Arthritis Foundation, Inc.
National Office

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

With Summarized Financial Information as of and for the
Year ended December 31, 2010

and

Independent Auditors' Report

Metcalf Davis

Certified Public Accountants

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Certified Public Accountants

Report of Independent Auditors

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 not-for-profit 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 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 2010 financial statements and, in our report dated May 17, 2011, 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. 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, 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.

Metcalf Davis

Atlanta, Georgia
June 4, 2012

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE
Statement of Financial Position
December 31, 2011 with Summarized Financial Information as of December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2011	Totals 2010
Assets					
Cash and cash equivalents	$ 5,171,271	$ 4,107,181	$ -	$ 9,278,452	$ 10,049,897
Investments	4,316,950	11,877,629	5,386,595	21,581,174	21,607,941
Due from Chartered Entities	6,753,030	1,037,333	-	7,790,363	7,228,374
Accounts receivable, net	2,723,227	3,031	-	2,726,258	3,814,896
Contributions receivable, net	941,689	5,710,880	-	6,652,569	4,930,483
Prepaid expenses and other assets	1,672,474	-	-	1,672,474	1,479,937
Inventory	430,906	-	-	430,906	610,750
Beneficial interests in perpetual trusts	-	-	7,303,296	7,303,296	7,938,763
Property and equipment, net	7,177,625	-	-	7,177,625	7,302,340
Total assets	$ 29,187,172	$ 22,736,054	$ 12,689,891	$ 64,613,117	$ 64,963,381
Liabilities and Net Assets					
Accounts payable	$ 3,288,050	$ -	$ -	$ 3,288,050	$ 2,701,189
Accrued expenses and other liabilities	3,146,911	-	-	3,146,911	2,862,505
Research awards and grants payable	5,836,605	-	-	5,836,605	3,821,886
Due to Chartered Entities	2,957,580	-	-	2,957,580	2,905,292
Liabilities under split interest agreements	-	9,699,538	-	9,699,538	9,754,063
Funds held in trust for Chartered Entities	1,014,307	-	208,500	1,222,807	232,624
Debt obligations	3,776,286	-	-	3,776,286	4,474,191
Total liabilities	20,019,739	9,699,538	208,500	29,927,777	26,751,750
Net assets committed for future research grants	5,230,000	700,000	-	5,930,000	3,890,000
Other net assets	3,937,433	12,336,516	12,481,391	28,755,340	34,321,631
Total net assets	9,167,433	13,036,516	12,481,391	34,685,340	38,211,631
Total liabilities and net assets	$ 29,187,172	$ 22,736,054	$ 12,689,891	$ 64,613,117	$ 64,963,381

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE
Statement of Activities
Year Ended December 31, 2011 with Summarized Financial Information for the Year Ended December 31, 2010

