

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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GREEN HASSON & JANKS LLP
BUSINESS ADVISORS AND CPAS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southern California Chapter
of the Arthritis Foundation

We have audited the accompanying statement of financial position of the Southern California Chapter of the Arthritis Foundation (a nonprofit organization) as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2008 financial statements, and in our report dated March 31, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern California Chapter of the Arthritis Foundation as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2010 on our consideration of the Southern California Chapter of the Arthritis Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The financial statements referred to above were originally issued on April 27, 2010 but have been restated to correct the liability to the National Office at December 31, 2009 (See Note 14).

Green Hasson & Janks LLP

August 12, 2010
Los Angeles, California

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**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

STATEMENT OF FINANCIAL POSITION
December 31, 2009

With Summarized Totals at December 31, 2008

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</u>	<u>2008</u>
Cash and Cash Equivalents	\$ (267,350)	\$ 893,882	\$ 141,646	\$ 768,178	\$ 3,942,740
Investments	-	3,321,369	5,525,000	8,846,369	6,677,703
Accounts Receivable	176,862	-	-	176,862	50,885
Contributions Receivable	50,151	70,950	-	121,101	329,265
Pledges Receivable	50,000	-	-	50,000	-
Bequests Receivable (Net of Allowance for Uncollectible Bequests of \$92,912)	1,765,328	-	-	1,765,328	1,541,725
Due from National Office	136,255	-	-	136,255	218,718
Real Estate Held for Sale	82,500	-	-	82,500	82,500
Prepaid Expenses and Other Assets	400,421	-	-	400,421	438,096
Notes Receivable	95,611	-	-	95,611	96,761
Beneficial Interest in Charitable Remainder Trusts	-	4,764,212	-	4,764,212	4,992,453
Beneficial Interest in Perpetual Trusts	-	-	7,811,309	7,811,309	6,749,890
Property and Equipment (Net)	67,158	-	-	67,158	86,635
TOTAL ASSETS	<u>\$ 2,556,936</u>	<u>\$ 9,050,413</u>	<u>\$ 13,477,955</u>	<u>\$ 25,085,304</u>	<u>\$ 25,207,371</u>
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Research Awards and Grants Payable	\$ 320,000	\$ -	\$ -	\$ 320,000	\$ 380,000
Accounts Payable	126,517	-	-	126,517	217,926
Due to National Office	1,579,112	-	-	1,579,112	2,992,541
Accrued Expenses and Other Liabilities	1,014,284	-	-	1,014,284	724,617
Note Payable	114,000	-	-	114,000	-
TOTAL LIABILITIES	3,153,913	-	-	3,153,913	4,315,084
NET ASSETS:					
Unrestricted	874,195	-	-	874,195	1,276,989
Unrestricted - Due to National Office (Note 12)	(1,471,172)	-	-	(1,471,172)	(2,500,865)
Temporarily Restricted	-	9,050,413	-	9,050,413	9,699,627
Permanently Restricted	-	-	13,477,955	13,477,955	12,416,536
TOTAL NET ASSETS	<u>(596,977)</u>	<u>9,050,413</u>	<u>13,477,955</u>	<u>21,931,391</u>	<u>20,892,287</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,556,936</u>	<u>\$ 9,050,413</u>	<u>\$ 13,477,955</u>	<u>\$ 25,085,304</u>	<u>\$ 25,207,371</u>

