

**The Arthritis Research Centre Society  
of Canada**

Financial Statements  
March 31, 2011

August 4, 2011

## Independent Auditor's Report

To the Members  
of The Arthritis Research Centre Society of Canada

We have audited the accompanying financial statements of The Arthritis Research Centre Society of Canada, which comprise the statement of financial position as at March 31, 2011 and the statements of changes in net assets, operations and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 generally accepted 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.



**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Arthritis Research Centre Society of Canada as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

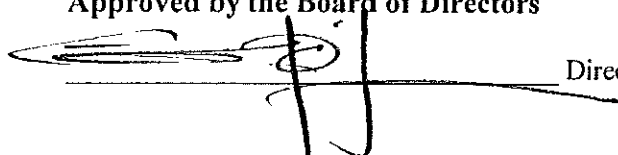
# The Arthritis Research Centre Society of Canada

## Statement of Financial Position

As at March 31, 2011

	2011 \$	2010 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	177,491	362,384
Investments (note 3)	4,417,117	3,592,892
Accounts receivable	212,142	240,522
Prepaid expenses	9,613	10,069
	<u>4,816,363</u>	<u>4,205,867</u>
Long-term investments (note 3)	200,000	200,000
Property and equipment (note 4)	14,017	23,523
	<u>5,030,380</u>	<u>4,429,390</u>
<b>Liabilities and Fund Balances</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	267,604	130,307
Deferred revenue (note 5)	4,190,940	3,775,400
Current portion of obligation under capital leases	-	7,579
	<u>4,458,544</u>	<u>3,913,286</u>
<b>Fund balances</b>		
Unrestricted		
General	50,024	61,189
Accumulated unrealized gain on available-for-sale investments	107,795	38,970
Internally restricted	200,000	200,000
Invested in property and equipment	14,017	15,945
Endowments (note 6)	200,000	200,000
	<u>571,836</u>	<u>516,104</u>
	<u>5,030,380</u>	<u>4,429,390</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, 2011

					2011	2010
	Unrestricted \$	Internally restricted \$	Invested in property and equipment \$	Endowments \$	Total \$	Total \$
<b>Balance - Beginning of year</b>	100,159	200,000	15,945	200,000	516,104	378,158
(Deficiency) excess of revenue over expenses for the year	(2,765)	-	(10,328)	-	(13,093)	44,100
Endowment contributions (note 6)	-	-	-	-	-	200,000
Transfer of endowment (note 6)	-	-	-	-	-	(200,000)
Repayment of capital lease obligations	(7,579)	-	7,579	-	-	-
Investment in property and equipment	(821)	-	821	-	-	-
Change in unrealized gain on available-for sale investments	68,825	-	-	-	68,825	93,846
<b>Balance - End of year</b>	<b>157,819</b>	<b>200,000</b>	<b>14,017</b>	<b>200,000</b>	<b>571,836</b>	<b>516,104</b>

# The Arthritis Research Centre Society of Canada

## Statement of Operations

For the year ended March 31, 2011

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	2011	2010
	\$	\$
<b>Revenue</b>		
Research grants (note 5)	1,524,767	1,314,933
The Arthritis Society (note 7)	795,756	795,756
Donations	17,025	72,273
Clinical trials (note 5)	295,267	324,069
Interest and other	55,775	51,015
	<u>2,688,590</u>	<u>2,558,046</u>
<b>Expenses</b>		
Research		
Salaries and benefits	1,431,131	1,292,933
Direct project expenses	563,549	536,680
Clinical trials		
Salaries and benefits	218,542	235,933
Direct project expenses	38,452	59,392
	<u>2,251,674</u>	<u>2,124,938</u>
Administrative salaries and benefits	204,952	175,824
Operations	167,500	125,113
Premises (note 7)	67,230	67,230
	<u>2,691,356</u>	<u>2,493,105</u>
<b>(Deficiency) excess of revenue over expenses before the following</b>	(2,766)	64,941
<b>Depreciation of property and equipment</b>	<u>(10,327)</u>	<u>(20,841)</u>
<b>(Deficiency) excess of revenue over expenses for the year</b>	<u>(13,093)</u>	<u>44,100</u>

