

Michael Smith Foundation for Health Research

Financial Statements
March 31, 2020



Independent auditor's report

To the Members of Michael Smith Foundation for Health Research

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Michael Smith Foundation for Health Research (the Entity) as at March 31, 2020 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.

What we have audited

The Entity's financial statements comprise:

- the statement of financial position as at March 31, 2020;
 - the statement of operations for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
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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 *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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.

Auditor's 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 auditor's 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 these 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 auditor's 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 auditor's report. However, future events or conditions may cause the Entity 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.

We 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.

Report on other legal and regulatory requirements

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

(Signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
July 8, 2020


Michael Smith Foundation for Health Research

Statement of Financial Position

As at March 31, 2020

	2020 \$	2019 \$
Assets		
Current assets		
Cash	1,263,044	62,366,247
Contributions and other amounts receivable	2,707,507	707,594
Short-term investments (note 3)	90,505,542	55,581,920
Prepaid expenses and deposits	109,785	115,730
	<u>94,585,878</u>	<u>118,771,491</u>
Long-term investments (note 3)	8,161,392	4,399,222
Capital assets (note 4)	<u>743,178</u>	<u>731,731</u>
	<u>103,490,448</u>	<u>123,902,444</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	962,678	862,328
Grants payable	1,181,883	1,000,000
	<u>2,144,561</u>	<u>1,862,328</u>
Deferred contributions (note 5)		
Contributions for expenses of future periods	94,650,200	116,836,473
Capital contributions	743,177	731,731
Sponsored projects	3,685,971	2,205,373
	<u>99,079,348</u>	<u>119,773,577</u>
Net Assets		
Restricted for endowment purposes	<u>2,266,539</u>	<u>2,266,539</u>
	<u>103,490,448</u>	<u>123,902,444</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, 2020

	2020 \$	2019 \$
Revenue		
Contributions recognized in current year (note 5(a))	22,455,548	20,679,145
Contributions recognized in current year – sponsored projects (note 5(c))	574,886	646,692
Amortization of deferred capital contributions (note 5(b))	96,913	124,008
Other	1,123,416	1,189,873
	<u>24,250,763</u>	<u>22,639,718</u>
Expenses		
Programs and projects		
Scholar	5,153,943	6,369,991
Trainee	1,892,903	1,718,835
Health Professional Investigator	2,306,274	1,370,408
Innovation to commercialization	2,533,111	2,011,731
Health Policy Fellowship	-	40,316
Convening and collaborating	254,126	114,245
Reach	113,049	147,826
COVID-19	374,685	-
Knowledge translation	56,212	223,561
Implementation Science	635,608	99,940
Partnership	2,912,216	2,473,548
BC SUPPORT Unit	2,000,000	2,000,000
Other programs and projects	254,757	338,832
Program and project delivery	2,150,900	2,211,980
Sponsored project expenses	574,886	646,692
	<u>21,212,670</u>	<u>19,767,905</u>
Administration		
General operating	2,941,180	2,747,805
Amortization of capital assets	96,913	124,008
	<u>24,250,763</u>	<u>22,639,718</u>
Excess of revenue over expenses	<u>-</u>	<u>-</u>

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, 2020

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Contributions received		
Operations	199,098	77,000,000
Sponsored projects	33,171	400,000
Grants and awards	(18,305,001)	(17,523,761)
Program and project delivery and administration	(4,985,785)	(4,696,446)
Sponsored project expenses	(574,886)	(646,692)
Other revenue	1,111,271	883,929
Investment revenue	2,616,828	1,743,145
	<u>(19,905,304)</u>	<u>57,160,175</u>
Investing activities		
Purchase of investments	(86,274,308)	(97,515,878)
Proceeds from sale of investments	45,184,768	101,018,620
Purchase of capital assets (note 5(a))	(108,359)	(773,227)
	<u>(41,197,899)</u>	<u>2,729,515</u>
Net (decrease) increase in cash	(61,103,203)	59,889,690
Cash – Beginning of year	<u>62,366,247</u>	<u>2,476,557</u>
Cash – End of year	<u>1,263,044</u>	<u>62,366,247</u>

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

Michael Smith Foundation for Health Research

Notes to Financial Statements

March 31, 2020

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'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, 2020

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, 2020

- 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, 2020

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

	2020 \$	2019 \$
Income funds	62,716,062	27,946,876
Term deposits	21,015,835	18,394,801
Equities	8,040,755	6,783,982
Bonds	6,894,282	6,855,483
	<hr/>	<hr/>
	98,666,934	59,981,142
Short-term	<hr/>	<hr/>
	90,505,542	55,581,920
Long-term	<hr/>	<hr/>
	8,161,392	4,399,222

Investments in term deposits mature in fiscal 2021. Bonds are recorded at fair value with maturity dates ranging from fiscal 2021 to fiscal 2024. 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/>		2020	<hr/>	2019
	Cost \$	Accumulated amortization \$	Net \$		Net \$
Computer software	863,633	655,509	208,124		165,190
Computer hardware	367,289	344,467	22,822		20,439
Office furniture and equipment	231,643	68,564	163,079		204,300
Leasehold improvements	406,975	57,822	349,153		341,802
	<hr/>	<hr/>	<hr/>		<hr/>
	1,869,540	1,126,362	743,178		731,731

