Financial Statements of

INSTITUTE OF HEALTH ECONOMICS

Year ended March 31, 2020

INSTITUTE OF HEALTH ECONOMICS

Table of Contents

Year ended March 31, 2020

KPMG LLP
2200,10175-101 Street
Edmonton AB T5J 0H3
Canada
Tel 780-429-7300
Fax 780-429-7379

INDEPENDENT AUDITORS' REPORT

To the Members of Institute of Health Economics

Opinion

We have audited the financial statements of Institute of Health Economics (the Entity), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Edmonton, Canada

June 26, 2020

INSTITUTE OF HEALTH ECONOMICS

Statement of Financial Position

March 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Current assets:		
Cash	$ 533,811	$ 857,806
Term deposits (note 2)	1,970,567	3,097,626
Accounts receivable	525,754	851,290
Prepaid expenses	52,587	109,102
	3,082,719	4,915,824
Capital assets (note 3)	266,804	252,886
	$ 3,349,523	$ 5,168,710
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	$ 503,349	$ 518,576
Deferred contributions (note 4)	1,792,019	3,376,818
Deferred membership fees	-	41,667
	2,295,368	3,937,061
Unamortized deferred capital contributions (note 6)	20,665	43,416
Deferred lease inducement (note 3)	175,067	127,766
	195,732	171,182
Net assets:		
Invested in capital assets	71,072	81,703
Unrestricted	787,351	978,764
	858,423	1,060,467
Commitments (note 8)		
	$ 3,349,523	$ 5,168,710

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Director

_______________ Director

INSTITUTE OF HEALTH ECONOMICS

Statement of Operations

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Revenue:		
Grants and research (note 4)	$ 5,185,650	$ 4,688,383
Memberships	491,667	600,000
Grant administration fees	685,836	432,631
Rental and other income	201,397	185,250
Amortization of deferred capital contributions (note 6)	28,870	29,743
Investment income	6,472	20,151
	6,599,892	5,956,158
Expenses:		
Grant and research projects (note 7)	5,045,577	4,557,062
Salaries and benefits	563,218	505,163
Rent (note 3)	681,183	450,543
Consultants and temporary staff	119,133	180,470
Office	128,090	112,944
Amortization	95,550	69,499
Professional fees	68,855	69,308
Board of Directors	46,550	26,650
Meetings	35,124	46,652
Awards and honoraria	16,004	-
Marketing and branding	2,652	17,759
	6,801,936	6,036,050
Secretariat Administration:		
Fees	269,572	215,071
Salaries	(204,094)	(173,120)
Office and general	(65,478)	(48,343)
	-	(6,392)
Deficiency of revenues over expenses	$ (202,044)	$ (86,284)

See accompanying notes to financial statements.

INSTITUTE OF HEALTH ECONOMICS

Statement of Changes in Net Assets

Year ended March 31, 2020, with comparative information for 2019

	Invested in capital assets	Unrestricted	2020 Total	2019 Total
Balance, beginning of year	$ 81,703	$ 978,764	$ 1,060,467	$ 1,146,751
Deficiency of revenue over expenses	(120,099)	(81,945)	(202,044)	(86,284)
Purchase of capital assets	109,468	(109,468)	-	-
Balance, end of year	$ 71,072	$ 787,351	$ 858,423	$ 1,060,467

See accompanying notes to financial statements.

INSTITUTE OF HEALTH ECONOMICS

Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019

		2020		2019
Cash provided by (used in):				
Operations:				
Deficiency of revenues over expenses	$	(202,044)	$	(86,284)
Items not involving cash:				
Amortization		95,550		69,499
Amortization of deferred capital contributions		(28,870)		(29,743)
Amortization of deferred lease inducement		(33,884)		(16,732)
		(169,248)		(63,260)
Changes in non-cash operating working capital:				
Decrease in accounts receivable for operations		325,536		2,125,490
Decrease (increase) in prepaid expenses		56,515		(55,696)
Decrease in research advances		-		291,342
Decrease in accounts payable and accrued liabilities		(15,227)		(199,983)
Decrease in deferred contributions		(1,584,799)		(1,867,151)
Decrease in deferred membership fees		(41,667)		(300,000)
		(1,428,890)		(69,258)
Financing:				
Increase in unamortized deferred capital contributions		6,119		58,317
Increase in deferred lease inducement		81,185		41,315
		87,304		99,632
Investing:				
Purchase of capital assets		(109,468)		(125,274)
Redemption of term deposits		1,127,059		264,124
		1,017,591		138,850
(Decrease) increase in cash		(323,995)		169,224
Cash, beginning of year		857,806		688,582
Cash, end of year	$	533,811	$	857,806
Supplemental cash flow information:				
Investment income received	$	39,174	$	56,374

