Financial Statements

The University of St. Michael's College

April 30, 2010

ERNST & YOUNG

AUDITORS' REPORT

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

We have audited the balance sheet of **The University of St. Michael's College** as at April 30, 2010 and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. 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 management, 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, 2010 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

Toronto, Canada,
June 18, 2010.

Chartered Accountants
Licensed Public Accountants

The University of St. Michael's College

BALANCE SHEET

As at April 30

	2010 $	[000's]	2009 $
ASSETS *[notes 15 and 16]*			
Current			
Cash	**244**		370
Accounts receivable	**459**		385
Mortgage receivable *[note 17]*	**—**		15,000
Prepaid expenses	**134**		118
Total current assets	**837**		15,873
Post-employment benefit asset *[note 12]*	**4,490**		4,635
Mortgage receivable *[note 17]*	**12,620**		12,074
Investments *[note 4]*	**53,429**		33,642
Capital assets, net *[note 5]*	**29,926**		30,786
	101,302		97,010
LIABILITIES AND NET ASSETS			
Current			
Bank indebtedness *[note 15]*	**3,336**		2,941
Accounts payable and accrued liabilities	**3,085**		3,083
Deferred revenue	**291**		183
Residence demand loans *[note 16]*	**9,447**		9,763
Interest rate swap *[note 16]*	**1,536**		2,444
Total current liabilities	**17,695**		18,414
Post-employment benefit liability *[note 12]*	**5,061**		4,861
Deferred contributions *[note 9]*	**5,674**		4,116
Deferred capital contributions *[note 10]*	**13,695**		14,312
Total non-current liabilities	**24,430**		23,289
Total liabilities	**42,125**		41,703
Contingencies *[notes 17 and 18]*			
Net assets			
Deficit	**(8,755)**		(8,193)
Internally restricted *[note 6]*	**7,135**		7,454
Endowments *[note 11]*	**62,333**		58,490
Cumulative change in fair value of interest rate swap *[note 16]*	**(1,536)**		(2,444)
Total net assets	**59,177**		55,307
	101,302		97,010

See accompanying notes

On behalf of the Collegium:

Anne Anderson, csj

Chairman President

The University of St. Michael's College

STATEMENT OF REVENUE AND EXPENSES

Year ended April 30

	2010 $	[000's]	2009 $
REVENUE			
Student fees	**6,354**		6,293
Block grant from the University of Toronto *[note 7]*	**4,527**		4,166
Grants and donations *[notes 9 and 10]*	**2,336**		3,837
Formula grants from the Toronto School of Theology	**380**		377
Sales and services	**2,101**		2,540
Investment income (loss) *[notes 4[b] and 17]*	**1,667**		(1,164)
Amortization of deferred capital contributions *[note 10]*	**921**		841
Sundry income	**964**		612
	19,250		17,502
EXPENSES			
Salaries and benefits	**9,863**		10,166
Depreciation and write-down of capital assets	**2,255**		1,978
Materials and supplies	**2,035**		2,419
Cost of sales	**1,867**		1,033
Utilities	**1,115**		1,096
Interest on bank indebtedness	**777**		749
Student awards	**691**		733
Repairs and maintenance	**574**		528
Other *[note 8]*	**765**		628
	19,942		19,330
Net expense before the following	**(692)**		(1,828)
Gain on sale of Bay Street land *[note 17]*	**—**		27,357
Net revenue (expense) for the year	**(692)**		25,529