The Accompanying Notes are an Integral Part of These Financial Statements

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

STATEMENT OF ACTIVITIES
Year Ended December 31, 2009
With Summarized Totals for the Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
REVENUES, GAINS AND PUBLIC SUPPORT:					
Membership and Direct Response Marketing	\$ 1,241,781	\$ -	\$ -	\$ 1,241,781	\$ 1,452,510
Personal Major Gifts	15,000	-	-	15,000	25,310
Personal Annual Gifts	52,743	4,357	-	57,100	84,488
Commerce and Industry Foundations	219,216	224,687	-	443,903	513,352
Memorials	82,750	221,610	-	304,360	485,563
Clubs and Organizations	16,958	-	-	16,958	11,509
Other Gifts	37,622	2,950	-	40,572	32,014
Direct Mail	5,020	-	-	5,020	251
Media Events	18,152	-	-	18,152	14,024
Donated Vehicles	1,050	-	-	1,050	1,900
	4,061	-	-	4,061	21,510
Total Contributions	1,694,353	453,604	-	2,147,957	2,642,431
Special Events - Gross Income	3,257,429	125,000	-	3,382,429	3,427,545
Less: Direct Donor Benefit Costs	(793,567)	-	-	(793,567)	(764,466)
Bequests	2,110,787	453,923	-	2,564,710	2,711,269
Beneficial Interest in Charitable Remainder Trusts	-	46,996	-	46,996	164,808
Beneficial Interest in Perpetual Trusts	-	-	-	-	516,093
Total Direct Public Support	6,269,002	1,079,523	-	7,348,525	8,697,680
Federated Campaigns	66,075	-	-	66,075	64,737
United Way	10,669	-	-	10,669	17,823
Total Indirect Public Support	76,744	-	-	76,744	82,560
Contributed Goods and Services	369,603	-	-	369,603	586,560
Total Public Support	6,715,349	1,079,523	-	7,794,872	9,366,800
Net Assets Released from Restrictions	2,036,573	(2,036,573)	-	-	-
Government Grants	137,938	-	-	137,938	189,329
Investment and Royalty Income (Net)	1,191,936	76,073	-	1,268,009	620,030
Change in Value of Beneficial Interest in Charitable Remainder Trusts	-	231,763	-	231,763	(1,523,936)
Change in Value of Beneficial Interest in Perpetual Trusts	-	-	1,061,419	1,061,419	(1,028,478)
Sales and Service Fees	89,888	-	-	89,888	61,540
Miscellaneous	2,780	-	-	2,780	85,526
Total Other	3,459,115	(1,728,737)	1,061,419	2,791,797	(1,595,989)
TOTAL REVENUE, GAINS AND PUBLIC SUPPORT	10,174,464	(649,214)	1,061,419	10,586,669	7,770,811
EXPENSES:					
Research	1,607,343	-	-	1,607,343	1,783,589
Public Health Education	2,571,190	-	-	2,571,190	2,725,559
Professional Education and Training	997,172	-	-	997,172	728,307
Patient and Community Services	1,527,003	-	-	1,527,003	2,104,237
Total Program Services	6,702,708	-	-	6,702,708	7,341,692
Management and General	1,122,127	-	-	1,122,127	1,323,059
Fundraising	1,722,730	-	-	1,722,730	1,608,294
Total Expenses	9,547,565	-	-	9,547,565	10,273,045
CHANGE IN NET ASSETS	626,899	(649,214)	1,061,419	1,039,104	(2,502,234)
Net Assets - Beginning of Year	(1,223,876)	9,699,627	12,416,536	20,892,287	23,394,521
NET ASSETS - END OF YEAR	\$ (596,977)	\$ 9,050,413	\$ 13,477,955	\$ 21,931,391	\$ 20,892,287

The Accompanying Notes are an Integral Part of These Financial Statements

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2009
With Summarized Totals for the Year Ended December 31, 2008

