

Michael Smith Foundation for Health Research

Financial Statements
March 31, 2017



June 23, 2017

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, 2017 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.

*PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806*



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, 2017 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

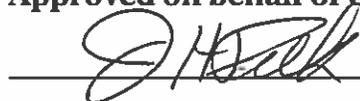
Michael Smith Foundation for Health Research

Statement of Financial Position

As at March 31, 2017

	2017 \$	2016 \$
Assets		
Current assets		
Cash	3,459,395	3,867,859
Contributions and other amounts receivable	340,111	455,911
Short-term investments (note 3)	68,050,645	83,567,998
Prepaid expenses and deposits	119,128	157,170
	<u>71,969,279</u>	<u>88,048,938</u>
Long-term investments (note 3)	11,409,194	16,766,875
Capital assets (note 4)	<u>127,760</u>	<u>174,057</u>
	<u>83,506,233</u>	<u>104,989,870</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	556,985	700,880
Grants payable	201,600	551,175
	<u>758,585</u>	<u>1,252,055</u>
Deferred contributions (note 5)		
Contributions for expenses of future periods	76,424,708	90,578,651
Capital contributions	127,760	174,057
Sponsored projects	3,928,641	10,718,568
	<u>80,481,109</u>	<u>101,471,276</u>
Net assets		
Restricted for endowment purposes	<u>2,266,539</u>	<u>2,266,539</u>
	<u>83,506,233</u>	<u>104,989,870</u>
Commitments (note 6)		

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, 2017

	2017 \$	2016 \$
Revenue		
Contributions recognized in current year (note 5(a))	17,316,064	13,120,624
Contributions recognized in current year - sponsored projects (note 5(c))	3,101,266	3,727,889
Amortization of deferred capital contributions (note 5(b))	66,507	61,978
Other	784,259	817,146
	<hr/> 21,268,096	<hr/> 17,727,637
Expenses		
Programs and projects		
Career	6,284,166	5,623,248
Trainee	2,198,118	1,927,359
Convening & Collaborating	175,470	-
Research networks	738,333	713,295
Knowledge translation	28,506	62,871
Ethics harmonization	107,673	36,184
Partnership	880,425	404,583
BC SUPPORT Unit	2,000,000	-
Other programs & projects	225,843	253,090
Program and project delivery	1,322,520	1,169,265
Sponsored project expenses	3,101,266	3,727,889
	<hr/> 17,062,320	<hr/> 13,917,784
Administration		
General operating	4,139,269	3,747,875
Amortization of capital assets	66,507	61,978
	<hr/> 21,268,096	<hr/> 17,727,637
Excess of revenue over expenses	<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, 2017

	2017 \$	2016 \$
Cash flows from operating activities		
Contributions (transferred out) received		
Sponsored projects	(3,688,661)	2,599,105
Grants and awards	(12,568,634)	(8,921,268)
Program and project delivery and administration	(5,375,777)	(6,850,452)
Sponsored project expenses	(3,670,329)	(1,179,852)
Other revenue	784,259	817,146
Investment revenue	2,053,272	2,459,941
	<u>(22,465,870)</u>	<u>(11,075,380)</u>
Cash flows from investing activities		
Purchase of investments	(60,205,195)	(128,951,500)
Proceeds from sale of investments	82,282,811	141,884,188
Purchase of capital assets (note 5(a))	(20,210)	(93,930)
	<u>22,057,406</u>	<u>12,838,758</u>
Net (decrease) increase in cash	(408,464)	1,763,378
Cash - Beginning of year	<u>3,867,859</u>	<u>2,104,481</u>
Cash - End of year	<u>3,459,395</u>	<u>3,867,859</u>

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

Michael Smith Foundation for Health Research

Notes to Financial Statements

March 31, 2017

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 was established to create a vibrant and sustainable British Columbian health research environment that is recognized for excellence and:

- has the human resources, infrastructure and research space to compete effectively for national and international funding across all sectors;
- anticipates and responds to B.C. health and health system needs;
- builds the B.C. economy; and
- networks for critical mass across Western Canada, nationally and internationally.

The Foundation receives funding from the Province of British Columbia to conduct a range of peer-reviewed grant programs and other projects. In addition, the Foundation receives funding from other sources to undertake various projects consistent with its purpose.