See accompanying notes

The University of St. Michael's College

STATEMENT OF CHANGES IN NET ASSETS

Year ended April 30

	Deficit $	Internally restricted $	Endowments $	Cumulative change in fair value of interest rate swap $	Total $
			[000's]		
Net assets, April 30, 2008	(3,599)	4,765	30,215	(1,542)	29,839
Net revenue (expense) for the year	26,666	(1,137)	—	—	25,529
Change in fair value of interest rate swap *[note 16]*	—	—	—	(902)	(902)
Endowment contributions	—	—	887	—	887
Transfer from land sale *[note 17]*	—	—	3,040	—	3,040
Transfer from deferred contributions and deferred capital contributions	—	—	225	—	225
Allocation of investment loss *[note 4[b]]*	—	—	(3,311)	—	(3,311)
Internally restricted *[note 6]*	(3,826)	3,826	—	—	—
Transfers to internally restricted endowments *[note 17]*	(27,434)	—	27,434	—	—
Net assets, April 30, 2009	**(8,193)**	**7,454**	**58,490**	**(2,444)**	**55,307**
Net revenue (expense) for the year	**642**	**(1,334)**	**—**	**—**	**(692)**
Change in fair value of interest rate swap *[note 16]*	**—**	**—**	**—**	**908**	**908**
Endowment contributions	**—**	**—**	**694**	**—**	**694**
Allocation of investment gain *[note 4[b]]*	**—**	**—**	**2,960**	**—**	**2,960**
Internally restricted *[note 6]*	**(1,015)**	**1,015**	**—**	**—**	**—**
Transfers to internally restricted endowments	**(189)**	**—**	**189**	**—**	**—**
Net assets, April 30, 2010	**(8,755)**	**7,135**	**62,333**	**(1,536)**	**59,177**

See accompanying notes

The University of St. Michael's College

STATEMENT OF CASH FLOWS

Year ended April 30

	2010 $	[000's]	2009 $
OPERATING ACTIVITIES			
Net revenue (expense) for the year	**(692)**		25,529
Add (deduct) items not affecting cash			
Depreciation and write-down of capital assets	**2,255**		1,978
Unrealized (gain) loss on investments	**(1,016)**		3,865
Realized (gain) loss on sale of investments	**(246)**		706
Amortization of deferred capital contributions	**(921)**		(841)
Adjustment to discounted value of mortgage on Bay Street land	**(550)**		—
Donated investments	**(131)**		(44)
Gain on sale of Bay Street land	**—**		(27,357)
Net change in post-employment benefit asset/liability	**345**		428
Net change in non-cash balances related to operations *[note 14]*	**1,578**		(2,762)
Cash provided by operating activities	**622**		1,502
INVESTING ACTIVITIES			
Sales (purchases) of investments, net	**(15,375)**		1,326
Proceeds from Bay Street land sale, net *[note 17]*	**15,000**		4,723
Additions to capital assets	**(1,395)**		(6,525)
Cash used in investing activities	**(1,770)**		(476)
FINANCING ACTIVITIES			
Endowment contributions	**694**		887
Donation of property to endowment	**(55)**		—
Repayment of residence demand loans	**(316)**		(299)
Contributions restricted for capital purposes	**304**		1,071
Cash provided by financing activities	**627**		1,659
Net increase (decrease) in cash during the year	**(521)**		2,685
Cash position, beginning of year	**(2,571)**		(5,256)
Cash position, end of year	**(3,092)**		(2,571)
Cash position consists of			
Cash	**244**		370
Bank indebtedness	**(3,336)**		(2,941)
	(3,092)		(2,571)

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

April 30, 2010

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 13]*.

These financial statements do not include the accounts of the Pontifical Institute of Mediaeval Studies [the "Institute"] which was separately incorporated under the *Pontifical Institute of Mediaeval Studies Act, 2005* passed by the Ontario Legislature. Prior to separate incorporation, the Institute operated as an academically autonomous institute for graduate study and research within the University and its financial results were included with those of the University. Under the Institute's current governing legislation, the University has representation on the Institute's Board of Governors, but does not have control over the Institute. A protocol arrangement exists between the University and the Institute under which the University provides an administrative and plant subsidy. The protocol arrangement is for a period of ten years from December 15, 2005, the effective date of the new legislation, and will continue thereafter subject to periodic review.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University have been prepared in accordance with Canadian generally accepted accounting principles. The more significant accounting policies are set out below:

Change in accounting policy

Effective May 1, 2009, the University adopted retroactively the recommendations of the Canadian Institute of Chartered Accountants ["CICA"] contained in revisions to the 4400 series and certain other sections of the CICA Handbook that relate to not-for-profit organizations. The adoption of CICA Handbook Section 1540, *Cash Flow Statements*, required the separation of investing and financing activities into separate sections of the statement.

