

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

Financial Statements

March 31, 2020

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

Index to Financial Statements

Year Ended March 31, 2020

	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

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, 2020, 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, 2020, 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.

(continues)

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

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:

- 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.

Burnaby, British Columbia
June 18, 2020



Chartered Professional Accountants

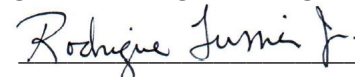
**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
CANADA**


Statement of Financial Position

March 31, 2020

	Operating Fund	Research Fund	2020	2019
ASSETS				
CURRENT				
Cash and cash equivalents	\$ -	\$ 591,482	\$ 591,482	\$ 1,239,619
Accounts receivable	13,525	141,371	154,896	2,513,545
Recoverable from government authorities - GST	30,534	-	30,534	26,477
Prepaid expenses	6,500	26,743	33,243	64,291
	50,559	759,596	810,155	3,843,932
PREPAID EXPENSES	-	26,743	26,743	26,743
INVESTMENTS (Note 3)	10,039,162	4,929,889	14,969,051	13,749,545
CAPITAL ASSETS (Note 4)	12,651	-	12,651	22,501
	\$ 10,102,372	\$ 5,716,228	\$ 15,818,600	\$ 17,642,721
LIABILITIES AND FUND BALANCES				
CURRENT				
Accounts payable and accrued liabilities	\$ 28,516	\$ 191,946	\$ 220,462	\$ 215,956
Payable to government authorities - source deductions	2,425	9,221	11,646	11,746
Current portion of deferred revenue (Note 5)	956,751	-	956,751	1,412,339
	987,692	201,167	1,188,859	1,640,041
DEFERRED REVENUE (Note 5)	666,667	5,000,326	5,666,993	6,624,857
	1,654,359	5,201,493	6,855,852	8,264,898
FUND BALANCES - page 4				
Unrestricted	6,448,013	-	6,448,013	8,863,088
Internally restricted	2,000,000	514,735	2,514,735	514,735
	8,448,013	514,735	8,962,748	9,377,823
	\$ 10,102,372	\$ 5,716,228	\$ 15,818,600	\$ 17,642,721

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, 2020

	Operating Fund	Research Fund	2020	2019
FUND BALANCES - BEGINNING OF YEAR	\$ 8,863,088	\$ 514,735	\$ 9,377,823	\$ 8,636,333
Excess (deficiency) of revenue over expenses - page 5	225,074	(640,149)	(415,075)	741,490
Interfund transfer (<i>Note 6</i>)	(640,149)	640,149	-	-
FUND BALANCES - END OF YEAR - page 3	\$ 8,448,013	\$ 514,735	\$ 8,962,748	\$ 9,377,823

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

Statement of Operations

Year Ended March 31, 2020

	Operating Fund	Research Fund	2020	2019
REVENUE				
Research grants	\$ -	\$ 2,482,616	\$ 2,482,616	\$ 2,612,689
Operating grants	1,338,240	-	1,338,240	666,667
Donations	586,850	-	586,850	781,586
Fundraising	181,844	-	181,844	207,870
Investment revenue (Note 8)	143,663	-	143,663	343,858
Other revenue	5,139	-	5,139	6,147
Foreign exchange gains (losses)	-	548	548	(7,001)
Unrealized gains (losses) on investments	(1,075,792)	-	(1,075,792)	(156,137)
	<u>1,179,944</u>	<u>2,483,164</u>	<u>3,663,108</u>	<u>4,455,679</u>
EXPENSES				
Research (Note 7)				
Salaries and benefits	-	2,080,801	2,080,801	1,841,792
Direct project costs	-	871,155	871,155	686,117
Premises costs	-	171,357	171,357	-
Fundraising (Note 7)				
Salaries and benefits	240,722	-	240,722	231,173
Direct costs	233,552	-	233,552	223,980
Administrative salaries and benefits	184,940	-	184,940	247,792
Operations	170,732	-	170,732	206,571
Investment management fees	65,467	-	65,467	48,816
Premises	49,607	-	49,607	216,099
Amortization	9,850	-	9,850	11,849
	<u>954,870</u>	<u>3,123,313</u>	<u>4,078,183</u>	<u>3,714,189</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES				
- page 4	\$ 225,074	\$ (640,149)	\$ (415,075)	\$ 741,490

