

Financial Statements of

**MICHAEL SMITH FOUNDATION FOR
HEALTH RESEARCH**

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 the Michael Smith Foundation for Health Research as at March 31, 2002 and the statements of operations and cash flows for the period from incorporation on March 7, 2001 to March 31, 2002. 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, 2002 and the results of its operations and its cash flows for the period from incorporation on March 7, 2001 to March 31, 2002 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

April 19, 2002



MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statement of Financial Position

March 31, 2002

Assets

Current assets:

Cash	\$	34,575
Short-term investments (note 3)		34,440,067
Accounts receivable		303,393
Prepaid expenses and deposits		7,562
		<hr/>
		34,785,597

Long-term investments (note 3) 73,882,069

Capital assets (note 4) 585,735

\$ 109,253,401

Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued liabilities	\$	460,743
Grants payable		2,847,461
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		3,308,204

Deferred contributions (note 5):

Expenses of future periods		105,359,462
Capital assets		585,735
		<hr/>
		105,945,197

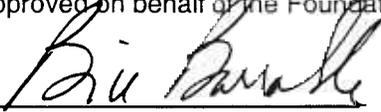
Net assets

\$ 109,253,401

Commitments (note 6)

See accompanying notes to financial statements.

Approved on behalf of the Foundation

 Director

 Director

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statement of Operations

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

Revenues:

Grant from Province of British Columbia (note 5)	\$ 8,602,425
Amortization of deferred contributions related to capital assets (note 5)	68,065
Other - donations	1,000
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	8,671,490

Expenses:

Grants and awards:

Career	1,849,633
Trainee	827,485
CIHR training centres	54,431
BCHRF scholars and trainees	235,155
Genome BC	2,450,000
Other grants-in-aid	120,000
Program development and delivery expenses	1,177,047
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	6,713,751

Administration and personnel:

General operating	1,611,889
Information services	215,827
Investment management fees	61,958
Amortization of capital assets	68,065
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	1,957,739

8,671,490

Excess of revenues over expenses	\$ -
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See accompanying notes to financial statements.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statement of Cash Flows

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

Cash flows from operating activities:	
Grants and awards	(2,689,243)
Program development, delivery and administration	\$ (2,916,933)
Donations	1,000
Province of British Columbia	110,000,000
Investment revenue	4,615,687
	<hr/>
	109,010,511
Cash flows from investing activities:	
Purchase of short-term investments	(34,440,067)
Purchase of long-term investments	(73,882,069)
Purchase of capital assets	(653,800)
	<hr/>
	(108,975,936)
Increase in cash	34,575
Cash, beginning of period	<hr/>
	-
Cash, end of period	<hr/>
	\$ 34,575

See accompanying notes to financial statements.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

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 in March, 2001 to provide leadership to build B.C.'s capacity to achieve excellence in clinical, biomedical, health services and population health research. The Foundation pursues this mission by implementing a range of programs designed to create a provincial health research environment that:

- has the human resources, infrastructure and research space to compete effectively for national and international funding across all sectors;
- enhances capacity to anticipate and respond to B.C. health needs;
- builds the B.C. economy; and
- is recognized for excellence.

At its inception in March 2001, the Foundation received a \$110 million grant from the Province of British Columbia based on the visions 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.

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 government grants and donations 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%

(c) Cash:

Cash includes short-term deposits and bankers acceptances with a term to maturity of less than three months at acquisition.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

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

2. Significant accounting policies (continued):

(d) 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 from March 31, 2002, and are carried at the lower of cost and market value.

(e) 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 from March 31, 2002, and are carried at cost less provision for permanent declines in market value.

(f) 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.

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.

(g) Grants and awards:

Grants and awards approved by the Board of 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.

(h) Volunteer services:

The Foundation gratefully acknowledges the significant contribution it receives in the form of services from a large number of volunteer peer reviewers. 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.

(i) Lease inducement:

The lease inducement represents a cash payment received 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 \$142,380 has been included in accounts payable and accrued liabilities.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

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

3. Investments:

Investments have maturity dates ranging from fiscal 2003 to fiscal 2007. Cost of the investments at March 31, 2002, which includes the amortization of the premium or discount, is \$108,322,136. These investments have a maturity value of \$117,347,670 and a market value at March 31, 2002 of \$106,252,467. The decline in market value below cost is considered to be temporary, resulting primarily from interest rate fluctuations which do not affect the maturity values. Accordingly, the investments continue to be carried at cost.

Capital assets:

	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
	<u>\$ 653,800</u>	<u>\$ 68,065</u>	<u>\$ 585,735</u>

5. Deferred contributions:

Deferred contributions represent unspent resources externally restricted for undertaking the five year strategic plan, and include expenses for operating as well as capital purposes.

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

Contributions received during the period:	
Grant from Province of British Columbia (note 2(f))	\$ 110,000,000
Investment income earned	4,615,687
	<u>114,615,687</u>
Amounts recognized as revenue during the period	(8,602,425)
Amounts applied toward capital assets purchased during the period (note 5(b))	(653,800)
	<u>\$ 105,359,462</u>

(b) Deferred contributions relating to capital assets:

Allocation of grant from Province of British Columbia (note 5(a))	\$ 653,800
Amounts amortized to revenue	(68,065)
	<u>\$ 585,735</u>

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

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

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

Grant program	Commitments for the years ending March 31				Total
	2003	2004	2005	2006 and thereafter	
Career	\$ 3,811,766	\$ 3,390,258	\$ 2,876,250	\$ 3,640,938	\$ 13,719,212
Trainee	1,521,453	1,118,929	397,746	-	3,038,128
CIHR training centres	446,739	446,739	446,739	392,308	1,732,525
BCHRF scholars and trainees	438,588	176,740	13,680	-	629,008
New opportunities - Genome BC	3,650,000	-	-	-	3,650,000
Other grants-in-aid	20,000	-	-	-	20,000
	\$ 9,888,546	\$ 5,132,666	\$ 3,734,415	\$ 4,033,246	\$ 22,788,873

(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 \$211,539.

The Foundation leases various office equipment with minimum annual lease payments of \$59,717.

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

Period ending March 31:	
2003	\$ 271,256
2004	270,593
2005	270,593
2006	268,409
2007	272,873
	\$ 1,353,724

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

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

7. Related party transactions:

On July 26, 2001, the Board of the British Columbia Health Research Foundation ("BCHRF") passed a resolution to work with the Foundation to facilitate the orderly transfer of all of the assets and liabilities of BCHRF to the Foundation. This resolution was contingent on an agreement that the Foundation would honour the original terms and commitments of four private named endowments held by BCHRF, with restricted assets totaling approximately \$3,775,000. Transfer of the capital assets was completed during the year at a book value of \$9,667; however, the official transfer of the endowment and other assets and liabilities requires provincial legislation that had not been enacted by March 31, 2002. The future anticipated net cost of this transfer to the Foundation is nil. No provision for receipt of these endowment assets, or their related investment income, has been made in these statements.

During the period the Foundation also 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 \$235,155. The anticipated future cost to complete these renewal grants by June 2005 is \$629,008. These amounts are included in the expenses of the Foundation or in the commitments summarized in note 6, respectively.