UNIVERSITY OF TORONTO

FINANCIAL REPORT

April 30, 2007

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HIGHLIGHTS

Year Ended April 30, 2007

(With comparative figures at April 30, 2006)
(Millions of dollars)

	2007	2006	% Change
Income Statement			
Revenues	$ 1,942.0	$ 1,784.3	8.8%
Expenses	$ 1,807.5	$ 1,709.3	5.7%
Net Income	$ 134.5	$ 75.0	79.3%
Balance Sheet			
Assets	$ 4,200.8	$ 3,652.2	15.0%
Liabilities	$ 2,024.3	$ 1,775.8	14.0%
Net Assets	$ 2,176.5	$ 1,876.4	16.0%
Net Assets Composed of:			
Endowments	$ 1,822.7	$ 1,628.8	11.9%
Investment in Capital Assets	$ 282.2	$ 283.9	-0.6%
Internally Restricted Net Assets	$ 266.7	$ 134.8	97.8%
Unrestricted Deficit	$ (195.1)	$ (171.1)	14.0%
	$ 2,176.5	$ 1,876.4	
Long-term Debt	$ 556.7	$ 483.7	15.1%
Long-term Debt as % of Net Assets	25.6%	25.8%	
Student FTE's (November 1)	61,210	60,203	1.7%
Total Number of Students (November 1)	71,202	70,143	1.5%

HIGHLIGHTS

The University's Top Priority is to

Enhance the Student Experience

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

Enrolment at the University is more than 71,000 full-time and part-time students (61,210 full-time equivalents), making the University of Toronto one of the largest universities in North America in terms of enrolment.

The University's size and academic resources provide its students with a wide range of academic programmes and courses, while its unique college system offers students learning experiences enriched by individual cultures in a smaller community. The University is located on three campuses: St. George (downtown Toronto), Scarborough and Mississauga.

The University of Toronto's vision is to be a leader among the world's best public universities in its discovery, preservation and sharing of knowledge through its teaching and research and its commitment to excellence and equity. Specific goals for the current planning period of 2004-2010 are:

- Every student will have the opportunity for an outstanding and unique experience at the University of Toronto.
- The University will bring together scholars and students from diverse disciplines to meet scholarly challenges through interdisciplinary, interdepartmental, and interdivisional collaborations across campuses and with affiliated institutions.
- Mechanisms will be introduced to clearly link our undergraduate, graduate, and professional academic programs to strong research experiences.
- Our scholarship and academic programmes will be relevant to, and have an impact on, the broader community (locally, nationally or internationally) through outreach and engagement in the processes of public policy.
- We will endeavour to achieve equity and diversity in all our activities to ensure that we reflect our local and global community.

Key opportunities and challenges over the past several years and continuing forward are the need to accommodate student enrolment growth and research growth and to move forward on the University's other goals, all of which have both operational and capital requirements.

Key drivers of financial performance are:

1) **Growth in student enrolment** has generated both additional revenues and additional expenses and has fuelled the need for additional space for teaching, for office space, for student activity and for residence accommodations.

2) **Growth in research activity** has generated additional direct expenses which are offset by additional revenues. Growth in research results in the need for additional space and renovated space for conducting research as well as increasing the indirect costs which are not fully recovered by the University.

3) **Growth in salaries and benefits** has increased both expenses and liabilities due to growth in staffing and the cost of providing pensions and other employee future benefits.

4) **Growth in space** has required long-term borrowing to augment capital grants and donations, which increases liabilities and interest expense. Capital grants received increase liabilities (deferred capital contributions) which are recorded as revenue over time to match the amortization expense.

5) **Donations:** expendable donations provide additional revenue in support of designated activities. Endowed donations are added directly to the endowment. Although they are not available to spend, the investment income earned on endowments is available for use.

6) **Growth in endowments** provides additional investment income in support of designated activities, mostly endowed chairs and student aid, and enhances the balance sheet by increasing the University's net assets.

7) **Investment earnings** are variable, even with investment policies with modest risk profiles. Investment returns in any given year may dictate whether the University experiences net income or a net loss for the year.

The Income Statement

The following are the key drivers of financial performance of the income statement:

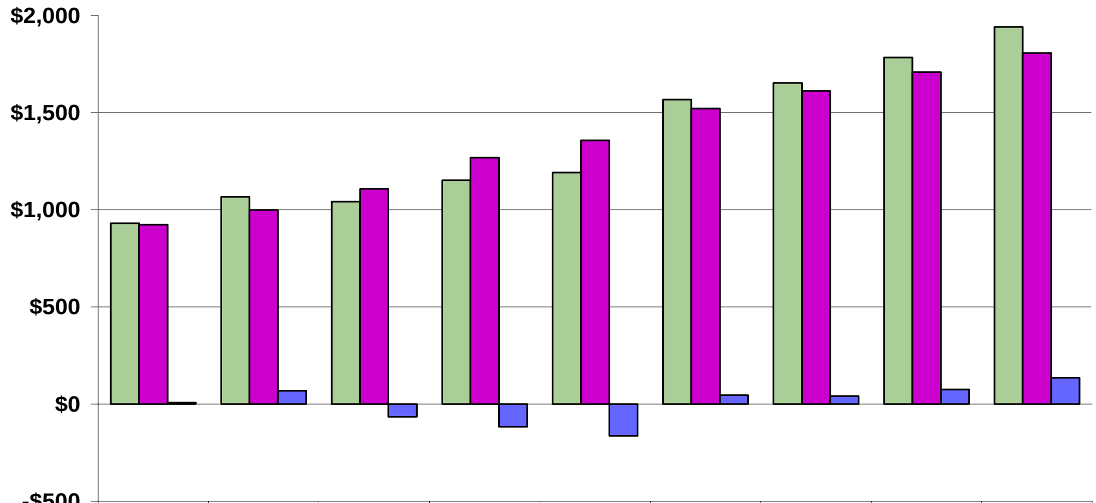
- Growth in student enrolment increases student fee revenues, government grants for general purposes, sales, services and sundry income (which include residence fees), salaries and benefits expense and materials and supplies expense.
- Growth in research activity affects research revenues, salaries and benefits expense and materials and supplies expense.
- Growth in space affects building, interest and amortization expense.
- Donations.
- Investment earnings.

Revenues for the year ended April 30, 2007 were $1.94 billion, expenses were $1.81 billion and net income was $134.5 million.

Revenues have grown by 108.7% since 1999 primarily due to an increased number of students combined with increased research activities. Expenses have continued to rise due both to inflation and to the increased number of faculty and staff to accommodate these increased levels of activities. The net losses in 2001 through to 2003 were mainly attributed to investment losses on expendable funds and on internally restricted endowments as a result of poor investment market performance.

In 2007, $1.20 billion or 61.6% of revenues was from student fees and government grants provided in support of student enrolments. An additional $323.9 million represented government and other grants and contracts for restricted purposes. Together these three sources accounted for 78.3% of revenues for the year.

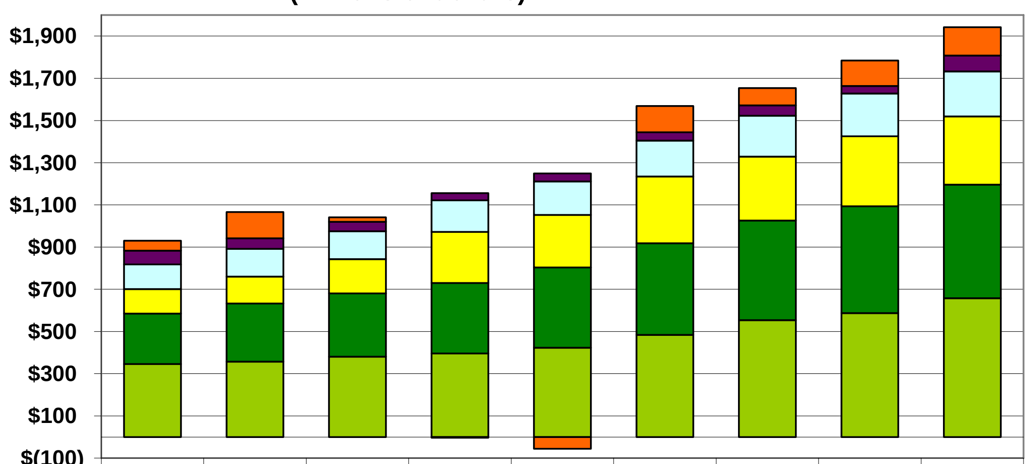
Revenues and Expenses
for the year ended April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues	930.5	1,066.6	1,041.6	1,152.1	1,192.7	1,568.1	1,653.8	1,784.3	1,942.0
Expenses	923.0	998.6	1,107.5	1,268.4	1,357.1	1,521.5	1,612.6	1,709.3	1,807.5
Net income (loss)	7.5	68.0	(65.9)	(116.3)	(164.4)	46.6	41.2	75.0	134.5

In 2007, expendable donations amounted to $74.8 million. Investment revenues were $134.4 million. (Note that, in accordance with Canadian generally accepted accounting principles (GAAP), endowed donations and investment income allocated for the preservation of capital on externally restricted endowments are not recorded as income, rather they are added directly to endowments on the balance sheet.)

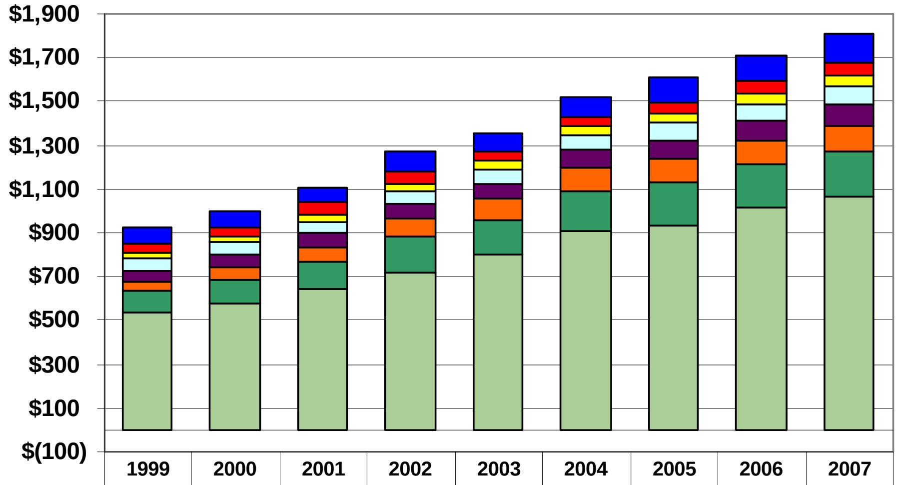
Revenues by Category
for the year ended April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total revenues	930.5	1,066.6	1,041.6	1,152.1	1,192.7	1,568.1	1,653.8	1,784.3	1,942.0
Investment income (losses)	46.7	125.1	22.1	(3.4)	(55.6)	123.9	82.8	120.0	134.4
Expendable donations	65.3	49.6	44.3	34.3	36.6	39.4	48.0	37.0	74.8
Other sales and services	117.5	131.6	132.2	149.6	159.4	170.2	194.8	202.2	212.9
Restricted grants and contracts	116.7	127.5	162.5	241.7	248.7	317.2	302.4	332.2	323.9
Student fees	238.2	275.1	299.8	333.7	380.9	433.1	472.3	505.7	538.9
Government grants	346.1	357.7	380.7	396.2	422.7	484.3	553.5	587.2	657.1

In 2007, expenses for the year amounted to $1.81 billion, of which $1.1 billion, or 58.7%, was for salaries and benefits.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total expenses	923.0	998.6	1,107.5	1,268.4	1,357.1	1,521.5	1,612.6	1,709.3	1,807.5
Other	72.1	71.9	63.0	84.1	87.7	96.7	116.3	114.7	127.3
Repairs and maintenance	44.8	44.0	59.3	57.3	38.8	38.3	48.8	54.2	61.4
Utilities	24.3	27.0	32.3	35.1	39.1	38.2	44.5	51.1	52.5
Cost of sales and services	53.3	54.9	55.8	63.0	67.4	70.7	77.6	79.1	77.7
Amortization of capital assets	53.6	57.9	60.2	61.4	71.1	76.8	83.5	91.4	99.1
Scholarships, fellowships, bursaries	38.6	55.9	68.6	86.7	98.8	108.8	110.9	106.5	115.9
Materials and supplies	100.2	109.9	125.9	166.1	153.4	184.2	194.7	200.0	211.7
Salaries and benefits	536.1	577.1	642.4	714.7	800.8	907.8	936.3	1,012.3	1,061.9

It is important to note that faculty and staff salaries and benefits relating to teaching, research and administrative activities are predominantly funded from University operating funds (mostly student fees and government grants). Additional details are provided in the Salaries and Benefits section of this Financial Report. Materials and supplies amounted to $211.7 million, or 11.7% of total expenses. Scholarships, fellowships and bursaries were $115.9 million, or 6.4%. Utilities expense amounted to $52.5 million, or 2.9%. Repairs and maintenance amounted to $61.4 million or 3.4%. Renovations to buildings are not expensed but capitalized during the year as capital assets in accordance with the University's accounting policies.

The Balance Sheet

The following are the key factors affecting the balance sheet:

- Growth in pension and benefit costs which affect liabilities and, where such liabilities are unfunded, reduces internally restricted net assets.
- Growth in space to support enrolment and research growth affects capital assets and long-term debt. Capital assets are accounted for in the financial statements at cost and not at fair value.
- Growth in endowments is derived from endowed donations and grants, and investment returns which are added to endowments for capital preservation.

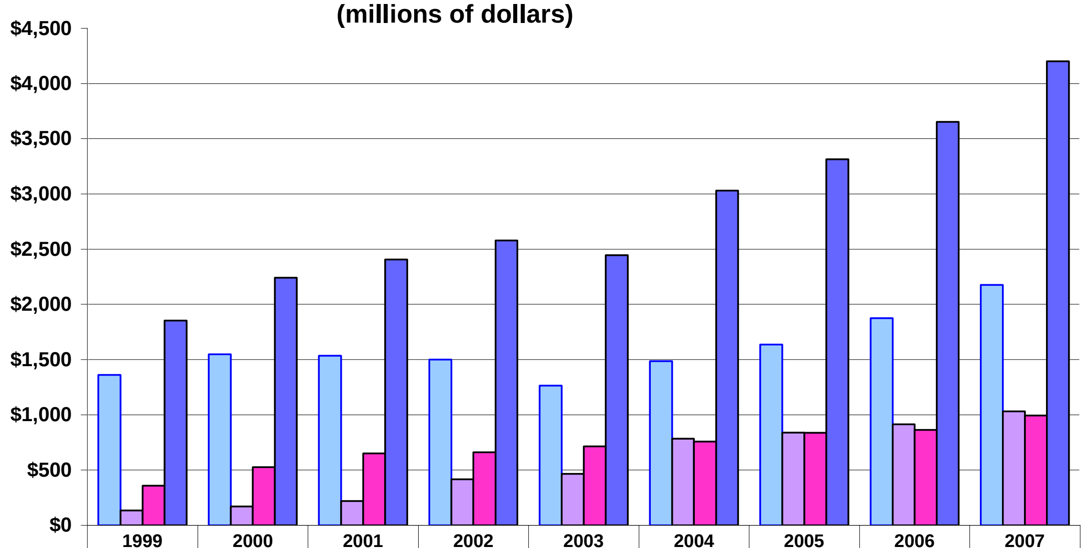
At April 30, 2007, assets were $4.2 billion, liabilities were $2.0 billion and net assets were $2.2 billion. Assets and liabilities have grown since 1999 due to the construction of additional space to accommodate the increased number of students and increased research activities and due to growth in endowments. The University has obligations not recorded in the financial statements of $91.7 million related to employee future benefits.

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

- the net income or net loss for the year, and
- the growth in endowments derived from 1) endowed donations and grants, and 2) from investment income on externally restricted endowments (for the preservation of capital), which do not flow through the income statement but rather are added directly to the endowment balance in accordance with GAAP.

Between 2006 and 2007, net assets grew from $1.9 billion to $2.2 billion. This growth of $300.1 million was made up of $134.5 million net income and $165.6 million of growth in endowments as described above.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net assets	1,361.5	1,547.7	1,535.9	1,500.5	1,264.2	1,487.0	1,636.1	1,876.4	2,176.5
Liabilities	135.4	169.2	219.4	415.4	465.7	784.6	840.0	913.9	1,030.6
Deferred contributions	357.2	525.7	650.9	661.7	715.3	758.9	837.7	861.9	993.7
Assets	1,854.1	2,242.6	2,406.2	2,577.6	2,445.2	3,030.5	3,313.8	3,652.2	4,200.8

Net assets consisted of the following:

- $1,822.7 million of endowments, representing 83.7% of net assets.
- $282.2 million in investment in capital assets.
- $266.7 million of internally restricted net assets, and
- ($195.1) million of unrestricted deficit.

The $195.1 million unrestricted deficit is largely due to the internal financing of capital construction in accordance with the University's debt strategy (see Space section of this document).

The $266.7 million in internally restricted net assets mainly reflects the setting aside of net assets for the University's supplemental retirement arrangement of $174.2 million, divisional operating fund allocations unspent at year-end and carried forward for one-time only expenditure in future years of $239.0 million, departmental trust funds of $74.0 million partially offset by the unfunded liability associated with employee future benefits of $281.8 million.