	Program Services				Total Program Services	Supporting Services		Total Supporting Services	Total Expenses	
	Research	Public Health Education	Professional Education and Training	Patient and Community Services		Management and General	Fundraising		2009	2008
	EXPENSES:									
Salaries and Wages	\$ 160,833	\$ 823,438	\$ 445,305	\$ 635,990	\$ 2,065,566	\$ 427,413	\$ 576,350	\$ 1,003,763	\$ 3,069,329	\$ 3,386,836
Benefits and Payroll Taxes	40,569	207,709	112,327	160,426	521,031	107,813	145,382	253,195	774,226	634,653
TOTAL PERSONNEL EXPENSES	201,402	1,031,147	557,632	796,416	2,586,597	535,226	721,732	1,256,958	3,843,555	4,021,489
Grants and Awards	639,818	-	-	-	639,818	-	-	-	639,818	779,470
Occupancy	21,842	111,828	60,475	86,372	280,517	58,046	78,452	136,498	417,015	419,776
Professional Fees and Contract Services	19,413	99,389	53,749	76,764	249,315	67,562	82,824	150,386	399,701	480,315
Membership and Direct Response Marketing	-	269,597	-	-	269,597	-	115,541	115,541	385,138	436,772
Contributed Goods and Services	17,866	91,469	49,465	70,647	229,447	11,655	128,500	140,155	369,602	586,560
Meeting and Conferences	16,894	86,497	46,776	66,807	216,974	9,704	42,573	52,277	269,251	392,807
Staff Travel	12,767	65,364	35,348	50,485	163,964	22,847	67,836	90,683	254,647	303,528
Data Processing and Accounting Services	10,570	54,115	29,265	41,797	135,747	28,089	40,127	68,216	203,963	213,955
Printing, Publications and Artwork	3,633	18,599	10,058	14,365	46,655	6,788	102,970	109,758	156,413	243,787
Arthritis Today Cost Recovery	11,341	58,064	31,400	44,846	145,651	-	-	-	145,651	166,105
Supplies	6,500	33,280	17,997	25,704	83,481	8,149	42,760	50,909	134,390	152,358
Telephone	6,854	35,090	18,976	27,102	88,022	13,120	17,794	30,914	118,936	120,706
Equipment Lease and Maintenance	5,717	29,269	15,828	22,606	73,420	13,953	24,887	38,840	112,260	108,625
Postage, Shipping and Delivery	3,820	19,559	10,577	15,106	49,062	8,535	37,607	46,142	95,204	105,115
Volunteer Travel	5,198	26,614	14,393	20,556	66,761	3,372	22,392	25,764	92,525	91,297
Advertising	4,574	23,420	12,665	18,089	58,748	3,852	10,052	13,904	72,652	58,791
Bank and Credit Card Fees	-	-	-	-	-	71,661	-	71,661	71,661	52,021
Investment Management Fees	-	-	-	-	-	68,271	-	68,271	68,271	60,736
Insurance	1,961	10,041	5,430	7,755	25,187	10,119	18,037	28,156	53,343	41,347
Materials Expense	2,707	13,859	7,495	10,704	34,765	201	7,169	7,370	42,135	62,518
Taxes and Licenses	28	145	78	112	363	24,395	301	24,696	25,059	11,023
Depreciation and Amortization	1,235	6,322	3,419	4,883	15,859	3,281	4,425	7,706	23,565	22,585
Membership Dues and Subscriptions	1,223	6,262	3,386	4,836	15,707	2,716	4,253	6,969	22,676	28,317
Uncollectible Pledges/Bequests	-	-	-	-	-	16,537	-	16,537	16,537	-
Media Development Cost	-	-	-	-	-	-	7,116	7,116	7,116	8,576
Miscellaneous	275	1,407	764	1,088	3,534	2,089	1,426	3,515	7,049	17,285
TOTAL OPERATING EXPENSES	995,638	2,091,337	985,176	1,407,040	5,479,191	990,168	1,578,774	2,568,942	8,048,133	8,985,864
Share Expense	611,705	479,853	11,996	119,963	1,223,517	131,959	143,956	275,915	1,499,432	1,287,181
TOTAL FUNCTIONAL EXPENSES 2009	\$ 1,607,343	\$ 2,571,190	\$ 997,172	\$ 1,527,003	\$ 6,702,708	\$ 1,122,127	\$ 1,722,730	\$ 2,844,857	\$ 9,547,565	
TOTAL FUNCTIONAL EXPENSES 2008	\$ 1,783,589	\$ 2,725,559	\$ 728,307	\$ 2,104,237	\$ 7,341,692	\$ 1,323,059	\$ 1,608,294	\$ 2,931,353		\$ 10,273,045

The Accompanying Notes are an Integral Part of These Financial Statements

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**STATEMENT OF CASH FLOWS
Year Ended December 31, 2009**

With Summarized Totals for the Year Ended December 31, 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,039,104	\$ (2,502,234)
Adjustments to Reconcile Change in Net Assets to Net		
Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	23,565	22,585
Loss on Disposal of Property and Equipment	-	10,518
Provision for Uncollectible Pledges Receivable	-	(7,000)
Provision for Uncollectible Bequests Receivable	16,537	(60,591)
Reinvested Interest and Dividends	(141,911)	(255,433)
Change in Value of Beneficial Interest in Charitable		
Remainder Trusts	(231,763)	1,523,936
Change in Value of Beneficial Interest in Perpetual Trusts	(1,061,419)	1,028,478
Net Realized and Unrealized (Gains) Losses on Investments	(355,004)	1,211,949
Contribution of Beneficial Interest in Charitable		
Remainder Trusts	(46,996)	(164,808)
Contribution of Beneficial Interest in Perpetual Trusts	-	(516,093)
(Increase) Decrease in:		
Accounts Receivable	(125,977)	395,431
Contributions Receivable	208,164	(262,115)
Pledges Receivable	(50,000)	67,234
Bequests Receivable	(240,140)	1,382,176
Due from National Office	82,463	113,318
Prepaid Expenses and Other Assets	37,675	(2,587)
Beneficial Interest in Charitable Remainder Trusts	507,000	2,550,000
Increase (Decrease) in:		
Research Awards and Grants Payable	(60,000)	255,000
Accounts Payable	(91,409)	65,823
Due to National Office	(1,413,429)	(1,764,480)
Accrued Expenses and Other Liabilities	289,667	(450,304)
NET CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES	(1,613,873)	2,640,803
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(4,088)	(56,669)
Proceeds from Notes Receivable	1,150	3,802
Purchase of Investments	(5,664,959)	(190,624)
Sale of Investments	3,993,208	660,794
NET CASH PROVIDED BY (USED IN)		
INVESTING ACTIVITIES	(1,674,689)	417,303
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of Note Payable	(5,018)	(5,288)
Proceeds from Note Payable	119,018	5,288
NET CASH PROVIDED BY FINANCING ACTIVITIES	114,000	-
NET INCREASE (DECREASE) IN CASH		
AND CASH EQUIVALENTS	(3,174,562)	3,058,106
Cash and Cash Equivalents - Beginning of Year	3,942,740	884,634
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 768,178	\$ 3,942,740

The Accompanying Notes are an Integral Part of These Financial Statements

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 - DESCRIPTION OF ORGANIZATION

The Southern California Chapter of the Arthritis Foundation (the Chapter) is a not-for-profit voluntary health agency by charter of the Arthritis Foundation, Inc. (the Foundation). The Chapter serves communities in Southern California, Northeastern California, Southern Nevada and Hawaii.

