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Financial Statements of

**THE ARTHRITIS SOCIETY –
ONTARIO DIVISION**

Years ended March 31, 2013 and 2012

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Statements of Financial Position

March 31, 2013, March 31, 2012 and April 1, 2011

	March 31, 2013	March 31, 2012	April 1, 2011
Assets			
Current assets:			
Cash	\$ 118,037	\$ 776,800	\$ 1,434,177
Restricted cash	150,256	158,716	197,487
Short-term investments (note 2)	1,239,287	678,472	504,916
Accounts receivable	159,237	99,714	157,984
Amount receivable from National Office (note 10)	3,718,061	3,458,371	2,167,646
Prepaid expenses	20,378	17,789	74,477
	<u>5,405,256</u>	<u>5,189,862</u>	<u>4,536,687</u>
Long-term investments (note 2)	871,930	1,451,740	1,242,208
Capital assets (note 3)	200,939	243,982	197,206
	<u>\$ 6,478,125</u>	<u>\$ 6,885,584</u>	<u>\$ 5,976,101</u>
Liabilities and Resources			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 299,811	\$ 365,797	\$ 334,776
Deferred revenue	105,791	202,241	346,886
	<u>405,602</u>	<u>568,038</u>	<u>681,662</u>
Deferred capital grants and donations (note 4)	124,551	141,890	74,501
Deferred contributions (note 5)	165,266	170,846	207,349
Deferred lease inducements (note 6)	25,289	31,612	37,935
	<u>720,708</u>	<u>912,386</u>	<u>1,001,447</u>
Resources:			
Unappropriated	3,609,154	3,834,793	2,857,914
Appropriated (note 7)	55,767	37,532	335,607
Endowments	2,041,397	2,030,393	1,696,363
Invested in capital assets	51,099	70,480	84,770
	<u>5,757,417</u>	<u>5,973,198</u>	<u>4,974,654</u>
Commitments (note 11)			
	<u>\$ 6,478,125</u>	<u>\$ 6,885,584</u>	<u>\$ 5,976,101</u>

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Statements of Financial Activities

Years ended March 31, 2013 and 2012

	2013	2012
Revenue:		
Support from the public:		
Campaigns	\$ 7,213,548	\$ 7,747,656
Bequests	2,757,880	3,417,416
	<u>9,971,428</u>	<u>11,165,072</u>
Investment, rental and miscellaneous income	107,770	116,478
Support from government departments and agencies	<u>5,120,043</u>	<u>4,998,357</u>
Total revenue	15,199,241	16,279,907
Expenses:		
Contribution to research and national operations (note 10)	4,214,966	4,063,065
Programs and services	6,327,896	6,299,556
Administration	167,114	154,513
	<u>10,709,976</u>	<u>10,517,134</u>
Cost of raising funds from the public	<u>4,716,050</u>	<u>5,098,260</u>
Total expenses	15,426,026	15,615,394
Excess (deficiency) of revenue over expenses	\$ (226,785)	\$ 664,513

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Statements of Changes in Resources

Years ended March 31, 2013 and 2012

2013	Unappropriated	Appropriated (note 7)	Endowments	Invested in capital assets	
				Total	Total
Resources, beginning of year	\$ 3,834,793	\$ 37,532	\$ 2,030,393	\$ 70,480	\$ 5,973,198
Excess (deficiency) of revenue over expenses	(207,404)	-	-	(19,381)	(226,785)
Additions to capital assets	(36,888)	-	-	36,888	-
Deferred capital grants and donations received	-	-	11,004	-	11,004
Endowment contributions	36,888	-	-	(36,888)	-
Interfund transfers (note 7)	(18,235)	18,235	-	-	-
Resources, end of year	\$ 3,609,154	\$ 55,767	\$ 2,041,397	\$ 51,099	\$ 5,757,417
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2012	Unappropriated	Appropriated (note 7)	Endowments	Invested in capital assets	
Resources, beginning of year	\$ 2,857,915	\$ 335,607	\$ 1,696,363	\$ 84,770	\$ 4,974,655
Excess (deficiency) of revenue over expenses	687,017	-	-	(22,504)	664,513
Additions to capital assets	(112,823)	-	-	112,823	-
Deferred capital grants and donations received	104,609	-	-	(104,609)	-
Endowment contributions	-	-	334,030	-	334,030
Interfund transfers (note 7)	298,075	(298,075)	-	-	-
Resources, end of year	\$ 3,834,793	\$ 37,532	\$ 2,030,393	\$ 70,480	\$ 5,973,198

