

Financial Statements of

**MICHAEL SMITH FOUNDATION FOR
HEALTH RESEARCH**

Year ended March 31, 2003
Period from incorporation on March 7, 2001
to March 31, 2002



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AUDITORS' REPORT

To the Members of the
Michael Smith Foundation for Health Research

We have audited the statement of financial position of Michael Smith Foundation for Health Research as at March 31, 2003 and the statements of operations, changes in net assets and cash flows 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 Society Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Chartered Accountants

Vancouver, Canada

April 25, 2003



MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statements of Financial Position

March 31, 2003 and 2002

	2003	2002
Assets		
Current assets:		
Cash	\$ 9,782,378	\$ 34,575
Short-term investments (note 3)	21,211,845	34,440,067
Accounts receivable	220,015	303,393
Prepaid expenses and deposits	5,032	7,562
	<u>31,219,270</u>	<u>34,785,597</u>
Long-term investments (note 3)	69,598,315	73,882,069
Endowment funds (note 3)	3,619,610	-
Capital assets (note 4)	590,168	585,735
	<u>\$ 105,027,363</u>	<u>\$ 109,253,401</u>

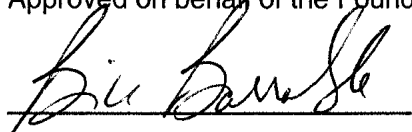
Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 563,309	\$ 460,743
Grants payable	619,927	2,847,461
	<u>1,183,236</u>	<u>3,308,204</u>
Deferred contributions (note 5):		
Contributions for expenses of future periods	91,634,349	105,359,462
Capital contributions	590,168	585,735
Restricted projects	8,000,000	-
	<u>100,224,517</u>	<u>105,945,197</u>
Net assets:		
Restricted for endowment purposes (note 7)	3,619,610	-
	<u>\$ 105,027,363</u>	<u>\$ 109,253,401</u>

Commitments (note 6)

See accompanying notes to financial statements.

Approved on behalf of the Foundation:

 Director

 Director

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statements of Operations

	Year ended March 31, 2003	Period from incorporation on March 7, 2001 to March 31, 2002
Revenues:		
Amortization of deferred contributions (note 5(a))	\$ 17,582,332	\$ 8,602,425
Amortization of deferred capital contributions (note 5(b))	146,896	68,065
Restricted projects (note 5(c))	968,020	-
Other	74,977	1,000
	<u>18,772,225</u>	<u>8,671,490</u>
Expenses:		
Grants and awards:		
Career	6,007,099	1,849,633
Trainee	2,154,380	827,485
Canadian Institute for Health Research training centres	1,713,775	54,431
British Columbia Health Research Foundation scholars and trainees	290,702	235,155
Research Institutions	235,406	-
Research Units	225,000	-
Genome BC	3,650,000	2,450,000
Other grants-in-aid	20,000	120,000
Program development and delivery	1,012,030	1,177,047
Coordination, research and analysis	133,899	-
Restricted project expenses (note 5(c))	968,020	-
	<u>16,410,311</u>	<u>6,713,751</u>
Administration:		
General operating	1,904,728	1,673,847
Information services	310,290	215,827
Amortization of capital assets	146,896	68,065
	<u>2,361,914</u>	<u>1,957,739</u>
	<u>18,772,225</u>	<u>8,671,490</u>
Excess of revenues over expenses	\$ -	\$ -

See accompanying notes to financial statements.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statements of Changes in Net Assets

	Restricted for Endowment	Unrestricted	Year ended March 31, 2003	Period from incorporation on March 7, 2001 to March 31, 2002
Balance, beginning of year	\$ -	\$ -	\$ -	\$ -
Transfer of endowment funds from British Columbia Health Research Foundation (note 7)	3,619,610	-	3,619,610	-
Balance, end of year	\$ 3,619,610	\$ -	\$ 3,619,610	\$ -

See accompanying notes to financial statements.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statements of Cash Flows

	Year ended March 31, 2003	Period from incorporation on March 7, 2001 to March 31, 2002
Cash flows from operating activities:		
Contributions from the Province of British Columbia - operations	\$ -	\$ 110,000,000
Contributions from the Province of British Columbia - projects	8,000,000	-
Contributions from Western Economic Diversification - projects	906,063	-
Grants and awards	(16,756,372)	(2,689,243)
Program development, delivery and administration	(3,255,857)	(2,916,933)
Projects	(800,575)	-
Other revenue	74,977	1,000
Investment revenue	3,913,895	4,615,687
	(7,917,869)	109,010,511
Cash flows from investing activities:		
Change in short-term investments	13,228,222	(34,440,067)
Change in long-term investments	4,283,754	(73,882,069)
Change in endowment investments	(3,619,610)	-
Purchase of capital assets	(151,329)	(653,800)
	13,741,037	(108,975,936)
Cash flows from financing activities:		
Dissolution of British Columbia Health Research Foundation (note 7)	3,924,635	-
Increase in cash	9,747,803	34,575
Cash, beginning of period	34,575	-
Cash, end of period	\$ 9,782,378	\$ 34,575

See accompanying notes to financial statements.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2003

Period from incorporation on March 7, 2001 to March 31, 2002

1. Nature of operations:

The Michael Smith Foundation for Health Research (the "Foundation") was incorporated on March 7, 2001 under the Society Act (British Columbia). The Foundation is a registered charity under the Income Tax Act (the "Act") and accordingly is exempt from income and capital taxes and is able to issue donation receipts for income tax purposes.

