

Financial Statements of

**THE ARTHRITIS SOCIETY/
LA SOCIÉTÉ D'ARTHRITE**

Year ended March 31, 2014



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Arthritis Society/La Société d'Arthrite

We have audited the accompanying financial statements of The Arthritis Society/La Société d'Arthrite, which comprise the statement of financial position as at March 31, 2014, the statements of financial activities, changes in resources and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Basis for Qualified Opinion

In common with many not-for-profit organizations, The Arthritis Society/La Société d'Arthrite derives revenue from contributions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of The Arthritis Society/La Société d'Arthrite. Therefore, we were not able to determine whether, as at and for the years ended March 31, 2014 and 2013, any adjustments might be necessary to contributions, deficiency of revenue over expenses reported in the statements of financial activities, deficiency of revenue over expenses reported in the statements of cash flows and current assets and unappropriated resources reported in the statements of financial position. This caused us to qualify our audit opinion on the financial statements as at and for the year ended March 31, 2013.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of The Arthritis Society/La Société d'Arthrite as at March 31, 2014, and its results of operations, its changes in resources and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 21, 2014
Toronto, Canada

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

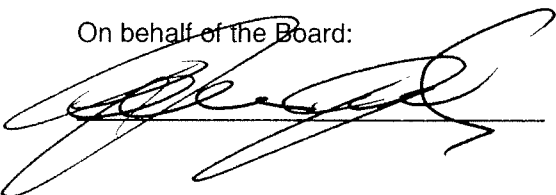
Statement of Financial Position


March 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash	\$ 1,410,090	\$ 57,745
Restricted cash	200,873	230,255
Short-term investments (note 2)	2,630,540	2,478,436
Accounts receivable	584,893	563,120
Prepaid expenses	540,299	276,209
	<u>5,366,695</u>	<u>3,605,765</u>
Long-term investments (note 2)	11,143,062	17,322,498
Capital assets (note 3)	1,676,516	1,044,336
	<u>\$ 18,186,273</u>	<u>\$ 21,972,599</u>
Liabilities and Resources		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,208,122	\$ 1,389,836
Deferred revenue	362,138	527,010
Research awards payable	1,670,131	1,435,179
	<u>5,240,391</u>	<u>3,352,025</u>
Deferred capital grants and donations (note 4)	81,372	128,277
Deferred contributions (note 5)	1,481,106	1,869,484
Deferred lease inducements (note 6)	18,966	25,289
	<u>6,821,835</u>	<u>5,375,075</u>
Resources:		
Unappropriated	2,779,575	3,071,990
Appropriated (note 7)	4,593,842	10,232,952
Endowments	2,414,843	2,401,812
Invested in capital assets	1,576,178	890,770
	<u>11,364,438</u>	<u>16,597,524</u>
Commitments (notes 11 and 12)		
	<u>\$ 18,186,273</u>	<u>\$ 21,972,599</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Statement of Financial Activities

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Revenue:		
Support from the public:		
Campaigns	\$ 16,669,521	\$ 17,203,484
United Way	193,555	258,284
Bequests	7,249,879	6,028,362
	<u>24,112,955</u>	<u>23,490,130</u>
Investment, rental and miscellaneous	2,070,628	2,184,503
Support from government departments and agencies	5,395,569	5,445,395
Total revenue	<u>31,579,152</u>	<u>31,120,028</u>
Expenses:		
Research	5,125,167	4,739,501
Programs and services (note 13)	15,209,726	12,357,309
Building operation	483,434	534,258
Administration (note 13)	3,120,666	3,943,163
	<u>23,938,993</u>	<u>21,574,231</u>
Cost of raising funds from the public (note 13)	12,884,320	11,591,114
Total expenses	<u>36,823,313</u>	<u>33,165,345</u>
Deficiency of revenue over expenses	<u>\$ (5,244,161)</u>	<u>\$ (2,045,317)</u>

