

# ONTARIO INNOVATION TRUST

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2005 Financial Statements

**ONTARIO INNOVATION TRUST**  
2005 Financial Statements

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## Auditors' Report

### To the Directors of Ontario Innovation Trust

We have audited the balance sheet of **Ontario Innovation Trust** as at March 31, 2005 and the statements of operations and capital, changes in capital, and cash flows for the year then ended. These financial statements are the responsibility of the Trust'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 Trust 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.

PKF Hill LLP

June 2, 2005

# ONTARIO INNOVATION TRUST

Balance Sheet as at March 31

	2005	2004
<b>ASSETS</b>		
Current assets		
Cash	\$ 89,638	\$ 83,609
Accounts receivable	-	9,058
Prepaid expenses	2,388	28,194
Short-term investments	273,523,466	348,818,042
Due from Innovation Institute of Ontario (note 3)	-	80,000
	273,615,492	349,018,903
Due from Innovation Institute of Ontario (note 3)	160,000	160,000
Property and equipment (note 4)	138,401	53,239
	\$ 273,913,893	\$ 349,232,142
<b>LIABILITIES AND CAPITAL</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 115,224	\$ 130,641
Due to Innovation Institute of Ontario	176,364	275,702
	291,588	406,343
Capital		
Invested in property and equipment	138,401	53,239
Restricted for approved grants (internally restricted)	271,664,617	217,471,535
Unrestricted	1,819,287	131,301,025
	273,622,305	348,825,799
	\$ 273,913,893	\$ 349,232,142

See accompanying notes

On behalf of the Board:

Member

Member

## ONTARIO INNOVATION TRUST

Statement of Operations and Capital  
Year Ended March 31

	2005	2004
Revenue		
Interest income	\$ 7,730,308	\$ 12,792,442
Expenses		
Service fees paid to Innovation Institute of Ontario	615,250	668,750
Consulting and management services	559,107	521,626
Salaries and benefits (note 5)	456,653	440,911
Investment and custody services	303,788	350,198
Board and committee	36,710	32,171
Cancer Initiative Working Group (note 6)	34,046	517,135
Office and general	33,222	39,614
Professional fees	25,748	35,116
Amortization	11,032	11,740
Travel	10,326	20,803
	2,085,882	2,638,064
Excess of revenue over expenses	5,644,426	10,154,378
Sponsor contribution from the Government of Ontario, Ministry of Energy, Science and Technology (note 7)	-	(300,000,000)
Eligible project disbursements	(80,847,920)	(140,170,522)
Decrease in capital during the year	(75,203,494)	(430,016,144)
Capital, beginning of year	348,825,799	778,841,943
Capital, end of year	\$ 273,622,305	\$ 348,825,799

See accompanying notes

## ONTARIO INNOVATION TRUST

Statement of Changes in Capital  
Year Ended March 31

	2005				2004	
	Invested in Property and Equipment	Restricted for Approved Grants (Internally Restricted)	Unrestricted	Total	Total	
Capital, beginning of year	\$ 53,239	217,471,535	131,301,025	\$ 348,825,799	\$ 778,841,943	
Excess of revenue over expenses	(11,032)	-	5,655,458	5,644,426	10,154,378	
Sponsor contribution	-	-	-	-	(300,000,000)	
Purchase of property and equipment	96,194	-	(96,194)	-	-	
Eligible project disbursements	-	(80,847,920)	-	(80,847,920)	(140,170,522)	
Grants approved	-	135,041,002	(135,041,002)	-	-	
Capital, end of year	\$ 138,401	271,664,617	1,819,287	\$ 273,622,305	\$ 348,825,799	

See accompanying notes

## ONTARIO INNOVATION TRUST

Statement of Cash Flows

Year Ended March 31

	2005	2004
Operating activities		
Excess of revenue over expenses	\$ 5,644,426	\$ 10,154,378
Sponsor contribution	-	(300,000,000)
Eligible project disbursements	(80,847,920)	(140,170,522)
Add item not involving cash - amortization	11,032	11,740
	(75,192,462)	(430,004,404)
Net change in non-cash working capital items		
Accounts receivable	9,058	5,708
Prepaid expenses	25,806	(5,779)
Accounts payable and accrued liabilities	(15,417)	3,791
Due to Innovation Institute of Ontario	(99,338)	(196,596)
	(79,891)	(192,876)
Cash flows from operating activities	(75,272,353)	(430,197,280)
Financing activity		
Due from the Government of Ontario and cash flows from financing activity	-	300,000,000
Investing activities		
Property and equipment purchased	(96,194)	(41,528)
Short-term investments	75,294,576	129,771,334
Due from Innovation Institute of Ontario	80,000	80,000
Cash flows from investing activities	75,278,382	129,809,806
Net increase (decrease) in cash position during the year	6,029	(387,474)
Cash, beginning of year	83,609	471,083
Cash, end of year	\$ 89,638	\$ 83,609

See accompanying notes

# ONTARIO INNOVATION TRUST

Notes to Financial Statements  
Year Ended March 31, 2005

## 1. Purpose and Creation

- (a) The Ontario Innovation Trust (the "Trust"), an inter-vivos trust, was created on March 31, 1999. The Trust was sponsored by the Government of Ontario, Ministry of Energy, Science and Technology. However, as part of the terms of the trust agreement, the Government of Ontario is precluded from amending the trust agreement or exercising control over the Trust. The object of the Trust is to grant funding for qualifying projects that increase the capacity to conduct important, high quality research in Ontario. Eligible recipients are Ontario hospitals, universities, community colleges, and non-profit organizations that carry on (or in the opinion of the Board are capable of carrying on) research.

