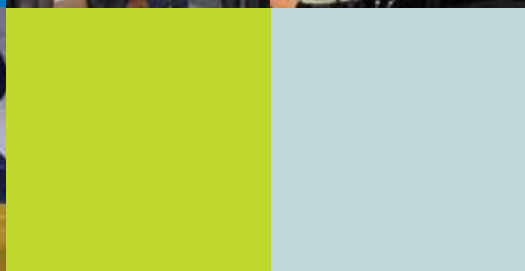


financial report

20
12



our purpose

To improve the quality of life of people who have, or are at risk of developing, musculoskeletal conditions.

our vision

To be a leader in promoting excellence in musculoskeletal health and wellbeing.

our values

Each of the five values and their associated behaviours guide our personal and business conduct.

- Respect and integrity
- Service and stewardship
- Excellence and knowledge
- Collaboration
- Leadership

strategic directions

2012-2016

1. Creating a sustainable future
2. Providing access to a range of evidence-informed services
3. Developing a highly respected research capability
4. Delivering community education to increase awareness
5. Influencing systemic change
6. Achieving recognition as a musculoskeletal health industry leader

treasurer's report

In 2012 The Arthritis Foundation of Victoria (The Foundation) continued its focus on strengthening the organisation by investing in program service reviews and research activities while reinforcing core and specialist capacities in critical areas. At the same time, due to the slow recovery in the economy following the Global Financial Crisis, income remained flat in the raffle and appeals areas but was boosted by an increase in bequests received. The slow recovery was anticipated by the Board in prior years and was provided for by the build up of a Future Reserve which currently stands at \$1,078,966.

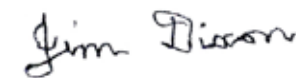
The Foundation experienced a reduction in total reserves in the year by (\$220,059), which comprised the following major elements:

- Deficit on operations of (\$423,870) was largely due to increased investment, as stated above
- Profit of \$25,658 earned on sale of shares designated for unrestricted use. This followed a rebalancing of The Foundation's share portfolio into a more diverse spread of higher yielding shares
- Interest and dividends received totalling \$161,399 from funds designated for unrestricted use
- Profit of \$46,869 earned on sale of shares following a rebalancing of The Foundation's share portfolio into a more diverse spread of higher yielding shares. These shares were designated for Specific Purpose use
- Interest and dividends received totalling \$178,817. These were derived from funds designated for Specific Purpose use
- Specific Purpose Expenses (\$207,230)
- Return of shares and cash totalling (\$203,943) to a deceased estate due to incompatibility of directed use of funds with The Foundation's strategic directions
- Net increase in the value of the Foundation's share portfolio of \$264,474, partly offset by reversal of previous share valuation increases of (\$62,233) following the sales of shares during the year

The Foundation also provides services under the name Osteoporosis Victoria. Revenue received through activities marketed in the name of Osteoporosis Victoria is included in the revenue of The Foundation. Similarly, expenses incurred in the name of Osteoporosis Victoria are included in the expenditure of The Foundation.

In response to the changing global economic environment, the organisation has invested its cash deposits with Government Guaranteed Australian deposit taking institutions. Apart from the required funds for operational purposes, the cash investments are in fixed term deposits. The Foundation has no direct exposure to mortgage backed securities or investments in complex securities, listed or unlisted.

The financial result for 2012 reflects the difficult conditions prevailing in the economy and a commitment of additional expenditure aimed at improving The Foundation's capacity to provide a broad range of services. The Foundation is working to secure its financial sustainability in the longer term.



