

**ARTHRITIS FOUNDATION –
SOUTH CENTRAL REGION, INC.**

Financial Statements

December 31, 2010 and 2009

Arthritis Foundation – South Central Region, Inc.

Financial Statements

December 31, 2010 and 2009

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Independent Auditor's Report

The Board of Directors
Arthritis Foundation – South Central Region, Inc.

We have audited the accompanying Statements of Financial Position of Arthritis Foundation – South Central Region, Inc. (the “Foundation”), as of December 31, 2010, and the related Statements of Financial Activities, of Functional Expenses, and of 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arthritis Foundation – South Central Region, Inc., as of December 31, 2010, 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.

Thomas Stephen & Company, LLP

March 16, 2011

THOMAS STEPHEN & COMPANY, LLP

Arthritis Foundation – South Central Region, Inc.
Statement of Financial Position
December 31, 2010 and 2009

<u>Assets</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,291,958	\$ 812,029	\$ 15,177	\$2,119,164	\$ 1,936,977
Investments	1,353,732	794,835	650,386	2,798,953	2,617,718
Due from national office	87,515	39,491	-	127,006	172,002
Contributions receivable	-	149,805	-	149,805	218,208
Prepaid expenses & other assets	36,144	-	-	36,144	27,130
Beneficial Interest in perpetual trusts	40,014	-	-	40,014	37,294
Property and equipment, net	22,675	-	-	22,675	39,541
 Total assets	 <u>\$2,832,038</u>	 <u>\$ 1,796,160</u>	 <u>\$ 665,563</u>	 <u>\$5,293,761</u>	 <u>\$5,048,870</u>
 <u>Liabilities and Net Assets</u>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 46,125
Accrued expenses and other liabilities	140,184	1,923	-	142,107	74,060
Research awards and grants payable	20,000	365,000	-	385,000	385,000
Payables to national office	218,405	-	-	218,405	61,167
Total liabilities	<u>378,589</u>	<u>366,923</u>	<u>-</u>	<u>745,512</u>	<u>566,352</u>
 Net assets	 <u>2,453,449</u>	 <u>1,429,236</u>	 <u>665,563</u>	 <u>4,548,248</u>	 <u>4,482,518</u>
 Total liabilities and net assets	 <u>\$2,832,038</u>	 <u>\$ 1,796,159</u>	 <u>\$ 665,563</u>	 <u>\$5,293,760</u>	 <u>\$5,048,870</u>

See accompanying notes.

Arthritis Foundation – South Central Region, Inc.
Statement of Financial Activities
for the years ended December 31, 2010 and 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2009
<u>Revenues, Gains and Public Support</u>					
Personal major gifts	\$ -	\$ 10,000	\$ -	\$ 10,000	\$ 85,000
Personal annual gifts	65,190	56,271	-	121,461	123,321
Commerce & industry/corporations	167,805	140,619	-	308,424	319,364
Foundations	56,704	115,400	-	172,104	141,061
Memorials	16,510	-	-	16,510	19,035
Clubs & organizations	10,599	-	-	10,599	2,187
Other gifts	13,991	2,215	-	16,206	11,632
Direct mail	-	-	-	-	100
Membership/direct response mktg	718,047	-	-	718,047	765,364
Media events (Gross)	-	-	-	-	-
Donated vehicles	667	-	-	667	732
Thrift shop	36,000	-	-	36,000	33,000
Total contributions	1,085,513	324,505	-	1,410,018	1,500,796
Special events - Gross	2,116,676	25,939	-	2,142,615	2,012,286
Less direct donor benefit costs	(584,055)	(725)	-	(584,780)	(542,444)
Bequests/planned giving	78,637	398,475	-	477,112	956,700
Total direct public support	2,696,771	748,194	-	3,444,965	3,927,338
Federated campaigns	82,636	1,456	-	84,092	97,276
United way	287,057	-	-	287,057	292,959
To indirect public support	369,693	1,456	-	371,149	390,235
Contributed goods and services	9,874	-	-	9,874	6,325
Total public support	3,076,338	749,650	-	3,825,988	4,323,898
Government grants	7,500	50,995	-	58,495	35,780
Investment and royalty income	46,722	24,400	-	71,122	80,606
Unrealized gains/(losses) on investments	18,386	100,672	-	119,058	291,942
Realized gains/(losses) on investments	16,693	10,257	-	26,950	(81,644)
Sales and service fees	21,936	560	-	22,496	38,776
Miscellaneous revenue and (losses)	1,643	(68,266)	-	(66,623)	101,296
Total other revenue	112,880	118,618	-	231,498	466,756
Net asset released from restrictions	597,373	(597,373)	-	-	-
Total revenues, gains and public support	3,786,591	270,895	-	4,057,486	4,790,654
<u>Expenses</u>					
Research	444,265	-	-	444,265	581,931
Public health education	1,403,245	-	-	1,403,245	1,392,062
Professional education & training	156,732	-	-	156,732	277,449
Patient & community services	1,138,750	-	-	1,138,750	1,093,054
Fundraising	511,808	-	-	511,808	585,774
Management & general	336,956	-	-	336,956	308,328
Total program and supporting services expenses	3,991,756	-	-	3,991,756	4,238,598
Change in net assets	(205,165)	270,895	-	65,730	552,056
Net assets, beginning of year	2,658,614	1,158,341	665,563	4,482,518	3,930,462
Net assets, end of year	\$ 2,453,449	\$ 1,429,236	\$ 665,563	\$ 4,548,248	\$ 4,482,518

