

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

Financial Statements

March 31, 2019

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

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Year Ended March 31, 2019

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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, 2019, 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, 2019, 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.

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

Report on 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.

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 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.

In preparing the financial statements, management is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters relating 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:

- 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.

Burnaby, British Columbia
June 25, 2019


Chartered Professional Accountants

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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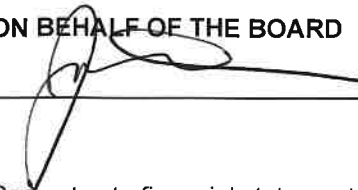
Statement of Financial Position

March 31, 2019

	Operating Fund	Research Fund	2019	2018
ASSETS				
CURRENT				
Cash and cash equivalents	\$ 607,642	\$ 631,977	\$ 1,239,619	\$ 2,310,143
Accounts receivable	2,000,000	513,545	2,513,545	68,024
Recoverable from government authorities - GST	26,477	-	26,477	27,412
Prepaid expenses	37,548	26,743	64,291	32,176
	2,671,667	1,172,265	3,843,932	2,437,755
PREPAID EXPENSES	-	26,743	26,743	-
INVESTMENTS (Note 3)	9,081,852	4,667,693	13,749,545	12,745,853
CAPITAL ASSETS (Note 4)	22,501	-	22,501	24,143
	\$ 11,776,020	\$ 5,866,701	\$ 17,642,721	\$ 15,207,751
LIABILITIES AND FUND BALANCES				
CURRENT				
Accounts payable and accrued liabilities	\$ 105,021	\$ 110,935	\$ 215,956	\$ 88,766
Payable to government authorities - source deductions	2,218	9,528	11,746	10,683
Current portion of deferred revenue (Note 5)	1,412,339	-	1,412,339	889,733
	1,519,578	120,463	1,640,041	989,182
DEFERRED REVENUE (Note 5)	1,333,333	5,231,503	6,564,836	5,582,236
	2,852,911	5,351,966	8,204,877	6,571,418
FUND BALANCES - page 4				
Unrestricted	8,923,109	-	8,923,109	8,121,598
Internally restricted	-	514,735	514,735	514,735
	8,923,109	514,735	9,437,844	8,636,333
	\$ 11,776,020	\$ 5,866,701	\$ 17,642,721	\$ 15,207,751

LEASE COMMITMENT (Note 6)

ON BEHALF OF THE BOARD



Director



Director

See notes to financial statements

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Statement of Changes in Fund Balances

Year Ended March 31, 2019

	Operating Fund	Research Fund	2019	2018
FUND BALANCES - BEGINNING OF YEAR	\$ 8,121,598	\$ 514,735	\$ 8,636,333	\$ 7,668,939
Excess of revenue over expenses - page 5	663,711	137,800	801,511	967,394
Interfund transfer (Note 7)	137,800	(137,800)	-	-
FUND BALANCES - END OF YEAR - page 3	\$ 8,923,109	\$ 514,735	\$ 9,437,844	\$ 8,636,333

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Statement of Operations

Year Ended March 31, 2019

	Operating Fund	Research Fund	2019	2018
REVENUE				
Research grants	\$ -	\$ 2,672,710	\$ 2,672,710	\$ 2,350,031
Donations	781,586	-	781,586	642,943
Operating grants	666,667	-	666,667	1,032,522
Investment revenue (Note 9)	343,858	-	343,858	540,505
Fundraising	207,870	-	207,870	193,935
Other revenue	6,147	-	6,147	7,192
Foreign exchange gains (losses)	-	(7,001)	(7,001)	17,804
Unrealized losses on investments	(156,137)	-	(156,137)	(368,975)
	<u>1,849,991</u>	<u>2,665,709</u>	<u>4,515,700</u>	<u>4,415,957</u>
EXPENSES				
Research (Note 8)				
Salaries and contract fees	-	1,841,792	1,841,792	1,556,486
Direct project costs	-	686,117	686,117	833,605
Fundraising (Note 8)				
Salaries and contract fees	231,173	-	231,173	220,829
Direct costs	223,980	-	223,980	196,950
Administrative salaries	247,792	-	247,792	264,916
Premises	216,099	-	216,099	195,300
Operations	206,571	-	206,571	163,819
Investment management fees	48,816	-	48,816	-
Amortization	11,849	-	11,849	16,658
	<u>1,186,280</u>	<u>2,527,909</u>	<u>3,714,189</u>	<u>3,448,563</u>
EXCESS OF REVENUE OVER EXPENSES - page 4	<u>\$ 663,711</u>	<u>\$ 137,800</u>	<u>\$ 801,511</u>	<u>\$ 967,394</u>

