

**FINANCIAL STATEMENTS**  
**For**  
**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION**  
**CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**  
**For year ended**  
**DECEMBER 31, 2007**

**AUDITORS' REPORT**

To the members of

**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

We have audited the statement of financial position of the Canadian Health Services Research Foundation/Fondation canadienne de la recherche sur les services de santé as at December 31, 2007 and the statements of operations and changes in deferred contributions 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 December 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.



Chartered Accountants  
Licensed Public Accountants

Ottawa, Ontario  
February 13, 2008.

**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**STATEMENT OF FINANCIAL POSITION**

**DECEMBER 31, 2007**

	<u>2007</u>	<u>2006</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 2,740,061	\$ 1,930,349
Co-sponsor contributions receivable (note 6)	1,236,669	1,373,376
Accounts receivable	406,336	479,745
Prepaid expenses	<u>185,307</u>	<u>242,986</u>
	4,568,373	4,026,456
<b>INVESTMENTS</b> (note 3)	104,464,657	104,367,834
<b>CAPITAL ASSETS</b> (note 4)	621,833	829,999
<b>PENSION ASSET</b> (note 5)	<u>132,384</u>	<u>139,282</u>
	<u>\$ 109,787,247</u>	<u>\$ 109,363,571</u>
<b><u>LIABILITIES AND DEFERRED CONTRIBUTIONS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 1,478,606	\$ 2,581,464
Deferred contributions from co-sponsors (note 6)	1,441,276	1,118,587
Deferred revenue	101,667	111,133
Current portion of obligations under capital lease (note 7)	<u>28,554</u>	<u>35,960</u>
	3,050,103	3,847,144
<b>OBLIGATIONS UNDER CAPITAL LEASE</b>		28,554
<b>DEFERRED LEASE INDUCEMENT</b>	<u>143,012</u>	<u>165,592</u>
	<u>3,193,115</u>	<u>4,041,290</u>
<b>DEFERRED CONTRIBUTIONS</b> (note 8)		
Invested in capital assets	593,277	765,485
Core Fund	81,699,262	77,220,293
Nursing Research Fund	6,449,724	7,562,886
EXTRA Fund	<u>17,851,869</u>	<u>19,773,617</u>
	<u>106,594,132</u>	<u>105,322,281</u>
	<u>\$ 109,787,247</u>	<u>\$ 109,363,571</u>

Commitments (note 13)

Approved by the Board:

.....  
Sister Elizabeth Davis,  
Chair, Board of Trustees

.....  
Mr. Robert Smith,  
Chair, Finance and Audit Committee

.....  
Mr. George Tilley,  
Interim President and Chief Executive Officer

.....  
Ms. Nancy Quattrocchi,  
Vice-President, Corporate Services

(See accompanying notes)

**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**STATEMENT OF OPERATIONS**

**YEAR ENDED DECEMBER 31, 2007**

	<u>Core Fund</u>	<u>Nursing Research Fund</u>	<u>EXTRA Fund</u>	<u>Total 2007</u>	<u>Total 2006</u>
<b>REVENUE</b>					
Revenue from co-sponsors	\$ 2,079,390	\$ 1,349,463	\$ -	\$ 3,428,853	\$ 3,349,012
Other revenue	276,266	-	126,667	402,933	578,609
Amortization of deferred contributions relating to operations of current year	8,368,577	2,299,271	3,186,036	13,853,884	14,175,973
Amortization of deferred contributions relating to capital assets	<u>287,717</u>	<u>-</u>	<u>-</u>	<u>287,717</u>	<u>175,282</u>
	<u>11,011,950</u>	<u>3,648,734</u>	<u>3,312,703</u>	<u>17,973,387</u>	<u>18,278,876</u>
<b>EXPENSES</b>					
Strategic Objective 1.0 - Creating New	1,771,317	1,212,324	-	2,983,641	2,749,771
Strategic Objective 2.0 - Capacity	1,408,746	731,890	-	2,140,636	3,024,556
Strategic Objective 3.0 - Dissemination	1,779,847	-	-	1,779,847	1,553,021
Strategic Objective 4.0 - Research Use	753,079	-	2,635,019	3,388,098	3,536,785
Program Support	1,333,672	-	-	1,333,672	1,488,011
Administration	<u>2,356,458</u>	<u>1,119</u>	<u>-</u>	<u>2,357,577</u>	<u>2,159,653</u>
	9,403,119	1,945,333	2,635,019	13,983,471	14,511,797
Amortization of capital assets	287,717	-	-	287,717	175,282
Investment management fees	207,740	15,824	49,782	273,346	282,060
Share of indirect costs	<u>(966,016)</u>	<u>338,114</u>	<u>627,902</u>	<u>-</u>	<u>-</u>
Total expenses of the Foundation	8,932,560	2,299,271	3,312,703	14,544,534	14,969,139
Co-sponsors' programs expenses	<u>2,079,390</u>	<u>1,349,463</u>	<u>-</u>	<u>3,428,853</u>	<u>3,309,737</u>
	<u>11,011,950</u>	<u>3,648,734</u>	<u>3,312,703</u>	<u>17,973,387</u>	<u>18,278,876</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**STATEMENT OF CHANGES IN DEFERRED CONTRIBUTIONS**

