



**Arthritis Foundation,  
Chartered Entities and the National Office**

Combined Financial Statements  
Years Ended December 31, 2016 and 2015

# **Arthritis Foundation, Chartered Entities and the National Office**

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Combined Financial Statements  
Years Ended December 31, 2016 and 2015

# Arthritis Foundation, Chartered Entities and the National Office

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## Independent Auditor's Report

Board of Directors  
Arthritis Foundation, Chartered Entities and the National Office  
Atlanta, GA

We have audited the accompanying combined financial statements of the Arthritis Foundation, Chartered Entities and the National Office, which comprise the combined statements of financial position as of December 31, 2016 and 2015, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

### *Management's Responsibility for the Combined Financial Statements*

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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



*Opinion*

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Arthritis Foundation, Chartered Entities and the National Office, as of December 31, 2016 and 2015 and the changes in their net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*BDO USA, LLP*

July 5, 2017

## Combined Financial Statements

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# Arthritis Foundation, Chartered Entities and the National Office

## Combined Statements of Financial Position

<i>December 31,</i>	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 16,044,623	\$ 12,349,881
Investments	89,017,821	95,496,050
Accounts and notes receivable, net	2,765,605	3,776,878
Contributions receivable, net	14,753,135	15,644,965
Prepaid expenses and other assets	1,458,513	1,716,242
Inventory	131,028	301,491
Beneficial interest in perpetual trusts	44,539,383	43,294,798
Property and equipment, net	5,811,609	6,673,203
<b>Total Assets</b>	<b>\$ 174,521,717</b>	<b>\$ 179,253,508</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 3,273,122	\$ 3,831,738
Accrued expenses and other liabilities	6,851,396	7,084,654
Research awards and grants payable	8,483,042	6,899,765
Liabilities under split interest agreements	8,599,085	8,874,309
Debt obligations	42,237	597,816
<b>Total Liabilities</b>	<b>27,248,882</b>	<b>27,288,282</b>
<b>Net Assets</b>		
Unrestricted	33,973,907	34,087,036
Temporarily restricted	35,888,431	41,704,789
Permanently restricted	77,410,497	76,173,401
<b>Total Net Assets</b>	<b>147,272,835</b>	<b>151,965,226</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 174,521,717</b>	<b>\$ 179,253,508</b>

*See the accompanying notes to the combined financial statements.*

# Arthritis Foundation, Chartered Entities and the National Office

## Combined Statement of Activities

Year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Public Support</b>				
Direct response marketing contributions	\$ 10,128,484	\$ -	\$ -	\$ 10,128,484
Corporate contributions	2,021,289	9,809,107	-	11,830,396
Personal contributions	1,158,956	366,077	-	1,525,033
Foundations	870,869	1,349,371	-	2,220,240
Memorials	-	-	-	-
Other gifts	542,763	169,390	-	712,153
Total contributions	14,722,361	11,693,945	-	26,416,306
Special events - gross income	24,656,643	874,500	-	25,531,143
Less direct donor benefit costs	(5,036,080)	-	-	(5,036,080)
Bequests/planned giving	12,675,208	1,915,363	735,240	15,325,811
Total direct public support	47,018,132	14,483,808	735,240	62,237,180
Federated campaigns	655,614	633	-	656,247
United Way	452,701	-	-	452,701
Total indirect public support	1,108,315	633	-	1,108,948
Contributed goods and services	86,631	-	-	86,631
Total public support	48,213,078	14,484,441	735,240	63,432,759
Government grants	618,453	25,179	-	643,632
Investment return for operations	2,057,498	1,476,064	-	3,533,562
Conferences, sales, other revenue, gains and losses	10,129,385	(13,744)	-	10,115,641
Total other revenue, gains and losses	12,805,336	1,487,499	-	14,292,835
Net assets released from restrictions	22,719,839	(22,719,839)	-	-
<b>Total Revenues, Gains and Public Support</b>	<b>83,738,253</b>	<b>(6,747,899)</b>	<b>735,240</b>	<b>77,725,594</b>
<b>Expenses</b>				
Research	(11,996,136)	-	-	(11,996,136)
Public health education	(33,208,057)	-	-	(33,208,057)
Professional education and training	(2,094,356)	-	-	(2,094,356)
Patient and community services	(17,989,395)	-	-	(17,989,395)
Fundraising	(11,325,566)	-	-	(11,325,566)
Management and general	(8,782,915)	-	-	(8,782,915)
Total Expenses	(85,396,425)	-	-	(85,396,425)
Change in net assets from operating activities	(1,658,172)	(6,747,899)	735,240	(7,670,831)
<b>Non-operating Income</b>				
Net realized and unrealized gains (losses)				
on investments	1,481,325	1,783,296	-	3,264,621
Unrealized gain (loss) on beneficial interests in perpetual trusts	146	(339,630)	501,856	162,372
Realized gain on the sale of building and land	-	-	-	-
Change in valuation in split interest agreements	-	(512,125)	-	(512,125)
Net change in pension liabilities	63,572	-	-	63,572
Change in net assets from non-operating activities	1,545,043	931,541	501,856	2,978,440
Change in Net Assets	(113,129)	(5,816,358)	1,237,096	(4,692,391)
Net Assets, beginning of year	34,087,036	41,704,789	76,173,401	151,965,226
Net Assets, end of year	\$ 33,973,907	\$ 35,888,431	\$ 77,410,497	\$ 147,272,835

See the accompanying notes to the combined financial statements.