The mission of the Foundation is to improve lives through leadership in the prevention, control and cure of arthritis and related diseases. Arthritis is the nation's leading cause of disability. The Foundation is the nation's leader in helping the 70 million Americans who have arthritis take greater control of the disease through a variety of actions.

The Foundation provides community-based services such as land and water-based exercise classes, self-help education courses, free literature, camps for children who have juvenile arthritis, a speakers' bureau, professional education and physician referrals. The Foundation also funds research, advances public policy issues and collaborates with key public and private groups to affect positive change for people living with arthritis. The many services offered to people with arthritis and their families help offset the physical and emotional impact of the disease. The Foundation's volunteers and its paid professional staff support fundraising programs, which help the Foundation support both research and program efforts.

In 1949, one year after the incorporation of the Arthritis and Rheumatism Foundation in New York, the Southern California Chapter of the Foundation was founded. The Chapter now serves communities in the Coachella Valley, Hawaii, Inland Empire, Los Angeles, Orange County, Long Beach, the San Fernando Valley, San Luis Obispo, Santa Barbara, southern Nevada, Ventura County, the Greater Sacramento area, and the Central Valleys.

Led by a group of more than 400 volunteers and nearly 50 full-time staff members, the Chapter serves more than one million people each year through its Camp Esperanza, arthritis information and referral program, speakers' bureau, land and water-based exercise classes, professional education and self-help education courses. Many programs, including exercise classes and self-help education courses, have been adapted to be provided in Spanish. The Chapter annually contributes to support cutting-edge arthritis research, including local grants.

The Chapter merged with the Northeastern California Chapter of the Arthritis Foundation (the Northeastern Chapter) effective January 1, 2009. The Northeastern Chapter serves the areas of the Greater Sacramento Valley, Modesto and the Central Valley. The merger has been accounted for under the pooling-of-interests method and the operations of the Northeastern Chapter were merged into those of the Chapter. The Chapter assumed all assets, liabilities and net assets of the Northeastern Chapter.

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The financial statements of the Chapter have been prepared utilizing the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Chapter are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted.** The Chapter reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from program or capital restrictions. The Chapter has \$9,050,413 of temporarily restricted net assets at December 31, 2009.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Chapter to expend all of the income (or other economic benefits) derived from the donated assets. The Chapter has \$13,477,955 of permanently restricted net assets at December 31, 2009.

(c) CASH AND CASH EQUIVALENTS

For financial statement purposes, the Chapter considers all highly liquid investments with an initial maturity of less than three months when purchased, to be cash and cash equivalents. The carrying value of cash and cash equivalents at December 31, 2009 approximates its fair value.

The Chapter maintains its temporary cash investments in bank deposit accounts and other investment accounts which, at times, may exceed federally insured limits. The Chapter has not experienced any losses in such accounts. The Chapter believes it is not exposed to any significant credit risk on cash and cash equivalents.

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value. Interest and dividend income and gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

The Chapter holds investments in the form of short-term money market investments, corporate bonds and common stocks of publicly held companies. Market values of such investments and credit ratings of bond issuers are routinely reviewed by the Board of Directors.

(e) ACCOUNTS RECEIVABLE

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past due receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amount due. Interest income on long-term interest-bearing notes receivable is recognized as the interest accrues under the terms of the notes. At December 31, 2009, all accounts receivable are deemed fully collectible; therefore, no allowance for doubtful accounts has been established.

(f) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenues in the period received. Conditional promises to give are not included as support until such time as the conditions are substantially met.

(g) BEQUESTS RECEIVABLE

The Chapter has been named a beneficiary in a number of bequests. Bequests are not recognized as support until all of the following conditions are met: the demise of testator, the amount of the bequest is known, the Chapter is certain that, based on the estate's net assets, the amount bequeathed is realizable and the probate court has declared the will valid.

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) REQUESTS RECEIVABLE (continued)

Certain of its gifts have not been recorded in the accompanying financial statements because donors' wills have not yet been declared valid by the probate court and/or the value of the amounts to be received is not yet determinable. The Chapter will record and report all such gifts as the value is determined.

(h) REAL ESTATE HELD FOR SALE

Real estate held for sale is recorded at the lower of fair value as of the date received or appraised value. The Chapter has the authority and intention to sell these properties.

