UNIVERSITY OF TORONTO

FINANCIAL REPORT

April 30, 2014

Thomas Fisher Rare Book Library

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HIGHLIGHTS

Year Ended April 30, 2014

(with comparative figures at April 30, 2013)

(millions of dollars)

	2014	2013	% Change
Statement of Operations			
Revenues	$ 2,710.2	$ 2,563.3	5.7%
Expenses	$ 2,505.9	$ 2,425.6	3.3%
Net Income	$ 204.3	$ 137.7	48.4%
Balance Sheet			
Assets	$ 7,681.0	$ 7,325.2	4.9%
Liabilities	$ 3,780.8	$ 4,118.3	-8.2%
Net Assets	$ 3,900.2	$ 3,206.9	21.6%
Net Assets Composed of:			
Endowments	$ 1,880.8	$ 1,663.7	13.0%
Internally Restricted			
Cash reserves for future spending	$ 777.9	$ 684.8	
Other reserves	$ 1,366.1	$ 988.1	
	$ 2,144.0	$ 1,672.9	28.2%
Unrestricted Deficit	$ (124.6)	$ (129.7)	3.9%
	$ 3,900.2	$ 3,206.9	
Total Debt Policy Limit	$ 1,396.5	$ 1,400.0	-0.2%
Policy Debt Burden Ratio	5.0%	5.0%	
Actual Debt Burden Ratio	3.8%	3.7%	
Student FTEs (November 1)	72,371	70,311	2.9%
Total Number of Students (November 1)	83,012	80,899	2.6%

HIGHLIGHTS

The University of Toronto (the "University") was established in 1827 and is Canada's largest and most comprehensive university.

Enrolment at the University is more than 83,000 full-time and part-time students (72,371 full-time equivalents), making the University of Toronto one of the largest universities in North America in terms of enrolment. The University's size and academic resources provide its students with a wide range of academic programmes and courses, while its unique college system offers students learning experiences enriched by individual cultures in a smaller community. The University is located on three campuses: St. George (downtown Toronto), Scarborough and Mississauga.

This financial report does 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.

Financial Health and Challenges

Over more than a decade, the University benefited from the Ontario and Federal governments' visionary investments in higher education and research, ensuring access, fostering growth in graduate enrolment, and financing vital infrastructure. However, there is cause for concern if the fiscal position of our government partners deteriorates in the future thereby putting increased pressure on public funding, an already scarce resource. Societal changes are challenging our status as a preferred producer of knowledge. We now face intense competition from multiple sources, as the dissemination of knowledge explodes throughout the online world.

We will also need to continue to draw on the ingenuity, creativity and efficiency of our faculty and staff, and the loyalty and generosity of our benefactors in order to meet these formidable challenges if we hope to maintain and advance our global standing. Other strategies that will ensure our success in meeting these challenges include exploring new and imaginative ways to take advantage of our location in the Toronto region, and to deepen our relationships with our local partners. We must think more strategically about how we strengthen our international partnerships with other great universities in other great world cities allowing us to foster not just student mobility and faculty exchanges, but also joint research projects, joint conferences, joint teaching and even joint degrees. The rise of digital technologies and the need for 'job-ready' graduates demands that we re-examine and perhaps even reinvent undergraduate education. We will need to build on the excellent work in this area and rededicate ourselves to the enrichment of undergraduate teaching and learning.

We will need the support from our government partners, at all levels, to recognize through their funding and their policies, that institutions like the University of Toronto play a unique and differentiated role within Canadian higher education.

Recent Changes in Accounting Standards

Effective May 1, 2011, the University started to account for its employee future benefits obligations (pensions and other employee future benefits) using the immediate recognition approach which has the impact of fully recording the deficit in its pension plans and employee future benefits other than pensions on the consolidated balance sheet and the changes in the deficits in the consolidated statement of operations. Effective May 1, 2012, any difference in the actual return on plan assets and the return used in valuing employee future benefits obligations, and any actuarial gains and losses, are recognized directly in net assets instead of being recorded in the consolidated statement of operations. Effective May 1, 2011, the University elected to recognize some of its land at fair value which increased its capital assets and internally restricted net assets by $2.1 billion.

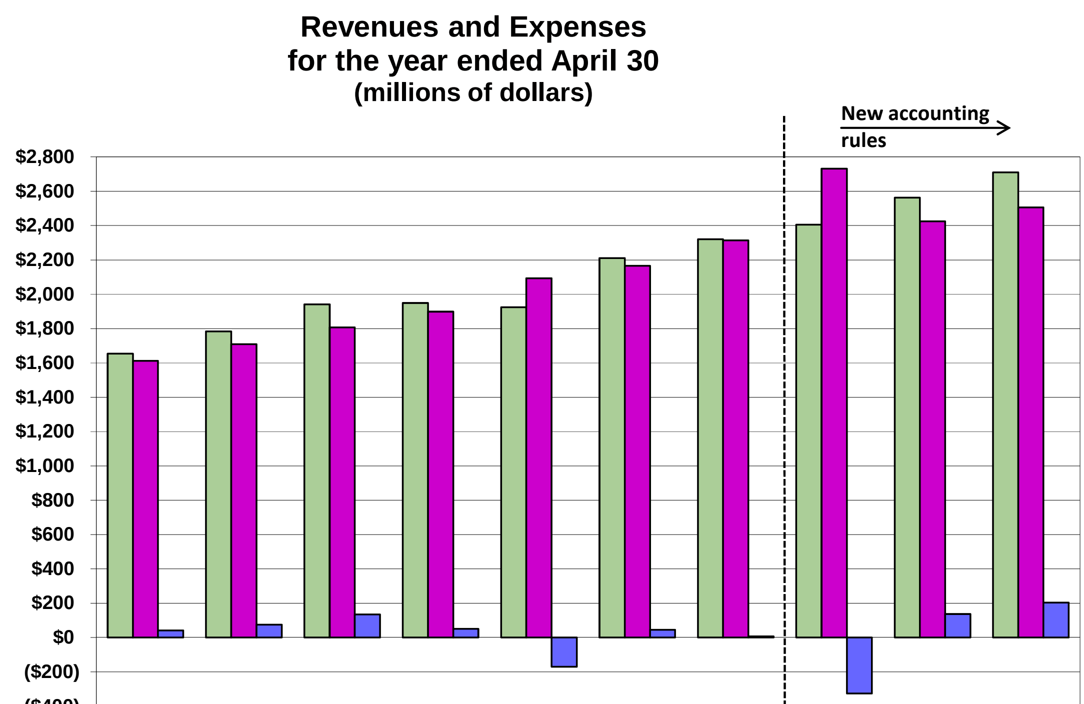
As noted above, the adoption of recent changes in accounting rules has resulted in recording some of the University's land at fair value and full recording of its pensions and other employee future benefit obligations on the consolidated balance sheet. The resulting increase in net assets has no impact on the University's debt strategy which is based on the University's ability to make interest payments and repay principal as a percentage of total expenditures. The University is committed to prudently and strategically allocating debt to high priority capital projects and providing support for the pension plans. The $1.4 billion total debt policy limit is comprised of about $1.0 billion in external debt and $350.0 million internal debt of which $150.0 million is reserved for pensions.

The growth in net assets resulting from the new accounting rules has no impact on the University's net revenue position and does not in any way address its current and future fiscal challenges.

The Statement of Operations

The consolidated statement of operations is mainly impacted by the growth in student enrolments, which increases student fee revenues, government grants and salaries and benefits expense due to the resulting growth in faculty and staff. Growth in research activity affects research revenues, salaries and benefits expense and materials and supplies expense. The growth in both of these activities increased the need for construction and renovations which impact operating expenses, interest and amortization expense.

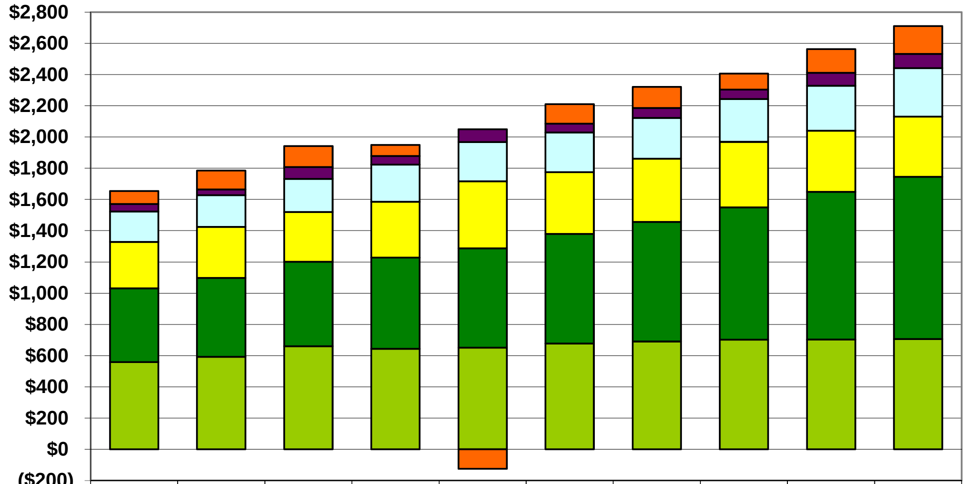
Revenues for the year ended April 30, 2014 were $2.7 billion and expenses were $2.5 billion for a net income of $204.3 million, created primarily as a result of prudent and deliberate divisional saving of funds which have been set aside as operating and capital reserves for future expenditures. Funds were also set aside for capital construction and renovation.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues	1,653.8	1,784.3	1,942.0	1,948.9	1,924.7	2,210.9	2,321.1	2,406.0	2,563.3	2,710.2
Expenses	1,612.6	1,709.3	1,807.5	1,898.3	2,093.9	2,165.5	2,313.9	2,732.0	2,425.6	2,505.9
Net income (loss)	41.2	75.0	134.5	50.6	(169.2)	45.4	7.2	(326.0)	137.7	204.3

In 2014, $1.7 billion or 64.4% of revenues were from student fees and government grants provided in support of student enrolments. An additional $386.5 million represented government and other grants and contracts for restricted purposes. Together these three sources accounted for 78.6% of revenues for the year.

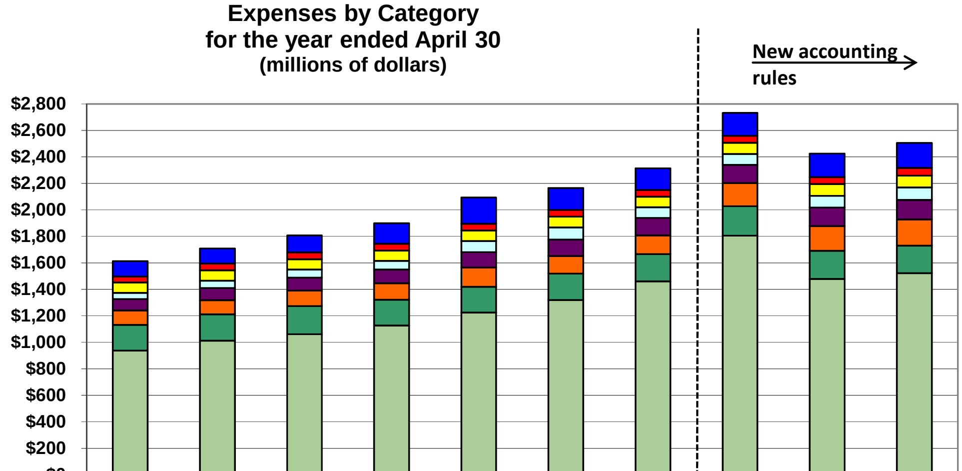
Revenues by Category
for the year ended April 30
(millions of dollars)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenues	1,653.8	1,784.3	1,942.0	1,948.9	1,924.7	2,210.9	2,321.1	2,406.0	2,563.3	2,710.2
Investment income (losses)	82.8	120.0	134.4	69.9	(125.3)	124.9	135.6	102.9	151.3	178.6
Expendable donations	48.0	37.0	74.8	56.2	82.1	57.7	63.7	59.9	83.7	90.3
Other sales and services	194.8	202.2	212.9	237.4	251.0	253.1	260.1	273.3	288.5	309.8
Restricted grants and contracts	297.7	327.5	319.7	358.3	429.9	395.9	406.4	420.3	391.5	386.5
Student fees	472.3	505.7	538.9	583.6	636.4	701.3	764.3	847.4	944.7	1,039.0
Government grants	558.2	591.9	661.3	643.5	650.6	678.0	691.0	702.2	703.6	706.0

In 2014, expenses for the year amounted to $2.5 billion, of which $1.5 billion, or 60.8%, was for salaries and benefits.

Expenses by Category
for the year ended April 30
(millions of dollars)



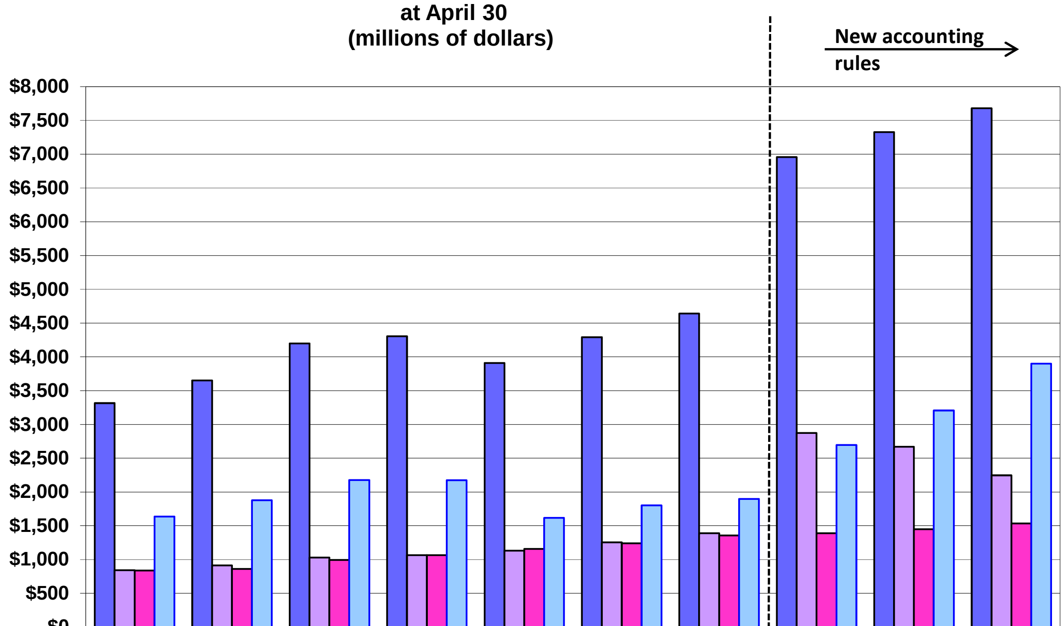
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total expenses	1,612.6	1,709.3	1,807.5	1,898.3	2,093.9	2,165.5	2,313.9	2,732.0	2,425.6	2,505.9
Other	116.3	114.7	127.3	153.4	198.3	165.5	163.0	172.1	178.9	188.4
Utilities	44.5	51.1	52.5	53.0	51.0	51.3	51.0	53.0	51.9	59.1
Cost of sales and services	77.6	79.1	77.7	76.5	80.5	80.5	80.4	84.6	87.9	87.7
Repairs and maintenance	48.8	54.2	61.4	65.2	82.5	92.1	79.8	81.7	88.2	96.0
Amortization of capital assets	83.5	91.4	99.1	104.1	117.2	124.1	132.1	137.0	141.2	146.2
Scholarships, fellowships, bursaries	110.9	106.5	115.9	125.0	144.6	132.1	141.4	176.3	186.3	199.1
Materials and supplies	194.7	200.0	211.7	193.7	195.8	200.4	206.3	222.2	212.6	206.5
Salaries and benefits	936.3	1,012.3	1,061.9	1,127.4	1,224.0	1,319.5	1,459.9	1,805.1	1,478.6	1,522.9

It is important to note that faculty and staff salaries and benefits relating to teaching, research and administrative activities are predominantly funded from University operating funds (mostly student fees and government grants). Additional details are provided in the "Salaries and Benefits" section of this document. Materials and supplies amounted to $206.5 million, or 8.2% of total expenses. Scholarships, fellowships and bursaries were $199.1 million, or 7.9%. Repairs and maintenance amounted to $96.0 million or 3.8%. Utilities expense amounted to $59.1 million, or 2.4%.

The Balance Sheet

At April 30, 2014, assets were $7.7 billion, liabilities were $3.8 billion and net assets were $3.9 billion. Assets and liabilities have grown since 2005 mainly due to the construction of additional space to accommodate the increased number of students and increased research activities, due to growth in endowments as a result of receiving endowed donations and due to good investment returns. Also, the adoption of recent change in accounting standards increased assets by $2.1 billion related to capital assets and increased liabilities by $934.5 million (unfunded employee future benefits) thus resulting in a net increase of $1.1 billion in net assets at May 1, 2011.

Assets, Liabilities and Net Assets
at April 30
(millions of dollars)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assets	3,313.8	3,652.2	4,200.8	4,305.3	3,909.0	4,292.9	4,640.5	6,955.8	7,325.2	7,681.0
Liabilities	840.0	913.9	1,030.6	1,066.8	1,132.5	1,253.3	1,387.5	2,872.8	2,669.2	2,245.9
Deferred contributions	837.7	861.9	993.7	1,064.2	1,159.4	1,239.6	1,356.6	1,389.5	1,449.1	1,534.9
Net assets	1,636.1	1,876.4	2,176.5	2,174.3	1,617.1	1,800.0	1,896.4	2,693.5	3,206.9	3,900.2

Net assets reflect the University's net worth. Net assets change over time only through:

- the net income or net loss for the year,
- the change in endowments derived from 1) endowed donations, and 2) from investment income on externally restricted endowments (which is not made available for spending) which does not flow through the consolidated statement of operations but rather is added directly to the endowment balance in accordance with current generally accepted accounting principles for not-for-profit organizations, and
- Effective May 1, 2012, any difference in the actual return on plan assets and the return used in valuing employee future benefits obligations, and any actuarial gains and losses, is recognized directly in net assets instead of being recorded in the consolidated statement of operations.

Net assets increased from $3.2 billion in 2013 to $3.9 billion in 2014 as a result of a net income of $204.3 million, $144.2 million gain on externally restricted endowments not made available for spending, endowed donations of $37.1 million and $307.7 million in remeasurements and other items representing the difference in the actual investment return on pension plan assets and the investment return used in valuing employee future benefits obligations, and net actuarial gains and losses.

Net assets comprised of the following:

- $1.9 billion of endowments, representing 48.2% of net assets,
- $2.1 billion of internally restricted net assets, and
- ($124.6 million) of unrestricted deficit.

The unrestricted deficit of $124.6 million is largely due to the internal financing of capital construction in accordance with the University's debt strategy (see the "Debt" section of this document).

The $2.1 billion of internally restricted net assets comprises:

- $2.2 billion in land,
- $433.6 million of other investment in capital assets (representing internal monies previously spent by the University for capital projects which will be reduced over time as these capital assets are amortized.),
- ($1.3 billion) in net unfunded liability associated with pension and other employee future benefits, and
- $777.9 million of cash reserves held for various purposes.

The $1.9 billion of endowments represent over 5,700 individual endowment funds, which are restricted in nature based on the direction of donors or Governing Council.

The Role of the Government of Ontario

In fiscal 2014, $1.7 billion or 64.4% of revenues comprised student fees and government grants provided in support of student enrolments. The Provincial Government provides operating grants and regulates tuition fees for domestic students in publicly-funded programs. The Provincial Government also invests in student support, research and infrastructure.

Operating Grants

The University continues on a path originally set by the 2005 Ontario Budget which announced a major funding allocation of $6.2 billion for universities and colleges. The funding was initially allocated over the period from 2004 to 2010 and included allocations for undergraduate and graduate enrolment expansion, additional undergraduate medical spaces, tuition freeze compensation, quality enhancement funds and increased financial aid for low and middle income students. Funding was later extended to 2017 and provided for 60,000 new spaces in universities and colleges. This includes 6,000 graduate and 35,000 undergraduate spaces for the university sector. Funding for graduate expansion was accompanied by the addition of 1,000 new Ontario Graduate Scholarships in support of innovative and creative graduate students as an essential component of Ontario's future, announced in the 2010 Ontario budget.

In November 2013, the Province released its new framework for the postsecondary sector entitled *Ontario's Differentiation Policy Framework for Postsecondary Education*. The new framework will rely on differentiation as a primary policy driver for the system, which looks to build on, and focus on, the unique strengths of each institution. A key feature of differentiation lies in the allocation of graduate spaces, one measure of a university's research intensity. In December 2013 the Ministry distributed 750 new Master's spaces to the system to support further growth for 2014-15. The University of Toronto received 223 of the Master's spaces. About half of the remaining 4,350 graduate spaces will be allocated through the Strategic Mandate Agreement (SMA) process for 2015-16 and 2016-17, with the balance being allocated in the final round of the SMA process.

