

Financial Statements

The Princess Margaret Hospital Foundation

March 31, 2003

*Together
We Make
Life Better*



Together We Make Life Better



Princess Margaret Hospital

University Health Network

The Princess Margaret Hospital Foundation

March 31, 2003

Responsibility for Financial Reporting

The accompanying financial statements of The Princess Margaret Hospital Foundation were prepared by management in accordance with generally accepted accounting principles.

Management is responsible for the integrity and objectivity of the financial statements and has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board exercises its responsibilities through the Investment Committee, composed of members of the Board, who meet regularly with representatives of management and with the external investment managers and consultants, to monitor the performance of the investment portfolio. The Audit & Accountability Committee comprised of members of the Board and the community, meets regularly with management to monitor the financial activity of the Foundation together with the functioning of the accounting and control systems. This Committee also meets with management and the external auditors to review the results of the auditing activity.

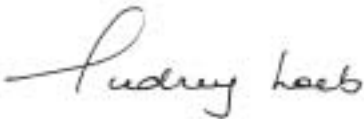
The external auditors have conducted an independent audit, in accordance with generally accepted standards, and have expressed their opinions on the financial statements. Their report outlines the nature of their audit and their opinion on the fairness of the financial statements of The Princess Margaret Hospital Foundation and the accounting principles followed in management's preparation thereof.



Keith Ambachtsheer
Chair, Investment Committee



Neville W. Kirchmann
President & CEO



Audrey M. Loeb
Member, Audit & Accountability Committee



Frank J. Copping, CA
Treasurer

AUDITORS' REPORT

To the Members of
The Princess Margaret Hospital Foundation

We have audited the balance sheet of **The Princess Margaret Hospital Foundation** as at March 31, 2003 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, 2003 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.

Toronto, Canada,
June 20, 2003.

Chartered Accountants

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>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	\$ [000's]	\$	\$ [000's]	\$		\$ [000's]	\$	\$ [000's]	\$
REVENUE									
Fundraising	967	463	14,550	12,782		2,870	3,888	18,387	17,133
Bequests	1,029	1,001	258	912		654	54	1,941	1,967
Grant from University Health Network <i>[note 5]</i>	—	—	38,731	—		—	—	38,731	—
Investment income <i>[note 8]</i>	1,643	2,135	2,543	2,523		—	286	4,186	4,944
Lotteries, net <i>[note 9]</i>	—	—	14,867	16,936		—	—	14,867	16,936
	3,639	3,599	70,949	33,153		3,524	4,228	78,112	40,980
EXPENSE									
Fundraising and administrative <i>[note 13]</i>	2,735	2,141	2,547	3,417		—	—	5,282	5,558
Excess of revenue over expense before grants	904	1,458	68,402	29,736		3,524	4,228	72,830	35,422
Grants									
Ontario Cancer Institute/Princess Margaret Hospital <i>[note 13]</i>	2	3	24,083	24,650		—	—	24,085	24,653
Excess of revenue over expense and grants for the year	902	1,455	44,319	5,086		3,524	4,228	48,745	10,769
Fund balances, beginning of year	1,759	2,042	33,268	31,278		61,076	52,014	96,103	85,334
Interfund transfers <i>[note 11]</i>	(1,351)	(1,738)	(592)	(3,096)		1,943	4,834	—	—
Fund balances, end of year	1,310	1,759	76,995	33,268		66,543	61,076	144,848	96,103

See accompanying notes

The Princess Margaret Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2003

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.

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.

The Princess Margaret Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2003

[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 amortized cost plus accrued income or, where there is deemed to be an impairment in value which is other than temporary, at amortized cost plus accrued income less amounts written off.

Investment income earned on the 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.

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 is 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 subsequent to the year end are deferred.

Grant recognition

Grants are recognized when payable.

Contributed goods and services

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

The Princess Margaret Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2003

Goods and services donated to the Foundation are recognized in the financial statements when they are converted to cash.

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

3. RESTRICTED FUND

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

	2003	2002
	\$	\$
<hr/>		
Donor-restricted balances		
Restricted for research purposes	64,603	24,638
Restricted for purchase of capital assets	3,909	2,529
Restricted for patient support and other	6,832	4,542
	<hr/> 75,344	<hr/> 31,709
<hr/>		
Internally imposed restrictions		
Restricted for research purposes	1,440	1,361
Other	211	198
	<hr/> 1,651	<hr/> 1,559
	<hr/> 76,995	<hr/> 33,268

The Princess Margaret Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2003

4. 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.