# Arthritis Foundation, Chartered Entities and the National Office

## Combined Statement of Activities

Year ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Public Support</b>				
Direct response marketing contributions	\$ 10,566,325	\$ -	\$ -	\$ 10,566,325
Corporate contributions	4,899,368	8,459,618	-	13,358,986
Personal contributions	1,526,773	1,258,403	-	2,785,176
Foundations	434,016	2,230,223	-	2,664,239
Memorials	240,681	4,395	-	245,076
Other gifts	511,351	129,268	-	640,619
Total contributions	18,178,514	12,081,907	-	30,260,421
Special events - gross income	24,813,731	-	-	24,813,731
Less direct donor benefit costs	(5,305,729)	-	-	(5,305,729)
Bequests/planned giving	11,698,236	3,624,910	218,261	15,541,407
Total direct public support	49,384,752	15,706,817	218,261	65,309,830
Federated campaigns	773,409	2,001	-	775,410
United Way	515,615	5,000	-	520,615
Total indirect public support	1,289,024	7,001	-	1,296,025
Contributed goods and services	397,279	-	-	397,279
Total public support	51,071,055	15,713,818	218,261	67,003,134
Government grants	1,021,055	-	-	1,021,055
Investment return for operations	4,048,818	-	-	4,048,818
Conferences, sales, other revenue, gains and losses	8,907,798	(66,497)	-	8,841,301
Total other revenue, gains and losses	13,977,671	(66,497)	-	13,911,174
Net assets released from restrictions	16,073,334	(15,914,834)	(158,500)	-
<b>Total Revenues, Gains and Public Support</b>	<b>81,122,060</b>	<b>(267,513)</b>	<b>59,761</b>	<b>80,914,308</b>
<b>Expenses</b>				
Research	(11,089,492)	-	-	(11,089,492)
Public health education	(35,175,543)	-	-	(35,175,543)
Professional education and training	(2,317,829)	-	-	(2,317,829)
Patient and community services	(18,051,449)	-	-	(18,051,449)
Fundraising	(11,037,364)	-	-	(11,037,364)
Management and general	(10,226,331)	-	-	(10,226,331)
<b>Total Expenses</b>	<b>(87,898,008)</b>	<b>-</b>	<b>-</b>	<b>(87,898,008)</b>
Change in net assets from operating activities	(6,775,948)	(267,513)	59,761	(6,983,700)
<b>Non-operating Income</b>				
Net realized and unrealized (losses) gains on investments	(1,404,105)	(3,110,655)	-	(4,514,760)
Unrealized loss on beneficial interests in perpetual trusts	-	-	(1,157,444)	(1,157,444)
Realized gain on the sale of building and land	2,391,975	-	-	2,391,975
Change in valuation in split interest agreements	-	(1,947,107)	-	(1,947,107)
Net change in pension liabilities	505,968	-	-	505,968
Change in net assets from non-operating activities	1,493,838	(5,057,762)	(1,157,444)	(4,721,368)
Change in Net Assets	(5,282,110)	(5,325,275)	(1,097,683)	(11,705,068)
Net Assets, beginning of year	39,369,146	47,030,064	77,271,084	163,670,294
Net Assets, end of year	\$ 34,087,036	\$ 41,704,789	\$ 76,173,401	\$ 151,965,226

See the accompanying notes to the combined financial statements.

# Arthritis Foundation, Chartered Entities and the National Office

## Combined Statement of Functional Expenses

*Year ended December 31, 2016*

	Program Services					Supporting Services				Total
	Research	Public Health Education	Professional Education and Training	Patient and Community Services	Total Program Services	Fundraising	Management and General	Total Supporting Services		
		Education	and Training	Services	Services		General	Services		
Research awards and grants	\$ 9,022,389	\$ 29,285	\$ 276	\$ 132,763	\$ 9,184,713	\$ 2,856	\$ 2,354	\$ 5,210	\$ 9,189,923	
Salaries	1,327,349	11,981,681	882,179	7,623,933	21,815,142	5,161,349	3,826,225	8,987,574	30,802,716	
Payroll taxes	86,408	947,523	70,171	605,083	1,709,185	397,784	276,943	674,727	2,383,912	
Employee benefits	162,345	1,708,229	131,410	1,094,106	3,096,090	720,108	508,915	1,229,023	4,325,113	
Advertising commissions	-	271,794	-	90,598	362,392	-	-	-	362,392	
Professional fees and contract services	327,169	3,233,217	303,417	1,480,124	5,343,927	864,135	1,892,270	2,756,405	8,100,332	
Professional services - contributed	-	15,943	3,543	10,983	30,469	3,897	1,063	4,960	35,429	
Supplies	7,661	211,681	19,431	203,989	442,762	63,593	56,164	119,757	562,519	
Supplies and materials - contributed	-	3,821	762	2,644	7,227	895	282	1,177	8,404	
Printing, publications, and artwork	66,155	1,578,288	59,329	1,113,997	2,817,769	197,857	69,978	267,835	3,085,604	
Membership/direct response marketing	68,894	5,376,510	39,063	47,055	5,531,522	1,960,157	37,892	1,998,049	7,529,571	
Postage, shipping, and delivery	83,220	1,476,813	55,511	1,061,607	2,677,151	100,783	95,833	196,616	2,873,767	
Telephone	21,603	165,603	46,313	134,371	367,890	196,029	446,114	642,143	1,010,033	
Occupancy	137,715	1,675,947	130,276	1,015,500	2,959,438	477,048	347,687	824,735	3,784,173	
Insurance	101,412	269,651	11,945	105,402	488,410	69,673	74,430	144,103	632,513	
Staff travel	122,770	841,430	65,799	1,007,463	2,037,462	309,433	358,275	667,708	2,705,170	
Meetings and conferences	56,672	1,330,391	84,062	1,083,223	2,554,348	102,769	124,485	227,254	2,781,602	
Equipment lease and maintenance	37,579	302,772	42,161	198,946	581,458	179,684	329,535	509,219	1,090,677	
Membership dues and subscriptions	24,240	88,101	4,916	46,853	164,110	25,342	25,685	51,027	215,137	
Specific assistance to individuals	-	-	-	58,818	58,818	-	-	-	58,818	
Advertising	6,370	154,810	11,103	78,760	251,043	94,417	33,762	128,179	379,222	
Miscellaneous	146,099	574,913	49,596	303,468	1,074,076	145,281	138,619	283,900	1,357,976	
Depreciation	167,639	563,840	35,726	254,833	1,022,038	127,197	136,404	263,601	1,285,639	
Uncollectible receivables	22,447	405,814	47,367	234,876	710,504	125,279	-	125,279	835,783	
<b>Total Expenses</b>	<b>\$ 11,996,136</b>	<b>\$ 33,208,057</b>	<b>\$ 2,094,356</b>	<b>\$ 17,989,395</b>	<b>\$ 65,287,944</b>	<b>\$ 11,325,566</b>	<b>\$ 8,782,915</b>	<b>\$ 20,108,481</b>	<b>\$ 85,396,425</b>	

