Financial Statements

The University of St. Michael's College

April 30, 2013 and 2012

Ernst & Young
Quality In Everything We Do

INDEPENDENT AUDITORS' REPORT

To the Collegium of
The University of St. Michael's College

We have audited the accompanying financial statements of **The University of St. Michael's College**, which comprise the Balance Sheets as at April 30, 2013 and 2012, and May 1, 2011, and the statements of revenue and expenses, changes in net assets and cash flows for the years ended April 30, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The University of St. Michael's College** as at April 30, 2013 and 2012, and May 1, 2011, and the results of its operations and its cash flows for the years ended April 30, 2013 and 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Ernst & Young LLP

Toronto, Canada,
September 9, 2013.

Chartered Accountants
Licensed Public Accountants

The University of St. Michael's College

BALANCE SHEETS

As at

[000's]	April 30, 2013 $	April 30, 2012 $	May 1, 2011 $
ASSETS *[notes 14 and 15]*			
Current			
Cash	**5**	6	8
Accounts receivable	**897**	747	883
Prepaid expenses	**107**	116	104
Total current assets	**1,009**	869	995
Investments *[note 4]*	**74,027**	69,985	69,395
Capital assets, net *[note 5]*	**26,688**	27,575	28,611
	101,724	98,429	99,001
LIABILITIES AND NET ASSETS			
Current			
Bank indebtedness *[note 14]*	**5,481**	5,983	3,742
Accounts payable and accrued liabilities *[notes 16 and 17]*	**2,976**	2,128	3,280
Deferred revenue	**236**	382	540
Residence demand loans *[note 15]*	**8,379**	8,757	9,113
Interest rate swap *[note 15]*	**1,292**	1,551	1,567
Total current liabilities	**18,364**	18,801	18,242
Post-employment benefit liability *[note 11]*	**11,834**	11,829	10,692
Deferred contributions *[note 8]*	**9,779**	7,702	7,973
Deferred capital contributions *[note 9]*	**11,627**	12,203	12,981
Total non-current liabilities	**33,240**	31,734	31,646
Total liabilities	**51,604**	50,535	49,888
Commitments and contingencies *[notes 16 and 19]*			
Net assets			
Deficit	**(24,731)**	(25,335)	(21,987)
Internally restricted *[note 6]*	**7,200**	6,923	6,834
Endowments *[note 10]*	**67,651**	66,306	64,266
Total net assets	**50,120**	47,894	49,113
	101,724	98,429	99,001

See accompanying notes

On behalf of the Collegium:

Anne Anderson, csj

Chairman President

The University of St. Michael's College

STATEMENTS OF REVENUE AND EXPENSES

Years ended April 30

[000's]	**2013** $	**2012** $
REVENUE		
Student fees	**7,792**	7,381
Block grant from the University of Toronto *[note 7]*	**5,044**	4,734
Grants and donations *[notes 8 and 12]*	**3,026**	2,893
Formula grants from the Toronto School of Theology	**449**	525
Sales and services	**2,137**	1,986
Amortization of deferred capital contributions *[note 9]*	**871**	918
Investment income *[note 4[b]]*	**932**	418
Sundry income	**304**	220
	20,555	19,075
EXPENSES		
Salaries and benefits	**11,214**	11,559
Materials and supplies	**3,621**	3,398
Amortization	**2,104**	2,131
Cost of sales	**2,271**	2,342
Utilities	**1,106**	1,071
Interest	**571**	630
Student awards	**838**	630
Repairs and maintenance	**593**	304
Other	**1**	8
	22,319	22,073
Net expense before the following	**(1,764)**	(2,998)
Soil remediation (provision) release of provision *[note 16]*	**(90)**	633
Change in fair value of interest rate swap *[note 15]*	**259**	16
Net expense for the year	**(1,595)**	(2,349)

