TORONTO KIWANIS BOYS AND GIRLS CLUBS

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TORONTO KIWANIS BOYS AND GIRLS CLUBS

Report on the Financial Statements

We have audited the accompanying financial statements of Toronto Kiwanis Boys and Girls Clubs, which comprise the balance sheets as at December 31, 2012, December 31, 2011 and January 1, 2011 and the statements of revenues and expenses, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 the auditor's 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, the auditor considers 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.

Basis for Qualified Opinion

In common with many similar organizations, Toronto Kiwanis Boys and Girls Clubs derives revenues from fund-raising events and donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of Toronto Kiwanis Boys and Girls Clubs and we are not able to determine whether any adjustments might be necessary to revenues, deficiency of revenues over expenses, assets and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, if any, these financial statements present fairly, in all material respects, the financial position of Toronto Kiwanis Boys and Girls Clubs as at December 31, 2012, December 31, 2011 and January 1, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

Report on Other Legal and Regulatory Requirements

In accordance with Corporations Act (Ontario), we report that the Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Clarke Henning LLP

CHARTERED ACCOUNTANTS
Licensed Public Accountants

Toronto, Ontario
April 18, 2013

TORONTO KIWANIS BOYS AND GIRLS CLUBS

BALANCE SHEETS

AS AT DECEMBER 31, 2012, DECEMBER 31, 2011 AND JANUARY 1, 2011

	December 31, 2012	December 31, 2011	January 1, 2011
ASSETS			
Current assets			
Cash *(note 3)*	$ **543,777**	$ 833,222	$ 398,509
Investments *(note 4)*	**-**	-	314,709
Grants receivable	**41,083**	53,231	64,503
HST rebate	**92,531**	348,997	137,908
Contribution receivable - current portion *(note 5)*	**250,000**	250,000	-
Contribution receivable - Government *(note 6)*	**200,000**	249,574	-
Prepaid expenses	**20,072**	31,677	24,419
	1,147,463	1,766,701	940,048
Contributions receivable - long-term *(note 5)*	**800,000**	1,050,000	-
Property and equipment *(note 7)*	**6,008,874**	5,921,743	1,423,782
	7,956,337	8,738,444	2,363,830
LIABILITIES			
Current liabilities			
Accounts payable - Spruce St. Redevelopment project	**65,873**	1,905,645	457,332
Accounts payable and accrued liabilities *(note 8)*	**99,956**	128,143	149,397
Deferred revenues *(note 9)*	**128,261**	100,390	77,926
Current portion of long term debt *(note 10)*	**304,918**	200,000	-
	599,008	2,334,178	684,655
Long-term debt *(note 10)*	**1,718,992**	600,000	-
Deferred contributions *(note 11)*	**60,000**	75,000	90,000
Deferred capital contributions *(note 12)*	**5,208,353**	5,195,179	1,052,206
	7,586,353	8,204,357	1,826,861
NET ASSETS			
Invested in property and equipment	**784,222**	726,564	371,576
Internally restricted contingency fund	**-**	-	337,500
Unrestricted net assets	**(414,238)**	(192,477)	(172,107)
	369,984	534,087	536,969
	$ **7,956,337**	$ 8,738,444	$ 2,363,830

Approved on behalf of the Board:

______________, Director ______________, Director

TORONTO KIWANIS BOYS AND GIRLS CLUBS

STATEMENTS OF REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Revenues		
Funding from The Kiwanis Club of Toronto sources		
The Toronto Kiwanis T.P. Loblaw Charitable Trust	$ 243,600	$ 243,600
The Kiwanis Club of Toronto Foundation	14,100	14,100
	257,700	257,700
Government and other grants *(note 13)*	792,592	698,998
United Way of Greater Toronto grant	286,416	289,492
Donations and fundraising	387,184	192,322
User fees	125,112	121,782
Amortization of deferred capital contributions *(note 11)*	532,560	-
Other	95,473	84,832
Investment loss *(note 15)*	(20,949)	(13,713)
	2,456,088	1,631,413
Expenses		
Salaries and benefits	1,115,701	969,954
Occupancy	184,611	99,474
Fundraising	28,555	31,536
Program	425,156	439,726
Interest on long term debt	43,799	-
Depreciation	614,071	-
General and administrative	208,298	93,605
	2,620,191	1,634,295
Deficiency of revenues over expenses for the year	$ (164,103)	$ (2,882)

