

Financial Statements of

**LEADING EDGE
ENDOWMENT FUND**

Year ended March 31, 2010



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AUDITORS' REPORT

To the Board of Directors of Leading Edge Endowment Fund

We have audited the balance sheet of Leading Edge Endowment Fund as at March 31, 2010 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund'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 Fund as at March 31, 2010 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.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Accountants

Burnaby, Canada

April 22, 2010

LEADING EDGE ENDOWMENT FUND

Balance Sheet

March 31, 2010, with comparative figures for 2009

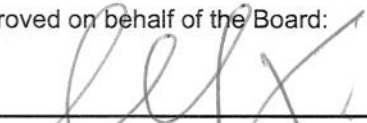
| | 2010 | 2009 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 456,737 | \$ 4,866,266 |
| Investments and marketable securities (note 7) | 22,836,798 | 23,292,957 |
| GST receivable | 1,796 | 2,295 |
| | <u>\$ 23,295,331</u> | <u>\$ 28,161,518</u> |


Liabilities, Deferred Contributions and Net Assets

| | | |
|--|----------------------|----------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 30,462 | \$ 42,476 |
| Deferred contributions | 16,000,000 | 20,750,000 |
| Net assets | 7,264,869 | 7,369,042 |
| Commitments (note 6) | | |
| Capital management (note 5) | | |
| | <u>\$ 23,295,331</u> | <u>\$ 28,161,518</u> |

See accompanying notes to financial statements.

Approved on behalf of the Board:





Director

Director

LEADING EDGE ENDOWMENT FUND

Statement of Operations and Changes in Net Assets

Year ended March 31, 2010, with comparative figures for 2009

| | 2010 | 2009 |
|--|------------------|------------------|
| Revenue: | | |
| Grant income | \$ 4,750,000 | \$ 9,250,000 |
| Donations | 35,000 | 65,000 |
| Interest income | 128,544 | 680,878 |
| | <u>4,913,544</u> | <u>9,995,878</u> |
| Program expenses: | | |
| B.C. Leadership Chairs | 2,250,000 | 6,750,000 |
| B.C. Regional Innovation Chairs | 2,500,000 | 2,500,000 |
| Rix Student Awards | 35,000 | 65,000 |
| | <u>4,785,000</u> | <u>9,315,000</u> |
| Operating expenses: | | |
| Board | - | 939 |
| Committee and review | - | 3,025 |
| Communications | 4,796 | 10,090 |
| Office | 29,768 | 30,586 |
| Professional and bank fees | 37,673 | 42,350 |
| Staffing | 160,480 | 160,480 |
| | <u>232,717</u> | <u>247,470</u> |
| | <u>5,017,717</u> | <u>9,562,470</u> |
| Excess (deficiency) of revenue over expenses | (104,173) | 433,408 |
| Net assets, beginning of year | 7,369,042 | 6,935,634 |
| Net assets, end of year | \$ 7,264,869 | \$ 7,369,042 |

See accompanying notes to financial statements.

LEADING EDGE ENDOWMENT FUND

Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

| | 2010 | 2009 |
|--|--------------|--------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Excess (deficiency) of revenue over expenses | \$ (104,173) | \$ 433,408 |
| Net decrease in non-cash operating working capital: | | |
| Decrease in GST receivable | 499 | 257 |
| Decrease in accounts payable and accrued liabilities | (12,014) | (31,255) |
| | (115,688) | 402,410 |
| Investments: | | |
| Decrease in short-term investments | 456,159 | 2,189,155 |
| Financing: | | |
| Decrease in deferred contributions | (4,750,000) | (9,250,000) |
| Decrease in cash and cash equivalents | (4,409,529) | (6,658,435) |
| Cash and cash equivalents, beginning of year | 4,866,266 | 11,524,701 |
| Cash and cash equivalents, end of year | \$ 456,737 | \$ 4,866,266 |

See accompanying notes to financial statements.

LEADING EDGE ENDOWMENT FUND

Notes to Financial Statements

Year ended March 31, 2010

1. Operations

Leading Edge Endowment Fund (the "Fund") is incorporated under the Society Act of British Columbia on March 20, 2002 and commenced operations on March 28, 2002. The Fund is incorporated to establish a leading edge endowment fund, operating on a matching funds basis, to establish nineteen permanent British Columbia leadership chairs ("Sponsored Chairs") at post-secondary institutions across the province in fields of research, including but not limited to, medical, social, environmental and technological research. The Fund is also incorporated to establish a regional innovation fund, operated on a matching funds basis, to establish nine permanent British Columbia regional innovation chairs ("Regional Innovation Chairs") at eligible regional institutions across the province.

