Financial Statements of

INSTITUTE OF HEALTH ECONOMICS

Year ended March 31, 2021

INSTITUTE OF HEALTH ECONOMICS

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Year ended March 31, 2021

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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, 2021
- 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, 2021 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.

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 30, 2021

INSTITUTE OF HEALTH ECONOMICS

Statement of Financial Position

March 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash	$ 480,315	$ 533,811
Term deposits (note 2)	1,435,060	1,970,567
Accounts receivable	712,062	525,754
Prepaid expenses	95,355	52,587
	2,722,792	3,082,719
Capital assets (note 3)	204,189	266,804
	$ 2,926,981	$ 3,349,523
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	$ 717,615	$ 503,349
Deferred contributions (note 4)	1,010,777	1,792,019
	1,728,392	2,295,368
Unamortized deferred capital contributions (note 6)	9,933	20,665
Deferred lease inducement (note 3)	141,184	175,067
	151,117	195,732
Net assets:		
Invested in capital assets	53,072	71,072
Unrestricted	994,400	787,351
	1,047,472	858,423
Commitments (note 8)		
	$ 2,926,981	$ 3,349,523

See accompanying notes to financial statements.

On behalf of the Board:

____________________________ Director

____________________________ Director

INSTITUTE OF HEALTH ECONOMICS

Statement of Operations

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Revenue:		
Grants and research (note 4)	$ 4,411,745	$ 5,185,650
Grant administration fees	603,871	685,836
Memberships	450,000	491,667
Rental and other income	186,788	201,397
Government assistance (note 11)	143,679	-
Amortization of deferred capital contributions (note 6)	26,521	28,870
Investment income	9,508	6,472
	5,832,112	6,599,892
Expenses:		
Grant and research projects (note 7)	4,083,167	5,045,577
Rent (note 3)	627,856	681,183
Salaries and benefits	514,262	563,218
Office	139,510	128,091
Amortization	101,241	95,550
Consultants and temporary staff	88,029	119,132
Professional fees	55,367	68,855
Board of Directors	28,375	46,550
Marketing and branding	4,758	2,652
Meetings	498	35,124
Awards and honoraria	-	16,004
	5,643,063	6,801,936
Secretariat Administration:		
Fees	252,980	269,572
Salaries	(199,991)	(204,094)
Office and general	(52,989)	(65,478)
	-	-
Excess (deficiency) of revenue over expenses	$ 189,049	$ (202,044)

See accompanying notes to financial statements.

INSTITUTE OF HEALTH ECONOMICS

Statement of Changes in Net Assets

Year ended March 31, 2021, with comparative information for 2020

	Invested in capital assets	Unrestricted	2021 Total	2020 Total
Balance, beginning of year	$ 71,072	$ 787,351	$ 858,423	$ 1,060,467
Excess (deficiency) of revenue over expenses	(40,837)	229,886	189,049	(202,044)
Purchase of capital assets, net	22,837	(22,837)	-	-
Balance, end of year	$ 53,072	$ 994,400	$ 1,047,472	$ 858,423

See accompanying notes to financial statements.

INSTITUTE OF HEALTH ECONOMICS

Statement of Cash Flows

Year ended March 31, 2021, with comparative information for 2020

		2021		2020
Cash provided by (used in):				
Operations:				
Excess (deficiency) of revenues over expenses	$	189,049	$	(202,044)
Items not involving cash:				
Amortization		101,241		95,550
Amortization of deferred capital contributions		(26,521)		(28,870)
Amortization of deferred lease inducement		(33,883)		(33,884)
		229,886		(169,248)
Changes in non-cash operating working capital:				
(Increase) decrease in accounts receivable for operations		(186,308)		325,536
(Increase) decrease in prepaid expenses		(42,768)		56,515
Increase (decrease) in accounts payable and accrued liabilities		214,266		(15,227)
Decrease in deferred contributions		(781,242)		(1,584,799)
Decrease in deferred membership fees		-		(41,667)
		(566,166)		(1,428,890)
Financing:				
Increase in unamortized deferred capital contributions		15,789		6,119
Increase in deferred lease inducement		-		81,185
		15,789		87,304
Investing:				
Purchase of capital assets		(38,626)		(109,468)
Redemption of term deposits		535,507		1,127,059
		496,881		1,017,591
Decrease in cash		(53,496)		(323,995)
Cash, beginning of year		533,811		857,806
Cash, end of year	$	480,315	$	533,811
Supplemental cash flow information:				
Investment income received	$	26,925	$	39,174

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.