**YEAR ENDED DECEMBER 31, 2007**

	Invested in capital assets	Core Fund	Nursing Research Fund	EXTRA Fund	Total 2007	Total 2006
Balance, beginning of year	\$ 765,485	\$ 77,220,293	\$ 7,562,886	\$ 19,773,617	\$ 105,322,281	\$ 109,779,356
Investments adjusted to market value (note 1)	<u>                    </u>	<u>9,335,558</u>	<u>910,911</u>	<u>515,882</u>	<u>10,762,351</u>	<u>                    </u>
Balance, beginning of year as restated	765,485	86,555,851	8,473,797	20,289,499	116,084,632	109,779,356
Amortization of capital assets	(287,717)				(287,717)	(175,282)
Purchase of capital assets	81,276	(81,276)				
Loss on disposal of capital assets	(1,727)	1,727				
Repayment of obligations under capital lease	35,960	(35,960)				
Transfer of Open Grants Competition to Canadian Institutes of Health Research		15,627			15,627	
Amortization of deferred contributions		(8,368,577)	(2,299,271)	(3,186,036)	(13,853,884)	(14,175,973)
Investment income (note 9)		6,183,059	471,088	883,774	7,537,921	10,020,920
Net unrealized loss on investments, arising in the year (note 9)	<u>                    </u>	<u>(2,571,189)</u>	<u>(195,890)</u>	<u>(135,368)</u>	<u>(2,902,447)</u>	<u>(126,740)</u>
Balance, end of year	<u>\$ 593,277</u>	<u>\$ 81,699,262</u>	<u>\$ 6,449,724</u>	<u>\$ 17,851,869</u>	<u>\$ 106,594,132</u>	<u>\$ 105,322,281</u>

(See accompanying notes)

**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2007**

	<u>2007</u>	<u>2006</u>
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	\$	\$
Items not affecting cash:		
Amortization of capital assets	287,717	175,282
Amortization of deferred contributions relating to operations of current year	(13,853,884)	(14,175,974)
Amortization of deferred contributions relating to capital assets	(287,717)	(175,282)
Amortization of deferred lease inducement	(22,580)	(22,581)
Loss on disposal of capital assets	<u>1,727</u>	<u>20,324</u>
	(13,874,737)	(14,178,231)
Changes in level of:		
Co-sponsor contributions receivable	136,707	(621,112)
Accounts receivable	73,409	174,452
Prepaid expenses	57,679	(116,903)
Pension asset	6,898	(134,416)
Accounts payable and accrued liabilities	(1,102,858)	(945,457)
Deferred contributions from co-sponsors	322,689	381,888
Deferred revenue	<u>(9,466)</u>	<u>(2,751)</u>
	<u>(14,389,679)</u>	<u>(15,442,530)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(81,278)	(220,760)
Repayment of obligations under capital lease	(35,960)	(34,557)
Draws from investments	15,086,819	14,819,824
Investment related activity	<u>229,810</u>	<u>186,114</u>
	<u>15,199,391</u>	<u>14,750,621</u>
<b>INCREASE (DECREASE) IN CASH</b>	809,712	(691,909)
<b>CASH</b> at beginning of year	<u>1,930,348</u>	<u>2,622,257</u>
<b>CASH</b> at end of year	<u>\$ 2,740,060</u>	<u>\$ 1,930,348</u>