The $282.2 million investment in capital assets represents internal monies spent by the University for capital projects which will be reduced over time as the assets are amortized.

The $1.82 billion in endowments represents over 4,750 individual endowment funds which are restricted in nature, the principal of which may not be spent.

The Role of Governments

In fiscal 2007, about $1.20 billion, or 61.6% of revenues, comprised student fees and government operating grants provided in support of student enrolments. The provincial government provides operating grants and regulates tuition fees for most programmes.

The Ontario Budget of May 11, 2005 announced a major funding allocation of $6.2 billion for universities and colleges over the period from 2004 to 2010, including funding for graduate expansion, for additional undergraduate medical students, for tuition freeze compensation and for additional quality enhancement funds. However, according to the Council of Ontario Universities, university enrolments across Ontario have far outpaced projections with 14,000 more students enrolled over government projections made in 2005.

This announcement included an increase in graduate enrolment of 14,000 students by the year 2009 for the Ontario system. The University has made a submission for 4,470 additional graduate students over 2004-05 levels (2,330 in phase one by 2007-08 and 2,140 in phase two) and a plan for this expansion has been approved by Governing Council. The necessary operating funding is assured by the Province for the first phase combined with the related capital funding which will be provided in the form of a stream of payments over 20 years. The magnitude and timeline for the second phase is contingent on the availability of government funding.

On March 8, 2006, the Government of Ontario announced a new tuition framework for the Province. Universities may increase tuition fees by up to 4.5% for entering students in most programs and by no more than 4% for in-program students. Tuition may increase by a maximum of 8% in professional programs such as Law, Medicine and Engineering and in graduate programs, provided that the average increase across the university does not exceed 5%. The tuition schedule adopted by the University for 2006-07 reflected this new framework. At the same time, the government also introduced a student access guarantee to ensure that no student is denied access to higher education for financial reasons which is in line with the long-established policy of the University. This guarantee has also been incorporated in the University's multi-year agreement for 2006-07 to 2008-09 with the Province. The University remains committed to the goal of accessibility and to working with the provincial and federal governments to achieve this goal. During 2007, the University spent $115.9 million on student aid, a significant increase from $18.5 million in 1996.

The federal government's March 19, 2007 budget initiated a new post-secondary transfer, with no less than $800 million of new base support starting in 2008-09 for post-secondary education to be transferred to provinces. The details of the allocation of the transfer have not been determined and are subject to federal-provincial negotiations. In the interim, the Ontario Budget of March 22, 2007 included $210 million in incremental funds to alleviate Ontario's universities' immediate cost pressures. The University received $40 million as its share of the funds in 2007. The Ontario Budget also included an allocation of $50 million to develop the capacity for interdisciplinary research on the creation of jurisdictional economic advantage at the University of Toronto of which $20 million was received in 2007; and $15 million, all of which has been received in 2007, to support the University's advanced research in structural genomics – the study of human proteins to treat diseases such as cancer.

Financial Planning

Revenues are expected to continue to increase over the next several years as a result of continuing growth and the government announcements outlined above; however, expenses are also expected to increase, requiring ongoing expense containment measures.

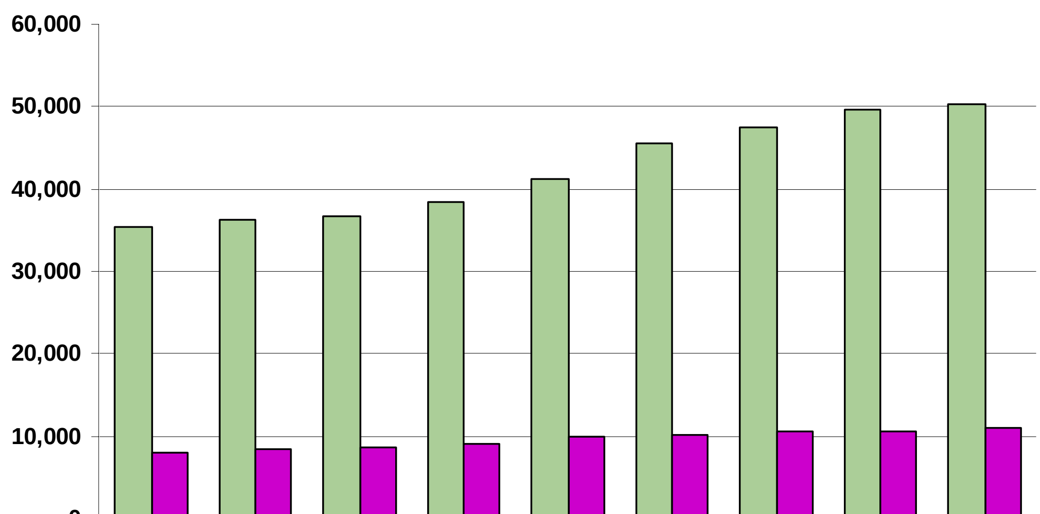
The long-range academic and budget plan for 2004 to 2010 has been updated to reflect the new tuition framework, the undergraduate medical student expansion plans, graduate expansion plans and quality enhancement funding assumptions, as well as other updated assumptions.

Student Enrolment

The demand for student spaces has increased significantly as a result of increased population growth and participation rates since 1999 combined with the effect of the elimination of grade 13 in Ontario which impacted the entering classes of 2002, 2003 and 2004. More than 73% of the direct entry undergraduate student body is drawn from the greater Toronto area.

The University has increased enrolment to accommodate this additional student demand and student full-time equivalent enrolment increased from 43,340 in 1999 to 61,210 in 2007.

Number of Undergraduate and Graduate Student FTEs as at November 1



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Undergraduate	35,305	36,362	36,712	38,339	41,184	45,533	47,402	49,669	50,220
Graduate	8,035	8,319	8,549	9,107	9,824	10,230	10,485	10,534	10,990

The provincial government provides full average funding for each additional student beyond the numbers enrolled in 2000-01. Government grants for general operations increased to $657.1 million for 2007 from $587.2 million for 2006, an increase of 11.9% due primarily to the receipt of incremental funds to alleviate immediate cost pressures and student enrolment growth.

Tuition fees for domestic students increased in accordance with the new tuition framework set by the provincial government. Student fees revenue increased to $538.9 million for 2007 from $505.7 million for 2006 primarily as a result of student fee increases and enrolment growth.

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

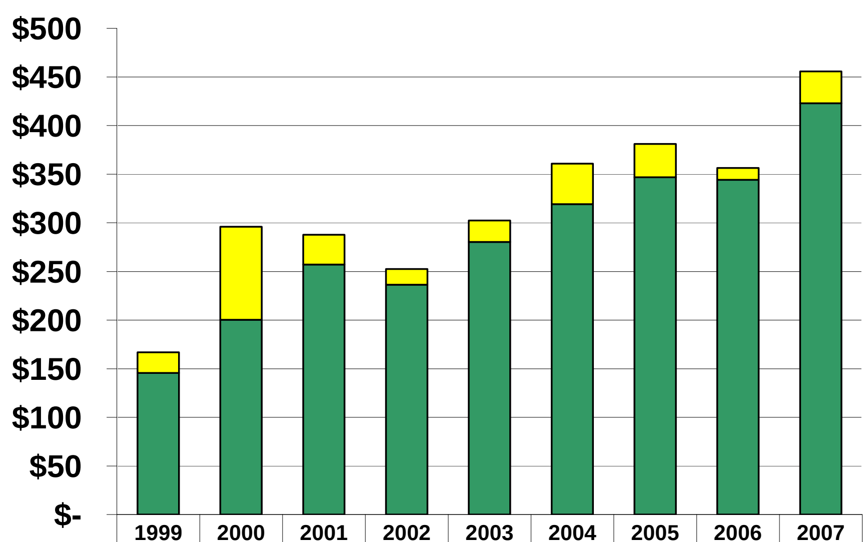
Student aid (scholarships, fellowships and bursaries) was $115.9 million for 2007 representing an increase of 200.3% (excluding student aid provided by the federated universities) since 1999. Over the eight years from 1999 to 2007, student fees revenue increased by 126.2% while student aid expense increased by 200.3%. Endowments in support of student aid also comprise 44.0% of the University's total endowment balance. 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 his or her education due to financial need.

Research Activity

Enabling research is a strategic objective, with research, scholarship and research training constituting integral elements of the academic programme. The University's Strategic Research Plan has identified 25 research themes in six broad areas:

- the Humanities;
- the Social Sciences;
- Advanced Science and Technologies;
- Biomedical, Health and Life Sciences;
- Physical, Environmental, Earth and Space Science Related Studies; and
- Mathematical and Computational Science Related Studies.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Capital infrastructure and other	21.3	95.8	30.7	16.2	22.1	41.5	34.3	12.2	32.7
Research	145.6	200.3	257.0	236.4	280.2	319.3	346.9	344.2	423.0

The University has allocated resources as necessary to support these research themes and also seeks to advance research in these areas using the resources of other universities, government programmes and private sector partners in Canada and around the world.

In recent years, both the federal and provincial governments have invested heavily in research infrastructure as well as in their more traditional area of direct support for research. The University has been successful in a number of competitions for research funding and research infrastructure (also see Space section of this document).

Funding received for research is accounted for as follows:

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

Government and other grants and contracts received in 2007 for restricted purposes, which are mostly research grants, totaled $455.7 million, and were reported as follows: $304.3 million as revenue from grants for restricted purposes, $19.6 million as contract research revenue and $131.8 million as deferred contributions and deferred capital contributions. The $455.7 million comprised $423.0 million for research and $32.7 million mostly for capital infrastructure.

Research grant funding has increased by 190.5% since 1999. The increase in research funding is mainly due to increased funding made available from the federal and provincial governments and to the success of University of Toronto researchers in attracting research awards.

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

Salaries and Benefits

Salaries and benefits expense increased to $1.1 billion in 2007 due to negotiated salary increases for employee groups and due to the additional number of faculty and staff required to deal with the growth in students and research activity. The University's faculty and staff have increased from 10,103 in September 1999 to 12,312 in September 2006.

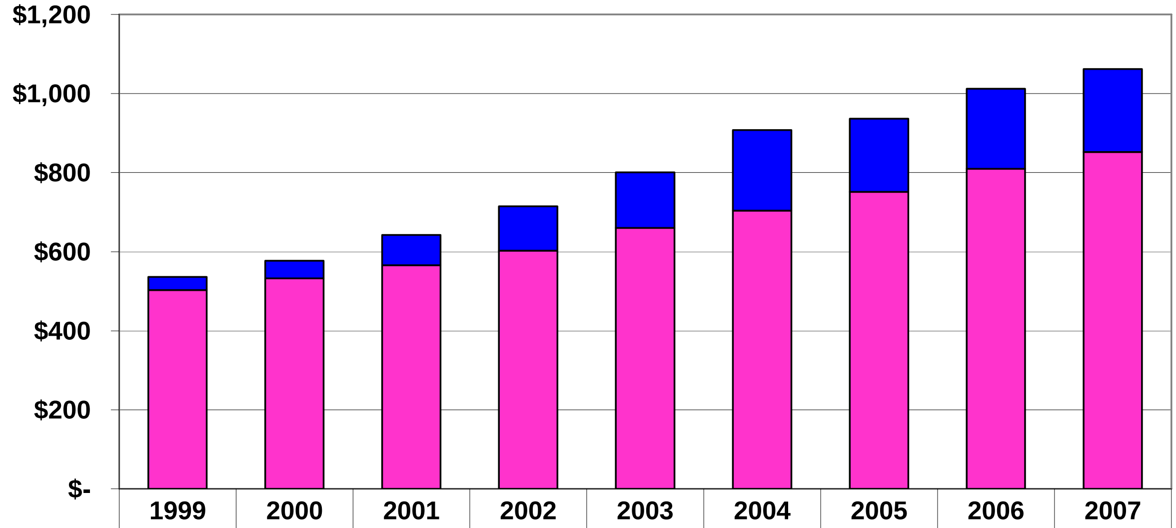
The University has entered into the following settlements, which together cover over 80% of employees:

- Two year arbitration award for faculty and librarians with across the board salary increases of 3.0% in year one and 3.25% in year two starting July 1, 2005.
- Three year agreement with administrative staff represented by the United Steelworkers for salary increases of effectively 3% per year starting July 1, 2005.
- Three year agreement with sessional lecturers and instructional assistants (non-student) and writing instructors starting September 1, 2006.
- Three year agreement with teaching assistants starting May 1, 2005.

The University provides its employees with defined pension benefits, life insurance, survivor income benefits, long-term disability insurance, medical benefits, vision benefits, memberships in university facilities, vacation, educational support and several types of leave. Benefits expense for the year was $209.7 million comprised of employee future benefits expense of $121.9 million and other benefits expense of $87.8 million.

Employee future benefits represent benefits to employees in the future based on service in the current year. They include pensions, long-term disability insurance, cost of living adjustments for survivor income, and medical benefits for pensioners. Since 1999, the cost of providing these benefits has increased by $176.4 million, mainly as a result of an increasing number of staff as well as improved retiree pension benefits.

Salaries and Benefits
for the year ended April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Benefits	33.3	44.6	76.5	112.1	140.8	203.7	184.7	202.8	209.7
Salaries	502.8	532.5	565.9	602.6	660.0	704.1	751.6	809.5	852.2

Pension benefits, which are based on salaries capped at $150,000, are provided through a combination of registered pension plans to the Income Tax Act maximum of approximately $121,000 and a non-registered supplemental retirement arrangement (SRA) between $121,000 (increasing to about $133,000 by 2009) and the maximum of $150,000. The assets internally set aside for the SRA totaled $174.2 million at April 30, 2007 and were recorded as investments and as internally restricted net assets.

Beginning in 2001, accounting rules required that expenses and liabilities for employee future benefits be reported on an accrual basis instead of on a pay as you go basis. Liabilities were also required by GAAP to be valued using current long-term bond rates instead of using long-term asset return assumptions for funding purposes. This requirement gave rise to both current and past service liabilities which are being added to the liabilities recorded on the financial statements over 14 years. The main reason for the increase in the obligations and the expense since 2005 is a decline in the rate used to discount the obligations.

Since 2001, the addition over time of unfunded employee future benefits liabilities is increasing the liabilities section of the balance sheet without a corresponding increase in assets. It is therefore also reducing the net assets section of the balance sheet and constraining our ability to grow and our capacity to borrow.

April 30, 2007	Pension plans	Other benefit plans
Plan status:		
Assets	**$3.01 billion**	**$32.6 million**
Obligations	**$3.26 billion**	**$362.0 million**
Deficit	**$250.9 million**	**$329.4 million**
Recorded in financial statements:		
Liability	**$98.6 million**	**$215.8 million**
Expense	**$76.7 million**	**$45.2 million**

April 30, 2006	Pension plans	Other benefit plans
Plan status:		
Assets	$2.69 billion	$30.6 million
Obligations	$3.07 billion	$338.9 million
Deficit	$380.6 million	$308.3 million
Recorded in financial statements:		
Liability	$100.0 million	$177.2 million
Expense	$82.9 million	$40.8 million

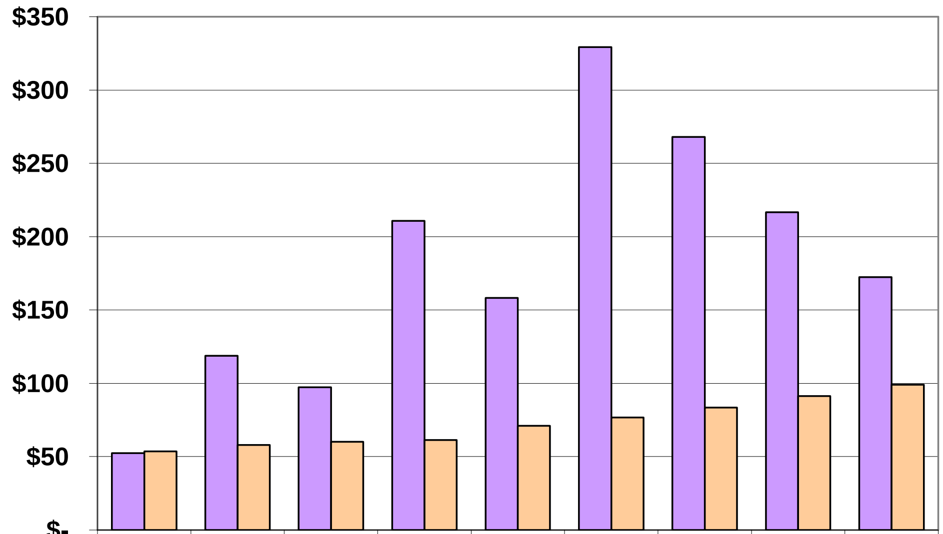
Space

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

The estimated cost of the projects currently approved and initiated since 1999 is $1.2 billion. The University is currently evaluating the additional capital requirements associated with the graduate and medical expansion. The provincial government has announced it will provide capital funding in the form of a stream of payments intended to cover principal and interest payments on borrowing undertaken by the University. There are also other projects with a high academic priority that will need to be included.

Additionally, the University has future obligations of deferred and pending maintenance which are currently estimated at $389.0 million, including asbestos containment and removal. The University has integrated its capital programs by pooling the various funds available and prioritizing maintenance and renewal requests. The University is participating with all other Ontario universities in a continuing study that is analyzing, in some detail and on a uniform basis, the deferred and pending maintenance obligations of every university in the Province. The long-range academic and budget plan for 2004-05 through 2009-2010 includes funding to arrest further deterioration of the physical infrastructure.

