

Financial Statements of

**MICHAEL SMITH FOUNDATION FOR  
HEALTH RESEARCH**

Year ended March 31, 2009



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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, 2009 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, 2009 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 14, 2009

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

## Statement of Financial Position

March 31, 2009, with comparative figures for 2008

	2009	2008
<b>Assets</b>		
Current assets:		
Cash	\$ 18,850,784	\$ 30,404,014
Contributions and other amounts receivable	15,205,278	5,667,628
Short-term investments (note 4)	32,154,383	37,196,848
Prepaid expenses and deposits	59,227	62,306
	<u>66,269,672</u>	<u>73,330,796</u>
Long-term investments (note 4)	6,533,911	28,635,639
Capital assets (note 5)	512,351	509,626
	<u>\$ 73,315,934</u>	<u>\$ 102,476,061</u>

## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 599,728	\$ 617,553
Grants payable	485,506	267,871
	<u>1,085,234</u>	<u>885,424</u>
Deferred contributions (note 6):		
Contributions for expenses of future periods	46,944,567	75,130,142
Capital contributions	512,351	509,626
Restricted projects	22,912,949	23,603,743
	<u>70,369,867</u>	<u>99,243,511</u>
Net assets:		
Restricted for endowment purposes (note 7)	1,860,833	2,347,126
Commitments (note 8)		
	<u>\$ 73,315,934</u>	<u>\$ 102,476,061</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Director

 Director

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

## Statement of Revenue and Expenses

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
<b>Revenue:</b>		
Contributions recognized in current year (note 6(a))	\$ 41,958,334	\$ 39,701,660
Amortization of deferred capital contributions (note 6(b))	209,044	264,175
Restricted projects (note 6(c))	3,629,794	3,086,717
Other	325,402	266,818
	<u>46,122,574</u>	<u>43,319,370</u>
<b>Expenses:</b>		
Grants and awards:		
Career	13,741,532	13,129,192
Trainee	5,753,303	5,352,377
Research institutions	3,747,795	3,747,795
Research units	6,325,140	5,877,723
Research networks	6,264,505	5,121,843
Other grants-in-aid	109,530	117,000
Program development and delivery	1,457,696	1,848,918
Restricted project expenses (note 6(c))	3,629,794	3,086,717
	<u>41,029,295</u>	<u>38,281,565</u>
Administration:		
General operating	3,986,089	3,905,110
Information services	898,146	868,520
Amortization of capital assets	209,044	264,175
	<u>5,093,279</u>	<u>5,037,805</u>
	<u>46,122,574</u>	<u>43,319,370</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, 2009, with comparative figures for 2008

	2009	2008
Cash flows from operating activities:		
Contributions from the Province of British Columbia		
Operations	\$ -	\$ -
Restricted projects	2,939,000	550,000
Contributions from others - restricted projects	5,000,000	-
Grants and awards	(35,724,171)	(34,236,549)
Program development, delivery and administration	(6,102,231)	(7,426,282)
Restricted project expenses	(3,421,894)	(2,025,235)
Other revenue	325,402	266,818
Investment revenue	(701,558)	5,067,166
	<u>(37,685,452)</u>	<u>(37,804,082)</u>
Cash flows from financing activities:		
Contribution to endowment capital (note 7)	-	33,000
Payments on change in obligations under capital lease	-	(18,649)
	-	<u>14,351</u>
Cash flows from investing activities:		
Disposition of short-term and long-term investments	26,343,991	374,186
Purchase of capital assets (note 6(a))	(211,769)	(53,482)
	<u>26,132,222</u>	<u>320,704</u>
Decrease in cash	(11,553,230)	(37,469,027)
Cash, beginning of year	30,404,014	67,873,041
Cash, end of year	<u>\$ 18,850,784</u>	<u>\$ 30,404,014</u>

See accompanying notes to financial statements.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2009

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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.

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 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. 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:

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

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2009

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## 2. Significant accounting policies (continued):

### (c) Financial Instruments:

During the Foundation's 2009 fiscal year, the Canadian Institute of Chartered Accountants ("CICA") announced that not-for-profit organizations could elect to continue to apply Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, in place of Handbook Section 3862, *Financial Instruments – Disclosure*, and Handbook Section 3863, *Financial Instruments – Presentation*. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. The Foundation has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

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

#### *Other Financial Liabilities*

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

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2009

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## 2. Significant accounting policies (continued):

### (d) 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 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.

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 revenue is recognized when earned.