Major categories of restrictions on fund balances are as follows:

	2003	2002
	\$	\$
Externally imposed endowments		
Endowments, the income from which must be used for research purposes	49,053	43,016
Endowments, the income from which must be used for other restricted purposes	8,317	6,395
	<u>57,370</u>	<u>49,411</u>
Internally imposed endowments		
Funds restricted for research endowed by the Board	8,786	11,277
Funds restricted for other purposes endowed by the Board	387	388
	<u>9,173</u>	<u>11,665</u>
	<u>66,543</u>	<u>61,076</u>

The Foundation transferred \$3,500 [2002 - \$2,000] from internally designated to externally designated endowments as a result of being committed under gifting arrangements to match certain donations during the year for chairs and professorships.

5. GRANT RECEIVABLE

Effective March 31, 2003, UHN approved the transfer of \$38,731 to fund the operations of the new Advanced Medical Discoveries Institute ("AMDI"), located within the Princess Margaret Hospital. The monies will be used to support the operations of AMDI, including salaries and other research expenditures, for approximately five years commencing in April 2003.

The Princess Margaret Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2003

6. INVESTMENTS

Investments consist of the following:

	2003		2002	
	Cost \$	Market value \$	Cost \$	Market value \$
Short-term investments	10,385	10,356	18,308	18,311
Bonds				
Canada/Provincial	23,518	25,118	21,219	21,712
Corporate	19,636	19,994	18,328	18,201
	43,154	45,112	39,547	39,913
Equities				
Canadian	7,457	8,152	5,431	7,212
U.S. and other foreign	22,999	18,130	14,439	15,323
	30,456	26,282	19,870	22,535
Units of pooled hedge fund	1,100	1,109	—	—
	85,095	82,859	77,725	80,759

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

	2003		2002	
	Weighted average yield %	Average term to maturity [years]	Weighted average yield %	Average term to maturity [years]
Short-term investments	2.91	0.1	2.13	0.4
Canada/Provincial bonds	3.58	19.5	4.34	21.2
Corporate bonds	5.21	5.1	6.04	6.8

Investments are managed as two pools:

- Investments related to the Endowment Fund are invested as follows: short-term investments - 9% [2002 - 20%], equities - 44% [2002 - 34%] and bonds - 47% [2002 - 46%].
- Investments related to the General and Restricted Funds are substantially invested in short-term investments and bonds.

The Princess Margaret Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2003

7. CAPITAL ASSETS

Capital assets consist of the following:

	2003			2002		
	Cost \$	Accumulated amortization \$	Net book value \$	Cost \$	Accumulated amortization \$	Net book value \$
Office equipment	148	50	98	84	35	49
Computer hardware and software	69	69	—	69	68	1
	217	119	98	153	103	50

8. INVESTMENT INCOME

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

	2003 \$	2002 \$
Interest and dividends	3,330	3,401
Gain on sale of investments	1,024	1,784
	4,354	5,185
Less investment management and custodial fees	(168)	(241)
	4,186	4,944

Investment income reported in each fund is determined as follows:

	General Fund		Restricted Fund		Endowment Fund	
	2003 \$	2002 \$	2003 \$	2002 \$	2003 \$	2002 \$
Endowment Fund resources	484	719	2,393	2,154	—	286
Other investments	1,159	1,416	150	369	—	—
	1,643	2,135	2,543	2,523	—	286

Investment income recorded in the Endowment Fund represents the application of 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 [currently set at 5% per annum] 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 restricted endowments. For internally restricted endowments, 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

The Princess Margaret Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2003

be sufficient to fund the amount required for spending, endowment capital is transferred to the Restricted Fund for this purpose [note 11]. This amount is expected to be recovered by future net investment income.

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. The Board has a policy that income at a specified rate will be added to certain funds included in the Restricted Fund. This income is transferred from the General Fund to the Restricted Fund in the statement of revenue, expense and changes in fund balances [note 11].

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

9. LOTTERIES

During the year ended March 31, 2003, the Foundation held two lotteries [2002 - two lotteries were held]. Financial results of the lotteries are as follows:

	2003	2002
	\$	\$
Revenue	53,740	55,799
Expenses		
Prizes	24,903	25,276
Marketing and other	13,970	13,587
	38,873	38,863
	14,867	16,936

Prior to March 31, 2003, the Foundation committed to carrying out the spring 2003 Princess Margaret Hospital Home Lottery [the "Lottery"], which was completed during May 2003 with net proceeds of approximately \$7,100.

As at March 31, 2003, costs of \$4,171 [2002 - \$2,232] incurred and revenue of \$17,819 [2002 - \$17,584] received during the year ended March 31, 2003 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, 2004.

