Financial Statements of

INSTITUTE OF HEALTH ECONOMICS

Year ended March 31, 2018

INSTITUTE OF HEALTH ECONOMICS

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INDEPENDENT AUDITORS' REPORT

To the Members of Institute of Health Economics

We have audited the accompanying financial statements of Institute of Health Economics, which comprise the statement of financial position as at March 31, 2018, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Institute of Health Economics as at March 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants

July 23, 2018

Edmonton, Canada

INSTITUTE OF HEALTH ECONOMICS

Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Term deposits (note 3)	$ 3,361,750	$ 500,000
Accounts receivable	2,976,780	209,921
Cash (note 2)	688,582	3,173,531
Research advances (note 4)	291,342	284,674
Prepaid expenses	53,406	56,800
	7,371,860	4,224,926
Capital assets (note 5)	197,111	177,654
	$ 7,568,971	$ 4,402,580
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	$ 718,558	$ 713,524
Deferred contributions (note 7)	5,243,969	2,289,167
Deferred membership fees	341,667	141,667
	6,304,194	3,144,358
Unamortized deferred capital contributions (note 8)	14,842	10,947
Deferred lease inducement (note 5)	103,184	119,916
	118,026	130,863
Net assets:		
Invested in capital assets	79,085	46,791
Unrestricted	1,067,666	1,080,568
	1,146,751	1,127,359
Commitments (note 10)		
	$ 7,568,971	$ 4,402,580

See accompanying notes to financial statements.

On behalf of the Board:

D Lorne Tyrrell Director

Douglas Gilpin Director

INSTITUTE OF HEALTH ECONOMICS

Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Grants and research (note 7)	$ 4,372,508	$ 4,259,762
Memberships	700,000	750,000
Grant administration fees	382,281	417,088
Rental income	42,000	-
Amortization of deferred capital contributions (note 8)	11,688	27,065
Investment income	5,665	6,810
	5,514,142	5,460,725
Expenses:		
Grant and research projects (note 9)	4,221,577	4,044,473
Rent (note 5)	444,373	421,428
Salaries and benefits	302,785	531,215
Consultants and temporary staff	199,899	73,118
Office	141,573	123,021
Meetings	88,258	84,235
Amortization	53,143	76,781
Professional fees	40,386	42,634
Advertising	8,911	20,534
Loss on disposal of capital assets	431	-
Bad debts	-	48,277
	5,501,336	5,465,716
Secretariat Administration:		
Fees	259,622	586,165
Salaries	(169,756)	(535,790)
Office and general	(83,280)	(41,480)
	6,586	8,895
Excess of revenues over expenses	$ 19,392	$ 3,904

See accompanying notes to financial statements.

INSTITUTE OF HEALTH ECONOMICS

Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017

	Invested in capital assets	Unrestricted	2018 Total	2017 Total
Balance, beginning of year	$ 46,791	$ 1,080,568	$ 1,127,359	$ 1,123,455
Excess (deficiency) of revenue over expenses	(25,174)	44,566	19,392	3,904
Investment in capital assets	57,468	(57,468)	-	-
Balance, end of year	$ 79,085	$ 1,067,666	$ 1,146,751	$ 1,127,359

See accompanying notes to financial statements.

INSTITUTE OF HEALTH ECONOMICS

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Excess of revenues over expenses	$ 19,392	$ 3,904
Items not involving cash:		
Amortization	53,143	76,781
Amortization of deferred capital contributions	(11,688)	(27,065)
Amortization of deferred lease inducement	(16,732)	(19,521)
Loss on disposal of capital assets	431	-
	44,546	34,099
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable for operations	(2,766,859)	764,815
Decrease (increase) in research advances	(6,668)	(35,774)
Decrease (increase) in prepaid expenses	3,394	(892)
Increase (decrease) in accounts payable and accrued liabilities	5,034	194,729
Increase (decrease) in deferred contributions	2,954,802	(247,603)
Decrease in deferred research credits	-	(41,632)
Increase in deferred membership fees	200,000	-
	434,249	667,742
Financing:		
Increase in unamortized deferred capital contributions	15,583	4,028
Investing:		
Purchase of capital assets	(73,031)	(13,858)
Purchase of term deposits	(2,861,750)	-
	(2,934,781)	(13,858)
(Decrease) increase in cash	(2,484,949)	657,912
Cash, beginning of year	3,173,531	2,515,619
Cash, end of year	$ 688,582	$ 3,173,531
Supplemental cash flow information:		
Investment income received	$ 18,325	$ 23,423

See accompanying notes to financial statements.

Nature of operations:

The Institute of Health Economics (the "Institute") is a unique partnership of government, academia and industry representatives committed to providing relevant research that will help policy makers formulate decisions regarding the best means of delivering health care while ensuring optimal use of resources. The Institute is a not-for-profit organization incorporated under the Companies Act of Alberta. As a not-for-profit organization, pursuant to Section 149(1)(l) of the Income Tax Act, the Institute is not subject to income taxes.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook. The Institute's significant accounting policies are as follows:

(a) Revenue recognition:

The Institute follows the deferral method of accounting for contributions and related administrative fees. Restricted contributions, which include grants and sponsorships are recognized as revenue in the year in which related expenses are incurred.