Jim Dixon
FCPA, MBA, B Comm, B Ed
Honourary Treasurer

**ARTHRITIS FOUNDATION OF VICTORIA
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012 \$	2011 \$
Revenue from rendering of services	6	3,910,128	3,695,570
Revenue from sale of goods		90,962	107,341
Other income	8	<u>111,364</u>	<u>45,434</u>
		4,112,454	3,848,345
Development and business services expenses		(2,037,834)	(1,814,770)
Training and Information Programs		(2,012,682)	(2,082,313)
Policy and research unit expenses		(257,564)	(204,020)
Administration expenses		<u>(228,244)</u>	<u>(315,032)</u>
Operating surplus/(deficit) before finance, specific purpose income/expense, recognition of land as committee of management, and other comprehensive income and expenses		(423,870)	(567,789)
Finance income	7	187,057	595,194
Operating (deficit) surplus before specific purpose and other comprehensive income/expense		<u>(236,813)</u>	<u>27,405</u>
Specific purpose income/ (expense)			
Specific purpose revenue		-	171,258
Specific purpose finance income		178,817	310,937
Specific profit/(loss) on sale of shares		46,869	(82,227)
Specific purpose expenses		(207,230)	(232,576)
Specific Purpose shares and cash returned to trustee		<u>(203,943)</u>	<u>-</u>
		(185,487)	167,392
Operating (deficit)/surplus for the year before other comprehensive income and expenses		<u>(422,300)</u>	<u>194,797</u>
Other comprehensive income			
Net change in fair value of available for sale financial assets		264,474	(272,503)
Reversal of previous fair value adjustments of available for sale financial assets disposed of during the year	1(a), 18	<u>(62,233)</u>	<u>(408,647)</u>
Other comprehensive income/(deficit) for the year		<u>202,241</u>	<u>(681,150)</u>
Total comprehensive income for the year		<u>(220,059)</u>	<u>(486,353)</u>

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements

**ARTHRITIS FOUNDATION OF VICTORIA
STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2012**

	Fair value reserve	Asset Revaluation reserve	Research funding reserve	Disease funds reserve	Lupus reserve	Retained earnings	Future reserve	Total equity
	\$	\$	\$	\$	\$	\$	\$	\$
2011								
Opening balance at 1 January 2011	828,319	498,322	2,328,548	84,710	252,962	2,840,389	1,078,966	7,912,216
Deficit for the year	-	-	-	-	-	194,797	-	194,797
Bequest cash and cash equivalents in current year, including dividend and interest earned on bequested funds	-	-	383,710	-	-	(383,710)	-	-
Bequests received as shares	-	-	16,258	-	-	(16,258)	-	-
Appropriation to Research Activities	-	-	(232,576)	-	-	232,576	-	-
Other Comprehensive income								
Other Comprehensive income for the year	(681,150)	-	-	-	-	-	-	(681,150)
Closing balance at 31 December 2011	<u>147,169</u>	<u>498,322</u>	<u>2,495,940</u>	<u>84,710</u>	<u>252,962</u>	<u>2,867,794</u>	<u>1,078,966</u>	<u>7,425,863</u>
2012								
Opening balance at 1 January 2012	147,169	498,322	2,495,940	84,710	252,962	2,867,794	1,078,966	7,425,863
Deficit for the year	-	-	-	-	-	(422,300)	-	(422,300)
Bequest cash and cash equivalents in current year, including dividend and interest earned on bequested funds	-	-	225,686	-	-	(225,686)	-	-
Bequest cash and shares returned to trustee	-	-	(203,943)	-	-	203,943	-	-
Bequests received as shares	-	-	-	-	-	-	-	-
Appropriation to Research Activities	-	-	(207,230)	-	-	207,230	-	-
Other Comprehensive income								
Profit realised on shares sold-rebalancing portfolio	(62,233)	-	-	-	-	-	-	(62,233)
Other Comprehensive income for the year	264,474	-	-	-	-	-	-	264,474
Closing balance at 31 December 2012	<u>349,410</u>	<u>498,322</u>	<u>2,310,453</u>	<u>84,710</u>	<u>252,962</u>	<u>2,630,981</u>	<u>1,078,966</u>	<u>7,205,804</u>

The statement of changes in equity is to be read in conjunction with the notes to the financial statements

