UNIVERSITY OF TORONTO

CONDENSED FINANCIAL REPORT

APRIL 30, 2001

INDEX

FINANCIAL HIGHLIGHTS

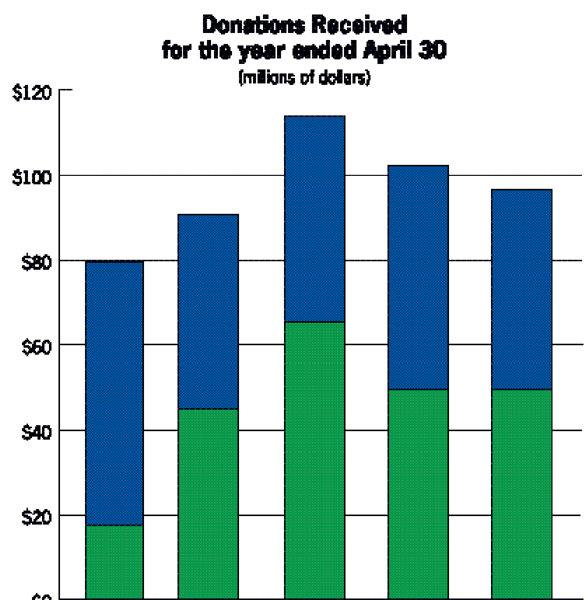
April 30, 2001

Financial Results for the Year:

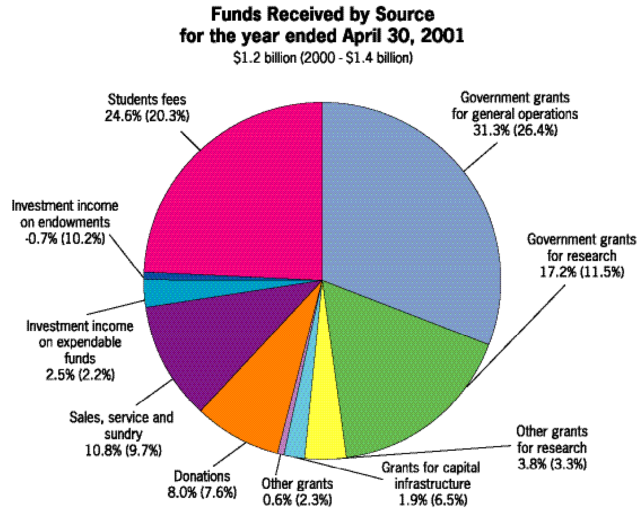
The University received funding of $1.2 billion from a variety of sources, as illustrated in the pie chart. The decrease in funding of $0.2 billion from the $1.4 billion received in 1999-00 is mainly due to the absence of a one time only Superbuild grant received last year and reduced investment returns on endowments due to significant downward trends in investment markets.

Endowment fund receipts are added directly to endowment capital and not recorded as revenue. Restricted expendable fund receipts are recorded as revenue as they are spent and any funds unspent at year-end are recorded as deferred contributions or deferred capital contributions on the balance sheet.

Therefore, the $1.2 billion of funds received was recorded as follows: $1.0 billion as revenue, $54.1 million added directly to endowment capital, and $125.2 million deferred for future spending.



	1997	1998	1999	2000	2001
Donated Endowments	61.9	45.9	48.5	52.7	53.8
Donations Revenue	17.5	44.8	65.3	49.5	44.3

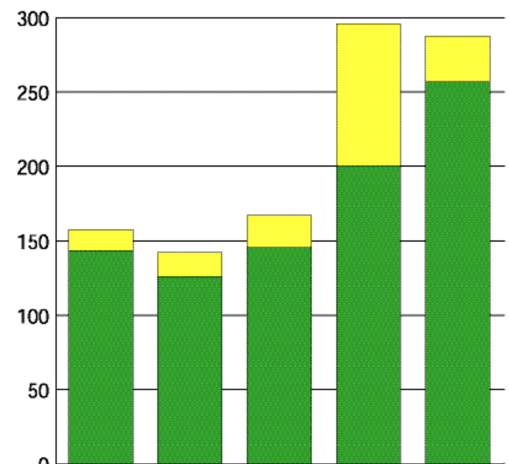


Donation receipts for the year totalled $98.1 million (13.2% of the operating budget) of which $44.3 million was recorded as revenue and $53.8 million was added directly to endowment capital. These amounts do not include donations to the federated universities, Victoria, St. Michael's and Trinity.

