



**CONFIDENTIAL
UNTIL RECOMMENDED FOR APPROVAL
BY THE AUDIT COMMITTEE**

TO: Audit Committee

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DATE: June 3 for June 17, 2009.

AGENDA ITEM: Audit Committee item 4(a)
Business Board item 3

ITEM IDENTIFICATION:

Audited Financial Statements – April 30, 2009

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 19, 2009.

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 \$1.9 billion, expenses were \$2.1 billion and net loss was \$169.2 million. Although revenues have grown by 78.1% since 2000, this growth is primarily due to increased numbers of students and increased research activities. Expenses have nevertheless, continued to rise mainly due 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 \$540.1 million in employee future benefits liabilities and future obligations of \$357.0 million for deferred and pending maintenance that are not included in the financial results.

The University, like other organizations, has not been immune to the shockwaves of the current economic crisis and the ongoing turbulence in the world's financial markets. This year, as a result of severe financial market losses, the University has suspended its 2009 allocation for

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spending from the endowments in order to preserve their underlying value. The 2009-10 operating budget has also been structured to enable individual faculties and divisions to run deficits, where necessary, the aggregate sum of which will not exceed \$45 million to ensure that their commitments are met. These divisional deficits are to be repaid over the next five years

The University reported an investment loss of \$545.0 million on its endowments and a \$63.4 million loss on investments other than those held for endowments. The financial results demonstrate that the University essentially operated on budget and in a break-even mode in 2008-09, with the exception of these one year investment losses resulting from the severe disruptions in financial markets.

The net assets of the University decreased from \$2.17 billion to \$1.62 billion. The changes for the year were as follows

- the net loss of \$169.2 million which include the investment loss on internally restricted endowments of \$83.3 million.
- the receipt of \$49.4 million of endowed donations,
- the receipt of \$27.0 million of endowed grants,
- net loss on externally restricted endowments of \$461.7 million,
- Unrealized loss on swap contracts of \$2.7 million

Net assets were made up of the following:

- \$1.29 billion of endowments,
- \$562.8 million of internally restricted net assets and
- (\$232.0) million in unrestricted deficit.

The \$562.8 million in internally restricted net assets mainly reflects \$383.8 million of investment in capital assets representing internal monies previously spent by the University for capital projects which will be reduced over time as the assets are amortized. Internally restricted net assets also includes \$179.0 million of reserves set aside which include funds for the University's supplemental retirement and pension arrangement of \$131.0 million, divisional reserves of \$241.3 million, alterations and renovations funds of \$62.9 million, departmental trust funds of \$67.7 million and other reserves of \$26.3 million, partially offset by the unfunded liability associated with employee future benefits of \$350.2 million.

The \$232.0 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 for the year was \$52.0 million compared to a projected cumulative deficit of \$43.9 million. The difference between the planned deficit and the actual deficit represents net negative variances of \$8.1 million that will be charged to academic divisions in 2009-10 in accordance with the new budget model. After this adjustment, the opening cumulative operating deficit for 2009-10 will be \$43.9 million as planned. The long-range budget plan for the operating fund provides for the reduction of the deficit to meet the requirement for a balanced budget by April 30, 2013.

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, 2009.