

Financial Statements of

**MICHAEL SMITH FOUNDATION FOR
HEALTH RESEARCH**

Year ended March 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Members of the
Michael Smith Foundation for Health Research

We have audited the accompanying financial statements of Michael Smith Foundation for Health Research, which comprise the statement of financial position as at March 31, 2012, the statements of revenue and expenses and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements 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 Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Michael Smith Foundation for Health Research as at March 31, 2012 and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the Society Act (British Columbia) we report that, in our opinion, these principles have been applied on a basis consistent with the preceding year.

Chartered Accountants
June 22, 2012
Burnaby, Canada

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statement of Financial Position

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash	\$ 4,590,806	\$ 2,105,713
Contributions and other amounts receivable	24,284,125	5,099,499
Short-term investments (note 3)	31,267,018	50,184,300
Prepaid expenses and deposits	104,209	139,383
	<u>60,246,158</u>	<u>57,528,895</u>
Long-term investments (note 3)	2,811,359	2,785,448
Capital assets (note 4)	491,233	308,133
	<u>\$ 63,548,750</u>	<u>\$ 60,622,476</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 966,686	\$ 806,977
Grants payable	108,922	227,296
	<u>1,075,608</u>	<u>1,034,273</u>
Deferred contributions (note 5):		
Contributions for expenses of future periods	43,972,692	31,536,758
Capital contributions	491,233	308,133
Sponsored projects	15,513,227	25,180,763
	<u>59,977,152</u>	<u>57,025,654</u>
Net assets:		
Restricted for endowment purposes (note 6)	2,495,990	2,562,549
Commitments (note 7)		
	<u>\$ 63,548,750</u>	<u>\$ 60,622,476</u>

See accompanying notes to financial statements.

Approved on behalf of the Foundation:



Director



Director

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statement of Revenue and Expenses

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Contributions recognized in current year (note 5(a))	\$ 19,588,256	\$ 18,860,470
Amortization of deferred capital contributions (note 5(b))	122,969	229,282
Contributions recognized in current year – sponsored projects (note 5(c))	2,687,771	2,148,107
Other	444,443	386,611
	<u>22,843,439</u>	<u>21,624,470</u>
Expenses:		
Programs and projects		
Career	9,355,322	9,044,573
Trainee	1,992,528	2,701,098
Research institutions and units	67,916	711,465
Research networks	2,485,000	1,694,593
Monitoring, evaluation, and learning system	610,049	113,562
Knowledge translation	171,114	-
Ethics harmonization	115,498	208,600
Other	294,367	109,998
Program development and delivery	1,008,408	772,114
Sponsored project expenses (note 5(c))	2,687,771	2,148,107
	<u>18,787,973</u>	<u>17,504,110</u>
Administration:		
General operating	3,932,497	3,891,078
Amortization of capital assets	122,969	229,282
	<u>4,055,466</u>	<u>4,120,360</u>
	<u>22,843,439</u>	<u>21,624,470</u>
Excess of revenue over expenses	\$ -	\$ -

See accompanying notes to financial statements.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash flows from operating activities:		
Contributions from the Province of British Columbia		
Operations	\$ -	\$ 20,000,000
Sponsored projects	-	1,601,116
Contributions from others – sponsored projects	4,946,500	38,065
Grants and awards	(15,240,581)	(14,441,889)
Program development, delivery and administration	(4,814,696)	(4,324,260)
Sponsored project expenses	(2,654,998)	(2,237,818)
Other revenue	444,443	386,611
Investment revenue	1,108,098	1,372,658
Net cash provided by (used in) operating activities	(16,211,234)	2,394,483
Cash flows from investing activities:		
Purchase of investments	(16,450,152)	(118,287,982)
Proceeds from sale of investments	35,452,548	115,308,187
Purchase of capital assets (note 5(a))	(306,769)	(188,049)
Proceeds of sale of capital assets	700	-
Net cash provided by (used in) investing activities	18,696,327	(3,167,844)
Net increase (decrease) in cash	2,485,093	(773,361)
Cash, beginning of year	2,105,713	2,879,074
Cash, end of year	\$ 4,590,806	\$ 2,105,713

The Foundation uses the direct method in preparation of its statement of cash flows.