For the five-year period from 1997 to 2001, the University received $484.2 million in donations, of which $221.4 million was reported as revenue and $262.8 million was added to endowment capital. The latter figure included $106.1 million for endowed chairs, the majority of which was matched by the University, $120.6 million for student aid, the majority of which was matched by the Ontario Student Opportunity Trust Fund and by the University and $36.1 million for a variety of other purposes.

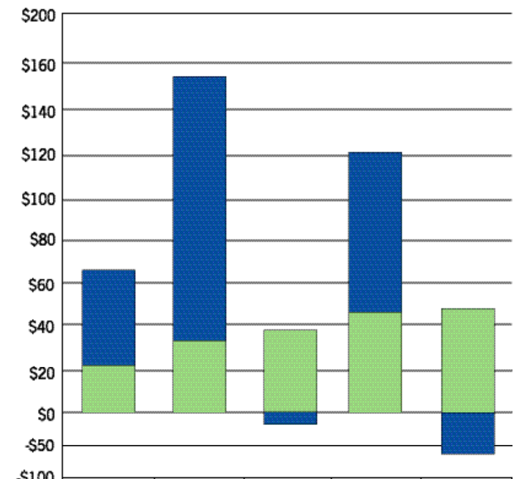
Investment income for the year was $22.2 million comprising $30.2 million on expendable funds and a loss of $8.0 million on endowment funds. $57.6 million was transferred from the endowment to the expendable funds to enable an allocation of $49.6 million for program expenditures.

Government and Other Grants and Contracts Received for Restricted Purposes for the year ended April 30
(millions of dollars)



	1997	1998	1999	2000	2001
Capital Infrastructure	14.2	15.8	21.3	95.8	30.07
Research	143.4	126.3	145.6	200.3	257.7

Investment Income on Endowments for the year ended April 30
(millions of dollars)



	1997	1998	1999	2000	2001
Capital preservation	63.3	139.1	-8.7	92.4	-57.6
Allocation for spending	21.5	32.3	39.1	45.1	49.6

The University's endowment capital preservation policy provides for program spending allocation of 5% of the market value of endowment assets smoothed over four years. Investment returns greater than 5% are added to endowment capital thus enabling the University to maintain program spending allocations in years where investment returns are less than 5%. The investment return on endowments for the year was –0.7% (14% the previous year). This return is a very favourable return given the significant downward trends experienced in investment markets.

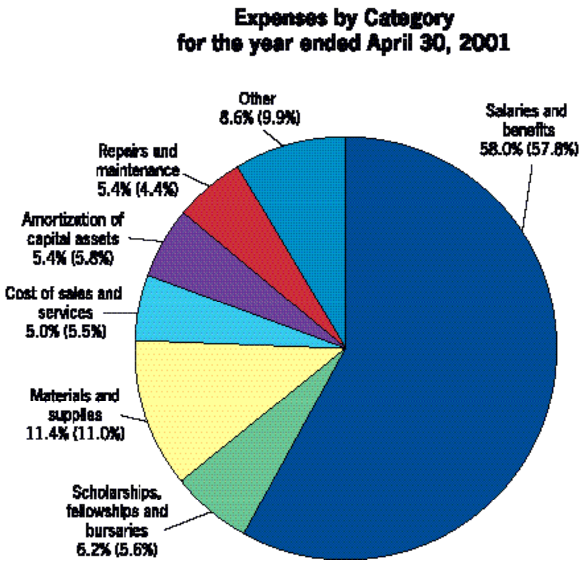
Receipts for government and other grants for restricted purposes of $256.3 million and for contract research of $31.4 million totalled $287.7 million, an increase of 82.5% from 1997. Of that amount, $257.0 million was received for research and $30.7 million was received for capital infrastructure. The decrease in capital infrastructure funding from last year is a result of receiving one time only Superbuild capital funding of $68.5 million in 1999-2000.

The $287.7 million was recorded as follows: $162.5 million as revenue and $125.2 million deferred for future spending. The growth in research funding was largely attributable to our success in attracting awards from the Ontario Innovation Trust Fund, the Natural Sciences and Engineering Research Council and the Canada Foundation for Innovation.

Government grants for general operations increased by $23.0 million to $380.7 million mainly due to the receipt of research performance funding.

