UNIVERSITY OF TORONTO CONDENSED FINANCIAL REPORT

April 30, 1998

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Other Financial Reports

Last modified on August 20, 2002.

A copy of the University's published Financial Report is available upon request from the

Vice-President, Business Affairs
University of Toronto
27 King's College Circle, Room 112
Toronto, Ontario
M5S 1A1
Telephone: (416) 978-5850

Please send comments and questions to felix.chee@utoronto.ca

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FINANCIAL HIGHLIGHTS

Effective with the 1997-98 fiscal year, the University of Toronto's financial statements have been revised to comply with the new requirements established by the Canadian Institute of Chartered Accountants for not-for-profit institutions. The changes in this year's statements, and in the 1997 comparative numbers which have been restated to conform to the new requirements, are the following:

Impact on assets, liabilities and net assets: Please refer to the table that appears as part of note 3 on page 15 of the financial statements for the impact of the changes on the reported assets, liabilities and net assets (formerly entitled fund balances) of the University.

Financial statement presentation: We have adopted a consolidated single column approach which replaces the multiple columns used in previous years, when we reported by major fund categories for the operating, ancillary, capital and restricted funds.

Revenue recognition: In previous years, all contributions (including donations and government grants) were recognized as revenue in the year in which they were received. Effective this year, we have chosen to follow the deferral method of accounting for contributions. Contributions are now recorded as revenue only when the related expenses are incurred. Amounts not yet recognized as revenue at fiscal year end are recorded as deferred contributions on the balance sheet.

Amortization of capital assets: In previous years, most capital assets were expensed in the year in which they were purchased. All capital assets are now capitalized and amortized over their estimated useful lives. Only the unamortized portion of internally financed assets is recorded on the line "investment in capital assets" within the net assets category on the balance sheet. "Net assets" were formerly called "fund balances".

Revenues for 1997-98 were $976.7 million of which 46.1% was government, research and other grants, 21.7% was student fees, 4.6% was donations and 27.6% was from investment income, sales of services and contract research. Revenues this year were 6.0% higher than last year, mainly as a result of a $27.2

million increase in donations, a $33.1 million increase in investment income (a substantial portion of which was transferred to endowments for preservation of capital) and a $28.8 million decrease in government, research and other grants. The increase in investment income is a result of capital gains due to the major re-structuring of our investment pool which took place during this fiscal year. The amount of future capital gains should return to a more normal level as we do not anticipate any major changes to the investment portfolio.

Expenses for 1997-98 were $881.8 million of which 60.9% was salaries and benefits and 39.1% was for other expenses such as scholarships, fellowships and bursaries, travel and conferences, supplies, utilities, etc. Expenses for this year were 2.1% higher than last year.

The excess of revenues over expenses was $94.9 million and was dealt with as follows: (a) $59.2 million was set aside for the capital preservation of internally restricted endowments, (b) $16.5 million was committed for specific purposes, (c) $3.5 million was set aside to cover future amortization of capital assets, (d) $3.2 million was transferred to endowments net of campaign expenses. The surplus for the year was $12.5 million which reduced the cumulative deficit at the start of the year of $19.4 million to a closing deficit at the end of the year of $6.9 million.

Endowments are funds donated to or designated by the university to be held in perpetuity whereby a portion of the investment income is expended each year to support the program expenses of the endowment. Our endowments are pooled for investment purposes in order to maximize the investment return and at the same time provide for security and the benefits of investment diversification inherent with a large pool of assets. The consolidated investment pool for endowments enjoyed a total return on assets of 23.4% for 1997-98. At April 30, 1998 their book value was $815.2 million, an increase of $185.0 million (29.3%) over last year. Their market value was $920.8 million. The main reasons for this growth were the Ontario Student Opportunity Trust Fund which added $38.5 million, the matching chair program which added $18.4 million and the capitalization of investment income, which added $116.5 million, each of which is described below. Other endowment donations contributed $9.3 million while capitalization of expendable funds added $2.3 million.

Ontario Student Opportunity Trust Fund is a matching program established by the Government of Ontario to encourage endowment donations for student aid by matching each dollar raised. During this year, the university raised $19.25 million of endowment donations for student aid, with an additional $19.25 million provided by the Government of Ontario. The university also provided a match for these donations by reallocating endowment funds already in hand. This program provides for needs-based bursaries to students which are made in accordance with our policies on student financial support and student awards.

The matching chair and professorship program is a strategy to enhance the university's ability to attract donations in support of endowed chairs and professorships. Endowment donations of $18.4 million were raised this year and the University has committed to match a total of $147 million for this program.

The University follows a preservation of capital policy in order to maintain the purchasing power of its endowments over the long-term. This policy's objective is to make available for spending income approximating 5% of market value over the long term with annual distributions calculated using a four year moving average to avoid abrupt changes in the annual flow of income for spending on designated endowment purposes. Income in excess of this annual distribution, amounting to $116.5 million for 1997-98, was added to endowments.

