

Arthritis Research Foundation

Financial Statements
March 31, 2021



Independent auditor's report

To the Board of Directors of Arthritis Research Foundation

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Arthritis Research Foundation (the Foundation) as at March 31, 2021 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Foundation's financial statements comprise:

- the statement of financial position as at March 31, 2021;
- the statement of operations and changes in fund balances for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

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In preparing the financial statements, management is responsible for assessing the Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

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

We 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
June 22, 2021

Arthritis Research Foundation

Statement of Financial Position

As at March 31, 2021

	2021 \$	2020 \$
Assets		
Current assets		
Cash	888,873	903,787
Accounts receivable	3,267	33,133
Prepaid expenses	3,107	11,822
	<u>895,247</u>	<u>948,742</u>
Investments (note 3)	<u>23,035,398</u>	<u>19,021,923</u>
	<u>23,930,645</u>	<u>19,970,665</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 4)	26,690	-
Due to related entity (note 4)	<u>140,882</u>	<u>-</u>
	<u>167,572</u>	<u>-</u>
Fund Balances		
Endowment Fund (note 5)	16,463,053	14,002,624
Restricted Fund	5,568,880	5,290,583
General Fund	<u>1,731,140</u>	<u>677,458</u>
	<u>23,763,073</u>	<u>19,970,665</u>
	<u>23,930,645</u>	<u>19,970,665</u>

Approved by the Board of Directors



Director



Director

The accompanying notes are an integral part of these financial statements.

Arthritis Research Foundation

Statement of Operations and Changes in Fund Balances

For the year ended March 31, 2021

	Endowment Fund		Restricted Fund		General Fund		Total	
	2021 \$	2020 \$	2021 \$	2020 \$	2021 \$	2020 \$	2021 \$	2020 \$
Revenue								
Donations	5,085	17,331	39,343	304,866	261,918	273,814	306,346	596,011
Events	-	-	-	-	58	15,000	58	15,000
	5,085	17,331	39,343	304,866	261,976	288,814	306,404	611,011
Investment income (note 3)	2,455,344	(848,305)	420,079	477,424	1,087,546	216,280	3,962,969	(154,601)
	2,460,429	(830,974)	459,422	782,290	1,349,522	505,094	4,269,373	456,410
Expenses								
Fundraising	-	-	-	-	70,701	61,030	70,701	61,030
Events	-	-	-	50	-	15,000	-	15,050
Administration	-	-	-	-	228,846	389,041	228,846	389,041
	-	-	-	50	299,547	465,071	299,547	465,121
Surplus (deficit) before grants	2,460,429	(830,974)	459,422	782,240	1,049,975	40,023	3,969,826	(8,711)
Grants (note 6)	-	(7,476,954)	(177,418)	(5,295,580)	-	-	(177,418)	(12,772,534)
Surplus (deficit) for the year	2,460,429	(8,307,928)	282,004	(4,513,340)	1,049,975	40,023	3,792,408	(12,781,245)
Fund balances – Beginning of year	14,002,624	22,310,552	5,290,583	9,814,410	677,458	626,948	19,970,665	32,751,910
Interfund transfers	-	-	(3,707)	(10,487)	3,707	10,487	-	-
Fund balances – End of year	16,463,053	14,002,624	5,568,880	5,290,583	1,731,140	677,458	23,763,073	19,970,665

The accompanying notes are an integral part of these financial statements.

Arthritis Research Foundation

Statement of Cash Flows

For the year ended March 31, 2021

	2021 \$	2020 \$
Cash provided by (used in)		
Operating activities		
Surplus (deficit) for the year	3,792,408	(12,781,245)
Items not involving cash		
Investment income reinvested	(1,517,513)	(1,459,775)
Change in fair value of investments (note 3)	(2,495,962)	1,587,223
Changes in non-cash working capital items		
Accounts receivable	29,866	-
Prepaid expenses	8,715	(21,505)
Accounts payable and accrued liabilities	26,690	(11,822)
Due to related entities	140,882	(256,214)
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	(14,914)	(12,943,338)
Investing activities		
Proceeds from sale of investment	-	12,185,565
	<hr/>	<hr/>
Change in cash during the year	(14,914)	(757,773)
Cash – Beginning of year	903,787	1,661,560
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Cash – End of year	888,873	903,787
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The accompanying notes are an integral part of these financial statements.