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

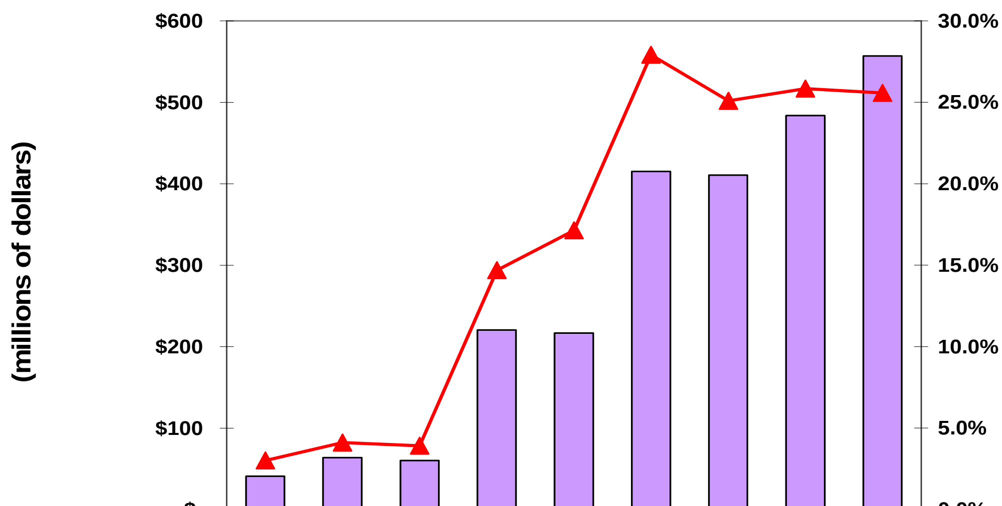


	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions to capital assets	52.4	118.8	97.3	210.9	158.3	329.3	268.0	216.7	172.4
Amortization	53.6	57.9	60.2	61.4	71.1	76.8	83.5	91.4	99.1

Borrowing

The capital plan calls for $782.5 million in borrowing which is expected to be financed by debt or from internal resources. To date, $556.7 million has been financed externally and $98.5 million has been financed internally.

External Borrowing Outstanding
for the year ended April 30



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total external borrowing	41.0	63.7	60.2	220.5	216.7	415.1	410.6	483.7	556.7
External borrowing as a % of Net assets	3.0%	4.1%	3.9%	14.7%	17.1%	27.9%	25.1%	25.8%	25.6%

The approved borrowing strategy provides for a maximum borrowing amount of $875.2 million at April 30, 2007, comprised of external borrowing of $675.2 million (40% of net assets smoothed over 5 years) plus $200.0 million in internal financing.

The University's credit ratings (November 2006) are Aa1 (Moody's), AA (Standard and Poor's) and AA (Dominion Bond Rating Service), which ranks the University as a strong investment-grade credit equal to the Province of Ontario.

Donations

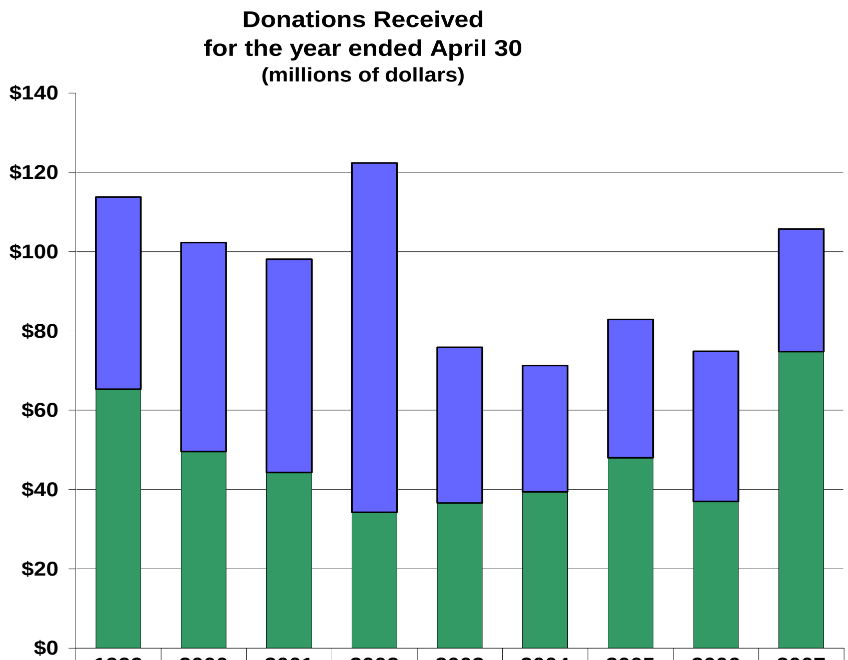
Academic priorities that cannot be completely funded through internal resources become approved priorities for fundraising. Priorities are assessed on an annual basis and revised as necessary. The Provost must approve all initiatives before they become priorities for fundraising.

The decision to hold fundraising as servant to the academic plans of its faculties, colleges, schools and divisions, overseen by the Provost with the involvement of principals, deans and faculty continues to play a critical role in the success of all advancement programs. The clear link with institutional planning enables the University to assure donors that the priorities they are being asked to support are critical to the achievement of teaching and research objectives. This link established an environment that contributed to the success of the 1997 campaign, which reached its $1 billion goal by the end of 2003, one year ahead of schedule.

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

- Unrestricted expendable donations are recorded as revenue when received;
- Restricted expendable donations are recorded as revenue when spent;
- Unspent restricted expendable donations are recorded as liabilities (deferred contributions or deferred capital contributions); and
- Endowed donations are not recorded as revenue. They are added directly to endowments, as additions to net assets.

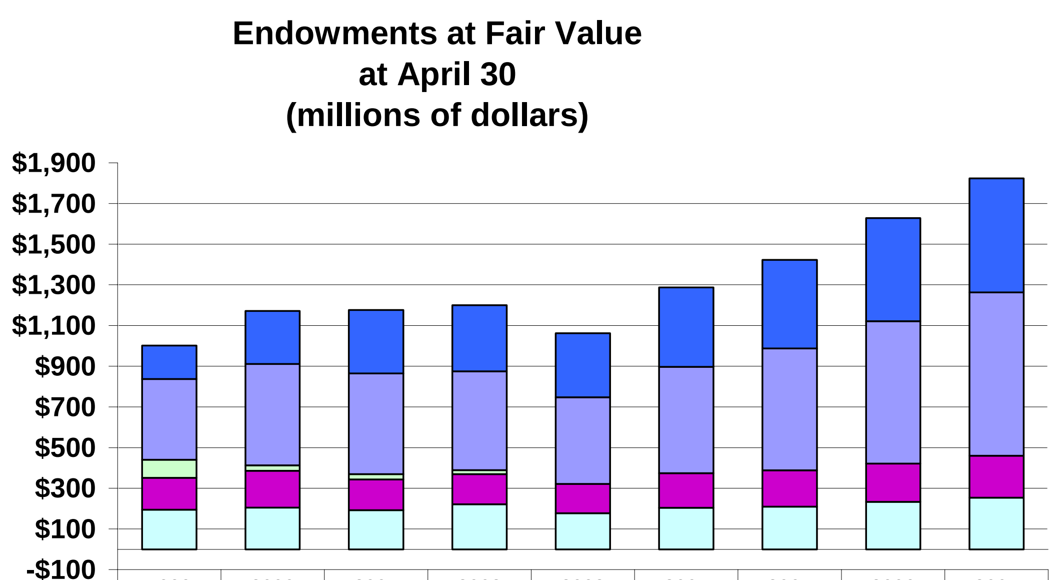
In 2007, donations received by the University (excluding receipts by the federated universities) totalled $105.7 million and were reported as follows: $74.8 million in expendable donations was reported as revenue and $30.9 million was added directly to endowments. The increase in expendable donations in 2007 from 2006 is a result of receiving additional donations of books and media combined with donations for capital projects and academic programmes.



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Added to endowments	48.5	52.7	53.8	88.1	39.3	31.9	34.9	37.9	30.9
Reported as revenue	65.3	49.6	44.3	34.3	36.6	39.4	48.0	37.0	74.8

Endowments

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

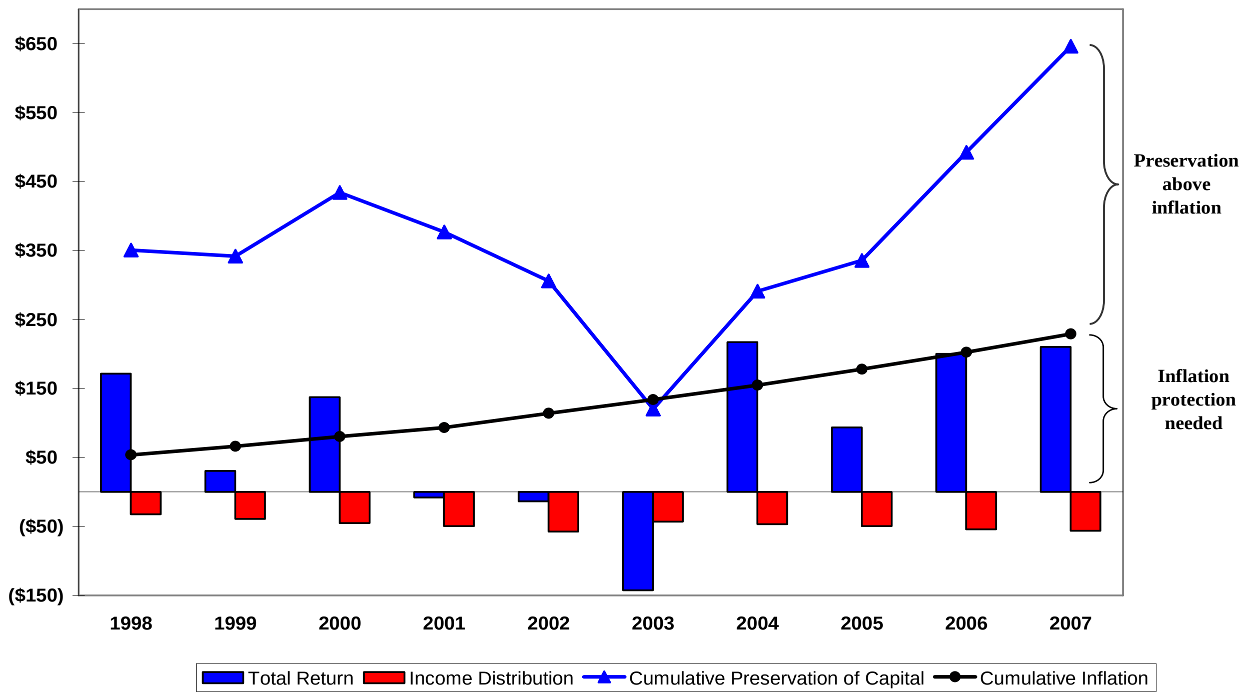


	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total endowments	1,001.2	1,171.3	1,176.2	1,199.7	1,062.3	1,287.7	1,422.8	1,628.8	1,822.7
Chairs and professorships	164.1	260.4	311.4	324.5	314.4	390.7	434.8	507.6	560.5
Student aid	397.2	498.0	495.6	486.4	427.3	522.8	599.7	699.4	802.4
Matching funds	89.0	27.5	25.4	19.2					
Academic programs	156.0	180.1	151.5	148.0	143.8	170.3	179.0	189.0	205.9
Research	194.9	205.3	192.3	221.6	176.8	203.9	209.3	232.8	253.9

The University's policy for preservation of capital of endowment funds limits the amount of earnings made available for spending and requires the reinvestment of excess earnings, in order to provide to future generations the same level of economic support, for specified purposes as the endowments provide today. The per unit allocation to endowment account holders for spending on endowment program purposes increased by 2% over the previous year from $7.00 to $7.14 per unit.

The target allocation for spending is about 4% of fair value of the endowment, expressed as a payout per investment unit and is expected to increase annually by the rate of inflation. The spending allocation was $56.5 million for 2007. The amount reinvested to preserve capital and to provide a cushion against poor investment returns was $153.7 million for 2007. The total amount allocated for spending over the last 10 years was $472.8 million and the total amount reinvested to protect against inflation and provide a cushion against investment return fluctuations was $423.9 million. The inflation-adjusted value of the pool has been protected, as demonstrated in the following graph.

Endowment cumulative preservation of capital compared to cumulative inflation with total return and income distribution for the year ended April 30 (millions of dollars)



At April 30, 2007, there were over 4,750 individual endowment funds, usually supported by an agreement between the University and a donor, or reflecting a collection of small donations with common restrictions. The total fair value of endowments was $1.82 billion at April 30, 2007, representing an increase of $193.9 million comprised of:

- $30.9 million of externally endowed donations,
- $5.2 million of endowed government grants,
- $4.1 million of transfers from expendable funds to endowments,
- $210.2 million in investment earnings, minus
- ($56.5 million) allocated for program spending.

Investment Earnings

Investment earnings for the year were $263.9 million (2006 - $239.5 million). Of that total $129.5 million (2006 - $119.5 million) earned on externally restricted endowments was added directly to endowments for the preservation of capital and $134.4 million (2006 - $120.0 million) was reported as investment income. The $134.4 million comprised $80.7 million investment income on endowments and $53.7 million investment income on expendable funds.

Almost all of the University's investments are invested in the long-term capital appreciation pool (LTCAP) or the expendable funds investment pool (EFIP). The University establishes the investment return objective and the risk tolerance for each of these pools, reflecting the liability requirements, and with the aim of producing steady, predictable returns for the University.

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

It is important to note that, while the aim of the return and risk parameters is to produce steady, predictable investment returns for the University, there is nonetheless variability in investment returns on an annual basis, and that the actual investment return is a key determinant of whether the University records a net income or net loss for the fiscal year.

LTCAP

The fair value of LTCAP was $2.0 billion at April 30, 2007, of which $1.8 billion was for endowments.

The investment return and risk targets for LTCAP are a 4.0% real investment return after investment fees and expenses and inflation, and a 10% standard deviation risk target, over a ten year period. This means that the real return is expected to be between minus 6% and 14%, two thirds of the time over a ten year period. The University's overriding objective with respect to investment performance is the achievement of this return target within the specified risk target. The return target has been exceeded in each of the past four years. The University places a secondary emphasis on market benchmarks composed of major market indices such as Canadian, United States and international equities and Canadian fixed income.

The table below summarizes the 1-year LTCAP investment performance for years ending April 30 and compares it to the University's investment return target and to the market benchmark.

1-Year Annual Rates of Return

Year Ended April 30	LTCAP annual actual return*	University objective (4% plus CPI)	Market Indices Benchmark
2007	**13.7%**	**6.2%**	**13.1%**
2006	15.8%	6.4%	16.2%
2005	7.4%	6.4%	7.9%
2004	23.1%	5.6%	21.9%

**Returns are net of all investment fees and expenses and exclude returns on private investment interests.*

EFIP

The investment policy for EFIP reflects its three categories of funds: very short-term investments managed by the University, funds loaned internally to support capital projects and funds managed by UTAM. The return objective and risk tolerance for each category of EFIP funds is as follows:

	Return Objective	**Risk Tolerance**
Investments managed by U of T in a money market fund	30-day Treasury bill return	Minimal risk
Internal loans	Appropriate spread over Government of Canada bond of similar duration	Minimal risk
Funds managed by UTAM	1 year Treasury bill return + 50 basis points	Minimal risk (standard deviation measure is not appropriate for short-term durations)

The return for the fiscal year was as follows:

	Fair Value at April 30, 2007	**Total Return for Year Ended April 30, 2007**	**Benchmark**
Investments managed by U of T in a money market fund	$134.5 million	4.14%	4.21% (Scotia McLeod 30-day Treasury bill index)
Internal loans	$98.5 million	6.18%	n/a
Funds managed by UTAM	$594.7 million	5.71%	4.59% (Scotia McLeod 1-year Treasury bill index + 50 basis points)

(signed)
Catherine J. Riggall
Vice-President, Business Affairs

(signed)
Sheila Brown
Chief Financial Officer

Audited Financial Statements

April 30, 2007

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 financial 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, 2007 and the results of its operations and its cash flows for the year then ended. In order to achieve the objective of fair presentation in all material respects, the use of reasonable estimates and judgments were employed. Additionally, management has ensured that financial information presented elsewhere in this Financial Report has been prepared in a manner consistent with that in the financial statements.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the administration has developed and maintains a system of internal controls designed to provide reasonable assurance that University assets are safeguarded from 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 current year position for pension and other employee future benefits. 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 and other employee future benefits liabilities reported.

Governing Council carries out its responsibility for review of the financial statements and this Financial 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, 2007 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.

(signed)
Catherine J. Riggall
Vice-President, Business Affairs

(signed)
David Naylor
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, 2007 comprising the following:

- Balance sheet
- Statement of operations
- 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
May 31, 2007.

