

Financial Statements of

**MICHAEL SMITH FOUNDATION FOR  
HEALTH RESEARCH**

Year ended March 31, 2008



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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 (the "Foundation") as at March 31, 2008 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, 2008 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 13, 2008

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

## Statement of Financial Position

March 31, 2008, with comparative figures for 2007

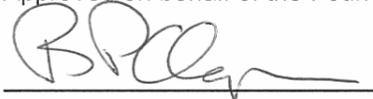
	2008	2007
<b>Assets</b>		
Current assets:		
Cash	\$ 30,404,014	\$ 67,873,041
Contributions and other amounts receivable	5,667,628	908,173
Short-term investments (note 3)	37,196,848	14,102,652
Prepaid expenses and deposits	62,306	35,411
	<u>73,330,796</u>	<u>82,919,277</u>
Long-term investments (note 3)	26,288,513	49,452,284
Endowment funds (note 3)	2,347,126	2,233,539
Capital assets (note 4)	509,626	720,319
	<u>\$ 102,476,061</u>	<u>\$ 135,325,419</u>

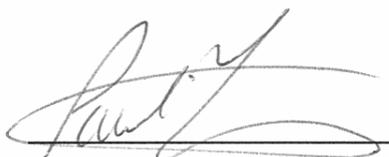
## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 617,553	\$ 549,934
Grants payable	267,871	1,182,011
Current portion of obligations under capital lease	-	18,649
	<u>885,424</u>	<u>1,750,594</u>
Deferred contributions (note 5):		
Contributions for expenses of future periods	75,130,142	109,480,507
Capital contributions	509,626	720,319
Restricted projects	23,603,743	21,140,460
	<u>99,243,511</u>	<u>131,341,286</u>
Net assets:		
Restricted for endowment purposes (note 6)	2,347,126	2,233,539
Commitments (note 7)		
	<u>\$ 102,476,061</u>	<u>\$ 135,325,419</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, 2008, with comparative figures for 2007

	2008	2007
<b>Revenue:</b>		
Amortization of deferred contributions (note 5(a))	\$ 39,701,660	\$ 36,066,082
Amortization of deferred capital contributions (note 5(b))	264,175	428,084
Restricted projects (note 5(c))	3,086,717	3,541,003
Other	266,818	395,078
	<u>43,319,370</u>	<u>40,430,247</u>
<b>Expenses:</b>		
Grants and awards:		
Career	13,129,192	12,497,769
Trainee	5,352,377	5,193,701
Canadian Institute for Health Research training centres	-	77,117
Research institutions	3,747,795	3,747,795
Research units	5,877,723	5,531,082
Research networks	5,121,843	2,766,319
Other grants-in-aid	117,000	45,376
Program development and delivery	1,848,918	1,839,659
Restricted project expenses (note 5(c))	3,086,717	3,541,002
	<u>38,281,565</u>	<u>35,239,820</u>
Administration:		
General operating	3,905,110	3,574,508
Information services	868,520	1,187,835
Amortization of capital assets	264,175	428,084
	<u>5,037,805</u>	<u>5,190,427</u>
	<u>43,319,370</u>	<u>40,430,247</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, 2008, with comparative figures for 2007

	2008	2007
Cash flows from operating activities:		
Contributions from the Province of British Columbia		
- Restricted projects	\$ 550,000	\$ 9,660,000
Contributions from the Other Provinces - Restricted projects	-	22,500
Grants and awards	(34,236,549)	(29,294,848)
Program development, delivery and administration	(7,426,282)	(7,400,708)
Restricted project expenses	(2,025,235)	(3,711,575)
Other revenue	266,818	395,077
Investment revenue	5,067,166	7,101,337
	(37,804,082)	(23,228,217)
Cash flows from financing activities:		
Transfer of assets (note 8)	-	11,425
Contribution to endowment capital (note 6)	33,000	-
Payments on change in obligations under capital lease	(18,649)	(40,914)
	14,351	(29,489)
Cash flows from investing activities:		
Purchase (sale) of short-term and long-term investments	374,186	(23,210,454)
Purchase of capital assets (note 5)	(53,482)	(339,374)
	320,704	(23,549,828)
Decrease in cash	(37,469,027)	(46,807,534)
Cash, beginning of year	67,873,041	114,680,575
Cash, end of year	\$ 30,404,014	\$ 67,873,041

See accompanying notes to financial statements.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2008

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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. 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. Each year, the Foundation conducts a range of peer-reviewed grant programs and projects that draw down on these funds.

