

**The Arthritis Research Centre Society
of Canada**

Financial Statements
March 31, 2009

July 24, 2009

Auditors' Report

To the Members of
The Arthritis Research Centre Society of Canada

We have audited the statement of financial position of **The Arthritis Research Centre Society of Canada** as at March 31, 2009 and the statements of changes in net assets, operations and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Society as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Society Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

PricewaterhouseCoopers LLP

Chartered Accountants

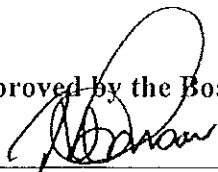
The Arthritis Research Centre Society of Canada

Statement of Financial Position

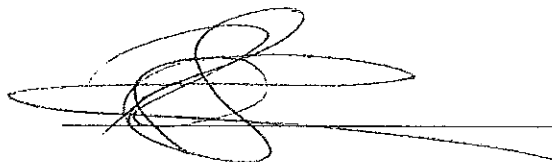
As at March 31, 2009

	2009 \$	2008 \$
Assets		
Current assets		
Cash	117,015	111,255
Investments (note 4)	2,657,383	2,062,709
Accounts receivable	325,822	178,218
Prepaid expenses	7,993	5,112
	<u>3,108,213</u>	<u>2,357,294</u>
Long-term investments (note 4)	200,000	200,000
Property and equipment (note 5)	<u>42,070</u>	<u>63,317</u>
	<u>3,350,283</u>	<u>2,620,611</u>
Liabilities and Fund Balances		
Current liabilities		
Accounts payable and accrued liabilities	138,539	116,625
Deferred revenue (note 6)	2,819,584	2,041,884
Current portion of obligation under capital leases (note 7)	6,423	5,442
	<u>2,964,546</u>	<u>2,163,951</u>
Obligation under capital leases (note 7)	<u>7,579</u>	<u>14,001</u>
	<u>2,972,125</u>	<u>2,177,952</u>
Fund balances		
Unrestricted - General	204,965	143,137
- Accumulated unrealized (loss) gain on available-for-sale investments	(54,876)	55,650
Invested in property and equipment	28,069	43,872
Endowments (note 8)	200,000	200,000
	<u>378,158</u>	<u>442,659</u>
	<u>3,350,283</u>	<u>2,620,611</u>

Approved by the Board of Directors



Director



Director

The Arthritis Research Centre Society of Canada

Statement of Changes in Net Assets

For the year ended March 31, 2009

				2009	2008
	Unrestricted \$	Invested in property and equipment \$	Endowments \$	Total \$	Total \$
Balance - Beginning of year	198,787	43,872	200,000	442,659	409,724
Excess (deficiency) of revenue over expenses for the year	72,811	(26,786)	-	46,025	52,023
Endowment contributions (note 8)	-	-	200,000	200,000	200,000
Transfer of endowment (note 8)	-	-	(200,000)	(200,000)	(200,000)
Repayment of capital lease obligations	(5,442)	5,442	-	-	-
Investment in property and equipment	(5,541)	5,541	-	-	-
Change in unrealized gain on available-for sale investments	(110,526)	-	-	(110,526)	(19,088)
Balance - End of year	150,089	28,069	200,000	378,158	442,659

The Arthritis Research Centre Society of Canada

Statement of Operations

For the year ended March 31, 2009

	2009	2008
	\$	\$
Revenue		
Research grants	1,373,007	1,331,880
The Arthritis Society (note 9)	795,983	795,983
Donations	59,930	66,039
Clinical trials	336,232	262,698
Interest and other	83,586	99,059
	<u>2,648,738</u>	<u>2,555,659</u>
Expenses		
Research		
Salaries and benefits	1,379,133	1,265,229
Direct project expenses	501,421	568,192
Clinical trials		
Salaries and benefits	226,491	210,864
Direct project expenses	75,057	68,506
	<u>2,182,102</u>	<u>2,112,791</u>
Operations	135,062	133,904
Administrative salaries and benefits	190,533	156,344
Premises (note 9)	68,230	69,260
	<u>2,575,927</u>	<u>2,472,299</u>
Excess of revenue over expenses before the following	72,811	83,360
Depreciation of property and equipment	(26,786)	(34,581)
Amortization of deferred capital contributions	-	3,244
Excess of revenue over expenses for the year	<u>46,025</u>	<u>52,023</u>

