Arthritis Foundation
Chartered Entities and the National Office

Financial Statements as of and for the
Year ended December 31, 2011

With Summarized Financial Information as of and for the
Year ended December 31, 2010

and

Independent Auditors' Report

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Metcalf Davis

Certified Public Accountants

Independent Auditors' Report

Board of Trustees
Arthritis Foundation

We have audited the accompanying combined statement of financial position of the Arthritis Foundation, Chartered Entities and the National Office (the "Foundation") as of December 31, 2011, and the related combined statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain chartered entities, which statements reflect assets representing 38 percent of total assets as of December 31, 2011 and revenue representing 32 percent of total revenue for the year then ended. Those statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those chartered entities, is based solely on the reports of the other auditors. The prior year summarized comparative information has been derived from the Foundation's 2010 financial statements and, in our report dated May 17, 2011, 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Arthritis Foundation, Chartered Entities and the National Office as of December 31, 2011, 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.

Metcalf Davis

Atlanta, Georgia
June 4, 2012

ARTHRITIS FOUNDATION
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Financial Position
December 31, 2011 with Summarized Financial Information as of December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2011	Totals 2010
Assets					
Cash and cash equivalents	$ 8,320,737	$ 17,944,886	$ -	$ 26,265,623	$ 28,967,815
Investments	28,462,439	25,874,089	37,442,003	91,778,531	98,024,882
Accounts and notes receivable, net	3,390,554	8,996	-	3,399,550	5,054,289
Contributions receivable, net	9,428,521	12,675,487	47,057	22,151,065	19,489,678
Funds held in trust by others	-	-	446,213	446,213	-
Prepaid expenses and other assets	2,839,972	-	-	2,839,972	2,752,158
Inventory	430,906	-	-	430,906	610,750
Beneficial interests in perpetual trusts	-	-	30,911,722	30,911,722	31,603,637
Property and equipment, net	11,553,345	-	-	11,553,345	12,144,383
Total assets	$ 64,426,474	$ 56,503,458	$ 68,846,995	$ 189,776,927	$ 198,647,592
Liabilities and Net Assets					
Accounts payable	$ 4,548,892	$ -	$ -	$ 4,548,892	$ 3,254,850
Accrued expenses and other liabilities	7,319,674	-	-	7,319,674	6,912,044
Research awards and grants payable	6,131,605	104,477	-	6,236,082	4,620,636
Liabilities under split interest agreements	-	9,938,169	-	9,938,169	10,140,360
Debt obligations	4,350,462	-	-	4,350,462	5,274,441
Total liabilities	22,350,633	10,042,646	-	32,393,279	30,202,331
Net assets committed for future research grants	5,555,000	700,000	-	6,255,000	5,073,665
Other net assets	36,520,841	45,760,812	68,846,995	151,128,648	163,371,596
Total net assets	42,075,841	46,460,812	68,846,995	157,383,648	168,445,261
Total liabilities and net assets	$ 64,426,474	$ 56,503,458	$ 68,846,995	$ 189,776,927	$ 198,647,592

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Activities
Year Ended December 31, 2011 with Summarized Financial Information for the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2011	Totals 2010
Revenues, Gains and Public Support					
Direct response marketing contributions	$ 14,639,059	$ 34,698	$ -	$ 14,673,757	$ 15,146,161
Corporate contributions	5,963,132	7,753,277	-	13,716,409	13,302,692
Personal contributions	2,069,740	2,041,990	3,000	4,114,730	4,134,813
Foundations	731,687	3,031,644	400,000	4,163,331	2,520,817
Memorials	319,766	23,455	-	343,221	415,735
Other gifts	994,116	178,371	-	1,172,487	1,367,079
Total contributions	24,717,500	13,063,435	403,000	38,183,935	36,887,297
Special events - gross income	26,238,300	75,325	-	26,313,625	25,533,367
Less direct donor benefit costs	(7,309,409)	-	-	(7,309,409)	(7,431,729)
Bequests/planned giving	19,541,466	4,445,164	148,899	24,135,529	22,508,953
Total direct public support	63,187,857	17,583,924	551,899	81,323,680	77,497,888
Federated campaigns	753,009	-	-	753,009	773,302
United Way	1,336,388	-	-	1,336,388	1,602,565
Total indirect public support	2,089,397	-	-	2,089,397	2,375,867
Contributed goods and services	4,187,310	7,045	-	4,194,355	3,896,957
Total public support	69,464,564	17,590,969	551,899	87,607,432	83,770,712
Government grants	1,466,820	181,514	-	1,648,334	2,083,126
Operating investment returns	2,489,645	1,951,365	-	4,441,010	5,297,682
Conferences, sales, other revenue, gains and losses	11,811,828	(309,816)	-	11,502,012	11,262,928
Total other revenue	15,768,293	1,823,063	-	17,591,356	18,643,736
Net assets released from restrictions	22,273,434	(22,273,434)	-	-	-
Total revenues, gains and public support	107,506,291	(2,859,402)	551,899	105,198,788	102,414,448
Expenses					
Research	14,244,054	-	-	14,244,054	10,737,435
Public health education	43,160,309	-	-	43,160,309	41,613,979
Professional education and training	3,022,350	-	-	3,022,350	4,266,873
Patient and community services	26,347,022	-	-	26,347,022	23,833,926
Fundraising	13,729,111	-	-	13,729,111	13,229,432
Management and general	11,099,736	-	-	11,099,736	11,606,418
Total expenses	111,602,582	-	-	111,602,582	105,288,063
Change in net assets from operating activities	(4,096,291)	(2,859,402)	551,899	(6,403,794)	(2,873,615)
Non-operating Income					
Non-operating investment returns	(480,994)	(2,207,287)	-	(2,688,281)	5,259,977
Unrealized (losses) gains on beneficial interests in perpetual trusts	-	-	(779,386)	(779,386)	4,945,283
Change in valuation in split interest agreements	-	(1,009,594)	-	(1,009,594)	(982,857)
Net change in pension liabilities	(180,558)	-	-	(180,558)	(41,548)
Change in net assets from non-operating activities	(661,552)	(3,216,881)	(779,386)	(4,657,819)	9,180,855
Change in net assets	(4,757,843)	(6,076,283)	(227,487)	(11,061,613)	6,307,240
Net assets, beginning of year	46,833,684	52,537,095	69,074,482	168,445,261	162,138,021
Net assets, end of year	$ 42,075,841	$ 46,460,812	$ 68,846,995	$ 157,383,648	$ 168,445,261

