

ARTHRITIS FOUNDATION, INC.

NATIONAL OFFICE

Financial Statements as of and for the Year Ended December 31, 2005

with Summarized Financial Information as of and for the Year Ended December 31, 2004

and Independent Auditors' Report

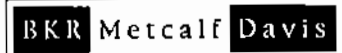
BKR Metcalf **Davis**

Certified Public Accountants

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Certified Public Accountants

Report of Independent Certified Public Accountants

Board of Directors
Arthritis Foundation, Inc.
National Office

We have audited the accompanying statement of financial position of the **Arthritis Foundation, Inc., National Office** (the "National Office") (a nonprofit organization) as of December 31, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the National Office'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 National Office's 2004 financial statements, which were audited by other auditors whose report dated April 11, 2005, expressed an unqualified opinion on those 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 National Office'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, Inc., National Office** as of December 31, 2005, 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.

BKR Metcalf Davis

Atlanta, Georgia
April 10, 2006

BKR

Member Firm of the CPA Firm BKR

**ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE**

Statement of Financial Position

December 31, 2005 with Summarized Financial Information for December 31, 2004

<u>Assets</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2005	2004
Cash and cash equivalents	\$ 6,298,544	\$ 481,793	\$ 2,398	\$ 6,782,735	\$ 5,238,706
Investments	5,961,050	20,201,147	1,727,771	27,889,968	25,748,887
Due from chapters (net of allowance for doubtful accounts of \$345,459)	10,787,962	538,158	-	11,326,120	12,420,960
Accounts receivable (net of allowance for doubtful accounts of \$43,378)	1,966,965	10,223	-	1,977,188	1,697,422
Contributions receivable (net of allowance for doubtful accounts and net present value of \$594,510)	1,497,832	3,609,810	-	5,107,642	5,850,578
Prepaid expenses and other assets	1,679,114	-	-	1,679,114	1,309,725
Inventory	469,994	-	-	469,994	625,445
Beneficial interests in perpetual trusts	-	-	8,192,698	8,192,698	8,124,612
Property and equipment, net	6,394,735	-	-	6,394,735	6,360,308
Total assets	\$ 35,056,196	\$ 24,841,131	\$ 9,922,867	\$ 69,820,194	\$ 67,376,643
 <u>Liabilities and Net Assets</u>					
Research awards and grants payable	\$ 10,344,289	\$ -	\$ -	\$ 10,344,289	\$ 15,497,387
Accounts payable	1,859,007	-	-	1,859,007	1,344,165
Due to chapters	3,915,257	183,897	-	4,099,154	3,397,365
Accrued expenses and other liabilities	2,597,595	-	-	2,597,595	1,902,451
Liabilities under split interest agreements	-	10,505,583	-	10,505,583	10,340,179
Debt obligations	4,532,578	-	-	4,532,578	4,814,606
Total liabilities	23,248,726	10,689,480	-	33,938,206	37,296,153
Net assets	11,807,470	14,151,651	9,922,867	35,881,988	30,080,490
Total liabilities and net assets	\$ 35,056,196	\$ 24,841,131	\$ 9,922,867	\$ 69,820,194	\$ 67,376,643

The accompanying notes are an integral part of these statements.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Statement of Activities

Year Ended December 31, 2005 with Summarized Financial Information for the Year Ended December 31, 2004