The Foundation was established to create a vibrant and sustainable British Columbian health research environment that is recognized for excellence and:

- has the human resources, infrastructure and research space to compete effectively for national and international funding across all sectors;
- anticipates and responds to B.C. health needs;
- builds the B.C. economy; and
- networks for critical mass across Western Canada, nationally and internationally.

At its inception, the Foundation received a \$110 million grant from the Province of British Columbia based on the vision included in a comprehensive five year plan developed by a coalition representing the broad health research community in British Columbia. Each year the Foundation conducts a range of peer-reviewed grant programs that draw down on this initial grant. The Foundation also receives additional funding from the Province of British Columbia and other sources to undertake various projects consistent with its purpose.

2. Significant accounting policies:

(a) Basis of accounting:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. The Foundation follows the deferral method of accounting for contributions that include grants, donations and service contracts from other sources.

(b) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Leasehold improvements are amortized on a straight-line basis over the term of the lease. Other capital assets are amortized on a straight-line basis over their estimated useful life at the following annual rates:

Asset	Rate
Furniture	20%
Office equipment	20%
Computer equipment	30%
Computer software	100%

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2003

Period from incorporation on March 7, 2001 to March 31, 2002

2. Significant accounting policies (continued):

(c) Short-term investments:

Short-term investments include term deposits, banker's acceptances, bonds, and commercial paper with a term to maturity of less than one year, and are carried at the lower of cost and market value.

(d) Long-term investments:

Long-term investments include term deposits, banker's acceptances, bonds, commercial paper, and securities with a term to maturity of more than one year, and are carried at cost less provision for permanent declines in market value.

(e) Revenue recognition:

In March 2001, the provincial government of British Columbia provided a grant of \$110 million to establish the Foundation and implement a five-year strategic plan. Under the terms of the Foundation's bylaws, this funding, along with the future investment income, will be directed to the granting of funds to eligible recipients and the payment of the Foundation's operating and capital expenditures. This restricted contribution, along with the related investment income, is deferred and recognized as revenue in the year in which the related expenses are incurred by the Foundation. Restricted contributions applied toward the purchase of capital assets are deferred and amortized to revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

The Foundation also receives various other restricted contributions through project grants or contracts that are deferred and recognized as revenue in the year in which the related expenses are incurred by the Foundation. Endowment contributions are recorded as a direct increase in net assets. Investment income earned on endowment contributions are deferred and recognized as revenue in the year in which the related expenses are incurred by the Foundation.

From time to time the Foundation's Board of Directors may place internal restrictions on certain endowments or other resources such that the resources are available only for the specified purpose.

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment and other income are recognized as revenue when earned.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2003

Period from incorporation on March 7, 2001 to March 31, 2002

2. Significant accounting policies (continued):

(f) Grants and awards:

Grants and awards approved by the Foundation are recorded as expenses in the fiscal year that the payment is to be made. Amounts are usually paid in quarterly installments in advance.

(g) Volunteer services:

The Foundation gratefully acknowledges the significant contribution it receives in the form of services from a large number of volunteer peer reviewers, committee members and task force participants. Such services, while essential to the Foundation's operations, are not recorded in these financial statements because of the difficulty of assigning a particular value to them.

(h) Lease inducement:

A cash payment was received as a lease inducement by the Foundation under the terms of the lease for office premises and is being amortized to income through a reduction of rental expense over the term of the lease. The unamortized balance of \$132,210 (2002 - \$142,380) has been included in accounts payable and accrued liabilities.

3. Investments:

	2003	2002
Bonds	\$ 86,637,056	\$ 108,322,136
Equities	7,792,714	-
Total investments	94,429,770	108,322,136
Short-term	21,211,845	34,440,067
Endowment funds	3,619,610	-
Long-term	\$ 69,598,315	\$ 73,882,069

Investments have maturity dates ranging from fiscal 2004 to fiscal 2007.

The investments, with a book value of \$94,429,770, have a market value of \$94,263,081. The decline in market value below cost relates to the long-term portion of the investments and is considered to be temporary and, accordingly, the investments continue to be carried at cost.

During the year, the Foundation received a transfer of contributions restricted for endowment purposes from British Columbia Health Research Foundation ("BCHRF") (note 7).