See accompanying notes

The University of St. Michael's College

STATEMENTS OF CHANGES IN NET ASSETS

Years ended April 30

[000's]	Deficit $	Internally restricted $	Endowments $	Total $
Net assets, May 1, 2011	(21,987)	6,834	64,266	49,113
Net expense for the year	(1,136)	(1,213)	—	(2,349)
Endowment contributions	—	—	520	520
Allocation of investment income *[note 4[b]]*	—	—	558	558
Transfer from land sale *[note 16]*	—	—	70	70
Transfer to deferred contributions *[note 8]*	—	—	(18)	(18)
Internally restricted *[note 6]*	(1,302)	1,302	—	—
Transfers to internally restricted endowments, net *[note 10[a]]*	(910)	—	910	—
Net assets, April 30, 2012	(25,335)	6,923	66,306	47,894
Net expense for the year	**(362)**	**(1,233)**	**—**	**(1,595)**
Endowment contributions	**—**	**—**	**182**	**182**
Allocation of investment income *[note 4[b]]*	**—**	**—**	**3,639**	**3,639**
Internally restricted, net *[note 6]*	**(1,510)**	**1,510**	**—**	**—**
Transfers from internally restricted endowments, net *[note 10[a]]*	**2,476**	**—**	**(2,476)**	**—**
Net assets, April 30, 2013	**(24,731)**	**7,200**	**67,651**	**50,120**

See accompanying notes

The University of St. Michael's College

STATEMENTS OF CASH FLOWS

Years ended April 30

[000's]	**2013** $	**2012** $
OPERATING ACTIVITIES		
Net expense for the year	**(1,595)**	(2,349)
Add (deduct) items not affecting cash		
Change in fair value of interest rate swap	(259)	(16)
Amortization of capital assets	**2,104**	2,131
Amortization of deferred capital contributions	**(871)**	(918)
Donated investments	**(95)**	(66)
Increase (decrease) in soil remediation provision	**90**	(633)
Net change in post-employment benefit asset/liability	**5**	1,137
Net change in non-cash balances related to operations *[note 13]*	**1,267**	(982)
Cash provided by (used in) operating activities	**646**	(1,696)
INVESTING ACTIVITIES		
Purchase of investments, net	**1,015**	239
Additions to capital assets	**(1,217)**	(1,095)
Cash used in investing activities	**(202)**	(856)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	**(502)**	2,241
Endowment contributions	**182**	520
Contributions restricted for capital purposes	**253**	145
Repayment of residence demand loans	**(378)**	(356)
Cash provided by (used in) financing activities	**(445)**	2,550
Net decrease in cash during the year	**(1)**	(2)
Cash, beginning of year	**6**	8
Cash, end of year	**5**	6

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

April 30, 2013 and 2012

1. PURPOSE OF THE ORGANIZATION

The University of St. Michael's College [the "University"] is a Catholic post-secondary educational and research institution federated with the University of Toronto. The University offers undergraduate courses in the arts and sciences through its Arts and Science Division, theological education of an academic and professional nature through its Faculty of Theology, and part-time special interest courses through its Continuing Education Division. Scholarships and bursaries are made available to qualifying students in order to promote academic excellence and to assist those students in financial need. A full residence programme is also offered to students in co-operation with Loretto College. The University is incorporated by an Act of the Ontario Legislature and is a registered charity under the Income Tax Act (Canada).

2. BASIS OF PRESENTATION

These financial statements reflect the assets, liabilities, net assets, revenue, expenses and other transactions of all of the University's operations. Included in these financial statements are costs of academic, administrative and other operating expenditures funded by fees, grants and other general revenue; ancillary operations, such as residences, food services and parking; and funds restricted for endowment purposes.

These financial statements do not include the accounts of St. Michael's College Foundation [the "Foundation"], which is a separate legal entity formed to encourage and promote education at the University. The Foundation distributes income, and periodically, unrestricted net assets to the University by way of grants for scholarships, bursaries and operating purposes *[note 12]*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the Canadian Institute of Chartered Accountants' ["CICA"] Handbook – Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and include the significant accounting policies summarized below.

These are the first financial statements prepared in accordance with the Accounting Standards for Not-for-Profit Organizations. Detailed information on the impact of the conversion is provided in note 20.

Cash

Cash represents cash on deposit. Cash that is held for investing rather than for operating purposes is classified as long-term investments.

Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants. Contributions which have no restrictions are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Pledges receivable are not recorded in the accounts. Externally restricted contributions for purposes other than endowment are initially deferred and 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 useful lives of the assets to which they relate. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Student fees are recognized as revenue when the courses and seminars are held. Sales and service revenues are recognized at the point of sale, when goods are shipped and title passes, or when services are provided.

