

The Princess Margaret Cancer Foundation

Financial statements
March 31, 2020



Independent auditor's report

To the Members of
The Princess Margaret Cancer Foundation

Opinion

We have audited the financial statements of **The Princess Margaret Cancer Foundation** [the "Foundation"], which comprise the balance sheet as at March 31, 2020, and the statement of revenue, expenses and changes in fund balances and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Toronto, Canada
June 24, 2020

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



The Princess Margaret Cancer Foundation

Balance sheet

[in thousands]

As at March 31

| | 2020 | 2019 |
|--|----------------|----------------|
| | \$ | \$ |
| Assets | | |
| Cash and cash equivalents <i>[note 3]</i> | 110,336 | 94,081 |
| Accounts receivable | 1,725 | 1,920 |
| Investments, at fair value <i>[note 4]</i> | 528,974 | 566,951 |
| Other assets <i>[note 5]</i> | 18,689 | 12,594 |
| | 659,724 | 675,546 |
| Liabilities and fund balances | | |
| Liabilities | | |
| Due to University Health Network, net <i>[note 13[g]]</i> | 12,337 | 53,262 |
| Accounts payable and accrued liabilities | 3,494 | 3,201 |
| Deferred revenue <i>[note 10[b]]</i> | 36,566 | 31,088 |
| Total liabilities | 52,397 | 87,551 |
| Contingencies and commitments <i>[notes 4[c], 10[b] and 13[c]]</i> | | |
| Fund balances | | |
| General Fund | 10,415 | 16,506 |
| Restricted Fund <i>[note 6]</i> | 325,210 | 276,936 |
| Endowment Fund <i>[note 7]</i> | 271,702 | 294,553 |
| Total fund balances | 607,327 | 587,995 |
| | 659,724 | 675,546 |

See accompanying notes

On behalf of the Board:

Director

Director

The Princess Margaret Cancer Foundation

Statement of revenue, expenses and changes in fund balances

[in thousands]

Year ended March 31

| | General Fund | | Restricted Fund | | Endowment Fund | | Total | |
|---|----------------|----------|------------------|-----------|-----------------|---------|------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Gross fundraising revenue <i>[note 8]</i> | 17,931 | 9,293 | 101,561 | 81,725 | 3,369 | 804 | 122,861 | 91,822 |
| Direct fundraising expenses <i>[note 10[b]]</i> | (6,350) | (7,090) | (18,084) | (14,908) | — | — | (24,434) | (21,998) |
| Net fundraising | 11,581 | 2,203 | 83,477 | 66,817 | 3,369 | 804 | 98,427 | 69,824 |
| Gross lottery revenue <i>[note 10[b]]</i> | — | — | 102,904 | 88,239 | — | — | 102,904 | 88,239 |
| Direct lottery expenses, including prizes <i>[note 10[b]]</i> | — | — | (61,322) | (54,627) | — | — | (61,322) | (54,627) |
| Net lottery | — | — | 41,582 | 33,612 | — | — | 41,582 | 33,612 |
| Net fundraising and lottery revenue | 11,581 | 2,203 | 125,059 | 100,429 | 3,369 | 804 | 140,009 | 103,436 |
| General fundraising and administrative expenses <i>[notes 13[b] and 13[d]]</i> | (9,743) | (9,499) | — | (104) | — | — | (9,743) | (9,603) |
| Investment income (loss) <i>[note 11]</i> | (876) | 25,925 | 1,188 | 6,275 | (5,465) | 4,764 | (5,153) | 36,964 |
| Excess (deficiency) of revenue over expenses before grants | 962 | 18,629 | 126,247 | 106,600 | (2,096) | 5,568 | 125,113 | 130,797 |
| Grants to Princess Margaret Cancer Centre at UHN <i>[note 13[a]]</i> | — | — | (105,781) | (104,672) | — | — | (105,781) | (104,672) |
| Excess (deficiency) of revenue over expenses for the year | 962 | 18,629 | 20,466 | 1,928 | (2,096) | 5,568 | 19,332 | 26,125 |
| Fund balances, beginning of year | 16,506 | 20,177 | 276,936 | 269,782 | 294,553 | 271,911 | 587,995 | 561,870 |
| Interfund transfers <i>[note 12]</i> | (7,053) | (22,300) | 27,808 | 5,226 | (20,755) | 17,074 | — | — |
| Fund balances, end of year | 10,415 | 16,506 | 325,210 | 276,936 | 271,702 | 294,553 | 607,327 | 587,995 |

