

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Financial Statements**

**March 31, 2019**

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Index to Financial Statements**

**Year Ended March 31, 2019**

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## INDEPENDENT AUDITOR'S REPORT

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To the Members of Arthritis Research Centre Society of Canada / Arthrite-Recherche Canada

*Report on the Financial Statements*

*Opinion*

We have audited the financial statements of Arthritis Research Centre Society of Canada / Arthrite-Recherche Canada (the Society), which comprise the statement of financial position as at March 31, 2019, and the statements of changes in fund balances, operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at March 31, 2019, 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.

*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 are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Report on Other Legal and Regulatory Requirements*

As required by the Societies Act of British Columbia, we report that, in our opinion, these standards have been applied on a basis consistent with that of the preceding year.

*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 Society's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society'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 Society'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 Society'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 Society 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.

Burnaby, British Columbia  
June 25, 2019

  
Chartered Professional Accountants

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA**

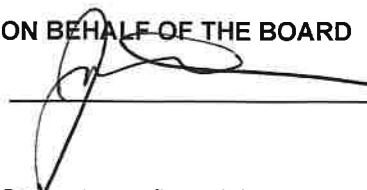
**Statement of Financial Position**

**March 31, 2019**

|   | Operating Fund       | Research Fund       | 2019                 | 2018                 |
|---|----------------------|---------------------|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                     |                      |                      |
| <b>CURRENT</b>  |                      |                     |                      |                      |
| Cash and cash equivalents                             | \$ 607,642           | \$ 631,977          | \$ 1,239,619         | \$ 2,310,143         |
| Accounts receivable                                   | 2,000,000            | 513,545             | 2,513,545            | 68,024               |
| Recoverable from government authorities - GST         | 26,477               | -                   | 26,477               | 27,412               |
| Prepaid expenses                                      | 37,548               | 26,743              | 64,291               | 32,176               |
|   | 2,671,667            | 1,172,265           | 3,843,932            | 2,437,755            |
| PREPAID EXPENSES                                      | -                    | 26,743              | 26,743               | -                    |
| INVESTMENTS (Note 3)                                  | 9,081,852            | 4,667,693           | 13,749,545           | 12,745,853           |
| CAPITAL ASSETS (Note 4)                               | 22,501               | -                   | 22,501               | 24,143               |
|   | <b>\$ 11,776,020</b> | <b>\$ 5,866,701</b> | <b>\$ 17,642,721</b> | <b>\$ 15,207,751</b> |
| <b>LIABILITIES AND FUND BALANCES</b>                  |                      |                     |                      |                      |
| <b>CURRENT</b>  |                      |                     |                      |                      |
| Accounts payable and accrued liabilities              | \$ 105,021           | \$ 110,935          | \$ 215,956           | \$ 88,766            |
| Payable to government authorities - source deductions | 2,218                | 9,528               | 11,746               | 10,683               |
| Current portion of deferred revenue (Note 5)          | 1,412,339            | -                   | 1,412,339            | 889,733              |
|   | 1,519,578            | 120,463             | 1,640,041            | 989,182              |
| DEFERRED REVENUE (Note 5)                             | 1,333,333            | 5,231,503           | 6,564,836            | 5,582,236            |
|   | 2,852,911            | 5,351,966           | 8,204,877            | 6,571,418            |
| <b>FUND BALANCES - page 4</b>                         |                      |                     |                      |                      |
| Unrestricted  | 8,923,109            | -                   | 8,923,109            | 8,121,598            |
| Internally restricted                                 | -                    | 514,735             | 514,735              | 514,735              |
|   | 8,923,109            | 514,735             | 9,437,844            | 8,636,333            |
|   | <b>\$ 11,776,020</b> | <b>\$ 5,866,701</b> | <b>\$ 17,642,721</b> | <b>\$ 15,207,751</b> |

LEASE COMMITMENT (Note 6)

**ON BEHALF OF THE BOARD**



Director



Director

See notes to financial statements

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Statement of Changes in Fund Balances**

**Year Ended March 31, 2019**

|   | Operating<br>Fund | Research<br>Fund | 2019         | 2018         |
|---|-------------------|------------------|--------------|--------------|
| <b>FUND BALANCES - BEGINNING OF<br/>YEAR</b>    | \$ 8,121,598      | \$ 514,735       | \$ 8,636,333 | \$ 7,668,939 |
| Excess of revenue over expenses -<br>page 5     | 663,711           | 137,800          | 801,511      | 967,394      |
| Interfund transfer (Note 7)                     | 137,800           | (137,800)        | -            | -            |
| <b>FUND BALANCES - END OF YEAR -<br/>page 3</b> | \$ 8,923,109      | \$ 514,735       | \$ 9,437,844 | \$ 8,636,333 |