Contributed materials and services

Contributed materials and services are recorded at fair market value where such value can be reasonably estimated and they are used in the normal course of operations and would otherwise have been purchased.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at their fair value at the date of contribution. Donations and grants for the acquisition of capital assets are recorded as deferred capital contributions in the Balance Sheet.

Costs of new buildings and major renovations and improvements to existing buildings are generally financed from contributions or loans specifically designated for these purposes.

Financing costs relating to property undergoing major renovations are capitalized until substantial completion of the renovations.

Amortization is calculated using the straight-line method with rates based on the estimated useful lives of the assets as follows:

Buildings and major renovations	15 to 40 years
Furniture and equipment	5 to 10 years
Library books	5 years
Computer equipment	3 years

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

Deferred capital contributions are amortized over the useful lives of the assets to which they relate.

Investments and investment income

Investments are valued at fair value based on the latest closing prices and pooled funds are valued based on reported net asset value per unit. Short-term investments are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Investment income, consisting of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded as revenue in the Statement of Revenue and Expenses except for investment income earned on endowments. Investment income earned on endowments which is available for spending and that must be spent on donor restricted activities is added to the respective deferred contribution balance. In years where investment income earned on endowments is in excess of the amount available for spending, the excess is recorded as a direct increase in endowments. In years where investment income earned is below the amount made available for spending, the shortfall is recorded as a direct decrease in endowments.

Foreign currency translation

The market value of investments denominated in foreign currencies is translated into Canadian dollars at the closing rate prevailing at the date of valuation. Purchases and sales of investments, income and expenses are recorded at the rate of exchange prevailing on the date of the transaction.

Post-employment benefits

The University maintains defined benefit plans providing pension and post-employment health benefits for most of its employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the accrued obligation net of the fair value of plan assets in the Balance Sheet. Actuarial gains and losses and past service costs are included in the expense for the year. The accrued liability for pension plans is determined based on an actuarial valuation report for funding purposes. This report is required to be prepared at least on a triennial basis by the applicable regulations. The pension plan's assets are measured at fair value at the dates of the Balance Sheet. The accrued liability for post-employment health benefits is determined based on an actuarial valuation using accounting assumptions that are prepared at least every three years. In years where an actuarial valuation is not prepared, the University uses a roll-forward technique to estimate the accrued liability using assumptions from the most recent actuarial valuation report.

Financial instruments

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes to notional contract amounts. Derivative contracts are recorded at fair value as an asset or liability based on quoted market prices or dealer quotes. Under certain conditions, derivative contracts may qualify for hedge accounting. For these contracts, the effectiveness of the derivative in offsetting changes in cash flows attributable to the risk being hedged is measured. The effective portion of the change in fair value of the derivative contract is recorded in the Statement of Changes in Net Assets and the ineffective portion of the change in fair value of the derivative contract is recorded in the Statement of Revenue and Expenses. For derivative contracts that do not qualify for hedge accounting, the change in fair value of the contract is recorded in the Statement of Revenue and Expenses.

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

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenue 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 valuation of pension and health benefits and the recording of contingencies. Actual amounts could differ from those estimates.

4. INVESTMENTS

The University's investment portfolio comprises a large number of different securities carrying a variety of terms and conditions. These investments are held for endowments and deferred contributions.

[a] Investments at fair value consist of the following:

[000's]	**April 30, 2013** $	**April 30, 2012** $	**May 1, 2011** $
Cash and cash equivalents	**18,117**	17,014	17,141
Short-term notes	**12,838**	12,689	12,530
Canadian government bonds	**2,559**	2,400	2,271
Canadian corporate bonds	**11,726**	11,911	11,794
Canadian equities - common	**12,301**	11,541	12,507
International equities - common	**7,545**	6,770	6,023
Mutual fund units			
Bonds	**561**	465	268
Canadian equities	**1,086**	955	767
International equities	**7,294**	6,240	6,094
	74,027	69,985	69,395

Investments in pooled funds have been allocated among the asset classes based on the underlying investments held in the pooled funds.