To date, the University has grown by 4,358 graduate FTEs and 10,126 undergraduate FTEs since 2005 and all grant-eligible undergraduate and graduate growth has been fully funded by the Province. Plans are in place for additional undergraduate growth of 3,885 FTEs and graduate growth of 2,845 FTEs by 2018-19. In the 2012 Ontario Budget, the Provincial Government released a Policy Levers Savings

Target, effectively reducing the value of the Basic Income Unit by 2% by 2014, and thereby reducing the University's operating grants by $10.5 million.

In 2010, the Province announced a commitment to encourage the brightest students world-wide to study in Ontario by committing to increase international enrolment by 50% over the next five years while still ensuring that all qualified domestic students are able to attend university. The 2012 Ontario Budget also announced two International Student Recovery (ISR) operating grant reductions. The first reduction eliminates the previous subsidies for non-PhD international students that were provided to institutions to pay their portion of municipal taxes. The second ISR is a reduction, in the words of the Government, of the "indirect support through operating grants" that it provides to non-PhD international students. In total, projections indicate that the University's operating grants will be reduced by $9.5 million related to these two recoveries by 2016-17. In 2013-14 international students comprised 15.3% of total undergraduate enrolment, more than doubling the percentage over the last ten years. In 2013-14 international students comprised 14.7% of total graduate enrolment.

Tuition Fees and Student Aid

University tuition fees for domestic students are regulated by the Provincial Government. For the last seven years, ending in 2012-13, the University was regulated under a tuition framework permitting universities to increase tuition fees by up to 4.5% for domestic students entering most programmes and by no more than 4% for in-programme students. Tuition fees could increase by a maximum of 8% in professional programmes such as Law, Medicine and Engineering and in graduate programmes. The overall institutional average increase could not exceed 5%.

On March 28, 2013, the Government of Ontario announced a new four-year tuition framework effective 2013-14 to 2016-17. The new framework allows universities to increase fees by up to 3% for domestic students entering most programmes and for in-programme students. Tuition fees may increase by a maximum of 5% in professional programmes and the new framework reduces the overall annual cap from 5% to 3%. The Framework continues to be accompanied by an accessibility guarantee. A Tuition Set Aside formula requires a specific amount to be set aside by universities for student aid, so that universities ensure accessibility, regardless of the students' financial means; this is in line with the long-established policy of the University. The University remains committed to the goal of accessibility and to working with the Provincial and Federal Governments to achieve this goal. In 2014, the University spent $199.1 million on student support, a significant increase from $110.9 million in 2005.

In addition, in 2012 the Provincial Government introduced the Ontario Tuition Grant program (OTG). The OTG initially awarded eligible students with family incomes below $160,000 up to $800 per term of non-repayable grant support up to a maximum of two terms per academic year. The OTG value is indexed each year in line with average tuition increases.

Capital Funding

In the 2008 Ontario Budget, the Government pledged a range of investments for post-secondary education and research. The Ontario Budget included an investment of an additional $200.0 million under the University Campus Renewal funding program for the maintenance and renewal of university facilities. In 2008-09, the University received $37.7 million as its share of funding under this program. The funds were used to improve energy efficiency, for campus safety and security, and to renew aging infrastructure. In 2008-09, the University also received another $25.0 million in capital funding to lever other funds for the Munk School of Global Affairs.

The Ontario Government released its 2009-10 budget centered on helping the Province weather the economic downturn and preparing for its recovery by moving to a more innovative, high-value, and green economy. To that end, the Ontario Budget made a large-scale capital investment in Ontario's colleges and universities by earmarking the following capital funding related to post-secondary education:

- $780.0 million in funding for universities and colleges over two years, to be matched with Federal funding through its Knowledge Infrastructure Program in support of campus renewal and new infrastructure. The University spent $151.0 million to build instructional and laboratory complexes at its Mississauga and Scarborough campus as well as an Innovation Centre for the Canadian Mining Industry at its St. George campus. An additional $52.5 million in funding to support Mississauga campus' Davis and North building renovations was committed by the Province in the following year as part of Phase 2 of their long-term capital strategy.

Other recent capital investments made by the Province include:

- $24.9 million to support construction of the Mississauga campus' Health Science Centre.
- $22.5 million to support the construction of the Goldring Centre for High Performance Sport.
- An estimated $47.4 million from both the Federal and Provincial Governments to support the construction of the Pan Am Aquatics Centre at the Scarborough campus.

In 2013, the Province issued a call for proposals for projects related to major capacity expansion. The University of Toronto will be submitting a notice of intent by June 27, 2014, followed by a full proposal in September 2014. The focus of expansion will be at the undergraduate degree level, which aligns well with expansion plans for the Mississauga and Scarborough campuses.

Other Recent Ontario Budget Priorities

The 2012 Ontario Budget concentrated on the Government's plan to eliminate the deficit while protecting investments in health care and education. Overall it provided for 1.9% average annual growth increases for the post-secondary sector for 2012-13 to 2014-15. While the Government's commitments to growth and the OTG have been maintained, some expenditure reductions have been implemented. These include the elimination of the Ontario Trust for Student Support matching program and the Ontario Work Study Program support, resulting in further reductions in Provincial support of $5.8 million per year.

The 2013 Ontario Budget concentrated on making strategic investments for a prosperous future and protecting public services, while working towards balancing the books. The Government will make a $295.0 million investment over two years to support employment opportunities for youth. Beginning in 2014-15, the Government will phase out the Graduate Nursing Tuition Waivers program that provides support to graduate nursing students.

The 2014 Ontario Budget contained very little related to the postsecondary sector. The 2014 Ontario Budget was not passed resulting in an election called for June 12, 2014; the budget impact on universities remains uncertain.

Financial Planning

Revenues are expected to increase modestly over the next several years as a result of continuing growth at the Scarborough and Mississauga campuses, graduate expansion, and the Government announcements outlined above, although the University's capacity to take more students is constrained by physical space limitations. With the potential for new revenues tied primarily to enrolment growth, ongoing expense containment measures, including productivity improvements, will continue to be required.

The long-range academic and budget plan for 2014-15 to 2018-19 incorporates the new tuition framework and provincial Policy Levers Savings Targets of $10.5 million. The plan assumes the pension deficit payment plans will continue, as well as various other updated assumptions.

Student Enrolment

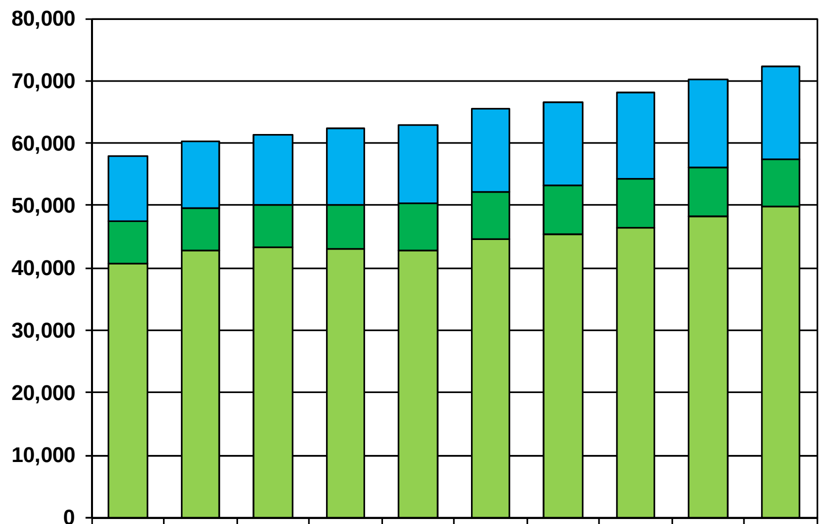
The demand for student spaces has increased significantly as a result of increased population growth and participation rates since 2005. The University has increased enrolment to accommodate this additional student demand with student full-time equivalent enrolment increasing from 57,887 in 2005 to 72,371 in 2014, an increase of 25.0%. More than 64% of the direct entry undergraduate student body is drawn from the Greater Toronto Area.

Tuition fees for domestic students increased in accordance with the tuition framework set by the Provincial Government. Student fees revenue increased to $1.0 billion in 2014 from $944.7 million in 2013 as a result of student fee increases and enrolment growth.

Although the University has received full average funding for additional students, neither on-going government grants nor regulated tuition fees have dealt adequately with the issue of inflation, which has resulted in the need for continuing cost containment through productivity improvements to maintain financial health.

Since 2005, student aid (scholarships, fellowships and bursaries) has increased by 79.5% to $199.1 million. This amount excludes student aid provided by the federated universities. The University of Toronto has a commitment under our policy on student financial aid which ensures that no qualified student will be prevented from beginning or completing his or her education due to financial need.

Number of Undergraduate and Graduate Student FTEs
as at November 1



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Graduate	10,485	10,534	10,990	12,142	12,598	13,116	13,385	13,754	14,154	14,843
Second-entry Undergraduate [i]	6,613	6,785	6,981	7,187	7,495	7,628	7,786	7,806	7,765	7,743
First-entry Undergraduate	40,789	42,884	43,239	42,972	42,841	44,658	45,440	46,528	48,392	49,785

[i] Second-entry undergraduate programmes include professional programmes in the Faculty of Medicine, Law, Nursing, Pharmacy, Dentistry and OISE/UT.

Research and Capital Infrastructure

In 2012, following months of research and broad consultation, U of T launched a new five-year Strategic Research Plan (SRP), "Excellence, Innovation, Leadership". The new SRP is a strong yet flexible framework that will engage the research community and our partners in the challenges that face humanity in the 21st century—and it will ensure our scholars can continue to do the outstanding work they already do in a climate that will enable them to thrive.

The plan identifies seven thematic areas that are designed to facilitate excellence and collaboration both within the University and with partner institutions, as well as address issues of local, national, and global importance:

- EXPLORE: Our Place in the Universe
- SUSTAIN: Humanity and the Environment
- PROMOTE: Healthy People, Healthy Communities, Healthy World

- ENGAGE: Mind, Language, Culture, Values
- ADVANCE: Institutions, Peace, and Prosperity
- ENABLE: Technologies for the 21st Century
- BUILD: Community and Liveable Societies

The new SRP will help advance the University's research capacity and productivity by attracting and retaining superb talent; by building strategic research programs and linkages of research, education, and training; and by leveraging strategic partnerships and resources for the benefit of Canada and the world.

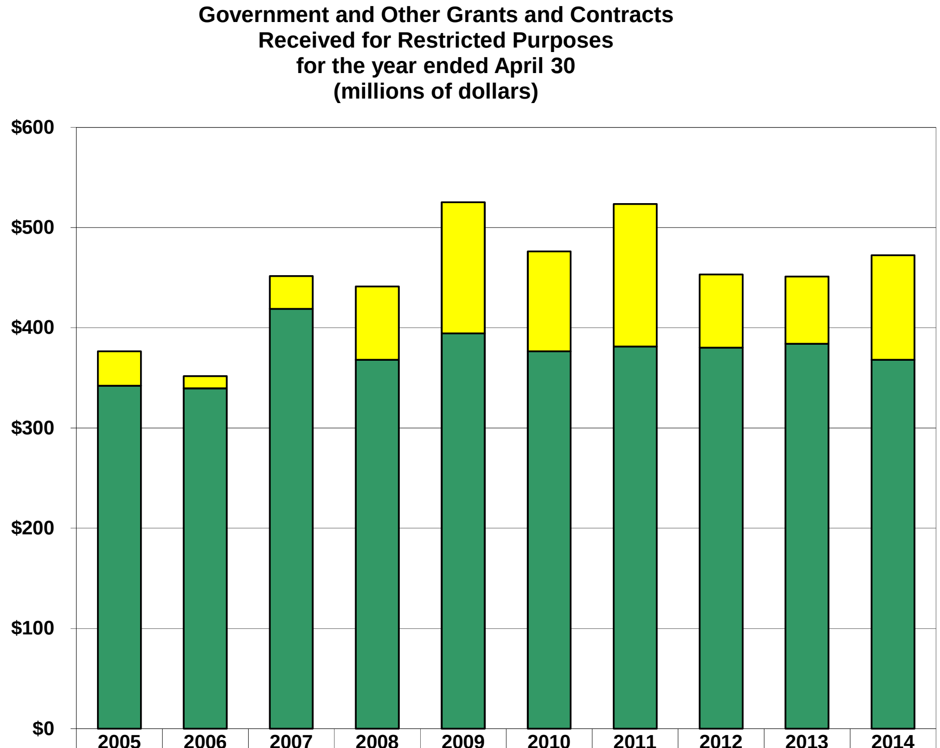
Strong research funding support from both the Provincial and Federal governments will be key to the University realizing the goals and objectives of the SRP. In recent years, both the Federal and Provincial governments have maintained their investments in the direct support for research and research infrastructure, and added new areas of focus for investment, such as economic development, innovation and entrepreneurism.

A major focus of the 2013 Ontario Budget concerning research was towards innovation and entrepreneurism. The Youth Entrepreneurship Fund was allocated $45.0 million over two years and the Youth Innovation Fund $10.0 million over two years. On-Campus accelerator centres were allocated $20.0 million over two years. The Budget made a broad commitment to support "research capacity" through the Ontario Research Fund (ORF), but a specific dollar amount and matching level of the Canada Foundation for Innovation (CFI) funds was not included.

The 2013 Federal Budget reallocated $37.0 million to the Granting Councils (this new investment offsets the net $37.0 million in cuts that were announced in Budget 2012) in support of industry-academic research partnerships, and extended funding for advanced research infrastructure through the CFI for a further five years. Funding for entrepreneurism and innovation hubs was also announced, as was a renewal of the FedDev Ontario program. No new funding was announced for the Indirect Costs Program in which the University receives only a 17% recovery rate, although the estimated true indirect costs amount to more than 50% of direct costs.

The 2014 Federal Budget forged ahead with new investments including the proposed creation of the new Canada First Research Excellence Fund (available to all postsecondary institutions on a competitive, peer-reviewed basis) with $1.5 billion in funding over the next decade in support of research to create long-term economic advantages for Canada. The fund will be set at $50.0 million in 2015-16 and will grow to its steady state of $200.0 million by 2018-19. There was also an additional $46.0 million per year allocated to the Granting Councils in support of research and scientific discoveries, including $9.0 million per year for the Indirect Costs Program.

The University continues to be successful at generating funding for research, including direct and infrastructure funding.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Capital infrastructure and other	34.3	12.2	32.7	73.1	130.7	99.7	142.2	73.0	67.2	104.3
Research	342.2	339.5	418.8	368.1	394.4	376.4	381.2	380.2	383.9	368.0

These financial statements do not account for grants awarded but account for research funding received as follows:

- Research grants and contracts are recorded as revenue when spent.
- Unspent research grants and contracts are recorded as deferred contributions.

Government and other grants and contracts received in 2014 for restricted purposes totalled $472.3 million and comprised $368.0 million for research and $104.3 million mostly for capital infrastructure. These were reported as follows: $386.5 million as revenue from grants and contracts for restricted purposes and $85.8 million as deferred contributions and deferred capital contributions.

It is important to note that research revenues can only be spent on research activities, but the amounts received do not adequately cover the full direct and indirect costs of research activities.

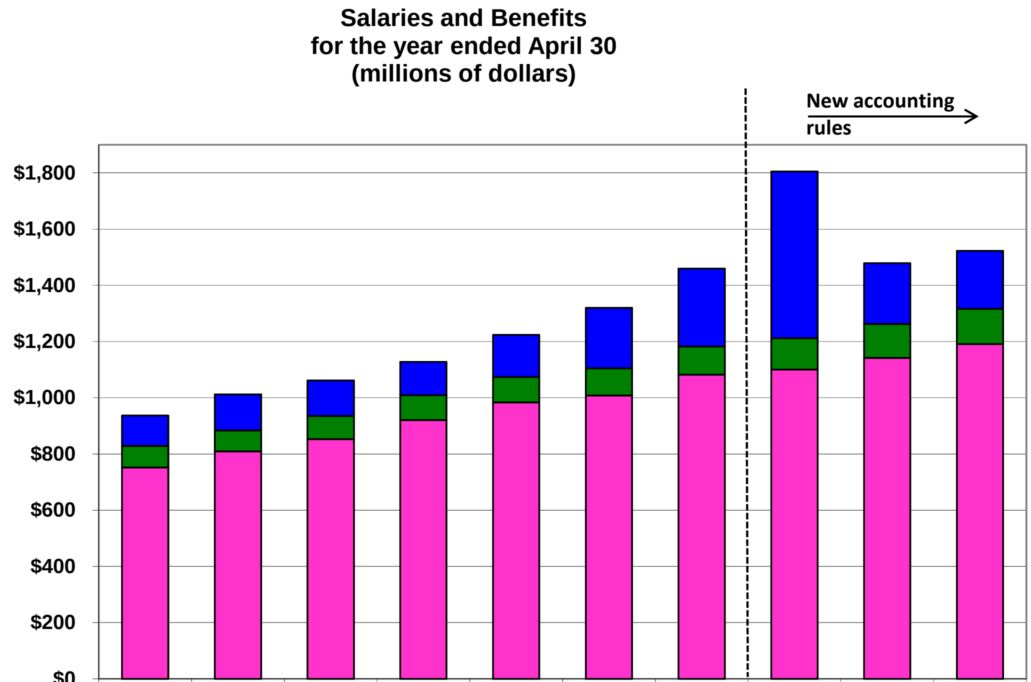
Research funding has grown by 7.5% since 2005, mainly due to increased federal and provincial support. University of Toronto researchers were initially very successful in attracting these research awards but a shift toward more partnership funding by the three federal granting agencies has resulted in the University's loss of several Canada Research Chairs (CRCs). Efforts to reverse this trend have resulted in an allocation of ten new CRCs for the University of Toronto and partner hospitals starting in 2014.

Capital infrastructure funding decreased in 2012 mainly as a result of receiving Knowledge Infrastructure Program funding in 2010 and 2011. In 2014, the increase in funding is mainly as a result of the University receiving funding for the construction of the Pan Am Aquatics Centre.

Salaries and Benefits

Salaries and benefits represent 72.9% of operating fund expenses.

Over the period 2005 to 2014, salaries and benefits increased from $936.3 million to $1.5 billion. This is the result of negotiated compensation increases for employee groups as well as an increase of 29.4% in the total number of faculty and staff over that time period. In 2014, the University had 13,887 active faculty with teaching/research responsibilities, 148 librarians, 848 sessional lecturers, 6,122 administrative staff and 4,778 teaching and graduate assistants.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Employee future benefits	107.3	128.4	126.7	118.8	149.6	214.4	278.3	593.6	216.6	206.2
Other Benefits	77.4	74.4	83.0	88.7	90.8	97.2	99.6	111.0	119.9	126.0
Salaries	751.6	809.5	852.2	919.9	983.6	1,007.9	1,082.0	1,100.5	1,142.1	1,190.7

The following agreements were in effect in fiscal 2014:

- Three year agreement with administrative staff represented by the United Steelworkers for across-the-board salary increases of 1.75% on July 1, 2011, 2.0% on July 1, 2012, and 2.25% effective July 1, 2013. Employee pension contributions will increase to 6.8% below and 8.4% above the year's maximum pensionable earnings under the Canada Pension Plan by July 1, 2013. A similar pattern of contribution increases has been negotiated with other unionized staff groups.

- Three year agreement with teaching assistants starting May 1, 2011 to April 30, 2014 for across-the-board salary increases of 1.5% effective May 1, 2011, 1.75% effective May 1, 2012 and 2.0% effective May 1, 2013.

- Three year agreement with faculty and librarians for across-the-board salary increases of 1.0% on July 1, 2011 plus $1,000, 1.0% on July 1, 2012 plus $1,520, and 1.0% effective July 1, 2013 plus $1,815. Employee pension contributions will increase to 6.3% below and 8.4% above the year's maximum pensionable earnings under the Canada Pension Plan by June 30, 2014.

- Two year agreement with sessional lecturers and instructional assistants (non-student) and writing instructors starting September 1, 2012 to August 31, 2014.

Benefits expense for the year of $332.2 million is made up of employee future benefits expense of $206.2 million and other employee benefits expense of $126.0 million. Other employee benefits expense includes, for example, the cost of legislative benefits (e.g. Canada Pension Plan and Employment Insurance), medical benefits for active staff, educational support, life insurance and several types of leaves.

Employee future benefits represent benefits to be provided to employees in the future based on service in the current year. They include pensions, long-term disability insurance, cost of living adjustments for survivor income, and medical benefits for pensioners. These are accounted for using the accrual basis of accounting and therefore reflect the cost of providing these benefits irrespective of the amount of funding provided in support of these benefits.

