

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Arthritis Foundation, Pacific Region, Inc.

We have audited the accompanying statement of financial position of Arthritis Foundation, Pacific Region, Inc. (formerly known as the Southern California Chapter of the Arthritis Foundation) (a nonprofit organization) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of Arthritis Foundation, Pacific Region, Inc. 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 2009 financial statements, and in our report dated August 12, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Arthritis Foundation, Pacific 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April \_\_, 2011 on our consideration of Arthritis Foundation, Pacific Region, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Green Hasson & Janks LLP*

May 12, 2011  
Los Angeles, California

**ARTHRITIS FOUNDATION, PACIFIC REGION, INC.**

STATEMENT OF FINANCIAL POSITION

December 31, 2010

With Summarized Totals at December 31, 2009

<b>ASSETS</b>	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
Cash and Cash Equivalents	\$ 14,003	\$ 453,759	\$ -	\$ 467,762	\$ 768,178
Investments	1,231,192	3,321,369	5,616,646	10,169,207	8,846,369
Accounts Receivable	14,217	-	-	14,217	176,862
Contributions Receivable	117,115	197,132	-	314,247	121,101
Pledges Receivable	8,426	44,477	-	52,903	50,000
Bequests Receivable (Net of Allowance for Uncollectible Bequests of \$80,370)	1,519,301	8,000	-	1,527,301	1,765,328
Due from National Office	228,497	-	-	228,497	136,255
Real Estate Held for Sale	82,500	-	-	82,500	82,500
Prepaid Expenses and Other Assets	423,960	-	-	423,960	400,421
Notes Receivable	92,396	-	-	92,396	95,611
Beneficial Interest in Charitable Remainder Trusts	-	3,144,283	-	3,144,283	4,764,212
Beneficial Interest in Perpetual Trusts	-	-	11,860,890	11,860,890	7,811,309
Property and Equipment (Net)	59,243	-	-	59,243	67,158
<b>TOTAL ASSETS</b>	<b>\$ 3,790,850</b>	<b>\$ 7,169,020</b>	<b>\$ 17,477,536</b>	<b>\$ 28,437,406</b>	<b>\$ 25,085,304</b>
 <b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES:</b>					
Research Awards and Grants Payable	\$ 115,000	\$ -	\$ -	\$ 115,000	\$ 320,000
Due to National Office	996,196	-	-	996,196	1,579,112
Accounts Payable, Accrued Expenses and Other Liabilities	1,266,809	-	-	1,266,809	1,140,801
Note Payable	114,000	-	-	114,000	114,000
<b>TOTAL LIABILITIES</b>	<b>2,492,005</b>	<b>-</b>	<b>-</b>	<b>2,492,005</b>	<b>3,153,913</b>
 <b>NET ASSETS:</b>					
Unrestricted	1,298,845	-	-	1,298,845	(596,977)
Temporarily Restricted	-	7,169,020	-	7,169,020	9,050,413
Permanently Restricted	-	-	17,477,536	17,477,536	13,477,955
<b>TOTAL NET ASSETS</b>	<b>1,298,845</b>	<b>7,169,020</b>	<b>17,477,536</b>	<b>25,945,401</b>	<b>21,931,391</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,790,850</b>	<b>\$ 7,169,020</b>	<b>\$ 17,477,536</b>	<b>\$ 28,437,406</b>	<b>\$ 25,085,304</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**ARTHRITIS FOUNDATION, PACIFIC REGION, INC.**

