

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

Financial Statements

March 31, 2017

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

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March 31, 2017

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Arthritis Research Centre Society of Canada / Arthrite-Recherche Canada, which comprise the statement of financial position as at March 31, 2017 and the statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(continues)

Independent Auditor's Report to the Members of Arthritis Research Centre Society of Canada / Arthrite-Recherche Canada (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Arthritis Research Centre Society of Canada / Arthrite-Recherche Canada as at March 31, 2017 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.

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.

Burnaby, British Columbia
June 29, 2017


Chartered Professional Accountants

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITIS-RECHERCHE
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Statement of Financial Position

March 31, 2017

	2017	2016
ASSETS		
CURRENT		
Cash	\$ 2,014,720	\$ 2,419,072
Restricted cash	452,373	956,091
Accounts receivable	169,341	110,526
Recoverable from government authorities - GST	21,986	20,500
Prepaid expenses	11,334	11,023
	<u>2,669,754</u>	<u>3,517,212</u>
RESTRICTED CASH	6,154,194	5,461,427
RESTRICTED INVESTMENTS (Note 4)	4,056,184	4,295,908
CAPITAL ASSETS (Note 5)	<u>40,802</u>	<u>48,548</u>
	<u>\$ 12,920,934</u>	<u>\$ 13,323,095</u>
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable and accrued liabilities	\$ 167,007	\$ 163,384
Payable to government authorities - payroll deductions	9,669	28,085
Current portion of deferred revenue (Note 6)	452,373	956,091
	<u>629,049</u>	<u>1,147,560</u>
DEFERRED CAPITAL CONTRIBUTION (Note 7)	1,333	3,998
DEFERRED REVENUE (Note 6)	<u>4,590,804</u>	<u>5,138,412</u>
	<u>5,221,186</u>	<u>6,289,970</u>
NET ASSETS - page 4		
Unrestricted	2,040,705	2,369,652
Internally restricted (Note 8)	<u>5,659,043</u>	<u>4,663,473</u>
	<u>7,699,748</u>	<u>7,033,125</u>
	<u>\$ 12,920,934</u>	<u>\$ 13,323,095</u>

LEASE COMMITMENTS (Note 9)

ON BEHALF OF THE BOARD



Director

Director

See notes to financial statements

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Statement of Changes in Net Assets

Year Ended March 31, 2017

	Unrestricted	Internally Restricted	2017	2016
NET ASSETS - BEGINNING OF YEAR	\$ 2,369,652	\$ 4,663,473	\$ 7,033,125	\$ 5,472,986
Excess (deficiency) of revenue over expenses - page 5	688,134	(21,511)	666,623	1,560,139
Net asset transfers (<i>Note 10</i>)	(1,017,081)	1,017,081	-	-
NET ASSETS - END OF YEAR - page 3	\$ 2,040,705	\$ 5,659,043	\$ 7,699,748	\$ 7,033,125

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Statement of Operations

Year Ended March 31, 2017

	2017	2016
REVENUE		
Research grants	\$ 2,295,866	\$ 2,602,604
Operating grant	878,052	878,052
Donations	503,582	1,362,392
Unrealized gain (loss) on investments	216,974	(81,325)
Investment income	141,271	140,501
Fundraising	124,845	110,335
Gaming grants	-	40,000
Foreign exchange gain (loss)	(465)	5,461
	<u>4,160,125</u>	<u>5,058,020</u>
EXPENSES		
Research (Note 11)		
Salaries and benefits	1,406,301	1,328,235
Direct project costs	955,274	1,144,055
Administrative salaries and benefits	347,829	321,457
Fundraising (Note 11)		
Salaries and benefits	241,361	211,082
Direct costs	182,239	168,809
Premises	190,275	197,993
Operations	148,712	105,296
Amortization	21,511	25,667
Clinical trials bad debts recovery	-	(4,713)
	<u>3,493,502</u>	<u>3,497,881</u>
EXCESS OF REVENUE OVER EXPENSES - page 4, 6	<u>\$ 666,623</u>	<u>\$ 1,560,139</u>

