Financial Statements of

THE ARTHRITIS SOCIETY/ LA SOCIÉTÉ D'ARTHRITE

Year ended March 31, 2015

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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, 2015, 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.

KPMG

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, 2015 and 2014, any adjustments might be necessary to contributions, deficiency of revenue over expenses reported in the statements of financial activities, deficiency of revenue over expenses reported in the statements of cash flows and current assets and unappropriated resources reported in the statements of financial position. This caused us to qualify our audit opinion on the financial statements as at and for the year ended March 31, 2014.

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, 2015, 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 20, 2015
Toronto, Canada

THE ARTHRITIS SOCIETY/
LA SOCIÉTÉ D'ARTHRITE

Statement of Financial Position

March 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash	$ 2,282,409	$ 1,410,090
Restricted cash	182,273	200,873
Short-term investments (note 2)	1,805,779	2,630,540
Accounts receivable	446,164	584,893
Prepaid expenses	152,050	540,299
	4,868,675	5,366,695
Long-term investments (note 2)	6,571,547	11,143,062
Capital assets (note 3)	2,348,431	1,676,516
	$ 13,788,653	$ 18,186,273
Liabilities and Resources		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,257,603	$ 3,208,122
Deferred revenue	261,734	362,138
Research awards payable	1,529,123	1,670,131
	3,048,460	5,240,391
Deferred capital grants and donations (note 4)	33,450	81,372
Deferred contributions (note 5)	1,591,527	1,481,106
Deferred lease inducements (note 6)	551,161	18,966
	5,224,598	6,821,835
Resources	8,564,055	11,364,438
Commitments (notes 11 and 12)		
	$ 13,788,653	$ 18,186,273

See accompanying notes to financial statements. On behalf of the Board:

Drew McArthur

Ron Smith, Treasurer

Drew McArthur Director Ron Smith Director

THE ARTHRITIS SOCIETY/
LA SOCIÉTÉ D'ARTHRITE

Statement of Financial Activities

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Support from the public:		
Campaigns	$ 15,576,374	$ 16,669,521
United Way	213,858	193,555
Bequests	5,960,870	7,249,879
	21,751,102	24,112,955
Investment, rental and miscellaneous	1,735,096	2,070,628
Support from government departments and agencies	5,252,979	5,395,569
Total revenue	28,739,177	31,579,152
Expenses:		
Research	4,731,972	5,125,167
Programs and services (notes 13 and 14)	11,960,466	15,209,726
Building operation	464,829	483,434
Administration (notes 13 and 14)	3,163,691	3,120,666
	20,320,958	23,938,993
Cost of raising funds from the public (notes 13 and 14)	11,220,575	12,884,320
Total expenses	31,541,533	36,823,313
Deficiency of revenue over expenses	$ (2,802,356)	$ (5,244,161)

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/
LA SOCIÉTÉ D'ARTHRITE

Statement of Changes in Resources

Year ended March 31, 2015, with comparative information for 2014

					2015	2014
	Unappropriated	Appropriated	Endowments	Invested in capital assets	Total	Total
		(note 7)				
Resources, beginning of year	$ 2,779,575	$ 4,593,842	$ 2,414,843	$ 1,576,178	$ 11,364,438	$ 16,597,524
Excess (deficiency) of revenue over expenses	(2,492,648)	–	1,564	(311,272)	(2,802,356)	(5,244,161)
Additions to capital assets	(1,113,624)	–	–	1,113,624	–	–
Deferred capital grants and donations received	5,070	–	–	(5,070)	–	–
Endowment contributions	–	–	1,973	–	1,973	11,075
Resources, end of year	$ (821,627)	$ 4,593,842	$ 2,418,380	$ 2,373,460	$ 8,564,055	$ 11,364,438

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY/
LA SOCIÉTÉ D'ARTHRITE

Statement of Cash Flows

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	$ (2,802,356)	$ (5,244,161)
Items not affecting cash:		
Amortization of deferred capital grants and donations	(52,992)	(62,315)
Amortization of deferred contributions	(417,497)	(859,992)
Amortization of deferred lease inducements	(77,447)	(6,323)
Amortization of capital assets	441,709	421,414
Change in unrealized gain on investments	46,617	(17,494)
Change in non-cash operating working capital (note 9)	(1,664,953)	1,602,503
	(4,526,919)	(4,166,368)
Financing activities:		
Deferred contributions received	527,918	471,614
Endowment contributions	1,973	11,075
Deferred capital grants and donations received	5,070	15,410
	534,961	498,099
Investing activities:		
Net change in investments	5,349,659	6,044,826
Net purchases of capital assets	(1,113,624)	(1,053,594)
Lease inducements received	609,642	–
	4,845,677	4,991,232
Increase in cash	853,719	1,322,963
Cash, beginning of year	1,610,963	288,000
Cash, end of year	$ 2,464,682	$ 1,610,963
Represented by:		
Cash	$ 2,282,409	$ 1,410,090
Restricted cash	182,273	200,873
	$ 2,464,682	$ 1,610,963

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 in Part III of the Canadian 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 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:

	2015	2014
Cash	$ 145,170	$ 239,345
Fixed income	1,261,762	1,856,003
Money market	398,847	535,192
	$ 1,805,779	$ 2,630,540

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 1.6% to 4.9% (2014 - 1.6% to 4.9%).

(b) Long-term investments include:

	2015	2014
Fixed income	$ 4,118,016	$ 6,738,147
Equities	2,453,531	4,404,915
	$ 6,571,547	$ 11,143,062

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 1.0% to 7.8% (2014 - 1.0% to 7.8%), and Canadian and U.S. equities and investments in unit trusts.