(See accompanying notes)

**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2007**

The Canadian Health Services Research Foundation (the "Foundation") was established to enhance the quality and effectiveness of health care in Canada through the funding of health services research and the dissemination of knowledge. The Foundation is a registered charity under the Income Tax Act, and accordingly, is exempt from income taxes. The Foundation became operational in fiscal 1997 and is incorporated under the Canada Corporations Act.

Under the Federal Budget, 1996, the Government authorized Health Canada to pay \$55,000,000 to the Foundation over a five year period. As part of the same agreement, the Medical Research Council ("MRC") agreed to pay the Foundation \$10,000,000 and the Social Sciences and Humanities Research Council of Canada ("SSHRC") agreed to pay the Foundation \$1,500,000 over the same five year period. In 1999, the Federal government granted \$35,000,000 to the Foundation for participation in the Canadian Institutes of Health Research and another \$25,000,000 to support a ten year nursing research fund. In 2003, the Government provided a grant of \$25,000,000 to the Foundation to implement the Executive Training for Research Application ("EXTRA") program over a thirteen year period.

It is the Foundation's objective to use this funding to leverage contributions for research from external parties, especially decision makers in the health system. For this purpose, a number of third party co-sponsors are recruited and have agreed to contribute funds toward the research performed by applicants identified by the Foundation. These co-sponsor contributions are generally restricted to either researchers from or working on issues in a particular province or research in a particular theme. In 1999, the Foundation agreed to administer these funds for its third party co-sponsors if they so wished.

**1. CHANGE IN ACCOUNTING POLICY**

On January 1, 2007, in accordance with the applicable transitional provisions, the Foundation adopted the new recommendations in Section 3855, "Financial Instruments - Recognition and Measurement", and Section 3861, "Financial Instruments - Disclosure and Presentation".

Sections 3855 and 3861 deal with the recognition, measurement, presentation and disclosure of financial instruments and non-financial derivatives in the financial statements. The transitional provisions of these sections require that the Foundation re-measure its financial assets and liabilities at the beginning of its fiscal year if required. Any adjustment to the previous carrying amount is recognized as an adjustment of the balance of deferred contributions at the beginning of the fiscal year of initial application. The financial statements of prior fiscal years are not restated.

Adoption of these new recommendations resulted in the following impacts on the classification and measurement of the Foundation's financial instruments, which were previously recognized at cost (except for currency forwards which were already recognized at fair value):

(i) Cash and currency forwards:

Cash and currency forwards are classified as held-for-trading financial assets. They are measured at fair value and changes in fair value are recognized in the Statement of Deferred contributions. This change had no impact on the financial statements as at December 31, 2007.

(ii) Co-sponsor contributions receivable and accounts receivable:

Co-sponsor contributions receivable and accounts receivable are classified as loans and receivables. Co-sponsor contributions receivable are measured at amortized cost, which is generally the initially recognized amount, less any allowance for doubtful accounts. This change had no impact on the financial statements as at December 31, 2007.

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**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2007**

**1. CHANGE IN ACCOUNTING POLICY - Cont'd.**

(iii) Investments:

The Foundation's investment in derivatives are classified as held for trading financial assets and are measured at fair value as required by Canadian generally accepted accounting principles.

All other investments have been designated as held for trading by the Foundation's management and are measured at fair value. These investments do not meet the definition of held for trading assets since they are not held for the purposes of short term profit taking. However, management has designated these investments as held for trading financial assets because this results in the investments being measured at their fair value, as required by Canadian generally accepted accounting principles, while reducing the complexity associated with measuring and presenting the fair value information in the Foundation's financial statements.

Fair values of investments are determined by reference to published quotations in an active market at year-end. For investments in pooled funds where a quoted market price is not available, the fair value of the Foundation's investment represents the Foundation's proportionate share of the fair value of the underlying net assets of the pooled fund at year-end.

