

Advancements and



Canada Foundation for Innovation
Fondation canadienne pour l'innovation

accomplishments are

made possible by

Innovation

people with a desire

to move forward

and innovate.

Annual Report 1997-98

New Tools for the New Economy

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ISBN 0-968418-4-6
Cat. No. CF1471998

August 1998

It is with great pleasure that I present the first annual report of the Canada Foundation for Innovation (CFI), established by the federal government in 1997 to strengthen infrastructure for world-class research in Canadian universities, colleges, hospitals, and not-for-profit research institutions. Focussing on research infrastructure, the CFI has been designed to complement the broader mandate of the federal research-granting councils. With an \$800 million initial investment (and accrued interest) from the federal government, the CFI will be in a position to contribute an average of \$180 million a year to research infrastructure projects over the next five years. As a matching fund in partnership with the public, private, and voluntary sectors, the CFI has the potential to trigger a total investment of over \$2 billion.



Message from the Chair

extremely fortunate to have as its Senior Vice-President, Dr. Denis Gagnon, who agreed to take up the responsibility as Acting President. He has performed superbly in that role. He has been ably assisted by Ms. Carmen Charette, Vice-President, Programs, and by Ms. Mannon Harvey, Vice-President, Finance, and a small but dedicated staff. On behalf of the Board, I would like to express the deep appreciation of the Directors for the outstanding job they have done in launching the CFI.

In June 1998, Dr. David W. Strangway joined the CFI as President and Chief Executive Officer. He brings to the position an extraordinary track record of leadership in geological research and higher education. Most recently, he has served as President of the University of British Columbia.

The CFI is a corporation, at arm's length from the federal government, that invests in research infrastructure projects as defined by a funding agreement. It is governed by a board of 15 people from across Canada who are knowledgeable about the conduct and application of research in the sciences, health, engineering, and environment. The majority of the Board of Directors is nominated by an independent body of Members, and the balance is appointed by the federal government. I would also like to take this opportunity to thank the individuals who have agreed to serve as CFI Members and Directors. Their wisdom and experience will help fulfil the CFI's mandate.

The promise of the CFI must be even bolder than the large investment in research infrastructure. It must be the hope that its activities will reinforce the initiatives of the research community and grant-making councils to expand awareness of the importance of research to Canada's future. It must also provide the means to ensure that our research institutions can create an environment to attract and retain researchers of the highest caliber.

The establishment of any new organization is an exciting challenge. The CFI is particularly fortunate to have secured officers and staff whose talent, commitment, enthusiasm, and teamwork are a match for that challenge.

John R. Evans, Chair

(Photo from left to right - front row)

Dr. Mary Anne White, Professor in Materials Science, Dalhousie University

(Photo from left to right - back row)

DIRECTORS

- Dr. Michael Smith**, Peter Wall Distinguished Professor of Biotechnology, University of British Columbia
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- Dr. Michel Gervais**, Consultant, former Director, Université Laval
- Dr. Thomas A. Brzustowski**, President, Natural Sciences and Engineering Research Council
- Ms. Stella Thompson**, Principal, Governance West Inc.
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- Dr. David Pink**, Professor, Physics Department, St. Francis Xavier University
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- Dr. Ron Steer**, Professor, Department of Chemistry, University of Saskatchewan

OFFICERS

- Dr. Denis Gagnon**, Senior Vice-President
- Ms. Carmen Charette**, Vice-President, Programs
- Ms. Mannon Harvey**, Vice-President, Finance

One year after its establishment, I feel privileged to have had the opportunity to be involved in the launch of the Canada Foundation for Innovation. Although the experience has been rich from the very first day, the last few months have been especially rewarding, stimulating, and challenging—

Message from the President

both on a professional and personal level. And as we move forward, past the initial planning stages and into the competition phase and the awarding of funds, I truly believe that the CFI will have a profound, long-term impact not only on Canada's research capacity, but also on the way research is conducted in our country.



