

# **Michael Smith Foundation for Health Research**

Financial Statements  
**March 31, 2018**



June 29, 2018

## **Independent Auditor's Report**

### **To the Members of Michael Smith Foundation for Health Research**

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, 2018 and the statements of operations and cash flows for the year then ended, and the related notes, which comprise 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 accounting standards for not-for-profit organizations, 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.

#### **Auditor's 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 the 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 the auditor's 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, the auditor considers 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.

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**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, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

**Report on other legal and regulatory requirements**

As required by the British Columbia Societies Act, we report that, in our opinion, the accounting principles in Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

# Michael Smith Foundation for Health Research

## Statement of Financial Position

As at March 31, 2018

	2018 \$	2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	2,476,557	3,459,395
Contributions and other amounts receivable	17,638,480	340,111
Short-term investments (note 3)	53,326,528	68,050,645
Prepaid expenses and deposits	135,892	119,128
	<u>73,577,457</u>	<u>71,969,279</u>
<b>Long-term investments (note 3)</b>	9,424,180	11,409,194
<b>Capital assets (note 4)</b>	<u>82,512</u>	<u>127,760</u>
	<u>83,084,149</u>	<u>83,506,233</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	619,151	556,985
Grants payable	1,614,528	201,600
	<u>2,233,679</u>	<u>758,585</u>
<b>Deferred contributions (note 5)</b>		
Contributions for expenses of future periods	75,799,355	76,424,708
Capital contributions	82,512	127,760
Sponsored projects	2,702,064	3,928,641
	<u>78,583,931</u>	<u>80,481,109</u>
<b>Net assets</b>		
<b>Restricted for endowment purposes</b>	<u>2,266,539</u>	<u>2,266,539</u>
	<u>83,084,149</u>	<u>83,506,233</u>
<b>Commitments (note 6)</b>		

Approved on behalf of the Foundation

 Director

 Director

The accompanying notes are an integral part of these financial statements.

# Michael Smith Foundation for Health Research

## Statement of Operations

For the year ended March 31, 2018

	2018 \$	2017 \$
<b>Revenue</b>		
Contributions recognized in current year (note 5(a))	18,025,304	17,316,064
Contributions recognized in current year - sponsored projects (note 5(c))	1,476,577	3,101,266
Amortization of deferred capital contributions (note 5(b))	46,966	66,507
Other	708,312	784,259
	<hr/> 20,257,159	<hr/> 21,268,096
<b>Expenses</b>		
Programs and projects		
Scholar	6,142,387	6,216,666
Trainee	1,592,356	2,182,369
Health Professional Investigator	598,668	-
Innovation to commercialization	684,088	-
Health Policy Fellowship	58,333	-
Convening and collaborating	124,982	175,470
Reach	159,477	-
Research networks	527,538	738,333
Knowledge translation	42,542	28,506
Ethics harmonization	75,980	107,673
Partnership	1,497,293	963,674
BC SUPPORT Unit	2,000,000	2,000,000
Other programs and projects	203,806	175,003
Program and project delivery	2,163,128	1,322,520
Sponsored project expenses	1,488,724	3,101,266
	<hr/> 17,359,302	<hr/> 17,011,480
Administration		
General operating	2,850,891	4,190,109
Amortization of capital assets	46,966	66,507
	<hr/> 20,257,159	<hr/> 21,268,096
<b>Excess of revenue over expenses</b>	<hr/> <hr/> -	<hr/> <hr/> -

The accompanying notes are an integral part of these financial statements.

# Michael Smith Foundation for Health Research

## Statement of Cash Flows

For the year ended March 31, 2018

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	2018 \$	2017 \$
<b>Cash flows from operating activities</b>		
Contributions transferred out		
Sponsored projects	-	(3,688,661)
Grants and awards	(12,294,523)	(12,568,634)
Program and project delivery and administration	(5,119,342)	(5,375,777)
Sponsored project expenses	(1,488,724)	(3,670,329)
Other revenue	708,312	784,259
Investment revenue	1,623,476	2,053,272
	<u>(16,570,801)</u>	<u>(22,465,870)</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(86,823,701)	(60,205,195)
Proceeds from sale of investments	102,413,382	82,282,811
Purchase of capital assets (note 5(a))	(1,718)	(20,210)
	<u>15,587,963</u>	<u>22,057,406</u>
<b>Net decrease in cash</b>	(982,838)	(408,464)
<b>Cash - Beginning of year</b>	<u>3,459,395</u>	<u>3,867,859</u>
<b>Cash - End of year</b>	<u>2,476,557</u>	<u>3,459,395</u>

The accompanying notes are an integral part of these financial statements.