This change has led to an increase in investments and the opening balance of deferred contributions of \$10,762,351 as at January 1, 2007. For the current period the change resulted in a decrease in investments and deferred contributions of \$5,374,748 (as outlined in note 9)..

(iv) Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities are classified as other financial liabilities. They are valued at amortized cost, which is generally the initially recognized amount. This change had no impact on the financial statements as at December 31, 2007.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

a) *Fund accounting*

The accounts of the Foundation are maintained in accordance with the principles of fund accounting, applying the deferral method of accounting for not-for-profit organizations. Resources received and expended are classified for accounting and reporting purposes into funds according to objectives specified by donors.

(i) Core Fund

The Core Fund reports revenue and expenses relating to research, program delivery and administrative activities.

(ii) Nursing Research Fund

The Nursing Research Fund reports revenue and expenses directly relating to nursing research or research undertaken by nurses. Indirect costs, comprised of administrative expenses and amortization of capital assets, are allocated to the Nursing Research Fund based on the percentage of normalized costs directly attributable to the Fund.

(iii) Executive Training for Research Application Fund

The Executive Training for Research Application ("EXTRA") Fund reports revenue and expenses directly relating to the EXTRA program. Indirect costs, comprised of administrative expenses and amortization of capital assets, are allocated to the EXTRA Fund based on the percentage of normalized costs directly attributable to the Fund.

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**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2007**

**2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.**

b) *Revenue Recognition*

The organization follows the deferral method of accounting for contributions.

Contributions are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred.

Contributions applied towards the purchase of capital assets are deferred and amortized to revenue, at a rate corresponding with the amortization rate of the related capital assets.

The Foundation receives contributions from third-party co-sponsors to fund research initiatives. Revenue from co-sponsors is deferred and amortized to revenue as expenses are incurred.

Investment income earned on the Nursing Research Fund and EXTRA Fund that must be spent on research activities is recorded as an addition to the respective funds in the statement of changes in deferred contributions. Other investment income is recorded as an addition to the Core Fund.

c) *Investments*

Investments, are recorded at fair market value as noted above. The Foundation has an investment strategy for the Core Fund and the Nursing Research Fund which recommends a target investment asset mix of 35% fixed income investments, 35% equity investments and 30% marketable absolute return investments. The investment strategy for the EXTRA Fund is 100% fixed income investments.

The purchase and sale of investments are accounted for using settlement date accounting.

d) *Derivative Financial instruments*

The Foundation is party to certain derivative financial instruments. These instruments are not recognized in the financial statements on inception. The carrying amounts of derivative financial instruments, comprised of unrealized gains and losses, are included with investments in the statement of financial position. Gains and losses are realized upon the settlement of the derivative financial instrument.

e) *Capital Assets and Amortization*

Purchased capital assets are recorded at cost. Repair and maintenance costs are charged to expense. When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written-down to its residual value.

Capital assets are amortized on a straight line basis using the following annual rates:

Computer software	3 years
Computer equipment	3 years
Telephone equipment	4 years
Furniture	5 years
Leasehold improvements	lease term

**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2007**

**2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.**

f) *Leases*

Leases are classified as either capital or operating in nature. Capital leases are those which substantially transfer the benefits and risks of ownership to the lessee. Assets acquired under capital leases are amortized at the rates as described in note 2(e). 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.

g) *Deferred lease inducement*

The value received by the Foundation represented by a rent-free period relating to leased premises is deferred and amortized over the term of the lease.

h) *Employee future benefits*

The Foundation has a defined benefit pension plan for its employees. The benefits are based on years of service and the employee's compensation. The cost of this program is currently being funded by the Foundation and its eligible employees.