See accompanying notes

The Princess Margaret Cancer Foundation

Statement of cash flows

[in thousands]

Year ended March 31

| | 2020 | 2019 |
|--|-----------------|---------------|
| | \$ | \$ |
| Operating activities | | |
| Excess of revenue over expenses for the year | 19,332 | 26,125 |
| Add (deduct) item not involving cash | | |
| Unrealized loss (gain) on investments | 80,147 | (25,377) |
| Changes in non-cash working capital balances related to operations | | |
| Accounts receivable | 195 | (589) |
| Other assets | (6,095) | (5,740) |
| Due to University Health Network | (40,925) | 8,514 |
| Accounts payable and accrued liabilities | 293 | (893) |
| Deferred revenue | 5,478 | 2,638 |
| Cash provided by operating activities | 58,425 | 4,678 |
| Investing activities | | |
| Investment income reinvested | (73,968) | (11,070) |
| Withdrawals from externally managed investments, net | 31,798 | 22,805 |
| Cash provided by (used in) investing activities | (42,170) | 11,735 |
| Net increase in cash during the year | 16,255 | 16,413 |
| Cash and cash equivalents, beginning of year | 94,081 | 77,668 |
| Cash and cash equivalents, end of year | 110,336 | 94,081 |

See accompanying notes

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

1. Purpose of the organization

The Princess Margaret Cancer Foundation [the “Foundation”] is continued under the *Canada Not-for-profit 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 Princess Margaret Cancer Centre at UHN, which is part of the University Health Network [“UHN”].

The Foundation is a public foundation registered under the *Income Tax Act* (Canada) 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.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

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, expenses and changes in fund balances.

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

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.

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.

Endowment Fund

The Endowment Fund includes those funds where either donor or internal restrictions require that the principal be invested by the Foundation permanently.

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

Financial instruments

Investments reported at fair value consist of equity instruments quoted in an active market as well as investments in pooled funds and any investments in fixed income securities and equities not quoted in an active market that the Foundation designates upon purchase to be measured at fair value.

Alternative investments are valued at the net asset value per unit reported by each investment fund manager, which represents fair value.

Investments in fixed income securities and equities not quoted in an active market not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at cost or amortized cost using the straight-line method, less any provision for impairment.

All transactions are recorded on a trade date basis. Transaction costs are recognized in the statement of revenue, expenses and changes in fund balances in the period during which they are incurred.

Derivative financial instruments are marked to market, with gains and losses recognized in the statement of revenue, expenses and changes in fund balances in the year in which the changes in market value occur.

Other financial instruments, including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, are recorded at fair value and are subsequently measured at cost, net of any provisions for impairment.

Foreign currency translation

Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the transaction date. Investments and other monetary items denominated in foreign currencies are translated at the year-end rate. Translation gains and losses are included in the statement of revenue, expenses and changes in fund balances.

Revenue recognition

The Foundation follows the restricted fund method of accounting for contributions, which include bequests and other donations. Bequests are recorded when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue in the General Fund when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are recognized as revenue in the Restricted Fund when initially recorded in the accounts. Externally restricted endowment contributions are recognized as revenue in the Endowment Fund when initially recorded in the accounts.

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

Investment income (loss) consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses. 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 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. Investment losses are allocated in a manner consistent with investment income.

