

## AUDITORS' REPORT

To the Members of the  
**The Princess Margaret Hospital Foundation**

We have audited the balance sheet of **The Princess Margaret Hospital Foundation** as at March 31, 2005 and the statement of revenue, expense and changes in fund balances for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied, on a basis consistent with that of the preceding year.

*Ernst & Young LLP*

Toronto, Canada,  
June 1, 2005.

Chartered Accountants

**The Princess Margaret Hospital Foundation**  
 Incorporated under the laws of Canada

**BALANCE SHEET**

As at March 31

	2005	2004
	\$	[000's] \$
<b>ASSETS</b>		
Cash <i>[note 3]</i>	32,069	40,881
Accounts receivable	50	59
Deferred expenses <i>[notes 9 and 10]</i>	4,308	4,893
Investments, at market <i>[note 4]</i>	186,475	151,342
Capital assets, net <i>[note 5]</i>	105	94
	<b>223,007</b>	<b>197,269</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Due to University Health Network <i>[note 13[b]]</i>	6,497	3,936
Accounts payable	806	506
Deferred revenue <i>[notes 9 and 10]</i>	20,927	27,048
<b>Total liabilities</b>	<b>28,230</b>	<b>31,490</b>
<b>Fund balances</b>		
General Fund		
Unrestricted	787	806
Invested in capital assets	105	94
	<b>892</b>	<b>900</b>
Restricted Fund <i>[note 6]</i>	106,583	85,425
Endowment Fund <i>[note 7]</i>	87,302	79,454
<b>Total fund balances</b>	<b>194,777</b>	<b>165,779</b>
	<b>223,007</b>	<b>197,269</b>

*See accompanying notes*

On behalf of the Board:

Director

Director

The Princess Margaret Hospital Foundation

STATEMENT OF REVENUE, EXPENSE AND CHANGES IN FUND BALANCES

Year ended March 31

	<u>General Fund</u>		<u>Restricted Fund</u>		<u>Endowment Fund</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	\$ [000's]	\$	\$ [000's]	\$	\$ [000's]	\$	\$ [000's]	\$
<b>REVENUE</b>								
Fundraising, net <i>[note 8]</i>	2,774	2,647	20,776	10,658	4,034	7,091	27,584	20,396
Weekend to End Breast Cancer, net <i>[note 9]</i>	—	—	10,891	8,543	—	—	10,891	8,543
Lotteries, net <i>[note 10]</i>	—	—	19,906	13,101	—	—	19,906	13,101
Investment income <i>[note 11]</i>	3,106	3,032	4,114	6,424	—	5,344	7,220	14,800
	<b>5,880</b>	5,679	<b>55,687</b>	38,726	<b>4,034</b>	12,435	<b>65,601</b>	56,840
<b>EXPENSE</b>								
Fundraising and administrative <i>[note 13]</i>	4,111	3,197	214	503	—	—	4,325	3,700
Excess of revenue over expense before grants	1,769	2,482	55,473	38,223	4,034	12,435	61,276	53,140
Grants								
Ontario Cancer Institute/Princess Margaret Hospital <i>[note 13]</i>	2	13	32,276	29,960	—	—	32,278	29,973
<b>Excess of revenue over expense and grants for the year</b>	<b>1,767</b>	2,469	<b>23,197</b>	8,263	<b>4,034</b>	12,435	<b>28,998</b>	23,167
Fund balances, beginning of year	900	1,310	85,425	77,190	79,454	64,112	165,779	142,612
Interfund transfers <i>[note 12]</i>	(1,775)	(2,879)	(2,039)	(28)	3,814	2,907	—	—
<b>Fund balances, end of year</b>	<b>892</b>	900	<b>106,583</b>	85,425	<b>87,302</b>	79,454	<b>194,777</b>	165,779

See accompanying notes

## **The Princess Margaret Hospital Foundation**

### **NOTES TO FINANCIAL STATEMENTS**

[in thousands]

March 31, 2005

#### **1. PURPOSE OF THE ORGANIZATION**

The Princess Margaret Hospital Foundation [the "Foundation"] is incorporated under the Canada Corporations Act. The Foundation was established to solicit, receive and maintain funds and to apply these funds to improve and enhance cancer research, professional education and patient care activities provided by the Ontario Cancer Institute/Princess Margaret Hospital ["OCI/PMH"], which are part of the University Health Network ["UHN"].