April 30, 2014	Pension plans	Other benefit plans
Plan status:		
Assets	**$3.5 billion**	**$74.7 million***
Obligations	**$4.2 billion**	**$514.4 million**
Deficit	**$683.8 million**	**$439.7 million**
April 30, 2013	**Pension plans**	**Other benefit plans**
Plan status:		
Assets	$2.9 billion	$61.6 million*
Obligations	$4.0 billion	$521.9 million
Deficit	$1.1 billion	$460.3 million

*Assets set aside by the University

The University records its pension obligation net of the fair value of plan assets on its balance sheet using funding assumptions.

The pension plans' deficit improved from $1.1 billion in 2013 to $683.8 million in 2014. This significant improvement is mainly due to investment returns on pension plans' assets exceeding expected returns by $241.3 million, an additional lump sum payment into the registered pension plans of $150.0 million (see below), and required special going concern payments into the plans of $66.6 million.

In February 2014, the Canadian Institute of Actuaries (CIA) issued new Canadian pensioners mortality tables and improvement scales based on experience studies conducted by the CIA. A new table and scale will be adopted for the July 1, 2014 actuarial valuations subject to the approval process required for the actuarial assumptions. These changes will then be reflected in the 2015 financial statements. It is estimated that the financial impact of adopting the new mortality table/scale could increase the pension obligation and pension deficit by approximately $225.0 million.

Based on pension plan results for 2011, the University has developed plans to deal with the pension deficit and to enhance the long-term sustainability of the plans while mitigating the impact on the core operating budget. The University received governance approval for internal borrowing of up to $150.0 million to be transferred into the pension plans as required. Prior to June 2011, the University transferred a $150.0 million lump sum payment ($112.6 million of which was internally borrowed) into the pension plans. In fiscal 2014, the University made another $150.0 million lump sum payment ($121.8 million from funds set aside for its supplemental retirement arrangement and $28.2 million which was internally borrowed). The University has increased its ongoing special payments and related cost budget from $27.2 million in 2011 to $87.2 million in 2014 and plans to increase this amount to $112.2 million by 2018-19.

Provincial regulations normally require that any solvency deficit must be eliminated over a five year period. The Ontario Government has not agreed to exempt universities from these solvency payments but has agreed that universities should be given some flexibility through a two-stage temporary solvency relief program. If the University meets certain metrics and provides some evidence to the Provincial Government that the long-term sustainability of the pension plans has been enhanced, the solvency deficit can be amortized over a longer period than five years. This longer term horizon ensures that the University may benefit from potential improvements in investment returns and possible increases in interest rates. The University was approved to Stage 1 of the temporary solvency relief program as a result of developing a plan to make its pension plans more sustainable. Provided that plan is implemented, the University should meet the requirements for Stage 2.

The Ontario Government would like to see a more equal sharing of the cost of providing pension benefits between employees and employers. The University has successfully negotiated an increase in employee pension contributions as part of labour negotiations with all of its employee groups that have members in the University's pension plans.

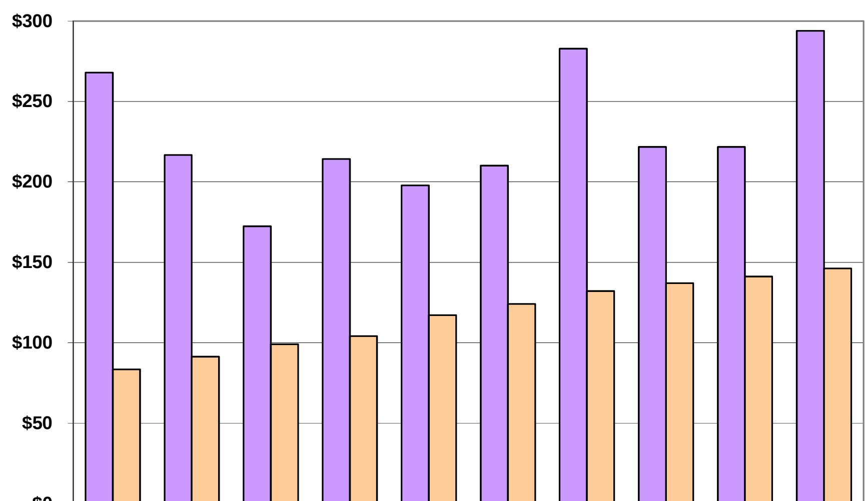
When the contribution increases are implemented and if the Government is satisfied with the measures taken, the University may be accepted to Stage 2 of the temporary solvency relief program which will enable the University to deal with its solvency deficit over 10 years beginning July 1, 2015. The Ontario Government continues to work with the Greater Public Sector to develop longer term solutions for the future, such as the creation of a pooled asset management entity that will oversee pooled asset management for public-sector pension plans and the creation of jointly sponsored pension plans.

The obligation for employee future benefits other than pensions at April 30, 2014 is $514.4 million. This obligation is also determined based on actuarial valuations using funding assumptions. The annual current service cost is included in the consolidated statement of operations and any actuarial gains or losses are recorded directly in net assets instead of being reported in the consolidated statement of operations.

Space

The University has undertaken an ambitious capital construction program to significantly expand space capacity to accommodate increased numbers of students and to expand and update research infrastructure. This program began in 1999 and included a significant expansion of the Mississauga and Scarborough campuses and considerable expansion and renovation on the St. George campus. Space capacity is being further expanded due to the additional space requirements arising from graduate student expansion and undergraduate medical student expansion.

Capital Investment in Infrastructure
for the year ended April 30
(millions of dollars)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Additions to capital assets	268.0	216.7	172.4	214.3	197.8	210.1	282.8	221.8	221.8	293.9
Amortization	83.5	91.4	99.1	104.1	117.2	124.1	132.1	137.0	141.2	146.2

Additionally, the University has future obligations for deferred and pending maintenance, which are currently estimated at $615.0 million, excluding campus/utility infrastructure and including asbestos containment and removal. The University has integrated its capital programs by pooling the various funds available and prioritizing maintenance and renewal requests. The University is participating with all other Ontario universities in a continuing study that is analyzing, in some detail and on a uniform basis, the deferred and pending maintenance obligations of every university in the Province. The long-range academic and budget plan for 2014-15 through 2018-19 includes funding to arrest further deterioration of the physical infrastructure.

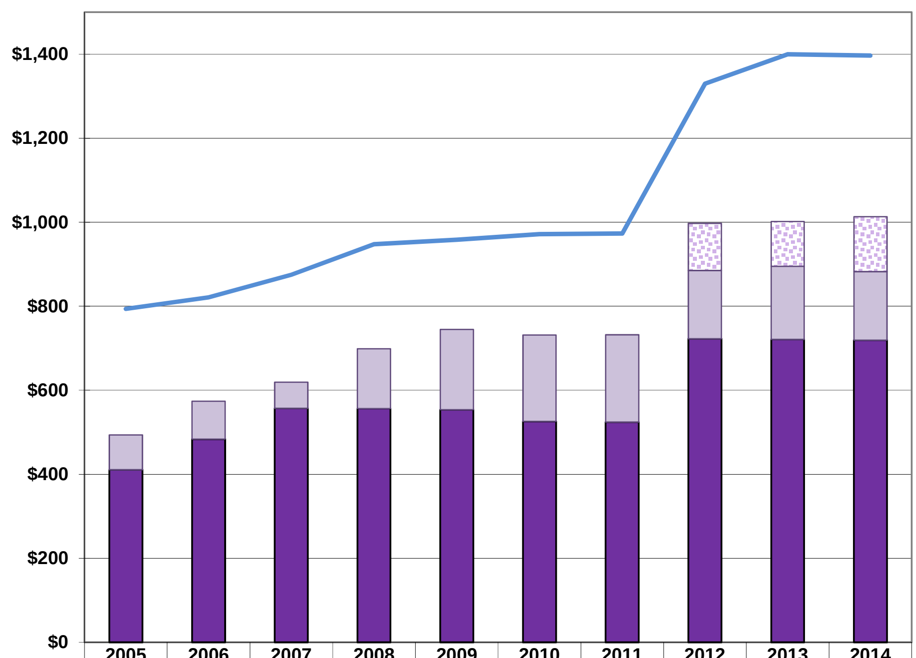
Governments have also provided funding for capital projects over the years to assist the University. The 2009 Federal Budget announced $2.0 billion for university and college infrastructure refurbishment and new construction initiatives to advance research and development in universities and pledged $750.0 million over three years to the Canada Foundation for Innovation to support leading edge research infrastructure. In 2014, the University received $3.1 million from the Province of Ontario's Facilities Renewal Program.

In 2010 and 2011, the University spent $151.0 million allocated from the Knowledge Infrastructure Program towards the construction of instructional and laboratory facilities at its Mississauga and Scarborough campuses as well as an Innovation Centre for the Canadian Mining Industry at its St. George campus. In 2014, the increase in funding is mainly as a result of the University receiving funding for the construction of the Pan Am Aquatics Centre and Field House.

Debt

In November 2012, the University revised its debt strategy resulting in a change in its debt policy limit based on a debt burden ratio of 5.0% (interest plus principal repayments divided by adjusted total expenditures).

Outstanding Debt and Debt Policy Limit
for the year ended April 30
(millions of dollars)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Internal debt - pension								112.6	106.7	130.8
Internal debt - other	83.2	90.1	62.6	142.7	190.9	205.4	207.9	162.3	174.1	162.7
Total external debt	410.6	483.7	556.7	556.3	554.0	525.9	524.1	722.6	721.0	719.4
Policy - Maximum total debt limit	793.9	821.1	875.2	948.0	958.4	971.5	973.1	1,329.6	1,400.0	1,396.5

The University is committed to prudently and strategically allocating debt to high priority capital projects and providing support for the pension plans. The debt strategy provides for a total debt limit of about $1.4 billion at April 30, 2014, made up of external debt of $1.0 billion plus $350.0 million in internal financing, of which $150.0 million is for pensions.

In 2014, the actual outstanding external debt is made up of $710.0 million (gross of $1.3 million of issue costs and premiums) of debentures and $9.4 million (net of fair value impact of $4.8 million of interest rate swaps less $0.1 million due to an interest-free loan) of other long-term debt. At April 30, 2014, the actual debt burden ratio was 3.8%, well below the 5.0% policy limit.

The University's credit ratings are Aa2 (Moody's), AA (Standard and Poor's) and AA (Dominion Bond Rating Service), which ranks the University as a strong investment-grade credit and one level above the Province of Ontario by two credit rating agencies.

Donations

Academic priorities that cannot be completely funded through internal resources become approved priorities for fundraising. Priorities are assessed on an annual basis and revised as necessary. The Provost must approve all initiatives before they become priorities for fundraising.

The decision to hold fundraising as servant to the academic plans of its faculties, colleges, schools, and divisions, overseen by the Provost with the involvement of principals, deans and faculty, continues to play a critical role in the success of all advancement programs at the University. The clear link with institutional planning enables the University to assure donors that the priorities they are being asked to support are critical to the achievement of teaching and research objectives. As it has in the past, this link is an essential element in the success of the University's Boundless fundraising campaign publicly launched in November 2011. This campaign is the largest fundraising campaign in Canadian university history. With a historic $2.0 billion campaign goal, it will help expand the University's global leadership capacity across critical areas of knowledge and help develop the talent, ideas and solutions for the defining challenges of our time.

The University has now surpassed the $1.5 billion mark towards its $2.0 billion campaign goal, establishing a new benchmark in Canadian philanthropy. The University owes tremendous thanks to the many donors who have made this possible with their generous support of our faculty, programmes and students. The financial contributions of our donors have, for decades, supported the University's institutional independence and academic freedom. In more practical terms, the financial support of our donors has lifted the student experience, created jobs and improved the working lives for our dedicated staff, and augmented the opportunities for our faculty to exercise their independence of thought and their innate creativity.

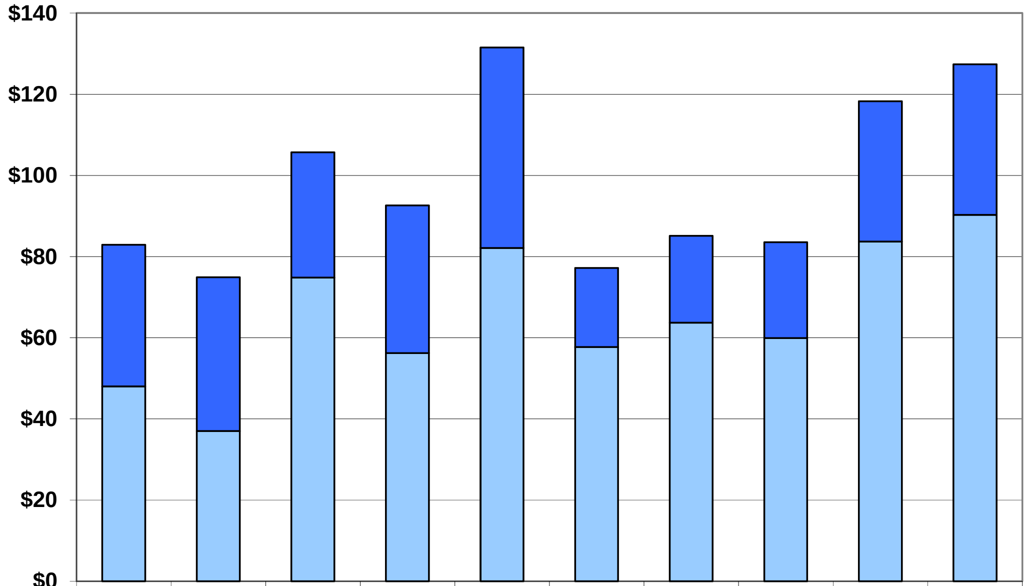
For the period May 1, 2013 to April 30, 2014, a total of $168.8 million in new pledges and gifts, some of which are multi-year, was raised for the University (including federated universities and other affiliated institutions, and excluding philanthropic grants and donations to partner hospitals).

Donations revenue recorded in the University's financial statements does not include donations to the federated universities – Victoria University, University of St. Michael's College, and The University of Trinity College. Donations are recorded in the financial statements as follows:

- Unrestricted expendable donations are recorded as revenue when received;
- Restricted expendable donations are recorded as revenue when spent;
- Unspent restricted expendable donations are recorded as liabilities (deferred contributions or deferred capital contributions); and

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

Total Cash and Gifts-in-Kind Donations Received
for the year ended April 30
(millions of dollars)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total donations	82.9	74.9	105.7	92.6	131.5	77.2	85.1	83.5	118.3	127.4
Endowed donations	34.9	37.9	30.9	36.4	49.4	19.5	21.4	23.6	34.6	37.1
Expendable donations	48.0	37.0	74.8	56.2	82.1	57.7	63.7	59.9	83.7	90.3

In 2014, donations received by the University (excluding receipts by the federated universities, other affiliated institutions, philanthropic grants and donations to partner hospitals) totalled $127.4 million and were reported as follows: $90.3 million in expendable donations was reported as revenue and $37.1 million was added directly to endowments. It should be noted that the graph tracks donations by fiscal year. There is usually a lag between the growth in pledges and related commitments, and the actual cash receipt of funds.

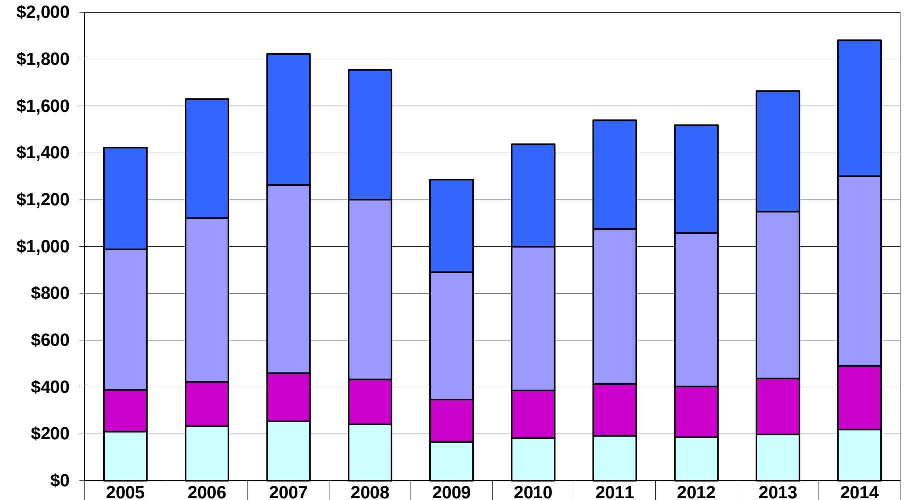
Endowments

Endowments are restricted funds which must be used in accordance with purposes agreed between the University and donors, or determined by Governing Council. Endowments are not available for use in support of general operating activities.

Endowments are managed in a unitized pool with an annual spending rate. The University's endowment spending objective is to provide a predictable amount for spending (payout) each year that increases with inflation. To do this, the University preserves capital by constraining the annual spending rate and setting funds aside when investment returns are good. This strategy protects against inflation and creates a cushion from which funds can be released to maintain spending when there is a moderate downturn in the financial markets. The annual spending rate is expected to be within a corridor of 3% to 5% of opening market value of endowments.

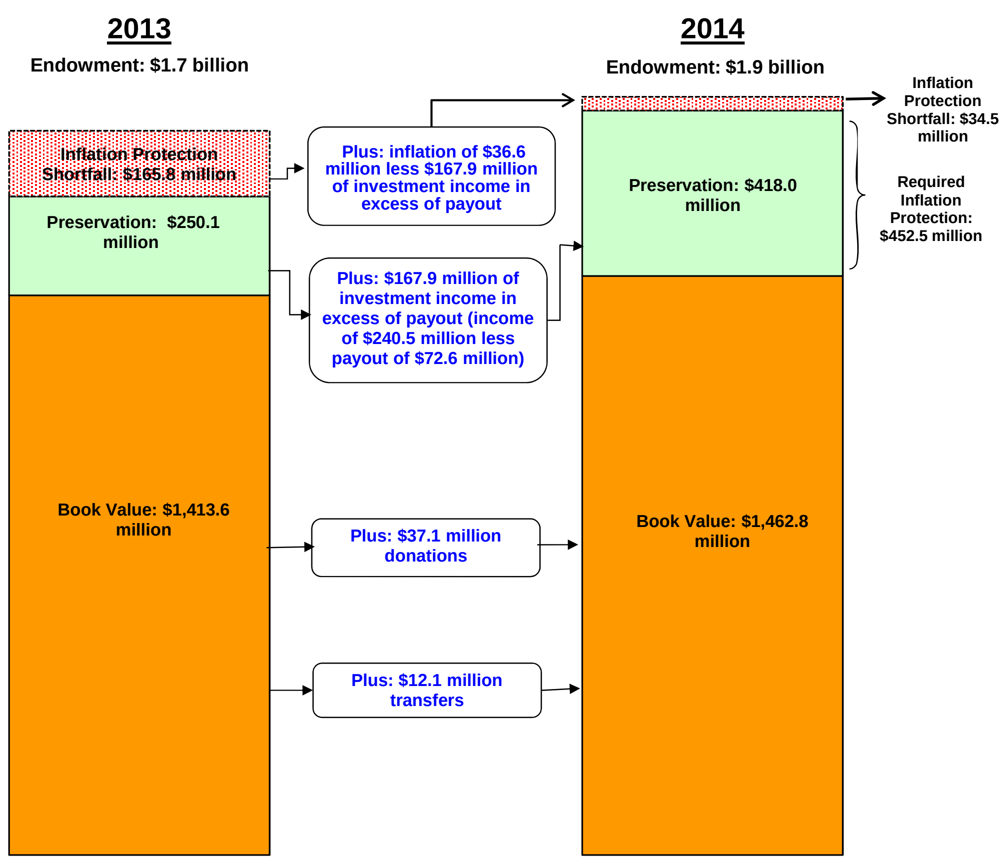
In 2009, as a result of severe financial market losses, the University suspended the endowment distribution in order to preserve the underlying value of its endowments, so as not to change the baseline for future growth in our endowed funds. The endowment reserve, so carefully and responsibly built up as a protective cushion, did its job by absorbing the brunt of the extreme volatility in the financial markets. Without this suspension, the University could have impeded its ability to return to the usual endowment distribution levels as the investments supporting the endowments recovered their value. Meanwhile, critical commitments such as endowed professorships and chairs, as well as endowed support for needs-based student aid were met from other sources of funds. With an improvement in the financial markets in 2010, the University reinstated its annual endowment distribution.