ARTHRITIS FOUNDATION OF VICTORIA STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012			
	Note	2012 \$	2011 \$
Current assets			
Cash and cash equivalents	11	4,334,248	4,746,920
Trade and other receivables	12	53,941	232,651
Other investments	13	1,647,265	1,217,886
Inventories	14	6,253	7,903
Total current assets		<u>6,041,707</u>	<u>6,205,360</u>
Non-current assets			
Property, plant and equipment	15	2,060,919	2,111,953
Total non-current assets		<u>2,060,919</u>	<u>2,111,953</u>
Total assets		<u>8,102,626</u>	<u>8,317,313</u>
Current liabilities			
Trade and other payables	16	658,412	666,556
Employee benefits	17	216,855	211,121
Total current liabilities		<u>875,267</u>	<u>877,677</u>
Non-current liabilities			
Employee benefits	17	21,555	13,773
Total non-current liabilities		<u>21,555</u>	<u>13,773</u>
Total liabilities		<u>896,822</u>	<u>891,450</u>
Net assets		<u>7,205,804</u>	<u>7,425,863</u>
Equity			
Fair value reserve	18	349,410	147,169
Asset revaluation reserve	18	498,322	498,322
Research funding reserve	18	2,310,453	2,495,940
Lupus reserve	18	252,962	252,962
Diseases funds reserve	18	84,710	84,710
Future reserve	18	1,078,966	1,078,966
Retained earnings		2,630,981	2,867,794
Total equity		<u>7,205,804</u>	<u>7,425,863</u>

The statement of financial position is to be read in conjunction with the notes to the financial statements

ARTHRITIS FOUNDATION OF VICTORIA STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012			
	Note	2012 \$ Inflows/(Outflows)	2011 \$ Inflows/(Outflows)
Cash flows from operating activities			
Cash receipts in the course of operations		4,301,299	4,078,146
Cash payments in the course of operations		(4,581,844)	(4,524,545)
Specific Purpose cash returned to trustee		(161,135)	-
Specific purpose receipts		-	155,000
Specific purpose payments		(207,230)	(232,576)
Net cash from operating activities	19	<u>(648,910)</u>	<u>(523,975)</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(20,493)	(116,080)
Interest received		232,579	216,337
Acquisition of shares		(612,147)	(185,546)
Sale of Shares		528,662	224,930
Dividend income		107,637	460,384
Net cash from investing activities		<u>236,238</u>	<u>600,025</u>
Cash flows from financing activities			
Repayment of borrowings		-	-
Net cash (used in)/from financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		(412,672)	76,050
Cash and cash equivalents at 1 January		4,746,920	4,670,870
Cash and cash equivalents at 31 December	11	<u>4,334,248</u>	<u>4,746,920</u>

The statement of cash flows is to be read in conjunction with the notes to the financial statements

ARTHRITIS FOUNDATION OF VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1 Reporting entity

Arthritis Foundation of Victoria ("the Foundation") is an entity domiciled in Australia. The financial statements of the Foundation as at and for the year ended 31 December 2012 comprise of the Foundation only. The Foundation is primarily involved in the raising and distribution of funds and services for the benefit of the community with arthritis and arthritis related diseases.

Directors' Insurance

The Foundation arranges insurance cover for current and former directors and officers, including senior executives of the Foundation. The insurance cover relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

2 Basis of preparation

(a) Statement of compliance

In the opinion of the directors, the Foundation is a reporting entity. The financial report of the Foundation has been drawn up as a general purpose financial report for distribution to the members.

The general purpose financial report has been prepared in accordance with the Australian Accounting Standards, (AASBs) Reduced Disclosure requirements

The financial statements were approved by the Board of Directors on 26 March 2013.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the investments. The method used to measure fair value is discussed further in note 4(iii).

(c) Use of estimates and judgments

The preparation of a financial report requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(d) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Foundation's functional currency.

ARTHRITIS FOUNDATION OF VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

2 Basis of preparation (continued)

(e) Changes in accounting policies

Starting as of 1 January 2010, the Foundation changed its accounting policies in the presentation of financial statements and early adopted the Reduced Disclosure requirements of AASB 1053 and AASB 2011-2 to provide more meaningful financial reports .

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The Foundation has not elected to early adopt any accounting standards or amendments in the current year.

(a) Financial instruments

Non-derivative financial instruments

The Foundation initially recognises trade and other receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Foundation's non-derivative financial assets comprise of investments in equity securities, trade and other receivables and cash and cash equivalents.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Foundation's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(e)), and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable

ARTHRITIS FOUNDATION OF VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3 Significant accounting policies (continued)
(a) Financial instruments (continued)
Non-derivative financial instruments (continued)

on demand and form an integral part of the Foundation's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(i).