Lottery revenue is recognized in the fiscal year in which the final draw takes place. Revenue in connection with events, other than donations, is recorded when earned. Donations received related to an event are recorded consistent with the recognition of donation revenue.

Grant recognition

Grants are recognized when approved and the recipient has met all conditions.

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.

Allocation of expenses

Direct fundraising and lottery expenses represent expenses and costs that are directly related to these activities. No expenses and costs of general fundraising or other general fundraising and administrative expenses are included in these balances. General fundraising and administrative expenses are allocated to the Restricted Fund as a percentage of net revenue on special events and a fixed amount determined by the Board for strategic events.

Cash and cash equivalents

Cash and cash equivalents consist of cash deposits and short-term investments with an original term to maturity less than 90 days or that are able to be cashed on demand. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than liquidity purposes are classified as investments.

Capital assets

Purchased capital assets are recorded at cost. 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 | 3 years |

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not contribute to the Foundation's ability to provide goods and services. Any impairment results in a write-down of the asset and an expense in the statement of revenue, expenses and changes in fund balances. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

New accounting standards

During the year, the Foundation adopted the new accounting standards *Section 4433, Tangible Capital Assets*, and *Section 4434, Intangible Capital Assets* as of January 1, 2019. *Section 4433, Tangible Capital Assets* replaces the previous *Section 4431* and provides additional guidance on contributed assets and the write-down [partial impairment] of assets. *Section 4434, Intangible Capital Assets* replaces the previous *Section 4432* and provides additional guidance on contributed assets and the write-down [partial impairment] of assets. The changes did not have any impact on these financial statements.

3. Cash and cash equivalents

Cash and cash equivalents consist primarily of amounts held for the General and Restricted Funds and net funds received in advance related to lotteries and events to be held during the next fiscal year.

4. Investments

[a] Investments, all of which are recorded at fair value, consist of the following:

| | 2020 | 2019 |
|--|----------------|----------------|
| | \$ | \$ |
| Equities | | |
| Canadian | 72,571 | 72,196 |
| US and other foreign | 149,137 | 150,696 |
| | <u>221,708</u> | <u>222,892</u> |
| Cash | 1,665 | 12,986 |
| Short-term investments | 9,636 | 5,229 |
| Fixed income | | |
| Government – Federal | 14,668 | 11,571 |
| Government – Provincial | 43,527 | 31,720 |
| Corporate | 148,376 | 164,963 |
| Pooled | 14,409 | 24,857 |
| Alternative investments | | |
| Hedge funds | 18,592 | 30,347 |
| Private capital pooled funds | 56,573 | 62,521 |
| Forward foreign exchange contracts [note 4[d]] | (180) | (135) |
| | <u>528,974</u> | <u>566,951</u> |

The amounts invested in traditional pooled funds have been allocated among the asset classes, based on the asset classes held by the pooled funds.

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

- [b] Investments are managed as two pools – a Long-Term Pool and a Medium-Term Pool. The Long-Term Pool is used for investments related to externally endowed funds and certain internally endowed funds where the strategy is to invest for the longer term. Other funds are invested in the Medium-Term Pool.
- As at March 31, 2020, investments related to the Long-Term Pool are invested as follows: equities 63% [2019 – 65%], cash and short-term investments 5% [2019 – 5%], fixed income nil% [2019 – 3%], and alternative investments 32% [2019 – 27%].
 - As at March 31, 2020, investments related to the Medium-Term Pool are invested as follows: equities 19% [2019 – 21%], cash and short-term investments 2% [2019 – 2%], fixed income 69% [2019 – 68%], and alternative investments 10% [2019 – 9%].
- [c] The Foundation has outstanding commitments to invest \$17,878 [2019 – \$27,229] in private capital over the next three to five years.
- [d] In order to manage foreign currency exposure, the Foundation enters into forward foreign exchange contracts with a bank.