		Temporarily	Permanently	Totals	
Operating Activities	Unrestricted	Restricted	Restricted	2011	2010
Direct response marketing contributions	$ 14,396,348	$ -	$ -	$ 14,396,348	$ 14,758,157
Chartered Entities share of direct response marketing	(5,312,052)	-	-	(5,312,052)	(5,389,936)
National share of direct response marketing	9,084,296	-	-	9,084,296	9,368,221
Corporate contributions	2,511,994	6,240,405	-	8,752,399	6,952,836
Net assets released from restrictions (corporate)	423,825	(423,825)	-	-	-
Chartered Entities share of corporate contributions	(1,923,287)	-	-	(1,923,287)	(2,102,363)
National share of corporate contributions	1,012,532	5,816,580	-	6,829,112	4,850,473
Bequests/planned giving	19,329	325,870	-	345,199	707,060
Other gifts	157,298	457,492	-	614,790	1,087,793
Total direct public support	10,273,455	6,599,942	-	16,873,397	16,013,547
Chartered Entities research contributions	-	3,024,085	-	3,024,085	2,600,187
Contributed goods and services	171,862	-	-	171,862	445,347
Total public support	10,445,317	9,624,027	-	20,069,344	19,059,081
Government grants	548,922	-	-	548,922	980,548
Endowment return designated for operations	-	210,522	-	210,522	240,360
Investment income designated for operations	336,289	372,784		709,073	801,479
Advertising	6,610,860	-	-	6,610,860	5,778,168
Sales to the public	2,664,650	-	-	2,664,650	3,342,402
Rental income	692,850	-	-	692,850	669,895
Other income and losses	389,939	(54,917)	-	335,022	171,349
Other external revenue	11,243,510	528,389	-	11,771,899	11,984,201
Contribution share	8,115,720	38,800	-	8,154,520	7,448,855
Bequest share	9,143,739	1,195,583	-	10,339,322	9,206,587
Technology fees - cost recovery	1,836,322	-	-	1,836,322	1,946,982
Sales and service fees - cost recovery	429,522	-	-	429,522	734,061
Arthritis Today - cost recovery	1,287,282	-	-	1,287,282	1,552,098
Total payments from chapters	20,812,585	1,234,383	-	22,046,968	20,888,583
Net assets released from restrictions	12,311,541	(12,311,541)	-	-	-
Total revenues, gains and public support	54,812,953	(924,742)	-	53,888,211	51,931,865
Expenses					
Research	10,608,677	-	-	10,608,677	7,391,925
Public health education	23,768,165	-	-	23,768,165	23,089,225
Professional education and training	503,770	-	-	503,770	342,214
Patient and community services	8,055,331	-	-	8,055,331	6,927,262
Fundraising	6,356,512	-	-	6,356,512	6,286,293
Management and general	6,123,341	-	-	6,123,341	6,557,704
Total expenses	55,415,796	-	-	55,415,796	50,594,623
Change in net assets from operating activities	(602,843)	(924,742)	-	(1,527,585)	1,337,242
Non-operating Activities					
Endowment return (under) over spending policy	-	(252,901)	-	(252,901)	179,541
Unrealized and realized (losses) gains on investments other than endowment	(156,621)	(451,531)	-	(608,152)	1,311,537
Unrealized (losses) gains on beneficial interest in perpetual trusts	-	-	(635,467)	(635,467)	767,550
Change in valuation of split interest agreements	-	(502,186)	-	(502,186)	(1,017,898)
Change in net assets from non-operating activities	(156,621)	(1,206,618)	(635,467)	(1,998,706)	1,240,730
Change in net assets	(759,464)	(2,131,360)	(635,467)	(3,526,291)	2,577,972
Net assets, beginning of year	9,926,897	15,167,876	13,116,858	38,211,631	35,633,659
Net assets, end of year	$ 9,167,433	$ 13,036,516	$ 12,481,391	$ 34,685,340	$ 38,211,631

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE
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
Expenses										
Peer reviewed research awards	$ 8,262,475	$ -	$ -	$ -	$ 8,262,475	$ -	$ -	$ -	$ 8,262,475	$ 5,357,148
Other awards and grants	48,664	136,532	1,625	26,304	213,125	-	-	-	213,125	1,059,637
Salaries	713,034	3,692,864	162,876	1,699,327	6,268,101	1,843,227	3,104,076	4,947,303	11,215,404	10,731,595
Payroll taxes	47,678	266,336	12,187	120,711	446,912	128,342	216,428	344,770	791,682	760,926
Employee benefits	108,426	566,379	28,518	259,229	962,552	258,233	572,541	830,774	1,793,326	1,597,726
Advertising commissions	-	363,954	-	349,681	713,635	-	-	-	713,635	628,176
Data processing and accounting services	54,888	441,377	25,163	198,780	720,208	131,196	449,915	581,111	1,301,319	1,259,166
Professional fees and contract services	389,435	4,207,447	61,827	1,381,009	6,039,718	344,328	520,181	864,509	6,904,227	5,277,908
Professional services - contributed	102,459	-	-	-	102,459	-	-	-	102,459	218,218
Supplies	13,031	70,792	2,548	26,527	112,898	20,849	43,264	64,113	177,011	156,677
Supplies - contributed	10,410	31,925	694	9,716	52,745	8,328	8,328	16,656	69,401	227,129
Printing, publications, and artwork	14,204	1,642,672	6,166	1,160,985	2,824,027	37,694	9,126	46,820	2,870,847	2,510,627
Materials expenses	6,408	193,421	2,205	167,718	369,752	61,753	6,482	68,235	437,987	673,312
Membership/direct response marketing	243,893	8,424,211	121,946	195,114	8,985,164	2,654,668	121,947	2,776,615	11,761,779	11,407,418
Corporate direct	17,744	70,977	6,825	6,825	102,371	27,299	6,825	34,124	136,495	77,785
Fulfillment	-	390,431	-	375,196	765,627	-	-	-	765,627	701,665
Postage, shipping, and delivery	7,614	1,264,409	1,554	1,088,830	2,362,407	19,752	5,793	25,545	2,387,952	2,439,658
Telephone	18,019	92,826	14,328	62,628	187,801	79,308	243,879	323,187	510,988	550,700
Occupancy	64,644	198,243	4,310	60,335	327,532	51,716	51,716	103,432	430,964	375,126
Insurance	24,857	76,228	1,657	23,200	125,942	19,886	19,886	39,772	165,714	142,343
Staff travel	59,165	170,460	4,547	76,125	310,297	165,516	64,842	230,358	540,655	381,799
Volunteer travel and leadership development	108,369	156,681	3,113	90,515	358,678	67,471	58,829	126,300	484,978	291,170
Meeting and conferences	62,984	219,657	7,893	147,947	438,481	33,596	28,117	61,713	500,194	464,575
Equipment lease and maintenance	42,938	147,916	22,202	98,885	311,941	111,843	390,293	502,136	814,077	842,147
Membership dues and subscriptions	18,618	48,064	1,282	19,365	87,329	26,009	54,873	80,882	168,211	180,888
Advertising	-	356,053	-	199,961	556,014	138,652	10,265	148,917	704,931	988,651
Miscellaneous	72,535	184,191	3,856	63,891	324,473	49,898	58,812	108,710	433,183	251,675
Depreciation	73,686	225,971	4,912	68,774	373,343	58,949	58,949	117,898	491,241	414,724
Uncollectible receivables	22,499	128,148	1,536	77,753	229,936	17,999	17,974	35,973	265,909	626,054
Total expenses	$ 10,608,677	$ 23,768,165	$ 503,770	$ 8,055,331	$ 42,935,943	$ 6,356,512	$ 6,123,341	$ 12,479,853	$ 55,415,796	$ 50,594,623