Use of estimates in the preparation of financial statements

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

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 deferred and recognized as revenue in the year in which the related expenses are recognized. 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.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at their fair market 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.

Depreciation 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

Publicly traded securities are valued based on the latest bid prices and pooled funds are valued based on reported unit prices. Short-term investments are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on a settlement date basis and transaction costs are expensed as incurred.

Investment income and losses consist of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses. Investment income earned on endowments and deferred contribution balances that must be spent on donor-restricted activities is added to the respective deferred contribution balances except to the extent that it is required to be added to the endowment balance or when there are investment losses. To the extent there are investment losses in excess of the deferred contribution balances related to specific endowments, these losses are allocated to endowments. Subsequent investment income is allocated to endowments to restore these losses. Investment income and losses on unrestricted balances and internally restricted endowments is recognized in the Statement of Revenue and Expenses.

NOTES TO FINANCIAL STATEMENTS

April 30, 2010

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 uses the projected benefit method pro rated on service and management's best estimate assumptions to calculate the cost of pensions and other retirement benefits. Assets are valued at market-related values for the purpose of calculating the expected return on plan assets. Market-related value is based on the four-year moving average ratio of market value to book value with a cap of 110% of the market value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and fair value of plan assets is amortized over the average remaining service period of active employees. Liabilities are discounted using current interest rates on long-term bonds.

The University accrues its obligations under employee benefit plans and the related costs, net of plan assets. The difference is recorded as an asset or liability in the Balance Sheet.

Financial instruments

The University is subject to market, interest rate and foreign exchange risk with respect to its investment portfolio, credit risk with respect to its accounts receivable and interest rate cash flow risk with respect to its bank indebtedness and residence demand loans. The University has a statement of investment policy and procedures designed to achieve the optimal return within reasonable risk tolerances in order to manage the risks with respect to its investment portfolio. The University manages its interest rate cash flow risk with respect to the residence demand loans through an interest rate swap agreement which effectively fixes the interest rate on the majority of the loans.

The University has chosen to continue to apply CICA 3861, *Financial Instruments – Disclosure and Presentation,* instead of CICA 3862, *Financial Instruments – Disclosures* and CICA 3863, *Financial Instruments – Presentation*.

Derivative 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.

4. INVESTMENTS

The University's investment portfolio comprises a large number of different securities carrying a variety of terms and conditions. Fair values are based on quoted market prices of the securities.

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

	2010 $	[000's]	2009 $
Short-term notes and money market funds	**16,825**		1,658
Canadian government bonds	**3,526**		3,824
Canadian corporate bonds	**9,647**		7,887
Canadian equities - common	**11,872**		10,768
International equities - common	**5,663**		4,273
Mutual fund units			
Bonds	**136**		—
Canadian equities	**844**		738
International equities	**4,916**		4,494
	53,429		33,642

NOTES TO FINANCIAL STATEMENTS

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

	2010 $	[000's]	2009 $
Interest, dividends and pooled fund distributions	**1,395**		1,255
Gain (loss) realized on sale of investments	**246**		(706)
Change in unrealized loss on investments	**3,979**		(7,181)
Adjustment to discounted value of mortgage on Bay Street land *[note 17]*	**550**		—
	6,170		(6,632)
Less income (loss) allocated to			
Deferred contributions *[note 9]*	**1,540**		(2,152)
Deferred capital contributions *[note 10]*	**3**		(5)
Endowments	**2,960**		(3,311)
	1,667		(1,164)

5. CAPITAL ASSETS

Capital assets consist of the following:

	2010			2009	
	Cost $	Accumulated depreciation $	[000's]	Cost $	Accumulated depreciation $
Land	**642**	—		642	—
Buildings and major renovations	**42,510**	**16,815**		41,863	15,605
Furniture and equipment	**5,923**	**2,928**		6,120	2,838
Library books	**1,193**	**692**		1,162	634
Computer equipment	**242**	**149**		275	199
	50,510	**20,584**		50,062	19,276
Less accumulated depreciation	**20,584**			19,276	
Net book value	**29,926**			30,786	

6. INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets represent the amount of capital assets internally funded.

NOTES TO FINANCIAL STATEMENTS

April 30, 2010

7. AGREEMENT WITH THE UNIVERSITY OF TORONTO

Under an agreement with the University of Toronto dated July 1, 2008 and to remain in force until June 30, 2013, 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.

