

# **ONTARIO INNOVATION TRUST**

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2004 Non-Consolidated Financial Statements

**ONTARIO INNOVATION TRUST**  
2004 Non-Consolidated Financial Statements

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## Auditors' Report

### To the Directors of Ontario Innovation Trust

We have audited the non-consolidated balance sheet of **Ontario Innovation Trust** as at March 31, 2004 and the non-consolidated statements of operations and capital, changes in capital, and cash flows for the year then ended. These non-consolidated 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 non-consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles except that they are prepared on a non-consolidated basis as explained in note 1.

PKF Hill LLP

June 10, 2004

# ONTARIO INNOVATION TRUST

Non-Consolidated Balance Sheet as at March 31

	2004	2003
<b>ASSETS</b>		
Current assets		
Cash	\$ 83,609	\$ 471,083
Accounts receivable	9,058	14,766
Prepaid expenses	28,194	22,415
Short-term investments	348,818,042	478,589,376
Due from Innovation Institute of Ontario (note 3)	80,000	80,000
	349,018,903	479,177,640
Due from Innovation Institute of Ontario (note 3)	160,000	240,000
Property and equipment (note 4)	53,239	23,451
Due from the Government of Ontario (note 5)	-	300,000,000
	\$ 349,232,142	\$ 779,441,091
<b>LIABILITIES AND CAPITAL</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 130,641	\$ 126,850
Due to Innovation Institute of Ontario	275,702	472,298
	406,343	599,148
Capital		
Invested in property and equipment	53,239	23,451
Restricted for approved grants (internally restricted)	217,471,535	325,718,808
Unrestricted	131,301,025	453,099,684
	348,825,799	778,841,943
	\$ 349,232,142	\$ 779,441,091

See accompanying notes

On behalf of the Board:

Member

Member

## ONTARIO INNOVATION TRUST

Non-Consolidated Statement of Operations and Capital  
Year Ended March 31

	2004	2003
Revenue		
Interest income	\$ 12,792,442	\$ 14,722,737
Expenses		
Service fees paid to Innovation Institute of Ontario	668,750	668,750
Consulting and management services	521,626	654,527
Cancer Initiative Working Group (note 6)	517,135	819,810
Salaries and benefits (note 8)	440,911	364,223
Investment and custody services	350,198	425,952
Office and general	36,514	95,515
Professional fees	35,116	34,260
Board and committee	32,171	20,804
Travel	20,803	23,615
Amortization	11,740	67,309
Equipment and computer	3,100	-
Structural Genomics Consortium (note 7)	-	65,252
	2,638,064	3,240,017
Excess of revenue over expenses	10,154,378	11,482,720
Sponsor contribution from the Government of Ontario, Ministry of Energy, Science and Technology (note 5)	(300,000,000)	300,000,000
Eligible project disbursements	(140,170,522)	(109,481,430)
Increase (decrease) in capital during the year	(430,016,144)	202,001,290
Capital, beginning of year	778,841,943	576,840,653
Capital, end of year	\$ 348,825,799	\$ 778,841,943

See accompanying notes

## ONTARIO INNOVATION TRUST

Non-Consolidated Statement of Changes in Capital  
Year Ended March 31

	2004				2003
	Invested in Property and Equipment	Restricted for Approved Grants (Internally Restricted)	Unrestricted	Total	Total
Capital, beginning of year	\$ 23,451	325,718,808	453,099,684	\$ 778,841,943	\$ 576,840,653
Excess (deficiency) of revenue over expenses	(11,740)	-	10,166,118	10,154,378	11,482,720
Sponsor contribution	-	-	(300,000,000)	(300,000,000)	300,000,000
Purchase of property and equipment	41,528	-	(41,528)	-	-
Eligible project disbursements	-	(140,170,522)	-	(140,170,522)	(109,481,430)
Grants approved	-	31,923,249	(31,923,249)	-	-
Capital, end of year	\$ 53,239	217,471,535	131,301,025	\$ 348,825,799	\$ 778,841,943