See notes to financial statements

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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**Statement of Cash Flows
Year Ended March 31, 2019**

	2019	2018
OPERATING ACTIVITIES		
Excess of revenue over expenses - page 5	\$ 801,511	\$ 967,394
Items not affecting cash:		
Amortization	11,849	16,658
Unrealized (gains) losses on investments	156,137	368,975
	<u>969,497</u>	<u>1,353,027</u>
Changes in non-cash working capital:		
Accounts receivable	(2,445,521)	101,317
Recoverable from government authorities - GST	935	(5,426)
Prepaid expenses	(58,858)	(20,842)
Accounts payable and accrued liabilities	127,190	(109,048)
Payable to government authorities - payroll deductions	1,064	1,013
Deferred revenue	1,505,206	1,428,793
	<u>(869,984)</u>	<u>1,395,807</u>
Cash flow from operating activities	<u>99,513</u>	<u>2,748,834</u>
INVESTING ACTIVITY		
Increase in investments	<u>(1,159,830)</u>	<u>(9,058,645)</u>
Cash flow used by investing activity	<u>(1,159,830)</u>	<u>(9,058,645)</u>
FINANCING ACTIVITIES		
Purchase of capital assets	(10,207)	-
Decrease in deferred capital contribution	-	(1,333)
Cash flow used by financing activities	<u>(10,207)</u>	<u>(1,333)</u>
DECREASE IN CASH FLOW	(1,070,524)	(6,311,144)
Cash and cash equivalents - beginning of year	<u>2,310,143</u>	<u>8,621,287</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,239,619	\$ 2,310,143
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash - unrestricted	\$ 381,849	\$ 736,611
High interest savings mutual fund units - unrestricted	225,793	994,759
High interest savings mutual fund units - restricted	631,977	578,773
	<u>\$ 1,239,619</u>	<u>\$ 2,310,143</u>

See notes to financial statements

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

Notes to Financial Statements

Year Ended March 31, 2019

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 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.

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**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Notes to Financial Statements

Year Ended March 31, 2019

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.

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.

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.

(*continues*)

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Notes to Financial Statements

Year Ended March 31, 2019

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

Capital assets

In accordance with Handbook Section 4433 Tangible Capital Assets Held by Not-for-Profit Organizations, the Society has changed its accounting policy with respects to capital assets, specifically adopting componentization whereby significant, separable component parts are allocated when practicable. Due to the nature and composition of the Society's capital assets, no adjustments were required to the current or prior years' figures.

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\$ (2018 - 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.

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**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Notes to Financial Statements

Year Ended March 31, 2019

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 benefits, research support salaries, honorariums, equipment purchases, research fees, travel, meetings, purchased services, communications, 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, travel, meetings, purchased services, communications, equipment purchases, 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 8* 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 revenues 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 expense.

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITIS-RECHERCHE
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Notes to Financial Statements

Year Ended March 31, 2019

3. INVESTMENTS

	<u>2019</u>	<u>2018</u>
Fixed income securities	\$ 8,499,079	\$ 8,613,324
Common shares	3,217,026	2,549,812
Preferred shares	931,410	534,990
Other foreign securities	859,303	791,794
Mutual funds	242,727	255,933
	<u>\$ 13,749,545</u>	<u>\$ 12,745,853</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 (\$166,433) (2018 - \$4,357).

The investments do not include \$857,770 (2018 - \$1,573,532) 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.

4. CAPITAL ASSETS

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Computer hardware	\$ 43,761	\$ 34,669	\$ 9,092	\$ 13,673
Computer software	16,524	16,524	-	-
Furniture and fixtures	172,826	163,094	9,732	3,116
Leasehold improvements	29,418	25,741	3,677	7,354
	<u>\$ 262,529</u>	<u>\$ 240,028</u>	<u>\$ 22,501</u>	<u>\$ 24,143</u>

ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE CANADA

Notes to Financial Statements

Year Ended March 31, 2019

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	2019
<u>Current portion deferred revenue</u>				
Province of B.C. Ministry of Health grants (i)	\$ 666,667	\$ 1,333,322	\$ 666,667	\$ 1,333,322
Soiree contributions	111,560	66,168	111,560	66,168
Other grants	29,708	5,640	22,499	12,849
Pfizer innovation grant	81,798	-	81,798	-
	<u>889,733</u>	<u>1,405,130</u>	<u>882,524</u>	<u>1,412,339</u>
<u>Long term portion deferred revenue</u>				
Research grants	4,573,210	2,357,501	1,987,315	4,943,396
Province of B.C. Ministry of Health grants (i)	666,656	666,677	-	1,333,333
Doctors designations (ii)	342,370	55,939	110,202	288,107
	<u>5,582,236</u>	<u>3,080,117</u>	<u>2,097,517</u>	<u>6,564,836</u>
	<u>\$ 6,471,969</u>	<u>\$ 4,485,247</u>	<u>\$ 2,980,041</u>	<u>\$ 7,977,175</u>

(i) The Province of B.C. Ministry of Health (the "Ministry") grants are 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. There are two grants - the completion date of the first grant is March 31, 2020, and the completion date of the second 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.

Included in accounts receivable is the second grant of \$2,000,000 that came due and payable to the Society upon signing of the agreement on March 27, 2019.

(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.

6. LEASE COMMITMENT

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.

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Notes to Financial Statements

Year Ended March 31, 2019

7. INTERFUND TRANSFER

During the year, the following interfund transfer occurred:

\$137,800 was transferred from the Research Fund to the Operating Fund to cover administrative costs incurred in the Operating Fund that relate to research activities.

8. ALLOCATION OF EXPENSES

Research expenses of \$2,527,909 (2018 - \$2,390,091) have been allocated as follows:

	<u>2019</u>	<u>2018</u>
<u>Research expenses</u>		
Researcher salaries and contract fees	\$ 1,687,010	\$ 1,407,598
Research fees	334,633	551,723
Research support salaries and fees	154,782	148,888
Purchased services	112,589	77,598
Travel	107,210	85,228
Meetings	39,447	53,473
Equipment purchases	27,883	20,499
General office	27,118	26,374
Communications	21,556	11,535
Honorariums	15,681	7,175
	<u>\$ 2,527,909</u>	<u>\$ 2,390,091</u>

Fundraising expenses of \$455,153 (2018 - \$417,779) have been allocated as follows:

<u>Fundraising expenses</u>		
Administrative salaries and contract fees	\$ 231,173	\$ 220,829
Purchased services	103,245	99,558
Special events	77,170	57,623
General office	17,917	16,827
Communications	17,764	18,206
Equipment purchases	4,925	2,041
Travel	1,925	1,470
Meetings	1,034	1,225
	<u>\$ 455,153</u>	<u>\$ 417,779</u>
Total allocation of expenses	<u>\$ 2,983,062</u>	<u>\$ 2,807,870</u>

**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Notes to Financial Statements

Year Ended March 31, 2019

9. INVESTMENT REVENUE

	<u>2019</u>	<u>2018</u>
Dividends	\$ 169,299	\$ 61,393
Interest income	136,707	99,693
Foreign investment revenue	65,059	13,965
Realized gains (losses) on investments	<u>(27,207)</u>	<u>365,454</u>
	<u>\$ 343,858</u>	<u>\$ 540,505</u>

10. 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.

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.
- Cash is held through one financial institution and is guaranteed to a limited degree by government insurance provisions that cover deposits.
- Cash equivalents and 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:

- Cash is 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. Therefore any financial difficulties encountered by that financial institution could adversely affect the collectability and valuation of the deposits.

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**ARTHRITIS RESEARCH CENTRE SOCIETY OF CANADA / ARTHRITE-RECHERCHE
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Notes to Financial Statements

Year Ended March 31, 2019

10. FINANCIAL INSTRUMENTS *(continued)*

- All the cash equivalents and 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.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Society is exposed to interest rate risk for its investments. Exposures to interest rate risk and significant changes to the risk exposure from the prior year are as follows:

- The majority of investments consists of fixed income securities issued by large corporations, which are tied to set interest rates, minimizing the risk of significant reductions to interest income.

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.

11. 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.

12. REMUNERATION DISCLOSURE

In accordance with the Societies Act of British Columbia, the Society is required to disclose that the four highest paid individuals and persons under a contract for services that each exceeded \$75,000 of annual remuneration were paid a total sum of \$464,313.