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Statements of Cash Flows

Years ended March 31, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (226,785)	\$ 664,513
Items not affecting cash:		
Amortization of deferred capital grants and donations	(54,227)	(37,220)
Amortization of deferred contributions	(5,580)	(59,808)
Amortization of deferred lease inducements	(6,323)	(6,323)
Amortization of capital assets	79,931	66,048
Change in unrealized loss on investments	20,594	14,680
Change in non-cash operating working capital (note 9)	(484,238)	(1,289,391)
	(676,628)	(647,501)
Financing activities:		
Deferred contributions received	–	23,305
Endowment contributions	11,004	334,030
Deferred capital grants and donations received	36,888	104,609
	47,892	461,944
Investing activities:		
Net change in investments	(1,599)	(397,768)
Net purchases of capital assets	(36,888)	(112,823)
	(38,487)	(510,591)
Increase (decrease) in cash	(667,223)	(696,148)
Cash, beginning of year	935,516	1,631,664
Cash, end of year	\$ 268,293	\$ 935,516
Represented by:		
Cash	\$ 118,037	\$ 776,800
Restricted cash	150,256	158,716
	\$ 268,293	\$ 935,516

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Notes to Financial Statements

Years ended March 31, 2013 and 2012

The Arthritis Society (the "Society") is incorporated without share capital under the Canada Corporations Act and is a charitable organization, of which Ontario is a Division, and is registered under the Income Tax Act (Canada). 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.

On April 1, 2012, the Society adopted Canadian Accounting Standards for Not-For-Profit Organizations in Part III of The Canadian Institute of Chartered Accountants' ("CICA") Handbook. These are the first financial statements prepared in accordance with not-for-profit standards.

In accordance with the transitional provisions in not-for-profit standards, the Society has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying not-for-profit standards.

There were no adjustments to resources balances as at April 1, 2011 or excess of revenue over expenses for the year ended March 31, 2012 as a result of the transition to not-for-profit standards.

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 CICA Handbook.

(a) Basis of presentation:

These financial statements include the assets, liabilities, revenue and expenses of the Ontario Division 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 statements of changes in resources.

Support from the public is reflected as revenue when the funds are received.

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

1. Significant accounting policies (continued):

(c) Allocation of expenses:

Expenses are recorded and reported by programs and services. Certain employees perform a combination of program, fundraising and administrative functions; as a result, salaries and benefits are allocated based on time dedicated to the functional activities. Other costs, including executive office and administrative support, are allocated to the programs and services that benefit from the activities. Such allocations are reviewed regularly by management.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Society has elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Society determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Society expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

1. Significant accounting policies (continued):

(e) Resources balances:

Unappropriated resources record the general activities of the Society.

Appropriated resources include investment income earned on the research stabilization account. Investment income earned on other projects is recorded in unappropriated resources.

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) Capital assets:

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Society's ability to provide services, its carrying amount is written down to its residual value.

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

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

(g) 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.

(h) 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.

(i) 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.

(j) 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 date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

2. Investments:

(a) Short term investments include:

	March 31, 2013	March 31, 2012	April 1, 2011
Cash	\$ 2,611	\$ -	\$ 80,813
Fixed income	1,152,986	656,327	363,974
Money market	83,690	22,145	60,129
	<u>\$ 1,239,287</u>	<u>\$ 678,472</u>	<u>\$ 504,916</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 1.65% to 5.15% (March 31, 2012 - 1.3% to 5.5%; April 1, 2011 - 1.7% to 6.1%).

(b) Long term investments include:

	March 31, 2013	March 31, 2012	April 1, 2011
Fixed income	\$ 871,930	\$ 1,451,740	\$ 1,242,208
	<u>\$ 871,930</u>	<u>\$ 1,451,740</u>	<u>\$ 1,242,208</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 1.9% to 5.18% (March 31, 2012 – 1.95% to 5.15%; April 1, 2011 - 2.11% to 5.5%), and Canadian and U.S. equities and investments in unit trusts.