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.

NATIONAL OFFICE

Statement of Cash Flows

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

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ (3,526,291)	$ 2,577,972
Adjustments to reconcile change in net assets to		
net cash provided by (used in) operating activities:		
Depreciation	491,241	414,724
Donated investments	(141,416)	(23,055)
Net unrealized losses (gains) on beneficial interests in perpetual trusts	635,467	(767,550)
Net realized and unrealized losses (gains) on investments	739,817	(1,660,127)
Net change in valuation of split interest agreements	502,186	1,017,898
Contributions restricted for long-term investment	-	(306,960)
Changes in asset and liabilities:		
(Increase) decrease in due from Chartered Entities	(561,989)	2,048,693
Decrease (increase) in accounts receivable	1,088,638	(1,218,762)
(Increase) decrease in contributions receivable	(1,722,086)	855,268
(Increase) decrease in prepaid expenses and other assets	(192,537)	271,914
Decrease in inventory	179,844	55,493
Increase (decrease) in research awards and grants payable	2,014,719	(2,410,728)
Increase (decrease) in accounts payable	586,861	(267,445)
Increase in due to Chartered Entities	52,288	401,424
Increase (decrease) in accrued expenses and other liabilities	284,406	(724,651)
Increase in funds held in trust for Chartered Entities	990,183	-
Decrease in liabilities under split interest agreements	(556,711)	(1,054,453)
Net cash provided by (used in) operating activities	864,620	(790,345)
Cash flows from investing activities:		
Purchase of property and equipment	(366,526)	(490,134)
Purchase of investments	(9,499,922)	(10,214,466)
Proceeds from sale of investments	8,928,288	13,913,121
Net cash (used in) provided by investing activities	(938,160)	3,208,521
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	-	306,960
Payments on long-term debt	(400,000)	(400,000)
Payments on capital lease obligations	(297,905)	(30,872)
Net cash used in financing activities	(697,905)	(123,912)
Net (decrease) increase in cash and cash equivalents	(771,445)	2,294,264
Cash and cash equivalents at beginning of year	10,049,897	7,755,633
Cash and cash equivalents at end of year	$ 9,278,452	$ 10,049,897
Supplemental data:		
Interest paid by National Office	$ 116,771	$ 91,270
Non-cash investing and financing activities:		
Property acquired through capital leases	28,166	1,705,063

The accompanying notes are an integral part of this statement.