The Foundation is a public foundation registered under the Income Tax Act (Canada) [the "Act"] and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes, under Registration Number 88900 7597 RR 0001. In order to maintain its status as a public foundation registered under the Act, the Foundation must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Foundation have been prepared in accordance with Canadian generally accepted accounting principles. The following summary of significant accounting policies is set forth to facilitate the understanding of these financial statements:

##### **Fund accounting**

In order to ensure observance of the limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by the donors or in accordance with directives issued by the Board of Directors [the "Board"]. Transfers between the funds are made when it is considered appropriate and authorized by the Board. To meet these objectives of financial reporting and stewardship over assets, certain interfund transfers are necessary to ensure the appropriate allocation of assets and liabilities to the respective funds. These interfund transfers are recorded in the statement of revenue, expense and changes in fund balances.

# **The Princess Margaret Hospital Foundation**

## **NOTES TO FINANCIAL STATEMENTS**

[in thousands]

March 31, 2005

For financial reporting purposes, the accounts have been classified into the following funds:

### **[a] General Fund**

The General Fund accounts for the Foundation's general fundraising, granting and administrative activities. The General Fund reports unrestricted resources available for immediate purposes.

### **[b] Restricted Fund**

The Restricted Fund includes those funds where resources are to be used for an identified purpose as specified by the donor, as stipulated by the fundraising appeal or as determined by the Board.

### **[c] Endowment Fund**

The Endowment Fund includes those funds where either donor or internal restrictions require that the principal be maintained by the Foundation on a permanent basis.

## **Investments and investment income**

The investments of the Foundation are recorded at market value. Investment income includes dividends, interest, realised gains (losses) and changes in unrealised gains (losses).

Investment income earned on Endowment Fund or Restricted Fund resources that must be spent on donor-restricted activities is recognized as revenue of the Restricted Fund. Investment income subject to donor restrictions stipulating that it be added to the principal amount of the endowment is recognized as revenue of the Endowment Fund. Unrestricted investment income earned on Endowment Fund, Restricted Fund and General Fund resources is recognized as revenue of the General Fund.

## **Translation of foreign currencies**

The cost of investments, revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the transaction date. The market value of investments and other monetary items denominated in foreign currencies are translated at the year-end rate.

## **The Princess Margaret Hospital Foundation**

### **NOTES TO FINANCIAL STATEMENTS**

[in thousands]

March 31, 2005

#### **Revenue recognition**

Donations and bequests are recorded on a cash basis since pledges are not legally enforceable claims.

Donor-restricted donations for endowment purposes are recognized as revenue in the Endowment Fund. Other donor-restricted donations are recognized as revenue of the Restricted Fund. Unrestricted donations are recognized as revenue of the General Fund.

Lottery revenue and revenue from the Weekend to End Breast Cancer and other events are recognized net of all related expenses in the fiscal year in which the program is concluded. Revenue and expenses related to lotteries for which prize draws take place and events that take place subsequent to the year end are deferred.

#### **Grant recognition**

Grants are recognized when payable.

#### **Contributed goods and services**

Contributed capital assets that are transferred to UHN are recognized at their fair market value in the financial statements. Other contributed goods and services are not recognized.

#### **Capital assets**

Purchased capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at fair value at the date of contribution.

Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Office equipment	10 years
Computer hardware and software	3 years

#### **Financial instruments**

The carrying values of financial instruments are equal to their fair values unless otherwise noted. The Foundation is subject to market, currency and interest rate risk with respect to its investments.

## The Princess Margaret Hospital Foundation

### NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2005

#### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### 3. CASH

Cash consists primarily of amounts held for the Restricted Fund and net funds received in advance related to lotteries and events to be held during the next fiscal year.

