



TO: Audit Committee

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DATE: June 5 for June 18 meeting.

AGENDA ITEM: Audit Committee, item 3
Business Board, item 3

ITEM IDENTIFICATION:

Audited financial statements and notes– April 30, 2003

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 supplementary financial report is provided for information.

PREVIOUS ACTION TAKEN:

The review of the draft financial statements and notes was conducted on May 21, 2003.

HIGHLIGHTS:

The following documents are included for your review:

- Draft financial statements and notes
- Draft supplementary financial report

[The Audit Committee also received a detailed report on Ernst & Young's audit results.]

Key challenges for this year and continuing forward are student enrolment growth, program quality enhancements and research growth and their associated capital requirements in an environment where growth in revenues is lagging growth in expenses and where the investment markets are performing poorly.

The University's expenses for the year of \$1.41 billion exceeded revenues of \$1.25 billion, resulting in a net loss of \$164.4 million. Over the past 5 years, expenses have grown at a compound growth rate of 9.9% while revenues have grown only at 4.7%. The University is pursuing a strategy of increasing revenues and containing expenses. The strategy for increasing revenues has already resulted in significant successes in obtaining funding for enrolment growth and funding for the indirect costs of federally funded research. The strategy for containing expenses includes base budget reductions in 2003-04.

The capital of the University declined to \$1.26 billion from \$1.5 billion, a reduction of \$236.3 million. This reduction was made up of the net loss of \$164.4 million and the investment loss of \$111.8 million on externally restricted endowments offset by the receipt of \$39.9 million of endowed donations and grants.

The University has recently adopted a revised policy whereby the investment return expectations has been reduced from 5% to 4% and where the risk tolerance has been reduced and is currently reviewing and revising the asset mix to realign it with the revised policy requirements.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

None

RECOMMENDATION:

Receipt of the draft financial statements and notes for 2003 and recommendation to the Business Board.