8. DONATION TO THE BASILIAN FATHERS OF THE UNIVERSITY OF ST. MICHAEL'S COLLEGE

In accordance with a 1973 resolution of the Collegium, the University donates a portion of the income from its investments to The Basilian Fathers of The University of St. Michael's College.

Under current practice, the Basilian Fathers donate this amount, together with other amounts, to the Annual Fund of the University of Toronto for subsequent remittance to the University.

For the year ended April 30, 2010, $50,000 was donated to the Basilian Fathers under this arrangement [2009 - $30,000].

9. DEFERRED CONTRIBUTIONS

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

	2010 $	[000's]	2009 $
Balance, beginning of year	**4,116**		7,095
Contributions received during the year	**2,131**		2,235
Investment income (loss) *[note 4[b]]*	**1,540**		(2,152)
Amounts recognized as grants and donations	**(2,109)**		(2,663)
Transfer to deferred capital contributions *[note 10]*	**(4)**		(274)
Transfer to restricted endowments	**—**		(125)
Balance, end of year	**5,674**		4,116

NOTES TO FINANCIAL STATEMENTS

April 30, 2010

10. 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:

	2010 $	[000's]	2009 $
Balance, beginning of year	**14,312**		14,792
Contributions received for capital purposes	**304**		1,071
Investment income (loss) *[note 4[b]]*	**3**		(5)
Amortization of deferred capital contributions	**(921)**		(841)
Transfer from deferred contributions *[note 9]*	**4**		274
Transfer to restricted endowments	**—**		(100)
Amounts recognized as grants and donations	**(7)**		(879)
Balance, end of year	**13,695**		14,312
Consisting of			
Contributions and income for which expenditures have been made	**21,473**		20,892
Accumulated amortization	**(8,129)**		(7,323)
	13,344		13,569
Contributions and income for which expenditures have not been made	**351**		743
	13,695		14,312

11. 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.

NOTES TO FINANCIAL STATEMENTS

April 30, 2010

Investment income on endowments related to amounts for specific operating purposes is recorded in deferred contributions. Once the expenditure has been incurred, the related income is recorded in the Statement of Revenue and Expenses. To the extent there are investment losses in excess of the deferred contribution balances related to specific endowments, these losses are allocated to endowments. Investment income and losses on unrestricted balances and internally restricted endowments are recognized in the Statement of Revenue and Expenses.

[a] Endowments consist of the following:

	2010 $	[000's]	2009 $
Externally restricted	**32,031**		28,376
Internally restricted	**30,302**		30,114
	62,333		58,490

[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:

	2010				2009
	OSOTF I $	OSOTF II $	OTSS $	Total $	Total $
		[000's]			
Balance, beginning of year	7,104	1,102	2,506	10,712	10,308
Contributions received	—	—	178	178	241
Provincial matching funds	—	—	130	130	100
Other matching funds	—	—	73	73	63
Balance, end of year	7,104	1,102	2,887	11,093	10,712

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:

	2010				2009
	OSOTF I $	OSOTF II $	OTSS $	Total $	Total $
			[000's]		
Balance, beginning of year	**316**	**74**	**136**	**526**	624
Investment income, net of expenses	**257**	**40**	**98**	**395**	208
Bursaries awarded	**(184)**	**(31)**	**(25)**	**(240)**	(306)
Balance, end of year	**389**	**83**	**209**	**681**	526

The fair value of the OSOTF Phase I endowment and expendable funds at year end is $7,578,000 [2009 - $6,752,000]. For the year ended April 30, 2010, there were 72 OSOTF Phase I award recipients [2009 - 90 OSOTF Phase I recipients].

12. 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.

An early retirement window is in force between July 1, 2010 and June 30, 2011 whereby, under certain conditions, employees who retire before age 65 will have the actuarial reduction set at 3% per annum for each year that retirement precedes age 60 and no actuarial reduction for early retirement from age 60 to 65. The normal actuarial reduction is 6% per annum for each year of early retirement.