Expenses were $1.1 billion as compared to $998.6 million the previous year. The largest component of expense was salaries and benefits of $642.4 million which increased by 11.3% over the previous year.

Student aid (scholarships, fellowships and bursaries) was $68.6 million, an increase of 22.8% over the previous year, and 189.5 % over the five-year period 1997 - 2001. Student fees were $299.8 million, an increase of 9.0% over the previous year, and an increase of 53.4% over the five-year



period 1997 - 2001 (excluding student aid provided by the federated universities). Student aid has grown from 12.1% of student fees in 1997 to 22.9% of student fees in 2001. The student aid endowment now stands at $495.6 million which is 42.1% of the University's total endowment and represents an increase of 135.0% over the five-year period 1997 - 2001.

This growth illustrates the strong commitment 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.

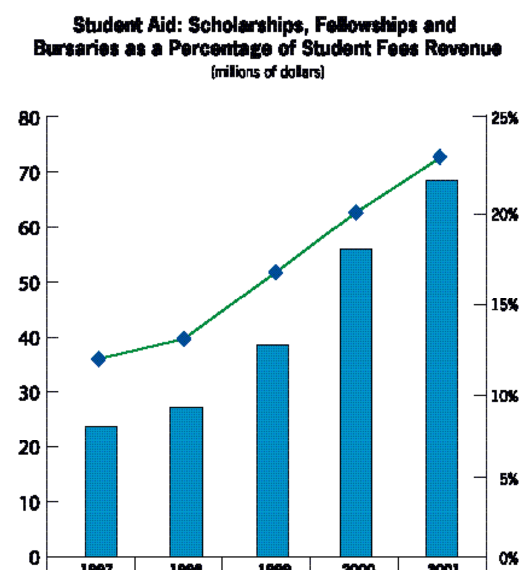
Revenues less expenses equalled negative $65.8 million for the year. After taking account of transfers, the decrease in funds committed and the increases in investment in capital assets and endowments, the deficit for the year was $7.5 million and the cumulative deficit was $19.2 million. This deficit was in line with the University's financial plans.

The University's assets were $2.4 billion at year-end as compared to $2.2 billion the previous year. Liabilities were $870.2 million as compared to $694.9 million the previous year. These increases were largely attributable to increased research and capital infrastructure activity. Net assets (equity) remain unchanged at $1.5 billion for the year. Endowments made up 76.6% of net assets.

Endowments:

Endowed donations received were $53.8 million for the year (not including endowments of the federated universities, Victoria, St. Michael's and Trinity). We are grateful for the generous support of our donors. This endowment of $1.2 billion represents a strong base of support for student aid and academic programs and we will continue to strive to increase it.

The endowment for endowed chairs and professorships is $311.4 million. This amount includes the University's contributions under its matching chair program. We have established 155 agreements with donors, of which 141 have been created during the Campaign.



	1997	1998	1999	2000	2001
Scholarships, Fellowships and Bursaries	23.7	27.3	38.6	55.9	68.6
As a % of fees revenues	12.1%	12.9%	16.2%	20.3%	22.9%

Employee future benefit obligation:

The University provides employee future benefits other than pension, such as long-term disability coverage and medical benefits to pensioners. During the year, the University was required to change its method of accounting for its employee future benefits other than pension from the cash basis to recording the cost over the periods in which employees render the service. This change will be recorded prospectively and will be amortized over the estimated average remaining service life of the employees. The University has recorded a liability of $41.3 million which includes $20.3 million relating to medical benefits, $17.1 million relating to long-term disability obligations, and $3.9 relating to other benefits.

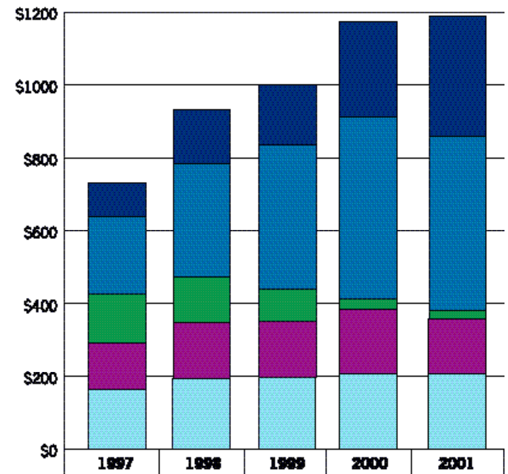
The impact of the prospective change in the university's method of accounting for pensions resulted in an increase of $2.8 million in the deferred pension charge.

