

Financial Statements of

**MICHAEL SMITH FOUNDATION FOR  
HEALTH RESEARCH**

Year ended March 31, 2011



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## INDEPENDENT AUDITORS' REPORT

To the Members of the  
Michael Smith Foundation for Health Research

### Report on the Financial Statements

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, 2011, 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 our 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, we consider 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, 2011 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.

*KPMG LLP*

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single, horizontal, slightly curved line that underlines the text.

Chartered Accountants

June 24, 2011

Burnaby, Canada

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

## Statement of Financial Position

March 31, 2011, with comparative figures for 2010

	2011	2010
<b>Assets</b>		
Current assets:		
Cash	\$ 2,105,713	\$ 2,879,074
Contributions and other amounts receivable	5,099,499	2,389,459
Short-term investments (note 3)	50,184,300	47,704,095
Prepaid expenses and deposits	139,383	38,871
	<u>57,528,895</u>	<u>53,011,499</u>
Long-term investments (note 3)	2,785,448	2,545,168
Capital assets (note 4)	308,133	349,366
	<u>\$ 60,622,476</u>	<u>\$ 55,906,033</u>

## Liabilities and Net Assets

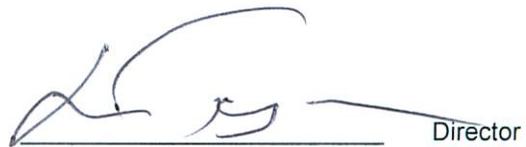
Current liabilities:		
Accounts payable and accrued liabilities	\$ 806,977	\$ 617,033
Grants payable	227,296	115,968
	<u>1,034,273</u>	<u>733,001</u>
Deferred contributions (note 5):		
Contributions for expenses of future periods	31,536,758	29,913,668
Capital contributions	308,133	349,366
Special projects	25,180,763	22,390,805
	<u>57,025,654</u>	<u>52,653,839</u>
Net assets:		
Restricted for endowment purposes (note 6)	2,562,549	2,519,193
Commitments (note 7)		
	<u>\$ 60,622,476</u>	<u>\$ 55,906,033</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, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Contributions recognized in current year (note 5(a))	\$ 18,860,470	\$ 32,703,662
Amortization of deferred capital contributions (note 5(b))	229,282	192,585
Special projects (note 5(c))	2,148,107	3,519,516
Other	386,611	562,602
	<u>21,624,470</u>	<u>36,978,365</u>
Expenses:		
Grants, awards and programs:		
Career	9,044,573	12,280,854
Trainee	2,701,098	3,619,797
Research institutions (recovery)	(5,921)	1,873,900
Research units	717,386	4,014,268
Research networks	1,694,593	5,885,585
Grants-in-aid	318,598	451,323
Other programs	113,562	-
Program development and delivery	772,114	868,137
Special project expenses (note 5(c))	2,148,107	3,519,516
	<u>17,504,110</u>	<u>32,513,380</u>
Administration:		
General operating	3,891,078	4,272,400
Amortization of capital assets	229,282	192,585
	<u>4,120,360</u>	<u>4,464,985</u>
	<u>21,624,470</u>	<u>36,978,365</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, 2011, with comparative figures for 2010

	2011	2010
Cash flows from operating activities:		
Contributions from the Province of British Columbia		
Operations	\$ 20,000,000	\$ 30,000,000
Special projects	1,601,116	1,396,255
Contributions from others - special projects	38,065	-
Grants and awards	(14,441,889)	(28,578,233)
Program development, delivery and administration	(4,324,260)	(5,272,349)
Special project expenses	(2,237,818)	(3,467,470)
Other revenue	386,611	562,602
Investment revenue	1,372,658	283,727
Net cash provided by (used in) operating activities	2,394,483	(5,075,468)
Cash flows from investing activities:		
Purchase of investments	(118,287,982)	(46,851,941)
Proceeds from sale of investments	115,308,187	35,969,711
Purchase of capital assets (note 5(a))	(188,049)	(31,855)
Proceeds of sale of capital assets	-	2,255
Net cash used in investing activities	(3,167,844)	(10,911,830)
Foreign exchange gain on cash held in foreign currency	-	15587
Net decrease in cash	(773,361)	(15,971,710)
Cash, beginning of year	2,879,074	18,850,784
Cash, end of year	\$ 2,105,713	\$ 2,879,074

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, 2011

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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 ("BC") 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:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

### (a) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions including grants, donations and service agreements from other sources.

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 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, 2011

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## 2. Significant accounting policies (continued):

### (a) 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.

### (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 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 equipment	1-3 years
Office furniture	5 years
Office equipment	5 years

### (c) 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 the Section 3861, *Financial Instruments – Disclosure and Presentation*.

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, 2011

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## 2. Significant accounting policies (continued):

### (c) 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.

### (d) 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 or becomes payable. Amounts are usually paid in quarterly installments in advance.

### (e) 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.

### (f) 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 \$18,238 (2010 - \$120,631) is included in accounts payable and accrued liabilities.

### (g) 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.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2011

## 2. Significant accounting policies (continued):

### (h) Future accounting framework:

Effective April 1, 2012, the Foundation's current accounting framework will no longer exist. 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:

	2011	2010
Bonds, mutual funds and term deposits	\$ 51,872,795	\$ 49,212,897
Equities	1,096,953	1,036,366
Total investments	52,969,748	50,249,263
Short-term	50,184,300	47,704,095
Long-term	\$ 2,785,448	\$ 2,545,168

Investments in bonds, treasury bills and bankers' acceptances have maturity dates ranging from fiscal 2010 to fiscal 2016. Investments related to endowments are classified as long-term.