TORONTO KIWANIS BOYS AND GIRLS CLUBS

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2012 AND 2011

			Total	
	Invested in Property and Equipment	Unrestricted	2012	2011
Balance - at beginning of year	$ 726,564	$ (192,477)	$ 534,087	$ 536,969
Deficiency of revenues over expenses for the year	-	(164,103)	(164,103)	(2,882)
Inter-fund transfers representing				
Spruce St. Redevelopment project costs	634,904	(634,904)	-	-
Depreciation	(614,071)	614,071	-	-
Capital contributions	(545,735)	545,735	-	-
Acquisition of computer equipment	50,000	(50,000)	-	-
Amortization of deferred capital contributions	532,560	(532,560)	-	-
Balance - at end of year	$ 784,222	$ (414,238)	$ 369,984	$ 534,087

TORONTO KIWANIS BOYS AND GIRLS CLUBS

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities		
Cash receipts from The Kiwanis Club of Toronto sources	$ 257,700	$ 257,700
Cash receipts from government and other grants	1,119,027	947,820
Cash receipts from fundraising and donations	359,184	192,322
Cash receipts from other revenues	200,432	54,932
Interest and distributions from mutual fund	-	767
Cash paid to employees and suppliers	(1,999,107)	(1,662,810)
Interest paid	(31,933)	-
	(94,697)	(209,269)
Cash flows from financing activities		
Loan from Toronto Kiwanis TP Loblaw Charitable Trust	-	800,000
Spruce St. Redevelopment project capital contributions received, net of fundraising costs	789,816	2,593,399
Other capital contributions received	50,000	-
	839,816	3,393,399
Cash flows from investing activities		
Proceeds from sale of investments	7,051	300,230
Proceeds from long term debt	1,223,910	-
Cash paid towards Spruce St. Redevelopment project	(2,265,525)	(3,049,647)
	(1,034,564)	(2,749,417)
Change in cash during the year	(289,445)	434,713
Cash - at beginning of year	833,222	398,509
Cash - at end of year	$ 543,777	$ 833,222

Toronto Kiwanis Boys and Girls Clubs (the "Clubs"), is a voluntary organization providing a wide range of programs and services for children and youth aged 6 to 18 years, through professional staff, part time program staff and volunteers. The Clubs provide a safe and positive environment where children and youth can learn, grow and develop the skills they will need as contributing members of society.

Toronto Kiwanis Boys and Girls Clubs is a registered charitable organization incorporated without share capital under the laws of the Province of Ontario and, as such, is exempt from income tax.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using Canadian accounting standards for not-for-profit organizations. These standards are in accordance with Canadian generally accepted accounting principles and include the following accounting policies:

Financial Assets and Liabilities

The Clubs initially measures its financial assets and liabilities at fair value. The Clubs subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments which are measured at fair value.

Financial assets and liabilities measured at amortized cost include cash, grants receivable, HST rebate, contributions receivable, accounts payable and accrued liabilities and long term debt.

Property and Equipment and Depreciation

Property and equipment are recorded at cost. Repairs and maintenance costs are charged to expenses. Betterments which extend the intended life of an asset are capitalized.

Depreciation is provided at the following annual rates on a straight line basis:

Spruce St. Redevelopment	- over the remaining term of the lease of 11 years
Equipment	- 4 years

The above rates are reviewed annually to ensure still appropriate. Any changes are adjusted for on a prospective basis. If there is an indication that the capital assets may be impaired, an impairment test is performed that compares carrying amount to net recoverable amount. There were no impairment indicators in 2012 or 2011.

Deferred Contributions

Deferred contributions are amortized over a ten year period on the straight line method (see note 11 for additional details).

