

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

Financial Statements

March 31, 2023

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

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Year Ended March 31, 2023

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INDEPENDENT AUDITOR'S REPORT

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, 2023, 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, 2023, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

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

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 ASNPO, 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 related 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:

(continues)

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

- 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.

Report on Other Legal and Regulatory Requirements

As required by the Societies Act of British Columbia, we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian Accounting Standards for Not-for-profit Organizations have been applied on a basis consistent with that of the preceding year, except as described in *Note 2*.

Burnaby, British Columbia
June 22, 2023



Chartered Professional Accountants

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

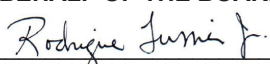
Statement of Financial Position


March 31, 2023

	Operating Fund	Research Fund	2023	2022 (Note 2)
ASSETS				
CURRENT				
Cash and cash equivalents	\$ 134,996	\$ 355,149	\$ 490,145	\$ 833,773
Accounts receivable	23,353	413,232	436,585	237,284
GST recoverable	18,046	-	18,046	36,298
Grant receivable	-	-	-	3,000,000
Prepaid expenses	24,522	-	24,522	2,655
	200,917	768,381	969,298	4,110,010
INVESTMENTS (Note 4)	12,216,040	4,671,176	16,887,216	15,550,921
CAPITAL ASSETS (Note 5)	9,559,052	-	9,559,052	9,782,516
	\$ 21,976,009	\$ 5,439,557	\$ 27,415,566	\$ 29,443,447
LIABILITIES AND FUND BALANCES				
CURRENT				
Accounts payable and accrued liabilities	\$ 69,726	\$ 145,577	\$ 215,303	\$ 204,995
Payroll deductions payable	4,624	18,991	23,615	22,233
Current portion of deferred revenue (Note 6)	1,136,923	299,884	1,436,807	1,285,830
Current portion of long term debt (Note 7)	204,017	-	204,017	198,352
	1,415,290	464,452	1,879,742	1,711,410
DEFERRED REVENUE (Note 6)	1,000,000	3,004,987	4,004,987	5,291,882
DEFERRED CAPITAL REVENUE (Note 6)	172,556	-	172,556	151,679
LONG TERM DEBT (Note 7)	6,304,884	-	6,304,884	6,508,851
	8,892,730	3,469,439	12,362,169	13,663,822
FUND BALANCES				
Unrestricted	10,589,200	-	10,589,200	11,528,849
Internally restricted	2,494,079	1,970,118	4,464,197	4,250,776
	13,083,279	1,970,118	15,053,397	15,779,625
	\$ 21,976,009	\$ 5,439,557	\$ 27,415,566	\$ 29,443,447

LEASE COMMITMENT (Note 12)

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, 2023

	Operating Fund	Research Fund	2023	2022
FUND BALANCES - BEGINNING OF YEAR				
As previously reported	\$ 13,754,282	\$ 514,735	\$ 14,269,017	\$ 12,858,488
Change in accounting policy for deferred revenues (<i>Note 2</i>)	(225,433)	1,736,041	1,510,608	1,834,472
As restated	13,528,849	2,250,776	15,779,625	14,692,960
Excess (deficiency) of revenue over expenses	183,903	(910,131)	(726,228)	1,086,665
Interfund transfer (<i>Note 8</i>)	(629,473)	629,473	-	-
FUND BALANCES - END OF YEAR	\$ 13,083,279	\$ 1,970,118	\$ 15,053,397	\$ 15,779,625