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Statement of Operations**

**Year Ended March 31, 2019**

|   | Operating<br>Fund | Research<br>Fund  | 2019              | 2018              |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>REVENUE</b>                                      |                   |                   |                   |                   |
| Research grants                                     | \$ -              | \$ 2,672,710      | \$ 2,672,710      | \$ 2,350,031      |
| Donations   | 781,586           | -                 | 781,586           | 642,943           |
| Operating grants                                    | 666,667           | -                 | 666,667           | 1,032,522         |
| Investment revenue (Note 9)                         | 343,858           | -                 | 343,858           | 540,505           |
| Fundraising   | 207,870           | -                 | 207,870           | 193,935           |
| Other revenue                                       | 6,147             | -                 | 6,147             | 7,192             |
| Foreign exchange gains<br>(losses)                  | -                 | (7,001)           | (7,001)           | 17,804            |
| Unrealized losses on<br>investments                 | (156,137)         | -                 | (156,137)         | (368,975)         |
|   | <u>1,849,991</u>  | <u>2,665,709</u>  | <u>4,515,700</u>  | <u>4,415,957</u>  |
| <b>EXPENSES</b>                                     |                   |                   |                   |                   |
| Research (Note 8)                                   |                   |                   |                   |                   |
| Salaries and contract fees                          | -                 | 1,841,792         | 1,841,792         | 1,556,486         |
| Direct project costs                                | -                 | 686,117           | 686,117           | 833,605           |
| Fundraising (Note 8)                                |                   |                   |                   |                   |
| Salaries and contract fees                          | 231,173           | -                 | 231,173           | 220,829           |
| Direct costs  | 223,980           | -                 | 223,980           | 196,950           |
| Administrative salaries                             | 247,792           | -                 | 247,792           | 264,916           |
| Premises  | 216,099           | -                 | 216,099           | 195,300           |
| Operations  | 206,571           | -                 | 206,571           | 163,819           |
| Investment management fees                          | 48,816            | -                 | 48,816            | -                 |
| Amortization  | 11,849            | -                 | 11,849            | 16,658            |
|   | <u>1,186,280</u>  | <u>2,527,909</u>  | <u>3,714,189</u>  | <u>3,448,563</u>  |
| <b>EXCESS OF REVENUE OVER<br/>EXPENSES - page 4</b> | <u>\$ 663,711</u> | <u>\$ 137,800</u> | <u>\$ 801,511</u> | <u>\$ 967,394</u> |

See notes to financial statements

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Statement of Cash Flows**

**Year Ended March 31, 2019**

|  | 2019                | 2018                |
|--|---------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>                            |                     |                     |
| Excess of revenue over expenses - page 5               | \$ 801,511          | \$ 967,394          |
| Items not affecting cash:                              |                     |                     |
| Amortization   | 11,849              | 16,658              |
| Unrealized (gains) losses on investments               | 156,137             | 368,975             |
|  | <u>969,497</u>      | <u>1,353,027</u>    |
| Changes in non-cash working capital:                   |                     |                     |
| Accounts receivable                                    | (2,445,521)         | 101,317             |
| Recoverable from government authorities - GST          | 935                 | (5,426)             |
| Prepaid expenses                                       | (58,858)            | (20,842)            |
| Accounts payable and accrued liabilities               | 127,190             | (109,048)           |
| Payable to government authorities - payroll deductions | 1,064               | 1,013               |
| Deferred revenue                                       | 1,505,206           | 1,428,793           |
|  | <u>(869,984)</u>    | <u>1,395,807</u>    |
| Cash flow from operating activities                    | <u>99,513</u>       | <u>2,748,834</u>    |
| <b>INVESTING ACTIVITY</b>                              |                     |                     |
| Increase in investments                                | <u>(1,159,830)</u>  | <u>(9,058,645)</u>  |
| Cash flow used by investing activity                   | <u>(1,159,830)</u>  | <u>(9,058,645)</u>  |
| <b>FINANCING ACTIVITIES</b>                            |                     |                     |
| Purchase of capital assets                             | (10,207)            | -                   |
| Decrease in deferred capital contribution              | -                   | (1,333)             |
| Cash flow used by financing activities                 | <u>(10,207)</u>     | <u>(1,333)</u>      |
| <b>DECREASE IN CASH FLOW</b>                           | <b>(1,070,524)</b>  | <b>(6,311,144)</b>  |
| Cash and cash equivalents - beginning of year          | <u>2,310,143</u>    | <u>8,621,287</u>    |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>         | <b>\$ 1,239,619</b> | <b>\$ 2,310,143</b> |
| <b>CASH AND CASH EQUIVALENTS CONSIST OF:</b>           |                     |                     |
| Cash - unrestricted                                    | \$ 381,849          | \$ 736,611          |
| High interest savings mutual fund units - unrestricted | 225,793             | 994,759             |
| High interest savings mutual fund units - restricted   | 631,977             | 578,773             |
|  | <u>\$ 1,239,619</u> | <u>\$ 2,310,143</u> |

