

Financial Statements of

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

And Independent Auditors' Report thereon

Year ended March 31, 2020



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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, 2020
- 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, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many charitable organizations, the Entity derives revenue from support from the public, 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, 2020 and March 31, 2019
- the contributions and deficiency of revenue over expenses reported in the statements of financial activities for the years ended March 31, 2020 and March 31, 2019



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- the resources, at the beginning and end of the year, reported in the statements of changes in resources for the years ended March 31, 2020 and March 31, 2019
- the deficiency of revenue over expenses reported in the statements of cash flows for the years ended March 31, 2020 and March 31, 2019.

Our opinion on the financial statements for the year ended March 31, 2019 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 qualified 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.



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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.



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- 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 19, 2020

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Statement of Financial Position

March 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Current assets:		
Cash	\$ 124,912	\$ —
Restricted cash	180,090	189,309
Short-term investments (note 2(a))	2,759,415	3,052,044
Accounts receivable	367,641	739,855
Prepaid expenses	472,853	483,458
	<u>3,904,911</u>	<u>4,464,666</u>
Long-term investments (note 2(b))	3,008,188	4,591,967
Capital assets (note 3)	1,787,067	1,987,094
	<u>\$ 8,700,166</u>	<u>\$ 11,043,727</u>

Liabilities and Resources

Current liabilities:		
Bank indebtedness	\$ —	\$ 479,250
Accounts payable and accrued liabilities	989,566	1,210,499
Deferred revenue	551,854	441,150
Research awards payable (note 13)	2,667,797	2,435,948
	<u>4,209,217</u>	<u>4,566,847</u>
Deferred capital grants and donations (note 4)	75,892	65,636
Deferred contributions (note 5)	1,629,863	1,612,657
Deferred lease inducements (note 6)	233,696	294,660
	<u>6,148,668</u>	<u>6,539,800</u>
Resources	2,551,498	4,503,927
Commitments (notes 11 and 12)		
Subsequent events (note 17)		
	<u>\$ 8,700,166</u>	<u>\$ 11,043,727</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, 2020, with comparative information for 2019

	2020	2019
Revenue:		
Support from the public:		
Campaigns	\$ 14,333,184	\$ 14,740,799
United Way	120,581	128,301
Bequests and other planned giving	5,376,873	6,882,542
	<u>19,830,638</u>	<u>21,751,642</u>
Investment, rental and miscellaneous	1,574,040	1,900,384
Support from government departments and agencies	5,416,216	5,370,514
Total revenue	<u>26,820,894</u>	<u>29,022,540</u>
Expenses (note 15):		
Research	4,293,200	4,487,118
Programs and services	10,406,648	11,470,001
Building operation	583,467	577,602
Administration	2,649,466	2,958,522
	<u>17,932,781</u>	<u>19,493,243</u>
Cost of raising funds from the public (note 15)	10,845,902	11,529,307
Total expenses	<u>28,778,683</u>	<u>31,022,550</u>
Deficiency of revenue over expenses	<u>\$ (1,957,789)</u>	<u>\$ (2,000,010)</u>

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Statement of Changes in Resources

Year ended March 31, 2020, with comparative information for 2019

					2020	2019
	Unappropriated	Appropriated (note 7)	Endowments	Invested in capital assets	Total	Total
Resources, beginning of year	\$ (3,975,710)	\$ 4,213,981	\$ 2,344,199	\$ 1,921,457	\$ 4,503,927	\$ 6,504,777
Deficiency of revenue over expenses	(1,603,783)	–	–	(354,006)	(1,957,789)	(2,000,010)
Interfund transfer	57,718	(57,718)	–	–	–	–
Additions to capital assets	(183,891)	–	–	183,891	–	–
Deferred capital grants and donations received	40,167	–	–	(40,167)	–	–
Endowment contributions and changes	(3,110)	–	8,470	–	5,360	(840)
Resources, end of year	\$ (5,668,609)	\$ 4,156,263	\$ 2,352,669	\$ 1,711,175	\$ 2,551,498	\$ 4,503,927