# Michael Smith Foundation for Health Research

## Notes to Financial Statements

March 31, 2018

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### 1 Nature of operations

The Michael Smith Foundation for Health Research (the “Foundation”) is incorporated under the Societies 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 transitioned to the new Societies Act on March 8, 2018.

The Foundation’s principal purpose is to:

- Foster talent development so BC can develop, attract, and retain the very best health researchers;
- Support provincial health system priorities, health system transformation and innovation;
- Build capacity for research uptake; and
- Optimize provincial health research investment through partnerships.

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

#### Basis of accounting

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada (“CPA Canada”) Handbook.

#### Revenue recognition

The Foundation follows the deferral method of accounting for contributions, including grants and donations 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 initially deferred and subsequently 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 sponsored 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

March 31, 2018

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Endowment contributions are recorded as a direct increase in net assets. Realized and unrealized investment income earned on endowment investments and restricted for specific purposes 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 income is recognized as revenue when earned.

### Capital assets

Capital assets are recorded at cost less accumulated amortization. Repairs 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:

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

### Financial instruments

Financial instruments are initially measured at fair value. Subsequently, equity instruments quoted in an active market are measured at fair value. Other instruments are subsequently measured at amortized cost unless elected to be measured at fair value. The Foundation has elected to carry its investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets measured at amortized cost are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

The Foundation's financial instruments consist of cash, contributions and other amounts receivable, short-term and long-term investments, accounts payable and accrued liabilities and grants payable.



# Michael Smith Foundation for Health Research

## Notes to Financial Statements

March 31, 2018

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- a) Contributions and other amounts receivable
  - 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.
- b) Investments
  - i) Short-term investments - include any term deposits, income funds, bonds or equities, with a term to maturity of less than one year. Short-term investments are measured at fair value with subsequent changes to fair value recorded as changes in deferred contributions and recognized as revenue when the related expenses are incurred.
  - ii) Long-term investments - include any term deposits, bonds and equities with a term to maturity of more than one year or that are related to permanent endowments. Long-term investments are measured at fair value with subsequent changes in fair value recorded as changes in deferred contributions and recognized as revenue when the related expenses are incurred.
- c) Financial liabilities
  - i) Accounts payable, grants payable and accrued liabilities are measured at amortized cost using the effective interest method.

### **Grants and awards**

Grants and awards approved by the Foundation are recorded as expenses in the fiscal year that the expense is incurred or the obligation arises. Amounts are usually paid in quarterly installments in advance.

### **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.

### **Employee pension plan**

The Foundation's employees belong to the Municipal Pension Plan, which is a multi-employer contributory pension plan. The Foundation records its pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets, and costs to individual employers participating in the plan.

# Michael Smith Foundation for Health Research

## Notes to Financial Statements

March 31, 2018

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### 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.

### 3 Investments

	2018 \$	2017 \$
Income funds	33,050,631	49,981,041
Term deposits	9,094,968	12,861,203
Equities	2,615,175	3,098,112
Bonds	17,989,934	13,519,483
	<hr/> 62,750,708	<hr/> 79,459,839
Short-term	<hr/> 53,326,528	<hr/> 68,050,645
Long-term	<hr/> 9,424,180	<hr/> 11,409,194

Investments in term deposits mature in fiscal 2019. Bonds are recorded at fair value with maturity dates ranging from fiscal 2019 to fiscal 2021. The long-term portion consists of bonds with maturity dates beyond the next fiscal year and the holdings which are related to the endowment fund.