See notes to financial statements



**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Notes to Financial Statements**

**Year Ended March 31, 2019**

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1. PURPOSE OF THE SOCIETY

The purpose of the Arthritis Research Centre Society of Canada / Arthrite-Recherche Canada (the "Society") is to create and provide a leading research environment responsible for advancing knowledge of the needs of people affected by arthritis and to publicly share knowledge related to the fields of arthritis, musculoskeletal and immune-related disorders.

The Society is incorporated under the Societies Act of British Columbia. As a registered charity under the Income Tax Act, the Society is exempt from income taxes.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

Fund accounting

The Society follows the deferral method of accounting for contributions.

The Operating Fund accounts for the Society's program delivery and administrative activities. This fund reports all unrestricted resources and externally restricted operating grants.

The Research Fund reports the internally and externally restricted assets, liabilities, revenue, and expenses related to research activities and projects. At the end of each fiscal year, any excess of revenue over expenses attributable to the overhead and indirect grant amounts is transferred to the Operating Fund for administrative expenses incurred for research programs. Conversely, the Operating Fund transfers an amount equal to any deficiency in the Research Fund caused by administrative costs. The internally restricted portion of the Research Fund consists of project reserves set aside for research projects and purposes.

The Endowment Fund reports externally restricted resources contributed for endowment. Investment revenue earned on these resources is to be used for general operations and as such is reported in the Operating Fund. There was no opening balance, activity or closing balance in the Endowment Fund.

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**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Notes to Financial Statements**

**Year Ended March 31, 2019**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Externally restricted contributions, including grants, related to general operations are recognized as revenue in the Operating Fund in the year in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributor. All other externally restricted contributions are recognized as revenue of the appropriate restricted fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions and fundraising are recognized as revenue of the Operating Fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Endowment contributions are recognized as direct increases in the Endowment Fund.

Unrestricted investment revenue is recognized as revenue of the Operating Fund when earned on an accrual basis.

Cash and cash equivalents

The Society classifies its investment instruments as cash equivalents if the investment is cashable and has a maturity term of 3 months or less. In addition, fixed income securities matching these characteristics are classified as cash equivalents only if they are intended to be held temporarily before use in operating activities.

Investments

Investments consist of fixed income securities, including bonds, guaranteed investment certificates and bankers acceptances that have maturity dates of more than three months, as well as common shares of public corporations, preferred shares of public corporations, mutual funds and other foreign securities. These investments have been classified as long term assets as they will be held and reinvested to satisfy future obligations of the Society that might exceed cash from operating grants and unrestricted donations, as well as be used on long term research project outlays. The value of the investments includes unrealized gains and losses arising from changes in the market values with such changes reflected on the Statement of Operations separately from realized gains and losses on the disposal of investments. The fixed income securities have various maturity dates and interest rates. Accrued interest is included in the fixed income security balance. See *Note 3* for additional details.

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**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Notes to Financial Statements**

**Year Ended March 31, 2019**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capital assets

In accordance with Handbook Section 4433 Tangible Capital Assets Held by Not-for-Profit Organizations, the Society has changed its accounting policy with respects to capital assets, specifically adopting componentization whereby significant, separable component parts are allocated when practicable. Due to the nature and composition of the Society's capital assets, no adjustments were required to the current or prior years' figures.

Capital assets are stated at cost less accumulated amortization. Amortization is provided at various rates on a straight-line basis designed to amortize the asset over its estimated useful life. The amortization rates are as follows:

|                        |         |
|------------------------|---------|
| Computer hardware      | 5 years |
| Computer software      | 3 years |
| Furniture and fixtures | 5 years |
| Leasehold improvements | 8 years |

The Society amortizes capital assets acquired during the year at one-half the rate above.