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (1,957,789)	\$ (2,000,010)
Items not affecting cash:		
Amortization of deferred capital grants and donations	(29,911)	(26,973)
Amortization of deferred contributions	(1,081,938)	(1,140,662)
Amortization of deferred lease inducements	(60,964)	(60,964)
Amortization of capital assets	383,918	428,964
Change in unrealized loss (gain) on investments	274,311	(199,137)
Change in non-cash operating working capital (note 9)	504,439	(117,423)
	<u>(1,967,934)</u>	<u>(3,116,205)</u>
Financing activities:		
Deferred contributions received	1,099,144	875,419
Net endowment contributions	5,360	(840)
Deferred capital grants and donations received	40,167	27,074
	<u>1,144,671</u>	<u>901,653</u>
Investing activities:		
Net change in investments	1,602,097	1,892,178
Net purchases of capital assets	(183,891)	(216,149)
	<u>1,418,206</u>	<u>1,676,029</u>
Increase (decrease) in cash	594,943	(538,523)
Cash (bank indebtedness), beginning of year	(289,941)	248,582
Cash (bank indebtedness), end of year	<u>\$ 305,002</u>	<u>\$ (289,941)</u>
Represented by:		
Cash (bank indebtedness)	\$ 124,912	\$ (479,250)
Restricted cash	180,090	189,309
	<u>\$ 305,002</u>	<u>\$ (289,941)</u>

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements

Year ended March 31, 2020

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 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, 2020

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 amortization of capital assets and 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, 2020

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.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2020

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

Capital assets are written down to fair value or replacement cost to reflect partial impairments when conditions indicate that the assets no longer contribute to the Society's ability to provide services, or that the value of future economic benefits or service potential associated with the capital assets are less than their net carrying amounts.

(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.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(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:

	2020	2019
Equities	\$ 7,536	\$ 2,830
Fixed income	36,294	202,536
Money market	2,715,585	2,846,678
	<u>\$ 2,759,415</u>	<u>\$ 3,052,044</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 4.78% (2019 - 0.01% to 5.48%).

(b) Long-term investments include:

	2020	2019
Equities	\$ 1,801,550	\$ 2,944,857
Fixed income	1,206,638	1,647,110
	<u>\$ 3,008,188</u>	<u>\$ 4,591,967</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 0.45% to 8.52% (2019 - 0.78% to 6.26%), 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, 2020

3. Capital assets:

			2020	2019
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 239,306	\$ –	\$ 239,306	\$ 239,306
Buildings	6,856,581	5,936,264	920,317	976,582
Computer equipment and software	891,870	654,772	237,098	260,104
Furniture and equipment	484,831	403,910	80,921	118,514
Leasehold improvements	744,106	434,681	309,425	392,588
	<u>\$ 9,216,694</u>	<u>\$ 7,429,627</u>	<u>\$ 1,787,067</u>	<u>\$ 1,987,094</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 grants and donations balances during the year are as follows:

	2020	2019
Balance, beginning of year	\$ 65,636	\$ 65,535
Grants received	40,167	27,074
	<u>105,803</u>	<u>92,609</u>
Less amortization	29,911	26,973
Balance, end of year	<u>\$ 75,892</u>	<u>\$ 65,636</u>

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2020

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:

					2020	2019
	Education	Volunteer/ community development	Patient care	Research	Total	Total
Balance, beginning of year	\$ 964,636	\$ 36,434	\$ 401,337	\$ 210,250	\$ 1,612,657	\$ 1,877,900
Funds received	839,770	–	23,345	236,029	1,099,144	875,419
Amount recognized as revenue	(878,622)	–	(96,924)	(106,392)	(1,081,938)	(1,140,662)
Balance, end of year	\$ 925,784	\$ 36,434	\$ 327,758	\$ 339,887	\$ 1,629,863	\$ 1,612,657

6. Deferred lease inducements:

	2020	2019
Tenant inducements	\$ 672,867	\$ 672,867
Less accumulated amortization	439,171	378,207
	\$ 233,696	\$ 294,660

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2020

7. Appropriated resources:

The Board of Directors of the Society has approved \$4,156,263 (2019 - \$4,213,981) for appropriated reserves.