See accompanying notes to financial statements.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2012

1. Nature of operations:

The Michael Smith Foundation for Health Research (the "Foundation") is incorporated under the Society Act (British Columbia) and is a registered charity under the Income Tax Act. Accordingly the Foundation 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 and health system needs;
- builds the B.C. economy; and
- networks for critical mass across Western Canada, nationally and internationally.

The Foundation receives funding from the Province of British Columbia to conduct a range of peer-reviewed grant programs and other projects. In addition, the Foundation receives funding from 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. The Foundation follows the deferral method of accounting for contributions including grants, donations and service agreements from other sources.

(b) Revenue recognition:

Funding received from the Province of British Columbia, along with the future investment income, will be directed to the granting of funds to eligible recipients, the support of strategic initiatives and the payment of the Foundation's operating and capital expenditures. These restricted contributions, along with any additional related grants and the investment income thereon, are deferred and recognized as revenue in the year in which the related expenses are incurred by the Foundation. Restricted contributions used for the purchase of capital assets are deferred and amortized to revenue, at a rate corresponding with the amortization rate for the related capital assets.

The Foundation also receives various other restricted contributions through sponsored project grants, contracts or matching contributions from other organizations that are deferred and recognized as revenue in the year in which the related expenses are incurred by the Foundation.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2012

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Endowment contributions are recorded as a direct increase in net assets. Realized investment income earned on endowment investments is deferred and recognized as revenue in the year in which the related expenses are incurred by the Foundation.

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 revenues are recognized when earned.

(c) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repair and maintenance costs are charged to expense. Leasehold improvements are amortized on a straight-line basis over the lesser of the term of the lease or their estimated useful lives. Other capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Period
Computer software	1 year
Computer hardware	3 years
Office furniture	5 years
Office equipment	5 years

(d) Financial instruments:

The Foundation accounts for its financial instruments in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3861, *Financial Instruments – Disclosure and Presentation*, as permitted for not-for-profit organizations.

The classifications of the Foundation's financial assets and liabilities are as follows:

Loans and receivables

- (i) Contributions and other amounts receivable - are measured at amortized cost using the effective interest method and approximate their fair values due to the relatively short periods to maturity.

Financial Assets – Available-for-sale

- (i) Short-term investments - include term deposits, treasury bills, bankers' acceptances, income funds and bonds, with a term to maturity of less than one year. Short-term investments are initially measured at fair value with subsequent unrealized gains and losses being recognized as changes in deferred contributions until the financial asset is disposed of or becomes impaired.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2012

2. Significant accounting policies (continued):

(d) Financial instruments (continued):

Financial Assets – Available-for-sale (continued):

(i) Continued:

Long-term investments - include term deposits, treasury bills, bankers' acceptances, bonds, commercial paper and equities with a term to maturity of more than one year. Long-term investments are initially measured at fair value with subsequent changes in fair value being recognized in deferred contributions until the financial asset is disposed of or becomes impaired.

(ii) Endowment Funds - investments related to permanent endowment capital are initially measured at fair value with subsequent changes in fair value being recognized as changes in net assets. Realized gains and losses are recognized as changes in deferred contributions.

The Foundation does not currently classify any instruments as held for trading.

Other Financial Liabilities

(i) Accounts payable, grants payable and accrued liabilities - are measured at amortized cost using the effective interest method.

(e) 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.

(f) 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 determining their fair value.

(g) Lease inducement:

Cash payments received as lease inducements by the Foundation under the terms of the lease for office premises are being amortized to income through a reduction of rental expense over the term of the lease. The unamortized balance of \$1,178 (2011 - \$18,238) is included in accounts payable and accrued liabilities.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2012

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(i) Comparative figures:

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

(j) Future accounting framework:

In December 2010 the Canadian Institute of Chartered Accountants (“CICA”) in conjunction with the Accounting Standards Board (“AcSB”) issued Part III – Accounting Standards for Not-for-Profit Organizations (“Part III”) of the CICA Handbook. Part III is effective for fiscal years commencing on or after January 1, 2012 and provides Canadian private sector not-for-profit organizations with a new financial reporting framework. The Foundation has the option to apply International Financial Reporting Standards (IFRS) or the newly approved Accounting Standards for Not-for-Profit Organizations.

The Foundation is evaluating the impact of adopting the new Accounting Standards for Not-for-Profit Organizations; differences on adoption are expected to be minimal.

