

Arthritis Foundation, South Central Region, Inc.

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

and

Independent Auditors' Report



Certified Public Accountants

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Certified Public Accountants

Independent Auditors' Report

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

We have audited the accompanying statement of financial position of the Arthritis Foundation, South Central Region, Inc., (the "Region") (a nonprofit organization) as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Region's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Chapter's 2010 financial statements, which were audited by other auditors who report dated March 16, 2011, expressed and unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Region's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arthritis Foundation, South Central Region, Inc., as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Metcalf Davis".

Atlanta, Georgia
April 9, 2012

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Statement of Financial Position

December 31, 2011 with Summarized Financial Information as of December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				2011	2010
<u>Assets</u>					
Cash and cash equivalents	\$ 689,850	\$ 158,355	\$ -	\$ 848,205	\$2,119,164
Investments	1,350,985	2,179,445	1,837,079	5,367,509	2,798,953
Due from National Office	91,116	24,895	-	116,011	127,006
Contributions receivable, net	73,841	127,979	-	201,820	134,626
Prepaid expenses and other assets	31,985	-	-	31,985	36,144
Charitable Remainder Trusts	-	21,148	-	21,148	21,148
Beneficial interest in assets held by Community Foundation	-	-	46,213	46,213	40,014
Property and equipment, net	<u>18,755</u>	<u>-</u>	<u>-</u>	<u>18,755</u>	<u>22,675</u>
 Total assets	 <u>\$ 2,256,532</u>	 <u>\$ 2,511,822</u>	 <u>\$ 1,883,292</u>	 <u>\$ 6,651,646</u>	 <u>\$5,299,730</u>
<u>Liabilities and Net Assets</u>					
Accounts payable	\$ 47,677	\$ -	\$ -	\$ 47,677	\$ -
Accrued expenses and other liabilities	55,174	-	-	55,174	142,107
Research awards and grants payable	15,000	-	-	15,000	385,000
Due to National Office	<u>108,882</u>	<u>-</u>	<u>-</u>	<u>108,882</u>	<u>218,405</u>
 Total liabilities	 226,733	 -	 -	 226,733	 745,512
Net assets	<u>2,029,799</u>	<u>2,511,822</u>	<u>1,883,292</u>	<u>6,424,913</u>	<u>4,554,218</u>
 Total liabilities and net assets	 <u>\$ 2,256,532</u>	 <u>\$ 2,511,822</u>	 <u>\$ 1,883,292</u>	 <u>\$ 6,651,646</u>	 <u>\$5,299,730</u>

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Statement of Activities

Year Ended December 31, 2011 with Summarized Financial Information for the Year Ended

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2011	2010
<u>Operating Activities</u>					
Personal major gifts	\$ 95,000	\$ 40,000	\$ -	\$ 135,000	\$ 10,000
Personal annual gifts	60,205	57,538	-	117,743	121,461
Commerce and industry gifts	235,560	63,500	-	299,060	308,424
Contribution from National Office	-	-	-	-	-
Foundations	55,320	130,348	-	185,668	172,104
Memorials	7,805	-	-	7,805	16,510
Clubs and organizations	556	-	-	556	11,266
Other gifts	11,866	677	-	12,543	16,206
Thrift Shop	36,000	-	-	36,000	36,000
Membership/direct response marketing	738,315	-	-	738,315	718,047
Total contributions	1,240,627	292,063	-	1,532,690	1,410,018
Special events - gross income	2,026,616	75,325	-	2,101,941	2,142,615
Less direct donor benefit costs	(548,111)	-	-	(548,111)	(584,780)
Bequests/planned giving	63,782	46,499	-	110,281	477,112
Total direct public support	2,782,914	413,887	-	3,196,801	3,444,965
Federated campaigns	93,917	-	-	93,917	84,092
United Way	262,145	-	-	262,145	287,057
Total indirect public support	356,062	-	-	356,062	371,149
Contributed goods and services	1,508	-	-	1,508	9,874
Total public support	3,140,484	413,887	-	3,554,371	3,825,988
Government grants	6,250	2,500	-	8,750	58,495
Sales and service fees	18,073	400	-	18,473	22,496
Investment return designated for operations	32,626	-	-	32,626	46,722
Miscellaneous income	(2,133)	3,067	-	934	(66,623)
Total other revenue	54,816	5,967	-	60,783	61,090
Net assets released from restrictions	734,076	(734,076)	-	-	-
Total revenues, gains and public support	3,929,376	(314,222)	-	3,615,154	3,887,078
<u>Expenses</u>					
Research	540,939	-	-	540,939	444,265
Public health education	1,648,782	-	-	1,648,782	1,403,245
Professional education and training	95,545	-	-	95,545	156,732
Patient and community services	1,193,225	-	-	1,193,225	1,138,750
Fundraising	565,781	-	-	565,781	511,808
Management and general	376,053	-	-	376,053	336,956
Total program and supporting services expenses	4,420,325	-	-	4,420,325	3,991,756
Change in net assets from operating activities	(490,949)	(314,222)	-	(805,171)	(104,678)
<u>Non-operating Activities</u>					
Contributions	-	-	114,193	114,193	-
Investment return under amounts designated for operations	(12,669)	(10,170)	-	(22,839)	167,688
Unrealized gains on beneficial interest in assets held by Community Foundation	-	-	6,199	6,199	2,720
Contribution received in donation of the New Mexico and El Paso Offices	104,806	1,401,007	1,072,500	2,578,313	-
Change in net assets from non-operating activities	92,137	1,390,837	1,192,892	2,675,866	170,408
Change in net assets	(398,812)	1,076,615	1,192,892	1,870,695	65,730
Net assets, beginning of year	2,428,611	1,435,207	690,400	4,554,218	4,488,488
Net assets, end of year	\$ 2,029,799	\$ 2,511,822	\$ 1,883,292	\$ 6,424,913	\$ 4,554,218