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Statement of Cash Flows

Year Ended March 31, 2017

	2017	2016
OPERATING ACTIVITIES		
Excess of revenue over expenses - page 5	\$ 666,623	\$ 1,560,139
Items not affecting cash:		
Amortization	21,511	25,667
Unrealized loss (gain) on investments	<u>(216,974)</u>	<u>81,325</u>
	<u>471,160</u>	<u>1,667,131</u>
Changes in non-cash working capital:		
Accounts receivable	(58,815)	838,676
Recoverable from government authorities - GST	(1,486)	5,974
Prepaid expenses	(311)	(2,968)
Accounts payable and accrued liabilities	3,623	(19,516)
Payable to government authorities - payroll deductions	(18,416)	9,754
Deferred revenue	<u>(1,051,326)</u>	<u>(1,068,599)</u>
	<u>(1,126,731)</u>	<u>(236,679)</u>
Cash flow from (used by) operating activities	<u>(655,571)</u>	<u>1,430,452</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(13,765)	(2,727)
Decrease (increase) in investments	<u>456,698</u>	<u>(392,025)</u>
Cash flow from (used by) investing activities	<u>442,933</u>	<u>(394,752)</u>
FINANCING ACTIVITY		
Decrease in deferred capital contribution	<u>(2,665)</u>	<u>(2,665)</u>
INCREASE (DECREASE) IN CASH FLOW	(215,303)	1,033,035
Cash - beginning of year	<u>8,836,590</u>	<u>7,803,555</u>
CASH - END OF YEAR	\$ 8,621,287	\$ 8,836,590
CASH CONSISTS OF:		
Unrestricted cash	\$ 2,014,720	\$ 2,419,072
Restricted cash - current	452,373	956,091
Restricted cash - long term	<u>6,154,194</u>	<u>5,461,427</u>
	<u>\$ 8,621,287</u>	<u>\$ 8,836,590</u>

See notes to financial statements

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
CANADA

Notes to Financial Statements

Year Ended March 31, 2017

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 not-for-profit organization and is a registered charity under the *Income Tax Act* and as such is exempt from taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements were prepared by management in accordance with Canadian accounting standards for not-for-profit organizations.

Revenue Recognition

The Society follows the deferral method of accounting for contributions.

Externally restricted contributions and grants are recognized as revenue in the year in which the related expenses are incurred. Grants are only recorded as receivable when the amounts are measurable as determined by the grantor or project investigators. Externally restricted amounts can only be used for purposes designated by the contributor.

Contributions externally restricted for the purchase of capital assets are deferred and amortized into revenue on the same basis as the related capital assets' amortization. Endowment contributions are recognized as direct increases in net assets.

Unrestricted contributions, which includes fundraising revenue, are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted investment revenue is recognized as revenue when earned using the accrual method of accounting. Investment revenue subject to external restrictions is deferred until spent in accordance with the donor's original restrictions.

Investments

Investments consist of guaranteed investment certificates (GIC's) and the related accrued interest, and equity shares. These investments have been classified as current assets as they are capable of prompt liquidation, except for the portion that has been allocated to satisfy internal restrictions set by the board of directors. The GIC's have maturity dates up to July 26, 2017 and interest rates between 0.50% and 0.60%.

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Notes to Financial Statements

Year Ended March 31, 2017

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

Capital Assets

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

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

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\$ (2016 - 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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Notes to Financial Statements

Year Ended March 31, 2017

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, administrative salaries, honorariums, equipment purchases, research fees, travel, meetings, purchased services, communications, special events, and general office expenses. The expenses are allocated proportionately on the following basis:

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

Administrative 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, honorariums, travel, meetings, purchased services, communications, 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 11* for the research and fundraising expense allocation amounts for the year.