[b] Investment income recorded in the Statement of Revenue and Expenses is calculated as follows:

[000's]	2013 $	2012 $
Interest, dividends and pooled fund distributions	**1,623**	1,543
Gain realized on sale of investments	**1,112**	91
Change in unrealized gain (loss) on investments	**3,210**	(440)
	5,945	1,194
Less income allocated to		
Deferred contributions *[note 8]*	**1,371**	217
Deferred capital contributions *[note 9]*	**3**	1
Endowments	**3,639**	558
	932	418

During the year, the University revised the policy on externally restricted endowments with the intent of providing more consistency of investment income made available to support donor designated purposes, while continuing to protect the real value of the endowments. Investment income for the purposes of this policy includes interest, dividends and realized and unrealized gains and losses net of management fees. In any year, if investment returns are above a long run targeted payout rate, this excess amount will be transferred to the endowments and can be made available for future use in the event that net investment income is not sufficient in a year to provide the targeted payout rate. The policy continues to provide for inflation protection of endowments.

In 2013, $5,942,000 of net investment income was earned on endowments. The amount available for spending of $1,453,000 was recorded as deferred contributions and $932,000 [2012 - $418,000] earned on internally restricted endowments was recorded in the Statement of Revenue and Expenses. The excess amount of $3,639,000 was recorded directly in endowments for capital preservation.

In 2012, $1,121,000 of net investment income was earned on endowments, of which $558,000 earned on externally restricted endowments was recorded directly in endowments for the preservation of capital and recovery of prior year losses. The amount available for spending of $145,000 was recorded as deferred contributions and $418,000 earned on internally restricted endowments was recorded in the Statement of Revenue and Expenses.

NOTES TO FINANCIAL STATEMENTS

April 30, 2013 and 2012

5. CAPITAL ASSETS

Capital assets consist of the following:

	April 30, 2013		April 30, 2012		May 1, 2011	
[000's]	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Land	**642**	**—**	642	—	642	—
Buildings and major renovations	**43,883**	**20,606**	43,452	19,317	42,871	18,055
Furniture and equipment	**4,941**	**2,738**	5,795	3,533	6,070	3,517
Library books	**1,149**	**698**	1,186	724	1,206	713
Computer equipment	**284**	**169**	225	151	245	138
	50,899	**24,211**	51,300	23,725	51,034	22,423
Less accumulated amortization	**24,211**		23,725		22,423	
Net book value	**26,688**		27,575		28,611	

6. INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets represent the amount of capital assets internally funded as follows:

[000's]	April 30, 2013 $	April 30, 2012 $	May 1, 2011 $
Capital assets, net	**26,688**	27,575	28,611
Less amounts financed by			
Deferred capital contributions *[note 9]*	**11,109**	11,895	12,664
Residence demand loans	**8,379**	8,757	9,113
	7,200	6,923	6,834

7. AGREEMENT WITH THE UNIVERSITY OF TORONTO

Under an agreement with the University of Toronto, dated July 1, 2008, the tuition fees for students in the Faculty of Arts and Science are paid over to the University of Toronto. In turn, the University of Toronto reimburses the University for certain operating costs through a block grant. This agreement is effective beginning July 1, 2008 for a period of 10 years, and is renewed automatically unless either party serves notice of intention not to renew three years before the next renewal date.

8. DEFERRED CONTRIBUTIONS

Deferred contributions are comprised of externally restricted grants, donations and related investment income for scholarships, bursaries and other purposes. The changes in the deferred contributions balance are as follows:

[000's]	**April 30, 2013** $	**April 30 2012** $	**May 1, 2011** $
Balance, beginning of year	**7,702**	7,973	5,674
Contributions received during the year	**2,421**	1,995	2,602
Investment income *[note 4[b]]*	**1,371**	217	2,036
Amounts recognized as grants and donations	**(1,715)**	(2,494)	(2,279)
Transfer to deferred capital contributions *[note 9]*	**—**	(7)	(56)
Transfer from (to) externally restricted endowments	**—**	18	(4)
Balance, end of year	**9,779**	7,702	7,973

9. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized balance of donations and grants received for the purchase of capital assets. The changes in the deferred capital contributions balance are as follows:

[000's]	**April 30, 2013** $	**April 30, 2012** $	**May 1, 2011** $
Balance, beginning of year	**12,203**	12,981	13,695
Contributions restricted for capital purposes	**253**	145	193
Investment income *[note 4[b]]*	**3**	1	4
Amortization of deferred capital contributions	**(871)**	(918)	(967)
Transfer from deferred contributions *[note 8]*	**—**	7	56
Amounts transferred from internally restricted net assets	**39**	—	—
Amounts recognized as grants and donations	**—**	(13)	—
Balance, end of year	**11,627**	12,203	12,981
Consisting of			
Contributions and income for which expenditures have been made	**20,954**	21,376	21,612
Accumulated amortization	**(9,845)**	(9,481)	(8,948)
	11,109	11,895	12,664
Contributions and income for which expenditures have not been made	**518**	308	317
	11,627	12,203	12,981

10. ENDOWMENTS

Endowments include restricted donations received by the University and donations designated by the Collegium in the exercise of its discretion as endowments, rather than as a result of externally imposed restrictions. In such cases, the Collegium may decide to remove the designation.

The endowment principal is required to be maintained intact. Investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Collegium. 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.

[a] Endowments consist of the following:

[000's]	**April 30, 2013** $	**April 30, 2012** $	**May 1, 2011** $
Externally restricted	**38,766**	34,945	33,815
Internally restricted	**28,885**	31,361	30,451
	67,651	66,306	64,266

During the year, the Collegium approved the use of $2,476,000 [2012 - $136,000] from internally endowed funds.

[b] Ontario Student Opportunity Trust Funds and Ontario Trust for Student Support

Included in externally restricted endowments are matching scholarship and bursary funds from the Government of Ontario and the University of Toronto related to the Ontario Student Opportunity Trust Funds ["OSOTF"] and the Ontario Trust for Student Support ["OTSS"]. The capital portion of the funds is externally restricted and the income portion is used to support students in financial need. Expendable income earned is recorded in deferred contributions and recognized as revenue in the year in which related scholarship and bursary expenses are recognized.

The following is a summary of the change in the cost of these endowment funds for the year:

			April 30, 2013		April 30, 2012	May 1, 2011
[000's]	**OSOTF I** $	**OSOTF II** $	**OTSS** $	**Total** $	**Total** $	**Total** $
Balance, beginning of year	**7,424**	**1,151**	**3,985**	**12,560**	11,961	11,093
Contributions received	**11**	**—**	**51**	**62**	177	153
Provincial matching funds	**—**	**—**	**—**	**—**	191	430
Investment income [capital preservation]	**112**	**17**	**60**	**189**	231	285
Balance, end of year	**7,547**	**1,168**	**4,096**	**12,811**	12,560	11,961

Included in deferred contributions are funds available for student support. The change in the cost of these expendable funds for the year is calculated as follows:

			April 30, 2013		April 30, 2012	May 1, 2011
[000's]	**OSOTF I** $	**OSOTF II** $	**OTSS** $	**Total** $	**Total** $	**Total** $
Balance, beginning of year	**178**	**80**	**197**	**455**	528	681
Contributions received	**—**	**—**	**—**	**—**	—	3
Investment income	**269**	**43**	**148**	**460**	144	145
Bursaries awarded	**(126)**	**(54)**	**(124)**	**(304)**	(217)	(301)
Balance, end of year	**321**	**69**	**221**	**611**	455	528

The fair value of the OSOTF Phase I endowment and expendable funds at year-end is $8,481,500 [April 30, 2012 - $7,988,000; May 1, 2011 - $7,982,000]. For the year ended April 30, 2013, there were 53 OSOTF Phase I award recipients [2012 - 67].

11. POST-EMPLOYMENT BENEFITS

The University sponsors a number of defined benefit plans providing pension, other retirement and post-employment health benefits for most of its employees.

Pension benefit plans include the Retirement Plan of The University of St. Michael's College [the "Retirement Plan"], which is a contributory defined benefit pension plan, and a supplementary executive retirement plan. Substantially all employees of the University are members of the Retirement Plan. Employees who belong to a religious order are required to contribute 6% of their gross salary to the Retirement Plan. All other employees are required to contribute 5% of their gross salary up to the yearly maximum pensionable earnings plus 6% of their gross salary in excess of the yearly maximum pensionable earnings. The University is required to provide the balance of the funding, based on triennial actuarial valuations, necessary to ensure that benefits will be fully provided for at retirement.

Health benefit plans represent the cost of certain medical benefits available to employees on retirement from the University. Contributions for post-employment health benefits are funded by the University and the retiree based on current premium rates.