<u>Revenues, Gains and Public Support</u>	Unrestricted	Temporarily restricted	Permanently restricted	Totals	
				2005	2004
Direct response marketing contributions	\$ 14,836,382	\$ -	\$ -	\$ 14,836,382	\$ 14,161,824
Corporate contributions	2,295,757	1,127,092	-	3,422,849	4,874,443
Personal annual gifts	78,327	104,289	-	182,616	3,611
Foundations	250	90,000	-	90,250	105,250
Clubs and organizations	-	-	-	-	16,060
Other gifts	60,189	100	-	60,289	-
Total contributions	17,270,905	1,321,481	-	18,592,386	19,161,188
Bequests/planned giving	19,076	1,484,847	620,000	2,123,923	361,370
Total direct public support	17,289,981	2,806,328	620,000	20,716,309	19,522,558
Contribution Share	13,385,717	50,542	-	13,436,259	12,623,603
Bequest Share	13,440,340	556,534	-	13,996,874	12,209,405
Total indirect public support	26,826,057	607,076	-	27,433,133	24,833,008
Voluntary research contributions	-	3,227,657	-	3,227,657	4,080,691
Contributed goods and services	2,743,442	-	-	2,743,442	2,955,693
Total public support	46,859,480	6,641,061	620,000	54,120,541	51,391,950
Government grants	1,175,433	50,000	-	1,225,433	1,131,021
Investment and royalty income	652,283	377,077	-	1,029,360	578,699
Unrealized gains (losses) on investments	(106,501)	197,684	61,152	152,335	1,076,949
Realized gains (losses) on investments	(72,093)	12,661	-	(59,432)	(79,526)
Sales and service fees	6,006,729	-	-	6,006,729	5,369,002
Advertising	5,138,827	-	-	5,138,827	4,513,934
Year round and membership cost recovery	6,718,059	-	-	6,718,059	6,532,164
Rental income	412,940	-	-	412,940	402,724
Miscellaneous	855,524	-	-	855,524	377,174
Change in valuation of split interest agreements	-	(810,408)	-	(810,408)	(809,856)
Total other revenue	20,781,201	(172,966)	61,152	20,669,367	19,092,285
Net assets released from restrictions	4,828,184	(4,828,184)	-	-	-
Total revenues, gains and public support	72,468,865	1,639,891	681,152	74,789,908	70,484,235
<u>Expenses</u>					
Research	15,326,564	-	-	15,326,564	21,120,839
Public health education	30,759,768	-	-	30,759,768	28,685,211
Professional education & training	1,617,769	-	-	1,617,769	2,294,975
Patient & community services	6,356,993	-	-	6,356,993	6,030,978
Fundraising	12,066,069	-	-	12,066,069	9,832,329
Management & general	2,861,247	-	-	2,861,247	2,379,238
Total expenses	68,988,410	-	-	68,988,410	70,343,570
Change in net assets	3,480,455	1,639,891	681,152	5,801,498	140,665
Net assets, beginning of year	8,327,015	12,511,760	9,241,715	30,080,490	29,939,825
Net assets, end of year	\$ 11,807,470	\$ 14,151,651	\$ 9,922,867	\$ 35,881,988	\$ 30,080,490

The accompanying notes are an integral part of these statements.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE
 Statement of Functional Expenses
 Year Ended December 31, 2005 with Summarized Financial Information for the Year Ended December 31, 2004