Deferred maintenance and renewal:

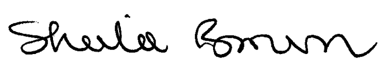
The University's deferred maintenance and capital renewal requirements are currently estimated at $210 million. The Vice-President, Administration and Human Resources is refining this amount through participation, with all other Ontario universities, in a study that is analyzing, in some detail and on a uniform basis, the deferred maintenance obligations of every university in the province.

Currently we have a management system to strategically use available funding, by which the needs are assessed and ranked, with special attention given to component failure which would result in an unacceptable disruption of service. In 2000 - 2001 the University received $19.0 million from the Superbuild facilities renewal fund and $5.3 million from the Government of Ontario facilities renewal fund. This significantly helped address needs, which are forecast over the next four years at about $15 million per annum.

Endowments for the year ended April 30
(millions of dollars)



	1997	1998	1999	2000	2001
Endowed chairs and professorships	93.6	145.8	164.1	260.4	311.4
Student aid	210.9	310.0	397.2	498.0	495.6
Funds available for matching	135.7	127.9	89.0	27.5	25.4
Academic programs	127.4	153.8	156.0	180.1	151.5
Research	163.1	193.2	194.9	205.3	192.3



Sheila Brown
Acting Chief Financial Officer

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 Canadian 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, 2001 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, 2001 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.

Sheila Brown

Sheila Brown
Acting Chief Financial Officer

Robert J. Birgeneau

Robert J. Birgeneau
President

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, 2001 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the 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, 2001 and the results of its operations and the changes in its net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

Toronto, Canada,
May 31, 2001.

Statement 1

University of Toronto
BALANCE SHEET

April 30, 2001
(with comparative figures at April 30, 2000)
(*thousands of dollars*)

	2001 **$**	2000 $
ASSETS		
Accounts receivable	**63,454**	58,363
Inventories and prepaid expenses	**11,463**	11,726
Deferred pension charge (note 3)	**22,316**	19,462
Investments (note 4)	**1,839,702**	1,720,858
Capital assets, net (note 5)	**469,265**	432,165
	2,406,200	2,242,574
LIABILITIES		
Bank overdraft	**23,857**	18,709
Accounts payable and accrued liabilities	**94,028**	86,746
Employee future benefit obligation other than pension (note 3)	**41,286**	
Long-term debt (note 7)	**60,192**	63,717
	219,363	169,172
Deferred contributions (note 8)	**278,921**	207,282
Deferred capital contributions (note 9)	**371,957**	318,439
	870,241	694,893
NET ASSETS (statement 3)		
Unexpended assets:		
Deficit	**(19,252)**	(11,707)
Funds committed for specific purposes (note 10)	**211,304**	226,262
Investment in capital assets (note 6)	**167,691**	161,812
Endowments (notes 11 and 12)	**1,176,216**	1,171,314
	1,535,959	1,547,681
	2,406,200	2,242,574

On behalf of Governing Council:

Wendy M. Cecil-Cockwell
Chairman

Robert J. Birgeneau
President

(See notes to financial statements)

University of Toronto

Statement 2

STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT
FOR THE FISCAL YEAR ENDED APRIL 30, 2001

(with comparative figures for the fiscal year ended April 30, 2000)
(*thousands of dollars*)

		2001 $		2000 $
REVENUES				
Government grants for general operations		**380,675**		357,686
Student fees		**299,753**		275,127
Donations (note 14)				
Received	**98,067**		102,203	
Externally restricted endowments	**(53,801)**	**44,266**	(52,661)	49,542
Government and other grants for restricted purposes				
Received for:				
Research	**225,547**		172,951	
Capital infrastructure and other	**30,756**		95,808	
Deferred for future spending	**(125,157)**	**131,146**	(168,541)	100,218
Contract research		**31,438**		27,313
Investment income (note 11)				
Endowments	**(8,010)**		137,529	
Expendable	**30,150**		29,431	
Capital preservation of externally restricted endowments	**-**	**22,140**	(41,811)	125,149
Sales, services and sundry income		**132,199**		131,543
		1,041,617		1,066,578
EXPENSES				
Salaries and benefits (note 3)		**642,417**		577,099
Materials and supplies		**125,847**		109,901
Scholarships, fellowships and bursaries		**68,646**		55,899
Amortization of capital assets		**60,237**		57,891
Repairs and maintenance		**59,322**		44,026
Cost of sales and services		**55,752**		54,906
Utilities		**32,240**		26,970
Travel and conferences		**23,533**		21,859
External contracted services		**13,237**		11,391
Telecommunications		**9,453**		9,710
Interest		**4,914**		3,937
Other		**11,824**		25,005
		1,107,422		998,594
Revenues less expenses		**(65,805)**		67,984
Decrease (increase) in funds committed for specific purposes (note 10)		**14,958**		(11,448)
Increase in investment in capital assets (note 6)		**(5,879)**		(6,119)
Transfer of donations to endowments		**(8,393)**		(1,378)
Transfer from internally and externally restricted endowments (note 11)		**57,574**		
Transfer of investment income earned on internally restricted endowments for capital preservation (note 11)				(50,580)
Net change in deficit for the year		**(7,545)**		(1,541)
Deficit, beginning of year		**(11,707)**		(10,166)
Deficit, end of year		**(19,252)**		(11,707)

