

Financial Statements of

THE ARTHRITIS SOCIETY

Year ended March 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Arthritis Society

Report on the Financial Statements

We have audited the accompanying financial statements of The Arthritis Society, which comprise the statement of financial position as at March 31, 2012, 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 generally accepted accounting principles, 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.



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Basis for Qualified Opinion

In common with many charitable organizations, The Arthritis Society 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. Therefore, we and the predecessor auditor, were not able to determine, respectively, whether, as at and for the years ended March 31, 2012 and March 31, 2011, any adjustments might be necessary to contributions, excess (deficiency) of revenue over expenses reported in the statements of cash flows and current assets and unrestricted net assets reported in the statements of financial position. This caused the predecessor auditor to qualify their audit opinion on the financial statements as at and for the year ended March 31, 2011.

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 as at March 31, 2012, and its results of operations, its changes in resources and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The financial statements of The Arthritis Society as at and for the year ended March 31, 2011 were audited by another auditor who expressed a qualified opinion on these financial statements on June 24, 2011 due to the matter described in the Basis for Qualified Opinion paragraph.

Report on Other Legal and Regulatory Requirements

As required by the Canada Corporations Act, we report that, in our opinion, the accounting principles applied in preparing and presenting the financial statements in accordance with Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 22, 2012
Toronto, Canada

THE ARTHRITIS SOCIETY

Statement of Financial Position

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash	\$ 3,187,872	\$ 3,224,970
Restricted cash	186,437	214,075
Short-term investments (note 2)	4,735,384	2,758,110
Accounts receivable	417,439	796,254
Prepaid expenses	234,605	557,652
	<u>8,761,737</u>	<u>7,551,061</u>
Long-term investments (note 2)	17,098,830	11,901,863
Capital assets (note 3)	1,286,642	3,036,339
	<u>\$ 27,147,209</u>	<u>\$ 22,489,263</u>

Liabilities and Resources

Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,012,856	\$ 1,252,145
Deferred revenue	863,026	1,498,170
Research and career development awards payable	3,664,081	900,890
	<u>6,539,963</u>	<u>3,651,205</u>
Deferred capital grants and donations (note 4)	146,100	74,501
Deferred contributions (note 5)	1,831,130	2,041,803
Deferred lease inducements (note 6)	31,612	37,935
	<u>8,548,805</u>	<u>5,805,444</u>
Resources:		
Unappropriated	5,430,545	1,399,255
Appropriated (note 7)	9,703,511	10,328,905
Endowments (note 11)	2,355,418	2,031,756
Invested in capital assets	1,108,930	2,923,903
	<u>18,598,404</u>	<u>16,683,819</u>
Commitments and contingencies (notes 16, 17 and 18)		
	<u>\$ 27,147,209</u>	<u>\$ 22,489,263</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

THE ARTHRITIS SOCIETY

Statement of Financial Activities

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Support from the public:		
Campaigns (note 8)	\$ 18,777,731	\$ 20,528,954
United Way	810,144	837,060
Bequests	5,823,377	4,524,684
Investment, rental and miscellaneous income	1,651,053	2,519,376
	<u>27,062,305</u>	<u>28,410,074</u>
Support from government departments and agencies:		
Patient care	5,271,508	5,143,649
Other	159,182	304,951
	<u>5,430,690</u>	<u>5,448,600</u>
<u>Total revenue (note 12)</u>	<u>32,492,995</u>	<u>33,858,674</u>
Expenses:		
Programs and services:		
Research and career development	7,649,021	5,588,582
Patient care	5,189,752	5,127,704
Education/information/advocacy	5,573,450	5,867,914
Volunteer/community development	1,218,288	1,181,671
Building operation	557,237	628,122
Administration	3,884,413	3,698,981
Change in unrealized loss on investments	1,210	90,083
Amortization of capital assets	445,851	591,881
	<u>24,519,222</u>	<u>22,774,938</u>
Cost of raising funds from the public	11,521,807	11,855,901
<u>Total expenses</u>	<u>36,041,029</u>	<u>34,630,839</u>
Deficiency of revenue over expenses before the undernoted	(3,548,034)	(772,165)
Gain on disposal of building (note 3)	5,127,864	-
<u>Excess (deficiency) of revenue over expenses</u>	<u>\$ 1,579,830</u>	<u>\$ (772,165)</u>

