UNIVERSITY OF TORONTO CONDENSED FINANCIAL REPORT

April 30, 1999

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Condensed Financial Report

Last modified on October 18, 1999.

A copy of the University's published Financial Report is available upon request from the Vice-President, Business Affairs

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

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Financial Highlights

Financial Results for the Year

Revenues of $930.5 million were reported for 1998-99 compared to $991.6 million in 1997-98.

Donations for the year totalled $113.8 million, of which $65.3 million was reported as revenue and $48.5 million was added to endowments. This represented an increase in donation receipts of 25.5% from 1997-98.

Government and other grants for restricted purposes of $138.9 million and contract research of $28.0 million totalled $166.9 million representing an increase of 17.5% over 1997-98. The majority of these grants were from federal and provincial governments for research purposes. Of this sum, $116.7 million was reported as revenue with the balance of $50.2 million being deferred for future spending. Government grants from general operations of $346.1 million for 1998-99 have remained virtually flat since 1997-98.

Investment income on endowments was lower than in the previous year, reflecting the overall performance of global markets. The University's rate of return on endowments for the year ended April 30, 1999 was 3.4% compared to last year's rate of return of 24.3%. This decrease was primarily due to poor market performance during 1998-99.

Expenditures were $923.0 million in 1998-99 compared to $881.8 million for 1997-98. The most significant increase for 1998-99 was the scholarships, fellowships and bursaries category. Payments to students for scholarships, fellowships and bursaries amounted to $38.6 million in 1998-99, up from $27.3 million in 1997-98. This represents an increase of 41.3% and illustrates the strong commitment which the University of Toronto has made under our policy on student financial aid which guarantees that no qualified student will be prevented from beginning or completing their education due to financial need. Over the same period of time student fees revenues have grown to $238.2 million (1998-99) from $211.9 million (1997-98), an increase of 12.4%.

Revenues less expenses were $7.5 million for 1998-99. Taking into account an increase in funds committed and investment in capital assets and endowment adjustments, the deficit for the year was $5.0 million. The cumulative deficit was $10.2 million.

Endowments

The University of Toronto has reached a major milestone this year with the achievement of $1 billion in endowed funds (not including endowments of Trinity, St. Michael's and Victoria). We are grateful for the generous support of our donors in enabling us to reach this goal this year. This endowment represents a strong base of support for student assistance and for academic programs and we will continue to strive to increase it.

Endowment support for student assistance has now reached $397.2 million which is an increase of 28.1% from 1997-98. Of this amount, the Ontario Student Opportunity Trust Fund (OSOTF) represents $269.1 million. This was a double match program which ended March 31, 1999, under which the Government of Ontario and the University of Toronto each matched donations for student assistance. Donation receipts for OSOTF in 1998-99 were $27.5 million.

The University's fundraising efforts have generated to date over 100 agreements with donors for endowed chairs and professorships. We now have on hand $164.1 million endowed for these purposes. This amount includes the University's contributions under its matching chair program.

Pension Funds

The pension funds continue to experience a surplus with assets of $2.0 billion and liabilities of $1.6 billion. In addition, $55.5 million has been set aside to date to meet future obligations of the supplementary retirement arrangement, an unregistered pension plan. Of that amount $28.3 million was set aside in 1998-99.

Deferred Maintenance and Renewal

The current backlog of deferred maintenance and renewal is estimated at $144.1 million, with the potential for a further $32.0 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 $4.9 million on deferred maintenance and $1.5 million on renewal expenditures.

Investments and endowments - reported at market value

In a continuing effort to improve the information provided to readers of our financial statements, we have changed our reporting on investments and endowments to report investments at market value rather than book value. This ensures that the true value of our investments and endowments are reported, thus enhancing the information provided. Comparative numbers for 1998 have also been changed to reflect market values.