(i) BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

The Chapter has been designated as the beneficiary of assets held in charitable remainder trusts administered by other trustees. The Chapter recognizes temporarily restricted contribution revenue and, as an asset, the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments to the receivable to reflect the revaluation of the present value of the estimated future payments to the lifetime beneficiaries are recognized in the statement of activities as a change in value of beneficial interest in charitable remainder trusts. The carrying values of certain trusts have not yet been determined. Accordingly, such assets have not been recorded in the accompanying financial statements.

(j) BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Donors have established and funded trusts, which are administered by organizations other than the Chapter. Under the terms of the trusts, the Chapter has the irrevocable right to receive all or a portion of the income earned on the trust assets either in perpetuity or for the life of the trust. The Chapter does not control the assets held by outside trusts. Annual distributions from the trusts are reported as investment income. Adjustments to the beneficial interest to reflect changes in the fair value are reflected in the statement of activities as a change in value of beneficial interest in perpetual trusts. The carrying values of certain trusts have not yet been determined. Accordingly, such assets have not been recorded in the accompanying financial statements.

(k) LONG-LIVED ASSETS

The Chapter reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended December 31, 2009.

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Donated assets are capitalized at the estimated fair market value at date of receipt. Depreciation is provided over the estimated useful lives of the related assets on a straight-line basis as follows:

Leasehold Improvements	5 Years
Computer Equipment	3 - 5 Years
Office Equipment	3 - 10 Years

The cost of maintenance and repairs is recorded as expense as incurred; significant renewals and betterments are capitalized.

(m) DEFERRED REVENUE

Conditional grants, which are paid in advance, are deferred and recognized as contribution revenue in the period when the condition is met.

(n) CONTRIBUTED GOODS AND SERVICES

Contributed goods are reflected as contributions in the accompanying statement of activities at their estimated value at date of receipt. Contributed services are reflected in the statement of activities at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided. For the year ended December 31, 2009, the Chapter recognized \$369,603 of contributed services for various programs, as well as \$145,598 of contributed goods and services for special events, for a total of \$515,201 of contributed goods and services.

(o) ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2009 were \$72,652.

(p) RESEARCH AWARDS AND GRANTS

Research awards and grants are charged against operations when authorized by the Chapter's Board of Directors. The actual payment of the grant may not necessarily occur in the year of authorization.

(q) INCOME TAXES

The Chapter is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the corresponding California provisions.

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) FUNCTIONAL ALLOCATION

The costs of providing the Chapter's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited by a method that best measures the relative degree of benefit. The Chapter uses time estimates to allocate indirect costs.

(s) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(t) COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information in total but not by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Chapter's financial statements for the year ended December 31, 2008 from which the summarized information was derived. In accordance with the pooling-of-interest method, comparative totals also include amounts from the audited financial statements of the Northeastern Chapter which merged with the Chapter effective January 1, 2009 (see Note 1).

(u) FASB ACCOUNTING STANDARDS CODIFICATION

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (the ASC). The ASC has become the single source of non-governmental accounting principles generally accepted in the United States (GAAP) recognized by the FASB in the preparation of financial statements. The Chapter adopted the ASC as of December 31, 2009. The ASC does not change GAAP and did not have an effect on the Chapter's financial position, results of operations or cash flows.

(v) SUBSEQUENT EVENTS

The Chapter has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2009 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through August 12, 2010, the date these financial statements were available to be issued.

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 - INVESTMENTS

Investments at fair value at December 31, 2009 consist of the following:

Bonds/Bond Funds	\$ 3,880,064
Common Stocks	2,114,927
Money Market	<u>2,851,378</u>
<i>TOTAL INVESTMENTS</i>	<u><u>\$ 8,846,369</u></u>

Investment and royalty income is comprised of the following for the year ended December 31, 2009:

Investment Income from Perpetual Trusts	\$ 765,068
Interest and Dividends	147,937
Realized and Unrealized Gains	<u>355,004</u>
<i>NET INVESTMENT AND ROYALTY INCOME</i>	<u><u>\$ 1,268,009</u></u>

NOTE 4 - FAIR VALUE MEASUREMENTS

The Chapter has implemented an accounting standard for those assets (and liabilities) that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets (or liabilities). Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

The following table presents information about the Chapter's assets that are measured at fair value on a recurring basis at December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

	Year Ended December 31, 2009	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bonds/Bond Funds	\$ 3,880,064	\$ 3,880,064	\$ -	\$ -
Common Stock	2,114,927	2,114,927	-	-
Money Market	2,851,378	2,851,378	-	-
TOTAL INVESTMENTS	8,846,369	8,846,369	-	-
Beneficial Interest in:				
Charitable Remainder Trusts	4,764,212	-	-	4,764,212
Perpetual Trusts	7,811,309	-	-	7,811,309
TOTAL ASSETS AT FAIR VALUE	\$21,421,890	\$ 8,846,369	\$ -	\$12,575,521

The fair values of marketable securities within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

The fair values of beneficial interests within Level 3 inputs were determined as described in Notes 2(i) and 2(j).