Endowments at Fair Value
at April 30
(millions of dollars)

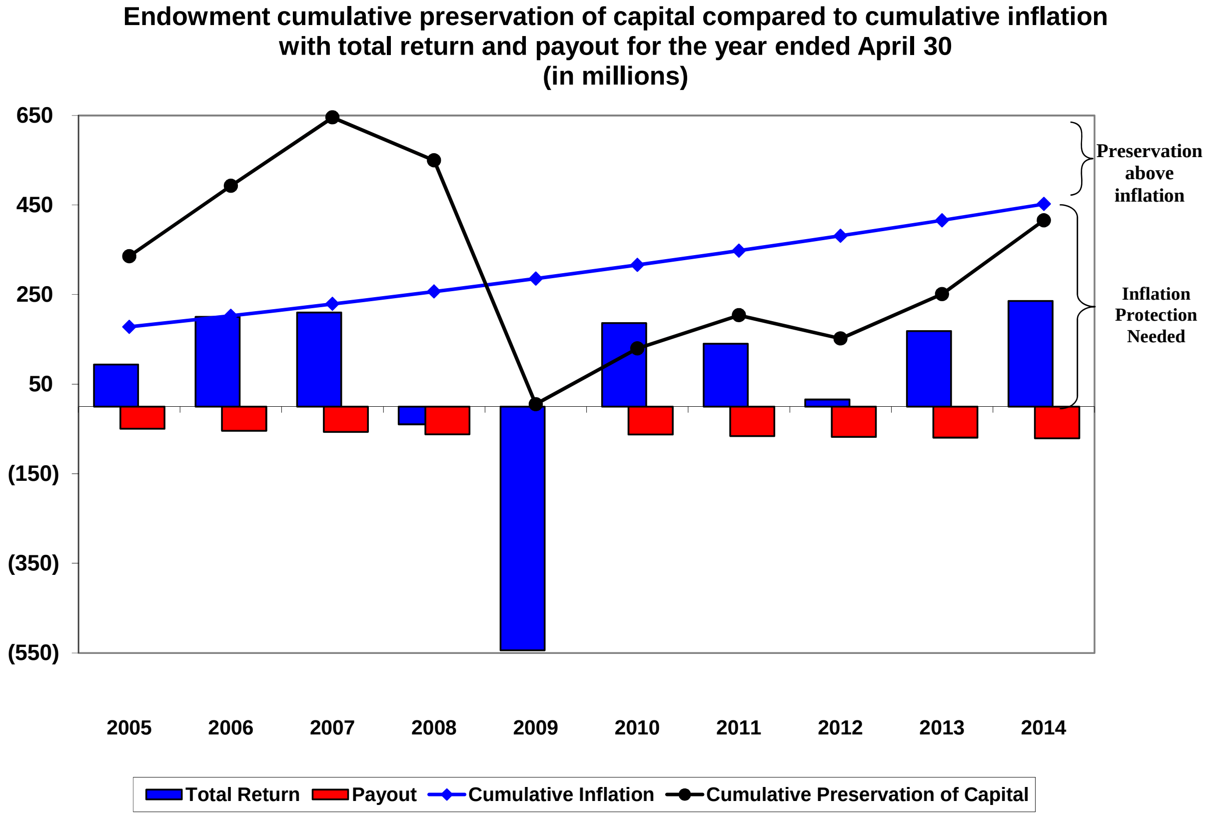


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total endowments	1,422.8	1,628.8	1,822.7	1,754.8	1,286.3	1,437.2	1,539.4	1,518.1	1,663.7	1,880.8
Chairs and professorships	434.8	507.6	560.5	554.4	395.5	437.4	464.6	460.4	514.4	580.5
Student aid	599.7	699.4	802.4	768.1	543.9	614.1	662.0	655.2	713.0	810.5
Academic programs	179.0	189.0	205.9	191.8	180.3	203.1	220.8	217.1	238.6	270.8
Research	209.3	232.8	253.9	240.5	166.6	182.6	192.0	185.4	197.7	219.0

In 2014, the University's endowment value was $1.9 billion and its endowment reserve was $418.0 million.



The following diagram shows the preservation of capital and payout over a ten year period starting in 2005:



At April 30, 2014, there were over 5,700 individual endowment funds, usually supported by an agreement between the University and a donor, or reflecting a collection of small donations with common restrictions. The total fair value of endowments increased by $217.1 million as follows:

- $144.2 million investment gain on externally restricted endowments;
- $ 23.7 million investment gain on internally restricted endowments;
- $ 37.1 million of externally endowed donations; and
- $ 12.1 million transfer from unrestricted deficit.

Investment Earnings

Total investment earnings for the year amounted to $322.8 million (gross of $20.0 million in fees and other expenses). These earnings were recorded in the financial statements as follows:

- $256.9 million on endowments (gross of $16.4 million in fees and other expenses) of which $112.7 million was recorded in the consolidated statement of operations and $144.2 million was recorded as a direct increase to endowments in the consolidated statement of changes in net assets.
- $65.9 million on other investments (gross of $3.6 million in fees and other expenses) in the consolidated statement of operations

Almost all of the University's investments are invested in the long-term capital appreciation pool (LTCAP) or the expendable funds investment pool (EFIP). The University establishes the investment risk and return objective for each of these pools, reflecting the liability requirements, and with the aim of producing steady, predictable returns for the University. It is important to note that, while the aim of the risk and return objectives is to produce steady, predictable investment returns for the University, there is nonetheless variability in investment returns on an annual basis. The actual investment return is a key determinant of whether the University records a net income or a net loss for the fiscal year.

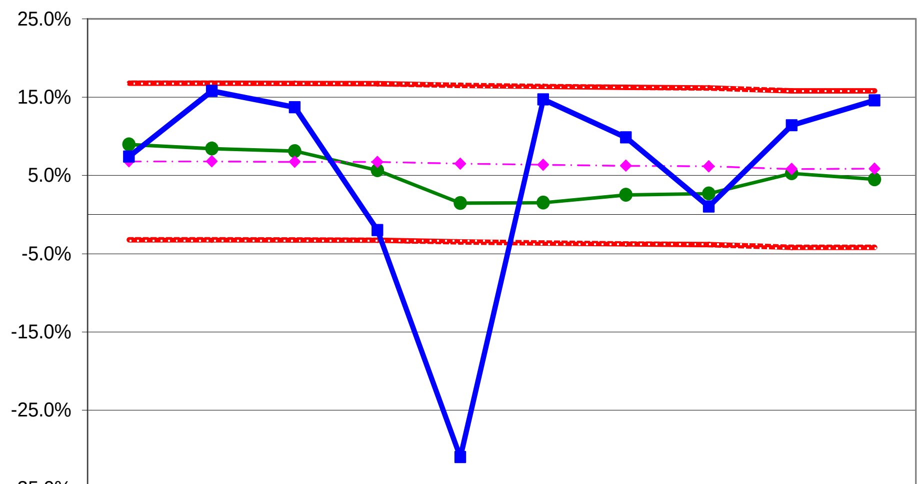
The University of Toronto Asset Management Corporation (UTAM) is a wholly owned investment management subsidiary of the University, governed by its own Board of Directors. UTAM develops and executes appropriate investment strategies and recommends the policy asset mix, based on the risk and return objectives established by the University. A detailed review of investment performance, which is managed and measured on a calendar year basis by UTAM, is available on the UTAM web site at www.utam.utoronto.ca.

Financial and investment oversight rests with the Business Board. It is executed through the following: an Investment Advisory Committee which provides investment advice to the President, the UTAM Board which provides oversight of the operation of the corporation, UTAM management which focuses on risk management, and the Business Board (for University funds) and the Pension Committee of Governing Council (for pension funds).

LTCAP

The fair value of LTCAP was $2.1 billion at April 30, 2014, of which $1.8 billion was for endowments, representing 88.3% of the balance invested in LTCAP.

Long-Term Capital Appreciation Pool (LTCAP)
Ten-Year Rolling Average Returns with Annual Returns



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Ten-Year rolling average return	9.0%	8.4%	8.1%	5.6%	1.5%	1.5%	2.5%	2.7%	5.3%	4.5%
Ten-Year rolling Standard deviation +10%	16.8%	16.8%	16.7%	16.7%	16.5%	16.4%	16.2%	16.2%	15.8%	15.9%
Ten-Year rolling target return*	6.8%	6.8%	6.7%	6.7%	6.5%	6.4%	6.2%	6.2%	5.8%	5.9%
Ten-Year rolling Standard deviation -10%	-3.2%	-3.2%	-3.3%	-3.3%	-3.5%	-3.6%	-3.8%	-3.8%	-4.2%	-4.1%
Annual investment return	7.4%	15.8%	13.7%	-2.0%	-31.0%	14.7%	9.9%	1.0%	11.4%	14.6%

*** The target return is set at 4% plus CPI with a 10% standard deviation. The ten-year rolling returns are geometric average returns.**

The investment return and risk targets for LTCAP are a 4% investment return plus inflation, net of investment fees, and a 10% return volatility risk target (representing one standard deviation), over a ten year period. This means that the actual return is expected to be within 10% of the nominal target return (4% plus inflation), two thirds of the time over a ten year period. The University's overriding objective with respect to investment performance is the achievement of this return target within the specified risk target.

EFIP

The investment policy for EFIP reflects its two categories of funds: very short-term investments managed by the University and funds managed by UTAM. The return objective and risk tolerance for each category of EFIP funds (excluding funds loaned internally) is as follows:

	Risk Tolerance	Return Objective
Investments managed by U of T in money market fund and bank	Minimal risk	30-day Treasury bill return
Funds managed by UTAM	Minimal risk	1-year Treasury bill return + 50 basis points within minimal risk targets

The returns for the 2014 fiscal year were as follows:

	Fair Value at April 30, 2014	Total Return for Year Ended April 30, 2014
Investments managed by U of T in money market fund and bank	**$113.4 million**	**1.24%**
Funds managed by UTAM	**$1,187.1 million**	**1.74%**

The returns for the 2013 fiscal year were as follows:

	Fair Value at April 30, 2013	Total Return for Year Ended April 30, 2013
Investments managed by U of T mainly in a money market fund	$85.1 million	1.27%
Funds managed by UTAM	$1,134.9 million	2.03%

Audited Consolidated Financial Statements

April 30, 2014

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 Chartered Professional Accountants of Canada. The administration believes that the consolidated financial statements present fairly the University's financial position as at April 30, 2014 and the results of its operations and its cash flows for the year then ended. In order to achieve the objective of fair presentation in all material respects, reasonable estimates and judgments were employed. Additionally, management has ensured that financial information presented elsewhere in this Financial Report has been prepared in a manner consistent with that in the consolidated financial statements.

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

Aon 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, 2014 have been reported on by Ernst & Young LLP, the auditors appointed by Governing Council. The independent auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the consolidated financial statements.

(signed)
Sheila Brown
Chief Financial Officer

(signed)
Meric S. Gertler
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 consolidated balance sheet as at April 30, 2014 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 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, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
June 25, 2014.

Statement 1

UNIVERSITY OF TORONTO
CONSOLIDATED BALANCE SHEET
(millions of dollars)

	April 30, 2014	April 30, 2013 (note 2B)
ASSETS		
Current		
Cash and cash equivalents	**113.4**	104.1
Short-term investments (note 3)	**783.0**	651.0
Accounts receivable (notes 3 and 18)	**91.3**	82.7
Inventories and prepaid expenses	**19.8**	18.6
	1,007.5	856.4
Long-term accounts receivable	**43.9**	46.4
Investments (notes 3 and 18)	**2,463.1**	2,403.6
Capital assets, net (note 4)	**4,166.5**	4,018.8
	7,681.0	7,325.2
LIABILITIES		
Current		
Accounts payable and accrued liabilities (notes 3, 6, 8 and 18)	**324.9**	298.4
Deferred contributions (note 9)	**404.0**	372.7
	728.9	671.1
Accrued pension liability (note 5)	**683.8**	1,122.9
Employee future benefit obligation other than pension (note 5)	**514.4**	521.9
Senior unsecured debentures (note 7)	**708.7**	708.7
Other long-term debt (note 8)	**14.1**	17.3
Deferred capital contributions (note 10)	**1,130.9**	1,076.4
	3,780.8	4,118.3
NET ASSETS (Statement 3)		
Unrestricted deficit	**(124.6)**	(129.7)
Internally restricted (note 11)	**2,144.0**	1,672.9
Endowments (notes 12, 13 and 14)	**1,880.8**	1,663.7
	3,900.2	3,206.9
	7,681.0	7,325.2

Contingencies and commitments (notes 3, 20 and 21)

(See accompanying notes)

On behalf of Governing Council:

(signed)
Judy G. Goldring
Chair

(signed)
Meric S. Gertler
President

Statement 2

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

	2014	2013 (note 2B)
REVENUES		
Student fees	**1,039.0**	944.7
Government grants for general operations	**706.0**	703.6
Government and other grants for restricted purposes (note 17)	**386.5**	391.5
Sales, services and sundry income	**309.8**	288.5
Investment income (notes 3 and 12)	**178.6**	151.3
Donations (note 16)	**90.3**	83.7
	2,710.2	2,563.3
EXPENSES		
Salaries	**1,190.7**	1,142.1
Employee future benefits (note 5)	**206.2**	216.6
Other employee benefits	**126.0**	119.9
Materials and supplies	**206.5**	212.6
Scholarships, fellowships and bursaries	**199.1**	186.3
Amortization of capital assets	**146.2**	141.2
Repairs and maintenance	**96.0**	88.2
Cost of sales and services	**87.7**	87.9
Utilities	**59.1**	51.9
External contracted services	**49.0**	46.6
Travel and conferences	**43.6**	43.2
Interest on long-term debt	**38.8**	39.9
Telecommunications	**12.0**	12.3
Other	**45.0**	36.9
	2,505.9	2,425.6
NET INCOME	**204.3**	137.7

(See accompanying notes)

Statement 3

UNIVERSITY OF TORONTO
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED APRIL 30
(millions of dollars)

	Unrestricted deficit	Internally restricted (note 11)	Endowments (note 12)	2014 Total	2013 Total (note 2B)
Net assets, beginning of year (note 2B)	**(129.7)**	**1,672.9**	**1,663.7**	**3,206.9**	2,816.8
Net income	**204.3**			**204.3**	137.7
Net change in internally restricted (note 11)	**(471.1)**	**471.1**			
Remeasurements and other items (note 5)	**307.7**			**307.7**	131.0
Investment gain on externally restricted endowments (note 12)			**144.2**	**144.2**	86.8
Externally endowed contributions - donations (note 16)			**37.1**	**37.1**	34.6
Transfer to internally restricted endowments (note 12) - investment gain	**(23.7)**		**23.7**		
Transfer to endowments					
- donations	**(3.7)**		**3.7**		
- matching funds	**(8.4)**		**8.4**		
Net assets, end of year	**(124.6)**	**2,144.0**	**1,880.8**	**3,900.2**	3,206.9

(See accompanying notes)

Statement 4

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

	2014	2013
OPERATING ACTIVITIES		
Net income	**204.3**	137.7
Add (deduct) non-cash items:		
Amortization of capital assets	**146.2**	141.2
Amortization of bond issue costs		0.1
Amortization of deferred capital contributions	**(66.9)**	(65.6)
Net capital losses (gains) from investments	**32.7**	(39.9)
Employee future benefit expense	**206.2**	216.6
Employee future benefit contributions	**(345.1)**	(186.6)
Net change in other non-cash items (note 15)	**35.7**	28.6
	213.1	232.1
INVESTING ACTIVITIES		
Net sale (purchase) of short-term investments	**(132.0)**	15.0
Net sale (purchase) of investments	**50.4**	(197.6)
Purchase of capital assets	**(252.4)**	(204.7)
	(334.0)	(387.3)
FINANCING ACTIVITIES		
Contributions for capital asset purchases	**94.7**	105.5
Other long-term debt repayments	**(1.6)**	(1.8)
Endowment contributions		
- donations	**37.1**	34.6
	130.2	138.3
Net increase (decrease) in cash and cash equivalents during the year	**9.3**	(16.9)
Cash and cash equivalents, beginning of year	**104.1**	121.0
Cash and cash equivalents, end of year	**113.4**	104.1
Supplemental cash flow information		
Increase in capital asset acquisitions funded by accounts payable and accrued liabilities	**12.3**	0.1
Increase (decrease) in contributions receivable related to capital asset purchases	**(2.5)**	1.2
Contributed capital assets	**29.2**	17.0

(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 change in accounting policies.

A. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Part III of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook – Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada ("GAAP") and includes the significant accounting policies summarized below:

a) Investments and investment income -

Investments are carried at fair value except for the real estate directly held by the University for investment purposes. Fair value amounts represent estimates of the consideration that would be agreed on between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values.

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

1. Short-term notes and treasury bills are valued at fair value.
2. Publicly traded equities are valued based on the latest closing prices. Bonds are recorded at fair value, which is determined based on valuation techniques.
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 originally valued at cost and, when donated, at the value determined through an appraisal process at the date of donation. Subsequently, real estate is valued at cost less any provision for impairment.
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 that the carrying amount of these financial instruments is a reasonable estimate of fair value. Because private investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

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 consolidated statement of operations except for investment income earned on externally restricted endowments, for which only the amount made available for spending is recorded as revenue. In years where the investment income earned is in excess of the amount made available for spending, the excess is recorded as a direct increase in endowments. In years where the investment income earned is below the amount made available for spending, the shortfall is recorded as a direct decrease in endowments.

b) Derivative financial instruments -

Derivative financial instruments are used to manage particular market and currency exposures for risk management purposes primarily with respect to the University’s investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include 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) 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.

d) Other financial instruments -

Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value and are not subsequently revalued and continue to be carried at this value, which represents cost, net of any provisions for impairment.

e) 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.

f) Inventory valuation -

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

g) Employee benefit plans -

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for substantially all of its employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the accrued obligation net of the fair value of plan assets in the consolidated balance sheet. Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets. The accrued liability for funded employee future benefits is determined using a roll-forward technique to estimate the accrued liability using funding assumptions from the most recent actuarial valuation report prepared at least every three years. The accrued liability for unfunded plans is prepared on a basis consistent with funded plans. Employee future benefit plans' assets are measured at fair value at the date of the consolidated balance sheet.

h) 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.

i) 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 consolidated 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 in 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 consolidated 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.

j) Foreign currency translation -

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at year-end. Operating revenues and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from these translations are included in income except to the extent that they relate to investments, in which case they are recognized in the same manner as investment income.

k) 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.

l) 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.

m) 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. Early adoption of reporting employee future benefits by not-for-profit organizations

Effective May 1, 2013, the University early adopted Section 3463, "Reporting Employee Future Benefits by Not-for-Profit Organizations", of the CPA Canada Handbook - Accounting, on a retrospective basis. Section 3463.01 provides that a not-for-profit organization applies Section 3462, "Employee Future Benefits", except as otherwise provided for in Section 3463.

In accordance with Section 3463, remeasurements and other items are recognized directly in net assets on the consolidated balance sheet, rather than in the consolidated statement of operations, and are presented as a separately identified item in the consolidated statement of changes in net assets. In adopting Section 3463, the University now determines its obligations for its employee future benefits other than pensions using funding assumptions rather than using accounting assumptions.

The following table provides a reconciliation of the net assets as at May 1, 2012 and the net income for the year ended April 30, 2013 as previously reported with those computed after adopting Section 3463:

	(millions of dollars)	
	Net income for the year ended April 30, 2013	**Net assets as at May 1, 2012**
Net income and net assets – previously reported	173.3	2,693.5
Employee future benefits:		
Remeasurements (i)	(131.0)	
Use of funding discount rates (ii)	95.4	123.3
Net income and net assets – restated	137.7	2,816.8

i) Remeasurements

Prior to adopting Section 3463, remeasurements for the period including (a) the difference between the actual return on the plan assets and the return calculated using the discount rate used in determining the defined benefit obligation at the start of the period, and (b) actuarial gains and losses, were recognized in the consolidated statement of operations, along with current service and finance costs. Section 3463 requires that remeasurements be recognized directly in net assets on the consolidated balance sheet, rather than in the consolidated statement of operations, and presented as a separately identified item in the consolidated statement of changes in net assets. As a result of this change, the University's net income for the year ended April 30, 2013 decreased by $131.0 million, which was the result of a decrease relating to pensions of $133.2 million, offset by an increase relating to employee future benefits other than pensions of $2.2 million.

ii) Use of funding discount rates

The University, as provided for in Section 3462, now measures its defined benefit employee future benefit obligations using actuarial valuations prepared using funding discount rate assumptions, rather than using accounting discount rate assumptions. This change only impacts employee future benefits other than pensions since the University was already using funding discount rate assumptions to measure its pension obligations. As a result of this change, the employee future benefit obligation other than pension decreased by $123.3 million and internally restricted net assets increased by $123.3 million as at May 1, 2012. The University's net income for the year ended April 30, 2013 also increased by $95.4 million as a result of a decrease in employee future benefits expense caused by the change in the discount rate assumptions.