NOTE 1 – DESCRIPTION OF ORGANIZATION

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

The Arthritis Foundation is composed of a National Office and 13 chartered entities located throughout the United States. The chartered entities (10 regions and 3 chapters) are affiliated with the National Office via separate charter agreements. The charter agreement imposes certain obligations on the chartered entities including adhering to national policies and sharing revenue. The Arthritis Foundation operates under a single IRS 501(c)(3) group exemption. Each chartered entity is a separate legal corporation and files its own IRS form 990.

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 National Office 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 National Office 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 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 the National Office maintains them permanently. 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.

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.

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 National Office defines as non-operating. Non-operating includes all endowment returns in excess of the spending policy, unrealized gains and losses from operating accounts, unrealized gains and losses on beneficial interest in perpetual trusts and changes in valuation of split interest agreements.

Income Taxes – The National Office 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"). At times the National Office may be engaged in certain activities for which it is responsible for payment of unrelated business income tax. Deferred tax assets and liabilities are measured based on enacted tax laws and rates expected to apply to taxable income in the 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 results of operations of the National Office as of and for the years ended December 31, 2011 and 2010.

The National Office's policy is to record a liability for any tax position taken that is beneficial to the National Office, 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 2010 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 years ended December 31, 2010, 2009 and 2008 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 receivable, other than split-interest agreements, 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.

Cash and Cash Equivalents – Cash accounts at some institutions 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 National Office's uninsured cash balance was approximately $7,900,000. 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. Because of the short maturity of these financial instruments, the carrying value approximates the fair value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 National Office's 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 National Office.

Due to/from Chartered Entities – Amounts due to and from the chartered entities at year end arise as a result of transactions occurring between the two entities throughout the year. To clearly identify amounts to be received and paid, the National Office presents these amounts separately as receivables and payables on the statement of financial position. A chartered entity is a separately incorporated region or chapter holding a charter that was granted by the Board of Directors of the Arthritis Foundation, Inc.

Accounts Receivable – Accounts receivable consists of exchange transactions primarily related to government grants and sales and service fees and are stated at unpaid balances, less an allowance for doubtful accounts when deemed necessary. Receivables are considered past due 60 days after billing.

Allowance for Doubtful Accounts – Allowance for doubtful accounts on outstanding accounts and contributions receivable balances is recorded when deemed necessary based upon historical trends, current market risk assessments and specific donor considerations. Receivables are written off when management believes they will not be collected.

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

Split Interest Agreements – The National Office receives certain planned gift donations that benefit not only the National Office but also another beneficiary designated by the donor. These contributions are generally gifts to be received by the National Office in the future and are reported in contributions receivable. Split interest agreements for which the National Office is not the trustee are recorded at fair value. Split interest agreements for which the National Office is the trustee are recorded at fair value using the income method at the date of donation using discount rates commensurate with the risk involved. The discount ranges from three to ten percent.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Beneficial Interest 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. Under the perpetual trust arrangement, the National Office has recorded the asset and recognized permanently restricted contribution revenue at the fair value of its beneficial interest in the trust assets. Distributions received on the trust assets are recorded as unrestricted revenue in the statement of activities unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as net unrealized gains or losses on beneficial interest in perpetual trusts in the permanently restricted net asset class.

Funds Held in Trust for Chartered Entities – At the request of certain chartered entities, the National Office invests and manages funds on behalf of the chartered entity. These funds have been included within investments and funds held in trust for chartered entities on the statement of financial position.

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 National Office reevaluated its capitalization policy and increased the threshold to $5,000 beginning on January 1, 2011.

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 research grant application reviews and airline tickets for volunteer and staff travel.

In addition, the National Office receives services from a large number of volunteers who give significant amounts of their time to the National Office'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. Long-term promises to give are initially recorded at fair value using the income approach using discount rates commensurate with the risk involved.

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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 GAAP. Actual results could differ from these estimates.

Summarized 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 GAAP. Accordingly, such financial information should be read in conjunction with the National Office's financial statements as of and for the year ended December 31, 2010, from which the summarized financial information was derived.

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

NOTE 3 – RELATED PARTY TRANSACTIONS

The National Office receives, as public support, a share of contributions and bequests received by the chartered entities. Pursuant to a sharing formula, the National Office's share of contributions and bequests ranges from 27 percent to 45 percent and is comprised of the following:

	2011	2010
Membership/direct response marketing share	$ 3,530,244	$ 3,464,960
Organization-wide corporate contribution share	739,651	776,717
Contribution share	8,154,520	7,448,855
Bequest share	10,339,322	9,206,587
	$ 22,763,737	$ 20,897,119

NOTE 3 – RELATED PARTY TRANSACTIONS - Continued

The National Office also allocates a portion of certain contributions it receives from the public to the chartered entities, net of share expense, which is comprised of the following:

	2011	2010
Membership/direct response marketing share	$ 12,488,818	$ 12,833,182
Corporate contributions	2,660,723	2,876,732
Awards and grants	165,625	1,044,637
	$ 15,315,166	$ 16,754,551

Chartered entities 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 promotional materials which totaled $7,194,381 and $8,083,619 in 2011 and 2010, respectively.