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2010  
With Summarized Totals for the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
<b>REVENUES, GAINS AND PUBLIC SUPPORT:</b>					
Membership and Direct Response Marketing	\$ 1,332,155	\$ -	\$ -	\$ 1,332,155	\$ 1,241,781
Personal Major Gifts	-	-	-	-	15,000
Personal Annual Gifts	43,448	3,712	-	47,160	57,100
Commerce and Industry	334,806	229,806	-	564,612	443,903
Contribution Received in Acquisition of San Diego Chapter Foundations	-	307,156	-	307,156	-
Memorials	16,188	347,219	-	363,407	304,360
Clubs and Organizations	9,025	-	-	9,025	16,958
Other Gifts	59,556	3,280	-	62,836	40,572
Direct Mail	418	-	-	418	5,020
Media Events	20,523	-	-	20,523	18,152
Donated Vehicles	-	-	-	-	1,050
Total Contributions	10,746	-	-	10,746	4,061
Special Events - Gross Income	1,826,865	891,173	-	2,718,038	2,147,957
Less: Direct Donor Benefit Costs	3,524,184	-	-	3,524,184	3,382,429
Bequests	(586,318)	-	-	(586,318)	(793,567)
Beneficial Interest in Charitable Remainder Trusts	2,120,223	-	-	2,120,223	2,564,710
Total Direct Public Support	-	763,006	-	763,006	46,996
Federated Campaigns	6,884,954	1,654,179	-	8,539,133	7,348,525
United Way	71,869	-	-	71,869	66,075
Total Indirect Public Support	7,436	-	-	7,436	10,669
Contributed Goods and Services	79,305	-	-	79,305	76,744
Total Public Support	1,057,940	-	-	1,057,940	369,603
Net Assets Released from Restrictions	8,022,199	1,654,179	-	9,676,378	7,794,872
Donor Reclassifications	3,169,905	(3,119,905)	(50,000)	-	-
Government Grants	(15,511)	(383,665)	399,176	-	-
Investment and Royalty Income (Net)	161,460	-	-	161,460	137,938
Change in Value of Beneficial Interest in Charitable Remainder Trusts	2,093,314	-	-	2,093,314	1,268,009
Change in Value of Beneficial Interest in Perpetual Trusts	-	(32,002)	-	(32,002)	231,763
Sales and Service Fees	-	-	3,650,405	3,650,405	1,061,419
Miscellaneous	59,760	-	-	59,760	89,888
Total Other	9,948	-	-	9,948	2,780
<b>TOTAL REVENUE, GAINS AND PUBLIC SUPPORT</b>	<b>5,478,876</b>	<b>(3,535,572)</b>	<b>3,999,581</b>	<b>5,942,885</b>	<b>2,791,797</b>
<b>EXPENSES:</b>					
Research	1,370,582	-	-	1,370,582	1,607,343
Public Health Education	3,248,207	-	-	3,248,207	2,571,190
Professional Education and Training	1,935,561	-	-	1,935,561	997,172
Patient and Community Services	1,844,748	-	-	1,844,748	1,527,003
Total Program Services	8,399,098	-	-	8,399,098	6,702,708
Management and General	1,383,591	-	-	1,383,591	1,122,127
Fundraising	1,822,564	-	-	1,822,564	1,722,730
Total Expenses	11,605,253	-	-	11,605,253	9,547,565
<b>CHANGE IN NET ASSETS</b>	<b>1,895,822</b>	<b>(1,881,393)</b>	<b>3,999,581</b>	<b>4,014,010</b>	<b>1,039,104</b>
Net Assets - Beginning of Year	(596,977)	9,050,413	13,477,955	21,931,391	20,892,287
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 1,298,845</b>	<b>\$ 7,169,020</b>	<b>\$ 17,477,536</b>	<b>\$ 25,945,401</b>	<b>\$ 21,931,391</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**ARTHRITIS FOUNDATION, PACIFIC REGION, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2010

