

Financial Statements of

**MICHAEL SMITH FOUNDATION FOR  
HEALTH RESEARCH**

Year ended March 31, 2007



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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, 2007 and the statements of revenue and expenses 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, 2007 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

May 11, 2007

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

## Statement of Financial Position

March 31, 2007, with comparative figures for 2006

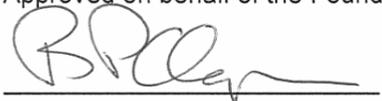
	2007	2006
<b>Assets</b>		
Current assets:		
Cash	\$ 67,873,041	\$ 114,680,575
Accounts receivable	908,173	8,225,033
Short-term investments (note 3)	14,102,652	27,914,140
Prepaid expenses and deposits	35,411	26,954
	82,919,277	150,846,702
Long-term investments (note 3)	49,452,284	12,430,342
Endowment funds (note 3)	2,233,539	2,233,539
Capital assets (note 4)	720,319	809,029
	\$ 135,325,419	\$ 166,319,612

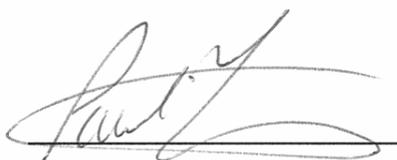
## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 549,934	\$ 851,138
Grants payable	1,182,011	594,179
Current portion of obligations under capital lease (note 5)	18,649	40,914
	1,750,594	1,486,231
Obligations under capital lease (note 5)	-	18,649
Deferred contributions (note 6):		
Contributions for expenses of future periods	109,480,507	138,773,201
Capital contributions	720,319	809,029
Restricted projects	21,140,460	22,998,963
	131,341,286	162,581,193
Net assets:		
Restricted for endowment purposes	2,233,539	2,233,539
Commitments (note 7)		
	\$ 135,325,419	\$ 166,319,612

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, 2007, with comparative figures for 2006

	2007	2006
<b>Revenue:</b>		
Amortization of deferred contributions (note 6(a))	\$ 36,066,082	\$ 30,986,871
Amortization of deferred capital contributions (note 6(b))	428,084	411,365
Restricted projects (note 6(c))	3,541,003	3,774,008
Other	395,078	342,182
	<u>40,430,247</u>	<u>35,514,426</u>
<b>Expenses:</b>		
Grants and awards:		
Career	12,497,769	11,857,522
Trainee	5,193,701	3,991,320
Canadian Institute for Health Research training centres	77,117	68,750
Research institutions	3,747,795	3,747,795
Research units	5,531,082	4,563,582
Research networks	2,766,319	1,906,759
Other grants-in-aid	45,376	42,000
Program development and delivery	1,839,659	1,261,092
Restricted project expenses (note 6(c))	3,541,002	3,774,008
	<u>35,239,820</u>	<u>31,212,828</u>
Administration:		
General operating	3,574,508	2,731,983
Information services	1,187,835	1,158,250
Amortization of capital assets	428,084	411,365
	<u>5,190,427</u>	<u>4,301,598</u>
	<u>40,430,247</u>	<u>35,514,426</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, 2007, with comparative figures for 2006

	2007	2006
Cash flows from operating activities:		
Contributions from the Province of British Columbia		
- Operations	\$ -	\$ 100,000,000
Contributions from the Province of British Columbia		
- Restricted projects	9,660,000	2,500,000
Contributions from the Other Provinces - Restricted projects	22,500	33,000
Grants and awards	(29,294,848)	(26,238,704)
Program development, delivery and administration	(7,400,708)	(4,928,577)
Restricted project expenses	(3,711,575)	(4,251,366)
Other revenue	395,077	342,182
Investment revenue	7,101,337	3,446,016
	(23,228,217)	70,902,551
Cash flows from financing activities:		
Transfer of assets (note 8)	11,425	-
Payments on change in obligations under capital lease	(40,914)	(36,018)
	(29,489)	(36,018)
Cash flows from investing activities:		
Change in investments	(23,210,454)	3,607,523
Purchase of capital assets	(339,374)	(387,735)
	(23,549,828)	3,219,788
Increase (decrease) in cash	(46,807,534)	74,086,321
Cash, beginning of year	114,680,575	40,594,254
Cash, end of year	\$ 67,873,041	\$ 114,680,575

See accompanying notes to financial statements.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2007

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## 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 (the 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 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 plan developed by a coalition representing the broad health research community in British Columbia. In February 2005 the Province of British Columbia announced an additional grant of \$100 million, of which the Foundation received \$30 million in 2005 and \$70 million in 2006. Each year the Foundation conducts a range of peer-reviewed grant programs and projects that draw down on these funds. The Foundation also receives additional funding from the Province of British Columbia and other sources to undertake various projects consistent with its purpose. In 2007, the Province of British Columbia provided new funding of \$1.66 million to the Foundation to support a research project on the efficacy of the Human Papillomavirus (HPV).

