4. **Plan contributions**

Employer contributions were not permitted (as defined under the Income Tax Act (Canada)) since the Plan's assets exceeded the Plan's liabilities by more than 10% of the accrued pension liability based on the most recent actuarial valuation as at July 1, 2002.

The University reached an agreement with the Faculty Association and USWA (United Steel Workers of America) under the terms of which it was agreed that, provided there was excess surplus in the Plan (as defined under the Income Tax Act (Canada)) members would contribute half of the regular contributions from July 1, 2001 to June 30, 2002, and members would contribute the regular contribution to the Plan thereafter. These provisions also applied to the Professional/Managerial Group, the Confidential Group and other unions, subject to minor variations as negotiated.

5. **Refunds and transfers**
(thousands of dollars)

Refunds and transfers consist of the following:

	2003	2002
	$	$
Refunds of contributions:		
Upon termination	**123**	9
Upon death	**316**	-
	439	9
Transfers to other plans upon termination	**1,231**	1,458
	1,670	1,467

6. **Fees and expenses**
(thousands of dollars)

Fees and expenses consist of the following:

	2003	2002
	$	$
Investment management fees:		
External managers	**375**	341
University of Toronto Asset Management Corporation	**111**	96
Trustee and custodial fees	**25**	13
Actuarial and consulting fees	**117**	76
Pension records administration	**98**	86
External audit fees	**12**	11
Administration cost – University of Toronto	**71**	77
Other fees	**13**	4
	822	704

7. **Obligations for pension benefits**
(thousands of dollars)

The actuarial present value of accrued pension benefits is determined by applying best estimate assumptions and the projected benefit method prorated on services. An actuarial valuation was performed as of July 1, 2003 by Hewitt Associates LLC, a firm of consulting actuaries.

The actuarial present value of accrued pension benefits as at July 1, 2003 and 2002 and the principal components of changes during the year are as follows:

	2003	2002
	$	$
Actuarial present value of accrued Pension benefits, beginning of year	**77,851**	73,839
Interest on accrued benefits	**5,300**	5,053
Benefits accrued	**2,247**	2,314
Benefits paid	**(4,283)**	(3,322)
Experience (gain) loss	**(268)**	(975)
Plan amedments[1]		942
Legislative changes[2]	**2,570**	
Actuarial present value of accrued pension benefits, end of year	**83,417**	77,851

1. Reflects plan amendments effective July 1, 2002 and February 1, 2003.
2. The February 2003 Federal budget announced increases in the defined benefit limits under the Income Tax Act (Canada).

8. **Comparative financial statements**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2003 financial statements.

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Actuarial Report

University of Toronto
Pension Plan

As of July 1, 2003

Summary

	As of July 1, 2002	As of July 1, 2003
Going Concern Valuation Results (thousands of dollars)		
Past Service		
Actuarial Value of Assets	$ 2,098,942	$ 2,068,883
Less: Accrued Liability	(1,904,858)[1]	(2,066,720)
Surplus (Unfunded Accrued Liability)	$ 194,084	$ 2,163
As a % of Actuarial Value of Assets	9.2%	0.1%
Excess Surplus	$ 3,598	$ 0
Market Value of Assets	$ 1,939,951	$ 1,863,209
Deferred Asset Gain (Loss)	$ (158,991)	$ (205,674)
Current Service		
Total Current Service Cost	$ 59,585	$ 67,275
Less: Required Participant Contributions	(22,272)	(24,383)
Remaining Current Service Cost	$ 37,313[2]	$ 42,891
As a % of Participant Salary Base	8.59%	9.07%
As a % of Participant Salary Base (Capped at $150,000)	N/A	9.27%
Participant Salary Base	$ 434,557	$ 473,078
Participant Salary Base (Capped at $150,000)	N/A	$ 462,487
Solvency Valuation Results		
Market Value of Assets	$ 1,939,951	$ 1,863,209
Solvency Liability – Without Escalated Adjustments[3]	$ 1,631,819	$ 1,820,048
Solvency Liability – With Escalated Adjustments[3]	$ 1,978,506	$ 2,205,869

[1] Reflects plan amendments effective July 1, 2002 and February 1, 2003.

[2] Since the Surplus exceeds 10% of the Accrued Liability, Section 147.2 of the *Income Tax Act* requires that the excess surplus must be used to reduce the Remaining Current Service Cost.