3. Investments

Direct investments are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio.

The fair values of investments are as follows:	(millions of dollars)	
	April 30, 2014	April 30, 2013
Short-term investments	**783.0**	651.0
Government and corporate bonds	**1,030.0**	973.6
Canadian equities	**339.9**	301.9
United States equities	**351.1**	349.6
International equities	**328.8**	318.2
Emerging markets equities	**204.8**	195.5
Other	**208.5**	264.8
	3,246.1	3,054.6
Less amounts reported as short-term investments:	**(783.0)**	(651.0)
	2,463.1	2,403.6

Short-term investments consist of cash, money market funds, short-term notes and treasury bills. Investments in the "other" category consist mainly of absolute return hedge funds.

Included in the above investment classification are cash and short-term investments, hedge funds, private equities and real assets which have been classified as follows:

	2014 (millions of dollars)						
	Government and corporate bonds	Canadian equities	United States equities	International equities	Emerging markets equities	Other	**Total**
	$	$	$	$	$	$	**$**
Cash and short-term investments	**13.9**	**104.5**	**30.1**	**(19.2)**	**12.5**		**141.8**
Hedge funds	**55.3**				**24.5**	**208.5**	**288.3**
Private equities	**74.0**	**24.4**	**128.3**	**41.9**	**22.7**		**291.3**
Real assets	**19.5**	**23.4**	**23.1**	**49.3**			**115.3**
	162.7	**152.3**	**181.5**	**72.0**	**59.7**	**208.5**	**836.7**

	2013 (millions of dollars)						
	Government and corporate bonds	Canadian equities	United States equities	International equities	Emerging markets equities	Other	Total
	$	$	$	$	$	$	$
Cash and short-term investments	10.9	67.9	57.0	(23.1)	(4.7)		108.0
Hedge funds	54.1				21.3	184.8	260.2
Private equities	49.1	17.8	127.9	40.7	22.9		258.4
Real assets	19.1	31.7	28.0	36.9			115.7
	133.2	117.4	212.9	54.5	39.5	184.8	742.3

The University's investments are managed using two pools, the expendable fund investment pool ("EFIP") and the long-term capital appreciation pool ("LTCAP"). The LTCAP mainly includes endowment funds. The asset mix for each pool is as follows:

	(millions of dollars)			
	April 30, 2014		April 30, 2013	
	EFIP	**LTCAP**	EFIP	LTCAP
Short-term investments	**769.1**	**13.9**	650.9	0.1
Government and corporate bonds	**407.9**	**622.1**	390.7	582.9
Canadian equities	**0.2**	**339.7**	0.2	301.7
United States equities		**351.1**		349.6
International equities		**328.8**		318.2
Emerging market equities		**204.8**		195.5
Other		**208.5**	80.0	184.8
	1,177.2	**2,068.9**	1,121.8	1,932.8

Some of the University's publicly traded investments held for 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. As at April 30, 2014, these funds include two fixed income funds and a Canadian equity fund. As at April 30, 2013, these funds included two fixed income funds, a Canadian equity fund, a United States equity fund and an international equity fund. As at April 30, 2014, the total fair value of the University's investments in these pooled funds is $575.4 million (2013 - $824.4 million).

In 2014, the University’s investment income of $178.6 million (2013 - $151.3 million) recorded in the consolidated statement of operations consists of income related to investments held for endowments of $112.7 million (2013 - $98.5 million) and income of $65.9 million (2013 - $52.8 million) on investments other than those held for endowments.

During the year, the University recognized an investment gain of $28.2 million (2013 - $12.8 million) as a result of the 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 that 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)			
	2014		2013	
	Notional value	**Fair value**	Notional value	Fair value
Foreign currency forward contracts				
- U.S. dollars	**598.8**	**12.0**	453.8	8.8
- Other international	**278.6**	**3.7**	231.4	2.3
		15.7		11.1
Equity and commodity index futures contracts				
- United States	**142.6**	**3.3**	75.2	(0.2)
- Other international	**23.4**	**(0.1)**	46.8	(0.4)
		3.2		(0.6)
Interest rate swap contracts (note 8)	**22.5**	**(4.8)**	24.3	(6.4)

The fair value of the foreign currency forward and equity and commodity index futures contracts of $18.9 million (2013 - $10.5 million) is reported as $19.6 million (2013 - $13.5 million) in accounts receivable and $0.7 million (2013 - $3.0 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 6.71% (2013 - 6.68%) on certain debt obligations instead of paying a weighted average short-term floating interest rate of 1.44% (2013 - 1.47%). 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 the notional amount. The fair value of the interest rate swap contracts of $4.8 million (2013 - $6.4 million) is included in other long-term debt (note 8).

Uncalled commitments

As at April 30, 2014, approximately 12.4% (2013 - 12.1%) 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 asset investments (e.g., real estate, infrastructure), require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2014, the University had uncalled commitments of approximately $115.7 million (2013 - $107.8 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, 2014		April 30, 2013	
	Total cost	**Accumulated amortization**	Total cost	Accumulated amortization
Land	**2,178.2**		2,178.5	
Buildings (note 8)	**2,562.9**	**922.0**	2,364.9	869.7
Equipment and furnishings	**1,414.9**	**1,120.1**	1,349.2	1,056.5
Library books	**580.2**	**527.6**	553.2	500.8
	6,736.2	**2,569.7**	6,445.8	2,427.0
Less accumulated amortization	**(2,569.7)**		(2,427.0)	
Net book value	**4,166.5**		4,018.8	

The University develops replacement property values of buildings and contents for insurance purposes using various sources and valuation methods that conform to insurance industry practice and standards. The insured replacement value of buildings is approximately $4.5 billion and contents is approximately $2.3 billion, which includes library books of approximately $0.9 billion.

As at April 30, 2014, the University had $309.3 million (2013 - $150.0 million) in construction in progress that was included in buildings which will not be amortized until the buildings are put into use.

On May 1, 2011, the University elected to value some of its land at fair value thereby increasing the carrying value of land by $2.1 billion.

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 an amount equal to the greater of 75% of the increase in the Consumer Price Index ("CPI") for the previous year up to 8%, plus 60% of the increase in CPI above 8%, or the increase in the CPI for the previous year minus four percentage points. Other retirement benefit plans are contributory health care plans with retiree contributions adjusted annually, such as extended health, semi-private and dental care. Another plan also provides for long-term disability income benefits after employment, but before retirement.

The employee future benefits expense for the year includes pension expense of $157.5 million (2013 - $174.5 million) and other retirement benefits expense of $48.7 million (2013 - $42.1 million). Remeasurements, which are recorded in the consolidated statement of changes in net assets, rather than in the consolidated statement of operations, are as follows:

	(millions of dollars)			
	April 30, 2014		April 30, 2013	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Difference between actual and expected return on plan assets	**(241.3)**		(128.7)	
Actuarial (gains) losses	**(31.4)**	**(35.0)**	(4.5)	2.2
	(272.7)	**(35.0)**	(133.2)	2.2

The latest actuarial valuation for the pension plans and for other retirement benefit plans was performed as at July 1, 2013. The next required actuarial valuations for the registered plans will be as at 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 significant actuarial assumptions adopted in measuring the University's accrued benefit obligation and benefits cost are set out below.

To measure the accrued benefit obligation other than pension as at April 30, 2013, 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% in 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, 2014.

	April 30, 2014		April 30, 2013	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligation:				
Discount rate	**6.00%**	**6.00%**	6.25%	6.25%
Rate of compensation increase	**4.25%**	**4.25%**	4.50%	4.50%
Rate of inflation	**2.25%**	**2.25%**	2.50%	2.50%
Benefits cost:				
Discount rate	**6.25%**	**6.25%**	6.25%	6.25%
Expected long-term rate of return on plan assets	**6.25%**	**N/A**	6.25%	N/A
Rate of compensation increase	**4.50%**	**4.50%**	4.50%	4.50%
Rate of inflation	**2.50%**	**2.50%**	2.50%	2.50%

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

	(millions of dollars)			
	April 30, 2014		April 30, 2013	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligation	**4,206.7**	**514.4**	4,044.2	521.9
Fair value of plan assets	**3,522.9**		2,921.3	
Plan deficit	**(683.8)**	**(514.4)**	(1,122.9)	(521.9)

In addition to the plan assets, as at April 30, 2014, the University has set aside investments of $8.6 million (2013 - $126.7 million) for its pension obligations (note 11) and $74.7 million (2013 - $61.6 million) for its other benefit plans.

6. Government remittances payable

As at April 30, 2014, accounts payable and accrued liabilities include government remittances payable of $29.3 million (2013 - $27.6 million).

7. Senior unsecured debentures

Senior unsecured debentures comprise the following:

	(millions of dollars)	
	April 30, 2014	April 30, 2013
Series A senior unsecured debenture bearing interest at 6.78% payable semi-annually on January 18 and July 18, with the principal amount maturing on July 18, 2031	**160.0**	160.0
Series B senior unsecured debenture bearing interest at 5.841% payable semi-annually on June 15 and December 15, with the principal amount maturing on December 15, 2043	**200.0**	200.0
Series C senior unsecured debenture bearing interest at 4.937% payable semi-annually on May 16 and November 16, with the principal amount maturing on November 16, 2045	**75.0**	75.0
Series D senior unsecured debenture bearing interest at 4.493% payable semi-annually on June 13 and December 13, with the principal amount maturing on December 13, 2046	**75.0**	75.0
Series E senior unsecured debenture bearing interest at 4.251% payable semi-annually on June 7 and December 7, with the principal amount maturing on December 7, 2051	**200.0**	200.0
Net unamortized transaction costs	**(1.3)**	(1.3)
	708.7	708.7

Net unamortized transaction costs are comprised of discounts, premiums and transaction issue costs.

8. Other long-term debt

Other long-term debt consists of mortgages of $4.8 million (2013 - $5.5 million) maturing in 2019 and 2020 against which the related properties are pledged as security, term loans of $6.2 million (2013 - $7.0 million) maturing from 2017 to 2020 and the fair value of interest rate swap contracts of $4.8 million (2013 - $6.4 million) (note 3). The current portion of other long-term debt of $1.7 million (2013 - $1.6 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 5.7% (2013 - 5.6%) and 6.6% (2013 - 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: 2015 - $1.7 million, 2016 - $1.7 million, 2017 - $1.8 million, 2018 - $1.9 million, and 2019 - $1.9 million.

9. 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, 2014	April 30, 2013
Balance, beginning of year	**372.7**	371.2
Grants, donations and investment income	**494.7**	469.6
Recognized as revenue during the year	**(463.4)**	(468.1)
Balance, end of year	**404.0**	372.7

The deferred contributions must be spent as follows:

	(millions of dollars)	
	April 30, 2014	April 30, 2013
Research	**187.2**	180.7
Student aid (notes 13 and 14)	**70.7**	65.9
Other restricted purposes	**146.1**	126.1
	404.0	372.7

10. 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 consolidated statement of operations as government and other grants for restricted purposes. The changes in the deferred capital contributions balance for the year are as follows:

	(millions of dollars)	
	April 30, 2014	April 30, 2013
Balance, beginning of year	**1,076.4**	1,018.3
Less amortization of deferred capital contributions	**(66.9)**	(65.6)
Add contributions recognized for capital asset purchases	**121.4**	123.7
Balance, end of year	**1,130.9**	1,076.4

This balance represents:

	(millions of dollars)	
	April 30, 2014	April 30, 2013
Amount used to purchase capital assets	**1,075.1**	1,012.4
Amount to be spent on capital assets	**55.8**	64.0
	1,130.9	1,076.4

11. Internally restricted net assets

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

	(millions of dollars)	
	April 30, 2014	April 30, 2013
Investment in capital assets	**2,611.8**	2,551.2
Operating fund reserves		
Net divisional reserves	**534.5**	485.7
Employee benefits		
Pensions	**(814.6)**	(1,229.5)
Other plans	**(439.7)**	(460.3)
Supplemental retirement arrangement (note 5)		124.3
Pension plan reserve (note 5)	**8.6**	2.4
Departmental trust funds	**75.4**	74.1
Capital projects reserves	**154.1**	105.9
Research overhead	**11.4**	17.2
Other funds	**2.5**	1.9
	2,144.0	1,672.9

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 funds, as reserves, that have not been spent at the end of each year. These amounts include reserves for operating contingencies, capital renewal and other future commitments, 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 by administrative employee groups but not taken 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) Capital projects reserves -

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

e) Research overhead -

Research overhead represents recoveries from sponsors that are appropriated and available for spending in the following fiscal year.

f) Other funds -

These funds are held primarily to support various initiatives to enhance the quality, structure and organization of programmes and activities as well as the restructuring needed to adapt to the long-range budget plan and to improve the productivity of physical assets.

12. Endowments

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

University policy has been established with the objective of protecting the real value of the endowments by limiting the amount of income made available for spending and requiring the reinvestment of income not made available. 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 2014, $7.56 (2013 - $7.56) per unit of LTCAP was made available for spending, representing 4.38% (2013 - 4.67%) of the opening fair value per unit of the endowment pool.

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

(millions of dollars)

	2014			2013		
	Externally Restricted	Internally Restricted	Total	Externally Restricted	Internally Restricted	Total
Balance, beginning of year	**1,415.8**	**247.9**	**1,663.7**	1,287.3	230.8	1,518.1
Donations (note 16)	**37.1**		**37.1**	34.6		34.6
Investment income, net of fees and expenses of $16.4 (2013- $13.6)	**206.6**	**33.9**	**240.5**	147.3	24.4	171.7
Investment income made available for spending	**(62.4)**	**(10.2)**	**(72.6)**	(60.5)	(10.0)	(70.5)
Transfer of donations and matching funds from unrestricted net assets	**7.7**	**4.4**	**12.1**	7.1	2.7	9.8
Balance, end of year	**1,604.8**	**276.0**	**1,880.8**	1,415.8	247.9	1,663.7

13. 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.

Phase 1:	(thousands of dollars)	
	2014	2013
Endowments at book value, beginning of year	**288,905**	289,903
Transfer from (to) expendable funds	**10,813**	(998)
Endowments at book value, end of year	**299,718**	288,905
Cumulative unrealized gains (losses)	**13,657**	(4,479)
Endowments at fair value, end of year	**313,375**	284,426
Expendable funds available for awards, beginning of year	**24,566**	22,870
Realized investment income	**23,216**	11,540
Transfer (to) from endowment balance	**(10,813)**	998
University contribution		2
Bursaries awarded	**(9,922)**	(10,844)
Expendable funds available for awards, end of year	**27,047**	24,566
Number of award recipients	**3,475**	3,914

Phase 2:

	(thousands of dollars)			
	2014		2013	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**39,150**	**5,057**	39,267	4,967
Transfer from (to) expendable funds	**1,290**	**(77)**	(117)	90
Endowments at book value, end of year	**40,440**	**4,980**	39,150	5,057
Cumulative unrealized losses	**(2,779)**		(4,960)	
Endowments at fair value, end of year	**37,661**		34,190	
Expendable funds available for awards, beginning of year	**2,950**	**234**	3,014	256
Realized investment income	**2,788**	**219**	1,382	315
Transfer (to) from endowment balance	**(1,290)**	**77**	117	(90)
Bursaries awarded	**(1,329)**	**(205)**	(1,563)	(247)
Expendable funds available for awards, end of year	**3,119**	**325**	2,950	234
Number of award recipients	**630**	**115**	553	136

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 9) on the consolidated balance sheet. The endowments and expendable fund balances of the affiliates (Victoria University, The University of Trinity College, University of St. Michael's College and the Toronto School of Theology) are not included in these consolidated financial statements.

14. Ontario Trust for Student Support

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Trust for Student Support matching program to award student aid as a result of raising an equal amount of endowed donations. The University also matched certain endowed donations.

(for the year ended March 31)*	2014 University of Toronto	2014 Affiliates	2013 University of Toronto	2013 Affiliates
	(thousands of dollars)			
Endowments at book value, beginning of year	**67,314**	**14,111**	66,846	13,581
Donations received	**336**	**75**	561	221
University matching	**26**	**8**	176	
Transfer from (to) expendable funds	**2,138**	**213**	(269)	309
Endowments at book value, end of year	**69,814**	**14,407**	67,314	14,111
Cumulative unrealized losses	**(583)**		(5,184)	
Endowments at fair value, end of year	**69,231**		62,130	
Expendable funds available for awards, beginning of year	**3,739**	**452**	3,327	357
Realized investment income	**4,888**	**995**	2,433	812
Donations received	**2**		3	11
University matching and contribution	**98**		104	
Transfer (to) from endowment balance	**(2,138)**	**(213)**	269	(309)
Bursaries awarded	**(2,776)**	**(473)**	(2,397)	(419)
Expendable funds available for awards, end of year	**3,813**	**761**	3,739	452
Number of award recipients	**1,251**	**281**	1,157	220

*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 9) on the consolidated balance sheet. The endowments and expendable fund balances of the affiliates (Victoria University, The University of Trinity College, University of St. Michael's College and the Toronto School of Theology) are not included in these consolidated financial statements.

15. Net change in other non-cash items

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

	(millions of dollars)	
	2014	2013
Accounts receivable	**(8.6)**	2.0
Inventories and prepaid expenses	**(1.2)**	4.9
Deferred contributions	**31.3**	1.5
Accounts payable and accrued liabilities	**14.2**	20.2
	35.7	28.6

16. Donations

During the year, the University received donations of $127.4 million (2013 - $118.3 million). Of that amount, $37.1 million (2013 - $34.6 million) is recorded as a direct addition to endowments (note 12) and is not recorded as donations revenue.

17. Government and other grants for restricted purposes

During the year, the University received $368.0 million (2013 - $383.9 million) of government and other grants for research and $104.3 million (2013 - $67.2 million) for capital infrastructure, of which $386.5 million (2013 - $391.5 million) was recorded as revenue and $85.8 million (2013 - $59.6 million) was deferred.

18. 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 hedging policy as at April 30, 2014 is to hedge 65% (2013 - 75%) of non-emerging markets' currency exposures.

Credit risk

The University is exposed to credit risk in connection with its accounts receivable, its short term and fixed income investments and derivative contracts 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 are recorded net of an allowance for doubtful accounts of $8.5 million (2013 - $7.3 million). As at April 30, 2014, $369.9 million (2013 - $408.8 million) of directly held fixed income securities and the underlying fixed income securities directly held by the UTAM Canadian Fixed Income Fund and the UTAM Canadian Credit Fund 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 liquidity risk to the extent 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.

19. TRIUMF

The University is a member, with 10 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 note 21(b)).

The following financial information for TRIUMF was prepared in accordance with Canadian Public Sector Accounting Standards, including accounting standards that apply to government not-for-profit organizations, except that all capital assets and related provisions for decommissioning costs, if any, are expensed in the year in which the costs are incurred.

	(millions of dollars)	
	March 31, 2014 (unaudited)	March 31, 2013
Total assets	**25.5**	28.6
Total liabilities	**7.9**	9.8
Total fund balances	**17.6**	18.8
Revenues	**81.0**	87.9
Expenses	**82.2**	88.2
Deficiency of revenues over expenses	**(1.2)**	(0.3)

20. Other commitments

a) The estimated cost to complete construction and renovation projects in progress as at April 30, 2014, which will be funded by government grants, donations and operations, is approximately $333.3 million (2013 - $252.0 million).

b) The future annual payments under various operating leases are approximately $18.4 million.

21. Contingencies

a) The University has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. As at April 30, 2014, the amount of loans guaranteed was $6.7 million (2013 - $6.6 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 that 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 as at April 30, 2014. TRIUMF has put in place a plan for funding the cost of decommissioning that 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. As at April 30, 2014, the University believes that it has valid defenses and appropriate insurance coverage in place on certain claims that 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.