Deferred Capital Contributions

Funds received for the acquisition of property and equipment are deferred in the accounts and amortized to revenue on the same basis as the depreciation on the related property and equipment.

Fundraising revenues included in deferred capital contributions is net of fundraising costs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Clubs use the deferral method in accounting for grants. Accordingly, grants subject to externally imposed restrictions are initially recorded as deferred revenue and are subsequently recognized as revenue in the period in which the related expenses are incurred.

Contributions from governments, foundations and other funding agencies that are not for a specific purpose are recognized as revenue when received.

Donations are recognized as revenue when received.

Revenues from fundraising events are recognized as revenue in the period in which the event takes place.

User fees and other revenues are recognized as revenue when the service has been performed or revenue has been earned.

Investment income is recognized as revenue as earned. Investment income is comprised of interest, distributions from mutual funds, realized and unrealized gains and losses related to the investments.

Contributed Goods and Services

Contributed goods and services are not recorded in the accounts of the Clubs, except when fair value of such goods and services can reasonably be established and when the goods and services are normally purchased by the Clubs and would be paid for if not donated.

Contributed goods and services consisted of food contributed to the Clubs. Contributed goods and services are recorded in the financial statements at their estimated fair value of $147,490 ($11,100 - 2011). Included in contributed goods and services are contributions of marketable securities in the amount of $28,000 which were sold during the year.

Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year.

Key areas where management has made difficult, complex or subjective judgments, often as a result of matters that are uncertain, include, among others, useful lives for depreciation and amortization of property and equipment, accounts payable and accrued liabilities and other assets and liabilities valuation. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

2. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

Effective January 1, 2012, the Association adopted the requirements of the Canadian Institute of Chartered Accountant's Handbook and has adopted Canadian Accounting Standards for Not-for-Profit Organizations ("NPO Standards"). This accounting framework is in accordance with Canadian generally accepted accounting principles (GAAP). These are the first financial statements prepared in accordance with this framework which has been applied retrospectively. The accounting policies set out in the summary of significant accounting policies have been applied in preparing the financial statements as at December 31, 2012 and for the year then ended and the comparative information presented in these financial statements as at December 31, 2011 and for the year then ended and in the preparation of an opening balance sheet at January 1, 2011.

The Association previously issued financial statements for the year ended December 31, 2011 using pre-changeover accounting standards which are the standards applied by the Association prior to its adoption of NPO Standards. The adoption of NPO Standards had no impact on the previously reported assets, liabilities and net assets of the Association, and accordingly, no adjustments were required in the comparative balance sheets, statements of revenues and expenses, changes in net assets and cash flows. Certain of the comparative presentation and disclosures included in the notes to these financial statements reflect the new presentation and disclosure requirements of NPO Standards.

3. BLOCKED BANK ACCOUNT

Under the term loan agreement *(note 10)* with Ontario Infrastructure and Lands Corporation ("OILC"), the Clubs is required to maintain a blocked bank account into which any funds raised in the fundraising program associated with the Spruce St. Redevelopment project must be deposited. The Clubs have no right of withdrawal or to deal with the funds in the account. OILC is entitled to all of the monies in the account except with respect The Kiwanis Club of Toronto and the Toronto Kiwanis TP Loblaw Charitable Trust. The funds in the account can be used to repay the annual principal payment of $200,000 due to the Toronto Kiwanis TP Loblaw Charitable Trust credit facility *(note 10)*.

As security, the Clubs have given OILC a first priority security interest in and a lien on the Clubs right, title and interest in the blocked account. All fees and costs associated with the account are to be incurred by the Clubs.

As of December 31, 2012, the account had $92,667 on deposit ($NIL at December 31, 2011 and $NIL at January 1, 2011).