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Statement of Changes in Resources

Year ended March 31, 2014, with comparative information for 2013

	2014				2013	
	Unappropriated	Appropriated (note 7)	Endowments	Invested in capital assets	Total	Total
Resources, beginning of year	\$ 3,071,990	\$ 10,232,952	\$ 2,401,812	\$ 890,770	\$ 16,597,524	\$ 18,598,404
Excess (deficiency) of revenue over expenses	(4,893,341)	-	1,956	(352,776)	(5,244,161)	(2,045,317)
Additions to capital assets	(1,053,594)	-	-	1,053,594	-	-
Deferred capital grants and donations received	15,410	-	-	(15,410)	-	-
Endowment contributions	-	-	11,075	-	11,075	44,437
Interfund transfers (note 7)	5,639,110	(5,639,110)	-	-	-	-
Resources, end of year	\$ 2,779,575	\$ 4,593,842	\$ 2,414,843	\$ 1,576,178	\$ 11,364,438	\$ 16,597,524

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (5,244,161)	\$ (2,045,317)
Items not affecting cash:		
Amortization of deferred capital grants and donations	(62,315)	(55,197)
Amortization of deferred contributions	(859,992)	(365,232)
Amortization of deferred lease inducements	(6,323)	(6,323)
Amortization of capital assets	421,414	483,351
Change in unrealized gain on investments	(17,494)	(532,907)
Change in non-cash operating working capital (note 9)	1,602,503	(3,375,223)
	(4,166,368)	(5,896,848)
Financing activities:		
Deferred contributions received	471,614	403,586
Endowment contributions	11,075	44,437
Deferred capital grants and donations received	15,410	37,374
	498,099	485,397
Investing activities:		
Net change in investments	6,044,826	2,566,187
Net purchases of capital assets	(1,053,594)	(241,045)
	4,991,232	2,325,142
Increase (decrease) in cash	1,322,963	(3,086,309)
Cash, beginning of year	288,000	3,374,309
Cash, end of year	\$ 1,610,963	\$ 288,000
Represented by:		
Cash	\$ 1,410,090	\$ 57,745
Restricted cash	200,873	230,255
	\$ 1,610,963	\$ 288,000

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements

Year ended March 31, 2014

The Arthritis Society/La Société d'Arthrite (the "Society") is incorporated without share capital, the Society was previously incorporated under the Canada Corporations Act and was continued under the Canada Not-for-Profit Corporations Act in July 2013. The Society is a charitable organization registered under the Income Tax Act (Canada) and as such, it is exempt from income taxes and is able to issue donation receipts for income tax purposes.

The mission of the Society is to provide leadership and funding in research, advocacy and solutions to improve the quality of life for Canadians affected by arthritis.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the Chartered Professional Accountants of Canada Handbook.

(a) Basis of presentation:

These financial statements include the assets, liabilities, revenue and expenses of the 10 divisions and the National Office of the Society.

(b) Revenue recognition:

The Society follows the deferral method of accounting. Under the deferral method, contributions related to expenses of future periods are recorded as deferred contributions and are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Endowment contributions are shown on the statement of changes in resources.

Support from the public is reflected as revenue when the funds are received.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(c) Allocation of expenses:

Expenses are recorded and reported by programs and services. Certain employees perform a combination of program, fundraising and administrative functions; as a result, salaries and benefits are allocated based on time dedicated to the functional activities. Other costs, including executive office and administrative support, are allocated to the programs and services that benefit from the activities. Such allocations are reviewed regularly by management.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Society has elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Society determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Society expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(e) Resources balances:

Unappropriated resources record the general activities of the Society.

Appropriated resources include a minimum operating reserve sufficient to maintain ongoing operations and programs equal to three months, as approved by the Board of Directors.