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Statement of Functional Expenses

Year Ended December 31, 2011 with Summarized Financial Information for the Year Ended December 31, 2010

	PROGRAM SERVICES					SUPPORTING SERVICES			Totals	
	Research	Public Health Education	Professional Education and Training	Patient and Community Services	Total Program Services	Fundraising	Management and General	Total Supporting Services	2011	2010
<u>Expenses</u>										
Peer reviewed research awards	\$ 280,000	\$ -	\$ -	\$ -	\$ 280,000	\$ -	\$ -	\$ -	\$ 280,000	\$ -
Salaries	30,800	538,994	46,199	569,793	1,185,786	215,597	138,599	354,196	1,539,982	1,328,761
Payroll taxes	2,567	44,918	3,850	47,485	98,820	17,967	11,550	29,517	128,337	101,741
Employee benefits	4,722	82,637	7,083	87,360	181,802	33,055	21,250	54,305	236,107	254,542
Technology fees	2,163	37,853	3,245	40,016	83,277	15,141	9,733	24,874	108,151	94,413
Data processing and accounting services	62	1,084	93	1,146	2,385	434	279	713	3,098	1,200
Professional fees and contract services	4,518	79,072	6,778	83,590	173,958	31,629	20,333	51,962	225,920	182,558
Professional services - contributed	-	-	-	-	-	-	1,508	1,508	1,508	2,229
Supplies	956	16,738	1,435	17,695	36,824	6,695	4,304	10,999	47,823	32,865
Supplies and materials - contributed	-	-	-	-	-	-	-	-	-	7,644
Printing, publications, and artwork	851	14,889	1,276	15,740	32,756	5,956	3,829	9,785	42,541	24,617
Materials expenses	268	4,696	403	4,965	10,332	1,879	1,207	3,086	13,418	21,761
Membership/direct response marketing	-	170,379	-	-	170,379	73,019	-	73,019	243,398	222,180
Arthritis Today cost recovery	-	86,508	-	-	86,508	-	-	-	86,508	77,418
Postage, shipping, and delivery	457	7,996	685	8,453	17,591	3,198	2,056	5,254	22,845	39,109
Telephone	1,067	18,672	1,600	19,739	41,078	7,469	4,802	12,271	53,349	50,476
Occupancy	3,418	59,819	5,127	63,237	131,601	23,928	15,382	39,310	170,911	174,445
Taxes and licenses	12	207	18	219	456	83	53	136	592	1,141
Insurance	266	4,662	400	4,929	10,257	1,865	1,199	3,064	13,321	25,633
Staff travel	1,283	22,457	1,925	23,740	49,405	8,983	5,774	14,757	64,162	54,553
Volunteer travel	318	5,569	477	5,887	12,251	2,227	1,432	3,659	15,910	18,442
Meetings and conferences	1,942	33,980	2,913	35,922	74,757	13,592	8,738	22,330	97,087	78,800
Equipment lease and maintenance	682	11,945	1,024	12,627	26,278	4,778	3,072	7,850	34,128	27,187
Membership dues and subscriptions	190	3,331	286	3,522	7,329	1,333	856	2,189	9,518	3,330
Advertising	108	1,882	161	1,990	4,141	753	484	1,237	5,378	17,067
Miscellaneous	1,113	19,476	1,669	20,589	42,847	7,790	5,008	12,798	55,645	59,540
Interest expense	-	-	-	-	-	-	-	-	-	27
Depreciation	72	1,254	107	1,325	2,758	501	323	824	3,582	30,398
Total operating expenses	337,835	1,269,018	86,754	1,069,969	2,763,576	477,872	261,771	739,643	3,503,219	2,932,077
Share expense	203,104	379,764	8,791	123,256	714,915	87,909	114,282	202,191	917,106	1,059,679
Total expenses	<u>\$ 540,939</u>	<u>\$ 1,648,782</u>	<u>\$ 95,545</u>	<u>\$ 1,193,225</u>	<u>\$ 3,478,491</u>	<u>\$ 565,781</u>	<u>\$ 376,053</u>	<u>\$ 941,834</u>	<u>\$ 4,420,325</u>	<u>\$ 3,991,756</u>