Investment in capital assets of $151.9 million represents that portion of net assets which is required to be set aside to fund future amortization of owned capital assets. No provision is required for externally financed capital assets.

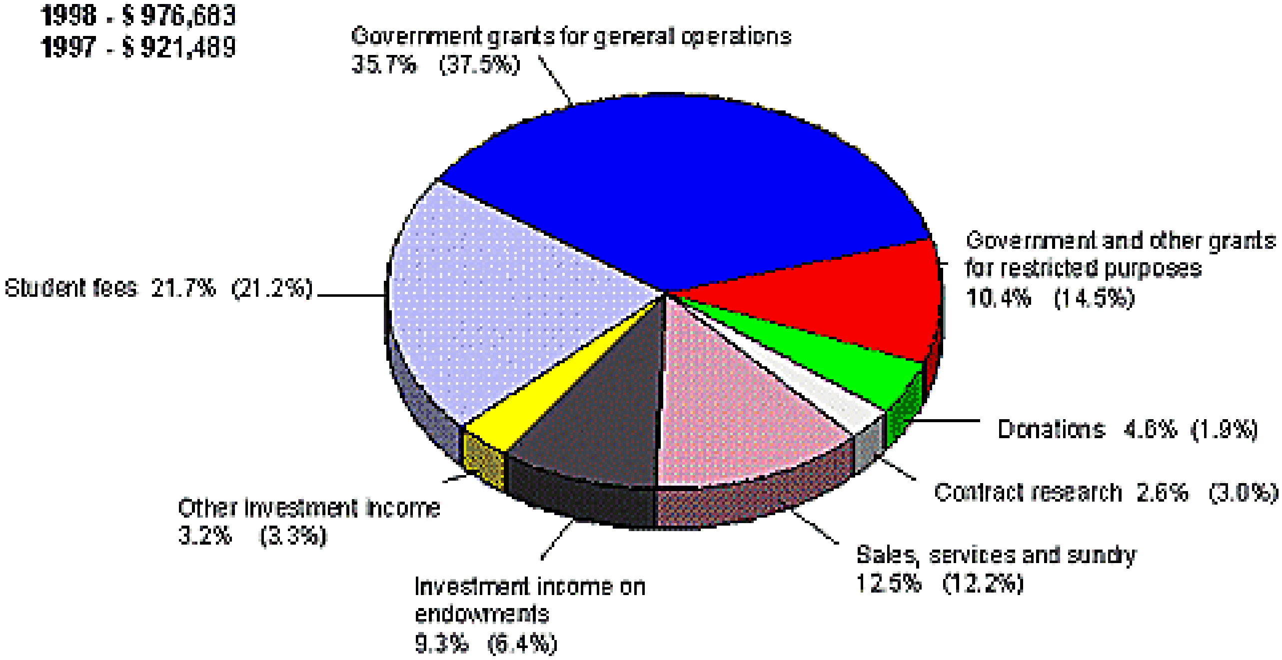
Funds committed for specific purposes increased 9.4% to $192.7 million at year end. These funds are internally restricted for spending for particular purposes. The increase is primarily due to $28.3 million committed for the supplementary retirement arrangement which is an unregistered pension plan approved by Governing Council as part of the salary settlements awarded last year. The details of funds committed for specific purposes can be found on page 20 of the financial statements.

Preservation and restoration of the University's existing physical assets continues to be a concern. The current backlog of deferred maintenance and renewal is estimated at $136.6 million, with the potential for a further $32 million if renovations are pursued that would disrupt asbestos insulation. This backlog in repair and replacement expenditures is not reflected on the balance sheet. In the past year, the University has spent $4.4 million on deferred maintenance, $4.5 million on renewal expenditures and $13.9 million for regular repair and maintenance. While these expenditures helped address the need to preserve the University's buildings, much remains to be done.