*See the accompanying notes to the combined financial statements.*

# Arthritis Foundation, Chartered Entities and the National Office

## Combined Statement of Functional Expenses

*Year ended December 31, 2015*

	Program Services					Supporting Services				Total
	Research	Public Health Education	Professional Education and Training	Patient and Community Services	Total Program Services	Fundraising	Management and General	Total Supporting Services		
Research awards and grants	\$ 8,563,352	\$ 51,133	\$ 7,730	\$ 173,341	\$ 8,795,556	\$ 7,245	\$ 1,648	\$ 8,893	\$ 8,804,449	
Salaries	1,106,228	14,006,181	1,143,185	6,876,462	23,132,055	4,448,389	5,158,909	9,607,298	32,739,353	
Payroll taxes	72,784	1,081,949	89,814	538,189	1,782,735	343,604	391,137	734,741	2,517,476	
Employee benefits	153,735	1,787,597	161,030	944,972	3,047,334	578,344	884,753	1,463,097	4,510,431	
Advertising commissions	-	103,838	-	-	103,838	207,676	34,613	242,288	346,126	
Professional fees and contract services	264,197	3,041,277	201,393	1,511,720	5,018,587	694,047	1,473,848	2,167,895	7,186,482	
Professional services - contributed	53,433	12,938	7,031	55,898	129,299	13,415	-	13,415	142,715	
Supplies	11,746	318,904	17,915	245,542	594,107	111,347	65,520	176,867	770,974	
Supplies and materials - contributed	-	-	-	28,800	28,800	196,924	8,000	204,924	233,724	
Printing, publications, and artwork	13,127	1,261,523	34,665	1,205,461	2,514,775	242,925	46,133	289,058	2,803,833	
Membership/direct response marketing	116,518	5,662,913	64,085	93,214	5,936,731	1,906,732	58,259	1,964,991	7,901,721	
Postage, shipping, and delivery	9,810	1,338,905	16,249	1,296,801	2,661,765	110,163	53,430	163,593	2,825,358	
Telephone	34,990	249,379	40,297	159,874	484,540	109,228	409,325	518,553	1,003,093	
Occupancy	164,640	1,874,026	121,793	1,061,225	3,221,684	556,833	393,431	950,264	4,171,947	
Insurance	62,890	283,851	18,480	134,321	499,542	85,816	65,027	150,843	650,385	
Staff travel	99,629	1,039,531	103,188	945,237	2,187,585	399,270	235,034	634,304	2,821,889	
Meetings and conferences	88,074	753,838	136,742	1,245,651	2,224,304	211,196	97,519	308,716	2,533,020	
Equipment lease and maintenance	35,267	371,896	44,876	227,015	679,054	135,420	401,525	536,945	1,215,999	
Membership dues and subscriptions	42,549	109,492	9,405	40,587	202,032	34,111	33,650	67,761	269,793	
Specific assistance to individuals	-	-	-	121,594	121,594	-	-	-	121,594	
Advertising	6,735	220,714	13,262	155,378	396,090	119,781	36,634	156,415	552,505	
Miscellaneous	87,406	1,076,498	55,619	742,172	1,961,695	306,258	255,652	561,910	2,523,605	
Depreciation	100,623	344,645	12,658	133,327	591,254	93,298	84,665	177,963	769,217	
Uncollectible receivables	1,760	184,517	18,412	114,669	319,358	125,342	37,619	162,961	482,319	
<b>Total Operating Expenses</b>	<b>\$ 11,089,492</b>	<b>\$ 35,175,543</b>	<b>\$ 2,317,829</b>	<b>\$ 18,051,449</b>	<b>\$ 66,634,313</b>	<b>\$ 11,037,364</b>	<b>\$ 10,226,331</b>	<b>\$ 21,263,695</b>	<b>\$ 87,898,008</b>	