Contributed services and gifts-in-kind

Volunteers assist the Society in carrying out its operations. Due to the difficulty in determining their fair value, contributed services are not recognized in the financial statements. Gifts-in-kind are only recognized when their fair value is reasonably determinable and significant, with such items recorded at fair value on the date of the contribution. Any gifts-in-kind contributed for use at auction are not recognized as revenue. Instead, the subsequent cash proceeds raised from their disposal at auction are recorded as fundraising revenue. During the year, the Society received non-auction gifts-in-kind of NIL\$ (2018 - NIL\$).

Foreign currency translation

All monetary assets and liabilities of operations denominated in currencies other than Canadian dollars have been translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the rate of exchange in effect at the statement of financial position date. Gains and losses resulting from the translation of assets and liabilities are reflected in excess of revenue over expenses for the year.

Revenue and expense transactions are translated using the prior day's noon rate of exchange at the time of the transaction.

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**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Notes to Financial Statements**

**Year Ended March 31, 2019**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Allocation of expenses

The Society classifies its expenses by function, including its research, fundraising and operations expenses. For these expenses, the Society identifies the appropriate basis of allocating each component expense and applies that basis consistently each year.

Research expense is made up of researcher salaries and benefits, research support salaries, honorariums, equipment purchases, research fees, travel, meetings, purchased services, communications, and general office expenses. The expenses are allocated proportionately on the following basis:

Researcher salaries and benefits – by direct allocation of science staff time.

Research support salaries – by timesheet allocation as designated by staff.

All other above-mentioned expenses – by project coding as designated by science and administrative staff, including subsequent recording by management where appropriate.

Fundraising expense is made up of administrative salaries, travel, meetings, purchased services, communications, equipment purchases, special events, and general office expenses. The expenses are allocated proportionately on the following basis:

Administrative salaries – by timesheet allocation as designated by staff.

All other above-mentioned expenses – by project coding as designated by administrative staff, including subsequent recording by management where appropriate.

Except for researcher salaries and wages, the operations expense includes the non-allocated portion of all the above expenses. Operations expense also includes non-allocated expenses such as professional fees, consulting and printed materials.

See *Note 8* for the research and fundraising expense allocation amounts for the year.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Material uncertainties involving management estimates include the determination of the administrative expense allocation to research expense.

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**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITIS-RECHERCHE  
CANADA**

**Notes to Financial Statements**

**Year Ended March 31, 2019**

**3. INVESTMENTS**

|                          | <u>2019</u>          | <u>2018</u>          |
|--------------------------|----------------------|----------------------|
| Fixed income securities  | \$ 8,499,079         | \$ 8,613,324         |
| Common shares            | 3,217,026            | 2,549,812            |
| Preferred shares         | 931,410              | 534,990              |
| Other foreign securities | 859,303              | 791,794              |
| Mutual funds             | 242,727              | 255,933              |
|                          | <u>\$ 13,749,545</u> | <u>\$ 12,745,853</u> |

The Society's investment policy is to invest in a wide range of securities with a large portion of that in fixed income securities to minimize risk of loss while earning a reasonable rate of return. This policy is accomplished by utilizing the services of an investment portfolio manager and holding a diversified portfolio that includes both Canadian and foreign securities as well as holding some of that portfolio in USD currency. The unrealized gains (losses) included in the above balances are (\$166,433) (2018 - \$4,357).

The investments do not include \$857,770 (2018 - \$1,573,532) held in high interest savings accounts maintained through a mutual fund. These amounts have the same properties and characteristics of cash and so have been classified as cash equivalents.

**4. CAPITAL ASSETS**

|                        | <u>Cost</u>       | <u>Accumulated<br/>amortization</u> | <u>2019<br/>Net book<br/>value</u> | <u>2018<br/>Net book<br/>value</u> |
|------------------------|-------------------|-------------------------------------|------------------------------------|------------------------------------|
| Computer hardware      | \$ 43,761         | \$ 34,669                           | \$ 9,092                           | \$ 13,673                          |
| Computer software      | 16,524            | 16,524                              | -                                  | -                                  |
| Furniture and fixtures | 172,826           | 163,094                             | 9,732                              | 3,116                              |
| Leasehold improvements | 29,418            | 25,741                              | 3,677                              | 7,354                              |
|                        | <u>\$ 262,529</u> | <u>\$ 240,028</u>                   | <u>\$ 22,501</u>                   | <u>\$ 24,143</u>                   |