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Functional Expenses
Year Ended December 31, 2011 with Summarized Financial Information for the Year Ended December 31, 2010

	PROGRAM SERVICES					SUPPORTING SERVICES			Totals	
	Research	Public Health Education	Professional Education and Training	Patient and Community Services	Total Program Services	Fundraising	Management and General	Total Supporting Services	2011	2010
Peer reviewed research awards	$ 9,293,849	$ 39,236	$ 101,100	$ 82,351	$ 9,516,536	$ -	$ -	$ -	$ 9,516,536	$ 7,630,779
Salaries	2,187,782	14,314,756	1,492,799	9,416,822	27,412,159	5,404,525	5,848,237	11,252,762	38,664,921	37,322,892
Payroll taxes	164,050	1,111,532	116,471	736,572	2,128,625	415,198	441,914	857,112	2,985,737	2,969,997
Employee benefits	390,032	2,341,318	215,971	1,552,694	4,500,015	819,070	938,013	1,757,083	6,257,098	5,620,259
Advertising commissions	-	363,954	-	349,681	713,635	-	-	-	713,635	628,176
Professional fees and contract services	573,158	5,594,003	196,259	2,408,639	8,772,059	1,018,512	1,215,132	2,233,644	11,005,703	9,724,329
Professional services - contributed	156,875	225,995	22,983	2,926,637	3,332,490	48,527	36,680	85,207	3,417,697	3,472,124
Supplies	54,595	383,141	43,808	310,094	791,638	134,547	134,720	269,267	1,060,905	979,563
Supplies and materials - contributed	10,411	89,095	694	378,296	478,496	187,566	10,061	197,627	676,123	421,673
Printing, publications, and artwork	79,981	2,282,956	58,148	1,599,176	4,020,261	354,906	84,463	439,369	4,459,630	4,121,901
Membership/direct response marketing	243,893	8,424,211	121,946	195,114	8,985,164	2,654,668	121,947	2,776,615	11,761,779	11,407,420
Postage, shipping, and delivery	40,292	1,918,621	32,061	1,641,043	3,632,017	182,637	82,965	265,602	3,897,619	3,919,277
Telephone	51,785	347,284	44,234	243,737	687,040	169,369	326,656	496,025	1,183,065	1,220,204
Occupancy	245,985	1,499,484	160,042	1,011,584	2,917,095	476,049	448,119	924,168	3,841,263	3,902,276
Insurance	42,892	244,754	22,768	144,189	454,603	82,196	65,204	147,400	602,003	624,002
Staff travel	106,996	684,339	77,937	461,997	1,331,269	402,022	180,092	582,114	1,913,383	1,652,366
Meetings and conferences	235,479	1,097,943	125,368	1,154,662	2,613,452	398,169	273,164	671,333	3,284,785	2,869,854
Equipment lease and maintenance	75,232	402,196	54,102	277,156	808,686	202,975	467,121	670,096	1,478,782	1,454,840
Membership dues and subscriptions	23,428	95,435	8,287	54,200	181,350	47,643	69,464	117,107	298,457	325,020
Specific assistance to individuals	-	-	-	413,079	413,079	-	-	-	413,079	393,990
Advertising	27,324	539,396	22,730	328,011	917,461	255,047	48,967	304,014	1,221,475	1,608,466
Miscellaneous	113,683	621,993	75,587	385,496	1,196,759	325,410	187,655	513,065	1,709,824	1,542,822
Depreciation	100,197	372,427	20,442	173,695	666,761	101,075	92,037	193,112	859,873	822,840
Uncollectible receivables	26,135	166,240	8,613	102,097	303,085	49,000	27,125	76,125	379,210	652,993
Total operating expenses	$ 14,244,054	$ 43,160,309	$ 3,022,350	$ 26,347,022	$ 86,773,735	$ 13,729,111	$ 11,099,736	$ 24,828,847	$ 111,602,582	$ 105,288,063

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Cash Flows
Year ended December 31, 2011 with Summarized Financial Information as of December 31, 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ (11,061,613)	$ 6,307,240
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	859,873	822,840
Loss (gain) on sale of property and equipment	161,746	(2,139)
Donated investments	(160,722)	(60,025)
Net realized and unrealized losses (gains) in beneficial interests in perpetual trusts	779,386	(4,945,283)
Net realized and unrealized losses (gains) on investments	2,592,631	(6,906,578)
Net change in valuation in split interest agreements	1,009,594	982,857
Contributions restricted for long-term investment	(551,899)	(1,112,839)
Changes in assets and liabilities:		
Decrease in accounts and notes receivable	1,654,739	359,876
(Increase) decrease in contributions receivable	(2,661,387)	1,231,736
Increase in funds held in trust by others	(446,213)	-
(Increase) decrease in prepaid expenses and other assets	(87,814)	210,063
Decrease in inventory	179,844	68,709
Increase in beneficial interests in perpetual trusts	(87,471)	(1,172,154)
Increase (decrease) in research awards and grants payable	1,615,446	(2,443,774)
Increase (decrease) in accounts payable	1,294,042	(1,068,794)
Increase in accrued expenses and other liabilities	407,630	60,012
Decrease in liabilities under split interest agreements	(1,211,785)	(1,046,864)
Net cash used in operating activities	(5,713,973)	(8,715,117)
Cash flows from investing activities:		
Purchase of property and equipment	(608,171)	(702,843)
Proceeds from sale of property and equipment	177,590	14,154
Purchase of investments	(45,758,526)	(28,522,738)
Proceeds from sale of investments	49,572,968	36,509,268
Net cash provided by investing activities	3,383,861	7,297,841
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	551,899	1,112,839
Proceeds from note payable	8,689	40,990
Repayments of note payable	(576,500)	(409,541)
Payments on long-term debt / capital lease obligation	(356,168)	(102,398)
Net cash (used in) provided by financing activities	(372,080)	641,890
Net decrease in cash and cash equivalents	(2,702,192)	(775,386)
Cash and cash equivalents at beginning of year	28,967,815	29,743,201
Cash and cash equivalents at end of year	$ 26,265,623	$ 28,967,815
Supplemental information		
Interest paid	$ 179,208	$ 138,475
Noncash investing and financing activities:		
Property acquired through capital leases	$ 28,166	$ 1,705,063

The accompanying notes are an integral part of this statement.