With Summarized Totals for the Year Ended December 31, 2009

	Program Services				Total Program Services	Supporting Services		Total Supporting Services	Total Expenses	
	Research	Public Health Education	Professional Education and Training	Patient and Community Services		Management and General	Fundraising		2010	2009
	<b>EXPENSES:</b>									
Salaries and Wages	\$ 77,798	\$ 886,050	\$ 513,011	\$ 655,261	\$ 2,132,120	\$ 449,861	\$ 673,164	\$ 1,123,025	\$ 3,255,145	\$ 3,069,329
Benefits and Payroll Taxes	15,409	175,488	101,605	129,778	422,280	89,097	133,324	222,421	644,701	774,226
<b>TOTAL PERSONNEL EXPENSES</b>	<b>93,207</b>	<b>1,061,538</b>	<b>614,616</b>	<b>785,039</b>	<b>2,554,400</b>	<b>538,958</b>	<b>806,488</b>	<b>1,345,446</b>	<b>3,899,846</b>	<b>3,843,555</b>
Grants and Awards	585,000	-	-	-	585,000	-	-	-	585,000	639,818
Occupancy	9,999	113,883	65,937	84,220	274,039	57,820	86,521	144,341	418,380	417,015
Professional Fees and Contract Services	5,055	71,857	33,378	251,989	362,279	29,272	43,785	73,057	435,336	399,701
Membership and Direct Response Marketing	-	289,078	-	-	289,078	-	123,890	123,890	412,968	385,138
Contributed Goods and Services	30,545	-	900,745	-	931,290	-	126,650	126,650	1,057,940	369,602
Meeting and Conferences	6,772	77,129	44,656	57,039	185,596	39,159	58,597	97,756	283,352	269,251
Staff Travel	7,291	83,037	48,077	61,408	199,813	42,159	63,086	105,245	305,058	254,647
Data Processing and Accounting Services	4,799	54,661	31,648	40,423	131,531	27,752	41,528	69,280	200,811	203,963
Printing, Publications and Artwork	3,669	41,790	24,196	30,905	100,560	21,217	31,749	52,966	153,526	156,413
Arthritis Today Cost Recovery	-	140,179	-	-	140,179	-	-	-	140,179	145,651
Supplies	2,835	32,289	18,695	23,879	77,698	16,394	24,531	40,925	118,623	134,390
Telephone	2,893	32,949	19,077	24,367	79,286	16,729	25,033	41,762	121,048	118,936
Equipment Lease and Maintenance	2,813	32,034	18,547	23,690	77,084	16,264	24,337	40,601	117,685	112,260
Postage, Shipping and Delivery	2,124	24,193	14,007	17,891	58,215	12,283	18,380	30,663	88,878	95,204
Volunteer Travel	3,909	44,515	25,774	32,920	107,118	22,601	33,820	56,421	163,539	92,525
Advertising	2,656	30,248	17,513	22,369	72,786	15,357	22,981	38,338	111,124	72,652
Bank and Credit Card Fees	56	634	367	469	1,526	93,758	481	94,239	95,765	71,661
Investment Management Fees	-	-	-	-	-	71,633	-	71,633	71,633	68,271
Insurance	1,622	18,475	10,697	13,663	44,457	9,380	14,036	23,416	67,873	53,343
Materials Expense	1,666	18,975	10,986	14,032	45,659	9,634	14,416	24,050	69,709	42,135
Taxes and Licenses	298	3,394	1,965	2,510	8,167	1,723	2,579	4,302	12,469	25,059
Depreciation and Amortization	597	6,795	3,934	5,025	16,351	3,450	5,161	8,611	24,962	23,565
Membership Dues and Subscriptions	590	6,725	3,894	4,973	16,182	3,414	5,109	8,523	24,705	22,676
Uncollectible Pledges/Bequests	-	-	-	-	-	12,501	-	12,501	12,501	16,537
Media Development Cost	95	1,087	629	804	2,615	552	826	1,378	3,993	7,116
Miscellaneous	238	2,713	1,571	2,007	6,529	1,108	2,062	3,170	9,699	7,049
<b>TOTAL OPERATING EXPENSES</b>	<b>768,729</b>	<b>2,188,178</b>	<b>1,910,909</b>	<b>1,499,622</b>	<b>6,367,438</b>	<b>1,063,118</b>	<b>1,576,046</b>	<b>2,639,164</b>	<b>9,006,602</b>	<b>8,048,133</b>
Share Expense	601,853	1,060,029	24,652	345,126	2,031,660	320,473	246,518	566,991	2,598,651	1,499,432
<b>TOTAL FUNCTIONAL EXPENSES 2010</b>	<b>\$ 1,370,582</b>	<b>\$ 3,248,207</b>	<b>\$ 1,935,561</b>	<b>\$ 1,844,748</b>	<b>\$ 8,399,098</b>	<b>\$ 1,383,591</b>	<b>\$ 1,822,564</b>	<b>\$ 3,206,155</b>	<b>\$ 11,605,253</b>	
<b>TOTAL FUNCTIONAL EXPENSES 2009</b>	<b>\$ 1,607,343</b>	<b>\$ 2,571,190</b>	<b>\$ 997,172</b>	<b>\$ 1,527,003</b>	<b>\$ 6,702,708</b>	<b>\$ 1,122,127</b>	<b>\$ 1,722,730</b>	<b>\$ 2,844,857</b>		<b>\$ 9,547,565</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**ARTHRITIS FOUNDATION, PACIFIC REGION, INC.**

**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2010

With Summarized Totals for the Year Ended December 31, 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 4,014,010	\$ 1,039,104
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	24,962	23,565
Noncash Contribution Received on Acquisition of San Diego Chapter	(65,448)	-
Provision for Uncollectible Bequests Receivable	12,501	16,537
Reinvested Interest and Dividends	(274,753)	(141,911)
Change in Value of Beneficial Interest in Charitable Remainder Trusts	32,002	(231,763)
Change in Value of Beneficial Interest in Perpetual Trusts	(3,650,405)	(1,061,419)
Net Realized and Unrealized Gains on Investments	(699,825)	(355,004)
Contribution of Beneficial Interest in Charitable Remainder Trusts	(763,006)	(46,996)
(Increase) Decrease in:		
Accounts Receivable	162,645	(125,977)
Contributions Receivable	207,181	208,164
Pledges Receivable	(2,903)	(50,000)
Bequests Receivable	225,526	(240,140)
Due from National Office	(82,113)	82,463
Prepaid Expenses and Other Assets	(14,805)	37,675
Beneficial Interest in Charitable Remainder Trusts	2,350,933	507,000
Beneficial Interest in Perpetual Trusts	(399,176)	-
Increase (Decrease) in:		
Research Awards and Grants Payable	(205,000)	(60,000)
Due to National Office	(919,678)	(1,413,429)
Accounts Payable, Accrued Expenses and Other Liabilities	109,028	198,258
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>61,676</u>	<u>(1,613,873)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Property and Equipment	(17,047)	(4,088)
Proceeds from Notes Receivable	3,215	1,150
Purchase of Investments	(1,153,403)	(5,664,959)
Sale of Investments	805,143	3,993,208
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(362,092)</u>	<u>(1,674,689)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of Note Payable	-	(5,018)
Proceeds from Note Payable	-	119,018
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>-</u>	<u>114,000</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(300,416)</u>	<u>(3,174,562)</u>
Cash and Cash Equivalents - Beginning of Year	<u>768,178</u>	<u>3,942,740</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 467,762</u></u>	<u><u>\$ 768,178</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements

**ARTHRITIS FOUNDATION, PACIFIC REGION, INC.**

**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2010

With Summarized Totals for the Year Ended December 31, 2009

	<u>2010</u>	<u>2009</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES:</b>		
Fair Value of Assets Acquired		
Contributions Receivable	\$ 400,327	\$ -
Due from National Office	10,129	-
Prepaid Expenses and Other Assets	8,734	-
Liabilities Assumed		
Accounts Payable, Accrued Expenses and Other Liabilities	(16,980)	-
Due to National Office	<u>(336,762)</u>	<u>-</u>
 <b><i>NONCASH CONTRIBUTION RECEIVED ON ACQUISITION OF SAN DIEGO CHAPTER</i></b>	 <b><i>\$ 65,448</i></b>	 <b><i>\$ -</i></b>

The Accompanying Notes are an Integral Part of These Financial Statements



**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 1 - DESCRIPTION OF ORGANIZATION**

Arthritis Foundation, Pacific Region, Inc. (the Region) (formerly known as the Southern California Chapter of the Arthritis Foundation) is the leading, volunteer-driven not-for-profit health organization serving those with arthritis by charter of the Arthritis Foundation, Inc. (the Foundation). The Region serves communities in Hawaii and Nevada, the Inland Empire, Los Angeles, Ventura and, Orange Counties, the San Fernando Valley, San Luis Obispo, Santa Barbara, the Greater Sacramento area, and the Central Valleys.

The mission of the Foundation is to improve lives through leadership in the prevention, control and cure of arthritis and related diseases. Arthritis is the nation's leading cause of disability, and affects 50 million adults and 300,000 children. The Foundation fulfills its mission through funding research to improve lives and find a cure, providing public health education and evidence-based exercise programs, and pursuing public policy and legislation (advocacy). The Foundation provides community-based services such as land and water-based exercise classes, self-help education courses, free literature, summer camps for children who have juvenile arthritis, professional education and physician referrals. The Foundation also funds research, advances public policy issues and collaborates with key public and private groups to affect positive change for people living with arthritis. The many services offered to people with arthritis and their families help offset the physical and emotional impact of the disease. The Foundation's volunteers and its paid professional staff support fundraising programs, which help the Foundation support both research and program efforts.

Effective April 1, 2010, the Arthritis Foundation, San Diego Chapter, Inc. (San Diego Chapter) was acquired by the Southern California Chapter of the Arthritis Foundation (the Chapter). The Chapter assumed all assets, liabilities, and net assets of the San Diego Chapter. As part of this acquisition and reorganization, the Chapter amended and restated its articles of incorporation and bylaws to henceforth be known as Arthritis Foundation, Pacific Region, Inc.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) BASIS OF PRESENTATION**

The financial statements of the Region have been prepared utilizing the accrual basis of accounting.

**(b) ACCOUNTING**

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Region are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) ACCOUNTING (continued)**

- **Temporarily Restricted.** The Region reports gifts of cash and other assets as temporarily 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 the purpose of the 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 purpose or time restrictions. The Region has \$7,169,020 of temporarily restricted net assets at December 31, 2010.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Region to expend all of the income (or other economic benefits) derived from the donated assets. The Region has \$17,477,536 of permanently restricted net assets at December 31, 2010.

**(c) CASH AND CASH EQUIVALENTS**

For financial statement purposes, the Region considers all highly liquid investments with an initial maturity of less than three months when purchased, to be cash and cash equivalents. The carrying value of cash and cash equivalents at December 31, 2010 approximates its fair value.

The Region maintains its temporary cash investments in bank deposit accounts and other investment accounts which, at times, may exceed federally insured limits. The Region has not experienced any losses in such accounts. The Region believes it is not exposed to any significant credit risk on cash and cash equivalents.

**(d) INVESTMENTS**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value. Interest and dividend income and gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

The Region holds investments in the form of short-term money market investments, corporate bonds and common stocks of publicly held companies. Market values of such investments and credit ratings of bond issuers are routinely reviewed by the Board of Directors.