*See the accompanying notes to the combined financial statements.*

# Arthritis Foundation, Chartered Entities and the National Office

## Combined Statements of Cash Flows

<i>Years ended December 31,</i>	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (4,692,391)	\$ (11,705,068)
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:		
Depreciation	1,285,639	769,217
Gain on sale of property and equipment	-	(2,391,975)
Net realized and unrealized (gains) losses on investments	(3,264,621)	4,514,760
Net change in valuation in split interest	512,125	-
Change in operating assets and liabilities:		
Accounts and notes receivable	1,011,273	(1,797,211)
Contributions receivable	891,830	2,587,232
Prepaid expenses and other assets	257,729	98,600
Inventory	170,463	104,254
Beneficial interests in perpetual trusts	(1,244,585)	4,054,362
Accounts payable	(558,616)	1,361,802
Accrued expenses and other liabilities	(233,258)	(316,441)
Research awards and grants payable	1,583,277	1,584,830
Liabilities under split interest agreements	(275,224)	(497,907)
Net cash used in operating activities	(4,556,359)	(1,633,545)
Cash flows from investing activities:		
Purchase of property and equipment	(424,045)	(3,349,060)
Net proceeds from sale of property and equipment	-	6,334,234
Purchase of investments	(38,939,570)	(27,851,543)
Proceeds from sale of investments	48,170,295	25,944,250
Net cash provided by investing activities	8,806,680	1,077,881
Cash flows from financing activities:		
Repayments of note payable	-	(1,120,466)
Proceeds from line of credit	-	1,000,000
Payments on line of credit	(500,000)	(1,500,000)
Payments on other long-term debt/capital lease obligations	(55,579)	(228,904)
Net cash used in financing activities	(555,579)	(1,849,370)
Net increase (decrease) in cash and cash equivalents	3,694,742	(2,405,034)
Cash and cash equivalents, beginning of year	12,349,881	14,754,915
Cash and cash equivalents, end of year	\$ 16,044,623	\$ 12,349,881
Supplemental information:		
Interest paid	\$ 5,735	\$ 33,053

*See the accompanying notes to the combined financial statements.*

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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### 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 programs.

The Arthritis Foundation is composed of a National Office (a not-for-profit Georgia corporation) and Chartered Entities through July 1, 2016, located throughout the United States. The Chartered Entities were affiliated with the National Office via separate charter agreements. The charter agreements imposed 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 was a separate legal corporation and filed its own IRS Form 990.

The combined financial statements include the accounts of the Foundation and the Chartered Entities. All significant inter-organization transactions and accounts are eliminated.

Prior to January 1, 2015, the National Office acquired the assets and liabilities, and assumed the service responsibilities for the areas covered by the former Arthritis Foundation, Inc. Southeast Region and the Arthritis Foundation, Inc., Upper Midwest Region.

On January 1, 2015, the National Office acquired the assets and liabilities, and assumed the service responsibilities for the areas covered by the former Arthritis Foundation, Inc., Mid-Atlantic Region and the Arthritis Foundation, Inc., Florida Chapter. Both entities have continued to operate as divisions of the National Office.

The National Office acquired the assets and liabilities, and received the charter agreements for all remaining Chartered Entities including:

January 1, 2016 - the Arthritis Foundation, Inc., New England Region and the Arthritis Foundation, Inc., South Central Region.

April 1, 2016 - the Arthritis Foundation, Inc., Great Lakes Region, the Arthritis Foundation, Inc., Great West Region, and the Arthritis Foundation, Inc., Heartland Region.

July 1, 2016 - the Arthritis Foundation, Inc., Pacific Region and the Arthritis Foundation, Inc., Northeast Region.

As the former Chartered Entities were under the control of the National Office prior to their acquisition dates, and all of the entities were previously reported on under a combined basis, the acquisitions have no impact on the combined net assets of the Foundation. These entities continue to operate as divisions of the National Office subsequent to the acquisition dates.

Through these acquisitions, the Foundation seeks to achieve additional economies of scale and other synergies by integrating its service offerings with those provided by the former Chartered Entities and centralizing certain administrative functions.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

The assets acquired and liabilities assumed of the former Chartered Entities are as follows:

	South Central January 1, 2016	New England January 1, 2016	Heartland April 1, 2016
<b>Assets</b>			
Cash and cash equivalents	\$ 230,426	\$ 968,733	\$ 355,090
Investments	4,367,941	668,518	3,735,791
Contributions receivable	366,003	191,523	74,767
Prepaid expenses and other assets	24,609	23,853	103,657
Funds held in trust by others	537,675	-	55,494
Beneficial interest in perpetual trusts	379,729	3,477,450	2,041,506
Property and equipment	2,062	308,898	9,851
<b>Total Assets Acquired</b>	<b>\$ 5,908,445</b>	<b>\$ 5,638,975</b>	<b>\$ 6,376,156</b>
<b>Liabilities Assumed</b>			
Accounts payable	\$ 92,469	\$ 44,630	\$ (85,571)
Accrued expenses and other liabilities	71,420	18,324	8,732
Due to (from) affiliates	118,174	10,825	(1,659,869)
<b>Total Liabilities Assumed</b>	<b>282,063</b>	<b>73,779</b>	<b>(1,736,708)</b>
<b>Net Assets Acquired</b>	<b>\$ 5,626,382</b>	<b>\$ 5,565,196</b>	<b>\$ 8,112,864</b>