3. Capital assets:

March 31, 2013	Cost	Accumulated amortization	Net book value
Computer equipment and software	142,577	53,403	89,174
Furniture and equipment	144,314	105,090	39,224
Leasehold improvements	181,409	108,868	72,541
	<u>\$ 468,300</u>	<u>\$ 267,361</u>	<u>\$ 200,939</u>

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

3. Capital assets (continued):

March 31, 2012	Cost	Accumulated amortization	Net book value
Computer equipment and software	123,109	37,199	85,910
Furniture and equipment	144,314	77,755	66,559
Leasehold improvements	186,351	94,838	91,513
	\$ 453,774	\$ 209,792	\$ 243,982

April 1, 2011	Cost	Accumulated amortization	Net book value
Computer equipment and software	148,777	138,389	10,388
Furniture and equipment	127,862	51,331	76,531
Leasehold improvements	184,951	74,664	110,287
	\$ 461,590	\$ 264,384	\$ 197,206

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 years are as follows:

	2013	2012
Balance, beginning of year	\$ 141,890	\$ 74,501
Grants received	36,888	104,609
Less amortization	54,227	37,220
Balance, end of year	\$ 124,551	\$ 141,890

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

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 years are as follows:

2013	Education	Volunteer/ community development	Patient care	Total
Balance, beginning of year	\$ 62,417	\$ 40,017	\$ 68,412	\$ 170,846
Funds received	–	–	–	–
Amount recognized as revenue	(5,580)	–	–	(5,580)
Balance, end of year	\$ 56,837	\$ 40,017	\$ 68,412	\$ 165,266

2012	Education	Volunteer/ community development	Patient care	Total
Balance, beginning of year	\$ 64,786	\$ 56,562	\$ 86,001	\$ 207,349
Funds received	23,305	–	–	23,305
Amount recognized as revenue	(25,674)	(16,545)	(17,589)	(59,808)
Balance, end of year	\$ 62,417	\$ 40,017	\$ 68,412	\$ 170,846

6. Deferred lease inducements:

	March 31, 2013	March 31, 2012	April 1, 2011
Tenant inducements	\$ 63,225	\$ 63,225	\$ 63,225
Less accumulated amortization	(37,936)	(31,613)	(25,290)
	\$ 25,289	\$ 31,612	\$ 37,935

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

7. Appropriated resources:

The Board of Directors of the Society has approved \$55,767 (2012 - \$37,532) for use in future projects. The appropriated resources balance consists of the following:

	2012	Board approved transfers	Activities during the year	2013
Aqueduct Foundation Grant - Ontario Division	37,532	18,235	–	55,767
	\$ 37,532	\$ 18,235	\$ –	\$ 55,767

	2011	Board approved transfers	Activities during the year	2012
Aqueduct Foundation Grant - Ontario Division	20,000	17,532	–	37,532
Education/client service projects	315,607	(315,607)	–	–
	\$ 335,607	\$ (298,075)	\$ –	\$ 37,532

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

As at March 31, 2013, the Society is the beneficiary of several annuities purchased by donors with original annuity contract amounts of \$372,500 (2012 - \$372,500). 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 2013, nil (2012 - \$11,458) 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, 2013 amounted to \$680,000 (2012 - \$681,000). During 2013, \$5,002 (2012 - nil) 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, 2013 amounted to \$500,000 (2012 - \$515,000).

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

9. Change in non-cash operating working capital:

	2013	2012
Accounts receivable	\$ (319,213)	\$ (1,232,455)
Prepaid expenses	(2,589)	56,688
Accounts payable and accrued liabilities	(65,986)	31,021
Deferred revenue	(96,450)	(144,645)
	<u>\$ (484,238)</u>	<u>\$ (1,289,391)</u>

10. Research and national operations:

The national Board approved that the Division's contributions toward research and national operations be allocated primarily to the National research program, with the balance allocated to other national programs and central services. During the year, the Division made contributions to the National research program totaling \$2,220,375 (2012 - \$1,989,736).

	2013	2012
Amount receivable from National Office	\$ 6,741,369	\$ 4,955,749
Amount payable to National Office	(3,023,308)	(1,497,378)
	<u>\$ 3,718,061</u>	<u>\$ 3,458,371</u>

11. Commitments:

The Society has entered into operating lease commitments for office premises and office equipment. The minimum annual lease payments are as follows:

2014	\$ 595,000
2015	542,000
2016	425,000
2017	348,000
2018	58,000
Thereafter	-
	<u>\$ 1,968,000</u>

THE ARTHRITIS SOCIETY – ONTARIO DIVISION

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

12. 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 2012.

(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 statements 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