Statement 1

UNIVERSITY OF TORONTO
BALANCE SHEET
April 30, 2007
(with comparative figures as at April 30, 2006)
(millions of dollars)

	2007	2006
ASSETS		
Current		
Cash and cash equivalents (note 4)	**138.5**	34.5
Short-term investments (note 4)	**351.7**	163.0
Accounts receivable (note 4)	**141.8**	82.5
Inventories and prepaid expenses	**16.2**	15.0
	648.2	295.0
Investments (note 4)	**2,211.0**	2,088.9
Capital assets, net (note 5)	**1,341.6**	1,268.3
	4,200.8	3,652.2
LIABILITIES		
Current		
Accounts payable and accrued liabilities (notes 4 and 7)	**159.5**	153.0
Deferred contributions (note 12)	**341.3**	265.5
	500.8	418.5
Accrued pension liability (note 3)	**98.6**	100.0
Employee future benefit obligation other than pension (note 3)	**215.8**	177.2
Series A senior unsecured debenture (note 7)	**160.0**	160.0
Series B senior unsecured debenture (note 8)	**200.0**	200.0
Series C senior unsecured debenture (note 9)	**75.0**	75.0
Series D senior unsecured debenture (note 10)	**75.0**	
Other long-term debt (note 11)	**46.7**	48.7
Deferred capital contributions (note 13)	**652.4**	596.4
	2,024.3	1,775.8
NET ASSETS (Statement 3)		
Unrestricted deficit	**(195.1)**	(171.1)
Internally restricted (note 14)	**266.7**	134.8
Investment in capital assets (note 6)	**282.2**	283.9
Endowments (notes 15, 16 and 17)	**1,822.7**	1,628.8
	2,176.5	1,876.4
	4,200.8	3,652.2

On behalf of Governing Council:

(signed)
Rose M. Patten
Chair

(signed)
David Naylor
President

Statement 2

UNIVERSITY OF TORONTO
STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED APRIL 30, 2007

(with comparative figures for the year ended April 30, 2006)
(millions of dollars)

	2007	2006
REVENUES		
Government grants for general operations	**657.1**	587.2
Student fees	**538.9**	505.7
Government and other grants for restricted purposes (note 20)	**304.3**	310.6
Sales, services and sundry income	**212.9**	202.2
Investment income (note 4)	**134.4**	120.0
Donations (note 19)	**74.8**	37.0
Contract research	**19.6**	21.6
	1,942.0	1,784.3
EXPENSES		
Salaries and benefits (note 3)	**1,061.9**	1,012.3
Materials and supplies	**211.7**	200.0
Scholarships, fellowships and bursaries	**115.9**	106.5
Amortization of capital assets (note 5)	**99.1**	91.4
Cost of sales and services	**77.7**	79.1
Utilities	**52.5**	51.1
Repairs and maintenance	**61.4**	54.2
Travel and conferences	**35.7**	32.6
Interest on long-term debt	**31.0**	29.3
External contracted services	**30.5**	22.5
Telecommunications	**10.6**	11.0
Other	**19.5**	19.3
	1,807.5	1,709.3
NET INCOME	**134.5**	75.0

Statement 3

UNIVERSITY OF TORONTO
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED APRIL 30, 2007
(with comparative figures for the year ended April 30, 2006)
(millions of dollars)

	Unrestricted deficit	Internally restricted (note 14)	Investment in capital assets (note 6)	Endowments (note 15)	2007 Total	2006 Total
Net assets, beginning of year	(171.1)	134.8	283.9	1,628.8	1,876.4	1,636.1
Net income	134.5				134.5	75.0
Net change in internally restricted (note 14)	(131.9)	131.9				
Net change in investment in capital assets (note 6)	1.7		(1.7)			
Transfer to internally restricted endowments (note 15)						
- investment income	(24.2)			24.2		
Transfer to endowments						
- donations	(1.5)			1.5		
- matching funds	(2.6)			2.6		
Investment income on externally restricted endowments (note 15)				129.5	129.5	119.5
Externally endowed contributions						
- donations (note 19)				30.9	30.9	37.9
- Ontario grants				5.2	5.2	7.9
Net assets, end of year	(195.1)	266.7	282.2	1,822.7	2,176.5	1,876.4

Statement 4

UNIVERSITY OF TORONTO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED APRIL 30, 2007
(with comparative figures for the year ended April 30, 2006)
(millions of dollars)

	2007	2006
OPERATING ACTIVITIES		
Net income	**134.5**	75.0
Add (deduct) non-cash items:		
Amortization of capital assets (note 5)	**99.1**	91.4
Amortization of deferred capital contributions (note 13)	**(36.7)**	(42.6)
Net capital gain from investments	**(54.1)**	(55.9)
Net change in accrued pension liability	**(1.4)**	(2.3)
Net change in employee future benefit obligation other than pension	**38.6**	34.3
Net change in other non-cash items (note 18)	**21.8**	(19.1)
	201.8	80.8
INVESTING AND FINANCING ACTIVITIES		
Net sale (purchase) of short-term investments	**(188.7)**	91.2
Net sale (purchase) of investments	**61.5**	(138.3)
Purchase of capital assets (note 5)	**(172.4)**	(216.7)
Contributions for capital asset purchases (note 13)	**92.7**	66.8
Other long-term debt principal repayments	**(2.0)**	(1.9)
Series C senior unsecured debenture issue (note 9)		75.0
Series D senior unsecured debenture issue (note 10)	**75.0**	
Endowment contributions		
- donations (note 19)	**30.9**	37.9
- Ontario grants	**5.2**	7.9
	(97.8)	(78.1)
Net change in cash and cash equivalents during the year	**104.0**	2.7
Cash and cash equivalents, beginning of year	**34.5**	31.8
Cash and cash equivalents, end of year	**138.5**	34.5

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 of Toronto's vision is to be a leader among the world's best public universities in its discovery, preservation and sharing of knowledge through its teaching and research and its commitment to excellence and equity.

These financial statements include the assets, liabilities, revenues, expenses and other transactions of all of the operations and organizations, including wholly owned subsidiaries, under the jurisdiction of Governing Council. These financial statements do not include the assets, liabilities and operations of Victoria University, The University of Trinity College, University of St. Michael's College, Sunnybrook Health Sciences Centre ("Sunnybrook") and the affiliated colleges under the memorandum of agreement with the Toronto School of Theology, each of which is a separate non-controlled corporate body with separate financial statements.

The University holds title to the land and original buildings of Sunnybrook. The land and original buildings were acquired for the sum of one dollar and are used for hospital purposes and for related medical research and teaching purposes. The property is leased to the Board of Directors of Sunnybrook, a separate corporation, under a ground lease, which is perpetually renewable every twenty-one years at the option of the Board of Directors of Sunnybrook.

The University is a registered charitable organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

2. Summary of significant accounting policies and reporting practices

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

a) Investments -

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

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

1. Publicly traded bonds and equities are determined based on quoted market values.
2. Investments in pooled funds are valued at their net asset value per unit.
3. Infrequently traded securities are based on quoted market yields or prices of comparable securities, as appropriate.
4. Real estate directly held by the University is valued at cost and, when donated, at the value determined through an appraisal process at the date of donation.

5. Private investment interests, which comprise private externally managed pooled funds with underlying investments in equities, debt, real estate assets and commodities, are determined based on the latest valuations provided by the external investment managers of the fund (typically December 31), adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

b) Derivative financial instruments -

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

Hedges are documented at inception, detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When derivatives designated as hedges cease to exist, have been terminated or cease to be effective prior to maturity, any gains, losses, revenue or expenses deferred previously as a result of applying hedge accounting continue to be deferred and are recognized in income over the period in which the underlying item is recognized. Derivative transactions that do not qualify for hedge accounting are carried at fair value, with changes in value during the year recorded as income. Investment dealer quotes or quotes from a bank are available for substantially all of the University's derivative financial instruments.

c) Cash and cash equivalents -

Cash and cash equivalents represent operating cash on deposit and units in a money market fund.

d) Inventory valuation -

Retail inventories are carried at the lower of average cost or net realizable value.

e) Employee benefit plans -

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for substantially all of its employees.

Pension plan assets are valued at fair value for purposes of calculating expected return on plan assets. The cost of pension and other post-employment benefits (primarily medical benefits and dental care) related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefits prorated on service method, and using estimates of the usage frequency and cost of services covered and management's best estimates of investment yields, salary changes, withdrawals, mortality rates and expected health care costs. The University's actuarial gains or losses (such as changes in actuarial assumptions and experience gains or losses), past service costs arising from plan amendments and transitional assets/obligations are amortized over the average remaining service life of active employees, currently 14 years (2006 – 14 years). A valuation allowance is recorded against an accrued benefit asset if the asset, less unamortized past service costs and unamortized actuarial losses, exceeds the present value of future service costs of the current active employees. Liabilities are discounted using current interest rates on long-term bonds.

f) Capital assets -

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

Buildings	2.5%
Equipment and furnishings	5% - 20%
Library books	20%

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

g) Revenue recognition -

The University follows the deferral method of accounting for contributions, which include donations and government grants. Contributions externally restricted for purposes other than endowment are recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for amortizable capital assets are deferred and amortized over the life of the related capital assets. Deferred contributions and amortization of capital contributions recognized as revenue in the current year are first presented in the statement of operations as donations and investment income revenue to the extent that restricted amounts have been received in the current year. Any difference is recorded as government and other grants for restricted purposes. Endowment contributions and contributions of non-amortizable capital assets are recognized as direct increases in net assets in the year in which they are received. The University actively fundraises and unrestricted donations 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.

h) Foreign currency translation -

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at year end. Operating revenues and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from these translations are included in income.

i) Accounting estimates -

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the assumptions used in the determination of the fair value of financial instruments and the valuation of pension and other retirement benefit obligations. Actual results could differ from those estimates.

j) Contributed services and materials -

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

3. Employee benefit plans

The University has a number of funded and unfunded defined benefit plans that provide pension, other retirement and post-employment benefits to most of its employees. Its defined benefit pension plans are based on years of service and the highest average salary received in any 36 months. Pension benefits will increase annually by 75% of the increase in the Consumer Price Index (CPI) to a maximum CPI increase of 8%, plus 60% of the increase in CPI in excess of 8%.

Other retirement benefit plans are contributory health care plans with retiree contributions adjusted annually, such as extended health, semi-private and dental care. A plan also provides for long-term disability income benefits after employment, but before retirement.

The latest actuarial valuation for the pension plans and for other retirement benefit plans was performed as of July 1, 2006. The next required actuarial valuations for the registered plans will be July 1, 2009. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year. The employee benefits expense for the year includes pension expense of $76.7 million (2006 - $82.9 million) and other retirement benefits expense of $45.2 million (2006 - $40.8 million).

Information about the University's defined benefit plans as at April 30 is as follows:

(millions of dollars)

	2007		2006	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligation	**3,258.2**	**362.0**	3,074.5	338.9
Fair value of plan assets	**3,007.3**	**32.6**	2,693.9	30.6
Plan deficit	**(250.9)**	**(329.4)**	(380.6)	(308.3)
Amount recorded as a liability	**(98.6)**	**(215.8)**	(100.0)	(177.2)
Unamortized net actuarial loss	**(266.5)**	**(72.2)**	(445.8)	(77.0)
Unamortized transitional asset (obligation)	**216.8**	**(72.6)**	246.6	(83.1)
Unamortized past service cost	**(102.6)**	**(1.4)**	(81.4)	(1.6)
Plan assets recorded as investments		**32.6**		30.6
Plan deficit	**(250.9)**	**(329.4)**	(380.6)	(308.3)

In addition to the plan assets, the University has set aside $174.2 million (2006 - $147.2 million) as internally restricted net assets at April 30, 2007 related to obligations of the supplemental retirement arrangement (note 14).

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

	2007		2006	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligation:				
Discount rate	**5.25%**	**5.25%**	5.25%	5.25%
Rate of compensation increase	**4.25%**	**4.25%**	3.75%	3.75%
Rate of inflation	**2.25%**	**2.25%**	2.25%	2.25%
Benefit cost:				
Discount rate	**5.25%**	**5.25%**	5.75%	5.75%
Expected long-term rate of return on plan assets	**6.25%**	**N/A**	6.25%	N/A
Rate of compensation increase	**3.75%**	**3.75%**	3.75%	3.75%
Rate of inflation	**2.25%**	**2.25%**	2.25%	2.25%

For measurement purposes, an 8.0% (2006 – 8.5%) annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007. The rate of increase was assumed to decrease gradually to 4.5% by 2014 and remain at that level thereafter. The pension plans assets are invested as follows:

	2007	2006
Equity securities	**58.5%**	53.2%
Debt securities	**22.3%**	22.9%
Pooled funds - equity	**11.0%**	21.4%
Other	**8.2%**	2.5%
Total	**100.0%**	100.0%

The table below outlines the funding provided by the University and its employees and the benefits paid under the University's defined benefit plans:

	(millions of dollars)			
	2007		2006	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Funding by employer	**79.6**	**13.4**	90.8	12.1
Funding by employees	**31.4**	**3.8**	28.7	4.5
Benefits paid	**145.9**	**15.3**	132.4	15.1

4. Investments

Direct investments and investment-related receivables and liabilities are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolio. This classification required $318.3 million (2006 - $364.2 million) of pooled funds, $400.7 million (2006 - $58.7 million) in hedge funds and $204.6 million (2006 - $392.8 million) of cash, money market funds, short-term notes and treasury bills set aside related to derivative contracts to be reclassified to their appropriate investment category. The fair values of investments are as follows:

	(millions of dollars)	
	2007	2006
Cash, money market funds, short-term notes and treasury bills	**490.2**	197.5
Government and corporate bonds	**675.4**	607.7
Canadian equities	**309.8**	246.0
United States equities	**384.2**	412.6
Other international equities	**457.6**	456.0
Hedge funds	**206.3**	209.7
Private investment interests	**88.3**	67.7
Real assets	**89.4**	89.2
	2,701.2	2,286.4
Less amounts reported as:		
Cash and cash equivalents	**138.5**	34.5
Short-term investments	**351.7**	163.0
	2,211.0	2,088.9

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

	(millions of dollars)			
	2007		2006	
	EFIP	**LTCAP**	EFIP	LTCAP
Cash, money market funds, short-term notes and treasury bills	**393.3**	**96.9**	175.4	22.1
Government and corporate bonds	**252.7**	**422.7**	252.4	355.3
Canadian equities		**309.8**		246.0
United States equities		**384.2**		412.6
Other international equities		**457.6**		456.0
Hedge funds	**94.4**	**111.9**	106.2	103.5
Private investment interests		**88.3**		67.7
Real assets		**89.4**		89.2
	740.4	**1,960.8**	534.0	1,752.4

Risk management relates to the understanding and active management of the risks associated with all areas of the University's investments. Investments are primarily exposed to foreign currency risk, interest rate volatility, market and credit risks. The University, through the University of Toronto Asset Management Corporation, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative assets, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks (see below).

The University's investment income reported as revenue of $134.4 million (2006 - $120.0 million) is made up of income on endowments of $80.7 million (2006 - $80.8 million) and income of $53.7 million (2006 - $39.2 million) on other investments.

Derivative financial instruments

Description

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

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

The University has entered into interest rate swap contracts in order to manage the interest rate cash flow exposure associated with certain long-term debt obligations. The contracts have the effect of converting the floating rate of interest on certain long-term debt to a fixed rate. These contracts are accounted for as hedges.

The University has entered into electricity swap agreements to fix the price of electricity for a portion of its electricity consumption, hence removing the risk of future electricity rate fluctuations on that portion. The contracts have the effect of recording the cost of electricity at swap rates rather than at spot rates. These contracts are accounted for as hedges.

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

Risks

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.

Terms and conditions

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

	(millions of dollars)			
	2007		2006	
	Notional value	**Fair value**	Notional value	Fair value
Foreign currency forward contracts				
- U.S. dollars	**1,139.4**	**47.5**	556.1	18.3
- International	**393.6**	**9.1**	119.1	(0.6)
		56.6		17.7
Equity and commodity index futures contracts				
- Canadian	**103.6**	**2.6**		
- United States	**407.2**	**12.8**	323.5	2.3
- International	**136.7**	**5.4**	155.1	2.6
		20.8		4.9
Interest rate swap contracts	**33.8**	**(4.8)**	35.1	(4.5)
Electricity swap contracts	**3.7**	**0.3**		

The fair value of the foreign currency forward and equity and commodity index futures contracts of $77.4 million (2006 – $22.6 million) is reported as $80.8 million (2006 - $23.2 million) in accounts receivable and $3.4 million (2006 - $0.6 million) in accounts payable and accrued liabilities.

These interest rate swap agreements are designated as hedges for accounting purposes, which results in interest expense related to certain long-term debt being recorded in the financial statements at the hedged rates rather than at the contractual interest rates. The interest rate swap contracts result in the University fixing a weighted average long-term interest rate of 6.74% (2006 - 6.70%) on certain debt obligations instead of paying a weighted average short-term floating interest rate of 4.50% (2006 – 3.25%). These long-term contracts were entered into in years when interest rates were higher than current rates. These swap agreements require periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The cash settlement is the difference between the contractual rate of interest and the current market rate, based on a notional amount.

5. Capital assets

(millions of dollars)

	2007		2006	
	Total cost	**Accumulated amortization**	Total cost	Accumulated amortization
Land	**31.8**		31.8	
Buildings	**1,663.6**	**610.3**	1,586.8	580.2
Equipment and furnishings	**927.6**	**727.8**	876.3	690.2
Library books	**393.8**	**337.1**	356.5	312.7
	3,016.8	**1,675.2**	2,851.4	1,583.1
Less accumulated amortization	**(1,675.2)**		(1,583.1)	
Net book value	**1,341.6**		1,268.3	

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 replacement value of buildings is $3.6 billion (2006 - $3.3 billion); and contents is $3.1 billion (2006 - $3.1 billion), which includes library books of $2.0 billion (2006 - $2.0 billion).