Arthritis Research Foundation

Notes to Financial Statements

March 31, 2021

1 Purpose of the organization

Arthritis Research Foundation (the Foundation) is incorporated without share capital under the laws of the Province of Ontario. The Foundation is a public foundation registered under the Income Tax Act (Canada) and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes under registration number 11929 0773 RR0001. Effective December 1, 2016, the Foundation amended its General By-Law and changed its main purpose to fundraise for The Arthritis & Autoimmunity Research Centre and related activities in the musculoskeletal and arthritis program at Sinai Health System.

Impact of COVID-19

The ongoing COVID-19 pandemic may continue to negatively impact the timing and/or amount of the Foundation's future revenue and program expenses; however, the duration and overall impact is unknown at this time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and conditions of the Foundation in future periods.

2 Summary of significant accounting policies

The financial statements of the Foundation have been prepared in accordance with accounting standards for not-for-profit organizations (ASNPO). The following summary of significant accounting policies is set forth to facilitate the understanding of these financial statements.

Fund accounting

The Foundation follows the restricted fund method of accounting for contributions. The Foundation ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

For financial reporting purposes, the accounts have been classified into the following funds:

- General Fund

The General Fund accounts for the Foundation's general fundraising, granting and administrative activities. The General Fund reports unrestricted resources available for immediate use.

- Restricted Fund

The Restricted Fund includes those funds where resources are to be used for an identified purpose as specified by the donor, as stipulated by the fundraising appeal or as determined by the Board of Directors.

Restricted donations, other than endowments, include a 10% allocation to the General Fund to fund critical needs support for the Hospital.

Arthritis Research Foundation

Notes to Financial Statements

March 31, 2021

- Endowment Fund

The Endowment Fund includes those funds where either donor or internal Board of Directors restrictions require the principal to be maintained by the Foundation for a specified period of time.

Investments

Publicly traded securities are valued based on the closing prices and pooled funds are valued based on reported unit values. Fixed income securities not publicly traded are valued based on cost plus accrued income. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Foreign currency translation

Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the transaction date. Investments and other monetary items denominated in foreign currencies are translated at the year-end rate. Translation gains and losses are included in the statement of operations and changes in fund balances.

Revenue recognition

The Foundation follows the restricted fund method of accounting for contributions, which include bequests and other donations. Bequests and other donations are recognized when received. Unrestricted contributions are recognized as revenue of the General Fund in the year received. Donor restricted contributions for specific purposes are recognized as revenue. Donor restricted contributions requiring the capital to be maintained permanently are recognized as revenue of the Endowment Fund.

Investment income consists of interest, dividends and change in fair value of investments, net of investment counsel and other investment expenses. Investment income earned on the Endowment Fund or Restricted Fund resources that must be spent on donor designated activities is recognized as revenue of the Restricted Fund. Investment income subject to donor restrictions stipulating that it be added to the endowment is recognized as revenue of the Endowment Fund. Unrestricted investment income earned on Endowment Fund, Restricted Fund and General Fund resources is recognized as revenue of the General Fund. Investment losses are allocated in a manner consistent with investment income.

The Foundation recognizes revenue from special events in the year in which the event occurs.

Pledges

The Foundation records pledges as revenue when payment is received.

Contributed goods and services

Contributed goods and services are not recognized in the financial statements.

Arthritis Research Foundation

Notes to Financial Statements

March 31, 2021

Financial instruments and risk management

The Foundation initially recognizes financial instruments at fair value and subsequently measures them at each reporting date as follows:

Cash	amortized cost
Investments	fair value
Accounts receivable	amortized cost
Prepaid expenses	amortized cost
Accounts payable and accrued liabilities	amortized cost

Financial assets measured at amortized cost are assessed at each reporting date for indications of impairment. If such impairment exists, the asset shall be written down and the resulting impairment loss shall be recognized in the statement of operations and changes in fund balances for the year.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

3 Investments

	2021 \$	2020 \$
Canadian balanced pooled fund	20,866,985	16,944,958
Canadian fixed income pooled fund	2,168,413	2,076,965
	<u>23,035,398</u>	<u>19,021,923</u>

Investment income comprises the following:

	2021 \$	2020 \$
Interest income	685,443	699,146
Dividend income	835,896	782,724
Change in fair value of investments	2,495,962	(1,587,223)
	<u>4,017,301</u>	<u>(105,353)</u>
Investment income before fees		
Investment fees	(54,332)	(49,248)
	<u>3,962,969</u>	<u>(154,601)</u>

Arthritis Research Foundation

Notes to Financial Statements

March 31, 2021

Fixed income bonds earn interest at a weighted average rate of 2.13% (2020 – 2.45%), maturing between August 2021 and June 2081.