The University measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at April 30 of each year. The most recent actuarial valuations of the pension plan and post-employment benefit plans were as of January 1, 2013.

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

	April 30, 2013		**April 30, 2012**		**May 1, 2011**	
	Pension plan	**Health benefits**	**Pension plan**	**Health benefits**	**Pension plan**	**Health benefits**
[000's]	$	$	$	$	$	$
Fair value of plan assets	**21,826**	**—**	20,354	—	19,723	—
Accrued benefit obligation	**27,590**	**6,070**	26,858	5,325	25,735	4,680
Funded status (deficit)	**(5,764)**	**(6,070)**	(6,504)	(5,325)	(6,012)	(4,680)

NOTES TO FINANCIAL STATEMENTS

April 30, 2013 and 2012

The following is a summary of the calculation of the net plan expense:

	2013		2012	
[000's]	**Pension benefits** $	**Health benefits** $	**Pension benefits** $	**Health benefits** $
Current service cost	**1,220**	**148**	1,073	122
Employee contributions	**(410)**	**—**	(341)	—
Interest on accrued benefits	**1,584**	**256**	1,559	236
Actuarial losses (gains)	**(2,599)**	**500**	(231)	447
Adjustment to experience loss (gain)	**768**	**—**	(49)	—
Plan amendments	**—**	**—**	143	—
Current service cost	**(140)**	**—**	(10)	—
Net plan expense	**423**	**904**	2,144	805

The assets of the Retirement Plan are invested as follows:

	April 30, 2013		April 30, 2012		May 1, 2011	
[000's]	$	%	$	%	$	%
Canadian equities	**6,450**	**29.8**	6,138	30.3	6,224	31.7
U.S. equities	**3,580**	**16.5**	3,305	16.3	2,811	14.3
Other international equities	**3,566**	**16.5**	3,095	15.3	2,968	15.1
Fixed income	**7,172**	**33.1**	7,169	35.4	6,819	34.8
Cash and short-term notes	**888**	**4.1**	542	2.7	801	4.1
	21,656	**100.0**	20,249	100.0	19,623	100.0

The following is a summary of the weighted average significant actuarial assumptions used in measuring the University's accrued benefit obligation and benefit expense:

	April 30, 2013	**April 30, 2012**	**May 1, 2011**
[000's]	%	%	%
Accrued benefit obligation			
Discount rate			
Pension benefit plan	**5.75**	6.00	6.00
SERP	**3.25**	4.75	5.25
Health benefit plan	**4.25**	4.75	5.25
Rate of compensation increase			
Pension benefit plan*	**4.00**	4.00	4.00
SERP	**N/A**	N/A	N/A
Health benefit plan	**N/A**	N/A	N/A
Benefit expense			
Discount rate			
Pension benefit plan	**6.00**	6.00	N/A
SERP	**4.75**	5.25	N/A
Health benefit plan	**4.75**	5.25	N/A
Rate of compensation increase			
Pension benefit plan	**4.00**	4.00	N/A
SERP	**N/A**	N/A	N/A
Health benefit plan	**N/A**	N/A	N/A

*5% University of Toronto Faculty Association

In determining the expected cost of post-employment health benefit plans, it is assumed that dental care costs will increase by 4.0% annually. The increase in extended health care costs is assumed to be 6.5% in 2013 [2012 - 7.0%], decreasing by 0.5% per annum to an ultimate rate of 5.0%.

In the spring of 2011, the Ontario government enacted legislation to provide solvency funding relief to certain university pension plans. In a letter dated March 22, 2011 [and amended May 4, 2011] the University submitted an application for Admission to the BPS Solvency Funding Relief Program. The University's application was accepted and it entered Stage 1 of the program. A savings target and strategies to achieve this target were set out in the University's Sustainability Application. The University negotiated with its employees to provide higher contribution rates to meet the targets. A progress report is due on June 30, 2013 to the Ministry of Finance of Ontario to demonstrate that the University has made substantial progress towards meeting the savings target. If the progress report is accepted by the Ministry, it will allow the University to move into Stage 2 of the BPS Solvency Funding Relief Program.

12. ST. MICHAEL'S COLLEGE FOUNDATION

The University has an economic interest in the Foundation. As at December 31, 2012, 2011 and 2010, the unaudited net assets of the Foundation were approximately $17,696,000, $15,807,000 and $16,764,000, respectively.