3. Investments:

	2012	2011
	Market value	Market value
Bonds, mutual funds and term deposits	\$ 33,006,408	\$ 51,872,795
Equities	1,071,969	1,096,953
Total investments	34,078,377	52,969,748
Short-term	31,267,018	50,184,300
Long-term	\$ 2,811,359	\$ 2,785,448

Investments in bonds, treasury bills and bankers’ acceptances have maturity dates ranging from fiscal 2013 to fiscal 2018. Investments related to endowments are classified as long-term.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2012

4. Capital assets:

2012	Cost	Accumulated amortization	Net book value
Computer software	\$ 1,010,866	\$ 594,535	\$ 416,331
Computer hardware	390,716	367,470	23,246
Office furniture and equipment	624,359	579,711	44,648
Leasehold improvements	632,224	625,216	7,008
	\$ 2,658,165	\$ 2,166,932	\$ 491,233

2011	Cost	Accumulated amortization	Net book value
Computer software	\$ 721,148	\$ 571,323	\$ 149,825
Computer hardware	382,381	323,049	59,332
Office furniture and equipment	616,715	564,265	52,450
Leasehold improvements	632,224	585,698	46,526
	\$ 2,352,468	\$ 2,044,335	\$ 308,133

5. Deferred contributions:

Deferred contributions represent unspent grants or contract resources restricted for specific purposes and projects, and include expenses for operating as well as capital purposes.

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

	2012	2011
Balance, beginning of year	\$ 31,536,758	\$ 29,913,668
Contributions received during the year:		
Grant from the Province of BC	24,000,000	20,000,000
Investment income	1,119,264	971,555
Amounts repurposed from sponsored projects (note 5(c))	7,026,265	-
	63,682,287	50,885,223
Amounts recognized as revenue during the period	(19,588,256)	(18,860,470)
Amounts applied toward net capital assets purchased during the period	(306,069)	(188,049)
Adjustment to fair value of financial instruments classified as available for sale	184,730	(299,946)
Balance, end of year	\$ 43,972,692	\$ 31,536,758

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2012

5. Deferred contributions (continued):

During 2012, the Foundation received approval to repurpose certain funds related to the sponsored project funds for Health System Design and Management (note 5(c)). The funds were directed toward the other restricted purposes of the Foundation.

(a) Deferred contributions relating to capital assets:

	2012	2011
Balance, beginning of year	\$ 308,133	\$ 349,366
Allocation of deferred contributions	306,069	188,049
Amounts amortized to revenue	(122,969)	(229,282)
Balance, end of year	\$ 491,233	\$ 308,133

(b) Deferred contributions relating to sponsored projects with restricted funding:

	2012	2011
Balance, beginning of year	\$ 25,180,763	\$ 22,390,805
Sponsored projects - Province of British Columbia		
- BC Healthy Living Alliance	-	38,065
Sponsored projects - Other Organizations		
- Healthy Minds, Healthy People	46,500	-
- Vancouver Island Research Capacity Building	-	4,900,000
	25,227,263	27,328,870
Amounts recognized as revenue	(2,687,771)	(2,148,107)
Amounts repurposed to other restricted purposes (note 5(a))	(7,026,265)	-
Balance, end of year	\$ 15,513,227	\$ 25,180,763

The balance of deferred contributions for sponsored projects is comprised of the following:

	2012	2011
Health Services and Policy Research Support Network	\$ 2,200,661	\$ 2,998,109
Children and Youth with Special Needs	1,339,288	1,339,418
BC Nursing Research Initiative	4,532,310	6,017,646
Human Papillomavirus	31,907	81,907
Immunization Program Evaluation	23,941	23,941
Health System Design and Management	-	7,238,675
Human Papillomavirus 2	2,514,945	2,581,067
Vancouver Island Research Capacity Building	4,870,175	4,900,000
	\$ 15,513,227	\$ 25,180,763

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2012

6. Net assets restricted for endowment purposes:

	2012	2011
Balance, beginning of year	\$ 2,562,549	\$ 2,519,193
Adjustment to fair value	(66,559)	43,356
Balance, end of year	\$ 2,495,990	\$ 2,562,549

7. 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 or strategic projects aimed at fulfilling the Foundation's mandate. Some of the commitments made through these granting programs and projects have terms that span more than one fiscal year. Such grants have on-going eligibility criteria and consequently, grant commitments are expensed in the period that the payment is to be made.