R.G. White
Chief Financial Officer

Sources and Distribution of University Funds

For the Year Ended April 20, 1999 (thousands of dollars)

Revenues by Source (pie chart)
Expenses by Category (pie chart)

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President's Message

J. Robert S. Prichard
President

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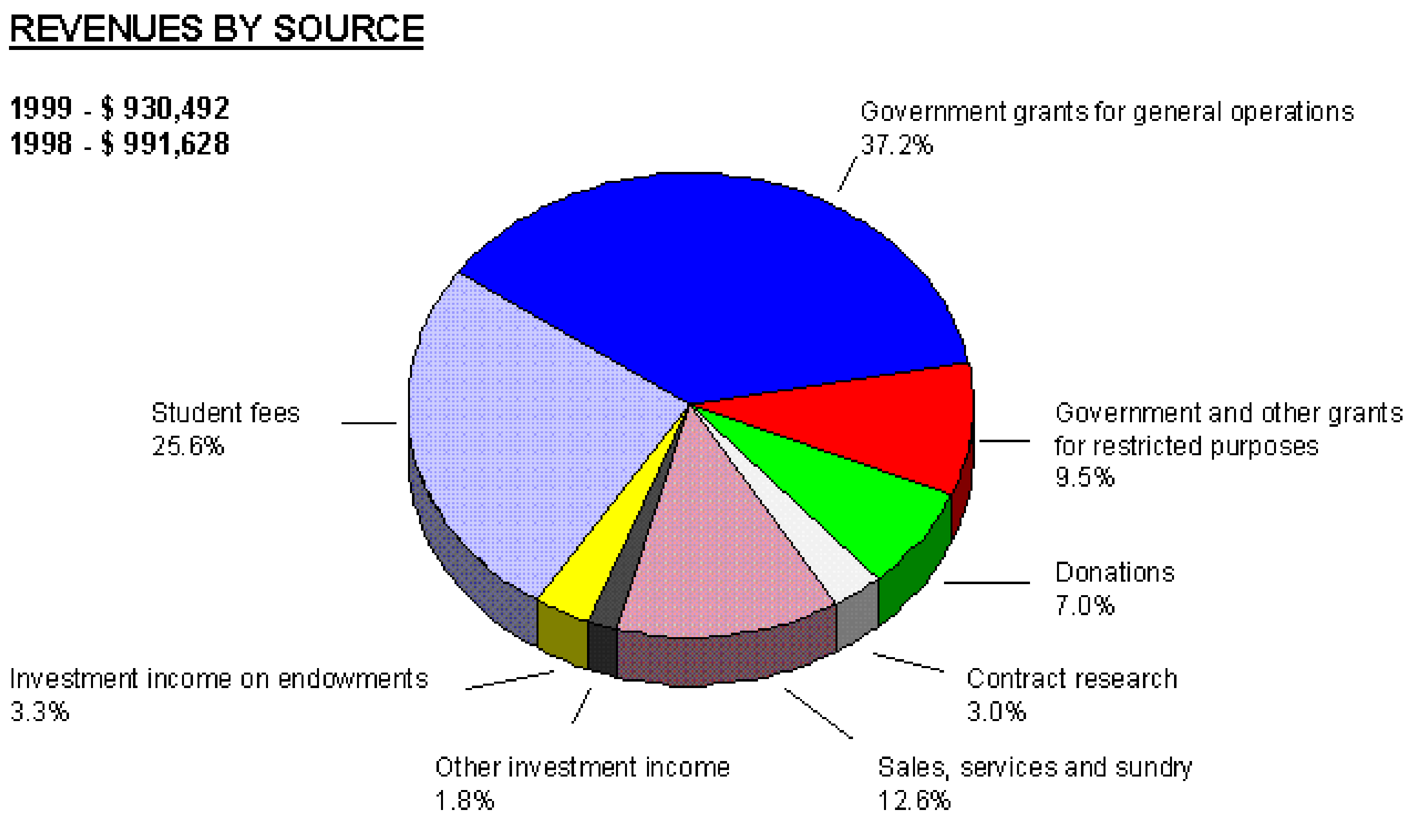
Sources and Distribution of University Funds For the Year Ended April 30, 1999.