Invested in capital assets reflect that portion of the Society's resources that relate to capital assets. These resources will increase for capital asset purchases, reductions in capital lease obligations, amortization of deferred capital grants and donations directly related to capital assets, and will be reduced by amortization charges, the net book value of capital asset disposals, increases in capital lease obligations and increases in deferred capital grants and donations.

Endowment funds are externally restricted donations received by the Society where the endowment principal is required to be maintained intact. The investment income generated from these endowments is to be used in accordance with the various purposes established by the donors. The Society ensures that all funds received with a restricted purpose are expended for the purpose for which they were provided.

(f) Research awards payable:

These financial statements reflect grants made during the year, which became effective at different dates during the year. The balance of these grants remaining payable at year end is included as research awards payable on the statement of financial position.

(g) Capital assets:

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Society's ability to provide services, its carrying amount is written down to its residual value.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

Amortization is provided on a straight-line basis over the estimated useful lives of the assets and is recorded beginning in the month of acquisition as follows:

Buildings	5%
Computer equipment and software	33.33%
Furniture and equipment	20%
Leasehold improvements	Term of lease

(h) Deferred capital grants and donations:

Government grants and donations received for the purpose of capital purchases are deferred and amortized over the expected useful life of the asset to which the grants and donations relate.

(i) Deferred lease inducements:

Deferred lease inducements represent leasehold improvements on account of capital expenditures financed by the landlord. These lease inducements are amortized on a straight-line basis over the term of the lease and are recorded as a reduction in rental expense.

(j) Contributed services:

Volunteers contribute countless hours each year to assist the Society in achieving its mission. Because of the difficulty in determining their fair value, contributed services are not recognized in the financial statements.

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

2. Investments:

(a) Short-term investments include:

	2014	2013
Cash	\$ 239,345	\$ 426,305
Fixed income	1,856,003	1,783,353
Money market	535,192	268,778
	\$ 2,630,540	\$ 2,478,436

Short-term fixed income funds have maturity dates of less than a year from the statement of financial position date, and bear interest at rates ranging from 1.6% to 4.9% (2013 - 1.7% to 6.3%).

(b) Long-term investments include:

	2014	2013
Fixed income	\$ 6,738,147	\$ 10,864,386
Equities	4,404,915	6,458,112
	\$ 11,143,062	\$ 17,322,498

Long-term investments consist of fixed income bonds with maturity dates greater than a year from the statement of financial position date and bearing interest at rates ranging from 1.0% to 7.8% (2013 - 1.5% to 7.8%), and Canadian and U.S. equities and investments in unit trusts.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

3. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 239,306	\$ –	\$ 239,306	\$ 239,306
Buildings	6,245,899	5,611,587	634,312	–
Computer equipment and software	1,068,904	766,516	302,388	447,153
Furniture and equipment	389,658	178,043	211,615	90,113
Leasehold improvements	642,106	353,211	288,895	267,764
	<u>\$ 8,585,873</u>	<u>\$ 6,909,357</u>	<u>\$ 1,676,516</u>	<u>\$ 1,044,336</u>

4. Deferred capital grants and donations:

Deferred capital grants and donations represent restricted capital funding received for the purchase of capital assets. Grants and donations are amortized on the same basis as the capital asset to which they relate. Changes in the deferred capital asset grants and donations balances during the year are as follows:

	2014	2013
Balance, beginning of year	\$ 128,277	\$ 146,100
Grants received	15,410	37,374
Less amortization	62,315	55,197
Balance, end of year	<u>\$ 81,372</u>	<u>\$ 128,277</u>

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

5. Deferred contributions:

Deferred contributions represent unspent resources, externally or internally restricted, for education, volunteer/community development, patient care, research purposes and restricted operating funds received in the current year or prior years that are related to subsequent periods. Changes in the deferred contribution balances during the year are as follows:

					2014	2013
	Education	Volunteer/ community development	Patient care	Research	Total	Total
Balance, beginning of year	\$ 841,560	\$ 40,017	\$ 398,106	\$ 589,801	\$ 1,869,484	\$ 1,831,130
Funds received	290,560	—	21,054	160,000	471,614	403,586
Amount recognized as revenue	(470,033)	(2,135)	(87,827)	(299,997)	(859,992)	(365,232)
Balance, end of year	\$ 662,087	\$ 37,882	\$ 331,333	\$ 449,804	\$ 1,481,106	\$ 1,869,484

6. Deferred lease inducements:

	2014	2013
Tenant inducements	\$ 63,225	\$ 63,225
Less accumulated amortization	44,259	37,936
	\$ 18,966	\$ 25,289

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

7. Appropriated resources:

The Board of Directors of the Society has approved \$4,593,842 (2013 - \$10,232,952) in order to maintain a minimum operating reserve sufficient to maintain ongoing operations and programs equal to three months and to satisfy donor requirements. The appropriated resources balance consists of the following:

	2013	Board- approved transfers	2014
Operating reserve	\$ -	\$ 4,500,000	\$ 4,500,000
Research stabilization account	9,928,095	(9,928,095)	-
Aqueduct Foundation Grant - Ontario Division	55,767	38,075	93,842
Community groups - B.C. and Yukon Division	148,164	(148,164)	-
Arthritis McRobbie Fund - B.C. and Yukon Division	100,926	(100,926)	-
	<u>\$ 10,232,952</u>	<u>\$ (5,639,110)</u>	<u>\$ 4,593,842</u>

8. Annuity, life insurance and charitable remainder trust revenue:

As at March 31, 2014, the Society is the beneficiary of several annuities purchased by donors with original annuity contract amounts of \$464,500 (2013 - \$534,500). A cash donation is initially received, with the remainder being invested in an annuity. The cash donation and any realized beneficiary amounts are recorded as revenue when received. During 2014, nil (2013 - nil) was received in cash and included in campaigns revenue.

The Society is also the beneficiary of several life insurance policies purchased by donors. Revenue relating to these policies is recorded on a cash basis. The total death benefit relating to these policies outstanding as at March 31, 2014 amounted to \$704,534 (2013 - \$804,534). During 2014, \$122,120 (2013 - \$102,029) was received in cash and included in campaigns revenue.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

8. Annuity, life insurance and charitable remainder trust revenue (continued):

The Society is also the beneficiary of several charitable remainder trusts. The donations are recorded as revenue when the cash is received. The trust amounts outstanding as at March 31, 2014 amounted to \$504,000 (2013 - \$503,213). During 2014, \$4,097 (2013 - \$16,196) was received in cash and included in campaigns revenue.

9. Change in non-cash operating working capital:

	2014	2013
Accounts receivable	\$ (21,773)	\$ (145,681)
Prepaid expenses	(264,090)	(41,604)
Accounts payable and accrued liabilities	1,818,286	(623,020)
Deferred revenue	(164,872)	(336,016)
Research awards payable	234,952	(2,228,902)
	\$ 1,602,503	\$ (3,375,223)

10. Pension plan:

Certain of the employees of the Society are members of The Fund of the Arthritis Society Pension Plan (the "Plan"), which is a defined contribution plan. Employer contributions made to the Plan during the fiscal year by the Society are reflected in the statement of financial activities and amounted to \$464,227 (2013 - \$418,530).

11. Research commitments:

The Society has currently approved research commitments over the next five years as follows:

2015	\$ 4,242,099
2016	2,430,723
2017	1,330,000
2018	190,000
2019	145,000
	\$ 8,337,822

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

12. Commitments:

The Society has entered into several operating lease commitments for office premises and office equipment. The minimum annual lease payments are as follows:

2015	\$ 1,863,000
2016	1,570,000
2017	1,363,000
2018	1,080,000
2019	1,029,000
Thereafter	4,683,000
	<hr/>
	\$ 11,588,000

13. Expenses:

The Society has incurred expenditures for two one-time funded projects, approved by the Board of Directors, as follows:

(a) Seed Funding:

The National Board of Directors approved an allocation up to a maximum of \$1 million from accumulated reserves to help fund new initiatives that would significantly enhance the Society's ability to progress the objectives described in the business plan and budget. The investment is divided among three categories: Fundraising, Mission and Enablers. A total of \$634,014 was spent in this fiscal year with the remainder to be spent next fiscal year. Current year expenses are included in programs and services, administration and cost of raising funds from the public (note 14).