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(b) Property, plant and equipment
(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Foundation and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(ii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

ARTHRITIS FOUNDATION OF VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3 Significant accounting policies (continued)
(b) Property, plant and equipment (continued)
(ii) Depreciation

The estimated useful lives for the current and comparative periods are as follows:

	2012	2011
• building	40 years	40 years
• plant and equipment	5-12 years	5-12 years
• motor vehicles	5 years	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(c) Leased assets

Leases in terms of which the Foundation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. At balance date there were no finance leases.

Other leases are operating leases and the leased assets are not recognised on the Foundation's balance sheet.

(d) Inventories

Inventories held for sale are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventories held for distribution are recorded at cost, adjusted where applicable for any loss of service potential. At balance date the Foundation was not holding a material level of inventories for distribution at no cost.

(e) Impairment
(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit and loss and reflected in an allowance against receivables.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

ARTHRITIS FOUNDATION OF VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3 Significant accounting policies (continued)
e) Impairment
(i) Financial assets

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Foundation's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is determined as the depreciated replacement cost of the assets. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Employee benefits
(i) Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

ARTHRITIS FOUNDATION OF VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3 Significant accounting policies (continued)
(f) Employee benefits
(i) Defined contribution superannuation funds
(ii) Other long-term employee benefits

The Foundation's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Commonwealth Government bonds that have maturity dates approximating the terms of the Foundation's obligations. The calculation is performed using the projected unit credit method.

(iii) Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Foundation expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Foundation as the benefits are taken by the employees.

(g) Revenue

Rendering of services

Revenue from rendering of services is recognised only when the service has been provided. Income in respect of contributions received is recognised when the Foundation obtains control of the contribution or the right to receive the contribution, it is probable that the economic benefits comprising the contribution will flow to the Foundation and the amount of the contribution can be measured reliably.

Unearned income

Money received for services not yet performed as at the end of the current financial year is recognised as unearned income.

Government grants

Grants and other contributions are recognised as revenues when the Foundation obtains control over the assets comprising the receipts.

Control over granted assets is normally obtained upon their receipt (or acquittal) or upon prior notification that a grant has been secured.

Where grants or contributions received during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were undischarged at balance date, the unused grant or contribution is recognised as deferred income as the grant is not yet controlled.

Goods sold

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances. Revenue is recognised when significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated readily, and there is no continuing management involvement with the goods.

ARTHRITIS FOUNDATION OF VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3 Significant accounting policies (continued)

(g) Revenue (continued)

Raffle income

Raffles are conducted on behalf of the organisation by an external agency with each raffle subject to an individual contract. Accordingly revenue is not recognised until it has been banked which is when control has been passed to the organisation. The activities of the agency are governed under the Gambling Regulation (Commercial Raffle Organisers) Regulations 2006, which is incorporated within the Gambling Regulations Act 2003. These regulations are administered by the Victorian Commission for Gambling Regulation. At the same time the Foundation's risk management procedures recognise this situation and the Foundation has organised its activities accordingly.

(h) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(i) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Foundation's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Dividend revenue includes franking credits.

Finance expenses comprise interest expense on borrowings and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

(j) Income tax

The Foundation is a charitable organisation and is exempt from income tax under Section 50-5 of the Income Tax Assessment Act 1997.

(k) Directors' emoluments

Directors act in a volunteer capacity and receive no income.

(l) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these

circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST

ARTHRITIS FOUNDATION OF VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3 Significant accounting policies (continued)

(l) Goods and services tax (continued)

recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(m) Research expenditures

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

(n) New standards and interpretations not yet adopted

Management has considered the potential impact of accounting standards issued but not yet operative at balance date and no material impact from the adoption of these standards in a future period is expected

4 Determination of fair values

A number of the Foundation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

ARTHRITIS FOUNDATION OF VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

4 Determination of fair values (continued)

(iii) Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted price at the reporting date.