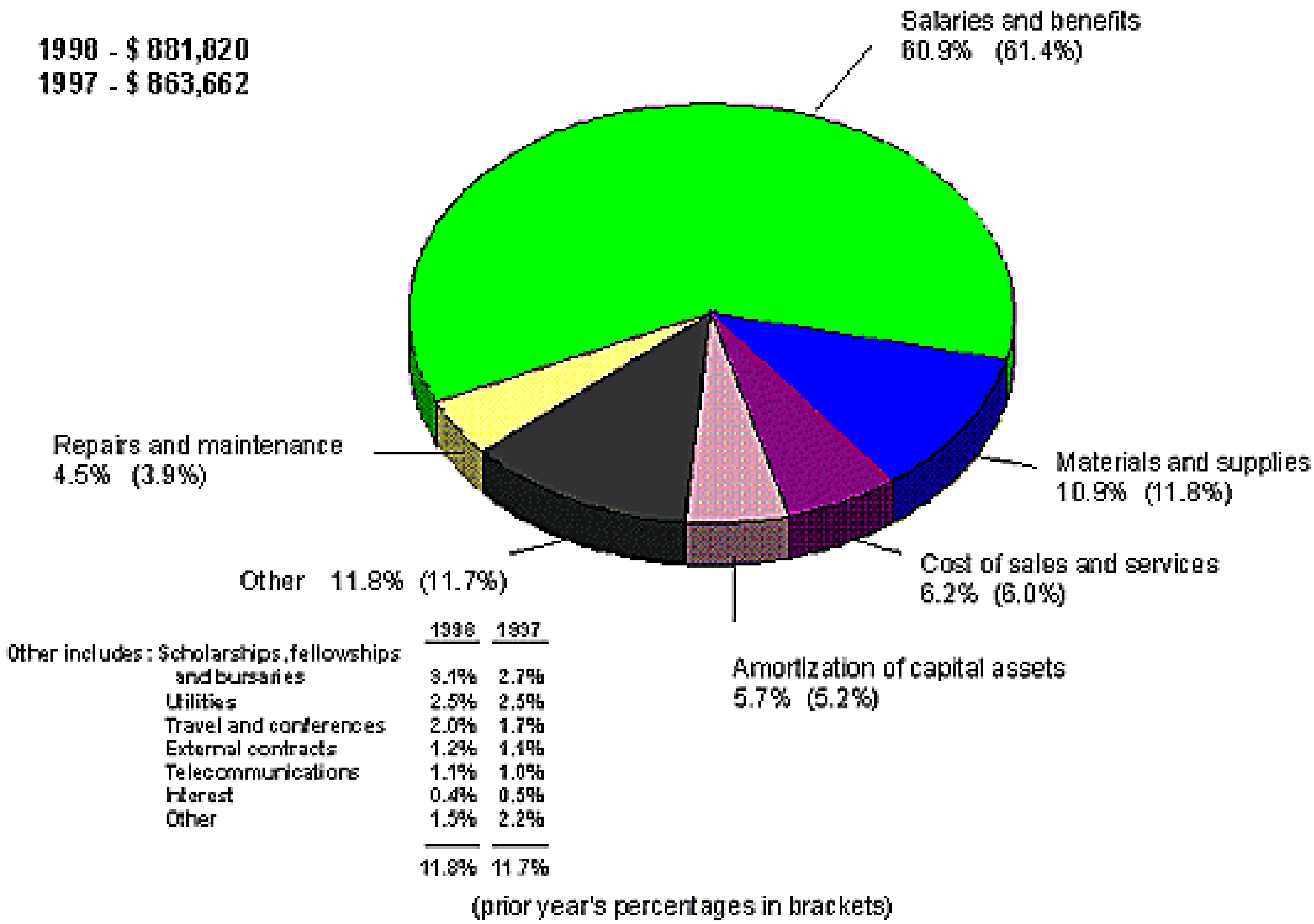
SOURCES AND DISTRIBUTION OF UNIVERSITY FUNDS

FOR THE YEAR ENDED APRIL 30, 1998
(thousands of dollars)

REVENUES BY SOURCE



EXPENSES BY CATEGORY



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STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

The administration of the University is responsible for the preparation of the financial statements, the notes thereto and all other financial information contained in this annual report.

The administration has prepared the financial statements in accordance with generally accepted accounting principles developed by The Canadian Institute of Chartered Accountants. The administration believes the financial statements present fairly the University's financial position as at April 30, 1998 and the results of its operations for the year then ended. In order to achieve the objective of fair presentation in all material respects, the use of reasonable estimates and judgements were employed. Additionally, management has ensured that financial information presented elsewhere in this annual report has been prepared in a manner consistent with that in the financial statements.

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

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

Governing Council carries out its responsibility for review of the financial statements and this annual report principally through the Business Board and its Audit Committee. The majority of 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 financial statements for the year ended April 30, 1998 have been reported on by Ernst & Young, Chartered Accountants, the auditors appointed by Governing Council. The auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

R. G. White	**J. Robert S. Prichard**
Chief Financial Officer	*President*

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AUDITORS' REPORT

To the Members of Governing Council of University of Toronto:

We have audited the financial statements of **University of Toronto** as at and for the year ended April 30, 1998 comprising the following:

Balance sheet
Statement of operations and changes in surplus (deficit)
Statement of changes in net assets
Statement of cash flows

These financial statements are the responsibility of the administration of the University. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at April 30, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Canada,

May 29, 1998.