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Statement of Operations

Year Ended March 31, 2023

	Operating Fund	Research Fund	2023	2022 (Notes 2, 15)
REVENUE				
Research grants	\$ -	\$ 2,398,638	\$ 2,398,638	\$ 1,755,039
Operating grants (Note 10)	1,000,000	-	1,000,000	671,415
Donations	642,275	-	642,275	833,742
Investment revenue (Note 11)	523,074	-	523,074	940,853
Fundraising	181,643	-	181,643	157,928
Bank interest income	17,910	-	17,910	-
Capital contributions				
revenue (Note 6)	4,123	-	4,123	2,571
Unrealized gains (losses) on investments	(927,417)	-	(927,417)	616,271
	<u>1,441,608</u>	<u>2,398,638</u>	<u>3,840,246</u>	<u>4,977,819</u>
EXPENSES				
Research (Note 9)				
Salaries, wages, contract fees and benefits	-	2,169,110	2,169,110	2,163,277
Direct project costs	-	914,679	914,679	380,894
Premises costs	-	224,980	224,980	288,230
Fundraising (Note 9)				
Salaries, wages, contract fees and benefits	234,987	-	234,987	239,472
Direct costs	205,373	-	205,373	179,313
Amortization	293,460	-	293,460	196,022
Operations	216,044	-	216,044	184,333
Administrative salaries, wages and benefits	178,092	-	178,092	117,036
Investment management fees	59,379	-	59,379	57,220
Interest on long term debt	41,286	-	41,286	39,922
Premises	29,084	-	29,084	45,435
	<u>1,257,705</u>	<u>3,308,769</u>	<u>4,566,474</u>	<u>3,891,154</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ 183,903</u>	<u>\$ (910,131)</u>	<u>\$ (726,228)</u>	<u>\$ 1,086,665</u>

See notes to financial statements

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Statement of Cash Flows

Year Ended March 31, 2023

	2023	2022 (Notes 2, 15)
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ (726,228)	\$ 1,086,665
Items not affecting cash:		
Amortization	293,460	196,022
Unrealized (gains) losses on investments	927,417	(616,271)
Capital contributions revenue	(4,123)	(2,571)
	<u>490,526</u>	<u>663,845</u>
Changes in non-cash working capital:		
Accounts receivable	(199,300)	197,792
GST recoverable	18,252	205,504
Receivable from government authorities - CEWS, CERS	-	79,067
Grant receivable	3,000,000	(3,000,000)
Prepaid expenses	(21,867)	3,936
Accounts payable and accrued liabilities	10,308	(36,825)
GST payable	-	(440,000)
Payroll deductions payable	1,382	3,255
Deferred revenue	(1,135,919)	2,608,046
	<u>1,672,856</u>	<u>(379,225)</u>
Cash flow from operating activities	<u>2,163,382</u>	<u>284,620</u>
INVESTING ACTIVITIES		
Net proceeds (purchase) of investments	(2,263,712)	718,283
Purchase of capital assets	(69,996)	(721,927)
Cash flow used by investing activities	<u>(2,333,708)</u>	<u>(3,644)</u>
FINANCING ACTIVITIES		
Capital revenue received	25,000	154,250
Repayment of long term debt	(198,302)	(192,797)
Cash flow used by financing activity	<u>(173,302)</u>	<u>(38,547)</u>
INCREASE (DECREASE) IN CASH FLOW	<u>(343,628)</u>	<u>242,429</u>
Cash and cash equivalents - beginning of year	<u>833,773</u>	<u>591,344</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 490,145</u>	<u>\$ 833,773</u>
CASH AND CASH EQUIVALENTS CONSIST OF:		
Unrestricted cash	\$ 134,996	\$ 1,528
Unrestricted cash equivalents - money market funds	-	124,145
Internally restricted cash	-	514,735
Externally restricted cash	355,149	193,365
	<u>\$ 490,145</u>	<u>\$ 833,773</u>

See notes to financial statements

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Notes to Financial Statements

Year Ended March 31, 2023

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.

2. CHANGE IN ACCOUNTING POLICY

The Society has changed its accounting policy with respects to the recognition of revenue for research projects. Previously, excess grant proceeds for completed research projects continued to be deferred and later transferred to cover expenses and deficits of other projects of the same principal investigator on the basis of ongoing obligations to use those amounts for research purposes only. The Society has determined that the only external restrictions for these grants is to achieve the deliverables outlined in the grant agreement rather than use of the grant monies solely for research expenditures. Additionally, as the grant recipient in the agreements, any excess grant revenue over the expenses required to achieve the deliverables attributes to the Society rather than the principal investigator. Therefore continued deferral is not appropriate. Because the Society's current mandate is for these excess grant amounts to be used for research by the original principal investigators, the realized balances after recognizing the revenue are to be held as internally restricted funds rather than unrestricted funds. To reflect this new accounting policy, the deferred balances of all completed projects have been retrospectively eliminated with the revenue recognized and any excess amounts transferred to internally restricted balances within the Research Fund.