5 Financial risk management

Overview

The Foundation has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Foundation's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Foundation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Foundation's activities. The Foundation, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Finance and Audit Committee oversees how management monitors compliance with the Foundation's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Foundation.

Credit risk

Credit risk is the risk of financial loss to the Foundation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Foundation's receivables from customers and investment securities.

Trade and other receivables

The Foundation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Foundation's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The Foundation's trade and other receivables relate mainly to end user customers. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis with approval of the Finance and Audit Committee. The Foundation does not require collateral in respect of trade and other receivables.

ARTHRITIS FOUNDATION OF VICTORIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

5 Financial risk management (continued)

Trade and other receivables (continued)

The Foundation has established a policy of making an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The Foundation limits its exposure to credit risk by only investing in reputable listed securities with a sound financial position.

Guarantees

The Foundation does not provide financial guarantees to any related parties.

Liquidity risk

Liquidity risk is the risk that the Foundation will not be able to meet its financial obligations as they fall due. The Foundation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Foundation's reputation.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Foundation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Foundation does not actively manage market risk. Any measured volatility in listed equity securities is recognised directly in equity, subject to any impairments recognised. Gains and losses on these securities are only recognised in profit or loss on disposal.

Currency risk

The Foundation is not exposed to currency risk.

Interest rate risk

The Foundation is exposed to interest rate risk arising from changes to interest rates in respect of the Foundation's cash and cash equivalents. The Finance and Audit Committee monitors interest earned on these assets to ensure the return on the Foundation's assets is maximised.

Other market price risk

The Foundation is not significantly exposed to other market price risk.

ARTHRITIS FOUNDATION OF VICTORIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

6 Revenue from rendering of services

	2012 \$	2011 \$
Membership subscriptions	74,980	77,982
Fundraising and donations	3,618,225	3,380,178
Education and services	216,923	237,410
	<u>3,910,128</u>	<u>3,695,570</u>

7 Finance income and expense

Interest income (excluding specific purpose interest income)	112,860	96,538
Dividend income (excluding specific purpose dividend income)	48,539	269,242
Net gain on disposal of investments (excluding specific purpose)	25,658	229,414
Finance income	<u>187,057</u>	<u>595,194</u>
Interest expense	-	-
Finance expense	-	-
Net finance income and expense	<u>187,057</u>	<u>595,194</u>

8 Other income

Government grants	111,364	45,434
	<u>111,364</u>	<u>45,434</u>

9 Personnel expenses

Wages and salaries	2,189,598	2,083,437
Superannuation guarantee charge	183,677	174,517
Increase in liability for employee entitlements	13,516	58,012
	<u>2,386,791</u>	<u>2,315,966</u>

10 Auditor's remuneration

Audit and other services		
Audit and review of financial statements	16,000	15,400
	<u>16,000</u>	<u>15,400</u>

ARTHRITIS FOUNDATION OF VICTORIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 \$	2011 \$
11 Cash and cash equivalents		
Bank balances	79,504	125,376
Short-term deposits	517,071	906,936
Term deposits	4,065,376	4,024,930
Less: liability arising from funds held in trust (note 24)	(327,703)	(310,322)
	<u>4,334,248</u>	<u>4,746,920</u>

The effective interest rate on short-term deposits was 4.9% (2011: 5.4%) and 4.5% (2011: 5.7%) on Term Deposits

Cash and cash equivalents includes \$1,722,280 of reserves committed to specific purposes.

12 Trade and other receivables

Current

Trade receivables	3,437	4,748
Other receivables	50,504	227,903
	<u>53,941</u>	<u>232,651</u>

13 Other investments

Listed equity securities, at fair value	1,647,265	1,217,886
	<u>1,647,265</u>	<u>1,217,886</u>

Other investments includes \$689,346 of reserves committed to specific purposes.