### 4 Capital assets

	<hr/> 2018		<hr/> 2017	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Computer software	654,336	654,336	-	3,417
Computer hardware	333,619	310,868	22,751	46,364
Office furniture and equipment	557,182	537,978	19,204	27,489
Leasehold improvements	707,544	666,987	40,557	50,490
	<hr/> 2,252,681	<hr/> 2,170,169	<hr/> 82,512	<hr/> 127,760

# Michael Smith Foundation for Health Research

## Notes to Financial Statements

March 31, 2018

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### 5 Deferred contributions

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

- a) Deferred contributions relating to expenses of future periods

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Balance - Beginning of year</b>	76,424,708	90,578,651
Contributions received during the year:		
Grant from the Province of BC (i)	17,000,000	-
Investment income	401,669	3,182,331
	<u>93,826,377</u>	<u>93,760,982</u>
Amounts recognized as revenue during the period	(18,025,304)	(17,316,064)
Amounts applied toward capital assets purchased during the period	<u>(1,718)</u>	<u>(20,210)</u>
<b>Balance - End of year</b>	<u>75,799,355</u>	<u>76,424,708</u>

- i) The grant is provided to support the Foundation's continuing mandate. As at March 31, 2018, \$17,000,000 is recorded in contributions and other amounts receivable.

- b) Deferred contributions relating to capital assets

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Balance - Beginning of year</b>	127,760	174,057
Allocation of deferred contributions	1,718	20,210
Amounts amortized to revenue	<u>(46,966)</u>	<u>(66,507)</u>
<b>Balance - End of year</b>	<u>82,512</u>	<u>127,760</u>

# Michael Smith Foundation for Health Research

## Notes to Financial Statements

March 31, 2018

c) Deferred contributions relating to sponsored projects with restricted funding

	<b>2018</b>			
	<b>Balance, beginning of the year \$</b>	<b>Contributions and donations received \$</b>	<b>Amounts recognized to revenue \$</b>	<b>Balance - End of year \$</b>
BC Influenza Vaccine Program	161,648	-	(18,631)	143,017
Health Services and Policy Research Support	218,275	-	(138,434)	79,841
BC Nursing Research Initiative	403,079	-	(334,129)	68,950
Healthy Minds, Healthy People	477,687	-	(399,214)	78,473
Children and Youth with Special Needs	1,210,958	-	(5,287)	1,205,671
Interior Health Capacity Building	3,748	-	-	3,748
Human Papillomavirus 2	1,129,981	-	(341,250)	788,731
Alzheimer's Disease Research	226,717	-	(143,084)	83,633
Vancouver Island Research Capacity Building	96,548	-	(96,548)	-
Overdose response evaluation	-	250,000	-	250,000
	<b>3,928,641</b>	<b>250,000</b>	<b>(1,476,577)</b>	<b>2,702,064</b>
	<b>2017</b>			
	<b>Balance, beginning of the year \$</b>	<b>Contributions and donations repaid \$</b>	<b>Amounts recognized to revenue \$</b>	<b>Balance - End of year \$</b>
Cerebrospinal Venous Insufficiency	50,000	-	(50,000)	-
BC Influenza Vaccine Program	275,801	-	(114,153)	161,648
Health Services and Policy Research Support	390,816	-	(172,541)	218,275
BC Nursing Research Initiative	476,902	-	(73,823)	403,079
Healthy Minds, Healthy People	975,000	-	(497,313)	477,687
Children and Youth with Special Needs	1,268,592	-	(57,634)	1,210,958
Interior Health Capacity Building	473,098	-	(469,350)	3,748
Human Papillomavirus 2	1,129,981	-	-	1,129,981
Alzheimer's Disease Research	783,928	-	(557,211)	226,717
Strategy for Patient Oriented Research	1,604,383	(1,088,661)	(515,722)	-
Vancouver Island Research Capacity Building	690,067	-	(593,519)	96,548
Academic Health Science Network	2,600,000	(2,600,000)	-	-
	<b>10,718,568</b>	<b>(3,688,661)</b>	<b>(3,101,266)</b>	<b>3,928,641</b>

# Michael Smith Foundation for Health Research

## Notes to Financial Statements

March 31, 2018

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### 6 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 or strategic projects aimed at fulfilling the Foundation's mandate. Some of the commitments made through these granting programs and projects have terms that span more than one fiscal year. Such grants have ongoing eligibility criteria and, consequently, grant commitments are expensed in the period that the expense is incurred or the obligation arises.