To adjust for this in the current year, the opening internally restricted balance in the Research Fund increased by \$1,736,041, the opening unrestricted balance in the Operating Fund decreased by \$225,433 to settle transfers for excess project expenditures of prior years, and deferred revenue decreased by \$1,510,608. For the prior year, the opening internally restricted balance in the Research Fund increased by \$2,059,905, the opening unrestricted balance in the Operating Fund decreased by \$225,433, research grant revenue decreased by \$323,864 and deferred revenue decreased by \$1,510,608.

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").

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

Notes to Financial Statements

Year Ended March 31, 2023

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

Fund accounting

The Society follows the deferral fund 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 and capital grants. The internally restricted portion of the Operating Fund consists of reserves set aside to fund contributions to the John Esdaile professorship endowment at the University of British Columbia ("UBC") over the next 5 years. This original internal restricted balance of \$2,500,000 is to be reduced each year by any externally restricted donations received for the professorship.

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 resulting from administrative costs, less any internally restricted amounts applied from previously completed projects to active project expenses in excess of funding received. 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, related to general operations are recognized as revenue in the Operating Fund in the year in which the related expenses are incurred. 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. Externally restricted contributions, including grants, related to research programs are recognized as revenue in the Research Fund in the year in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributor.

Unrestricted contributions, grants 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.

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

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ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Notes to Financial Statements

Year Ended March 31, 2023

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

Project equipment

Specialized equipment purchased for specific projects is expensed when used with any significant portions of the cost deferred and recorded as prepaid expenses if the expected use will apply beyond the current year. Residual portions of this equipment are only capitalized if appreciable future benefits beyond the applicable project are expected.

Financial instruments

All financial instruments are initially recorded at their fair market value. Publicly traded financial 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.

Cash and cash equivalents

The Society classifies its investment instruments as cash equivalents if the investment is cashable and has a maturity term of three 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 and guaranteed investment certificates 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 4* for additional details.

Capital assets

Capital assets are stated at cost less accumulated amortization. Contributed capital assets are recorded at the fair value as of the date of receipt. 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:

Facilities and improvements	15 - 40 years
Computer hardware	5 years
Computer software	3 years
Furniture and fixtures	5 years

(*continues*)

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

Notes to Financial Statements

Year Ended March 31, 2023

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

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 \$144,810 consisting of publicly traded securities (2022 - \$184,667 of publicly traded securities and non-auction gifts).

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.

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 revenue and expenses during the period. Actual results could differ from those estimates. Material uncertainties involving management estimates include the determination of useful lives of capital assets for the purposes of calculating amortization, specifically the useful life of the facilities and improvements and the related recognition of revenue of deferred capital revenue, as well as the administrative expense allocation to research and fundraising expense.

The administrative expense amounts allocated to research and fundraising expenses consist primarily of administrative salaries, general researcher fees and premises costs. Management allocates their salary based on their estimate of time spent on support for research activities. Researchers and other staff allocate their time spent on research projects and activities through their timesheets based on their personal accounting of work completed. While the researcher fees are incurred directly to further the projects, the allocation of a portion of administrative salaries is subject to significant judgment by staff that results in a high degree of measurement uncertainty. Premises costs are allocated based on square footage used by the researchers.

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ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Notes to Financial Statements

Year Ended March 31, 2023

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

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

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

Premises expense – by allocation of building used for research activities.

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

Administrative salaries and contract fees – 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 contract fees, 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 9* for the research and fundraising expense allocation amounts for the year.

4. INVESTMENTS

	2023	2022
Common shares	\$ 7,796,756	\$ 8,801,930
Fixed income securities	7,084,015	4,896,089
Preferred shares	1,078,749	1,185,926
Mutual funds	827,405	548,435
Other foreign securities	100,291	118,541
	<u>\$ 16,887,216</u>	<u>\$ 15,550,921</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 US dollar currency. The unrealized gains included in the above balances are \$1,265,038 (2022 - \$2,192,455).