The CFI is a first. Never before has an organization been specifically mandated to provide Canada's researchers with the facilities and tools they need to build our capacity for innovation. If it is to be successful in achieving its mandate, the CFI must work closely with partners from the public, private, and voluntary sectors to fund the best infrastructure projects in research institutions across Canada. Some provinces have already shown their support for the CFI's mandate by announcing programs designed to match its funding, and that will ultimately help strengthen the partnerships the institutions have started to build. Clearly, such endorsements send out a strong message. They tell the whole country that Canada's research community is alive and important, and that its contributions are numerous and significant.

Canadian research institutions and their partners from the public, private, and voluntary sectors are taking the CFI vision, and turning it into reality. Over the last year, they have invested considerable time and effort—involving some of Canada's best talent—in preparing strategic proposals that will be submitted in the CFI's first competition for funding.

In early 1998, CFI staff members travelled across Canada on a ten-city tour that provided the opportunity to establish direct contact with the research community, provincial governments, voluntary agencies, and the business community—the very people and organizations at the core of the CFI's mandate. These meetings have generated much interest in the research community and among its partners. The comments and questions received from participants at those meetings have been extremely useful in helping CFI staff members gain a unique insight into the needs of research institutions and how the CFI can best meet them.

The success of this first year would not have been possible without the leadership, excellence, and personal commitment of its founding president, the late J. Keith Brimacombe. Today, it is overwhelmingly clear that Dr. Brimacombe will have a lasting impact on the CFI. Everywhere at the Foundation, there is evidence of the principles and ideals that guided him throughout his impressive research career. Thanks to Dr. Brimacombe, the CFI now stands on a solid foundation, and has in place a set of organizational values—excellence, openness, transparency, and responsiveness—that reflects his deep love of research and his commitment to Canadian innovation. His extraordinary contributions to the CFI can never be fully measured. They are, however, greatly appreciated.

In its first year, the CFI has benefited from the support and contributions of some of Canada's most respected organizations—the Association of Universities and Colleges of Canada, the Medical Research Council, the Natural Sciences and Engineering Research Council, the Social Sciences and Humanities Research Council, Finance Canada, and Industry Canada. Thanks to their continuing collaboration, the CFI was not only able to get off to a successful start but, most importantly, was able to develop and implement effective mechanisms to meet the infrastructure needs of the Canadian research community.

I would like to take this opportunity to sincerely thank the small group of people who, day after day, have demonstrated their professionalism, dedication, and commitment—the CFI staff members. I am especially proud of their accomplishments and creativity. They have worked extremely hard to put in place innovative programs while ensuring the transparency and cost-effectiveness of our processes. Without their energy and enthusiasm, it would not have been possible to achieve so much in such a short time.

As the CFI's first competition for funding quickly approaches, we all share a keen sense of excitement. Early on, we decided to break new ground. We have put in place innovative funding mechanisms, called on new technologies to improve program delivery, and designed application and evaluation processes that strive to be simple, avoid duplication, and most importantly, minimize the research community's workload. We will soon find out if we were right to believe in the capability of our Canadian institutions and partners to seize the opportunity and adapt to this new model of research infrastructure funding.

I look forward to a continuing challenge.

Denis Gagnon, Acting President and CEO

The CFI is about providing Canadian researchers with the means to exercise creativity and innovation to their fullest. It's about providing bright young minds with the tools they need to grow and develop, and make their own contributions to our country and to our world.

Denis Gagnon, February 1998

The design of the programs is based on a series of meetings with representatives of the research community that was held during the spring and summer of 1997. The meetings were aimed at identifying the research infrastructure needs of universities, colleges, hospitals, and other non-for-profit research institutions, as well as

Innovative programming

the most appropriate mechanisms to meet those needs. In September 1997, a Green Paper was circulated in the form of a national consultation with the research institutions, academic and business associations, government, and the public and voluntary sectors. Revised program recommendations were presented to the CFI Board of Directors at its inaugural meeting in December 1997.

CFI funds will be awarded in four different mechanisms designed to facilitate new initiatives and strengthen existing ones. On average, 40% of the funds required for research infrastructure will come from the CFI, and the balance from public, private, and voluntary sector partners. Applications will have to demonstrate the quality and innovativeness of the research enabled by the infrastructure, the effective use of the resources, the potential benefits from application of the research results, and the availability of partnerships with matching funds. To be considered for funding, eligible institutions are invited to submit a strategic development plan for research and the training of researchers. The CFI funding mechanisms are:

- **The Institutional Innovation Fund** is the CFI's main support mechanism. It enables eligible institutions, either alone or in groups, to strengthen their research infrastructure in priority areas. This mechanism also enables Canadian researchers to work on groundbreaking topics, as well as promote interdisciplinary approaches and contributions from individuals in a variety of institutions and sectors.
- **Regional/National Facilities** is designed to encourage institutions to come together in regional or national consortia. They can co-operatively plan to acquire or develop research infrastructure.