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Temporarily Restricted	Permanently Restricted	Total
Beginning Balance	\$ 4,992,453	\$ 6,749,890	\$11,742,343
Change in Value of Beneficial Interest - Net Unrealized Gains	231,763	1,061,419	1,293,182
Transfers In (Out) of Level 3	(460,004)	-	(460,004)
ENDING BALANCE	\$ 4,764,212	\$ 7,811,309	\$12,575,521

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 5 - NOTES RECEIVABLE

The Chapter has a \$11,611 mortgage note receivable with a 10% interest rate, principal and interest installments of \$537 through September 2010. This note receivable is secured by land.

The Chapter has an \$84,000 mortgage note receivable with an 8% interest rate, interest only payable at \$710 per month through June 2010. This note receivable is secured by land.

NOTE 6 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

The Chapter is the beneficiary of sixteen charitable remainder trusts administered by other trustees. Assets held in charitable remainder trusts totaled \$4,764,212 at December 31, 2009 representing the portion of the net present value of the charitable remainder trusts for which the Chapter is the designated beneficiary.

NOTE 7 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Chapter is the beneficiary of eight trusts whose assets are not in the possession of the Chapter. The Chapter has legally enforceable rights or claims to such assets, including annual income as follows:

100% interest in a 2007 perpetual trust; no income was received during the year ended December 31, 2009.	\$ 4,149,387
20% interest in a 1975 perpetual trust; income received during the year ended December 31, 2009 was \$37,870.	1,137,181
25% interest in a 1977 perpetual trust; income received during the year ended December 31, 2009 was \$63,461.	1,129,726
15% interest in a 1978 perpetual trust; income received during the year ended December 31, 2009 was \$18,209.	599,051
50% interest in a 1988 perpetual trust; income received during the year ended December 31, 2009 was \$16,350.	447,850
5% interest in a 1985 perpetual trust; income received during the year ended December 31, 2009 was \$6,499.	173,165
16.67% interest in a 1969 perpetual trust; income received during the year ended December 31, 2009 was \$620,919. A portion of the assets in this trust are oil and gas royalties, the carrying value of which is not determinable and, therefore, has not been recorded.	173,117
0.5% interest in a 2005 perpetual trust; income received during the year ended December 31, 2009 was \$1,760.	1,832
<i>TOTAL BENEFICIAL INTEREST IN PERPETUAL TRUSTS</i>	<u>\$ 7,811,309</u>

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2009 consist of the following:

Leasehold Improvements	\$ 25,971
Computer Equipment	101,200
Office Equipment	<u>164,568</u>
TOTAL	291,739
Less: Accumulated Depreciation and Amortization	<u>(224,581)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 67,158</u>

Depreciation and amortization expense for the year ended December 31, 2009 was \$23,565.

NOTE 9 - ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities at December 31, 2009 consist of the following:

Accrued Pension Liability (Note 16)	\$ 371,012
Deferred Revenue	175,000
Accrued Vacation	168,897
Children's Hospital Los Angeles, Center of Excellence - Rheumatology	115,716
Accrued Payroll	54,776
Other Accrued Expenses	<u>128,883</u>
TOTAL ACCRUED EXPENSES AND OTHER LIABILITIES	<u>\$ 1,014,284</u>

NOTE 10 - LOAN PAYABLE

As part of the financial arrangements surrounding the merger of the Chapter and the Northeastern Chapter, the Chapter received a loan of \$114,000 from Arthritis Foundation, Inc. National Office (the National Office). Repayment of the loan will be made over 5 years through share payments on revenue above a certain baseline. If revenue for a given year does not exceed the baseline revenue, no payment is owed. The loan is interest free and any principal outstanding at the end of the 5 year period will be forgiven, without recourse. No payments were made on the loan during the year ended December 31, 2009.

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 11 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The Chapter leases real property and equipment under non-cancelable operating leases that expire through 2018.

The following is a schedule of future minimum lease payments on non-cancelable operating leases:

Years Ending December 31	
2010	\$ 302,997
2011	231,372
2012	211,697
2013	185,310
2014	172,998
Thereafter	<u>578,362</u>
TOTAL	<u>\$ 1,682,736</u>

Rental expense for the year ended December 31, 2009 was \$405,106.

(b) LEGAL PROCEEDINGS

In the ordinary course of conducting its business, the Chapter becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Chapter which, from time to time, may have an impact on changes in net assets. The Chapter does not believe that these proceedings, individually or in the aggregate, would have a material effect on the accompanying financial statements.