(See notes to financial statements)

University of Toronto
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2001

(with comparative figures for the year ended April 30, 2000)
(*thousands of dollars*)

	Unexpended assets						
	Deficit $	Funds committed for specific purposes (note 10) $	Total $	Investment in capital assets (note 6) $	Endowments $	2001 Total $	2000 Total $
Net assets, beginning	(11,707)	226,262	214,555	161,812	1,171,314	1,547,681	1,361,467
Revenues less expenses	(65,805)		(65,805)			(65,805)	67,984
Change in funds committed for specific purposes (note 10)	14,958	(14,958)					
Net change in investment in capital assets (note 6)	(5,879)		(5,879)	5,879			
Transfer from internally and externally restricted endowments (note 11)	57,574		57,574		(57,574)		
Investment income earned on externally restricted endowments for capital preservation (note 11)							41,811
Transfer of donations to endowments	(8,393)		(8,393)		8,393		
Externally endowed contributions							
- donations					53,801	53,801	52,661
- Ontario grants					282	282	23,758
Net assets, ending	**(19,252)**	**211,304**	**192,052**	**167,691**	**1,176,216**	**1,535,959**	**1,547,681**

(See notes to financial statements)

University of Toronto

Statement 4

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED APRIL 30, 2001

(with comparative figures for the year ended April 30, 2000)
(thousands of dollars)

	2001 $	2000 $
OPERATING ACTIVITIES		
Revenues less expenses	**(65,805)**	67,984
Add (deduct) non-cash items:		
Amortization of capital assets (note 5)	**60,237**	57,891
Amortization of deferred capital contributions (note 9)	**(21,088)**	(18,882)
Pension income	**(2,854)**	(12,143)
Employee future benefit expense	**20,369**	
Net (gain) loss from investments	**8,774**	(77,615)
Change in other non-cash items (note 13)	**95,010**	50,306
	94,643	67,541
INVESTING ACTIVITIES AND FINANCING ACTIVITIES		
Purchase of investments, net	**(127,618)**	(232,895)
Purchase of capital assets (note 5)	**(97,337)**	(118,828)
Contributions for capital asset purchases (note 9)	**74,606**	137,129
Long-term debt principal repayments	**(3,525)**	(5,345)
Long-term debt obtained		28,038
Capital preservation of externally restricted endowments		41,811
Endowment contributions		
- donations	**53,801**	52,661
- Ontario grants	**282**	23,758
	(99,791)	(73,671)
Increase in bank overdraft* during the year	**5,148**	6,130
Bank overdraft*, beginning of year	**18,709**	12,579
Bank overdraft*, end of year	**23,857**	18,709

*** representing cheques issued but not cashed**

(See notes to financial statements)

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2001

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 one of the top public research universities in the world 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 ("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 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, 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.

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 reporting practices

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

a) Investments -

Investments are carried at market values. Change in market values from one year to the next are reflected in the statement of operations and changes in deficit.

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.

b) Derivative financial instruments -

Derivative financial instruments are used to manage 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) Inventory valuation -

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

d) Employee benefit plans -

The University has a defined benefit pension plan for its employees and provides other retirement benefits such as extended health, semi-private and dental care. The cost of pensions and other retirement benefits earned by employees 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, mortality rates and expected health care costs. Changes in management's best estimates resulting from changes in future conditions could require a change in the recognized amounts. The net actuarial gain or loss is amortized on a straight-line basis over the average remaining service life of the active employees. Assets of the pension fund and other benefit plans are valued using year-end market values.