- **New Opportunities** provides infrastructure support to new academic staff. This mechanism helps universities attract new faculty members in areas that are essential to the institution's research development.

- **The Research Development Fund** is identical in purpose to the Institutional Innovation Fund and New Opportunities. It is, however, specifically designed to help strengthen the research infrastructure in institutions that received, during the 1994-96 period, less than 1% of the total sponsored research funding in Canadian universities.

The deadline date for the first competition for funding is May 1, 1998, for New Opportunities, and June 1, 1998, for the Institutional Innovation Fund and the Regional/National Facilities.

Universities opting for the Research Development Fund can apply at any time after May 1, 1998.

For the Institutional Innovation Fund and the Regional/National Facilities competition,

- projects under \$350,000; and
- projects over \$350,000.

Institutions will submit complete applications for projects under \$350,000 in total eligible costs. Expert reviewers will be consulted as needed and a multidisciplinary assessment committee will make recommendations on funding. For projects over \$350,000 in total eligible costs, the CFI will use project summaries to screen applications.

External reviewers and multidisciplinary committees will assess project summaries against the CFI criteria, and make recommendations to the CFI on whether or not the project should be invited to enter the second stage of the competition. The review process will be commensurate with the nature and size of the proposal. The CFI's Board of Directors will make the final award decisions.

The CFI relies heavily on Internet technology to inform its clients about programs and activities. From electronic program literature to Internet-based electronic forms that allow users to complete and submit their application on-line, the CFI is taking bold steps in introducing new technologies to the Canadian granting system. This has been possible, in part, thanks to an agreement with the Fonds pour la formation de chercheurs et l'aide à la recherche (FCAR)—one of Quebec's research-granting agencies.

The CFI was born from a vision of

a new kind of Canada. A Canada whose

strength and vitality would also

be drawn from the minds, talents

and creativity of our people.

Denis Gagnon, February 1998

One of the CFI's key features is the funding of research infrastructure projects in partnership with the public, private, and voluntary sectors. The Funding Agreement it has with the federal government stipulates that the CFI will support, on average, 40% of the eligible costs of the projects it supports, and that 60% must come from funding partners.

Building partnerships

Given the close relationship between research support and the funding of not-for-profit research institutions by the provinces, the CFI recognized the importance of early consultation with provincial governments. A series of meetings with representatives from the provinces focussed on the CFI funding mechanisms and the evaluation of proposals. Discussions also took place to ensure, within the limits of the CFI mandate, the greatest flexibility possible to address the provinces' needs and circumstances. By March 1998, Manitoba, Ontario, Alberta, British Columbia, and Quebec had set aside funds to ensure that proposals to the CFI from institutions in those provinces would receive complementary financial support.

In Manitoba, the provincial government established the Manitoba Innovations Fund which has been specifically designed as a leveraging mechanism for the CFI. The fund will provide \$35 million over five years to contribute to 40% of eligible infrastructure project costs.

The Ontario R&D Challenge Fund is intended to get funds from other sources, including industry and the CFI. The fund, which could reach \$500 million over 10 years, was announced in Ontario's 1997 budget. Under this program, both operating and infrastructure costs are eligible.

In 1997, the Alberta government created the Intellectual Infrastructure Partnership Program as a complementary program to the CFI. Initially, the program will involve \$45 million over three years. Two other programs, the Alberta Research Excellence Envelope, and the Opportunity Fund of the Alberta Heritage Foundation for Medical Research, have also been designated to support proposals to the CFI.

In British Columbia, the Science Council of B.C. and the B.C. Health Research Foundation have created programs that will make a total of \$3.5 million (\$2.5 million over five years, and \$1 million in 1998) available to encourage infrastructure investments in areas of strategic importance to B.C.

