Financial Statements of

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Year ended March 31, 2018

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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, 2018, 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.

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, 2018 and March 31, 2017, any adjustments might be necessary to contributions, excess (deficiency) of revenue over expenses reported in the statements of financial activities, excess (deficiency) of revenue over expenses reported in the statements of cash flows and current assets and 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, 2017.

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, 2018, 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 15, 2018
Vaughan, Canada

THE ARTHRITIS SOCIETY/
LA SOCIÉTÉ D'ARTHRITE

Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash	$ 27,579	$ 1,272,580
Restricted cash	221,003	218,851
Short-term investments (note 2(a))	2,970,969	4,321,215
Accounts receivable	649,313	531,351
Prepaid expenses	259,645	195,633
	4,128,509	6,539,630
Long-term investments (note 2(b))	6,366,083	7,042,844
Capital assets (note 3)	2,199,909	2,212,898
	$ 12,694,501	$ 15,795,372
Liabilities and Resources		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,338,559	$ 1,150,023
Deferred revenue	348,341	265,696
Research awards payable (note 13)	2,203,765	2,101,249
	3,890,665	3,516,968
Deferred capital grants and donations (note 4)	65,535	41,880
Deferred contributions (note 5)	1,877,900	1,600,643
Deferred lease inducements (note 6)	355,624	416,588
	6,189,724	5,576,079
Resources	6,504,777	10,219,293
Commitments (notes 11 and 12)		
	$ 12,694,501	$ 15,795,372

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, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Support from the public:		
Campaigns	$ 14,620,538	$ 14,708,338
United Way	162,547	214,076
Bequests and other planned giving	4,890,891	7,436,424
	19,673,976	22,358,838
Investment, rental and miscellaneous	1,912,147	1,550,408
Support from government departments and agencies	5,131,920	5,246,075
Total revenue	26,718,043	29,155,321
Expenses (note 15):		
Research	4,461,824	4,616,268
Programs and services	11,859,858	11,317,627
Building operation	522,891	536,345
Administration	3,050,267	2,899,824
	19,894,840	19,370,064
Cost of raising funds from the public (note 15)	10,540,797	9,622,532
Total expenses	30,435,637	28,992,596
Excess (deficiency) of revenue over expenses	$ (3,717,594)	$ 162,725

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/
LA SOCIÉTÉ D'ARTHRITE

Statement of Changes in Resources

Year ended March 31, 2018, with comparative information for 2017

					2018	2017
	Unappropriated	Appropriated (note 7)	Endowments	Invested in capital assets	Total	Total
Resources, beginning of year	$ 1,493,899	$ 4,213,981	$ 2,340,395	$ 2,171,018	$ 10,219,293	$ 10,054,907
Excess (deficiency) of revenue over expenses	(3,329,811)	–	–	(387,783)	(3,717,594)	162,725
Additions to capital assets	(396,165)	–	–	396,165	–	–
Deferred capital grants and donations received	45,027	–	–	(45,027)	–	–
Endowment contributions and changes	(1,726)		4,804		3,078	1,661
Resources, end of year	$ (2,188,776)	$ 4,213,981	$ 2,345,199	$ 2,134,373	$ 6,504,777	$ 10,219,293

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/
LA SOCIÉTÉ D'ARTHRITE

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	$ (3,717,594)	$ 162,725
Items not affecting cash:		
Amortization of deferred capital grants and donations	(21,372)	(11,770)
Amortization of deferred contributions	(810,487)	(856,965)
Amortization of deferred lease inducements	(60,964)	(67,286)
Amortization of capital assets	409,154	406,206
Change in unrealized gain on investments	(258,903)	(55,318)
Change in non-cash operating working capital (note 9)	191,723	505,679
	(4,268,443)	83,271
Financing activities:		
Deferred contributions received	1,087,744	911,538
Net endowment contributions	3,078	1,661
Deferred capital grants and donations received	45,027	38,036
	1,135,849	951,235
Investing activities:		
Net change in investments	2,285,910	(1,873,811)
Net purchases of capital assets	(396,165)	(459,053)
	1,889,745	(2,332,864)
Decrease in cash	(1,242,849)	(1,298,358)
Cash, beginning of year	1,491,431	2,789,789
Cash, end of year	$ 248,582	$ 1,491,431
Represented by:		
Cash	$ 27,579	$ 1,272,580
Restricted cash	221,003	218,851
	$ 248,582	$ 1,491,431

See accompanying notes to financial statements.