During the year, the Foundation granted nil [2012 - $296,000] to the University to fund scholarships, bursaries, programmes and general operations.

13. STATEMENTS OF CASH FLOWS

The net change in non-cash balances related to operations consists of the following:

[000's]	**2013** $	**2012** $
Sources (uses) of cash		
Accounts receivable	**(150)**	136
Prepaid expenses	**9**	(12)
Accounts payable and accrued liabilities	**848**	(449)
Deferred revenue	**(146)**	(158)
Deferred contributions	**706**	(499)
	1,267	(982)

14. BANK INDEBTEDNESS

The University has a bank line of credit of $9,000,000 [April 30, 2012 - $9,000,000; May 1, 2011 - $9,000,000]. As at April 30, 2013, $5,481,000 of the bank line of credit was utilized [April 30, 2012 - $5,983,000; May 1, 2011 - $3,742,000]. The bank indebtedness is collateralized by a general security agreement. Effective March 1, 2012 the University entered into an interest offset arrangement [the "Arrangement"] with the bank. The Arrangement enables the University to consolidate account balances and provides interest on a net position. Under the Arrangement, the University pays interest on a pooled account at prime [April 30, 2013 - 3%] and earns interest at prime less 1.75% or 1.3% depending on the balance.

15. RESIDENCE DEMAND LOANS

The University entered into a $12,000,000 banking facility in 2001 to finance construction of the St. Joseph Street residence building. The facility was fully drawn in 2002 and is now in the process of being repaid. The banking facility is collateralized by a general security agreement and is payable on demand. As at April 30, 2013, $8,379,000 [April 30, 2012 - $8,757,000; May 1, 2011 - $9,113,000] is outstanding in connection with this facility.

To reduce the volatility of the interest cost on the residence financing, the University entered into an interest rate swap agreement [the "Agreement"] whereby, commencing on September 1, 2001, the interest rate on $11,500,000 of the outstanding residence demand loans was effectively fixed at 6.65% for a term of 15 years. Amounts outstanding under this financing that are not covered by the Agreement bear interest at the bank's prime rate plus 1.0%. As at April 30, 2013, this floating rate of interest was 4.00% [April 30, 2012 - 4.00%; May 1, 2011 - 4.00%]. The Agreement may be terminated at the option of the lender on the 10th anniversary date of the Agreement, whereas the University may terminate the Agreement at any time. Early termination of the Agreement will result in a payment or receipt equal to the fair value of the interest rate swap on the date of early termination. As at April 30, 2013, the unpaid principal on this component of the financing was $8,299,000 [April 30, 2012 - $8,677,000; May 1, 2011 - $9,033,000]. If the University had exercised early termination of the Agreement at April 30, 2013, this would have resulted in an additional payment of $1,292,000 [April 30, 2012 - $1,551,000; May 1, 2011 - $1,567,000]. The interest rate swap does not qualify for hedge accounting. Accordingly, the change in the fair value of the interest rate swap, a gain of $259,000 [2012 - a gain of $16,000], is recorded in the Statement of Revenue and Expenses.

Subject to the loans being payable on demand, the University's scheduled principal repayments of the amounts outstanding under the residence demand loans are as follows:

[000's]	$
2014	484
2015	430
2016	459
Thereafter	7,006

16. BAY STREET LAND SALE AND SOIL REMEDIATION

In 2008, the University sold a parcel of its land on Bay Street for total proceeds of $32,167,000.

As a condition of the sale of the Bay Street lands, the University remains liable for soil remediation costs related to the property. At the time of sale, these costs were estimated to be $1,400,000 and this amount was included within accounts payable and accrued liabilities. During the year ended April 30, 2013, soil remediation costs of nil were paid and deducted from the provision. The most current estimate of the future costs is $500,000. Accordingly, the provision was increased by $90,000 and this amount was recorded in the Statement of Revenue and Expenses. By agreement with the Congregation of St. Basil, the University set aside 10% of the net gain originally recorded on the sale as an endowment. An amount equal to 10% of the increase in the soil remediation provision amounting to $10,000 has also been charged to the endowment.

The liability for soil remediation costs has been determined based on the University's best estimate of the costs to be incurred. Actual costs for soil remediation will not be known until construction excavation has been completed. There could be a material change in this liability. Any change in the liability will be recorded in the Statement of Revenue and Expenses.