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA**

**Notes to Financial Statements**

**Year Ended March 31, 2019**

**5. DEFERRED REVENUE**

The Society receives funds that have been externally restricted for specific projects or purposes.

|   | Opening<br>Balance  | Additions &<br>Current Portion<br>Allocations | Recognized as<br>Revenue | 2019                |
|---|---------------------|---|--------------------------|---------------------|
| <u>Current portion deferred revenue</u>           |                     |   |                          |                     |
| Province of B.C. Ministry of<br>Health grants (i) | \$ 666,667          | \$ 1,333,322                                  | \$ 666,667               | \$ 1,333,322        |
| Soiree contributions                              | 111,560             | 66,168  | 111,560                  | 66,168              |
| Other grants                                      | 29,708              | 5,640   | 22,499                   | 12,849              |
| Pfizer innovation grant                           | 81,798              | -   | 81,798                   | -                   |
|   | 889,733             | 1,405,130                                     | 882,524                  | 1,412,339           |
| <u>Long term portion deferred revenue</u>         |                     |   |                          |                     |
| Research grants                                   | 4,573,210           | 2,357,501                                     | 1,987,315                | 4,943,396           |
| Province of B.C. Ministry of<br>Health grants (i) | 666,656             | 666,677                                       | -                        | 1,333,333           |
| Doctors designations (ii)                         | 342,370             | 55,939  | 110,202                  | 288,107             |
|   | 5,582,236           | 3,080,117                                     | 2,097,517                | 6,564,836           |
|   | <b>\$ 6,471,969</b> | <b>\$ 4,485,247</b>                           | <b>\$ 2,980,041</b>      | <b>\$ 7,977,175</b> |

(i) The Province of B.C. Ministry of Health (the "Ministry") grants are restricted for use to cover operating costs associated with accelerating research with respects to improving the health of people with arthritis, electronic access to patient databases and similar programs. There are two grants - the completion date of the first grant is March 31, 2020, and the completion date of the second grant is March 31, 2022, with any unspent amounts subject to possible repayment at the discretion of the Ministry. Several other general operating terms apply such as the requirement to raise additional funds and providing satisfactory evidence of project work that, if not met, could result in possible total or partial repayment of the grant funds.

Included in accounts receivable is the second grant of \$2,000,000 that came due and payable to the Society upon signing of the agreement on March 27, 2019.

(ii) The Doctors designations balance of deferred revenue consists of amounts held on behalf of the Society's researchers for use on their research projects. The Society holds and administers these amounts while the researchers control and direct their use.

**6. LEASE COMMITMENT**

The Society has a lease with respect to its premises. The operating lease for the premises is \$10 per annum plus the pro rata share of the cost of common areas and real property taxes under a lease term expiring August 31, 2019. There is a landlord's right to terminate clause in which the landlord can terminate the lease with twelve months notice.

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Notes to Financial Statements**

**Year Ended March 31, 2019**

**7. INTERFUND TRANSFER**

During the year, the following interfund transfer occurred:

\$137,800 was transferred from the Research Fund to the Operating Fund to cover administrative costs incurred in the Operating Fund that relate to research activities.

**8. ALLOCATION OF EXPENSES**

Research expenses of \$2,527,909 (2018 - \$2,390,091) have been allocated as follows:

|                                       | <u>2019</u>         | <u>2018</u>         |
|---------------------------------------|---------------------|---------------------|
| <u>Research expenses</u>              |                     |                     |
| Researcher salaries and contract fees | \$ 1,687,010        | \$ 1,407,598        |
| Research fees                         | 334,633             | 551,723             |
| Research support salaries and fees    | 154,782             | 148,888             |
| Purchased services                    | 112,589             | 77,598              |
| Travel                                | 107,210             | 85,228              |
| Meetings                              | 39,447              | 53,473              |
| Equipment purchases                   | 27,883              | 20,499              |
| General office                        | 27,118              | 26,374              |
| Communications                        | 21,556              | 11,535              |
| Honorariums                           | 15,681              | 7,175               |
|                                       | <u>\$ 2,527,909</u> | <u>\$ 2,390,091</u> |

