

Financial Statements of

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

And Independent Auditors' Report thereon

Year ended March 31, 2019



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INDEPENDENT AUDITORS' REPORT

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

Qualified Opinion

We have audited the financial statements of The Arthritis Society/La Société d'Arthrite (the Entity), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of financial activities for the year then ended
- the statement of changes in resources for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, except for the possible effects of the matter described in the “***Basis for Qualified Opinion***” section of our auditors’ report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, and its result of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organization.

Basis for Qualified Opinion

In common with many charitable organizations, the Entity 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 Entity.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the current assets reported in the statements of financial position as at March 31, 2019 and March 31, 2018
- the contributions and deficiency of revenue over expenses reported in the statements of financial activities for the years ended March 31, 2019 and March 31, 2018



Page 2

- the resources, at the beginning and end of the year, reported in the statements of changes in resources for the years ended March 31, 2019 and March 31, 2018
- the deficiency of revenue over expenses reported in the statements of cash flows for the years ended March 31, 2019 and March 31, 2018

Our opinion on the financial statements for the year ended March 31, 2018 was qualified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **“Auditors’ Responsibilities for the Audit of the Financial Statements”** section of our auditors’ report.

We are independent of the Entity 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 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 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 Entity’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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

Auditors’ 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 auditors’ 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.



Page 4

- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 14, 2019

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Statement of Financial Position

March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|------------------------------------|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ — | \$ 27,579 |
| Restricted cash | 189,309 | 221,003 |
| Short-term investments (note 2(a)) | 3,052,044 | 2,970,969 |
| Accounts receivable | 739,855 | 649,313 |
| Prepaid expenses | 483,458 | 259,645 |
| | <u>4,464,666</u> | <u>4,128,509</u> |
| Long-term investments (note 2(b)) | 4,591,967 | 6,366,083 |
| Capital assets (note 3) | 1,987,094 | 2,199,909 |
| | <u>\$ 11,043,727</u> | <u>\$ 12,694,501</u> |

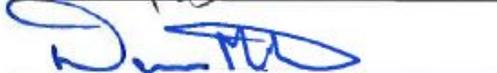
Liabilities and Resources

| | | |
|------------------------------------------------|----------------------|----------------------|
| Current liabilities: | | |
| Bank Indebtedness | \$ 479,250 | \$ — |
| Accounts payable and accrued liabilities | 1,210,499 | 1,338,559 |
| Deferred revenue | 441,150 | 348,341 |
| Research awards payable (note 13) | 2,435,948 | 2,203,765 |
| | <u>4,566,847</u> | <u>3,890,665</u> |
| Deferred capital grants and donations (note 4) | 65,636 | 65,535 |
| Deferred contributions (note 5) | 1,612,657 | 1,877,900 |
| Deferred lease inducements (note 6) | 294,660 | 355,624 |
| | <u>6,539,800</u> | <u>6,189,724</u> |
| Resources | 4,503,927 | 6,504,777 |
| Commitments (notes 11 and 12) | | |
| | <u>\$ 11,043,727</u> | <u>\$ 12,694,501</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, 2019, with comparative information for 2018

| | 2019 | 2018 |
|--------------------------------------------------|-----------------------|-----------------------|
| Revenue: | | |
| Support from the public: | | |
| Campaigns | \$ 14,740,799 | \$ 14,620,538 |
| United Way | 128,301 | 162,547 |
| Bequests and other planned giving | 6,882,542 | 4,890,891 |
| | <u>21,751,642</u> | <u>19,673,976</u> |
| Investment, rental and miscellaneous | 1,900,384 | 1,912,147 |
| Support from government departments and agencies | 5,370,514 | 5,131,920 |
| Total revenue | <u>29,022,540</u> | <u>26,718,043</u> |
| Expenses (note 15): | | |
| Research | 4,487,118 | 4,461,824 |
| Programs and services | 11,470,001 | 11,859,858 |
| Building operation | 577,602 | 522,891 |
| Administration | 2,958,522 | 3,050,267 |
| | <u>19,493,243</u> | <u>19,894,840</u> |
| Cost of raising funds from the public (note 15) | 11,529,307 | 10,540,797 |
| Total expenses | <u>31,022,550</u> | <u>30,435,637</u> |
| Deficiency of revenue over expenses | <u>\$ (2,000,010)</u> | <u>\$ (3,717,594)</u> |