(thousands of dollars)



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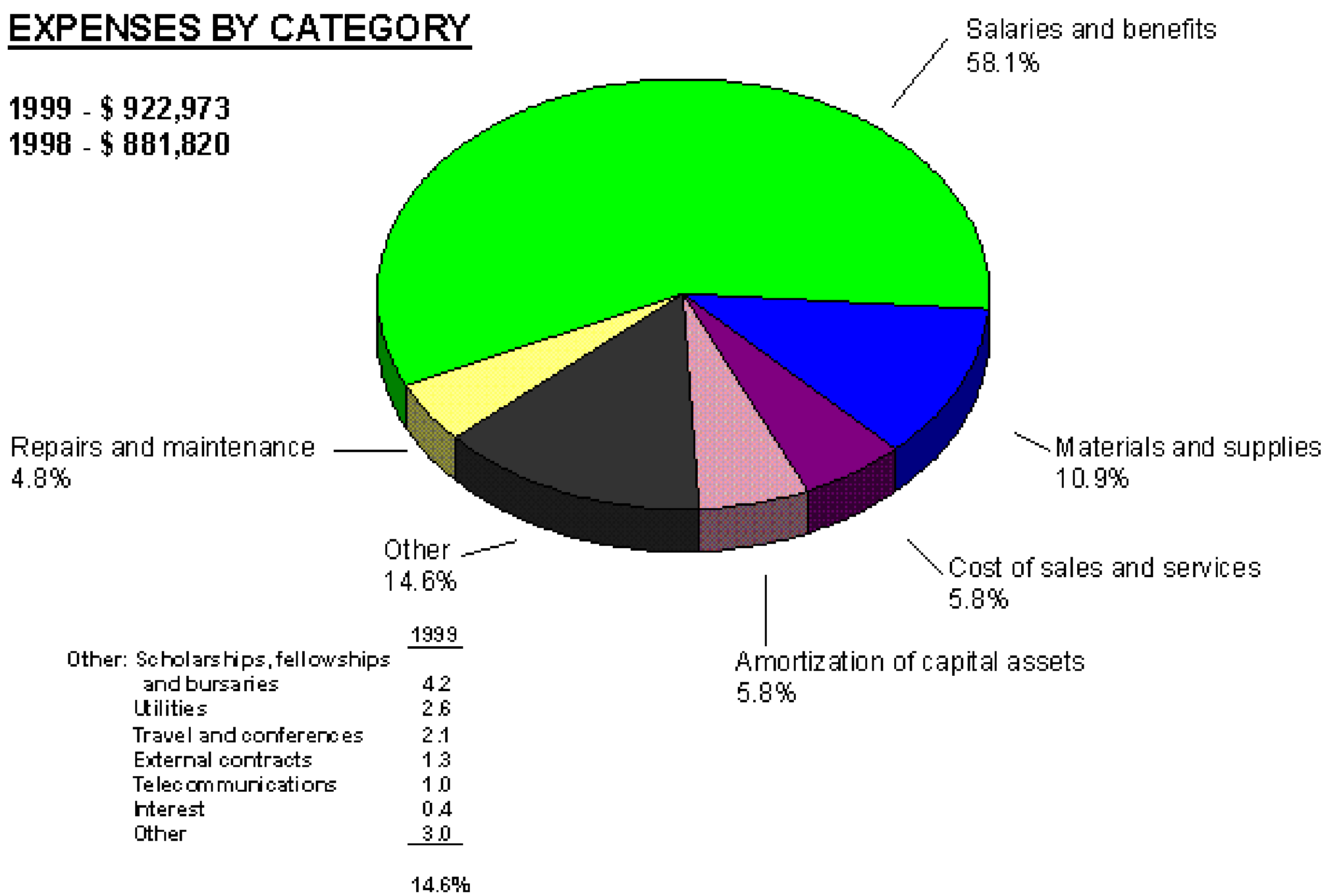
Sources and Distribution of University Funds For the Year Ended April 30, 1999.