NOTE 4 – INVESTMENTS

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

	2011	2010
Marketable securities		
U.S. Government securities	$ 1,308,843	$ 776,712
Corporate notes and bonds	2,488,769	3,749,815
Domestic equity mutual funds	3,562,164	2,860,477
Fixed income mutual funds	1,188,188	1,357,604
International equity mutual funds	1,112,256	7,037
	9,660,220	8,751,645
Split interest agreements		
U.S. Government securities	266,225	288,383
Corporate notes and bonds	238,005	203,391
Domestic equity mutual funds	5,933,783	6,565,150
Fixed income mutual funds	3,878,227	3,919,015
International equity mutual funds	1,586,555	1,862,203
	11,902,795	12,838,142
Total marketable securities	21,563,015	21,589,787
Certificates of deposit	18,159	18,154
Total investments	$ 21,581,174	$ 21,607,941

NOTE 4 – INVESTMENTS - Continued

The following summarizes the National Office's total investment return for the years ending December 31, 2011 and 2010 and the classification in the statement of activities.

	December 31, 2011		
	Unrestricted	Temporarily Restricted	Total
Dividend and interest income	$ 336,289	$ 462,070	$ 798,359
Net realized gains	72	174,480	174,552
Net unrealized losses	(156,693)	(757,676)	(914,369)
Total investment return	$ 179,668	$ (121,126)	$ 58,542

	December 31, 2010		
	Unrestricted	Temporarily Restricted	Total
Dividend and interest income	$ 442,410	$ 430,380	$ 872,790
Net realized (losses) gains	(67,529)	102,648	35,119
Net unrealized gains	158,858	1,466,150	1,625,008
Total investment return	$ 533,739	$ 1,999,178	$ 2,532,917

NOTE 5 – DUE FROM CHARTERED ENTITIES

The National Office had the following amounts due from chartered entities at December 31, 2011 and 2010:

	2011	2010
Share	$ 6,420,741	$ 6,277,696
Materials and services	1,376,522	1,283,275
Prior year share	-	99,496
Gross due from Charted Entities	7,797,263	7,660,467
Less allowance for doubtful accounts	(6,900)	(432,093)
Net due from Chartered Entities	$ 7,790,363	$ 7,228,374

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 National Office's assumptions based on the best information available in the circumstances. This category includes charitable remainder unitrusts and beneficial interests in perpetual trusts which are valued based on the market value of the underlying securities as provided by the trustee.

NOTE 6 – FAIR VALUE MEASUREMENTS - Continued

The following tables summarize the valuation of the National Office's marketable securities, charitable remainder unitrust and beneficial interest in perpetual trusts by the above hierarchy levels as of December 31, 2011 and 2010:

	Fair value measurement December 31, 2011			
	Level I	Level II	Level III	Total
U.S. Government securities	$ 312,883	$ 1,262,185	$ -	$ 1,575,068
Corporate notes and bonds				
Real estate industry	-	789,383	-	789,383
Financial services industry	-	1,454,044	-	1,454,044
Other	-	483,347	-	483,347
Domestic equity mutual funds				
Real estate industry	51,846	-	-	51,846
Financial services industry	251,293	-	-	251,293
Other	9,192,808	-	-	9,192,808
Fixed income mutual funds	5,066,415	-	-	5,066,415
International equity mutual funds	2,698,811	-	-	2,698,811
Total marketable securities	17,574,056	3,988,959	-	21,563,015
Charitable remainder unitrust	-	-	1,150,313	1,150,313
Beneficial interest in perpetual trusts	-	-	7,303,296	7,303,296
Total	$ 17,574,056	$ 3,988,959	$ 8,453,609	$ 30,016,624