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

	Great Lakes April 1, 2016	Great West April 1, 2016	Northeast July 1, 2016	Pacific July 1, 2016
<b>Assets</b>				
Cash and cash equivalents	\$ 274,083	\$ 2,234,599	\$ 758,466	\$ 593,113
Investments	3,093,000	6,150,790	12,064,190	12,280,281
Contributions receivable	1,016,003	45,590	550,445	333,688
Prepaid expenses and other assets	127,905	48,919	82,857	143,700
Beneficial interest in perpetual trusts	3,510,910	196,393	7,559,536	12,259,127
Property and equipment	698,514	304,374	61,378	82,500
<b>Total Assets Acquired</b>	<b>\$ 8,720,415</b>	<b>\$ 8,980,665</b>	<b>\$ 21,076,872</b>	<b>\$ 25,692,409</b>
<b>Liabilities Assumed</b>				
Accounts payable	\$ 13,139	\$ 36,905	\$ 111,334	\$ 133,514
Accrued expenses and other liabilities	9,041	57,718	123,268	964,842
Due to (from) affiliates	592,825	(66,043)	(4,523)	1,592,676
<b>Total Liabilities Assumed</b>	<b>615,005</b>	<b>28,580</b>	<b>230,079</b>	<b>2,691,032</b>
<b>Net Assets Acquired</b>	<b>\$ 8,105,410</b>	<b>\$ 8,952,085</b>	<b>\$ 20,846,793</b>	<b>\$ 23,001,377</b>

## 2. Summary of Significant Accounting Policies

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

### *Basis of Accounting*

The combined 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 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 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.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that the Foundation maintain 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.

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

### *Concentrations of Risk*

Financial instruments which potentially subject the Foundation to concentrations of credit and market risk consist principally of cash and cash equivalents and marketable securities held at creditworthy financial institutions. At December 31, 2016 and 2015, the Foundation's uninsured cash balance totaled \$10,881,189 and \$7,565,919, respectively. Cash and cash equivalents are maintained at large multi-state financial institutions and credit exposure is limited to the amount of deposits at any one institution in excess of the federally insured limit. The Foundation has not experienced any losses in such accounts. The Foundation's marketable securities do not represent significant concentrations of market risk as the marketable securities portfolio is diversified among a variety of issuers.

Investment securities and real estate held as investments that are not publicly traded are exposed to several risks, such as interest rate, market, liquidity and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of these investments will occur in the near term and that such change could materially affect the amounts reported in the Foundation's combined statement of financial position and combined statement of activities.

### *Cash and Cash Equivalents*

The Foundation's 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 cost (cost of securities if purchased or the fair

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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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 combined statement of activities.

### *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 written off when management believes they will not be collected. Amounts are considered past due if they are not received within one year after the expected payment date.

### *Contributions Receivable*

Contributions, including unconditional promises to give, are recorded at the date of gift. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. 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 at the date of donation. An allowance for doubtful accounts on outstanding contributions receivable balances is recorded when deemed necessary based upon historical trends, current market risk assessments and specific donor considerations. Receivables are written off when management believes they will not be collected. Amounts are considered past due if they are not received within one year after the expected payment date.

Conditional promises to give are not recognized in the Combined Statements of Activities until the conditions are substantially met. There were no conditional promises to give for the years ended December 31, 2016 and 2015.

### *Inventory*

Inventory consists of educational and campaign materials which 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 under which the Foundation is the Trustee* - Such amounts 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 ten 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.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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*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.

### *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. Estimated useful lives are ten to thirty years for buildings and improvements, the lesser of the lease term or three to ten years for leasehold improvements and three to five years for furniture and other equipment.

### *Impairment of Long-Lived Assets*

The Foundation reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced to its current fair value.

### *Fair Value of Financial Instruments*

The carrying amounts of cash and accounts receivable which qualify as financial assets and accounts payable and accrued expenses which qualify as financial liabilities approximate fair value due to the relative terms of these financial instruments.

The carrying values, which approximate fair value, of investments, beneficial interests in trusts, and investments in remainder interest trusts are determined as described in Note 4.

The carrying amount of the notes payable approximates fair value since they bear interest at variable rates which approximate current market rates for notes with similar maturities and credit quality. The carrying amounts of annuities payable and contributions receivable approximate fair value since these instruments are recorded at net present value.

### *Research Awards and Grants Payable*

Awards and grants are recorded as expenses 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.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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### *Functional Allocation*

The costs 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.

### *Contributed Goods and In-Kind Services*

Contributed goods and services are reflected as both contribution revenue and expenses in the accompanying statement of activities at their estimated fair value at date of receipt. Existing contributed goods and gifts of property and equipment are reflected as unrestricted support unless explicit donor stipulations specify how the donated goods must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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. 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, advertising, consulting, and printing services and other services that meet the criteria for recognition as contributed services. The amount of donated services and assets recorded as revenue and expense was \$87,631 and \$397,279 for the years ended December 31, 2016 and 2015, respectively.

### *Income Taxes*

The Foundation is exempt from Federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. With respect to any unrelated business income generated by the Foundation, it records income taxes using the liability method under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the period that the deferred tax asset or liability is expected to be realized or to be settled. As of December 31, 2016 and 2015, the Foundation had no deferred tax assets or liabilities or any uncertain tax positions.

