



University of Toronto

BUSINESS AFFAIRS

TO: Business Board

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DATE: September 28, 2005 for October 11, 2005

AGENDA ITEM: 10

ITEM IDENTIFICATION:

Increase in line of credit provided to Innovations Foundation from \$11 million to \$13 million

JURISDICTIONAL INFORMATION:

Business Board is responsible for the oversight of the Innovations Foundation and has delegated the review of the financial statements to the Audit committee. Business Board approves the line of credit.

PREVIOUS ACTION TAKEN:

The original line of credit of \$2.5 million was approved by the Business Board in 1999. An increase of \$8.5 million was approved at the meeting of May 6, 2002 to support a change in the business strategy. This approval was conditional on the matter being referred back to the Business Board for consideration if the amount drawn in any year exceeded the original estimate.

HIGHLIGHTS:

The Innovations Foundation has been through a year of turmoil following the departure of the CEO in August 2004 (and for the year previous to that date.)

The financial results of the Foundation have not achieved the levels set out in the plan provided in 2002, when the additional credit was approved. The loan agreement provided that the Foundation could draw down the funds until April 2006, and that it would then be in a position to commence repayment. Unfortunately, this is not the situation. The loan will be fully drawn by the end of October. The investment revenues are significantly lower than originally projected and the repayment schedule will not be achievable.

The audited financial statements for the year ending April 30, 2005 will be reviewed by the Audit Committee at their meeting of October 23. The auditors have noted that there is a risk that the Foundation is not viable on a going concern basis.

Since early spring, when the situation became apparent, the Board of the Innovations Foundation has been reviewing the operation, the plans and the staffing with assistance from university administration. An Interim Executive Director was appointed effective July 1 and charged with maintaining the organizational momentum while he recommends the structure, process and staffing needed for the future.

One of the options under consideration is winding down the Foundation and integrating the operations into the portfolio of the Vice President Research. While this review continues, it is necessary to fund the ongoing operations of the Innovations Foundation. An increase in the loan is required. The deficit rate is currently about \$200k per month, so an increase of \$2 million will give us up to 10 months to make the necessary changes.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

Shutting down the Innovations Foundation as a separate corporation will have a number of financial implications including the write-off of all or part of the loan through the operating fund and an increase in the operating budget to include the expenses of the unit.

The only alternative to increasing the loan amount to cover the deficit is to charge the immediate expenses directly to the operating fund. The total impact to the University will be the same in either case.

We recommend the loan increase, as this will keep the financial picture clear and will avoid the risk that the Innovations Foundation could be put into bankruptcy. This would be highly undesirable, as it could be interpreted as the University withdrawing its commitment to commercialization and knowledge transfer, when we are simply going to restructure the manner in which the function is conducted and the way in which the operation is financed.

RECOMMENDATION:

It is recommended that the Business Board approve:

THAT the Innovations Foundation line of credit be increased by up to \$2million to cover the shortfall anticipated during the restructuring period.