## 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. Assets acquired under capital leases are recorded at the present value of future minimum lease payments and amortized over the estimated life of the assets or over the lease term, as appropriate. Repair and maintenance costs are charged to expense. 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 lives as follows:

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2007

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## 2. Significant accounting policies (continued):

### (b) Capital assets (continued):

Asset	Period
Furniture	5 years
Office equipment	5 years
Computer equipment	3.33 years
Computer software	1 year

### (c) Leases:

Leases are classified as either capital or operating in nature. Capital leases are those which substantially transfer the benefits and risks of ownership of the assets to the Foundation. Assets acquired under capital leases are amortized at the rates as described in note 2(b). Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to expense.

### (d) Short-term investments:

Short-term investments include term deposits, treasury bills, bankers' acceptances, bonds, and commercial paper with a term to maturity of less than one year, and are carried at the lower of amortized cost based on their maturity dates and market value.

### (e) Long-term investments:

Long-term investments include term deposits, treasury bills, bankers' acceptances, bonds, commercial paper, and securities with a term to maturity of more than one year, and are carried at cost less provision for declines in market value that are other than temporary.

### (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. In February 2005 the Province of British Columbia announced an additional grant of \$100 million for the Foundation of which \$30 million was received in 2005 and \$70 million was received in 2006. 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. 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 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

Year ended March 31, 2007

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## 2. Significant accounting policies (continued):

### (f) Revenue recognition (continued):

Endowment contributions are recorded as a direct increase in net assets. Restricted 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 revenue is recognized when earned.

### (g) 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.

### (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, 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 a particular value to them.

### (i) 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. During the year, the Foundation received additional lease inducement allowances totaling \$92,518. The unamortized balance of \$226,827 (2006 - \$170,708) is included in accounts payable and accrued liabilities.

### (j) 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.

### (k) Comparative figures:

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

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2007

### 3. Investments:

	2007		2006	
	Book value	Market value	Book value	Market value
Bonds, treasury bills and bankers' acceptances	\$ 53,398,185	\$ 53,368,444	\$ 31,560,584	\$ 31,574,649
Equities	12,390,290	14,253,234	11,017,437	12,534,996
Total investments	65,788,475	67,621,678	42,578,021	44,109,645
Short-term	14,102,652	14,087,396	27,914,140	27,939,638
Endowment funds	2,233,539	2,558,185	2,233,539	2,629,503
Long-term	\$ 49,452,284	\$ 50,976,097	\$ 12,430,342	\$ 13,540,504

Investments in bonds, treasury bills and bankers' acceptances have maturity dates ranging from fiscal 2008 to fiscal 2014.

### 4. Capital assets:

2007	Cost	Accumulated amortization	Net book value
Computer software	\$ 502,842	\$ 452,709	\$ 50,133
Computer hardware	461,376	345,655	115,721
Office furniture	553,739	412,549	141,190
Leasehold improvements	632,224	247,897	384,327
	2,150,181	1,458,810	691,371
Equipment under capital lease	115,791	86,843	28,948
	\$ 2,265,972	\$ 1,545,653	\$ 720,319

2006	Cost	Accumulated amortization	Net book value
Computer software	\$ 402,576	\$ 286,094	\$ 116,482
Computer hardware	398,671	256,240	142,431
Office furniture	501,721	332,235	169,486
Leasehold improvements	507,839	190,894	316,945
	1,810,807	1,065,463	745,344
Equipment under capital lease	115,791	52,106	63,685
	\$ 1,926,598	\$ 1,117,569	\$ 809,029

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2007

## 5. Obligations under capital lease:

Capital lease payments for the years ending March 31 are as follows:

	2007	2006
2007	\$ -	\$ 45,697
2008	19,194	19,193
Total minimum lease payments	19,194	64,890
Less amount representing interest	(545)	(5,327)
Present value of minimum lease payments	18,649	59,563
Current portion of obligations under capital lease	(18,649)	(40,914)
	\$ -	\$ 18,649

## 6. Deferred contributions:

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

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

	2007	2006
Balance, beginning of year	\$ 138,773,201	\$ 96,694,291
Contributions received during the year:		
Grant from Province of British Columbia	-	70,000,000
Receipt of donated assets (note 8)	11,425	-
Investment income earned during the year	7,101,337	3,446,016
Amounts reclassified from accrued liabilities	-	7,500
	145,885,963	170,147,807
Amounts recognized as revenue during the period	(36,066,082)	(30,986,871)
Amounts applied toward capital assets purchased during the period	(339,374)	(387,735)
Balance, end of year	\$ 109,480,507	\$ 138,773,201