(c) RESEARCH AWARDS AND GRANTS

The Chapter has commitments for research awards and grants for future years. The terms of research awards and grants are from one to three years with continuation of grants subject to certain performance requirements. At December 31, 2009, total commitments of \$320,000 are expected to be paid within one year.

(d) CHARITABLE REMAINDER TRUST

In a prior year, the Chapter received a 40% beneficial interest in a charitable remainder trust, which has a fair value of \$2,307,892 at December 31, 2009. It is the Chapter's understanding that all of the funds relating to this trust are required to be maintained for the benefit of the Southern California Chapter of the Arthritis Foundation, with income to be treated as restricted for programs created or implemented by the Chapter. As such, the Chapter believes that this beneficial interest does not fall within the definition of shareable income.

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)

(e) LINE OF CREDIT

The Chapter has a line of credit in the amount of \$1,000,000 from a financial institution at an interest rate equal to the prime rate plus 1.75%. The line of credit is unsecured and due on June 1, 2010. No amounts were drawn on the line of credit at December 31, 2009. At December 31, 2009, the prime rate was 3.25%.

NOTE 12 - NET ASSETS

Temporarily restricted net assets at December 31, 2009 are available for the following purposes:

Specific Programs Conducted by the Chapter	\$ 3,110,467
Charitable Remainder Trusts	4,764,212
Research	<u>1,175,734</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 9,050,413</u>

Permanently restricted net assets consist of the following at December 31, 2009:

Perpetual Trusts	\$ 7,811,309
Other	<u>5,666,646</u>
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>\$13,477,955</u>

Net assets released from restrictions consist of the following for the year ended December 31, 2009:

Programs	\$ 828,598
Research	700,975
Termination of Charitable Remainder Trusts	<u>507,000</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$ 2,036,573</u>

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 12 - NET ASSETS (continued)

Contributing to the ending unrestricted net assets of (\$596,977) is \$1,579,112 due to the National Office. Part of this due to National Office liability is for amounts due from pledges and bequests receivable and charitable remainder trusts. Therefore a substantial portion of the due to National Office liability is not payable until future years upon the payment or liquidation of such pledges and bequests receivable and charitable remainder trusts.

The net liability due to National Office at December 31, 2009 consists of the following:

Current Payable Relating to Unrestricted Net Assets	\$ 107,940
Long-Term Liability Relating to Temporarily Restricted Net Assets	<u>1,471,172</u>
<i>TOTAL DUE TO NATIONAL OFFICE</i>	<u><u>\$ 1,579,112</u></u>

NOTE 13 - ENDOWMENTS

The Chapter's endowments consist of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts and bequests to either provide a permanent endowment, which is to provide a permanent source of income to the Chapter, or a term endowment, which is to provide income for a specified period to the Chapter (See Note 12). Beneficial interests in charitable remainder trusts and perpetual trusts administered by outside trustees are not considered part of the Chapter's endowments.

The Chapter's management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for the Chapter's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. Performance of the overall endowment against this objective is measured over an investment horizon of five to seven years. The endowments are also managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that funds the Chapter's existing spending policy and allows sufficient reinvestment to grow the endowment principal at a rate that exceeds inflation (as measured by the Consumer Price Index). Over the short term, the return for each element of the endowment portfolio should match or exceed each of the returns for the broader capital markets in which assets are invested.

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 13 - ENDOWMENTS (continued)

The Chapter's Board of Directors is in the process of developing a spending policy that will distribute a specific payout rate of the endowment base to support the Chapter's programs. The endowment base will be defined as a three-year moving average of the market value of the total endowment portfolio (calculated as of the last day of December for the prior three years). The distribution or payout rate will be calculated at a specific fixed percentage of the base. Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy will minimize the probability of invading the principal over the long term.

**Endowment Net Asset
Composition by Type of Fund
at December 31, 2009**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ -	\$ 5,666,646	\$ 5,666,646

**Changes in Endowment Net
Assets for the Year Ended
December 31, 2009**

Endowment Net Assets -				
Beginning of Year	\$ -	\$ -	\$ 5,666,646	\$ 5,666,646
Investment Income	-	76,073	-	76,073
Appropriation of Endowment Assets for Expenditure	-	(76,073)	-	(76,073)
ENDOWMENT NET ASSETS - END OF YEAR	\$ -	\$ -	\$ 5,666,646	\$ 5,666,646

NOTE 14 - RELATED PARTY TRANSACTIONS

The Chapter is required to share 27%, 35%, or 45% of unrestricted public support and bequests (less certain allowances) with the National Office. The Chapter is also allocated a portion of certain contributions received by the National Office. The Chapter reimburses the National Office for a portion of costs associated with the Chapter's magazine, its direct mail program, computer system support, financial services and educational and promotional materials referred to as share expenses. For the year ended December 31, 2009, the Chapter's share of contributions from the National Office for direct market membership was \$1,241,781. At December 31, 2009, the amount owed by the National Office is \$136,255. For the year ended December 31, 2009, the Chapter's share expense was \$1,499,432, which includes an offset of \$994,408 relating to a charitable remainder trust that was determined, during the year ended December 31, 2009, to not be shareable income [See Note 11(d)]. At December 31, 2009, the amount due to the National Office is \$1,579,112 (See Note 12).