#### 4. INVESTMENTS

Investments consist of the following:

	2005		2004	
	Market value \$	Cost \$	Market value \$	Cost \$
Short-term investments	<b>27,300</b>	<b>27,340</b>	30,791	30,800
Bonds				
Canada/Provincial	<b>52,810</b>	<b>51,876</b>	57,798	55,177
Corporate	<b>25,375</b>	<b>24,941</b>	26,471	24,810
	<b>78,185</b>	<b>76,817</b>	84,269	79,987
Equities				
Canadian	<b>14,960</b>	<b>9,753</b>	10,824	7,615
U.S. and other foreign	<b>24,617</b>	<b>26,215</b>	24,229	26,305
	<b>39,577</b>	<b>35,968</b>	35,053	33,920
Units of pooled hedge funds	<b>41,413</b>	<b>41,235</b>	1,229	1,187
	<b>186,475</b>	<b>181,360</b>	151,342	145,894

## The Princess Margaret Hospital Foundation

### NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2005

The weighted average yield and average term to maturity for the fixed income securities are as follows:

	2005		2004	
	Weighted average yield %	Average term to maturity [years]	Weighted average yield %	Average term to maturity [years]
Short-term investments	2.47	0.1	2.32	0.3
Canada/Provincial bonds	3.79	4.8	3.12	8.8
Corporate bonds	4.14	5.4	3.63	4.9

Investments are managed as two pools:

- Investments related to the Endowment Fund are invested as follows: short-term investments - 6% [2004 - 13%], equities - 46% [2004 - 43%], bonds - 2% [2004 - 44%] and hedge funds - 46% [2004 - 0%].
- Investments related to the General and Restricted Funds are substantially invested in short-term investments and bonds.

#### 5. CAPITAL ASSETS

Capital assets consist of the following:

	2005			2004		
	Cost \$	Accumulated amortization \$	Net book value \$	Cost \$	Accumulated amortization \$	Net book value \$
Office equipment	186	83	103	157	65	92
Computer hardware and software	71	69	2	70	68	2
	257	152	105	227	133	94

**The Princess Margaret Hospital Foundation**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands]

March 31, 2005

**6. RESTRICTED FUND**

The Restricted Fund consists of funds available for spending that are restricted by donors or the Board for the following purposes:

	<b>2005</b>	<b>2004</b>
	\$	\$
<hr/>		
<b>Donor-restricted balances</b>		
Restricted for research purposes	<b>91,375</b>	73,733
Restricted for purchase of capital assets	<b>5,008</b>	1,886
Restricted for patient support and other	<b>8,177</b>	7,906
	<hr/> <b>104,560</b>	<hr/> 83,525
<b>Internally imposed restrictions</b>		
Restricted for research purposes	<b>1,788</b>	1,662
Other	<b>235</b>	238
	<hr/> <b>2,023</b>	<hr/> 1,900
	<hr/> <b>106,583</b>	<hr/> 85,425
	<hr/>	<hr/>

**7. ENDOWMENT FUND**

The Endowment Fund consists of externally restricted contributions received by the Foundation where the endowment principal is required to be maintained intact. The Endowment Fund also includes internal resources transferred by the Board to the Endowment Fund, with the intention that the principal be maintained intact. The investment income generated from assets held for endowment purposes must be used in accordance with the various purposes established by the donors or the Board.

**The Princess Margaret Hospital Foundation**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands]

March 31, 2005

Major categories of restrictions on fund balances are as follows:

	2005	2004
	\$	\$
<b>Externally imposed endowments</b>		
Endowments, the income from which must be used for research purposes	62,715	59,063
Endowments, the income from which must be used for other restricted purposes	10,225	9,260
	<b>72,940</b>	<b>68,323</b>
<b>Internally imposed endowments approved by the Board</b>		
Funds restricted for research	11,751	9,321
Funds restricted for other purposes	761	768
Unrestricted funds	1,850	1,042
	<b>14,362</b>	<b>11,131</b>
	<b>87,302</b>	<b>79,454</b>

In 2005, the Foundation transferred \$1,000 from internally designated to externally designated endowments as a result of commitments under gifting arrangements to match certain donations during the year for chairs and professorships.