[3] The Regulations to the Pension Benefits Act (Ontario) allow the Solvency Liability to exclude the liabilities associated with escalated adjustments (future indexing). Solvency Liabilities are shown both with and without the value of future escalated adjustments.

	As of July 1, 2002	As of July 1, 2003
Personnel Data		
Active Participants	6,759	7,141
Retired Participants	3,813	3,942
Terminated Vested	724	489
Suspended, Exempt or Pending Status	1,033	1,447
Total	12,329	13,019

Assets and Liabilities

Going Concern Valuation Results (thousands of dollars)

Past Service		
Actuarial Value of Assets		$ 2,068,883
Less: Accrued Liability		
Active Participants	$ (975,133)	
Retired Participants	(1,030,598)	
Terminated Vested Participants	(16,238)	
Suspended, Exempt or Pending Status	(44,750)	
Total		(2,066,720)
Surplus (Unfunded Accrued Liability)		$ 2,163
As a % of Actuarial Value of Assets		0.1%
Excess Surplus		$ 0
Market Value of Assets		$ 1,863,209
Deferred Asset Gain (Loss)		$ (205,674)
Current Service		
Total Current Service Cost		$ 67,275
Less: Required Participant Contributions		(24,383)
Remaining Current Service Cost		$ 42,891
As a % of Participant Salary Base		9.07%
As a % of Participant Salary Base (With $150,000 Pay Cap)		9.27%
Participant Salary Base		$ 473,078
Participant Salary Base (With $150,000 Pay Cap)		$ 462,487

Experience

Reconciliation of Surplus (thousands of dollars)

Surplus at July 1, 2002		$ 194,084
Less:	Surplus Applied Against Current Service Cost, Required Participant Contributions, and Special Past Service Contributions Under VEARP	(37,313)
Plus:	Interest at 7.0% per annum	12,403
Equals:	Surplus at July 1, 2003, Before Experience Gains (Losses)	$ 169,174
Plus:	Increase (Decrease) in Surplus at July 1, 2003 Due to:	
	Gains (Losses):	
	Return on Assets	$ (102,821)
	Pay and YMPE Increases	(2,401)
	Indexation of Benefits	(6,863)
	Retiree Mortality	(7,356)
	Personnel Changes, Retiree Mortality, Retirement Ages, etc.	(4,154)
	Change in *Income Tax Act* Maximum Pension Limit	(43,415)
Equals:	Surplus at July 1, 2003	$ 2,164

Comments Regarding Experience

Return on Assets

The assumed rate of return for actuarial valuation purposes was 7.0% per annum or $144,418,000, based on the actuarial value of assets as at July 1, 2002. After allowance is made for the market value adjustment under the asset valuation method of ($102,821,000), the net return was 2.0% or $41,597,000. The market value adjustment of ($102,821,000) represents the asset gain/(loss) under the asset valuation method. The total return based on the actual market value of assets after allowing for the full amount of capital appreciation during the year was -0.3% after expenses, assuming contributions and benefit payments take place in the middle of the year.

Pay and YMPE Increases

Average pay for those participants present in both the 2002 and 2003 valuations increased by 5.87%. This increase was higher than the 4.5% increase anticipated by the assumption. The Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan increased by 2.0% from 2002 to 2003. This was less than the 4.0% increase anticipated by the assumptions. Pay increases higher than assumed, and a YMPE increase lower than assumed, each contributed to an actuarial loss of $2,401,000.

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants as of July 1, 2003 increased by 2.93%. The increase was higher than the 2.25% increase anticipated under the actuarial assumptions, resulting in an actuarial loss of $6,863,000.

Retiree Mortality

Retiree mortality experience since July 1, 2002 was lower than expected under the valuation assumptions. This resulted in a loss of $7,356,000.

Miscellaneous

Other factors such as personnel changes, retirements earlier than assumed, and mortality among terminated vested participants, etc., deviated from expected resulting in a net actuarial loss of $4,154,000.

Change in *Income Tax Act* Maximum Pension Limit

The federal budget of February 18, 2003 announced increases in the tax-assisted savings limits and corresponding increases in the defined benefit limits. The *Income Tax Act* defined benefit limit will increase earlier than previously specified, with the limit increasing to $1,833.33 per year of service in 2004, $2,000.00 in 2005, and indexed thereafter.

This change in the maximum pension limit under the *Income Tax Act* increased the accrued liability as of July 1, 2003 by $43,415,000, and the current service cost by $2,224,131 or 0.48% of Participant Salary Base (with $150,000 pay cap).