Appendix

Supplementary Report

By Fund

April 30, 2014

(Unaudited)

HIGHLIGHTS
(Unaudited)
Year Ended April 30, 2014
(millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
Statement of Operations					
Revenues	$ 2,004.1	$ 163.6	$ 72.9	$ 469.6	$ 2,710.2
Expenses	$ 1,783.9	$ 153.2	$ 125.2	$ 443.6	$ 2,505.9
Net Income (Loss)	$ 220.2	$ 10.4	$ (52.3)	$ 26.0	$ 204.3
Balance Sheet					
Assets	$ 1,045.3	$ 298.2	$ 3,966.3	$ 2,371.2	$ 7,681.0
Liabilities	$ 1,724.9	$ 250.6	$ 1,390.3	$ 415.0	$ 3,780.8
Net Assets	$ (679.6)	$ 47.6	$ 2,576.0	$ 1,956.2	$ 3,900.2
Net Assets composed of:					
Endowments				$ 1,880.8	$ 1,880.8
Investment in Capital Assets		$ 91.5	$ 2,520.3		$ 2,611.8
Internally Restricted	$ (665.1)	$ 17.8	$ 104.1	$ 75.4	$ (467.8)
Unrestricted Deficit	$ (14.5)	$ (61.7)	$ (48.4)		$ (124.6)
	$ (679.6)	$ 47.6	$ 2,576.0	$ 1,956.2	$ 3,900.2

HIGHLIGHTS
(Unaudited)
Year Ended April 30, 2013
(millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
Statement of Operations					
Revenues	$ 1,879.2	$ 160.3	$ 69.3	$ 454.5	$ 2,563.3
Expenses	$ 1,713.5	$ 153.2	$ 121.2	$ 437.7	$ 2,425.6
Net Income (Loss)	$ 165.7	$ 7.1	$ (51.9)	$ 16.8	$ 137.7
Balance Sheet					
Assets	$ 1,077.7	$ 292.7	$ 3,828.2	$ 2,126.6	$ 7,325.2
Liabilities	$ 2,123.6	$ 258.4	$ 1,347.5	$ 388.8	$ 4,118.3
Net Assets	$ (1,045.9)	$ 34.3	$ 2,480.7	$ 1,737.8	$ 3,206.9
Net Assets composed of:					
Endowments				$ 1,663.7	$ 1,663.7
Investment in Capital Assets		$ 93.9	$ 2,457.3		$ 2,551.2
Internally Restricted	$ (1,034.3)	$ 13.6	$ 68.3	$ 74.1	$ (878.3)
Unrestricted Deficit	$ (11.6)	$ (73.2)	$ (44.9)		$ (129.7)
	$ (1,045.9)	$ 34.3	$ 2,480.7	$ 1,737.8	$ 3,206.9

PURPOSE OF THIS SUPPLEMENTARY REPORT

The University of Toronto's financial statements report the University's assets, liabilities, net assets, revenues and expenses on a single column basis. The purpose of this supplementary report is to show the University's financial statement information by fund in a format consistent with how the University manages its finances, that is, by fund. Schedules 1 and 2 show the balance sheet and statement of operations and changes in unrestricted deficit by fund.

The operating fund includes teaching and administrative activities supported mainly by government operating grants, student fees and sales of supplies and services.

Ancillary operations include residences, food and beverage services, parking, Hart House, Residential Housing and U of T Press. All ancillary assets, liabilities, net assets, revenues and expenses are recorded in this fund.

The capital fund includes all capital assets – land, buildings, furnishings, computers, etc. - except for those of ancillary operations. Contributions to the University for capital assets other than ancillaries are recorded in this fund.

Restricted funds include donations (including endowments), research grants and contracts. Each donation, usually supported by an agreement between the University and the donor, or a collection of small donations with similar purpose, is recorded in its own fund, and managed according to agreed upon terms and conditions. Each research grant or contract is recorded in its own fund and managed in accordance with the terms and conditions required by the sponsor of the funds. There are several thousand individual restricted funds.

The key drivers of financial performance described in the financial highlights affect the various funds as follows:

- Student enrolment growth is mostly reflected in the operating fund and in ancillary operations.
- Growth in research activity is reflected in restricted funds.
- Salaries and benefits growth is mostly reflected in the operating fund.
- Growth in space is reflected in ancillary operations (residences and parking facilities) and the capital fund (all other facilities, including academic teaching and research facilities).
- Donations are reflected in restricted funds.
- Endowments are reflected in restricted funds.
- Investment earnings are reflected in all funds, but predominantly in the operating fund and in restricted funds.

Schedule 1
(Unaudited)
UNIVERSITY OF TORONTO
BALANCE SHEET
April 30, 2014
(with comparative figures at April 30, 2013)
(millions of dollars)

	Operating fund	Ancillary operations	Capital fund	Restricted funds	2014 Total	2013 Total
ASSETS						
Current						
Cash and short-term investments	975.5	18.8	30.3	(128.2)	896.4	755.1
Accounts receivable	57.4	13.9		20.0	91.3	82.7
Inventories and prepaid expenses	12.4	7.4			19.8	18.6
Long-term accounts receivable			43.9		43.9	46.4
Investments				2,463.1	2,463.1	2,403.6
Capital assets, net		258.1	3,892.1	16.3	4,166.5	4,018.8
	1,045.3	298.2	3,966.3	2,371.2	7,681.0	7,325.2
LIABILITIES						
Current						
Accounts payable and accrued liabilities	239.7	25.5	48.7	11.0	324.9	298.4
Deferred contributions				404.0	404.0	372.7
Accrued pension liability	683.8				683.8	1,122.9
Employee future benefit obligation other than pension	514.4				514.4	521.9
Internal loans	283.0	211.4	(494.4)			
Senior unsecured debentures			708.7		708.7	708.7
Other long-term debt	4.0	6.3	3.8		14.1	17.3
Deferred capital contributions		7.4	1,123.5		1,130.9	1,076.4
	1,724.9	250.6	1,390.3	415.0	3,780.8	4,118.3
NET ASSETS						
Unrestricted deficit	(14.5)	(61.7)	(48.4)		(124.6)	(129.7)
Internally restricted	(665.1)	17.8	104.1	75.4	(467.8)	(878.3)
Investment in capital assets		91.5	2,520.3		2,611.8	2,551.2
Endowments				1,880.8	1,880.8	1,663.7
	(679.6)	47.6	2,576.0	1,956.2	3,900.2	3,206.9
	1,045.3	298.2	3,966.3	2,371.2	7,681.0	7,325.2

Schedule 2
(Unaudited)
UNIVERSITY OF TORONTO
STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED DEFICIT
FOR THE YEAR ENDED APRIL 30
(millions of dollars)

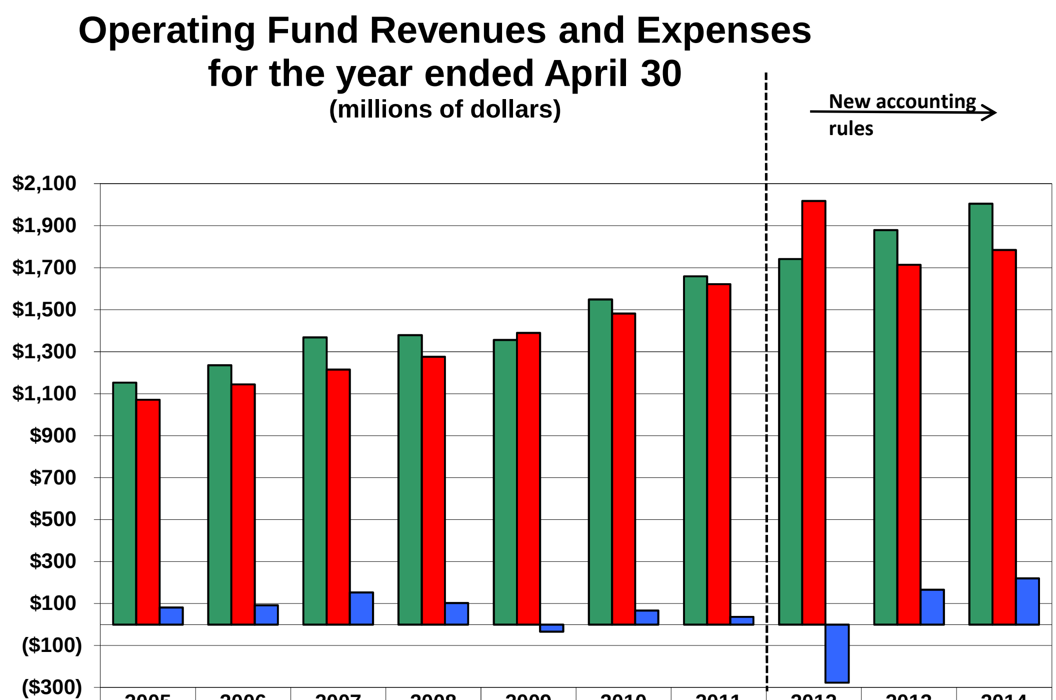
	Operating fund	Ancillary operations	Capital fund	Restricted funds	2014 Total	2013 Total
REVENUES						
Student fees	1,030.0	8.5	0.5		1,039.0	944.7
Government grants for general operations	706.0				706.0	703.6
Government and other grants and contracts for restricted purposes		0.5	50.6	335.4	386.5	391.5
Sales, services and sundry income	154.9	153.8	1.1		309.8	288.5
Investment Income	113.2	0.6	1.9	62.9	178.6	151.3
Donations		0.2	18.8	71.3	90.3	83.7
	2,004.1	163.6	72.9	469.6	2,710.2	2,563.3
EXPENSES						
Salaries	990.7	6.9		193.1	1,190.7	1,142.1
Employee future benefits	206.2				206.2	216.6
Other employee benefits	103.7	1.9		20.4	126.0	119.9
Materials and supplies	74.6	1.5		130.4	206.5	212.6
Scholarships, fellowships and bursaries	172.9			26.2	199.1	186.3
Amortization of capital assets	10.7	14.4	119.7	1.4	146.2	141.2
Repairs and maintenance	76.4	15.6	1.6	2.4	96.0	88.2
Cost of sales and services		87.7			87.7	87.9
Utilities	46.7	10.2		2.2	59.1	51.9
External contracted services	24.1			24.9	49.0	46.6
Travel and conferences	24.0			19.6	43.6	43.2
Interest on long-term debt	22.3	15.0		1.5	38.8	39.9
Telecommunications	10.7			1.3	12.0	12.3
Other	20.9		3.9	20.2	45.0	36.9
	1,783.9	153.2	125.2	443.6	2,505.9	2,425.6
Net income (loss)	220.2	10.4	(52.3)	26.0	204.3	137.7
Net transfer between funds	(94.4)	2.9	80.4	11.1		
Transfer of capital assets funding	(67.2)		67.2			
Change in internally restricted	(61.5)	(4.2)	(35.8)	(1.3)	(102.8)	(60.2)
Change in investment in capital assets		2.4	(63.0)		(60.6)	(48.1)
Transfers of donations to endowments				(12.1)	(12.1)	(9.8)
Transfer to internally restricted endowments				(23.7)	(23.7)	(14.4)
Net change in unrestricted deficit for the year	(2.9)	11.5	(3.5)	0.0	5.1	5.2
Unrestricted deficit, beginning of year	(11.6)	(73.2)	(44.9)		(129.7)	(134.9)
Unrestricted deficit, end of year	(14.5)	(61.7)	(48.4)	0.0	(124.6)	(129.7)

OPERATING FUND

The ***operating fund*** includes teaching and administrative activities supported mainly by government operating grants, student fees and sales of supplies and services.

Operating fund revenues for the year were $2.0 billion; expenses were $1.8 billion resulting in a net income of $220.2 million. Growth in operating fund revenues and expenses primarily reflected planned and expected increases in the number of students.

Effective in fiscal 2012, the University accounts for its employee future benefits (pensions and other employee future benefits) using the immediate recognition approach which has the impact of fully recording the deficit from its pension plans and employee future benefit obligation other than pensions on the balance sheet and statement of operations. The net loss in 2012 resulted from recording the difference in the actual return on plan assets and the return used in valuing employee future benefits obligations, and any actuarial gains and losses in the statement of operations. As of fiscal 2013, these differences were recognized directly in net assets and did not flow through the statement of operations.



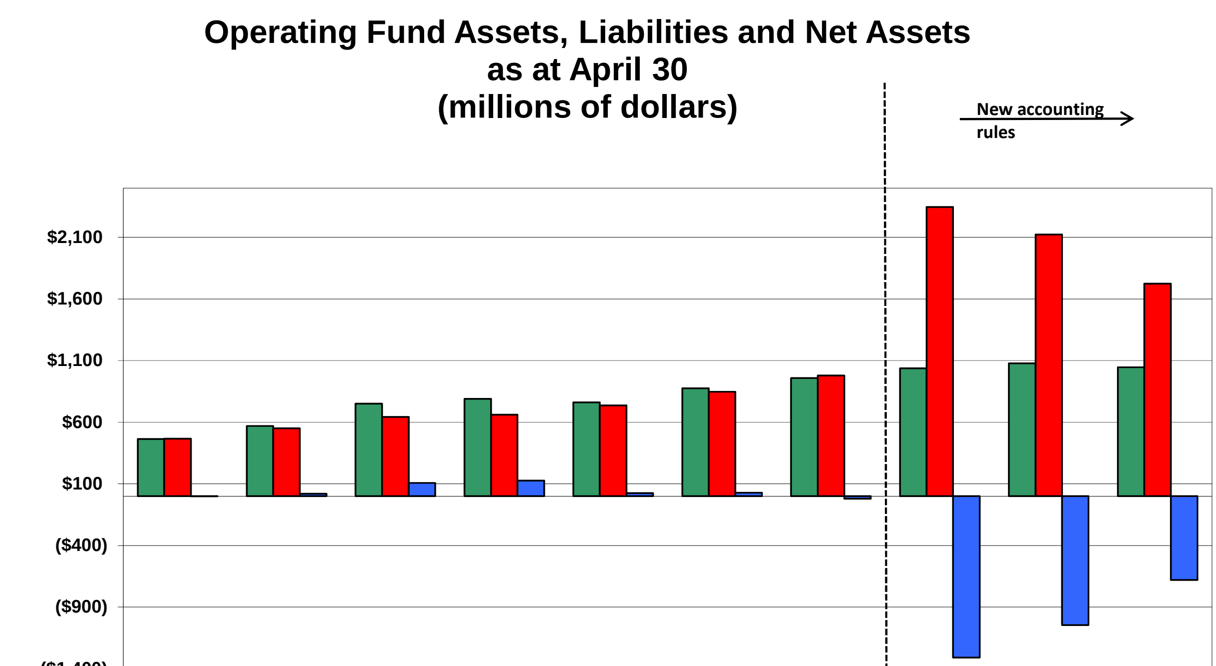
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues	1,152.0	1,235.4	1,367.6	1,379.2	1,356.1	1,549.1	1,658.9	1,741.4	1,879.2	2,004.1
Expenses	1,071.0	1,143.8	1,214.4	1,275.9	1,389.6	1,482.0	1,622.1	2,018.3	1,713.5	1,783.9
Net income (loss)	81.0	91.6	153.2	103.3	(33.5)	67.1	36.8	(276.9)	165.7	220.2

The cumulative operating deficit at April 30, 2014 is $14.5 million, whereas the long-range operating budget called for a cumulative operating deficit of $3.5 million. Academic divisions and centrally held funds will be charged $11.0 million in 2014-15 to bring the actual cumulative deficit in line with the planned long-range budgeted deficit.

The 2014 net income in the operating fund is a result of:

Capital expenditures not shown as expenses but transferred to the capital fund and added to the balance sheet as capital assets	**67.2**
Net decrease in employee future benefit obligations	**9.9**
Transfers to other funds not expensed in the operating fund	**94.4**
Last year’s general university deficit charged back to academic divisions	**4.5**
General University deficit to be recovered from academic divisions in 2014-15	**(6.8)**
General University deficit to be recovered from central funds held by the Provost in 2014-15	**(4.2)**
Academic funding recovered from divisions (1 year remaining)	**3.6**
Unspent divisional funds added to reserves	**51.6**
	220.2

Operating fund assets at April 30, 2014 were $1.0 billion, liabilities were $1.7 billion, and net assets were negative $679.6 million.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assets	463.8	569.6	751.1	788.5	761.3	875.6	958.5	1,036.8	1,077.7	1,045.3
Liabilities	465.2	550.4	643.8	661.4	736.6	847.7	979.9	2,346.5	2,123.6	1,724.9
Net Assets	(1.4)	19.2	107.3	127.1	24.7	27.9	(21.4)	(1,309.7)	(1,045.9)	(679.6)

The net assets for the year improved from negative $1.0 billion in 2013 to negative $679.6 million mainly due to the following:

- $220.2 million net income for the year.
- $307.7 million reduction in employee future benefit obligations from remeasurement calculations.
- ($161.6 million) net transfers to other funds.

The transfers to other funds were as follows:

- $67.2 million to the capital fund to reflect operating funding of capital asset expenditures recorded as capital assets in the capital fund.
- $8.4 million to restricted funds in support of various matching funds initiatives.
- $83.2 million to the capital fund for various projects.
- $2.4 million to various ancillary operations and to reduce the Innovations Foundation deficit.
- $0.4 million to restricted funds to replenish the insurance reserve.

There are two categories of net assets for the operating fund as follows:

- ($14.5 million) unrestricted deficit.
- ($665.1 million) of negative internally restricted net assets.

The $14.5 million unrestricted deficit is the "cumulative deficit" of the operating fund which is referenced in the University's Operating Budget Report. The cumulative deficit has increased from $11.6 million at April 30, 2013 to $14.5 million at April 30, 2014, due to the following:

- $220.2 million net income.
- ($161.6 million) net transfers to other funds as noted above.
- ($61.5 million) change in internally restricted, mainly due to a decrease in the unfunded portion of employee future benefits combined with an increase in divisional and central reserves.

Internally restricted net assets of negative $665.1 million mainly include divisional reserves of $534.5 million, funds set aside for capital projects of $32.2 million and funds set aside from research overhead of $11.4 million offset by $1.2 billion of net unfunded liabilities consisting of $805.9 million associated with its pension plans and $439.7 million associated with its employee future benefits other than pension plans which will have to be paid from future years' operating fund revenues.

Schedule 3 is a summary of operating fund reserves that comprise the negative $665.1 million in internally restricted net assets. Included in this schedule are plans by divisions detailing how reserves carried forward will be spent on a one-time only basis, or in the event of a deficit, a plan for its elimination using the following categories:

1. **Capital Reserve -** This category is intended to capture funds that have been reserved by the division in anticipation of new building construction, renovations to facilities, infrastructure upgrades such as computer networking, equipment replacement, etc.

2. **Research Funds -** Funds reserved for research are to be included in this category. This includes funds allocated to Principal Investigators as a result of the expense reimbursement program for Faculty and Librarians, overheads, research allowance or start-up funds. Also included are funds reserved for Canada Research Chairs and any related research allowance.

3. **Student Assistance -** This category captures funds reserved for scholarships, bursaries and other student assistance.

4. **Endowment Matching Funds -** This category captures funds reserved to match future external donor contributions. The division must have a written plan that defines what type of contributions it will match (i.e. chairs and professorships, student aid, academic programs and research), with a set limit for the matching.

5. **Operating Contingency Reserve -** This category is intended to capture divisional operating contingency reserves. Funds in this category include reserves for anticipated budget reductions, voluntary early retirement payouts, increases in university wide costs, and fluctuations in revenues due to enrolment shortfalls and lower investment returns. The total operating reserve contingency would normally fall in range of 5% to 10% of the division's total operating expense budget. Divisions with greater distributed

risk (i.e. large international enrolment, significant growth, high levels of external revenue, etc.) may establish larger operating contingency reserves.