14 Inventories

Inventories, at cost	6,253	7,903
	<u>6,253</u>	<u>7,903</u>

ARTHRITIS FOUNDATION OF VICTORIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

15 Property, plant and equipment

	Controlled Land at fair value	Controlled Building at fair value \$	Plant and equipment at cost \$	Total \$
Cost				
Balance at 1 January 2012	1,340,000	1,149,145	732,632	3,221,777
Other acquisitions	-	-	20,493	20,493
Disposals	-	-	(207,409)	(207,409)
Balance at 31 December 2012	<u>1,340,000</u>	<u>1,149,145</u>	<u>545,716</u>	<u>3,034,861</u>
Depreciation				
Balance at 1 January 2012	-	509,500	600,324	1,109,824
Depreciation charge for the year	-	28,500	43,027	71,527
Disposals	-	-	(207,409)	(207,409)
Balance at 31 December 2012	<u>-</u>	<u>538,000</u>	<u>435,942</u>	<u>973,942</u>
Carrying amounts				
At 1 January 2012	<u>1,340,000</u>	<u>639,645</u>	<u>132,308</u>	<u>2,111,953</u>
At 31 December 2012	<u>1,340,000</u>	<u>611,145</u>	<u>109,774</u>	<u>2,060,919</u>
Balance at 1 January 2011				
Balance at 1 January 2011	1,340,000	1,141,000	624,697	3,105,697
Other acquisitions	-	8,145	107,935	116,080
Disposals	-	-	0	0
Balance at 31 December 2011	<u>1,340,000</u>	<u>1,149,145</u>	<u>732,632</u>	<u>3,221,777</u>
Depreciation				
Balance at 1 January 2011	-	481,000	569,810	1,050,810
Depreciation charge for the year	-	28,500	30,514	59,014
Disposals	-	-	0	0
Balance at 31 December 2011	<u>-</u>	<u>509,500</u>	<u>600,324</u>	<u>1,109,824</u>
Carrying amounts				
At 1 January 2011	<u>1,340,000</u>	<u>660,000</u>	<u>54,887</u>	<u>2,054,887</u>
At 31 December 2011	<u>1,340,000</u>	<u>639,645</u>	<u>132,308</u>	<u>2,111,953</u>

Arthritis Victoria has responsibility for and control of the Crown land site at Kooyong Road, Elsternwick as delegated Committee of Management. The fair value of land and buildings has been determined based on a valuation by Sutherland Farrelly Pty Ltd, Certified Practising Valuers, as at February 2011. The basis of valuation of land was market value for highest and best use, discounted by 77% in recognition of the restrictions on the use of the property. The building valuation is based on the depreciated replacement cost methodology.

ARTHRITIS FOUNDATION OF VICTORIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

16 Trade and other payables

	2012 \$	2011 \$
Current		
Trade creditors	167,575	176,454
Accrued expenses	302,461	414,836
Unearned income	188,376	75,266
	<u>658,412</u>	<u>666,556</u>

	2012 \$	2011 \$
--	------------	------------

17 Employee benefits

Current		
Liability for annual leave	132,779	141,545
Liability for service leave	7,629	-
Liability for long service leave	76,447	69,576
	<u>216,855</u>	<u>211,121</u>
Non-current		
Liability for long service leave	21,555	13,773
	<u>21,555</u>	<u>13,773</u>

18 Reserves

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired.

During the 2012 year Arthritis Victoria sold a portion of equity securities held. Fair value adjustments relating to these investments previously taken to equity were reversed with the net gain or loss taken to profit and loss. Refer note 7.

Asset revaluation reserve

The asset revaluation reserve comprises the cumulative net change in the fair value of non-current assets until the assets are sold or impaired.

Research funding reserve

The research funding reserve relates to monies received, via wills and trusts, for the use in arthritis research and development.

Disease funds reserve

The disease funds reserve relates to monies previously donated to Arthritis Victoria for arthritis research carried out by the Centre for Rheumatic Diseases at Melbourne University.

Lupus reserve

The Lupus reserve relates to monies received from Lupus Australia which is in voluntary liquidation. The trustees requested Arthritis Victoria to take over its activities in 2007 as it was no longer able to continue.

Future reserve

The Future reserve sets aside funds based on the intention of the Board of Directors and Management of Arthritis Victoria to use available assets to meet future funding of initiatives necessary to achieve the objectives of Arthritis Victoria. These initiatives could include the acquisition of new plant and equipment, research and the funding of more extensive operations.