(thousands of dollars)



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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, 1999 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 LLC has been retained by the University in order to provide an estimate of the University's pension position 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, 1999 have been reported on by Ernst & Young LLP, 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 Chief Financial Officer	J. Robert S. Prichard 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, 1999 comprising the following:

Balance sheet
Statement of operations and changes in 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, 1999 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	**Ernst & Young LLP**
May 31, 1999	Chartered Accountants

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UNIVERSITY OF TORONTO
BALANCE SHEET
(with comparative figures at April 30, 1998)
(thousands of dollars)

			1999		1998
			$		$
					(restated-note 3)
ASSETS					
Accounts receivable			**54,008**		59,201
Inventories and prepaid expenses			**11,147**		11,473
Deferred pension charge (note 10 and note 16)			**7,319**		0
Investments (note 4)			**1,410,348**		1,277,326
Capital assets, net (note 5)			**371,228**		372,402
			1,854,050		1,720,402
LIABILITIES					
Bank overdraft			**12,579**		7,179

Accounts payable and accrued liabilities			**81,800**		72,846
Accrued pension liability (note 10 and note 16)			**0**		11,946
Long-term debt (note 7)			**41,024**		45,524
			135,403		137,495
Deferred contributions (note 8)			**156,988**		117,144
Deferred capital contributions (note 9)			**200,192**		189,839
			492,583		444,478
NET ASSETS (statement 3)					
Unexpended assets:					
Deficit			**(10,166)**		(5,187)
Pension charge commitment (note 10 and note 16)			**7,319**		
Funds committed for specific purposes (note 11)			**207,495**		198,490
Investment in capital assets (note 6)			**155,693**		151,926
Endowments (note 12 and note 13)			**1,001,126**		930,695
			1,361,467		1,275,924
			1,854,050		1,720,402

On behalf of Governing Council:
Wendy M. Cecil-Cockwell, Chairman

J. Robert S. Prichard
President

(See accompanying notes to financial statements)

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University of Toronto
Statement of Changes in Net Assets
for the Year Ended April 30, 1999
(with comparative figures for the year ended April 30, 1998)
(thousands of dollars)

	Unexpended assets							
	Deficit	**Pension charge commitment (note 10)**	**Funds committed for specific purposes (note 11)**	**Total**	**Investment in capital assets (note 6)**	**Endowments**	**1999 Total**	1998 Total
								(restated - note 3)
Net assets, beginning	**(5,187)**		**198,490**	**193,303**	**151,926**	**930,695**	**1,275,924**	1,036,879
Revenues less expenses	**7,519**			**7,519**			**7,519**	109,808
Change in pension charge commitment (note 10)	**(7,319)**	**7,319**						
Change in funds committed for specific purposes (note 11)	**(9,005)**		**9,005**					

Net change in investment in capital assets (note 6)	**(3,767)**			**(3,767)**	**3,767**			
Transfer from internally and externally restricted endowments (note 12)	**8,656**			**8,656**		**(8,656)**		
Investment income earned on externally restricted endowments for capital preservation (note 12)								64,053
Transfer of donations to endowments net of campaign expenses	**(1,063)**			**(1,063)**		**1,063**		
Externally endowed contributions								
- donations						**48,511**	**48,511**	45,937
- Ontario grants						**29,513**	**29,513**	19,247
Net assets, ending	**(10,166)**	**7,319**	**207,495**	**204,648**	**155,693**	**1,001,126**	**1,361,467**	1,275,924

(See accompanying notes to financial statements)

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Notes To Financial Statements

3. Change in accounting policy and restatement of prior year's financial statements

(thousands of dollars)

Prior to the current fiscal year, investments were accounted for at cost. During the current year, the University changed its accounting policy to account for investments at market value. Changes in unrealized gains (losses) are now included as investment income. This change has been applied retroactively.