In 2020, the contracts were as follows:

- [i] Maturing on June 18, 2020: The sale of US\$965 at an exchange rate of 1.4400. The fair market value of this contract as at March 31, 2020 is a gain of \$29, which is included in investments on the balance sheet [note 4[a]].
- [ii] Maturing on June 18, 2020: The sale of US\$1,200 at an exchange rate of 1.4181. The fair market value of this contract as at March 31, 2020 is a gain of \$10, which is included in investments on the balance sheet [note 4[a]].
- [iii] Maturing on June 18, 2020: The sale of US\$14,762 at an exchange rate of 1.3983. The fair market value of this contract as at March 31, 2020 is a loss of \$165, which is included in investments on the balance sheet [note 4[a]].
- [iv] Maturing on June 18, 2020: The sale of US\$1,351 at an exchange rate of 1.4039. The fair market value of this contract as at March 31, 2020 is a loss of \$8, which is included in investments on the balance sheet [note 4[a]].
- [v] Maturing on June 18, 2020: The sale of CAD \$1,194 at an exchange rate of 1.4493. The fair market value of this contract as at March 31, 2020 is a loss of \$48, which is included in investments on the balance sheet [note 4[a]].

In 2019, the contract was as follows:

Maturing on June 20, 2019: The sale of US\$17,422 at an exchange rate of 1.324485. The fair market value of this contract as at March 31, 2019 is a loss of \$135, which is included in investments on the balance sheet [note 4[a]].

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

5. Other assets

Other assets consist of the following:

| | 2020 | 2019 |
|---|---------------|---------------|
| | \$ | \$ |
| Prepaid expenses related to future Ride to Conquer Cancer events <i>[note 10[a]]</i> and other future events | 490 | 434 |
| Prepaid expenses related to future lotteries <i>[note 10[b]]</i> | 17,923 | 12,109 |
| Other assets | 276 | 51 |
| | 18,689 | 12,594 |

6. Restricted Fund

The Restricted Fund consists of funds available for spending for priorities in progress at Princess Margaret Cancer Centre at UHN that are restricted by donors or the Board for the following purposes:

| | 2020 | 2019 |
|--|----------------|----------------|
| | \$ | \$ |
| Donor restricted balances | | |
| Restricted for research, patient care and other purposes | 315,622 | 267,711 |
| Internally imposed restrictions | | |
| Restricted for research, patient care and other purposes | 9,588 | 9,225 |
| | 325,210 | 276,936 |

During the year, the Board approved transfers from the General Fund to the Restricted Fund and from the Restricted Fund to the Endowment Fund to set aside funds for various purposes *[note 12]*.

7. Endowment Fund

The Endowment Fund consists of externally restricted contributions received by the Foundation where the endowment principal is required to be invested by the Foundation permanently. The Endowment Fund also includes internal resources transferred by the Board to the Endowment Fund, with the intention that the principal be maintained intact, and may be drawn down to fund operating activities and grants as required. 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 Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

Major categories of restrictions on fund balances are as follows:

| | 2020 \$ | 2019 \$ |
|--|----------------|------------|
| Externally imposed endowments | | |
| Endowments, the income from which must be used for research, patient care and other purposes | 152,002 | 161,820 |
| Internally imposed endowments approved by the Board | | |
| Funds restricted for research, patient care and other purposes | 62,585 | 73,149 |
| Unrestricted funds | 57,115 | 59,584 |
| | 119,700 | 132,733 |
| | 271,702 | 294,553 |

During the year, the Board approved transfers from the Restricted Fund to the Endowment Fund to set aside funds for various purposes [note 12].