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND RESERVES
AT APRIL 30, 2014
(with comparative figures at April 30, 2013)
(thousands of dollars)

	2014	2013
	Total	Total
Divisional reserves		
Academic	427,847	395,162
Academic services	8,437	6,787
Student services	19,581	14,326
Student assistance	4,885	7,580
Facilities & services	15,380	13,729
Administration	42,696	37,007
General university	15,633	11,090
Total divisional reserves	534,459	485,681
Central reserves		
Research overhead	11,372	17,234
Capital projects reserves	32,218	24,002
University investment infrastructure fund	2,013	1,000
Priorities fund	4,559	6,243
Loss on interest rate swaps	(4,084)	(5,303)
Total central reserves	46,078	43,176
Employee benefit reserves		
Pension	(814,573)	(1,229,511)
Pension plan reserve	8,644	2,356
Supplemental retirement arrangement		124,263
Medical benefits	(450,358)	(457,391)
Other plans	10,679	(2,873)
Total employee benefit reserves	(1,245,608)	(1,563,156)
Total internally restricted net assets	(665,071)	(1,034,299)

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND RESERVES
AT APRIL 30, 2014
(with comparative figures at April 30, 2013)
(thousands of dollars)

	2014						2013
	Capital Reserve	Research	Student Assistance	Endowment Matching	Operating Contigency	Total	Total
ACADEMIC:							
Arts and Science, TYP, SCS:							
Faculty of Arts and Science	28,007	40,857	22,685	1,210	(15,781)	76,978	56,717
Transitional Year Programme	78		14		355	447	277
UTSC academic	8,913	9,416	78		21,542	39,949	47,563
UTM academic	22,562	9,158			4,212	35,932	10,983
School of Continuing Studies					4,142	4,142	1,944
	59,560	59,431	22,777	1,210	14,470	157,448	117,484
Health sciences:							
Faculty of Dentistry	941	2,246	17		2,207	5,411	5,901
Faculty of Medicine	10,110	24,271	8,065	4,600	60,501	107,547	121,299
Dalla Lana School of Public Health	250	2,406	1,374		3,633	7,663	3,918
Lawrence S. Bloomberg Faculty of Nursing	2,000	1,561	322		2,689	6,572	7,176
Leslie Dan Faculty of Pharmacy		3,622	454		20,733	24,809	23,722
Faculty of Kinesiology & Physical Education	2,138	1,013	28	1,000	765	4,944	3,930
	15,439	35,119	10,260	5,600	90,528	156,946	165,946
Other professional faculties:							
Faculty of Applied Science and Engineering	12,752	13,102	2,354		8,447	36,655	41,678
John H. Daniels Faculty of Architecture, Landscape and Design	4,625	135	38		1,433	6,231	880
Rotman School of Management		610			(8,313)	(7,703)	(4,454)
OISE/UT	8,000	3,200	200		13,579	24,979	26,337
Faculty of Forestry		715	384		1,038	2,137	1,791
Faculty of Law	3,396	1,234	625		447	5,702	4,555
Faculty of Information		312	110		(27)	395	945
Faculty of Music		307	27		143	477	1,093
Factor-Inwentash Faculty of Social Work		259			8,868	9,127	8,046
	28,773	19,874	3,738	-	25,615	78,000	80,871
Other academic costs:							
University-wide reserves	15,743	170	3,416	6,055	40,234	65,618	61,360
Vacation Pay accrual					(26,953)	(26,953)	(25,454)
Voluntary Early Retirement Program accrual					(3,212)	(3,212)	(5,045)
TOTAL ACADEMIC	119,515	114,594	40,191	12,865	140,682	427,847	395,162

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND RESERVES
AT APRIL 30, 2014
(with comparative figures at April 30, 2013)
(thousands of dollars)

	2014						2013
	Capital Reserve	Research	Student Assistance	Endowment Matching	Operating Contigency	Total	Total
ACADEMIC SERVICES:							
St. George Libraries	1,900	612			999	3,511	2,013
UTSC library	2,030	72			957	3,059	2,934
UTM library	313	22			518	853	804
Library - Electronic Acquisitions					1,014	1,014	1,036
TOTAL ACADEMIC SERVICES	4,243	706	-	-	3,488	8,437	6,787
STUDENT SERVICES:							
St. George campus	2,634		3,703			6,337	3,343
UTSC campus	4,630		3		2,466	7,099	6,227
UTM campus					2,073	2,073	1,501
Athletics and Recreation	3,414	90	494		74	4,072	3,250
UT Art Centre						-	5
TOTAL STUDENT SERVICES	10,678	90	4,200	-	4,613	19,581	14,326
STUDENT ASSISTANCE:							
St. George campus	615		4,030			4,645	7,482
UTSC campus			210			210	78
UTM campus			30			30	20
TOTAL STUDENT ASSISTANCE	615	-	4,270	-	-	4,885	7,580
FACILITIES & SERVICES							
St. George campus	1,262				704	1,966	3,908
UTSC campus	3,186				3,541	6,727	6,713
UTM campus	6,638				49	6,687	3,108
TOTAL FACILITIES & SERVICES	11,086	-	-	-	4,294	15,380	13,729

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND RESERVES
AT APRIL 30, 2014
(with comparative figures at April 30, 2013)
(thousands of dollars)

	2014						2013
	Capital Reserve	Research	Student Assistance	Endowment Matching	Operating Contigency	Total	Total
ADMINISTRATION:							
Office of the Governing Council	300				297	597	413
Office of the President					78	78	87
Convocation and Institutional events					219	219	340
Chief Financial Officer	500				924	1,424	2,055
Vice-President and Provost	418	1,095			10,024	11,537	15,078
Vice-President - Research	50	175	150		1,920	2,295	1,469
Vice-President and Chief Advancement Officer	1,743				412	2,155	3,881
Vice-President - University Relations					2,977	2,977	3,401
Vice-President - University Operations	8,168				12,274	20,442	7,948
Vice-President - Human Resources and Equity					2,020	2,020	1,947
UTSC campus	323	57	10		5,201	5,591	5,125
UTM campus					767	767	2,133
Vacation Pay accrual					(7,406)	(7,406)	(6,870)
TOTAL ADMINISTRATION:	11,502	1,327	160	-	29,707	42,696	37,007
GENERAL UNIVERSITY:							
Vice-President - Human Resources and Equity					1,088	1,088	(1,154)
CFO - LTBP expendable funds					12,696	12,696	225
Vice-President - University Operations					2,826	2,826	15,541
U of T Campaign (former) Deficit					(977)	(977)	(3,522)
TOTAL GENERAL UNIVERSITY	-	-	-	-	15,633	15,633	11,090
TOTAL DIVISIONAL RESERVES	157,639	116,717	48,821	12,865	198,417	534,459	485,681

Comparison of the Operating Fund Financial Results to the Operating Budget

It is important to compare the year-end results to budget to assess how well the budget has estimated the actual outcome. However, there are differences between the operating budget and the operating fund financial results that must be adjusted before the comparison can occur. These differences are summarized as follows:

- The financial statements are prepared on an accrual basis following Canadian generally accepted accounting principles for not-for-profit organizations in Canada (“GAAP”), while the operating budget projects cash receipts and expenditures.
- The financial statements include amortization of capital assets while the operating budget includes estimated cash outlays for these assets.
- The financial statements include the costs of pensions and other benefits in accordance with Canadian GAAP, while the operating budget includes the projected cash premiums and funding to be paid in the year.

These differences require a $27.8 million adjustment to financial statement revenues and a $0.7 million adjustment to expenses to make the numbers comparable to budget. Once these adjustments have been made, it is possible to compare the operating fund budget with the year-end results and to assess how closely actual results conformed to plan. In summary, the adjustments between the financial statements and the operating budget are as follows:

	Financial Statements	Adjustments	Adjusted Financial Statements	Original budget	Favourable (unfavourable) variance	% Variance
Operating fund revenues	2,004.1	(27.8)	1,976.3	1,885.5	90.8	4.8%
Operating fund expenses	1,783.9					
Capital asset transfer	67.2					
	1,851.1	(0.7)	1,850.4	1,885.5	35.1	1.9%
Net income	153.0	(27.1)	125.9	0.0	125.9	

Total operating fund revenues, after adjustments, were $1,976.3 million, as compared to budgeted revenues of $1,885.5 million, resulting in a positive variance of $90.8 million, or 4.8%. This positive variance was due primarily to:

- a reduction in graduate expansion funding of $5.6 million, due to lower than expected enrolments in masters and PhD programmes,
- a favourable indirect cost recovery of research grants and contracts of $2.0 million,
- a unfavourable tuition fee variance of $6.0 million primarily as a result of undergraduate domestic tuition,
- a favourable investment income variance of $2.6 million due to higher than budgeted invested capital in the expendable investment pool,
- a $21.3 million favourable variance in divisional provincial grants,
- a $3.2 million increase in student fees from academic programmes for which no Provincial Government funding is provided, and
- a favourable $66.0 million variance in divisional sales and services.

Total operating fund expenses, after adjustments, were $1,850.4 million, as compared to budgeted expenses of $1,885.5 million resulting in a positive variance of $35.1 million. A detailed analysis is shown below.

Schedule 4

(Unaudited)

UNIVERSITY OF TORONTO

COMPARISON OF ACTUAL OPERATING FUND RESULTS WITH ORIGINAL BUDGET FOR THE YEAR ENDED APRIL 30, 2014

(millions of dollars)

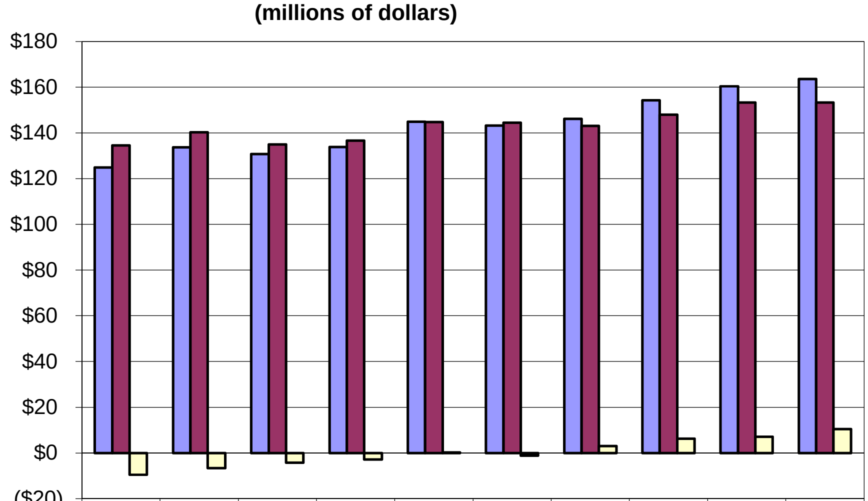
	ACTUAL			BUDGET	VARIANCE
	Financial Statements	Adjustments	Adjusted Financial Statements	Original budget	Favourable (Unfavourable)
REVENUES					
General university income:					
Provincial grants	631.1		631.1	634.6	(3.5)
Indirect cost recovery of grants and contracts	46.6		46.6	44.6	2.0
Student fees	844.3		844.3	850.3	(6.0)
Investment income:					
Endowment (chairs and student aid)	51.7		51.7	51.2	0.5
Other	61.5	(27.8)	33.7	31.1	2.6
Sundry income	19.2		19.2	14.5	4.7
Municipal taxes	4.8		4.8	4.8	
	1,659.2	(27.8)	1,631.4	1,631.1	0.3
Divisional income:					
Provincial grants	36.8		36.8	15.5	21.3
Student fees	172.9		172.9	169.7	3.2
Sales and services	135.2		135.2	69.2	66.0
	344.9		344.9	254.4	90.5
	2,004.1	(27.8)	1,976.3	1,885.5	90.8
EXPENSES					
Academic	1,048.4	17.4	1,065.8	1,110.9	45.1
Academic services	79.1	(0.2)	78.9	72.1	(6.8)
Student services	71.5	(0.2)	71.3	74.0	2.7
Student assistance	176.4		176.4	166.8	(9.6)
Physical plant maintenance and services	94.1	(0.2)	93.9	92.8	(1.1)
Physical plant utilities	57.9	1.2	59.1	55.1	(4.0)
Alterations and renovations	9.1	(9.1)			
Administration	178.1	(0.5)	177.6	187.4	9.8
Amortization	10.7	(10.7)			
Interest expense	22.3	(22.3)			
General university expense	98.7	23.9	122.6	121.6	(1.0)
Municipal taxes	4.8		4.8	4.8	
	1,851.1	(0.7)	1,850.4	1,885.5	35.1
Operating results before the following:	153.0	(27.1)	125.9		125.9
Repayment of divisional deficit		3.6	3.6	3.6	
Change in internally restricted funds (Schedule 3)	(61.5)	23.5	(38.0)		(38.0)
Transfers	(94.4)		(94.4)		(94.4)
NET CHANGE IN DEFICIT FOR THE YEAR	(2.9)	0.0	(2.9)	3.6	(6.5)

ANCILLARY OPERATIONS

Ancillary operations include service ancillaries (residences, food and beverage services, parking, and Hart House) and business ancillaries (Residential Housing and U of T Press). All ancillary assets, liabilities, net assets, revenues and expenses are recorded in this fund.

Ancillary revenues grew from $124.9 million in 2005 to $163.6 million in 2014, expenses grew from $134.5 million to $153.2 million, and the net result changed from a net loss of $9.6 million in 2005 to a net income of $10.4 million in 2014. Residence fees over the past nine years have been increased to catch up with increased expenses, including large fixed rate principal and interest payments on borrowing.

Ancillary operations
Revenues and Expenses
for the year ended April 30
(millions of dollars)

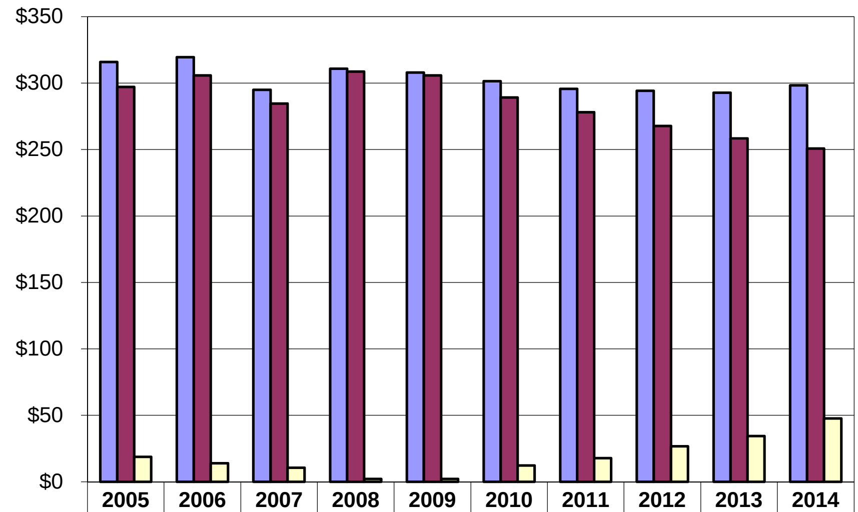


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues	124.9	133.7	130.7	133.8	144.9	143.2	146.1	154.2	160.3	163.6
Expenses	134.5	140.3	135.0	136.6	144.7	144.4	143.1	148.0	153.2	153.2
Net income (loss)	(9.6)	(6.6)	(4.3)	(2.8)	0.2	(1.2)	3.0	6.2	7.1	10.4

Ancillaries as a group generated net income of $10.4 million. After transfers in of $2.4 million from the net asset category of investment in capital assets which reflected the internal financing of capital assets, other transfers in of $2.9 million less $4.2 million committed for future spending, the unrestricted deficit decreased by $11.5 million for the year to $61.7 million.

Ancillary assets decreased from $315.8 million in 2005 to $298.2 million in 2014 and liabilities decreased from $297.1 million in 2005 to $250.6 million in 2014 as ancillaries paid down their capital financing. Net assets grew from $18.7 million to $47.6 million over the same period, essentially reflecting the continued success of service operations with filling residence and parking spaces, while reducing debt burdens.

Ancillary operations
Balance Sheet
as at April 30
(millions of dollars)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Ancillary assets	315.8	319.4	294.8	310.7	307.7	301.3	295.6	294.2	292.7	298.2
Ancillary liabilities	297.1	305.6	284.4	308.6	305.7	289.1	277.9	267.6	258.4	250.6
Ancillary net assets	18.7	13.8	10.4	2.1	2.0	12.2	17.7	26.6	34.3	47.6

At April 30, 2014, net assets were $47.6 million, an increase of $13.3 million from April 30, 2013, mainly due to the following:

- $10.4 million net income for the year.
- $2.4 million from the operating fund to reduce the Innovations Foundation deficit ($1.5 million) and for other support.

There are three categories of net assets for ancillary operations which together total $47.6 million. They are:

- ($61.7 million) in unrestricted deficit.
- $17.8 million in internally restricted net assets.
- $91.5 million in investment in capital assets.

The investment in capital assets category reflects capital construction of facilities which have been funded by internal borrowing of the University's own funds, resulting in a corresponding increase in unrestricted deficit. Over time, investment in capital assets will be reduced as the capital assets are amortized, and unrestricted deficit will be decrease by the amount of that amortization.

Schedule 5 shows details by ancillary operation.

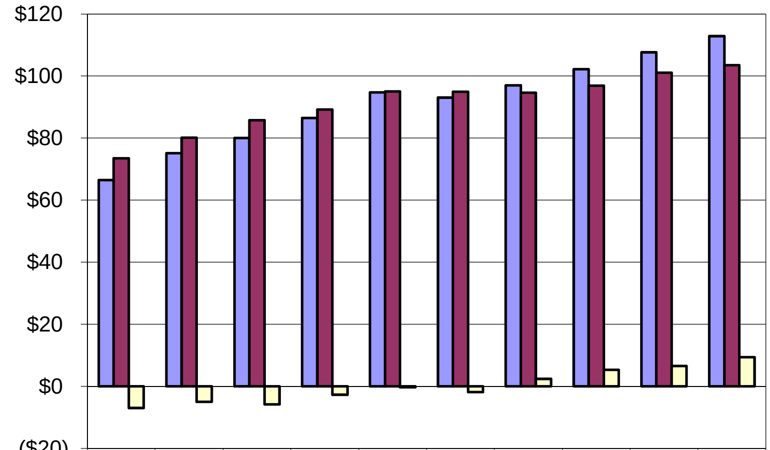
Schedule 5
UNIVERSITY OF TORONTO
ANCILLARY OPERATIONS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2014
(with comparative figures for the year ended Apr 30, 2013)
(thousands of dollars)

	Revenues	Expenses	Commitments and Transfers	Surplus/(Deficit) Opening	Surplus/(Deficit) Closing	Investment in Capital Assets	Internally Restricted	2014 Total Net Assets	2013 Total Net Assets
	$	$	$	$	$	$	$	$	$
Residences									
Graduate House	4,193	3,708	774	(12,407)	(11,148)	14,357	0	3,209	2,689
Scarborough	6,432	6,344	380	(1,744)	(1,276)	3,327	783	2,834	2,746
Mississauga	11,872	12,379	1,507	(12,430)	(11,430)	9,929	527	(974)	(1,666)
University College	6,252	5,975	352	1,124	1,753	2,046	1,411	5,210	4,929
Innis College	3,172	2,749	(654)	1,071	840	412	2,383	3,635	3,336
New College	8,763	8,777	234	(10,154)	(9,934)	3,140	600	(6,194)	(6,180)
Family Housing	8,634	7,085	(580)	2,747	3,716	455	1,250	5,421	4,327
Woodsworth College	4,098	3,992	346	(17,758)	(17,306)	21,475	1,500	5,669	5,564
89 Chestnut	21,220	20,187	(1,229)	(13,636)	(13,832)	4,093	0	(9,739)	(10,772)
	74,636	71,196	1,130	(63,188)	(58,617)	59,234	8,453	9,070	4,972
Food/Beverage Service									
St. George	2,786	2,216	(118)	575	1,026	119	900	2,045	1,435
Scarborough	654	532	(99)	285	308	229	7	544	421
Mississauga	1,952	1,325	115	507	1,249	803	(194)	1,858	1,232
New College	860	534	58	(663)	(279)	877	38	636	311
University College	3,597	3,193	(147)	421	678	21	1,000	1,699	1,446
	9,848	7,800	(191)	1,124	2,982	2,049	1,750	6,781	4,844
Parking									
St. George	5,644	5,776	538	3,091	3,497	5,401	500	9,398	9,732
Scarborough	2,854	2,058	146	(4,290)	(3,348)	6,614	333	3,599	3,000
Mississauga	3,336	2,526	416	(8,040)	(6,814)	9,479	0	2,665	1,855
	11,834	10,360	1,100	(9,239)	(6,665)	21,494	832	15,661	14,587
Hart House	16,518	14,169	(2,000)	345	695	2,623	7,452	10,769	7,172
University of Toronto Press	48,359	47,990	65	4,382	4,816	1,973	0	6,789	6,420
Residential Housing	2,322	1,739	(477)	(2,119)	(2,013)	4,079	(439)	1,627	1,044
University of Toronto -								0	0
Innovations Foundation	0	31	1,501	(4,367)	(2,897)	0	0	(2,897)	(4,367)
	50,681	49,760	1,089	(2,104)	(94)	6,052	(439)	5,519	3,097
Total without the Swap	163,516	153,285	1,128	(73,062)	(61,699)	91,452	18,048	47,800	34,672
Fair value of Interest Rate Swap				(382)			(260)	(260)	(382)
Total with the Swap	**163,516**	**153,285**	**1,128**	**(73,444)**	**(61,699)**	**91,452**	**17,788**	**47,541**	**34,290**

Service Ancillaries

Service ancillaries had revenues of $112.9 million and expenses of $103.5 million, with a net income of $9.4 million for the year. Service ancillary revenues have increased by 69.8% since 2005 and expenses have risen by 40.8% due to expansion of residences, food and beverage and parking services to deal with the growth in student enrolment. Residence fees over the past nine years have been increased to catch up with increased expenses, including large fixed rate principal and interest payments on borrowing.