See accompanying notes.

Arthritis Foundation – South Central Region, Inc.
Statement of Functional Expenses
for the years ended December 31, 2010 and 2009

Expenses	PROGRAM SERVICES				SUPPORTING SERVICES			Totals		
	Research	Public Health Education	Professional Education & Training	Patient & Community Services	Total Program Services	Fund Raising	Management & General	Total Supporting Services	2010	2009
Peer reviewed research awards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,000
Other awards and grants	-	-	-	-	-	-	-	-	-	-
Salaries	93,013	438,491	66,438	451,779	1,049,721	186,027	93,013	279,040	1,328,761	1,322,107
Payroll taxes	7,122	33,574	5,087	34,592	80,375	14,244	7,122	21,366	101,741	103,100
Employee benefits	17,818	83,999	12,727	86,544	201,088	35,636	17,818	53,454	254,542	230,736
Technology fees	6,609	31,156	4,721	32,100	74,586	13,218	6,609	19,827	94,413	104,237
Data processing and accounting services	84	396	60	408	948	168	84	252	1,200	3,579
Professional fees and contract services	12,779	60,244	9,128	62,070	144,221	25,558	12,779	38,337	182,558	148,643
Professional services - contributed	156	736	111	758	1,761	312	156	468	2,229	6,325
Supplies	2,301	10,845	1,643	11,174	25,963	4,601	2,301	6,902	32,865	27,550
Supplies and materials - contributed	535	2,523	382	2,599	6,039	1,070	535	1,605	7,644	-
Printing, publications, and artwork	1,723	8,124	1,231	8,370	19,448	3,446	1,723	5,169	24,617	30,021
Materials expenses (including purchases from national)	1,523	7,181	1,088	7,399	17,191	3,047	1,523	4,570	21,761	26,464
Membership/direct response marketing	15,553	73,319	11,109	75,541	175,522	31,105	15,553	46,658	222,180	236,883
Arthritis Today cost recovery	5,419	25,548	3,871	26,322	61,160	10,839	5,419	16,258	77,418	96,866
Media development cost	-	-	-	-	-	-	-	-	-	-
Postage, shipping, and delivery	2,738	12,906	1,955	13,297	30,896	5,475	2,738	8,213	39,109	46,574
Telephone	3,533	16,657	2,524	17,162	39,876	7,067	3,533	10,600	50,476	46,828
Occupancy	12,211	57,567	8,722	59,312	137,812	24,422	12,211	36,633	174,445	172,906
Taxes and licenses	80	376	57	388	901	160	80	240	1,141	905
Insurance	1,794	8,459	1,282	8,715	20,250	3,589	1,794	5,383	25,633	32,509
Staff travel	3,819	18,003	2,727	18,548	43,097	7,637	3,819	11,456	54,553	59,498
Volunteer travel	1,291	6,086	922	6,270	14,569	2,582	1,291	3,873	18,442	13,230
Meeting and conferences	5,516	26,004	3,940	26,792	62,252	11,032	5,516	16,548	78,800	71,109
Equipment lease and maintenance	1,903	8,972	1,359	9,244	21,478	3,806	1,903	5,709	27,187	24,530
Membership dues and subscriptions	233	1,099	167	1,132	2,631	466	233	699	3,330	4,107
Specific assistance to individuals	-	-	-	-	-	-	-	-	-	-
Advertising	1,195	5,632	853	5,803	13,483	2,389	1,195	3,584	17,067	19,379
Interest expense	2	9	1	9	21	4	2	6	27	43
Miscellaneous	4,168	19,649	2,975	20,244	47,036	8,336	4,168	12,504	59,540	56,007
Other - contributed	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	2,128	10,031	1,520	10,335	24,014	4,256	2,128	6,384	30,398	27,954
Total operating expenses	205,246	967,586	146,600	996,907	2,316,339	410,492	205,246	615,738	2,932,077	2,950,090
Share expense	239,019	435,659	10,132	141,843	826,653	101,316	131,710	233,026	1,059,679	1,288,508
Total expenses	\$ 444,265	\$ 1,403,245	\$ 156,732	\$ 1,138,750	\$3,142,992	\$ 511,808	\$ 336,956	\$ 848,764	\$3,991,756	\$ 4,238,598