8. Gross fundraising revenue

Gross fundraising revenue consists of the following:

| | General Fund | | Restricted Fund | | Endowment Fund | |
|--|---------------|------------|-----------------|------------|----------------|------------|
| | 2020 \$ | 2019 \$ | 2020 \$ | 2019 \$ | 2020 \$ | 2019 \$ |
| Annual programs [note 13[f]] | 6,772 | 5,268 | 19,062 | 20,263 | 180 | 158 |
| Major gifts and bequests [note 13[f]] | 11,159 | 4,025 | 34,569 | 37,056 | 3,189 | 646 |
| Ride to Conquer Cancer [notes 9, 10[a] and 13[f]] | — | — | 18,147 | 20,070 | — | — |
| Other [note 13[e]] | — | — | 29,783 | 4,336 | — | — |
| | 17,931 | 9,293 | 101,561 | 81,725 | 3,369 | 804 |

9. Royalties

The Foundation has licensed the Ride to Conquer Cancer to other cancer charities across Canada to support their fundraising efforts. The licensing of the event to other charities has resulted in \$696 [2019 – \$980] of royalty revenue, related to fundraising by other charities, to be used for collaborative research projects, which has been included in the Ride to Conquer Cancer fundraising revenue [note 10[a]]. During fiscal 2020, the Ride to Conquer Cancer raised \$37,451 [2019 – \$43,096] gross revenue nationally, including the Toronto event revenue.

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

10. Events and lotteries

During the years ended March 31, 2020 and 2019, the Foundation held several events and lotteries, the details of which are set out below. Generally accepted accounting principles require that certain revenue and expenses related to these events and lotteries be recorded in a different year from when the event or lottery is held.

[a] The Foundation held a fundraising event, the Ride to Conquer Cancer. The financial results of the event are as follows:

| | 2020 | 2019 |
|--------------------------------------|---------------|---------------|
| | \$ | \$ |
| Gross revenue <i>[notes 8 and 9]</i> | 18,147 | 20,070 |
| Direct expenses | (7,678) | (7,265) |
| Net revenue | 10,469 | 12,805 |

[b] During the year ended March 31, 2020, the Foundation held six [2019 – six] lotteries. The financial results of the lotteries are as follows:

| | 2020 | 2019 |
|---|---------------|---------------|
| | \$ | \$ |
| Gross revenue | 102,904 | 88,239 |
| Direct expenses, including prizes <i>[note 13[h]]</i> | (61,322) | (54,627) |
| Net revenue | 41,582 | 33,612 |

Prior to March 31, 2020, the Foundation committed to carrying out the spring 2020 Princess Margaret Cancer Centre Home Lottery [the “Home Lottery”] and 50/50 add-on, which were held in May 2020, and the Princess Margaret Cancer Centre Cash Calendar [the “Calendar Lottery”], which is being held in the month of June. As at March 31, 2020, revenue of \$33,805 [2019 – \$30,750] received during the year ended March 31, 2020 associated with these lotteries has been deferred and recorded as deferred revenue on the balance sheet. Total expenses of \$22,869 [2019 – \$16,724] were incurred with respect to these lotteries, of which \$4,946 [2019 – \$4,615] has been included in direct lottery expenses in the statement of revenue, expenses and changes in fund balances and \$17,923 [2019 – \$12,109] has been included in other assets on the balance sheet *[note 5]*.

The Foundation has seven standby letters of credit obtained in connection with the Home Lottery, 50/50 and Calendar Lottery. One letter of credit for \$1,700 expires on May 12, 2020, two letters of credit totalling \$16,999 expire on July 13, 2020, one letter of credit for \$1,800 expires on July 27, 2020, two letters of credit for \$16,490 expire on January 15, 2021, and one letter of credit for \$1,800 expires on January 25, 2021.

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

11. Investment income (loss)

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

| | 2020 | 2019 |
|---|----------|--------|
| | \$ | \$ |
| Interest and dividends | 16,880 | 12,755 |
| Realized gains (losses), net | 59,708 | (487) |
| Net change in unrealized gain (loss) on investments | (80,147) | 25,377 |
| | (3,559) | 37,645 |
| Less investment management and custodial fees | (1,594) | 681 |
| | (5,153) | 36,964 |

[b] Investment income is allocated among the funds based on the Foundation's capital preservation and investment return policies. The 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, expenses 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 a transfer from the Endowment Fund.