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Statement of Changes in Resources

Year ended March 31, 2019, with comparative information for 2018

| | | | | | 2019 | 2018 |
|---------------------------------------------------|-----------------------|--------------------------|---------------------|----------------------------------|---------------------|---------------------|
| | Unappropriated | Appropriated (note 7) | Endowments | Invested in capital assets | Total | Total |
| Resources, beginning of year | \$ (2,188,776) | \$ 4,213,981 | \$ 2,345,199 | \$ 2,134,373 | \$ 6,504,777 | \$ 10,219,293 |
| Deficiency of revenue over expenses | (1,598,019) | – | – | (401,991) | (2,000,010) | (3,717,594) |
| Additions to capital assets | (216,149) | – | – | 216,149 | – | – |
| Deferred capital grants and donations received | 27,074 | – | – | (27,074) | – | – |
| Endowment contributions and changes | 160 | – | (1,000) | – | (840) | 3,078 |
| Resources, end of year | \$ (3,975,710) | \$ 4,213,981 | \$ 2,344,199 | \$ 1,921,457 | \$ 4,503,927 | \$ 6,504,777 |

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|-------------------------------------------------------|---------------------|--------------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Deficiency of revenue over expenses | \$ (2,000,010) | \$ (3,717,594) |
| Items not affecting cash: | | |
| Amortization of deferred capital grants and donations | (26,973) | (21,372) |
| Amortization of deferred contributions | (1,140,662) | (810,487) |
| Amortization of deferred lease inducements | (60,964) | (60,964) |
| Amortization of capital assets | 428,964 | 409,154 |
| Change in unrealized gain on investments | (199,137) | (258,903) |
| Change in non-cash operating working capital (note 9) | (117,423) | 191,723 |
| | <u>(3,116,205)</u> | <u>(4,268,443)</u> |
| Financing activities: | | |
| Deferred contributions received | 875,419 | 1,087,744 |
| Net endowment contributions | (840) | 3,078 |
| Deferred capital grants and donations received | 27,074 | 45,027 |
| | <u>901,653</u> | <u>1,135,849</u> |
| Investing activities: | | |
| Net change in investments | 1,892,178 | 2,285,910 |
| Net purchases of capital assets | (216,149) | (396,165) |
| | <u>1,676,029</u> | <u>1,889,745</u> |
| Decrease in cash | (538,523) | (1,242,849) |
| Cash, beginning of year | 248,582 | 1,491,431 |
| Cash (bank indebtedness), end of year | <u>\$ (289,941)</u> | <u>\$ 248,582</u> |
| Represented by: | | |
| Cash (bank indebtedness) | \$ (479,250) | \$ 27,579 |
| Restricted cash | 189,309 | 221,003 |
| | <u>\$ (289,941)</u> | <u>\$ 248,582</u> |

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements

Year ended March 31, 2019

The Arthritis Society/La Société d'Arthrite (the "Society") is incorporated without share capital 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 ("ASNPO") 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, 2019

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, 2019

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, 2019

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 | Over 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 in conformity with ASNPO 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 dates 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, 2019

2. Investments:

(a) Short-term investments include:

| | 2019 | 2018 |
|--------------|---------------------|---------------------|
| Equities | \$ 2,830 | \$ 6,031 |
| Fixed income | 202,536 | 154,157 |
| Money market | 2,846,678 | 2,810,781 |
| | <u>\$ 3,052,044</u> | <u>\$ 2,970,969</u> |

Short-term fixed income funds have maturity dates of less than a year from the statement of financial position dates, and bear interest at rates ranging from 0.01% to 5.48% (2018 - 0.53% to 3.10%).