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BALANCE SHEET						
APRIL 30, 1998						
(with comparative figures at April 30, 1997) (thousands of dollars)						
				1998		1997
				$		$
						(restated - note 3)
ASSETS						
	Accounts receivable			**59,201**		74,199
	Inventories and prepaid expenses			**11,473**		11,529
	Investments (note 4)			**1,153,499**		920,708
	Capital assets, net (note 5)			**372,402**		379,077
				1,596,575		1,385,513

LIABILITIES						
	Bank indebtedness			**7,179**		10,497
	Accounts payable and accrued liabilities			**72,846**		87,145
	Accrued pension liability			**11,946**		11,912
	Long-term debt (note 7)			**45,524**		49,763
				137,495		159,317
	Deferred contributions (note 8)			**116,374**		104,264
	Deferred capital contributions (note 9)			**189,839**		186,423
				443,708		450,004
NET ASSETS (statement 3)						
	Unexpended assets:					
		Deficit		**(6,915)**		(19,400)
		Funds committed for specific purposes (note 10)		**192,702**		176,218
	Investment in capital assets (note 6)			**151,926**		148,447
	Endowments (note 11 and note 12)			**815,154**		630,244

				1,152,867		935,509
				1,596,575		1,385,513

On behalf of Governing Council:

F. Anthony Comper
Chair

J. Robert S. Prichard
President

(**See accompanying notes to financial statements**)

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STATEMENT OF CHANGES IN NET ASSESTS FOR THE YEAR ENDED APRIL 30, 1998

(with comparative figures for the year ended April 30, 1997)
(thousands of dollars)

	Unexpended assets						
	Deficit $	**Funds committed for specific purposes (note 10) $**	**Total $**	**Investment in capital assests (note 6) $**	**Endowments $**	**1998 Total $**	1997 Total $
Net assets, beginning	(19,400)	176,218	156,818	148,447	630,244	935,509	758,426
Revenues less expenses	94,863		94,863			94,863	57,827
Change in funds committed for specific purposes (note 10)	(16,484)	16,484					

Net change in investment in capital assets (note 6)	(3,479)		(3,479)	3,479			
Transfer of investment income earned on internally restricted endowments for capital preservation	(59,191)		(59,191)		59,191		
Investment income earned on externally restricted endowments for capital preservation					57,311	57,311	5,143
Transfer of donations to endowments net of campaign expenses	(3,224)		(3,224)		3,224		
Externally endowed contributions - donations					45,937	45,937	61,898
- grants (Ontario Student Opportunity Trust Fund)					19,247	19,247	36,390
Integration of Ontario Institute for Studies in Education							15,825
Net assets, ending	(6,915)	192,702	185,787	151,926	815,154	1,152,867	935,509

The table below shows the impact of amortizing capital assets and changing the basis of reporting to the single fund reporting format (current method) from the fund accounting format (previous method):

	1998	**1997**
Excess of revenue over expenses		
Excess of revenue over expenses under previous method	**236,928**	160,646
Contributions and investment income recorded as a direct increase to endowments	**(122,495)**	(103,431)
Net change in deferred contributions and deferred capital contributions	**(15,526)**	3,521
Increase in amortization expense	**(44,889)**	(40,889)
Capital assets previously expensed	**40,845**	37,980
Excess of revenue over expenses under current method	**94,863**	57,827
Assets		
Total assets under previous method	**2,632,483**	2,366,116
Decrease in value as a result of recording capital assets net of amortization	**(1,035,908)**	(980,603)
Total assets under current method	**1,596,575**	1,385,513
Liabilities		
Total liabilities under previous method	**137,495**	159,317

Increase in deferred contributions	**116,374**	104,264
Increase in deferred capital contributions	**189,839**	186,423
Total liabilities under current method	**443,708**	450,004
Net assets under current method	**1,152,867**	935,509

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Notes To Financial Statements

4. Investments

(thousands of dollars)

a) Investments

The market value and book value of investments are as follows:

	1998			1997	
	Book Value	**Market Value**		**Book Value**	**Market Value**
Short-term investments	**139,786**	**139,982**		263,803	267,116
Government bonds	**197,870**	**201,739**		319,028	321,576
Corporate bonds	**39,707**	**40,437**		60,340	61,545
Canadian equities	**151,212**	**190,677**		111,685	147,461
United States equities	**47,299**	**81,984**		66,344	114,727
Other international equities	**36,178**	**40,269**			
Real estate	**36,246**	**37,289**		32,999	33,435

Pooled funds:					
Bonds					
- SCM universe bond index	**218,474**	**224,521**		4,565	5,844
- SCM long-term bond index	**50,952**	**51,457**			
Canadian equities					
- TSE 300 Index	**94,116**	**108,349**		21,705	21,272
- Others	**22,406**	**27,007**		4,970	8,192
United States equities					
- S & P 500 Index	**28,455**	**32,560**			
- Others	**33,720**	**38,191**		11,738	13,890
Other international equities	**53,431**	**59,217**		23,477	27,779
Short-term notes and treasury bills	**3,647**	**3,647**		54	54
	1,153,499	**1,277,326**		920,708	1,022,891

b) Bonds

The market value of bonds and the weighted average effective yield is as follows:

	1998			
Government bonds:	over 1 to 5 years	over 5 to 10 years	more than 10 years	Total

- 1998 market value	**106,313**	**95,426**		**$ 201,739**
- 1997 market value	220,608	85,453	15,515	321,576
- 1998 effective yield	**5.18%**	**5.36%**		**5.27%**
Corporate bonds:				
- 1998 market value	**20,679**	**14,603**	**5,155**	**40,437**
- 1997 market value	33,897	21,838	5,810	61,545
- 1998 effective yield	**5.46%**	**5.65%**	**6.33%**	**5.59%**

The effective yield is based on market values at year end.