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Actuarial Report

University of Toronto
(OISE) Pension Plan

As of July 1, 2003

Summary

	As of July 1, 2002[1]	As of July 1, 2003[1]
Going Concern Valuation Results (thousands of dollars)		
Past Service		
Actuarial Value of Assets	$ 103,406	$ 101,390
Less: Accrued Liability	(77,851)[2]	(83,417)
Surplus (Unfunded Accrued Liability)	$ 25,555	$ 17,993
As a % of Actuarial Value of Assets	24.7%	17.7%
Excess Surplus	$ 17,770	$ 9,631
Market Value of Assets	$ 94,682	$ 90,540
Deferred Asset Gain (Loss)	$ (8,724)	$ (10,850)
Current Service		
Total Current Service Cost	$ 2,178	$ 2,270
Less: Required Participant Contributions	(669)	(657)
Remaining Current Service Cost[3]	$ 1,509	$ 1,613
As a % of Participant Salary Base	13.06%	13.82%
Participant Salary Base	$ 11,551	$ 11,671

[1] On August 16, 2000, the Superintendent of Financial Services ordered that the Plan be wound-up in part in relation to members who terminated employment between February 1996 and June 1996 under special voluntary retirement or severance programs in effect at that time. The impact of the partial wind-up order is being determined, and has not been reflected in the valuation results.

[2] Reflects plan amendments effective July 1, 2002 and February 1, 2003.

[3] Since the Surplus exceeds 10% of the Accrued Liability, Section 147.2 of the *Income Tax Act* requires that the excess surplus must be used to reduce the Remaining Current Service Cost.

	As of July 1, 2002[1]	As of July 1, 2003[1]
Funding Requirements (thousands of dollars)		
Required Participant Contributions	$ 669	$ 657
Minimum Required University Current Service Contributions	$ 0	$ 0
As a % of Participant Salary Base	0.00%	0.00%
Remaining Current Service Cost	$ 1,509	$ 1,613
Less: Required Application of Excess Surplus[2]	(1,509)	(1,613)
Maximum Eligible University Current Service Contributions	$ 0	$ 0
As a % of Participant Salary Base	0.00%	0.00%
Solvency Valuation Results		
Market Value of Assets	$ 94,682	$ 90,540
Solvency Liability - Without Escalated Adjustments[3]	$ 67,217	$ 73,478
Solvency Liability - With Escalated Adjustments[3]	$ 82,618	$ 89,391

[1] On August 16, 2000, the Superintendent of Financial Services ordered that the Plan be wound-up in part in relation to members who terminated employment between February 1996 and June 1996 under special voluntary retirement or severance programs in effect at that time. The impact of the partial wind-up order is being determined, and has not been reflected in the valuation results.

[2] Since the Surplus exceeds 10% of the Accrued Liability, Section 147.2 of the *Income Tax Act* requires that the excess surplus must be used to reduce the Remaining Current Service Cost.

[3] The Regulations to the Pension Benefits Act (Ontario) allow the Solvency Liability to exclude the liabilities associated with escalated adjustments (future indexing). Solvency Liabilities are shown both with and without the value of future escalated adjustments.

Summary (continued)

	As of July 1, 2002	As of July 1, 2003
Personnel Data		
Active Participants	194	176
Retired Participants	129	131
Terminated Vested Participants	12	16
Total	335	323

Assets and Liabilities

Going Concern Valuation Results (thousands of dollars)

Past Service		
Actuarial Value of Assets		$ 101,390
Less: Accrued Liability		
Active Participants	$ (49,983)	
Retired Participants	(32,877)	
Terminated Vested Participants	(557)	
Total		(83,417)[1]
Surplus (Unfunded Accrued Liability)		$ 17,973
As a % of Actuarial Value of Assets		17.7%
Excess Surplus		$ 9,631
Market Value of Assets		$ 90,540
Deferred Asset Gain (Loss)		$ (10,850)
Current Service		
Total Current Service Cost		$ 2,270
Less: Required Participant Contributions		(657)
Remaining Current Service Cost		$ 1,613[1]
As a % of Participant Salary Base		13.82%
Participant Salary Base		$ 11,671

[1] Since the Surplus exceeds 10% of the Accrued Liability, Section 147.2 of the *Income Tax Act* requires that the excess surplus must be used to reduce the Remaining Current Service Cost.

