

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

Financial Statements

March 31, 2018

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

**Index to Financial Statements**

**Year Ended March 31, 2018**

---

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Changes in Fund Balances	4
Statement of Operations	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 15

---

## 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, 2018 and the statements of operations, changes in fund balances 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 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.

(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, 2018 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 except as outlined in *Note 2*.

Burnaby, British Columbia  
June 26, 2018

  
Chartered Professional Accountants

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

**Statement of Financial Position**

**March 31, 2018**

	Operating Fund	Research Fund	2018	2017
<b>ASSETS</b>				
<b>CURRENT</b>				
Cash and cash equivalents	\$ 1,731,370	\$ 578,773	\$ 2,310,143	\$ 8,621,287
Accounts receivable	-	68,024	68,024	169,341
Recoverable from government authorities - GST	27,412	-	27,412	21,986
Prepaid expenses	32,176	-	32,176	11,334
	1,790,958	646,797	2,437,755	8,823,948
INVESTMENTS (Note 4)	7,881,043	4,864,810	12,745,853	4,056,184
CAPITAL ASSETS (Note 5)	24,143	-	24,143	40,802
	<u>\$ 9,696,144</u>	<u>\$ 5,511,607</u>	<u>\$ 15,207,751</u>	<u>\$ 12,920,934</u>

**LIABILITIES AND FUND BALANCES**

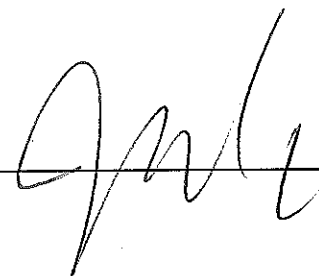
<b>CURRENT</b>				
Accounts payable and accrued liabilities	\$ 15,201	\$ 73,565	\$ 88,766	\$ 197,816
Payable to government authorities - deductions	2,956	7,727	10,683	9,669
Current portion of deferred revenue (Note 6)	889,733	-	889,733	452,373
	907,890	81,292	989,182	659,858
DEFERRED REVENUE (Note 6)	666,656	4,915,580	5,582,236	4,590,804
<b>DEFERRED CAPITAL CONTRIBUTION (Note 7)</b>				
	-	-	-	1,333
	1,574,546	4,996,872	6,571,418	5,251,995
<b>FUND BALANCES - page 4</b>				
Unrestricted	8,121,598	-	8,121,598	7,149,365
Internally restricted	-	514,735	514,735	519,574
	8,121,598	514,735	8,636,333	7,668,939
	<u>\$ 9,696,144</u>	<u>\$ 5,511,607</u>	<u>\$ 15,207,751</u>	<u>\$ 12,920,934</u>

LEASE COMMITMENTS (Note 8)

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, 2018**

	Operating Fund	Research Fund	2018	2017
<b>FUND BALANCES - BEGINNING OF YEAR</b>				
As previously reported	\$ 7,149,365	\$ 519,574	\$ 7,668,939	\$ 7,033,124
Vacation accrual ( <i>Note 2</i> )	-	-	-	(30,808)
Revised fund balances - beginning of year	7,149,365	519,574	7,668,939	7,002,316
Excess (deficiency) of revenues over expenses - page 5	989,650	(22,256)	967,394	666,623
Interfund transfers ( <i>Note 9</i> )	(17,417)	17,417	-	-
<b>FUND BALANCES - END OF YEAR - page 3</b>	<b>\$ 8,121,598</b>	<b>\$ 514,735</b>	<b>\$ 8,636,333</b>	<b>\$ 7,668,939</b>

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

**Statement of Operations**

**Year Ended March 31, 2018**

	Operating Fund	Research Fund	2018	2017
<b>REVENUES</b>				
Research grants	\$ -	\$ 2,350,031	\$ 2,350,031	\$ 2,295,866
Operating grants	1,032,522	-	1,032,522	878,052
Donations	642,943	-	642,943	506,247
Investment revenue ( <i>Note 11</i> )	540,505	-	540,505	138,141
Fundraising	193,935	-	193,935	124,845
Foreign exchange gains	-	17,804	17,804	-
Other revenue	7,192	-	7,192	-
Unrealized gains (losses) on investments	(368,975)	-	(368,975)	216,974
	2,048,122	2,367,835	4,415,957	4,160,125
<b>EXPENSES</b>				
Research ( <i>Note 10</i> )				
Salaries and contract fees	-	1,556,486	1,556,486	1,406,301
Direct project costs	-	833,605	833,605	955,274
Fundraising ( <i>Note 10</i> )				
Salaries and contract fees	220,829	-	220,829	241,361
Direct costs	196,950	-	196,950	182,239
Administrative salaries	264,916	-	264,916	347,829
Premises	195,300	-	195,300	190,275
Operations	163,819	-	163,819	148,712
Amortization	16,658	-	16,658	21,511
	1,058,472	2,390,091	3,448,563	3,493,502
<b>EXCESS OF REVENUES OVER EXPENSES - page 4, 6</b>	\$ 989,650	\$ (22,256)	\$ 967,394	\$ 666,623