**8. FUNDRAISING**

	<u>General Fund</u>		<u>Restricted Fund</u>		<u>Endowment Fund</u>	
	2005	2004	2005	2004	2005	2004
	\$	\$	\$	\$	\$	\$
Fundraising revenue						
Annual programs	1,710	1,328	6,133	6,586	477	450
Major gifts and bequests	1,346	1,494	16,580	6,454	3,557	6,641
	<b>3,056</b>	2,822	<b>22,713</b>	13,040	<b>4,034</b>	7,091
Less direct program costs	282	175	1,937	2,382	—	—
Net fundraising	<b>2,774</b>	2,647	<b>20,776</b>	10,658	<b>4,034</b>	7,091

## The Princess Margaret Hospital Foundation

### NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2005

#### 9. WEEKEND TO END BREAST CANCER

During the year, the Foundation held a fundraising event, the Weekend to End Breast Cancer. Financial results are as follows:

	2005	2004
	\$	\$
<b>Revenue</b>	<b>15,302</b>	12,532
<b>Expenses</b>		
Logistics	1,508	1,653
Marketing and other	2,903	2,336
	<b>4,411</b>	3,989
	<b>10,891</b>	8,543

As at March 31, 2005, costs of \$1,054 [2004 - \$1,184] incurred and revenue of \$2,528 [2004 - \$2,170] received during the year ended March 31, 2005 associated with the event to be held in September 2005 have been deferred and recorded in the balance sheet. The results of the event will be recorded as revenue and expense in the financial statements for the year ending March 31, 2006.

#### 10. LOTTERIES

During each of the years ended March 31, 2005 and 2004, the Foundation held two lotteries. Financial results of the lotteries are as follows:

	2005	2004
	\$	\$
<b>Revenue</b>	<b>61,933</b>	52,165
<b>Expenses</b>		
Prizes	25,000	23,494
Marketing and other	17,027	15,570
	<b>42,027</b>	39,064
	<b>19,906</b>	13,101

Prior to March 31, 2005, the Foundation committed to carrying out the spring 2005 Princess Margaret Hospital Home Lottery [the "Lottery"], which was completed during May 2005 with net proceeds of approximately \$9,000.

## The Princess Margaret Hospital Foundation

### NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2005

As at March 31, 2005, costs of \$3,061 [2004 - \$3,683] incurred and revenue of \$18,269 [2004 - \$24,822] received during the year ended March 31, 2005 associated with the Lottery have been deferred and recorded in the balance sheet. The results of the Lottery will be recorded as revenue and expense in the financial statements for the year ending March 31, 2006.

The Foundation has a standby letter of credit of \$14,235 that expires on July 19, 2005 obtained in connection with the Lottery.

Subsequent to March 31, 2005, the Foundation committed to carrying out the fall 2005 Princess Margaret Hospital Foundation Cash & Cars Lottery [the "Cash & Cars Lottery"].

The Foundation has a standby letter of credit of \$12,094 that expires in January 2006 obtained in connection with the Cash & Cars Lottery.

#### 11. INVESTMENT INCOME

[a] Investment income earned on the Foundation's assets consists of the following:

	2005	2004
	\$	\$
Interest, dividends and realised gains	<b>6,475</b>	7,351
Net change in unrealised gain on investments	<b>1,130</b>	7,684
	<b>7,605</b>	15,035
Less investment management and custodial fees	<b>385</b>	235
	<b>7,220</b>	14,800

[b] Investment income is allocated among the funds based on the Foundation's capital preservation policy. This policy has the objective of protecting the real value of the endowments by limiting the amount of earned income available for spending and requiring the reinvestment of any income earned in excess of this limit. This preservation of capital is recorded as revenue of the Endowment Fund for externally endowed funds. For internally endowed funds, the preservation of capital is recorded as income of the General Fund and transferred to the Endowment Fund in the statement of revenue, expense and changes in fund balances. In any year, should net investment income not be sufficient to fund the amount required for spending, the amount that is to be made available for spending is funded by accumulated reinvested income. However for individual funds without sufficient reinvested income, endowment capital is transferred to the Restricted Fund for this purpose. This amount is expected to be recovered by future net investment income.

## The Princess Margaret Hospital Foundation

### NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2005

Currently, the income available for spending is set at 5% of the market value of the Endowment Fund balances. Effective January 1, 2004, an additional 1% is recorded in the General Fund to cover administrative costs.

Investment income recorded in the Restricted Fund represents income earned on endowments where the donor has stipulated that the income must be used for restricted purposes or where there are agreements requiring income to be allocated to restricted funds.

[c] Gains and losses arising from the sale of donated investments that fund specific endowed or restricted funds are recorded in these funds.

[d] In 2005, no investment income was available for preservation of capital of endowments. The shortfall to fund the amount required for spending of \$612 for externally endowed funds and of \$95 for Board endowed funds was recorded as a transfer from the Endowment Fund to the Restricted Fund.