ARTHRITIS FOUNDATION OF VICTORIA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2012

19 Reconciliation of cash flows from operating activities

	2012 \$	2011 \$
Cash flows from operating activities		
Operating surplus (deficit) for the period	(422,300)	194,797
<i>Adjustments for:</i>		
Depreciation	71,527	59,014
Specific Purpose shares returned to trustee	42,808	-
Bequests received as shares	(125,815)	(16,258)
Net gain on disposal of investments	(72,527)	(146,631)
Interest income	(232,579)	(216,337)
Dividend income	(107,637)	(460,384)
Operating surplus before changes in working capital and provisions	<u>(846,523)</u>	<u>(585,799)</u>
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in receivables	190,591	(206,704)
(Increase)/decrease in inventories	1,650	3,182
Increase/(decrease) in accounts payable	(8,144)	207,334
(Decrease)/increase in employee benefits	13,516	58,012
Net cash from operating activities	<u>(648,910)</u>	<u>(523,975)</u>

20 Operating leases

Leases as lessee
 Non-cancellable operating lease rentals are payable as follows:

	2012 \$	2011 \$
Less than one year	24,000	24,000
Between one and five years	12,000	36,000
	<u>36,000</u>	<u>60,000</u>

The Foundation leases one property under operating leases. The lease was typically run on a monthly renewal basis or for a period of 1 year, with an option to renew the lease at the end of the term. The lease was renewed in 2011 and runs until 2014.

ARTHRITIS FOUNDATION OF VICTORIA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2012

21 Related parties

Key management personnel compensation

The key management personnel compensation included in "personnel expenses" (see note 9) are as follows:

	2012 \$	2011 \$
Short-term employee benefits	683,912	471,897
Post-employment benefits	57,207	41,987
	<u>741,119</u>	<u>513,884</u>

22 Contingent liabilities

The Foundation has entered into several property operating lease arrangements as set out in note 20. These lease arrangements oblige the Foundation to make-good the premises rented at the end of the respective lease periods. The Foundation presently considers that it is unlikely the estimated costs to be incurred in respect of these obligations will be material to the financial statements.

23 Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Foundation, to affect significantly the operations of the Foundation, the results of those operations, or the state of affairs of the Foundation, in future financial years.

24 Funds managed by the Foundation

Donor	Opening balance at 1/01/12 \$	Contributed capital \$	Income earned \$	Funds disbursed \$	Closing balance at 31/12/12 \$
Lorin Prentice Award	4,225	-	279	-	4,504
VLBA Research	101,536	-	6,695	-	108,231
M. Strang Memorial	2,591	-	271	-	2,862
Dr. Koadlow	67,151	-	4,428	-	71,579
E. Urquhart	135,130	-	8,910	-	144,040
	<u>310,633</u>	<u>-</u>	<u>20,583</u>	<u>-</u>	<u>331,216</u>

Funds managed by the Foundation are controlled by the donors' appointees and continuing obligations exist, and on this basis, do not form part of the Foundation's assets and liabilities.

DIRECTORS' DECLARATION

In the opinion of the directors of Arthritis Foundation of Victoria:

- (a) the Foundation is a reporting entity;
- (b) the financial statements and notes are drawn up, in accordance with Australian Accounting Standards Reduced Disclosure requirements, the basis of accounting described in note 2 and other mandatory reporting requirements, so as to present fairly the financial position of the Foundation as at 31 December 2012 and its performance, as represented by the results of its operations and cash flows, for the financial year ended on that date; and
- (c) there are reasonable grounds to believe that the Foundation will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Dated at ...Melbourne..... this ...26th... day of March..... 2013.

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF THE ARTHRITIS FOUNDATION OF VICTORIA INC.**

Report on the Financial Report

We have audited the accompanying financial report of The Arthritis Foundation of Victoria Inc. (the association) which comprises the Statement of Financial Position as at 31 December 2012, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes and the Statement by Members of the Committee.

Board's Responsibility for the Financial Report

The Board of the association is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the Associations Incorporation Reform Act (Vic) 2012. This responsibility includes such internal control as the committee determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 the committee, as well as evaluating the overall presentation of the financial report.