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

**Statement of Cash Flows**

**Year Ended March 31, 2018**

	2018	2017
<b>OPERATING ACTIVITIES</b>		
Excess of revenues over expenses - page 5	\$ 967,394	\$ 666,623
Items not affecting cash:		
Amortization	16,658	21,511
Realized gains (losses) on investments	(365,454)	4,453
Unrealized (gains) losses on investments	368,975	(216,974)
	<u>987,573</u>	<u>475,613</u>
Changes in non-cash working capital:		
Accounts receivable	101,317	(58,815)
Recoverable from government authorities - GST	(5,426)	(1,486)
Prepaid expenses	(20,842)	(311)
Accounts payable and accrued liabilities	(109,048)	3,623
Payable to government authorities - payroll deductions	1,013	(18,416)
Deferred revenue	1,428,793	(1,051,326)
	<u>1,395,807</u>	<u>(1,126,731)</u>
Cash flow from (used by) operating activities	<u>2,383,380</u>	<u>(651,118)</u>
<b>INVESTING ACTIVITIES</b>		
Addition to loans and notes receivable	-	(13,765)
Decrease (increase) in investments	(8,693,191)	452,245
Cash flow from (used by) investing activities	<u>(8,693,191)</u>	<u>438,480</u>
<b>FINANCING ACTIVITY</b>		
Decrease in deferred capital contribution	(1,333)	(2,665)
<b>DECREASE IN CASH FLOW</b>	<u>(6,311,144)</u>	<u>(215,303)</u>
Cash and cash equivalents - beginning of year	<u>8,621,287</u>	<u>8,836,590</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,310,143</u>	<u>\$ 8,621,287</u>
<b>CASH AND CASH EQUIVALENTS CONSIST OF:</b>		
Cash - unrestricted	\$ 157,838	\$ 88,921
Cash - restricted	578,773	-
High interest savings mutual fund units - unrestricted	1,573,532	7,475,052
High interest savings mutual fund units - restricted	-	1,057,314
	<u>\$ 2,310,143</u>	<u>\$ 8,621,287</u>

See notes to financial statements



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

**Notes to Financial Statements**

**Year Ended March 31, 2018**

---

**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 Arthritis Research Centre Society of Canada / Arthrite-Recherche Canada (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.

---

**2. CHANGES IN ACCOUNTING POLICIES**

The Society has adopted fund accounting whereas previously it did not use funds. An Operating Fund for general activities that includes the capital assets, a Research Fund for all direct research activities and an Endowment Fund for the potential receipt of endowment contributions have all be created. The specifics of these funds are described in *Note 3*. Certain assets, liabilities and equity balances were allocated to the Research Fund as shown on the Statement of Financial Position while research grants, foreign exchange related to those grants, research remuneration and research project costs are reflected in the Research Fund on the Statement of Operations with the net effect of those revenues and expenses shown in the Statement of Changes in Fund Balances.

The Society has changed its accounting policy with respect to its vacation accrual. Previously, the Society did not accrue amounts for unused vacation on the basis that all salaried staffs' annual remuneration amounts included vacation time with financial liability arising as vacation days were simply granted in lieu of work days rather than paid over and above normal salaried amounts. However, the Society now accrues unpaid vacation time as it has determined that the legal obligations associated with these amounts are more significant than the facts noted above.

To account for this change in vacation accrual policy in the current and prior years, the opening Operating Fund balance decreased \$30,808, and accrued liabilities increased \$30,808 (\$19,780 in the Operating Fund and \$11,028 in the Research Fund).

---

**3. 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).

*(continues)*

---

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

**Notes to Financial Statements**

**Year Ended March 31, 2018**

---

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

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, revenues, and expenses related to research activities and projects. At the end of each fiscal year, any excess of revenues 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.

Revenue recognition

Externally restricted contributions, including grants, are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions and fundraising are recognized as revenue 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 when earned on an accrual basis.

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, mutual funds and 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 4* for additional details.

*(continues)*

---

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

**Notes to Financial Statements**

**Year Ended March 31, 2018**

---

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

Capital assets

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\$ (2017 - 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.

*(continues)*

---

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

**Notes to Financial Statements**

**Year Ended March 31, 2018**

---

**3. 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, 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.

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, 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 10* for the research and fundraising expense allocation amounts for the year.

---

**4. INVESTMENTS**

	2018	2017
Fixed income securities	\$ 8,613,324	\$ 2,613,923
Common shares	2,549,812	1,442,261
Mutual funds	255,933	-
Other foreign securities	791,794	-
Preferred shares	534,990	-
	<u>\$ 12,745,853</u>	<u>\$ 4,056,184</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 included in the above balances is \$4,357 (2017 - \$365,499).

The investments do not include \$1,573,532 (2017 - \$8,532,366) 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.