The Foundation also receives other 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. 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 (continued)

Year ended March 31, 2008

## 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) Financial instruments:

During the year, the Foundation adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement* and Section 3861 - *Financial Instruments - Disclosure and Presentation*. The adoption of these new handbook sections resulted in changes in the accounting for financial assets and financial liabilities as well as the recognition of certain transitional adjustments in accordance with the deferral method of accounting these have been recorded to the opening balance of deferred contributions as outlined below.

Under Section 3855, financial assets and financial liabilities are initially measured at fair value except loans and receivables which are measured at amortized cost. Measurement in subsequent periods is dependent upon the classification of each instrument. The standard requires that all financial assets be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are classified as either held for trading or other. Management has elected to classify all financial assets as available for sale and to classify all financial liabilities as other.

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

#### *Loans and receivables*

- (i) Accounts receivable and accrued interest receivable - are measured at amortized cost using the effective interest method with the changes in fair value reported as changes to deferred contributions until the financial asset is disposed of or becomes impaired 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, bonds, and commercial paper 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, 2008

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## 2. Significant accounting policies (continued):

### (c) Financial instruments (continued):

#### *Financial Assets – Available-for-sale (continued)*

- (ii) 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 unrealized gains and losses being recognized as changes in deferred contributions until the financial asset is disposed of or becomes impaired where the impairment is other than temporary.
- (iii) Endowment Funds - include term deposits, treasury bills, bankers' acceptances, bonds, commercial paper and equities with varying terms to maturity. Endowment funds 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.

#### *Financial Liabilities - Other*

- (i) Accounts payable, grants payable and accrued liabilities - are measured at amortized cost using the effective interest method. Any changes due to impairment are recognized in deferred contributions.

The adoption of the new standards on a prospective basis results in a \$1,508,557 increase to opening deferred contributions and \$324,646 to net assets restricted for endowment purposes.

### (d) 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.

### (e) Revenue recognition:

In March 2001, the Province of British Columbia (the "Province") provided a grant of \$110 million to establish the Foundation and in February 2005 the Province announced an additional grant of \$100 million for the Foundation. 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.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2008

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## 2. Significant accounting policies (continued):

### (e) Revenue recognition (continued):

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.

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 are recognized when earned.

### (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 determining a particular value to them.

### (h) 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 \$191,428 (2007 - \$226,827) is included in accounts payable and accrued liabilities.

### (i) 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.

### (j) Future accounting standards:

Effective April 1, 2008, the Foundation will be adopting the following new sections of the CICA Handbook that were issued but not yet effective as of March 31, 2008:

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2008

## 2. Significant accounting policies (continued):

### (j) Future accounting standards (continued):

Sections 3862 and 3863, *Financial Instruments - Disclosures and Presentation*, respectively, establish standards for the preparation of financial instruments and non-financial derivatives, and require additional disclosure of the nature and extent of an entity's exposure to risks arising from financial instruments and how the entity manages those risks.

### (k) Comparative figures:

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

## 3. Investments:

	2008	2007	
	Market value	Book value	Market value
Bonds, treasury bills and bankers' acceptances	\$ 54,118,124	\$ 53,398,185	\$ 53,368,444
Equities	11,714,363	12,390,290	14,253,234
Total investments	65,832,487	65,788,475	67,621,678
Short-term	37,196,848	14,102,652	14,087,396
Endowment funds	2,347,126	2,233,539	2,558,185
Long-term	\$ 26,288,513	\$ 49,452,284	\$ 50,976,097

Investments in bonds, treasury bills and bankers' acceptances have maturity dates ranging from fiscal 2009 to fiscal 2014.

## 4. Capital assets:

2008	Cost	Accumulated amortization	Net book value
Computer software	\$ 504,666	\$ 503,754	\$ 912
Computer hardware	494,705	409,206	85,499
Office furniture	572,067	469,956	102,111
Leasehold improvements	632,224	311,120	321,104
	2,203,662	1,694,036	509,626
Equipment under capital lease	115,792	115,792	-
	\$ 2,319,454	\$ 1,809,828	\$ 509,626