In prior years, an amount of \$93,841 was appropriated for the Research Stabilization Account Aqueduct Foundation Grant. During 2020, the Board of Directors approved a transfer of \$57,718 (2019 - nil) from appropriated reserves to unappropriated reserves and at March 31, 2020 the corresponding appropriated resource balance is \$36,123 (2019 - \$93,841).

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, 2020, the Society is the beneficiary of several annuities purchased by donors with original annuity contract amounts of \$167,500 (2019 - \$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, 2020 amounted to \$547,034 (2019 - \$569,534).

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, 2020 amounted to \$4,700 (2019 - \$4,700). During 2020, \$5,651 (2019 - \$484,127) 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, 2020

9. Change in non-cash operating working capital:

	2020	2019
Accounts receivable	\$ 372,214	\$ (90,542)
Prepaid expenses	10,605	(223,813)
Accounts payable and accrued liabilities	(220,933)	(128,060)
Deferred revenue	110,704	92,809
Research awards payable	231,849	232,183
	\$ 504,439	\$ (117,423)

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 \$409,538 (2019 - \$422,965).

11. Research commitments:

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

2021	\$ 2,648,361
2022	1,507,770
2023	347,819
2024	149,950
	\$ 4,653,900

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2020

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:

2021	\$ 1,558,000
2022	1,432,000
2023	1,272,000
2024	997,000
2025	123,000
	<hr/>
	\$ 5,382,000

13. Related party transactions:

During the year, \$404,705 (2019 - \$402,494) was awarded to universities for the research of two (2019 - three) 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. The amount outstanding under this facility at year end is nil (2019 - \$140,000). 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, 2020. Subsequent to year end, the agreement was amended as described in note 17.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2020

15. Allocation of expenses:

The Society has allocated its common expenses as follows:

2020	Research	Programs and services	Building operation	Administration	Cost of raising funds	Total
Executive office ⁽¹⁾	\$ 106,335	\$ 327,512	\$ –	\$ 46,998	\$ 239,608	\$ 720,453
Scientific office ⁽²⁾	132,714	124,212	–	–	–	256,926
Amortization of capital assets ⁽³⁾	5,255	84,626	63,234	172,178	58,625	383,918

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

⁽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, 2020

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 2019.

(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) Liquidity risk:

Liquidity risk is the risk that the Society will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Society manages its liquidity risk by monitoring its operating requirements. The Society prepares a budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(d) 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.

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Notes to Financial Statements (continued)

Year ended March 31, 2020

16. Risk management (continued):

(e) 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.

17. Subsequent events:

(a) Economic development:

In the month of March, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social distancing impact. At the time of approval of these financial statements, the Society has experienced temporary declines in the fair value of investments and investment income as well as a decline in fundraising efforts, in relation to the COVID-19 pandemic and subsequent declines in the financial markets. Financial statements are required to be adjusted for events occurring between the date of the financial statements and the date of the auditors' report which provide additional evidence relating to conditions that existed as at year end. Management completed this assessment and did not identify any such adjustments. The current events and conditions of this severity are expected to be temporary but unpredictable; however there is uncertainty around the length of the disruption and impact on future operations, and also an anticipated lagging effect on the charitable sector, even as some businesses resume and other economic indicators rebound. As a result, an estimate of the financial effect of these items is not practicable at this time and we are therefore applying increased rigour in our monitoring and also taking steps beyond those currently required to plan more conservatively, pare our operations to levels as lean as possible.

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Notes to Financial Statements (continued)

Year ended March 31, 2020

17. Subsequent events (continued):

(b) Revolving demand facility:

Subsequent to March 31, 2020, the Society entered into an amended revolving demand facility agreement which includes a revolving demand facility of \$1,500,000 available by way of RBP on loans and letters of credit. The maximum amount of the facility is temporarily increased from \$1,500,000 to \$2,000,000 for the period commencing May 1, 2020 and ending March 31, 2021. The amount available under the facility shall reduce to \$1,500,000 on March 31, 2021. The facility is due on demand and incurs interest calculated at the RBP rate plus 0.75% per annum. The facility is secured by a first ranking security interest in all personal property, and a collateral mortgage in the amount of \$2,000,000 constituting a first fixed charge on the land and improvements located in Vancouver, British Columbia. The Society is subject to certain non-financial covenants as part of the facility.