NOTE 1 – DESCRIPTION OF ORGANIZATION

The Arthritis Foundation (the "Foundation") is a voluntary health agency seeking to improve lives through leadership in the prevention, control and cure of arthritis and arthritis-related diseases. Major funding sources are from direct public contributions and bequests. The Foundation provides public health education and community service programs along with supporting arthritis-related research and influencing public policy regarding research funding, access to care and government funding of arthritis-related public health problems.

The Arthritis Foundation is composed of a National Office (a not-for-profit Georgia corporation) and 13 chartered entities located throughout the United States. The chartered entities (10 regions and three chapters) are affiliated with the National Office via separate charter agreements. The charter agreements impose certain obligations on the chartered entities including adhering to national policies and sharing revenue. The Arthritis Foundation operates under a single (Section 501(c)(3) of the Internal Revenue Code ("IRC")) group exemption. Each chartered entity is a separate legal corporation and files its own IRS Form 990.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Accrual Basis of Accounting - The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis of Presentation - The accompanying combined financial statements include the accounts of the Arthritis Foundation, Inc. National Office (the "National Office") and all Arthritis Foundation chartered entities (which are separately incorporated). All significant intra-Foundation accounts and transactions have been eliminated in the accompanying financial statements. The Foundation classifies its net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

> *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.
>
> *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.
>
> *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that the Foundation maintains them permanently. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Operating results in the statement of activities reflect all transactions increasing and decreasing net assets except those that the Foundation defines as non-operating. Non-operating includes all endowment returns in excess of the spending policy, unrealized gains and losses from operating accounts, unrealized gains and losses on beneficial interests in perpetual trusts and changes in valuation of split interest agreements.

Income Taxes - The Foundation is a not-for-profit corporation and has been recognized as exempt from Federal income taxes on related income under Section 501(c)(3) of the IRC. At times the Foundation may be engaged in activities for which it is responsible for payment of unrelated business income tax. Deferred tax assets and liabilities are measured based on enacted tax laws and rates expected to apply to taxable income in the year in which temporary differences are expected to be recorded or settled. Income taxes did not have a material impact on the financial position or change in net assets of the Foundation as of and for the years ended December 31, 2011 and 2010.

The Foundation's policy is to record a liability for any tax position taken that is beneficial to the Foundation, including any interest and penalties, when it is more likely than not the position taken will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2011 and 2010, and accordingly, no liability has been accrued.

Generally, the Internal Revenue Service ("IRS") may examine a tax return for three years from the date it is filed. At December 31, 2011 tax years ended December 31, 2010, 2009 and 2008 remained open for possible examination by the IRS.

Fair Value of Financial Instruments - The estimated fair value amounts for specific groups of financial instruments are presented within the notes applicable to such items. Accounts receivable, other than split-interest agreements, prepaid expenses and other assets, accounts payable and accrued expenses and other liabilities are stated at cost, which approximates fair value due to their short-term maturity. The fair value of investments, perpetual trusts, and funds held in trust by others is disclosed in other notes and is based upon quoted market values or values provided by external investment managers which were reviewed by management and the board. The carrying value of debt approximates its fair value due to its variable rates of interest.

Cash and Cash Equivalents - Cash accounts at some institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 for interest bearing accounts and to an unlimited amount for certain non-interest bearing business accounts. At December 31, 2011, the Foundation's uninsured cash balance totaled approximately $10,400,000. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. Cash equivalents are highly liquid investments with an original maturity of three months or less at the date of purchase. Because of the short maturity of these financial instruments, the carrying value approximates the fair value.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value. The cost assigned to investments received by gift is the fair value at the date the gift is received. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average historical value (cost of securities if purchased or the fair market value at the date of gift if received by donation). Dividend and interest income is recorded on the accrual basis. In accordance with the policy of stating investments at fair value, the net change in unrealized appreciation or depreciation for the year is reflected in the statement of activities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these instruments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Foundation.

The Foundation utilizes the net asset value ("NAV") reported by each of its alternative investment funds as a practical expedient for determining the fair value of the investment. These investments are redeemable at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Foundation's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Foundation's interest in the funds.

Accounts Receivable - Accounts receivable consist of exchange transactions primarily related to government grants and sales and service fees and are stated at unpaid balances, less an allowance for doubtful accounts when deemed necessary. Receivables are considered past due 120 days after billing.

Allowance for Doubtful Accounts - Allowance for doubtful accounts on outstanding accounts receivable balances is recorded when deemed necessary based upon historical trends, current market risk assessments and specific donor considerations.

Inventory - Educational and campaign materials are stated at lower of cost or market. Cost is determined by the weighted average method.

Split Interest Agreements - The Foundation's split interest agreements are recorded as follows:

Charitable gift annuities and other split interest agreements where the Foundation is the trustee are valued at the date of donation using the income method and discount rates commensurate with the risks involved. Discount rates range from three to 10 percent. Charitable gift annuities are amortized over their life although changes may be made based on a change in the life expectancy of the donor. Gift annuity assets are included in investments and amounts due to the donor are included in liabilities under split interest agreements.

Split interest gifts held by others are included with other contributions receivable on the statement of financial position. These gifts which benefit not only the Foundation, but other beneficiaries as designated by the donor, are carried at fair value with the changes recorded as a component of temporarily restricted income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Beneficial Interests in Perpetual Trusts - The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. The Foundation has legally enforceable rights or claims to such assets including the right to income therefrom. Under the perpetual trust arrangement, the Foundation has recorded the asset and recognized permanently restricted contribution revenue at the fair value of its beneficial interest in the trust assets. Distributions received on the trust assets are recorded as investment income in the statement of activities unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as net unrealized gains or losses on beneficial interest in perpetual trusts in the permanently restricted net asset class.