See accompanying notes.

Arthritis Foundation – South Central Region, Inc.
Statement of Cash Flows
for the years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 65,730	\$ 552,056
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	30,398	27,954
Amortization of capital lease	(5,972)	(3,529)
(Gain) loss on sale of property and equipment	215	-
Net realized and unrealized (gains) losses in beneficial interests in perpetual trusts	(2,720)	13,486
Net realized and unrealized (gains) losses on investments	(146,224)	(223,781)
Changes in asset and liabilities:		
(Increase) decrease in due from national office	44,996	(63,081)
(Increase) decrease in contributions receivable	68,403	(37,157)
(Increase) decrease in prepaid expenses and other assets	(9,014)	6,049
Increase (decrease) in research awards and grants payable	-	(330,000)
Increase (decrease) in accounts payable	(46,125)	46,125
Increase (decrease) in due to national office	157,238	(86,985)
Increase (decrease) in accrued expenses and other liabilities	68,047	(32,544)
Net cash provided by (used in) operating activities	224,972	(131,407)
Cash flows from investing activities:		
Purchase of property and equipment	(13,746)	(4,409)
Purchase of investments	(29,039)	(1,316,872)
Proceeds from sale of investments	-	704,630
Net cash provided by (used in) investing activities	(42,785)	(616,651)
Net increase (decrease) in cash and cash equivalents	182,187	(748,058)
Cash and cash equivalents at beginning of year	1,936,977	2,685,035
Cash and cash equivalents at end of year	\$ 2,119,164	\$ 1,936,977
Supplemental Data - Interest paid	\$ 26	\$ 43

See accompanying notes.

Arthritis Foundation – South Central Region, Inc.
Notes to Financial Statements
December 31, 2010 with comparative amounts for 2009

1. Description of Organization

Arthritis Foundation-South Central Region, Inc. (the “Region”) is a not-for-profit voluntary health agency by charter of the Arthritis Foundation, Inc. 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 Region provides public health, health and community service programs along with supporting arthritis-related research and influencing public policy regarding research funding and access to care.

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 Arthritis Foundation-South Central Region, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Basis of Presentation - The Region 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 Region 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 Region and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the Region maintains them permanently. Generally, the donors of these assets permit the Region 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.

Income Taxes - The Region 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 Internal Revenue Code (IRC). The Region engages in certain activities unrelated to the mission of the Organization 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 years in which temporary differences are expected to be recorded or settled. Income taxes did not have a material impact on the financial position or results of operations of the Region as of and for the years ended December 31, 2010 and 2009.

Arthritis Foundation – South Central Region, Inc.
Notes to Financial Statements
December 31, 2010 with comparative amounts for 2009

2. Summary of Significant Accounting Policies (continued)

The Region's policy is to record a liability for any tax position taken that is beneficial to the Region, 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, 2010 and 2009 and, accordingly, no liability has been accrued.

Generally, the IRS may examine a tax return for three years from the date it is filed. At December 31, 2010, tax years ended December 31, 2009, 2008 and 2007 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 footnotes applicable to such items. Accounts receivable, and accounts payable are stated at cost, which approximates fair value, due to their short term maturity.

Cash and Cash Equivalents - Cash accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 for interest bearing accounts and to an unlimited amount for certain non-interest bearing business accounts. At December 31, 2010 the Region's uninsured cash balance was \$1,549,596.

The Region 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. Purchase 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.

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 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 organization.

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.