The impact of this change is summarized below:

	1999	1998
Excess of revenues over expenses		
Increase (decrease) in excess of revenues over expenses for the year	**(26,126)**	14,945
Cumulative impact on opening balances	**123,827**	108,882
	97,701	123,827

Assets

Increase in value of investments	**97,701**	123,827
Liabilities and net assets		
Increase in endowments	**92,756**	115,541
Increase in funds committed	**2,855**	5,788
Decrease in deficit	**1,516**	1,728
Increase in deferred contributions	**574**	770
	97,701	123,827

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Notes To Financial Statements

10. Pension charge commitment

(thousands of dollars)

These funds are set aside in the amount of $7,319 equal to the deferred pension charge for future years when the University will be required to record pension expense.

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Notes To Financial Statements

16. Pension plans

As at April 30, 1999, the market-related value of pension fund assets was $2,008 million (1998 – $1,894 million) and the present value of accrued pension benefits based on an actuarial appraisal was $1,641 million (1998 - $1,580 million). The plan is funded by the University based on the advice of independent actuaries.

The calculation of pension expense in accordance with accounting policy 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 $19.5 million (1998 - $0.5 million) has been recorded as a reduction of salaries and benefits expense.

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Notes To Financial Statements

4. Investments

(thousands of dollars)

a) Investments

The market value of investments are as follows:

	1999	1998
Short-term investments	**269,362**	139,982
Government bonds	**137,072**	201,739
Corporate bonds	**50,898**	40,437
Canadian equities	**166,086**	190,677
United States equities	**83,312**	81,984
Other international equities	**55,075**	40,269
Real estate	**38,066**	37,289
Pooled funds:		
Bonds		
- SCM universe bond index	**236,233**	224,521

- SCM long-term bond index	**57,449**	51,457
Canadian equities		
- TSE 300 Index	**125,879**	108,349
- Others	**22,044**	27,007
United States equities		
- S & P 500 Index	**46,660**	32,560
- Others	**35,067**	38,191
Other international equities	**85,328**	59,217
Short-term notes and treasury bills	**1,817**	3,647
	1,410,348	1,277,326

b) Bonds

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

	Over 1 to 5 Years	Over 5 to 10 Years	More Than 10 Years	Total
Government bonds:				
- 1999 market value	**$66,353**	**$70,719**		**$137,072**
- 1998 market value	$106,313	$95,426		$201,739
- 1999 effective yield	**4.96%**	**5.19%**		**5.08%**
- 1998 effective yield	5.18%	5.36%		5.27%

Corporate bonds:				
- 1999 market value	**$31,823**	**$19,075**		**$50,898**
- 1998 market value	$20,679	$14,603	$5,155	$40,437
- 1999 effective yield	**5.41%**	**5.66%**		**5.50%**
- 1998 effective yield	5.46%	5.65%	6.33%	5.59%

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

c) Derivative financial instruments

The University has entered into equity futures and bond swap contracts. The equity futures contracts oblige it to pay the difference between a predetermined amount and the market value of certain equities or bonds, when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount. Under the bond swap contract, the University is obligated to make floating interest rate payments based on the three month Canadian Bankers' Acceptance rate plus 0.16% of the total notional amount of $50 million (1998 – nil). The University receives interest at the Scotia Capital Markets mid-term bond index on a notional amount of $25 million and interest at the Scotia Capital Markets short-term bond index on a notional amount of $25 million. As at April 30, 1999, the notional amount of equity index futures is $60.0 million (1998 - $23.8 million) in global equity futures and $42.7 million (1998 - $64.1 million) in U.S. 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)

	1999		1998	
	Total Cost	Accumulated Amortization	Total Cost	Accumulated Amortization
Land	**30,831**		30,831	
Buildings	**678,222**	**474,968**	669,859	466,991
Equipment and furnishings	**536,235**	**442,782**	510,005	417,838
Library books	**212,963**	**169,273**	195,180	148,644
	1,458,251	**1,087,023**	1,405,875	1,033,473
Less accumulated amortization	**1,087,023**		1,033,473	
Net book value	**371,228**		372,402	

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 $1.9 billion (1998 - $1.8 billion); contents is $3.7 billion (1998 - $3.5 billion), which includes library books of $1.4 billion (1998 - $1.3 billion).