Funds Held in Trust by Others - Included in funds held in trust by others are split interest agreements not managed by the Foundation and funds transferred by various chartered entities to local community foundations to invest and manage. Most community foundation agreements state that the transfer is irrevocable and that the transferred assets will not be returned to the Arthritis Foundation. However, the community foundations will make annual distributions of the income earned on the funds. Although unlikely, the agreement also permits the community foundations to substitute another beneficiary in the place of the Arthritis Foundation if the Arthritis Foundation ceases to exist or if the governing board of the community foundations votes that support of the Arthritis Foundation either is no longer necessary or is inconsistent with the needs of the community.

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 on the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is expensed when incurred; significant renewals and betterments are capitalized. The Foundation reevaluated its capitalization policy and increased the threshold from $1,000 to $5,000 beginning on January 1, 2011.

Contributed Goods and Services - Contributed goods and services are reflected as both contribution revenue and expenses if they meet the criteria defined in accordance with GAAP, “Accounting for Contributions,” in the accompanying statement of activities at their estimated fair value at date of receipt. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided. Generally such services include research grant application reviews, medical services, speakers, trainers, other program services, airline tickets for volunteer and staff travel and other services that meet the criteria for recognition as contributed services.

In addition, the Foundation receives services from a large number of volunteers who give significant amounts of their time to the Foundation’s programs, fundraising campaigns and management. No amounts have been reflected for these types of donated services, as they do not meet the criteria for recognition.

Contributions - Contributions, including unconditional promises to give, are recorded at the date of gift. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable in amount. Long-term promises to give are initially recorded at fair value using the income approach using discount rates commensurate with the risk involved.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Awards and Grants - Awards and grants are recorded as expense in the year in which the award is made. The terms of research awards and grants are from one to three years with continuation of grants subject to certain performance requirements.

Functional Allocation - The cost of providing the Foundation'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.

Reclassifications - Certain reclassifications have been made to the 2010 balances to conform to the 2011 presentation.

Use of Estimates - Management of the Foundation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with generally accepted accounting principles ("GAAP"). Actual results could differ from these estimates.

Comparative Data - The financial statements include certain prior year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such financial information should be read in conjunction with the Foundation's financial statements as of and for the year ended December 31, 2010 from which the summarized financial information was derived.

ARTHRITIS FOUNDATION
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Notes To Financial Statements
December 31, 2011
(with summarized information for the year ended December 31, 2010)

NOTE 3 – INVESTMENTS

Investments at December 31, 2011 and 2010 were as follows:

	2011	2010
Marketable securities		
U.S. Government securities	$ 6,656,516	$ 6,484,032
Corporate notes and bonds	8,150,565	10,551,646
Common stocks	14,318,085	23,970,431
Domestic equity mutual funds	18,344,844	12,389,291
Fixed income mutual funds	12,428,526	13,225,355
International equity mutual funds	3,593,133	3,190,305
Alternative investments	1,021,904	1,260,741
Other commodities	703,641	3,027,992
Foreign issues	446,191	-
Other - principally money market and other mutual funds	8,728,755	3,238,014
	74,392,160	77,337,807
Split interest agreements		
U.S. Government securities	266,225	288,383
Corporate notes and bonds	238,005	203,391
Domestic equity mutual funds	5,933,783	6,851,357
Fixed income mutual funds	4,387,364	4,095,856
International equity mutual funds	1,586,555	1,948,402
	12,411,932	13,387,389
Total marketable securities	86,804,092	90,725,196
Certificate of deposit	4,974,439	7,299,686
Total investments	$ 91,778,531	$ 98,024,882

NOTE 3 – INVESTMENTS - Continued

The following schedule summarizes the investment returns, net of investment management fees, for the years ending December 31, 2011 and 2010:

	2011	2010
Investment return		
Income	$ 4,345,360	$ 3,651,081
Net appreciation/depreciation (realized and unrealized)	(2,592,631)	6,906,578
Total investment return	1,752,729	10,557,659
Less investment returns designated for current operations	(4,441,010)	(5,297,682)
Non-operating investment returns	$ (2,688,281)	$ 5,259,977

NOTE 4 – FAIR VALUE MEASUREMENTS

In accordance with GAAP, fair value measurement establishes a framework for measuring fair value and expands disclosures about fair value measurements.

This standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by GAAP. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date. The standard describes three levels of inputs that may be used to measure fair value:

Level I - Unadjusted quoted prices in active markets for identical assets or liabilities. Level I assets and liabilities include debt and equity securities that are traded in an active exchange market as well as U.S. Treasury Securities.

Level II - Inputs other than quoted prices included in Level I that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs other than quoted prices (interest rates, yield curves, etc.), or inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities and alternative investments using NAV per share for which the Foundation has the ability to redeem its investment at the measurement date.

Level III - 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 inputs reflect the Foundation's assumptions based on the best information available in the circumstances. This category generally includes certain private debt and equity instruments and alternative investments where the Foundation will never have the ability to redeem its investment with the investee at NAV per share. This category also includes perpetual trusts which are valued based on the market value of the underlying securities.