The Fund is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for not-for-profit organizations.

(b) Cash and cash equivalents :

Cash and cash equivalents are defined as investments with original maturities of less than 90 days when purchased and have been classified as held for trading and are recorded at fair value.

(c) Short-term investments:

Short-term investments consist of guaranteed investment certificates which have been classified as available for sale and are recorded at market value. Short-term investments are defined to include investments with original terms to maturity greater than 90 days and less than one year.

(d) Financial instruments:

The GST receivable has been classified as loans and receivables and is measured at amortized cost. Accounts payable and accrued liabilities have been classified as other financial liabilities and are measured at amortized cost.

LEADING EDGE ENDOWMENT FUND

Notes to Financial Statements (continued)

Year ended March 31, 2010

2. Significant accounting policies (continued):

(e) Revenue recognition:

The Fund follows the deferral method of accounting for government grants. Grants are deferred and recognized as revenue in the period in which they are used to fund an approved Sponsored Chair or Regional Innovation Chair. Grants approved by the Fund and for which all funding requirements have been met by the related post-secondary or regional institution, but are not paid at the end of an accounting period are accrued.

Investment income is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(f) 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 asset and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to accounts payable and accrued liabilities. Actual results could differ from those estimates.

(g) Adoption of new accounting standards:

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

Effective January 1, 2009, the Canadian Institute of Chartered Accountants ("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 clarify capital asset recognition criteria and amortization, requires disclosure of general support expenses by not-for-profit organizations, and includes the requirement to follow Handbook Section 1540, *Cash Flow Statements*. These amendments did not have a material impact on the financial statements.

(ii) Financial instruments:

During the Fund's 2009 fiscal year, the 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 Sections 3862, *Financial Instruments – Disclosure and Presentation*, and 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 Fund has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

LEADING EDGE ENDOWMENT FUND

Notes to Financial Statements (continued)

Year ended March 31, 2010

2. Significant accounting policies (continued):

(h) Future changes in accounting standards:

The Fund is classified as a not-for-profit organization. The Accounting Standards Board and Public Sector Accounting Board have released exposure drafts relating to the future of financial reporting by not-for-profit organizations. The Fund is in the process of reviewing the potential impact of the proposals on its reporting framework and financial statements.

3. Deferred contributions:

Deferred contributions represent unspent externally restricted grants relating to expenses of future periods:

| | 2010 | 2009 |
|----------------------------|----------------------|----------------------|
| Sponsored Chairs | \$ 13,500,000 | \$ 15,750,000 |
| Regional Innovation Chairs | 2,500,000 | 5,000,000 |
| | <u>\$ 16,000,000</u> | <u>\$ 20,750,000</u> |

4. Restricted cash and investments:

\$16,000,000 (2009 - \$20,750,000) of cash and cash equivalents and short-term investments is restricted in its use for the for six (2009 - seven) Sponsored Chairs and two (2009 - four) Regional Innovation Chairs (note 3).

5. Capital management:

The Fund's principal source of capital funds was received from the Province of British Columbia. The Fund defines capital to be net assets and deferred contributions.

The Fund's objective when managing capital is to fund its operations, Sponsored Chairs and Regional Innovation Chairs (the "Chairs"). The Fund manages the capital structure making adjustments based on economic conditions. Currently, the Fund's strategy is to monitor operating expenditures to preserve capital for the purpose of distributing the capital as Chairs. Beyond the grant monies received which are restricted for purposes of funding the Chairs, there are no external requirements on the capital of the Fund. Were the Fund not to be in compliance with any external requirements on capital, the consequence would be a violation of the Fund's charter.

LEADING EDGE ENDOWMENT FUND

Notes to Financial Statements (continued)

Year ended March 31, 2010

6. Commitments:

The Fund is committed to granting \$2,250,000 for each of the six (2009 - seven) Sponsored Chairs and \$1,250,000 for each of the two (2009 - four) Regional Innovation Chairs by 2012.

As specified in the bylaws of the Fund, the Fund shall be wound up or dissolved no later than April 1, 2012. Upon winding up or dissolution, the remaining assets of the Fund, net of the Funds liabilities, shall be distributed amongst the post-secondary institutions on a pro-rata basis.

7. Financial instruments:

The Fund's financial instruments include cash and cash equivalents, short-term investments, GST receivable and accounts payable and accrued liabilities. Cash and cash equivalents and short-term investments are recorded at market value. The market value of the GST receivable and the accounts payable and accrued liabilities approximates their carrying values due to their short-term to maturity.