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Statement of Cash Flows

For the Year Ended December 31, 2011 with

Summarized Information for the year ended December 31, 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 1,870,695	\$ 65,730
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,582	30,398
Amortization of capital lease	-	(5,972)
Loss on sale of property and equipment	-	215
Net unrealized gain on beneficial interest in assets held at Community Foundation	(6,199)	(2,720)
Net realized and unrealized losses (gains) on investments	64,952	(146,224)
Change in asset and liabilities:		
Decrease in due from National Office	10,995	44,996
(Increase) decrease in accounts receivable	-	
(Increase) decrease in contributions receivable	(67,193)	68,403
Decrease (increase) in prepaid expenses and other assets	4,159	(9,014)
Increase (decrease) in accounts payable	47,677	(46,125)
Decrease in research awards and grants payable	(370,000)	-
(Decrease) increase in due to National Office	(109,523)	157,238
(Decrease) increase in accrued expenses and other liabilities	<u>(86,933)</u>	<u>68,047</u>
Net cash provided by operating activities	1,362,212	224,972
Cash flows from investing activities		
Proceeds from sale of property and equipment	338	-
Purchase of property and equipment	-	(13,746)
Purchase of investments	(2,688,315)	(29,039)
Proceeds from sale of investments	<u>54,806</u>	<u>-</u>
Net cash used in investing activities	<u>(2,633,171)</u>	<u>(42,785)</u>
Cash and cash equivalents at beginning of year	<u>2,119,164</u>	<u>1,936,977</u>
Cash and cash equivalents at end of year	<u>\$ 848,205</u>	<u>\$ 2,119,164</u>

Supplemental Schedule:

The Region acquired The New Mexico and El Paso Offices of the Arthritis Foundation Greater Southwest Chapter without paying any consideration.

No liabilities were assumed and a contribution was recorded as follows:

Fair value of assets acquired as part of contribution received in acquisition of New Mexico and El Paso Offices	\$ 2,578,313	\$ -
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The accompanying notes are an integral part of this statement.

**ARTHRITIS FOUNDATION,
SOUTH CENTRAL REGION**

Notes To Financial Statements

December 31, 2011

(with summarized information for the year ended December 31, 2010)

NOTE 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 education and community service programs along with supporting arthritis-related research and influencing public policy regarding research funding and access to care.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Accrual Basis of Accounting - The financial statements of the Region 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 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.

**ARTHRITIS FOUNDATION,
SOUTH CENTRAL REGION**

Notes To Financial Statements

December 31, 2011

(with summarized information for the year ended December 31, 2010)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Operating results in the statement of activities reflect all transactions increasing and decreasing net assets except those that the Region defines as non-operating. Non-operating includes contributions added to endowments, contributions supporting major capital purchases, contributions and other activity related to trust agreements and endowment income and gains and losses, net of amounts distributed to support operating in accordance with the board approved spending policy.

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”). If the Region engages in activities unrelated to the mission of the Organization it may be responsible for payment of unrelated business income tax. Deferred tax assets and liabilities are measured based on enacted tax laws and rates expected to apply to taxable income in the year in which temporary differences are expected to be recorded or settled. Income taxes did not have a material impact on the financial position or changes in net assets of the Region as of and for the year ended December 31, 2011.