Currently, the income available for spending is set at 3.5% [2019 – 3.5%] based on unitization of average of the previous four fiscal year fund balances. An additional 1.5% [2019 – 1.5%] is recorded in the General Fund to cover administrative expenses.

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 2020, investments held for endowments incurred an investment loss of \$7,515. The loss related to the externally endowed funds of \$5,465 was recorded in the Endowment Fund and \$2,050 related to the loss on Board endowed funds was recorded in the General Fund. As a result of the loss in the year, no investment income was available for preservation of capital and no income was made available for spending or to cover administrative expenses. With respect to externally endowed funds, the funds available for spending of \$5,429 were transferred from the Endowment Fund to the Restricted Fund and the amount available to cover administrative expenses of \$2,326 was transferred from the Endowment Fund to the General Fund [note 12]. With respect to internally endowed funds, the funds available for spending of \$4,332 were transferred from the Endowment Fund to the Restricted Fund [note 12]. The amount available to cover administrative expenses of \$1,856 was transferred from the Endowment Fund to the General Fund and \$2,050 to cover investment losses was transferred from the Endowment Fund to the General Fund [note 12].

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

In 2019, investment income earned on investments held for endowments totalled \$19,560, of which \$6,924 was allocated for the preservation of capital. Of this amount, \$4,764 related to externally endowed funds was recorded as investment income of the Endowment Fund. Capital preservation of \$2,160 related to Board endowed funds was recorded as investment income of the General Fund and then transferred to the Endowment Fund [note 12]. In 2019, the amount made available for spending of \$5,208 related to externally endowed funds was recorded as income of the Restricted Fund. The amount of \$3,637 made available for spending related to internally endowed funds was recorded as investment income of the General Fund and then transferred to the Restricted Fund [note 12]. An amount of \$3,791 was included in General Fund investment income related to the funds made available to cover administrative expenses.

12. Interfund transfers

Transfers between funds consist of the following:

| | General Fund | | Restricted Fund | | Endowment Fund | |
|--|--------------|-----------------|-----------------|--------------|-----------------|---------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Board and donor approved re: fund restrictions* | (13,285) | (16,503) | 18,047 | 1,589 | (4,762) | 14,914 |
| Allocation of investment income in accordance with Board policy [note 11[d]] | 6,232 | (5,797) | 9,761 | 3,637 | (15,993) | 2,160 |
| | 7,053 | (22,300) | 27,808 | 5,226 | (20,755) | 17,074 |

*The transfers relate to internally imposed restrictions approved by the Board and changes in the designation of funds as directed by donors.

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

13. Related party transactions

- [a] During the year, the Foundation funded the following projects carried out at Princess Margaret Cancer Centre at UHN:

| | General Fund | | Restricted Fund | | Endowment Fund | |
|--|--------------|------|-----------------|---------|----------------|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Equipment | — | — | 4,122 | 1,868 | — | — |
| Research, education and patient care <i>[note 13[c]]</i> | — | — | 92,998 | 93,169 | — | — |
| Construction of centres within the hospital | — | — | 8,661 | 9,635 | — | — |
| | — | — | 105,781 | 104,672 | — | — |

- [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 \$50 [2019 – \$50] paid to UHN for office space, service fees and use of furniture and equipment.

- [c] Effective October 22, 2019, the Foundation entered into a lease agreement with UHN for office space that expires on May 31, 2030. Payments with respect to the lease agreement are recorded through grants to UHN *[note 13[a]]*. The future minimum annual lease payments are as follows:

| | \$ |
|------------|--------|
| 2021 | 1,425 |
| 2022 | 1,290 |
| 2023 | 1,290 |
| 2024 | 1,290 |
| 2025 | 1,290 |
| Thereafter | 6,665 |
| | 13,250 |

- [d] The Foundation reimburses UHN for salaries and benefits of \$13,879 [2019 – \$12,734] associated with UHN staff working at the Foundation.