Arthritis Foundation – South Central Region, Inc.
Notes to Financial Statements
December 31, 2010 with comparative amounts for 2009

2. Summary of Significant Accounting Policies (continued)

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.

Split Interest Agreements - The Region receives certain planned gift donations that benefit not only the Foundation but also another beneficiary designated by the donor. These contributions are generally gifts to be received by the Region in the future and are reported in contributions receivable.

Beneficial Interests in Perpetual Trusts - The Region is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Region. The Region has legally enforceable rights or claims to such assets including the right to income there from. Net unrealized gains (losses) in beneficial interests in perpetual trusts are reported as permanently restricted net assets.

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 recorded as expense as incurred; significant renewals and betterments are capitalized. The Region's policy is to capitalize property and equipment as acquisitions in excess of \$1,000.

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 Generally Accepted Accounting Principles ("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 advertising, media and clerical.

In addition, the Region receives services from a large number of volunteers who give significant amounts of their time to the Region'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 pledge. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable in amount.

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

Arthritis Foundation – South Central Region, Inc.
Notes to Financial Statements
December 31, 2010 with comparative amounts for 2009

2. Summary of Significant Accounting Policies (continued)

Functional Allocation - The cost of providing the Region'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 2009 balances to conform with the 2010 presentation.

Use of Estimates - Management of the Region 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 accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). 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 generally accepted accounting principles. Accordingly, such financial information should be read in conjunction with the Region's financial statements for the year ended December 31, 2009 from which the summarized financial information was derived.

3. Related Party Transactions

The Region is required to share 27%, 35% or 45% of unrestricted public support and bequests (less certain allowances) to the Arthritis Foundation, Inc., National Office (the "National Office"). For the years ended December 31, 2010 and 2009 share expense was \$1,059,679 and \$1,288,508, respectively. The Region is also allocated a portion of certain contributions received by the National Office which for the years ended December 31, 2010 and 2009 was \$222,179 and \$236,882, respectively. The Region reimburses the National Office for a portion of costs associated with Arthritis Today, the organization's magazine, its direct mail program, computer system support, financial services and educational and promotional materials which totaled approximately \$193,593 and \$227,567 in 2010 and 2009 respectively.

4. Investments

Investments at December 31, 2010 and 2009 were as follows:

	2010	2009
U.S. Government securities	\$ 692,195	\$ -
Certificates of deposit	-	1,128,480
Corporate notes and bonds	569,784	-
Common stocks	1,079	-
Domestic equity mutual funds	920,431	776,636
Fixed income mutual funds	451,330	577,426
International equity mutual funds	152,860	30,294
Other - principally money market and other mutual funds	11,274	104,882
	<u>\$ 2,798,953</u>	<u>\$ 2,617,718</u>

Arthritis Foundation – South Central Region, Inc.
Notes to Financial Statements
December 31, 2010 with comparative amounts for 2009

4. Investments (continued)

Investment Return:	2010	2009
Income	\$ 71,122	\$ 80,606
Net appreciation/depreciation (realized and unrealized)	146,080	210,298
	-	-
Total investment return	\$ 217,202	\$ 290,904

5. 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 cash and cash equivalents, 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, and corporate debt securities.

Level III - Inputs are unobservable data points for the asset or liability, and include situation where there is little, if any, market activity for the asset or liability. The inputs reflect the Region's assumptions based on the best information available in the circumstances. This category generally includes certain private debt and equity instruments and alternative investments.

Arthritis Foundation – South Central Region, Inc.
Notes to Financial Statements
December 31, 2010 with comparative amounts for 2009

5. Fair Value Measurements (continued)

The following tables summarize the valuation of the Region's investments and beneficial interest in perpetual trust by the above hierarchy levels as of December 31, 2010 and 2009:

	Fair value measurement December 31, 2010			
	Level I	Level II	Level III	Total
U.S. Government securities	\$ 692,195	\$ -	\$ -	\$ 692,195
Corporate notes and bonds				
Financial services industry	569,784	-	-	569,784
Common stocks				
Other	1,079	-	-	1,079
Domestic equity mutual funds				
Real estate industry	1,610	-	-	1,610
Other	918,821	-	-	918,821
Fixed income mutual funds				
Other	451,330	-	-	451,330
International equity mutual funds				
Other	152,860	-	-	152,860
Alternative Investments			11,274	11,274
Total investments	<u>2,787,679</u>	<u>-</u>	<u>11,274</u>	<u>2,798,953</u>
Beneficial interest in perpetual trust	-	-	40,014	40,014
Total	<u>\$ 2,787,679</u>	<u>\$ -</u>	<u>\$ 51,288</u>	<u>\$ 2,838,967</u>