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(e) ACCOUNTS RECEIVABLE**

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past due receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amount due. Interest income on long-term interest-bearing notes receivable is recognized as the interest accrues under the terms of the notes. At December 31, 2010, all accounts receivable are deemed fully collectible; therefore, no allowance for doubtful accounts has been established.

**(f) CONTRIBUTIONS AND PLEDGES RECEIVABLE**

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues in the period received. Conditional promises to give are not included as support until such time as the conditions are substantially met.

**(g) BEQUESTS RECEIVABLE**

The Region has been named a beneficiary in a number of bequests. Bequests are not recognized as support until all of the following conditions are met: the demise of testator, the amount of the bequest is known, the Region is certain that, based on the estate's net assets, the amount bequeathed is realizable and the probate court has declared the will valid.

Certain gifts have not been recorded in the accompanying financial statements because donors' wills have not yet been declared valid by the probate court and/or the value of the amounts to be received is not yet determinable. The Region will record and report all such gifts as the value is determined.

**(h) REAL ESTATE HELD FOR SALE**

Real estate held for sale is recorded at the lower of fair value as of the date received or appraised value. The Region has the authority and intention to sell these properties.

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(i) BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS**

The Region has been designated as the beneficiary of assets held in charitable remainder trusts administered by other trustees. The Region recognizes temporarily restricted contribution revenue and, as an asset, the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments to the receivable to reflect the revaluation of the present value of the estimated future payments to the lifetime beneficiaries are recognized in the statement of activities as a change in value of beneficial interest in charitable remainder trusts. The carrying values of certain trusts have not yet been determined. Accordingly, such assets have not been recorded in the accompanying financial statements.

**(j) BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

Donors have established and funded trusts, which are administered by organizations other than the Region. Under the terms of the trusts, the Region has the irrevocable right to receive all or a portion of the income earned on the trust assets either in perpetuity or for the life of the trust. The Region does not control the assets held by outside trusts. Annual distributions from the trusts are reported as investment income. Adjustments to the beneficial interest to reflect changes in the fair value are reflected in the statement of activities as a change in value of beneficial interest in perpetual trusts. The carrying values of certain trusts have not yet been determined. Accordingly, such assets have not been recorded in the accompanying financial statements.

**(k) LONG-LIVED ASSETS**

The Region reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended December 31, 2010.

**(l) 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 over the estimated useful lives of the related assets on a straight-line basis as follows:

Leasehold Improvements	5 Years
Computer Equipment	3 - 5 Years
Office Equipment	3 - 10 Years

The cost of maintenance and repairs is recorded as expense as incurred; significant renewals and betterments are capitalized.

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(m) DEFERRED REVENUE**

Conditional grants, which are paid in advance, are deferred and recognized as contribution revenue in the period when the condition is met.

**(n) 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 non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided. For the year ended December 31, 2010, the Region recognized \$931,290 of contributed services for various programs, as well as \$126,650 of contributed goods and services for special events, for a total of \$1,057,940 of contributed goods and services.

**(o) ADVERTISING COSTS**

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2010 were \$111,124.

**(p) RESEARCH AWARDS AND GRANTS**

Research awards and grants are charged against operations when authorized by the Region's Board of Directors. The actual payment of the grant may not necessarily occur in the year of authorization.

**(q) INCOME TAXES**

The Region is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the corresponding California provisions.

**(r) FUNCTIONAL ALLOCATION**

The costs 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 by a method that best measures the relative degree of benefit. The Region uses time estimates to allocate indirect costs.

**(s) USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(t) COMPARATIVE TOTALS**

The financial statements include certain prior-year summarized comparative information in total but not by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Region's financial statements for the year ended December 31, 2009 from which the summarized information was derived.

**(u) RECLASSIFICATION**

For comparability, certain December 31, 2009 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at December 31, 2010.

**(v) SUBSEQUENT EVENTS**

The Region has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2010 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through April \_\_, 2011 the date these financial statements were available to be issued.

**NOTE 3 - INVESTMENTS**

Investments at fair value at December 31, 2010 consist of the following:

Bonds/Bond Funds	\$ 2,301,914
Common Stocks	7,317,677
Money Market	<u>549,616</u>
<b><i>TOTAL INVESTMENTS</i></b>	<b><u>\$ 10,169,207</u></b>

Investment and royalty income is comprised of the following for the year ended December 31, 2010:

Investment Income from	
Perpetual Trusts	\$ 1,115,490
Interest and Dividends	277,999
Realized and Unrealized Gains	<u>699,825</u>
<b><i>TOTAL INVESTMENT AND ROYALTY INCOME</i></b>	<b><u>\$ 2,093,314</u></b>