See notes to financial statements

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

Statement of Cash Flows

Year Ended March 31, 2020

	2020	2019
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses - page 5	\$ (415,075)	\$ 741,490
Items not affecting cash:		
Amortization	9,850	11,849
Unrealized (gains) losses on investments	1,075,792	156,137
	<u>670,567</u>	<u>909,476</u>
Changes in non-cash working capital:		
Accounts receivable	2,358,649	(2,445,521)
Recoverable from government authorities - GST	(4,057)	935
Prepaid expenses	31,048	(58,858)
Accounts payable and accrued liabilities	4,506	127,190
Payable to government authorities - source deductions	(100)	1,064
Deferred revenue	(1,413,451)	1,565,227
	<u>976,595</u>	<u>(809,963)</u>
Cash flow from operating activities	<u>1,647,162</u>	<u>99,513</u>
INVESTING ACTIVITY		
Increase in investments	<u>(2,295,299)</u>	<u>(1,159,830)</u>
FINANCING ACTIVITY		
Purchase of capital assets	<u>-</u>	<u>(10,207)</u>
DECREASE IN CASH FLOW	(648,137)	(1,070,524)
Cash and cash equivalents - beginning of year	<u>1,239,619</u>	<u>2,310,143</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 591,482	\$ 1,239,619
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash - unrestricted	\$ -	\$ 381,849
Cash - restricted	591,482	-
High interest savings mutual fund units - unrestricted	-	225,793
High interest savings mutual fund units - restricted	-	631,977
	<u>\$ 591,482</u>	<u>\$ 1,239,619</u>

See notes to financial statements

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

Notes to Financial Statements

Year Ended March 31, 2020

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. 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").

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 internally restricted portion of the Operating Fund consists of reserves set aside to fund the future premises costs, move costs and associated renovation costs.

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 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.

(continues)

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

Notes to Financial Statements

Year Ended March 31, 2020

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

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. Externally restricted amounts can only be used for purposes designated by the contributor. All other externally restricted contributions are recognized as revenue of the appropriate restricted fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions 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.

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

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 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.

Cash and 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.

(*continues*)

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

Notes to Financial Statements

Year Ended March 31, 2020

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

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 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 3* for additional details.

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

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 \$50,000 consisting of publicly traded securities (2019 - 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, 2020

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

Allocation of expenses

The Society classifies its expenses by function, including its research, fundraising and operations expenses. For these expenses, the Society identifies the appropriate basis of allocating each component expense and applies that basis consistently each year.

Research expense is made up of researcher salaries and contract fees, research support salaries and fees, honorariums, equipment purchases, research fees, travel, meetings, purchased services, communications, facilities 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 7* for the research and fundraising expense allocation amounts for the year.

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 the administrative expense allocation to research and fundraising expense.

The administrative expense amounts allocated consist primarily of administrative salaries and general researcher fees. 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.

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

Notes to Financial Statements

Year Ended March 31, 2020

3. INVESTMENTS

	<u>2020</u>	<u>2019</u>
Fixed income securities	\$ 7,614,977	\$ 8,499,079
Common shares	5,193,045	3,217,026
Preferred shares	1,039,620	931,410
Other foreign securities	731,744	859,303
Mutual funds	389,666	242,727
	<u>\$ 14,969,052</u>	<u>\$ 13,749,545</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 (losses) included in the above balances are (\$1,242,225) (2019 - (\$166,433)).

4. CAPITAL ASSETS

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Computer hardware	\$ 43,760	\$ 38,255	\$ 5,505	\$ 9,092
Computer software	16,524	16,524	-	-
Furniture and fixtures	172,826	165,680	7,146	9,732
Leasehold improvements	29,418	29,418	-	3,677
	<u>\$ 262,528</u>	<u>\$ 249,877</u>	<u>\$ 12,651</u>	<u>\$ 22,501</u>

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

Notes to Financial Statements

Year Ended March 31, 2020

5. 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	2020
<u>Current portion deferred revenue</u>				
Province of B.C. Ministry of Health grants (i)	\$ 1,333,322	\$ -	\$ 666,666	\$ 666,656
Other grants	12,849	185,178	3,252	194,775
Soiree contributions	66,168	95,320	66,168	95,320
	<u>1,412,339</u>	<u>280,498</u>	<u>736,086</u>	<u>956,751</u>
<u>Long term portion deferred revenue</u>				
Research grants (i)	5,003,417	1,796,507	2,112,508	4,687,416
Province of B.C. Ministry of Health grants (ii)	1,333,333	-	666,666	666,667
Doctors designations (iii)	288,107	228,509	203,706	312,910
	<u>6,624,857</u>	<u>2,025,016</u>	<u>2,982,880</u>	<u>5,666,993</u>
	<u>\$ 8,037,196</u>	<u>\$ 2,305,514</u>	<u>\$ 3,718,966</u>	<u>\$ 6,623,744</u>

(i) The opening deferred research grant revenue and Operating Fund balances increased by \$60,021 for unspent grant amounts from the prior year that were previously recognized. This resulted in a corresponding decrease to the prior year's Research Fund excess and interfund transfer.