Substantially all the debt instruments bear interest at a fixed rate.

Investment income includes realized capital gains of $138.9 million (1997 - $43.9 million).

c) Derivative financial instruments

The University has entered into equity futures that oblige it to pay the difference between a predetermined amount and the market value of certain equities, when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount. As at April 30, 1998, the notional amount of equity index futures is $23.8 million (1997 - $43.6 million) in global equity futures and $64.1 million (1997 - $46.9 million) in US equity futures.

The University is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The actual counterparties for exchange-traded futures contracts are clearing corporations which are rated AAA.

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Notes To Financial Statements

5. Capital assets

(thousands of dollars)

	1998		1997	
	Total Cost	Accumulated Amortization	Total Cost	Accumulated Amortization
Land	**30,831**		30,831	
Buildings	**669,859**	**466,991**	667,400	456,292
Equipment & furnishings	**510,005**	**417,838**	485,389	394,589
Library books	**195,180**	**148,644**	178,490	132,152
	1,405,875	**1,033,473**	1,362,110	983,033
Less accumulated amortization	**1,033,473**		983,033	
Net book value	**372,402**		379,077	

The University uses inflation indices provided by its insurer to establish the replacement value of assets for insurance purposes, except for library books and the art and rare book collections which are valued by the appropriate University officers. The insured replacement value of buildings is $1.8 billion; contents is $3.5

billion, which includes library books of $1.3 billion.

The change in net book value of capital assets is due to the following:

		1998		**1997**	
Balance, beginning		**379,077**		384,671	
Purchase of capital assets funded by capital contributions	**10,598**		15,034		
Purchase of capital assets internally funded	**33,167**	**43,765**	23,941	38,975	
Less: Amortization of capital assets		**(50,440)**		(44,569)	
Balance, ending		**372,402**		379,077	

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7. Long-term debt

(thousands of dollars)

Long-term debt consists of mortgages with a weighted average interest rate of 9.78% (1997 - 9.64%) maturing 2004 to 2029 and term loans with a weighted average interest rate of 10.81% (1997 - 9.91%) maturing 1999 to 2003. Anticipated requirements to meet the principal portion of the long-term debt repayments over the next five years are as follows:

1999 - $3,830, **2000** - $4,111, **2001** - $2,328, **2002** - $1,970, 2003 - $1,164

The book value of the long-term debt approximates market value.

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Notes To Financial Statements

8. Deferred contributions

(thousands of dollars)

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contribution balance are as follows:

	1998	1997
Balance, beginning	**104,264**	101,090
Grants, donations and investment income	**168,355**	147,156
Recognized as revenue in the year	**(156,245)**	(143,982)
Balance, ending	**116,374**	104,264

The deferred contributions will be spent as follows:

	1998	1997
Research	**74,162**	65,547
Student aid	**18,638**	11,367
Other restricted purposes	**23,574**	27,350

	116,374	104,264

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9. Deferred capital contributions

(thousands of dollars)

Deferred capital contributions represents the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations and changes in surplus (deficit). The changes in the deferred capital contributions balance for the year are as follows:

	1998	**1997**
Balance, beginning	**186,423**	192,209
Less amortization of deferred capital contributions	**(16,513)**	(16,683)
Add contributions received for capital asset purchases	**19,929**	10,897
Balance, ending	**189,839**	186,423

This balance represents:

Amount used for the purchase of capital assets	**174,952**	180,867
Amount to be spent on capital assets	**14,887**	5,556
	189,839	186,423

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Notes To Financial Statements

10. Funds committed for specific purposes

(thousands of dollars)

	1998	1997
Departmental trust funds	**73,125**	66,522
Unexpended operating funds	**29,683**	52,472
Alterations and renovations	**29,133**	21,680
Supplementary retirement arrangement	**28,321**	
Transitional funds	**14,858**	11,399
Priorities funds	**8,346**	6,377
Infrastructure investment fund	**5,442**	15,320
Research overhead	**3,794**	2,448
	192,702	176,218