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

(millions of dollars)

		2007		2006
Balance, beginning of year		**1,268.3**		1,143.0
Purchase of capital assets funded by capital contributions	**65.9**		96.7	
Purchase of capital assets financed by debentures (notes 9 and 10)	**57.2**		62.4	
Purchase of capital assets internally funded	**49.3**	**172.4**	57.6	216.7
Less amortization of capital assets		**(99.1)**		(91.4)
Balance, end of year		**1,341.6**		1,268.3

6. Investment in capital assets

Investment in capital assets represents the following:

(millions of dollars)

	2007	2006
Capital assets, net	**1,341.6**	1,268.3
Less net book value of assets financed by:		
Debentures and other long-term debt (notes 7 to 11)	**(457.7)**	(411.9)
Deferred capital contributions (note 13)	**(601.7)**	(572.5)
Balance, end of year	**282.2**	283.9

The net change in investment in capital assets is as follows:

	(millions of dollars)	
	2007	2006
Other long-term debt principal repayments	**2.0**	1.9
Purchase of capital assets internally funded	**49.3**	57.6
Increase in investment in capital assets	**51.3**	59.5
Amortization expense	**99.1**	91.4
Less amount of amortization expense related to capital assets purchased with:		
a) debentures	**(9.4)**	(6.8)
b) restricted contributions	**(36.7)**	(42.6)
Decrease in investment in capital assets	**53.0**	42.0
Total increase (decrease)	**(1.7)**	17.5

7. Series A senior unsecured debenture

On July 18, 2001, the University issued Series A senior unsecured debenture in the aggregate principal amount of $160.0 million at a price of $999.62 for proceeds of $159.9 million. The debenture bears interest at 6.78%, which is payable semi-annually on January 18 and July 18 with the principal amount to be repaid on July 18, 2031. The proceeds of the issuance have been primarily used to finance capital projects including real estate acquisitions and the construction of student residences and parking facilities. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2007 was $209.1 million (2006 - $200.0 million) compared to a carrying value of $160.0 million (2006 - $160.0 million).

8. Series B senior unsecured debenture

On December 15, 2003, the University issued Series B senior unsecured debenture in the aggregate principal amount of $200.0 million at a price of $1,000 for proceeds of $200.0 million. The debenture bears interest at 5.841%, which is payable semi-annually on June 15 and December 15 with the principal amount to be repaid on December 15, 2043. The proceeds of the issuance have been primarily used to finance capital projects. The University has spent all of the proceeds of the debenture. The fair value of the debenture at April 30, 2007 was $242.7 million (2006 - $228.8 million) compared to a carrying value of $200.0 million (2006 - $200.0 million).

9. Series C senior unsecured debenture

On November 16, 2005, the University issued Series C senior unsecured debenture in the aggregate principal amount of $75.0 million at a price of $1,000 for proceeds of $75.0 million. The debenture bears interest at 4.937%, which is payable semi-annually on May 16 and November 16 with the principal amount to be repaid on November 16, 2045. The proceeds of the issuance are being primarily used to finance capital projects. The University has spent all (2006 - $60.6 million) of the proceeds on capital assets. The fair value of the debenture at April 30, 2007 was $78.6 million (2006 - $73.9 million) compared to a carrying value of $75.0 million (2006 - $75.0 million).

10. Series D senior unsecured debenture

On December 13, 2006, the University issued Series D senior unsecured debenture in the aggregate principal amount of $75.0 million at a price of $1,000 for proceeds of $75.0 million. The debenture bears interest at 4.493%, which is payable semi-annually on June 13 and December 13 with the principal amount to be repaid on December 13, 2046. The proceeds of the issuance are being primarily used to finance capital projects. To date, the University has spent $42.8 million of the proceeds on capital assets. The fair value of the debenture at April 30, 2007 was $73.0 million compared to a carrying value of $75.0 million.

11. Other long-term debt

Other long-term debt consists of mortgages of $14.2 million (2006 - $14.6 million) maturing from 2010 to 2020 against which the related properties are pledged as security, and term loans of $34.5 million (2006 - $36.0 million) maturing from 2009 to 2024 of which the current portion of $2.0 million (2006 - $2.0 million) is included in accounts payable and accrued liabilities. The weighted average effective interest rate of the mortgages and term loans, after giving effect to the interest rate swaps, was 7.24% (2006 - 7.24%) and 6.69% (2006 - 6.68%) respectively. The fair value of other long-term debt at April 30, 2007 was $53.5 million (2006 - $55.1 million) compared to a carrying amount of $48.7 million (2006 - $50.6 million). Anticipated requirements to meet the principal portion of the other long-term debt repayments over the next five years are as follows: 2008 - $2.0 million, 2009 - $2.1 million, 2010 - $2.2 million, 2011 - $7.9 million, 2012 - $2.4 million.

12. Deferred contributions

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

	(millions of dollars)	
	2007	2006
Balance, beginning of year	**265.5**	265.5
Grants, donations and investment income	**463.6**	383.5
Recognized as revenue during the year	**(387.8)**	(383.5)
Balance, end of year	**341.3**	265.5

The deferred contributions will be spent as follows:

	(millions of dollars)	
	2007	2006
Research	**201.0**	145.8
Student aid	**55.5**	44.5
Other restricted purposes	**84.8**	75.2
	341.3	265.5

13. Deferred capital contributions

Deferred capital contributions represent 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 as government grants for restricted purposes. The changes in the deferred capital contributions balance for the year are as follows:

	(millions of dollars)	
	2007	2006
Balance, beginning of year	**596.4**	572.2
Less amortization of deferred capital contributions	**(36.7)**	(42.6)
Add contributions received for capital asset purchases	**92.7**	66.8
Balance, end of year	**652.4**	596.4

This balance represents:

	(millions of dollars)	
	2007	2006
Amount used for the purchase of capital assets	**601.7**	572.5
Amount to be spent on capital assets	**50.7**	23.9
	652.4	596.4

14. Internally restricted

	(millions of dollars)	
	2007	2006
Departmental trust funds	**74.0**	69.2
Unexpended operating funds		
Net divisional carryforwards	**239.0**	146.4
Employee future benefits		
Pensions	**(98.6)**	(100.0)
Other	**(183.2)**	(146.4)
Supplemental retirement arrangement (note 3)	**174.2**	147.2
Investment income reserve		(4.8)
Research overhead	**6.9**	7.2
Alterations and renovations	**45.0**	10.1
Other funds	**9.4**	5.9
	266.7	134.8

Internally restricted funds set aside reflect the application of Governing Council policy as follows:

a) Departmental trust funds -

These funds represent 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 including funds for unfilled purchase orders that have been committed for goods or services to be received in the following year. These amounts have been reduced by the vacation pay accrual representing the unfunded cost of vacation credits earned but not taken by administrative employee groups at year end and by the voluntary early retirement liability for faculty and librarians representing the unfunded liability of voluntary early retirement incentive costs paid to or committed to specific faculty members. This category has also been reduced by the unfunded portion of employee future benefits obligations offset by funds set aside to meet the future obligations of the supplemental retirement arrangement.

c) Research overhead -

Research overhead recoveries from customers in calendar year 2006 are appropriated and available for spending in the following fiscal year.

d) Alterations and renovations -

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

e) Other funds -

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

15. Endowments

Endowments consist of externally restricted donations received by the University and internal resources transferred by Governing Council, in the exercise of its discretion. With respect to the latter cases, Governing Council may have 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 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 investment policy has set the real rate of return objective at 4% with the aim of providing steady predictable investment returns. The amount available for spending in fiscal 2007 was increased by inflation to $7.14 per unit (2006 - $7.00) of LTCAP representing 3.4% (2006 – 3.5%) of the fair value per unit of the endowment pool. This amount must fall between a range of 3% to 5% of the fair value per unit of the endowment pool. In any particular year, should net investment income be insufficient to fund the amount to be made available for spending or if the investment return is negative, the amount that is made available for spending is funded by the accumulated reinvested income. However, for individual endowment funds without sufficient accumulated reinvestment income, endowment capital is used in the current year. This amount is expected to be recovered by future net investment income.

In 2007, investment income of $210.2 million (2006 - $200.3 million) was earned on endowments of which $56.5 million (2006 - $54.0 million) was made available for spending and recorded as investment income, $24.2 million (2006 - $26.8 million) was the preservation of capital on internally restricted endowments which was recorded as investment income and then transferred from unrestricted net assets to endowments and the balance of $129.5 million (2006 - $119.5 million) was the preservation of capital on externally restricted endowments which was recorded as a direct increase to endowments.

Net assets restricted for endowments consist of:

	(millions of dollars)	
	2007	2006
Externally restricted endowments	**1,513.4**	1,343.0
Internally restricted endowments	**309.3**	285.8
	1,822.7	1,628.8

16. Ontario Student Opportunity Trust Fund

Externally restricted endowments include grants provided by the government of Ontario from the Ontario Student Opportunity Trust Fund (OSOTF) 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.

Phase 1:	(thousands of dollars)	
(for the year ended April 30)	**2007**	2006
Endowments at book value, beginning of year	**334,261**	311,718
University matching		(491)
Transfer from expendable funds	**20,649**	23,034
Endowments at book value, end of year	**354,910**	334,261
Cumulative unrealized gains	**23,569**	11,399
Endowments at fair value, end of year	**378,479**	345,660
Expendable funds available for awards, beginning of year	**21,010**	19,709
Realized investment income	**32,845**	34,882
Transfer to endowment balance	**(20,649)**	(23,034)
Bursaries awarded	**(11,043)**	(10,547)
Expendable funds available for awards, end of year	**22,163**	21,010
Number of bursaries awarded	**5,210**	4,688

Phase 2:

	(thousands of dollars)			
	2007		2006	
	(twelve months ended April 30)*		(thirteen months ended April 30)*	
	University of Toronto	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**39,588**	**5,175**	37,002	5,973
Donations received				129
University matching	**10**	**69**	1,267	73
Transfers to OTSS program (note 17)	**(269)**		(2,351)	(1,176)
Transfer from expendable funds	**2,955**	**9**	3,670	176
Endowments at book value, end of year	**42,284**	**5,253**	39,588	5,175
Cumulative unrealized gains	**1,600**		612	
Endowment at fair value, end of year	**43,884**		40,200	
Expendable funds available for awards, beginning of year	**1,768**	**113**	816	33
Realized investment income	**4,360**	**175**	5,183	359
Transfer to endowment balance	**(2,955)**	**(9)**	(3,670)	(176)
Bursaries awarded	**(1,088)**	**(115)**	(561)	(103)
Expendable funds available for awards, end of year	**2,085**	**164**	1,768	113
Number of bursaries awarded	**469**	**54**	291	64

*As per Ministry of Training, Colleges and Universities guidelines

Donations not matched by the government at March 31, 2005, the end of the Phase 2 OSOTF program, were allowed to be transferred to the Ontario Trust for Student Support (OTSS) program and were then matched by the government (note 17).

The endowments and expendable balances of the affiliates are not included in these financial statements. Book value in this note represents contributions received plus a portion of realized investment income.

The expendable funds available for awards are included in deferred contributions (note 12) on the balance sheet.

17. Ontario Trust for Student Support

Externally restricted endowments include grants provided by the government of Ontario from the OTSS 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.

	(thousands of dollars)			
	2007		2006	
(for the year ended March 31)*	**University of Toronto**	**Affiliates**	University of Toronto	Affiliates
Endowments at book value, beginning of year	**17,758**	**2,852**		
Donations received	**7,416**	**907**	8,877	746
Government matching received	**5,197**	**714**	6,501	840
University matching	**286**	**195**	764	14
Transfers from OSOTF program (note 16)	**2,474**	**34**	735	1,176
Transfer from expendable funds	**1,417**	**110**	881	76
Endowments at book value, end of year	**34,548**	**4,812**	17,758	2,852
Cumulative unrealized gains	**316**		131	
Endowment at fair value, end of year	**34,864**		17,889	
Expendable funds available for awards, beginning of year	**261**	**7**		
Realized investment income	**2,190**	**194**	1,142	92
Transfer to endowment balance	**(1,417)**	**(110)**	(881)	(76)
Bursaries awarded	**(128)**	**(46)**		(9)
Expendable funds available for awards, end of year	**906**	**45**	261	7
Number of bursaries awarded	**139**	**30**	0	9

*As per Ministry of Training, Colleges and Universities guidelines

18. Net change in other non-cash items

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

	(millions of dollars)	
	2007	2006
Accounts receivable	**(59.3)**	10.5
Inventories and prepaid expenses	**(1.2)**	1.6
Deferred contributions	**75.8**	
Accounts payable and accrued liabilities	**6.5**	(31.2)
	21.8	(19.1)

19. Donations

During the year, the University received donations of $105.7 million (2006 - $74.9 million). Of that amount, $30.9 million (2006 - $37.9 million) is recorded as a direct addition to endowments in accordance with the accounting policy and is not recorded as donations revenue.

20. Government and other grants for restricted purposes

During the year, the University received $403.4 million (2006 - $322.6 million) of government and other grants for research and $32.7 million (2006 - $12.2 million) for capital infrastructure, of which $131.8 million (2006 - $24.2 million) was deferred and $304.3 million (2006 - $310.6 million) was recorded as revenue.

21. Other commitments

a) The estimated cost to complete construction and renovation projects in progress at April 30, 2007, which will be funded by government grants, donations and operations, is approximately $124.9 million (2006 - $150.0 million).

b) The annual payments under various operating leases are approximately $10.4 million.

22. 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, 2007, the amount of loans guaranteed was $8.0 million (2006 - $8.0 million). The University's estimated exposure under these guarantees is not material.

b) The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. At April 30, 2007, the University believes it has valid defenses and appropriate insurance coverage in place on certain claims which are not expected to have a material impact on the University's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the liability is determinable or adjustments to the amount recorded are determined to be required.

c) The University is a member of a reciprocal exchange of insurance risks in association with 56 other Canadian universities. This self-insurance co-operative is named the Canadian Universities Reciprocal Insurance Exchange ("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 at December 31, 2006, the latest financial statements available, CURIE had a surplus of $16.5 million (2005 - $11.2 million), of which the University's pro rata share is approximately 8.5% (2005 – 8.6%) on an ongoing basis.

23. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 financial statements.

Appendix

Supplementary Report

By Fund

April 30, 2007

(Unaudited)

HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2007

(Millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
Income Statement					
Revenues	$ 1,367.6	$ 130.7	$ 43.8	$ 399.9	$ 1,942.0
Expenses	$ 1,214.4	$ 135.0	$ 87.0	$ 371.1	$ 1,807.5
Net Income	$ 153.2	$ (4.3)	$ (43.2)	$ 28.8	$ 134.5
Balance Sheet					
Assets	$ 751.1	$ 294.8	$ 908.3	$ 2,246.6	$ 4,200.8
Liabilities	$ 643.8	$ 284.4	$ 746.2	$ 349.9	$ 2,024.3
Net Assets	$ 107.3	$ 10.4	$ 162.1	$ 1,896.7	$ 2,176.5
Net Assets composed of:					
Endowments				$ 1,822.7	$ 1,822.7
Investment in Capital Assets		$ 81.3	$ 200.9		$ 282.2
Internally Restricted Net Assets	$ 173.6	$ 9.4	$ 9.7	$ 74.0	$ 266.7
Unrestricted Deficit	$ (66.3)	$ (80.3)	$ (48.5)		$ (195.1)
	$ 107.3	$ 10.4	$ 162.1	$ 1,896.7	$ 2,176.5

HIGHLIGHTS

(Unaudited)

Year Ended April 30, 2006

(Millions of dollars)

	Operating Fund	Ancillary Operations	Capital Fund	Restricted Funds	Total
Income Statement					
Revenues	$ 1,235.4	$ 133.7	$ 38.2	$ 377.0	$ 1,784.3
Expenses	$ 1,143.8	$ 140.3	$ 77.0	$ 348.2	$ 1,709.3
Net Income	$ 91.6	$ (6.6)	$ (38.8)	$ 28.8	$ 75.0
Balance Sheet					
Assets	$ 569.6	$ 319.4	$ 798.2	$ 1,965.0	$ 3,652.2
Liabilities	$ 550.4	$ 305.6	$ 652.7	$ 267.1	$ 1,775.8
Net Assets	$ 19.2	$ 13.8	$ 145.5	$ 1,697.9	$ 1,876.4
Net Assets composed of:					
Endowments				$ 1,628.8	$ 1,628.8
Investment in Capital Assets		$ 83.6	$ 200.3		$ 283.9
Internally Restricted Net Assets	$ 78.7	$ 10.0	$ (23.0)	$ 69.1	$ 134.8
Unrestricted Deficit	$ (59.5)	$ (79.8)	$ (31.8)		$ (171.1)
	$ 19.2	$ 13.8	$ 145.5	$ 1,697.9	$ 1,876.4

PURPOSE OF THIS SUPPLEMENTARY REPORT

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

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

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

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

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

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

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

Schedule 1
(Unaudited)
UNIVERSITY OF TORONTO
BALANCE SHEET
April 30, 2007
(with comparative figures at April 30, 2006)
(millions of dollars)