	Fair value measurement December 31, 2009			
	Level I	Level II	Level III	Total
Certificates of deposit	\$ -	\$1,128,480	\$ -	\$ 1,128,480
Domestic equity mutual funds				
Other	881,518	-	-	881,518
Fixed income mutual funds				
Other	577,426	-	-	577,426
International equity mutual funds				
Other	30,294	-	-	30,294
Total investments	<u>1,489,238</u>	<u>1,128,480</u>	<u>-</u>	<u>2,617,718</u>
Beneficial interest in perpetual trust			37,294	37,294
Total	<u>\$ 1,489,238</u>	<u>\$1,128,480</u>	<u>\$ 37,294</u>	<u>\$ 2,655,012</u>

During the current financial year there were no significant transfers between levels. If there was a significant transfer between levels they would be disclosed and the reason for the transfers and the date of the transfer would be reported.

Arthritis Foundation – South Central Region, Inc.
Notes to Financial Statements
December 31, 2010 with comparative amounts for 2009

5. Fair Value Measurements (continued)

The following table summarized the Region's level III reconciliation for the beneficial interest in perpetual trust for the years ended December 31, 2010 and 2009:

	2010	2009
Beginning balance	\$ 37,294	\$ 50,780
Increase in beneficial interest in perpetual trust	2,720	(13,486)
Ending balance	\$ 40,014	\$ 37,294

6. Endowments

The Region's endowment consists of approximately two individual funds established for research and operations respectively. Its endowment consists of donor-restricted endowment funds and funds designated by the board to function as endowments.

Region management understands Texas' adoption of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Region 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 fund 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 UPMIFA. In accordance with UPMIFA, the Region considers the following factors in making a determination to appropriate or accumulated donor - restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Region and 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 Region
7. The investment policy of the Region

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.

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6. Endowments (continued)

The primary long-term financial objective for the Arthritis 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 Arthritis 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.

Region 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 will be defined as a three-year moving average of the market value of the total endowment portfolio (calculated as of the last day of December for the prior three years). The distribution or payout rate will be calculated at a specific fixed percentage of the base. Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the for the support of operations by the endowments. In addition, this policy will minimize the probability of invading the principal over the long term. Spending in a given year will reduce the unit value of each endowment element by the payout percentage. In no case will funds designated as True Endowment be 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.

The endowment will be 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 Arthritis Foundation's risk preference. The endowment will be diversified both by asset class (equity, fixed income and cash) and within asset class (large capitalization stocks, small capitalization stocks, Treasury bonds, corporate bonds, etc). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total endowment and to reduce to overall risk and volatility of the entire portfolio. The total endowment will be monitored on a continual basis for consistency of investment philosophy, return relative to objectives, and asset allocation with respect to target percentages.

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6. Endowments (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2010:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ 523,566	\$ 600,000	\$ 1,123,566
Total Funds	<u>\$ 523,566</u>	<u>\$ 600,000</u>	<u>\$ 1,123,566</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2009:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ 389,852	\$ 600,000	\$ 989,852
Total Funds	<u>\$ 389,852</u>	<u>\$ 600,000</u>	<u>\$ 989,852</u>

Changes in Endowment Net Assets:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, January 1, 2009	\$ 215,267	\$ 600,000	\$ 815,267
Investment Return:			
Income	23,076	-	23,076
Net appreciation/depreciation (realized and unrealized)	158,315	-	158,315
Total investment return	<u>181,391</u>	<u>-</u>	<u>181,391</u>
Appropriation of endowment assets for expenditure	(6,807)	-	(6,807)
Endowment Net Assets, December 31, 2009	389,851	600,000	989,851
Investment Return:			
Income	23,965	-	23,965
Net appreciation/depreciation (realized and unrealized)	117,650	-	117,650
Total investment return	<u>141,615</u>	<u>-</u>	<u>141,615</u>
Appropriation of endowment assets for expenditure	(7,900)	-	(7,900)
Endowment Net Assets, December 31, 2010	<u>\$ 523,566</u>	<u>\$ 600,000</u>	<u>\$ 1,123,566</u>

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7. Contributions Receivable

The Regional had the following contributions receivable at December 31, 2010 and 2009:

	2010	2009
In less than one year	\$ 50,578	\$ 66,453
In one to five years	123,795	189,325
Gross contributions receivable	174,373	255,778
Allowance for doubtful accounts	(18,568)	(28,399)
Unamortized present value discount	(6,000)	(9,171)
Net contributions receivable	<u>\$ 149,805</u>	<u>\$ 218,208</u>

Contributions receivable are net of unamortized present value discount calculated at the date of donation using rates commensurate with the risk involved.