The Quebec government has also announced a program with no set cap to match the CFI's 40% contribution level. It could also possibly contribute to the operating costs of proposals falling in areas of strategic or economic importance to the province. In addition, a collaboration framework with the Quebec government was adopted in March 1998 to make use of the expertise of Quebec research-granting agencies in the CFI review process.

More provinces are expected to announce their own programs in 1998-99.

Canadians possess the qualities

that are needed for success in

the 21st century. We share.

We're educated. We welcome

innovation and new ideas.

J. Keith Brimacombe, October 1997

Measuring impact

Given its five-year mandate, the CFI has adopted, as a core principle, that real-time evaluation will be conducted at key stages of its program development and delivery. This approach is designed to identify, early on, what works and what doesn't. It will also enable the immediate implementation of corrective measures if necessary. A consultation of selected opinion leaders in the public, private, and voluntary sectors was held to develop a preliminary framework for establishing an ongoing process rather than a reflective one. A series of key issues was identified during the consultation. The issues included:

- the assessment of the CFI as a model for research funding;
- program design and delivery;
- outcomes in terms of matching and operating funds;
- the impact on institutions, partners, and funding bodies; and
- the impact on the country's innovation capability, on the training and retraining of researchers, on research collaborations, and on socio-economic impacts.

An innovative approach to expert review

As part of its commitment to implementing innovative business processes, the CFI has adopted a Canadian-designed tool to help reviewers evaluate infrastructure projects that will be submitted under its various funding

mechanisms. The ProGrid Methodology is a decision-assist tool that builds on established criteria and organizational values. It brings applicants to judge their own proposals, highlighting their strengths and weaknesses, and showing how well they mesh with CFI goals and values.

ProGrid will speed up decision-making by allowing reviewers to focus on the proposals that need the most discussion. As a result, widely different infrastructure projects will be efficiently evaluated without overburdening expert reviewers. At the conclusion of the first round of competitions, ProGrid will be evaluated to ensure that it is living up to expectations.

Ensuring administrative excellence

The CFI is committed to maintaining excellence in all aspects of its operations. As an innovative model for research funding, the CFI is breaking new ground in terms of responsiveness and openness in all of its interactions with research institutions.

A small team of experienced research-grant administrators was recruited allowing the CFI to draw on its vast experience and networks within the Canadian and international research community. This enabled the CFI to launch its first competition for funding in December 1997, only seven months after it was established by the federal government.

Canada Foundation for Innovation

The Canada Foundation for Innovation is an independent corporation established by the federal government to strengthen Canadian capability for research. The CFI will achieve this objective by committing funds over the next five years to develop research infrastructure in Canada.

The CFI's mandate is to increase the capability of Canadian universities, colleges, hospitals, and other not-for-profit institutions to carry out important world-class scientific research and technology development. To implement its mandate, the Foundation, in co-operation with funding partners, provides infrastructure for research and development that will:

- support economic growth and job creation;
- lead to improvements in health, the environment, and quality of life;
- build capacity for innovation;
- strengthen training for research careers for young Canadians;
- attract and retain capable researchers in Canada;
- promote networks and collaboration among researchers; and
- ensure the optimal use of Canadian research infrastructure by promoting sharing within and among institutions.

The CFI was established by the federal government with an up-front investment of \$800 million. This principal amount and accrued interest will enable the Foundation to contribute an average of about \$180 million annually over five years to research infrastructure projects. The CFI will target its investment at key needs in the areas of health, environment, science, and engineering. The Foundation will operate on the principle that its investments are made in partnership with the private and voluntary sectors, as well as with provincial governments. The CFI's contributions are expected to average 40% of total eligible project costs, but will not exceed 50% for an individual project. On this basis, funding for the total investment by the CFI and its partners should exceed \$2 billion.

The CFI's Board of Directors is comprised of 15 distinguished individuals, drawn primarily from the research and business communities. The Board of Directors is responsible for approving the Foundation's policies and programs, and for deciding how funds are allocated. Eight Directors were elected by the CFI Members, while six Directors were appointed by the federal government. The Chair also serves as a Director.