	Operating fund	Ancillary operations	Capital fund	Restricted funds	2007 Total	2006 Total
ASSETS						
Current						
Cash and short-term investments	695.7	(16.3)	(142.8)	(46.4)	490.2	197.5
Accounts receivable	51.1	8.7		82.0	141.8	82.5
Inventories and prepaid expenses	4.3	8.8	3.1		16.2	15.0
Investments				2,211.0	2,211.0	2,088.9
Capital assets, net		293.6	1,048.0		1,341.6	1,268.3
	751.1	294.8	908.3	2,246.6	4,200.8	3,652.2
LIABILITIES						
Current						
Accounts payable and accrued liabilities	98.3	19.4	33.2	8.6	159.5	153.0
Deferred contributions				341.3	341.3	265.5
Accrued pension liability	98.6				98.6	100.0
Employee future benefit obligation other than pension	215.8				215.8	177.2
Internal loans	231.1	213.9	(445.0)			
Other long-term debt		41.3	5.4		46.7	48.7
Series A - senior unsecured debenture			160.0		160.0	160.0
Series B - senior unsecured debenture			200.0		200.0	200.0
Series C - senior unsecured debenture			75.0		75.0	75.0
Series D - senior unsecured debenture			75.0		75.0	
Deferred capital contributions		9.8	642.6		652.4	596.4
	643.8	284.4	746.2	349.9	2,024.3	1,775.8
NET ASSETS						
Unrestricted deficit	(66.3)	(80.3)	(48.5)		(195.1)	(171.1)
Internally restricted	173.6	9.4	9.7	74.0	266.7	134.8
Investment in capital assets		81.3	200.9		282.2	283.9
Endowments				1,822.7	1,822.7	1,628.8
	107.3	10.4	162.1	1,896.7	2,176.5	1,876.4
	751.1	294.8	908.3	2,246.6	4,200.8	3,652.2

Schedule 2
(Unaudited)
UNIVERSITY OF TORONTO
STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED DEFICIT
April 30, 2007
(with comparative figures at April 30, 2006)
(millions of dollars)

	Operating fund	Ancillary operations	Capital fund	Restricted funds	2007 Total	2006 Total
REVENUES						
Government grants for general operations	657.1				657.1	587.2
Student fees	532.2	6.0	0.7		538.9	505.7
Government and other grants for restricted purposes		0.2	23.1	281.0	304.3	310.6
Sales, services and sundry income	90.9	121.0	1.0		212.9	202.2
Investment Income						
Endowments	38.4			42.3	80.7	80.8
Other	44.8	1.9	1.5	5.5	53.7	39.2
Donations		1.6	17.5	55.7	74.8	37.0
Contract research	4.2			15.4	19.6	21.6
	1,367.6	130.7	43.8	399.9	1,942.0	1,784.3
EXPENSES						
Salaries	665.1	5.3		181.8	852.2	809.5
Benefits	192.8	1.3		15.6	209.7	202.8
Materials and supplies	79.7	1.6		130.4	211.7	200.0
Scholarships, fellowships and bursaries	115.9				115.9	106.5
Amortization of capital assets	8.3	10.2	80.3	0.3	99.1	91.4
Cost of sales and services		77.7			77.7	79.1
Utilities	44.1	8.4			52.5	51.1
Repairs and maintenance	34.1	12.7	6.7	7.9	61.4	54.2
Travel and conferences	17.0			18.7	35.7	32.6
Interest on long-term debt	13.2	17.8			31.0	29.3
External contracted services	20.0			10.5	30.5	22.5
Telecommunications	9.1			1.5	10.6	11.0
Other	15.1			4.4	19.5	19.3
	1,214.4	135.0	87.0	371.1	1,807.5	1,709.3
Net income (loss)	153.2	(4.3)	(43.2)	28.8	134.5	75.0
Net transfer between funds	(14.4)	0.9	9.2	4.3		
Transfer of capital assets	(50.6)		50.6			
Change in internally restricted	(95.0)	0.5	(32.6)	(4.8)	(131.9)	(43.1)
Change in investment in capital assets		2.4	(0.7)		1.7	(17.5)
Transfers of donations to endowments				(4.1)	(4.1)	(13.9)
Transfer from internally restricted endowments				(24.2)	(24.2)	(26.8)
Net change in unrestricted deficit for the year	(6.8)	(0.5)	(16.7)		(24.0)	(26.3)
Unrestricted deficit, beginning of year	(59.5)	(79.8)	(31.8)		(171.1)	(144.8)
Unrestricted deficit, end of year	(66.3)	(80.3)	(48.5)		(195.1)	(171.1)

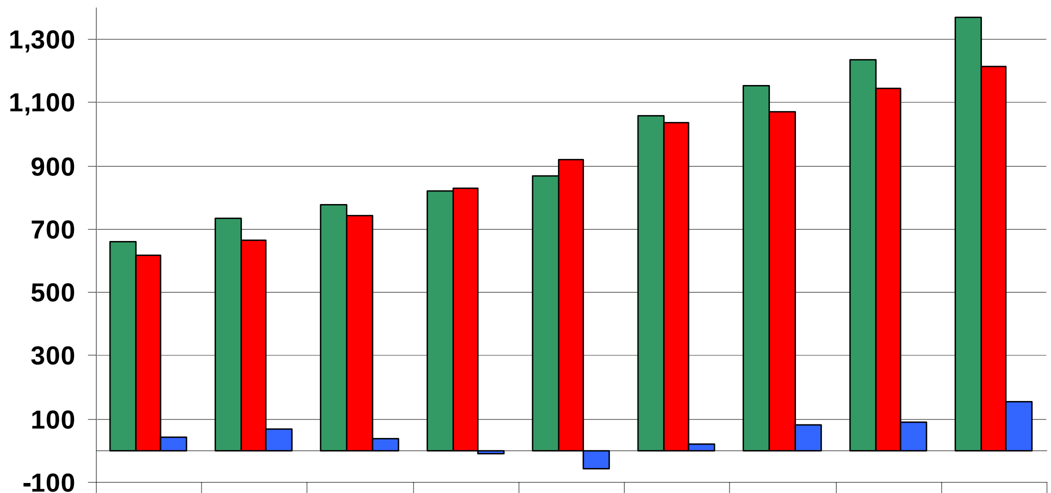
OPERATING FUND

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

Operating fund revenues for the year were $1.37 billion, expenses were $1.21 billion and net income was $153.2 million. Growth in operating fund revenues and expenses reflected primarily planned and expected increases in the number of students. The positive net income in the operating fund is mainly as a result of $95.0 million in unspent net divisional carry-forward funds (available for one-time only expenditure) and $50.6 million in capital assets purchased during the year which are recorded as an asset on the balance sheet and not expensed in the year.

Operating Fund Revenues and Expenses for the year ended April 30

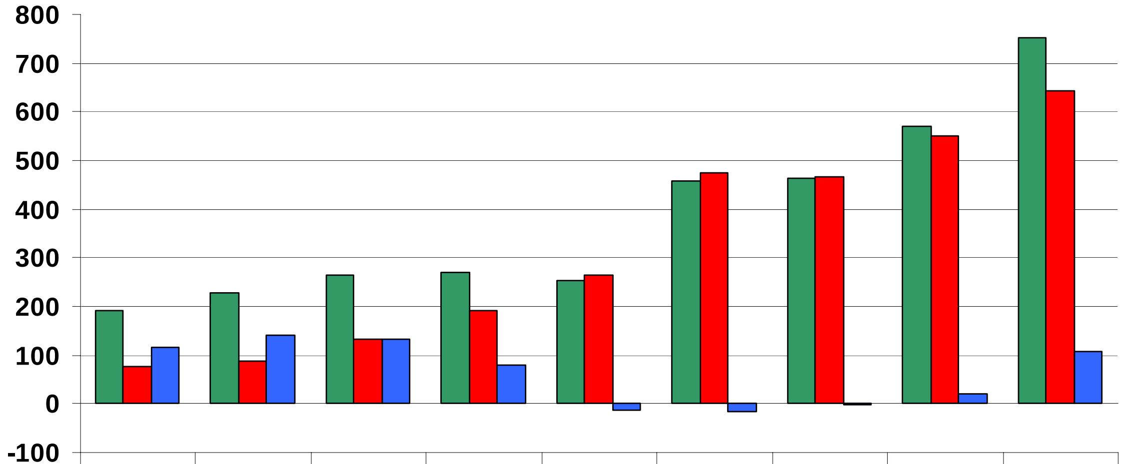
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues	660.8	733.7	779.4	819.6	866.9	1,057.9	1,152.0	1,235.4	1,367.6
Expenses	618.2	663.8	742.8	830.4	921.8	1,035.1	1,071.0	1,143.8	1,214.4
Net income (loss)	42.6	69.9	36.6	(10.8)	(54.9)	22.8	81.0	91.6	153.2

Operating fund assets at April 30, 2007 were $751.1 million, liabilities were $643.8 million, and net assets were $107.3 million.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Assets	192.1	226.8	264.0	269.4	252.3	458.8	463.8	569.6	751.1
Liabilities	76.5	86.8	131.5	190.6	264.3	473.9	465.2	550.4	643.8
Net Assets	115.6	140.0	132.5	78.8	(12.0)	(15.1)	(1.4)	19.2	107.3

The net assets for the year increased from $19.2 million in 2006 to $107.3 million mainly due to the following:

- $153.2 million net income for the year.
- ($65.0 million) transfers to other funds.

The transfers to other funds were as follows:

- $59.8 million to the capital fund to reflect capital asset expenditures in the operating fund and contributions to capital projects, which are both recorded in the capital fund.
- $3.7 million to restricted funds in support of various matching funds initiatives.
- $3.4 million subsidy to ancillary operations, on Woodsworth College, New College and 89 Chestnut residences less a $1.9 million transfer from ancillary operations mainly from Real Estate.

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

- ($66.3 million) unrestricted deficit.
- $173.6 million internally restricted net assets.

The $66.3 million unrestricted deficit is the “cumulative deficit” of the operating fund which is referenced in the University’s Operating Budget Report. The cumulative deficit has increased from $59.5 million at April 30, 2006 to $66.3 million at April 30, 2007, mainly due to the following:

- Net income of $153.2 million.
- Transfers to other funds of $65.0 million as noted above.

- Net increases in divisional carry-forwards of $95.0 million which were transferred from the net income to the operating fund's internally restricted net assets.

Internally restricted net assets of $173.6 million mainly include departmental budget allocations not spent at year end and available for one-time only expenditure in the future years ($239.0 million) and funds set aside for infrastructure repairs ($25.9 million) which are offset by $107.6 million of net unfunded liability associated with employee future benefits. This liability will have to be paid from future years' operating fund revenues.

The internally restricted net assets increased by $95.0 million to $173.6 million at April 30, 2007 due to the transfer from the unrestricted deficit category to reflect the net increase in divisional carry-forwards. Schedule 3 is a detailed list of divisional carry-forwards and other commitments that comprise the $173.6 million in internally restricted net assets. Academic divisions outline a plan on how the carry-forward funds will be spent on a one-time only basis, or in the event of a deficit, a plan for its elimination using the following categories.

a) Independently funded projects:
   Included in this section are a number of projects housed in operating units which exist because they generate their own source of funds (i.e. self funded units). Examples would be continuing education programs and "fee for service" contracts. The funds generated are expected to only be applied to future expenses of that unit.

b) Research:
   Funds set aside for research would be included in this section. This includes funds allocated to Principal Investigators as a result of the Faculty members and Librarians expense reimbursement program, overheads, research allowance or start-up funds. Also included are funds set aside for Canada Research Chairs and EAF Chairs including any related research allowance.

c) Student assistance:
   This category captures all funds set-aside for scholarships, bursaries and other student assistance.

d) Infrastructure:
   This category is intended to capture funds that have been set-aside by the unit in anticipation of a major renovation to their facility; infrastructure upgrades, such as computer networking, security, equipment and furniture renewal; and associated moving costs.

e) Other academic purposes:
   This section includes divisional funds that are used for purposes other than those identified above. Funds in this category would include funds set aside for anticipated budget reductions, voluntary early academic retirements, professional development and start-up funds.

Comparison of the Operating Fund Financial Results to the Operating Budget

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

- The financial statements are prepared on an accrual basis following Canadian GAAP, while the operating budget projects cash receipts and expenditures.

- The financial statements include amortization of capital assets while the operating budget includes estimated cash outlays for these assets.

- The financial statements include the costs of pensions and other benefits in accordance with Canadian GAAP, while the operating budget includes the projected cash premiums to be paid for the year.

- The operating budget includes the Canada Research Chairs, which are classified as restricted funds, not as operating funds, in the financial statements.

These differences require a $17.9 million adjustment to the financial statements' revenues, $37.2 million to expenses and $19.3 million to internally restricted funds to make the numbers comparable to budget. Once that adjustment has been made, it is possible to compare the operating fund budget with the year-end results and to assess how closely actual results conformed to plan. In summary, the adjustment between the financial statements and the operating budget is as follows:

	Financial Statements	Adjustments	Adjusted Financial Statements	Original budget	Favourable (unfavourable) variance	% Variance
Operating fund revenues	1,367.6	17.9	1,385.5	1,284.0	101.5	7.9%
Operating fund expenses	1,214.4					
Capital asset transfer	50.6					
	1,265.0	37.2	1,302.2	1,273.1	(29.1)	(2.3%)
Net income	102.6	(19.3)	83.3	10.9	72.4	

Total operating fund revenues, after adjustments, were $1,385.5 million, as compared to budgeted revenues of $1,284.0 million, a positive variance of $101.5 million, or 7.9%. This positive variance was due primarily to:

- unexpected one-time only grants of $50.4 million from the Ministry of Training, Colleges and Universities in support of infrastructure and graduate funding,
- unexpected clinical education funding of $3.0 million,
- a decrease of $16.7 million in grants ($8.6 million in quality fund allocation, $5.5 million in graduate accessibility and $2.6 million in undergraduate accessibility funding),
- a negative tuition fee variance of $7.6 million primarily as a result of undergraduate international and graduate enrolments falling short of targets,
- an increase of $32.0 million in unbudgeted divisional grants,
- an $14.7 million increase in student fees from academic programs for which no provincial government funding is provided and,
- an increase of $21.7 million in divisional sales and services.

Total operating fund expenses, after adjustments, were $1,302.2 million, as compared to budgeted expenses of $1,273.1 million resulting in a negative variance of $29.1 million. This negative variance was primarily due to additional divisional expenses in support of the academic mission offset by a saving in the utilities budget of $7.9 million attributed to lower than anticipated costs for electricity and gas due to a combination of block purchases at beneficial rates, higher electricity rebates and lower consumption due to moderate temperatures.

See Schedule 4 for a detailed comparison of the financial statements to the operating budget.

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND DIVISIONAL CARRYFORWARD OF UNSPENT FUNDS AND CENTRALLY HELD FUNDS COMMITTED FOR SPECIFIC PURPOSES
AT APRIL 30, 2007
(with previous year comparative figures)
(thousands of dollars)

	2006-07	2005-06
	Total	Total
Divisional Carryforwards		
Academic	237,465	162,927
Academic services	5,186	4,960
Student services	5,690	4,792
Student assistance	2,405	(3,377)
Facilities & services	10,988	9,374
Administration	14,593	9,189
Administrative systems	615	734
General university	(29,247)	(32,079)
U of T Campaign	(8,708)	(10,119)
Net Divisional carryforwards	238,987	146,401
Centrally held funds		
Pension charge commitment	(98,615)	(100,046)
Other employee future benefit obligation	(215,754)	(177,244)
Funds set aside for COLA and LTD	32,560	30,859
Funds set aside for SRA	174,228	147,226
Total	(107,581)	(99,205)
Investment income reserve		(4,808)
Research overhead	6,919	7,235
Infrastructure		
Accomodation & facilities directorate fund	25,874	23,062
Other funds		
University investment infrastructure fund	5,695	4,236
Transitional fund	560	560
Priorities fund	3,161	1,142
	9,416	5,938
Internally restricted	173,615	78,623

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND DIVISIONAL CARRYFORWARD OF UNSPENT FUNDS AND CENTRALLY HELD FUNDS COMMITTED FOR SPECIFIC PURPOSES
AT APRIL 30, 2007
(with previous year comparative figures)
(thousands of dollars)