NOTES TO FINANCIAL STATEMENTS

April 30, 2010

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 valuation of the Retirement Plan for funding purposes was as of December 31, 2006, and the next required valuation will be no later than December 31, 2009.

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

	2010		2009	
	Pension benefits $	**Health benefits** $	**Pension benefits** $	**Health benefits** $
		[000's]		
Change in benefit obligation				
Benefit obligation, beginning of year	**19,527**	**3,788**	21,665	4,733
Current service cost	**572**	**99**	729	150
Interest cost	**1,453**	**286**	1,247	277
Benefits paid	**(1,447)**	**(147)**	(1,410)	(135)
Actuarial (gain) loss	**2,725**	**1,435**	(2,704)	(1,237)
Benefit obligation, end of year	**22,830**	**5,461**	19,527	3,788
Change in plan assets				
Fair value of plan assets, beginning of year	**16,951**	**—**	21,463	—
Employer contributions	**514**	**147**	104	135
Employee contributions	**339**	**—**	305	—
Return on plan assets	**2,484**	**—**	(3,511)	—
Benefits paid	**(1,447)**	**(147)**	(1,410)	(135)
Fair value of plan assets, end of year	**18,841**	**—**	16,951	—
Reconciliation of funded status				
Funded status - deficit	**(3,989)**	**(5,461)**	(2,576)	(3,788)
Unamortized past service cost	**989**	**—**	1,102	—
Unamortized (gain) loss	**6,795**	**1,095**	5,375	(339)
Accrued post-employment benefit asset (liability)	**3,795**	**(4,366)**	3,901	(4,127)

NOTES TO FINANCIAL STATEMENTS

April 30, 2010

	2010		2009	
	Pension benefits $	Health benefits $	Pension benefits $	Health benefits $
	[000's]			
Plan expense				
Current service cost	**572**	**99**	729	150
Employee contributions	**(339)**	**—**	(305)	—
Interest on accrued benefits	**1,453**	**286**	1,247	277
Expected return on assets	**(1,289)**	**—**	(1,576)	—
Actuarial (gains) losses	**1,733**	**1,435**	2,187	(1,237)
Adjustment to experience (gain) loss	**(1,623)**	**(1,434)**	(2,187)	1,269
Prior service cost	**113**	**—**	113	—
Net plan expense	**620**	**386**	208	459
Reconciliation of accrued benefit liability				
Balance, beginning of year	**3,901**	**(4,127)**	4,005	(3,803)
Employer contributions	**514**	**147**	104	135
Net plan expense	**(620)**	**(386)**	(208)	(459)
Balance, end of year	**3,795**	**(4,366)**	3,901	(4,127)

The assets of the Retirement Plan are invested as follows:

	2010		2009	
	$	%	$	%
Canadian equities	**6,232**	**33.1**	5,701	33.6
U.S. equities	**2,706**	**14.4**	2,114	12.5
Other international equities	**2,519**	**13.4**	2,258	13.3
Fixed income	**6,489**	**34.4**	5,919	34.9
Cash and short-term notes	**895**	**4.7**	959	5.7
	18,841	**100.0**	16,951	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 cost:

	Pension benefit plans		Health benefit plans	
	2010	**2009**	**2010**	**2009**
	%	%	%	%
Accrued benefit obligation				
Discount rate	**5.50**	7.50	**5.50**	7.50
Rate of compensation increase	**3.00**	3.00	—	—
Benefit cost				
Discount rate	**7.50**	5.75	**7.50**	5.75
Expected long-term rate of return on plan assets	**7.00**	7.00	—	—
Rate of compensation increase	**3.00**	3.00	—	—

In addition, 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 8.0% in 2010 [2009 - 8.5%], decreasing gradually to 5.0% in 2016 and remaining level thereafter.

The University resumed employer current service contributions to the Retirement Plan in April 2009 following the expiration of a pension holiday that began in 1997.