### (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 a particular value to them.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2009

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## 2. Significant accounting policies (continued):

### (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 \$156,030 (2008 - \$191,428) is included in accounts payable and accrued liabilities.

### (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) Future accounting pronouncements:

#### (i) Revisions to Not-for-Profit accounting standards:

In September 2008, the CICA issued amendments to Handbook Sections 4400, *Financial Statement Presentation by Not-for-Profit Organizations*, and 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*. The amendments are effective for the Foundation's fiscal year commencing April 1, 2009 and remove the requirement to disclose net assets invested in capital assets, clarify capital asset recognition criteria and amortization, expand interim financial statement requirements to not-for-profit organizations that prepare interim financial statements, require disclosure of allocated fundraising and general support expenses by not-for-profit organizations, and include the requirement to follow Handbook Section 1540, *Cash Flow Statements*. The Foundation does not believe it will have a material impact on its financial statements.

#### (ii) Changes in accounting framework:

The CICA has decided to transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS) effective January 1, 2011. The Foundation is currently classified as a not-for-profit organization. The Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) have jointly issued an Invitation to Comment to invite feedback on the future of financial reporting by not-for-profit organizations. In addition, PSAB has issued an Invitation to comment on the future financial reporting of government organizations. The Foundation is in the process of reviewing the impact of these documents on its reporting framework and financial statements.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2009

### 3. New accounting pronouncements:

(a) Assessing going concern:

Effective April 1, 2008, the Foundation implemented CICA Handbook Section 1400, *General Standards of Financial Statement Presentation*, which includes requirements for management to assess and disclose an entity's ability to continue as a going concern. Management has made its assessment and concluded there is no issue regarding the Foundation's ability to continue as a going concern based on the assumption that the current funding levels are maintained and any committed additional future funding is received. If there are significant declines in funding, expenditures will be adjusted to match committed funding.

(b) Capital disclosures:

Effective April 1, 2008, the Foundation adopted CICA Handbook Section 1535, *Capital Disclosures*. Under this new standard, the Foundation is required to disclose both qualitative and quantitative information that enables users of the financial statements to evaluate the Foundation objectives, policies, and processes for managing capital. It also includes disclosure regarding what the Foundation regards as capital, whether the Foundation has complied with any external requirements and in the event of non-compliance, the consequences of not complying with these capital requirements (note 10).

### 4. Investments:

	2009	2008	
	Market value	Book value	Market value
Bonds, mutual funds and bankers' acceptances	\$ 37,915,446	\$ 54,015,511	\$ 54,118,124
Equities	772,848	11,398,780	11,714,363
Total investments	38,688,294	65,414,291	65,832,487
Short-term	32,154,383	37,111,007	37,196,848
Long-term	\$ 6,533,911	\$ 28,303,284	\$ 28,635,639

Investments in bonds, treasury bills and bankers' acceptances have maturity dates ranging from fiscal 2009 to fiscal 2016. Investments related to endowments are classified as long-term.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2009

## 5. Capital assets:

2009	Cost	Accumulated amortization	Net book value
Computer software	\$ 568,017	\$ 536,342	\$ 31,675
Computer hardware	616,677	463,199	153,478
Office furniture and equipment	582,719	513,403	69,316
Leasehold improvements	632,224	374,342	257,882
	<u>\$ 2,399,637</u>	<u>\$ 1,887,286</u>	<u>\$ 512,351</u>

2008	Cost	Accumulated amortization	Net book value
Computer software	\$ 504,666	\$ 503,754	\$ 912
Computer hardware	494,705	409,206	85,499
Office furniture and equipment	572,067	469,956	102,111
Leasehold improvements	632,224	311,120	321,104
	<u>\$ 2,203,662</u>	<u>\$ 1,694,036</u>	<u>\$ 509,626</u>

## 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:

	2009	2008
Balance, beginning of year	\$ 75,130,142	\$ 109,480,507
Adjustment to opening fair value of financial instruments (note 2(c))	-	1,508,557
Contributions received during the year:		
Grant from the Province of BC	15,000,000	-
Investment income earned during the year	(701,558)	5,067,166
	<u>89,428,584</u>	<u>116,056,230</u>
Amounts recognized as revenue during the period	(41,958,334)	(39,701,660)
Amounts applied toward capital assets purchased during the period	(211,769)	(53,482)
Adjustment to fair value of financial instruments (note 2(c))	(313,914)	(1,170,946)
Balance, end of year	<u>\$ 46,944,567</u>	<u>\$ 75,130,142</u>