	2006-07						2005-06
	Independently Funded Projects	Research	Student Assistance	Infrastructure	Other	Total	Total
ACADEMIC DIVISIONS:							
Arts and Science, colleges and schools:							
Faculty of Arts and Science	1,375	19,945	1,204	2,385	32,769	57,678	44,618
University College	-	-	-	-	186	186	53
Innis College	-	-	-	-	476	476	324
Transitional Year Programme	129	10	12	47	50	248	144
Woodsworth College	500	-	300	1,000	580	2,380	1,736
UTSC academic	376	2,865	22	7,176	6,670	17,109	12,418
UTM academic	-	-	-	-	(10,183)	(10,183)	(11,310)
School of Continuing Studies	-	-	-	-	(2,434)	(2,434)	(1,138)
School of Graduate Studies	-	-	-	350	1,198	1,548	1,008
Graduate institutes and centres	429	468	1,056	521	2,531	5,005	4,482
	2,809	23,288	2,594	11,479	31,843	72,013	52,335
Health sciences:							
Faculty of Dentistry	-	44	-	43	6,568	6,655	2,114
Faculty of Medicine	13,353	13,141	5,883	3,887	42,875	79,139	59,439
Faculty of Nursing	-	1,502	230	3,322	3,542	8,596	4,323
Faculty of Pharmacy	1,041	1,945	202	26	895	4,109	6,689
Faculty of Physical Education and Health	172	265	-	313	1,304	2,054	1,351
	14,566	16,897	6,315	7,591	55,184	100,553	73,916
Other professional faculties:							
Faculty of Applied Science and Engineering	1,666	4,796	4,509	3,717	2,957	17,645	13,695
Faculty of Architecture, Landscape,		-	-				
and Design	-	-	-	-	(130)	(130)	62
Rotman School of Management	-	-	-	-	(2,994)	(2,994)	(6,922)
OISE/UT	3,400	2,400	3,900	9,700	6,990	26,390	19,714
University of Toronto Schools	-	-	-	-	-	-	700
Faculty of Forestry	33	401	185	40	261	920	528
Faculty of Law	-	714	486	-	408	1,608	1,031
Faculty of Information Studies	387	202	161	-	2,036	2,786	2,045
Faculty of Music	83	86	-	-	1,493	1,662	807
Faculty of Social Work	76	477	148	666	3,059	4,426	3,242
	5,645	9,076	9,389	14,123	14,080	52,313	34,902
Vacation Pay accrual		-	-		(9,977)	(9,977)	(9,572)
Voluntary Early Academic		-	-				
Retirement Program accrual		-	-		(4,581)	(4,581)	(6,646)
Other academic costs	-	-	-	-	27,144	27,144	13,829
Federal indirect costs	-	-	-	-	-	-	4,163
TOTAL ACADEMIC DIVISIONS	23,020	49,261	18,298	33,193	113,693	237,465	162,927

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND DIVISIONAL CARRYFORWARD OF UNSPENT FUNDS AND CENTRALLY HELD FUNDS COMMITTED FOR SPECIFIC PURPOSES
AT APRIL 30, 2007
(with previous year comparative figures)
(thousands of dollars)

	2006-07	2005-06
	Total	Total
ACADEMIC SERVICES:		
U of T Computing	2,012	2,843
Robarts library	752	896
Information Commons	150	94
UTSC library	1,423	527
UTM library	574	381
Library - Electronic Acquisitions	275	219
TOTAL ACADEMIC SERVICES	5,186	4,960
STUDENT SERVICES:		
St. George campus	956	2,035
UTSC campus	2,318	967
UTM campus	2,416	1,790
TOTAL STUDENT SERVICES	5,690	4,792
STUDENT ASSISTANCE:		
Recruitment and retention	390	4
Graduate fellowships	794	884
UTSC campus	19	173
UTM campus	19	43
St. George campus	1,183	(4,481)
TOTAL STUDENT ASSISTANCE	2,405	(3,377)
FACILITIES & SERVICES		
St. George campus	6,002	6,133
UTSC campus	3,512	2,110
UTM campus	1,474	1,131
TOTAL FACILITIES & SERVICES	10,988	9,374

Schedule 3
(Unaudited)
UNIVERSITY OF TORONTO
SUMMARY OF OPERATING FUND DIVISIONAL CARRYFORWARD OF UNSPENT FUNDS AND CENTRALLY HELD FUNDS COMMITTED FOR SPECIFIC PURPOSES
AT APRIL 30, 2007
(with previous year comparative figures)
(thousands of dollars)

	2006-07	2005-06
	Total	Total
CENTRAL ADMINISTRATION:		
Office of the Governing Council	531	246
Office of the President	94	35
Institutional costs	457	136
Vice-President and Provost	2,935	2,905
Vice-President - Research	(28)	(18)
Vice-President and Chief Advancement Officer	(115)	(635)
Vice-President - Government and Institutional Relations	41	141
Vice-President - Business Affairs	1,364	2,276
Vice-President - Human Resources and Equity	868	449
UTSC campus	8,911	5,458
UTM campus	1,826	401
Vacation Pay accrual	(2,291)	(2,205)
TOTAL CENTRAL ADMINISTRATION	14,593	9,189
ADMINISTRATIVE SYSTEMS:		
AMS Integrated Systems	220	5
Student Record System	395	729
TOTAL ADMINISTRATIVE SYSTEMS	615	734
GENERAL UNIVERSITY:		
Vice-President - Human Resources and Equity		
Employee Assistance		90
Other	777	1,315
Vice-President - Business Affairs		
Long-term borrowing pool	4,595	151
Vice-President and Provost		
Matching Funds Program	(35,220)	(33,635)
Other	601	
TOTAL GENERAL UNIVERSITY	(29,247)	(32,079)
U of T Campaign	(8,708)	(10,119)
	238,987	146,401

Schedule 4
(Unaudited)
UNIVERSITY OF TORONTO
COMPARISON OF ACTUAL OPERATING FUND RESULTS WITH ORIGINAL BUDGET FOR THE YEAR ENDED APRIL 30, 2007
(millions of dollars)

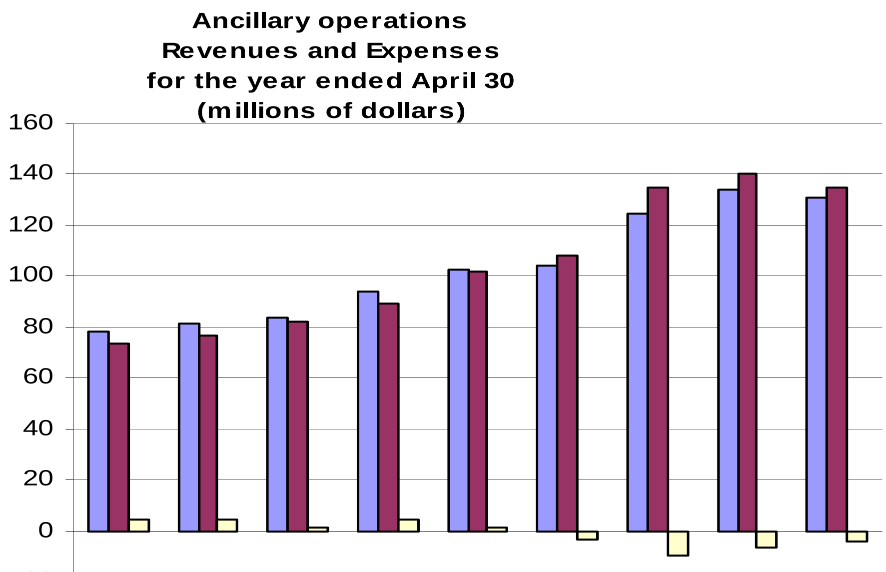
	ACTUAL			BUDGET	VARIANCE
	Financial Statements	Adjustments	Adjusted Financial Statements	Original budget	Favourable (Unfavourable)
REVENUES					
General university income:					
Provincial grants	628.8	(32.3)	596.5	563.1	33.4
Canada research chairs		37.2	37.2	37.2	
Indirect cost recovery on grants and contracts	29.2	4.2	33.4	29.4	4.0
Student fees	415.7	9.3	425.0	432.6	(7.6)
Investment income:					
Endowment (chairs and student aid)	38.4		38.4	37.8	0.6
Other	44.8	(19.3)	25.5	21.1	4.4
Sundry income:					
Contract Research	4.2	(4.2)			
Other	9.4		9.4	11.1	(1.7)
Municipal Taxes	4.7		4.7	4.7	
	1,175.2	(5.1)	1,170.1	1,137.0	33.1
Divisional income:					
Provincial grants	3.7	32.3	36.0	4.0	32.0
Student fees	108.1	(9.3)	98.8	84.1	14.7
Sales and services	80.6		80.6	58.9	21.7
	192.4	23.0	215.4	147.0	68.4
	1,367.6	17.9	1,385.5	1,284.0	101.5
EXPENSES					
Academic	793.1	7.0	800.1	797.6	(2.5)
Academic services	75.7	(2.8)	72.9	66.8	(6.1)
Student services	32.5		32.5	22.8	(9.7)
Student assistance	120.5	(8.0)	112.5	112.5	
Operation and maintenance of physical plant	115.6	(1.4)	114.2	114.9	0.7
Alterations and renovations	6.0		6.0	0.7	(5.3)
Administration	85.5	(4.9)	80.6	79.3	(1.3)
Amortization	8.3	(8.3)			
Interest expense	13.2	(13.2)			
General university expense	9.9	68.8	78.7	73.8	(4.9)
Municipal taxes	4.7		4.7	4.7	
	1,265.0	37.2	1,302.2	1,273.1	(29.1)
Operating results before the following:	102.6	(19.3)	83.3	10.9	72.4
Change in internally restricted funds (Schedule 3)	(95.0)	19.3	(75.7)	(4.8)	(70.9)
Transfers	(14.4)		(14.4)	(15.4)	1.0
NET CHANGE IN UNRESTRICTED DEFICIT FOR THE YEAR	(6.8)	0.0	(6.8)	(9.3)	2.5

ANCILLARY OPERATIONS

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

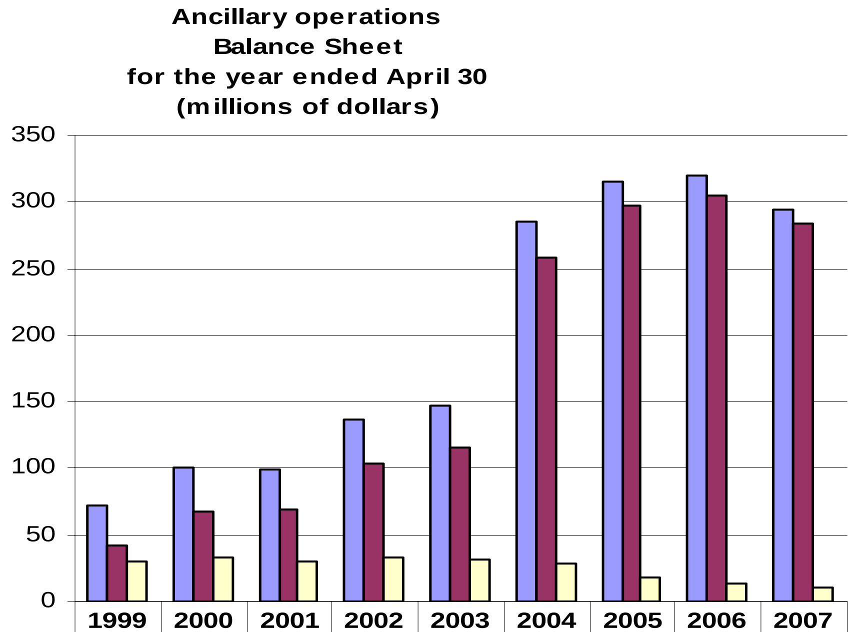
Since 1999, a large expansion in residence and parking facilities has resulted in significant growth in revenues, expenses, assets and liabilities of ancillary operations.

Ancillary revenues grew from $77.9 million in 1999 to $130.7 million in 2007, expenses grew from $73.6 million to $135.0 million, and the net income of $4.3 million became a loss of $4.3 million during the same period. Almost all the capital expansion has been financed, and the net loss is primarily due to an increase in interest expense from less than $1 million in 1999 to $17.8 million in 2007.



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues	77.9	81.3	83.8	94.2	103.0	104.4	124.9	133.7	130.7
Expenses	73.6	76.7	82.2	89.5	101.7	108.0	134.5	140.3	135.0
Net income (loss)	4.3	4.6	1.6	4.7	1.3	(3.6)	(9.6)	(6.6)	(4.3)

Ancillary assets grew from $72.1 million in 1999 to $294.8 million while liabilities grew from $41.9 million in 1999 to $284.4 million in 2007. Net assets fell from $30.2 million to $10.4 million over the same period, essentially reflecting the impact of the additional amortization and interest expense on net income.



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Ancillary assets	72.1	100.8	99.1	136.6	147.3	285.5	315.8	319.4	294.8
Ancillary liabilities	41.9	68.0	68.4	103.7	115.6	257.7	297.1	305.6	284.4
Ancillary net assets	30.2	32.8	30.7	32.9	31.7	27.8	18.7	13.8	10.4

At April 30, 2007, net assets were $10.4 million, a reduction of $3.4 million from April 30, 2006, due to the following:

- ($4.3 million) net loss for the year.
- $3.4 million subsidy from the operating fund on Woodsworth College, New College and 89 Chestnut residences less a $1.9 million transfer to the operating fund mainly from Real Estate.
- $0.6 million transferred to a restricted fund trust account for future maintenance.

There are three categories of net assets for ancillary operations which together total $10.4 million. They are:

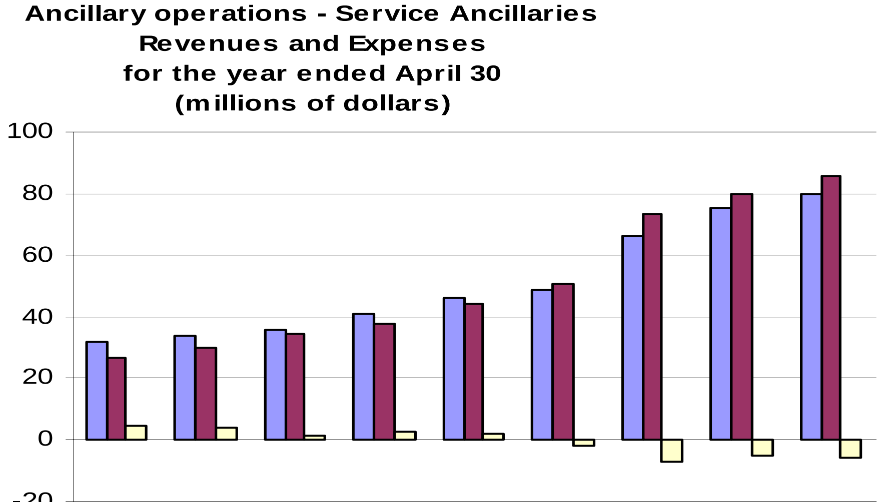
- ($80.3 million) in unrestricted deficit.
- $9.4 million in internally restricted net assets
- $81.3 million in investment in capital assets.

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

Schedule 5 shows details by ancillary operation.

Service Ancillaries

Service ancillaries had revenues of $80.0 million and expenses of $85.8 million, with a net loss of $5.8 million for the year. Service ancillary revenues have more than doubled since 1999 and expenses have risen by 217.8% due to expansion of residences, food and beverage and parking services to deal with the growth in student enrolment. The majority of this growth is due to the residence expansion. With the addition of over 3,100 residence beds over the past six years, residence assets, liabilities, revenues and expenses have increased considerably. Most residence operations have planned deficits for several years until residence fees can catch up with increased expenses.

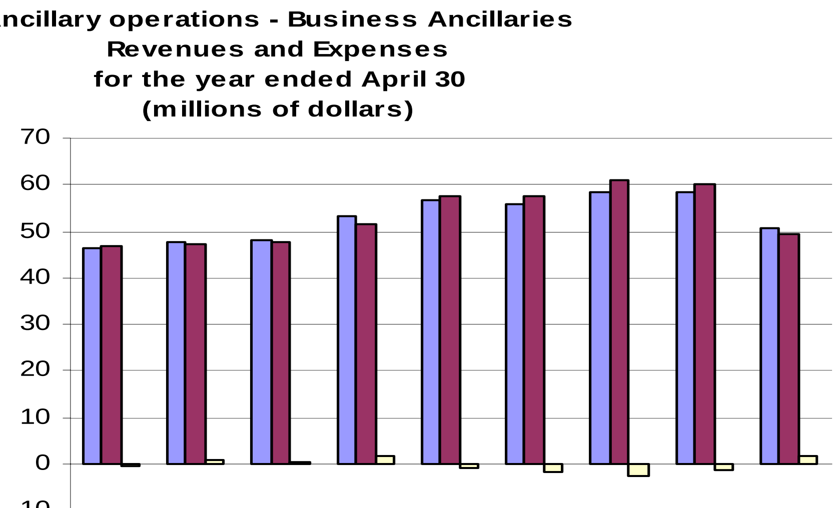


	1999	2000	2001	2002	2003	2004	2005	2006	2007
Service ancillary revenues	31.7	33.6	35.8	40.8	46.3	48.7	66.5	75.2	80.0
Service ancillary expenses	27.0	29.7	34.5	37.8	44.2	50.6	73.5	80.2	85.8
Service ancillary net income (loss)	4.7	3.9	1.3	3.0	2.1	(1.9)	(7.0)	(5.0)	(5.8)

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

Business Ancillaries

Business ancillaries had revenues of $50.7 million and expenses of $49.2 million, for a net income of $1.5 million for the year. The reduction in revenue from 2006 is a result of the transfer of the University of Toronto Innovations Foundation (UTIF) from ancillary operations to the operating fund (Vice-President, Research portfolio) effective May 1, 2006 and as a result of the U of T Press sale of its printing division. The UTIF transfer within the University was made since UTIF was unsuccessful at becoming economically viable as called for by its 2002 business plan combined with the University's refocused mission of transferring knowledge without taking the risks associated with investing in start-up technologies. The transfer within the University will permit closer relations with the faculties, more disclosure and a clearer focus on the mission of knowledge transfer.



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Business ancillary revenues	46.2	47.7	48.0	53.4	56.7	55.7	58.4	58.5	50.7
Business ancillary expenses	46.6	47.0	47.7	51.7	57.5	57.4	61.0	60.1	49.2
Business ancillary net income (loss)	(0.4)	0.7	0.3	1.7	(0.8)	(1.7)	(2.6)	(1.6)	1.5

Considering both service and business ancillaries together, results for the year were a net loss of $4.3 million. After net transfers in of $2.4 million from the net asset category of investment in capital assets, which reflected the construction of the capital assets financed internally by the university and other transfers in of $1.4 million, the unrestricted deficit increased by $0.5 million for the year.