- [e] During the year ended March 31, 2020, UHN transferred \$29,783 [2019 – \$4,336] to the Foundation, which includes royalty payments of \$760 [2019 – \$4,192]. These amounts are recorded as gross fundraising revenue in the Restricted Fund *[note 8]*.

- [f] Gross fundraising revenue *[note 8]* includes \$589 [2019 – \$261] received from affiliated foundations. These donations were directed by the donors, through the affiliated foundations, to the Foundation.

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

- [g] Amounts due to UHN are non-interest bearing and due on demand. As at March 31, 2020, the net amount owing to UHN consists of accounts payable of \$48,793 [2019 – \$61,221] and accounts receivable of \$36,456 [2019 – \$7,959].
- [h] The Board of the Foundation includes one member affiliated with a professional services firm that was retained by the Foundation management, pursuant to a request for proposal process, to perform administration services for the lotteries. Total fees for lottery administrative and other consulting services included in the statement of revenue, expenses and changes in fund balances for fiscal 2020 amounted to \$1,901 [2019 – \$1,615].

14. University of Toronto graduate student endowments

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 Government of Ontario 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 Princess Margaret Cancer Centre at UHN facilities and engaged in cancer research.

During 2014, the Foundation negotiated an agreement in which a grant of \$150 from the Foundation to the University was matched equally by the University. This established a \$300 endowment to be held by the University for the benefit of PhD students in the Department of Medical Biophysics in the Faculty of Medicine, located at Princess Margaret Cancer Centre at UHN.

The following financial results for the year ended April 30, 2020 were reported by the University to the Foundation:

| | Endowment Fund | Expendable Fund |
|---|---------------------------|----------------------------|
| | \$ | \$ |
| Balance, at market value, April 30, 2019 | 14,778 | 1,046 |
| Investment income | (241) | 7 |
| Transfer to Expendable Fund | (522) | 522 |
| Matching funds | — | 7 |
| Student awards | — | (441) |
| Balance, at market value, April 30, 2020 | 14,015 | 1,141 |

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

15. Financial instruments

The Foundation is exposed to various financial risks through transactions in financial instruments.

Currency risk

The Foundation is exposed to currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

Credit risk

The Foundation is exposed to credit risk in connection with its short-term and fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation.

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its investments in fixed income investments and a pooled fund that holds fixed income securities because the fair value will fluctuate due to changes in market interest rates.

Other price risk

The Foundation is exposed to other price risk through changes in market prices [other than changes arising from interest rate risk or currency risk] in connection with its investments in equity securities and pooled funds.

16. COVID-19

In March 2020, the outbreak of the Coronavirus disease ["COVID-19"] was declared a pandemic by the World Health Organization and has resulted in governments worldwide enacting emergency measures to combat the spread of the virus.

As a result of this pandemic, the economy and the financial markets have changed significantly and continue to evolve. These events caused a change in the economy as volatility is high around the world at this time. This situation generated significant variances in the financial markets which impacted the fair value of the investments and the Foundation's net assets as at March 31, 2020. As the markets continue to evolve, there is still a lot of volatility and as such, it is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of the Foundation in future periods especially as it relates to the valuation of the investment portfolio.

The Princess Margaret Cancer Foundation

Notes to financial statements

[in thousands]

March 31, 2020

Management considered the impact of COVID-19 in its assessment of the Foundation's assets and liabilities and its ability to continue as a going concern. The Foundation has a solid working capital position and sufficient funds to continue its operations and support of UHN commitments in the next year. Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty associated with the Foundation's future operating assumptions and expectations as compared to prior periods.

17. Comparative financial statement

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation of the 2020 financial statements