8. Split Interest Agreements and Beneficial Interests in Perpetual Trusts

	2010	2009
Perpetual trusts (Arthritis Foundation is not the trustee)	\$ 40,014	\$ 37,294
	<u>\$ 40,014</u>	<u>\$ 37,294</u>

9. Property and Equipment

Property and equipment consisted of the following at December 31, 2010 and 2009:

	estimated useful life	2010	2009
Leasehold improvements	(3-10 years)	\$ 48,276	\$ 44,146
Furniture and other equipment	(3-5 years)	282,024	273,398
		330,300	317,544
Accumulated depreciation		(307,625)	(278,003)
Net property and equipment		<u>\$ 22,675</u>	<u>\$ 39,541</u>

Depreciation and amortization expense was \$30,398 and \$27,954 for the years ended December 31, 2010 and 2009 respectively.

10. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following at December 31, 2010 and 2009:

	2010	2009
Vacation	\$ 56,802	\$ 60,195
United Way	555	553
Other	84,750	13,312
Total accrued expenses and other liabilities	<u>\$ 142,107</u>	<u>\$ 74,060</u>

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11. Joint Costs

In 2010 and 2009 the Region incurred joint costs of \$222,179 and \$236,882 for informational materials and activities that included fund-raising appeals, such as the Region's direct mail. Joint costs for the years ended December 31, 2010 and 2009 were allocated as follows:

	<u>2010</u>	<u>2009</u>
Public health education	\$ 175,521	\$ 187,137
Fundraising	46,658	49,745
	<u>\$ 222,179</u>	<u>\$ 236,882</u>

12. Net Assets

Temporarily restricted net assets at December 31, 2010 and 2009 were available for the following purposes:

	<u>2010</u>	<u>2009</u>
Programs, scholarships, training and projects	\$ 91,566	\$ 27,876
Research	1,568,123	1,131,232
Use in future periods	136,471	364,466
Total temporarily restricted net assets	<u>\$ 1,796,160</u>	<u>\$ 1,523,574</u>

Permanently restricted net assets consisted of the following at December 31, 2010 and 2009:

Endowed gifts to be held in perpetuity with the investment income to be used for:

	<u>2010</u>	<u>2009</u>
Research and specific projects	\$ 665,563	\$ 665,563
Total permanently restricted net assets	<u>\$ 665,563</u>	<u>\$ 665,563</u>

Temporarily restricted net assets released from restrictions consisted of the following in the years ended December 31, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Programs & specific projects	\$ 520,468	\$ 96,736
Research	-	330,000
Time releases	76,905	55,168
Total net assets released from restriction	<u>\$ 597,373</u>	<u>\$ 481,904</u>

During the year ended December 31, 2010 the Region did not maintain the necessary amount of cash and equivalents to comply with donor restrictions.

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13. Operating Leases

Rental expense for Region office space was \$170,862 and \$172,906 for the years ended December 31, 2010 and 2009 respectively. Lease agreements having an original term of more than one year expire on various dates through 2015

Future minimum annual lease payments as of December 31, 2010 are as follows:

2010	\$ 189,245
2011	164,285
2012	113,059
2013	110,650
2014	322,698
Thereafter	<u>22,367</u>
Total future minimum lease payments	<u><u>\$ 922,304</u></u>

14. Employee Benefit Plan

Defined Contribution Plan

The Region sponsors a defined contribution retirement plan ("the Plan") covering substantially all or certain of the employees of the Region. The Region contributes 8% to 15% of each eligible employee's compensation as specified in the Plan agreement. Total Contributions to the Plan for the year ended December 31, 2010 and 2009 respectively were: \$96,960 and \$79,032.

15. Commitments

The Region 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, 2010 these commitments were as follows:

2011	\$ 365,000
Total commitments	<u><u>\$ 365,000</u></u>

16. Subsequent Events

The Region has evaluated subsequent events for potential recognition and /or disclosure in the December 31, 2010 financial statements through March 16, 2011, the date that the financial statements were available to be issued.