(b) Long-term investments include:

| | 2019 | 2018 |
|--------------|---------------------|---------------------|
| Equities | \$ 2,944,857 | \$ 4,110,109 |
| Fixed income | 1,647,110 | 2,254,541 |
| Money market | - | 1,433 |
| | <u>\$ 4,591,967</u> | <u>\$ 6,366,083</u> |

Long-term investments consist of fixed income bonds with maturity dates greater than a year from the statement of financial position dates and bearing interest at rates ranging from 0.78% to 6.26% (2018 - 0.61% to 5.37%), 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, 2019

3. Capital assets:

| | | | 2019 | 2018 |
|---------------------------------|--------------|--------------------------|----------------|----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | \$ 239,306 | \$ – | \$ 239,306 | \$ 239,306 |
| Buildings | 6,849,611 | 5,873,029 | 976,582 | 980,139 |
| Computer equipment and software | 1,110,583 | 850,479 | 260,104 | 371,706 |
| Furniture and equipment | 498,432 | 379,918 | 118,514 | 161,413 |
| Leasehold improvements | 744,106 | 351,518 | 392,588 | 447,345 |
| | \$ 9,442,038 | \$ 7,454,944 | \$ 1,987,094 | \$ 2,199,909 |

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:

| | 2019 | 2018 |
|----------------------------|-----------|-----------|
| Balance, beginning of year | \$ 65,535 | \$ 41,880 |
| Grants received | 27,074 | 45,027 |
| | 92,609 | 86,907 |
| Less amortization | 26,973 | 21,372 |
| Balance, end of year | \$ 65,636 | \$ 65,535 |

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2019

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:

| | | | | | 2019 | 2018 |
|------------------------------|--------------|----------------------------------------|-----------------|------------|--------------|--------------|
| | Education | Volunteer/ community development | Patient care | Research | Total | Total |
| Balance, beginning of year | \$ 1,171,499 | \$ 36,669 | \$ 459,482 | \$ 210,250 | \$ 1,877,900 | \$ 1,600,643 |
| Funds received | 843,106 | – | 32,313 | – | 875,419 | 1,087,744 |
| Amount recognized as revenue | (1,049,969) | (235) | (90,458) | – | (1,140,662) | (810,487) |
| Balance, end of year | \$ 964,636 | \$ 36,434 | \$ 401,337 | \$ 210,250 | \$ 1,612,657 | \$ 1,877,900 |

6. Deferred lease inducements:

| | 2019 | 2018 |
|-------------------------------|------------|------------|
| Tenant inducements | \$ 672,867 | \$ 672,867 |
| Less accumulated amortization | 378,207 | 317,243 |
| | \$ 294,660 | \$ 355,624 |

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2019

7. Appropriated resources:

The Board of Directors of the Society has approved \$4,213,981 (2018 - \$4,213,981) for appropriated reserves.

In prior years, an amount of \$93,841 was appropriated for the Research Stabilization Account Aqueduct Foundation Grant.

In addition to the above specific appropriation of funds to be used for future projects, the Society has in place a Reserve Policy that is intended to retain a minimum of cash and liquid investments/assets, adequate to cover outstanding accounts payable, restricted endowments and approximately three months of operating costs inclusive of payroll, rent and other normal expenses. This reserve represents the remaining balance of the appropriated reserve as disclosed in the statement of changes in resources.

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

As at March 31, 2019, the Society is the beneficiary of several annuities purchased by donors with original annuity contract amounts of \$167,500 (2018 - \$167,500). An Annuity is established through an original donation of cash and the remaining donations being continuously invested. The cash donation and any realized beneficiary amounts are recorded as revenue when received.

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, 2019 amounted to \$569,534 (2018 - \$569,534). During 2019, nil (2018 - \$100,288) was received in cash and included in Bequests and other planned giving.