The commitment of funds for specific purposes are internally restricted reflecting the application of current Governing Council policy as follows:

a) Departmental trust funds -

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

b) Unexpended operating funds -

Divisions are permitted to carry forward unspent budgets at the end of each year for expenditure in the following year. Funds for unfilled purchase orders have been committed for goods or services to be received in the following year. In 1998, this amount has been reduced by (1) the vacation pay accrual representing the unfunded cost of earned but not taken vacation credits of administrative employee groups at year end and (2) the voluntary early retirement accrual representing the cumulative unfunded accrual of voluntary early retirement incentive costs paid to or committed to specific faculty members.

c) Alterations and renovations -

These funds represent unspent budgets in respect of approved projects in progress at the end of the fiscal year.

d) Supplementary retirement arrangement

These funds, which will be accumulating over a number of years, have been set aside to meet future obligations of the supplementary retirement arrangement.

e) Transitional funds -

These funds are to support the temporary adjustments and restructuring needed to adapt to the long-range budget plan such as retirement and exit packages and reorganization costs.

f) Priorities funds -

These funds are to support various initiatives to enhance the quality, structure and organization of programs and activities.

g) Infrastructure investment fund -

This fund was established to improve the University's effectiveness, quality and productivity of physical assets, including projects such as administrative systems, computing and communications equipment and building renovations.

h) Research overhead -

Research overhead recoveries from customers in calendar year 1997 is appropriated and available for spending by faculties in the following year.

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6. Investment in capital assets

(thousands of dollars)

Investment in capital assets represents the following:

	1998	1997
Capital assets	**372,402**	379,077
Less amounts financed by:		
Long-term debt	**(45,524)**	(49,763)
Deferred capital contributions (note 9)	**(174,952)**	(180,867)
Balance, ending	**151,926**	148,447

The change in investment in capital assets is as follows:

	1998	1997
Repayment of mortgage principal	**4,239**	3,222
Purchase of capital assets internally financed	**33,167**	23,941

Increase in investment in capital assets		**37,406**		27,163
Amortization expense		**50,440**		44,569
Less: Amount of amortization expense related to capital assets purchased with restricted contributions		**(16,513)**		(16,683)
Decrease in investment in capital assets		**33,927**		27,886
Net increase (decrease**)**		**3,479**		(723)

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Notes To Financial Statements

11. Endowments

(thousands of dollars)

Net assets restricted for endowment consist of externally restricted donations received by the University and internal resources transferred by Governing Council, in the exercise of its discretion. In such cases, Governing Council has the right to subsequently decide to remove the designation. The endowment principal is required to be maintained intact. 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.

Investment income on endowments is recorded in the statement of operations and changes in surplus (deficit) when this income is available for spending at the discretion of the University or is available for spending as conditions have been met. 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. This preservation of capital for the year totalled $116,502 (1997 - $42,278) of which $57,311 (1997 - $5,143) related to externally restricted endowments is recorded as a direct increase to endowments and $59,191 (1997 - $37,135) related to internally restricted endowments is recorded as investment income and then transferred from unexpended assets to endowments.

Contributions restricted for endowments comprise the following:

	1998	1997

	Book value	Market value	Book value	Market value
Externally restricted endowments, the income from which must be used for:				
a) research	**19,693**	**22,106**	15,824	18,161
b) student aid	**246,668**	**264,870**	171,477	183,693
c) other restricted purposes	**192,540**	**217,736**	121,625	147,764
Internally restricted	**356,253**	**416,119**	321,318	370,989
	815,154	**920,831**	630,244	720,607

The University transferred $25,200 (1997 - $48,500) from internally designated to externally designated endowments as a result of being committed to matching certain donations during the year for chairs, professorships and student aid.

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12. Ontario Student Opportunity Trust Fund

(thousands of dollars)

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

	1998	**1997**
Endowment balance, beginning	**108,189**	
Donations	**19,247**	36,390
Matching grants from the Government of Ontario	**19,247**	36,390
Matching funds from the University	**18,089**	33,347
Preservation of capital	**21,145**	2,062
Endowment balance, ending	**185,917**	108,189
Expendable funds available for awards, beginning	**288**	
Investment income	**5,676**	288

Bursaries awarded	**(851)**	
Expendable funds available for awards, ending	**5,113**	288

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UNIVERSITY OF TORONTO
STATEMENT OF OPERATIONS AND CHANGES IN SURPLUS (DEFICIT)
FOR THE FISCAL YEAR ENDED APRIL 30, 1998
(with comparative figures for the fiscal year ended April 30, 1997)
(in thousands of dollars)

		1998			1997	
		$			$ (restated - note 3)	
REVENUES						
	Government grants for general operations		**348,668**			345,619
	Government and other grants for restricted purposes		**101,361**			133,250
	Student fees		**211,889**			195,349
	Sales, services and sundry income		**122,423**			112,815
	Investment income (note 11)					
	Endowments	**147,955**			63,822	
	Other	**31,701**			30,584	

