



University of Toronto

BUSINESS AFFAIRS

TO: Audit Committee

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DATE: October 06, 2005 for October 26, 2005

AGENDA ITEM: 7

ITEM IDENTIFICATION:

Financial Statements of the University of Toronto Innovations Foundation for the year ending April 30, 2005

JURISDICTIONAL INFORMATION:

The Audit Committee reviews the financial statements of the University of Toronto Innovations Foundation on behalf of the Business Board. Business Board is required by its terms of reference to consider, and where appropriate, to accept the financial statements of the University's incorporated business ancillaries.

PREVIOUS ACTION TAKEN:

The 2004 financial statements of the University of Toronto Innovations Foundation were reviewed and accepted on November 24, 2004.

The 2005 financial statements were approved by the Board of the Innovations Foundation at their meeting on September 28, 2005.

HIGHLIGHTS:

The Innovations Foundation has been through a year of management change and strategic uncertainty following the departure of the CEO in August 2004.

The financial results of the Foundation have not achieved the levels set out in the plan provided in 2002. The investment revenues are significantly lower than originally projected and the loan repayment schedule will not be achievable.

The auditors have noted that there is a risk that the Foundation is not viable on a going concern basis. The Foundation had an accumulated deficit of \$7.9 million as at April 30, 2005, up from a deficit of \$5.5 million in 2004.

Subsequent events:

The University and the Foundation had initiated a review of the operations in 2004, chaired by the Honourable John Manley, and a number of actions are being taken as a result of that review.

One of the findings of the Manley report was that there was a need for closer integration of the Innovations Foundation and the Tech Transfer group within Research Services. Manley also identified a need for steady-state funding of the operations – in other words that the Foundation should not be expected to be self-funding, but that it should be funded by the University of Toronto.

In the spring of 2005, when it became apparent that the Foundation was not going to generate the revenues necessary to begin repayment of the loan according to the agreement, steps were taken to expedite the decision making process. Most of the external Board members were asked to resign and were replaced by senior administrators (Riggall, Goel and Challis). In addition to these three, Richard Owens, the Chair, Felix Chee, Pekka Sinnervo and Gary Goldberg were asked to remain on the Board through the transition.

In late June, Ron Venter was appointed Interim Executive Director and asked to manage the operation and recommend a more appropriate structure for the ongoing operation. He also was appointed to the Board.

At the most recent Board meeting on September 28, the Board agreed to begin the process of winding down the separate corporation and bringing the operations into the University of Toronto in the portfolio of the Vice-President, Research. This process will take several months and must be managed carefully so that we do not send any signal that the University is not committed to commercialization or knowledge transfer. The message that must be sent is that we can achieve the goal of increasing commercialization and knowledge transfer more effectively within the University.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

On October 11, 2005, the Business Board was asked to approve an increase in the line of credit to the Innovations Foundation in the amount of \$2 million, to permit the operations to continue until an orderly wind-down is completed. Once this is done, the annual operating costs of the group will become part of the operating budget of the University of Toronto. The timing of loan write-offs, if any are required, will be discussed with the auditors and will depend on the anticipated revenues that are still being generated from existing license arrangements. Investments now held by the Innovations Foundation are likely to be transferred to UTAM for ongoing management and eventual disposition.

RECOMMENDATION:

It is recommended that the Audit Committee recommend to the Business Board: THAT the financial statements of the University of Toronto Innovations Foundation for the year ending April 30, 2005 be accepted.