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY

Statement of Changes in Resources

Year ended March 31, 2012, with comparative figures for 2011

	2012		2011		
	Unappropriated	Appropriated (note 7)	Endowments (note 11)	Invested in capital assets	Total
Resources, beginning of year	\$ 1,399,255	\$ 10,328,905	\$ 2,031,756	\$ 2,923,903	\$ 16,683,819
Excess (deficiency) of revenue over expenses	3,932,368	(40,562)	(11,093)	(2,300,883)	1,579,830
Additions to capital assets	(594,891)	-	-	594,891	-
Deferred capital grants and donations received	108,981	-	-	(108,981)	-
Endowment contributions	-	-	334,755	-	334,755
Interfund transfers (note 7)	584,832	(584,832)	-	-	-
Resources, end of year	\$ 5,430,545	\$ 9,703,511	\$ 2,355,418	\$ 1,108,930	\$ 18,598,404
					\$ 16,683,819

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY

Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 1,579,830	\$ (772,165)
Items not affecting cash:		
Amortization of deferred capital grants and donations	(37,382)	(220,264)
Amortization of deferred contributions	(956,816)	(2,176,300)
Amortization of deferred lease inducements	(6,323)	(10,370)
Amortization of capital assets	445,851	591,881
Change in unrealized loss on investments	1,210	90,083
Gain on disposal of building	(5,127,864)	—
Change in non-cash operating working capital (note 13)	3,590,620	(141,607)
	(510,874)	(2,638,742)
Financing activities:		
Deferred contributions received	788,247	988,700
Endowment contributions	334,755	78,455
Deferred capital grants and donations received	108,981	11,680
	1,231,983	1,078,835
Investing activities:		
Net change in investments	(7,175,451)	(1,047,053)
Proceeds on disposal of building	7,026,601	—
Payment to Cassie & Friends Society	(42,104)	—
Net purchases of capital assets	(594,891)	(370,836)
	(785,845)	(1,417,889)
Decrease in cash	(64,736)	(2,977,796)
Cash, beginning of year	3,439,045	6,416,841
Cash, end of year	\$ 3,374,309	\$ 3,439,045
Represented by:		
Cash	\$ 3,187,872	\$ 3,224,970
Restricted cash	186,437	214,075
	\$ 3,374,309	\$ 3,439,045

See accompanying notes to financial statements.

THE ARTHRITIS SOCIETY

Notes to Financial Statements

Year ended March 31, 2012

The Arthritis Society (the "Society") is incorporated without share capital under the Canada Corporations Act and is a charitable organization 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.

1. Significant accounting policies:

(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.

(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.

THE ARTHRITIS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2012

1. Significant accounting policies (continued):

(d) Financial instruments:

The Society designates its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and research and career development awards payable are classified as other financial liabilities, which are measured at amortized cost. Investments are classified as held-for-trading and stated at fair value. Investments in fixed income securities and equities are valued at the year-end published market rates.

As allowed under The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Society has elected not to account for non-financial contracts as derivatives, and not to account for embedded derivatives in non-financial contracts, leases and insurance contracts as embedded derivatives.

The Society has elected to follow the disclosure requirements of CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation.

(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 the 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.

Endowments have specific restrictions placed by the donors on the capital of the fund and the use of investment income accruing to the fund.

THE ARTHRITIS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2012

1. Significant accounting policies (continued):

(f) Research and career development 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 and career development awards payable on the Statement of Financial Position.

(g) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at fair value at the date of contribution. 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

An impairment charge is recognized for long-lived assets when an event or change in circumstances causes an asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the assets and their carrying value.