The Board of Directors is accountable to the CFI's 15 Members, whose role is similar to that of the corporation's shareholders, and who approve the Foundation's financial controls and audits. Six of the 15 Members were appointed by the federal government, and the other nine were elected by the first six Members. The Minister of Industry annually informs Parliament of the CFI's activities.

Chronology of the Canada Foundation for Innovation

1994-97

The Association of Universities and Colleges of Canada (AUCC) and other groups undertake to demonstrate the acute need for the renewal of research infrastructure in Canada. This culminated in a joint brief to the federal government in the fall of 1996.

February 1997

The creation of the Canada Foundation for Innovation announced in the federal budget. Dr. John Evans appointed Chair of the CFI.

May 1997

The CFI established by an Act of Parliament. Appointment of an implementation team made up of representatives from the three federal granting councils and Industry Canada—to oversee the launch of the newly created CFI.

June 1997

The CFI holds a series of meetings with the research community to identify infrastructure needs in Canadian universities, colleges, hospitals, and not-for-profit research institutions.

July 1997

The signing of an \$800 million Funding Agreement with the federal government. The federal government appoints six Members to the CFI.

August 1997

The CFI holds a national consultation of the research community, business, and government on program proposals.



Source members of the CFI team (from left to right): Mr. Leo Berks, Ms. Joanne Laroche, and Ms. Elaine Salmon.

Balance sheet

Period ended March 31

1998
\$

Assets	
Cash	354,013
Interest and other receivables	14,584,768
Investments <i>[note 2]</i>	812,546,328
Prepaid expenses	30,705
Capital assets <i>[note 3]</i>	189,749
	827,705,563
Liabilities and net assets	
Accounts payable and accrued charges	106,526
Deferred contributions <i>[note 4]</i>	827,409,288
Expenses of future periods	189,749
Capital assets	827,599,087
Commitments <i>[note 6]</i>	
Net Assets	827,705,563

See accompanying notes on page 15.

Financial statements

Auditors' Report

To the Members of the Canada Foundation for Innovation:

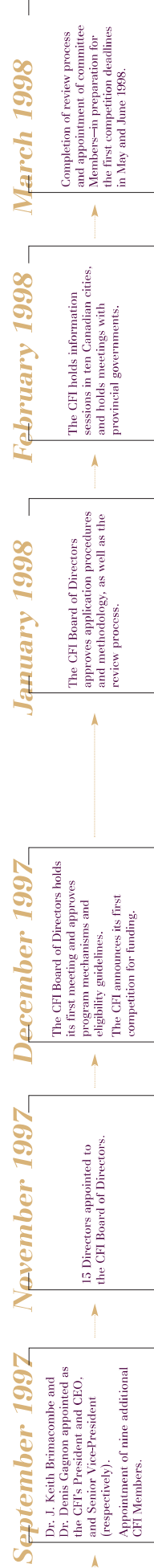
We have audited the balance sheet of the Canada Foundation for Innovation as at March 31, 1998, and the statements of operations and cash flows for the period then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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, 1998, and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Ottawa, Canada,
May 8, 1998.
Ernst & Young
Chartered Accountants

Chronology of the Canada Foundation for Innovation



Statement of operations

Period ended March 31

	1998	1998
		\$
Revenues		
Recognition of deferred contributions relating to operations of current period	1,584,023	
Amortization of deferred contributions relating to capital assets	47,437	
	1,631,460	
Expenses		
General and administration	1,584,023	
Amortization of capital assets	47,437	
	1,631,460	
Excess of revenues over expenses		—

See accompanying notes on page 15.

Statement of cash flow

Period ended March 31

	1998	1998
		\$
Operating activities		
Excess of revenues over expenses		—
Items not involving cash:		
Amortization of capital assets	47,437	
Amortization of deferred contributions related to capital assets	(47,437)	
Net increase in deferred contributions related to expenses of future periods	827,409,288	
Change in non-cash operating working capital	(14,508,947)	
	812,900,341	
Cash provided by operating activities		812,900,341
Financing and investing activities		
Purchase of capital assets	(237,186)	
Increase in deferred contributions related to capital assets	237,186	
Net purchase of investments	(812,546,328)	
	(812,546,328)	
Cash used in financing and investing activities		(812,546,328)
Net increase in cash and term deposits, representing cash at end of period		354,013

See accompanying notes on page 15.