The cost of defined benefit pension benefits earned by employees is determined using the projected accrued benefit method prorated on service and is charged to operating expense as services are rendered. This cost is actuarially computed using the Foundation's best estimate assumptions of the pension plan's expected investment yields, salary escalations, mortality of members, terminations and the ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the expected average remaining service life of the employee group. The most recent actuarial valuation of the pension plan for funding purposes was as of January 1, 2006 and the next required valuation will be as of January 1, 2009.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

i) *Translation of Foreign Currencies*

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historic exchange rates. Revenue and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in operations.

j) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

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**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2007**

**3. INVESTMENTS**

	2007		2006	
	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 753,977	\$ 753,977	\$ 3,719,052	\$ 3,719,052
Equity securities	54,257,568	50,026,840	60,079,303	50,745,323
Fixed income securities	46,980,811	46,311,671	51,458,571	50,030,199
Derivative financial instruments	<u>2,472,301</u>	<u>2,472,301</u>	<u>(126,740)</u>	<u>(126,740)</u>
	<u>\$ 104,464,657</u>	<u>\$ 99,564,789</u>	<u>\$ 115,130,186</u>	<u>\$ 104,367,834</u>

Investments are managed as a pool by investment managers who are under the direction of the Investment Committee reporting to the Board of Trustees. Investments include:

(a) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and debt securities with a variety of interest rates and having original maturity dates of less than 90 days.

(b) Equity securities:

Equity securities consist of common and preferred shares of publicly traded corporations or funds investing primarily in equity securities. These securities are subject to market value and exchange rate fluctuations.

(c) Fixed income securities:

Fixed income securities consist of Canadian and United States government and commercial bonds or funds investing primarily in fixed income securities with various interest rates and terms to maturity. The fixed income securities have effective interest rates ranging from 3.55% to 9.75% with maturity dates ranging from six months to thirty years. The value of these securities is subject to interest rate and exchange rate fluctuations.

(d) Derivative financial instruments:

The Foundation has entered into an equity futures contract to obtain exposure to the US equity market and a forward exchange contract as part of a specific investment strategy of the Foundation designed to reduce its exposure to the US-Canadian dollar fluctuations.

The forward contract obliges the Foundation to sell US dollars and purchase Canadian dollars in the future at predetermined exchange rates. The amount of US currency exposure is determined by the Foundation's investment in United States securities. The Foundation's policy is to enter into forward exchange contracts for 45% to 55% of the US dollar exposure. It is the intent of the Foundation to meet any loss on the maturity of the forward contract by selling part of the US dollar investments.

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**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2007**

**4. CAPITAL ASSETS**

Capital assets consist of the following:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Computer software	\$ 380,859	\$ 198,011	\$ 370,628	\$ 183,508
Computer and other equipment	513,081	430,289	445,114	319,888
Furniture	296,317	261,766	295,629	182,291
Equipment under capital lease	171,975	149,045	171,975	114,644
Leasehold improvements	<u>477,176</u>	<u>178,464</u>	<u>477,176</u>	<u>130,192</u>
	1,839,408	<u>\$ 1,217,575</u>	1,760,522	<u>\$ 930,523</u>
Accumulated amortization		<u>1,217,575</u>		<u>930,523</u>
	<u>\$ 621,833</u>		<u>\$ 829,999</u>	

During the year, capital assets were acquired at an aggregate cost of \$81,278 (2006 - \$220,760).

During the year the Foundation changed its estimates with respect to the expected pattern of consumption of the future economic benefits embodied in its depreciable capital assets. This change in estimate has been accounted for prospectively resulting in an increase in amortization of \$73,460 in the current year.

**5. PENSION ASSET**

The reconciliation of the funded status of the defined benefit pension plan to the amount recorded in the financial statements is as follows:

	<u>2007</u>	<u>2006</u>
Fair value of plan assets	\$ 4,365,391	\$ 4,782,202
Accrued benefit obligation	<u>4,910,679</u>	<u>5,044,610</u>
Funded status - plan deficit	(545,288)	(262,408)
Balance of unamortized amount	<u>677,672</u>	<u>401,690</u>
Pension asset	<u>\$ 132,384</u>	<u>\$ 139,282</u>

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**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2007**

**5. PENSION ASSET - Cont'd.**

The significant assumptions used in accounting for the defined benefit plan at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Accrued benefit obligation as of December 31:		
Discount rate	5.18 %	5.10 %
Rate of compensation increase	3.50 %	3.50 %
Benefit costs for years ended December 31:		
Discount rate	5.18 %	5.10 %
Expected long-term rate of return on plan assets	7.00 %	7.00 %
Rate of compensation increase	3.50 %	3.50 %
Employee future benefit costs recognized in the year:		
	<u>2007</u>	<u>2006</u>
Net benefit plan expense	<u>\$ 352,543</u>	<u>\$ 374,014</u>

Total cash amounts recognized as paid or payable for employee future benefits, consisting of employer contributions to the defined benefit plan, were \$345,645 (2006 - \$508,430). Employee contributions to the defined benefit plan in the year amounted to \$375,360 (2006 - \$1,062,644) and benefits paid in the year amounted to \$1,207,169 (2006 - \$94,865).