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the valuation of the Foundation's investments, split interest agreements and beneficial interests in perpetual trusts by the above hierarchy levels as of December 31, 2011:

	Level I	Level II	Level III	Total
U.S. Government securities	$ 1,857,457	$ 5,065,284	$ -	$ 6,922,741
Corporate notes and bonds				
Financial services industry	434,939	2,416,939	-	2,851,878
Healthcare industry	126,746	-	-	126,746
Industrial goods industry	-	981,063	-	981,063
Oil and gas industry	157,759	-	-	157,759
Real estate industry	-	789,383	-	789,383
Utilities industry	-	212,818	-	212,818
Other	936,801	2,332,122	-	3,268,923
Common stocks				
Consumer goods industry	2,998,751	-	-	2,998,751
Energy industry	1,993,920	-	-	1,993,920
Financial services industry	1,664,496	-	-	1,664,496
Healthcare industry	1,139,336	-	-	1,139,336
Industrial goods industry	2,114,850	-	-	2,114,850
Materials industry	642,039	-	-	642,039
Technology industry	1,930,420	-	-	1,930,420
Utilities industry	977,222	-	-	977,222
Other	857,051	-	-	857,051
Domestic equity mutual funds				
Consumer goods industry	101,889	-	-	101,889
Financial services industry	364,220	-	-	364,220
Healthcare industry	127,859	-	-	127,859
Real estate industry	140,525	60,204	-	200,729
Technology industry	2,366,764	-	-	2,366,764
Other	20,898,129	219,037	-	21,117,166
Fixed income mutual funds				
Financial services industry	85,943	-	-	85,943
Oil and gas industry	24,746	-	-	24,746
Other	16,660,808	44,393	-	16,705,201
International equity mutual funds				
Other	5,179,688	-	-	5,179,688
Other - principally money market and other mutual funds	8,704,935	23,820	-	8,728,755
Alternative investments	-	1,021,904	-	1,021,904
Foreign issues	-	446,191	-	446,191
Other commodities	560,163	143,478	-	703,641
Total marketable securities	73,047,456	13,756,636	-	86,804,092
Beneficial interests in perpetual trusts	-	-	30,911,722	30,911,722
Split interest agreements	-	-	6,376,478	6,376,478
Total	$ 73,047,456	$ 13,756,636	$ 37,288,200	$ 124,092,292

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the valuation of the Foundation's investments, split interest agreements and beneficial interests in perpetual trusts by the above hierarchy levels as of December 31, 2010.

	Level I	Level II	Level III	Total
U.S. Government securities	$ 2,175,873	$ 4,596,542	$ -	$ 6,772,415
Corporate notes and bonds				
Financial services industry	1,523,606	1,317,639	-	2,841,245
Healthcare industry	76,457	-	-	76,457
Oil and gas industry	-	1,097	-	1,097
Real estate industry	-	1,057,197	-	1,057,197
Other	5,064,771	1,714,270	-	6,779,041
Common stocks				
Financial services industry	1,369,528	-	-	1,369,528
Healthcare industry	1,759,370	-	-	1,759,370
Oil and gas industry	41,571	-	-	41,571
Real estate industry	6,000	-	-	6,000
Other	20,785,043	8,919	-	20,793,962
Domestic equity mutual funds				
Financial services industry	2,550,078	-	-	2,550,078
Healthcare industry	310	-	-	310
Oil and gas industry	38,102	-	-	38,102
Real estate industry	52,909	-	-	52,909
Other	16,599,249	-	-	16,599,249
Fixed income mutual funds				
Financial services industry	1,170,835	-	-	1,170,835
Oil and gas industry	25,158	-	-	25,158
Other	15,600,079	525,139	-	16,125,218
International equity mutual funds				
Financial services industry	18,678	-	-	18,678
Healthcare industry	25,336	-	-	25,336
Real estate industry	5,282	-	-	5,282
Other	5,089,411	-	-	5,089,411
Other - principally money market and other mutual funds	3,238,014	-	-	3,238,014
Alternative investments		1,260,741	-	1,260,741
Other commodities	2,164,967	863,025	-	3,027,992
Total marketable securities	79,380,627	11,344,569	-	90,725,196
Beneficial interests in perpetual trusts	-	-	31,603,637	31,603,637
Split interest agreements	-	-	6,877,237	6,877,237
Total	$ 79,380,627	$ 11,344,569	$ 38,480,874	$ 129,206,070

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the Foundation's Level III reconciliation for the beneficial interests in perpetual trusts and split interest agreements for the years ended December 31, 2011 and 2010:

	2011	2010
Beginning balance	$ 38,480,874	$ 35,087,784
Increase in beneficial interest in perpetual trust	87,471	1,172,154
Decrease in split interest agreements	(500,759)	(2,724,347)
Net unrealized (losses) gains	(779,386)	4,945,283
Ending balance	$ 37,288,200	$ 38,480,874

Valuation Techniques and Significant Inputs

Level II investments consist of U.S. and foreign government securities, corporate notes and bonds and REITs that are valued based on market prices for similar and actively traded investments.

Level III includes the Foundation's beneficial interests in perpetual trusts. The fair value is based on the value of the Foundation's portion of the underlying investments in the trusts using valuation methods that are appropriate for those investments as determined by the trustee.

During the current financial year there were no transfers between levels.

The following table discloses the nature and risks of the Foundation's alternative investments classified as Level II at December 31, 2011:

	Total market value	Exit frequency	Days notice
Hedge funds disclosed as Level II			
BA Hedge Fund Direct - OZ Domestic Partners II	$ 565,997	Quarterly	45
BACAP Multi-Strategy Hedge Fund, LTD.	52,654	Quarterly	65
Total hedge funds disclosed as Level II	618,651		
Real estate funds disclosed as Level II			
BA Diversified Real Estate Fund, L.P.	403,253	Quarterly	90
Total alternative investments disclosed as Level II	$ 1,021,904		

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

BA Hedge Fund Direct – OZ Domestic Partners II – This offshore hedge fund invests primarily in a portfolio of equity securities, but its portfolio includes convertible securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives. The fair values of the shares of these funds have been estimated using the net asset value per share of the underlying investments as a practical expedient. At December 31, 2011, all shares of this fund could be redeemed within 45 days with prior notice.

BACAP Multi-Strategy Hedge Fund, LTD. – This offshore hedge fund invests primarily in private investment funds and discretionary managed accounts managed by fund managers who invest across a diverse range of strategies and markets. The fair values of the shares of these funds have been estimated using the net asset value per share of the underlying investments as a practical expedient. At December 31, 2011, all shares of this fund could be redeemed within 65 days with prior notice.

BA Diversified Real Estate Fund, L.P. – This partnership fund was established to conduct real estate related investment activities and any business or activities incidental to or in support of such real estate related investment activities. The fair values of the shares of these funds have been estimated using the net asset value per share of the underlying investments as a practical expedient. At December 31, 2011, all shares of this fund could be redeemed within 90 days with prior notice.