Fundraising expenses of \$455,153 (2018 - \$417,779) have been allocated as follows:

|   |                     |                     |
|---|---------------------|---------------------|
| <u>Fundraising expenses</u>               |                     |                     |
| Administrative salaries and contract fees | \$ 231,173          | \$ 220,829          |
| Purchased services                        | 103,245             | 99,558              |
| Special events                            | 77,170              | 57,623              |
| General office                            | 17,917              | 16,827              |
| Communications                            | 17,764              | 18,206              |
| Equipment purchases                       | 4,925               | 2,041               |
| Travel                                    | 1,925               | 1,470               |
| Meetings                                  | 1,034               | 1,225               |
|   | <u>\$ 455,153</u>   | <u>\$ 417,779</u>   |
| Total allocation of expenses              | <u>\$ 2,983,062</u> | <u>\$ 2,807,870</u> |

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Notes to Financial Statements**

**Year Ended March 31, 2019**

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9. INVESTMENT REVENUE

|  | 2019              | 2018              |
|--|-------------------|-------------------|
| Dividends                              | \$ 169,299        | \$ 61,393         |
| Interest income                        | 136,707           | 99,693            |
| Foreign investment revenue             | 65,059            | 13,965            |
| Realized gains (losses) on investments | (27,207)          | 365,454           |
|  | <u>\$ 343,858</u> | <u>\$ 540,505</u> |

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10. FINANCIAL INSTRUMENTS

All financial instruments are initially recorded at their fair market value. Publicly traded equity instruments quoted in an active market are subsequently measured at fair value with any unrealized gains or losses and transaction costs recognized in net excess of revenue over expenses. All other financial instruments are adjusted for any transaction costs incurred on acquisition and are subsequently measured at their amortized cost. Financial instrument impairments and impairment reversals are recognized when incurred in net excess of revenue over expenses.

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Society is exposed to credit risk for its accounts receivable, cash, and cash equivalents and investments. The Society does not directly hold any collateral as security for its receivables. Exposures to credit risk and significant changes to the risk exposure from the prior year are as follows:

- Accounts receivable are non-interest bearing and are generally due within 30 to 60 days of the invoice date. Management evaluates the credit worthiness of its project partners and periodically reviews accounts receivable for possible impairments related to collection. The project partner base for the accounts receivable is similar in size and diversity to the prior year.
- Cash is held through one financial institution and is guaranteed to a limited degree by government insurance provisions that cover deposits.
- Cash equivalents and investments consist of a wide range of securities issued by large corporations and are held through one investment broker. The diversity of the Society's portfolio is similar to the prior year.

Concentrations of credit risk include:

- Cash is held through one financial institution and the aggregate deposits exceed the Canadian Deposit Insurance Corporation's threshold of up to \$100,000 per financial institution. Therefore any financial difficulties encountered by that financial institution could adversely affect the collectability and valuation of the deposits.

*(continues)*

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**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE  
CANADA**

**Notes to Financial Statements**

**Year Ended March 31, 2019**

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10. FINANCIAL INSTRUMENTS *(continued)*

- All the cash equivalents and investments are held and managed by one investment broker and the total amount invested exceeds the Canadian Investor Protection Fund's threshold of up to \$1,000,000. Therefore, any financial difficulties encountered by the broker or unfavourable investment decisions could adversely affect the collectability and valuation of the investments.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Society is exposed to interest rate risk for its investments. Exposures to interest rate risk and significant changes to the risk exposure from the prior year are as follows:

- The majority of investments consists of fixed income securities issued by large corporations, which are tied to set interest rates, minimizing the risk of significant reductions to interest income.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Society is exposed to market risk for its investments as the fair value can be significantly affected by price and valuation changes in the open market. Most of the investments are actively managed by a professional portfolio manager using a diverse portfolio that includes both Canadian and US equities, which serves to reduce the overall market risk.

Currency Risk

Currency risk is the risk that the Society's fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates due to volatility caused by external factors. The Society is exposed to currency risk and its effect on the exchange gain or loss for the year on cash held in U.S. dollar bank accounts, foreign investments, and accounts receivable denominated in foreign currency.

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11. CREDIT FACILITIES

The Society has credit facilities available related to its credit cards. The Society's American Express credit cards have a cumulative limit of \$145,000 and bear interest at prime + 25.99% per annum. The Society's CIBC Visa credit cards have a cumulative limit of \$20,000 and bear interest at 19.99% per annum.

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12. REMUNERATION DISCLOSURE

In accordance with the Societies Act of British Columbia, the Society is required to disclose that the four highest paid individuals and persons under a contract for services that each exceeded \$75,000 of annual remuneration were paid a total sum of \$464,313.

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