4. INVESTMENTS

Details of the investments are as follows:

		December 31, 2012	*December 31, 2011*	*January 1, 2011*
Money Market Fund		$ -	$ -	$ 8,933
Bonds				
21,000	Province of Ontario, maturing May 3, 2012, yielding 4.044%	-	-	20,495
21,000	Province of Quebec, maturing June 1, 2013, yielding 4.291%	-	-	19,868
21,000	Province of Ontario, maturing June 2, 2014, yielding 4.248%	-	-	19,271
17,077	Province of Quebec, maturing June 1, 2015, yielding 4.454%	-	-	15,006
36,000	Province of Ontario, maturing March 8, 2018, yielding 4.2%	-	-	37,886
36,000	Province of Quebec, maturing December 1, 2017, yielding 4.5%	-	-	38,598
37,000	Province of British Columbia, maturing December 18, 2019, yielding 4.1%	-	-	38,356
18,000	Scotiabank Cap Tr (Bats) II maturing December 31, 2049, yielding 6.282%	-	-	19,466
18,000	Citigroup Finance Canada, yielding 6.75%, maturing September 22, 2014	-	-	19,643
36,000	GE Capital Canada Fndg Co., maturing June 1, 2016, yielding 5.1%	-	-	38,163
18,000	Manulife Fin Cap Tr (Macs), maturing December 31, 2051, yielding 6.7%	-	-	18,929
19,000	Toronto Dominion Bank, maturing October 30, 2104, yielding 4.97%	-	-	20,095
Total investments, at fair value		$ -	$ -	$ 314,709

5. CONTRIBUTIONS RECEIVABLE

The Clubs entered into an agreement on March 3, 2011 with Miles Nadal regarding a donation commitment of $1,500,000 for the 101 Spruce St. Redevelopment project and the Clubs programs. $1,000,000 was to be used to fund construction of the Miles & Kelly Nadal Youth Centre located on the 4th floor of the building and $500,000 was to be used in support of the Clubs programs. The Clubs received $200,000 of the commitment during 2011. In January 2012, the agreement was subsequently amended to allow for the redirection of the $500,000 from support of the Clubs programs to the capital campaign for the Redevelopment project. The amounts have also been included in deferred capital contributions.

5. CONTRIBUTIONS RECEIVABLE (continued)

Under the terms of the amended agreement, funds are due as follows:

	December 31, 2012	*December 31, 2011*	*January 1, 2011*
By March 15, 2012	$ -	$ 250,000	$ -
By March 15, 2013	250,000	250,000	-
By March 15, 2014	350,000	350,000	-
By March 15, 2015	450,000	450,000	-
	1,050,000	1,300,000	-
Less current portion	250,000	250,000	-
Long term portion	$ 800,000	$ 1,050,000	$ -

Subsequent to the year end, the Clubs received the instalment that was due March 15, 2013.

6. CONTRIBUTIONS RECEIVABLE - GOVERNMENT

The Federal and Ontario governments pledged for the 101 Spruce St. Redevelopment project a total of $2,000,000 of which $1,800,000 has been received as at December 31, 2012. Subsequent to the year end, $200,000 was received.

7. PROPERTY AND EQUIPMENT

The details of property and equipment are as follows:

			Net Book Value		
	Cost	*Accumulated Depreciation*	*December 31, 2012*	*December 31, 2011*	*January 1, 2011*
Spruce St. Redevelopment	$ 6,547,608	$ 595,237	$ 5,952,371	$ 5,904,743	$ 1,406,782
Equipment	75,337	18,834	56,503	17,000	17,000
	$ 6,622,945	$ 614,071	$ 6,008,874	$ 5,921,743	$ 1,423,782

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities include government remittances totalling $1,104 at December 31, 2012 ($654 at December 31, 2011 and $987 at January 1, 2011).