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2008

## 4. Capital assets (continued):

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

## 5. 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:

	2008	2007
Balance, beginning of year	\$ 109,480,507	\$ 138,773,201
Adjustment to opening fair value of financial instruments (note 2(c))	1,508,557	-
Contributions received during the year:		
Receipt of donated assets	-	11,425
Investment income earned during the year	5,067,166	7,101,337
	116,056,230	145,885,963
Amounts recognized as revenue during the period	(39,701,660)	(36,066,082)
Amounts applied toward capital assets purchased during the period	(53,482)	(339,374)
Adjustment to fair value of financial instruments (note 2(c))	(1,170,946)	-
Balance, end of year	\$ 75,130,142	\$ 109,480,507

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2008

## 5. Deferred contributions (continued):

(b) Deferred contributions relating to capital assets:

	2008	2007
Balance, beginning of year	\$ 720,319	\$ 809,029
Allocation of deferred contributions - operations (note 5(a))	53,482	339,374
Amounts amortized to revenue	(264,175)	(428,084)
Balance, end of year	\$ 509,626	\$ 720,319

(c) Deferred contributions relating to restricted projects:

	2008	2007
Balance, beginning of year	\$ 21,140,460	\$ 22,998,963
Restricted project - Province of British Columbia		
- Human Papillomavirus		1,660,000
- BC Healthy Living Alliance project evaluation	350,000	-
- Immunization program evaluation	200,000	-
- Health System Design and Management	2,500,000	-
Restricted project - Other Provinces		
- Children and Youth with Special Needs		22,500
Restricted project - Other Organizations		
- Health System Design and Management	2,500,000	-
	26,690,460	24,681,463
Amounts recognized as revenue	(3,086,717)	(3,541,003)
Balance, end of year	\$ 23,603,743	\$ 21,140,460

In 2008, the Province provided the Foundation with new funding of \$0.2 million directly and \$0.35 million indirectly, through British Columbia Parks and Recreation, to support new projects on immunization program evaluation and B.C. Healthy Living Alliance project evaluation facilitation, respectively. In addition, another B.C. not-for-profit organization provided new funds of \$2,500,000 in support of a new project related to health system design and management which was matched by the Province of British Columbia in the amount of \$2,500,000. A total of \$5.0 million was receivable at year-end.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2008

## 5. Deferred contributions (continued):

(c) Deferred contributions relating to restricted projects (continued):

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

	2008	2007
Health Services and Policy Research Support Network	\$ 8,113,043	\$ 10,091,332
SARS Accelerated Vaccine Initiative	-	25,797
Children and Youth with Special Needs	1,362,669	1,364,037
BC Nursing Research Initiative	7,909,218	7,999,294
Human Papillomavirus	817,599	1,660,000
BC Healthy Living Alliance project evaluation	201,214	-
Immunization program evaluation	200,000	-
Health System Design and Management	5,000,000	-
	<u>\$ 23,603,743</u>	<u>\$ 21,140,460</u>

## 6. Net assets restricted for endowment purposes:

	2008	2007
Balance, beginning of year	\$ 2,233,539	\$ 2,233,539
Adjustment to opening fair value (note 2(c))	324,646	-
Donation received during the year	33,000	-
	<u>2,591,185</u>	<u>2,233,539</u>
Adjustment to fair value (note 2(c))	(244,059)	-
Balance, end of year	<u>\$ 2,347,126</u>	<u>\$ 2,233,539</u>

## 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.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2008

## 7. Commitments (continued):

### (a) Grant commitments (continued):

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
	2009	2010 and thereafter	
Career	\$ 11,839,905	\$ 2,766,458	\$ 14,606,363
Trainee	3,946,462	1,615,198	5,561,660
Research institutions	3,747,795	-	3,747,795
Research units & Team start up	5,863,582	-	5,863,582
Research networks	2,718,750	-	2,718,750
Technology methodology platforms	2,495,988	416,667	2,912,655
	\$ 30,612,482	\$ 4,798,323	\$ 35,410,805

### (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
	2009	2010 and thereafter	
Health Services & Policy Research Support Network:			
- Capacity building	\$ 1,174,192	\$ -	\$ 1,174,192
- Investigative teams	374,491	-	374,491
- Operating grants	87,381	-	87,381
- CHSRF partnership	50,000	50,000	100,000
- CIHR partnership	131,563	84,190	215,753
Human Papillomavirus	450,000	249,000	699,000
	\$ 2,267,627	\$ 383,190	\$ 2,650,817

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2008

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## 7. Commitments (continued):

(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 types of office equipment.

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

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Year ending March 31:

2009	\$	444,646
2010		445,146
2011		445,146
2012		148,382
		<hr/>
		\$ 1,483,320

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## 8. 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, long-term investments and endowment funds are disclosed in notes 2(c) and 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.