In 2004, investment income of \$6,209 was allocated for the preservation of capital. Of this amount, \$5,344 related to externally endowed funds was recorded as investment income in the Endowment Fund. Capital preservation of \$865 related to Board endowed funds was recorded as income in the General Fund and then transferred to the Endowment Fund.

The amount of investment income available for spending related to internally endowed funds of \$433 [2004 - \$496] is recorded as revenue in the General Fund and then transferred to the Restricted Fund.

[e] The Board also approved net transfers to the Endowment Fund of \$1,342 [2004 - \$1,518] from the General Fund and \$3,179 [2004 - \$524] from the Restricted Fund relating to internally endowed bequests and changes in the designation of funds as directed by donors or the Board.

**The Princess Margaret Hospital Foundation**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands]

March 31, 2005

**12. INTERFUND TRANSFERS**

Transfers between funds consist of the following:

	<u>General Fund</u>		<u>Restricted Fund</u>		<u>Endowment Fund</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	\$	\$	\$	\$	\$	\$
Board and donor approved						
re: fund restrictions [note 11[e]]	(1,342)	(1,518)	(3,179)	(524)	4,521	2,042
Allocation of investment						
income in accordance						
with Board policy [note 11[d]]	(433)	(496)	1,140	496	(707)	—
Preservation of capital						
re: internally restricted						
endowments [note 11[d]]	—	(865)	—	—	—	865
	<b>(1,775)</b>	<b>(2,879)</b>	<b>(2,039)</b>	<b>(28)</b>	<b>3,814</b>	<b>2,907</b>

**13. RELATED PARTY TRANSACTIONS**

[a] During the year, the Foundation funded the following projects carried out at the OCI/PMH:

	<u>General Fund</u>		<u>Restricted Fund</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	\$	\$	\$	\$	\$	\$
Equipment	—	11	2,368	4,881	2,368	4,892
Research	2	2	28,410	25,079	28,412	25,081
Construction of centres						
within the hospital	—	—	1,498	—	1,498	—
	<b>2</b>	<b>13</b>	<b>32,276</b>	<b>29,960</b>	<b>32,278</b>	<b>29,973</b>

[b] UHN provides certain services to the Foundation and pays some expenses on behalf of the Foundation. The Foundation reimburses UHN for all direct costs associated with services provided and expenses paid. Administrative expenses include a charge of \$176 [2004 - \$168] paid to UHN for office space and service fees.

[c] The Foundation pays certain common expenses on behalf of affiliated foundations and is reimbursed for these expenses. In addition, the Foundation reimburses affiliated foundations for those common expenses incurred by these foundations on behalf of the Foundation.

[d] Salaries, benefits and certain other expenses are paid by UHN and are reimbursed by the Foundation.

## The Princess Margaret Hospital Foundation

### NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2005

#### 14. CONTINGENCY AND COMMITMENTS

- [a] Subsequent to March 31, 2005, the Foundation approved plans to make a research grant of \$13,500 to OCI/PMH which will be expensed during the year ending March 31, 2006.
- [b] The Foundation has committed to raise funds through capital campaigns for the establishment of a CT/PET Imaging Centre at UHN. The final payment of \$652 is to be paid in 2006 of the total commitment for \$4,700.

#### 15. UNIVERSITY OF TORONTO GRADUATE STUDENT ENDOWMENT

During 1997, the Foundation negotiated an agreement in which a grant of \$3,300 from the Foundation to the University of Toronto [the "University"] was matched equally by the University and the Ontario Government through the Ontario Student Opportunity Trust Fund. This established a \$9,900 endowment to be held by the University for the benefit of graduate students studying with University faculty members located at the hospital facilities and engaged in cancer research.

The following financial results for the year ended April 30, 2005 were reported by the University to the Foundation:

	<b>Endowment Fund</b>	<b>Expendable Fund</b>
	\$	\$
<b>Balance, at market value, as at April 30, 2004</b>	<b>10,748</b>	441
Investment gain	<b>794</b>	—
Transfer to Expendable Fund	<b>(419)</b>	419
Student awards	—	(430)
<b>Balance, at market value, as at April 30, 2005</b>	<b>11,123</b>	430

#### 16. STATEMENT OF CASH FLOWS

A separate statement of cash flows has not been presented since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.