The Institute applies for financial assistance under available government programs. Government assistance is recognized as revenue in the year in which the related expenses are incurred.

1. Significant accounting policies (continued):

(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.

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. Actual results could differ from those estimates.

2. Term deposits:

Term deposits carry interest rates ranging from 0.20% to 0.30% (2020 - 0.30% to 1.80%) and have maturity dates from October 22, 2021 to March 18, 2022 (2020 - July 2, 2020 to January 14, 2021).

3. Capital assets:

			2021	2020
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and fixtures	$ 95,934	$ 58,761	$ 37,173	$ 50,956
Computer hardware	114,282	99,398	14,884	28,335
Computer software	38,309	25,625	12,684	10,210
Leasehold improvements	383,600	244,152	139,448	177,303
	$ 632,125	$ 427,936	$ 204,189	$ 266,804

Amortization of $33,883 (2020 - $33,884) of lease inducements is included as a reduction to rent.

4. Deferred contributions:

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

	2021	2020
Deferred contributions, beginning of year	$ 1,792,019	$ 3,376,818
Contributions received or receivable	4,324,541	3,914,628
Investment income earned on unexpended funds	12,562	32,202
Recognized as grant revenue in the year	(2,967,295)	(3,686,690)
Recognized as research revenue during the year	(1,444,450)	(1,498,369)
Repayment of contract funds (note 5)	(310,686)	(10,000)
Transfer to unamortized deferred capital contributions (note 6)	(15,789)	(6,119)
Recognized as grant administration fees during the year	(603,871)	(618,853)
Transfer between accounts receivable	223,746	288,402
Deferred contributions, end of year	$ 1,010,777	$ 1,792,019

Grant and research revenue recognized during the year of $3,628,787 (2020 - $4,135,826) 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 $106,012 (2020 - 71,908) which includes amounts payable for GST and payroll related taxes. Additionally, accounts payable and accrued liabilities includes Alberta Health grant funds of $310,686 (2020 - $0) that have been requested by the Institute to be retained for future periods, for which formal approval has not yet been received as at the date of these financial statements.

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.

		2021		2020
Unamortized deferred capital contributions, beginning of year	$	20,665	$	43,416
Transfers from deferred grant funds (note 4)		15,789		6,119
Amounts recognized as revenue in the year		(26,521)		(28,870)
Unamortized deferred capital contributions, end of year	$	9,933	$	20,665

7. Grant and research projects:

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

		2021		2020
Salaries and benefits	$	3,087,208	$	3,328,586
Consultants and temporary staff		957,595		1,402,733
Office		30,277		40,571
Meetings		3,381		51,466
Professional fees		3,183		4,875
Honoraria and sponsorships		1,000		41,765
Travel		369		158,223
Printing and advertising		154		17,358
	$	4,083,167	$	5,045,577

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. The Institute also entered into two separate secondment agreements with the University of Alberta for the role of the Institute's Chief Executive Officer and two Sessional Librarians, which extend to June 2022 and March 2022, respectively.

2022	$	956,161
2023		457,379
2024		382,565
2025		382,565
2026 and thereafter		63,761
	$	2,242,431

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 $153,169 (2020 - 162,361) 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. Impact of COVID-19:

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. The Institute applied for and received \$98,509 from the Canada Emergency Wage Subsidy Program (“CEWS”) and \$45,170 from the Canada Emergency Rent Subsidy Program ("CERS"), which is classified as government assistance in the Statement of Operations.

With the continually evolving emergency measures in Alberta and Canada as well as the approval of certain vaccines for use, the Institute continues to monitor and assess the effect that COVID-19 will have on its operations. The emergency measures continue to impact many businesses and will adversely impact operations in the future, with the ultimate duration and impact being unknown.