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

		1999		**1998**
Balance, beginning		**372,402**		379,077
Purchase of capital assets funded by capital contributions	**15,532**		10,598	
Purchase of capital assets internally funded	**36,844**	**52,376**	33,167	43,765
Less: Amortization of capital assets		**(53,550)**		(50,440)
Balance, ending		**371,228**		372,402

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Notes To Financial Statements

7. Long-term debt

(thousands of dollars)

Long-term debt consists of mortgages with a weighted average interest rate of 9.92% (1998 - 9.78%) maturing 2004 to 2029 and term loans with a weighted average interest rate of 12.26% (1998 – 10.81%) 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:

2000 - $4,111, **2001** - $2,328, **2002** - $1,970, **2003** - $1,164, **2004** - $905

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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 contributions balance are as follows:

	1999	1998
Balance, beginning	**117,144**	105,077
Grants, donations and investment income	**183,507**	168,312
Recognized as revenue in the year	**(143,663)**	(156,245)
Balance, ending	**156,988**	117,144

The deferred contributions will be spent as follows:

	1999	1998

Research	**89,980**	64,275
Student aid	**25,050**	16,801
Other restricted purposes	**41,958**	36,068
	156,988	117,144

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Notes To Financial Statements

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 deficit. The changes in the deferred capital contributions balance for the year are as follows:

	1999	1998
Balance, beginning	**189,839**	186,423
Less amortization of deferred capital contributions	**(15,973)**	(16,513)
Add contributions received for capital asset purchases	**26,326**	19,929
Balance, ending	**200,192**	189,839

This balance represents:

Amount used for the purchase of capital assets	**174,511**	174,952

Amount to be spent on capital assets	**25,681**	14,887
	200,192	189,839

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Notes To Financial Statements

11. Funds committed for specific purposes

(thousands of dollars)

	1999	1998
Departmental trust funds	**81,423**	73,125
Unexpended operating funds	**32,303**	35,471
Alterations and renovations	**21,905**	29,133
Supplementary retirement arrangement	**55,525**	28,321
Transitional funds	**7,333**	14,858
Priorities funds	**5,063**	8,346
Infrastructure investment fund	**19**	5,442
Research overhead	**3,924**	3,794
	207,495	198,490

The commitment of funds for specific purposes are internally restricted reflecting the application of 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. Funds are also committed equal to the cumulative unrealized net gains earned on the unexpended asset balance. These amounts have been reduced by (1) the vacation pay accrual representing the unfunded cost of vacation credits earned but not taken by administrative employee groups at year end and (2) 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.

c. Alterations and renovations -
These represent unspent funds 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 1998 is appropriated and available for spending by faculties in the following year.

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Notes To Financial Statements

6. Investment in capital assets

(thousands of dollars)

Investment in capital assets represents the following:

	1999	1998
Capital assets	**371,228**	372,402
Less amounts financed by:		
Long-term debt	**(41,024)**	(45,524)
Deferred capital contributions (note 9)	**(174,511)**	(174,952)
Balance, ending	**155,693**	151,926

The change in investment in capital assets is as follows:

	1999	1998
Repayment of mortgage principal	**4,500**	4,239
Purchase of capital assets internally financed	**36,844**	33,167

Increase in investment in capital assets	**41,344**	37,406
Amortization expense	**53,550**	50,440
Less: Amount of amortization expense related to capital assets purchased with restricted contributions	**(15,973)**	(16,513)
Decrease in investment in capital assets	**37,577**	33,927
Net increase	**3,767**	3,479

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Notes To Financial Statements

12. Endowments

(thousands of dollars)

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 cases, Governing Council has the right to subsequently decide to remove the designation. The endowment principal is required to be maintained intact subject to the University's preservation of capital policy. The investment income generated from endowments must be used in accordance with the various purposes established by donors or Governing Council. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