	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	2005	2004
									\$	\$
Expenses										
Pear reviewed research awards	\$ 12,034,167	-	-	-	\$ 12,034,167	\$ -	-	\$ -	\$ 12,034,167	\$ 17,592,978
Other awards and grants	27,253	339,346	5,988	48,303	418,890	14,219	5,380	19,609	438,499	270,638
Salaries	1,168,618	3,698,912	593,435	1,578,944	7,035,509	1,500,918	1,273,449	2,774,397	9,809,878	9,155,369
Payroll taxes	82,504	260,413	42,708	109,950	485,576	107,729	90,699	198,428	894,003	854,321
Employee benefits	148,094	438,915	74,572	184,348	845,929	187,354	161,639	348,993	1,194,922	1,098,862
Advertising commissions	-	486,108	-	208,508	704,614	14,380	-	14,380	718,994	618,625
Data processing and accounting services	3,247	32,322	2,210	9,337	47,118	4,095	13,918	18,013	65,129	111,741
Professional fees and contract services	331,689	2,118,116	182,874	928,183	3,658,862	315,584	283,063	598,647	4,155,509	4,227,145
Supplies	19,087	125,764	14,768	57,314	216,943	19,839	42,060	81,899	278,842	212,021
Printing, publications, and artwork	9,508	1,891,730	7,189	857,390	2,865,907	81,118	9,549	90,668	2,958,475	2,285,811
Materials expenses	26,810	316,724	31,861	353,800	728,995	123,480	62,285	185,765	914,760	1,028,365
Membership/direct response marketing	-	9,475,835	-	-	9,475,835	3,642,657	-	3,642,657	10,118,492	9,232,211
Corporate direct	-	87,405	-	-	87,405	49,165	-	49,165	136,570	102,418
Fulfillment	-	378,089	-	168,907	536,996	10,959	-	10,959	547,955	715,319
Postage, shipping, and delivery	19,128	1,825,632	15,874	749,462	2,409,794	70,271	31,663	101,934	2,511,728	2,112,104
Telephone	59,705	204,188	67,615	98,748	421,264	75,785	36,269	112,054	533,318	711,650
Occupancy	28,026	68,129	31,043	43,389	168,587	12,049	198,653	148,702	317,289	286,314
Taxes and licenses	13,033	40,802	8,248	18,640	80,724	13,885	22,345	36,230	116,954	159,099
Insurance	16,053	52,230	8,887	23,600	100,750	16,089	18,938	37,027	137,777	147,786
Staff travel	78,274	229,589	41,277	75,180	422,330	131,546	64,020	195,566	617,886	563,591
Volunteer travel	101,812	82,738	3,352	25,819	213,621	15,838	8,287	24,123	237,644	204,422
Meeting and conferences	212,804	88,791	11,765	61,211	374,561	50,375	41,785	92,160	466,721	218,938
Volunteer leadership development	63,172	68,315	16,898	38,578	167,062	74,380	77,871	152,051	339,113	348,863
Equipment lease and maintenance	165,053	190,198	110,888	189,858	665,976	111,318	76,182	189,490	855,455	861,910
Membership dues and subscriptions	35,803	88,498	8,898	32,741	145,740	23,481	12,943	36,404	162,144	142,888
Advertising	31,772	83,517	32,437	21,190	168,918	88,173	29,804	119,057	283,973	238,016
Interest expense	16,426	48,943	11,625	23,343	100,537	18,479	36,555	53,034	153,571	110,257
Miscellaneous	27,748	109,067	13,982	48,227	197,022	40,414	31,312	71,728	268,749	289,658
Depreciation and amortization	66,385	209,269	41,082	65,068	411,784	71,437	107,546	178,983	590,777	781,313
Contributed goods and services	328,111	2,414,331	-	-	2,742,442	-	-	-	2,742,442	2,955,893
Uncollectible receivables	28,144	259,165	14,072	111,943	413,324	37,815	23,453	61,068	474,382	378,591
Total operating expenses	15,199,122	22,608,689	1,383,387	6,144,770	45,275,968	6,922,811	2,698,538	9,619,149	54,895,135	57,821,817
Payments to chapters	167,442	8,151,069	234,382	212,215	8,785,108	5,143,458	164,709	5,308,167	14,093,275	12,521,653
Total expenses	\$ 15,326,564	\$ 30,759,788	\$ 1,617,769	\$ 6,356,985	\$ 54,061,076	\$ 12,066,269	\$ 2,863,247	\$ 14,927,316	\$ 66,988,410	\$ 70,343,570

The accompanying notes are an integral part of these statements

**ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE**

Statement of Cash Flows

Year Ended December 31, 2005 with Summarized Financial Information for the Year Ended December 31, 2004