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 4 - FAIR VALUE MEASUREMENTS**

The Region has implemented an accounting standard for those assets (and liabilities) that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets (or liabilities). Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 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 following table presents information about the Region's assets that are measured at fair value on a recurring basis at December 31, 2010 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements Using			
	Year Ended December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bonds/Bond Funds	\$ 2,301,914	\$ 2,301,914	\$ -	\$ -
Common Stock	7,317,677	7,317,677	-	-
Money Market	549,616	549,616	-	-
<b><i>TOTAL INVESTMENTS</i></b>	10,169,207	10,169,207	-	-
Beneficial Interest in:				
Charitable Remainder Trusts	3,144,283	-	-	3,144,283
Perpetual Trusts	11,860,890	-	-	11,860,890
<b><i>TOTAL ASSETS AT FAIR VALUE</i></b>	<b>\$ 25,174,380</b>	<b>\$ 10,169,207</b>	<b>\$ -</b>	<b>\$ 15,005,173</b>

The fair values of marketable securities within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 4 - FAIR VALUE MEASUREMENTS** (continued)

The fair values of beneficial interests within Level 3 inputs were determined as described in Notes 2(i) and 2(j).

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Temporarily Restricted	Permanently Restricted	
	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trusts	Total
Beginning Balance	\$ 4,764,212	\$ 7,811,309	\$ 12,575,521
Contributions	763,006	-	763,006
Donor Reclassifications	(383,665)	399,176	15,511
Change in Value of Beneficial Interest - Net Unrealized Gains (Losses)	(32,002)	3,650,405	3,618,403
Distributions	(1,967,268)	-	(1,967,268)
<b><i>ENDING BALANCE</i></b>	<b><i>\$ 3,144,283</i></b>	<b><i>\$ 11,860,890</i></b>	<b><i>\$ 15,005,173</i></b>

**NOTE 5 - NOTES RECEIVABLE**

The Region has a \$8,396 mortgage note receivable with a 10% interest rate, principal and interest installments of \$537 through September 2011. This note receivable is secured by land.

The Region has an \$84,000 mortgage note receivable with an 8% interest rate, interest only payable at \$710 per month through June 2010. Although this note receivable is overdue, it is secured by land and therefore no allowance has been provided.

**NOTE 6 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS**

The Region is the beneficiary of sixteen charitable remainder trusts administered by other trustees. Assets held in charitable remainder trusts totaled \$3,144,283 at December 31, 2010 representing the portion of the net present value of the charitable remainder trusts for which the Region is the designated beneficiary.



**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 7 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

The Region is the beneficiary of eight trusts whose assets are not in the possession of the Region. The Region has legally enforceable rights or claims to such assets, including annual income as follows:

100% interest in a 2007 perpetual trust; no income was received during the year ended December 31, 2010.	\$ 4,072,903
16.67% interest in a 1969 perpetual trust; income received during the year ended December 31, 2010 was \$967,949. A portion of the assets in this trust are oil and gas royalties, the carrying value has been recorded at a 30% discount. This perpetual trust was valued for the first time in 2010.	3,664,957
20% interest in a 1975 perpetual trust; income received during the year ended December 31, 2010 was \$32,793.	1,216,559
25% interest in a 1977 perpetual trust; income received during the year ended December 31, 2010 was \$45,987.	1,190,280
15% interest in a 1978 perpetual trust; income received during the year ended December 31, 2010 was \$21,754.	630,258
50% interest in a 1988 perpetual trust; income received during the year ended December 31, 2010 was \$14,310.	479,223
5% interest in a 1975 perpetual trust; income received during the year ended December 31, 2010 was \$16,807.	420,834
5% interest in a 1985 perpetual trust; income received during the year ended December 31, 2010 was \$7,500.	185,876
<b><i>TOTAL BENEFICIAL INTEREST IN PERPETUAL TRUSTS</i></b>	<b><u>\$ 11,860,890</u></b>

**NOTE 8 - PROPERTY AND EQUIPMENT**

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

Leasehold Improvements	\$ 25,971
Computer Equipment	101,200
Office Equipment	<u>182,513</u>
<b><i>TOTAL</i></b>	<b>309,684</b>
Less: Accumulated Depreciation and Amortization	<u>(250,441)</u>
<b><i>PROPERTY AND EQUIPMENT (NET)</i></b>	<b><u>\$ 59,243</u></b>

Depreciation and amortization expense for the year ended December 31, 2010 was \$24,962.