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

**Notes to Financial Statements**

**Year Ended March 31, 2018**

**5. CAPITAL ASSETS**

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Computer hardware	\$ 43,761	\$ 30,088	\$ 13,673	\$ 17,619
Computer software	16,524	16,524	-	-
Furniture and fixtures	162,619	159,503	3,116	12,151
Leasehold improvements	29,418	22,064	7,354	11,032
	<b>\$ 252,322</b>	<b>\$ 228,179</b>	<b>\$ 24,143</b>	<b>\$ 40,802</b>

**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	2018
<u>Current portion deferred revenue</u>				
Province of B.C. Ministry of Health grant (i)	\$ 365,844	\$ 1,333,344	\$ 1,032,521	\$ 666,667
Soiree contributions	80,695	111,560	80,695	111,560
Pfizer innovation grant	-	81,798	-	81,798
Other grants	5,834	27,188	3,314	29,708
	<b>452,373</b>	<b>1,553,890</b>	<b>1,116,530</b>	<b>889,733</b>
<u>Long term portion deferred revenue</u>				
Research grants	4,337,917	2,023,386	1,788,093	4,573,210
Province of B.C. Ministry of Health grant (i)	-	666,656	-	666,656
Doctors designations (ii)	252,887	119,281	29,798	342,370
	<b>4,590,804</b>	<b>2,809,323</b>	<b>1,817,891</b>	<b>5,582,236</b>
	<b>\$ 5,043,177</b>	<b>\$ 4,363,213</b>	<b>\$ 2,934,421</b>	<b>\$ 6,471,969</b>

(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 improving the health of people with arthritis, electronic access to patient databases and similar programs. The completion date of the grant is March 31, 2020 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.

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

**Notes to Financial Statements**

**Year Ended March 31, 2018**

---

**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 was being deferred and recognized at the same rate of amortization of the equipment, which was 5 years straight-line. For the fiscal year, the final \$1,333 of the deferred contribution was recognized as revenue.

---

**8. 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 August 31, 2019. There is a landlord's right to terminate clause in which the landlord can terminate the lease with twelve months notice.

---

**9. INTERFUND TRANSFERS**

During the year, the following interfund transfers occurred:

\$17,417 was transferred from the Operating Fund to the Research Fund to cover supportive salaries and overhead costs incurred directly for research activities that exceeded grants received to cover such costs.

\$5,100,000 was transferred from the Internally Restricted Contingency Reserve within the Operating Fund to the unrestricted balance within the Operating Fund per board resolutions to eliminate the contingency reserve and unrestrict its balance.

---

**10. ALLOCATION OF EXPENSES**

Research expenses of \$2,390,091 (2017 - \$2,361,575) have been allocated as follows:

	<b>2018</b>	<b>2017</b>
<u>Research expenses</u>		
Researcher salaries and contract fees	\$ 1,407,598	\$ 1,328,940
Research fees	551,723	393,121
Research support salaries and fees	148,888	77,361
Travel	85,228	100,156
Purchased services	77,598	308,063
Meetings	53,473	70,118
General office	26,374	30,677
Equipment purchases	20,499	8,043
Communications	11,535	37,792
Honorariums	7,175	7,304
	<u>\$ 2,390,091</u>	<u>\$ 2,361,575</u>

(continues)

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

**Notes to Financial Statements**

**Year Ended March 31, 2018**

**10. ALLOCATION OF EXPENSES (continued)**

	<u>2018</u>	<u>2017</u>
<u>Research expenses</u>		
The comparative figures for researcher salaries and contracts increased \$194,072 and the administrative salaries and fees decreased \$194,072 to better classify contract and fee disbursements that directly related to research support rather than administrative activities.		
Fundraising expenses of \$417,779 (2017 - \$423,600) have been allocated as follows:		
<u>Fundraising expenses</u>		
Administrative salaries and contract fees	\$ 220,829	\$ 241,361
Purchased services	99,558	108,121
Special events	57,623	40,582
Communications	18,206	8,640
General office	16,827	20,620
Equipment purchases	2,041	361
Travel	1,470	1,566
Meetings	1,225	2,349
	<u>\$ 417,779</u>	<u>\$ 423,600</u>
Total allocation of expenses	<u>\$ 2,807,870</u>	<u>\$ 2,785,175</u>

**11. INVESTMENT REVENUE**

	<u>2018</u>	<u>2017</u>
Realized gains (losses) on investments	\$ 365,454	\$ (4,453)
Interest income	99,693	79,899
Dividends	61,393	62,695
Foreign investment revenue	13,965	-
	<u>\$ 540,505</u>	<u>\$ 138,141</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.

(continues)

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

**Notes to Financial Statements**

**Year Ended March 31, 2018**

---

**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:

- 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 credit risk has decreased from the prior year as the amount of accounts receivable outstanding over 90 days at year-end decreased 100%.
- Investments consist of 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.

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 collectability and valuation of the investments. Similarly, two 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.

**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.

---



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

**Notes to Financial Statements**

**Year Ended March 31, 2018**

---

**13. REMUNERATION DISCLOSURE**

As required by the Societies Act of British Columbia, the Society discloses that 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 \$341,921.

---