NOTE 6 – FAIR VALUE MEASUREMENTS - Continued

	Fair value measurement December 31, 2010			
	Level I	Level II	Level III	Total
U.S. Government securities	$ 519,205	$ 545,890	$ -	$ 1,065,095
Corporate notes and bonds				
Real estate industry	-	1,057,197	-	1,057,197
Oil and gas industry	-	1,097	-	1,097
Financial services industry	-	1,302,577	-	1,302,577
Other	-	1,592,335	-	1,592,335
Domestic equity mutual funds				
Real estate industry	51,298	-	-	51,298
Financial services industry	2,549,276	-	-	2,549,276
Other	6,825,053	-	-	6,825,053
Fixed income mutual funds				
Financial services industry	1,115,673	-	-	1,115,673
Other	4,160,946	-	-	4,160,946
International equity mutual funds	1,869,240	-	-	1,869,240
Total marketable securities	17,090,691	4,499,096	-	21,589,787
Charitable remainder unitrust	-	-	1,233,195	1,233,195
Beneficial interest in perpetual trusts	-	-	7,938,763	7,938,763
Total	$ 17,090,691	$ 4,499,096	$ 9,171,958	$ 30,761,745

Valuation Techniques and Significant Inputs

Level II investments consist of U.S. government securities and corporate notes and bonds that are valued based on market prices for similar and actively traded investments.

Level III includes the National Office’s charitable remainder unitrust and beneficial interest in perpetual trusts. The fair value is based on the valuation performed by the outside trustee on the National Office’s portion of the underlying investments in the trusts using valuation methods that are appropriate for those investments.

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

NOTE 6 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the National Office's Level III reconciliation for the years ended December 31, 2011 and 2010:

	2011	2010
Beginning balance	$ 9,171,958	$ 8,298,258
(Decrease) increase in charitable remainder unitrust	(82,882)	106,150
Net unrealized (loss) gain	(635,467)	767,550
Ending balance	$ 8,453,609	$ 9,171,958

NOTE 7 – ENDOWMENTS

The National Office's endowment consists of ten individual funds established for research and operations.

National Office management understands Georgia's 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 National Office 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 National Office considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

If the market value of any fund classified as permanently restricted at year-end is below the amount determined to be permanently restricted, the deficit, which cannot be funded from temporarily restricted unspent earnings of the fund, is reported as a reduction in unrestricted net assets. There were no such deficiencies for the years ended December 31, 2011 and 2010.

NOTE 7 – ENDOWMENTS - Continued

The primary long-term financial objective for the National Office'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 are 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 National Office'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.

National Office policy requires that the endowment assets be governed by a spending policy that seeks to distribute a specific payout rate of the endowment base to support the National Office'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 percentage of the base as determined by the Board. The rate in the current year was 4.25 percent. The policy allows for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, the policy minimizes the probability of invading the principal over the long-term. Spending in a given year reduces the unit value of each endowment element by the payout percentage. In no case are funds designated as True Endowment reduced below their initial unit value. In the case of short-term declines in the market value of the endowment pool of funds, the overall spending rate may be calculated below designated payout percentage in order to maintain the original unit value of certain elements of the true endowment. Growth of the unit values over time should allow for spending of principal, without drawing from the original corpus of a particular gift.

The endowment is divided into three broad asset classes: equity fund, fixed income fund and cash or near-cash fund. The purpose of dividing the endowment fund in this way is to ensure that the optimal long-term return is achieved given the National Office's risk preference. The endowment is diversified both by asset class (equity, fixed income and cash) and within asset class (large capitalization stocks, small capitalization stocks, U.S. Treasury bonds, corporate bonds, etc).

The purpose of diversification is to provide reasonable assurance that no single security or class of securities has a disproportionate impact on the total endowment and to reduce the overall risk and volatility of the entire portfolio. The total endowment is monitored on a continual basis for consistency of investment philosophy, return relative to objectives and asset allocation with respect to target percentages.