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.

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.

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.

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.

2. Investments:

(a) Short-term investments include:

	2018	2017
Cash	$ –	$ 1,613
Equities	6,031	9,197
Fixed income	154,157	334,531
Money market	2,810,781	3,975,874
	$ 2,970,969	$ 4,321,215

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 0.53% to 3.10% (2017 - 1.10% to 7.35%).

(b) Long-term investments include:

	2018	2017
Equities	$ 4,110,109	$ 1,126,270
Fixed income	2,254,541	5,916,574
Money market	1,433	–
	$ 6,366,083	$ 7,042,844

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 0.61% to 5.37% (2017 - 0.50% to 8.05%), and Canadian and U.S. equities and investments in unit trusts.

3. Capital assets:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Land	$ 239,306	$ –	$ 239,306	$ 239,306
Buildings	6,792,065	5,811,926	980,139	1,008,988
Computer equipment and software	1,061,565	689,859	371,706	296,231
Furniture and equipment	504,731	343,318	161,413	156,857
Leasehold improvements	716,806	269,461	447,345	511,516
	$ 9,314,473	$ 7,114,564	$ 2,199,909	$ 2,212,898

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:

	2018	2017
Balance, beginning of year	$ 41,880	$ 15,614
Grants received	45,027	38,036
	86,907	53,650
Less amortization	21,372	11,770
Balance, end of year	$ 65,535	$ 41,880

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:

					2018	2017
	Education	Volunteer/ community development	Patient care	Research	Total	Total
Balance, beginning of year	$ 810,212	$ 36,947	$ 505,734	$ 247,750	$ 1,600,643	$ 1,546,070
Funds received	1,049,438	–	38,306	–	1,087,744	911,538
Amount recognized as revenue	(688,151)	(278)	(84,558)	(37,500)	(810,487)	(856,965)
Balance, end of year	$ 1,171,499	$ 36,669	$ 459,482	$ 210,250	$ 1,877,900	$ 1,600,643

6. Deferred lease inducements:

	2018	2017
Tenant inducements	$ 672,867	$ 672,867
Less accumulated amortization	317,243	256,279
	$ 355,624	$ 416,588

7. Appropriated resources:

The Board of Directors of the Society has approved $4,213,981 (2017 - $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, 2018, the Society is the beneficiary of several annuities purchased by donors with original annuity contract amounts of $167,500 (2017 - $229,500). 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. During 2018, nil (2017 - nil) was received in cash and included in Bequests and other planned giving.

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, 2018 amounted to $569,534 (2017 - $669,534). During 2018, $100,288 (2017 - $10,596) 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, 2018 amounted to $504,000 (2017 - $504,000). During 2018, $4,957 (2017 - $391,120) was received in cash and included in Bequests and other planned giving.

9. Change in non-cash operating working capital:

	2018	2017
Accounts receivable	$ (117,962)	$ (93,153)
Prepaid expenses	(64,012)	20,897
Accounts payable and accrued liabilities	188,536	200,463
Deferred revenue	82,645	52,998
Research awards payable	102,516	324,474
	$ 191,723	$ 505,679

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 $334,784 (2017 - $386,402).

11. Research commitments:

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

2019	$ 2,336,250
2020	757,217
	$ 3,093,467

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:

2019	$ 1,591,072
2020	1,473,410
2021	1,372,415
2022	1,272,618
2023	1,187,707
Thereafter	942,483
	$ 7,839,705

13. Related party transactions:

During the year, $378,780 (2017 - $359,032) was awarded to universities for the research of six 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 (2017 - RBP plus 0.75% per annum). The amount outstanding under this facility at year end is 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, 2018.

15. Allocation of expenses:

The Society has allocated its common expenses as follows:

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

2017	Research	Programs and services	Building operation	Administration	Cost of raising funds	Total
Executive office[1]	$ 91,423	$ 376,104	$ –	$ 82,276	$ 219,247	$ 769,050
Mission office[4]	9,738	29,216	–	–	–	38,954
Amortization of capital assets[3]	32,339	135,529	53,048	147,812	37,475	406,203

(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.

(4) Mission office expenses consist primarily of salaries and benefits and staff travel and meeting expenses of the National Office. Due to internal restructuring in the prior fiscal year, Mission office has been eliminated and the total allocated expenses for fiscal year 2018 were nil (2017 - $38,954).

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 2017.

(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.