During the year, the University was required to change its method of accounting for its employee future benefits other than pensions from the cash basis to recording the cost over the periods in which employees render the service. This change will be recorded prospectively, giving rise to a transition liability of $146.7 million which will be expensed over 14 years.

During the year, the University was required to change its method of calculating the cost of providing pensions to reflect changes in Canadian generally accepted accounting principles by using a discount rate based on market interest rates instead of using long-term rates. The University also changed its methods of calculating the expected return on plan assets using assets valued at fair value instead of a five-year moving average. These changes, combined with the requirement to record any unrecognized surplus will be recorded prospectively, giving rise to a transition asset of $428.7 million which will be recorded as a reduction of expenses over 14 years.

e) 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%
Computers	20%

Contributed rare books and other collections are expensed in the year received.

f) 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.

g) Foreign currency translation –

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at year end. Operating revenue and expenses are translated at average exchange rates prevailing during the year. Gains or losses arising from these translations are included in earnings.

g) 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.

3. Employee benefits

The University has a number of defined benefit plans providing pension, other retirement and post-employment benefits to most of its employees. The calculation of pension expense in accordance with the accounting policy is based on the current service cost of employee benefits and the amortization of experience gains and losses on assets and liabilities.

The employee benefits expense for the year includes pension income of $2.8 million and other retirement benefits expense of $20.4 million.

Information about the University's defined benefit plans as at April 30 is as follows:
(*thousands of dollars*)

	Pension benefit plans 2001	Other benefit plans 2001
Accrued benefit obligation	1,939,317	156,536
Fair value of plan assets	2,195,816	26,679
Plan surplus (deficit)	256,499	(129,857)
Deferred pension charge	22,316	
Employee future benefit other than pension		41,286

Included in the accrued benefit obligation is the unfunded supplementary retirement arrangement obligation of $113.9 million of which the University has set aside $85.2 million as funds committed for specific purposes to April 30, 2001.

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

	Pension benefit plans 2001	Other benefit plans 2001
Discount rate	7.0%	7.0%
Expected long-term rate of return on plan assets	7.0%	N/A
Rate of compensation increase	4.5%	4.5%

For measurement purposes, a 7.4% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate of increase was assumed to decrease gradually to 5.0% for 2006 and remaining at that level thereafter.

Other information about the University's defined benefit plans is as follows:
(*thousand of dollars*)

	Pension benefit plans 2001	Other benefit plans 2001
Employer contributions	1,187	7,719
Employees' contributions	423	2,280
Benefits paid	87,112	9,991

4. Investments

(*thousands of dollars*)

The market values of investments are as follows:

	2001	2000
Short-term investments	**96,278**	338,230
Government bonds	**2,788**	169,783
Corporate bonds	**6,590**	67,812
Canadian equities	**31,294**	114,987
United States equities	**94,090**	
Other international equities	**59,839**	59,817
Real estate	**40,799**	39,102
Pooled funds	**1,508,024**	931,127
	1,839,702	1,720,858

Pooled funds are comprised of:

	2001	2000
Short-term notes and treasury bills	**87,026**	1,357
Bonds		
- SC universe bond index	**153,082**	362,464
- SC long-term bond index	**94,354**	
- RT Short-term bonds	**129,999**	
Canadian equities		
- TSE 300 Index		251,193
- BGI AACE 300V	**46,744**	
- Emerald enhanced	**46,104**	
- Others	**14,414**	15,741
United States equities		
- S & P 500 Index	**127,652**	183,269
- Russell 3000 Index	**154,540**	
- NDF Mid and small cap	**41,847**	
- Others	**49,550**	12,768
Other international equities		
- MSCI EAFE index	**240,721**	
- Brandes Canada	**142,388**	
- Others	**27,616**	104,335
Hedge funds		
- Absolute return strategies	**69,178**	
- Long-short equities	**82,809**	
	1,508,024	931,127

a) Derivative financial instruments

The University has entered into equity futures contracts which oblige it to pay the difference between a predetermined amount and the market value of certain equities when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount. As at April 30, 2001, the notional amount of equity index futures is $177.4 million (2000 - $77.5 million) in global equity futures and $169.5 million (2000 - $52.3 million) in U.S. equity futures.