Ancillary operations - Service Ancillaries
Revenues and Expenses
for the year ended April 30
(millions of dollars)



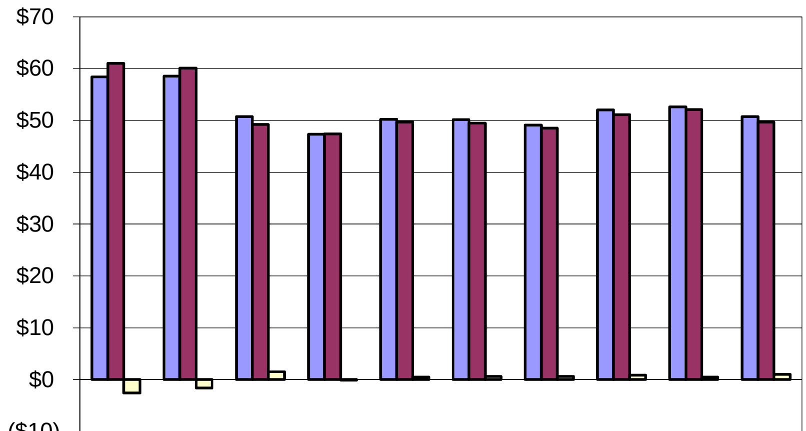
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Service ancillary revenues	66.5	75.2	80.0	86.5	94.7	93.1	97.0	102.2	107.7	112.9
Service ancillary expenses	73.5	80.2	85.8	89.2	95.0	94.9	94.6	96.9	101.1	103.5
Service ancillary net income (loss)	(7.0)	(5.0)	(5.8)	(2.7)	(0.3)	(1.8)	2.4	5.3	6.6	9.4

The long-term financial health of these operations is dependent upon filling the residence and parking spaces. Growth has largely been financed through long-term debt and through subsidy from the operating results of existing ancillary operations resulting in reduced operating margins. Where capital infrastructure growth has occurred, the individual ancillary operation is expected to break even annually in 5 years and cumulatively in 8 years.

Business Ancillaries

Business ancillaries had revenues of $50.7 million and expenses of $49.7 million, for a net income of $1.0 million for the year. The reduction in revenues since 2006 is a result of the transfer of the University of Toronto Innovations Foundation (UTIF) from ancillary operations to the operating fund (Vice-President, Research and Innovation portfolio) effective May 1, 2006 and as a result of the U of T Press selling its printing division. The UTIF transfer within the University was made for two reasons. Firstly, UTIF had been unsuccessful at becoming economically viable as called for by its 2002 business plan. Secondly, the University has refocused its mission of transferring knowledge without taking the risks associated with investing in start-up technologies. The transfer within the University has permitted closer relations with academic divisions, more disclosure and a clearer focus on the mission of knowledge transfer.

Ancillary operations - Business Ancillaries
Revenues and Expenses
for the year ended April 30
(millions of dollars)

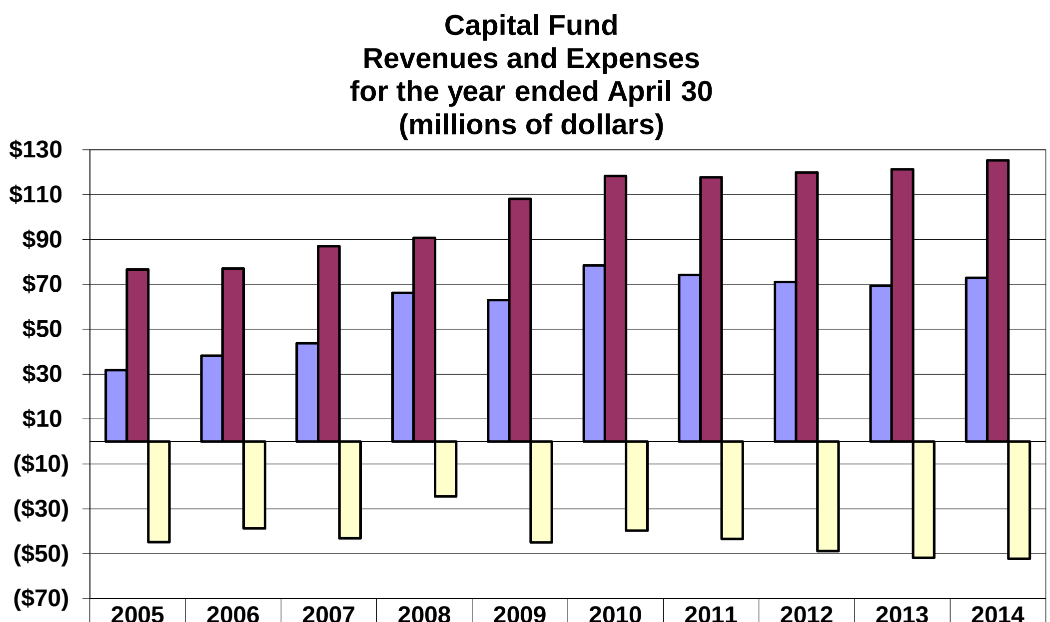


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Business ancillary revenues	58.4	58.5	50.7	47.3	50.2	50.1	49.1	52.0	52.6	50.7
Business ancillary expenses	61.0	60.1	49.2	47.4	49.7	49.5	48.5	51.1	52.1	49.7
Business ancillary net income (loss)	(2.6)	(1.6)	1.5	(0.1)	0.5	0.6	0.6	0.9	0.5	1.0

CAPITAL FUND

The capital fund includes all capital assets – land, buildings, furnishings, computers, etc - except for those of the ancillary operations. Contributions to the University for capital assets other than ancillaries are recorded in this fund. This fund also holds the vast majority of the University's debt and in turn lends it out for capital construction and other projects to departments or operations that have the responsibility to repay the loan.

Capital fund revenues for the year were $72.9 million and expenses were $125.2 million, for a net loss of $52.3 million. Revenues include an amount equal to the amortization of capital assets that were financed by grants and donations, while expenses include the amortization of all capital assets.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues	31.8	38.2	43.8	66.2	63.0	78.4	74.2	71.0	69.3	72.9
Expenses	76.6	77.0	87.0	90.7	108.0	118.2	117.7	119.9	121.2	125.2
Net loss	(44.8)	(38.8)	(43.2)	(24.5)	(45.0)	(39.8)	(43.5)	(48.9)	(51.9)	(52.3)

The reason for this loss is that a significant share of the revenue funding the amortization of capital assets and funding capital projects is recorded as revenue in the operating fund and transferred to the capital fund as an interfund transfer, and therefore is not reported in revenues or expenses of the capital fund.

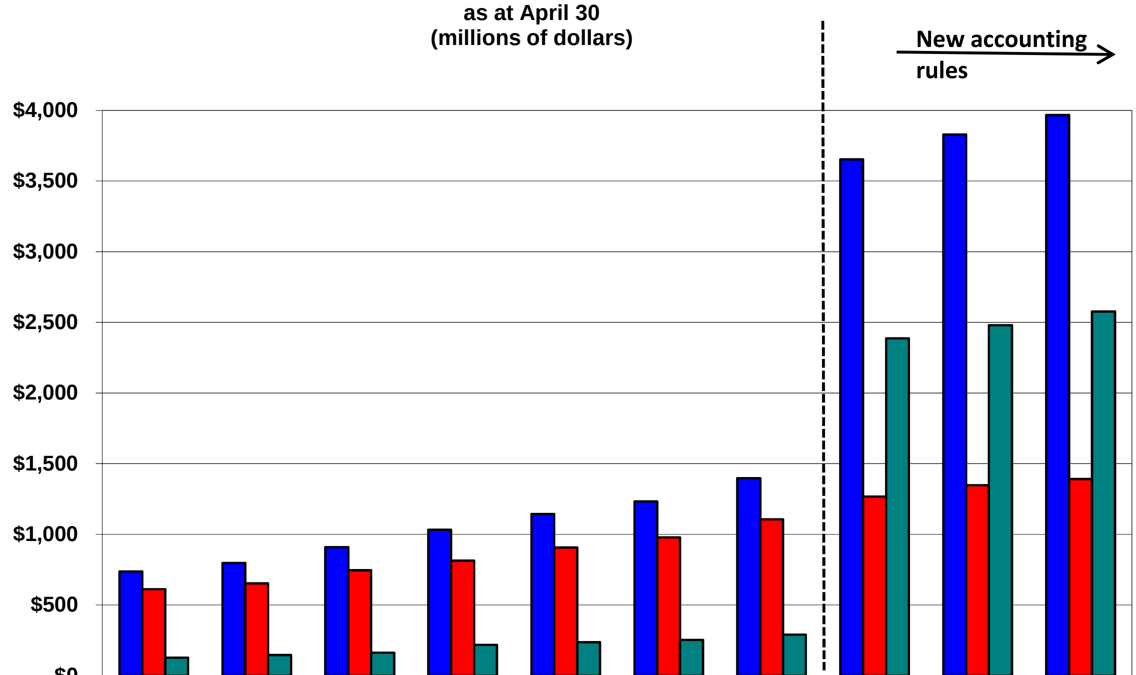
In 2014, a total of $147.6 million was transferred to the capital fund. This was made up of $67.2 million in capital asset funding from the operating fund that must be transferred to the capital fund where the assets are capitalized, combined with net transfers of $80.4 million in contributions mainly from the operating fund in support of various capital projects.

Effective May 1, 2011, the University was required to adopt new accounting standards. These standards were required to be accounted for retrospectively. The University elected to recognize some of its land at fair value which increased its capital assets and internally restricted net assets in fiscal 2012 by $2,067.9 million.

In 2014, capital fund assets were $4.0 billion, liabilities were $1.4 billion and net assets were $2.6 billion. Net assets comprised $2.5 billion investment in capital assets, $104.1 million internally restricted funds offset by $48.4 million in unrestricted deficit.

The assets of the capital fund have grown from $737.4 million in 2005 to $4.0 billion in 2014 primarily as a result of the University's large capital construction program and recording some of its land at fair value. Liabilities have also grown from $610.8 million in 2005 to $1.4 billion in 2014. This growth in liabilities reflects the increase in long-term debt to $712.5 million, and growth in deferred capital contributions to $1.1 billion. This growth is partly offset by loans to other funds of $494.4 million since the external borrowing of long-term debt is recorded in the capital fund and loans are provided to departments or operations that have the responsibility to repay the loans. These loans are recorded as a liability in the operating or ancillary fund, as appropriate, and are recorded as a receivable in the capital fund.

Capital Fund
Balance Sheet
as at April 30
(millions of dollars)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assets	737.4	798.2	908.3	1,031.5	1,143.9	1,232.7	1,397.5	3,654.1	3,828.2	3,966.3
Liabilities	610.8	652.7	746.2	812.9	907.5	978.9	1,106.6	1,267.1	1,347.5	1,390.3
Net assets	126.6	145.5	162.1	218.6	236.4	253.8	290.9	2,387.0	2,480.7	2,576.0

RESTRICTED FUNDS

Restricted funds include donations (including endowments), research grants and contracts. Each donation, usually supported by an agreement between the University and the donor, or a collection of small donations with similar purpose, is recorded in its own fund, and managed according to agreed upon terms and conditions. Each research grant or contract is also recorded in its own fund and managed in accordance with the terms and conditions required by the sponsor of the funds. There are over 17,800 individual restricted funds.

Restricted funds exclude research grants for capital assets and donations designated for capital assets, both of which are recorded in the capital fund. When restricted funds are provided for, or spent on, capital assets, they are recorded in the capital fund.

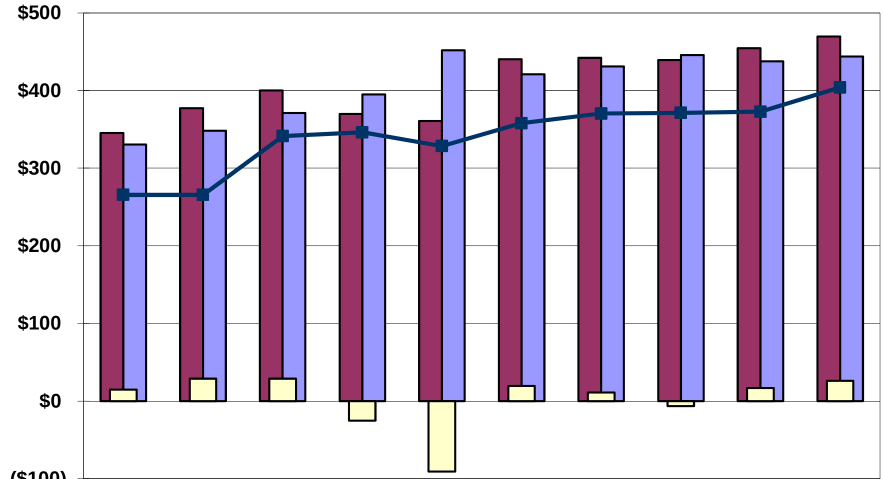
Financial reporting for restricted funds follows specific rules with respect to revenue recognition that differ from the rules for unrestricted receipts. They are:

- Restricted grants and expendable donations are recorded as revenue when spent, while unrestricted grants and expendable donations are recorded as revenue when received.
- Unspent restricted grants and donations are recorded as liabilities known as deferred contributions.
- Endowed donations are not recorded as revenue. They are added directly to the balance sheet as net assets.
- Investment earnings on externally restricted endowments that are made available for spending are recorded as revenue and the amount for preservation of capital is added directly to the balance sheet as net assets. In years where earnings are below the amount made available for spending, a drawdown is made from previously re-invested earnings. The amount made available for spending is recorded as revenue, and net assets on the balance sheet are reduced directly by the drawdown. Investment earnings or loss on internally restricted endowments are recorded in the income statement and the amount for preservation of capital or drawdown is recorded as a transfer to or from the endowment balance.

In 2009, investment losses reflected the very poor investment markets. No spending allocation was made from the endowment. Commitments normally met from the endowment payout were met from other sources of funds. After 2009, the University was able to make funds available for spending from the endowment.

In 2014, restricted funds revenues for the year were $469.6 million; expenses were $443.6 million resulting in net income of $26.0 million. Net income in any particular year mainly reflects the recording of unrestricted donations and investment income as revenue that was not yet offset by expenses. A net loss in any particular year mainly reflects the recording of investment losses on internally restricted endowments funded by a transfer from endowed capital and/or expenses funded by internally restricted net assets.

Restricted Funds
Revenues, Expenses and Deferred Contributions
for the Year Ended April 30
(millions of dollars)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues	345.1	377.0	399.9	369.7	360.7	440.2	441.9	439.4	454.5	469.6
Expenses	330.5	348.2	371.1	395.1	451.6	420.9	431.0	445.8	437.7	443.6
Net income (loss)	14.6	28.8	28.8	(25.4)	(90.9)	19.3	10.9	(6.4)	16.8	26.0
Deferred contributions	265.5	265.5	341.3	346.1	328.4	357.9	370.3	371.2	372.7	404.0

Restricted funds' assets were $2.4 billion, liabilities were $415.0 million, and net assets were $2.0 billion. Net assets comprised $1.9 billion in endowments and $75.4 million in internally restricted funds**.**

At April 30, 2014, the restricted funds net assets increased by $218.4 million from April 30, 2013 as a result of net income of $26.0 million and a further $192.4 million as follows:

a) transfers from other funds:

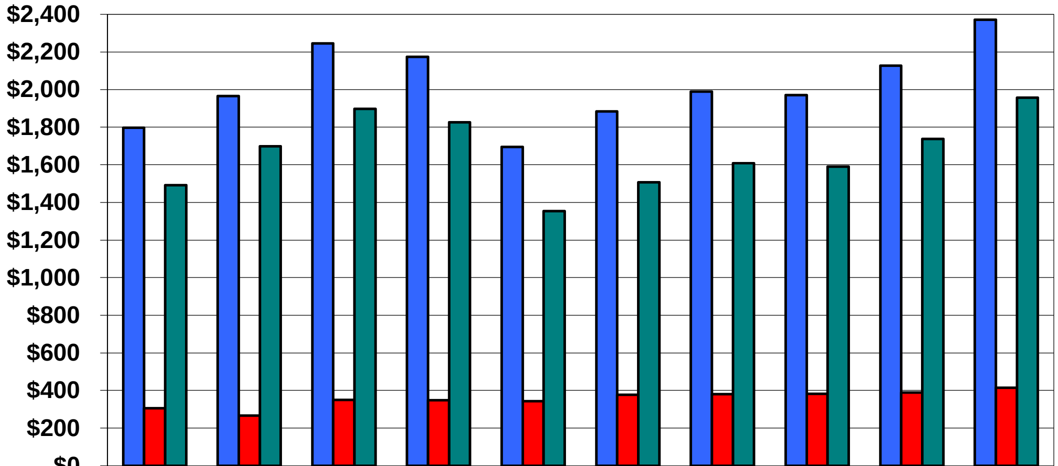
- $8.4 million from the operating fund, mainly as matching funds.
- $2.7 million net transfer to fund future maintenance, bursaries and other costs.

b) endowed contributions and investment gains on externally restricted endowments, which are not recorded as revenue, but are added directly to net assets:

- $37.1 million endowed donations.
- $144.2 million investment gain on externally restricted endowments.

As noted above**,** the majority of unspent expendable restricted funds are NOT recorded as net assets, but rather are recorded as deferred contributions in the liabilities section of the balance sheet. These liabilities have grown from $304.6 million in 2005 to $415.0 million in 2014 mainly as a result of the growth in research activity and expendable donation which is reflected in the expendable restricted funds on hand that have not yet been spent.

Restricted Funds
Balance Sheet
as at April 30
(millions of dollars)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assets	1,796.8	1,965.0	2,246.6	2,174.6	1,696.1	1,883.3	1,988.9	1,970.7	2,126.6	2,371.2
Liabilities	304.6	267.1	349.9	348.1	342.1	377.2	379.7	381.1	388.8	415.0
Net assets	1,492.2	1,697.9	1,896.7	1,826.5	1,354.0	1,506.1	1,609.2	1,589.6	1,737.8	1,956.2

Net assets in restricted funds have grown from $1.5 billion in 2005 to $2.0 billion in 2014.

Schedule 6 reflects the change in endowment funds from April 30, 2013 to April 30, 2014 with the related expendable funds.

Schedule 6
(Unaudited)
UNIVERSITY OF TORONTO
RESTRICTED FUNDS
ENDOWMENT AND EXPENDABLE FUNDS AT FAIR VALUES AT APRIL 30, 2014
(thousands of dollars)

	Endowment funds					Expendable funds					
	April 30, 2013	Donations, and other additions	Preservation of capital (note 1)	Transfers	April 30, 2014	April 30, 2013	Donations, grants and other additions	Distributed Investment Income/(loss) (note 1)	Transfers	Disbursements	April 30, 2014
	$	$		$	$	$	$	$	$	$	$
Student aid (note 2)	331,779	19,696	34,776	3,890	390,141	36,634	5,178	(5,500)	2,895	-	39,207
Ontario Student Opportunity		-									
Trust Funds - Phase I (note 2)	284,426	-	28,841	108	313,375	24,566	-	2,587	(106)	-	27,047
Ontario Student Opportunity											
Trust Funds - Phase 2 (note 2)	34,190	1	3,466	4	37,661	2,950	-	173	(4)	-	3,119
Ontario Trust for Student Support (note 2)	62,653	331	6,353	28	69,365	3,970	2	9	100	-	4,081
Research funds	114,363	1,271	11,576	(27)	127,183	187,279	368,794	5,182	2,429	364,863	198,821
Departmental funds	207,082	7,771	21,204	1,519	237,576	149,485	55,538	26,789	1,487	74,820	158,479
Faculty endowment funds (note 2)	514,370	10,760	51,728	3,632	580,490	12,577	7	5,952	(1,146)	4,319	13,071
Connaught fund	80,866	-	8,197	-	89,063	7,335	-	3,604	(3,068)	223	7,648
I'Anson fund	2,514	-	255	-	2,769	880	-	119	27	-	1,026
Miscellaneous funds	31,497	-	1,556	145	33,198	21,200	42,956	261	(834)	36,679	26,904
	1,663,740	39,830	167,952	9,299	1,880,821	446,876	472,475	39,176	1,780	480,904	479,403
Comprising:											
Externally designated	1,415,847	37,026	144,239	7,673	1,604,785						
Internally designated	247,893	2,804	23,713	1,626	276,036						
	1,663,740	39,830	167,952	9,299	1,880,821						
Restricted						372,724	462,481	32,199	3,276	466,721	403,959
Unrestricted						74,152	9,994	6,977	(1,496)	14,183	75,444
						446,876	472,475	39,176	1,780	480,904	479,403

Notes:

(1) Consisting of investment income on:

Endowment funds	205,161
Expendable funds	1,967
	207,128

(2) Disbursements and corresponding distributed investment income for Student aid ($20,562), Ontario Student Opportunity Trust Funds ($11,250), Ontario Trust for Student Support ($2,742) and Faculty Endowments ($17,182) are reported in the Operating Fund.

UNIVERSITY OF
TORONTO