Notes to financial statements

Period ended March 31

General

The Canada Foundation for Innovation (the Foundation) was incorporated under Part I of the *Budget Implementation Act, 1997*, on April 25, 1997, for the purpose of providing financial support for the modernization of research infrastructure at Canadian post-secondary educational institutions and research hospitals in the areas of science, engineering, health, and the environment.

1. Signification accounting policies

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

(a) Revenue recognition

The Foundation follows the deferral method of accounting for contributions which include government grants and, potentially, donations from other sources.

Under the *Budget Implementation Act, 1997*, (the Act), the Foundation received a grant from the Government of Canada in the amount of \$800,000,000 plus accrued interest of \$864,384 to be held, invested, administered, and disbursed in accordance with the Act and the related funding agreement between the Foundation and the Government of Canada. This initial funding, together with future investment income, will be directed to the granting of amounts to eligible recipients and the payment of the Foundation's operating expenses and acquisition of capital

2. Investments

Investments comprise the following financial instruments:

	Cost	Market value
Money-market funds	102,133,634	102,076,498
Bonds	710,412,694	713,095,105
	812,546,328	815,171,603

assets in accordance with the requirements of the Act and the terms of the funding agreement. The initial grant received and future restricted interest earned on the invested amounts will be deferred and recognized as income in subsequent periods as expenditures are incurred by the Foundation.

Contributions applied toward the purchase of capital assets are deferred and amortized to revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

(b) Investments

Investments are recorded at cost. Premiums or discounts are amortized over the remaining term of the investments. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

(c) Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets, if any, are recorded at fair value at the date of contribution. Repairs 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:

Leasehold improvements	Over the 5-year lease period
Furniture and other equipment	20%

3. Capital assets

	Cost	Accumulated amortization
Leasehold improvements	22,542	4,508
Furniture and other equipment	214,644	42,929
	237,186	47,437
Accumulated amortization	(47,437)	
Net book value	189,749	

4. Deferred contributions

(a) Expenses of future periods:

Deferred contributions represent unspent externally restricted grants related to providing grants to eligible recipients and the payment of operating expenses of future periods.

	Cost
Balance at beginning of period	—
Add amount received during the period	800,964,384
Add restricted investment revenue earned	28,266,113
Less amount recognized as revenue during the period	(1,584,023)
Less amount applied toward capital assets acquired during the period	(237,186)
Balance at end of period	827,409,288

(b) Capital assets:

Deferred capital contributions related to capital assets represent the unamortized amount of restricted grants received applied toward the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations on the same basis as the amortization of the related capital assets.

	Cost
Balance at beginning of period	—
Restricted grants applied toward the purchase of capital assets during the period	237,186
Less amount amortized to revenue during the period	(47,437)
Balance at end of period	189,749

5. Restricted contributions and net assets

All of the net assets of the Foundation are subjected to externally imposed restrictions as per the requirements of the *Budget Implementation Act, 1997*, which governs the Foundation and the terms of the related funding agreement between the Foundation and the Government of Canada. Investment income to be earned on the grant received from the Government of Canada is also restricted.

Accordingly, the entire net assets of the Foundation are deferred and taken into revenue as expenditures are made with no net asset balance outstanding at any time. A statement of changes in net assets has, therefore, not been prepared since it would not provide additional useful information.

6. Commitments

The Foundation entered into a lease agreement for premises at 350 Albert Street in Ottawa in 1997 for a five-year term. The Foundation also has operating leases relating to computer equipment. The minimum annual lease payments are approximately \$208,000.

7. Pension plan

The employees of the Foundation have the option of becoming members of the Association of Universities and Colleges of Canada (AUCC) Pension Plan, a defined contribution plan administered by Integra Capital Management. The employer contributions made to the Plan during the period ended March 31, 1998, amounted to \$1,309.

8. Fair value of financial instruments

The carrying value of cash and term deposits, amounts receivable and accounts payable and accrued charges approximate their fair value because of the relatively short period to maturity of the instruments. The fair values of the investments with longer maturities, which are based on the year-end quoted market prices, are disclosed in note 2.

9. Tax status

The Foundation is a non-taxable entity under paragraph 149(1)(1) of the *Income Tax Act*.