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Notes to Financial Statements

Year Ended March 31, 2023

5. CAPITAL ASSETS

	Cost	Accumulated amortization	2023 Net book value	2022 Net book value
Facilities and improvements	\$ 9,871,532	\$ 434,116	\$ 9,437,416	\$ 9,658,091
Computer hardware	30,136	14,113	16,024	-
Computer software	16,524	16,524	-	-
Furniture and fixtures	163,024	57,412	105,612	124,425
	\$ 10,081,216	\$ 522,165	\$ 9,559,052	\$ 9,782,516

The Society has significant influence through its 23% of the voting rights in the strata corporation that holds title to the land on which the facilities and improvements are located. The strata corporation is an incorporated not-for-profit organization that is exempt from tax under ITA 149 (1)(l) and is responsible for managing and maintaining the common property and assets of the strata development for the benefit of all of its owners.

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Notes to Financial Statements

Year Ended March 31, 2023

6. DEFERRED REVENUE

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

	Opening Balance (Note 2)	Additions & Current Portion Allocations	Recognized as Revenue	Closing Balance 2023
<u>Current portion deferred revenue</u>				
Province of B.C. Ministry of Health grant (i)	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Pfizer grants	181,831	299,884	181,831	299,884
Soiree revenue	96,989	125,057	97,487	124,559
Other grants	7,010	14,113	14,680	6,443
John Esdaile professorship	-	5,921	-	5,921
	1,285,830	1,444,975	1,293,998	1,436,807
<u>Long term portion deferred revenue</u>				
Research grants (ii)	2,942,720	1,432,730	1,832,963	2,542,487
Province of B.C. Ministry of Health grant (i)	2,000,000	(1,000,000)	-	1,000,000
Doctors designations (ii, iii)	349,162	424,421	311,083	462,500
	5,291,882	857,151	2,144,046	4,004,987
<u>Long term deferred capital revenue</u>				
Yukon St. capital campaign (iv)	151,679	25,000	4,123	172,556
	\$ 6,729,391	\$ 2,327,126	\$ 3,442,167	\$ 5,614,350

(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, 2025, 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 deferred research grants and doctors designations balances are presented as long term as they are often based on terms that exceed one year. In addition, their use is based on the researchers' or doctors' discretion and so the amounts expected to be spent in the subsequent year are generally undeterminable.

(iii) The deferred doctors designations 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.

(iv) The deferred capital revenue consists of amounts collected for the purchase of capital assets. Amounts are amortized as revenue over the useful lives of the related capital assets.

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Notes to Financial Statements

Year Ended March 31, 2023

7. LONG TERM DEBT AND CREDIT FACILITIES

	<u>2023</u>	<u>2022</u>
Royal Bank of Canada term loan repayable in blended monthly payments of \$32,078, including interest at 2.82% per annum. The loan matures on February 28, 2026 and is secured by a general security agreement constituting a first ranking security interest in all personal property of the Society and a collateral mortgage on the Society's property at 2238 Yukon Street, Vancouver, BC with a carrying value of \$9,437,416.	\$ 6,508,901	\$ 6,707,203
Amounts payable within one year	<u>(204,017)</u>	<u>(198,352)</u>
	<u>\$ 6,304,884</u>	<u>\$ 6,508,851</u>

Accrued interest payable on the term loan of \$16,783 (2022 - \$15,762) is included in accounts payable and accrued liabilities on the Statement of Financial Position.

Principal repayment terms are approximately:

2024	\$ 204,017
2025	209,846
2026	<u>6,095,038</u>
	<u>\$ 6,508,901</u>

The Society has various credit card facilities available with American Express and Canadian Imperial Bank of Commerce (CIBC) as follows:

1. The American Express credit cards are unsecured, have a cumulative limit of \$50,000 and bear interest at prime + 25.99% per annum on overdue balances.
2. The CIBC Visa credit cards have a cumulative limit of \$10,000 and bear interest at 19.99% per annum on overdue balances. A \$10,000 guaranteed investment certificate is held as security for the credit cards.

8. INTERFUND TRANSFERS

\$629,473 was transferred from the Operating Fund to the Research Fund to cover administrative costs incurred in the Research Fund that relate to research activities.