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, 2011 and accordingly, no liability has been accrued.

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

Fair Value of Financial Instruments - The estimated fair value amounts for specific groups of financial instruments are presented within the notes applicable to such items. Prepaid expenses and other assets, accounts payable and accrued expenses and other liabilities are stated at cost, which approximates fair value, due to their short term maturity.

The fair value of investments and funds held in trust by others is disclosed in other notes and is based upon quoted market values or values provided by external investment managers which were reviewed by management and the board.

**ARTHRITIS FOUNDATION,
SOUTH CENTRAL REGION**

Notes To Financial Statements

December 31, 2011

(with summarized information for the year ended December 31, 2010)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents - Cash accounts at each institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 for interest bearing accounts and to an unlimited amount for certain non-interest bearing business accounts. At December 31, 2011, the Region had no uninsured cash balances. 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. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average historical value (cost of securities if purchased or the fair market value at the date of gift if received by donation). Dividend and interest income is recorded on the accrual basis. In accordance with the policy of stating investments at fair value, the net change in unrealized appreciation or depreciation for the year is reflected in the statement of activities.

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

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. Accounts receivable are considered past due after 30 days.

Beneficial Interest in Assets Held by Community Foundation – Funds were transferred by the Oklahoma City Chapter of the Arthritis Foundation, now a part of the South Central Region, to a local community foundation to invest and manage. The agreement between the community foundation and the former Oklahoma City Chapter states that the transfer is irrevocable and that the transferred assets will not be returned to the Arthritis Foundation. However, the community foundation will make annual distributions of the income earned on the funds. The agreement also permits the community foundation to substitute another beneficiary in the place of the Arthritis Foundation if the Arthritis Foundation ceases to exist or if the governing board of the community foundation votes that support of the Arthritis Foundation either is no longer necessary or is inconsistent with the needs of the community.

**ARTHRITIS FOUNDATION,
SOUTH CENTRAL REGION**

Notes To Financial Statements

December 31, 2011

(with summarized information for the year ended December 31, 2010)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment - Property and equipment are recorded at cost. Donated assets are capitalized at the estimated fair market value at date of receipt. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is expensed when incurred; significant renewals and betterments are capitalized. The Region's policy is to capitalize property and equipment acquisitions in excess of \$5,000.

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 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.

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 gift. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable in amount.

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.

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.

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 GAAP. Actual results could differ from these estimates.

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

**ARTHRITIS FOUNDATION,
SOUTH CENTRAL REGION**

Notes To Financial Statements

December 31, 2011

(with summarized information for the year ended December 31, 2010)

NOTE 3 – ACQUISITION OF THE NEW MEXICO AND EL PASO OFFICES

During the current year, the Greater Southwest Chapter of the Arthritis Foundation ceased operations and returned their Charter to the Arthritis Foundation's National Office (the "National Office"). The operational responsibilities, along with the assets and liabilities of the offices within this former Chapter, were divided between the Arthritis Foundation's South Central and Pacific Regions due to these Regions common mission and operating focus and to increase the reach of these two Regions. On October 11, 2011, the South Central Region acquired assets and net assets of the El Paso and New Mexico offices and the Pacific Region acquired assets, liabilities and net assets of the Arizona office. No consideration was paid by the South Central region as a result of this acquisition.

Since the operations of the Region as part of the combined entity are expected to be predominantly supported by contributions and returns on investments, the Region recognized the acquisition-date amounts of the identifiable assets acquired as a separate change on the Statement of Activities identified as, "*Contribution received in donation of the New Mexico and El Paso Offices.*"

Assets acquired by the Region included cash and investments with a fair value of \$2,578,313. No liabilities were assumed.

NOTE 4 – RELATED PARTY TRANSACTIONS

The Region is required to share 27 percent, 35 percent or 45 percent of public support and bequests (less certain allowances) with the National Office. This share expense totaled \$917,106 and \$1,059,679 for the years ended December 31, 2011 and 2010, respectively. The Region is also allocated a portion of certain contributions received by the National Office, which for the years ended December 31, 2011 and 2010 was \$915,744 and \$222,179, 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 \$452,946 and \$193,593 in 2011 and 2010 respectively.