Investment income on endowments which is comprised of interest, dividend income and realized and unrealized gains and losses, is recorded in the statement of operations and changes in 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. The policy is based on the anticipated long term real rate of return on investments of 5%. In any particular year, should net investment income be insufficient to fund the amount to be made available for spending or 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 1999 net investment income was not sufficient to fund the amount made available for spending. As a result, transfers were recorded of $4,483 from externally restricted endowments and $4,173 from internally restricted endowments to unexpended assets for expenditure in the following year. In 1998, $139,089 was allocated for the preservation of capital of which $64,053 related to externally restricted endowments which was recorded as a direct increase to endowments and $75,036 related to internally restricted endowments which was recorded as investment income and then transferred from unexpended assets to endowments.

Net assets restricted for endowments comprise the following:

	1999	**1998**
Externally restricted endowments, the income from which must be used for:		
a) research	**24,657**	22,106
b)student aid	**364,758**	264,870
c) other restricted purposes	**256,526**	241,376
Internally restricted	**355,185**	402,343
	1,001,126	930,695

The University transferred $43,864 (1998 - $25,200) from internally designated to externally designated endowments as a result of being committed under gifting arrangements to matching certain donations during the year for chairs and professorships and for the matching student aid program.

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UNIVERSITY OF TORONTO
STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT
FOR THE FISCAL YEAR ENDED APRIL 30, 1999
(with comparative figures for the fiscal year ended April 30, 1998)
(thousands of dollars)

	1999			1998	
	$			$	
				(restated - note 3)	
REVENUES					
Government grants for general operations		**346,077**			348,668
Student fees		**238,155**			211,889
Donations (note 15)					
Received	**113,827**			90,705	
Externally restricted endowments	**(48,511)**	**65,316**		(45,937)	44,768
Government and other grants for restricted purposes					
Received	**138,938**			116,887	

Deferred for future spending	**(50,197)**	**88,741**		(15,483)	101,404
Contract research		**27,987**			25,229
Investment income (note 12)					
Endowments	**30,452**			171,395	
Other	**16,267**			29,905	
Capital preservation of externally restricted endowments	**-**	**46,719**		(64,053)	137,247
Sales, services and sundry income		**117,497**			122,423
		930,492			991,628
EXPENSES					
Salaries and benefits (note 16)		**536,081**			537,374
Materials and supplies		**100,243**			96,337
Cost of sales and services		**53,266**			54,324
Amortization of capital assets		**53,550**			50,440
Repairs and maintenance		**44,825**			39,768
Scholarships, fellowships and bursaries		**38,573**			27,299
Utilities		**24,303**			21,744
Travel and conferences		**19,334**			17,889
Telecommunications		**9,680**			9,327

External contracted services		**12,128**			10,697
Interest		**3,322**			3,690
Other		**27,668**			12,931
		922,973			881,820
Revenues less expenses		**7,519**			109,808
Increase in funds committed for specific purposes (note 11)		**(9,005)**			**(20,974)**
Increase in investment in capital assets (note 6)		(3,767)			(3,479)
Increase in pension charge commitment (note 10)		**(7,319)**			
Transfer of donations (to)/from endowments net of campaign expenses		**(1,063)**			3,619
Transfer from internally and externally restricted endowments (note 12)		**8,656**			
Transfer of investment income earned on internally restricted endowments for capital preservation					**(75,036)**
Net change in deficit for the year		**(4,979)**			13,938
Deficit, beginning of year		**(5,187)**			(19,125)
Deficit, end of year		**(10,166)**			(5,187)

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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, 1999
(with comparative figures for the year ended April 30, 1998)
(thousands of dollars)

			1999	1998
			$	$
				(restated - note 3)
OPERATING ACTIVITIES				
	Revenues less expenses		**7,519**	109,808
	Add (deduct) non-cash items:			
		Amortization of capital assets	**53,550**	50,440
		Amortization of deferred capital contributions	**(15,973)**	(16,513)
		Pension income	**(19,517)**	(512)
		Gain on sale of investments	**(17,073)**	(138,097)