See accompanying notes

**ONTARIO INNOVATION TRUST**  
 Non-Consolidated Statement of Cash Flows  
 Year Ended March 31

	<b>2004</b>	<b>2003</b>
Operating activities		
Excess of revenue over expenses	\$ 10,154,378	\$ 11,482,720
Sponsor contribution	(300,000,000)	300,000,000
Eligible project disbursements	(140,170,522)	(109,481,430)
Add item not involving cash - amortization	11,740	67,309
	(430,004,404)	202,068,599
Net change in non-cash working capital items		
Accounts receivable	5,708	69,157
Prepaid expenses	(5,779)	(16,855)
Accounts payable and accrued liabilities	3,791	11,459
Due to Innovation Institute of Ontario	(196,596)	(9,657)
	(192,876)	54,104
Cash flows from operating activities	(430,197,280)	202,122,703
Financing activity		
Due from the Government of Ontario	300,000,000	(300,000,000)
Cash flows from financing activity	300,000,000	(300,000,000)
Investing activities		
Property and equipment purchased	(41,528)	(8,882)
Short-term investments	129,771,334	98,017,375
Due from Innovation Institute of Ontario	80,000	80,000
Cash flows from investing activities	129,809,806	98,088,493
Net increase (decrease) in cash position during the year	(387,474)	211,196
Cash, beginning of year	471,083	259,887
Cash, end of year	\$ 83,609	\$ 471,083

See accompanying notes

# ONTARIO INNOVATION TRUST

Notes to Non-Consolidated Financial Statements  
Year Ended March 31, 2004

## 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 does not currently intend to provide future funds (note 5). On that basis, committed eligible project disbursement will be 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 the Innovation Institute of Ontario ("IIO"). While the IIO is a subsidiary of the Trust, it has not been consolidated in these financial statements.

The IIO was incorporated under the Canadian Corporations Act without share capital by letters patent dated June 13, 2000. The IIO 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 are the balances of the IIO for the years ended March 31:

	2004	2003
Assets	\$ 2,049,442	\$ 2,409,363
Liabilities	738,299	1,223,754
Net assets	1,311,143	1,185,609
Revenue	6,654,800	6,060,012
Expenditures	6,529,266	5,559,383
Cash flows from operating activities	194,202	835,459
Cash flows from investing activities	(181,760)	(219,726)
Cash flows from financing activities	(306,436)	89,004

## 2. Summary of Significant Accounting Policies

The non-consolidated 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 non-consolidated 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.

### Short-term investments

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

## ONTARIO INNOVATION TRUST

Notes to Non-Consolidated Financial Statements  
Year Ended March 31, 2004

### 2. Summary of Significant Accounting Policies - continued

#### 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, maturing March 31, 2007.

### 4. Property and Equipment

Property and equipment consist of the following:

	2004			2003
	Cost	Accumulated Amortization	Net	Net
Assets under development	\$ 37,566	-	\$ 37,566	\$ -
Leasehold improvements	8,825	8,825	-	-
Furniture and equipment	40,081	31,878	8,203	16,220
Computer equipment	178,191	170,721	7,470	7,231
	<u>\$ 264,663</u>	<u>211,424</u>	<u>\$ 53,239</u>	<u>\$ 23,451</u>

# ONTARIO INNOVATION TRUST

Notes to Non-Consolidated Financial Statements  
Year Ended March 31, 2004

## 5. Sponsor Contribution

The Board has 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, will not be received. Accordingly, the receivable has been reversed and presented as a charge in the non-consolidated statement of operations and capital.

## 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 2004, \$517,135 (2003 - \$819,810) was spent towards fulfilling this mandate.

## 7. Structural Genomics Consortium

In 2004, the Trust incurred expenditures of \$Nil (2003 - \$65,252) to contribute to Ontario's share of the costs of starting up the international consortium, and to contribute to the expenses of the review panel, established by the Canadian granting agencies, to review the application for research support.

## 8. Salary 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:

	2004	2003
David Bogart	\$ 131,250	\$ 122,000
Christopher Pringle	103,744	101,000

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 (2003 - \$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.