(h) Investments:

The realized gain or loss on investments, being the difference between adjusted cost base and proceeds, is included in investment, rental and miscellaneous income on the Statement of Financial Activities. Transaction costs are not considered significant and are expensed as incurred. Unrealized gain or loss on investments, being the difference between adjusted cost base and fair value, is included in change in unrealized loss on investments on the Statement of Financial Activities.

Short-term fixed income funds and bankers' acceptances maturing within a year are stated at cost plus accrued interest, which approximates fair value given the short-term nature of these investments.

THE ARTHRITIS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2012

1. Significant accounting policies (continued):

Fixed income securities and equities are valued at year-end quoted market prices. Equity pooled funds and unit funds are recorded at net asset values as reported by the fund Manager.

(i) 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.

(j) 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.

(k) 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.

(l) 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

Notes to Financial Statements (continued)

Year ended March 31, 2012

2. Investments:

	2012		2011	
	Fair value	Book value	Fair value	Book value
Short-term	\$ 4,735,384	\$ 4,735,384	\$ 2,758,110	\$ 2,758,110
Long-term	17,098,830	17,100,040	11,901,863	11,991,946
	\$ 21,834,214	\$ 21,835,424	\$ 14,659,973	\$ 14,750,056

Short-term investments consist of cash held within the investment accounts, bankers' acceptances, short-term fixed income funds with maturity dates of less than a year from the statement of financial position date, and money market mutual funds, bearing interest at rates ranging from 1.3% to 5.4% (2011 - 1.7% to 7.2%). Long-term investments consist of fixed income bonds bearing interest at rates ranging from 2.00% to 6.93% (2011 - 2.1% to 7.2%), Canadian and U.S. equities and investments in unit trusts.

3. Capital assets:

	2012		2011	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 239,306	\$ -	\$ 239,306	\$ 1,627,636
Buildings	5,587,235	5,587,235	-	528,668
Computer equipment and software	1,310,351	716,398	593,953	474,492
Furniture and equipment	234,804	123,408	111,396	109,024
Leasehold improvements	549,342	207,355	341,987	296,519
	\$ 7,921,038	\$ 6,634,396	\$ 1,286,642	\$ 3,036,339

During the year, the Society sold their property in the province of British Columbia, representing land and building, for proceeds net of selling costs of \$7,026,601. This resulted in a gain being recognized in the year of \$5,127,864.

THE ARTHRITIS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2012

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:

	2012	2011
Balance, beginning of year	\$ 74,501	\$ 283,085
Grants received	108,981	11,680
Less amortization	37,382	220,264
Balance, end of year	\$ 146,100	\$ 74,501

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 deferred contribution balances are as follows:

					2012	2011
	Education	Volunteer/ community development	Patient care	Research	Total	Total
Balance, beginning of year	\$ 814,976	\$ 56,562	\$ 488,446	\$ 681,819	\$ 2,041,803	\$ 3,229,403
Funds received	193,989	-	414,967	179,291	788,247	988,700
Amount recognized as revenue	(353,494)	(16,545)	(434,271)	(152,506)	(956,816)	(2,176,300)
Payment to Cassie & Friends Society	-	-	(10,526)	(31,578)	(42,104)	-
Balance, end of year	\$ 655,471	\$ 40,017	\$ 458,616	\$ 677,026	\$ 1,831,130	\$ 2,041,803

THE ARTHRITIS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2012

6. Deferred lease inducements:

	2012	2011
Tenant inducements	\$ 63,225	\$ 81,413
Less accumulated amortization	31,613	43,478
	<u>\$ 31,612</u>	<u>\$ 37,935</u>

7. Appropriated resources:

The Board of Directors of the Society has approved \$9,703,511 (2011 - \$10,328,905) for use in future projects. The appropriated resources balance consists of the following:

	2011	Board approved transfers	Activities during the year	2012
Research stabilization account	\$ 9,280,589	\$ 129,928	\$ -	\$ 9,410,517
Aqueduct Foundation				
Grant - Ontario Division	20,000	17,532	-	37,532
Future research	3,500	(3,500)	-	-
Arthritis capital funds	19,100	(19,100)	-	-
Education/client service projects	464,185	(464,185)	-	-
Division/branch development	22,000	(22,000)	-	-
Community groups -				
B.C. and Yukon Division	195,098	-	(40,562)	154,536
Arthritis McRobbie Fund -				
B.C. and Yukon Division	100,926	-	-	100,926
Bone and Joint Centre initiative - Alberta and -				
NWT Division	100,000	(100,000)	-	-
Customer Relationship Model	123,507	(123,507)	-	-
	<u>\$ 10,328,905</u>	<u>\$ (584,832)</u>	<u>\$ (40,562)</u>	<u>\$ 9,703,511</u>

The research stabilization account, in which the divisions participate, represents funds designated by the National Board to support future research and career development.

THE ARTHRITIS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2012

8. Campaigns:

Gross campaigns revenue comprises the following:

	2012	2011
Joins in Motion marathons	\$ 1,662,403	\$ 2,068,876
National walk	1,021,893	620,268
Special events	1,636,208	1,655,154
Direct marketing	6,688,427	7,221,156
Corporate campaigns	3,456,502	3,168,004
Tributes/memorials	325,802	409,133
Foundations	604,967	663,036
Residential canvass	883,302	981,462
Gaming	139,843	318,452
Individual giving	911,382	1,998,196
Planned giving (note 9)	453,369	443,972
Employee funds	718,096	699,960
Service clubs	268,031	246,130
Other	7,506	35,155
	<u>\$ 18,777,731</u>	<u>\$ 20,528,954</u>

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

As at March 31, 2012, the Society is the beneficiary of several annuities purchased by donors with original annuity contract amounts of \$534,500 (2011 - \$654,500). 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 2012, \$11,458 (2011 - \$2,582) 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, 2012 amounted to \$901,167 (2011 - \$866,633).

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, 2012 amounted to \$515,000 (2011 - \$564,320). During 2012, \$234,806 (2011 - nil) was received in cash and included in campaigns revenue.

THE ARTHRITIS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2012

10. Endowment trust funds:

The Society is entitled to the annual earnings from endowments held by The Vancouver Foundation and the Victoria Foundation. The capital of the funds is not available to the Society and is not included in the accounts of the Society. The Vancouver Foundation and the Victoria Foundation are not-for-profit organizations that receive and invest funds and from these funds provide investment income to other not-for-profit organizations under the terms of the agreements with them.

During the year, the Society received \$107,021 (2011 - \$103,626) of interest income from The Vancouver Foundation and \$16,770 (2011 - \$16,073) from the Victoria Foundation.

11. Endowments:

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.

The balance of endowments consists of the following:

	2012	2011
B.C. and Yukon Division	\$ 200,000	\$ 200,000
Saskatchewan Division	62,000	62,000
Manitoba and Nunavut Division	63,025	73,393
Ontario Division	2,030,393	1,696,363
	<u>\$ 2,355,418</u>	<u>\$ 2,031,756</u>

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Notes to Financial Statements (continued)

Year ended March 31, 2012

12. Revenue:

Total revenue by division is as follows:

			2012	2011
	Support from the public	Support from the government	Total	Total
B.C. and Yukon Division	\$ 4,521,861	\$ 303,766	\$ 4,825,627	\$ 5,905,813
Alberta and NWT Division	2,513,630	34,153	2,547,783	2,386,541
Saskatchewan Division	1,063,216	7,367	1,070,583	1,737,125
Manitoba and Nunavut Division	877,131	3,207	880,338	994,394
Ontario Division	11,296,230	4,998,357	16,294,587	16,143,567
Quebec Division	2,665,800	–	2,665,800	2,208,216
New Brunswick Division	355,383	5,892	361,275	345,841
Prince Edward Island Division	116,106	4,353	120,459	120,034
Nova Scotia Division	1,254,584	13,592	1,268,176	937,480
Newfoundland and Labrador Division	622,819	60,003	682,822	596,688
National Office	1,775,545	–	1,775,545	2,482,975
	\$ 27,062,305	\$ 5,430,690	\$ 32,492,995	\$ 33,858,674