Schedule 5
UNIVERSITY OF TORONTO
ANCILLARY OPERATIONS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2007
(with comparative totals for 2006)
(thousands of dollars)

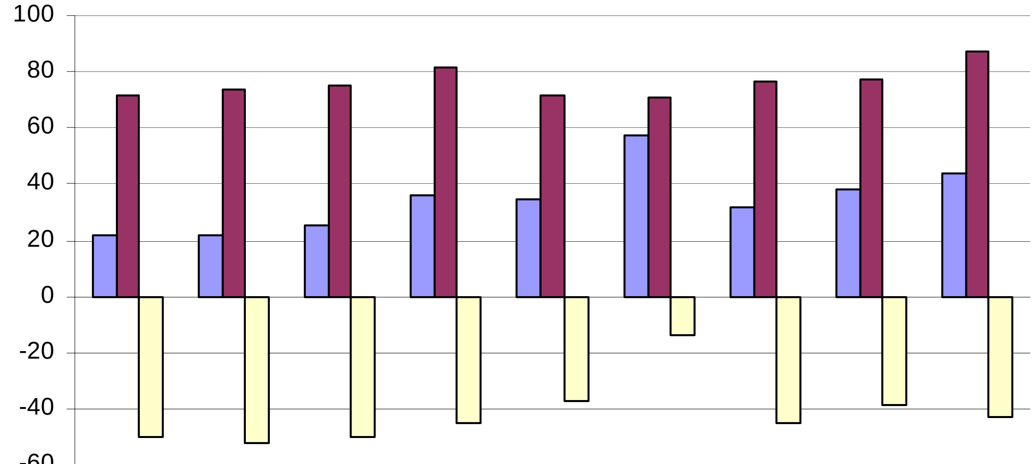
	Revenues	Expenses	Commitments and Transfers	Surplus/(Deficit) Opening	Surplus/(Deficit) Closing	Investment in Capital Assets	Internally Restricted	2007 Total Net Assets	2006 Total Net Assets
	$	$	$	$	$	$	$	$	$
Residences									
Graduate House	3,142	3,102	46	(999)	(913)	2,958		2,045	2,005
Scarborough	5,116	4,832	229	(3,945)	(3,432)	4,424	312	1,304	1,020
Mississauga	6,182	7,345	722	(3,869)	(4,310)	142	527	(3,641)	(2,481)
University College	4,664	4,563	(592)	(1,117)	(1,608)	3,308	1,851	3,551	3,445
Innis College	2,521	2,155	(376)	907	897	480	1,137	2,514	2,274
New College	5,196	7,480	487	(6,941)	(8,738)	3,810	658	(4,270)	(2,337)
Family Housing	7,330	7,357	452	2,786	3,211	59	1,380	4,650	5,266
Woodsworth College	3,027	3,725	1,700	(26,527)	(25,525)	26,428		903	397
89 Chestnut	14,983	18,415	1,770	(6,685)	(8,347)	27		(8,320)	(6,688)
	52,161	58,974	4,438	(46,390)	(48,765)	41,636	5,865	(1,264)	2,901
Food/Beverage Service									
St. George	1,629	1,503	(179)	205	152	141	575	868	743
Scarborough	321	310	(4)	41	48	60	104	212	200
Mississauga	392	559	(13)	(477)	(657)	43	60	(554)	(386)
New College	539	612	147	(1,794)	(1,720)	1,668	38	(14)	61
University College	2,741	2,668	(82)	31	22	91	113	226	153
	5,622	5,652	(131)	(1,994)	(2,155)	2,003	890	738	771
Parking									
St. George	5,165	5,133	525	889	1,446	9,587	253	11,286	11,253
Scarborough	2,240	1,736	86	(7,487)	(6,897)	8,279		1,382	1,065
Mississauga	2,750	2,457	163	(11,863)	(11,407)	11,950	100	643	350
	10,155	9,326	774	(18,461)	(16,858)	29,816	353	13,311	12,668
Real Estate Division	4,374	3,594	(823)	(660)	(703)	2,745	725	2,767	2,880
University of Toronto Press	46,241	45,444	(755)	(599)	(557)	3,018		2,461	1,664
Hart House	12,093	11,871	324	75	621	2,058	1,596	4,275	4,053
University of Toronto - Innovations Foundation	37	112	(28)	(11,800)	(11,903)			(11,903)	(11,126)
	58,371	57,427	(459)	(12,324)	(11,839)	5,076	1,596	(5,167)	(5,409)
	130,683	134,973	3,799	(79,829)	(80,320)	81,276	9,429	10,385	13,811

CAPITAL FUND

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

Capital fund revenues for the year were $43.8 million and expenses were $87.0 million, for a net loss $43.2 million. Revenues include an amount equal to the amortization of capital assets that were financed by grants and donations, while expenses include the amortization of all capital assets.

Capital Fund
Revenues and Expenses
for the year ended April 30
(millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues	21.9	21.7	25.1	36.0	34.5	57.2	31.8	38.2	43.8
Expenses	71.9	73.8	74.9	81.2	71.6	70.9	76.6	77.0	87.0
Net loss	(50.0)	(52.1)	(49.8)	(45.2)	(37.1)	(13.7)	(44.8)	(38.8)	(43.2)

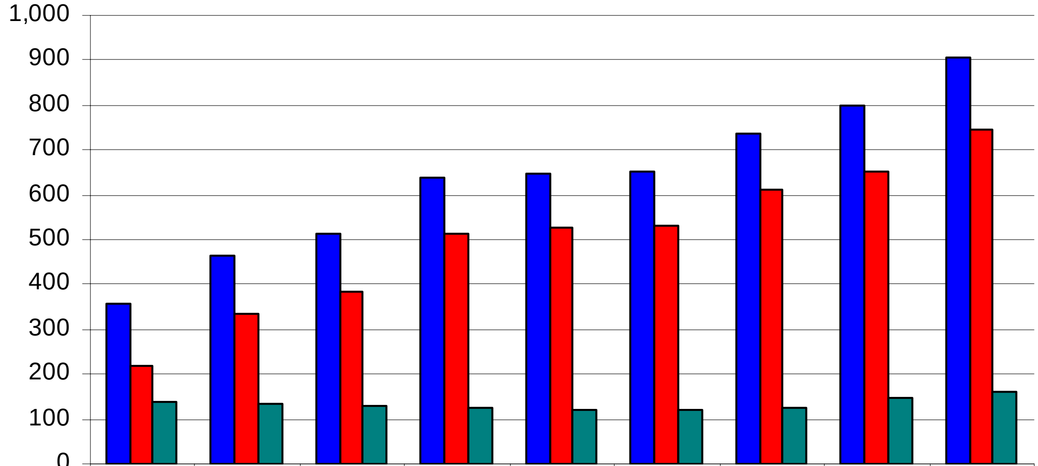
The reason for this loss is that a significant share of the revenue funding amortization of capital assets and funding capital projects is recorded as revenue in the operating fund and transferred to the capital fund as an interfund transfer, and therefore is not reported in revenues or expenses of the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

A total of $59.8 million was transferred to the capital fund to reflect $50.6 million in capital asset expenditures in the operating fund that must be recorded in the capital fund combined with $9.2 million in contributions from the operating fund in support of capital projects.

Capital fund assets were $908.3 million, liabilities were $746.2 million and net assets were $162.1 million. Net assets comprised $200.9 million investment in capital assets, partially offset by $38.8 million in unrestricted and internally restricted deficits.

The assets of the capital fund have grown from $355.5 million in 1999 to $908.3 million in 2007 primarily as a result of the University's large capital construction program. Liabilities have also grown from $217.1 million in 1999 to $746.2 million in 2007. This growth in liabilities reflects the increase in long-term debt to $515.4 million, and growth in deferred capital contributions to $642.6 million. This growth is partly offset by internal loans of $445.0 million because the borrowing of long-term debt is recorded in the capital fund and internal loans are provided to departments or operations that have the responsibility to repay the loans. These internal loans are recorded as a liability in the operating or ancillary fund, as appropriate and are recorded as a receivable in the capital fund.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Assets	355.5	466.3	513.5	640.6	647.7	653.1	737.4	798.2	908.3
Liabilities	217.1	332.7	385.7	515.5	526.7	531.4	610.8	652.7	746.2
Net assets	138.4	133.6	127.8	125.1	121.0	121.7	126.6	145.5	162.1

RESTRICTED FUNDS

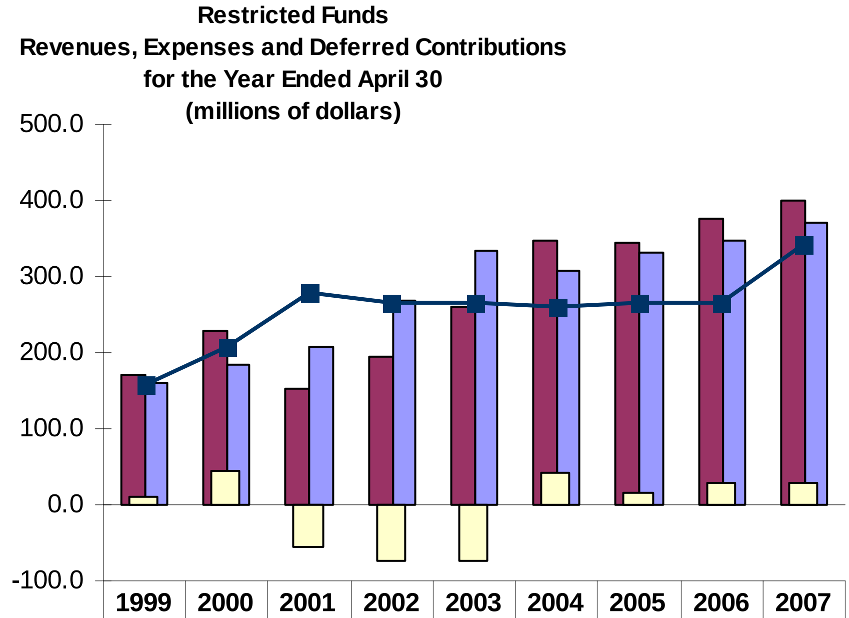
Restricted funds include donations (including endowments), research grants and contracts. Each donation, usually supported by an agreement between the University and the donor, or a collection of small donations with similar purpose, is recorded in its own fund, and managed according to agreed upon terms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

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

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

- Restricted grants and expendable donations are recorded as revenue when spent while unrestricted grants and expendable donations are recorded as revenue when received.
- Unspent restricted grants and donations are recorded as liabilities known as deferred contributions.
- Endowed donations are not recorded as revenue. They are added directly to the balance sheet as net assets.
- Investment earnings for the preservation of capital of externally restricted endowments are not recorded as revenue. They are added directly to the Balance Sheet as net assets. (Investment earnings for the preservation of capital of internally restricted endowments are recorded as revenue and transferred to the endowment balance.)

Restricted funds revenues for the year were $399.9 million, expenses were $371.1 million, and net income was $28.8 million. Net income in any particular year mainly reflects the recording of unrestricted donations and investment income as revenue that was not yet offset by expenses. A net loss in any particular year mainly reflects the recording of investment losses combined with expenses funded by accumulated earnings from previous years reported as a transfer from endowed capital.



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues	170.0	229.9	153.4	193.6	259.5	348.6	345.1	377.0	399.9
Expenses	159.3	184.4	207.5	267.4	333.2	307.5	330.5	348.2	371.1
Net income (loss)	10.7	45.5	(54.1)	(73.8)	(73.7)	41.1	14.6	28.8	28.8
Deferred contributions	157.0	207.3	278.9	266.7	267.0	261.0	265.5	265.5	341.3

At April 30, 2007, net income was $28.8 million, all of which remained in restricted funds. Additionally, restricted funds were increased by a further $170.0 million, which was comprised as follows:

a) transfers to or from other funds:

- $3.7 million from the operating fund as matching funds.
- $0.6 million net transfer to fund future maintenance.

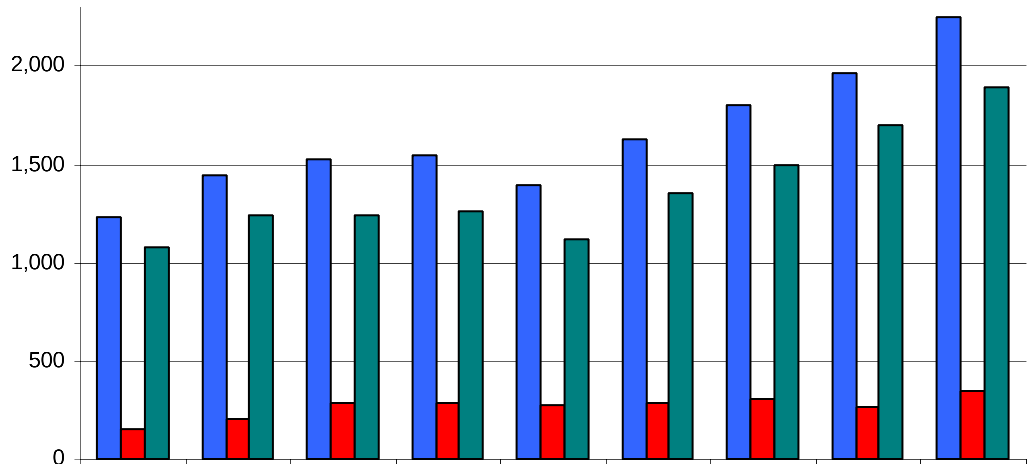
b) endowed contributions, which are not recorded as revenue, but are added directly to net assets:

- $30.9 million endowed donations.
- $5.2 endowed Ontario government grants.
- $129.5 million investment income on externally restricted endowments.

Restricted funds assets were $2.25 billion, liabilities were $349.9 million, and net assets were $1.90 billion. Net assets comprised $1.82 billion endowments and $74.0 million in internally restricted funds**.**

As noted above**,** the majority of unspent restricted funds are NOT recorded as net assets, but rather are recorded as deferred contributions in the liabilities section of the balance sheet. These liabilities have grown from $157.0 million in 1999 to $349.9 million in 2007 mainly as a result of the strong growth in research activity which is reflected in the expendable restricted funds on hand that have not yet been spent.

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Assets	1,234.4	1,448.7	1,529.7	1,546.2	1,397.9	1,633.1	1,796.8	1,965.0	2,246.6
Liabilities	157.0	207.3	284.8	282.6	274.4	280.5	304.6	267.1	349.9
Net assets	1,077.4	1,241.4	1,244.9	1,263.6	1,123.5	1,352.6	1,492.2	1,697.9	1,896.7

Net assets in restricted funds have grown from $1.1 billion in 1999 to $1.9 billion in 2007 mainly due to the growth in endowments as a result of the generosity of our benefactors. Schedule 6 reflects the change in endowment funds from April 30, 2006 to April 30, 2007 with the related expendable funds.

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

	Endowment funds					Expendable funds					
	April 30, 2006	Donations, and other additions	Preservation of capital (note 1)	Transfers	April 30, 2007	April 30, 2006	Donations, grants and other additions	Distributed Investment Income/(loss) (note 1)	Transfers	Disbursements	April 30, 2007
	$	$		$	$	$	$	$	$	$	$
Student aid (note 2)	293,642	18,196	29,786	2,797	344,421	25,565	7,914	(2,732)	600		31,347
Ontario Student Opportunity Trust Funds - Phase I (note 2)	345,660		32,773	46	378,479	21,010		1,199	(46)		22,163
Ontario Student Opportunity Trust Funds - Phase 2 (note 2)	40,199		3,934	(249)	43,884	1,768		327	(10)		2,085
Ontario Trust for Student Support	19,945	12,749	2,291	621	35,606	308		619	21		948
Research funds	134,882	6	12,681	(898)	146,671	137,474	419,446	5,524	2,052	370,975	193,521
Departmental funds	155,227	3,457	13,484	(1,392)	170,776	125,967	49,983	8,690	53	45,809	138,884
Faculty endowment funds (note 2)	507,564	2,384	47,799	2,750	560,497	12,640	140	5,350	(548)	4,033	13,549
Connaught fund	94,950		9,002		103,952	6,934		3,619	(2,451)	47	8,055
I'Anson fund	2,952		280		3,232	211		113			324
Miscellaneous funds	33,749	8	1,670	(276)	35,151	2,806	3,817	693	1,297	4,199	4,414
	1,628,770	36,800	153,700	3,399	1,822,669	334,683	481,300	23,402	968	425,063	415,290
Comprising:											
Externally designated	1,342,949	36,112	129,421	4,891	1,513,373						
Internally designated	285,821	688	24,279	(1,492)	309,296						
	1,628,770	36,800	153,700	3,399	1,822,669						
Restricted						265,482	450,327	13,275	5,860	393,678	341,266
Unrestricted						69,201	30,973	10,127	(4,892)	31,385	74,024
						334,683	481,300	23,402	968	425,063	415,290

Notes:

(1) Consisting of investment income earned on:

Endowment funds	171,797
Expendable funds	5,305
	177,102

(2) Disbursements and corresponding distributed investment income for Students Awards ($13,620), Ontario Student Opportunity Trust Funds ($12,130), Ontario Trust for Student Support ($142) and Faculty Endowments ($12,564) are reported in the Operating Fund

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