**ARTHRITIS FOUNDATION,
SOUTH CENTRAL REGION**

Notes To Financial Statements

December 31, 2011

(with summarized information for the year ended December 31, 2010)

NOTE 5 – INVESTMENTS

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

	<u>2011</u>	<u>2010</u>
Marketable securities:		
Domestic equity mutual funds		
Technology Industry	\$ 1,935,648	\$ -
Healthcare	127,859	-
Consumer Cyclical	101,889	-
Other	249,043	920,431
Fixed income mutual funds		
Corporate Bonds	904,968	-
Other	64,548	451,330
Mortgage backed securities	50,934	-
Corporate bonds	49,908	569,784
International equity mutual funds	10,506	152,860
U.S. Government securities	-	692,195
Common stocks	<u>1,195</u>	<u>1,079</u>
 Total marketable securities	 <u>3,496,498</u>	 <u>2,787,679</u>
 Money market funds	 1,531,288	 11,274
Certificates of deposit	<u>339,723</u>	<u>-</u>
 Total investments	 <u><u>\$ 5,367,509</u></u>	 <u><u>\$ 2,798,953</u></u>

**ARTHRITIS FOUNDATION,
SOUTH CENTRAL REGION**

Notes To Financial Statements

December 31, 2011

(with summarized information for the year ended December 31, 2010)

NOTE 5 – INVESTMENTS - Continued

The following summarizes the Region’s total investment return for the year ended December 31, 2011 and 2010 and the classification in the statement of activities.

	December 31, 2011		
	Unrestricted	Temporarily Restricted	Total
Dividend and interest income	\$ 32,626	\$ 48,312	\$ 80,938
Net realized gains	562	8,093	8,655
Net unrealized losses	<u>(13,231)</u>	<u>(66,575)</u>	<u>(79,806)</u>
	19,957	(10,170)	9,787
Less investment return designated for operations	<u>32,626</u>	<u>-</u>	<u>32,626</u>
Investment return under amount designated for operations	<u>\$ (12,669)</u>	<u>\$ (10,170)</u>	<u>\$ (22,839)</u>
	December 31, 2010		
	Unrestricted	Temporarily Restricted	Total
Dividend and interest income	\$ 46,722	\$ 24,400	\$ 71,122
Net realized gains	16,693	10,257	26,950
Net unrealized gains	<u>15,666</u>	<u>100,672</u>	<u>116,338</u>
	79,081	135,329	214,410
Less investment return designated for operations	<u>46,722</u>	<u>-</u>	<u>46,722</u>
Investment return under amount designated for operations	<u>\$ 32,359</u>	<u>\$ 135,329</u>	<u>\$ 167,688</u>

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(with summarized information for the year ended December 31, 2010)

NOTE 6 – FAIR VALUE MEASUREMENTS

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

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

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

Level II - Inputs other than quoted prices included in Level I that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs other than quoted prices (interest rates, yield curves, etc.) or inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities and corporate debt securities.

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 Region's assumptions based on the best information available in the circumstances. This category includes funds invested with a community foundation which are valued based on the market value of the underlying securities.

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NOTE 6 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the valuation of the Region's marketable securities and funds held at a community foundation by the above hierarchy levels as of December 31, 2011:

	December 31, 2011			
	Level I	Level II	Level III	Total
Corporate notes and bonds	\$ 49,908	\$ -	\$ -	\$ 49,908
Common stocks	1,195	-	-	1,195
International equity mutual funds	10,506	-	-	10,506
Domestic equity mutual funds				
Technology industry	1,935,648	-	-	1,935,648
Consumer cyclical industry	101,889	-	-	101,889
Healthcare industry	127,859	-	-	127,859
Other	249,043	-	-	249,043
Fixed income mutual funds				
Corporate bonds	904,968	-	-	904,968
Other	64,548	-	-	64,548
Mortgage backed securities	50,934	-	-	50,934
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total marketable securities	3,496,498	-	-	3,496,498
Beneficial interest in assets held by Community Foundation	<u>-</u>	<u>-</u>	<u>46,213</u>	<u>46,213</u>
Total	<u>\$ 3,496,498</u>	<u>\$ -</u>	<u>\$ 46,213</u>	<u>\$ 3,542,711</u>

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NOTE 6 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the valuation of the Region's marketable securities and funds held at a community foundation by the above hierarchy levels as of December 31, 2010:

	December 31, 2010			
	Level I	Level II	Level III	Total
Corporate notes and bonds				
Financial services industry	\$ 569,784	\$ -	\$ -	\$ 569,784
Common stocks	1,079	-	-	1,079
International equity mutual funds	152,860	-	-	152,860
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
U.S. Government securities	<u>692,195</u>	<u>-</u>	<u>-</u>	<u>692,195</u>
 Total marketable securities	 2,787,679	 -	 -	 2,787,679
 Beneficial interest in assets held by Community Foundation	 <u>-</u>	 <u>-</u>	 <u>40,014</u>	 <u>40,014</u>
 Total	 <u>\$ 2,787,679</u>	 <u>\$ -</u>	 <u>\$ 40,014</u>	 <u>\$ 2,827,693</u>

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

The following table summarizes the Region's level III reconciliation for the beneficial interest in assets held by a community foundation for the years ended December 31, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 40,014	\$ 37,294
Net unrealized gain	<u>6,199</u>	<u>2,720</u>
Ending balance	<u>\$ 46,213</u>	<u>\$ 40,014</u>

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NOTE 7 – ENDOWMENTS

The Region's endowment consists of seven donor restricted endowment funds established throughout the South Central Region for the purpose of funding research and operations in New Mexico.

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. There were no such deficiencies noted for the years ended December 31, 2011 and 2010.

The primary long-term financial objective for the Region'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 Region'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.

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(with summarized information for the year ended December 31, 2010)

NOTE 7 – ENDOWMENTS - Continued

As the earnings on each of the Region’s endowments were donor designated for a specific purpose, earnings from the endowment are appropriated for expenditure as needed to fund each of these restricted programs. Spending in a given year will reduce the unit value of each endowment element by the amount used for the restricted purpose designated by the donor of each specific endowment. In no case, will funds designated as True Endowment be reduced below their initial unit value. 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 Region’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, U.S. 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 the 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.

Endowment net asset composition by type of fund as of December 31, 2011 and 2010:

	December 31, 2011		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	<u>\$ 537,052</u>	<u>\$ 1,837,079</u>	<u>\$ 2,374,131</u>
	December 31, 2010		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	<u>\$ 459,933</u>	<u>\$ 650,386</u>	<u>\$ 1,110,319</u>

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Notes To Financial Statements

December 31, 2011

(with summarized information for the year ended December 31, 2010)

NOTE 7 – ENDOWMENTS - Continued

Change in endowment net assets for the year ended December 31, 2011:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 459,933	\$ 650,386	\$ 1,110,319
Contribution from acquisition	99,190	1,072,500	1,171,690
Other contributions	-	114,193	114,193
Investment return:			
Investment income	6,146	-	6,146
Net appreciation	<u>(19,606)</u>	<u>-</u>	<u>(19,606)</u>
Total investment return	(13,460)	-	(13,460)
Appropriation of endowment assets for expenditure	<u>(8,611)</u>	<u>-</u>	<u>(8,611)</u>
Endowment net assets, end of the year	<u>\$ 537,052</u>	<u>\$ 1,837,079</u>	<u>\$ 2,374,131</u>

Change in endowment net assets for the year ended December 31, 2010:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 389,852	\$ 650,386	\$ 1,040,238
Investment return:			
Investment income	23,965	-	23,965
Net appreciation	<u>117,650</u>	<u>-</u>	<u>117,650</u>
Total investment return	141,615	-	141,615
Appropriation of endowment assets for expenditure	<u>(71,534)</u>	<u>-</u>	<u>(71,534)</u>
Endowment net assets, end of the year	<u>\$ 459,933</u>	<u>\$ 650,386</u>	<u>\$ 1,110,319</u>

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NOTE 8 – CONTRIBUTIONS RECEIVABLE

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

	<u>2011</u>	<u>2010</u>
Amount due in:		
Less than one year	\$ 124,335	\$ 35,399
One to five years	<u>100,555</u>	<u>123,795</u>
Gross contributions receivable	224,890	159,194
Allowance for doubtful accounts	(21,598)	(18,568)
Unamortized present value discount	<u>(1,472)</u>	<u>(6,000)</u>
Net contributions receivable	<u>\$ 201,820</u>	<u>\$ 134,626</u>

Contributions receivable are net of unamortized present value discount calculated at the date of donation using rates between one and three percent.