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 14 - RELATED PARTY TRANSACTIONS (continued)

The Chapter paid an outside legal firm, in which a Board member serves as a partner, \$54,254 for legal services rendered. The services were approved by the Board of Directors and the legal fees are considered reasonable with reference to similar services offered by unrelated legal firms.

Subsequent to the issuance of the Chapter's 2009 financial statements, management became aware of an additional liability to the National Office at December 31, 2009. The inclusion of this additional liability has the effect of increasing the amount due to the National Office by \$162,145. In addition, the Chapter's share of expense was decreased by \$6,260.

NOTE 15 - JOINT COSTS

The Chapter incurred joint costs of \$385,138 during the year ended December 31, 2009 for informational materials and activities that included fundraising appeals, such as the Chapter's direct mail. Joint costs for the year ended December 31, 2009 were allocated as follows:

Public Health Education	\$	269,597
Fundraising		115,541
TOTAL JOINT COSTS	\$	385,138

NOTE 16 - PENSION PLANS

The Chapter has a defined benefit pension plan (the Plan) covering substantially all of its employees. Benefits are based on years of service and compensation. Contributions are determined in accordance with the Plan's provisions. The Plan was frozen effective December 31, 2008 and as a result, no benefits accrue after that date.

The Plan's funded status as of December 31, 2009 is recorded as follows:

ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATIONS:		
Accumulated Benefit Obligation	\$	1,414,789
Plan Assets at Fair Value	\$	1,043,777
Projected Benefit Obligation		1,414,789
TOTAL ACCRUED PENSION LIABILITY	\$	371,012

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 16 - PENSION PLANS (continued)

Net periodic pension cost for the year ended December 31, 2009 includes the following components:

Interest Cost	\$	74,301
Expected Return on Plan Assets		(59,286)
Amortization of Actuarial Loss		17,551
Other		(897)

NET PERIODIC PENSION COST	\$	31,669
Employer Contributions	\$	121,349
Benefits Paid		25,314

The actuarial assumptions used were:

Discount Rate		5.5%
Rate of Future Compensation Increase		Not Applicable
Expected Long-Term Rate of Return on Plan Assets		6.0%

The Plan is utilizing a market-related value of assets to determine expected return, realizing 20% of the accumulated total of the past five years of gains and losses.

The investment strategy of the Chapter has the following objectives:

- To achieve a balanced return of current income and appropriate growth of principal.
- To achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of Plan assets.
- To preserve capital and minimize costs.

Risk control is an important element in the investment of Plan assets and is achieved through a diversified target allocation.

No employer contributions are expected during the year ended December 31, 2010. No plan assets are expected to be returned to the employer during the year ended December 31, 2010.

**SOUTHERN CALIFORNIA CHAPTER
OF THE ARTHRITIS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 16 - PENSION PLANS (continued)

Benefits expected to be paid as of December 31, 2009 are:

Years Ending December 31	
2010	\$ 45,448
2011	41,680
2012	38,117
2013	34,761
2014	33,203
Five Years Thereafter	<u>156,834</u>
TOTAL	<u>\$ 350,043</u>

The Plan is funded in accordance with the Employee Retirement Income Security Act of 1974. Plan assets are 100% invested in mutual funds (71% in debt security funds and 29% in short-term funds) at December 31, 2009.

In addition, the Chapter has a 401(k) Retirement Plan (the Plan), which meets the requirements of the Employee Retirement Income Security Act (ERISA). The Plan covers all eligible employees of the Chapter. The Chapter will match \$1.00 for every \$1.00 contributed to the plan up to 3% of an eligible employee's salary. For an additional 2%, the Chapter will match \$0.50 for every \$1.00 contributed to the plan. The maximum employer match under the plan is 4%. Pension expense for the year ended December 31, 2009, was \$66,747.

NOTE 17 - SUBSEQUENT EVENT

On February 25, 2010, an agreement of merger was approved by majority vote of the respective Boards of Directors of the Chapter and The Arthritis Foundation, and San Diego Chapter, Inc. (the San Diego Chapter). Effective April 1, 2010, the Chapter assumed all assets, liabilities, and net assets of the San Diego Chapter. As part of this merger and reorganization, the Chapter amended and restated its articles of incorporation and bylaws and henceforth will be known as Arthritis Foundation, Pacific Region, Inc.