	Capital preservation of externally restricted endowments	**(57,311)**	**122,345**		(5,143)	89,263
	Donations (note 14)					
	Total	**90,705**			79,446	
	Externally restricted endowments	**(45,937)**	**44,768**		(61,898)	17,548
	Contract research		**25,229**			27,645
			976,683			921,489
EXPENSES						
	Salaries and benefits		**537,374**			530,026
	Materials and supplies		**96,337**			101,740
	Cost of sales and services		**54,324**			51,556
	Amortization of capital assets		**50,440**			44,569
	Repairs and maintenance		**39,768**			33,780
	Scholarships, fellowships and bursaries		**27,299**			23,697
	Utilities		**21,744**			21,311
	Travel and conferences		**17,889**			14,796
	Telecommunications		**9,327**			8,642
	External contracted services		**10,697**			9,872

	Interest		**3,690**			4,618
	Other		**12,931**			19,055
			881,820			863,662
Revenues less expenses			**94,863**			57,827
Change in funds committed for specific purposes (note 10)			**(16,484)**			(32,487)
Change in investment in capital assets (note 6)			**(3,479)**			723
Transfer of donations to endowments net of campaign expenses			**(3,224)**			(11,182)

Transfer of investment income earned on internally restricted endowments for capital preservation			**(59,191)**			(37,135)
Integration of Ontario Institute for Studies in Education						457
Net change in surplus (deficit) for the year			**12,485**			(21,797)
Surplus (deficit), beginning of year			**(19,400)**			2,397
Deficit, end of year			**(6,915)**			(19,400)

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(See accompanying notes to financial statements)

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UNIVERSITY OF TORONTO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED APRIL 30, 1998
(with comparative figures for the year ended April 30, 1997)
(thousands of dollars)

				1998		1997
				$		$
						(restated - note 3)
OPERATING ACTIVITIES						
	Revenues less expenses			**94,863**		57,827
	Add (deduct) non-cash items:					
		Amortization of capital assets		**50,440**		44,569
		Amortization of deferred capital contributions		**(16,513)**		(16,683)

		Gain on sale of investments		**(138,097)**		(43,924)
	Change in other non-cash items (note 13)			**12,899**		(33,263)
				3,592		8,526
INVESTING ACTIVITIES AND FINANCING ACTIVITIES						
	Purchase of investments, net			**(94,694)**		(81,291)
	Purchase of capital assets (note 5)			**(43,765)**		(38,975)
	Contributions for capital asset purchases (note 9)			**19,929**		10,897
	Long-term debt principal repayments			**(4,239)**		(3,222)
	Capital preservation of externally restricted endowments			**57,311**		5,143
		Endowment contributions - donations		**45,937**		**61,898**
		- grants (Ontario Student Opportunity Trust Fund)		**19,247**		**36,390**

				(274)		(9,160)
Increase (decrease) in bank indebtedness during the year				**(3,318)**		634
Bank indebtedness, beginning of year				**10,497**		9,863
Bank indebtedness, end of year				**7,179**		10,497

(See accompanying notes to financial statements)

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Notes To Financial Statements

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 mission is to be an internationally significant research university with undergraduate, graduate and professional programs of excellent quality.

These financial statements include the assets, liabilities, net assets, revenue, expenses and other transactions of all of the operations and organizations under the jurisdiction of Governing Council. These financial statements do not include the assets, liabilities and operations of Victoria University, Trinity College, the University of St. Michaels College, Sunnybrook Hospital and the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate corporate body with separate financial statements.

The University has an economic beneficial interest in a Crown-controlled foundation, University of Toronto Foundation, which is not consolidated into these financial statements. The principal objectives of the Foundation are to solicit, receive and distribute money and other property to support education and research at the University and its federated and affiliated organizations.

The University holds title to the land and buildings of Sunnybrook Hospital. The Sunnybrook 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 Trustees of Sunnybrook Hospital, a separate corporation, under a ground lease, which is perpetually renewable every twenty-one years at the option of the Board of Trustees of Sunnybrook Hospital.

The University is a not-for-profit organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

University of Toronto Condensed Financial Report April 30, 1998

Notes To Financial Statements

2. Summary of significant accounting policies and reporting practices

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

a) Investments -

Investments are accounted for at cost, or where there is deemed to be an impairment in value which is other than temporary, at cost less amounts written off.

Gains or losses on the sale of fixed income investments are deducted or added to the book value of investments and amortized over the average maturity of securities sold.

b) Derivative financial instruments -

Derivative financial instruments are used to achieve particular market and currency exposures for hedging and risk management purposes with respect to the Universitys investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity and currency futures, options, swaps and forward contracts. These contracts are supported by liquid assets with a market value equal to the market value of the instruments underlying the derivative contract.

Derivative financial instruments are recorded at market value. Gains and losses on these instruments are recognized as investment income in the year in which the changes in market value occur.

c) Market value of financial instruments -

The market values of publicly traded bonds and equities are determined based on quoted market values. The market values of unlisted or infrequently traded securities are based on quoted market yields or comparable security prices as appropriate. The real estate market values represent estimated year end market values based on periodic cyclical appraisals by accredited appraisers.