The following table summarizes grant commitments approved by the Foundation, by major grant program or project:

	Grant commitment for the years ending March 31,		Total \$
	2019 \$	2020 and thereafter \$	
<b>Grant program or project</b>			
Scholar	1,856,250	30,000	1,886,250
Trainee	1,049,730	28,250	1,077,980
Health Professional Investigator	299,034	15,000	314,034
Innovation to Commercialization	809,068	62,500	871,568
Health Policy Fellowship	41,667	-	41,667
Convening & Collaborating	104,859	-	104,859
BC SUPPORT Unit (i)	2,000,000	4,000,000	6,000,000
Other	377,797	-	377,797
	<u>6,538,405</u>	<u>4,135,750</u>	<u>10,674,155</u>

i) The commitment for BC SUPPORT Unit is for \$2,000,000 per year, over the next three years.

b) Grant commitments - Sponsored projects

Through a variety of specialized granting programs, the Foundation also may commit significant amounts of 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 ongoing eligibility criteria and, consequently, grant commitments are expensed in the period that the expense is incurred or the obligation arises.

There are no commitments for sponsored projects.

# Michael Smith Foundation for Health Research

## Notes to Financial Statements

March 31, 2018

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c) Office space and equipment lease commitments

The Foundation rents office space under a long-term lease that expires October 31, 2021 and provides for an additional five-year extension at the option of the Foundation.

The Foundation also leases various types of office equipment.

The Foundation has future minimum lease payments under these operating leases as follows:

	\$
Years ending March 31,	
2019	620,654
2020	635,304
2021	647,568
2022	384,856
	<hr/>
	2,288,382
	<hr/>

## 7 Financial risk management

### Credit risk

Credit risk is the risk of financial loss to the Foundation if a counterparty to a financial instrument fails to meet its contractual obligations. The Foundation's investments in any term deposits, bonds, income funds and equities are subject to credit risk. The maximum exposure to credit risk on these instruments is their carrying value. The Foundation manages the risk by retaining professional investment counselors who act in accordance with the Foundation's investment policies. These policies include asset mix guidelines and minimum investment grade levels for each asset class.

Other credit risks can arise from holding receivables. The Foundation has minimal accounts receivable, other than from government and as such the credit risk is minimal.

### Liquidity risk

Liquidity risk is the risk that the Foundation will not be able to meet its financial obligations as they fall due. The majority of the Foundation's assets are held as short-term investments that can be readily liquidated and therefore the Foundation's liquidity risk is considered minimal. In addition, the Foundation aims to retain a sufficient cash position to manage liquidity.

# Michael Smith Foundation for Health Research

## Notes to Financial Statements

March 31, 2018

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### Market risk

Market risk is the risk that changes in market prices, as a result of changes in foreign exchange rates, interest rates and equity prices, will affect the Foundation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while earning an acceptable return.

a) Currency risk

Investments in foreign securities are exposed to currency risk due to fluctuations in foreign exchange rates.

The Foundation holds minimal investments in foreign currencies; as such the risk is minimal.

b) Interest rate risk

Interest rate risk relates to the risk that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Foundation. The Foundation is invested in term deposits and income funds that may be impacted by changes in the market interest rate.

The Foundation manages interest rate risk on term deposits by choosing instruments that have fixed rates of return and terms that will match the projected cash flow requirements. Interest rate risk on income funds is managed through professional investment counselors, by holding instruments which have a high liquidity in the marketplace or by choosing instruments with fixed terms that align with projected cash flow requirements.

## 8 Employee pension plan

The Foundation and its employees contribute to the Municipal Pension Plan (jointly trustee pension). The boards of trustees, representing plan members and employers, is responsible for administering the pension plan, including investing assets and administering benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula.

The latest actuarial valuation for the Municipal Pension Plan as at December 31, 2015 indicated a \$2.2 billion funding surplus for basic pension benefits. The next valuation will be as at December 31, 2018, with results available in 2019.

The Foundation paid \$242,084 for employer contributions to the plan during the year ended March 31, 2018 (2017 - \$260,070).

# Michael Smith Foundation for Health Research

## Notes to Financial Statements

March 31, 2018

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### 9 Remuneration

a) Remuneration of directors

Remuneration paid to elected directors during the year ended March 31, 2018 was \$nil (2017 - \$nil).

b) Top ten employee compensation

Ten employees and contractors received compensation in excess of \$75,000 per individual for the year ended March 31, 2018. Their combined compensation for the year ended March 31, 2018 was \$1,258,744 (2017 - \$1,547,272). As at year-end, \$12,600 (2017 - \$12,700) related to these expenses was included in accounts payable.

### 10 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.