In early 2005, the Province of British Columbia announced an additional grant of \$100 million for the Foundation of which \$30 million was received in 2005 and the remaining \$70 million was received in 2006 to be used to fund ongoing operations and programs.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2007

## 6. Deferred contributions (continued):

(b) Deferred contributions relating to capital assets:

	2007	2006
Balance, beginning of year	\$ 809,029	\$ 832,659
Allocation of deferred contributions - operations (note 6(a))	339,374	387,735
Amounts amortized to revenue	(428,084)	(411,365)
<b>Balance, end of year</b>	<b>\$ 720,319</b>	<b>\$ 809,029</b>

(c) Deferred contributions relating to restricted projects:

	2007	2006
Balance, beginning of year	\$ 22,998,963	\$ 18,739,971
Restricted project - Province of British Columbia - Human Papillomavirus	1,660,000	-
Restricted project - Province of British Columbia - BC Nursing Research Initiative	-	8,000,000
Restricted project - Other Provinces - Children and youth with Special Needs	22,500	33,000
	24,681,463	26,772,971
Amounts amortized to revenue	(3,541,003)	(3,774,008)
<b>Balance, end of year</b>	<b>\$ 21,140,460</b>	<b>\$ 22,998,963</b>

In 2007, the Province of British Columbia provided \$1,660,000 to the Foundation to support vaccine research in the Human Papillomavirus. The Foundation also received a total of \$22,500 in contributions to the Children and Youth with Special Needs consensus research conference from the governments of Nova Scotia, Alberta, and Manitoba.

The balance of deferred contributions for restricted contributions is comprised of the following:

	2007	2006
Health Services and Policy Research Support Network	\$ 10,091,332	\$ 12,819,998
SARS Accelerated Vaccine Initiative	25,797	505,802
Children and Youth with Special Needs	1,364,037	1,673,163
BC Nursing Research Initiative	7,999,294	8,000,000
Human Papillomavirus	1,660,000	-
	\$ 21,140,460	\$ 22,998,963

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2007

## 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 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. Grant commitments become payable in the period that the payment is to be made.

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

Grant Program	Grant commitments for the years ending March 31		Total
	2008	2009 and thereafter	
Career	\$ 10,511,265	\$ 8,794,227	\$ 19,305,492
Trainee	3,711,360	1,594,093	5,305,453
Research institutions	936,950	-	936,950
Research units	3,305,407	1,434,004	4,739,411
Research networks	3,043,750	2,718,750	5,762,500
	<u>\$ 21,508,732</u>	<u>\$ 14,541,074</u>	<u>\$ 36,049,806</u>

### (b) Grant commitments - Restricted projects:

Through a variety of specialized granting programs, the Foundation also may commit significant amounts of restricted 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.

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

Restricted projects	Grant commitments for the years ending March 31		Total
	2008	2009 and thereafter	
Health Services and Policy:			
Research Support Network			
- Investigative teams	\$ 748,981	\$ 374,491	\$ 1,123,472
- Operating grants	523,609	87,381	610,990
- CHSRF partnership	50,000	100,000	150,000
- CIHR partnership	156,517	129,920	286,437
	<u>\$ 1,479,107</u>	<u>\$ 691,792</u>	<u>\$ 2,170,899</u>

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements

Year ended March 31, 2007

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## 7. Commitments:

(c) Office space and equipment lease commitments:

The Foundation rents office space under long-term leases which expire July 31, 2011 and provide for an additional five year extension at the option of the Foundation.

The Foundation also leases various office equipment.

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

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2008	\$	440,517
2009		441,021
2010		441,021
2011		441,021
2012 and thereafter		147,007
	\$	1,910,587

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## 8. Transfer of Assets:

On December 14, 2006, the Foundation received the net assets of the Canada West Health Innovation Council which was dissolved in accordance with its By-laws. The net assets received had an estimated value equal to their amortized book values as follows:

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Computer Hardware	\$	4,564
Furniture and fixtures		558
Cash and GST refundable		6,303
	\$	11,425

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## 9. Financial instruments:

The Foundation's financial instruments consist of cash, accounts receivable, short-term investments, long-term investments, accounts payable and accrued liabilities, grants payable and obligations under capital lease. The fair value of short-term investments and long-term investments is disclosed in note 3. 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.