**6. DEFERRED CONTRIBUTIONS FROM CO-SPONSORS**

For certain funding initiatives the Foundation receives contributions from third party co-sponsors. The foundation recognizes revenue associated with these co-sponsor contributions when the funds are disbursed. The nature and amount of changes associated with restricted co-sponsor contributions are outlined below:

	<u>2007</u>	<u>2006</u>
Net restricted co-sponsor contributions receivable		
(deferred co-sponsor contributions), beginning of period	\$ 254,789	\$ 15,565
Contributions received in year	(3,514,916)	(2,897,268)
Amounts recognized as revenue	<u>3,055,520</u>	<u>3,136,492</u>
Net restricted co-sponsor contributions receivable		
(deferred co-sponsor contributions), end of period	<u>\$ (204,607)</u>	<u>\$ 254,789</u>
Presented in the Foundation's statement of financial position as:		
	<u>2007</u>	<u>2006</u>
Co-sponsor contributions receivable		
Canadian Institutes of Health Research	\$ 1,236,669	\$ 1,194,940
Ontario Ministry of Health and Long Term Care		178,436
	<u>1,236,669</u>	<u>1,373,376</u>
Deferred contributions from co-sponsors		
Canadian Institutes of Health Research	544,841	261,070
Ontario Ministry of Health and Long Term Care	190,390	184,490
Other	706,045	673,027
	<u>1,441,276</u>	<u>1,118,587</u>
Net restricted co-sponsor contributions receivable		
(deferred co-sponsor contributions), end of period	<u>\$ (204,607)</u>	<u>\$ 254,789</u>

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**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2007**

**7. CAPITAL LEASE OBLIGATIONS**

Capital lease payments for the year ending December 31 are as follows:

Total minimum lease payments 2008	\$ 29,133
Less amount representing interest at 4.00%	<u>579</u>
Present value of obligations under capital lease	<u>\$ 28,554</u>

**8. DEFERRED CONTRIBUTIONS**

All of the deferred contributions of the Foundation are subject to externally imposed restrictions in accordance with the related funding agreements. Investment income earned on the grants received from the Government of Canada is also restricted. Accordingly, the net assets of the Foundation are deferred and taken into revenue as expenditures are made with no net asset balance outstanding at any time.

**9. INVESTMENT INCOME**

Investment income earned consists of the following:

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$ 3,037,907	\$ 3,158,931
Gain on sale of investments	5,145,495	5,909,692
Gains on derivative financial instruments	312,728	1,195,044
Currency exchange surplus (loss)	(958,209)	(145,907)
Amortization of bond premiums	<u>                    </u>	<u>(96,840)</u>
	<u>\$ 7,537,921</u>	<u>\$ 10,020,920</u>

Net unrealized loss on investments arising in the year consists of the following:

	<u>2007</u>	<u>2006</u>
Unrealized investment income (loss)	\$ (5,374,748)	\$
Unrealized gains (loss) on derivative financial instruments	<u>2,472,301</u>	<u>(126,740)</u>
	<u>\$ (2,902,447)</u>	<u>\$ (126,740)</u>

**10. FINANCIAL INSTRUMENTS**

Fair value:

The carrying values of cash, accounts receivable, co-sponsor contributions receivable, accounts payable and accrued liabilities and obligations under capital leases approximate fair values because of the relatively short period to maturity of the instrument.

The organization's investments are carried at their fair values as disclosed in the notes.

**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
CANADIENNE DE LA RECHERCHE SUR LES SERVICES DE SANTÉ**

**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2007**

**11. COMPARATIVE FIGURES**

Comparative figures have been reclassified where necessary to conform to the presentation adopted for the current year.