Contributions of capital assets and contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital asset.

Unrestricted contributions, which include membership fees and administration fees and are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income is recognized in the statement of operations when earned if unrestricted or deferred if external restrictions are imposed on the investment income. Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Contributions in-kind are recorded at the fair value of the services provided.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. The Institute has not elected to carry any such financial instruments at fair value.

1. Significant accounting policies (continued):

(b) Financial instruments (continued):

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 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 Institute 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 Institute 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.

(c) Capital assets:

Capital assets are recorded at cost and are amortized using the straight-line method and the following annual rates:

Asset	Rate
Furniture and fixtures	5 - 10 years
Computer hardware	3 years
Computer software	2 years
Leasehold improvements	5 - 10 years

Amortization of leasehold improvements is recorded over the remaining term of the lease.

(d) 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 the reported amounts of revenues and expenses during the year. Significant estimates relate to the amortization of capital assets, the collectibility of accounts receivable and the completeness of accounts payable and accrued liabilities. Actual results could differ from those estimates.

2. Cash:

Cash is invested in interest-bearing bank accounts earning interest of 0.00% (2017 - 0.00% - 0.89%).

3. Term deposits:

Term deposits carry an interest rate ranging from 0.9% to 1.2% (2017 - 1.35%) and have maturity dates from July 19, 2018 to February 27, 2019 (2017 - July 18, 2017).

4. Research advances:

Research advances represent restricted amounts advanced to certain research projects and educational institutions that were not spent by the end of the fiscal year.

5. Capital assets:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Furniture and fixtures	$ 146,040	$ 104,636	$ 41,404	$ 15,777
Computer hardware	145,787	117,788	27,999	16,306
Computer software	101,514	97,081	4,433	2,544
Leasehold improvements	271,965	148,690	123,275	143,027
	$ 665,306	$ 468,195	$ 197,111	$ 177,654

Amortization of $16,732 (2017 - $19,521) of leasehold inducements are included as a reduction to rent.

6. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $35,517 (2017 - $42,554) which includes amounts payable for GST and payroll related taxes.

7. Deferred contributions:

Deferred contributions represent unspent grant and research resources, externally restricted for research.

	2018	2017
Deferred contributions, beginning of year	$ 2,289,167	$ 2,536,770
Contributions received or receivable	7,540,202	4,025,815
Investment income earned on unexpended funds	12,660	16,613
Recognized as grant revenue in the year	(3,976,315)	(3,781,838)
Recognized as research revenue during the year	(223,881)	(218,613)
Transfer to unamortized deferred capital contributions (note 9)	(15,583)	(4,028)
Recognized as grant administration fees during the year	(382,281)	(285,552)
Deferred contributions, end of year	$ 5,243,969	$ 2,289,167

Grant and research revenue recognized during the year of $4,200,196 (2017 - $4,217,560) were received from federal and provincial government sources. The majority of grant and research funding is received from Alberta Health.

8. Unamortized deferred capital contributions:

Unamortized deferred capital contributions represent funds that have been expended on capital assets. The contributions are recognized as revenue as the related capital assets are amortized.

	2018	2017
Unamortized deferred capital contributions, beginning of year	$ 10,947	$ 33,984
Transfers from deferred grant funds (note 7)	15,583	4,028
Amounts recognized as revenue in the year	(11,688)	(27,065)
Unamortized deferred capital contributions, end of year	$ 14,842	$ 10,947

9. Grant and research projects:

During the year, the Institute incurred the following eligible expenditures for grant and research projects:

	2018	2017
Salaries and benefits	$ 2,228,356	$ 2,373,741
Consultants and temporary staff	1,422,459	1,194,828
Honoraria and sponsorships	216,196	48,833
Travel	159,466	179,803
Meetings	100,977	95,622
Office	66,841	90,499
Printing and advertising	13,718	61,147
Professional fees	13,564	-
	$ 4,221,577	$ 4,044,473

10. Commitments:

The Institute is committed to payments under operating leases for office premises and office equipment, which extend up to May 2025. The minimum annual lease payments for office space do not include property taxes, insurance, utilities and other operating costs.

	Total
2019	$ 257,480
2020	250,988
2021	255,635
2022	256,565
2023 and thereafter	812,456
	$ 1,833,124

11. Pension plan:

The Institute maintains a defined contribution pension plan in the form of RRSP contributions for its employees. During the year, the expense incurred for this plan was $99,838 (2017 - $114,812) and is equal to the Institute's required contribution for the year.

12. Financial risks and concentration of credit risk:

The Institute has a risk-management framework to monitor, evaluate and manage the principal risks assumed with its financial instruments. The risks that arise from transacting financial instruments include credit risk, liquidity risk and price risk. Price risk arises from changes in interest rate, foreign currency exchange rates and market prices. The Institute does not use derivative financial instruments to mitigate these risks.

Except as noted below, it is management's opinion that the Institute is not exposed to significant interest, currency or credit risk arising from its financial instruments.

Changes in interest rates and credit ratings are the main cause of changes in the fair value of interest bearing instruments resulting in a favourable or unfavourable variance compared to book value. Interest rate risk is mitigated by managing maturity dates and payment frequency. Credit risk is managed by investing only with accredited chartered banks and providing trade terms to credit worthy entities.