NOTE 9 – BENEFICIAL INTERESTS IN ASSETS HELD BY COMMUNITY FOUNDATION

At December 31, 2011 and 2010, the Region had \$46,213 and \$40,014, respectively, in funds held by a local community foundation. These assets are reported on the statement of financial position and are valued at fair-value. All net realized and unrealized gains are reported on the statement of activities as permanently restricted income, as appreciation in such funds is not available for expenditure by the Region.

NOTE 10 – CHARITABLE REMAINDER TRUSTS

The Region is a beneficiary under charitable remainder trusts. Under these agreements, the Region will receive the assets of the trusts upon their expirations. Until that time, the life income beneficiary receives some portion of the income from the trusts. At the date of donation, the Region recorded an interest in the net assets held in the trust measured at the present value of the distributions expected to be received using discount rates and actuarial assumptions which considered the donor's life expectancy and the rates typically earned on those investments. Discount rates for these trusts range from one percent to two percent.

A receivable of \$21,148 is carried on the statement of financial position for the remainder interest of those trusts for which the Region is not the trustee at December 31, 2011 and 2010.

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NOTE 11 – PROPERTY AND EQUIPMENT

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

	<u>2011</u>	<u>2010</u>
Leasehold improvements (useful life 3 - 10 years)	\$ 22,476	\$ 48,276
Furniture and other equipment (useful life 3-5 years)	77,552	282,024
Accumulated depreciation	<u>(81,273)</u>	<u>(307,625)</u>
Net property and equipment	<u>\$ 18,755</u>	<u>\$ 22,675</u>

Depreciation expense was \$3,582 and \$30,398 for the year ended December 31, 2011 and 2010, respectively.

NOTE 12 – ACCRUED EXPENSES AND OTHER LIABILITIES

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

	<u>2011</u>	<u>2010</u>
Vacation	\$ 36,263	56,802
Other	<u>18,911</u>	<u>85,305</u>
Total accrued expenses and other liabilities	<u>\$ 55,174</u>	<u>\$ 142,107</u>

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NOTE 13 – JOINT COSTS

In 2011 and 2010, the Region incurred joint costs of \$243,398 and \$222,179 for informational materials and activities that included fundraising appeals, such as the Region's direct mail. Joint costs for the years ended December 31, 2011 and 2010 were allocated as follows:

	2011	2010
Public health education	\$ 170,379	\$ 175,522
Fundraising	73,019	46,658
	\$ 243,398	\$ 222,180

NOTE 14 – NET ASSETS

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

	2011	2010
Specific programs conducted by the Region	\$ 1,665,438	\$ 91,566
Research	679,425	1,201,200
Use in future periods	166,959	142,441
	\$ 2,511,822	\$ 1,435,207

At December 31, 2011 and 2010 permanently restricted net assets consisted of:

	2011	2010
Endowed Gifts to be held in perptuity	\$ 1,837,079	\$ 650,386
Beneficial interest in assets held by Community Foundation	46,213	40,014
	\$ 1,883,292	\$ 690,400

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NOTE 14 – NET ASSETS - Continued

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

	<u>2011</u>	<u>2010</u>
Specific programs conducted by the Region	\$ 188,100	\$ 520,468
Scholarships, training and projects	2,500	-
Research	399,324	-
Time releases	<u>144,152</u>	<u>76,905</u>
	<u>\$ 734,076</u>	<u>\$ 597,373</u>

NOTE 15 – OPERATING LEASES

Rental expense for Region office space was \$170,911 and \$174,445 for the year ended December 31, 2011 and 2010, respectively. Lease agreements having an original term of more than one year expire on various dates through 2016.

Future minimum annual lease payments as of December 31, 2011 are as follows:

<u>For the years ending December 31,</u>	
2012	\$ 199,379
2013	190,529
2014	182,536
2015	65,054
2016	<u>43,223</u>
Total future minimum lease payments	<u>\$ 680,721</u>

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NOTE 16 – EMPLOYEE BENEFIT PLAN

Defined Contribution Plan

The Region sponsors a defined contribution retirement plan (the “Plan”) covering substantially all of the employees of the Region. The Region contributes eight percent to 15 percent of each eligible employee’s compensation as specified in the Plan agreement. Total contributions to the plan for the years ended December 31, 2011 and 2010 were \$80,877 and \$96,960, respectively.

NOTE 17 – SUBSEQUENT EVENTS

The Region has evaluated subsequent events for potential recognition and /or disclosure in the December 31, 2011 financial statements through April 9, 2012, the date that the financial statements were available to be issued.