13. Change in non-cash operating working capital:

	2012	2011
Accounts receivable	\$ 378,815	\$ (371,885)
Prepaid expenses	323,047	(137,158)
Accounts payable and accrued liabilities	760,711	(456,883)
Deferred revenue	(635,144)	604,006
Research and career development awards payable	2,763,191	220,313
	\$ 3,590,620	\$ (141,607)

THE ARTHRITIS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2012

14. 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 \$447,092 (2011 - \$399,267).

15. Network centre of excellence:

The Society provides funds to the Canadian Arthritis Network, to be used for the training of graduate students, post-doctoral fellows and scholars. During the year, the Society contributed \$500,000 (2011 - \$500,000). As at March 31, 2012, \$5,518,486 (2011 - \$5,018,486) has been accumulatively contributed to the Canadian Arthritis Network.

16. Research commitments:

The Society has currently approved research and career development commitments over the next three years as follows:

2013	\$ 4,584,427
2014	927,360
2015	90,000
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	\$ 5,601,787

The Society has a long standing commitment to fund Ross Petty Chair to a total of \$3,000,000 of which \$2,500,000 has been funded or accrued to date. The British Columbia and Yukon Division has committed to raise the remaining \$500,000.

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Notes to Financial Statements (continued)

Year ended March 31, 2012

17. Commitments:

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

2013	\$ 1,542,000
2014	1,424,000
2015	1,255,000
2016	973,000
2017	713,000
Thereafter	117,000
	<hr/>
	\$ 6,024,000

18. Guarantees:

In the normal course of business, the Society enters into agreements that meet the definition of a guarantee. The nature of these guarantee and indemnification agreements prevents the Society from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. The Society has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the financial statements with respect to these agreements.

The Society's primary guarantees are as follows:

- (a) Indemnity has been provided to all directors and officers of the Society for various items including, but not limited to, all costs to settle suits or actions due to their association with the Society, subject to certain restrictions. The Society has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions.
- (b) In the normal course of business, the Society has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Society to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or, as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Society has insurance policies in place to minimize the exposure of certain of these guarantees.

THE ARTHRITIS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2012

19. Allocation of expenses:

The Society has allocated its common expenses as follows:

	Research and career development	Education/information/advocacy	Volunteer/community development	Administration	Cost of raising funds	Total
2012						
Executive office ⁽¹⁾	\$ 547,497	\$ 168,229	\$ -	\$ 330,292	\$ 269,167	\$ 1,315,185
2011						
Executive office ⁽¹⁾	\$ 184,910	\$ 184,910	\$ -	\$ 73,964	\$ 295,856	\$ 739,640
Administration ⁽²⁾	-	-	434,830	48,315	-	483,145
	\$ 184,910	\$ 184,910	\$ 434,830	\$ 122,279	\$ 295,856	\$ 1,222,785

⁽¹⁾Executive office expenses consist primarily of salaries and benefits and staff travel and meeting expenses.

⁽²⁾Administration expenses consist primarily of telecommunications, equipment expenses, consulting fees and office expenses.

The 2012 allocated amounts represent those for the National Office. The 2011 allocated amounts represent those for the National Office and the Quebec Division only.

THE ARTHRITIS SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2012

20. Capital disclosures:

The Society considers its endowment and appropriated resources, together with deferred contributions, to be capital and has complied with the restrictions related thereto.

21. Financial instruments:

(a) Fair values:

The fair values of the Society's financial instruments, except as noted otherwise, approximate their carrying values due to their short-term nature.

(b) 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 date.

(c) 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.