The market value of derivative financial instruments reflects the daily market amount of that instrument, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

d) Inventory valuation -

Supplies and other inventories are carried at the lower of average cost or net realizable value.

e) Pension expense and obligations -

The University has a defined benefit pension plan for its employees. Pension expense is determined using the projected benefit actuarial method based on services rendered and management's best estimates regarding assumptions about a number of future conditions including investment returns, salary changes, withdrawals and mortality rates. Changes in management's best estimates resulting from changes in future conditions could require a change in the recognized amounts. Adjustments to the pension expense are amortized to income on a straight-line basis over the expected average remaining service life of pension plan members. Pension fund assets are valued using a three-year modified average of year-end market values.

f) Other post-employment benefit obligations -

Post-employment benefits for extended health and dental care are accounted for on a cash basis.

g) Capital assets -

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

Buildings 2.5%

Co-generation facility 5%

Equipment and furnishings 10 - 15%

Library books 20%

Contributed rare books are expensed in the year received.

h) Revenue recognition -

The University follows the deferral method of accounting for contributions which include donations and government grants. Contributions externally restricted for purposes other than endowment are recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for depreciable capital assets are deferred and amortized over the life of the related capital assets. Deferred contributions and amortization of capital contributions recognized as revenue in the current year are presented as donation revenue and investment income to the extent that restricted amounts have been received in the current year, with the difference recorded as government and other grants for restricted purposes. Endowment contributions and contributions of non-depreciable assets are recognized as direct increases in net assets in the year in which they are received. The University actively fundraises and unrestricted donations are recorded when received since pledges are not enforceable claims. Student fees are recognized as revenue when courses and seminars are held. Sales and services revenue are recognized at point of sale or when the service has been provided.

i) Contributed services and materials -

Volunteers contribute an indeterminable number of hours per year. Because of the difficulty of determining their market value, contributed services and materials are not recognized in the financial statements.

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Notes To Financial Statements

14. Donations

(thousands of dollars)

During the year, the University received donations of $90,705 (1997 - $79,446). Of that amount, $45,937 (1997 - $61,898) is recorded as part of the endowment balance in accordance with generally accepted accounting principles and is not recorded as donations revenue.

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Notes To Financial Statements

15. Pension plan

As at April 30, 1998, the market-related value of pension fund assets was $1,894 million (1997 - $1,673 million) and the present value of accrued pension benefits based on an actuarial appraisal was $1,580 million (1997 - $1,288 million). The plan is funded by the University based on the advice of independent actuaries.

The calculation of pension expense is based on the current service cost of employee benefits and the amortization of experience gains on assets and liabilities. As a result of the plan's favourable experience, including the return on assets, pension income of $0.5 million (1997 - $7.7 million) has been recorded as a reduction of staff benefits expense.

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16. University of Toronto Foundation

As at year end, the University of Toronto Foundation, a Crown agent, had a balance of donations on hand of $1.2 million (1997 - $5.7 million) which the University anticipates will be conveyed to them after year end.

The University acts as investment manager for the Foundation. At year end, investments include an amount of $1.1 million (1997 - $0.7 million) held for the Foundation offset by an equal amount in accounts payable.

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17. Other commitments

a) The estimated cost to complete construction and renovation projects in progress at April 30, 1998, which will be funded by government grants, donations and operations, is approximately $58.2 million (1997 - $5.8 million).

b) The annual payments under various operating leases for which no liability has been recorded are approximately $3.9 million (1997 - $3.5 million).

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Notes To Financial Statements

18. Contingencies

a) The University has a programme under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. At April 30, 1998, the amount of loans guaranteed was \$3.7 million (1997 - \$3.8 million). The University's estimated obligation under these guarantees is not material.

b) The nature of the University's activities is such that there is usually litigation pending or in prospect at any one time. With respect to claims at April 30, 1998, the University believes it has valid defences and appropriate insurance coverage in place. In the unlikely event any claims are successful, such claims are not expected to have a material effect on the University's financial position.

c) The University is a member of a reciprocal exchange of insurance risks in association with forty-five other Canadian universities. This self-insurance co-operative is named CURIE and involves a contractual agreement to share the insurable property and liability risks of member universities.

The projected cost of claims is funded through members' premiums based on actuarial projections. As of December 31, 1997, CURIE had a surplus of \$9.4 million (1997 - \$8.8 million), of which the University's pro rata share is approximately 11% (1997 - 11%) on an ongoing basis.

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Notes To Financial Statements

19. Public sector salaries

The list of employees whose 1997 income, as reported on an income tax T4 slip, exceeds $100,000 is not provided in this condensed financial report but is available in the University's published Financial Report which is available on request.

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