9. DEFERRED REVENUES

The details of deferred revenues are as follows:

	Balance at December 31, 2011	*Funds Received in 2012*	*Transferred to Revenue in 2012*	***Balance at December 31, 2012***	*Balance at December 31, 2011*	***Balance at January 1, 2011***
Boys and Girls Clubs	$ 750	$ 130,118	$ (70,363)	$ **60,505**	$ 750	$ 7,600
Ministry of Health						
Promotions	21,423	398,980	(420,403)	**-**	21,423	48,711
Miscellaneous	78,217	91,256	(101,717)	**67,756**	78,217	21,615
	$ 100,390	$ 620,354	$ (592,483)	$ **128,261**	$ 100,390	$ 77,926

10. LONG TERM DEBT

Details of long term debt are as follows:

	December 31, 2012	*December 31, 2011*	*January 1, 2011*
1. Credit facility from The Toronto Kiwanis TP Loblaw Charitable Trust with a limit of $800,000 and interest at 4.5% per annum. Interest is payable on the 26th of each month following each quarter end on the outstanding balance during that period. The facility is secured.	$ **600,000**	$ 800,000	$ -
2. Credit facility with Ontario Infrastructure and Lands Corporation ("OILC") in the amount of $1,423,920 as follows:			
a) Non-revolving floating rate construction loan up to $200,000, available until February 28, 2013 (this facility was repaid in February 2013)	**200,000**	-	-
b) Non-revolving 5 year fixed rate term loan, interest at 3.5% per annum and principal payable semi-annually until maturity on October 17, 2017.	**1,223,910**	-	-
	2,023,910	800,000	-
Less current portion	**304,918**	200,000	-
Long term portion	$ **1,718,992**	$ 600,000	$ -

Current maturities of long term debt in each of the next five years is as follows:

Fiscal year	2013	$ 504,918
	2014	308,462
	2015	312,126
	2016	115,914
	2017	119,829
	Thereafter	662,651
		$ 2,023,910

10. LONG TERM DEBT (continued)

The credit facility with The Toronto Kiwanis TP Loblaw Charitable Trust is used as a bridge loan until the Miles Nadel Spruce St. Redevelopment project donation is received. Payment of the donation is to be used to repay this facility.

The payments on the term loan with OILC is based on a 10 year amortization with full principal amount payable in the amount of $657,582 due on October 15, 2017.

Security for the term loan with OILC is as follows:

1. 1st ranking leasehold charge/mortgage on 101 Spruce Street
2. 1st ranking general security agreement on all assets of the project.
3. 1st priority assignment of all fundraising campaign pledges associated with the Spruce St. Redevelopment project. Current pledges of not less than $917,940. Current pledges total $1,533,680.
4. Assignment of rents receivable.
5. A guarantee signed by Kiwanis Club of Toronto representing 25% of the balance outstanding of the loan amount.
6. OILC to be added to the Clubs' insurance as a loss payee.
7. A blocked bank account which entitles OILC to the funds deposited (see note 3).

The Clubs have agreed to the following covenants:

1. The Clubs will embark on a separate capital fundraising program with all funds raised deposited into a blocked account with no withdrawal privileges, except for the $200,000 due on the long term debt *(note 10)*. All excess proceeds are to repay the funds advanced under the credit facilities.
2. All operating surpluses will be used to retire the advances under the credit facilities.
3. All HST rebates due on the project are to be used to repay the advances.
4. The Clubs shall not incur additional indebtedness pertaining to the project or make any loans, guarantees to or investment in any affiliated or unaffiliated companies.
5. The Clubs will maintain its status as a not for profit corporation and will maintain sufficient insurance on the property.
6. The Clubs will not incur any additional debt pertaining to the Spruce St. Redevelopment project, without prior consent of OILC.

11. DEFERRED CONTRIBUTIONS

Deferred contributions consist of funds received in 2006 to be used for the funding of the summer camp program over a ten year period. The changes in the deferred contributions are as follows:

	December 31, 2012	*December 31, 2011*	*January 1, 2011*
Balance - at beginning of year	$ **75,000**	$ 90,000	$ 105,000
Amortization of deferred contributions	**15,000**	15,000	15,000
Balance - at end of year	$ **60,000**	$ 75,000	$ 90,000

12. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of equipment and the 101 Spruce Street Redevelopment project. Changes in the deferred capital contributions are as follows:

	December 31, 2012	*December 31, 2011*	*January 1, 2011*
Balance - at beginning of year	**$ 5,195,179**	$ 1,052,206	$ 92,758
Capital contributions received - fitness equipment	**-**	-	17,000
Capital contributions received - computer equipment	**50,000**	-	-
Capital contributions received - Spruce St. Redevelopment project	**495,734**	2,593,399	942,448
Capital contribution receivable - Spruce St. Redevelopment project *(notes 5 and 6)*	**-**	1,549,574	-
Amortization of deferred capital contributions	**(532,560)**	-	-
Balance - at end of year	**$ 5,208,353**	$ 5,195,179	$ 1,052,206

13. GOVERNMENT GRANTS AND OTHER GRANTS

The details of government and other grants are as follows:

	2012	*2011*
Human Resources Development Canada, Summer Career Placements	**$ 62,164**	$ 62,974
RBC Foundation, After School Grant Program	**20,000**	20,000
City of Toronto		
General and Recreational Grants Program	**44,737**	44,737
Community Services	**42,460**	42,460
Children's Services	**19,504**	19,504
Boys and Girls Club of Ontario		
Youth Power Up Grant	**-**	3,600
Ministry of Health Promotions, After School Program	**420,403**	415,196
Boys and Girls Club of Canada	**63,201**	-
Amortization of deferred contributions	**15,000**	15,000
Other miscellaneous grants	**105,123**	75,527
	$ 792,592	$ 698,998

14. FINANCIAL INSTRUMENTS

The Clubs is exposed to various risks through its financial instruments. The following analysis provides a measure of the Clubs' risk exposure at the balance sheet date.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Clubs' main credit risks relate to grants receivable and contributions receivable. In order to reduce its credit risk, the Clubs have entered into agreements with the grantors and contributors. Management has included adequate provision for doubtful accounts receivable in these financial statements.

Liquidity Risk

Liquidity risk is the risk that the Clubs will encounter difficulty in meeting obligations associated with financial liabilities. The Clubs is exposed to this risk mainly in respect of its long term debt and accounts payable and accrued liabilities. The Clubs expects to meet these obligations as they come due by generating sufficient cash flow from operations and fundraising campaigns.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Clubs is not exposed to currency or other price risk. The Clubs is mainly exposed to interest rate risk.

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. The Clubs is exposed to interest rate risk on its long term debt with OILC.

15. INVESTMENT INCOME

Details of investment income are as follows:

	2012	*2011*
Interest earned and distribution from mutual funds	$ -	$ 10,981
Unrealized gain/loss on investment	-	(24,694)
Realized loss on disposal of investments	(20,949)	-
	$ (20,949)	$ (13,713)

16. LEASE COMMITMENTS

Effective January 1, 2010, the Clubs has entered into a lease renewal agreement, which expires on December 31, 2019. Under the lease agreement, the Clubs have an option to renew the lease for an additional three years and the Clubs have the right of first refusal if the landlord decides to accept an offer to purchase the building. Effective October 1, 2010, the Clubs has entered into a new office equipment lease which expires on September 30, 2016.

16. LEASE COMMITMENTS (continued)

The minimum annual lease payments for the next five years are as follows:

	Office Equipment	*101 Spruce Street*
2013	$ 6,272	$ 54,636
2014	6,272	56,820
2015	6,272	59,088
2016	4,704	62,040
Thereafter	-	133,548
	$ 23,520	$ 366,132

In addition to the minimum rent, the Clubs are required to pay the operating costs which amounted to $130,992 in 2012 ($48,670 in 2011).

17. GUARANTEES AND INDEMNITIES

The Clubs have indemnified its past, present and future directors, officers and volunteers against expenses (including legal expenses), judgments and any amount actually or reasonably incurred by them in connection with any action, suit or proceeding, subject to certain restrictions. The Clubs have purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits and actions, but there is no guarantee that the coverage will be sufficient should any action arise.

In the normal course of business, the Clubs have entered into agreements that include indemnities in favour of third parties, either express or implied, such as in service contracts, lease agreements or sales and purchase contracts. In these agreements, the Clubs agree to indemnify the counterparties in certain circumstances against losses or liabilities arising from the acts or omissions of the Clubs. The maximum amount of any potential liability cannot be reasonably estimated.