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ 5,801,498	\$ 140,665
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	590,777	781,313
Loss on sale of real estate	-	23,434
Gain on sale of property and equipment	-	(12)
Donated investments	(1,403,282)	(289,353)
Net realized and unrealized (gains) in beneficial interests in perpetual trusts	(68,086)	(276,912)
Net realized and unrealized (gains) on investments	(24,817)	(734,322)
Contributions restricted for long-term investment	(620,000)	-
Changes in asset and liabilities:		
Decrease in due from chapters	1,094,840	1,192,184
(Increase) decrease in accounts and notes receivable	(279,766)	734,123
Decrease in contributions receivable	742,936	4,515,454
(Increase) in prepaid expenses and other assets	(369,389)	(437,465)
Decrease in inventory	155,451	57,336
(Decrease) increase in research awards and grants payable	(5,153,098)	156,674
(Decrease) increase in accounts payable	514,842	(209,483)
Increase in due to chapters	701,789	535,737
Increase in accrued expenses and other liabilities	695,144	16,144
Increase in liabilities under split interest agreements	165,404	169,628
Net cash provided by operating activities	2,544,243	6,375,145
Cash flows from investing activities:		
Purchase of property and equipment	(625,204)	(486,457)
Proceeds from sale of property and equipment	-	10,500
Purchase of investments	(40,326,910)	(12,673,438)
Proceeds from sale of investments	39,613,928	5,970,080
Proceeds from sale of real estate	-	166,566
Net cash (used in) investing activities	(1,338,186)	(7,012,749)
Cash flows from financing activities:		
Proceeds from contributions restricted for investment in endowment	620,000	-
Repayments of bonds payable	(300,000)	(300,000)
Proceeds from capital lease obligations	50,921	-
Payments on capital lease obligations	(32,949)	(51,910)
Net cash provided by (used in) financing activities	337,972	(351,910)
Net increase (decrease) in cash and cash equivalents	1,544,029	(989,514)
Cash and cash equivalents at beginning of year	5,238,706	6,228,220
Cash and cash equivalents at end of year	\$ 6,782,735	\$ 5,238,706
Supplemental Data - Interest paid	\$ 153,571	\$ 110,257
Income taxes paid	\$ 76,227	\$ 154,171

The accompanying notes are an integral part of these statements.

**ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE**

Notes to Financial Statements

As of and for the year ended December 31, 2005 with comparative amounts for 2004

1 DESCRIPTION OF ORGANIZATION

Arthritis Foundation, Inc. (the "National Office") is a not-for-profit voluntary health association seeking to improve lives through leadership in the prevention, control and cure of arthritis and related diseases. Major funding sources are from direct public contributions and bequests. The National Office develops and provides public health education and community service programs supports arthritis-related research and influences public policy regarding research funding and access to care.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The financial statements have been prepared on the accrual basis of accounting. The National Office follows the accounting and reporting practices set forth in the American Institute of Certified Public Accountants industry audit guide, "Not-for-Profit Organizations".

Under this Accounting and Reporting Guide, net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the National Office 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 National Office and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that are maintained permanently by the National Office. Generally, the donors of these assets permit the National Office to use all or part of the income earned on related investments for general or specific purposes.

Income Taxes - The National Office is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code (the "Code") as a charitable organization whereby only unrelated business income, as defined by Section 512 (a) (1) of the code, is subject to Federal income tax.

Cash and Cash Equivalents - Cash accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. The National Office 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.

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. The net realized and unrealized gains (losses) on investments are reflected in the statement of activities.

ARTHRITIS FOUNDATION, INC.

NATIONAL OFFICE

Notes to Financial Statements

As of and for the year ended December 31, 2005 with comparative amounts for 2004

The National Office's invested assets consist of U.S. government securities, corporate notes and bonds, mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments reported in the statement of financial position at December 31, 2005. However, the diversification of the National Office's invested assets among these various asset classes should mitigate the impact of any dramatic change on any one asset class.

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

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

Property and Equipment - Property and equipment is 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 National Office's policy is to capitalize property and equipment acquisitions in excess of \$1,000.

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.

Allowance for Doubtful Accounts - Allowance for doubtful accounts and reserve for net present value on outstanding accounts and contributions receivable balances is recorded when deemed necessary.

Contributed Goods and Services - Contributed goods are reflected as contributions in the accompanying statement of activities at their estimated value at date of receipt.

Contributed services are reflected in the statement of activities at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance 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.

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.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Notes to Financial Statements

As of and for the year ended December 31, 2005 with comparative amounts for 2004

All contributions are available for unrestricted use unless specifically restricted by the donor. The National Office reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, donor restricted contributions whose restrictions expire in the same reporting period as received are reported as contributions available for unrestricted use.

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 National Office'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 2004 balances to conform with the 2005 presentation.

Use of Estimates - Management of the National Office 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 National Office's financial statements for the year ended December 31, 2004 from which the summarized financial information was derived.