2 Significant accounting policies

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, 2017

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, 2017

- 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

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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

	2017 \$	2016 \$
Income funds	49,981,041	51,536,976
Term deposits	12,861,203	28,048,931
Equities	3,098,112	2,810,202
Bonds	13,519,483	17,938,764
	<hr/> 79,459,839	<hr/> 100,334,873
Short-term	<hr/> 68,050,645	<hr/> 83,567,998
	<hr/> 11,409,194	<hr/> 16,766,875

Investments in term deposits mature in fiscal 2018. Bonds are recorded at fair value with maturity dates ranging from fiscal 2018 to fiscal 2020. 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/> 2017		<hr/> 2016	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Computer software	654,336	650,919	3,417	2,800
Computer hardware	331,900	285,536	46,364	78,914
Office furniture and equipment	557,182	529,693	27,489	31,921
Leasehold improvements	707,545	657,055	50,490	60,422
	<hr/> 2,250,963	<hr/> 2,123,203	<hr/> 127,760	<hr/> 174,057

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Notes to Financial Statements

March 31, 2017

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

	2017 \$	2016 \$
Balance - Beginning of year	90,578,651	102,594,193
Contributions received during the year:		
Investment income	3,182,331	1,199,012
	93,760,982	103,793,205
Amounts recognized as revenue during the period	(17,316,064)	(13,120,624)
Amounts applied toward capital assets purchased during the period	(20,210)	(93,930)
Balance - End of year	<u>76,424,708</u>	<u>90,578,651</u>

b) Deferred contributions relating to capital assets

	2017 \$	2016 \$
Balance - Beginning of year	174,057	142,105
Allocation of deferred contributions	20,210	93,930
Amounts amortized to revenue	(66,507)	(61,978)
Balance - End of year	<u>127,760</u>	<u>174,057</u>

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c) Deferred contributions relating to sponsored projects with restricted funding

	2017			
	Balance, beginning of the year \$	Contributions and donations received (repaid) \$	Amounts recognized to revenue \$	Balance - End of year \$
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)	-	-
	10,718,568	(3,688,661)	(3,101,266)	3,928,641
	2016			
	Balance, beginning of the year \$	Contributions and donations received (repaid) \$	Amounts recognized to revenue \$	Balance - End of year \$
BC Patient Safety & Quality Council	5,018	(895)	(4,123)	-
Cerebrospinal Venous Insufficiency	100,000	-	(50,000)	50,000
BC Influenza Vaccine Program	433,333	-	(157,532)	275,801
Health Services and Policy Research Support	515,089	-	(124,273)	390,816
BC Nursing Research Initiative	544,305	-	(67,403)	476,902
Healthy Minds, Healthy People	1,000,000	-	(25,000)	975,000
Children and Youth with Special Needs	1,339,168	-	(70,576)	1,268,592
Interior Health Capacity Building	1,048,929	-	(575,831)	473,098
Human Papillomavirus 2	1,777,173	-	(647,192)	1,129,981
Alzheimer's Disease Research	1,484,938	-	(701,010)	783,928
Strategy for Patient Oriented Research	1,965,937	-	(361,554)	1,604,383
Vancouver Island Research Capacity Building	1,633,462	-	(943,395)	690,067
Academic Health Science Network	2,600,000	-	-	2,600,000
	14,447,352	(895)	(3,727,889)	10,718,568

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Notes to Financial Statements

March 31, 2017

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 \$
	2018 \$	2019 and thereafter \$	
Grant program or project			
Career	1,903,751	93,750	1,997,501
Trainee	900,126	31,167	931,293
Technology methodology platforms	117,500	-	117,500
Convening & Collaborating	11,425	-	11,425
BC SUPPORT Unit (i)	2,000,000	6,000,000	8,000,000
Other	303,658	-	303,658
	<u>5,236,460</u>	<u>6,124,917</u>	<u>11,361,377</u>

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

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

	Grant commitment for the years ending March 31,		Total \$
	2018 \$	2019 and thereafter \$	
Sponsored projects:			
Health Services & Policy Research Support Network:			
CIHR partnerships	46,667	-	46,667
Vancouver Island Capacity Building: Network Grant	45,031	-	45,031
Influenza Prevention Policy	17,744	-	17,744
Alzheimer's Disease Research	99,776	-	99,776
Consortium for Neurodegeneration in Aging	36,496	-	36,496
Mental Disorders & Substance Use Disorder	24,442	-	24,442
	<hr/>		
	270,156	-	270,156
	<hr/>		

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,	
2018	599,739
2019	615,203
2020	629,661
2021	641,729
2022	381,361
	<hr/>
	2,867,693
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Michael Smith Foundation for Health Research

Notes to Financial Statements

March 31, 2017

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.

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.

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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 \$260,070 for employer contributions to the plan during the year ended March 31, 2017 (2016 - \$236,157).

9 Remuneration

a) Remuneration of directors

Remuneration paid to elected directors during the year ended March 31, 2017 was \$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, 2017. Their combined compensation for the year ended March 31, 2017 was \$1,547,272.