



University of Toronto

Vice-President, Business Affairs

Business Board Item 5

TO: Audit Committee

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DATE: June 8 for June 21, 2006.

AGENDA ITEM: 1

ITEM IDENTIFICATION:

Audited financial statements – April 30, 2006

JURISDICTIONAL INFORMATION:

The Audit Committee is responsible for reviewing the annual audited financial statements and recommending them for approval to the Business Board. The committee is responsible for assessing the adequacy of public disclosure of financial information. The highlights and supplementary report are provided for information.

PREVIOUS ACTION TAKEN:

The review of the draft notes was conducted on May 17, 2006.

HIGHLIGHTS:

The following documents are included for your review:

- Draft financial report including the audited financial statements, highlights and supplementary report,
- Ernst & Young's audit results*

Revenues for the year were \$1.78 billion, expenses were \$1.71 billion and net income was \$75.0 million. Although revenues have grown by 91.8% since 1999, this growth is primarily due to increased numbers of students and increased research activities. Expenses have nevertheless, continued to rise due both to inflation and to the increased numbers of faculty and staff to accommodate these increased levels of activities. It is important to remember that the University also has obligations of \$264.5 million in employee future benefits liabilities and future obligations of \$378.0 million for deferred and pending maintenance that are not included in the financial results.

* Not distributed to Business Board

The net assets of the University increased to \$1.9 billion from \$1.6 billion, an increase of \$240.3 million. This increase was made up of

- the net income of \$75.0 million,
- investment income of \$119.5 million on externally restricted endowments,
- the receipt of \$37.9 million of endowed donations, and
- the receipt of \$7.9 million of endowed grants.

Net assets were made up of the following:

- \$1.63 billion of endowments,
- \$283.9 million in investment in capital assets,
- \$134.8 million of internally restricted net assets and
- (\$171.1) million in unrestricted deficit.

The \$134.8 million in internally restricted net assets mainly reflects the setting aside of net assets for the University's supplemental retirement arrangement of \$147.2 million, divisional operating fund allocations unspent at year-end and carried forward for expenditure in the following year of \$146.4 million, departmental trust funds of \$76.1 million partially offset by the unfunded liability associated with employee future benefits of \$253.3 million.

The \$171.1 million in unrestricted deficit is largely due to internal financing of some capital construction in accordance with the University's debt strategy.

The operating fund cumulative deficit was \$59.5 million compared to a budgeted cumulative deficit of \$55.3 million. The maximum deficit permissible for the operating fund at the end of any six year planning period is 1.5% of operating revenues. At April 30, 2006, 1.5% of operating revenues was \$17.3 million. The long-range budget plan for the operating fund provides for the reduction of its cumulative deficit to meet this requirement by April 30, 2010 as required.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

None

RECOMMENDATION:

That the Audit Committee recommends for approval the University of Toronto audited financial statements for the year ended April 30, 2006.