NOTE 5 – ENDOWMENTS

The Foundation's endowment consists of a number of individual funds established for research, specific programs and operations.

The Foundation understands the law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instrument at the time the accumulation is added to the fund.

For chartered entities organized in the state of Pennsylvania, management understands Pennsylvania 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. State law also allows the Foundation to appropriate and spend such income and gains as is prudent, considering such factors as the Foundation's long and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions. Accordingly, such realized and unrealized gains and losses are reported as temporarily restricted or unrestricted, based upon the presence or absence of donor stipulations as to their use.

NOTE 5 – ENDOWMENTS - Continued

The remaining portion of donor-restricted endowment funds in excess of the original fair value that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation or the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policy of the Foundation

If the market value of any fund classified as permanently restricted at year-end is below the amount determined to be permanently restricted the deficit which cannot be funded from temporarily restricted unspent earnings of the fund are reported as a reduction in unrestricted net assets. For the year ended December 31, 2011, as a result of unfavorable market conditions, the Foundation's endowment funds experienced deficiencies from original fair value totaling $56,391, which was recorded as a decrease in unrestricted net assets as required by GAAP. There were no such deficiencies as of December 31, 2010.

The primary long-term financial objective for the Foundation'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 rolling periods of one, three and five years. The endowments shall be 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 Foundation'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.

Foundation policy requires that the endowment assets will be governed by a spending policy that seeks to distribute a specific payout rate of the endowment base to support the Foundation's programs. The endowment base is 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). Without specific board action to either increase or decrease the payout rate, the Foundation's annual investment income payout distribution is calculated at a rate of four percent of the rolling three year average fair market value of the investments plus amounts paid for share on investment income. The policy allows 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, the policy minimizes the probability of invading the principal over the long-term. Spending in a given year reduces the unit value of each endowment element by the payout percentage. In no case are funds designated as True Endowment reduced below their initial unit value. In the case of short-term declines in the market value of the endowment pool of funds, the overall spending rate may be calculated below designated payout percentage in order to maintain the original unit value of certain elements of the true endowment. Growth of the unit values over time should allow for spending of principal, without drawing from the original corpus of a particular gift.

NOTE 5 – ENDOWMENTS - Continued

The endowment is divided into three broad asset classes: equity fund, fixed income fund and cash or near-cash fund. The purpose of dividing the endowment fund in this way is to ensure that the optimal long-term return is achieved given the Foundation's risk preference. The endowment is diversified both by asset class (equity, fixed income and cash) and within asset class (large capitalization stocks, small capitalization stocks, U.S. Treasury bonds, corporate bonds, etc.). The purpose of diversification is to provide reasonable assurance that no single security or class of securities has a disproportionate impact on the total endowment and to reduce the overall risk and volatility of the entire portfolio. The total endowment is monitored on a continual basis for consistency of investment philosophy, return relative to objectives, and asset allocation with respect to target percentages.

In considering the prudency criteria, as outlined by UPMIFA, in 2011, the board of one of the chartered entities determined that it was prudent to appropriate an additional $2 million in accumulated earnings on which there were no purpose restrictions to fund research and expenses relating to regionalization.

Endowment net asset composition by type of fund as of December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (56,391)	$ 4,396,331	$ 37,842,002	$ 42,181,942
Board designated	4,559,327	-	-	4,559,327
Total funds	$ 4,502,936	$ 4,396,331	$ 37,842,002	$ 46,741,269

Endowment net asset composition by type of fund as of December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 9,940,088	$ 37,470,845	$ 47,410,933
Board designated	5,098,136	-	-	5,098,136
Total funds	$ 5,098,136	$ 9,940,088	$ 37,470,845	$ 52,509,069

NOTE 5 – ENDOWMENTS - Continued

Changes in endowment net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, January 1, 2010	$ 811,413	$ 6,835,547	$ 37,135,736	$ 44,782,696
Investment Return				
Income	35,863	414,343	5,372	455,578
Net appreciation (realized and unrealized)	196,858	3,582,309	38,875	3,818,042
Total investment return	232,721	3,996,652	44,247	4,273,620
Contributions	151,580	-	340,862	492,442
Appropriation of endowment assets for expenditure	(97,578)	(892,111)	-	(989,689)
Other changes				
Release from restrictions	-	-	(50,000)	(50,000)
Transfer to create board-designated endowment funds	4,000,000	-	-	4,000,000
Endowment Net Assets, December 31, 2010	5,098,136	9,940,088	37,470,845	52,509,069
Investment Return				
Income	25,376	786,742	-	812,118
Net appreciation (realized and unrealized)	(7,082)	(1,032,343)	-	(1,039,425)
Total investment return	18,294	(245,601)	-	(227,307)
Contributions	25,326	123,314	371,157	519,797
Appropriation of endowment assets for expenditure	(638,820)	(5,421,470)	-	(6,060,290)
Endowment Net Assets, December 31, 2011	$ 4,502,936	$ 4,396,331	$ 37,842,002	$ 46,741,269

NOTE 6 – CONTRIBUTIONS RECEIVABLE

The Foundation had the following contributions receivable at December 31, 2011 and 2010:

	2011	2010
Amounts due		
In less than one year	$ 13,888,411	$ 11,295,557
In one to five years	2,476,517	1,980,064
In more than five years	1,850	12,099
Gross contributions receivable	16,366,778	13,287,720
Allowance for doubtful accounts	(552,176)	(609,824)
Split interest agreements	6,376,478	6,877,237
Unamortized present value discount	(40,015)	(65,455)
Net contributions receivable	$ 22,151,065	$ 19,489,678

Contributions receivable are net of unamortized present value discount calculated at the date of donation using rates commensurate with the risk involved (one percent to three percent).