The Arthritis Research Centre Society of Canada

Statement of Cash Flows

For the year ended March 31, 2009

	2009	2008
	\$	\$
Cash flows from operating activities		
Excess of revenue over expenses for the year	46,025	52,023
Adjustments		
Depreciation of property and equipment	26,786	34,581
Amortization of deferred capital contributions	-	(3,244)
	<u>72,811</u>	<u>83,360</u>
Changes in non-cash working capital balances		
Accounts receivable	(147,604)	193,357
Prepaid expenses	(2,881)	(1,812)
Accounts payable and accrued liabilities	21,914	(185,995)
Deferred revenue	777,700	234,862
	<u>649,129</u>	<u>240,412</u>
	<u>721,940</u>	<u>323,772</u>
Cash flows from financing activities		
Repayment of capital lease obligations	(5,441)	(6,464)
Cash flows from investing activities		
Increase in investments	(705,200)	(321,024)
Purchase of property and equipment	(5,539)	(21,328)
	<u>(710,739)</u>	<u>(342,352)</u>
Increase (decrease) in cash during the year	5,760	(25,044)
Cash - Beginning of year	<u>111,255</u>	<u>136,299</u>
Cash - End of year	<u>117,015</u>	<u>111,255</u>

The Arthritis Research Centre Society of Canada

Notes to Financial Statements

March 31, 2009

1 Incorporation and purpose of the Society

The Arthritis Research Centre Society of Canada (the Society) was incorporated on June 29, 1999 under the British Columbia Society Act and commenced operations on April 1, 2000. The Society is a registered charitable organization under the Canadian Income Tax Act and is an approved research institute.

The Society exists 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.

2 Significant accounting policies

Revenue recognition

Research grants are recorded as revenue in accordance with the terms of each grant. Revenue may be recorded on the basis of completed research milestones, the passage of time or the expenditure of funds. Funds received in excess of the amounts recognized as revenue are recorded as deferred revenue until such time as the revenue recognition criteria are met.

The Society follows the deferral method of accounting for contributions. Contributions are recognized as revenue when received or receivable except when the donor has specified that they are intended for use in a future period, in which case they are recorded as deferred revenue. Contributions are recorded when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions restricted for the purchase of property and equipment are deferred and amortized to revenue on the same basis as the related assets are depreciated.

Endowment contributions are recognized as direct increases in net assets.

Volunteer and research services

The Society receives volunteer legal, advisory and administrative services. Because of the difficulty of determining their fair value, volunteer services are not recognized in these financial statements.

Some research is conducted for the Society by researchers who are on the payroll of outside agencies. These salaries are not the responsibility of the Society and are therefore not included in the Society's financial statements. Only the direct costs of research projects conducted by these researchers are included.

The Arthritis Research Centre Society of Canada

Notes to Financial Statements

March 31, 2009

Investments

The Society has designated its cash and equity investments as available-for-sale and is carrying them at market value. Bankers' acceptances, accounts receivable, treasury bills, accounts payable and accrued liabilities are measured at amortized cost. The fair value of all financial instruments approximates their carrying amounts.

Investments classified as available-for-sale are reported at fair market value (or marked to market) based on quoted market prices, and changes in fair value are recognized in the statement of changes in net assets. Investments classified as held-to-maturity are measured at amortized cost using the effective interest method. Any permanent impairment in investment value would be recognized in the statement of operations.

Property and equipment

Purchased property and equipment are recorded at cost. Contributed property and equipment are recorded at fair value at the date of contribution. Depreciation is provided over the estimated useful lives of the assets and is recorded as follows:

Office equipment	20% straight-line
Computer hardware	20% straight-line
Computer software	33-1/3% straight-line
Equipment under capital lease	20% straight-line

Property and equipment provided for specific research projects are expensed directly to project expenses.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual amounts could differ from those estimates.

3 Accounting changes

The Society continues to apply Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861, Financial Instruments - Disclosure and Presentation as permitted instead of Section 3862, Financial Instruments - Disclosures; and Section 3863, Financial Instruments - Presentation.

The Arthritis Research Centre Society of Canada

Notes to Financial Statements

March 31, 2009

4 Investments

	2009		2008	
	Carrying amount \$	Fair market value \$	Carrying amount \$	Fair market value \$
Investments - short term	2,415,348	2,416,991	1,710,149	1,714,296
Equity securities	242,035	242,035	352,560	356,560
	<u>2,657,383</u>	<u>2,659,026</u>	<u>2,062,709</u>	<u>2,070,856</u>
Investments - long term	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>201,037</u>

The effective yield on the 2009 portfolio is 3.0% (2008 - 4.3%). The investments held for endowment are restricted in perpetuity for the support of an endowed fellowship position. At the end of the year, the Society's investments consist of treasury bills (banker's acceptance - 2008).