### *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 combined financial statements in conformity with GAAP. Actual results could differ from these estimates.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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### *Reclassifications*

Various reclassifications including certain asset and net asset balances have been made to the 2015 balances to conform to the 2016 presentation. Such reclassifications did not have an impact to the 2015 net asset balances.

### *Recent Accounting Pronouncements*

In May 2015, the Federal Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2015-07"), which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments in ASU 2015-07 are effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2016. Early adoption is permitted. The Foundation anticipates that the ASU will change the presentation and disclosure of certain investments.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*. ASU 2016-02 is effective for annual periods beginning after December 15, 2019. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. Management estimates that if the new standard had been adopted as of December 31, 2016, it would have resulted in recording right-to-use lease assets and related lease liabilities for the discounted value of future minimum lease payments on its existing operating leases.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), that modifies current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The update reduces the number of net asset classes from three to two. The new net asset classes are *assets with donor restrictions* and *net assets without donor restrictions*. The update requires not-for-profit entities to:

1. Report on the face of the statement of financial position amounts for the new net asset classes.
2. Present on the face of the statement of activities the amount of the change of the new net asset classes.
3. On the statement of cash flows, no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
4. Report investments returns net of expenses and no longer require disclosure of netted expenses.
5. Provide additional disclosure requirements in the footnotes.

ASU 2016-14 is effective for annual periods beginning after December 15, 2017. Early application is permitted and should be applied on a retrospective basis in the year applied. The Foundation anticipates that the new standard will modify the face of the financial statements as described above, while also providing more useful information in the footnotes for users of the financial statements.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

### 3. Investments

Investments at fair value were as follows at:

<i>December 31,</i>	2016	2015
Marketable securities		
Investment accounts		
U.S. Government securities	\$ 6,713,250	\$ 7,814,361
Corporate notes and bonds	10,847,215	11,614,968
Common stocks	32,656,525	6,390,387
Domestic equity mutual funds	8,724,891	33,429,772
Fixed income mutual funds	6,562,092	8,828,344
International equity mutual funds	6,216,460	7,231,131
Preferred stock	204,853	-
Alternative investments	497,410	406,273
Hedge funds	100,919	2,160,149
Real estate funds	1,076,219	1,162,603
Other commodities	246,796	-
International common stock	1,359,583	301,272
Foreign issues	197,832	-
Other - principally money market and other mutual funds	637,313	3,195,269
<b>Total marketable securities</b>	<b>76,041,358</b>	<b>82,534,529</b>
Split interest agreements		
Real estate funds	603,140	-
Corporate notes and bonds	-	516,447
Domestic equity mutual funds	6,958,379	4,562,892
Fixed income mutual funds	4,372,246	4,856,945
International equity mutual funds	1,042,698	3,025,237
<b>Total split interest agreements</b>	<b>12,976,463</b>	<b>12,961,521</b>
<b>Total investments</b>	<b>\$ 89,017,821</b>	<b>\$ 95,496,050</b>

### 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.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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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** - Quoted prices for identical instruments in active markets. This category includes domestic and international 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 includes certain U.S. Government and agency mortgage-backed debt securities and corporate debt securities that are valued based on market prices for similar and actively traded investments. This category also includes alternative investments that are valued at net asset value ("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 includes split interest agreements and beneficial trusts for which the Foundation is not the trustee. The trusts are valued based on the values of the underlying investments in the trust which are established by the trustee using valuation methods that are appropriate for the investments in the trusts.

Quantitative information related to valuation inputs for Level III assets is not available since the value of the trusts that was provided by the trustees was used without adjustment. On an annual basis, Foundation management evaluates the return received from the trusts against the value of its portion of the trusts for reasonableness as compared with current market returns. Management believes that the sensitivity in the fair value measurement of the beneficial interests is related to market fluctuations, as the investments held in the trusts are primarily marketable securities.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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:

	2016			
	Level I	Level II	Level III	Total
U.S. Government securities	\$ 5,166,618	\$ 1,546,632	\$ -	\$ 6,713,250
Corporate notes and bonds	4,800,975	6,046,240	-	10,847,215
Common stocks	31,912,119	281,000	463,406	32,656,525
Domestic equity mutual funds	10,569,340	5,113,930	-	15,683,270
Fixed income mutual funds	7,499,615	3,434,723	-	10,934,338
International equity mutual funds	6,670,534	588,624	-	7,259,158
Preferred stock	204,853	-	-	204,853
Alternative investments	-	497,410	-	497,410
Hedge funds	-	100,919	-	100,919
Real estate funds	1,382,724	296,635	-	1,679,359
Other commodities	-	246,796	-	246,796
International common stock	1,359,583	-	-	1,359,583
Foreign issues	-	197,832	-	197,832
Other - principally money market and other mutual funds	263,187	374,126	-	637,313
<b>Total marketable securities</b>	<b>69,829,548</b>	<b>18,724,867</b>	<b>463,406</b>	<b>89,017,821</b>
Beneficial interests in perpetual trusts	-	-	44,539,383	44,539,383
<b>Total</b>	<b>\$ 69,829,548</b>	<b>\$ 18,724,867</b>	<b>\$ 45,002,789</b>	<b>\$ 133,557,204</b>