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 9 - ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

Accounts payable, accrued expenses and other liabilities at December 31, 2010 consist of the following:

Accrued Pension Liability (Note 16)	\$	407,798
Other Accrued Expenses		296,395
Accrued Vacation		227,373
Deferred Revenue		220,607
Accrued Payroll		69,636
Children's Hospital Los Angeles, Center of Excellence - Rheumatology		45,000
<b><i>TOTAL ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES</i></b>	<b>\$</b>	<b>1,266,809</b>

**NOTE 10 - LOAN PAYABLE**

As part of the financial arrangements surrounding the prior year merger of the Region and the Northeastern Chapter of the Arthritis Foundation, the Region received a loan of \$114,000 from Arthritis Foundation, Inc. National Office (the National Office). Repayment of the loan will be made over 5 years through share payments on revenue above a certain baseline. If revenue for a given year does not exceed the baseline revenue, no payment is owed. The loan is interest free and any principal outstanding at the end of the 5 year period will be forgiven, without recourse. No payments were made on the loan during the year ended December 31, 2010.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

**(a) OPERATING LEASES**

The Region leases real property and equipment under non-cancelable operating leases that expire through 2018.

The following is a schedule of future minimum lease payments on non-cancelable operating leases:

**Years Ending December 31**

2011	\$	231,372
2012		211,697
2013		185,310
2014		172,998
2015		176,946
Thereafter		401,416
<b><i>TOTAL</i></b>	<b>\$</b>	<b>1,379,739</b>

Rental expense for the year ended December 31, 2010 was \$404,712.

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 11 - COMMITMENTS AND CONTINGENCIES** (continued)

**(b) LEGAL PROCEEDINGS**

In the ordinary course of conducting its business, the Region becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Region which, from time to time, may have an impact on changes in net assets. The Region does not believe that these proceedings, individually or in the aggregate, would have a material effect on the accompanying financial statements.

**(c) RESEARCH AWARDS AND GRANTS**

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, total commitments of \$115,000 are expected to be paid within one year.

**(d) LINE OF CREDIT**

The Region has a line of credit in the amount of \$1,000,000 from a financial institution at an interest rate equal to the prime rate plus 1.75%. The line of credit is unsecured and due on June 1, 2011. No amounts were drawn on the line of credit at December 31, 2010. At December 31, 2010, the prime rate was 3.25%.

**NOTE 12 - NET ASSETS**

Temporarily restricted net assets at December 31, 2010 are available for the following purposes:

Specific Programs Conducted by the Region	\$ 2,956,981
Charitable Remainder Trusts	3,144,283
Research	<u>1,067,756</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ 7,169,020</u></b>

Permanently restricted net assets consist of the following at December 31, 2010:

Perpetual Trusts	\$ 11,860,890
Other	<u>5,616,646</u>
<b>TOTAL PERMANENTLY RESTRICTED NET ASSETS</b>	<b><u>\$ 17,477,536</u></b>

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 12 - NET ASSETS** (continued)

Net assets released from restrictions consist of the following for the year ended December 31, 2010:

Programs	\$ 559,148
Termination of Charitable Remainder Trusts	1,967,268
Research	<u>593,489</u>
<b><i>NET ASSETS RELEASED FROM RESTRICTIONS</i></b>	<b><u>\$ 3,119,905</u></b>

Contributing to the ending unrestricted net assets of \$1,298,845 is \$996,196 due to the National Office. Part of this due to National Office liability is for amounts due from pledges and bequests receivable and charitable remainder trusts. Therefore a substantial portion of the due to National Office liability is not payable until future years upon the payment or liquidation of such pledges and bequests receivable and charitable remainder trusts.

**NOTE 13 - ENDOWMENTS**

The Region's endowments consist of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts and bequests to either provide a permanent endowment, which is to provide a permanent source of income to the Region, or a term endowment, which is to provide income for a specified period to the Region (See Note 12). Beneficial interests in charitable remainder trusts and perpetual trusts administered by outside trustees are not considered part of the Region's endowments.

The Region's management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

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 an investment horizon of five to seven years. The endowments are also 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.

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 13 - ENDOWMENTS** (continued)

The Region's Board of Directors has developed a spending policy that distributes a specific payout rate of the endowment base to support the Region's programs. The endowment base is defined as a three-year moving average of the market value of the total endowment portfolio (calculated as of the last day of December for the prior three years). The distribution or payout rate is calculated at a specific fixed percentage of the base. Such a policy allows for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy minimizes the probability of invading the principal over the long term.