NOTE 7 – ENDOWMENTS - Continued

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

	December 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 210,833	$ 5,178,095	$ 5,388,928

	December 31, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 463,734	$ 5,178,095	$ 5,641,829

NOTE 7 – ENDOWMENTS - Continued

Changes in endowment net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2010	$ (2,344)	$ 286,537	$ 4,871,134	$ 5,155,327
Investment Return:				
Income	2,344	68,967	-	71,311
Net appreciation/depreciation (realized and unrealized)	-	348,590	-	348,590
Total investment return	2,344	417,557	-	419,901
Contributions	-	-	306,961	306,961
Appropriation of endowment assets for expenditure	-	(240,360)	-	(240,360)
Endowment net assets, December 31, 2010	-	463,734	5,178,095	5,641,829
Investment Return:				
Income	-	89,286	-	89,286
Net appreciation/depreciation (realized and unrealized)	-	(131,665)	-	(131,665)
Total investment return	-	(42,379)	-	(42,379)
Appropriation of endowment assets for expenditure	-	(210,522)	-	(210,522)
Endowment net assets, December 31, 2011	$ -	$ 210,833	$ 5,178,095	$ 5,388,928

NOTE 8 – CONTRIBUTIONS RECEIVABLE

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

	2011	2010
Amounts due:		
In less than one year	$ 4,383,109	$ 2,867,010
In one to five years	1,425,001	1,196,774
Gross contributions receivable	5,808,110	4,063,784
Allowance for doubtful accounts	(290,406)	(337,740)
Split interest agreements	1,150,313	1,233,195
Unamortized present value discount	(15,448)	(28,756)
Net contributions receivable	$ 6,652,569	$ 4,930,483

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

NOTE 9 – SPLIT INTEREST AGREEMENTS AND BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The National Office has a Charitable Remainder Unitrust ("CRUT") where the National Office is not the trustee. This CRUT is reported at fair value with the changes reported as temporarily restricted net assets in the statement of activities.

The National Office had the following interests at December 31, 2011 and 2010:

	2011	2010
Charitable remainder trust	$ 2,841,438	$ 2,974,046
Gift annuity fund	8,665,348	9,476,539
Pooled income fund	396,009	387,557
Split interest agreements (included in investments)	11,902,795	12,838,142
CRUT (included in contributions receivable - Arthritis Foundation is not the trustee)	1,150,313	1,233,195
Perpetual trusts (Arthritis Foundation is not the trustee)	7,303,296	7,938,763
	$ 20,356,404	$ 22,010,100

NOTE 9 – SPLIT INTEREST AGREEMENTS AND BENEFICIAL INTEREST IN PERPETUAL TRUSTS - Continued

The assets are reported on the statement of financial position and are valued at estimated fair-value. Liabilities under split interest agreements, which are $9,699,538 and $9,754,063 for December 31, 2011 and 2010, respectively, were valued at the date of donation using the income approach at discount rates commensurate with the risk involved (between three and ten percent). They are being amortized over the terms of the obligations. Adjustments are made to the value of the split interest agreements when there are changes in the life expectancy of the donor.

NOTE 10 – PROPERTY AND EQUIPMENT

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

	estimated useful life	2011	2010
Land		$ 2,400,000	$ 2,400,000
Building and improvements	(10-30 years)	7,115,799	7,027,983
Leasehold improvements	(3-10 years)	239,198	-
Furniture and other equipment	(3-5 years)	3,247,844	12,932,204
		13,002,841	22,360,187
Accumulated depreciation		(5,825,216)	(15,057,847)
Net property and equipment		$ 7,177,625	$ 7,302,340

Depreciation expense was $491,241 and $414,724 for the years ended December 31, 2011 and 2010, respectively. Based upon an updated inventory evaluation, fully depreciated property and equipment totaling approximately $9,700,000 were removed from both the asset and accumulated depreciation accounts.

NOTE 11 – ACCRUED EXPENSES AND OTHER LIABILITIES

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

	2011	2010
Wages	$ 415,645	$ 382,194
Payroll taxes and other related liabilities	416,063	497,822
Deferred subscription revenue	1,304,004	1,338,320
Other	1,011,199	644,169
Total accrued expenses and other liabilities	$ 3,146,911	$ 2,862,505

NOTE 12 – DEBT OBLIGATIONS

During 2010, the National Office leased computer software and office equipment with an original cost of $1,718,768 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 capital leases payable. Assets under capital leases (net of accumulated depreciation) at December 31, 2011 and 2010 were $1,653,655 and $1,600,197, respectively, and are included in property and equipment on the statement of financial position.