(ii) 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, 2022, 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.

(iii) 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.

6. INTERFUND TRANSFER

During the year, \$640,149 was transferred from the Operating Fund to the Research Fund to cover administrative costs incurred in the Research Fund that relate to research activities.

An internal restriction of \$2,000,000 from unrestricted resources to establish a reserve for future premises expenses was approved by the board of directors during the year and is presented in the Operating Fund.

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

Notes to Financial Statements

Year Ended March 31, 2020

7. ALLOCATION OF EXPENSES

Research expenses of \$3,123,313 (2019 - \$2,527,909) have been allocated as follows:

	<u>2020</u>	<u>2019</u>
<u>Research expenses</u>		
Researcher salaries and contract fees	\$ 1,759,208	\$ 1,687,010
Research fees	407,549	334,633
Research support salaries and fees	321,593	154,782
Purchased services	187,022	112,589
Premises	171,357	-
Travel	141,562	107,210
Meetings	52,234	39,447
General office	25,574	27,118
Equipment purchases	21,069	27,883
Honorariums	20,071	15,681
Communications	16,074	21,556
	<u>\$ 3,123,313</u>	<u>\$ 2,527,909</u>

Current year allocation of research expenses includes three additional research support salaries as well as premises costs. These allocations were not performed in the prior year.

Fundraising expenses of \$474,274 (2019 - \$455,153) have been allocated as follows:

<u>Fundraising expenses</u>		
Administrative salaries and contract fees	\$ 240,722	\$ 231,173
Purchased services	114,785	103,245
Special events	67,537	77,170
Communications	26,882	17,764
General office	16,656	17,917
Equipment purchases	4,893	4,925
Travel	1,679	1,925
Meetings	1,120	1,034
	<u>\$ 474,274</u>	<u>\$ 455,153</u>
Total allocation of expenses	<u>\$ 3,597,587</u>	<u>\$ 2,983,062</u>

8. INVESTMENT REVENUE

	<u>2020</u>	<u>2019</u>
Dividends	\$ 176,471	\$ 169,299
Interest income	134,531	136,707
Foreign investment revenue	74,138	58,358
Foreign exchange gains (losses) on investments	(40,745)	6,701
Realized gains (losses) on investments	(200,732)	(27,207)
	<u>\$ 143,663</u>	<u>\$ 343,858</u>

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

Notes to Financial Statements

Year Ended March 31, 2020

9. 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 accounts receivable, cash and cash equivalents 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.
- 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:

- 86% of the accounts receivable are due from two customers, resulting in increased risk to the Society as the risk of collection has been spread over relatively few customers.
- 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.

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.

Significant uncertainties and economic challenges arising from the COVID-19 pandemic have served to increase market risk at year-end as 49% of the investment portfolio consists of common shares, preferred shares and foreign securities that are more susceptible to the negative market effects arising from the pandemic's immediate and projected economic declines. The recovery of unrealized losses to fair value suffered by these investments will depend on several factors, including the speed and strength of economic recovery, future outbreaks or vaccinations of COVID-19, and the length of time that these investments will be held.

(continues)

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

Notes to Financial Statements

Year Ended March 31, 2020

9. FINANCIAL INSTRUMENT RISKS *(continued)*

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 and foreign investments held in USD.

10. CREDIT FACILITIES

The Society has credit facilities available related to its credit cards. The Society's American Express credit cards have a cumulative limit of \$145,000 and bear interest at prime + 25.99% per annum. The Society's CIBC Visa credit cards have a cumulative limit of \$20,000 and bear interest at 19.99% per annum.

11. REMUNERATION DISCLOSURE

In accordance with the Societies Act of British Columbia, the Society is required to disclose that the five highest paid individuals and persons under a contract for services that each exceeded \$75,000 of annual remuneration were paid a total sum of \$644,544.