	2015			
	Level I	Level II	Level III	Total
U.S. Government securities	\$ 3,693,199	\$ 4,121,162	\$ -	\$ 7,814,361
Corporate notes and bonds	-	12,131,415	-	12,131,415
Common stocks	6,390,387	-	-	6,390,387
Domestic equity mutual funds	37,992,664	-	-	37,992,664
Fixed income mutual funds	13,685,289	-	-	13,685,289
International equity mutual funds	10,256,368	-	-	10,256,368
Alternative investments	-	-	406,273	406,273
Hedge funds	-	2,160,149	-	2,160,149
Real estate funds	84,840	1,077,763	-	1,162,603
International common stock	-	301,272	-	301,272
Other - principally money market and other mutual funds	2,925,852	269,417	-	3,195,269
<b>Total marketable securities</b>	<b>75,028,599</b>	<b>20,061,178</b>	<b>406,273</b>	<b>95,496,050</b>
Beneficial interests in perpetual trusts	-	-	43,294,798	43,294,798
<b>Total</b>	<b>\$ 75,028,599</b>	<b>\$ 20,061,178</b>	<b>\$ 43,701,071</b>	<b>\$ 138,790,848</b>

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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The following table summarizes the Foundation's Level III reconciliation for the beneficial interests in perpetual trusts:

<i>Years ended December 31,</i>	<b>2016</b>	<b>2015</b>
Beginning balance	\$ 43,294,798	\$ 47,349,160
Increase (decrease) in beneficial interest in perpetual trust	1,183,704	(2,896,918)
Net unrealized gains (losses)	60,881	(1,157,444)
Ending balance	\$ 44,539,383	\$ 43,294,798

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With respect to valuation methodologies at December 31, 2016 and 2015, to the extent that the Foundation directly owns and controls the investment valuation is based on unadjusted quoted prices for identical assets in active markets that the Foundation can access. For other investments, predominately "alternative investments" (including private equity, alternative hedge strategies and real assets), the Foundation utilizes the net asset value ("NAV") reported by each of the alternative funds and external investment managers as a practical expedient for determining the fair value of the investment. These investments are redeemable at NAV under the original terms of the 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.

### 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.

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 the 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

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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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, is reported as a reduction in unrestricted net assets. There were no such deficiencies for the years ended December 31, 2016 and 2015.

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 endowment assets to 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.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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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.

The composition of donor restricted endowment net assets were as follows:

<i>December 31, 2016</i>	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ 4,901,728	\$ 37,923,064	\$ 42,824,792

<i>December 31, 2015</i>	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ 4,015,171	\$ 37,923,064	\$ 41,938,235

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

The changes in endowment net assets for the years ended December 31, 2016 and 2015 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, January 1, 2015	\$ 5,564,784	\$ 37,688,556	\$ 43,253,340
Investment Return			
Income	593,187	-	593,187
Net appreciation (realized and unrealized)	(736,978)	-	(736,978)
Total investment return	(143,791)	-	(143,791)
Contributions	-	234,508	234,508
Appropriation of endowment assets for expenditure	(1,405,822)	-	(1,405,822)
Endowment Net Assets, December 31, 2015	4,015,171	37,923,064	41,938,235
Investment Return			
Income	878,945	-	878,945
Net depreciation (realized and unrealized)	1,566,796	-	1,566,796
Total investment return	2,445,741	-	2,445,741
Appropriation of endowment assets for expenditure	(1,559,184)	-	(1,559,184)
Endowment Net Assets, December 31, 2016	\$ 4,901,728	\$ 37,923,064	\$ 42,824,792

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

### 6. Contributions Receivable

The Foundation had the following contributions receivable at:

<i>December 31,</i>	2016	2015
Amounts due in:		
Less than one year	\$ 12,596,240	\$ 12,452,194
One to five years	2,563,661	3,735,248
Gross contributions receivable	15,159,901	16,187,442
Allowance for doubtful accounts	(381,308)	(469,411)
Unamortized present value discount	(25,458)	(73,066)
<b>Contributions receivable, net</b>	<b>\$ 14,753,135</b>	<b>\$ 15,644,965</b>

Discounts on contributions receivable were calculated at the date of donation using rates commensurate with the risks involved (1% to 9%).

### 7. Split Interest Agreements and Beneficial Interests in Perpetual Trusts

The Foundation had the following interests at:

<i>December 31,</i>	2016	2015
Split interest agreements (the Foundation is the trustee)		
Charitable remainder trusts ("CRTs")	\$ 3,319,112	\$ 3,224,277
Gift annuity fund	9,395,371	9,670,836
Pooled income fund	474,042	465,023
Split interest agreements (included in cash and investments)	13,188,525	13,360,136
CRTs (the Foundation is not the trustee)	5,051,950	7,489,492
Perpetual trusts (the Foundation is not the trustee)	39,487,433	35,805,306
<b>Total</b>	<b>\$ 57,727,908</b>	<b>\$ 56,654,934</b>

The assets are reported on the combined statement of financial position and are valued at estimated fair-value. Liabilities under split interest agreements for which the Foundation is the trustee were \$8,599,085 and \$8,874,309 at December 31, 2016 and 2015, respectively, and were valued at the date of donation using the income approach at discount rates commensurate with the risk involved (between three and 10%). They are being amortized over the terms of the obligations. Adjustments are made to the value of the split interest agreements when there are changes in the life expectancy of the donor.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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### 8. Property and Equipment

Property and equipment consisted of the following at:

<i>December 31,</i>	2016	2015
Land	\$ 718,151	\$ 718,151
Buildings and improvements	2,532,101	3,653,564
Leasehold improvements	2,608,530	1,284,543
Furniture and other equipment	3,226,990	6,916,068
Total property and equipment	9,085,772	12,572,326
Accumulated depreciation	(3,274,163)	(5,899,123)
Property and equipment, net	\$ 5,811,609	\$ 6,673,203

Depreciation expense was \$1,285,639 and \$769,217 for the years ended December 31, 2016 and 2015, respectively.