3 RELATED PARTY TRANSACTIONS

The National Office receives, as public support, a share of all unrestricted contributions and bequests received by the local chapters. Pursuant to a sharing formula, the National Office's share of contributions and bequests ranges from 27% to 45% and totaled \$27,433,133 and \$24,833,008 in 2005 and 2004, respectively. The National Office allocates a portion of certain contributions it receives from the public to the local Chapters which totaled \$14,093,275 and \$12,521,653 net of share expense in 2005 and 2004 respectively. Local chapters reimburse the National Office 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 \$5,438,833 and \$5,372,087 for 2005 and 2004, respectively.

**ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE**

Notes to Financial Statements

As of and for the year ended December 31, 2005 with comparative amounts for 2004

4 INVESTMENTS

Investments at December 31, 2005 and 2004 were as follows:

	2005	2004
U.S. Government securities	\$ 404,279	\$ 908,460
Certificates of deposit	449,427	438,789
Corporate notes and bonds	12,088,479	10,725,389
Domestic equity mutual funds	7,714,669	7,111,991
Fixed income mutual funds	5,185,634	4,568,727
International equity mutual funds	2,047,480	1,995,531
TOTAL	<u>\$ 27,889,968</u>	<u>\$ 25,748,887</u>

5 CONTRIBUTIONS RECEIVABLE

Contributions receivable are reported in the statement of financial position net of an allowance for uncollectible amounts and net present value discount of the outstanding pledge. At December 31, 2005 and 2004, unconditional promises to give were expected to be received as follows:

	2005	2004
In less than one year	\$ 1,530,232	\$ 4,027,868
In one to five years	4,171,920	2,414,610
Gross contributions receivable	<u>5,702,152</u>	<u>6,442,478</u>
Allowance for uncollectible amounts and net present value	594,510	591,900
Net contributions-receivable	<u>\$ 5,107,642</u>	<u>\$ 5,850,578</u>

6 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2005 and 2004 consisted of the following:

	estimated useful life	2005	2004
Land		\$ 2,400,000	\$ 2,400,000
Building and improvements	(10-30 years)	6,378,691	6,113,865
Furniture and other equipment	(3-5 years)	10,211,236	9,850,855
		<u>18,989,927</u>	<u>18,364,720</u>
Less accumulated depreciation		12,595,192	12,004,412
		<u>\$ 6,394,735</u>	<u>\$ 6,360,308</u>

7 DEBT OBLIGATIONS

The National Office 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, 2005 and 2004 were \$32,578 and \$14,606, respectively.

Future minimum lease payments under capital leases were as follows:

2006	\$ 24,390
2007	8,884
Total future minimum lease payments	<u>33,274</u>
Less amounts representing interest	696
Present value of net minimum lease payments	<u>\$ 32,578</u>

**ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE**

Notes to Financial Statements

As of and for the year ended December 31, 2005 with comparative amounts for 2004

The National Office has industrial revenue bonds issued by the Development Authority of Fulton County ("the Development Authority"). The bonds are secured by the land, an office building and an assignment of leases (see Note 10) as well as a letter of credit issued on December 1, 1996. The letter of credit expires on December 15, 2007. Interest under these bonds accrues at a weekly adjustable rate (3.55% at December 31, 2005). The average interest rate during 2005 was 3.0%. Interest expense related to this debt totaled \$117,498 for 2005. Long-term debt matures as follows:

2006	\$	300,000
2007		300,000
2008		300,000
2009		300,000
2010		300,000
Thereafter		3,000,000
	<u>\$</u>	<u>4,500,000</u>

8 JOINT COSTS

In 2005 and 2004, the National Office incurred joint costs of \$10,118,492 and \$9,232,211 for informational materials and activities that included fund-raising appeals such as direct mail. Joint costs for the years ended December 31, 2005 and 2004 were allocated as follows:

	2005	2004
Fundraising	\$ 3,642,657	\$ 3,322,919
Public health education	6,475,835	5,909,292
	<u>\$ 10,118,492</u>	<u>\$ 9,232,211</u>