As at March 31, 2004, management has determined that the sponsor did not intend to provide future funds. On that basis, committed eligible project disbursement are made, but new projects will only be approved to the extent that they can be funded by residual, unrestricted capital. The Trust will retain sufficient operating funds for the period in which it is responsible for overseeing the projects in progress.

- (b) On April 27, 2000, the board approved the creation of Innovation Institute of Ontario ("IIO"), a subsidiary of the Trust. In March 2005, the by-laws of IIO were amended so that the organization would no longer be a subsidiary (but is still a related party). Whereas the change was effective March 31, 2005, it was subject to approval of the by-law amendment in accordance with Part IV of the Canada Corporations Act. Such approval was received in April 2005. Since incorporation, the accounts of IIO have not been consolidated in the Trust's financial statements.

The IIO was incorporated under the Canadian Corporations Act without share capital by letters patent dated June 13, 2000. It was incorporated as a not-for-profit organization and is, therefore, exempt from income taxes.

The IIO provides client support, proposal assessment, financial services, communications, public relations assistance, administrative and related support services and expertise to the Trust, The Ontario Research and Development Challenge Fund of the Ministry of Economic Development and Trade and other organizations or groups with similar objects on a not-for-profit basis.

The following is summarized financial information regarding IIO for the years ended March 31:

	2005	2004
Assets	\$ 1,923,837	\$ 2,049,442
Liabilities	428,712	738,299
Net assets	1,495,125	1,311,143
Revenue	5,837,207	6,654,800
Expenditures	5,653,225	6,529,266
Cash flows from operating activities	695,996	194,202
Cash flows from investing activities	(199,609)	(181,760)
Cash flows from financing activities	(166,366)	(306,436)

## 2. Summary of Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, the more significant of which are outlined below. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates.

# ONTARIO INNOVATION TRUST

Notes to Financial Statements  
Year Ended March 31, 2005

## 2. Summary of Significant Accounting Policies - continued

### Short-term investments

Short-term investments are recorded at cost. Investments include term deposits, money-market funds, and bankers acceptances. Market value approximates cost.

### Property and equipment

Property and equipment are recorded at cost. The Trust provides for amortization at annual rates which are expected to amortize the cost of property and equipment over their estimated useful life on a straight-line basis, as follows:

Furniture and equipment	-	5 years
Computer equipment	-	3 years

### Capital

Capital is comprised of the following components:

(a) Invested in property and equipment

Invested in property and equipment represents the net book value of property and equipment less any indebtedness thereon.

(b) Restricted for approved grants (internally restricted)

When eligible project funding is approved, the related capital is transferred from unrestricted capital to capital restricted for approved grants. Eligible project disbursements, in accordance with the terms of the grant, are charged to capital restricted for approved grants.

(c) Unrestricted

Unrestricted capital includes sponsor contributions and the excess of revenue over expenses of the Trust.

## 3. Due From Innovation Institute of Ontario

A \$400,000 loan was made to IIO during fiscal 2002. The loan is non-interest bearing and repayable in annual instalments of \$80,000. The original maturity date of the loan was March 31, 2007. During the year, the Board approved the decision to defer the fiscal 2006 installment and extend the loan agreement by one year. The new maturity date of the loan is March 31, 2008.

# ONTARIO INNOVATION TRUST

Notes to Financial Statements  
Year Ended March 31, 2005

## 4. Property and Equipment

Property and equipment consist of the following:

	2005			2004
	Cost	Accumulated Amortization	Net	Net
Leasehold improvements	\$ 8,825	8,825	\$ -	\$ -
Furniture and equipment	40,081	39,709	372	8,203
Computer equipment	173,420	167,714	5,706	7,470
Software under development	132,323	-	132,323	37,566
	<u>\$ 354,649</u>	<u>216,248</u>	<u>\$ 138,401</u>	<u>\$ 53,239</u>

## 5. Compensation Disclosure

In accordance with the Public Sector Salaries Disclosure Act, all salaries in excess of \$100,000 have been reported to the Province of Ontario and are as follows:

	2005	2004
David Bogart	\$ 125,000	\$ 131,250
Christopher Pringle	105,445	103,744

Christopher Pringle is on a leave of absence from the Government of Ontario and additional amounts were paid him to allow him to maintain contributions to Government pension and benefits plans without penalty.

Payments in the amount of \$133,750 (2004 - \$133,750) were made on a purchase of services basis to Knox Innovations for the services of Kenneth W. Knox as President and CEO of the Trust.

## 6. Cancer Initiative Working Group

In 2003, the Board authorized an expenditure of up to \$2,000,000 towards the feasibility and action framework for a cancer research initiative in Ontario. During fiscal 2005, \$34,046 (2004 - \$517,135) was spent towards fulfilling this mandate.

## 7. Sponsor Contribution

During fiscal 2004, the Board determined that the sponsor contribution of \$300,000,000 which was announced in the Ontario Government address on June 17, 2002, and which was recorded as an amount receivable at March 31, 2003, would not be received. Accordingly, the receivable was reversed and presented as a charge in the statement of operations and capital.