17. GOVERNMENT REMITTANCES PAYABLE

As at April 30, 2013, accounts payable and accrued liabilities include government remittances payable of $102,642 [April 30, 2012 - $176; May 1, 2011 - nil].

18. FINANCIAL INSTRUMENTS

The University is subject to various financial risks through transactions in financial instruments.

Credit risk

The University is exposed to credit risk in connection with its accounts receivable and its short-term and fixed-income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. Accounts receivable are recorded net of an allowance for doubtful accounts of $45,256 [April 30, 2012 - $65,718; May 1, 2011 - nil].

Currency risk

The University is exposed to currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its mutual funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

Other price risk

The University is exposed to other price risk through changes in market prices [other than changes arising from interest rate or currency risks] in connection with its investments in equity securities and mutual funds.

Liquidity risk

The University is exposed to liquidity risk to the extent that it will encounter difficulty in meeting obligations associated with its financial instruments.

19. COMMITMENTS AND CONTINGENCIES

Insurance

Effective July 1, 2008, the University became a member of a reciprocal exchange of insurance risks in association with 56 other Canadian universities. This self-insurance co-operative, the Canadian Universities Reciprocal Insurance Exchange ["CURIE"], 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. CURIE has obtained reinsurance from commercial insurers to cover claims in excess of $5,000,000 to a maximum of $1 billion per occurrence for property losses and claims in excess of $5,000,000 to a maximum of $30,000,000 per occurrence for liability and errors and omissions losses. In the event premiums are not sufficient to cover claims settlements, the member universities would be subject to assessments in proportion to their participation.

As a member of CURIE, the University will share in the claims and expenses incurred during the five-year underwriting period commencing July 1, 2008. As at December 31, 2012, the latest date that financial statements are available, CURIE had a surplus of $15,573,268 for the current underwriting period, of which the University's pro rata share is approximately 0.33%.

20. FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

These financial statements are the first financial statements that the University has prepared in accordance with Part III of the CICA Handbook – Accounting, which constitutes generally accepted accounting principles for not-for-profit organizations in Canada ["GAAP"]. In preparing its opening Balance Sheet as at May 1, 2011 [the "Transition Date"], the University has applied CICA 1501, First-time Adoption.

The accounting policies that the University has used in the preparation of its May 1, 2011 opening Balance Sheet have resulted in certain adjustments to balances which were presented in the Balance Sheet prepared in accordance with Part V of the CICA Handbook – Accounting ["Previous GAAP"]. These adjustments were recorded directly to the University's net assets at the Transition Date using the transitional provisions set out in CICA 1501 and are described below. CICA 1501 provides a number of elective exemptions related to standards in Part III of the CICA Handbook.

The following table provides a reconciliation of the net assets as at May 1, 2011 and the net expense for the year ended April 30, 2012 as presented under Previous GAAP with those computed under GAAP:

	Net expense for the year ended April 30, 2012 $	**Net assets as at May 1, 2011** $
Net expense for the year and net assets - Previous GAAP	(1,226)	58,817
Employee future benefits		
Immediate recognition approach [i]	(1,139)	(9,704)
Interest rate swap [ii]	16	—
Net expense for the year and net assets - GAAP	(2,349)	49,113

[i] Immediate recognition approach

The University has made the accounting policy choice to apply the immediate recognition approach to account for its employee future benefits. As such, the deficit related to these plans was recorded in the Balance Sheet at the Transition Date. At the Transition Date, the health benefit obligation increased by $116, the accrued pension liability increased by $9,588 and net assets decreased by $9,704. The University's net expense for the year ended April 30, 2012 increased by $1,139, reflecting an increase in employee future benefits expense.

[ii] Interest rate swap

Under Previous GAAP, the fair value of derivative contracts designated as effective hedges were recorded on the Balance Sheet and the change in unrealized gain or loss related to the contract was recorded as a direct increase (decrease) to net assets. Under GAAP, the University's interest rate swap contract does not qualify for hedge accounting. Accordingly at the Transition Date, the cumulative change in the fair value of the interest rate swap of $1,567 was added to the deficit within net assets. The change in the fair value of the interest rate swap for the year ended April 30, 2012 decreased net expense for the year by $16.