## 4. Capital assets:

2011	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 1,103,529	\$ 894,372	\$ 209,157
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

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2011

## 4. Capital assets (continued):

2010	Cost	Accumulated amortization	Net book value
Computer software	\$ 570,374	\$ 569,195	\$ 1,179
Computer hardware	438,447	327,240	111,207
Office furniture and equipment	579,440	537,119	42,321
Leasehold improvements	632,224	437,565	194,659
	<u>\$ 2,220,485</u>	<u>\$ 1,871,119</u>	<u>\$ 349,366</u>

## 5. Deferred contributions:

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

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

	2011	2010
Balance, beginning of year	\$ 29,913,668	\$ 46,944,567
Contributions received during the year:		
Grant from the Province of BC	20,000,000	15,000,000
Investment income	971,555	666,396
	<u>50,885,223</u>	<u>62,610,963</u>
Amounts recognized as revenue during the period	(18,860,470)	(32,703,662)
Amounts applied toward capital assets purchased during the period	(188,049)	(29,600)
Adjustment to fair value of financial instruments classified as available for sale (note 2(c))	(299,946)	35,967
Balance, end of year	<u>\$ 31,536,758</u>	<u>\$ 29,913,668</u>

(b) Deferred contributions relating to capital assets:

	2011	2010
Balance, beginning of year	\$ 349,366	\$ 512,351
Allocation of deferred contributions	188,049	29,600
Amortization of deferred capital contributions	(229,282)	(192,585)
Balance, end of year	<u>\$ 308,133</u>	<u>\$ 349,366</u>

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2011

## 5. Deferred contributions (continued):

(c) Deferred contributions relating to special projects with restricted funding:

	2011	2010
Balance, beginning of year	\$ 22,390,805	\$ 22,912,949
Special project - Province of British Columbia		
- BC Healthy Living Alliance	38,065	400,000
- Human Papillomavirus 2	-	996,256
Special project - Other Organizations		
- Human Papillomavirus 2	-	1,601,116
- Vancouver Island Research Capacity Building	4,900,000	-
	27,328,870	25,910,321
Amounts recognized as revenue	(2,148,107)	(3,519,516)
Balance, end of year	\$ 25,180,763	\$ 22,390,805

In 2011, the Foundation received a further installment of \$38,065 through British Columbia Parks and Recreation to continue support for the BC Healthy Living Alliance evaluation project. The Foundation also undertook a new long-term project related to building health research capacity on Vancouver Island ("Vancouver Island Research Capacity Building"). Funding of \$4,900,000 for the Vancouver Island Research Capacity Building project was provided by the Vancouver Coastal Health Authority (\$4,900,000).

The balance of deferred contributions for Special Projects is comprised of the following:

	2011	2010
Health Services and Policy Research Support Network	\$ 2,998,109	\$ 3,513,281
Children and Youth with Special Needs	1,339,418	1,362,542
BC Nursing Research Initiative	6,017,646	7,151,885
Human Papillomavirus	81,907	196,466
BC Healthy Living Alliance	-	122,144
Immunization Program Evaluation	23,941	28,441
Health System Design and Management	7,238,675	7,418,675
Human Papillomavirus 2	2,581,067	2,597,371
Vancouver Island Research Capacity Building	4,900,000	-
	\$ 25,180,763	\$ 22,390,805

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2011

## 6. Net assets restricted for endowment purposes:

	2011	2010
Balance, beginning of year	\$ 2,519,193	\$ 1,860,833
Adjustment of investments to fair value	43,356	658,360
Balance, end of year	\$ 2,562,549	\$ 2,519,193

## 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. 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 or becomes payable.

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
	2012	2013 and thereafter	
Career	\$ 83,542	\$ -	\$ 83,542
Trainee	536,584	32,416	569,000
Grants-In-Aid	117,372	19,968	137,340
	\$ 737,498	\$ 52,384	\$ 789,882

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

Through a variety of specialized granting programs, the Foundation also may commit significant amounts of special 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 or becomes payable.

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2011

## 7. Commitments (continued):

### (b) Grant commitments - special projects (continued):

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

Special projects	Grant commitments for the years ending March 31		Total
	2012	2013 and thereafter	
Health Services & Policy Research Support Network:			
- CHSRF partnerships	\$ 18,750	\$ -	\$ 18,750
- CIHR partnerships	314,333	299,445	613,778
- Health Human Resources	375,000	656,250	1,031,250
Human Papillomavirus			
- Clinical trial	50,000	-	50,000
BC Nursing Research Initiative			
- Research Facilitator	175,937	-	175,937
- Nursing Health Services Research Network	225,000	375,000	600,000
- Database Development	28,000	-	28,000
- Research Project	191,826	143,870	335,696
- Commissioned Research	159,481	-	159,481
- Investigative Team	200,000	550,000	750,000
	\$ 1,738,327	\$ 2,024,565	\$ 3,762,892

### (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. During the year the Foundation negotiated a replacement long-term lease from August 1, 2011 to October 31, 2016 and includes an additional five year extension option to Oct 31, 2021.

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:	
2012	\$ 580,704
2013	622,161
2014	626,621
2015	626,621
2016	626,621
2017	365,529
	\$ 3,448,257

# MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Notes to Financial Statements (continued)

Year ended March 31, 2011

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## **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. 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

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.

## **10. Comparative figures:**

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