Michael Smith Foundation for Health Research

Notes to Financial Statements

March 31, 2020

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

	2020 \$	2019 \$
Balance – Beginning of year	116,836,473	75,799,355
Contributions received during the year:		
Grant from the Province of BC	-	60,000,000
Investment income	377,634	2,489,490
	<u>117,214,107</u>	<u>138,288,845</u>
Amounts recognized as revenue during the period	(22,455,548)	(20,679,145)
Amounts applied toward capital assets purchased during the period	<u>(108,359)</u>	<u>(773,227)</u>
Balance – End of year	<u>94,650,200</u>	<u>116,836,473</u>

b) Deferred contributions relating to capital assets

	2020 \$	2019 \$
Balance – Beginning of year	731,731	82,512
Allocation of deferred contributions	108,359	773,227
Amounts amortized to revenue	<u>(96,913)</u>	<u>(124,008)</u>
Balance – End of year	<u>743,177</u>	<u>731,731</u>

Michael Smith Foundation for Health Research

Notes to Financial Statements

March 31, 2020

c) Deferred contributions relating to sponsored projects with restricted funding

	2020			
	Balance – Beginning of the year \$	Contributions and donations received \$	Amounts recognized to revenue \$	Balance – End of year \$
BC Influenza Vaccine Program	52,423	-	-	52,423
Health Services and Policy Research Support	-	55,484	-	55,484
BC Nursing Research Initiative	12,250	-	-	12,250
COVID-19	-	2,000,000	-	2,000,000
Children and Youth with Special Needs	1,196,037	-	(384,086)	811,951
Interior Health Capacity Building	3,748	-	-	3,748
Human Papillomavirus 2	547,231	-	-	547,231
Alzheimer's Disease Research	83,634	-	-	83,634
Overdose response evaluation	310,050	-	(190,800)	119,250
	2,205,373	2,055,484	(574,886)	3,685,971
	2019			
	Balance – Beginning of the year \$	Contributions and donations received \$	Amounts recognized to revenue \$	Balance – End of year \$
BC Influenza Vaccine Program	143,017	-	(90,594)	52,423
Health Services and Policy Research Support	79,841	-	(79,841)	-
BC Nursing Research Initiative	68,950	-	(56,700)	12,250
Healthy Minds, Healthy People	78,473	-	(78,473)	-
Children and Youth with Special Needs	1,205,671	-	(9,634)	1,196,037
Interior Health Capacity Building	3,748	-	-	3,748
Human Papillomavirus 2	788,731	-	(241,500)	547,231
Alzheimer's Disease Research	83,633	-	-	83,633
Overdose response evaluation	250,000	150,000	(89,950)	310,050
	2,702,064	150,000	(646,692)	2,205,372

Michael Smith Foundation for Health Research

Notes to Financial Statements

March 31, 2020

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 \$
	2021 \$	2022 and thereafter \$	
Grant program or project			
Career	1,760,000	30,000	1,790,000
Trainee	1,103,605	17,292	1,120,897
Health Professional Investigator	829,824		829,824
Innovation to Commercialization	1,330,650		1,330,650
Implementation of Science Team	161,660		161,660
Convening & Collaborating	15,000		15,000
BC SUPPORT Unit (i)	2,000,000		2,000,000
Other	241,309	9,688	250,997
	<u>7,442,048</u>	<u>56,980</u>	<u>7,499,028</u>

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, 2020

c) Office space and equipment lease commitments

The Foundation rents office space under a long-term lease that expires October 31, 2028 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,	\$
2021	483,866
2022	501,151
2023	507,899
2024	523,150
2025	539,639
2026 and beyond	<u>2,029,005</u>
	<u>4,584,710</u>

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, 2020

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, 2018 indicated a \$2.8 billion funding surplus for basic pension benefits.

The Foundation paid \$232,078 for employer contributions to the plan during the year ended March 31, 2020 (2019 – \$236,408).

Michael Smith Foundation for Health Research

Notes to Financial Statements

March 31, 2020

9 Remuneration

- a) Remuneration of directors

Remuneration paid to elected directors during the year ended March 31, 2020 was \$nil (2019 – \$nil).

- b) Top ten employee compensation

The top ten employees and contractors received compensation in excess of \$75,000 per individual for the year ended March 31, 2020. Their combined compensation for the year ended March 31, 2020 was \$1,277,741 (2019 – \$1,257,575).

10 Comparative figures

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

11 COVID-19

In March 2020, the World Health Organization declared a global pandemic related to the coronavirus known as COVID-19 for which the impacts are expected to be far reaching. The Government of BC is continuing to respond to COVID-19 by funding research to handle the crisis. The Foundation does not anticipate any potential material impact to the Foundation in the near future.