**Endowment Net Asset  
Composition by Type of Fund  
at December 31, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ -	\$ -	\$ 5,616,646	\$ 5,616,646

**Changes in Endowment Net  
Assets for the Year Ended  
December 31, 2010**

Endowment Net Assets -				
Beginning of Year	\$ -	\$ -	\$ 5,666,646	\$ 5,666,646
Investment Income	-	15,405	-	15,405
Appropriation of Endowment				
Assets for Expenditure	-	(15,405)	-	(15,405)
Released from Restrictions	-	-	(50,000)	(50,000)
<b><i>ENDOWMENT NET ASSETS - END OF YEAR</i></b>	<b><i>\$ -</i></b>	<b><i>\$ -</i></b>	<b><i>\$ 5,616,646</i></b>	<b><i>\$ 5,616,646</i></b>

**NOTE 14 - RELATED PARTY TRANSACTIONS**

The Region is required to share 27%, 35%, or 45% of unrestricted public support and bequests (less certain allowances) with the National Office. The Region is also allocated a portion of certain contributions received by the National Office. The Region reimburses the National Office for a portion of costs associated with the Region's magazine, its direct mail program, computer system support, financial services and educational and promotional materials referred to as share expenses. For the year ended December 31, 2010, the Region's share of contributions from the National Office for direct market membership was \$1,332,155. At December 31, 2010, the amount owed by the National Office is \$228,497. For the year ended December 31, 2010, the Region's share expense was \$2,598,651. At December 31, 2010, the amount due to the National Office is \$996,196 (See Note 12).

The Region paid an outside legal firm, in which a Board member serves as a partner, \$83,078 for legal services rendered. The services were approved by the Board of Directors and the legal fees are considered reasonable with reference to similar services offered by unrelated legal firms.

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 15 - JOINT COSTS**

The Region incurred joint costs of \$412,968 during the year ended December 31, 2010 for informational materials and activities that included fundraising appeals, such as the Region's direct mail. Joint costs for the year ended December 31, 2010 were allocated as follows:

Public Health Education	\$	289,078
Fundraising		<u>123,890</u>
<b>TOTAL JOINT COSTS</b>	<b>\$</b>	<b><u>412,968</u></b>

**NOTE 16 - PENSION PLANS**

The Region has a defined benefit pension plan (the Plan) covering substantially all of its employees. Benefits are based on years of service and compensation. Contributions are determined in accordance with the Plan's provisions. The Plan was frozen effective December 31, 2008 and as a result, no benefits accrue after that date.

The Plan's funded status as of December 31, 2010 is recorded as follows:

<b>ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATIONS:</b>		
Accumulated Benefit Obligation	\$	<u>1,482,521</u>
Plan Assets at Fair Value	\$	1,074,723
Projected Benefit Obligation		<u>1,482,521</u>
<b>TOTAL ACCRUED PENSION LIABILITY</b>	<b>\$</b>	<b><u>407,798</u></b>

Net periodic pension cost for the year ended December 31, 2010 includes the following components:

Interest Cost	\$	77,117
Expected Return on Plan Assets		(44,338)
Amortization of Actuarial Loss		27,950
Other		<u>(897)</u>
<b>NET PERIODIC PENSION COST</b>	<b>\$</b>	<b><u>59,832</u></b>
Benefits Paid	\$	40,959
Employer Contributions		-

**ARTHRITIS FOUNDATION,  
PACIFIC REGION, INC.**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 16 - PENSION PLANS** (continued)

The actuarial assumptions used were:

Discount Rate	5.2%
Rate of Future Compensation Increase	Not Applicable
Expected Long-Term Rate of Return on Plan Assets	4.3%

The Plan is utilizing a market-related value of assets to determine expected return, realizing 20% of the accumulated total of the past five years of gains and losses.

The investment strategy of the Region has the following objectives:

- To achieve a balanced return of current income and appropriate growth of principal.
- To achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of Plan assets.
- To preserve capital and minimize costs.

Risk control is an important element in the investment of Plan assets and is achieved through a diversified target allocation.

No employer contributions are expected during the year ended December 31, 2011. No plan assets are expected to be returned to the employer during the year ended December 31, 2011.

Benefits expected to be paid as of December 31, 2010 are:

<b>Years Ending December 31</b>	
2011	\$ 45,448
2012	41,554
2013	37,888
2014	36,162
2015	36,061
Five Years Thereafter	170,673
<b><i>TOTAL</i></b>	<b>\$ 367,786</b>

The Plan is funded in accordance with the Employee Retirement Income Security Act of 1974. Plan assets are 100% invested in mutual funds (71% in debt security funds and 29% in short-term funds) at December 31, 2010.

In addition, the Region has a 401(k) Retirement Plan (the Plan), which meets the requirements of the Employee Retirement Income Security Act (ERISA). The Plan covers all eligible employees of the Region. The Region will match \$1.00 for every \$1.00 contributed to the plan up to 3% of an eligible employee's salary. For an additional 2%, the Region will match \$0.50 for every \$1.00 contributed to the plan. The maximum employer match under the plan is 4%. Pension expense for the year ended December 31, 2010, was \$62,172. Effective, January 1, 2010, the Region amended the plan to eliminate the requirement for an employer matching contribution for plan participants.