4 Related party balances and transactions

The Foundation is managed by Sinai Health System Foundation under a management services agreement. Under the agreement, Sinai Health System Foundation provides certain services and pays certain expenses that are reimbursed at regular intervals throughout the year. As at March 31, 2021, the Foundation reimbursed \$244,148 (2020 – \$365,315) for such services. As at March 31, 2021, the total outstanding balance payable to Sinai Health System Foundation is \$140,882 (2020 – \$nil).

The Foundation provides financial resources by way of grants in support of the activities of Sinai Health System as approved by the Board of the Foundation.

5 Endowment Fund

Endowments consist of externally restricted donations received by the Foundation and internal resources transferred by the Board of Directors, in the exercise of its discretion. With respect to the latter case, the Board of Directors may have the right to subsequently decide to remove the designation. The endowment principal is required to be maintained intact over time, subject to the Foundation's endowment policy.

Investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board of Directors. The Foundation ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

The Foundation's endowment policy was established by the Board of Directors with the objective of protecting the value of the endowments by limiting the amount of income made available for spending to the payout amount and requiring the reinvestment of income not made available for payout, with the objective of increasing the combined value of donated funds and cumulative investment returns at the rate of inflation or greater, over time (preservation of capital). The payout amount is calculated on the fund balance, and made available for spending restricted to the purposes set out in the donor agreement, if applicable, or as stipulated by the Board of Directors. The investment policy has established a minimum target rate of return objective as the sum of the payout rate and the inflation rate, with the aim of providing steady, predictable investment returns. The payout amount made available for spending is reviewed and set by the Board of Directors annually. For 2021, the payout amount was set at 4% (2020 – 4%), consisting of 3% recorded in the Restricted Fund and 1% recorded in the General Fund.

In any particular year, should net investment income be insufficient to satisfy the payout amount set by the Board of Directors, or if the investment return is negative, the payout amount is funded by the accumulated reinvested income in the Endowment Fund. In general, for individual endowment funds without sufficient accumulated reinvestment income, endowment capital is used in the current year. This amount is expected to be recovered by future net investment income.

Arthritis Research Foundation

Notes to Financial Statements

March 31, 2021

Major categories of restrictions on fund balances are as follows:

	2021 \$	2020 \$
Endowments, income from which must be used for research purposes	14,672,002	12,478,792
Endowments, income from which must be used for other restricted purposes	1,605,283	1,365,780
Endowments, income from which must be used as approved by the Board of Directors	185,768	158,052
	<u>16,463,053</u>	<u>14,002,624</u>

6 Grants

During the year ended March 31, 2021, \$nil (2020 – \$12,185,564) of the Foundation's endowed and restricted funds were transferred to other charitable organizations pursuant to a change in Trustee via a Deed of Appointment of Trustee and Deed of Gift in accordance with the Trustee Act (Ontario).

The summary of grants is as follows:

	2021 \$	2020 \$
Princess Margaret Cancer Foundation	-	1,303,503
Toronto General & Western Hospital Foundation	-	10,882,061
University Health Network	-	212,500
Sinai Health System	177,418	374,470
	<u>177,418</u>	<u>12,772,534</u>

7 Interfund transfers

In fiscal 2021, the Foundation transferred \$3,707 (2020 – \$10,487) from the Restricted Fund to the General Funds to fund the payout amount on fund-restricted payments.

8 Financial instruments

The Foundation is exposed to various financial risks through its transactions in financial instruments.

Credit risk

The Foundation is exposed to credit risk in connection with its short-term and fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. To manage this risk, the Foundation has an investment policy, which includes a target mix of investment types and concentration limits designed to achieve the optimum return within reasonable risk tolerances, and only does business with reputable financial institutions.

Arthritis Research Foundation

Notes to Financial Statements

March 31, 2021

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its investments in fixed income investments and a pooled fund that holds fixed income securities because the fair value will fluctuate due to changes in market interest rates.

Other price risk

The Foundation is exposed to other price risk through changes in market prices, other than changes arising from interest rate or currency risks, in connection with its investments in equity securities and pooled funds. To manage this risk, the Foundation invests in a target mix of investment types in accordance with its investment policy.