On April 28, 2015, the National office sold its property at 1330 West Peachtree Street for \$7,000,000 (net proceeds of \$5,460,000). The total book value of the land and building sold was \$4,391,625 at the time of the sale.

### 9. Debt Obligations

#### *Revenue Bonds and Note Payable*

On November 1, 2009, the 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 sum of LIBOR plus 2.5%. 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.

On April 28, 2015, the National Office finalized the sale to a third party of the building formerly used as its National Office headquarters. The building sold for a net purchase price of approximately \$5,460,000, of which \$1,101,256 (representing principal and accrued interest) was used to pay the remaining balance of the SunTrust note payable.

#### *Line of Credit*

The Foundation had a line of credit of \$500,000 and had drawn \$500,000 as of December 31, 2015. The amount drawn was paid off and the line of credit closed in February 2016. The line of credit was secured by land and other assets.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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### *Capital Leases*

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, 2016 and 2015 were \$38,618 and \$99,694, respectively, and are included in property and equipment on the accompanying combined statements of financial position. The present value of minimum lease payments at December 31, 2016 was \$42,237.

### 10. Joint Costs

In 2016 and 2015, the Foundation incurred joint costs of \$7,529,571 and \$9,413,824, respectively, for informational materials and activities that included fundraising appeals, such as the Foundation's direct mail. Joint costs were allocated as follows:

<i>December 31,</i>	2016	2015
Public health education	\$ 5,421,291	\$ 6,622,886
Fundraising	2,108,280	2,790,938
Total joint costs	\$ 7,529,571	\$ 9,413,824

### 11. Net Assets

Temporarily restricted net assets were available for the following purposes at:

<i>December 31,</i>	2016	2015
Programs, scholarships, training and projects	\$ 17,527,376	\$ 16,517,004
Research	10,910,534	13,247,272
Use in future periods	7,450,521	11,940,513
Total temporarily restricted net assets	\$ 35,888,431	\$ 41,704,789

Permanently restricted net assets consisted of the following and represent endowed gifts to be held in perpetuity with the investment income to be used for:

<i>December 31,</i>	2016	2015
Research, operations, and specific projects	\$ 37,923,064	\$ 37,923,064
Beneficial interests in perpetual trusts	39,487,433	38,250,337
Total permanently restricted net assets	\$ 77,410,497	\$ 76,173,401

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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Temporarily restricted net assets released from restrictions consisted of the following:

<i>Years ending December 31,</i>	2016	2015
Programs	\$ 13,632,543	\$ 7,228,211
Research	7,200,551	7,505,208
Time releases	1,886,745	1,181,415
Total temporarily restricted net assets released from restrictions	\$ 22,719,839	\$ 15,914,834

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### 12. Operating Leases

Rental expense for Foundation office space was \$3,550,552 and \$3,839,222 for the years ended December 31, 2016 and 2015, respectively. Lease agreements having an original term of more than one year expire on various dates through 2026.

Total future minimum lease payments were as follows at December 31, 2016:

<i>Years ending December 31,</i>	Amount
2017	\$ 3,201,290
2018	2,174,823
2019	1,738,134
2020	1,434,005
2021	1,141,718
Thereafter	3,875,139
Total future minimum lease payments	\$ 13,565,109

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On April 28, 2015, the National Office sold its office building in Atlanta, GA to a third party, and leased back the office space through October 28, 2015. On May 1, 2015, the National Office executed an 11 year office lease agreement in a new space. The National Office transitioned to its new space in late 2015.

### 13. Employee Benefit Plans

#### *Employee Contribution Plans*

*Defined Contribution Plans* - The Foundation sponsors various defined contribution retirement 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, 2016 and 2015 were \$1,068,271 and \$639,351, respectively.

# Arthritis Foundation, Chartered Entities and the National Office

## Notes to Combined Financial Statements

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*Deferred Compensation Plan* - The Foundation also maintains a 457(b) nonqualified 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 Foundation makes non-elective contributions to the plan. At the discretion of the Foundation, participants are allowed to allocate plan contributions and designate beneficiaries. The Foundation's contributions totaled approximately \$28,000 and \$18,000 for the year ended December 31, 2016 and 2015, respectively. All assets under the plan remain part of the Foundation's general assets and are subject to the claims of its creditors. All rights to amounts held under the plan are owned by the Foundation. Therefore, the Foundation reports the assets and related liabilities of the plan in its statements of position. At December 31, 2016 and 2015, the assets and liabilities each totaled \$124,159 and \$44,792, respectively.

### *Defined Benefit Plans*

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 each Plan's provisions. As of December 31, 2016 and 2015, the Foundation has recorded an accrued net pension liability of \$932,529 and \$1,177,538, respectively, in relation to the Plans. Due to their relative size in relation to the combined financial statements of the Foundation, additional disclosures are not included.

## 14. 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, 2016, these commitments were as follows:

<i>Years ending December 31,</i>		<i>Amount</i>
2017	\$	8,241,931
2018		228,333
2019		12,778
Total commitments	\$	8,483,042

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.

## 15. Subsequent Events

The Foundation has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2016 combined financial statements through July 5, 2017, the date that the combined financial statements were available to be issued.