**12. RECENT ACCOUNTING PRONOUNCEMENTS**

On December 1, 2006, the CICA issued two new accounting standards, Handbook Section 3862, "Financial Instruments - Disclosures", and Handbook Section 3863, "Financial Instruments - Presentation". Section 3862 enhances the disclosure requirements of existing Handbook Section 3861, whereas Section 3863 carries forward, without change, the presentation requirements outlined in Section 3861. The new requirements must be incorporated in the Foundation's annual financial statements for the year ended December 31, 2008. The aforementioned Handbook Sections are based on the same fundamental principle; that an entity should provide information in its financial statements that enable the reader to evaluate the significance of financial instruments on its financial position and performance.

In Section 3862, there is a greater emphasis on disclosing information related to risks and how they are managed. It specifies additional disclosures about risks arising from financial instruments including providing quantitative information with respect to credit risks, liquidity risks and market risks. The enhanced disclosures would include disclosure of a sensitivity analysis for each type of market risk (currency risk, interest rate risk, and other price risk) to which the Foundation is exposed at the year-end date, showing how its results would have been affected by changes in the relevant risk variables that were reasonably possible at that date. The assumptions made in generating the sensitivity analysis would need to be disclosed. In addition, any changes from the prior year in the assumptions or the methodology used to produce the sensitivity analysis would need to be disclosed together with the reasons for the changes.

The Foundation is currently assessing the impact of these new accounting standards on its financial statements.

**13. COMMITMENTS**

(a) Operating:

The Foundation is committed to payments under operating leases for premises as follows:

2008	\$ 163,723
2009	175,648
2010	175,648
2011	175,648
2012 and thereafter	<u>375,845</u>
	<u>\$ 1,066,512</u>

In the normal course of business, the Foundation has entered into a lease agreement for the rental of their premises. It is common in such lease transactions for the Foundation as the lessee to agree to indemnify the lessor for liabilities that may arise from the use of the leased premises. The maximum amount potentially payable under the foregoing indemnities cannot be reasonably estimated. The Foundation has liability insurance that relates to the indemnifications described above.

**CANADIAN HEALTH SERVICES RESEARCH FOUNDATION/FONDATION  
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**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2007**

13. **COMMITMENTS** - Cont'd.

(b) Grant funding:

Funding is provided by the Foundation to researchers in the field of health services and nursing. The following are the commitments of the Foundation in regard to these grants as at December 31, 2007:

	<u>Award Letters</u>	<u>EXTRA Regional Mentoring Centers</u>	<u>Knowledge Brokers</u>	<u>Nursing Care Partnerships</u>	<u>Regional Training Centers</u>	<u>Chairs</u>	<u>Open Grants Competition</u>	<u>Post- Doctoral Awards</u>	<u>Partnerships for Health System Improvement</u>	<u>REISS Awards</u>	<u>Total</u>
2008	\$ 155,179	\$ 351,000	\$ 103,089	\$ 535,000	\$ 973,893	\$ 1,290,230	\$ 15,000	\$ 351,225	\$ 117,616	\$ 1,634,955	\$ 5,527,187
2009	-	215,388	-	-	778,643	1,183,197	-	367,085	198,462	1,586,783	4,329,558
2010	-	265,000	-	-	778,643	744,841	-	305,000	206,585	1,593,879	3,893,948
2011	-	265,000	-	-	536,217	154,219	-	100,000	135,335	1,824,242	3,015,013
2012	-	265,000	-	-	58,375	-	-	-	33,334	2,000,000	2,356,709
	<u>\$ 155,179</u>	<u>\$ 1,361,388</u>	<u>\$ 103,089</u>	<u>\$ 535,000</u>	<u>\$ 3,125,771</u>	<u>\$ 3,372,487</u>	<u>\$ 15,000</u>	<u>\$ 1,123,310</u>	<u>\$ 691,332</u>	<u>\$ 8,639,859</u>	<u>\$ 19,122,415</u>

Other sponsors have also made commitments for the above-noted programs, however, these commitments have not been included in the figures provided above.