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

INTELLIGENT CHOICE • INTELLIGENT SOLUTIONS

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF THE ARTHRITIS FOUNDATION OF VICTORIA INC.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of The Arthritis Foundation of Victoria Inc. for the year ended 31 December 2012 included on the Foundation's website. The Foundation's directors are responsible for the integrity of the Foundation's website. We have not been engaged to report on the integrity of the Foundation's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

Independence

In conducting our audit, we have complied with the independence requirements of Australian professional ethical pronouncements.

Basis for Qualified Opinion

Income from raffles is a significant source of revenue for The Arthritis Foundation of Victoria Inc.. The Arthritis Foundation of Victoria has determined that it is impracticable to establish control over the collection of income from raffles prior to entry into its financial records. Accordingly, as the evidence available to us regarding revenue from this source was limited, our audit procedures with respect to income from raffles had to be restricted to the amounts recorded in the financial records. We therefore are unable to express an opinion whether the income from raffles The Arthritis Foundation of Victoria Inc. obtained is complete.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial report of The Arthritis Foundation of Victoria Inc. is in accordance with the Associations Incorporation Reform Act (Vic) 2012, including giving a true and fair view of the Association's financial position as at 31 December 2012 and of its performance and its cash flows for the year ended on that date; and complying with Australian Accounting Standards Reduced Disclosure Requirements.

UHY Haines Norton

UHY Haines Norton
Chartered Accountants

Melbourne

Date: 28 March 2013

Joella Gould
Partner

Did you know there are more than 100 types of musculoskeletal conditions?



Here are some of them:

- | | | | |
|---|---|------------------------------------|---------------------------------------|
| Achilles tendonitis | Freiberg's osteochondrosis | Osteoarthritis | Septic arthritis |
| Adhesive capsulitis (frozen shoulder) | Giant cell arteritis | Osteomalacia | Sever's disease |
| Adult-onset Still's disease | Gout | Osteonecrosis | Sjögren's syndrome |
| Ankylosing spondylitis | Henoch-Schönlein purpura | Osteoporosis | Spinal stenosis |
| Baker's cyst | Juvenile dermatomyositis | Paget's disease of bone | Spondylolysis |
| Behçet's syndrome | Juvenile idiopathic arthritis | Palindromic rheumatism | Systemic lupus erythematosus (SLE) |
| Bursitis | • Pauciarticular-onset arthritis | Perthes' disease | Takayasu's arteritis |
| Carpal tunnel syndrome | • Seronegative polyarticular arthritis | Plantar fasciitis | Tarsal tunnel syndrome |
| Charcot's arthropathy | • Seropositive polyarticular arthritis | Polyarthritis nodosa | Temporomandibular joint disorders |
| Chondromalacia patellae | • Systemic-onset arthritis | Polymyalgia rheumatica | Trigger finger (flexor tenosynovitis) |
| Churg-Strauss vasculitis | • Enthesitis-related arthritis | Polymyositis | Ulcerative colitis |
| CREST syndrome | • Psoriatic juvenile arthritis | Pseudogout | Vasculitis |
| Crohn's disease | Kawasaki disease | Psoriatic arthritis | Wegener's granulomatosis |
| De Quervain's tenosynovitis | Kienböck's disease | Raynaud's phenomenon | |
| Dermatomyositis | Lateral epicondylitis ('tennis elbow') | Reactive arthritis | |
| Diffuse idiopathic skeletal hyperostosis (DISH) | Low back pain | Rheumatoid arthritis | |
| Discoid lupus erythematosus | Medial epicondylitis ('golfer's elbow') | Ross River and Barmah Forest virus | |
| Drug-induced lupus erythematosus | Mixed connective tissue disease and overlap syndromes | Rotator cuff disease | |
| Dupuytren's contracture | Osgood-Schlatter's disease | Sacroiliitis | |
| Ehlers-Danlos syndrome | | Sarcoidosis | |
| Felty syndrome | | Scheuermann's disease | |
| Fibromyalgia | | Sciatica | |
| | | Scleroderma | |

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