NOTE 7 – SPLIT INTEREST AGREEMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The Foundation had the following interests at December 31, 2011 and 2010:

	2011	2010
Charitable remainder trusts	$ 2,841,438	$ 2,974,046
Gift annuity fund	9,174,485	10,025,787
Pooled income fund	396,009	387,556
Split interest agreements (included in investments)	12,411,932	13,387,389
Split interest agreements (included in contributions receivable where the Foundation is not the trustee)	6,376,478	6,877,237
Perpetual trusts (Foundation is not the trustee)	30,911,722	31,603,637
	$ 49,700,132	$ 51,868,263

Liabilities under split interest agreements are $9,938,169 and $10,140,360 for the years ended December 31, 2011 and 2010, respectively.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2011 and 2010:

	estimated useful life	2011	2010
Land		$ 3,141,051	$ 3,156,051
Building and improvements	(10-30 years)	11,728,265	12,845,018
Leasehold improvements	(3-10 years)	1,138,294	340,641
Furniture and other equipment	(3-5 years)	5,206,225	15,750,949
		21,213,835	32,092,659
Accumulated depreciation		(9,660,490)	(19,948,276)
Net property and equipment		$ 11,553,345	$ 12,144,383

Depreciation expense was $859,873 and $822,840 for the years ended December 31, 2011 and 2010 respectively. Based upon an updated inventory evaluation, fully depreciated property and equipment totaling approximately $9,700,000 were removed from both the asset and accumulated depreciation accounts.

NOTE 9 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at December 31, 2011 and 2010:

	2011	2010
Wages	$ 944,197	$ 1,043,300
Payroll taxes and other related liabilities	1,325,783	566,213
Defined benefit obligation - unfunded	1,437,743	963,580
Other	3,611,951	4,338,951
Total accrued expenses and other liabilities	$ 7,319,674	$ 6,912,044

NOTE 10 – DEBT OBLIGATIONS

The Foundation has leased various assets, primarily office equipment, with lease terms approximating the useful lives of the assets. As a result, the present value of the remaining future minimum lease payments are recorded as capitalized lease assets and related notes payable. Assets under capital leases (net of accumulated depreciation) at December 31, 2011 and 2010 were $1,728,134 and $1,720,280, respectively, and are included in property and equipment on the statement of financial position.

NOTE 10 – DEBT OBLIGATIONS - Continued

Revenue Bonds **-** On November 1, 2009 the Arthritis Foundation's National Office amended its loan agreement (original date: December 1, 1996) with the Development Authority of Fulton County. Under this amendment, the National Office converted its existing bonds in the amount of $3,600,000 to "bank qualified" bonds to be held until maturity by SunTrust Bank. The principal amount of the reissued bonds was $3,600,000. The credit agreement between the National Office and SunTrust Bank and the amended and restated Indenture of Trust stipulate that the interest rate paid on the bonds shall be a rate equal to 67 percent of the LIBOR plus 2.5 percent. The substantive effect of the reissuance of the bonds was to eliminate the need to remarket the bonds which lowers the National Office's overall cost of borrowing by the amount of the remarketing and letter of credit fees. The Foundation had a related note payable balance in the amount of $2,400,000 and $2,800,000 at December 31, 2011 and 2010, respectively. Interest rates at December 31, 2011 and 2010 are 1.86 percent and 1.85 percent, respectively.

Line of Credit **-** At December 31, 2011 the Foundation had available lines of credit in the amount of $2,741,875. At December 31, 2011 and 2010, the Foundation had drawn amounts on the lines of credit totaling $473,955 and $681,773, respectively. Such debt obligations are secured by land, building and other assets. Interest rates ranged from 1.50 percent to 3.25 percent at December 31, 2011.

Future minimum lease payments under capital leases are as follows for December 31, 2011 and 2010:

	2011	2010
2011	$ -	$ 368,844
2012	452,143	385,100
2013	417,854	371,364
2014	389,772	356,357
2015	342,663	348,458
2016	9,903	-
Total future minimum lease payments	1,612,335	1,830,123
Less amounts representing interest	(135,828)	(37,455)
Present value of net minimum lease payments	1,476,507	1,792,668
Notes payable	2,400,000	2,800,000
Lines of credit	473,955	681,773
Total debt obligations	$ 4,350,462	$ 5,274,441

NOTE 10 – DEBT OBLIGATIONS - Continued

Maturities of notes payable and lines of credit are as follows for the years ending subsequent to December 31, 2011:

	Notes Payable	Lines of credit
2012	$ 400,000	$ 459,582
2013	400,000	7,188
2014	500,000	7,185
2015	500,000	-
2016	600,000	-
Total	$ 2,400,000	$ 473,955

NOTE 11 – JOINT COSTS

In 2011 and 2010, the Foundation incurred joint costs of $11,761,779 and $11,407,420, respectively, for informational materials and activities that included fundraising appeals, such as the Foundation's direct mail. Joint costs for the years ended December 31, 2011 and 2010 were allocated as follows:

	2011	2010
Public health education	$ 8,424,211	$ 8,118,696
Fundraising	2,654,668	3,288,724
Other programs	682,900	-
	$ 11,761,779	$ 11,407,420

NOTE 12 – NET ASSETS

Temporarily restricted net assets at December 31, 2011 and 2010 were available for the following purposes:

	2011	2010
Programs, scholarships, training and projects	$ 16,168,656	$ 16,516,211
Research	16,346,217	18,315,896
Building improvements	270,000	270,000
Use in future periods	13,675,939	17,434,988
Total temporarily restricted net assets	$ 46,460,812	$ 52,537,095

Permanently restricted net assets consisted of the following at December 31, 2011 and 2010 and represent endowed gifts to be held in perpetuity with the investment income to be used for the following purposes:

	2011	2010
Research and specific projects	$ 40,225,512	$ 38,612,715
Operations	28,621,483	30,461,767
Total permanently restricted net assets	$ 68,846,995	$ 69,074,482

Temporarily restricted net assets released from restrictions consisted of the following in the years ended December 31, 2011 and 2010:

	2011	2010
Programs	$ 9,172,371	$ 10,950,873
Research	8,553,063	7,183,531
Releases of restrictions due to timing	4,548,000	4,901,034
Total net assets released from restriction	$ 22,273,434	$ 23,035,438

NOTE 13 – OPERATING LEASES

Rental expense for the Foundation office space was $4,009,074 and $4,009,239 for the years ended December 31, 2011 and 2010, respectively. Lease agreements having an original term of more than one year expire on various dates through 2017. Total future minimum lease payments were as follows at December 31, 2011:

2012	$ 3,336,619
2013	2,560,284
2014	2,181,954
2015	1,727,598
2016	1,432,334
Thereafter	1,503,393
Total future minimum lease payments	$ 12,742,182

The National Office rents office space to tenants under leases having an original term of more than one year expiring on various dates through the year 2014. Minimum rental income under leases expiring subsequent to December 31, 2011 is as follows:

2012	$ 477,071
2013	123,600
2014	17,758
Total	$ 618,429

NOTE 14 – EMPLOYEE BENEFIT PLAN

Employee Contribution Plans

Defined Contribution Plan - The Foundation sponsors various defined contribution retirements plans (the “defined contribution plans”) covering substantially all of the employees of the Foundation. Participants may contribute a percentage of their compensation on a pretax basis. The Foundation matches a portion of the participants’ compensation. Vesting policies are based on the specific defined contribution plan operated either at the National Office or the chartered entity. Total contributions to the defined contribution plans for the years ended December 31, 2011 and 2010 were $1,723,443 and $1,631,671, respectively.

Deferred Compensation Plan - The National Office maintains a 457(b) nonqualified deferred compensation plan (the “deferred compensation plan”) that permits a select group of executive level employees to set aside a portion of salary on a before-tax basis. In addition to voluntary elective deferrals, the National Office makes non-elective contributions to the plan. At the discretion of the National Office, participants are allowed to allocate deferred compensation plan contributions and designate beneficiaries.

NOTE 14 – EMPLOYEE BENEFIT PLAN - Continued

The National Office's contributions totaled $82,500 and $65,988 for the years ended December 31, 2011 and 2010, respectively. All assets under the deferred compensation plan remain part of the National Office's general assets and are subject to the claims of its creditors. All rights to amounts held under the plan are owned by the National Office. Therefore, the National Office reports the assets and related liabilities of the deferred compensation plan in its statement of financial position. At December 31, 2011 and 2010, the assets and liabilities totaled $393,994 and $318,239, respectively.

Defined Benefit Plan

The Foundation has various defined benefit pension plans (the "Plan") covering certain employees. Benefits are based on years of service and compensation. Contributions are determined in accordance with the Plan's provisions.

The following table illustrates the percentage of fair value of total plan assets for each major category of plan assets at each of the fiscal year ends.

	2011	2010
Equity	0-69%	0-42%
Debt Securities	0-18%	0-10%
Other	0-100%	0-100%
	100%	100%

The following table sets forth the plan's funded status and amounts recognized in the Foundation's statement of financial position as part of accrued expenses and other liabilities.

	2011	2010
Fair value of plan assets at year end	$ 4,033,550	$ 5,483,552
Benefit obligation at year end	5,471,293	6,447,132
Funded Status	$ (1,437,743)	$ (963,580)

NOTE 14 – EMPLOYEE BENEFIT PLAN - Continued

Amounts recognized on the statement of financial position consist of:

	2011	2010
Accrued benefit cost	$ (1,437,743)	$ (963,580)
Net amount recognized	$ (1,437,743)	$ (963,580)

Weighted average assumptions as of the year end December 31, 2011 and 2010:

	2011	2010
Discount rate	4.5-5.0%	5.0-6.0%
Expected return on plan assets	3.5-7.0%	5.0-7.0%
Rate of compensation increase	4.5-6.0%	4.0-6.0%
Benefit cost	$ 12,227	$ 14,641
Employer contribution	$ 440,151	$ 305,979
Benefits paid	$ 990,304	$ 133,368

The components of net periodic benefit are:

	2011	2010
Service cost	$ 145,657	$ 145,894
Interest cost	225,594	219,991
Actual return on plan assets	(87,259)	(40,979)
Amortization of initial unrecognized net obligation of (net assets)	(15,742)	9,125
Amortization of prior service cost	10,723	10,723
Amortization of loss deferred	2,537	(51,405)
Net periodic pension cost	$ 281,510	$ 293,349

NOTE 14 – EMPLOYEE BENEFIT PLAN - Continued

The following represents the Foundation's estimate of benefit payments for the Plan to be made in the next five years and in the aggregate for the five years thereafter:

Year ended December 31:	
2012	$ 1,351,448
2013	115,431
2014	159,501
2015	39,333
2016	37,926
Five years thereafter	968,442
Total estimated benefit payments for the next ten years	$ 2,672,081

For each chartered entity with a defined benefit plan, the expected long-term rate of return on plan assets assumption, ranging from 4.75 percent to 7.00 percent, was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection of Economic Assumptions for Measuring Pension Obligations. Based on the various chartered entities' investment allocation for the pension plan in effect as of the beginning of fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range was selected and added to the real rate of return range to arrive at a best estimate range. A rate which is within the best estimate range was selected.

Management of the Foundation expects to make contributions to the Plan of approximately $364,000 during 2012.

The following is a reconciliation of items not yet reflected in the net periodic benefit cost:

	January 1, 2011	Reclassified as Net Periodic Benefit Cost	Amounts Arising During Period	December 31, 2011
Unrecognized transition obligation (asset)	$ (15,013)	$ 2,633	$ 2,971	$ (9,409)
Net loss or (gain)	$ 443,401	$ (52,207)	$ 352,053	$ 743,247

The estimated amounts to be reclassified during 2011 as net period benefit amounts include an unrecognized transition obligation of $2,633. Additionally, no plan assets are expected to be returned to the Foundation during the 2012 fiscal year.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Foundation 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, 2011, these commitments were as follows:

2012	$ 4,955,000
2013	1,300,000
Total commitments	$ 6,255,000

Total research awards and grant commitments are reflected on the statement of financial position as net assets designated for future research grants.

The Foundation is involved in litigation arising from the normal course of business. Although the ultimate outcome of such matters cannot be predicted with certainty, management believes that the current expected outcome of any such matter will not have a material adverse effect on the Foundation's financial condition.

NOTE 16 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2011 financial statements through June 4, 2012, the date that the financial statements were available to be issued.