The Foundation has a standby letter of credit of \$13,633 that expires on July 18, 2003 obtained in connection with the Lottery.

Subsequent to March 31, 2003, the Foundation committed to carrying out the fall 2003 Princess Margaret Hospital Foundation Cash & Cars Lottery [the "Cash & Cars Lottery"].

The Foundation has a standby letter of credit of \$12,643 that expires on January 12, 2004 obtained in connection with the Cash & Cars Lottery.

The Princess Margaret Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2003

10. 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, 2003 were reported by the University to the Foundation:

	Endowment Fund \$	Expendable Fund \$
Balance, at market value, as at April 30, 2002	10,975	586
Investment loss	(1,370)	—
Transfer to Expendable Fund	(403)	403
Student awards	—	(585)
Balance, at market value, as at April 30, 2003	9,202	404

11. INTERFUND TRANSFERS

Transfers between funds consist of the following:

	<u>General Fund</u>		<u>Restricted Fund</u>		<u>Endowment Fund</u>	
	2003	2002	2003	2002	2003	2002
	\$	\$	\$	\$	\$	\$
Board and donor approved re: fund restrictions	(864)	(1,019)	(1,375)	(3,730)	2,239	4,749
Allocation of investment income in accordance with Board policy [note 8]	(487)	(634)	487	634	—	—
Preservation of capital re: internally restricted endowments [note 8]	—	(85)	—	—	—	85
Transfer to fund shortfall of income for spending [note 8]						
- externally restricted funds	—	—	246	—	(246)	—
- internally restricted funds	—	—	50	—	(50)	—
	(1,351)	(1,738)	(592)	(3,096)	1,943	4,834

The Princess Margaret Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands]

March 31, 2003

12. CONTINGENCY AND COMMITMENTS

- [a] Subsequent to March 31, 2003, the Foundation approved plans to make a research grant of \$16,800 to OCI/PMH which will be expensed during the year ending March 31, 2004.
- [b] The Foundation has committed to raise funds through capital campaigns for the establishment of a CT/PET Imaging Centre at the UHN. The total commitment is for \$4,800, with payments to commence in the fiscal year ended March 31, 2004.

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>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	\$	\$	\$	\$	\$	\$
Construction of centres						
within the hospital	—	—	827	882	827	882
Equipment	—	—		1,858		1,858
Research	—	—		20,758		20,758
Other	2	3		1,152		1,155
	<u>2</u>	<u>3</u>	<u>24,083</u>	<u>24,650</u>	<u>24,083</u>	<u>24,653</u>

- [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 \$154 [2002 - \$125] paid to UHN for office space and service fees.
- [c] The Foundation pays certain common expenses on behalf of affiliated foundations and reimburses these foundations for those common expenses incurred by them.

14. 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.

15. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2003 financial statements.

Our Board of Directors

Lionel Robins
Chairman

Keith Ambachtsheer

Dr. Michael Baker

Dr. Robert Bell

Peter G. Bowie

David A. Brown

M. Qasim Choksi

Tom Closson

Lynn Douglas

Carole Grafstein

Candace Innes

Audrey M. Loeb

Dr. Christopher J. Paige

Jack Rabinovitch

Kevin Sullivan

Betsy Wright

Officers:

Neville W. Kirchmann
President & CEO

Frank J. Copping, CA
Treasurer

Margo Clarke
Secretary

Board Committees

Audit and Accountability

Peter Bowie

Chair

Terry Bacinello

David Brown

Andrew Callum CA

Audrey Loeb

Governance

Lynn Douglas

Chair

Michael Baker

Audrey Loeb

Jack Rabinovitch

Human Resources and Compensation

Betsy Wright

Chair

Eric Barton

Tom Closson

Candace Innes

Investment

Keith Ambachtsheer

Chair

Chuck Choksi

Kevin Sullivan

Leadership Giving

Audrey Loeb

Chair

Our Privacy Policy

The Princess Margaret Hospital Foundation is committed to the ongoing collection, utilization, maintenance, retention and dissemination of information in accordance with the UHN Corporate Privacy Policy, relevant legislation and professional standards.

A draft Foundation Privacy Statement, that serves to outline the rules for the collection, use, disclosure and retention of personal information that is based on ten (10) internationally recognized privacy principles, has been created. To access this or to make privacy related inquiries, please contact Susan Carter at The Princess Margaret Hospital Foundation at 416-946-4554.

For more information concerning Princess Margaret Hospital and our Foundation, please contact us at:

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Caroline (Mulholland) van Nostrand, Editor

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