Experience

Reconciliation of Surplus (thousands of dollars)

Surplus at July 1, 2002		$	25,555
Less:	Surplus Applied Against Current Service Cost, Required Participant Contributions, and Special Past Service Contributions Under VEARP		(1,509)
Plus:	Interest at 7.0% per annum		1,736
Equals:	Surplus at July 1, 2003, Before Experience Gains (Losses)	$	25,782
Plus:	Increase (Decrease) in Surplus at July 1, 2003 Due to:		
	Gains (Losses):		
	Return on Assets	$	(5,424)
	Pay and YMPE Increases		(60)
	Indexation of Benefits		(225)
	Personnel Changes, Retiree Mortality, Retirement Ages, etc.		467
	Change in *Income Tax Act* Maximum Pension Limit		(2,567)
Equals:	Surplus at July 1, 2003	$	17,973

Comments Regarding Experience

Return on Assets

The assumed rate of return for actuarial valuation purposes was 7.0% per annum or $7,109,000, based on the actuarial value of assets as at July 1, 2002. After allowance is made for the market value adjustment under the asset valuation method of ($5,424,000), the net return was 1.7% or $1,685,000. The market value adjustment of ($5,424,000) represents the asset gain/(loss) under the asset valuation method. The total return based on the actual market value of assets was -0.5% after expenses, assuming contributions and benefit payments take place in the middle of the year.

Pay and YMPE Increases

Average pay for those participants present in both the 2002 and 2003 valuations increased by 5.2%. This increase was higher than the 4.5% increase anticipated by the assumptions. The Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan increased by 2.0% from 2002 to 2003. This was less than the 4.0% increase anticipated by the assumptions. In combination, the deviation from expected experience generated an actuarial loss of $60,000.

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants as of July 1, 2003 increased by 2.93% for retiree under the 75% indexing provision (and corresponding higher for retirees under one of the pre-integration provisions). The increase was higher than the 2.25% increase anticipated under the actuarial assumptions, resulting in an actuarial loss of $225,000.

Miscellaneous

Other factors such as personnel changes, retirements earlier than assumed, mortality among retirees and terminated vested participants, etc., deviated from expected resulting in a net actuarial gain of $467,000.

Change in the *Income Tax Act* Maximum Pension Limits

The federal budget of February 18, 2003 announced increases in the tax-assisted savings limits and corresponding increases in the defined benefit limits. The *Income Tax Act* defined benefit limit will increase earlier than previously specified, with the limit increasing to $1,833.33 per year of service in 2004, $2,000.00 in 2005, and indexed thereafter.

This change in the maximum pension limit under the *Income Tax Act* increased the accrued liability as of July 1, 2003 by $2,567,000, and the current service cost by $102,000 or 0.87% of Participant Salary Base.

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Actuarial Report

University of Toronto
Supplemental
Retirement
Arrangement

As of July 1, 2003

Valuation Results

	As of July 1, 2002	As of July 1, 2003
Going Concern Valuation Results (thousands of dollars)		
Past Service		
Accrued Liability		
Active Participants	$ 87,718	$ 47,825
Retired Participants	44,057	60,824
Total SRA	$ 131,775	$ 108,649

The Federal Budget of February 2003 announced increases in the defined benefit maximum pension limits under the Income Tax Act. As a result, the SRA liability as of July 1, 2003 declined by $37.5 million as a greater portion of the total pension benefit is now payable from the registered pension plan

For financial accounting purposes, the University from time to time appropriates funds which are set aside as a "fund for specific purpose" in respect of the obligations under the SRA. The assets in this fund are $91,241,347 as of June 30, 2003. In accordance with an Advance Income Tax Ruling which the University has received, such assets do not constitute trust property, are available to satisfy University creditors, may be applied to any other purpose that the University may determine from time to time, are commingled with other assets of the University, and are not subject to the direct claim of any members.

	As of July 1, 2002	As of July 1, 2003
Current Service		
Current Service Cost for SRA	$ 3,360	$ 1,473
As a % of Participant Salary Base	0.75%	0.30%
As a % of Participant Salary Base (With Cap)	N/A	0.31%
Participant Salary Base[1]	$ 446,108	$ 484,748
Participant Salary Base[1] With $150,000 Pay Cap	N/A	$ 474,157

[1] Includes participants in both the University of Toronto Pension Plan and University of Toronto (OISE) Pension Plan