3. Capital assets:

	Cost	Accumulated amortization	2015 Net book value	2014 Net book value
Land	$ 239,306	$ –	$ 239,306	$ 239,306
Buildings	6,521,882	5,652,570	869,312	634,312
Computer equipment and software	638,795	465,854	172,941	302,388
Furniture and equipment	432,234	128,347	303,887	211,615
Leasehold improvements	1,150,330	387,345	762,985	288,895
	$ 8,982,547	$ 6,634,116	$ 2,348,431	$ 1,676,516

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:

	2015	2014
Balance, beginning of year	$ 81,372	$ 128,277
Grants received	5,070	15,410
	86,442	143,687
Less amortization	52,992	62,315
Balance, end of year	$ 33,450	$ 81,372

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:

	Education	Volunteer/ community development	Patient care	Research	2015 Total	2014 Total
Balance, beginning of year	$ 662,088	$ 37,882	$ 331,332	$ 449,804	$ 1,481,106	$ 1,869,484
Funds received	279,427	–	139,021	109,470	527,918	471,614
Amount recognized as revenue	(276,295)	(258)	(47,944)	(93,000)	(417,497)	(859,992)
Balance, end of year	$ 665,220	$ 37,624	$ 422,409	$ 466,274	$ 1,591,527	$ 1,481,106

6. Deferred lease inducements:

	2015	2014
Tenant inducements	$ 672,867	$ 63,225
Less accumulated amortization	121,706	44,259
	$ 551,161	$ 18,966

7. Appropriated resources:

The Board of Directors of the Society has approved nil (2014 - $4,593,842) for appropriated reserves.

An amount of $93,842 was appropriated in the prior year for the Research Stabilization Account Aqueduct Foundation Grant.

In addition to the 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 Net Assets.

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

As at March 31, 2015, the Society is the beneficiary of several annuities purchased by donors with original annuity contract amounts of $324,500 (2014 - $464,500). A cash donation is initially received, with the remainder being invested in an annuity. The cash donation and any realized beneficiary amounts are recorded as revenue when received. During 2015, $3,233 (2014 - nil) was received in cash and included in campaigns revenue.

The Society is also the beneficiary of several life insurance policies purchased by donors. Revenue relating to these policies is recorded on a cash basis. The total death benefit relating to these policies outstanding as at March 31, 2015 amounted to $704,534 (2014 - $704,534). During 2015, $20,265 (2014 - $122,120) was received in cash and included in campaigns revenue.

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, 2015 amounted to $501,000 (2014 - $504,000). During 2015, $22,544 (2014 - $4,097) was received in cash and included in campaigns revenue.

9. Change in non-cash operating working capital:

	2015	2014
Accounts receivable	$ 138,729	$ (21,773)
Prepaid expenses	388,249	(264,090)
Accounts payable and accrued liabilities	(1,950,519)	1,818,286
Deferred revenue	(100,404)	(164,872)
Research awards payable	(141,008)	234,952
	$ (1,664,953)	$ 1,602,503

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 $486,470 (2014 - $464,227).

11. Research commitments:

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

2016	$ 3,433,923
2017	2,306,500
2018	335,000
2019	190,000
	$ 6,265,423

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:

2016	$ 1,798,000
2017	1,631,000
2018	1,430,000
2019	1,336,000
2020	1,239,000
Thereafter	4,232,000
	$ 11,666,000

13. Expenses:

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

(a) Seed Funding:

The National Board of Directors approved an allocation up to a maximum of $1 million from accumulated reserves to help fund new initiatives that would significantly enhance the Society's ability to progress the objectives described in the business plan and budget. The investment is divided between three categories: Fundraising, Mission and Enablers. A total of $392,955 (2014 - $ 634,014) was spent and the program has been completed.

(b) PAIN Campaign:

On March 24, 2014, the Society launched Erase the Pain, a $25 million campaign built on the input, advice and life experiences of those living with arthritis after a six-month dialogue to identify the highest priorities for action. New initiatives funded through this campaign will address real needs impacting people living with arthritis today in the areas of cure, care, and community. Beyond the mission delivery imperative, the objectives of Erase the Pain are to raise awareness of the Society and arthritis issues and to generate revenues from individual and corporate donors. A total of nil (2014 - $3,000,000) was spent on this campaign. The program has been completed.

14. Allocation of expenses:

The Society has allocated its common expenses as follows:

2015	Research	Programs and services	Building operation	Administration	Cost of raising funds	Total
Executive office[1]	$ 89,927	$ 269,780	$ –	$ 11,973	$ 287,766	$ 659,446
Mission office[2]	46,635	139,907	–	–	–	186,542
Amortization of capital assets[3]	33,822	225,483	40,983	104,709	36,711	441,708
Seed Funding project[4]	–	48,073	–	–	344,882	392,955

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

(1)Executive office expenses consist primarily of salaries and benefits and staff travel and meeting expenses of the National Office.
(2)Mission office expenses consist primarily of salaries and benefits and staff travel and meeting expenses of the National Office.
(3)Amortization of capital assets consists of amortization costs of assets across all Divisions and the National Office.
(4)Seed Funding project consists of expenses for new initiatives approved by the Board of Directors in fundraising and mission.
(5)PAIN Campaign project consists of expenses to deliver an awareness and fundraising campaign in order to fund new mission priorities.

15. Risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. There has been no change to the risk exposure from 2014.

(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.