13. ST. MICHAEL'S COLLEGE FOUNDATION

The University has an economic interest in the Foundation. At December 31, 2009 and 2008, the net assets of the Foundation were approximately $15,979,000 and $14,485,000, respectively.

During the year, the Foundation granted a total of $370,000 [2009 - $639,000] to the University to fund scholarships, bursaries, programmes and general operations.

14. STATEMENT OF CASH FLOWS

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

	2010 $	[000's]	2009 $
Sources (uses) of cash			
Accounts receivable	**(74)**		840
Prepaid expenses	**(16)**		(9)
Accounts payable and accrued liabilities	**2**		(6)
Deferred revenue	**108**		(128)
Deferred contributions	**1,558**		(3,459)
	1,578		(2,762)

15. BANK INDEBTEDNESS

The University has a bank line of credit of $9,000,000 [2009 - $9,000,000]. At April 30, 2010, $3,336,000 of the bank line of credit was utilized [2009 - $2,941,000]. The bank indebtedness is collateralized by a general security agreement and interest on the debt is a function of the bank's prime rate. The effective rate of interest on the bank indebtedness at April 30, 2010 was 1.67% [2009 - 3.25%].

16. 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, 2010, $9,447,000 [2009 - $9,763,000] 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. This Agreement has been designated as a hedge and determined to be an effective hedge. 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, 2010 and 2009, this floating rate of interest was 3.25%. 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. At April 30, 2010, the unpaid principal on this component of the financing was $9,366,000 [2009 - $9,679,000]. If the University had exercised early termination of the Agreement at April 30, 2010, this would have resulted in an additional payment of $1,536,000 [2009 - $2,444,000]. The change in the fair value of the interest rate swap of $908,000 [2009 - ($902,000)] is recorded in the Statement of Changes in Net Assets.

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

	$ [000's]
2011	415
2012	355
2013	379
2014	404
2015	430
2016 and thereafter	7,464

17. BAY STREET LAND SALE

The University entered into an agreement dated December 23, 2004 to sell a parcel of its land on Bay Street subject to fulfillment of a number of conditions. On October 27, 2008, all of the conditions had been fulfilled and the agreement was finalized for total proceeds of $32,167,000, resulting in an estimated net gain of $30,397,000. As a condition of the sale, the University remains liable for soil remediation costs related to the property. The net gain includes these costs which are currently estimated to be $1,400,000 and this amount has been included within accounts payable and accrued liabilities. The liability for soil remediation costs has been determined on the University's best estimate of the costs to be incurred. Actual costs for soil remediation will not be known until construction on the Bay Street land commences and could result in a material change in this liability.

By agreement with the Congregation of St. Basil, the University set aside 10% of the net gain from the sale, or $3,040,000, as an endowment. This amount has been included in the Statement of Changes in Net Assets in 2009 as an endowment contribution. The remainder of the net gain of $27,357,000 was recorded in the Statement of Revenue and Expenses in 2009 and subsequently transferred to internally restricted endowments.

The University received $5,000,000 of the sale proceeds on October 27, 2008 and a three-year mortgage agreement for the balance. The mortgage is interest free in the first year and bears interest at 5.5% payable semi-annually thereafter. Accordingly, the principal recorded on the Balance Sheet was reduced and imputed interest will be recorded each year. In 2010, imputed interest income of $550,000 has been included in investment income (loss) on the Statement of Revenue and Expenses. The University received a principal payment of $15,000,000 on October 27, 2009 and the balance of $12,167,000 is due October 27, 2011.

18. CONTINGENCIES

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 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. 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, 2009, the latest date that financial statements are available, CURIE had a surplus of $8,361,000 for the current underwriting period, of which the University's pro rata share is approximately 0.29%.

19. CAPITAL MANAGEMENT

In managing capital, the University focuses on liquid resources available for operations. The University's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The University has an available line of credit that is used when cash flow from operations is not sufficient to cover operating and capital expenditures. The need for liquid resources is considered in the preparation of the annual budget and in the monitoring of cash flows and operating results compared to the budget. As at April 30, 2010, the University had met its objective of having sufficient liquid resources to meet its current obligations.

NOTES TO FINANCIAL STATEMENTS

20. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.