3. RESTRICTED ASSETS

The restricted assets are allocated as follows:

	<u>2017</u>	<u>2016</u>
Restricted cash - current deferred revenue	\$ 452,373	\$ 956,091
Restricted cash - long term deferred revenue	\$ 4,590,804	\$ 5,138,412
Restricted cash - contingency fund	1,043,816	-
Restricted cash - project reserves	519,574	323,015
	<u>6,154,194</u>	<u>5,461,427</u>
Restricted investments - contingency fund	\$ 4,056,184	\$ 4,100,000
Restricted investments - project reserves	-	195,908
	<u>4,056,184</u>	<u>4,295,908</u>
	<u>\$ 10,662,751</u>	<u>\$ 10,713,426</u>

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Notes to Financial Statements

Year Ended March 31, 2017

4. INVESTMENTS

	<u>2017</u>	<u>2016</u>
Guaranteed investment certificates and accrued interest	\$ 2,613,923	\$ 3,066,168
Equity shares	1,076,762	1,081,215
Unrealized gain on equity shares	365,499	148,525
	<u>\$ 4,056,184</u>	<u>\$ 4,295,908</u>

Categorized as:

Long term investments - internally restricted	<u>\$ 4,056,184</u>	<u>\$ 4,295,908</u>
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The Society's investment policy is to invest conservatively in high-grade securities to minimize risk of loss while earning a reasonable rate of return. This policy is accomplished by utilizing the services of an investment broker and holding a diversified portfolio.

5. CAPITAL ASSETS

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Computer hardware	\$ 43,761	\$ 26,142	\$ 17,619	\$ 5,230
Computer software	16,524	16,524	-	958
Furniture and fixtures	162,619	150,468	12,151	27,651
Leasehold improvements	29,418	18,386	11,032	14,709
	<u>\$ 252,322</u>	<u>\$ 211,520</u>	<u>\$ 40,802</u>	<u>\$ 48,548</u>

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Notes to Financial Statements
Year Ended March 31, 2017

6. DEFERRED REVENUE

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

	Opening Balance	Additions & Current Portion Allocations	Recognized as Revenue	Ending Balance
<u>Current portion deferred revenue</u>				
Province of B.C. Ministry of Health grant (i)	\$ 878,052	\$ 365,844	\$ 878,052	\$ 365,844
Soiree contributions	74,205	80,695	74,205	80,695
Other grants	3,834	2,000	-	5,834
	<u>956,091</u>	<u>448,539</u>	<u>952,257</u>	<u>452,373</u>
<u>Long term portion deferred revenue</u>				
Research grants	4,522,078	1,847,812	2,031,973	4,337,917
Doctors designations (ii)	250,490	56,671	54,274	252,887
Province of B.C. Ministry of Health grant (i)	365,844	(365,844)	-	-
	<u>5,138,412</u>	<u>1,538,639</u>	<u>2,086,247</u>	<u>4,590,804</u>
	<u>\$ 6,094,503</u>	<u>\$ 1,987,178</u>	<u>\$ 3,038,504</u>	<u>\$ 5,043,177</u>

(i) The Province of B.C. Ministry of Health (the "Ministry") grant is restricted for use to cover operating costs associated with accelerating research with respects to work disability prevention, pain management and health care cost reduction. The completion date of the grant is August 31, 2017 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.

(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.

7. DEFERRED CAPITAL CONTRIBUTION

The deferred contribution consists of amounts received from a donor that were designated for the purchase of a specialized freezer and monitor. The donation revenue of \$13,326 is being deferred and recognized at the same rate of amortization of the equipment, which is 5 years straight-line. For the fiscal year, \$2,665 of the deferred contributions was recognized as revenue. In 2018, \$1,333 of the deferred contributions will be recognized as revenue.

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Notes to Financial Statements

Year Ended March 31, 2017

8. INTERNALLY RESTRICTED

Internally restricted net assets are amounts established by the board of directors for specific projects or purposes. The internally restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Contingency reserve	\$ 5,100,000	\$ 4,100,000
Project reserves	519,574	518,923
Invested in capital assets	<u>39,469</u>	<u>44,550</u>
	<u>\$ 5,659,043</u>	<u>\$ 4,663,473</u>

The contingency reserve represents funds set aside for contingency purposes.