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2009

## 6. Deferred contributions (continued):

(b) Deferred contributions relating to capital assets:

	2009	2008
Balance, beginning of year	\$ 509,626	\$ 720,319
Allocation of deferred contributions (note 6(a))	211,769	53,482
Amounts amortized to revenue	(209,044)	(264,175)
Balance, end of year	\$ 512,351	\$ 509,626

(c) Deferred contributions relating to restricted projects:

	2009	2008
Balance, beginning of year	\$ 23,603,743	\$ 21,140,460
Restricted project - Province of British Columbia		
- Human Papillomavirus	39,000	-
- BC Healthy Living Alliance	400,000	350,000
- Immunization Program Evaluation	-	200,000
- Health System Design and Management	-	2,500,000
Restricted project - Other Organizations		
- Health System Design and Management	2,500,000	2,500,000
	26,542,743	26,690,460
Amounts recognized as revenue	(3,629,794)	(3,086,717)
Balance, end of year	\$ 22,912,949	\$ 23,603,743

In 2009, the Province provided the Foundation with new funding of \$39,000 directly and \$400,000 indirectly, through British Columbia Parks and Recreation, to support existing projects on Human Papillomavirus and B.C. Healthy Living Alliance, respectively. In addition, a B.C. not-for-profit organization provided new funds of \$2,500,000 in support of an existing project related to health system design and management.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2009

## 6. Deferred contributions (continued):

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

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

	2009	2008
Health Services and Policy Research Support Network	\$ 5,564,129	\$ 8,113,043
Children and Youth with Special Needs	1,362,566	1,362,669
BC Nursing Research Initiative	7,791,221	7,909,218
Human Papillomavirus	371,916	817,599
BC Healthy Living Alliance	231,146	201,214
Immunization Program Evaluation	110,859	200,000
Health System Design and Management	7,481,112	5,000,000
	<u>\$ 22,912,949</u>	<u>\$ 23,603,743</u>

## 7. Net assets restricted for endowment purposes:

	2009	2008
Balance, beginning of year	\$ 2,347,126	\$ 2,233,539
Adjustment to opening fair value (note 2(c))	-	324,646
Donation received during the year	-	33,000
	<u>2,347,126</u>	<u>2,591,185</u>
Adjustment to fair value (note 2(c))	(486,293)	(244,059)
Balance, end of year	<u>\$ 1,860,833</u>	<u>\$ 2,347,126</u>

## 8. 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, 2009

## 8. 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
	2010	2011 and thereafter	
Career	\$ 7,707,735	\$ 351,042	\$ 8,058,777
Trainee	4,489,568	2,615,795	7,105,363
Research institutions	1,873,898	-	1,873,898
Research units & Team start up	3,306,791	-	3,306,791
Research networks	1,812,500	-	1,812,500
Technology methodology platforms	1,250,000	-	1,250,000
	<u>\$ 20,440,492</u>	<u>\$ 2,966,837</u>	<u>\$ 23,407,329</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
	2010	2011 and thereafter	
Health Services & Policy Research Support Network:			
- Capacity building	\$ 587,500	\$ -	\$ 587,500
- Investigative teams	375,000	-	375,000
- CHSRF partnership	25,000	43,750	68,750
- CIHR partnership	141,940	134,750	276,690
- CPSI partnership	16,635	-	16,635
Human Papillomavirus			
- Clinical trial	80,000	101,000	181,000
- Assay development	34,000	34,000	68,000
Immunization Program Evaluation			
- Operating	77,609	-	77,609
	<u>\$ 1,337,684</u>	<u>\$ 313,500</u>	<u>\$ 1,651,184</u>

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2009

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## 8. 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:	
2010	\$ 455,545
2011	455,545
2012	151,848
	<hr/>
	\$ 1,062,938

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## 9. 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. The fair values of short-term and long-term investments are disclosed in notes 2(c) and note 4. 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.

## 10. 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 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. 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 in accordance with funding made available from government, donors or other sources.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2009

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## **10. Capital management (continued):**

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.

## **11. Comparative figures:**

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