\$500,000 was transferred, per board approval, from the unrestricted balance of the Operating Fund to the internally restricted balance of the Operating Fund for future contributions to the John Esdaile professorship endowment at UBC. Additionally, the board redesignated the \$2,000,000 internally restricted premises fund to instead be used for future contributions to the professorship. During the year, a reduction of \$5,921 was applied to the internally restricted balance for donations received (*Note 6*), which increased the unrestricted balance by the same amount.

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Notes to Financial Statements

Year Ended March 31, 2023

9. ALLOCATION OF EXPENSES

Research expenses of \$3,308,769 (2022 - \$2,832,401) have been allocated as follows:

	2023	2022
Research expenses		
Researcher salaries and contract fees	\$ 1,623,985	\$ 1,642,463
Research support salaries and fees	545,125	520,814
Research fees	494,445	141,719
Premises	224,980	288,230
Purchased services	169,041	81,466
Travel	80,361	27,083
Communications	55,417	57,477
General office	44,719	38,106
Meetings	28,055	5,219
Honorariums	26,450	16,004
Equipment purchases	16,191	13,820
	\$ 3,308,769	\$ 2,832,401

Premises as presented above consists of:

Mortgage interest	146,377	151,772
Property tax and strata fees	48,622	37,487
Facility maintenance	24,283	95,366
Utilities	5,698	3,605
	224,980	288,230

Fundraising expenses of \$440,360 (2022 - \$418,785) have been allocated as follows:

Fundraising expenses		
Administrative salaries and contract fees	\$ 234,987	\$ 239,472
Purchased services	96,472	96,446
Special events	69,760	38,052
General office	16,482	21,864
Communications	11,381	14,131
Equipment purchases	8,531	6,458
Travel	2,210	1,155
Meetings	537	1,207
	\$ 440,360	\$ 418,785
Total allocation of expenses	\$ 3,749,129	\$ 3,251,186

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Notes to Financial Statements

Year Ended March 31, 2023

10. OPERATING GRANTS

	2023	2022
Provincial Ministry of Health Grant	\$ 1,000,000	\$ 666,659
Federal Canada Summer Jobs Grant	-	4,756
	\$ 1,000,000	\$ 671,415

11. INVESTMENT REVENUE

	2023	2022
Dividends	\$ 251,860	\$ 227,218
Interest	114,723	108,943
Foreign investment revenue	101,989	70,947
Realized gains (losses) on investments	96,430	527,254
Foreign exchange gains (losses) on investments	(41,928)	6,491
	\$ 523,074	\$ 940,853

12. LEASE COMMITMENT

The Society has a lease for the use of a photocopier, which is secured by the copier itself. The lease is for \$484 per month and expires in December 2026. Future minimum lease payments are as follows:

2024	\$ 5,803
2025	5,803
2026	5,803
2027	4,353
	\$ 21,762

13. FINANCIAL INSTRUMENT RISKS

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 cash, 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:

- Cash held at year-end exceeds the amounts covered by the Canadian Deposit Insurance Corporation, serving to increase credit risk. The Society mitigates this risk by depositing its cash with large, high quality financial institutions.

(continues)

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Notes to Financial Statements

Year Ended March 31, 2023

13. FINANCIAL INSTRUMENT RISKS *(continued)*

- 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.
- 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:

- 47% of the accounts receivable are due from four customers, resulting in increased risk to the Society.
- 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.

Other Price Risk

Other price 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 other price 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 other price 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 US dollar bank accounts and foreign investments held in US dollars. Amounts held in US dollars have decreased by \$309,434 from the prior year, resulting in a decrease in exposure to currency risk.

14. REMUNERATION DISCLOSURE

In accordance with the Societies Act of British Columbia, the Society is required to disclose that the six highest paid individuals and persons under a contract for services that each exceeded \$75,000 of annual remuneration were paid a total sum of \$814,651.

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

Notes to Financial Statements

Year Ended March 31, 2023

15. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation. Specifically:

- 2022 Pfizer revenue recognized of \$172,266 has now been presented as research grant revenue of the Research Fund rather than donation revenue of the Operating Fund as the annual funding agreement specifies the requirement for two research studies reports to be delivered.
 - 2022 realized gains/losses on investments of \$527,254 are now presented in the investing activities section of the Statement of Cash Flows as part of the net proceeds (purchases) of investments rather than as a item not affecting cash in the operating activities section.
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