5 Property and equipment

	2009		2008	
	Cost \$	Accumulated depreciation \$	Net \$	Net \$
Office equipment	116,404	104,140	12,264	16,081
Computer hardware	158,089	138,385	19,704	29,307
Computer software	27,656	26,836	820	2,459
Equipment under capital lease	30,940	21,658	9,282	15,420
	<u>333,089</u>	<u>291,019</u>	<u>42,070</u>	<u>63,317</u>

The Arthritis Research Centre Society of Canada

Notes to Financial Statements

March 31, 2009

6 Deferred revenue

	2009 \$	2008 \$
Balance - Beginning of year	2,041,884	1,807,022
Funding received	2,150,707	1,564,143
Revenue recognized	<u>(1,373,007)</u>	<u>(1,329,281)</u>
Balance - End of year	<u>2,819,584</u>	<u>2,041,884</u>

Included in deferred revenue are designated funds totalling \$492,182 (2008 - \$428,635). These designated funds consist of accounts held on behalf of the Society's scientists for use on their research projects or academic programs.

7 Obligation under capital leases

The Society has a capital lease for a photocopier. The lease has combined quarterly payments of \$1,795 and bears interest at a rate of 17%. The lease term expires in January 2011.

The Society is committed to capital lease obligations as follows:

	\$
Minimum lease payments	16,797
Less: Interest	<u>2,795</u>
Principal obligation	14,002
Less: Current portion	<u>6,423</u>
	<u>7,579</u>

Future minimum lease principal payments are as follows:

	\$
2010	6,423
2011	<u>7,579</u>
	<u>14,002</u>

The Arthritis Research Centre Society of Canada

Notes to Financial Statements

March 31, 2009

8 Endowments

			2009	2008
	Fellowship Chair \$	Research Chair \$	Total \$	Total \$
Balance - Beginning of year	200,000	-	200,000	200,000
Contributions	-	200,000	200,000	200,000
Transfer	-	(200,000)	(200,000)	(200,000)
Balance - End of year	200,000	-	200,000	200,000

Fellowship Chair

This is an endowment from Pfizer Canada Inc. to be held in perpetuity for the support of a Fellowship in Arthritis Research.

Research Chair

The Society is a joint sponsor of an endowment to fund a Research Chair in Statistics and Information Sciences for Arthritis and Musculoskeletal Diseases at Simon Fraser University (SFU).

The Ilich Foundation has made a \$1,000,000 Scientific Research and Experimental Design pledge for that endowment. A \$200,000 (2008 - \$200,000) contribution towards that pledge has been received in the year and the remaining instalment is expected to be received by December 2009. All funds relating to this project are remitted to SFU which administers the endowment.

9 The Arthritis Society - TAS

During the year, the Society received from TAS operating funds of \$795,983 (2008 - \$795,983). The Society is dependent on TAS for funding for its management and administrative operations.

The Society leases its premises from TAS for \$1 per annum and pays its portion of the maintenance costs. The lease is renewed on an annual basis.

The Society entered into an agreement with TAS in February 2006, whereby TAS has assumed overall fundraising responsibility for both organizations with the intention of generating increased financial support to the Society. The agreement provides for a five-year rolling commitment with an annual review.

The Arthritis Research Centre Society of Canada

Notes to Financial Statements

March 31, 2009

10 Financial instruments

Credit risk exposure

The Society has moderate credit concentration risk as it receives approximately 74% of funding from its highest three sources.

Its exposure to credit risk is indicated by the carrying amount of its accounts receivable and investments at year-end. The Society has historically not experienced any significant bad debt expense.

Interest rate risk exposure

All of the Society's financial assets and liabilities are non-interest bearing with the exception of certain investments as outlined in note 4 and cash on deposit at large Canadian financial institution which earns interest at a variable rate.

11 Managing capital

The Society defines its capital as the amounts included in its net assets balances.

The Society's objective when managing its capital is to safeguard its ability to continue as a going concern so that it can continue to fulfill its mission.

A portion of its capital is restricted as described in note 8. The Society has internal control processes to ensure that the restrictions are met prior to the utilization of these resources and has been in compliance with these restrictions throughout the year.

The Society sets the amount of net assets balances in proportion to risk, manages the fund structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.