Future minimum lease payments under capital lease are as follows:

For the years ending December 31,	
2012	$ 376,388
2013	376,388
2014	376,388
2015	332,259
2016	2,100
Total future minimum lease payments	1,463,523
Less amounts representing interest	(87,237)
Present value of net minimum lease payments	$ 1,376,286

On November 1, 2009, the National Office amended its loan agreement (original date: December 1, 1996) with the Development Authority of Fulton County. Under this amendment, the National Office converted its existing bonds in the amount of $3,600,000 to "bank qualified" bonds to be held until maturity by SunTrust Bank. The principal amount of the reissued bonds was $3,600,000. The credit agreement between the National Office and SunTrust Bank and the amended and restated Indenture of Trust stipulate that the interest rate paid on the bonds shall be a rate equal to 67 percent of the sum of LIBOR plus 2.5 percent. The substantive effect of the reissuance of the bonds was to eliminate the need to remarket the bonds which lowers the National Office's overall cost of borrowing by the amount of the remarketing and letter of credit fees. The National Office had related notes payable balances in the amount of $2,400,000 and $2,800,000 at December 31, 2011 and 2010 with related interest rates of 1.86 percent and 1.85 percent, respectively.

NOTE 12 – DEBT OBLIGATIONS - Continued

Long-term debt matures as follows:

For the years ending December 31,	
2012	$ 400,000
2013	400,000
2014	500,000
2015	500,000
2016	600,000
Total bond payable	$ 2,400,000
Total debt obligations (inclusive of lease payments)	$ 3,776,286

NOTE 13 – JOINT COSTS

In 2011 and 2010, the National Office incurred joint costs of $11,761,779 and $11,407,418 for informational materials and activities that included fundraising appeals, such as the National Office's direct mail. Joint costs for the years ended December 31, 2011 and 2010 were allocated as follows:

	2011	2010
Public health education	$ 8,424,211	$ 8,118,695
Fundraising	2,654,668	3,288,723
Other	682,900	-
Total	$ 11,761,779	$ 11,407,418

NOTE 14 – NET ASSETS - Continued

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

	2011	2010
Programs, scholarships, training and projects	$ 5,317,642	$ 5,440,105
Research	2,977,265	4,983,114
Use in future periods	4,741,609	4,744,657
Total temporarily restricted net assets	$ 13,036,516	$ 15,167,876

Permanently restricted net assets consisted of the following at December 31, 2011 and 2010 and represent endowed gifts to be held in perpetuity with the investment income to be used for the following:

	2011	2010
Research and specific projects	$ 11,335,659	$ 11,971,126
Operations	1,145,732	1,145,732
Total permanently restricted net assets	$ 12,481,391	$ 13,116,858

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

	2011	2010
Programs	$ 4,826,632	$ 6,508,377
Research	6,850,006	4,188,133
Time releases	1,058,728	1,180,000
Total net assets released from restriction	$ 12,735,366	$ 11,876,510

NOTE 15 – OPERATING LEASES

The National Office has various operating leases for equipment and office space. Rental expense under these lease agreements was $449,435 and $436,028 for the years ended December 31, 2011 and 2010, respectively. Lease agreements having an original term of more than one year expire on various dates through 2021.

Future minimum annual lease payments are as follows:

For the years ending December 31,	
2012	$ 401,762
2013	268,053
2014	187,592
2015	141,465
2016	123,927
Thereafter	446,744
Total future minimum lease payments	$ 1,569,543

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 2014. Minimum rental income under leases expiring subsequent to December 31, 2011 is as follows:

For the years ending December 31,	
2012	$ 477,071
2013	123,600
2014	17,758
Total	$ 618,429

NOTE 16 – EMPLOYEE BENEFIT PLAN

The 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 having one year or more of service. The National Office makes base contributions ranging from four percent to eight percent of the employees' compensation depending upon length of service. In addition, participants may voluntarily contribute up to four percent of their compensation on a pretax basis and the National Office matches 50 percent of participant contribution. Employer contributions are 100 percent vested after three 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 employer contributions to the Plan for the year ended December 31, 2011 and 2010 were $781,630 and $675,974, respectively.

NOTE 16 – EMPLOYEE BENEFIT PLAN - Continued

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 $82,500 and $65,988 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, the assets and liabilities each totaled $393,994 and $318,239, respectively.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The National Office has contingent 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. These commitments were as follows:

For the years ending December 31,	
2012	$ 4,630,000
2013	1,300,000
Total commitments	$ 5,930,000

The National Office is involved in litigation arising from the normal course of business. Although the ultimate outcome of such matters cannot be predicted with certainty, management believes that the current expected outcome of any such matter will not have a material adverse effect on the National Office's financial condition.

NOTE 18 – SUBSEQUENT EVENTS

The National Office has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2011 financial statements through June 4, 2012, the date that the financial statements were available to be issued.