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. 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	Term of the lease

1. Significant accounting policies (continued):

(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. Term deposits:

Term deposits carry interest rates ranging from 0.30% to 1.80% (2019 - 1.2% to 2.3%) and have maturity dates from July 2, 2020 to January 14, 2021 (2019 - April 10, 2019 to March 20, 2020).

3. Capital assets:

			2020	2019
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and fixtures	$ 97,627	$ 46,671	$ 50,956	$ 51,334
Computer hardware	101,030	72,695	28,335	49,202
Computer software	20,474	10,264	10,210	7,512
Leasehold improvements	383,600	206,297	177,303	144,838
	$ 602,731	$ 335,927	$ 266,804	$ 252,886

Amortization of $33,884 (2019 - $16,732) of lease inducements are included as a reduction to rent.

4. Deferred contributions:

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

	2020	2019
Deferred contributions, beginning of year	$ 3,376,818	$ 5,243,969
Contributions received or receivable	3,914,628	2,957,766
Investment income earned on unexpended funds	32,202	36,223
Recognized as grant revenue in the year	(3,686,690)	(4,097,291)
Recognized as research revenue during the year	(1,498,369)	(169,573)
Repayment of contract funds	(10,000)	(129,148)
Transfer to unamortized deferred capital contributions (note 7)	(6,119)	(58,317)
Recognized as grant administration fees during the year	(618,853)	(387,830)
Transfer between accounts receivable	288,402	(18,981)
Deferred contributions, end of year	$ 1,792,019	$ 3,376,818

Grant and research revenue recognized during the year of $4,135,826 (2019 - $4,488,299) was received from Federal and Provincial government sources. The majority of grant and research funding is received from Alberta Health.

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $71,908 (2019 - $49,948) which includes amounts payable for GST and payroll related taxes.

6. 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.

	2020	2019
Unamortized deferred capital contributions, beginning of year	$ 43,416	$ 14,842
Transfers from deferred grant funds (note 6)	6,119	58,317
Amounts recognized as revenue in the year	(28,870)	(29,743)
Unamortized deferred capital contributions, end of year	$ 20,665	$ 43,416

7. Grant and research projects:

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

	2020	2019
Salaries and benefits	$ 3,328,586	$ 2,700,245
Consultants and temporary staff	1,402,733	1,288,674
Travel	158,223	164,084
Meetings	51,466	94,279
Honoraria and sponsorships	41,765	210,682
Office	40,571	47,646
Printing and advertising	17,358	16,881
Professional fees	4,875	34,571
	$ 5,045,577	$ 4,557,062

8. Commitments:

The Institute is committed to payments under operating leases for office premises, 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.

2021	$	367,635
2022		375,565
2023		375,565
2024		382,565
2025 and thereafter		446,326
	$	1,947,656

9. 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 $162,361 (2019 - $135,657) and is equal to the Institute's required contribution for the year.

10. 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, which have been increased as a result of COVID-19. 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.

11. Subsequent events:

The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in the Federal and Provincial governments enacting emergency measures to combat the spread of the virus and has had a significant financial, market and social dislocating impact. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Institute is not known at this time.

At the time of approval of these financial statements, the Institute has undertaken the following actions in relation to the COVID-19 pandemic:

- Delaying timelines on Alberta Health projects previously negotiated, as Alberta Health prioritizes their COVID-19 response, as well as delayed timelines on other projects to fall 2020 due to a shift in project priorities and time required to adapt to an online work environment.
- Temporary closure of administrative offices based on public health recommendations.
- Workforce adjustments and the reallocation of resources to meet adjusted project work plan dates.
- Application for the Temporary Wage Subsidy.

Future economic impacts remain unknown at this time and the Institute continues to monitor the impact of COVID-19 on their project timelines and revenues.

12. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.