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2003

Period from incorporation on March 7, 2001 to March 31, 2002

4. Capital assets:

2003	Cost	Accumulated amortization	Net book value
Computer software	\$ 73,786	\$ 57,719	\$ 16,067
Computer hardware	112,263	28,886	83,377
Office furniture	299,409	80,405	219,004
Leasehold improvements	319,671	47,951	271,720
	\$ 805,129	\$ 214,961	\$ 590,168

2002	Cost	Accumulated amortization	Net book value
Computer software	\$ 41,651	\$ 20,826	\$ 20,825
Computer hardware	40,156	6,023	34,133
Office furniture	252,322	25,232	227,090
Leasehold improvements	319,671	15,984	303,687
	\$ 653,800	\$ 68,065	\$ 585,735

5. Deferred contributions:

Deferred contributions represent unspent grants or contract resources restricted for specific purposes such as undertaking the five year strategic plan or other restricted projects, and include expenses for operating as well as capital purposes.

(a) Deferred contributions relating to expenses of future periods:

Balance, beginning of year	\$ 105,359,462
Investment income earned during the year	3,913,895
Investment income transferred from BCHRF (note 7)	71,709
	109,345,066
Amounts recognized as revenue during the period	(17,582,332)
Amounts applied toward capital assets purchased during the period	(128,385)
Balance, end of year	\$ 91,634,349

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2003

Period from incorporation on March 7, 2001 to March 31, 2002

5. Deferred contributions (continued):

(b) Deferred contributions relating to capital assets:

Balance, beginning of year	\$	585,735
Allocation of Government grants – operations (note 5(a))		128,385
Restricted project – Western Economic Diversification (note 5(c))		22,944
Amounts amortized to revenue		(146,896)
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Balance, end of year	\$	590,168

(c) Restricted projects:

Balance, beginning of year	\$	-
Restricted project – Government of British Columbia		8,000,000
Restricted project – Western Economic Diversification		968,020
<hr/>		
		8,968,020
Amounts amortized to revenue		(968,020)
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Balance, end of year	\$	8,000,000

During fiscal 2003, the Foundation received \$8,000,000 from the Government of British Columbia for a restricted project to develop a process for reviewing and approving funding for specific research/evaluation projects, and reporting on those projects. The project is expected to begin in fiscal 2004.

During the year, the Foundation received funds from Western Economic Diversification to establish the Canada West Health Innovation Council. The project was completed during the year. Total expenses were \$968,020 and \$22,944 of capital assets were acquired.

6. Commitments:

(a) Grant commitments:

Through a variety of targeted granting programs, the Foundation commits the majority of its funds to providing peer-reviewed research awards aimed at fulfilling the Foundation's mandate. Many of the commitments made through these granting programs have terms that span more than one fiscal year.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2003

Period from incorporation on March 7, 2001 to March 31, 2002

6. Commitments (continued):

(a) Grant commitments (continued):

The following table summarizes commitments approved by the Foundation, by major grant program.

Grant program	Commitments for the years ending March 31			Total
	2004	2005	2006 and thereafter	
Career	\$ 6,333,214	\$ 4,848,008	\$ 5,602,664	\$ 16,783,886
Trainee	1,984,484	1,052,486	136,074	3,173,044
CIHR training centres	75,000	75,000	68,750	218,750
BCHRF scholars and trainees	128,750	13,680	-	142,430
	\$ 8,521,448	\$ 5,989,174	\$ 5,807,488	\$ 20,318,110

(b) Office space and equipment lease commitments:

The Foundation rents office space under a long-term lease, which expires July 31, 2011 and provides for an additional 5 year extension at the option of the Foundation. Minimum annual lease payments are \$214,335 (2002 - \$211,539). During the year the Foundation exercised its option to extend its lease to cover additional office space adjacent to its existing premises with possession beginning on June 1, 2003. Minimum annual lease payments on the additional office space will be \$91,020.

The Foundation leases various office equipment with minimum annual lease payments of \$59,054 (2002 - \$59,717).

Total minimum lease payments for the next five years are as follows:

Year ending March 31:	
2004	\$ 350,774
2005	365,944
2006	362,225
2007	371,487
2008	345,341
	\$ 1,795,771

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2003

Period from incorporation on March 7, 2001 to March 31, 2002

7. Related party transactions:

On July 11, 2002, British Columbia Order in Council – Deregulation Statutes Amendment Act (No. 2) 2002, was approved by the Province of British Columbia. This Order dissolved the British Columbia Health Research Foundation (“BCHRF”) and transferred all of the assets and liabilities of BCHRF to the Foundation.

Assets and liabilities transferred to the Foundation during the year were as follows:

Cash and short-term investments	\$ 3,924,635
Accounts payable and accrued liabilities	(233,316)
Investment income earned on endowment funds	(71,709)
Endowment funds - principal balances	(3,619,610)

Unrestricted net assets	\$ -
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The Foundation also previously had agreed to assume responsibility for the costs associated with any renewal of the BCHRF’s existing scholar and trainee awards. The total paid in the period for BCHRF renewal grants was \$290,702 (\$2002 - \$235,155). The anticipated future cost to complete these renewal grants by June 2004 is \$142,430 (2002 - \$629,008). These amounts are included in the expenses of the Foundation or in the commitments summarized in note 6, respectively.

8. Comparative figures:

Certain comparative figures have been reclassified to conform with the current financial statement presentation.