The following table summarizes grant commitments approved by the Foundation, by major grant program or project:

Grant Program or Project	Grant commitments for the years ending March 31		
	2013	2014 and thereafter	Total
Career	\$ 2,581,250	\$ 45,000	\$ 2,626,250
Trainee	1,179,454	48,500	1,227,954
Technology methodology platforms	416,667	-	416,667
Monitoring, evaluation, learning system	210,046	-	210,046
Knowledge translation	37,425	-	37,425
Ethics harmonization	115,498	-	115,498
Other	19,968	-	19,968
	\$ 4,560,308	\$ 93,500	\$ 4,653,808

(b) Grant commitments – Sponsored projects:

Through a variety of specialized granting programs, the Foundation also may commit significant amounts of project funding to providing peer-reviewed research awards aimed at fulfilling each project's specific mandate. Some of the commitments made through these granting programs have terms that span more than one fiscal year. Such grants have on-going eligibility criteria and consequently, grant commitments are expensed in the period that the payment is to be made.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2012

7. Commitments (continued):

(b) Grant commitments – Sponsored projects (continued):

The following table summarizes grant commitments approved by the Foundation, by each sponsored project:

Externally funded projects	Grant commitments for the years ending March 31		Total
	2013	2014 and thereafter	
Health Services & Policy Research Support Network:			
- CHSRF partnerships	\$ 9,375	\$ -	\$ 9,375
- CIHR partnerships	200,278	99,167	299,445
- Health Human Resources	375,000	281,250	656,250
Human Papillomavirus 2			
- Long-term vaccine evaluation	678,750	755,416	1,434,166
BC Nursing Research Initiative			
- Research Facilitator	515,625	-	515,625
- Nursing Health Services Research Network	250,000	125,000	375,000
- Research Project	580,962	515,779	1,096,741
- Commissioned Research	74,963	-	74,963
- Investigative Team	200,000	350,000	550,000
Vancouver Island Capacity Building			
- Network Grant	350,769	29,231	380,000
	\$ 3,235,722	\$ 2,155,843	\$ 5,391,565

(c) Office space and equipment lease commitments:

The Foundation rents office space under a long-term lease that expires October 31, 2016 and provides for an additional five-year extension at the option of the Foundation.

The Foundation also leases various types of office equipment.

The Foundation has future minimum lease payments under these operating leases as follows:

Years ending March 31:	
2013	\$ 536,675
2014	484,549
2015	483,895
2016	483,895
2017	282,272
	\$ 2,271,286

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2012

8. Financial instruments:

The Foundation's financial instruments consist of cash, contributions and other amounts receivable, short-term investments, long-term investments, accounts payable and accrued liabilities and grants payable. Cash and investments are carried at their fair values. The fair values of other financial instruments approximate their carrying values due to their relative short-terms to maturity. Unless otherwise noted, it is management's opinion that the Foundation is not exposed to significant interest rate, currency or credit risks from these financial instruments.

9. Capital management:

The Foundation receives its principal source of capital through government grants and investment income earned on capital balances and permanent endowment funds. The Foundation defines capital to be the balance of deferred contributions and net assets which include endowment funds.

The Foundation's objective when managing capital is to fund its operations, capital asset additions, and endowment expenditures in support of research and projects in the field of health. In carrying out its purpose, the Foundation regularly distributes its capital to other not-for-profit organizations within BC through structured peer-review granting processes and other types of collaborative projects. Recipients are restricted under the terms of the awards to use the funds provided by the Foundation in support of the programs, operations and activities included in their approved grant proposal or contract. The Foundation manages the capital structure and makes adjustments based on available government funding and economic conditions. Currently, the Foundation's strategy is to monitor expenditures to preserve capital and make expenditures in accordance with funding made available from government, donors or other sources.

The Foundation is not subject to any specific external capital requirements or restrictions other than those inherent in fulfilling the purposes for which it received operating funding from the provincial government. The Foundation is not subject to debt covenants.

Funding received for designated purposes or investment income on endowments must be used for the purpose outlined in the funding letter or the endowment terms of reference. The Foundation has complied with the external restrictions on the funding provided.