# The Arthritis Research Centre Society of Canada

## Statement of Cash Flows

For the year ended March 31, 2011

	2011 \$	2010 \$
<b>Cash flows from operating activities</b>		
(Deficiency) excess of revenue over expenses for the year	(13,093)	44,100
Item not affecting cash - depreciation of property and equipment	10,327	20,841
	<u>(2,766)</u>	64,941
<b>Changes in non-cash working capital balances</b>		
Accounts receivable	28,380	85,300
Prepaid expenses	456	(2,076)
Accounts payable and accrued liabilities	137,297	(8,232)
Deferred revenue	415,540	955,816
	<u>581,673</u>	1,030,808
	<u>578,907</u>	1,095,749
<b>Cash flows from financing activities</b>		
Repayment of capital lease obligations	(7,579)	(6,423)
<b>Cash flows from investing activities</b>		
Increase in investments	(755,400)	(841,663)
Purchase of property and equipment	(821)	(2,294)
	<u>(756,221)</u>	(843,957)
<b>(Decrease) increase in cash during the year</b>	(184,893)	245,369
<b>Cash - Beginning of year</b>	<u>362,384</u>	117,015
<b>Cash - End of year</b>	<u>177,491</u>	<u>362,384</u>

# The Arthritis Research Centre Society of Canada

Notes to Financial Statements

March 31, 2011

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## 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 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.

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, 2011

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## Financial instruments

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

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.

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*.

## 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 revenue and expenses during the year. Actual amounts could differ from those estimates.

# The Arthritis Research Centre Society of Canada

Notes to Financial Statements

March 31, 2011

## 3 Investments

	2011		2010	
	Cost \$	Fair market value \$	Cost \$	Fair market value \$
Investments - short term	3,943,362	3,943,362	3,257,012	3,257,012
Equity securities	365,960	473,755	296,910	335,880
	<u>4,309,322</u>	<u>4,417,117</u>	<u>3,553,922</u>	<u>3,592,892</u>
Investments - long term	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

The effective yield on the 2011 portfolio is 1.24% (2010 - 1.26%). The investments held for endowment are restricted in perpetuity for the support of an endowed fellowship position. The Society's short-term investments consist of saving accounts (2010 - banker's acceptances).

## 4 Property and equipment

	2011		2010	
	Cost \$	Accumulated depreciation \$	Net \$	Net \$
Office equipment	116,404	109,934	6,470	8,373
Computer hardware	159,004	152,604	6,400	10,145
Computer software	29,949	28,802	1,147	1,911
Equipment under capital lease	30,940	30,940	-	3,094
	<u>336,297</u>	<u>322,280</u>	<u>14,017</u>	<u>23,523</u>

# The Arthritis Research Centre Society of Canada

Notes to Financial Statements

March 31, 2011

## 5 Deferred revenue

			2011	2010
	Research \$	Clinical trials \$	Net \$	Net \$
Balance - Beginning of year	3,763,800	11,600	3,775,400	2,819,584
Funding received	1,951,907	283,667	2,235,574	2,594,818
Revenue recognized	(1,524,767)	(295,267)	(1,820,034)	(1,639,002)
Balance - End of year	4,190,940	-	4,190,940	3,775,400

Deferred revenue consists of restricted contributions for research and clinical trials, for which the research milestones and/or related expenditures have not yet been incurred.

Included in deferred revenue are designated funds totalling \$687,168 (2010 - \$598,662). These designated funds consist of accounts held on behalf of the Society's scientists for use on their research projects.

## 6 Endowments

			2011	2010
	Research \$	Clinical trials \$	Net \$	Net \$
Balance - Beginning of year	200,000	-	200,000	200,000
Contributions	-	-	-	200,000
Transfer	-	-	-	(200,000)
Balance - End of year	200,000	-	200,000	200,000

### Fellowship Chair

This endowment from Pfizer Canada Inc. is to be held in perpetuity with the income being used in support of a Fellowship in Arthritis Research.

# The Arthritis Research Centre Society of Canada

Notes to Financial Statements

March 31, 2011

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## 7 Related party transactions

During the year, the Society received from The Arthritis Society (TAS) operating funds of \$795,756 (2010 - \$795,756). 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 annually.

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 evergreen rolling commitment with an annual review.

As at March 31, 2011, the Society has accrued a payable of \$100,000 to TAS.

## 8 Financial instruments

### Credit risk exposure

The Society has moderate credit concentration risk as it receives approximately 75% 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 3 and cash on deposit at a large Canadian financial institution, which earns interest at a variable rate.

### Liquidity and foreign exchange risk exposure

The Society is not exposed to significant liquidity or foreign exchange risk.

# **The Arthritis Research Centre Society of Canada**

Notes to Financial Statements

March 31, 2011

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## **9 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 6 and as per the statement of changes in net assets. 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 asset 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.