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, 2019 amounted to \$4,700 (2018 - \$504,000). During 2019, \$484,127 (2018 - \$4,957) was received in cash and included in Bequests and other planned giving.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2019

9. Change in non-cash operating working capital:

| | 2019 | 2018 |
|------------------------------------------|---------------------|-------------------|
| Accounts receivable | \$ (90,542) | \$ (117,962) |
| Prepaid expenses | (223,813) | (64,012) |
| Accounts payable and accrued liabilities | (128,060) | 188,536 |
| Deferred revenue | 92,809 | 82,645 |
| Research awards payable | 232,183 | 102,516 |
| | <u>\$ (117,423)</u> | <u>\$ 191,723</u> |

10. Pension plan:

Certain of the employees of the Society are members 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 \$422,965 (2018 - \$334,784).

11. Research commitments:

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

| | |
|------|---------------------|
| 2020 | \$ 2,356,227 |
| 2021 | 1,349,134 |
| 2022 | 350,000 |
| 2023 | 350,000 |
| 2024 | 150,000 |
| | <u>\$ 4,555,361</u> |

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2019

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:

| | |
|------------|--------------|
| 2020 | \$ 1,604,728 |
| 2021 | 1,513,266 |
| 2022 | 1,393,530 |
| 2023 | 1,239,515 |
| 2024 | 942,045 |
| Thereafter | 61,775 |
| | <hr/> |
| | \$ 6,754,859 |

13. Related party transactions:

During the year, \$402,494 (2018 - \$378,780) was awarded to universities for the research of three (2018 - four) members of the Society's National Board, Scientific Advisory Committee and Medical Advisory Committee. The Society adheres to a rigorous peer-review and evaluation process for its grant competitions. This process follows a strict confidentiality and conflict of interest policy founded on transparency, fairness and accountability. Payments for awarded research grants are made to the university that the investigator is associated with and the disbursement of the funds is administered by the university.

14. Revolving demand facility:

The Society obtained a revolving line demand facility on June 30, 2015 amended February 22, 2017 of \$1,500,000 available by way of Risk Based Pricing ("RBP") based on loans and letters of credit. The facility is due on demand and incurs interest calculated at the RBP rate plus 0.75% per annum (2018 - RBP plus 0.75% per annum). The amount outstanding under this facility at year end is \$140,000 (2018 - nil). The facility is secured by a first ranking security interest in all personal property, and a collateral mortgage in the amount of \$1,500,000 constituting a first fixed charge on the land and improvements located in Victoria, British Columbia. The facility contains certain financial and non-financial covenants which were met at March 31, 2019.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2018

15. Allocation of expenses:

The Society has allocated its common expenses as follows:

| 2019 | Research | Programs and services | Building operation | Administration | Cost of raising funds | Total |
|-----------------------------------------------|------------|-----------------------------|-----------------------|----------------|-----------------------------|------------|
| Executive office ⁽¹⁾ | \$ 105,749 | \$ 325,706 | \$ – | \$ 43,402 | \$ 238,287 | \$ 713,144 |
| Scientific office ⁽²⁾ | 180,753 | 76,760 | – | – | – | 257,513 |
| Amortization of capital assets ⁽³⁾ | 6,294 | 108,883 | 61,103 | 178,993 | 73,691 | 428,964 |

| 2018 | Research | Programs and services | Building operation | Administration | Cost of raising funds | Total |
|-----------------------------------------------|-----------|-----------------------------|-----------------------|----------------|-----------------------------|------------|
| Executive office ⁽¹⁾ | \$ 95,457 | \$ 294,007 | \$ – | \$ 36,957 | \$ 215,096 | \$ 641,517 |
| Scientific office ⁽²⁾ | 78,503 | 33,644 | – | – | – | 112,147 |
| Amortization of capital assets ⁽³⁾ | 9,292 | 123,016 | 59,575 | 158,910 | 58,361 | 409,154 |

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

⁽²⁾ Scientific office expenses consist primarily of research 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.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2019

16. 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 2018.

(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 dates.

(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.