9 NET ASSETS

Temporarily restricted net assets at December 31, 2005 and 2004 were available for the following purposes:

	2005	2004
Research	\$ 6,088,235	\$ 3,636,697
Scholarships, training and projects	1,727,567	2,210,939
Use in future periods	6,335,849	6,664,124
	<u>\$ 14,151,651</u>	<u>\$ 12,511,760</u>

Permanently restricted net assets consisted of the following at December 31, 2005 and 2004:

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

	2005	2004
Research and specific projects	\$ 9,922,867	\$ 9,241,715
	<u>\$ 9,922,867</u>	<u>\$ 9,241,715</u>

Release from restrictions consisted of the following in the years ended December 31, 2005 and 2004:

	2005	2004
Programs	\$ 456,346	\$ 710,058
Research	3,906,638	9,429,880
Time releases	465,200	-
	<u>\$ 4,828,184</u>	<u>\$ 10,139,938</u>

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As of and for the year ended December 31, 2005 with comparative amounts for 2004

10 OPERATING LEASES

Rental expenses totaled \$442,638 and \$439,655 for the years ended December 31, 2005 and 2004, respectively. Lease agreements having an original term of more than one year expire on various dates through 2009. Future minimum annual lease payments as of December 31, 2005 are as follows:

2006	\$	362,074
2007		196,641
2008		51,685
2009		40,584
	\$	<u>650,983</u>

The National Office rents office space to tenants under leases having an original term of more than one year expiring on various dates through the year 2012. Minimum rental income under leases expiring subsequent to December 31, 2005 is as follows:

2006	\$	497,522
2007		426,872
2008		381,994
2009		395,681
2010		409,876
Thereafter		456,600
	\$	<u>2,568,545</u>

Rental income was \$412,940 and \$402,724 for the years ended December 31, 2005 and 2004.

11 EMPLOYEE BENEFIT PLAN

Defined Contribution Plan

The National Office's defined contribution Retirement plan ("the Plan") follows section 401(a) of the Internal Revenue Code of 1986, as amended, and includes a 401(k) feature. The Plan covers all employees of the National Office and one Chapter having one year or more of service. The National Office or the Chapter makes base contributions ranging from 4% to 8% of the employee's compensation depending upon length of service. In addition, participants may voluntarily contribute up to 4% of their compensation on a pretax basis and the National Office or the Chapter matches 50% of participant contribution. Employer contributions are 100% vested after 3 years of service. Funds contributed to the Plan are held under contract with TIAA-CREF and employees may allocate their accounts within the available investment alternatives. Total contributions to the Plan for the years ended December 31, 2005 and 2004, respectively, were \$603,423 and \$538,121.

The National Office 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 National Office makes non-elective contributions to the plan. At the discretion of the National Office, participants are allowed to allocate plan contributions and designate beneficiaries. The National Office's contributions totaled \$20,545 and \$13,000 for the years ended December 31, 2005 and 2004, respectively. All assets under the plan remain part of the National Office's general assets and are subject to the claims of its creditors. All rights to amounts held under the plan are owned by the National Office. Therefore, the National Office reports the assets and related liabilities of the plan in its statement of position. At December 31, 2005 and 2004 the assets and the liabilities each totaled \$49,878 and \$26,575 respectively.

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12 COMMITMENTS

The National Office 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, 2005 these commitments were as follows:

2006	\$	8,401,333
2007		5,235,000
2008		2,460,000
	\$	<u>16,096,333</u>

13 SPLIT INTEREST AGREEMENTS

The National Office receives certain planned gift donations that benefit not only the Foundation but also another beneficiary designated by the donor. These contributions are termed split-interest agreements and are generally gifts to be received in the future. The National Office benefits from the following types of split-interest agreements: perpetual trusts, charitable remainder trusts, gift annuity funds and a pooled income fund.

The National Office's share of split-interest agreements are included in the Statement of Financial Position. At December 31, 2005 and 2004, assets totaling \$23,427,149 and \$23,184,427, respectively, are reported on the Statement of Financial Position and are valued at fair-value.