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

13. Expenses (continued):

(b) PAIN Campaign:

On March 24, 2014, the Society launched Erase the Pain, a \$25-million multi-year fundraising campaign built on the input, advice and life experiences of those living with arthritis after a six-month dialogue, to identify the highest priorities for action. New initiatives funded through this campaign will address real needs impacting people living with arthritis today in the areas of cure, care and community. Beyond the mission delivery imperative, the objectives of Erase the Pain are to raise awareness of the Society and arthritis issues; and to generate revenue development opportunities from both personal and corporate donors. A total of \$3,000,000 was spent on this campaign in this fiscal year and is included in programs and services and cost of raising funds from the public (note 14).

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

14. Allocation of expenses:

The Society has allocated its common expenses as follows:

2014	Programs and services			Building operation	Administration	Cost of raising funds	Total
	Research	and services					
Executive office ⁽¹⁾	\$ 115,419	\$ 346,258	\$	–	\$ 92,335	\$ 369,341	\$ 923,353
Mission office ⁽²⁾	85,076	255,227	–	–	–	–	340,303
Amortization of capital assets ⁽³⁾	19,573	275,782	24,352	60,075	41,632	41,632	421,414
Seed Funding project ⁽⁴⁾	–	401,618	–	100,000	132,396	132,396	634,014
PAIN Campaign project ⁽⁵⁾	–	1,819,109	–	–	–	1,180,891	3,000,000

2013	Programs and services			Administration	Cost of raising funds	Total
	Research	and services				
Executive office ⁽¹⁾	\$ 120,559	\$ 361,678	\$ 96,448	\$ 385,790	\$ 964,475	
Mission office ⁽²⁾	12,892	38,675	–	–	51,567	
Amortization of capital assets ⁽³⁾	17,751	240,643	182,410	42,547	483,351	

⁽¹⁾ Executive office expenses consist primarily of salaries and benefits and staff travel and meeting expenses of the National Office.

⁽²⁾ Mission office expenses consist primarily of salaries and benefits and staff travel and meeting expenses of the National Office.

⁽³⁾ Amortization of capital assets consists of amortization costs of assets across all Divisions and the National Office.

⁽⁴⁾ Seed Funding project consists of expenses for new initiatives approved by the Board of Directors in fundraising and mission (note 13).

⁽⁵⁾ PAIN Campaign project consists of expenses to deliver an awareness and fundraising campaign in order to fund new mission priorities (note 13).

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2014

15. Risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. There has been no change to the risk exposure from 2013.

(a) Credit risk:

The Society's financial assets are cash and accounts receivable, both of which are subject to credit risk. The carrying amounts of financial assets on the statement of financial position represent the Society's maximum credit exposure at the statement of financial position date.

(b) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in the prime interest rate will have a positive or negative impact on the Society's interest income. Such exposure will increase accordingly, should the Society maintain higher levels of investments in the future.

(c) Market risk:

Market risk arises as a result of trading in equity securities and fixed income securities. Fluctuations in the market expose the Society to a risk of loss. The Society mitigates this risk through controls to monitor and limit concentration levels.

(d) Foreign currency risk:

Foreign currency risk arises from gains and losses due to fluctuations in foreign currency exchange rates on the Society's foreign-denominated equity investments. The Society does not have significant transactions in foreign currencies or hold foreign currencies for a long period of time and, therefore, considers the exposure to foreign currency risk to be not significant.