The project reserves represent funds set aside for research projects and purposes.

Invested in capital assets represents the internally restricted assets, liabilities and expenses related to the Society's capital assets.

9. LEASE COMMITMENTS

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 July 31, 2017.

Subsequent to the year end the Society has extended its lease until August 31, 2019. There is a landlords right to terminate clause in which the landlord can terminate the lease with twelve months notice.

10. NET ASSET TRANSFERS

During the year the following net asset transfers occurred:

\$651 was transferred from the unrestricted net assets to the internally restricted project reserves for expenses incurred by internally restricted projects.

\$2,665 was transferred from the unrestricted net assets to the internally restricted invested in capital assets for deferred capital contributions recognized in the current year (*Note 8*).

\$13,765 was transferred from the unrestricted net assets to the internally restricted invested in capital assets for the purchase of capital assets.

\$1,000,000 was transferred from the unrestricted net assets to the internally restricted contingency reserve per board resolutions.

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Notes to Financial Statements
Year Ended March 31, 2017

11. ALLOCATION OF EXPENSES

Research expenses of \$2,361,575 (2016 - \$2,472,290) have been allocated as follows:

	<u>2017</u>	<u>2016</u>
Research expenses		
Researcher salaries and benefits	\$ 1,134,868	\$ 1,156,726
Research fees	393,121	341,624
Administrative salaries and fees	271,433	171,509
Purchased services	308,063	490,949
Travel	100,156	127,915
Meetings	70,118	66,811
Communications	37,792	21,549
General office	30,677	39,981
Equipment purchases	8,043	35,684
Honorariums	7,304	19,302
Special events	-	240
	<u>\$ 2,361,575</u>	<u>\$ 2,472,290</u>

\$104,070 (2016 - \$115,925) has been reclassified from administrative salaries and fees to researcher salaries and benefits on the basis that these costs are directly related to research.

Fundraising expenses of \$423,600 (2016 - \$379,891) have been allocated as follows:

Fundraising expenses		
Administrative salaries	\$ 241,361	\$ 211,082
Purchased services	108,121	105,043
Special events	40,582	32,398
General office	20,620	18,617
Communications	8,640	6,906
Meetings	2,349	1,321
Travel	1,566	808
Equipment purchases	361	3,716
	<u>\$ 423,600</u>	<u>\$ 379,891</u>

12. 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.

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Notes to Financial Statements

Year Ended March 31, 2017

12. FINANCIAL INSTRUMENTS *(continued)*

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 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:

- Investments consist of guaranteed investment certificates (GIC's) and publicly traded securities issued by large corporations held through one investment broker and one financial institution. The diversity of the Society's portfolio has increased from the prior year, resulting in a decrease in credit risk exposure.
- 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. The amount of accounts receivable outstanding over 90 days has increased by 70% from the prior year, resulting in an increase in credit risk.

Concentrations of credit risk include:

- All the investments are held and managed by one investment broker and the total amount invested in several accounts 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 collectibility and valuation of the investments. Similarly, the guaranteed investment certificates are 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, resulting in a risk of loss should the financial institution suffer financial difficulties.
- Eighty-five percent of the accounts receivable are due from one contributor, resulting in increased risk to the Society as the risk of collection has been spread over relatively few organizations.

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. All of the non-GIC investments are actively managed by a professional broker and concentrated in low to medium risk Canadian equities, which serves to reduce the overall market risk although the decreased diversity could result in larger losses if Canadian markets are subject to significant price devaluation versus other markets.

13. REMUNERATION DISCLOSURE

As required by the Societies Act of British Columbia, the three highest paid individuals and persons under a contract for services that each exceeded \$75,000 of annual remuneration were paid a total sum of \$369,539.