	Change in other non-cash items (note 14)		**54,569**	13,368
			63,075	18,494
INVESTING ACTIVITIES AND FINANCING ACTIVITIES				
	Purchase of investments, net		**(115,949)**	(116,338)
	Purchase of capital assets (note 5)		**(52,376)**	(43,765)
	Contributions for capital asset purchases (note 9)		**26,326**	19,929
	Long-term debt principal repayments		**(4,500)**	(4,239)
	Capital preservation of externally restricted endowments		**0**	64,053
	Endowment contributions			
		- donations	**48,511**	45,937
		- Ontario grants	**29,513**	19,247
			(68,475)	(15,176)

Increase (decrease) in bank overdraft* during the year			**5,400**	(3,318)
Bank overdraft*, beginning of year			**7,179**	10,497
Bank overdraft*, end of year			**12,579**	7,179

***** Representing cheques issued but not cashed.

(See accompanying notes to financial statements)

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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 market.

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 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 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 and other collections 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 donations 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 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 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

15. Donations

(thousands of dollars)

During the year, the University received donations of $113,827 (1998 - $90,705). Of that amount, $48,511 (1998 - $45,937) is recorded as a direct addition to endowments in accordance with accounting policy and is not recorded as donations revenue.

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17. University of Toronto Foundation

As at year end, the University of Toronto Foundation, a Crown controlled foundation, had a balance of donations on hand of $0.1 million (1998 - $1.2 million) which the University anticipates receiving after year end.

The University acts as investment manager for the Foundation. At year end, investments include an amount of $0.2 million (1998 - $1.1 million) held for the Foundation offset by an equal amount in accounts payable.

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13. 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.

	1999	1998
Endowment balance, beginning	**188,435**	108,195
Donations	**27,513**	19,247
Matching grants from the Government of Ontario	**27,513**	19,247
Matching funds from the University	**27,513**	18,089
Transfer to expendable funds	**(1,858)**	
Preservation of capital		23,657

Endowment balance, ending	**269,116**	188,435
Expendable funds available for awards, beginning	**5,113**	288
Transfer from endowment balance	**1,858**	
Investment income	**6,610**	5,676
Bursaries awarded	**(3,284)**	(851)
Expendable funds available for awards, ending	**10,297**	5,113

The expendable funds available for awards are included in deferred contributions on thebalance sheet.

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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, revenues, 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. Michael's College, Sunnybrook & Women's College Health Sciences Centre 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 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 Sunnybrook land and buildings. 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 & Women's College Health Sciences Centre, 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 & Women's College Health Sciences Centre.

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

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Notes To Financial Statements

14. Change in other non-cash items

(thousands of dollars)

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

	1999	1998
Accounts receivable	**5,193**	14,998
Inventories and prepaid expenses	**326**	56
Accounts payable and accrued liabilities	**8,954**	(14,299)
Accrued pension liability	**252**	546
Deferred contributions	**39,844**	12,067
	54,569	13,368

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Notes To Financial Statements

18. Other commitments

a. The estimated cost to complete construction and renovation projects in progress at April 30, 1999, which will be funded by government grants, donations and operations, is approximately $52.1 million (1998 - $58.2 million).

b. The annual payments under various operating leases are approximately $4.0 million (1998 - $3.9 million).

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19. 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, 1999, the amount of loans guaranteed was $3.3 million (1998 - $3.7 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, 1999, the University believes it has valid defenses 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 fifty 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, 1998, CURIE had a surplus of $10.9 million (1998 - $9.4 million), of which the University's pro rata share is approximately 9.6% (1998 - 11%) on an ongoing basis.

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20. Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the University, including those related to the efforts of funders, customers, suppliers, or other third parties, will be fully resolved.

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Notes To Financial Statements

21. Public Sector salaries

The list of employees whose 1998 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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