The University has entered into interest rate swap agreements in order to manage the interest rate exposure associated with certain long-term debt obligations. The contracts have the effect of converting the floating rate of interest on certain debt to a fixed rate. The notional amounts of the swaps do not represent amounts exchanged between parties and are not a measure of the University's exposure resulting from the use of swaps. The amounts exchanged are based on interest rates applied to the notional amounts. As at April 30, 2001, the University's notional amount of interest rate swaps outstanding with various banks were $41.3 million (2000 – $32.7 million). These agreements result in the University paying a fixed long term interest rate of 6.72% (2000 – 6.75%) on certain debt obligations instead of paying a weighted average short term floating interest rate of 5.78% (2000 – 5.09%).

Foreign currency risk is the risk that variations in exchange rates between the Canadian dollar and foreign currencies will affect the University's financial results. The University enters into foreign currency contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results.

As at April 30, 2001 the University had contracts outstanding in approximately 12 different currencies, with significant contracts held in U.S dollars, the Euro, Japanese yen, and the British Pound. The notional value of outstanding foreign exchange contracts purchased was $530.4 million [2000 – nil] and the notional value of outstanding foreign exchange contracts sold was $517.0 million [2000 – nil]. All outstanding contracts had a remaining term to maturity of less than a year. The notional amounts of the forward contracts do not represent amounts exchanged between parties and are not a measure of the University's exposure resulting from the use of forward contracts. The amounts exchanged are based on the forward exchange rates applied to the notional amounts.

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.

5. Capital assets

(*thousands of dollars*)

	2001		2000	
	Total Cost	Accumulated Amortization	Total Cost	Accumulated Amortization
Land	**30,831**		30,831	
Buildings	**771,065**	**493,651**	731,366	483,722
Equipment and furnishings	**621,033**	**497,144**	582,556	470,025
Library books	**251,061**	**213,930**	231,946	190,787
	1,673,990	**1,204,725**	1,576,699	1,144,534
Less accumulated amortization	**1,204,725**		1,144,534	
Net book value	**469,265**		432,165	

The University's insurer develops replacement values of buildings and contents for insurance purposes using an independent appraisal service. Fine art and rare book collections are valued by the appropriate University officers. The insured replacement value of buildings is $1.9 billion (2000 - $1.9 billion); contents is $2.9 billion (2000 - $2.7 billion), which includes library books of $2.0 billion (2000 - $1.8 billion).

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

		2001		2000
Balance, beginning		432,165		371,228
Purchase of capital assets funded by capital contributions	55,834		51,007	
Purchase of capital assets internally funded	41,503	97,337	67,821	118,828
Less: Amortization of capital assets		(60,237)		(57,891)
Balance, ending		469,265		432,165

6. Investment in capital assets

(*thousands of dollars*)

Investment in capital assets represents the following:

	2001	2000
Capital assets	469,265	432,165
Less amounts financed by:		
Long-term debt	(60,192)	(63,717)
Deferred capital contributions (note 9)	(241,382)	(206,636)
Balance, ending	167,691	161,812

The increase in investment in capital assets is as follows:

	2001	2000
Repayment of principal	3,525	5,345
Purchase of capital assets internally financed	41,503	67,821
Increase in investment in capital assets	45,028	73,166
Long-term debt obtained during year		28,038
Amortization expense	60,237	57,891
Less: Amount of amortization expense related to capital assets purchased with restricted contributions	(21,088)	(18,882)
Decrease in investment in capital assets	39,149	67,047
Net increase	5,879	6,119

7. Long-term debt

(*thousands of dollars*)

Long-term debt consists of mortgages with a weighted average interest rate of 8.22% (2000 – 8.22%) maturing 2004 to 2029 and term loans with a weighted average interest rate of 7.17% (2000 – 7.28%) maturing 2001 to 2024. Anticipated requirements to meet the principal portion of the long-term debt repayments over the next five years are as follows:

2002- $2,567, 2003 - $1,822, 2004 - $1,664, 2005 - $1,765, 2006 - $1,871

8. Deferred contributions

(*thousands of dollars*)

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

	2001	2000
Balance, beginning	**207,282**	156,988
Grants, donations and investment income	**292,569**	237,084
Recognized as revenue in the year	**(220,930)**	(186,790)
Balance, ending	**278,921**	207,282

The deferred contributions will be spent as follows:

	2001	2000
Research	**185,826**	127,314
Student aid	**37,911**	34,674
Other restricted purposes	**55,184**	45,294
	278,921	207,282

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:

	2001	2000
Balance, beginning	**318,439**	200,192
Less amortization of deferred capital contributions	**(21,088)**	(18,882)

Add contributions received for capital asset purchases	**74,606**	137,129
Balance, ending	**371,957**	318,439

This balance represents:

Amount used for the purchase of capital assets	**241,382**	206,636
Amount to be spent on capital assets	**130,575**	111,803
	371,957	318,439

10. Funds committed for specific purposes

(*thousands of dollars*)

	2001	2000
Supplementary retirement arrangement	**85,226**	74,204
Departmental trust funds	**74,883**	75,857
Unexpended operating funds	**34,911**	48,147
Research overhead	**11,405**	5,615
Alterations and renovations	**2,662**	14,107
Transitional funds	**1,740**	6,200
Priorities funds	**457**	293
Infrastructure investment fund	**20**	1,839
	211,304	226,262

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

a) 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.

b) Departmental trust funds -

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

c) 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 set aside equal to the deferred pension charge for future years when the university will be required to record pension expense. 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, (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, (3) the unfunded portion of employee future benefits other than pension obligations and (4) a portion of investment income earned on the unexpended asset balance.

d) Research overhead -

Research overhead recoveries from customers in calendar year 2000 are appropriated and available for spending in the following year.

e) Alterations and renovations -

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

f) 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.

g) Priorities funds -

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

h) 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.

11. 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 net 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 2001, net investment income was not sufficient to fund the amount available for spending. As a result, transfers were recorded of $43,467 from externally restricted endowments and $14,107 from internally restricted endowments to unexpended assets for expenditures in the following year. In 2000, $92,391 was allocated for the preservation of capital of which $41,811 related to externally restricted endowments which was recorded as a direct increase to endowments and $50,580 related to internally restricted endowments which was recorded as investment income and then transferred from unexpended assets to endowments.

Net assets restricted for endowments consists of:
(*thousands of dollars*)

	2001	2000
Externally restricted endowments	**869,392**	824,455
Internally restricted endowments	**306,824**	346,859
	1,176,216	1,171,314

The University transferred $34,321 (2000 - $60,285) from internally designated to externally designated endowments as a result of being committed under gifting arrangements to match certain donations received during the year for chairs and professorships and for the student aid program.

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.

	2001	2000
Endowment balance, beginning	343,105	269,116
Donations	181	16,528
Matching grants from the Government of Ontario	181	16,528
Matching funds from the University	32	13,449
Transfer to expendable funds	(16,341)	
Preservation of capital		27,484
Endowment balance, ending	327,158	343,105

	2001	2000
Expendable funds available for awards, beginning	16,151	10,297
Transfer from endowment balance	16,341	
Investment income (loss)	(2,377)	12,201
Bursaries awarded	(9,982)	(6,347)
Expendable funds available for awards, ending	20,133	16,151

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

13. Change in other non-cash items

(*thousands of dollars*)

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

	2001	2000
Accounts receivable	(5,091)	(4,355)
Inventories and prepaid expenses	263	(579)
Accounts payable and accrued liabilities	7,282	4,946
Employee future benefit obligation	20,917	
Deferred contributions	71,639	50,294
	95,010	50,306

14. Donations

(*thousands of dollars*)

During the year, the University received donations of $98,067 (2000 - $102,203). Of that amount, $53,801 (2000 - $52,661) is recorded as a direct addition to endowments in accordance with the accounting policy and is not recorded as donations revenue.

15. 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 $0.2 million (2000 - nil).

The University acts as investment manager for the Foundation. At year end, investments include an amount of $0.5 million (2000 - $0.1 million) held for the Foundation offset by an equal amount in accounts payable.

16. Other commitments

a) The estimated cost to complete construction and renovation projects in progress at April 30, 2001, which will be funded by government grants, donations and operations, is approximately $184.3 million (2000 - $137.8 million).

b) The annual payments under various operating leases are approximately $5.1 million (2000 - $4.6 million).

17. Contingencies

a) The University has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. At April 30, 2001, the amount of loans guaranteed was $4.5 million (2000 - $3.6 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, 2001, 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, 2000, CURIE had a surplus of $6.7 million (1999 - $10.6 million), of which the University's pro rata share is approximately 9.4% (1999 – 9.4%) on an ongoing basis.

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